Economic sanctions against Egypt will almost certainly be considered at the Arab summit scheduled for next week. Saudi Arabia, whose participation would be necessary for effective sanctions, is trying to head off such a move.

Egypt: The Threat of Arab Sanctions

Several radical Arab states are likely to push for economic sanctions against Egypt if an Egyptian-Israeli peace treaty is concluded, and sanctions will almost certainly be discussed at the Arab summit meeting scheduled—as of now—to be held in Baghdad starting on 2 November.

The Arabs will consider various measures, including a complete economic and military aid cutoff, expulsion of Egyptian workers from Arab states, a trade embargo, and a cessation of tourism. A unified aid cutoff would be particularly harmful to Egypt and would force Cairo to seek increased economic aid from Western sources and concessional funding for military purchases.

An effective sanctions program would require the participation of Saudi Arabia and Kuwait, the largest Arab aid donors to Egypt. Between the end of the 1973 Arab-Israeli war and the beginning of this year, the two oil-producing states disbursed some $4.6 billion in economic aid to Cairo. Egypt's economic links to the other Arab states, on the other hand, are limited. The radical oil-producing states—Iraq, Libya, and Algeria—currently provide no financial support to Egypt.

Although the Egyptian foreign payments situation has eased this year, the loss of Saudi and Kuwaiti support would be a severe blow that would eventually limit Egypt's development prospects. On the military side, Cairo's ability to make weapons purchases largely depends on Saudi Arabia's readiness to foot the bills.

At present, the Saudis apparently are trying to head off any calls for sanctions against Egypt. They clearly are reluctant to join measures that would undermine President Sadat's government or further fragment Arab ranks. The Saudis could, however, make their displeasure with Sadat's course clear by taking measures short of a full aid cutback. They could, for instance, demand the $600 million they now keep on deposit at the Central Bank of Egypt; that would force Cairo to block repayments, since it lacks the necesary foreign exchange to repay the funds.

Egyptians Abroad

Many Egyptian workers are employed in neighboring Arab countries—perhaps as many as 1.4 million, or 10 percent of the Egyptian labor force. Last year, these workers remitted an estimated $1.5 billion in foreign exchange, the equivalent of 70 percent of Egypt's merchandise exports. Most of the workers are located in the conservative Persian Gulf states, although estimates of Egyptian workers in Libya range from 50,000 persons up to several hundred thousand.

If Egyptian workers were expelled from these countries, Egypt would lose their remittances, but the Arab countries would suffer as well. Egyptians comprise at least 10 percent of the labor force in many of these countries, and an expulsion of the Egyptians would cause a shortage of workers and disrupt the Arab countries' development programs. In the case of Libya, Egyptian workers comprise a major share of skilled workers, teachers, and bureaucrats essential to run the country.

Paradoxically, the expulsion of workers would ease Egypt's own shortage of highly skilled technicians and construction workers, although Cairo would prefer the foreign exchange it gets from their remittances.

Trade and Travel Sanctions

Trade sanctions by Arab states would have a minimal impact on Egypt's economic well-being. The commodities traded are available elsewhere, and the level of trade is small. Egyptian exports to all Arab states amounted to $190 million or 10 percent of total exports in 1977; imports from these countries were only $150 million, or 3 percent of the total. Saudi Arabia is Egypt's largest Arab trading partner, accounting for $35 million of Egyptian exports and $30 million of imports.

A trade embargo, however, might have a secondary impact by limiting foreign investment in Egyptian economic activities that produce goods for export to other Arab countries. Egypt holds out the prospect of a large share of the Arab market as an inducement to foreign investors.

Tourists from Arab countries made up about 55 percent of foreign visitors to Egypt last year and probably accounted for a similar share of the $650 million in foreign exchange receipts from tourism.

Travel restrictions would put an immediate dent in these earnings, but the prospect of increased tourism once travel links are opened to Israel would balance any loss. Egypt should be able to attract some of the large number of US and European tourists who now go exclusively to Israel.

Egyptian Reaction

Even though radical Arab sanctions would cause little hardship for Egypt, Cairo would almost certainly initiate some countermeasures of its own. It could declare a debt moratorium on the $10 million it owes to the radical Arab states. Other retaliatory actions might include a refusal to grant overflight rights, expulsion of the large number of Arab students in Egypt, and a cutoff of limited banking and commercial ties. No appreciable damage would be done to either side, however, by such moves. [redacted]