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Egyptian-Russian economic relations: Reality and potential

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Egypt and Russia are each pivotal on the international scene and can cement a mutually beneficial partnership that recalls past glories while looking forward to new horizons

Together, Egypt and Russia can build a consistent international alliance that is more able to contain and combat terrorism sponsored by states or ideologically or religiously radical terrorist groups. They can also affect a major shift in a world that has a single standard for judging issues.

Egypt and Russia have these abilities because the former is a leading power in its Arab and Middle East region and a focal point for combating terrorism for anyone who genuinely wants to fight it. It plays a definitive role in restoring stability to the Arab region, including efforts to bring to an end the heinous terrorist attacks aimed at tearing Syria apart. It is also a model candidate for new development after suffering greatly from failed economic policies under Mubarak, the IMF and the World Bank.

Russia, meanwhile, is a superpower by all measures. Not only because of its immense military power that is a strategic counterweight to the US, but also its comprehensive economic, political and social power. This superpower is key in maintaining a balance in international relations and curbing the encroachment and assault by some countries on the sovereignty of other nations. At a minimum, it is an equal power in many regional conflicts, most notably Syria, against legions of

terrorists funded and armed by oil, gas, Turkey and the West, led by the US. It is also a leading power in combating terrorism and religious fanaticism, an issue it has remained steadfast on and never double faced.

The current visit by Russia's president to Egypt is vital for advancing relations between the two countries and bringing them closer, in order to develop these ties into a special strategic partnership, especially because the two sides share similar policies and compatible potential. The focus here will be on existing and potential economic relations as a key mechanism to generate mutual interests and benefits for the people of Egypt and Russia.

Before discussing Egyptian-Russian economic relations, one must first state that history will always recall how Russian President Vladimir Putin restored Russia's global stature and respect after it was seriously damaged during Yeltsin's tenure. The damage was not only in Russia's policies echoing the West, and appearing as a collapsed state asking for handouts, but also a shocking drop in GDP and the individual's share of GDP for six years. When Putin came to power, his major burdens were to rebuild the state, its stature, dignity, power, to protect its territorial integrity, and recover siphoned money and capital. Whether you agree or disagree politically and ideologically with him, everyone concedes he succeeded in this mission.

Egypt has high aspirations to do the same and end long-term slow economic growth, combat widespread corruption over the past four decades, and achieve social justice as a foundation for political and security stability based on consensus rather than a security clampdown.

Below-potential trade and investment

Egypt and Russia are very compatible in capabilities. Egypt enjoys year-round good weather and produces agricultural crops, especially fruit and vegetables, in timely seasons that meet the needs of the Russian market. Meanwhile, Russia has a surplus in wheat. In industry, Egypt imports similar products to most Russian industrial exports, while Russia imports many industrial products that are assembled or manufactured in Egypt. In services trade, the Suez Canal is a key strategic corridor for Russian trade coming from East and South Asia and Africa. Egypt is also a top tourist destination for Russians. Mutual direct investments between the two countries is low and disproportionate to the financial prowess of Russia and Russian companies, and the incredible investment opportunities in Egypt.

Bilateral trade relations have grown considerably in recent years, but they remain well below their potential. Official figures show that Egyptian exports to Russia amount to \$340 million while imports are \$3.21 billion, which shows a serious trade deficit of \$2.87 billion in favour of Russia. While Egypt needs to increase exports to Russia to address this deficit, it also needs new domestic or Russian investment in the production of agricultural and manufacturing goods targeting the needs of the Russian market, especially in the wake of Western economic sanctions against Russia.

Egypt's investment rate of 14 per cent of GDP is low and less than in other low and middle income states and does not contribute to meeting the needs of the domestic market or exports. Russian direct investment in Egypt is also very low at \$70 million, focused mostly in services,

especially tourism. This low volume of Russian investments does not reflect Russia's capabilities in this area. Here we are not looking at the official volume of Russia's reserves, that are close to half a trillion dollars, but the flow of Russian direct investments to other countries.

UNCTAD figures for global investments show that Russian direct investments abroad were \$95 billion in 2013, putting it in fourth place among the largest countries with foreign direct investment in other countries after the US (\$338 billion), Japan (\$135 billion) and China (\$101 billion). Figures also show that accumulative Russian investments in other countries are valued at \$501 billion, which means Russian companies working in foreign direct investment have funds that need new investment opportunities around the world. It is certain that promoting relations between these Russian companies, the Egyptian market and potential partners there could lead to more investment in Egypt. Traditionally, many Russian companies prefer investment partnerships with governments or public companies in other countries, as a guarantee for their investments. Accordingly, the Egyptian government should take the lead in partnering with Russian companies to attract direct investment in fields that serve Egypt's needs for domestic consumption and exports.

In tourism, Russia is the largest exporter of tourists to Egypt. Some three million Russians visited Egypt in 2010, the year of peak foreign tourism to Egypt. Despite a serious drop in the number of tourists visiting Egypt annually after the January 25 Revolution and the counterrevolution that followed, Russian tourists remain the top visitors to Egypt annually. Russian tourism mostly focuses on beach resorts, which are naturally located far away from urban areas and are more secure compared to other parts and cities in the country, or even other tourist destinations around the world. This means there is great potential to increase Russian tourism to Egypt in these regions and to expand it to include beach resorts on the north coast of Egypt. It is certain that if the Russian state encourages its citizens to visit Egypt, this would help, while diversifying types of tourism and improving security conditions would also contribute to increasing tourism to other regions as well as the Red Sea.

