Features of Egypt’s Water Transportation and China’s Participation in Egypt’s Port Construction*

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There are four distinctive features in Egypt’s port construction and maritime transportation: Egypt’s port construction and maritime transportation is a vital part of the international shipping system; maritime transportation is an important backbone industry in Egypt; Egypt’s port construction propels its domestic economy and international interaction; and the capacity for ocean shipping still needs upgrading. China’s participation in Egypt’s port construction is, on one side, the further demand of China’s economic globalization, and on the other side, it is an outcome of the beneficial interactions between China and Egypt. Egypt’s port construction has started a new chapter ever since Abdel Fattah al Sisi assumed power. As opportunities and risks coexist in China’s participation in Egypt’s port construction, only when we are fully aware of the risks and make scientific decisions based on China’s own strengths can we effectively participate in Egypt’s port construction to yield a win-win result.

Keywords: the Belt and Road Initiative, Egypt’s port construction, risk prevention

The location of Egypt makes it a key juncture of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, so the importance of Egypt’s role in China’s promotion of the Belt and Road Initiative shall not be underestimated. Currently, port construction in Egypt is merging as a new investment hotspot of Chinese enterprises; therefore, how to seize the opportunities to effectively invest in Egypt’s port construction while avoiding risks is a meaningful topic.

Basic Features of Egypt’s Port Construction and Maritime Transportation

To ancient Egyptians, the Nile was their lifeblood that formed a well-developed network of water routes and thus port construction became an essential part of people’s life and production (Patridge, 1996, pp. 171-172). With the arrival of Mediterranean era, the water transportation and port construction of Egypt entered a new phase of marine shipping which was marked by the completion of the Port Alexandria. It meant the co-existence of the river system and the marine system at the time. In recent times, the historic operation of the Suez Canal and the Aswan Dam have joined the Nile with the Red Sea and the Mediterranean Sea, which has formed the framework for today’s convenient waterway transportation in Egypt and laid a solid foundation for

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the sustainable development of its port construction. At the moment, there are four distinctive features in Egypt’s port construction and maritime transportation.

Firstly, Egypt’s port construction and maritime transportation is a vital part of the international shipping system. The country’s 2,500-kilometer coastline enables it to rank among the countries with the most ports in the world and turns it into one of the major international logistics centers. The ports in Egypt are mainly located around the Red Sea, the Mediterranean Sea, and the Gulf of Aqaba, among which over 100 have public codes and 59 can serve as maritime ports (Maritime Transport Sector, n.d.). The major ports include Port Alexandria—the biggest port in Egypt as well as in Africa and the largest freight transfer station in the country, Port Said, Port Damietta, and the Port of Suez. The Suez Canal, a well-known international navigation route for connecting Asia, Europe, and Africa, holds 14% of the total volume of international sea-borne freight traffic (Egypt Economic Development Conference, 2015) and 8% of international trade shipments (Ayyub, 2014). According to the “Global Competitiveness Index (2017-2018)” issued on the World Economic Forum, the global competitiveness of Egypt’s port infrastructure ranks 41 among 137 countries and regions (World Economic Forum, 2018). Meanwhile, Port Said and Port Alexandria rank 49 and 87 in terms of annual holding capacity on the Lloyd’s List of the top 100 international ports, with a capacity of 3.0359 million TEUs and 1.6336 million TEUs respectively (Lloyd List, 2017).

Secondly, maritime transportation is an important backbone industry in Egypt that plays a key role in the development of national economy and exerts profound influence on other industries, such as tourism and trade. As ports are the main channels for the transportation of imported and exported commodities, the Suez Canal is one of the major resources of Egypt’s fiscal revenue and regarded as “the lifeblood of Egypt”. In 2016, the ports in Egypt earned a surplus of 6.24 billion Egyptian pounds, to which Port Alexandria made the greatest contribution with 6,750 million Egyptian pounds. It was followed by the Maritime Security Bureau, 2,420 million Egyptian pounds, and the Red Sea ports, 1,500 million Egyptian pounds. The revenue of the Suez Canal usually accounts for around 2% of Egypt’s GDP (In 2011, it rose up to 3.1% due to the political unrest) and the direct foreign investments it attracts even makes up 8% of the total volume (The Egyptian Center for Economic Studies, n.d.). The revenue gained by the operation of the Suez Canal reached 5.1 billion US dollars in the fiscal year 2016 (Egypt Central Bank, 2017) and it went up to 5.3 billion US dollars in the fiscal year 2017 (Zheng, 2018). To a degree, the economic security of Egypt relies on its waterborne transportation.

Thirdly, Egypt’s port construction propels its domestic economy and international interaction. The construction and development of the ports considerably advances the process of Egypt’s globalization and marketization and strengthens the ties between Egypt and other countries, bringing more opportunities of economic and trade cooperation. At the same time, the advantageous geographical location of Egypt and its well-developed ports have made it a key passage for the maritime transportation between the countries surrounding the Mediterranean Sea and the Asian countries. Besides, export of goods heavily relies on the capacity of port transportation; therefore, port construction and development can also drive the construction of infrastructures like railways, roads, etc., propel the development of logistics, and strengthen the interaction between Egypt’s domestic economy and the global market.

Fourthly, although the infrastructures of the ports have been constantly advanced, the capacity for ocean shipping still needs upgrading. The recent years have witnessed continuous progress in Egypt’s port annual holding capacity. By the end of 2017, its annual holding capacity has reached 1,470 million tons, 7.10 million TEUs, and the total area of warehouses has risen to 6.5273 million square meters, which has basically solved
the disturbing problem of cargo backlog (Maritime Transport Sector, 2018). However, the transportation capacity of the registered vessels in Egypt is far from being satisfactory. The number of the registered vessels owned by Egyptian companies has climbed from 132 in 1995 to 151 in 2016 with a total tonnage of 1.6 million tons. But with 36 vessels that can no longer be operated due to various reasons, the rest 115, among which 45 are capable of global shipping and 70 are used for regional shipping, only have a total storing capacity of 1.424 million tons (Maritime Transport Sector, n.d.).

