



Nathalie El-Bazzal

ESCP Business School, MSc in Financial Management (ESCP Business School),
MA in Political Sciences, Middle Eastern Studies (Sciences Po Grenoble)
<https://orcid.org/0000-0002-2480-4623>

Ukrainian crisis: Egypt's strategic choices

The Arab crises of 2011: US' withdrawal and Russia's return to the regional scene

In order to understand the US' retreat in the region and the return of Russia, it is important to analyse American power within the MENA region. For several centuries, the United States has seen itself as the sole holder of power. Since the US war in Afghanistan, and especially the invasion of Iraq in 2003, the Arab world has felt threatened by US imperialism and omnipotence. The Iraq war was based on the idea that it was necessary to redraw the borders of the Middle East, with a view to 'nation building', i.e., rebuilding Iraq to make it an ally. The geopolitical result of this war was the rise in Iran's power, which today leads to fierce rivalry with Saudi Arabia. The United States, which developed the term 'asymmetrical warfare' after the first Gulf War, are now engaged in assuring their populations of the power of the state while, at the same time, the Arab world has felt threatened by the American omnipotence. The decision of the American President Trump, in December 2017 (which led to demonstrations and protests in the Arab world) to unilaterally recognise Jerusalem as the capital of the State of Israel, once again gives the image of a destabilising actor in the Middle East who risks tipping the region into a new intifada.¹

¹ A.H. Cordesman, *America's Failed Strategy in the Middle East: Losing Iraq and the Gulf*, Center for Strategic & International Studies, 02 January 2020, <https://www.csis.org/analysis/america-failed-strategy-middle-east-losing-iraq-and-gulf> [accessed: 21 March 2023].

Today, studying the Syrian case may provide understanding of the return of Russia in the region. Indeed, gradual elimination of terrorist groups in the country places Russia as the actor who wants to stabilize Syria, and who has avoided a flare-up of the conflict in the region. Through this, Moscow wants to extend its power in the region to counterbalance America which has been considerably losing influence year after year.²

From the very first hours of the Russian-Ukrainian conflict, the whole world witnessed various states condemning Russia's actions against its neighbour and taking other, rather neutral positions. The countries of the Middle East chose to be relatively neutral. While the United States immediately expressed its support for Ukraine and hoped that its allies in the region would follow suit, the reality turned out to be quite different. This is another reminder of the loss of influence by the United States and the return of Russia, which started after the Arab crises. For Egypt, there are several explanations.

First of all, in 2013, the Obama administration criticised the overthrowing of the first elected Egyptian president (Mohamed Morsi) and froze American aid for several months as a sign of protest. As for Donald Trump, who initially emphasised the effectiveness of his Egyptian counterpart, he nevertheless reduced US aid to Egypt.

Secondly, this crisis of American influence has helped a rapprochement with Russia, which President Abdel Fattah el-Sisi strengthened as soon as he came to power in 2014, with the ambition of establishing solid relations with the Russian president. This was illustrated by the signing of partnership agreements in the security, military, commercial and economic areas. For example, in the military area, until 2020, Russia was the largest supplier of arms to Egypt: 41% of military imports were of Russian origin.³

At the geopolitical and regional level, Egypt wants to renew relations with Damascus. A recent meeting of Foreign Ministers of Egypt and Syria proves this. Russia, an ally and unwavering supporter of the Syrian government, could facilitate the dialogue. Although this has no direct link with Cairo's choices concerning its positions on the Ukrainian crisis, the country is in the heart of a region where Moscow accentuates its influence and weight day by day.

² Russia has positioned itself as the country that fights the Islamic State, protector of the Christian minority etc., while the United States had not intervened in a very visible way for the Syrian crisis.

³ P.D. Wezeman, A. Kuimova, S.T. Wezeman, *Trends in International Arms Transfers, 2021*, "SIPRI Fact Sheet", March 2022, https://www.sipri.org/sites/default/files/2022-03/fs_2203_at_2021.pdf [accessed: 21 March 2023].

Russia in Egypt

Egypt, like many countries in the region, is trying to build relationships with new partners and no longer wishes to rely solely on the United States. Thus, those states are increasingly seeking relations with Russia and China because they can benefit from such a strategy to expand their ties abroad. Therefore, they will not receive criticism from those countries on certain issues such as human rights. As a result, these factors have led to a diversification in relations with countries outside Europe and the US.

