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Suez Canal expansion: What's in it for Egypt?

By Markus Loewe,
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Bonn, 24 August 2015. The inauguration ceremony for the 35 kilometre long second artery of the Suez Canal between the Red Sea and the Mediterranean was held in early August 2015, officiated by Egypt's President as-Sisi. This new channel considerably increases the capacity of the waterway, enabling it to take ships with a greater draft, and also allows vessels to travel in both directions along certain sections. Previously, the canal could only be navigated in a single direction at any one time. But how will this benefit Egypt?

First and foremost, the expansion project is a major success for Egypt and President as-Sisi, with the country managing all the planning, construction and even financing activities: A special government bond was issued but offered exclusively to Egyptians, covering construction costs and even enabling development of the region surrounding the canal. Only the machinery came from overseas; at times, three quarters of the world's suction dredgers were engaged in the excavation work. The planned three-year construction period was shortened to just one year. The achievements of the Suez Canal expansion project have significantly enhanced the prestige of President as-Sisi and his ever more authoritarian regime.

Additional canal usage fees from increased shipping traffic will already start pouring into the public purse this year. These fees already generate 8 % of state revenue, and the Egyptian Government hopes to see a two and a half fold increase in that amount - not insignificant at a time when the public deficit stands at around 11 % of economic output.

The Suez Canal expansion is just one of the Egyptian President's mega-projects, which also include a new capital city halfway between Cairo and the Suez Canal, a whole series of new tourist towns on the Red Sea and Mediterranean coasts, and massive irrigation programmes in the desert to create additional land for agricultural production. Last but not least, there are also plans to increase the mining of gold, copper, iron, phosphate and other minerals.

One thing that all these projects have in common is that they are designed to boost the revenue that Egypt generates from its traditional income sources. Around 8 % of this year's foreign exchange revenue is expected to come from Suez Canal usage charges, 25 % from the sale of natural gas and petroleum derivatives, 13 % from remittances from Egyptians working abroad, 10 % from tourism, but just 6 % and 14 % from exports of other services and manufactured goods respectively.

But Egypt's revenue from these sources cannot simply be increased at will. Even the country's tourism potential will be exhausted at some point, let alone the capacity of its petroleum and natural gas sectors and the Suez Canal. Additionally, apart from the tourism sector, these sectors do not create many new jobs, yet jobs are precisely what is needed to create social and political stability in Egypt. 13 % of the available workforce is unemployed and many more are underemployed, that is, they are at work around the clock, but barely earn anything due to a lack of demand. And every year, another 600,000 young Egyptians enter the labour market.

The country's economy therefore needs to diversify urgently. Only by establishing new industries can enough jobs be created. So, who could finance this? Essentially, funding could come from the state, private domestic capital, foreign investors and Egyptian small businesses. However, efforts to industrialise the country through public enterprises have failed time and again as, soon after being established, these companies were no longer dealt with on the basis of economic criteria, but rather political patronage. As such, Egypt will have to rely on the other three sources of investment.

But is there any realistic prospect of Egyptian entrepreneurs setting up new industries and developing new markets at home and abroad in the next few years? Not really. Suitably qualified workers are in far too short supply, creativity and innovative capacity are far too scarce, and access to bank loans, essential market information and, above all, legal security is far too limited. Egyptian enterprises can fall victim to corruption and government whims at any time.

Consequently, when it comes to achieving long-term economic development in Egypt, structural reforms would have far greater impact than expensive mega-projects such as the Suez Canal expansion or the building of a new capital city. The government needs to reform the education system, which is currently focused more on the rote learning of facts than on fostering a young, creative, team-minded generation capable of thinking critically and developing new ideas for diversifying the Egyptian economy. It needs to improve training for Egyptian workers and the provision of capital to investors. It also needs to assist investors with identifying forward-looking economic sectors. Finally and most importantly, it needs to increase transparency and promote the rule of law in the areas of justice and public administration. There is no question that these tasks will require far more courage and planning skill of the Egyptian Government than the expansion of the Suez Canal.