

# RUSSIA AND EGYPT OPPORTUNITIES IN BILATERAL RELATIONS & THE LIMITS OF COOPERATION

January 2017 | Leonid ISSAEV





# **RUSSIA AND EGYPT**

## **Opportunities in Bilateral Relations & the Limits of Cooperation**

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Address: Istanbul Vizyon Park A1 Plaza  
Floor:6 No:68 Postal Code: 34197  
Bahçelievler/ Istanbul / Turkey  
Telephone: +902126031815  
Fax: +902126031665  
Email: [info@sharqforum.org](mailto:info@sharqforum.org)



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## Executive Summary

- Following the collapse of the Soviet Union, relations between Egypt and Russia underwent a period of "stagnation" characterized by a weak level of interaction, as well as the decay of the old relations and forms of cooperation.
- From the early 2000s onwards, the international and regional agenda became a central part of bilateral relations between the two countries. That so many of the positions held by Moscow and Cairo on international issues have coincided has pushed them to deepen their cooperation.
- The expansion of bilateral relations in the first decade of the 21st century was accompanied by the formation of legal, financial and organizational structures and institutions of cooperation that laid the basis for the development of relations throughout the century.
- The emergence of a new leadership in Egypt in 2013 after the overthrow of Mohamed Morsi marked the beginning of a new stage in Russian-Egyptian relations. The tendency of Moscow to establish relations with authoritarian regimes also experiencing difficulties in relations with the West contributed to this factor.
- Egypt's main trading partners are EU countries, which account for 30.3 percent of the foreign trade turnover of Egypt, while Arab countries represent 22.9 percent, other Asian countries account for 19.6 percent, and the US accounts for 7.6 percent. In turn, Russia was only the seventh most important trade partner for Egypt in 2015, even below Turkey, whose relations with Cairo severely deteriorated after the coup in 2013.
- Military-technical cooperation that, for internal reasons (both in Egypt and Russia) has reached its limits in terms of resources and capabilities, nonetheless continues to form the basis of Russian-Egyptian cooperation.
- The current state of the Egyptian economy, which is highly dependent on foreign loans, as well as stagnation in the Russian economy, do not make Russia the best possible economic partner for Egypt.
- Despite the trend towards an improvement in bilateral relations after 2013, relations are still vulnerable to threats including the unstable situation in Egypt, the potential for conflict begun by the recent ban of Muslim Brotherhood in Egypt, and the volatile situation in other countries bordering Egypt, particularly Libya.
- Although Western countries condemned the military coup in Egypt in 2013, the Egyptian elite, and primarily the military, have remained oriented towards the United States. In this regard, Cairo's rapprochement with Moscow looks like an attempt to make Washington "jealous".
- Egypt, of course, is a desirable partner for Russia, and Moscow would like to use these relations to help in its return to the Middle East, but under current conditions this goal seems unattainable.



THE RUSSIAN FEDERATION AND THE ARAB Republic of Egypt are connected by a complex history of political and economic relations as well as multifaceted humanitarian ties. The significance of Egypt to Russia is defined by its role as one of the leading political, economic and cultural centers of the Middle East and North Africa, and its place within the vast Islamic world. Egypt holds sea, land and air pathways of great international importance. Cooperation with Egypt would help Russia to pursue its interests in the Middle East region, as it is located close to Russia's southern borders in a conflict-prone region of enormous geopolitical importance. Hence, interactions between the two countries could contribute to the sustainability of Russia's position in the Islamic world, the creation of favorable conditions for the development of Russian regions with high Muslim populations, the preservation and strengthening of Russia's interests in the world energy market and the strategically important Russian agricultural and high-tech production markets, as well as aiding the exports of goods and services within the framework of bilateral military-technical cooperation: for instance, in the field of aerospace. Relations between Russia and Egypt in the cultural sphere are extensive and significant: they are connected through international tourism, the existence of a Russian community<sup>1</sup> in the country,<sup>2</sup> and the interaction of Christian and Muslim confessional groups. The effective implementation of the objectives and tasks of Russian foreign policy is very important for the coordination of the international activities of Russia and Egypt in the UN, the Organisation of Islamic Cooperation, the Arab League, the African Union, the Forum of Gas Exporting Countries and other international organizations and forums.

### **Part I: Historical Background**

The USSR (Russia) and Egypt, being earlier actual allies in the Cold War, found themselves in the 1970s on the opposite sides, and to the

beginning of the 1990s slowly moved toward each other. A turn of Mikhail Gorbachev leadership to cooperation with the United States and the end of the Cold War seem to have contributed to this. During the "Perestroika" the national interests of the Soviet Union oriented on the rapprochement with Western countries and Egypt did not contradict each other, but, on the contrary, for most issues they were closely aligned. However, the complexity of "reformatting" of the international relations entire system, the economic difficulties of both the Soviet Union (Russia) and Egypt have complicated the process of rapprochement and coordination of positions. Therefore, a visit of President Hosni Mubarak to Moscow in 1990 was so colorless and the negotiations with Mikhail Gorbachev were actually inconclusive. The vector of foreign policy and economic interests of Egypt was turned to the West.

Egypt remains a center of political life in the Middle East and North Africa, and has objectively retained its strategic importance for Russia. But the Russian leadership has temporarily lost its interest in Egypt. The consequences of the "reset" in bilateral relations between Moscow and Cairo failing has been a noticeable reduction in trade and economic ties, which were already experiencing a decline. Volumes of mutual trade rapidly decreased, from \$1.2 billion at the end of 1980 to \$350 million in 1991. By the time of the collapse of the Soviet Union, its participation in the implementation of socio-economic projects in Egypt had ceased altogether.<sup>3</sup>

The decline in Russian-Arab and, in particular, Russian-Egyptian ties happened most dramatically in the early 1990s. Its relative brevity and the dynamics of the recovery from this nadir were largely predetermined by the fundamental nature of the circumstances: the historically-developed (since the mid-1950s) complex of humanitarian, cultural



and economic ties between the USSR and the countries of the Arab East and especially Egypt.

***Cairo feared that NATO would begin to play an active role in resolving the Middle East conflict, pushing it into the background. But the economic weakness of Russia, the dependence of Egypt on U.S. aid and the country's volume of trade and economic relations with Western countries determined its foreign policy. Egypt was a welcome partner for Russia. But in certain circumstances, it could not be Russia's "gateway" to the Middle East.***

In 1996, political relations intensified after an improvement in trade and economic ties. In April 1996, Russian Foreign Minister Yevgeny Primakov visited Cairo and then declared that "Egypt can be sure that Russia will pursue a policy aimed at the continuity of all previous decisions, and would do everything to ensure that... harmonized approaches were carried out and continued."<sup>4</sup>

In 1997, when the new conditions for Russian-Egyptian cooperation were formed, Egyptian President Hosni Mubarak visited Russia. Al Ahram Weekly wrote this: "Mubarak brought to Moscow not only the desire to raise a new level of bilateral economic ties. He wanted to make it clear to Russia that it should be at the height of its responsibility as a co-sponsor of the Middle East peace process and warned that if Moscow continues to ignore its relationships with the Arab world, [Egypt], in turn, would gradually forget Russia"<sup>5</sup>.

In the second half of the 1990s, bilateral agreements continued to be renewed, contributing to the expansion of trade. Since the mid-1990s, a special role has been played by the problem of the North Caucasus with an emphasis on Chechnya in the political

dialogue between Russia and the Arab-Muslim world, Egypt in particular. Cairo had a policy of "positive neutrality" towards Chechnya. This can be reduced to the fact that, given the international role of Egypt in the Islamic world on the one hand, and the desire of Cairo to develop friendly relations with Russia on the other, Egypt's leadership sought to contribute to the settlement of the Chechen conflict.

By the early 2000s, the international and regional agenda had become a central part of the international contacts between the two countries. The international positions they held in common pushed them to deepen their cooperation. Thus, in early 2000, when UN reform was actively discussed, Egypt sought the support of Russia to become a permanent member. Cooperation with Russia was no less important for Egypt to defend its existing positions in the international and regional arena - for example, in the Mediterranean Union or within the transformation and expansion of NATO. Cairo feared that NATO would begin to play an active role in resolving the Middle East conflict, pushing it into the background. But the economic weakness of Russia, the dependence of Egypt on U.S. aid and the country's volume of trade and economic relations with Western countries determined its foreign policy. Egypt was a welcome partner for Russia. But in certain circumstances, it could not be Russia's "gateway" to the Middle East.

The rapprochement of Russia and Egypt has accelerated in the first decade of the 21st century, although there have been limitations. Both countries sought and found an understanding on a number of international issues. These were related to the Middle East settlement, the situation in Iraq, Syria, Lebanon and the region, as well as with the creation of a regional security system. Egypt claimed the role of a regional power, being one of the largest countries in





Africa and one of the key countries of the African Union and the Arab League.

