

CHAPTER IV:
INVESTMENT AT NEW SUEZ CANAL AS THE KEYPOINT
OF CURRENT BILATERAL RELATIONS

This Chapter discusses Egypt's decision making to enhance relations with P.R.C. in order to be a "Comprehensive Strategic Partnership". Furthermore, the agreement between the two countries that leads to Chinese investment in New Suez Canal becomes one of the key points for their tightening bilateral relations.

A. Suez Canal Importance for Egypt

Egypt as a country that has a very strategic location according to its geopolitics. The country lies at the heart of global geopolitics playground. The existence of Suez Canal somehow becomes a special note for international system politically and economically. Therefore, Al-Sisi shall strategically put the country at the best position to bargain with international context.

The existence of Suez Canal in the pivot area significantly changes the world navigation, which is also important for the trading route over the world. Furthermore the canal has always been the finest resources for the country's revenue after the remittances.

Suez Canal Revenue

Year	Total Revenue (USD billion)	Decrease or increase (percent)
2005	3,100	-
2006	3,246	+4.7
2007	4,159	+28.1
2008	5,113	+22.9
2009	4,700	-8.0
2010	4,541	-3.3
2011	5,053	+11.3
2012	5,100	+0.9
2013	5,200	+1.9
2014	5,310	+2.1
2015	5,372	+1.1

*Table 1 Suez Canal Revenue
Source: IEMed Yearbook 2016*

The table shows the revenue from the Suez Canal, it shows that there was a decline of revenue in 2009 and 2010. Afterward, The Suez Canal got a significant increase around 11.3 percent in the next year and remained stable until 2015 (Kenawy, 2016).

Number of Ships Passed the Suez Canal

Year	Total Number of Ships		Net Payload (in thousands of tons)	
	Total	Average	Total	Daily average
2005	18,224	49.9	671,785	1,841.0
2006	18,664	51.1	747,700	2,034.8
2007	20,384	55.8	848,162	2,323.7
2008	21,415	58.5	910,000	2,486.5

2009	17,228	47.2	734,500	2,012.2
2010	17,993	49.3	846,389	2,544.9
2011	17,799	48.8	928,879	2,543.7
2012	17,298	47.4	928,452	2,508.1
2013	16,596	45.5	915,467	2,508.1
2014	17,687	48.4	926,457	2,538.2
2015	17,823	48.8	929,654	2,546.9

Table 2 Number of Ships Passed the Suez Canal
Source: IEMed Yearbook 2016

The Revenue of Suez Canal was coming from the number of ships passing the Canal. There were about 17,000-21,000 ships that were passing through the canal in the last 10 years. In 2014, there were 103 flags from countries over the world with daily average of transiting around 49 ships. The Canal is also capable to accommodate the Malaccamax, the world's largest container ship that can carry 18,000 TEU.

Distance Comparison

From	To	Distance (in Miles)		Saving	
		Suez Canal	Cape	Miles	Percent
Ras	Constanza	4,144	12,094	7,950	66%
	Lavera	4,684	10,783	6,099	57%
Tanura	Rotterdam	6,436	11,169	4,733	42%
	New York	8,281	11,794	3,513	30%
Jeddah	Piraeus	1,316	11,207	9,891	88%
	Rotterdam	3,997	10,797	6,800	63%

Tokyo	Rotterdam	11,192	14,507	3,315	23%
Singapore	Rotterdam	8,288	11,755	3,647	29%

Table 3 Distance Comparison
Source: suzcanal.gov.eg

According to the comparison above, Suez Canal is actually able to cut the distance from certain countries to the destination. This somehow will affect the travel expenditure and the fuel consumption. Moreover, it is also able to decrease the duration of travel (Suez Canal Authority, n.d.).

The changing of core manufacturing bases from Japan to China and Southeast Asia, where the travel distance will be shorter from Shenzhen or Hong Kong to New York through the Suez Canal rather than Panama.

B. New Suez Canal Project: More than Just a Canal Expansion

Less than two months after the election, Egyptian President Abdel Fattah Al-Sisi announce his ambition to develop the Suez Canal. This intention is known as the New Suez Canal Corridor Development Project. Al-Sisi put hope to the project in order to revive the nation's economic circumstances.

