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Foreign economic relations between Russia and Egypt in the agricultural sphere: Problems and prospects of development

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Abstract. Nowadays Russia is actively developing economic cooperation with the African continent states. The article presents an analysis of trade and economic relations between Russia and Egypt. The Arab Republic of Egypt is a strategic partner of Russia in mutual trade in agricultural products and food in North Africa and the Middle East. The country is a major food importer and is a promising market for increasing the supply of agricultural products from Russia. The authors analyze: the dynamics of trade turnover in food products and agricultural raw materials between two countries; the commodity structure of exports and imports; Egypt's place in Russian exports and imports of agricultural raw materials and food. The importance of the markets of the analyzed countries for mutual supplies is under authors' consideration. The possibilities of development are analyzed and the problems and prospects of expanding investment cooperation between these countries in the field of agriculture are identified. The significance of the opening of the Russian Industrial Zone in Egypt for deepening trade and investment ties in the agro-industrial business is proved.

Keywords: Russia, Egypt, food products, agricultural raw materials, export, import, investment cooperation, joint projects

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Внешнеэкономические связи России и Египта в аграрной сфере: проблемы и перспективы развития

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Аннотация. Сегодня Россия активно развивает экономическое сотрудничество с государствами африканского континента. В статье представлен анализ торгово-экономических отношений между Россией и Египтом. Арабская Республика Египет является стратегическим партнером России во взаимной торговле сельскохозяйственной продукцией и продуктами питания в Северной Африке и на Ближнем Востоке. Страна является крупным импортером продуктов питания и считается перспективным рынком для увеличения поставок сельскохозяйственной продукции из России. Авторы анализируют: динамику товарооборота продовольственных товаров и сельскохозяйственного сырья между двумя странами; товарную структуру экспорта и импорта; место Египта в российском экспорте и импорте сельскохозяйственного сырья и продуктов питания. Авторы рассматривают важность рынков анализируемых стран для взаимных поставок. Проанализированы возможности развития и определены проблемы и перспективы расширения инвестиционного сотрудничества между этими странами в области сельского хозяйства. Доказано значение открытия российской промышленной зоны в Египте для углубления торговых и инвестиционных связей в агропромышленном бизнесе.

Ключевые слова: Россия, Египет, продукты питания, сельскохозяйственное сырье, экспорт, импорт, инвестиционное сотрудничество, совместные проекты

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Introduction

Relations between Russia and Egypt has a long history and has always been built on the basis of friendship and mutual respect. Back in the XIX century, Russia imported timber and agricultural products to Egypt, in return it received mainly cotton. The revival of trade was facilitated by the establishment of regular steamship flights between Odessa and Alexandria. By the end of the century, Russian consular offices operated in Cairo, Alexandria, Port Said and Suez, and consular agents operated in Luxor, Assiut, Minya and a number of other cities. (Lavrov, 2018).

After gaining independence, diplomatic relations between the USSR and Egypt were established on August 26, 1943 – at the height of the Second World War. And already in 1948, the first agreement on economic cooperation was concluded.

From the 1960s until the collapse of the USSR, the countries of North Africa were the main trading counterparties of the Soviet Union on the continent. They accounted for most of the USSR's trade turnover with Africa, as well as a significant share of Soviet economic and technical assistance to Africa. The most extensive and diversified assistance was provided to Algeria and Egypt (Abramova, Fituni, 2019). By the beginning of the 1990s, 71 facilities out of 257 built on the continent with the technical assistance of the USSR were put into operation in Algeria alone and 97 in Egypt (Statistical Collection, 1991).

It was then that new, long-term forms of economic cooperation were laid. Their symbols were the construction of the high-rise Aswan dam, the metallurgical plant in Helwan, the aluminum complex in Nag Hammadi. With the assistance of Russia, thousands of specialists were educated in vocational training centers and medical institutions deployed in Egypt.

At present, the implementation of major projects has begun – the construction of a Russian-style nuclear power plant in Al-Dabaa and the creation of a Russian industrial zone in the Suez area.

Today, this country is a key partner for Russia in all of Africa, with which the most stable economic ties have developed at present. Egypt ranks 5th in the top buyers of Russian agricultural products and 2nd in wheat purchases. In 2020, almost \$2 billion worth of agricultural products were delivered to the market of this country.