***It was obvious that in the economic and humanitarian fields Russia could not substitute broader and multilateral relations and cooperation Egypt had with the Western Europe and the United States. The Russian economy was unable to compete in the Middle East with the West. The Russian model of a centralized state economy was out of date, and the forms of foreign economic relations were ineffective. But cooperation with Russia made Egypt feel more confident in the international arena, which in turn allowed it to better defend its positions.***

Cairo during the late Mubarak era sought to diversify its foreign policy and business ties, strengthening relations with major world powers including Russia. Similarly, Russia was guided by the same principle, aiming to “return to the Middle East” in some new form. This allowed Moscow and Cairo to update their forms and methods of interaction, and to enhance their cooperation.

An important role was played by the growth in mutual trust that made Russia more sympathetic both to the attitude of the Egyptians and Arabs on the Iranian nuclear issue and to the situation in Syria and Lebanon following the Cedar revolution. The absence of conflicting interests helped to raise Russian-Egyptian relations to a higher level. Considering the many conflicts in the region, both countries were convinced that their positions were either close to each other, or were developing parallel courses. Russia did not require Egypt to give up its former alliances or cooperation with the West and did not set such a goal. It was obvious that in the economic and humanitarian fields Russia could not substitute broader and multilateral relations and cooperation Egypt had with the Western Europe and the United States. The

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In the first decade of the 21st century, inter-ministerial consultations, exchanges of delegations, meetings and conversations showed that the Egyptian leadership was interested in political coordination with Russia on key regional issues, especially the Middle East settlement including work with Israel, Palestine and Syria. Cairo also counted on an understanding with Moscow on the Middle East “quartet” activities.

There were also differences. Egyptians in those years did not agree with the fact that Russia put the Muslim Brotherhood on its list of “terrorist organizations” and noted that it was a de facto political organization with legal representatives in the Egyptian parliament.<sup>6</sup> But the Russian court decision on this issue was caused by the participation of militants from the Muslim Brotherhood in the Chechen conflict.<sup>7</sup> Perhaps this decision was hasty, but it has now remained unchanged for many years.

***Science and technology was identified as one of the most promising areas for cooperation, especially the fields of high technology, nuclear power, communications, satellite launches for commercial purposes, and the fields of medicine and pharmaceuticals. Large Russian companies operating in the field of hydrocarbons and construction, banks and insurance companies and transport companies all entered the Egyptian market.***

Bilateral relations were raised to a higher level. This was reflected also in an increase



in mutual visits. The visit of President Hosni Mubarak to Moscow in 2001 was a major step forward in this direction. Following these talks with President Vladimir Putin, the Declaration on Principles of Friendly Relations and Cooperation, a long-term program for the development of trade, economic, industrial and scientific-technical cooperation between Russia and Egypt, was signed.<sup>8</sup> The likelihood of overcoming stagnation in business relations between the two countries also increased.

In April 2005, Russian President Vladimir Putin visited the Middle East for the first time and began his visit from Egypt. Putin's visit helped to overcome the stagnation in mutual investment. The establishment of business partnerships, albeit on a small scale, had begun. The Russian side took part in the Egyptian technical campaigns of tractors and cars assembly, as well as in the activities of companies that specialized in market research. These were first moves, not very large, but they demonstrated willingness. The two countries discussed the establishment of a special Russian industrial zone in Alexandria, although the project was delayed and subsequently lost all relevance. The Intergovernmental Commission on Trade, Economic and Scientific-Technical Cooperation began its work.

New moments in the relationship were brought about by the visit of Egyptian Prime Minister Ahmed Nazif in 2008 to Moscow. The parties discussed the possibility of military-technical cooperation, and bilateral agencies were created for its coordination. A large proportion of the arms in the Egyptian army were still Soviet-made and required upgrades or repairs.

Hosni Mubarak's visit to Moscow in March 2009 meant that high-level contacts took on a regular nature. In 2009, Russian President Dmitry Medvedev visited Egypt and signed

the agreement on strategic partnership between Russia and Egypt. Paradoxically, despite the fact that this document has not yet been ratified by either Russia and Egypt for bureaucratic reasons, in practice it has become the basis for cooperation between the two countries. The parties understood that it was necessary to create conditions for joint investment in infrastructure, especially traditional and alternative energy sources, public works, housing, transport, communication technologies, and tourism. The importance of military and military-technical cooperation "taking into account mutual interests and their international obligations" were also highlighted.

Science and technology was identified as one of the most promising areas for cooperation, especially the fields of high technology, nuclear power, communications, satellite launches for commercial purposes, and the fields of medicine and pharmaceuticals. Large Russian companies operating in the field of hydrocarbons and construction, banks and insurance companies and transport companies all entered the Egyptian market. The expansion of bilateral ties in the first decade of the 21st century was accompanied by the formation of legal, financial, organizational structures and cooperation institutions including intergovernmental agreements on the avoidance of double taxation, with the aim of granting preferential treatment.

However, the volume of mutual investments remained low (the volume of Egypt's direct foreign investment in Russia's economy was \$2.1 billion, and Russia's investments added up to \$16 billion).<sup>9</sup> In some areas it was simply absent. Even the increased volume of trade in goods and services was significantly lower than comparable trade between Egypt and leading highly developed countries. There were reasons for this: the technical backwardness of a number of sectors of the



Russian economy and the lack of proper competition experience. All this objectively hindered the growth of mutual trade, although the trend was generally positive.

**The official visit of the Egyptian President to Russia was connected to the severe economic crisis (Fig. 1) that Egypt faced after one and a half years of political instability. The situation for Egypt was aggravated by the fact that the World Bank and the IMF regarded everything that was happening in the post-revolutionary country with great skepticism, and did not feel much enthusiasm about providing it with financial assistance.**

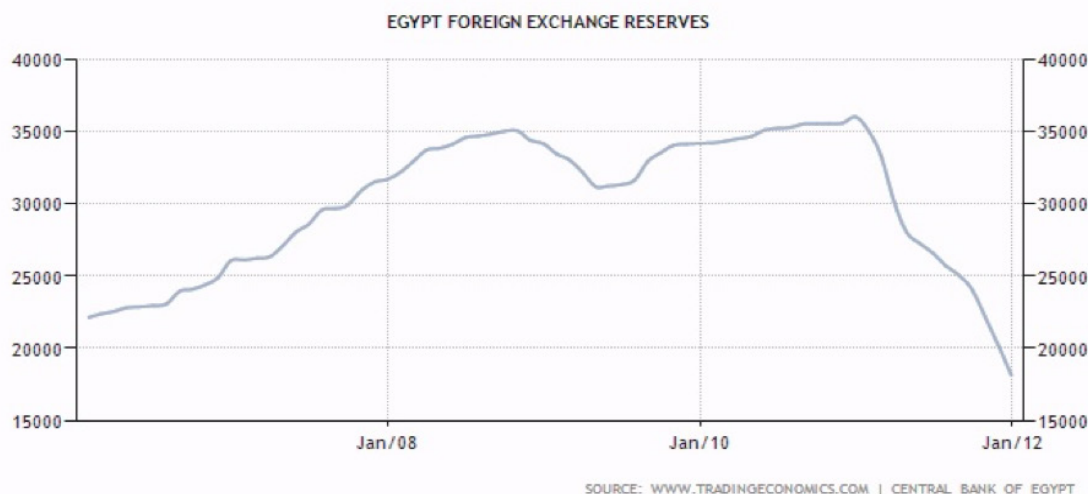
The Russian Federation sought to officially take a neutral stance on the events that took place in Egypt following the Egyptian revolution of 2011, limiting itself to the phrases it was “duty-bound” to tell the participants in the Egyptian political process. Immediately after Vice-President of Egypt Omar Suleiman’s speech in which he announced Mubarak’s decision to leave the presidency, Moscow recognized the sovereignty of the Supreme Council of the Armed Forces (SCAF) headed by Mohammad El Tantawi.

Russia was also among those countries that recognized both the Egyptian parliamentary elections of 2011-2012 and presidential

elections of 2012, which were won by the Muslim Brotherhood and Mohammed Morsi, respectively. However, there is a paradox in the fact that Russia did not remove the Muslim Brotherhood from its list of terrorist organizations whose activities were prohibited in Russia. Nor did this stop the Russian authorities maintaining contact with the Egyptian leadership including Mohammed Morsi until his overthrow in July 2013.

Vladimir Putin and Mohammed Morsi met twice to discuss the development of bilateral relations during the year of Morsi’s presidency. The first time, the two leaders met on the sidelines of the BRICS summit in Durban, then they continued this dialogue in Sochi, during an official visit by Mohammed Morsi to Russia in April 2013. The official visit of the Egyptian President to Russia was connected to the severe economic crisis (Fig. 1) that Egypt faced after one and a half years of political instability. The situation for Egypt was aggravated by the fact that the World Bank and the IMF regarded everything that was happening in the post-revolutionary country with great skepticism, and did not feel much enthusiasm about providing it with financial assistance.

Fig. 1. Dynamics of foreign exchange reserves in Egypt, 2006-2012, \$ billion.<sup>10</sup>



During these talks, a considerable list of issues were discussed, from Russian gas and grain shipments to Egypt to the construction of nuclear power plants and the modernization of dozens of different plants constructed during the Soviet period, including the country's largest, the Helwan Metallurgical Combine. It is interesting that the agenda for later negotiations between Vladimir Putin and Abd al-Fattah al-Sisi was largely based on the list of issues discussed with Morsi in April 2013.

