

# Strategic Analysis Paper

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## Food Crises and Political Turmoil: The Impact of Egypt's Military Intervention on National Food Security

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### Key Points

- A key factor underlying the unrest in Egypt in recent years and driving the protests that led to the ouster of President Morsi, is the erosion of food security. In Egypt there is a close correlation between food insecurity and political turmoil.
- In 2011, the World Food Program (WFP) estimated that 17 per cent of the population were food insecure. The current rate is probably well above the 2011 level.
- There are three fundamental drivers behind the rise in Egypt's food insecurity: increasing resource scarcity, the corrupt and unsustainable food subsidy system, and the rapidly deteriorating economic environment.
- Ongoing political instability exacerbates the economic challenges facing Egypt. It creates a socio-political climate unconducive to the implementation of the reforms necessary to improve food security.
- Under current conditions, vulnerability to food insecurity will continue to spread through the population. Without a return to stability and the implementation of major reforms, Egypt will face a high risk of food crises in the coming decades.

## Summary

There is a close correlation in Egypt between political stability, the economic climate and the state of food security, because of the population's considerable reliance on state subsidised staple foods. Egypt has a history of bread riots and subsidised bread has been an important part of successive Egyptian governments' strategies for maintaining social stability, since violent protests erupted over reductions in food subsidies in 1977.

In recent years, poor access to supplies of staple foods and increasing prices led to riots in 2008 and were a contributing cause of the political revolution in 2011. A report by the World Food Program shows that an estimated 13.7 million Egyptians (17 per cent of the population) were suffering from food insecurity in 2011, an increase of 3 per cent since 2009. The data, which also shows 15 per cent of the population moving into poverty over the same period, probably understates the severity of the situation. The past two years have seen a serious deterioration in the Egyptian economy, rising unemployment and further increases in poverty. These factors make it likely that a far larger portion of the Egyptian population is currently experiencing food insecurity.

Widespread food insecurity is a driving factor in creating a disaffected population ripe for rebellion; this was seen when millions of Egyptians took to the streets on the 30 June to end President Morsi's rule. While the desire for an economic situation more conducive to food security was a primary motivator for the protestors, the ouster of Morsi will have little positive impact on either the short- or long-term food security of the country.

## Analysis

The removal of President Morsi and the Muslim Brotherhood from power is neither a quick-fix nor a long-term solution to the food security problems confronting Egypt. The current level of food insecurity is not a result of the policies of Morsi's government, but of resource constraints, structural problems in the Egyptian economy and a succession of crises, including the avian influenza epidemic in 2006 and the food, fuel and financial crises of 2007-09. Morsi was ineffective in addressing the fundamental problems plaguing the country's food supply; he gave greater priority to the consolidation of the Muslim Brotherhood's power, than to crucial reforms. A continuation of his divisive rule would not have served to ease the food crisis, but the uncertainty created by his removal will further delay progress towards a stable food system.

Malnutrition is endemic in Egypt; extreme protein deficiency is spreading, in a country where 40 per cent of the adult population is already "stunted" by poor nutrition. The root cause of vulnerability to food insecurity in Egypt is the endemic fluctuation of food prices, combined with limited household incomes (resulting from high unemployment and low wage rates). Egyptian households spend, on average, half of their income on food, making it difficult to adjust budgets in times of high food prices.

So far in 2013, Egypt has faced plummeting foreign reserves, an economy in meltdown, intermittent fuel crises and ongoing difficulties in maintaining grain stocks. These

occurrences mean that it is likely that well over the estimated 17 per cent of the population are currently experiencing, or are vulnerable to, food insecurity. Three and a half million people in the greater Cairo area alone are currently experiencing severe poverty and food insecurity. The incidence of infant malnutrition is rising and will lead to permanent physical and mental damage for those afflicted, reducing the productivity of the future labour force. The WFP has estimated that Egypt already loses \$3.7 billion each year from the effects of child malnutrition.

The fundamental problems driving Egypt's growing food insecurity are: natural resource scarcity, a vastly inefficient subsidy system and a crisis of confidence in the Egyptian economy. Population growth is accelerating in Egypt, with the population expected to exceed 100 million by 2030. Ninety-seven per cent of Egypt's landmass is desert and there is simply not enough arable land to feed the current, let alone the projected, population. The country is also facing [challenging water shortages](#) in the coming decades. Egypt's worsening population/resource mismatch means that it is heavily dependent on imports for its food supplies, exposing it to the vagaries of the global grain market. Egypt imports close to 70 per cent of its food needs and requires significant foreign reserves to finance those purchases. Underlying the persistent issues in the Egyptian political sphere, is the fundamental fact that Egypt is running out of money to pay for its food imports. Dwindling foreign reserves indicate a negative trade balance that is draining central bank resources.

Since the revolution in 2011, fears about political instability have cut foreign investment inflows and obliterated the tourism industry, Egypt's major cash-source. Import volumes are increasing as domestic food production struggles to keep up with growing demand; consequently, as capital inflows plummet, Egypt is facing a rapidly expanding gap in its finances. This situation, combined with ongoing structural problems, is causing the Egyptian economy to deteriorate rapidly and approach collapse. Throughout the first half of 2013, the fiscal gap has made it [difficult for the Egyptian government to maintain its strategic food stores](#), leading to intermittent shortages and bakers' protests.

