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WILL SAUDI-EGYPTIAN
GEOPOLITICAL
PARTNERSHIP PUSH
FOR ECONOMIC
INTEGRATION?
INCREASING
INTERDEPENDENCIES

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Will Saudi-Egyptian Geopolitical Partnership Push for Economic Integration? Increasing interdependencies

Amr Adly

Executive Summary

The Geopolitical developments that have taken place since 2011 have reinforced the already deep security and economic interdependencies between Egypt and Saudi Arabia. On the one hand, ruling elites in Saudi Arabia perceive an allied Egypt as central for the Gulf external and internal security and stability. On the other, Egypt has grown increasingly dependent on the Gulf's oil-rich nations in order to keep its economy afloat, re-launch economic growth and fix its chronic difficulties in balancing payments.

The current geopolitical landscape is conducive to the creation of a sustainable and long-range security arrangement between the two countries that tackles both internal questions of regime security and external questions relating to the Iranian and Jihadi threats. For decades, Egypt and Saudi Arabia have also been involved in intense forms of exchange, including capital and labour.

Whether such plans for sustaining the MENA's holy alliance would eventually work is not certain. Institutional rules and mechanisms for the coordination of investment and trade policies, labour market regulation and economic upgrading are absent.

Creating the policy and institutional basis for regionally-coordinated upgrading and diversification that delivers to the populations, can prove helpful, not just for the current authoritarian orders but also for any future political arrangements.

A growing partnership

Since the outbreak of the Arab revolutions in 2011, geopolitical developments have reinforced the already deep security and economic interdependencies between Egypt and Saudi Arabia. On the one hand, ruling elites in Saudi Arabia see an allied Egypt playing a central role in the Gulf's external and internal security and stability. On the other hand, Egypt has grown increasingly dependent on the Gulf's oil-rich nations in a bid to keep its economy afloat, re-launch economic growth and fix its chronic balance of payments deficit.

Between 2013 and 2015, Egypt received around 23 billion dollars in cheap credit and cash, as well as in kind aid (oil and natural gas) from the UAE, Saudi Arabia and Kuwait.¹ Not only were these funds used to support the budget, but they also financed arms purchases from France and Russia when America halted military aid to Egypt in the wake of the military takeover in July 2013.² The arms bill was estimated at an additional ten billion dollars.³ Simultaneously, workers' remittances continued to flow to Egypt despite international oil prices plunging in the summer of 2014. Egypt received 19.2 billion dollars in remittances in 2015, predominantly from the GCC countries. The figure was 16.7 billion in 2016, 18.3 in 2017 and it is projected at 23.4 billion for 2018, making remittances almost four times Suez Canal revenues (around five billion dollars annually).⁴

In the meantime, the geostrategic partnership between Cairo and Riyadh gained more significance. The Saudis seem to be counting on the Egyptians (and the Jordanians) for any future inclusion of Israel in a regional security arrangement that counters Iran.⁵ In 2017, the Egyptian regime relinquished to Saudi Arabia the two Red Sea islands of Tiran and Sanafir at the entrance of the strategic Aqaba strait leading to Israel's only Red Sea port of Eilat. The transfer of the two Islands makes Saudi Arabia a direct party to the Camp David accords between Egypt and Israel.

Parallel to this tightening political and geostrategic alliance, Egypt (along with Jordan) appear to have a place in Saudi Arabia's ambitious plans for economic diversification and development. In February 2018, the Saudi Crown Prince Mohamed Bin Salman announced a large joint-investment project between the three countries, known as NEOM⁶, with a one-

¹Reuters. 2015. Egypt got \$23 billion in aid from Gulf in 18 months-minister. Reuters. 2-3-2015. <https://uk.reuters.com/article/uk-egypt-investment-gulf/egypt-got-23-billion-in-aid-from-gulf-in-18-months-minister-idUKKBN0LYOUT20150302>