***It is no coincidence that the overthrow of Mohammed Morsi in July 2013 was regarded in Moscow with less ambivalence than the resignation of Hosni Mubarak in 2011. Unlike many Western countries and the African Union, which suspended Egypt's membership in this organization, Russia in fact supported the coup. The Russian Foreign Ministry at that time had already formed its informal concept towards the Middle East, deciding that stable authoritarianism was much more acceptable for Moscow than fragile democracy.***

However, the success of economic cooperation between the two countries depended on the progress of negotiations on a number of regional and international issues on which Egypt and Russia differed radically. And the key question was of course Syria, which largely determined the slow pace of Russian-Egyptian economic cooperation up until the coup of 2013.

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towards the Middle East, deciding that stable authoritarianism was much more acceptable for Moscow than fragile democracy.

## **Part II. Egypt after the coup: new opportunities for Russian-Egyptian cooperation**

The possibilities of political rapprochement between Russia and Egypt increased markedly after the military coup in Egypt on July 3, 2013, when the administration of Mohammed Morsi and the Muslim Brotherhood that enjoyed the moral support of the West and especially the U.S., was overthrown. By this time both the Russian and Egyptian leadership understood that it was not only necessary to look for strategic partners in the West, but also to develop partnerships with other countries.

The Egyptian coup of 2013 and subsequent events opened up a new page in the history of bilateral relations. Suddenly there appeared a real opportunity to broaden the partnership between the two countries to the level of a strategic alliance, though this was not so easy to implement due to the fact that Egypt, like Russia, was forced to confront a variety of high-pressure challenges at the regional and international levels.

During a visit to Egypt on 10 February, 2015, Russian President Vladimir Putin signed three agreements confirming that the two countries had reached a new level of cooperation. The partners paid particular attention to economic cooperation. Among the documents signed were an agreement on the development of a draft nuclear power plant for Dabaa, a Memorandum of Understanding in the field of investment and participation in the construction of facilities on the territory of Egypt as well as a Memorandum of Understanding on the development of investment cooperation.<sup>11</sup>



These agreements in the field of nuclear energy relate to more than just the construction of nuclear power plants. According to Vladimir Putin, it actually creates a new nuclear power industry in the country.<sup>12</sup> The Russian State Atomic Energy Corporation (Rosatom) says it is ready to build four new nuclear power plant units with new post-Fukushima technology in northern Egypt. This package of measures not only included the construction itself, but also staff training and scientific development.

With regard to investment cooperation, the priority areas for joint investment projects will be the transport, engineering and chemical industries. The intergovernmental commission, which resumed its work in February 2015 after a period of non-activity caused by the social and political instability in Egypt, will lead these projects. Putin and Sisi agreed to expand opportunities for small and medium businesses in Egypt, which already has more than 400 companies established with Russian capital.<sup>13</sup> Certain hopes, too, are pinned on the Russian-Egyptian Business Council, which resumed its activities in 2014.

The prospects of creating a free trade zone between Egypt and the Eurasian Economic Union (EEU: Russia, Belarus, Kazakhstan, Kyrgyzstan, Armenia) as well as of Russian industrial zone development in the Suez Canal area are still being discussed. The implementation of these agreements is intended to help increase the volume of bilateral trade and Russian exports to the Middle East and North Africa. A joint Russian-Egyptian governmental working group towards the formation of a free trade zone between the two countries has been working since 2015. This implies the abolition of customs barriers and the establishment of a single customs tariff for third countries. Moreover, the central banks of Russia and Egypt are still looking into the prerequisites for a transition to national currencies in mutual trade.<sup>14</sup>

Another promising project is the creation an Egyptian analogue to the Russian Direct Investment Fund (RDIF). The issue of the provision of support to the Egyptian Ministry of Investment by the Russian Direct Investment Fund at all stages of the formation of such a fund was also discussed. Much attention was paid to cooperation in the field of tourism and the overall development of cultural and humanitarian ties between the two countries. In addition, the development of military-technical cooperation, cooperation in the fight against international terrorism, and the situation in Syria and the Middle East were also considered.<sup>15</sup>

#### *Economic interests*

Russia is still far from being a key trading partner for Egypt. Egypt's main trading partners are EU countries, which account for 30.3 percent of the foreign trade turnover of Egypt, Arab countries, which make up 22.9 percent, other Asian countries accounting for 19.6 percent, and the U.S., which represents 7.6 percent (Fig . 2). - (Next Page)

Russian interests in Egypt in the economic sphere can be summarized in three main categories. First, Egypt is considered to be a promising market for Russian goods including agricultural goods (e.g., wheat) and high value-added products: petrochemicals, for instance. Secondly, Russia is a major importer of various kinds of agricultural products from countries located in the subtropical zone including Egypt. Taking into account a food embargo introduced by Russia in 2014 on agricultural production from EU countries and a number of other states, as well as a sharp devaluation of the Egyptian pound in November 2016, these are favorable conditions for the growth of Egyptian agricultural exports to the Russian market. Thirdly, in the context of the turning of



Fig. 2. Egypt's main foreign trade partners, 2013-2015<sup>16</sup>.

		Trade turnover, millions of U.S. Dollars								
		2013			2014			2015		
		Trade turnover	Egyptian Exports	Egyptian Imports	Trade turnover	Egyptian Exports	Egyptian Imports	Trade turnover	Egyptian Exports	Egyptian Imports
1.	China	7.575	0.561	7.014	8.371	0.329	8.042	10.207	0.431	9.776
2.	Germany	5.895	0.640	5.255	6.198	0.669	5.529	6.322	0.544	5.778
3.	USA	6.403	1.184	5.219	6.314	1.127	5.187	5.471	1.093	4.378
4.	Italy	6.262	2.707	3.555	5.709	2.450	3.259	4.910	1.603	3.307
5.	Saudi Arabia	5.025	1.978	3.047	4.711	1.978	2.733	4.875	1.930	2.945
6.	Turkey	4.380	1.794	2.631	4.297	1.448	2.849	4.542	1.234	3.308
7.	<b>Russian Federation</b>	<b>2.140</b>	<b>0.267</b>	<b>1.873</b>	<b>3.283</b>	<b>0.353</b>	<b>2.930</b>	<b>3.712</b>	<b>0.342</b>	<b>3.370</b>
8.	India	4.410	2.138	2.272	4.386	1.919	2.467	3.207	0.871	2.336
9.	France	3.098	0.966	2.132	2.962	0.831	2.131	2.977	0.500	2.477
10.	Brasil	2.486	0.204	2.282	2.360	0.172	2.188	2.788	0.095	2.693

Russian geopolitical interests towards the East, Arab countries could become highly attractive markets for Russia, and in this respect, Egypt could perform as a “gateway” to the Arab world and beyond, perhaps even back towards regions neighboring Russia.

Egypt is interested in the products and technologies of the Russian military-industrial complex, agricultural production (primarily Russian grain), investment, construction technology for large infrastructure projects including nuclear facilities, and communications and space technology. Russia's main export, hydrocarbons, are not attractive for Egypt, as it has reserves of oil and has more convenient energy import sources. However, there are significant opportunities for both Russian and joint Russian-Egyptian investments in this area. In addition, Egypt and Russia agreed in March 2015 on the supply of liquefied natural gas (LNG) to Egypt to be carried out by Russian companies Gazprom and Rosneft up to 2019.<sup>17</sup>

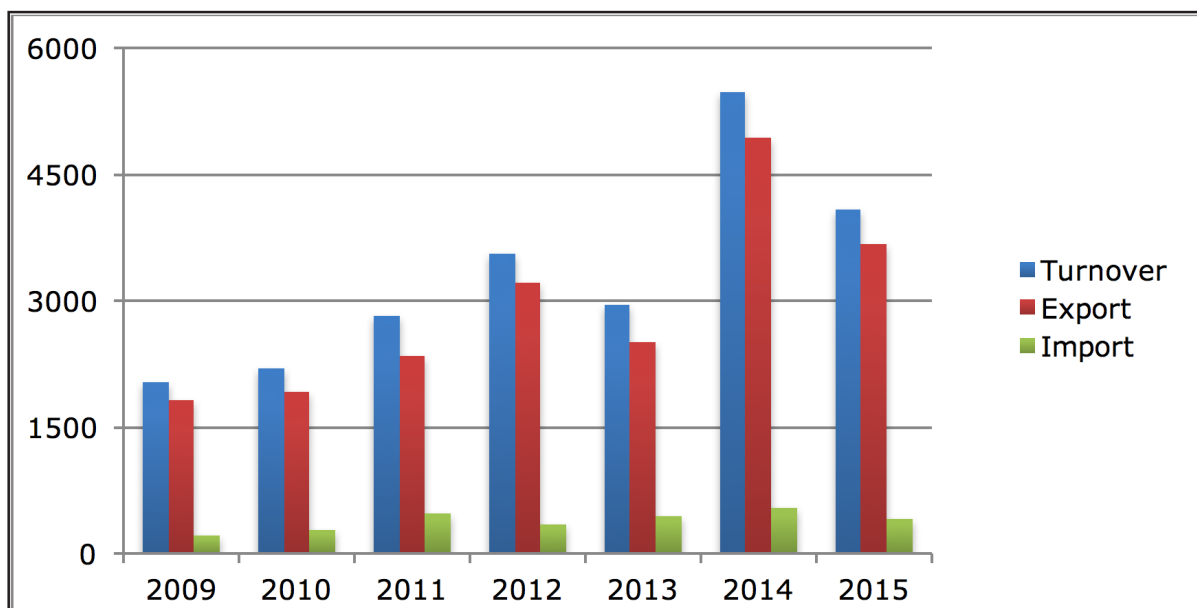
In recent years, there was a marked increase in goods turnover between Russia and Egypt (Fig. 3). In 2013, there was a very significant

