



Canadian Institute for Jewish Research  
Prof. Frederick Krantz, Director

# ISRANET DAILY BRIEFING

Yom Hamishi 28 Tevet 5773    Volume XI, No. 2,978    Thursday January 10, 2013

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## AS EGYPT'S ECONOMY TANKS & IRAN TIES WORSEN, SUDAN'S SHADOW FALLS OVER CHRISTIANS' SITUATION

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## MORSI, EGYPT FACE ECONOMIC MELTDOWN

*Felix Imonti*

[Al-Monitor, Jan. 8, 2013](#)

It took a mere 20% of the electorate to bring into effect the new constitution. Eighty percent of voters either rejected it or did not vote — for whatever reason . The obsession that Morsi had with imposing the constitution has placed him in the middle of a political minefield. Six months of street violence over the preparation of the constitution has led to the neglect of an economy that has come to a near halt. The budget deficit rose by 38%, or \$13.1 billion over six months, the Egyptian pound slipped 6% against the US dollar, unemployment rose from 8.9% to 12.4% and GDP growth fell from 5.0 to 0.5%.

Added to those problems, foreign reserves were halved with the flight of capital and the transfer of savings abroad. The outflow led to the imposition of currency controls at the end of December, when reserves had diminished to \$15 billion, enough to finance only three months of imports. Egypt runs a 50% trade deficit that used to be offset by earnings from tourism and remittances from workers abroad, but the tourists are staying away and economic conditions around the world make it more difficult for Egyptian workers to find employment.

Due to the political instability and the worsening financial plight of the government, Standard & Poor's downgraded Egypt's credit standing to B-minus, six levels below credit grade. Before the downgrade, Egypt paid 13.54% for a one-year treasury bond. After the downgrade, the sale of bonds was cancelled to avoid higher interest rates. Credit swops show Egypt ranking among the ten worst credit risks, along with Greece and Pakistan....

The certain rise in import prices will increase the inflation rate above the current level of 4.1%. The impact could be offset by expanding subsidies, which would increase the budget deficit beyond the current 10%. Already, subsidies form 30% of the budget; and it is that which the International Monetary Fund (IMF) expects the government to reduce in order to qualify for the \$4.8 billion loan. Terms for the loan had been settled after a year of negotiations only to be cancelled by the Morsi government, which feared increased taxes and reduced subsidies would spark more riots before the vote on the referendum. The IMF loan is critical for acquiring the additional \$10 billion from the European Union, the African Development Bank and other sources. Without it, Egypt will be frozen out of the international financial markets.

As most of the Egyptian government debt is owed to domestic banks, those banks face insolvency. The National Bank of Egypt, Banque Misr SAE and Commerce International Bank have been downgraded in anticipation of a government default. Egypt suffers from a shortage of investment capital due to the lack of savings. Only if there is an influx of foreign direct investment can Egypt expect to see capital available for economic expansion. That, however, is being stifled by the unrest and the effort by groups inside Egypt to reverse the sale of state enterprises made during the Mubarak regime.

Starting in 2004, the Mubarak government embarked upon an economic-reform and privatization program. Over the next four years, \$9.4 billion in state industries were sold to foreign and domestic buyers. The GDP growth rate rose from 4.1% to 7.2%. Foreign reserves expanded from \$16 billion to \$34 billion. Even during the global economic crisis of 2010, the economy continued to expand at 5%, but all of that came to an abrupt halt when the mobs flooded into Tahrir Square.

Now, some of the sales are being reversed. Foreign investors are viewing them as future risks better avoided. Foreign direct investment is only 16% of what it was in 2007, and much of that is in the petroleum sector.

A bad situation is being made worse by spreading worker discontent. Workers are demanding the right to unionize and to strike. Their call for “bread, freedom and justice” was for them the purpose of the revolution. Instead, the Morsi government is breaking up strikes with the police and has jailed union activists just as the Mubarak government had done before. If anything, workers are complaining that Morsi’s administration is worse than what was overthrown.

