The Economic Impacts of the New Suez Canal

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The Suez Canal has been considered, since its establishment in 1869, as the most important artery and waterway for world trade between East and West. It is the most important waterway for moving petroleum between the production sources and consumption markets. Thus, it has a great impact on states' economies (Sohier, Hidayat, 2012 and Mostafa Al-Hifnawy, 2005). In addition, it is considered as a path and gateway for the military convoys heading from the Mediterranean Sea to the Red Sea. The Suez Canal's strategic significance has led to increasing conflict among the great powers over the Middle East's influence (Abdo Mobashir, 2005). With Egypt's growing readiness to implement policy, the country has witnessed the implementation of some great national projects, the most important of which is the new Suez Canal project: the development of the current Suez Canal and the area alongside the canal. We must take into account the close relation between the new project and Egypt's national security and its military and economic dichotomies. The new project aims to transfer the area into a world centre for logistics and industry and a world trade service that acts as a major axis for economic development in Egypt. The location's advantages and characteristics, in particular, make it suitable to being a world centre for industrial economic zones, distribution of transit trade, and logistics services for ships and trade transiting the Suez Canal (Mostafa Kamel Al-Hegazy, 2013). Egypt is facing several domestic, regional and world challenges that hinder it from reaping the benefits from its relative and competitive privileges, particularly its strategic geographic position.

The current Suez Canal is considered as one of the most important navigation lanes in the world playing host to one tenth of the world's trade. However, its annual revenues do not exceed $5 billion. In spite of expansion and deepening attempts, most giant ships cannot go through the canal and are forced to turn around the Cape of Good Hope. The current Suez Canal is not optimally exploited despite its economic importance as there are no adjunct port services, logistics and industrial centres, ship maintenance and repair workshops, storage facilities and transit trade, etc. unlike in other states, such as the Port of Jabel Ali project in Dubai, the United Arab Emirates (Public information authority, 2014). The Suez Canal can therefore not cope with such challenges except through its contribution to providing attractive privileges for world trade transit, such as efficient and low-cost services provided in the shortest time, with competitive prices, using world-class technical and management systems and a flexible reaction to technological and economic changes through the creation of logistics zones and economic fields around the canal to attract further investments in the fields of technology, trade and industry.

This paper aims to identify the development of the new Suez Canal concept and its expected economic effects. The study will also look at the project's challenges, risks and pros and cons.

The Development of the New Suez Canal Project Concept and Idea

The idea of 'the New Suez Canal project' dates back to the reign of Late President Sadat, particularly at the end of 1970s. The idea was proposed but not implemented during the reign of President

Mubarak, justified by the absence of challenges and threats to national security throughout that whole period, in spite of the project's economic significance. When President Sisi assumed office, the project proposal was, once again, different from its previous version. The project maps were entirely modified to preserve Egyptian national security and the decision was made to start the project on 5 August 2014, to be fully implemented within a year, with full Egyptian financing (Hazem El-Beblawy, 2014). President Sisi's new project entails leaving a distance of 15 kilometres in both directions for purposes of Egypt's national security. The new project also entails the establishment of eight underground tunnels according to requirements of the Egyptian Armed Forces. The new Suez Canal project includes the construction of a new 35-kilometre-long channel running parallel to the current one, which starts at kilometre 60 and ends at kilometre 95 of the current Suez Canal numeration. In addition, the Canal will be deepened and expanded to a length of 37 kilometres. So, the new canal's total length will be 72 kilometres, running between kilometre 50 and kilometre 122 of the current Suez Canal numeration (Hamdy Abd Elazeem, 2014).