² Egypt independent. 2014. KSA, UAE to finance Russian arms deal with Egypt. *Egypt independent*. 7-2-2014. <https://www.egyptindependent.com/ksa-uae-finance-russian-arms-deal-egypt/> and; Defenseworld. 2015. Saudi, UAW, Kuwait helped finance Egypt's Rafale buy. Defenseworld. 17-2-2015. http://www.defenseworld.net/news/12196/Saudi_UAE_Kuwait_Helped_Finance_Egypt_s_Rafale_Buy#.W5d62y2B3Vo

³ Colonna, J. 2018. SIPRI: Egypt's arms imports skyrocket amidst greater security threats. *Egypt today*. 12-3-2018. <http://www.egypttoday.com/Article/1/45059/SIPRI-Egypt's-arms-imports-skyrocket-amidst-greater-security-threats> and; France 24. 2015. Egypt, France to conclude 5.2 billion Euro deal for Rafale Jets. *France 24*. 16-2-2015. <https://www.france24.com/en/20150216-france-egypt-sign-deal-sale-rafale-fighter-jets>

⁴ Abu basha, M. 2018. 4Q17 BOP Chartbook: CAD stable at three-year low as remittances keep breaking record high. E.F.G. Hermes, p. 17

⁵ Behraves, M. 2018. Commentary: The unlikely Mideast alliance that threatens Iran. *Reuters*. 24-1-2018. <https://www.reuters.com/article/us-behraves-iran-commentary/commentary-the-unlikely-mideast-alliance-that-threatens-iran-idUSKBN1FC358>

⁶ According to the Saudi-owned News agency al-Arabiya (24-10-2017), the first three characters "NEO" comes from the Latin word meaning "new". The fourth character "M" is the abbreviation of the Arabic word "Mostaqbal" which means "future." (<http://english.alarabiya.net/en/business/economy/2017/10/24/What-does-NEOM-mean.html>)

hundred-billion-dollar budget.⁷ In turn, the Egyptian government allocated a thousand square kilometres along the Red Sea coast for prospective projects.

In light of these geopolitical and economic developments, will the Egyptian-Saudi partnership push for deeper forms of economic integration between the two countries beyond the mere recycling of oil rents, which has characterised their economic relations throughout the past four decades and which have intensified since 2013?

This policy paper argues that even though the current geopolitical context has created long-term prospects for a deepened geostrategic partnership, it will unlikely lead to further economic integration between the two nations. As mentioned earlier, the partnership between the two countries has already intensified earlier forms of rent recycling, be it in the form of workers' remittances, intergovernmental aid or loans, investments by private (often politically connected businessmen) or more explicitly by sovereign funds, and has ultimately expanded Egyptian exports to GCC markets.

However, all of this is more of the same recycling that does not promise the genuine economic integration of productive sectors, to upgrade the economy within the global value chains and to foster more inclusive forms of growth that are capable of generating employment in non-rentier sectors. In the past four decades, rent recycling has not delivered real long-term development and it is not likely to do so if resumed in the future. Even though potentially long-term geostrategic partnerships and a mutual concern for external and internal stability and security could provide incentives for development-cum-regional integration, the two countries lack both the internal institutional frameworks necessary for this, as well as those between them.

The paper will henceforth review the main dynamics of Saudi-Egyptian relations over the past decades and will investigate the possibilities for institutional arrangements that may allow for developmental economic integration, while also supporting Saudi security and stability designs for the region.

The MENA's holy alliance

Geopolitical-economic interdependencies between Saudi Arabia and Egypt are hardly new.⁸ Egypt has been receiving oil-rents through a myriad of channels since the first oil boom of 1973, which created a new regional economic reality. Egypt became a massive exporter of skilled and unskilled labour to the Gulf's oil-rich countries (as well as to Libya before 2011

⁷ NEOM or more information about the project, visit the official website: <http://www.neom.com>

⁸For an early account of the Arab oil economy that came to being after the first and second oil shocks of 1973 and 1979 respectively, see Farsoun, S.K., 1988. Oil, state, and social structure in the Middle East. *Arab Studies Quarterly*, pp.155-175.