Moscow is trying to increase the number of trade agreements in Africa as well as in the Middle East, and to strengthen regionalism. The Kremlin seeks to reinforce cooperation on a geographical basis. The neighbouring countries would be more inclined to cooperate, not only because the trade agreements are a way of maintaining economic power, but they are also a way of creating alliances and maintaining rules and institutions that allow the economy to develop.⁴ Egypt, which is in the process of reindustrialisation and technology transfer, aims to create competitive sectors, and subsequently export its products mainly to Africa, and to create a 'made in Egypt' know-how. Its geostrategic situation presents an undeniable advantage. Russia sees Egypt as a gateway to the African continent. With this in mind, in March 2017, Moscow started a dialogue on the creation of a Russian industrial zone in Egypt. This agreement, which was signed in May 2018, will strengthen cooperation on economy, industry, and investment between the two countries. The zone, which covers an area of 5.25 million square metres, is expected to attract \$7 billion in investments. Russia has introduced significant investments in the land of the pharaohs. Another perfect example is the Dabaa nuclear power plant: a civil nuclear power plant (on the Mediterranean coast), with a total capacity of 4.8 GWe, thanks to four 3rd generation VVER-1200 pressurised water reactors of 1.2 GWe each, which will produce nearly 10% of all electrical energy produced in Egypt. This project is financed in 85% by a Russian state loan and in 15% by Egyptian funds.

Egypt has been developing its research and development capacities in the sector since the 1990s: the country has a 2 MWt Russian research reactor dating back to 1961 but currently undergoing a long-term shutdown, and a 22 MWt Argentinian research reactor, partially supported by Russia, was launched up in 1997.⁵ The Egyptian Atomic Energy Authority (EAEA) includes three large, specialised research centres.

⁴ A.R. Muller, *The Rise of Regionalism: Core Company Strategies under the Second Wave of Integration*, Erasmus Research Institute of Management, Rotterdam 2004, <https://core.ac.uk/download/pdf/18520266.pdf> [accessed: 21 March 2023].

⁵ *First equipment shipped to Egypt's El-Dabaa NPP*, "Nuclear Engineering International Magazine", 15 March 2023, <https://www.neimagazine.com/news/newsfirst-equipment-shipped-to-egypts-el-dabaa-npp-10677113> [accessed: 21 March 2023].

This project responds to Egypt's two major priorities: meeting its growing domestic demand for electricity and satisfying its need for fresh water. Therefore, the Russian strategy aims to support domestic needs in Egypt. This gives Moscow a strategic position.

Egypt's balancing act and the impact of the conflict

The Russian-Ukrainian conflict has had considerable repercussions affecting the Egyptian economy. In terms of wheat, the country consumes 20 million tonnes per year, 60% of which is imported, making Egypt one of the world's major wheat importers.⁶ The war has disrupted supply chains and global wheat production. Before the conflict, more than 80% of Egypt's imports came from these two countries, 61% from Russia and 23% from Ukraine. In addition, Egypt is heavily dependent on wheat for the production of bread, an essential product in the Egyptian diet, with the annual wheat consumption per capita between 150 and 180 kg, compared to an estimated world average of 98 kg per capita per year.⁷

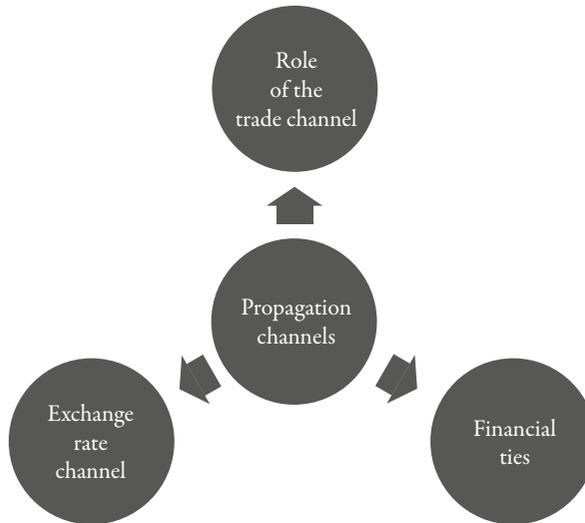
The choice of balance in the face of this conflict is a logical decision for Egypt. In terms of tourism, Russians constitute between 40 and 50% of tourists coming to Egypt each year. In order to preserve one of its four sources of income, the country's ambition was to implement the Russian card payment system MIR in 2022 to allow Russian tourists to pay in roubles in Egypt, this project didn't come to fruition yet though. This is due to the fact that Russia is facing international sanctions on its financial system, and Visa and Mastercard bank cards issued in Russia no longer work outside the country. However, the Egyptian tourism sector is experiencing the consequences of international sanctions imposed on Russia due to an increase in travel costs, which is caused by Russian aircraft being banned from flying over certain countries, resulting in flight diversions.

