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Sino-Russian Shadow Competition Plays Out in Egypt

A legacy of competition exists between the two powers — can Russia shadowbox China in Egypt?

By Nicholas Trickett
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By most accounts, the Sino-Russian partnership is closer than it's ever been. Officials and media outlets from both countries tout their "strategic partnership," a term that hides Russia's discomfort regarding the increasingly one-sided nature of the relationship. Questions remains as to whether China's Belt and Road Initiative (BRI) threatens Russia's interests given statements about cooperation with the Eurasian Economic Union and China's commitment to domestic non-interference. But Russia and China have competed abroad before, despite ostensibly similar worldviews. China and the Soviet Union competed for influence in the developing world between the late 1950s and mid-1970s. Ideologies have since evolved and changed in importance but there is little reason to assume that all authoritarians think alike though they cooperate in many spheres.

China's BRI has implications for Russia's Middle East policy. Russian intervention in Syria and growing involvement in the Middle East are most directly linked to the Ukraine crisis and Russian interests in asserting Great Power status. However, Russia is not blind to the fact that China has increased its economic presence to become the largest foreign investor in the region, now driven by the BRI. Russian oil competitors in OPEC, led by Saudi Arabia, have also actively sought Chinese investment into oil fields in an attempt to dissuade them from investing in Iran, an important partner for Russia. China can use its clout as an oil importer to up its profile in the region without making many security commitments. Russia's interest in Egypt is a useful

prism to show that some dynamics of Cold War competition for influence are still in play between the two “strategic partners,” particularly since Russia stands to lose from longer-term regional security commitments without economic gains.

Great Expectations

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Russia’s Ministry of Industry and Trade recently announced that it expected Russian investment into an industrial park attached to the Suez Canal would cost roughly \$6.9 billion. Construction should take 13 years, per the ministry’s statement, and the park should be able to produce \$3.6 billion in goods annually when completed. Others in the past have issued evaluations placing investment figures at \$20 billion over 30 years. Some reports ran even higher, likely a product of expected corruption or wildly optimistic predictions of the capital available in Russia.

Russia’s interest in Egyptian projects isn’t new and has, to date, been dominated by energy. Novatek, Lukoil, and Gazprom all took stabs at negotiating for access to oil and gas projects before 2011. Russian President Vladimir Putin met with Egyptian President Abdel Fattah el-Sisi in 2014 and agreed to the initial broad strokes of Russian investment into the Suez Canal industrial zone. An Amsterdam-based firm owned by Russian billionaire Mikhail Fridman acquired a German energy firm holding a stake in Egypt’s West Nile Delta natural gas project in August 2014. Rosneft acquired a 30 percent stake in the offshore Zohr gas field from Italian firm Eni, a move partially to distribute risks of investment to a partner. Moscow also agreed to finance a \$25 billion nuclear plant to be built in Al-Dabaa last year, crucial to enable Egyptian natural gas exports. But the announcement about the industrial park is noteworthy from the public rhetoric the Ministry of Industry and Trade has pushed forward.

Georgiy Kalamonov, a deputy minister, publicly stated that the industrial park in Egypt was critical to open African markets for Russian goods. Africa is clearly not a regime priority, but there are some in policy circles who wish to see better economic ties with the continent. When now-Prime Minister Dmitri Medvedev was president, he appointed an envoy for African affairs, pushed forums for Russian and African businesses, and made a point of visiting Nigeria early on in his term. Since Putin returned to the presidency, all initiative has again fallen on private players, a problem given that Russia’s trade relations rely on state participation due to the commanding role the state plays in the economy. Egypt positions itself as gateway for other African markets to capitalize on its role in the non-aligned movement during the Cold War. It seems that some officials in Moscow are still interested in what Medvedev began, though the efficacy of Russian investments leaves much to be desired.

The China Side

Egypt has sought greater revenues from the Suez Canal for some time, hoping to earn \$13 billion in state revenues by 2023 via expansion of the canal’s capacity. Lowering fees and improving capacity have been crucial to incentivize trade through the canal since it relies on global trade patterns. Investment into an industrial zone built around the canal is just as critical to sustain growth and bring in revenues. Egypt is particularly eager for investment from China, evidenced

by the fact that Egypt was the first African nation to join the Asian Infrastructure Investment Bank (AIIB) in 2015.