and to Iraq in the 1980s).⁹ This regional interdependency has been based on capital and labour flows rather than merchandise trade. For instance, in 2017, the total merchandise trade between Egypt and Saudi Arabia was 2.6 billion (exports plus imports),¹⁰ which is dwarfed by the corresponding figures of capital flows such as remittances (18.3 billion) and Saudi investment in Egypt (5.7 billion). Even though Saudi Arabia and the United Arab Emirates have become Egypt's largest export markets since 2015, with a combined share of around fifteen percent of total exports, trade remains much less significant compared to capital and labour flows.¹¹

The GCC countries were hosting 2.4 million Egyptian workers in 2013, with Saudi Arabia being the single biggest market for Egyptian expatriates.¹² Despite oil-price fluctuations and political turbulence, this economic intercourse between Egypt and the Gulf countries continued. For instance, Gulf countries cut diplomatic ties and official economic aid to Egypt after peace accords were signed with Israel in 1979. However, the flows of workers, and subsequently of remittances, continued uninterrupted. Furthermore, restoring diplomatic relations with Egypt immediately before the Iraqi invasion of Kuwait in August 1990 led to a resumption of intergovernmental assistance, public and private investments, and to a significant debt forgiveness package.

Needless to say, this economic interdependency was reinforced during the most recent oil boom (2008-2014). Remittance receipts flowing to Egypt over these six years grew to an impressive annual average of 20 percent, compared to a humbler average of twelve percent for the period (2000-2006).¹³

From a geopolitical perspective, Egypt adopted a central role in GCC security after the Iraqi invasion of Kuwait in 1990/1991. Egypt joined the U.S.-led international coalition for Kuwait's liberation. Even though immediate security arrangements for the Gulf passed into the hands of the Americans, who chose to establish a permanent military presence there, a stable and friendly Egypt was still thought to be as important by Saudi Arabia and its GCC junior partners, in the face of any future Iraqi – or Iranian – threats.

⁹ Fardoust, S., 2016. Economic integration in the Middle East: Prospects for development and stability, p.8

¹⁰ al-Iqtisadi, 2018. Akthar min 27 miliar dollar qimat al-masharee' al-su'udiyya fi misr (More than 27 billion dollars: the value of Saudi-owned projects in Egypt). *al-Iqtisadi*, 24/9/2018:

<https://aliqtisadi.com/1213939-%D8%A7%D9%84%D8%A7%D8%B3%D8%AA%D8%AB%D9%85%D8%A7%D8%B1-%D8%A7%D9%84%D8%B3%D8%B9%D9%88%D8%AF%D9%8A-%D9%81%D9%8A-%D9%85%D8%B5%D8%B1/>

¹¹ OEC, 2018. Egypt. <https://atlas.media.mit.edu/en/profile/country/egy/#Imports>, visited on 28/11/2018.

¹² United Nations Economic and Social Commission for Western Asia (ESCWA).2015. Situation Report on International Migration: Migration, Displacement and Development in a Changing Arab Region, p.32

¹³ Author's calculations based on the World Bank Data. Personal remittances received_Egypt (current US \$). <https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=EG>

Egypt's central role in GCC security and internal stability became more pronounced with the 2011 outbreak of Arab revolutions. With the uprising in Bahrain, GCC monarchies found themselves vulnerable to popular upheaval and to the increasing weight of political rivals like Iran and the Muslim Brotherhood (a rival form of Sunni Islamism). To worsen the situation, the uprisings and the civil wars that followed in their aftermath came in a context of what seemed to be an American withdrawal from (or at least revision of) earlier regional security arrangements inherited from the 1990/1991 Gulf war. The Obama administration welcomed the Arab uprisings. It then sought a nuclear deal with Iran in return for lifting the UN sanctions. These developments were largely perceived to have come at the expense of the U.S.'s closest allies: Saudi Arabia and Israel.¹⁴

Almost immediately after the ouster of Mubarak, Saudi Arabia and the UAE sought proactively to use their economic power to alter outcomes on the national and regional levels. They restricted Egyptians' access to their labour markets (as well as that of other Arab countries that had witnessed revolutionary turmoil). They did not extend a helping hand when in late 2012 the country was running out of precious foreign reserves.¹⁵ Eventually, GCC economic pressures, deep ties with groups and networks within the Egyptian state and society, and explicit diplomatic support from the Saudis enabled the military takeover of July 2013, which put an end to the Muslim Brotherhood rule and initiated a fully-fledged authoritarian restitution.