Most businesses are small. Yet, it is they that are providing the bulk of Egyptian employment. Business owners are complaining that the new government is doing nothing to reduce the suffocating regulations and corrupt bureaucracy. If they try to raise capital to invest, they are forced to compete with the government borrowing to finance its growing budget deficit or with the large private and state corporations that are given preference.

Whatever the ideology expounded, the Muslim Brotherhood is comprised mainly of professionals, with many involved in businesses. Like the crony capitalists of the Mubarak era, the government has become an instrument to protect their interests.

Back in November, Morsi seized power and moved to block the Constitutional Court to save his concept of democracy. There is nothing to say that he will not break the labour unions to save his vision of the economy. He should look very carefully at the mere 20% of the voters who supported his constitutional efforts and realize that he has been given a warning. The people of Egypt are not marching in his parade.

*Felix Imonti is the retired director of a private equity firm where he was an investment strategist for seven years.*

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## THE ENDURING EGYPT-IRAN DIVIDE

*Mehdi Khalaji*

[Washington Institute](#), Dec. 31, 2012

Despite ideological affinities between the Muslim Brotherhood and Tehran, political disagreements make a rapprochement unlikely. Egyptian President Mohamed Morsi may look besieged at home, but by brokering a ceasefire between Israel and Hamas in November, he enhanced his diplomatic stature mightily across the entire Middle East. Indeed, as 2012 comes to a close, Egypt's centrality to regional diplomacy has been restored. The big question for 2013 is whether Morsi will follow his achievement in Gaza by tackling another major diplomatic challenge: rebuilding relations with Iran after more than three decades of animosity.

Initially, the Muslim Brotherhood's ascent to power in the aftermath of the massive popular protests that toppled Morsi's predecessor, Hosni Mubarak, inspired hope of renewed diplomatic ties with Iran. But, despite shared ideological principles, significant political obstacles continue to inhibit bilateral cooperation.

Relations between the two countries collapsed in 1980, after Ayatollah Ruhollah Khomeini came to power in Iran's Islamic Revolution and severed ties in response to Egypt's formal recognition of Israel the previous year. Egypt's then-president, Anwar El Sadat, granted the exiled Shah of Iran permission to live in Egypt, and supported Iraq in its eight-year war with the Islamic Republic. The Shah was ultimately buried in a mosque in Cairo....

Islamists in Iran and Egypt have a strong ideological connection. They share anti-Israel sentiment, and support Hamas against the secular-nationalist Fatah in the Palestinians'

internecine struggle. Committed to governance under Sharia (Islamic law), they both view Western culture as a threat.

Iran has made some efforts to establish stronger economic relations with Egypt's Islamist government and, in turn, cement a powerful anti-Israel front in the region. Iran's attempt to strike a deal to sell Egypt crude oil would also help the Iranian government to cope with economic sanctions imposed by the United States and the European Union. But, although Iran's oil minister, Rostam Qassemi, said in October that negotiations were underway, Egypt's minister of petroleum and mineral resources, Osama Kamal, quickly disavowed any such deal.

Beyond economics, Khamenei has an emotional attachment to Egypt. A student of the Egyptian style of Koran recitation, he gathers Koran reciters from Egypt, as well as from other Islamic countries, in his home every Ramadan. More important, his outlook has been heavily influenced by the writings of Sayyid Qutb, the Egyptian theoretician of the Muslim Brotherhood. Prior to the revolution, Khamenei translated three of Qutb's books into Farsi.

Despite these ideological affinities, political disagreements make a rapprochement unlikely. The Muslim Brotherhood considers itself the bastion of modern political Islam, and believes that it should assume a leadership role for all Islamist groups and states. For his part, Khamenei describes himself as the "leader of the Islamic world," and calls Iran its "mother city" (Umm al Qora).

Moreover, the Sunni-Shia divide could pose a major challenge for Egypt-Iran relations. The Muslim Brotherhood is working to strengthen ties with Sunni allies, such as Saudi Arabia, Qatar, and even Turkey, rather than with Iran's Shia regime, which threatens Sunni regimes by exporting revolution and pitting Shia minorities against their governments....