Currently, the legal basis for cooperation between the countries is the Joint Russian-Egyptian Declaration of 1997, the Declaration on the Principles of Friendly Relations and Cooperation between the Russian Federation and Egypt of 2001, the Joint Statement on the Further Deepening of Friendly Relations and Partnership between the Russian Federation and Egypt of 2005, the Strategic Partnership Agreement of 2009. The Joint Bilateral Commission on Trade, Economic, Scientific and Technical Cooperation plays an important role in expanding business cooperation. The Agreement on Comprehensive Partnership and Strategic Cooperation signed by the President of the Russian Federation V.V. Putin and the President of the Arab Republic of Egypt Abdelfattah Elsisy and entered into force in January 2021.

Thus, both states are interested in developing trade and economic ties aimed at diversifying and increasing mutual supplies to each other's markets, and are also looking for forms of interaction that promote investment cooperation, including the agricultural sector.

Methodology

A combination of various widely used methods forms the methodological basis of the research. The authors focus on the principle of scientific objectivity when carrying out the research. The theme of this research allows to use classical scientific research methods such as: comparative method, statistical, system approach and others.

The main research methods were the search, systematization, evaluation and structural and dynamic analysis of macroeconomic indicators characterizing the current state of Russian-Egyptian relations in the agricultural sector.

The combination of these methods, as well as regulatory analysis and forecast, allows us to analyze possible contradictions and establish correlations in economic processes.

Literature review

The authors in the research relied on the works of leading Russian economists and experts in the field of African economics: I. Abramova, L. Fituni (2019); statements and assessments of officials of the Russian Federation: Foreign Minister Sergey Lavrov, Minister of Economic Development of Russia Maxim Reshetnikov; information from the websites of specialized foreign trade organizations of the Russian Federation, the Ministry of Economic Development; the Eurasian Economic Commission.

To conduct the study, statistical data from official websites were used: Foreign Trade of the Russian Federation, Statistics of Foreign Trade of the Russian Federation, the Federal Center for Export Development of Agricultural Products of the Ministry of Agriculture of the Russian Federation, the Federal Customs Service of the Russian Federation.

Trade relations

The Republic of Egypt is a strategic partner of Russia in mutual trade in agricultural products and food in North Africa and the Middle East. The country is a major importer of food, which makes it possible to consider Egypt as a promising market for increasing the supply of agricultural products from Russia.

In 2020, almost \$ 2 billion worth of agricultural products were delivered to the market of this country, an increase of 13% compared to 2019 (see Figure 1).

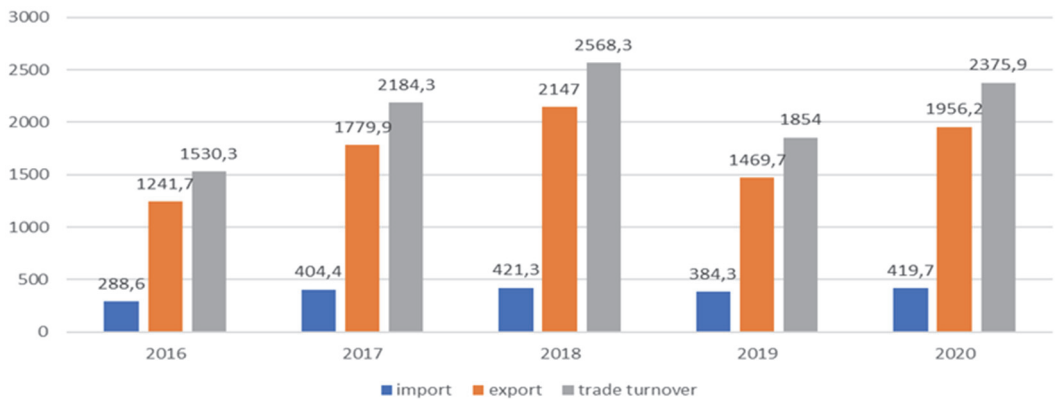


Figure 1. Dynamics of trade turnover between Russia and Egypt

Source: The official website of the telegram channel The DairyNews. Retrieved November 10, 2021, from <https://www.dairynews.ru/news/v-2020-godu-tovarooborot-mezhdu-rossiey-i-egiptom-.html>

Russia is the largest grain supplier to Egypt, providing up to 65% of Egypt's needs. In the structure of Russian exports of agricultural raw materials and food to Egypt, wheat accounted for 91.9% (see Table 1).