By that time, having a friendly regime in Egypt was crucial for any alternative regional security arrangement that could cut the path of the Brotherhood's resurgence and revolutionary action more generally. But more importantly, Egypt was critical for the Saudi-led efforts to establish a Sunni alliance that could counterweigh Iran, which had made advances through its predominantly Shia allies in Iraq, Lebanon, Syria and most dangerously in Yemen with the Houthis capturing Sanaa in 2014.

Not only has the 2011 turmoil increased the GCC geopolitical reliance on Egypt, but it has also exacerbated the latter's outright economic dependency on the former. The country's Achilles heel was foreign currency shortages. With tourism and foreign investment virtually evaporating due to security and political turmoil, Egypt became increasingly reliant on the workers' remittances sent primarily from GCC oil-rich countries. This was, however, not enough to fill in a seemingly unfathomable financing gap that began in late 2012, as imports were almost three times exports. Under the Brotherhood rule, Egypt started its external borrowing path from

¹⁴ Lynch, M., 2015. Obama and the Middle East. *Foreign Affairs.*, 94, p.18.

¹⁵ Hope, B. 2012. Egypt's Morsi to visit Saudi Arabia in bid for aid. The National. 10-7-2012. <https://www.thenational.ae/uae/egypt-s-morsi-to-visit-saudi-arabia-in-bid-for-aid-1.357943>

political allies, namely Qatar, and to a lesser extent Turkey, and back then the Brotherhood-dominated government in Libya (Tripoli). They received around ten billion dollars during their one-year rule.¹⁶ The same pattern continued at almost the same pace following the takeover in mid-2013 but this time by the Saudis, Emiratis and the Kuwaitis. By 2016, Egypt had received around 23 billion dollars from the three countries combined.

However, Egypt's intensified dependence on the Gulf came at the wrong time. In 2014, international oil prices collapsed. So far, they have not returned to the 2008 levels and are not expected to do so in the foreseeable future. Collapsing oil prices have put considerable strain on the GCC budgets, namely that of Saudi Arabia with a relatively large population to sustain, an open-ended adventure in Yemen since 2015, and with uncertainties about succession. Yet, massive Gulf aid was sustained through these challenging times, showing the primacy of political and geopolitical factors.

Saudi Arabia and the UAE were adamant on stabilising the situation inside Egypt and on establishing Egypt's long-term commitment to GCC security. Even though they could not continue to indefinitely pump funds into the Egyptian economy, in November 2016 they still underwrote IMF involvement in reforming Egypt's finances and payment balance.¹⁷ In 2014, the UAE also opened its markets to Egyptian exports, which can only be understood in the general geopolitical context of further supporting Egypt's ailing economy.¹⁸ So far, the Saudis on their part have almost completely exempted Egyptian workers from the Saudisation plans adopted by the Crown Prince. While worker-exporting countries, namely in South Asia, suffered the most due to mass layoffs and a corresponding decline in remittances, Egyptians have escaped unscathed.¹⁹ It seems that the Saudi government is well aware of the potential negative impact on Egypt's economy in the event of reduced amounts of remittance transfers, bearing in mind their large share in foreign currency earnings. This has to be seen within the broader geopolitical context, which requires a stable Egypt, with an allied regime in power.