Finally, at the financial level, Egypt has also suffered the fallout of the crisis in Ukraine. We are therefore witnessing a phenomenon of financial contagion. This phenomenon occurs when the economy of one country is negatively affected by changes in asset prices in the financial markets of another country. We can easily identify a transmission mechanism of financial turmoil from one country to another. Due to a set of common links between the emerging markets of these two countries, the financial and political turmoil currently taking place in Ukraine and Russia is negatively impacting on the Egyptian economy.

⁶ *Annual wheat consumption in Egypt from 2017/2018 to 2021/2022*, Statista, <https://www.statista.com/statistics/1309979/wheat-consumption-in-egypt/> [accessed: 21 March 2023].

⁷ V. Lequillerier, *Crise du blé : 4 cartes pour comprendre les principaux enjeux (Policy Brief)*, BSI-Economics, 06 April 2022, <http://www.bsi-economics.org/1396-hausse-prix-ble-pays-vul> [accessed: 21 March 2023].

Figure 1. An illustration of financial contagion



Source: Author's own elaboration.

Thus, the country is experiencing:

- a historic inflation rate, estimated at 40.26%;
- a devaluation of its national currency, up to 50%;
- fuel price increases of up to 20%.⁸

The three above-mentioned markets are linked to each other because of their commercial interactions, especially regarding wheat, of which Russia and Ukraine are the main exporters to Egypt. Any sudden change in the financial situation of one of the partners leads, from an economic and financial point of view, to the impoverishment of the other party.⁹

Conclusion

As it has been shown, the influence of Russia at the regional level and the upheavals in the Middle East, notably with the reinforcement of the role of China, an ally of Russia, and the new agreement between Saudi Arabia and Iran, will only reduce the influence of the United States. Egypt, which has always played a role of a regional mediator, will preserve its interests through neutrality. Going further, it would be interesting to study the regionalism rising among the countries of the region, with

⁸ *Egypt core inflation rate*, Trading Economics, <https://tradingeconomics.com/egypt/core-inflation-rate> [accessed: 30 March 2023].

⁹ T. Lagoarde-Segot, B.M. Lucey, *Financial Contagion in Emerging Markets: Evidence from the Middle East and North Africa*, October 2005, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=829604 [accessed: 30 March 2023].

the signing of trade partnerships in recent years that only strengthen trade between these emerging economies which are investing in the prospect of South-South trade. It would also be relevant to observe the influence of the Gulf countries – major investors in Egypt – if they can influence its foreign policy and economic choices.

Finally, it would be intriguing to study the ‘redistribution of cards’ of foreign powers in the Middle East, which can also be explained by the 21st-century world in the process of multipolarization, notably with the ‘emerging countries’ or emerging middle powers trying to increase their regional power in order to reinforce their status on the international scene. As a result, the Western world is losing the monopoly of power it has had for the past five centuries, which means that the United States is also losing its monopoly of power. Today, it is no longer possible to impose one’s will alone; instead, an open path to multilateral solutions seems to be a reasonable option.