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Cost and Proposed Duration to Implement the New Suez Canal Project

The total cost of the new Suez Canal project is valued at around $8.2 billion, equal to 60 billion Egyptian pounds. The cost includes the construction of a new 35-kilometre-long channel running parallel to the current Suez Canal (its work volume represents about 258 million square metres of dry drilling works) costing approximately 4 billion Egyptian pounds, and, in addition, deepening the current 37-kilometre-long canal (whose work volume represents about 242 million square metres of dredging works) costing about 15 billion Egyptian pounds. Furthermore, the works of sedimentation, taxes, utilities, navigation aids and ferryboats are valued at around 10 billion Egyptian pounds. In addition, the construction of the affiliated armed forces utilities is valued at around 2.10 billion Egyptian pounds. Finally, the digging of 6-8 underground tunnels in Port Said, Ismailia to transport cars and stretch the railways to Sinai is valued at almost 28.9 billion Egyptian pounds (Hamdy Abd Elazeem, 2014). The period proposed for the project's implementation ranged from five to three years, and was, in the end, reduced to just one year, having started on 5 August 2014 and ended on 5 August 2015.

Financing the New Suez Canal Project

Despite multiple financing alternatives available to the State to finance the new Suez Canal, it issued investment certificates for the new Suez Canal to Egyptians only (individuals, corporations and legal companies) through four state-run Egyptian banks and valued at 60 billion Egyptian pounds. The investment certificates' required value was already purchased by Egyptians in just ten days. Individuals and the family sector possess 82% of the investment certificates' selling revenue against 18% for corporations and legal companies. This value represents almost 3% of the Egyptian banking sector's total assets. Egypt owns a huge fund of deposits in the banking system besides the central bank estimated at 1.4 trillion Egyptian pounds, around $240 billion. In addition, there are other funding sources, including investment funds, banknotes, Tahia Misr fund and other major sources (Hazem El-Beblawy, 2014). The offered investment certificates represent about 14% of the unexploited net assets. This is due to the relatively large size of the new project and other national projects which are expected to be financed through national banks and will lead to a real liquidity crisis in the medium term for the banking sector, particularly with the banking system's need to constantly finance the public budget deficit. Such projects will affect the banking sector and delimit its ability to finance the private sector, under competition from the public sector.

The Expected Economic Impacts of the New Suez Canal Project

The new Suez Canal project and development of its surrounding area is considered a starting point for the development vehicle that Egypt is relying on to get out of its current economic crisis and bring the size of its economy into line with the world's biggest. This can be done by opening up to unlimited internal and foreign investments and increasing the number of Suez Canal shares in world trade. In addition, the new project represents an international logistics and industrial centre. It has the potential to attract several fields and activities including the world's fastest-growing ones, namely transportation, logistics, energy, tourism, communication and information technology. It therefore represents allocation, environment, urban, trade and an integrated economy (Mostafa Kamel Al-Hegazy, 2011). In light of the previous discussion, the expected economic impacts of the new Suez Canal project can be summarized as follows:

— Impact on the gross domestic product and national income: Suez Canal revenues are considered the third source of Egypt's national income behind overseas labour remittances and the tourism sector. It represents almost 5% of the GNP and 10% of GDP and is one of Egypt's most important sources of hard currency. Despite the total transit trade volume of the canal, valued at $1,692 billion annually, the Suez Canal return does not exceed about 0.3% ($5 billion annually) of this trade value. Therefore, the new project is expected to increase Egypt's national income through the increase of current Suez Canal revenues by 259% to about $13.226 billion dollars in 2023 compared to almost $5 billion, the canal's current return. It is also expected that the new project and development of the Suez Canal and its surrounding area will contribute almost $100 billion annually to Egypt's national income as a result of transforming the new project and developing the canal's surrounding district into an international logistics centre.
— Impact on world trade movement in terms of the number of canal transits and transit times: The new project is expected to contribute to doubling the canal's assimilation of transit capacity through the increase in the average number of daily transits. It will also lessen the Suez Canal's transit time from 16 to 11 hours. It will also be possible to host ship types that could not previously transit the canal. This can be done thanks to the possibility of big ships with a 66-foot draught being able to transit the canal, as well as ships with new standard dimensions, which could not previously transit the canal. The new project will reduce the waiting time for ships transiting the Suez Canal, estimated at 18 hours; which is higher than the estimated canal transit time of about 16 hours. This is attributed to the convoy system and the fact that it cannot accept two-way traffic. The new project will lessen the 18 waiting hours to about three hours only (Suez Canal. Retrieved, 2014). It is expected that the new project will offer passage to a large number of commercial ships, containers and giant oil tankers, which are unable to transit due to the current canal depth. They therefore use the Cape of Good Hope route as an alternative to the Suez Canal. About 80% of those ships are giant oil tankers, which would multiply toll revenues by six if they passed through the Suez Canal (Hamdy Abd Elazeem, 2014). In addition, the project will contribute to assimilating materials carried by pipes, overland, which have a high waste rate. The new project will contribute to increasing its world ranking as a navigation passage due to the increase of navigation safety rates during transit because of the existence of a paral-