In addition to wheat, Russia is the largest supplier of raw sunflower oil to this country with a share of more than 60%, and is also one of the four leading

suppliers of sunflower meal and cake. In 2020, Egypt imported 327 thousand tons of raw sunflower oil and 159 thousand tons of sunflower meal and cake (Agroexport, 2021).

Citrus fruits were mainly supplied to Russia from Egypt – 43.4 % (\$ 182.3 million), fresh potatoes – 17.5% (\$ 73.6 million), onions and garlic – 10.2% (\$42.8 million), as well as grapes and raisins – 6.8% (\$ 28.4 million) (see Table 2).

Table 1

Export from Russia to Egypt, 2020

Title	Thous. tonnes	Min. Doll.	Share, %
Cereals (wheat)	8258,1	1 796, 9	91,9
Sunflower oil	197,0	143,0	7,3
Others	38	16,3	0,8

Source: official website of Russian Foreign Trade. Retrieved November 10, 2021, from <https://russian-trade.com/reports-and-reviews/2021-02/torgovlya-mezhdu-rossiy-i-egiptom-v-2020-g/>

Table 2

Import of Russia from Egypt, 2020

Title	Thous. tonnes	Min. Doll.	Share, %
Citrus fruits	268,9	182,3	43,4
Fresh potatoes	194,4	73,6	17,5
Onion, garlic	82,2	42,8	10,2
Grapes, raisins	16,3	28,4	6,8
Fresh berries	14,3	20,8	5,0
Frozen fruits and nuts	24,5	20,4	4,9
Dates, figs, avocado	5,3	9,9	2,4
Frozen vegetables	12,8	8,5	2,0
Others			7,8

Source: official website of Russian Foreign Trade. Retrieved November 10, 2021, from <https://russian-trade.com/reports-and-reviews/2021-02/torgovlya-mezhdu-rossiy-i-egiptom-v-2020-g/>

Russia is one of the key buyers of fruit and vegetable products for Egypt. In this regard, Egyptian manufacturers are not only conducting research on the Russian market, but are also trying to develop new products specifically for Russia (Belova, Al-Hamati, 2021).

In general, it should be noted that there is a great growth potential in the trade of food products and raw materials for both countries: agreements are concluded for the supply of such goods to this country as dairy products (milk powder, whey powder, butter), poultry meat, confectionery, etc., i.e., which are processed products.

Currently, Egypt and the Eurasian Economic Union (EAEU) are negotiating a free trade zone agreement. Russia actively supports the promotion of work in this direction. Egypt also demonstrated its readiness for constructive dialogue on the entire range of issues raised in the agreement, and confirmed its desire to develop a full-fledged progressive agreement aimed at ensuring high-quality predictability of trade conditions and transparency of trade regulation (EEC, 2019).

The trade agreement will create new opportunities for the EAEU countries to develop and diversify trade with Egypt, and improve conditions for Russian exporters (Reshetnikov, 2021).

Investment cooperation

The development of investment cooperation between Russia and Egypt is much slower than in the trade sphere. According to the Central Bank of Russia, in 2017, accumulated Russian investments in the Arab Republic of Egypt amounted to \$62 million, and Egyptian FDI in Russia amounted to \$6 million (Volkov, Tkachenko, 2019).

In 2016, a memorandum of understanding on investment cooperation was signed between the Russian Direct Investment Fund and the Egyptian National Bank.

It should be noted that the Russia-Africa summit, held in Sochi in October 2019, gave impetus to the development of relations in this area of interaction between the countries. During the event, 27 Russian companies presented more than 200 products promising for export to African countries, and also concluded a number of agreements. In particular, one of the largest Russian food companies, Efko Group, signed an agreement with the Egyptian company United Oil on the construction of a joint venture near Cairo – a plant for the production of special fats worth \$ 300 million, which in the future will become the largest producer of fat-and-oil products in North Africa. The project for the production of bottled vegetable oil and food ingredients will be aimed at the markets of neighboring African countries, as well as the Middle East and Southern Europe (Gavrilenko, 2019).

Also at the forum, an agreement was signed on the construction of a grain terminal in Egypt, through which up to 2 million tons of cargo will pass annually, which will be able to supply grain not only to the Egyptian market, but also to the markets of other African countries, most of which are keenly interested in grain supplies. The main supplier is Russia (Novikov, 2019).

