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Free Trade Zone in the Context of Growing Russia-Egypt Ties

[Anna Borshchevskaya](#)

Forbes

August 25, 2017

The agriculture and military sectors of both countries stand to benefit from an agreement, even if the zone will not be an overall economic success.

Russia and Egypt will hold an intergovernmental commission meeting on trade and economic cooperation in September. Russian foreign minister Sergei Lavrov hopes the meeting will advance bilateral discussion about an industrial trade zone in East Port Said on the Suez Canal and expects negotiations between Egypt and the Russia-led Eurasian Economic Union to begin after one to three months of consultations.

Lavrov's comments came after a meeting in Moscow on August 21 with his Egyptian counterpart, Sameh Shoukry, that focused on a number of bilateral cooperation issues. These discussions are the latest signal to the West that Russia is expanding its influence in the Middle East.

There is no denying the recent growth of Russia-Egypt ties. Bilateral trade had reached \$5.5 billion in 2014, almost double the previous year, [according to Russian trade statistics](#). The two countries held their first joint naval drills in June 2015, and joint military exercises in October 2016. Reportedly, Moscow had deployed special forces to Egypt on the Libyan border in March of this year, which signaled Russia's growing role in Libya with Egypt's blessing. Cairo has also come to accept Moscow's position in Syria, in support of President Bashar al-Assad. Putin certainly won't criticize Egyptian president Abdel Fattah al-Sisi on human rights.

Military cooperation with Moscow matters to Cairo. U.S. arms deals don't allow for secondary sales -- what Egypt buys has to stay in Egypt. No such strings come with Kremlin arms deals, and in the context of Egyptian crony capitalism, arms deals with Russia can appear more attractive. Some of Moscow's weapons are better suited for Egypt's needs than American ones, and from an Egyptian perspective, a Russian MIG-29 is also simply easier to maintain than an American aircraft.

The Kremlin also seeks to increase economic ties with Egypt through trade and energy projects. Here it is bound to encounter greater difficulties. Enter the trade zone. The Russian press is touting its benefits. Earlier this month, one publication [said](#) it is "the first major industrial cluster in the far abroad since the Soviet Union times." Others highlight that the zone will be an important base for Russian investment into African and Middle Eastern markets. Russian Deputy Industry and Trade Minister Georgy Kalamonov said in July of this year, "Africa is currently in the spotlight, it is a serious market worth fighting for." He urged Russian companies to return to "Soviet practices of tapping African markets," as paraphrased by TASS. Few details are available about what markets are involved, but Russia's Economic Union focuses on energy, weaponry, agriculture, and raw materials; thus, the trade zone will likely focus on these sectors.

If the trade zone eventually does materialize, it is bound to disappoint, at least from an economic perspective. Russia-Egypt talks of a trade zone go back at least six years. They were suspended in 2011 but resumed in March 2014, days after Russian President Vladimir Putin annexed Crimea from Ukraine. The West had quickly responded with sanctions against Putin's aggression. In retaliation Putin banned certain Western food products, and turned east. Negotiations froze again in late 2015, when a Russian passenger jet exploded that October after it left the Sharm El Sheikh International Airport. ISIS took credit for the attack. But in February 2016, the two countries signed a memorandum of understanding on the industrial trade zone, and talks picked up again, culminating in the most recent discussions.

The Russian economy is showing modest signs of improvement for the first time in years. The [World Bank forecasts](#) slightly less than 1.5 percent growth between 2017 and 2019 for two reasons: rising oil prices and macroeconomic stability. Indeed, as Russia economist Anders Aslund, a senior fellow at the Atlantic Council, told me earlier this month, "Macroeconomic stability [in Russia] is complete. There are no current account problems, inflation is down to 4 percent, and unemployment is at 5 percent. The problem," he said, "is that there's no dynamics. Russia is not engaged in any meaningful reform." Indeed, crony capitalism dominates Russia. This current situation suggests that the economy won't be collapsing any time soon, but it also won't improve significantly. Russia was never particularly good on trade policy anywhere, and absent meaningful reform there is no reason to think it will behave differently with Egypt.

Egypt is facing its own economic problems. Crony capitalism and corruption also dominate, while the military plays

a major role in the economy, which means decisions are made not based on efficiency but instead on the opaque wishes of certain military officials. Egypt has massive debts, and the IMF is pressuring Cairo to resolve balance of payment issues. Putting two declining economies together is not going to generate growth. "The trade zone likely will not deliver the advertised results and, in the end, will do almost nothing to justify the political and fiscal capital expended in the effort," Egypt expert Robert Rook, director of interdisciplinary studies and a professor of history at Towson University, told me this month.

The Egyptian economy is worth roughly \$336 billion, about a quarter of Russia's \$1.3 trillion economy. Yet Egypt's population is growing. It is slightly under 100 million now, the majority under forty. Demographers predict the country's population will reach 150 million by 2050. Meanwhile, Russia's 144 million population is aging and declining, while Russia's most talented residents are leaving the country. [Demographers](#) project Russia's population will fall to as low as 113 million by 2050. In this context it is difficult to see how Russia or Egypt will provide the necessary infrastructure or create enough jobs to make the trade zone a success.

Beneath the surface, tensions occasionally arise between Moscow and Cairo. Egypt is the largest buyer of Russian wheat, yet several months ago Cairo temporarily boycotted this crop under the pretext of protecting its own crops and citing zero tolerance for the ergot fungus common to wheat. International standards allow for a minute portion of ergot, and Russian wheat is in compliance with these requirements. The real reason most likely has been Cairo's frustration with Moscow's policies. For instance, before the downing of the Russian jet in October 2015, Egypt was among the top two most popular destinations for Russian tourists. That tourist flow has been suspended, and Cairo is eager for it to return. Moscow insisted that its own security specialists inspect Egyptian airports before flights from Moscow can resume, which insulted Cairo. Moreover, after several inspections, Russian inspectors found Egyptian airports dissatisfactory, much to Cairo's chagrin, and it seems unlikely that Russian tourists will return to Egypt in the near future, despite much talk to the contrary.

But don't dismiss the trade zone entirely. Should it materialize, agriculture (mainly wheat) and military sectors still stand to benefit, even if the zone won't be an overall economic success. Moreover, the zone may bring political benefits to both Moscow and Cairo, especially in the overall context of growing Russia-Egypt ties. For years Moscow has taken advantage of the downturn in U.S.-Egypt relations and stepped in to fill the vacuum. Sisi will continue to seek ways to work with Putin, and send a message to the West that he has other options, even as Putin occasionally slights him. After all, Egypt will still need to buy wheat.

To be sure, there will always be limits to what Moscow can do for Egypt. "Many of the challenges Egypt faces internally require the country to make major shifts in its internal security and economic policies," Brian Katulis, Middle East expert and senior fellow at the Center for American Progress, told me in an email. Moreover, Russia has no capacity to replace the U.S., and Cairo will continue to see the U.S. as its main strategic partner. But Putin doesn't need to replace the U.S. to inflict damage to U.S. interests.

Anna Borshchevskaya is the Ira Weiner Fellow at The Washington Institute.