The most urgent dispute between Iran and Egypt, however, relates to Syria. During its years in opposition, the Muslim Brotherhood considered Iran's Islamic Revolution an example of how a transnational Islamist government might assume power. But, in the face of a popular uprising in Syria, Iran has supported the brutal, repressive policies of President Bashar al-Assad's regime. As a result, Islamists in Egypt are beginning to view Iran as a status quo power, not an agent of revolutionary change.

Furthermore, the flow of military supplies from Iran, together with battlefield support for Assad's regime from Iran's Lebanese proxy, Hezbollah, reinforce the perception of a Sunni-Shia conflict in Syria. In this context, the collapse of Assad's regime would likely exacerbate tensions between Iran and Egypt -- especially given that Syria's Muslim Brotherhood, the leading opposition group, would likely play a strong, even dominant, role in a new Syrian order.

For now, Egypt's government is putting national interests ahead of pan-Islamist aspirations. Rather than inciting an escalation in fighting between Israel and Hamas in Gaza, Egypt worked with the US and other regional allies to broker a cease-fire. By contrast, Iran's military leaders boasted about their support for Hamas, offering no indication that they wanted the fighting to end.

Less than two years after Egypt's revolution, Morsi's government is struggling to address domestic challenges, including the proliferation of armed radical groups in Sinai. But, as regional tensions continue to rise the chances of an Egypt-Iran detente are likely to deteriorate.

*Mehdi Khalaji, a Qom-trained Shiite theologian, is a senior fellow at The Washington Institute.*

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## A 'SUDANESE GENOCIDE' IN EGYPT?

*Raymond Ibrahim*

*Front Page Magazine, Jan 4, 2013*

The current tensions in Egypt between the Muslim Brotherhood-led government and a fragmented populace that includes large segments of people who oppose the Islamization of Egypt—the moderates, secularists, and Christians who recently demonstrated en masse at Tahrir Square and even besieged the presidential palace—is all too familiar. One need only look to Egypt's immediate neighbour, Sudan, and its bloody history, to know where the former may be headed.

The civil war in Sudan, which saw the deaths of millions, was fundamentally a by-product of an Islamist regime trying to push Sharia law on large groups of Sudanese—Muslim, Christian, and polytheist—who refused to be governed by Allah's law, who refused to be Islamized. Although paying lip-service to pluralism and equality in the early years, by 1992, the Islamist government of Khartoum declared a formal jihad on the south and the Nuba, citing a fatwa by Sudan's Muslim authorities which declared that "An insurgent who was previously a Muslim is now an apostate; and a non-Muslim is a non-believer standing as a bulwark against the spread of Islam, and Islam has granted the freedom of killing both of them."

In other words, Khartoum decreed that: 1) It is simply trying to do Allah's will by instituting Islamic Sharia law; 2) Any Sudanese who objects—including Muslims—is obviously an infidel; 3) All such infidels must be eliminated. Accordingly, countless people were butchered, raped, and enslaved—all things legitimate once an Islamic state declares a jihad. While South Sudan recently ceded, the Nuba Mountains in the north is still continuously being bombarded.

Now consider how the above pattern—false promises of religious freedom, followed by a Sharia push and a declaration that all who oppose it, including Muslims, are infidels and apostates to be killed—is precisely what has been going on directly to the north of Sudan, in Egypt.

First, although Muhammad Morsi repeatedly promised that he would be a president who represents "all Egyptians" during presidential elections, mere months after coming to power, he showed that his true loyalty—which should have been obvious from the start, considering that he is a Muslim Brotherhood leader—was to Sharia and Islamization.

Even so, Egyptians did not forget that Morsi, during presidential elections, had said the following in a video interview:

The Egyptian people are awake and alert—Muslims and Christians; and they know that, whoever comes [to become Egypt's president], and does not respect the rule of law and the Constitution, the people will go against him. I want the people immediately to go against me, if I ever do not respect the law and Constitution.

Accordingly, when Morsi aggrandized himself with unprecedented presidential powers, and then used these powers to sidestep the law and push a Sharia-heavy Constitution on Egypt, large segments of the Egyptian people did rise against him; at one point, he even had to flee the presidential palace. And just as in Sudan, Morsi's Islamist allies—who, like Morsi, during elections spoke glowingly of Egyptian unity—made it a point to portray all those Egyptians

opposing Morsi, the majority of whom are Muslims, of opposing Islam, of being apostates and hypocrites, and thus enemies who should be fought and killed.