¹⁶ Daily News Egypt. 2013. Following Morsi's ouster, Qatar's support to Egypt in question. Daily News Egypt. 14-7-2013. <https://dailynewsegyp.com/2013/07/14/following-morsis-ouster-qatars-support-to-egypt-in-question/>

¹⁷ Adly, A., 2016. Egypt's Oil Dependency and Political Discontent. *Carnegie Middle East Center*. August, 2. <http://carnegie-mec.org/2016/08/02/egypt-s-oil-dependency-and-political-discontent-pub-64224>

¹⁸ Labib, S. 2016. Al-tamtheel Al-tigari: sadirat Misr Ila al-Imarat tatagawaz al-miliar dolar li awal marra. *Youm 7*. 24-3-2016. <https://www.youm7.com/story/2016/3/24/-التمثيل-التجاري-صادرات-مصر-الى-الإمارات-تتجاوز-المليار-دولار-لأول/2644212>

¹⁹ Abu basha, *ibid*, p17

Containing tensions

Egypt-Saudi partnership seems central for any regional security-arrangement. Egypt is after all the nearest and biggest Arab-Sunni country in the neighbourhood. Moreover, it is the most economically dependent on the GCC. There is also considerable elite interpenetration between Egypt, Saudi Arabia and the UAE, compared to Turkey or Pakistan, another two major Sunni countries with strong ties to the Gulf. In turn, the Egyptian leadership has emphasised time and again its uncritical commitment to GCC security, with tacit references to Iran.²⁰

However, there have been differences between the two partners on a number of important issues, including the Egyptian refrain from any direct involvement in the Yemen war, the divergent stances with regard to Syria and the future of Assad, and the Saudi ambivalence towards Libya. Despite their complete economic dependency, the Egyptians did not become political satellites to the Saudis or the Emiratis. The Egyptian military-backed regime kept its involvement in Yemen to a symbolic level of sending some navy pieces to the strait of Bab-al-Mandab in view of securing navigation in the Red Sea, which already corresponds to Egypt's interest in protecting the route to the Suez Canal. Throughout three long years of war in Yemen, the Egyptians have not deployed a single soldier on the ground (contrary to the Sudanese for instance). On Syria, the Egyptian regime defended an autonomous stance on the civil war, which happened to be implicitly pro-Assad. The Egyptians have been more concerned about Jihadist ISIS- and Qaeda-like groups than Hezbollah or the Iranian revolutionary guards. Moreover, the regime could identify extensively with the Assad regime in its fight against (Sunni) fundamentalism and Jihadism.²¹

However, this divergence on Syria and Yemen did not reduce Egypt's importance for the GCC in any future security arrangement in the region. It can generally be said that the one key point of convergence has been hostility towards the Muslim Brotherhood and their Qatari patrons. The Saudis and their allies in the GCC have taken a very strong stance, not only against the Muslim Brotherhood and its local affiliated groups in a myriad of countries, but also against their main sponsor Qatar, despite being a fellow member of the GCC. Qatar was subject to unprecedented, coordinated pressure by Saudi Arabia, the UAE and Bahrain, which resulted in an economic siege that has now lasted nearly two years.²² The Qatar siege, which risked undermining the inner coherence of the GCC and opening a new front for an embattled Saudi

²⁰ CNN Arabic. al-gayesh al-misri fi "masafat al-sikkah" li-Idifa' a'an al-khalij (The Egyptian Army" standing-by for defending the Gulf). *CNN Arabic*. 18-2-2016. <https://arabic.cnn.com/middleeast/2016/02/18/sisi-army-way-protect-gulf-countries>

²¹ Gradstein, L. 2016. Tensions rise between Egypt and Saudi Arabia over Syria. *Jerusalem Post*. 15-10-2016. <https://www.jpost.com/Middle-East/Tensions-rise-between-Egypt-and-Saudi-Arabia-over-Syria-470160>

²² Ulrichsen, K.C., 2017, June. Implications of the Qatar crisis for regional security in the Gulf. In *Expert Brief, Alsharq Forum* (Vol. 29).