Before the project was initiated, more than 17,000 ships were sailed through the Suez Canal in 2014. Although the canal was able to feature about 47-49 ships per day, the one-way direction system was inevitably causing the traffic along the way. In certain time, the delays of the canal could spend 30-40 hours, which means more expenses and more time to deliver goods in global trading (Andromidas & Askary, 2014).

As the busiest canal in the world, Suez Canal seems to be needing a new improvement. Al-Sisi saw this as a considering issue, and took only a very short time to announce the New Suez Canal project.

The Old and the New Suez Canal



Figure 15 the Old Suez Canal and the New Suez Canal
Source: earthobservatory.nasa.gov

The New Suez Canal project is a construction of a new 35-kilometers-long channel running parallel to the current one, which starts at kilometer 60 until kilometer 95. The Canal is also be deepened and expanded to a length of 37 kilometers. The new canal's total length will be 72 kilometers, running between kilometer 50 and kilometer 122 (Kenawy, 2016).

The expansion is able accommodate a new waterway that allow the passage of 45 ships from each direction on a daily basis, which previously only 47-49 ships

in one-way direction system. This also will reduce the transit time from 18 hours in normal into 11 hours for the southbound convoy.

This canal was firstly operating in August 2015, a year after the project began. This mega project, which cost USD 8.2 Billion, is fully funded by the special investment certificates that are only opened for Egyptians, in hope that the mega project would be able to increase the revenue of Suez Canal from around USD 5.5 billion into USD 13 billion in 2023 (N Gage Consulting, 2016, p. 6).

Suez Canal Expected Revenue during coming 8 Years

Year	Total Revenues (\$ million)	Payload (thousand tons)	Number of Ships
2016	6,787	1,153	57
2017	7,462	1,245	61
2018	8,206	1,345	66
2019	9,025	1,453	71
2020	9,927	1,569	77
2021	10,923	1,694	83
2022	12,019	1,830	90
2023	13,226	1,976	97

Table 4 Suez Canal Expected Revenue during coming 8 Years
Source: N Gage Consulting. (2016). The Suez Canal Economic Zone: A Strategic Location & Modern Day Innovation. Cairo: N Gage Consulting.

Egypt’s next step is to increase the revenue from the area by creating a Special Economic Zone (SEZ) in the New Suez Canal area. This is a continuation of the New Suez Canal Project to create a special economic zone that is issued by Al-Sisi after the inauguration of the New Suez Canal. The Establishment of “New

Suez Canal Economic Zone” (SCZone) is spanning over an area of 461 square kilometers adjacent to the canal. This area is also including 6 maritime ports. The aims of SCZone is to transform the Suez Canal area into a world-class global logistic hub and industrial processing center. The SCzone is also intended to improve Egypt’s economic growth and jobs for Egyptians.

According to Law No. 83, 2002, each SEZ has a special customs and tax administration system established by its board of directors with the approval of the Minister of Finance. The SCZone may not be to subject nationalization, nor may they subject to sequestration, freezing of assets or confiscation (except by a judicial judgment). The government also may not intervene towards decision on the prices of their products and services. The contract of the employees also will not be tied with “Egyptian Labor Law” since the SCZone will be a completely autonomous area with special system of its own (N Gage Consulting, 2016, p. 8).

This SCZone is expected to open about one million new jobs for Egyptians. According to Ambassador Ahmed Farouk – Egyptian Consul General in New York – speech at the Schiller Institute conference in New York April 7, 2016, there are expectedly about one million new jobs in the New Suez Canal Development (Farouk, 2016). The establishment of Industrial zone and the development Port Said predicted that over 200,000 jobs could be generated. The new urban areas at East Port Said and Bardawil city is also expected to host up to 250,000 residents.

Besides the Said Port, the development also plans to transform Ismailia region to be an administrative center for the SCZone. This area will mainly have

light industries in agribusiness, textiles, a dry port and other manufacturing activities. The urban area development in Qantara and New Ismailia city will host up to 350,000 residents.