History and culture: Strong foundations for cooperation

Historic relations and cultural influences are a key element in closer Egyptian-Russian relations. Russia spans the continents of Europe and Asia and has unique characteristics that combine its European affiliation and Eastern spirit. There are similarities between Russia's central state, ruling over widespread territories, and the situation in Egypt and the East in general. Russian culture is the product of geographic and ethnic diversity; it is the homeland of Borodin, Glinka, Tchaikovsky and Shostakovich in Western classical music that created some of the world's greatest ballets and military music. It is also the motherland of Rimsky-Korsakov, the composer of the symphonic poem *Shahrazade*, the world's best known music piece for the legends of *One Thousand and One Nights*. Russian authors top the world's literature giants, including Lev Tolstoy, Anton Chekov, Ivan Turgenev, Lermontov, Gogol, Maxim Gorky, Pushkin, Fyodor Dostoevsky, Ivan Bunin and Sholokhov whose works are a magical blend of West and East. Their literary and human values influenced the conscience and composition of Egypt's cultural elite, who in turn impacted Russians through translated works. And each side influenced the other artistically through cinema, music and ballet.

Meanwhile, economic cooperation produced steam boilers, iron and steel furnaces, the aluminum complex, chemical companies, engineering goods and machinery. However, the Egyptian High Dam is the single most prominent creation of Egyptian-Russian cooperation and is a giant monument symbolising the deep ties between the two countries and how this benefits the people of Egypt.

The High Dam: Epitome of Egyptian-Russian cooperation

After long procrastination by the US and the West, the World Bank and Western countries abandoned the idea of funding the construction of the Aswan High Dam. So Egypt turned to the former Soviet Union with Russia at its heart. Although I have written extensively on this project, I will repeat myself once again because it embodies Egyptian-Russian relations.

On 27 December 1958, Egypt signed an agreement for a Soviet loan to fund the first phase of the dam, which included the start of construction and raising it high enough to allow the diversion of waters to new waterways dug for this purpose, while raising annual water reserve capacity. The agreement stated that the USSR, with Russia as its effective centre, would give Egypt a loan of 400 million rubles (LE34.8 million or \$100 million) to be paid in 12 installments starting in 1964, when construction of the first phase was completed.

The course of the River Nile was diverted on 14 May 1964. The annual interest rate of the loan was 2.5 per cent, and despite tensions in Egyptian-Soviet relations in 1959 resulting from the crackdown on communists in Egypt, this did not affect the agreement with the Soviets in terms of funding, designing and constructing the High Dam.

On 27 August 1960, the two sides signed an agreement for the second and final phase of the High Dam. The Soviets gave Egypt a loan of 900 million rubles (LE78 million or \$215 million) to cover the cost of designing the project, research, studies, supply and installation of gates and hydroelectric generators, and equipment necessary for agricultural land reform and other projects. The terms of the loan were the same as the first one, so payments began one year after all construction was completed and no later than January 1962. The interest rate remained at 2.5 per cent and began on the date of withdrawal of each part of the loan, due within the first three months of the following year.

Thus, Egypt won its battle to find funds for the High Dam and began a legendary epic of building the greatest project in the country's ancient and modern history. Despite all obstacles and Israel's attack in 1967, Egypt finished the mega project and its High Dam rose like a mountain straddling the Nile River, taming the world's longest river for the first time in history.

The High Dam protected Egypt against destructive floods and gave it central water reserves at Lake Nasser that protected it against ravenous drought cycles. It provided 19 billion cubic metres of clear water at Aswan after losses in evaporation; Egypt's share was 7.5 billion cubic metres, while Sudan took 11.5 billion. The excess water allowed Egypt to reclaim and cultivate large areas of land that were distant from water resources.

Since 1968/1969 until today, more than two million feddans of reclaimed and cultivated land was irrigated by water saved by the High Dam. The yield of the land also improved because water is available for crops year round. Egypt also converted 973,000 feddans of basin irrigation that grew one crop per year to permanent irrigation with two or three crops per year. This measurably raised the crop yield, while Nile navigation also improved, which boosted Nile tourism.

In the 1970s, the dam's hydroelectric plant supplied more than half of Egypt's power needs, although growing numbers of thermal power plants using gas or oil have reduced its share to 10 per cent. Some of the side effects of the High Dam, such as siltation, erosion, rising groundwater and erosion of northern shores in some areas were addressed. While others, such as the Nuba and its antiquities being submerged under water, still need diligent efforts to rectify. The people of Nuba deserve to be relocated around Lake Nasser and assisted in funding agricultural, fishery and tourism projects, and agro and mining industries.

In August 1999, on the sidelines of a giant construction and industry trade expo in New Hampshire, USA, a poll was taken to choose the top 10 construction projects of the 20th century. They would be the greatest in history, since the giant projects that were constructed by way of advances in science and technology surpassed anything that preceded them. Mega real estate companies, design houses and dam construction firms voted Egypt's High Dam as the greatest infrastructure project of the 20th century, and thus in history, ahead of the US's Hoover (Boulder) Dam and the Empire State Building, the world's first skyscraper. The reasons for choosing the High Dam were because it is a world-class construction and engineering feat that resulted in great and positive changes in the lives of an entire people.

This vote is a crown for the people of Egypt and its late leader Gamal Abdel Nasser, who fought fiercely and brilliantly in difficult times to build Egypt's High Dam, to protect his nation and change its course from a country subject to the will of the world's longest river to a nation that controls the course of the river.

The High Dam remains the greatest monument of Egyptian-Russian cooperation and should inspire both sides to revive its momentum for the benefit of both peoples, who are bound by a genuine and deep friendship based on mutual respect, partnership, justice and equity.