Arabia, showed an instance where Egypt's position against the Brotherhood was the one that inspired change within the GCC rather than vice versa. This revealed the depth of the geostrategic partnership between Egypt and Saudi Arabia. Bin Salman eventually adopted the priority of fighting the Muslim Brotherhood, initially set by the Egyptian regime and its all-powerful ally the UAE. This reversed an earlier tendency of integrating the Brotherhood in Yemen and Bahrain in a broader Saudi-led Sunni coalition.²³

Political prerequisites for economic integration

From a development perspective, the main economic challenge that faces the Middle East and North Africa (MENA) on a national and regional level, is diverging away from the complete dependency on oil and natural gas exports. This implies the need to develop non-oil high-value added sectors that can redefine the position that the MENA occupies in the global division of labour, to maximise and create complementarities between regional partners, and to generate inclusive growth.²⁴ In 2014, the average share of fuel exports in total merchandise exports for the MENA region as a whole has been estimated at 65.7 percent.²⁵ This is not very different from the situation in 1981, when it stood at two thirds of the total.²⁶ These figures indicate that in over nearly three decades very little progress has been achieved in economic upgrading. Similarly, the share of intra-industry trade in total regional exchange has remained negligible throughout the past four decades, reflecting the poor status of the manufactured sectors and the rentier character behind regional growth.²⁷ Coordinating economic upgrading could be possible between a labour-abundant country like Egypt and a capital-rich country like Saudi Arabia, especially if economic integration is meant to strengthen their long-term and strategic interdependency by increasing its development.

Regional economic integration is an institutionalised coherent process based on long-term intergovernmental commitment that promises development for a majority of partner countries' populations, by allowing the free movement of people, goods and services, capital, technology and ideas. Previous experiences of regional economic integration reveal that it is a political endeavour that is usually part of broader and long-lasting geopolitical and security

²³ Ibish, H. 2015. Saudi Arabia's new Sunni alliance. *The New York Times*. 31-7-2015. <https://www.nytimes.com/2015/08/01/opinion/hussein-ibish-saudi-arabias-new-sunni-alliance.html>

²⁴ Callen, M.T., Cherif, R., Hasanov, F., Hegazy, M.A. and Khandelwal, P., 2014. *Economic diversification in the GCC: Past, present, and future*. International Monetary Fund.

²⁵ World Bank Group. 2018. Fuel exports (% of merchandise exports), the Middle East and North Africa. <https://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN?locations=ZQ&view=chart>

²⁶ Farsoun, p. 156

²⁷ Galal A. and B. M. Hoekman (eds.). 2003. *Arab Economic Integration: Between Hope and Reality*, Washington, DC: Brookings Institution Press.

arrangements. Cases ranging from NAFTA, MERCOSUR and the ASEAN to the EU, which are the deepest forms of regional integration in the world to date, all affirm these assumptions. This process requires institutions that can provide predictable policies, norms and regulations for public and private – both domestic and foreign – investments and that can smoothen economic transactions.

Based on the above, the current geopolitical context and past economic patterns of interdependency between Egypt and Saudi Arabia may be conducive to a long-term economic partnership with the explicit aims of upholding internal stability, regional security and development. However, one of the key challenges here is that Egypt and Saudi Arabia lack the institutions, both within their countries as well as between them, that are capable of coordinating a genuine process of economic upgrading. Oil prices will most probably remain below the 2014 levels for years to come, and the economic and geopolitical weight of the MENA has been consistently declining in favour of new oil producers, especially with the United States becoming currently the largest world producer.²⁸ This upgrading therefore needs to shift away from the direct and indirect dependency on oil revenues. At a time when oil revenues are dwindling on the one hand and fiscal pressures are mounting on the other, due to intensifying regional confrontation with Iran, the open-ended war in Yemen and ambitious domestic plans for diversification and distribution simultaneously, the Egyptian-Saudi is otherwise unlikely to prove long-lasting, beyond more of the same rent recycling.²⁹

Obstacles for genuine economic integration

If the regimes in Riyadh and Cairo are adamant on mutually sustaining their internal and external security and stability in the long-term, this may create a propitious political context for a more institutionalised kind of economic integration that would have direct developmental outcomes on their populations. This may not require massive concessions of sovereignty by any of the two states as the target of institutionalisation will likely remain “shallow integration”, mutually agreeing on rules for the movement of goods and investment rather than the outright harmonisation of national regulations or other traits of “deeper integration” projects.

²⁸ Mohaddes, K. and Pesaran, M.H., 2017. Oil prices and the global economy: Is it different this time around? *Energy Economics*, 65, pp.315-325.