Egypt also established a major industrial and logistics hub at the Ain Sokhna, the southern gateway of Suez Canal. This combines port facilities, industrial zones, residential areas, excellent road and rail linkages to Cairo and the city of Suez. This port expansion is expected to accommodate 70,000 works vacancy. The industrial development of energy and manufacturing is also expected to offer over 85,000 jobs.

Land Allocation by Sector

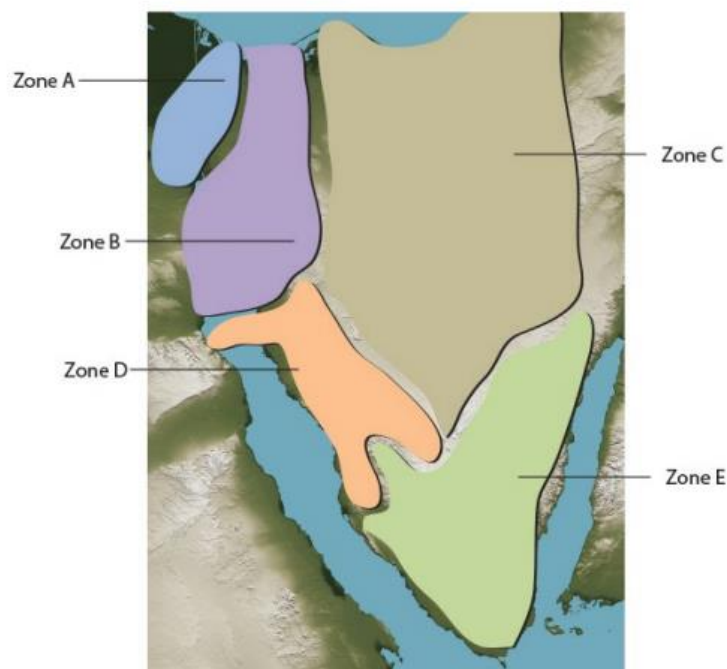


Figure 16 Land Allocation by Sector
Source: N Gage Consulting. (2016). The Suez Canal Economic Zone: A Strategic Location & Modern Day Innovation. Cairo: N Gage Consulting

The SCZone can be defined by the map at Figure 14. There are 5 Zones of land allocation based on its main sector: Zone A is for agriculture; Zone B is for

logistics, industry, maritime, renewable energy and agriculture; Zone C is for mining and extractive, industries, tourism, renewable energy and agriculture; Zone D is for mining, tourism, and renewable energy, and; Zone E is for tourism and renewable energy (N Gage Consulting, 2016, p. 12).

The geostrategic of the Suez Canal, with the newly development project to establish a New Suez Canal and upgrading its SEZ to be SCZone with an attractive autonomous system will be very beneficial for International trade actors. Foreign companies can take advantage from Egypt's International agreements, enjoy the lower customs reduction and distance saving.

C. P.R.C. Investment and Its role to Revive Egypt's from Economic Crisis

The close bilateral relations between P.R.C. and Egypt have been explicitly seen since the Hosni Mubarak administration, even though it became more contrast after Al-Sisi becomes the current President of Egypt. Both countries have agreed to elevate the bilateral relations to be "comprehensive strategic partnership" in the visits of Al-Sisi to Beijing nearly after he elected to be Egyptian President.

Xi Jinping, the current President of P.R.C., suggested that both Egypt and China should combine development strategies and focus on cooperation on infrastructure and production capacity. Moreover, both countries agree to cooperate in the New Suez Canal corridor development and the construction of the new administrative capital city (xinhuanet.com, 2016).

P.R.C. has been taking a role in Suez Canal since 1998, when both countries sign a memorandum of understanding to construct a free trade zone in North West

Suez. This leads to the first form of Suez Economic and Trade Cooperation Zone under Egypt TEDA – Economic-Technological Development Area – investment Co., a joint venture between Tianjin TEDA Investment Holdings, Egyptian interests, and the China-Africa Development Fund. Egypt-Chinese Corporation for Investment (ECCI) was set up to implement this initial project.

