

1980

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Recommended Citation

Sayed Marei, *A Look at United States Trade and Investment in the Middle East and Egypt in Particular*, 14 INT'L L. 167 (1980)
<https://scholar.smu.edu/til/vol14/iss1/17>

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A Look at United States Trade and Investment in the Middle East and Egypt in Particular

It gives me great pleasure to address you today on the occasion of your annual meeting. The topic of my address—United States Trade and Investment with the Middle East with special emphasis on Egypt—is a very important one, especially in light of recent developments in the area. These developments, beginning with President Sadat's historic trip to Jerusalem followed by the Camp David accords and, more recently, the signing of the peace treaty between Egypt and Israel, are aimed at reaching a final settlement in that troubled area, a settlement that recognizes the rights of all the peoples of the region, including the Palestinians. After thirty long years of war and destruction, the process leading to that goal has finally started. It is obvious that with peace in the area, a new era will start. The main theme of this era will be economic prosperity. Israel and its Arab neighbors will have to find a formula that serves their ambitious goals for economic development and prosperity.

We all recognize that the change from a wartime economy to one that aims at economic development is not an easy task. Making this change has always involved a struggle. In the Middle East, that struggle is made more difficult by the conflicting interests of not only the countries of the area but of outside powers. Help from all our friends in all fields—financial, technical, economic, or the like—is needed to support the change and hasten the shift from heavy investment in armaments to investments in such things as housing, industrial plants, and land reclamation.

One might ask what role could the United States play in all this. Let us look at American trade and investment in the Middle East in the past two decades. Since World War II, United States interests in this region have become substantial. Immediately after the war, the average return to the United States

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from its trade and investments in the Middle East was \$2 billion annually. The bulk of these funds came from United States petroleum investments in the Middle East. This included the production, refining, marketing and transportation of oil. In addition to oil, there have been growing investments and interests in transportation, shipping, banking, hotels, and tourism. As time passed, United States trade and investment relations with the Middle East were strengthened. In 1978, United States exports to the Middle East were on the order of \$15 billion whereas imports stood at \$19.5 billion.

It is important to note that most of this trade is concentrated in the oil exporting countries. Eighty percent of the United States exports go to these countries, while the corresponding percentage on the import side is as high as 95 percent.

With particular reference to my own country let me note that United States trade relations with Egypt have been showing a healthy growth. In 1978, United States exports to Egypt reached \$1.1 billion. The magnitude of this is realized when it is recalled that in the early 1970s the figure was only \$63 million. Sixty percent of these exports represent commodity supplies, while the remaining 40 percent are capital goods. United States imports, on the other hand, are growing but not on the same level. They were \$105 million for the same year. Two points concerning the import figures are worth noting. First, they are noticeably less than the export figures. Second, the major share of this import figure goes to Egyptian oil exports.

This is the trade picture between our two countries so far. It represents but one aspect of the economic relations between the United States and the Arab Republic of Egypt. Another area is United States aid to Egypt. As you are aware, a significant factor in American-Egyptian economic relations has been the resumption of economic aid to Egypt starting in 1975, after it had been cut off for more than ten years. United States economic assistance since 1975 has reached \$4.3 billion. As mentioned before, 40 percent of this figure was for capital goods in the field of infrastructure, such as power generation, rural electrification, and telecommunication. Aid funds have also financed the Suez Canal development, tile drainage projects, port development, textile plants, and badly needed cement factories.

The United States aid program to Egypt, which may be the biggest commitment undertaken by your country in the economic field so far, has recently become controversial. Could Egypt administer such a big program? If so, why is the unused balance so high? Why Egypt, and how long would such a program continue? Are there program priorities, or is the program based on *ad hoc* decisions? If we review the use of United States aid funds to Egypt, we may find the answer to these queries.