²⁹ Husain, M.A.M., Arezki, M.R., Breuer, M.P., Haksar, M.V., Helbling, M.T., Medas, P.A. and Sommer, M., 2015. *Global implications of lower oil prices* (No. 15). International Monetary Fund, p31-33 and; Reuters. 2017. Saudi foreign reserves continue slide, lowest since April 2011. *Reuters*. 29-10-2017. <https://www.reuters.com/article/saudi-cenbank-reserves/saudi-foreign-reserves-continue-slide-lowest-since-april-2011-idUSL8N1N40KV>

Thus far, Egyptian-Saudi relations, and relations with the oil-rich GCC countries more generally, have been a case of a region without regionalism.³⁰ Over time, labour-capital exchange followed clear patterns of value creation and distribution that were all tied to the booms and busts in international oil markets. These regional interdependencies have not assumed any institutional guises. There is a long trail of failed attempts at Arab cooperation, starting from the Arab League through to numerous initiatives, agreements and frameworks aimed at regional or sub-regional economic or security cooperation. In fact, the most (relatively) successful case of institutionalised integration has been integration that took place amongst the small oil-rich monarchies that formed the Gulf Cooperation Council in 1981.

Conversely, regional labour-capital exchange was completely left to national regulation, which was often reflective of political turbulent relations and antagonisms between regimes and leaders. The lack of any institutional or regulatory framework for regional exchange, let alone integration, must have discouraged longer-term investment in sectors other than those reliant on recycling oil rents, namely trade in imports, construction and financial services.

If these shortcomings are applied to the economic prospects of the geostrategic partnership between Egypt and Saudi Arabia, one can easily notice the absence of institutional rules and mechanisms to coordinate investment and trade policies, labour market regulation and economic upgrading. The recently-launched NEOM project, with a one-hundred-billion-dollar budget, is a telling example. Beyond the Crown Prince's announcement over 15 months ago, no secretariat has been created. A source in investment banking with access to NEOM management, said that no vision has been developed to determine how the money will be disbursed or how investment will be distributed. More importantly, there is nothing known (or hitherto explicitly planned) about the kind of labour division that may exist between Saudi Arabia, Egypt and Jordan. President Sisi, who allocated by decree one thousand square kilometres along the Red Sea coast for NEOM, referred to the project as touristic.³¹

So far, NEOM seems to be a Saudi mega-project, rather than a joint project, that seeks divergence away from oil and the generation of jobs for educated Saudi Youth, and that has been closely tied to Bin Salman's succession plans. Typical of earlier rent-recycling patterns, Egypt and Jordan are expected to receive some share, in the form of investment in tourism

³⁰ Aarts, P., 1999. The Middle East: a region without regionalism or the end of exceptionalism? *Third World Quarterly*, 20(5), pp.911-925.

³¹ Euronews (Arabic). Misr toqadem alf kilometr min ganoub Sainaa limashrou' madinat NEOM (Egypt offers a thousand kilometers in Southern Sinai to NEOM Project). *Euronews*. 5-3-2018. <http://arabic.euronews.com/2018/03/05/saudi-official-says-egypt-pledges-1-000-km-in-south-sinai-for-the-project-of-of-neom>

(hitherto vaguely stated) instead of engaging in a broader regional economic plan that would reflect the high level of their geostrategic commitment.

Institutional coordination is required to harness the seeming contradictions between a capital-rich Saudi Arabia and a labour-abundant Egypt. Whereas the former is seeking to invest its capital surpluses to create jobs in non-oil dependent sectors, the latter is counting on achieving the same at home by attracting GCC capital into its productive sectors. Each country's development concerns need to be harmonised and made subject to economic rather than just political consideration by building permanent and empowered institutional frameworks that can run the operations of joint projects without being exposed to the whims of politics. Otherwise, NEOM and other similar intergovernmental initiatives will likely meet the fate of earlier failed attempts at cooperation and integration.