The second phase of development was held in November 2007, when TEDA’s Suez Economic and Trade Cooperation Zone proposal won the Chinese MOFCOM tender. In 2009, 16 enterprises had moved into the first start-up zone, and was expected to be fulfilled by around 50 companies in 2011.

The decision of P.R.C. to establish and support the Suez Canal Economic and Trade Cooperation Zone cannot be separated with economical and political interest. Economically, this zone provides Chinese companies with a significantly shortened access to Europe and Africa markets instead of delivering goods from the mainland, although the Suez Canal without the SEZ itself has already shortened the route from the mainland to those continents and even New York. P.R.C.’s permanent presence in the Canal Zone will provide its companies with greater opportunity to simplify and reduce technical barriers. The companies will be able to modify, repackage, and re-assemble within the SEZ zone.

After Egypt’s presidential shifting from Morsi to Al-Sisi, the country is struggling to rise with ambition to develop and intensify Suez Canal Economic Trade and Development Zone. The decision of Al-Sisi to visit P.R.C. instead of other country is the key point to understand Al-Sisi’s foreign policy. He realizes

that Suez Canal is geopolitically an important pivot for Xi Jinping's OBOR initiative, especially for its Maritime Silk Road. Since Al-Sisi knows the potential of this development, he did not take a long time to create a comprehensive strategic partnership with Xi Jinping. The visitation of Al-Sisi in 2014 to Beijing was a starting point of his political strategy to strengthen the relations. It was symbolized by the signing of Memorandum of Understandings and some agreements of cooperation.

The visitation of Xi Jinping to Egypt was a reciprocal country visit in order to design 21 Memorandums of Understandings related to their Comprehensive Strategic Partnership. Both countries signed agreements which were worth USD 17 billion in total. The agreements were also including the cooperation regarding the project of the New Suez Canal and OBOR. It consists of the launch of 15 projects and the increasing of Chinese companies' presence in the SCZone from 32 Chinese companies which are investing more than USD 400 million to 100 companies with an investment of USD 2.5 billion. (China Daily, 2016). Moreover, P.R.C. confirms that there will be a huge investment in term of textile industry that will involve in the SCZone in 2017.

Previously in 2014, China's TEDA had been working on the development of an area that increased to 7.23 sq. km at Ain Sokhna. They worked in a larger development deal between Egypt and China, with the Chinese government having presented a grant to establish a 20,000 meters complex. The developers planned to build USD 800 million in infrastructure, which will include 500 factories. The USD 8.6 billion investment would directly and indirectly create 120,000 jobs in

Mediterranean and the Red Sea, Southeast Asia and the Gulf Arab states. It has completed its first phase, attracting some 68 enterprises, including Jushi, a fiberglass giant from China. This company hired 1,500 that most of them are Egyptians (Werr, 2017).

Egypt's Unemployment Rate

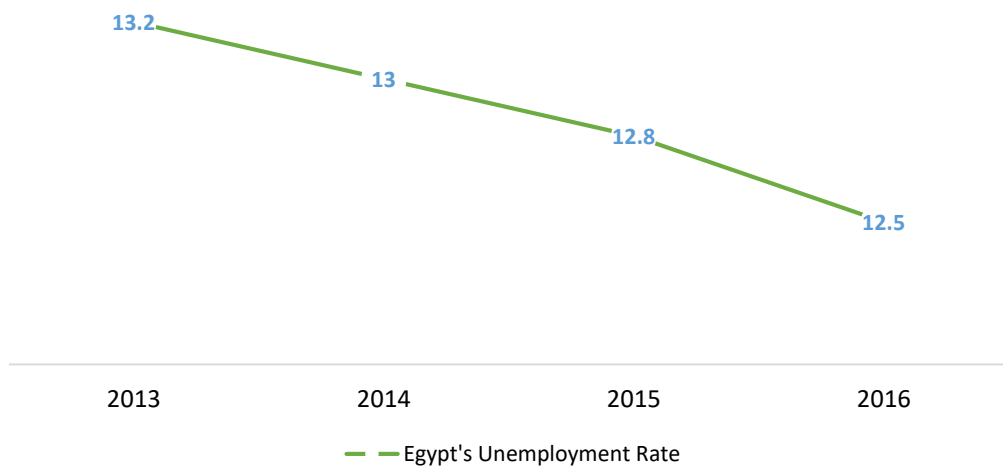


Figure 18 Egypt Unemployment Rate 2013-2016
Source: capmas.gov.eg

Egypt GDP Growth (%)