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lel canal. This will help Egypt restore its international and regional position as a world trade and economic axis. It will also increase the growth rate of world trade movements during the forthcoming years because of the Suez Canal's assimilation of the increase in world trade. In spite of that, some believe that it is difficult to double the number of transits by digging a new lane as the number of transits is mainly related to world trade. This goal would require world trade to double first (Suez Canal Authority, 2013).

— Impact on job opportunities: It is expected that the new project will contribute to curbing unemployment, providing greater job opportunities for youth in all areas of specialization, particularly the technical and craft fields by the end of the project phases. Thus, several industrial commercial, agricultural and service projects will be established in areas such as transportation, storage, heavy industry, container trade, the automobile industry, medical industry, timber, textile, furniture, glass industry, fish farming, mining activities, and arable land reclamation through cultivating areas behind the logistics and industrial zones. In addition, the project will contribute to increasing the demand for engineers in all fields, particularly in the phases of planning, construction, and overseeing implementation. The project is expected to provide about one million job opportunities, a return that will affect five million people based on the assumption that a worker supports a five-member family (Hazem El-Beblawy, 2014).

— Impact of foreign direct investment: The new project is expected to benefit from available natural resources and the potential advantages of the Egyptian economy, since it is both efficient and unavailable to other competitors in the region. Another major benefit is its geographical position and role in the movement of world trade between East and West. The project will contribute to establishing logistics centres alongside the waterway which meet all the needs of ships transiting the Suez Canal, such as storage, cargo, unloading, supplies, maintenance, repair, transit trade and other logistics services. The new project will contribute to reviving the dream of a Valley of Technology in Ismailia, and the establishment of a modern technology university, which, in turn, will lead to further foreign investment. The new project will help benefit from Egypt's time zone, as the official working hours in Egypt connect with the unofficial working hours in Europe, America, China and East Asia. This will improve the connection and communications between the world's financial and commercial institutions around the clock. This will also help attract more international companies and foreign investment, in turn boosting growth in the Egyptian economy in the fields of transportation and logistics as a result of the time difference between East and West (Mostafa Kamel Al Hegazy, 2013).

The new project will contribute to changing the population map of Egypt, solving issues of overcrowding and migration in the narrow valley, through new urban communities

— Impact on the exchange rate and currency value: The Suez Canal toll collection is conducted in the currency unit of Special Drawing Rights (SDR), a monetary system consisting of the dollar, euro, yen and pound sterling. The international monetary fund and not the Suez Canal management determines the components and prices of this system. The IMF also determines how to apply the SDR system then transfers it into euros, dollars or another currency. There is, therefore, no pricing competition. Hence, the new Suez Canal will be a major element in gradually improving the Egyptian pound's value as a result of improving foreign monetary reserves, particularly after it has gone into operation and the development project of its surrounding area has been implemented. This will boost investment in the region, the local currency being improved along with the security and political situation, which, in turn, will lead to increased foreign investments in various fields (Public information authority, 2014).