An additional major challenge is the lack of a functioning institutional framework to coordinate economic upgrading and hence potential economic diversification within each of the two countries, which requires coherent, long-standing and well-established patterns of interaction between the state, capital and labour on the national levels. In Egypt, cronyism and rent seeking have infested state-private business relations, which risks wasting limited resources and stifling competition. Given the authoritarian character of the regime, labour has never been represented through an independent unionised movement. Labour relations are highly informal, with the exception of public sector workers. While this reduces the cost of labour, creating a comparative advantage for Egypt (and its GCC importers of labour), rampant informality does not enable the updating of labour skills, hence arresting the Egyptian workforce and economy at large in a low-wage, low-skill and low-productivity equilibrium.

Worse still, in Saudi Arabia, there is no genuine private sector. Circles of power and wealth are so enmeshed to the extent that making a relatively autonomous economic sphere emerge is dubious at best.³² Rent seeking is not confined to business either. Saudi workers are almost exclusively stacked in an overstuffed public sector that is overwhelmingly made up of civil servants. Labour markets have been quite segmented, with Saudi nationals enjoying privileged access to public sector jobs as a channel for the distribution of oil rent and winning back loyalty or at least acquiescence. Conversely, private sector labour has been almost completely made up of foreign workers from South Asia and populated Arab countries, namely Egypt, Jordan and Palestine and Yemen.³³

³² See Hertog, S., 2010. Princes, brokers, and bureaucrats: Oil and the state in Saudi Arabia. Cornell University Press.

³³ Fargues, P. and De Bel-Air, F., 2015. Migration to the Gulf States: the political economy of exceptionalism, p.8-10

All this challenges coordination within these countries not to mention coordination between local actors in each. Indeed, there have been trans-national business networks that established themselves over the past decades. For instance, in 2017, the head of the Federation of the Chamber of Commerce in Egypt revealed that Saudi-owned projects in Egypt were established at a massive 27 billion dollars, including 2900 projects in various productive and service sectors. This is a cumulative sum that indicates the marked presence of Saudi capital within the Egyptian economy. The same source said that there are half a million Saudis residing in Egypt, which would make quite a sizable percentage of Saudi expatriates and an indication of business interest, as Saudis do not seek work in Egypt.³⁴ However, these projects are still located in predominantly rent-recycling sectors like real estate, which is rife with speculation and predominantly non-tradable. They are hence unlikely to play a role in a coordinated upgrading or in shifting the mode of integration between the two countries into intra-industry trade.

Conclusion

The above-mentioned challenges do not mean that regional integration is impossible in Egypt and Saudi Arabia's case. As argued earlier, plans for integration are often motivated by geopolitical rather than market motives, at least initially. The geopolitical conditions are conducive to the creation of a sustainable and long-range security arrangement that tackles both internal questions of regime security, and external questions relating to Iranian and Jihadi threats. Moreover, for decades the two countries have been involved in numerous forms of exchange, including in capital and labour. The two countries' leaders have to make choices in order to overcome the challenges both within their countries and between them.

A good place to start would be to set a clear publicised and well-thought out vision for how a regional division of labour between the two countries could be achieved. Another step would be to set predictable and stable regulations, policies and institutions for governing investment decisions and labour movement. A permanent secretariat for NEOM for instance could be a good start. Integrating Egyptian public and private institutions (e.g. business associations) into Saudi's plan for diversification and technological upgrading could be another solution. This will require a web of trade and investment agreements with a permanent joint secretary that is empowered to technically regulate subsequent flows.

Notwithstanding the growing controversy around the murder of Jamal Khashoggi in October 2018, if Mohamed Bin Salman does become the King at a young age, this may help to provide

³⁴ al-Iqtisadi, *ibid*

stability and predictability in the long-term, which may in turn help to provide the political- and temporal-horizons for a regionally-coordinated diversification plan.

Whether of course such plans for sustaining the MENA's holy alliance would eventually work is not certain. Structural factors like youth bulge, rampant unemployment among university graduates and long-term projections of low oil prices will impact state-society relations in Egypt as well as in Saudi Arabia. However, creating a policy and institutional basis for regionally-coordinated upgrading and diversification that delivers to the populations, can prove helpful, not just for the current authoritarian orders, but also for any future political arrangements.

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