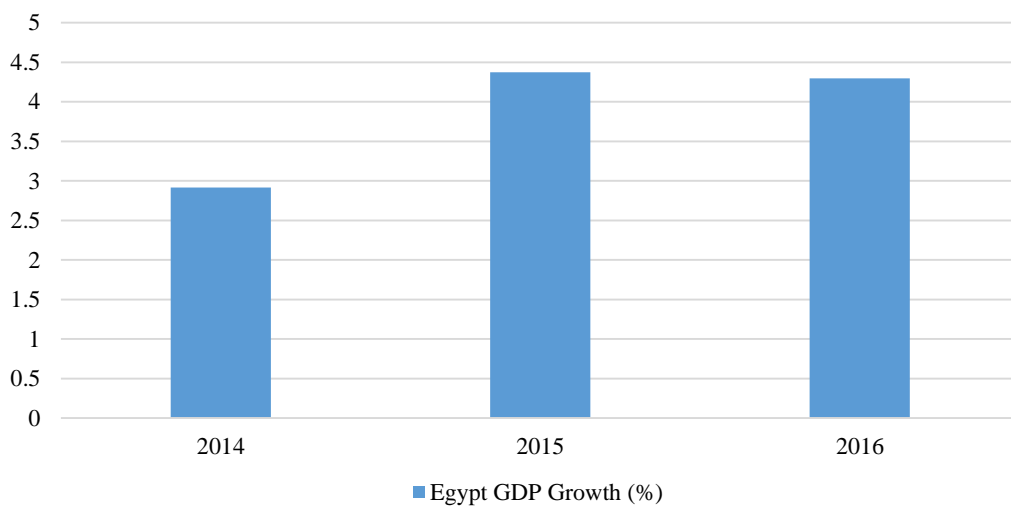


Figure 17 Egypt Annual GDP Growth 2014-2016 (%)
Source: data.worldbank.org

In the short term, Egypt has already enjoyed the decrease of unemployment rate of the country. Since Al-Sisi became an Egyptian president, the unemployment rate has been decreasing for almost one percent until 2016. However, it is still a huge number for a huge country like Egypt. Slowly but sure, the process of both countries to accomplish the joint project will give more improvement toward each countries, especially Egypt's economical welfare.

The Suez Canal is an essential trade route for P.R.C.'s economy. Egypt is inevitably crucial component of the Maritime Silk Road, with the Suez Canal functioning as the main transit point between the Indian Ocean and the Mediterranean Sea.

Moreover, the development of the New Suez Canal, including the upgrading of Suez Canal Economic and Trade Zone to be the SCZone will contrast its role in world trading, especially for P.R.C. The SCZone will give Chinese companies the easiest way to reach three continents which are also its largest market. The autonomous system also will let the Chinese company to produce and distribute from the SCZone, reduce the travel cost for a very huge amount. In short, the Maritime Silk Road as currently envisioned cannot exist without Egypt's participation.

However, the domestic circumstance of Egypt is remained unstable. The Sinai insurgency still become a serious security challenge for Al-Sisi. This somehow will be the obstacles for Egypt to attract foreign investment. Hopefully, the comprehensive strategic partnership that Al-Sisi and Xi Jinping designed, which

consist of military cooperation is able to strengthen the power of Egyptian government to fight against terrorism act within the country.

Since Al-Sisi is relying on “development” as the cognitive map to stabilize the country circumstance, the investment will be very indispensable. The endorsement of Egypt toward P.R.C.s investment in the New Suez Canal area is a very opportunistic decision. The investment in the New Suez Canal area will open up to one million jobs, either for Egypt and foreign workers. Therefore, Al-Sisi’s decision to tighten the relations with Xi Jinping is a totally win-win solution for both national interest.