To date, an important step in deepening Russian-Egyptian investment cooperation has been the signing on May 23, 2018 of an Agreement on the opening of the Russian Industrial Zone (RIZ) in Egypt in the east of Port Said and the northern entrance to the Suez Canal. This is a major project that the parties have been developing for many years. It includes the provision of rental holidays, preferential tariffs for energy resources, a special preferential tax regime, as well as a plot of 525 hectares for a period of 50 years, including the provision of all modern engineering and utility infrastructure, a security perimeter, water and electricity connection points. In July 2021, negotiations on expanding the territory of the Russian industrial zone in the Suez Canal region by including Eastern Port Said and Ain Sokhna were successfully completed. The start of construction of the facilities was scheduled for 2020, but due to the Covid-19 pandemic, the deadlines have shifted, and the Russian Industrial Zone will begin work at the end of 2021. The implementation of the project is designed for 13 years. By 2022, resident enterprises should start producing products. In the first two or three years, about 50 resident companies should appear in the RIZ (TASS, 2021).

It should be noted that the products exported from the industrial zone make it possible to use numerous preferential international trade agreements of Egypt.

Egypt has free trade agreements with such associations as: the Trade and Economic Union of Arab States; EFTA (European Free Trade Association), MERCOSUR (Common Market of South American countries). In this regard, this regime applies to products produced by Russian enterprises that are residents of the RPZ, which simplifies the possibility of promoting goods to the markets of the countries that are members of these associations. In addition, obtaining the right to be labeled “Made in Egypt” simplifies access to foreign markets. According to Veronika Nikishina, head of the Russian Export Center (REC), the launch of the RPZ will give an impetus to the development of our trade and economic relations, and will lead to qualitative changes in cooperation between our countries (RIA Novosti, 2021).

Currently, the task is to create conditions conducive to the formation of a business climate and attract more investment.

Russian state investments in the development of the primary infrastructure of the RPZ are planned at the level of \$190 million, the total volume of private investments is estimated at \$ 7 billion (TASS, 2021).

It is planned to attract capital from the Persian Gulf countries. The Russian Direct Investment Fund (RDIF), which has concluded partnership agreements with a number of funds, can play an important role in resolving this issue. These are the Public Investment Fund and Saudi Arabian General Investment Authority (Saudi Arabia), Kuwait Investment Authority (Kuwait), Mubadala (UAE) and Mumtalakat (Bahrain) (Russian Direct Investment Fund, 2018).

In order to attract Russian manufacturers to participate, it is necessary to focus on the needs of both the Egyptian and the entire African market. One of the promising areas of cooperation is the agricultural sector. To date, Egyptian partners have shown interest in cooperation in all areas of agro-industrial business, such as the production of agricultural machinery, food products, fertilizers, repair of agricultural machinery, cargo handling and storage, etc. Russian engineering companies closely connected with agriculture are already showing interest in this project. The ability to process agricultural raw materials, in particular grain supplied by Russia, also seems to be a very promising form of interaction, given that this is the oldest and quite dynamic industry in Egypt.

Conclusion

Egypt is currently a key partner for Russia on the African continent, with which Russia currently has the most stable economic ties. It should be understood that in order to deepen mutual economic cooperation, not only trade relations play an important role, but also assistance to the development of industry and infrastructure, the creation of new jobs in this country. Mutual interest may be aroused by the creation of joint ventures for the processing of agricultural raw materials, in particular wheat products, for the import of which Egypt ranks second from Russia; enterprises for the production of butter, confectionery, etc. (Belova, Al-Hamati, 2021).

The attractiveness of the implementation of the RPZ project is characteristic of both sides. For Russia, it is not only a capacious Egyptian market, but also, due to the favorable geographical location of the Russian Gas Station, the opportunity

to enter the markets of other African countries. For Egypt, it is attracting foreign investment to the region, creating new jobs and developing infrastructure in the area of the Suez Canal transport corridor.

An important basis for the development of trade and investment ties in this area is the extensive experience of interaction between the two countries, the built logistics chains, and most importantly, the mutual desire to strengthen economic ties in the difficult current situation associated with the instability of this region, the growing uncertainty in the world commodity markets.

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