reduction (from \$4.26 billion to \$2.14 billion), primarily due to lower purchases of Russian wheat.<sup>18</sup> However, in 2014 (also in direct connection with the advent of the al-Sisi administration) turnover increased significantly, exceeding 2012 levels and reaching \$4.5 billion. The stated goal is to bring it up to \$10 billion over the coming years.<sup>19</sup> Russia is the largest supplier of wheat to Egypt (40 percent of the wheat supplied to Egypt is Russian). At the same time, Egypt imports, as a rule, “soft wheat”, mainly category 2-3 forage used for farm animals. During their visit to Russia in 2014, Egyptian President al-Sisi and the Egyptian Minister of Industry, Trade and Investment Mounir Fakhry Abdel Nour spoke of an increase in the imports of grain to between 5-5.5 million tons.<sup>20</sup>

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Fig. 3. Trade turnover between Russia and Egypt, 2008-2015, (millions of U.S. dollars)<sup>21</sup>



Certain progress has been achieved in the oil industry in recent years. During his visit to Cairo on December 12, 2016, the head of Rosneft, Igor Sechin, informed al-Sisi of his company's acquisition of Eni's 35 percent in the Zor oilfield concession, as well as 15 percent of the project operator, which was a joint stock company formed by Eni and EGAS: Petroshorouk. The Rosneft Board of Directors approved the company's entry into the \$1.125 billion project. In addition, Rosneft will pay \$450 million historical costs to Eni. The total investment by Rosneft in the project over 4 years will be \$4.5 billion. Rosneft thereby becomes a participant in the project to develop the largest field of hydrocarbon deposits in Egypt, along with two other global majors, its long-term partners Eni and BP. Following Rosneft's purchase, Eni has 50 percent of project shares, Rosneft up to 35 percent, and BP up to 15 percent<sup>22</sup>.

The leaders of the two countries reached an agreement on the construction of an Egyptian logistics center on the Black Sea coast.<sup>23</sup> Agricultural raw materials and food could be supplied there for further processing. In addition, Egypt is ready to give Russia the

opportunity to open an industrial zone in the new Suez Canal. There is also a proposal by the Russian Federation trade mission in Egypt for the opening of an investment, consulting and project center that could provide support for Russian businesses to work in the country, including the preparation of applications for participation in tenders. However, no concrete steps have yet been taken in this direction.

On November 20, 2014, at a meeting of the Russian-Egyptian Business Council it was decided to prepare a list of prospective projects for bilateral cooperation. In general, the highest priority areas for economic cooperation between the two countries are the following:

- The tourism industry (the further development of bilateral relations provided by the intergovernmental agreement of 15 March 2008);<sup>24</sup>
- Agriculture (Russian wheat supply in large quantities and on a regular basis);
- Nuclear energy (the implementation of the Egyptian program for peaceful nuclear energy: nuclear power plant construction, training of specialists from among the Egyptians, etc.);



- The oil and gas sector (LNG supplies to Egypt,<sup>25</sup> establishing cooperation and coordination within the Forum of Gas Exporting Countries framework, in which the positions of Moscow and Cairo are similar in many respects; joint participation in international and regional projects and in gas swap supplies to Europe; the development of oil and gas fields in Egypt; and the modernization of large industrial facilities built with Soviet assistance such as the Aswan hydropower complex, the aluminum complex in Nag Hammadi, etc.);
- Infrastructure and transport (the construction of housing, transport and logistics facilities, the implementation of air transportation, the establishment of direct maritime traffic between the two countries, the modernization of Egypt's road and rail infrastructure, the creation of "safe route" trips for Russian tourists to Egypt, etc.);
- The telecommunications sector (primarily, the inclusion of Egypt in the development of the GLONASS navigation system);
- The military-technical sphere (the delivery of Russian armored vehicles, air defense systems, etc.).

***China supplies roughly the same products as Russia on the African arms market (Ethiopia, Angola and others) where 30-40 percent of technology is still Soviet, but at lower prices. In addition, the Chinese are actively working on improving the quality of products supplied. Obviously, Egypt will diversify its military contracts, signing them both with the United States and China. However, Russia is still highly competitive in the areas of air defense and air power.***

#### *Interests in the Sphere of Military-Technical Cooperation*

In 2015, both sides celebrated the 60 years of military-technical cooperation (MTC) between Russia (and the USSR) and Egypt. MTC has been as important for the development

of bilateral relations as the construction of the Aswan High Dam. Currently, more favorable conditions have emerged for the development of this type of cooperation: the new Egyptian leadership has shown an interest in diversifying its relations with external partners. Cairo is interested in the acquisition of new equipment, and Russia, in turn, is seeking to expand the horizons of its military-technical cooperation. China and India are changing their position, and the process of diversification is going on in all countries. Until now, one of the main Russian partners in the sphere of military-technical cooperation in Africa has been Algeria. However, the resources of this market have been largely exhausted. Russia faces the task of finding new models for cooperation and new partners, and Egypt in this regard comes to the fore. The Egyptian military industry is well developed, and the Egyptians produce many types of weapons including radar stations and element bases for them. This suggests that the Russian Defense Export (JSC Rosoboronexport) could work with them in industrial cooperation in the military sphere: licensing, joint ventures for modernization, repairs, etc. Currently, there are three major security challenges for Egypt, which are encouraging Cairo to purchase modern weapons from the Russian side. As a consequence, both Russia and Egypt have a unique opportunity to revitalize cooperation in the military-technical field.

The first challenge comes from Daesh. To oppose it, Egypt will need financial resources, the ability to play a decisive role in the region and the willingness to stop possible extensions of Daesh creating a kind of barrier between North Africa and the Persian Gulf.

The second challenge concerns the issue of the distribution of water from the Nile and relations with Ethiopia. Ethiopia has a half-million strong army that is now actively arming (thanks to China) and becoming





comparable with Egyptian armed forces in size and equipment. Historical claims and conflicts between the two countries have existed for a long time. It was Ethiopia (not Israel) that Egypt, until recently, saw unofficially as one of its main rivals, as well as the reverse. However, the agreement signed by the presidents of Egypt, Sudan and Ethiopia in February 2015 on the use of the waters of the Nile due to the construction of the Renaissance dam in Ethiopia, largely removes the source of conflict between the three countries on the issue. Perhaps in the foreseeable future a final settlement of “the Nile problem” will be reached, although there will always remain separate unresolved issues on the side.

The third challenge is the remainder of the country’s social instability and the likelihood of new mass unrest. In the event of a new large-scale political upheaval, as the experience of Libya and Syria shows, the interference of foreign states is possible. This among other things could lead the Egyptian authorities to purchase advanced anti-aircraft systems. Cairo intends to purchase multipurpose aircraft and air defense systems from Russia with the aim of preventing military air operations against the country by potential enemies.

The risk for the subsequent development of Russian-Egyptian military-technical cooperation is now growing competition from China. China supplies roughly the same products as Russia on the African arms market (Ethiopia, Angola and others) where 30-40 percent of technology is still Soviet, but at lower prices. In addition, the Chinese are actively working on improving the quality of products supplied. Obviously, Egypt will diversify its military contracts, signing them both with the United States and China. However, Russia is still highly competitive in the areas of air defense and air power. Assessing the potential for Russian-Egyptian

military-technical cooperation, we can proceed from the level of military-technical cooperation that was reached in the reign of Hosni Mubarak and that Russia is likely to be able to support. For example, in 2005, Rosoboronexport made several contracts with Cairo for the supply of anti-aircraft missiles (AAM: four “Tor-M1”, small parties of “Buk-M1-2” and ZSU-23-4 “Shilka” and portable “Igla” AAMs). In September 2007, a contract for the supply of ZSU-23-4-M4 self-propelled “Shilka Sagittarius” anti-aircraft missiles was signed. In 2006, Egypt and Russia reached an agreement on the supply of MiG-29 SE fighter jets. The contract, valued at \$1.5 billion, has remained unrealized due to U.S. pressure. In 2008, the two parties signed a contract for the delivery of 14 Mi-17 helicopters to Egypt for a total amount of approximately \$150 million.<sup>26</sup>

On 13-14 November 2013, the first Russian-Egyptian meeting of the two countries’ defence and foreign affairs ministers was held in Cairo in a “2 + 2” format. The participants agreed to expand cooperation in the area of military air and naval forces. Some experts say that in the course of these negotiations firearms contracts worth more than \$3 billion<sup>27</sup> were agreed for the supply of 24 MiG-29M/M2 fighters, 12 Mi-35 M attack helicopters, the K300P “Bastion” mobile coastal missile system, and “Tor-2ME”, as well as weapons and ammunition. According to other sources, the package deal also included ATGM “Kornet” and Mi-8/17 helicopters. For the Egyptian side these agreements were of particular significance in the light of the suspension of American arms deliveries in July 2013 due to the removal of President Mohammed Morsi from power. The meeting also resulted in the signing of the protocol on military-technical cooperation in March 2014.<sup>28</sup> This was the first manifestation of the military-technical cooperation of Cairo and Moscow at such a level since the collapse of the Soviet Union.