China has targeted Egypt because the Suez Canal is a crucial chokepoint in China's envisaged maritime Silk Road under the umbrella of BRI. Whereas China was Egypt's 23rd largest investor at \$500 million total invested until 2016, it invested \$10 billion into Egypt last year through large deals. The Industrial and Commercial Bank of China has announced intentions to invest up to \$35 billion into Egypt, \$20 billion of which would be projects financed by the bank. Though a \$3 billion project to help build a new administrative capital fell through, China used the Belt and Road Summit in May to announce that they planned to invest a total of \$40 billion in development projects in Egypt.

China's immense financial resources dwarf Russia's. Chinese investment into Egypt fits into a chain of investments elsewhere: the Piraeus port in Greece, Doraleh Multipurpose Port in Djibouti, the port of Gwadar in Pakistan, and the port of Hambantota in Sri Lanka. Egypt is a crucial partner for China's naval ambitions. Russian officials trying their best to formulate some kind of policy regarding Egypt and Africa are aware that influence in Egypt buys them diplomatic leverage with both the United States and China.

Soft Power Aspirations

Engagement with postcolonial states has a long history in Russia and China's foreign policies from the Cold War. But Russia's footprint has evaporated due to scarce resources and China's economic presence on the continent puts Russia to shame. Aside from preliminary deals for state-owned Rosneft access to Mozambique's oil and gas sector and sparingly issued export credits for machinery or railway gear leftover from Soviet aid legacies, Russia has little to offer. Chinese companies run 12 percent of all of Africa's industrial production and control 50 percent of the international engineering services procurement market for infrastructure development. Africa is an essential investment market for any country looking to diversify its ties away from Europe or to build up natural resource supply chains abroad. Russia needs a foothold but can't keep up.

Russia can at least preserve its influence in Egypt. Egypt has numerous trade agreements making it attractive for Russia and China to source production there: a free trade zone with Tunisia, Jordan, and Morocco, membership in the Common Market for Eastern and Southern Africa (COMESA), as well as some momentum to improve trade rules with Mercosur. In relative terms, any investment is more a net positive for Russia because of its standoff with the West. But there is virtually no chance Russia can extend its influence in Africa without sustained support, reform, and resources. China is already committing billions to soft power campaigns to improve its image alongside investments, resources that Russia lacks.

Can a Big Stick Beat a Trillion Dollars?

Whether or not Russia can best China for influence long-term in Egypt will take years to pan out. Russia's constant search for short-term gains has played well to exploit the region's conflicts to encourage security cooperation, an area China has shied away from. But security issues must

give way to more economic action if Russia wants to cement its gains as a regional actor. Russia has a few tricks up its sleeve that amplify its significance for Egypt even as China has overtaken it economically in the region.

Russia has targeted energy investments and security cooperation, crucial because Al-Sissi's government has pushed patronage networks towards military enterprises in Egypt. Libya is Egypt's most pressing security concern. Russia has used Egypt to facilitate arms deals with General Khalifa Haftar, Cairo's preferred partner to bring order to Libya's eastern border regions. Russia's willingness to wade in is certainly of great political value. Rosneft's interest in Libya and the desire to resume deals negotiated by former Libyan leader Muammar Gaddafi also earn the Kremlin credit if they help stabilize the country, but investment into Egypt itself must follow.

Russia's targeted economic engagement with Egypt goes beyond energy. In 2015, Egypt imported \$821 million of wheat from Russia. Last year, Russia overtook the United States as the world's largest wheat exporter and edged U.S. wheat imports from the Egyptian market. Though Russian supplies have since fluctuated due to shifts on the market, Russia has supplied around a third of Egypt's wheat imports in the recent past.

Roughly 70 million of Egypt's 90 million citizens rely on food subsidies to survive, spending as much as 48 percent of their incomes on groceries as of last year. Costs for the bread subsidy program stood at \$4.8 billion in 2016, a large expense for an indebted state that spends 80 percent of its budget on wages, debt, and welfare programs. China can't do much to feed Egypt. Russian investments into nuclear power and natural gas are also a comfort to el-Sissi and the regime since the Egyptian government devotes nearly 90 percent of its subsidies to energy and food alone. Any improvement in the public perception of the security situation would also help bring back Russian tourists who have shied away since ISIS brought down Metrojet Flight 9268, the deadliest aviation disaster in Russian history.

China's consumer goods will flood Egypt's market in time as will Chinese capital. But Russia's targeted security cooperation and sectoral influence in Egypt's economy position Moscow to retain sway in Cairo. Even though it's by far the junior partner in its relationship with China, Russia punches above its weight in key states like Egypt. As China moves to become Eurasia's hegemon, Russia will have to keep punching if it wants to preserve its influence on the world stage.