Our records show that funds which were committed by the United States through the end of 1977 amounted to \$1.8 billion. One hundred percent of these funds have been allocated by the Egyptian authorities, while 68 percent of all commodity credits have been contracted for, and 34 percent of the funds have actually been disbursed. As for the funds which are reserved for

the purchase of capital goods, 100 percent have been allocated by the Egyptian authorities, and although only 17 percent have actually been contracted, the program is on schedule. Between the time engineering studies are concluded, tender documents prepared, and actual construction started, three to four years are needed to build an industrial plant. This figure will rise to almost 40 percent by the end of this year.

As for our priorities, we are putting emphasis on developing the economic infrastructure which has suffered from lack of investment. Agriculture development enjoys high priority as we depend on large quantities of imported food. Building materials and transportation are of the same importance.

Why Egypt? Here I have three points to make. One is that we have the necessary infrastructure to start the take-off process in a relatively short time. A pool of skilled and semiskilled laborers and Egypt's ideal climate and geographical location are the main pillars of this infrastructure. Second, in the period after the signing of the peace treaty with Israel, some countries, including industrial countries, have submitted to Arab threats or temptations (and I do not mean the United States of course). Third is that there has been real improvement. The Egyptian economy has been growing at an average rate of 9 percent in the last two years and we believe it will reach higher levels this year. The investments in telecommunication, power, and transportation are starting to show results; earnings from Suez Canal dues alone reached \$550 million.

Tourism brought \$700 million, while oil exports reached a new height of \$300 million. Egyptians working abroad transferred their savings, which reached \$1.7 billion. For the first time in many years the trade balance is improving, and the deficit in the balance of payments has nearly diminished. All these record figures could not be attained without the assistance of friendly countries including, of course, the United States. After all, our population represents 40 percent of the Arab World and our political weight has an important impact on the area.

All in all, the United States aid program to Egypt has been commendable. There have, however, been imperfections. We suffer from a bureaucracy that is often a hindrance. But as one senior American official recently said, there is also red tape in aid administration on the United States side. Such shortcomings only impel us to take a positive attitude with a view to eliminating them.

A third dimension of economic cooperation between our two countries is that of private investments in Egypt. It is important to mention here that historically Egypt has dealt with foreign capital and technology with great satisfaction. The development of electric power, water supplies, the building of new cities, and many other activities were established in Egypt at the beginning of this century in collaboration with foreign capital. The Suez Canal itself is the fruit of cooperation with foreign technology.

In 1953, one year after the revolution, a new investment law was passed. But Egypt later shifted to a centralized economy that made it very difficult for

private investments to grow. In 1971 we got back on the right track. A new attempt was made to stimulate foreign capital and technology, with very limited results. In 1974, Law No. 43, which was designed to encourage investments, was promulgated. In order to meet the desires of foreign investors, the Law was amended in 1977. As amended, Law No. 43 grants to industrial projects established in Egypt tax holidays for five years. This can be extended to fifteen years in special cases. Customs exemption is another incentive. All investments are guaranteed by the investment law. They are, at the same time, supported by bilateral guarantee agreements.

These are the main features of the legal incentives. There are, however, other incentives which should not be ignored. Egypt is now one of the few real democracies in the area. The rule of law is recognized and a sense of security and confidence has once again been reinstalled among the Egyptian people. The favorable economic and political climate has been reinforced by the strengthening of the economy. In 1981 Egypt will be self-sufficient in fertilizers. In 1982 our production of cement will meet our requirements. The Canal dues now amount to about \$550 million annually and are expected to increase to about \$1 billion by the end of 1980. Proceeds from tourism will also amount to about \$1 billion next year and could grow even higher with increased investments. Oil production is expected to rise from half a million barrels a day now to 1 million in 1982. The export of Egyptian skills now enables us to receive capital return in the order of \$1.7 billion annually.

In conclusion, trade and investment in this strategic part of the world are major contributors to stability. Such stability is necessary for the third world, the developed countries, and for you if world development is to take place. Economic cooperation is indispensable for minimizing the problems of high energy costs. Detente, peace, and armament agreements are merely wishful thinking if not accompanied by a willing and accommodating spirit to face common economic problems jointly. In the end, it is one world which we all inhabit.