**Russia is trying to position itself in the Middle East as a key player able to resist the spread of the terrorist threat and to build strategic ties within the region on this basis. This in turn is forcing Moscow to show a growing interest in the region and, in particular, in Egypt. One illustrative example is the new "Naval Doctrine" that President Vladimir Putin approved on July 26, 2015 focusing on the restoration of a permanent presence for the Russian fleet in the Mediterranean (Egypt, as is known, has quite a long maritime border) and strengthening the strategic position of Russia on the Black Sea in defiance of NATO military infrastructure being moved towards its borders and U.S. actions against the background of the crisis in Ukraine .**

#### *Cultural Cooperation*

Cultural and intellectual ties between Russia and Egypt have always remained at a fairly good level, even after the collapse of the USSR. One example was the decision of the Academic Council of the authoritative Al-Azhar Islamic University of Cairo to approve the translation of the Qur'an prepared by Russian Arabist Valeria Porokhova.<sup>29</sup> Al-Azhar experts responded to this Russian translation of the Qur'an by calling it "The first true interpretation of the holy book in Russian"<sup>30</sup>. Before Valeria Prokhorova's translation of the Qur'an, it had been translated twice into Russian, in the 19th century by Russian orientalist Gordiy Sablukov and in the 20th century by famous Soviet orientalist Ignatij Krachkovsky.

Bilateral cultural co-operation in the form of the organization of exhibitions and festivals, the touring of artistic groups and expeditions, etc., have recently had a boost. In 2006, the Russian-Egyptian University, which specializes in training specialists in the latest technologies, was opened in the suburbs of Cairo. Students from Russia received the opportunity to study at Al Azhar, the world's largest Islamic university. In Egypt, there was a large Russian diaspora by the end of the

2010s: around 15,000 people through mixed marriages and individual Russian citizens living in Egypt. Spiritual communication and contact between religious leaders in the framework of new interfaith institutions and forums established at the end of the twentieth century were also developing. A positive role in these processes was played by the Patriarch of Moscow and All Russia Alexy II, who visited Egypt in 2010, and Patriarch of Alexandria and All Africa Tavadros II. These visits were regarded constructively by the Coptic Church and Al-Azhar Islamic University<sup>31</sup>.

Humanitarian cooperation between Russia and Egypt in the field of language and culture was developing no less actively. This is partly due to the Soviet heritage, since such universities of Egypt as the Conservatoire, the Ballet Institute, the Film Institute, and the National Dance Ensemble had been established around 40 years ago with the support and active participation of Soviet experts. In addition, in Egypt there are many graduates of Soviet and Russian universities: according to some estimates, around 30,000, of whom 20,000 are officers who got their higher education in Soviet times<sup>32</sup>. Moreover, rising numbers of Russian tourists could explain an increased practical interest of the Egyptians in the Russian language. In addition, the Russian-speaking community is growing fast, mainly due to mixed marriages. One Russian school in Hurghada, in which 20 teachers who have had specialized higher education teach more than 100 people (children of mixed marriages), has now been in operation for more than five years.<sup>33</sup> Meanwhile, Russian scientific and cultural centers in Cairo and Alexandria also continue their work.

At the same time today there is a lack of Russian-language literature translated into Arabic. In Soviet times, this was carried out by publishing houses "Progress" and



“Mir”. In Egypt, the issue was often raised in the context of combating the spread of Western culture. There is also the problem of a shortage of literary translators. As it is known, the quality of translations is strongly affected by the opportunities of translators to stay in the second language environment.

However, in this area, the main problem is the acute shortage of funding from both the Russian and the Egyptian sides. The system of awarding grants to Egyptian publishers to translate literature from Russian into Arabic and its publication with the help of Russian centers of science and culture, as well as the provision of scholarships to Egyptians in Russia, is at an extremely low level, seriously hampering the development of humanitarian cooperation between the two countries.

#### *The Fight against Terrorism*

At the beginning of the 2010s, in the framework of bilateral cooperation, a working group on counter-terrorism was founded. Even then Egypt, that had faced a wave of terrorism in the 1990s, noted that states' adherence to so-called “know your customer” rules regarding internet service providers was a prerequisite for narrowing cyberspace and disallowing terror. According to Egyptian estimations, the World Wide Web, in essence, had turned into an “encyclopedia of terror”. Russia, in its turn, sharing this view, participated in the development of the United Nations Global Counter-Terrorism Strategy, the OSCE, the Council of Europe and the Group of Eight documents.

Today, Russia regards Egypt as a strategic partner in the Middle East. Modern Iraq, Syria, Libya and Yemen form a zone of instability that threatens not only the countries of the region, but also global actors including Russia. In this regard, Egypt once again became vulnerable to the terrorist threat, and became seen by Moscow as a potential partner in the fight against terrorism in the Arab world.

The need for countering terrorism, in particular terrorism in the countries of the former Soviet Union, is one of the most topical issues in Russia's recent history. Moscow considers Daesh to be a direct threat to its national security, especially after the Caucasus Emirate group pledged allegiance to the group in June 2015.<sup>34</sup> Caucasus Emirate has committed numerous terrorist acts on the territory of Russia in recent years, including the terrorist attack in Domodedovo airport in Moscow in January 2011.

Against this background, Russia is trying to position itself in the Middle East as a key player able to resist the spread of the terrorist threat and to build strategic ties within the region on this basis. This in turn is forcing Moscow to show a growing interest in the region and, in particular, in Egypt. One illustrative example is the new “Naval Doctrine” that President Vladimir Putin approved on July 26, 2015 focusing on the restoration of a permanent presence for the Russian fleet in the Mediterranean (Egypt, as is known, has quite a long maritime border) and strengthening the strategic position of Russia on the Black Sea in defiance of NATO military infrastructure being moved towards its borders and U.S. actions against the background of the crisis in Ukraine<sup>35</sup>.

Egypt also recognizes the need to confront terrorist groups and take measures to combat terrorism in the north of the Sinai Peninsula and other parts of the country.<sup>36</sup> In view of this, the exchange of information about the plans and movements of terrorists between the Russian Federation and Egypt could help the Egyptian security forces to detect them and to prevent new terrorist acts aimed at undermining the country's stability. In addition, cooperation with Russia will allow Egypt to receive information about new technologies for detecting explosives, as well as about the latest methods for countering terrorism. Moreover, in the current



conditions, while the Muslim Brotherhood has again been outlawed in Egypt, the new Egyptian leadership headed by Al-Sisi highly appreciates that the group has consistently remained on the list of terrorist organizations banned in Russia, even during the reign of Mohammed Morsi.

The terrorist attack on a Russian plane in Sinai on October 31, 2015, killing 224 passengers, most of who were citizens of the Russian Federation, led the two countries to aim to cooperate more closely in the field of security. Moscow's subsequent decision to the evacuate of Russian citizens, and particularly tourists, from Egypt, as well as the cessation of direct flights between the two countries, were taken for safety reasons due to the possible recurrence of terrorist acts against Russian citizens and initially had no political motive.<sup>37</sup> However, the economic consequences for Egypt were heavy. Tourists from Russia constituted the basis of the tourist flow to Egypt, where tourism is an important economic sector and a major source of revenue and foreign exchange. At the same time, the intentional delay of the renewal of direct flights between Russia and Egypt, especially against the backdrop of the resumption of charter flights to Turkey in summer 2016 after a series of terrorist attacks in the Turkish Republic, upset the tourist season in 2016 in Egypt despite the promises of Russian officials, considerably complicating Russian-Egyptian dialogue.

The unprecedented decision to stop Russian flights to Egypt was treated with restraint and even understanding by the Egyptian side, for two reasons. Firstly, due to the fact that it was taken not at the height of tourist season. Secondly, because there was a belief that this action was short-term. However, Moscow's constant postponement of the issue of resuming flights has led to a very negative reaction from Cairo over time. This in turn led Egypt to sometimes adopt a very

unfriendly position in relation to Russia in the international arena in 2016. One example is that Egypt was among the countries that applied to the WADA in July 2016 requesting that the Russian Olympic team be disqualified from participating in the Olympic Games in Rio de Janeiro.

