

LEGAL FOCUS

Uncertainty abounds for Egypt

RATES for political risk insurance have leapt upward as insurers of business interests in Egypt assess the near-term exposure to insured personnel, property and financial assets in the country, report Eric Lewis and Mark Leimkuhler, partners at Baach Robinson & Lewis PLLC.

But beyond the present crisis, what are the long-term prospects for political risk in Egypt? The outlook could vary greatly depending on how the crisis is resolved and who assumes power in its wake. Based on our work with Egyptian clients over the years, we offer this snapshot analysis of possible outcomes and their potential effect on long-term political risk in Egypt.

The revolt arises from economic as much as political discontent. Much of Egypt is poor and economic growth has failed to raise living standards of its growing population.

Egypt suffers from high levels of unemployment, inflation and corruption. Its wealth is concentrated in the hands of those with close ties to the government and opportunity is limited for the rest of the populace.

A new regime responding to these concerns might focus its agenda on wealth redistribution and reverse Egypt's president Hosni Mubarak's economic policies of gradual reform and privatisation, which could lead to expropriation or other political risks to foreign investors.

However, Egypt's military remains a crucial factor. As a major economic player, running businesses ranging from manufacturing to construction to tourism, the military has a vested interest in maintaining stability.

How a new leadership reacts to these dynamics will determine the long-term prospects for political risk in Egypt. If a transition government is formed very soon, it may be led by vice-president, Omar Suleiman. Control of the instruments of power would give Suleiman an advantage in the



Banking on Egypt's future: the revolt in Cairo and beyond arises from economic as much as political discontent

September elections. If he emerges as Egypt's long-term leader, his association with Mubarak and his military background suggest he will largely continue Mubarak's policies of gradual economic reform and privatisation that favour foreign investment, while preserving the military's economic role.

As a military man, he would know US military aid will be jeopardised by policies hostile to US economic interests. All of this suggests Suleiman's economic policies would foster manageable levels of political risk for insurers and their foreign investor clients.

Despite Suleiman's recent efforts at engagement with opposition leaders, his ties to Mubarak may make him unacceptable to protesters demanding a clean break from the existing regime.

Opposition groups have instead coalesced around Nobel laureate Mohammed ElBaradei, whom many Westerners see as a voice of moderation and secularism. He has lived outside Egypt for many years and has no well-known positions on domestic economic matters.

If ElBaradei rises to power, he may face pressure from supporters to embrace more aggressive policies to promote wealth redistribution over growth. But his

years of foreign affairs experience suggest ElBaradei would also recognise Egypt's need for a stable economic climate to encourage foreign investment. We do not foresee a significantly increased risk of policies hostile to foreign investment under an ElBaradei-led government.

While ElBaradei may be integral to a transition government, most Egyptians with whom we speak do not see him as a long-term leader, given his lack of domestic political experience and base of support. That brings us to the Muslim Brotherhood, the largest and most well-organised political force in Egypt.

Though many believe the Muslim Brotherhood's support among Egyptians is limited – to perhaps 25% at best – it has become a central player in the protests and seems assured of a major role in a new regime. It brands itself as moderate, but has a diverse membership that includes radical elements.

It is unclear whether the Muslim Brotherhood, with real political power, would more closely resemble the moderate Turkish Islamists or the more radical Hamas. There is significant concern a government controlled or heavily influenced by the Muslim Brotherhood could end or reduce

co-operation in matters important to the West: Gaza, peace with Israel and potentially free movement through the Suez Canal.

From a political risk standpoint, the Muslim Brotherhood could be expected to advocate economic policies to advance social welfare at the expense of foreign investment.

If ideologues within its ranks gain the upper hand in a new government, Egypt's economic policies could take on an anti-Western flavour and put Western-owned businesses and assets at greater risk of loss through confiscatory practices.

Egypt stands at a crossroads. An orderly transition to a moderate government, which remains a real possibility, could bring greater prosperity and civil liberties to Egyptians, and economic policies presenting acceptable long-term political risks to foreign investors and their insurers.

On the other hand, protracted strife – particularly if Western governments are seen as prolonging the existing regime's hold on power – could bring about an Islamist government more hostile to Western political and economic interests, which would increase exposure for political risk insurers in Egypt and throughout the Arab world.