TABLE 13 **Evolution of the Number and Net Payload of Ships in the Suez Canal (in thousands of tonnes)**

	Total number of ships		Net Payload (in thousands of tonnes)	
Year	Total	Daily average	Total	Daily average
1975	5,579	26.6	87,673	240.2
1976	16,806	45.9	187,757	513.0
1977	19,703	54.0	220,477	604.0
1978	21,266	58.3	248,260	680.2
1979	20,363	55.8	266,171	729.2
1980	20,795	56.8	281,305	768.6
1981	21,577	59.1	342,356	938.0
1982	22,545	61.8	363,538	996.0
1983	22,224	60.9	378,226	1,036.2
1984	21,361	58.4	371,039	1,013.8
1985	19,791	54.2	352,579	966.0
1986	18,403	50.4	366,076	1,002.9
1987	17,541	48.1	347,038	950.8
1988	18,190	49.7	356,913	975.2
1989	17,628	48.3	373,429	1,023.1
1990	17,664	48.4	410,322	1,124.2
1991	18,326	50.2	426,449	1,168.4
1992	16,629	45.4	369,779	1,010.3
1993	17,318	47.4	396,550	1,086.4
1994	16,370	44.8	364,487	998.6
1995	15,051	41.2	360,372	987.3
1996	14,731	40.2	354,974	969.9
1997	14,430	39.5	368,720	1,010.2
1998	13,472	36.9	386,069	1,057.7
1999	13,490	37.0	384,994	1,054.8
2000	14,142	38.6	439,041	1,199.6
2001	13,986	38.3	456,113	1,249.6
2002	13,447	36.8	444,786	1,218.6
2003	15,667	42.9	549,381	1,505.2
2004	16,850	46.0	621,230	1,697.4
2005	18,224	49.9	671,785	1,841.0
2006	18,664	51.1	742,700	2,034.8
2007	20,384	55.8	848,162	2,323.7
2008	21,415	58.5	910,100	2,486.5
2009	17,228	47.2	734,500	2,012.2
2010	17,993	49.3	846,389	2,318.9
2011	17,799	48.8	928,879	2,544.9
2012	17,298	47.4	928,452	2,543.7
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

Source: General Authority of the Suez Canal - different years.

— Impacts on Egyptian food security: It is expected that the new Suez Canal will contribute to food security through reclaiming and cultivating approximately 4 million acres. A fish farming company will be established that will require the construction of sediment basins to the east of the Suez Canal (23 in total) with a length of 120 kilometres and depth of between 3-5 metres. The basins extend from the east up to the Suez Gulf. This will lead to a rapid annual return, which, in turn, will provide further job opportunities for youth (Hazem El-Beblawy, 2014).

— Impacts on urban development and attracting population: It is expected that the new project will contribute to changing the population map of Egypt, solving issues of overcrowding and migration in the narrow valley, through new urban communities on the two banks of the Canal

in Ismailia, Port Said, Suez and also in Sinai. This will lessen population intensities in neighbouring areas and others. It will help achieve national security in Sinai, which has long suffered from being under-populated, and, as a result, is left to the mercy of other powers (Sayed Algabry, 2012). The tables show the developments in the Suez Canal:

TABLE 14 **Suez Canal Revenues (US$)**

Year	Total revenue (US$ billion)	Decrease or increase %	Decrease or increase %
1999	1,765	-	-
2000	1,868	5.9	(+)
2001	1,945	4.1	(+)
2002	1,876	3.5	(–)
2003	2,309	23.0	(+)
2004	2,819	22.0	(+)
2005	3,100	9.9	(+)
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	(+)

Source: General Authority of the Suez Canal - different years.