The fact is that tourism is a highly important sector in the Egyptian economy (Fig. 4). Tourism's contribution to Egypt's GDP is 11 percent, and taking into account related industries – 15 percent. 9 percent of the Egyptian labor force is employed in this industry, and taking into account related industries, this figure rises to 13.5 percent. Revenues from tourism make up 20 percent of the country's income in hard currency. At the end of 2015, Egypt was visited by 5.6 percent less tourists than in 2014. In 2010, before the beginning of the revolution, Egypt was visited by a record 14.7 million tourists. In 2015, the largest number of tourists, around 2.3 million, came from Russia, while in 2014 3 million tourists arrived from Russia.<sup>38</sup>

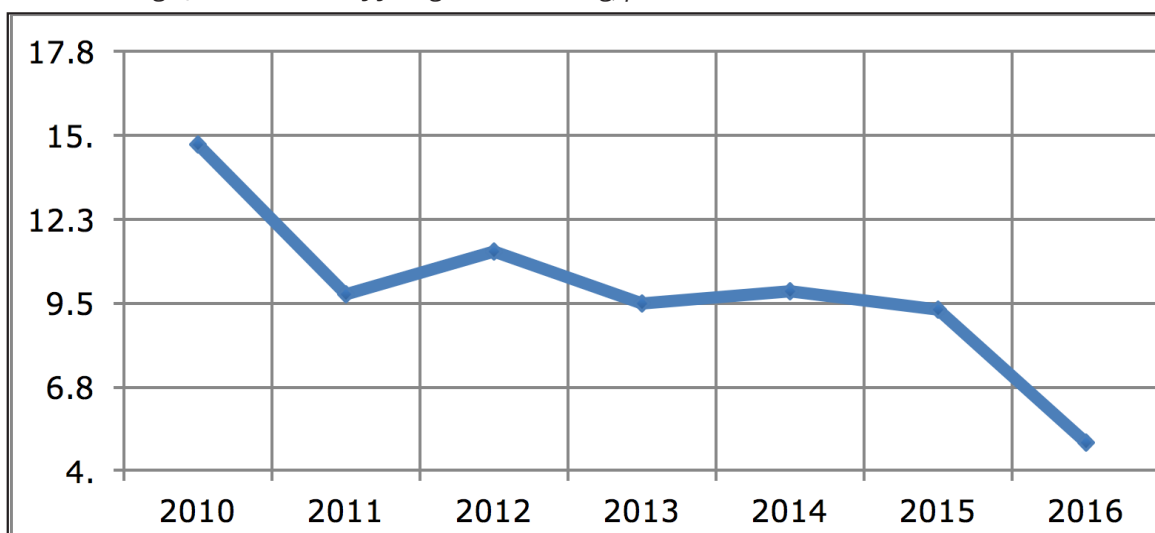
*Fig. 4. - (Next Page)*

The absence of Russian tourists in Egypt in 2016 due to the ban by the Russian authorities and the reduction of the tourist flow from Europe caused a serious crisis in the country's tourism industry. The occupancy rate of hotels in tourist areas was low, which led to the closure of many. The average occupancy rate of hotels in Luxor and Aswan ranged from 10 to 25 percent at the beginning of 2016, while in the Taba and Nuweiba it was less than 5 percent. 19 of 23 hotels in Taba have since closed.<sup>40</sup>

### **Part III. Challenges and Threats**

The events of summer 2013 in Egypt have, of course, opened a new page in the history of bilateral relations, but both countries have to confront various challenges under pressure from both regional and international actors. First, Egypt is still going through a period of



Fig. 4. The number of foreign tourists in Egypt (million), 2010-2016 (estimated).<sup>39</sup>

instability, despite the end of the transition period and the holding of parliamentary elections in the autumn of 2015. This situation has been accompanied by a deterioration in the living conditions of many Egyptians and flourishing corruption. A significant number of young people are not able find work and have begun to be influenced by extremist organizations.

***The Muslim Brotherhood is one of the main political forces in Egypt, and its admission to the legal political process could contribute to the establishment of stability in the country. Despite the fact that in the short term the al-Sisi regime has been able to solve the problem of the Muslim Brotherhood, by driving them into hiding, it is too early to speak about the complete victory of the current authorities over the movement. The association throughout its almost ninety-year history has repeatedly demonstrated a high degree of adaptability to persecution by the authorities,***

There are still no clear guidelines in place for the political future of the country. Consequently, the probability of a new social explosion is growing again. This raises the question of Russian-Egyptian relations developing while Egypt continues to try to solve its internal problems and to confront previous challenges.

Egyptian President Abdel Fattah al-Sisi talked about this on the eve of the third anniversary of the June 30th unrest. In his speech, al-Sisi focused on two fundamental problems suffered by modern Egypt: the need for national unity in the face of “evil forces” and the implementation of major infrastructure projects to accelerate the Egyptian economy in the future. The need to unite against all those who, in the capacious definition of the Egyptian president, are now seen as “evil”, has today become one of the most important ideological components of the al-Sisi administration. It is noteworthy that the head of state in his speech did not specify who should be placed in this category, noting that “the Egyptian people know who they are.”<sup>41</sup> It is obvious that this collective image gathers all the opponents of the current regime, from the Muslim Brotherhood and extremists settled in the territory of the Sinai Peninsula, to young people very susceptible to influence from “people with ulterior motives... and able to harm the national interests of the state.”<sup>42</sup>

The second factor is the position of the Muslim Brotherhood. The fact that it has remained outside the legal political process is likely to have a negative impact on its course. The Muslim Brotherhood is one of the main political forces in Egypt, and its admission to the legal political process could contribute to the establishment of stability in the country.

Despite the fact that in the short term the al-Sisi regime has been able to solve the problem of the Muslim Brotherhood, by driving them into hiding, it is too early to speak about the complete victory of the current authorities over the movement. The association throughout its almost ninety-year history has repeatedly demonstrated a high degree of adaptability to persecution by the authorities, and the last vote on the adoption of a new Egyptian constitution as well as the recent presidential elections have shown the persistence of sympathy on the part of the population of Upper and Western Egypt to the movement.

The third factor directly connected to the political stability of Egypt is the situation in neighboring east Libya, previously the center of the movement against Muammar Gaddafi and has now a place notable for its high concentration of radicals and extremists. It is important to note that the Egyptian-Libyan border is a straight line, i.e. it is artificial. In this area, there is a single tribal network, and the population of east Libya and western Egypt are, in fact, the same tribes. Experience shows that Middle Eastern tribes are often Islamist allies, from Afghanistan to Yemen. Therefore, the threat from Libya to Egypt is quite real, a fact confirmed by the recent execution of 21 Egyptian Coptic Christians by Libyan Islamists.<sup>43</sup> The formation of a new center of extremism in the Western Desert is very likely. Research has shown that Egypt's President al-Sisi enjoys the least support in this part of the country.<sup>44</sup>

Fourth, Egypt is traditionally famous for its bureaucracy, and still cannot get rid of it, a fact that retards the progress of many bilateral projects, since much of time is wasted from the moment an agreement is reached to the signing of bilateral agreements. This is one of the main obstacles to the development of bilateral partnerships. Moreover, many large-scale projects which Egypt and Russia are currently negotiating were agreed on earlier,

some even during the rule of Hosni Mubarak. However, most of them have remained on paper. The most vivid example is the creation of a Russian industrial zone in Egypt. The project was discussed during the Hosni Mubarak period when it was assumed that it would be created in the Burj al-Arab area near Alexandria. But the project was never implemented, and today, the two countries are once again trying to put a similar scheme into practice, as mentioned earlier, in the area of Ataka, near the Suez Canal.

***Over the past two years, the government has launched eight mega-projects including the expansion of the Suez Canal, the development of 1.5 million feddams (630 million hectares) of desert to increase the amount of agricultural land by 20 percent, the construction of thousands of affordable housing units, the modernization of existing power plants and the construction of new ones, as well as improving the country's road network, its other infrastructure and service sector.***

The last thing that prevents the closer integration of Egypt and Russia is the desire of the Egyptian political elite and especially the military to restore its previous relationship with the U.S., and with the future Donald Trump administration. Some officials in Egypt with high authority and responsibility for making foreign policy decisions are still nostalgic for relations with Washington. At the same time, new leaders in the United States could have a beneficial effect on the development of U.S.-Egyptian relations, which have deteriorated markedly after the United States and other Western countries regarded the removal of President Mohamed Morsi from power as a military coup and suspended aid to Egypt.<sup>45</sup>

#### **In Lieu of an Afterword**

Relations between Russia and Egypt have improved markedly in recent years and are now experiencing a period of recovery.



Both countries are welcome partners for each other, and their development has built upon a rich historical heritage, as well as the personal sympathies of presidents Vladimir Putin and Abd al-Fattah al-Sisi. However, if we ignore the long-term friendship between the two countries and the personal sympathies of their leaders and look at the situation from a purely pragmatic point of view, it becomes clear that the current level of cooperation that exists between Russia and Egypt has reached more or less a maximum level that these countries will be unlikely to exceed in the short and medium term. This is primarily due to the Egypt's situation in recent years.