Hastening this decline is the continuation of the government's fuel and food subsidies, which place an enormous burden on state finances. Egypt's subsidy system costs roughly US\$20 billion each year, close to a third of this for subsidised *baladi* bread. The food subsidy system is beset with corruption, with losses estimated at 30 per cent. The system is also poorly targeted; it covers almost 70 per cent of the population, but fails to reach 19 per cent of the most vulnerable households.

Egypt would experience a threefold benefit from restructuring the system: fiscal savings, improved targeting of support to the most vulnerable people, and improved nutrition. The nationwide subsidies are as much a political talisman as an economic aid; to reduce and reform the system would incur a high risk of a major political backlash. Replacing the subsidy system with a targeted safety net and using part of the saved revenue to provide nutritional interventions, is vital to maintaining food security in the long-term. It is unlikely, however, to be seen as feasible in the current political climate, while the proclivity of the Egyptian population to protest remains strong.

Egypt's newly appointed interim Prime Minister, the former Finance Minister, Hazem el-Beblawi, has acknowledged the challenges associated with implementing painful cuts in the current environment. He said, 'it is difficult to ask people to sacrifice, particularly after the revolution, where everyone is expecting to get rewards for past experiences.' Beblawi is a liberal economist and academic, who has been highly critical of Morsi's economic policy, saying he didn't have "the guts" to implement the necessary measures. While he has acknowledged that Egypt now needs to "tighten the belt" and "pay a price" for change, the success of subsidy cuts will rely on convincing the public, the majority of whom benefit from the subsidies, that the measures are in their best interests, so as not to incite further rioting from the volatile and divided population.

In addition to drastically reforming the subsidy system and replacing it with nutrition programs and targeted safety nets, a variety of policy reforms are required to improve Egypt's future food security. Agricultural sector reform is required to modernise traditional farming practices and encourage growth through productivity-led measures, rather than distortionary agricultural subsidies. Strategic grain reserves must be rebuilt and restructuring of the grain purchasing system (GASC) considered.

Against a background of increasing resource scarcity, population control measures should be implemented to address long-term food security issues. Furthermore, Egypt needs to come to terms with the likely reality of a reduced water supply from the Nile in the future and redesign its water management policies accordingly. Employment generating industrial growth is also necessary. All of these measures will require the restoration of confidence in the Egyptian economy and the installation of a cohesive and able government, with a higher degree of public support and social stability.

The scale of the protests to unseat Morsi and the decision of the military to intervene, have underlined the inherent instability of Egypt's political system. These factors are likely to further alienate the foreign investors required to put the Egyptian economy back on track. Tourism will continue to struggle, as ongoing violence is to be expected from the increasingly sectarian and polarised society. As Egypt struggles to meet a financing gap of up to US\$20 billion a year, immediate action is required to put the economy back on track. The problem is that Egypt currently lacks the political strength and coherence or the social stability to implement the necessary major structural reforms, including the essential extensive reform of the subsidy system.

In the meantime, estimates indicate that the economy will require around US\$10 billion a year in foreign subsidies to be kept from collapse. The current trickle of fiscal aid from Qatar and Libya, however, is, at best, a stopgap to allow the crippled economy to keep limping along. It is far from sufficient to fund the investment needed to reboot the economy and prevent it from haemorrhaging funds.

One of the positive outcomes of the military intervention is that, unlike the Muslim Brotherhood, Egypt's generals should be able to count on the support of Saudi Arabia. Possessing foreign exchange reserves of approximately US\$630 billion, Riyadh is capable of carrying Egypt for the interim period, while the country continues to transition towards a more stable and investment-conducive political environment. Since the army ousted Morsi

last week, Saudi Arabia has approved US\$5 billion in loans and aid in support of the economy, Kuwait US\$4 billion, and the UAE US\$3 billion. These funds will forestall a fiscal collapse and allow the government to maintain grain purchases, which will also prevent a major food supply crisis; however, they are insufficient to provide the economic boost needed to abate the rising unemployment and poverty rates that are undermining food affordability and causing vulnerability to food insecurity to spread.

Given the fundamental structural issues plaguing Egypt's food supply system, it is unlikely that the change in political power will improve food security for the increasingly hungry population. Rather, the additional uncertainty caused by the breakdown of the democratic process, is likely to prolong Egypt's economic woes and exacerbate the levels of current and future food insecurity. Investor confidence is needed to restore Egypt's economy, but this relies on political stability. While the economy continues to deteriorate, rising poverty and unemployment will create further political unrest.

Currently, the country seems stuck in a downward spiral; the failing economy is spurring political unrest and ongoing instability further damages investor confidence. The very actions of the protestors agitating for freedom and progress, are forestalling the necessary changes to enable growth and food security. Without a return to stability and a complete reform of the subsidy system, Egypt faces a high risk of a major food crisis. The coming years may see Egypt move from being the middle-income economic powerhouse of the MENA region, to being a country of close to 100 million people unable to meet its basic food needs.

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