TABLE 15 **Evolution of the Amount of Goods, Net Payload and Number of Ships in the Suez Canal (2004-2015)**

Statement	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Ships	16,850	18,193	18,664	20,384	21,415	17,228	17,993	17,799	17,298	16,596	17,687	17,823
(%)	-	8.00%	2.60%	9.20%	5.10%	-19.60%	4.40%	-1.10%	-2.80%	-4.40%	6.60%	0.8%
Net payload (Millions of tonnes)	621.2	671.8	742.7	848.2	910.1	34.5	846.4	928.9	928.5	915.5	928.7	975.6
(%)	-	8.10%	10.60%	14.20%	7.30%	-19.30%	15.20%	9.70%	-0.04%	-1.40%	1.40%	5.05%
Number of container ships	5,928	6,555	6,974	7,718	8,156	6,080	6,852	7,178	9,332	6,014	7,021	8,264
(%)	-	10.60%	6.40%	10.70%	5.70%	-25.50%	12.70%	4.80%	23.10%	-35.60%	16.70%	17.70%
Total amount of goods (Millions of tonnes)	521	571	628.6	710.1	723	559.2	646.1	691.8	739.9	754.5	823.5	956.8
(%)	-	9.60%	10.10%	13.00%	1.80%	-22.70%	15.50%	7.10%	7.00%	1.97%	9.10%	16.20%

Source: General Authority of the Suez Canal - different years.

TABLE 16 **Number of Ships and Net Payload per Month (2010-2011)**

Month	Total Number of Ships		Net Payload (in thousands of tonnes)	
	2010	2011	2010	2011
January	1,418	1,485	66,440	75,503
February	1,256	1,352	58,736	69,087
March	1,467	1,458	67,528	73,266
April	1,466	1,474	65,745	76,415
May	1,562	1,442	71,087	77,429
June	1,482	1,497	70,231	78,512
July	1,554	1,476	71,869	78,829
August	1,659	1,537	78,315	83,073
September	1,513	1,465	72,811	77,460
October	1,572	1,541	74,604	80,420
November	1,500	1,498	72,462	78,082
December	1,544	1,574	76,565	80,807
Total	17,993	17,799	846,393	928,883

Source: General Authority of the Suez Canal - different years.

TABLE 17 **Monthly Number of Ships and Net Payload for Ship Type (2010-2011)**

Ship Type	Total Number of Ships			Net Payload (in thousands of tonnes)		
	2010	2011	%	2010	2011	%
Oil tankers	3,550	3,509	-1.20	113,671	115,127	1.3
Natural gas ships	855	1,083	26.7	91,039	121,831	33.8
Dry goods ships	2,781	2,601	-6.50	82,516	83,525	1.2
Joint tankers	28	17	-39.3	1,308	1,001	-23.5
General goods ships	1,618	1,395	-13.8	17,522	15,139	-13.6
Container ships	6,852	7,178	4.8	465,939	519,295	11.5
Carriers	270	254	-5.9	6,133	5,469	-10.8
Car carriers	1,004	1,013	0.9	58,679	60,490	3.1
Passenger ships	100	96	-4.0	2,995	2,912	-2.8
Other ships	935	653	-30.2	6,591	4,094	-37.9
Total	17,993	17,799	1.10	846,393	928,883	9.7

Source: General Authority of the Suez Canal - different years.

Conclusion

The new Suez Canal project and development of the surrounding area represents a major milestone for economic development in the programme of President Sisi and his new government. It is based on leaving behind the Suez Canal's former concept as merely a source of canal transit fees without focusing on the benefits of its strategic and geographical position alongside the canal for several areas: urbanism, tourism, industry, trade, economy and logistics. The new Suez Canal and its surrounding area represent an effective logistics and strategic base for the interest network and international relations by giving Egypt greater relevance internationally. The new Suez Canal and its surrounding area will make a major contribution to achieving military, political, financial, trade and economic benefits for Egypt. The new Suez Canal project and development of its surrounding area need strong political backing to become a strategic project capable of rivalling Israel's competitive projects and Western states' attempts to halt the new project.

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