***The problem, however, lies in the fact that the implementation of these planned mega-projects is actually carried out on behalf of "foreign" capital. Recently, the al-Sisi administration has seen marked success in finding creditors at whose expense the expected expansion of the Egyptian economy has become possible (less than 10 percent of this is Russian, with almost all the capital coming from GCC-member states). This calculation was likely made imagining that oil prices would remain at the same level (and therefore that financial support for the regime from major Gulf donors would also remain at the same level), but this has not happened.***

Modern Egypt is economically heavily reliant on the Gulf States, as well as international financial institutions (IMF, the World Bank, etc.), and from creditor states including the Gulf Cooperation Council and EU countries. This in turn leaves Egypt hostage to the geopolitical ambitions of other actors, forcing it to conduct a more balanced and neutral foreign policy, as well as to diversify its foreign relations in which the decisive role is played by the financial viability of a potential partner of Cairo.

As is well known, the current Egyptian leadership faced a whole set of unresolved social and economic problems from the

beginning of their rule, many of which were already systematic at that time. As a result, al-Sisi has taken very risky steps to accelerate the Egyptian economy through the implementation of major infrastructure projects.

Over the past two years, the government has launched eight mega-projects including the expansion of the Suez Canal, the development of 1.5 million feddams (630 million hectares) of desert to increase the amount of agricultural land by 20 percent, the construction of thousands of affordable housing units, the modernization of existing power plants and the construction of new ones, as well as improving the country's road network, its other infrastructure and service sector. According to an interview with al-Sisi, "all these mega-projects are intended to improve the living standards of Egyptians, restore their self-sufficiency and contribute to the attainment of their faith in a better future."<sup>46</sup>

The problem, however, lies in the fact that the implementation of these planned mega-projects is actually carried out on behalf of "foreign" capital. Recently, the al-Sisi administration has seen marked success in finding creditors at whose expense the expected expansion of the Egyptian economy has become possible (less than 10 percent of this is Russian, with almost all the capital coming from GCC-member states). This calculation was likely made imagining that oil prices would remain at the same level (and therefore that financial support for the regime from major Gulf donors would also remain at the same level), but this has not happened.

However, given the long-term impact of the ongoing mega-projects and their high cost, the risk of promised loans not coming to pass will long dominate the leadership of the country and appreciably affect the



independence of Cairo’s foreign political and economic ties. According to government estimates, Egypt will spend 1.3 trillion Egyptian pounds (\$68.7 billion) on all these planned projects, half of which will be spent on civil engineering and construction.<sup>47</sup>

The outlook for al-Sisi’s administration, then, is not so cloudless. At the same time, the main threat to its stability on the financial and economic front is the same factor that is the main threat to Russian stability: the global fall in oil prices. The fact is that the al-Sisi administration is highly dependent on the financial support of the oil monarchies of the Persian Gulf and especially Saudi Arabia. However, the global drop in oil prices means that these monarchies themselves are facing serious financial problems that have forced them to raise the issue of the reduction of the financial lifeline they are providing al-Sisi.<sup>48</sup>

This scenario, in fact, is presently being played out. The reduction of financial support from the Gulf in 2015 led to a rapid decline in Egypt’s foreign reserves (Fig. 5): in just 5 months (from April to September), they decreased by 20 percent.<sup>50</sup> This put strong pressure on the Egyptian pound. However, unlike the Russian administration, the Egyptian government could not afford to allow its national currency to float freely for

so long. Egypt is heavily dependent on food imports, and the reduction of the Egyptian pound rate in line with supply and demand on the Egyptian exchange market would lead to a sharp rise in food prices. The Egyptian leadership had good reason to be seriously afraid of this. The Egyptian administration kept the exchange rate of the Egyptian pound at a level of 7.6 a \$1 and only in July 2015 devalued the pound to 7.8 per \$1 (after November 2016, the Central Bank of Egypt allowed the exchange rate of Egypt’s national currency to fall against the dollar 2.5 times, reaching 19 EGP per \$1).<sup>51</sup> As a result, it turned out to be virtually impossible to buy foreign currency at the official exchange rate and through official channels in any large amount. A majority of Egyptian industries are heavily dependent on imported raw materials and components. Consequently, Egyptian GDP growth began to slow down, and a real decline in the Egyptian manufacturing industry began (Fig 6). - (Next Page)

This worsening of economic problems forced al-Sisi to replace the prime minister: in September 2015, Ibrahim Mahlyaba was replaced by Sherif Ismail, but of course, this did not lead to an immediate improvement in the economic situation. Therefore, by 31 October 2015, when a Russian plane with tourists aboard was hit by a terror attack, the Egyptian economy was already in a serious

Fig. 5. The dynamics of foreign reserves in Egypt (April - September 2015)<sup>49</sup>

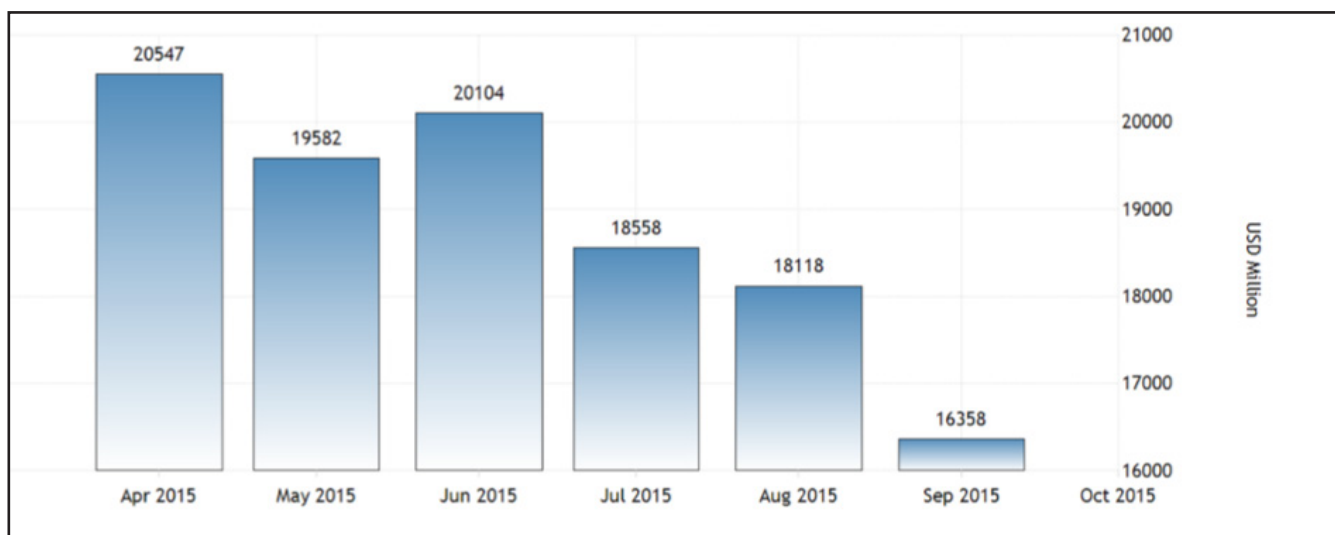
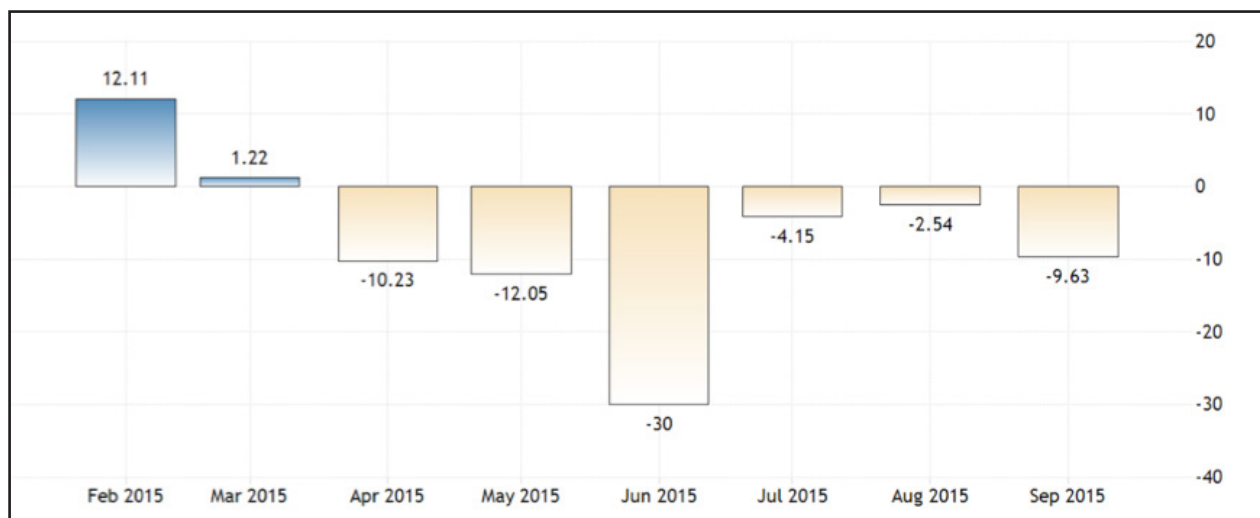




Fig. 6. Dynamics of changes in the monthly growth rate of Egyptian manufacturing industry production (% , annualized, February - September 2015).



condition. The subsequent termination of the tourist trade from Russia and Great Britain (the two top countries by number of tourists visiting Egypt) caused another powerful blow to the Egyptian economy.