Radical online cleric Wagdi Ghoneim, for instance, incited Muslims to wage jihad on and eliminate anyone protesting against Morsi, adding that any Muslim found protesting is, in fact, an apostate hypocrite, who wants to see Islam wiped out of Egypt. He justified the jihad on such Muslims by quoting Quran 66:9: "O Prophet! Strive hard against the infidels and the hypocrites, and be firm against them." He added that the hypocrites were supported by "Crusader Christians" (a reference to the Copts) and "debauched" liberals and seculars—all of whom must also be fought and even killed.

As for those Muslims who were protesting but were still "true" Muslims, Ghoneim portrayed them as being misguided—asking them, "Why are you siding with crusaders and infidels against Sharia?"—and thus also needing to be fought until they come to their senses....

Egypt is still not Sudan, but it is going down the same path and following the same pattern, specifically, an Islamist government trying to Islamize society, and characterizing as infidels and apostates all who resist. Undoubtedly Egypt's Islamist government will continue to try to Islamize all walks of Egyptian life; undoubtedly there will be those who reject it. The question is, will their resistance ever be staunch enough to prompt the government to act on the aforementioned fatwas, formally declaring all those Egyptians opposing Sharia as infidels and apostates to be hunted down and eradicated with impunity? Only time will tell.

*Raymond Ibrahim is a Shillman Fellow at the David Horowitz Freedom Center and an Associate Fellow at the Middle East Forum.*

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## **ON TOPIC**

**Qatar Throws Egypt \$2.5-Billion Lifeline to Prop up Pound:** [Yasmine Saleh & Patrick Werr, \*Globe and Mail\*, Jan. 8, 2013](#)—Qatar threw Egypt an economic lifeline on Tuesday, announcing it had lent Egypt another \$2-billion and given it an extra \$500-million outright to help control a currency crisis. Political strife has set off a rush to convert Egyptian pounds to dollars over the past several weeks, sending the currency to a record low against the U.S. dollar and draining foreign reserves to a critical level.

**Cables Show State Department Disregarded Muslim Brotherhood Threat:** [John Rossomando, \*Investigative Project on Terrorism\*, Jan. 8, 2013](#)—The Obama administration chose to listen to voices suggesting that Egypt's Muslim Brotherhood was moderate rather than those who warned it would resort to violence if it came to power, cables obtained by the Investigative Project on Terrorism show.

**Preacher Alarms Many in Egypt With Calls for Islamist Vice Police:** [\*Egypt Independent\*, Jan. 9, 2013](#)—Many Egyptian viewers were horrified when preacher Hesham al-Ashry recently popped up on primetime television to say women must cover up for their own protection and advocated the introduction of religious police.

**Morsi Manages Egypt's Economic Decline:** [Nervana Mahmoud, \*Al-Monitor\*, Jan. 7, 2013](#)—As fear for the economy grows in Egypt, a comparison to the conditions faced in the '70s and early '80s becomes more plausible. How far will the economy deteriorate? Can Morsi's team save it? Every household ponders these questions while watching a devalued Egyptian pound and witnessing the hike in food prices.

**Diving Currency Adds to Egypt's Woes:** [Matt Bradley, \*Wall Street Journal\*, Dec. 30, 2013](#)—Egypt's currency plumbed new depths on Sunday as policy makers tried to reassure the public and investors that they can prevent a full-scale currency devaluation while still repairing Egypt's budget deficit. The country's worsening economic crisis comes after President Mohammed Morsi isolated his political opponents to push through Egypt's Islamist-leaning constitution, sparking weeks of riots, protests and political uncertainty.

**Egyptian Cleric Threatens Egypt's Copts with Genocide:** Raymond Ibrahim, *Gatestone Institute*, Dec. 28, 2012—Islamic leaders continue to portray the popular protests against President Morsi and his recently passed Sharia-heavy constitution as products of Egypt's Christians.

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