References

- Al-Anani K., *Growing relations between Egypt and Russia: Strategic alliance or marriage of convenience*, Arab Center Washington DC, 27 September 2021, <https://arabcenterdc.org/resource/growing-relations-between-egypt-and-russia-strategic-alliance-or-marriage-of-convenience/> [accessed: 21 March 2023].
- Annual wheat consumption in Egypt from 2017/2018 to 2021/2022*, Statista, <https://www.statista.com/statistics/1309979/wheat-consumption-in-egypt/> [accessed: 21 March 2023].
- Ben Doudou M., Rahali F., *Démocratie, stabilité politique et croissance économique: Estimation à partir d'un modèle en panel dynamique*, « L'Actualité Economique » 2018, vol. 94, no 1, <https://www.erudit.org/en/journals/ae/2018-v94-n1-ae04960/1065756ar.pdf> [accessed: 21 March 2023].
- Cordesman A.H., *America's Failed Strategy in the Middle East: Losing Iraq and the Gulf*, Center for Strategic & International Studies, 02 January 2020, <https://www.csis.org/analysis/americas-failed-strategy-middle-east-losing-iraq-and-gulf> [accessed: 21 March 2023].
- Egypt core inflation rate*, Trading Economics, <https://tradingeconomics.com/egypt/core-inflation-rate> [accessed: 21 March 2023].
- First equipment shipped to Egypt's El-Dabaa NPP*, “Nuclear Engineering International Magazine”, 15 March 2023, <https://www.neimagazine.com/news/newsfirst-equipment-shipped-to-egypts-el-dabaa-npp-10677113> [accessed: 21 March 2023].
- Hülsemeyer A., *Regionalism and the Global Political Economy*, “International Studies Association and Oxford University Press”, 22 December 2017, <https://oxfordre.com/internationalstudies/display/10.1093/acrefore/9780190846626.001.0001/acrefore-9780190846626-e-288;jsessionid=6553BBE56F19B088AE53A81DE39DD0EA?result=6&rskey=dJRZiC> [accessed: 21 March 2023].
- Lagoarde-Segot T., Lucey B.M., *Financial Contagion in Emerging Markets: Evidence from the Middle East and North Africa*, October 2005, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=829604 [accessed: 30 March 2023].
- Lequillerier V., *Crise du blé : 4 cartes pour comprendre les principaux enjeux (Policy Brief)*, BSI-Economics, 06 April 2022, <http://www.bsi-economics.org/1396-hausse-prix-ble-pays-vul> [accessed: 21 March 2023].

- Muller A.R., *The Rise of Regionalism: Core Company Strategies under the Second Wave of Integration*, Erasmus Research Institute of Management, Rotterdam 2004, <https://core.ac.uk/download/pdf/18520266.pdf> [accessed: 21 March 2023].
- Nasir M.A., Nugroho A.D., Lakner Z., *Impact of the Russian–Ukrainian Conflict on Global Food Crops*, “Foods” 2022, vol. 11, 2979, <https://doi.org/10.3390/foods11192979>.
- Tourism industry in Egypt – statistics & facts*, Statista, https://www.statista.com/topics/5767/tourism-industry-of-the-egypt/#topicHeader__wrapper [accessed: 30 March 2023].
- Wezeman P.D., Kuimova A., Wezeman S.T., *Trends in International Arms Transfers, 2021*, “SIPRI Fact Sheet”, March 2022, https://www.sipri.org/sites/default/files/2022-03/fs_2203_at_2021.pdf [accessed: 21 March 2023].

Ukrainian crisis: Egypt's strategic choices

Abstract

The foreign policy of the great powers due to the Arab revolutions and the recent upheavals in the Middle East seems to display an ‘American retreat’ and a ‘Russian comeback.’ In this context, the countries of the MENA region want to build their relations with new partners and not only with the United States. Egypt, which historically was an ally of the Soviet Union (today Russian Federation), and then of the United States, has kept a neutrality on the Ukrainian conflict for several reasons. My research work aims to provide a political and economic analysis in view of the strategic choices that Cairo has made. For several years, the land of the Pharaohs has been trying to balance its relations with Western countries and also those at the regional level and has become an essential mediator, such as in the Israeli-Palestinian conflict. In terms of its food security, the country is dependent on Russian wheat (50%) as well as Ukrainian wheat (30%). The tourism sector, which is one of the country's four main sources of income, is also a major issue for the government: Ukrainian and Russian tourists flock to the country in large numbers every year. On the commercial level, Russia is seeking to further develop its economic relations with Egypt. This is illustrated by the USD 20 billion project to build the first nuclear power plant in Egypt, in Dabaa, by the Russian state-owned company Rosatom.

Keywords: Egypt, Ukrainian crisis, economy, tourism, balancing