However, al-Sisi once again expressed himself as a master of both political and economic flexibility. First of all, he showed himself as a great master of establishing good relations with all influential players: with the United States and Russia, the Gulf countries and China, Western Europe and Japan. Wherever it was possible, he was able to negotiate the delivery of so much-needed foreign exchange to Egypt, in the form of different preferential loans or direct aid. As a result, by spring 2016, the al-Sisi administration had managed to overcome the currency crisis to some extent<sup>52</sup>.

But it was achieved at a high price. The fact is that the main financial support this time came from Saudi Arabia. In exchange for this aid, al-Sisi had to make certain concessions in his territorial dispute with the Kingdom

over the uninhabited but strategically located Red Sea islands of Tiran and Sanafir. This was interpreted by the opposition as a “sale of Egyptian land” and was used to organizing mass protests on April 15, 2016. A particularly

dangerous symptom for al-Sisi was the fact that on 15 April the liberal-secular and Islamist opposition (one should keep in mind that this somewhat unnatural coalition cost Hosni Mubarak his presidency in January-February 2011) acted in concert for the first time in a very long time. The authorities quickly suppressed the protests both by force and through statements announcing that the issue of the transfer of the islands had not yet been finally resolved; but it has shown that the stability of the al-Sisi regime should not be overestimated.

The economic and foreign policy of President al-Sisi may cause a certain amount of déjà vu in relation to the reforms of the late 19th century carried out by the Egyptian Khedive Ismail. Acting in the tradition of Muhammad Ali’s reform initiatives, Ismail was a supporter of the implementation of major infrastructure and social projects. During his rule, the number of primary schools, secondary and special schools increased twenty-fold, and world-renowned institutions such as the National Museum, National Library, Cairo Opera House, and the first scientific and educational societies were established.<sup>53</sup>

The construction of bridges and lighthouses, as well as the broadening and deepening of sea and river harbors characterized the reign of Ismail. He provided the country with an infrastructure of roads and railways, “the saturation of which per person made Egypt one of the top places in the world, and that, in turn, accelerated the transportation of export cargo, the country’s main source of wealth.” The Suez Canal was also opened at this time. In parallel with the construction of this canal, he also carried out significant irrigation projects extending the area of irrigated agriculture, which made it possible to collect two or even three harvests per year.<sup>54</sup>

***This attempt to apply an "Ismail Pasha plan" (to accelerate the Egyptian economy through megaprojects funded from abroad and then to pay the debts with the income generated by the economic growth) now compels Egypt to act extremely pragmatically in the international arena trying to build an intimate relationship with any actor who might be able to contribute to the development of the Egyptian economy. A policy of this kind itself makes the chances for the establishment of truly strategic relations between Cairo and Moscow close to zero.***

The flip side of Ismail’s reforms, which were aimed at turning Egypt into a modernized state, was their high cost, covered by foreign loans. Foreign investors attracted by Ismail profited enormously from these Egyptian economic projects. Egyptian loans brought huge profits to European lenders, among whom Egypt was nicknamed “Klondike on the Nile”. Thus, with the average interest rate on loans in Europe at 3.5-5 percent at that time, Egypt received loans at between 12-26 percent, and even as high as 30 percent.<sup>55</sup> As a result, while Egypt had practically no public debt up until the middle of the 19th century, by the beginning of the 1880s its debt, mostly

to British and French banks, was, according to various estimates, from 94 to 98 million francs,<sup>56</sup> making the country a classic example of financial subjugation.

However, as a result of foreign borrowing policy, Ismail became a hostage of circumstances beyond his control, when after the end of the American Civil War (1861-1865), cotton prices (Egypt’s main source of income) fell sharply, and an epidemic wiped out nearly all the cattle population, forcing Egypt to buy new animals abroad.<sup>57</sup> As a result, Sultan Abdul Hamid II forced Ismail to resign, and a British “hidden protectorate” was set up in Egypt.

It seems impossible to predict whether al-Sisi will be able to accomplish what Ismail Pasha could not. The workable plan of al-Sisi administration is very risky but a quite deliberate calculation, and still has certain chance of success. But this success depends too much on factors outside of al-Sisi control (world hydrocarbon prices, for example).

This attempt to apply an “Ismail Pasha plan” (to accelerate the Egyptian economy through megaprojects funded from abroad and then to pay the debts with the income generated by the economic growth) now compels Egypt to act extremely pragmatically in the international arena trying to build an intimate relationship with any actor who might be able to contribute to the development of the Egyptian economy. A policy of this kind itself makes the chances for the establishment of truly strategic relations between Cairo and Moscow close to zero. There were enough examples of this in recent years: from the letter signed by Egypt together with the United States, Canada, Germany and 14 other countries to the International Olympic Committee with the demand to suspend the Russian team from participation in the Olympic Games in Rio de Janeiro, to the vote for the Canadian draft of



the UN General Assembly resolution on Syria on December 9, 2016.<sup>58</sup>

***The current state of the Egyptian economy is highly dependent on foreign loans, while stagnation in the Russian economy does not make Russia the most profitable partner for Egypt. And, secondly, Russia is not able to offer an attractive alternative to Egypt's present allies. The basis of the Russian agenda in the Middle East is the fight against terrorism, but the methods used by Moscow greatly undermine the image of Russia and its allies in the eyes of Muslims and especially Sunnis. This means that, at best, Cairo will only maintain the appearance of political cooperation with Moscow.***

Egypt, of course, is Russia's "desirable" partner, through whom Moscow would like to return to the Middle East, but under the current conditions, this goal seems unattainable. And this is not only due to the fact that Russia's main export, hydrocarbons, is not attractive for Egypt, which has its own oil reserves and more convenient opportunities for energy imports. Firstly, the current state of the Egyptian economy is highly dependent on foreign loans, while stagnation in the Russian economy does not make Russia the most profitable partner for Egypt. And, secondly, Russia is not able to offer an attractive alternative to Egypt's present allies. The basis of the Russian agenda in the Middle East is the fight against terrorism, but the methods used by Moscow greatly undermine the image of Russia and its allies in the eyes of Muslims and especially Sunnis. This means that, at best, Cairo will only maintain the appearance of political cooperation with Moscow.



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## **ABOUT THE AUTHOR**

Leonid M. Issaev earned his PhD in 2014 from the Institute for African Studies at the Russian Academy of Sciences. He is currently a senior lecturer at the Department for Political Science at the National Research University Higher School of Economics. He is the Deputy Chair of the Laboratory for Sociopolitical Destabilization Risk Monitoring at the National Research University Higher School of Economics and senior research fellow at the Institute for African Studies at the Center for Civilization and Regional Studies, which is part of the Russian Academy of Sciences (RAS). He is a member of the Scientific Council of the Russian Political Sciences Association (RPSA) and the Russian Sociological Society. He is also an expert on the Middle East and Northern Africa at the “Valdai” Club and the Russian International Affairs Council (RIAC). Together with Askar Akayev, Andrey Korotaev and Sergey Malkov, he is a manager at the Russian Academy of Sciences program “The Mathematical Modeling of Global and Regional Dynamics Within the Context of the Modernization of Science and Education”. He teaches courses in Islamic political philosophy and political systems and political processes in the Arab world.

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Address: Istanbul Vizyon Park A1  
Plaza Floor:6 No:68 Postal Code: 34197  
Bahçelievler/ Istanbul / Turkey  
Telephone: +902126031815  
Fax: +902126031665  
Email: info@sharqforum.org

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# Russia And Egypt

## Opportunities In Bilateral Relations & The Limits Of Cooperation

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The Russian Federation and the Arab Republic of Egypt are connected by a complex history of political and economic relations as well as multifaceted humanitarian ties. The significance of Egypt to Russia is defined by its role as one of the leading political, economic and cultural centers of the Middle East and North Africa, and its place within the vast Islamic world. Egypt holds sea, land and air pathways of great international importance. Cooperation with Egypt would help Russia to pursue its interests in the Middle East region, as it is located close to Russia's southern borders in a conflict-prone region of enormous geopolitical importance. Hence, interactions between the two countries could contribute to the sustainability of Russia's position in the Islamic world, the creation of favorable conditions for the development of Russian regions with high Muslim populations, the preservation and strengthening of Russia's interests in the world energy market and the strategically important Russian agricultural and high-tech production markets, as well as aiding the exports of goods and services within the framework of bilateral military-technical cooperation: for instance, in the field of aerospace. Relations between Russia and Egypt in the cultural sphere are extensive and significant: they are connected through international tourism, the existence of a Russian community in the country, and the interaction of Christian and Muslim confessional groups. The effective implementation of the objectives and tasks of Russian foreign policy is very important for the coordination of the international activities of Russia and Egypt in the UN, the Organisation of Islamic Cooperation, the Arab League, the African Union, the Forum of Gas Exporting Countries and other international organizations and forums...