**China’s Current Participation and Its Significance**

Egypt is the first country in Africa and also the first among Arab countries to establish diplomatic ties with China. For a long term, China and Egypt have maintained friendly political and economic relations, but it is quiet recently that Chinese enterprises have obtained contracts and directly participated in sea port construction in Egypt.

China Harbour Engineering Company (hereinafter referred to as “China Harbour”) is the first Chinese company to sign port construction contracts with Egypt and plays the role as a model for its successful participation. In September 2008, China Harbour was awarded two construction contracts, one on the construction of Port Said Phase II (contract value: 220 million USD) (Xu, 2008) and the other on the dredging project for Port Damietta (contract value: 160 million USD) (Xu, 2008). In July 2012, China Harbour signed a concession agreement with the Red Sea Port Office and the Wharf Investment Company of Port Adabiya, namely the BOT (Build-Operate-Transfer) contract (on the dry bulk wharf construction project of Port Adabiya in the Red Sea). The project was initially launched by China Harbour and attracted investments from Saudi Arabian companies including the Dena Bm Co., Ltd. Holding 5% of performance shares, China Harbour was designated as the EPC contractor (China Ministry of Commerce, 2012). In March 2015, China Harbour participated in the extension project of Ain El Sokhna Port and Port Damietta as the main contractor and operator (contract value: 6 billion USD), which was a major breakthrough in Chinese enterprises’ participation in Egypt’s port construction.

In general, China’s direct investments in Egypt’s port construction are limited and Chinese enterprises’ participation is confined to service projects and support facility construction, which means China’s participation in Egypt’s port construction is, in terms of both investment scale and value, still on the initial stage. Nevertheless, the participation is of profound significance.

In the sight of Egypt, the strategic benefits it can gain from China’s participation in port construction at least cover the following three aspects: First, it can help relieve the money crunch to certain extent. Since Abdel Fattah al Sisi assumed power, the direct investments attracted to Egypt is no more than 10 billion USD each year, seriously baffling Egypt’s economic and social development. Under the circumstances, China’s investment and participation in port construction will not only propel Egypt’s economic growth but improve the international environment for its development, as more external investments, investments from China in particular, will be attracted. Second, it can produce the merits of scale economy. The developments of the China and Egypt are not at the same rate, but their industrial structures can complement each other. Port construction will further expand both countries’ markets and room for economic growth by promoting more flexible exchanges of materials and products. Third, it can help realize Egypt’s strategic target of “balancing great powers”. The “power balancing” strategy has been implemented by Egypt for a long term with a view to safeguarding its own interests in the Middle East by keeping a balance among the various forces in the area and
maintaining a harmonious coexistence of them. This is a special approach adopted by Egypt to handle its international relations. That China is allowed to participate, jointly with the United Arab Emirates, in port construction is one of the results of the strategy which aims to maintain Egypt’s influence on the regional and even the world’s situation.

From China’s point of view, its participation in Egypt’s port construction bears substantial significance. On the one side, it contributes to the construction of the “21st Century Maritime Silk Road” whose success heavily relies on the development of key ports on the route. Only when the smooth, safe, and effective transport is secured can a network of the markets of ASEAN, South Asia, West Asia, North Africa, and Europe be established. China’s all-round participation in the construction of ports and surrounding infrastructures of Egypt, one of the major markets in the network, can substantially promote the process of “Maritime Silk Road” program. On the other hand, China’s investment and participation in Egypt’s port construction set a foundation for the two countries’ further political and economic cooperation. With regard to economy, China’s cooperation with Egypt calls for diversified investing channels and co-work programs. By investing and participating in overseas port construction, China aims to promote its cooperation with key port cities along the Maritime Silk Road in developing industrial zones adjacent to ports, so as to lay the groundwork for international production capacity. Hence, China’s investment and participation in Egypt’s port construction, in co-operation and with a proper division of labour, has improved the infrastructures of both the ports and the industrial zones and paced up the bilateral productivity cooperation. What’s more, port construction and development is a long-term source of economic growth for Egypt; therefore, China’s active participation in the area has a great practical significance to Egypt government.

Opportunities and Challenges

By now, Egypt has been one of the most supportive countries for the Belt and Road Initiative which is believed to be a great opportunity for Egypt’s growth in the international community. Therefore, the Sisi government has been making positive effort to promote the program cooperation with China. In January 2016, Egypt and China signed “The Five-Year Program for the Strengthening of the Overall Strategic Partnership Between China and Egypt”, in which both parties agreed to intensify cooperation in infrastructure construction in the framework of the Belt and Road Initiative, port construction included. In May 2017, Mr. Xi Jinping, Chairman of People’s Republic of China, put forward a proposal to establish a maritime transportation network and received positive response from Egypt in the Belt and Road Forum for International Cooperation. In September of the same year, Mr. Abdel Fattah al Sisi, the president of Egypt, visited China and declared his support for the Belt and Road Initiative. In February 2016, the Egyptian government issued its long-term plan, “Sustainable Development Strategy: Egypt’s Vision 2030 and Planning Reform”, in which the Suez Canal mega project was put on the top of the list and maritime and river transportation were discussed respectively as independent projects. The plan provides a strong driving force for port construction in Egypt and brings new opportunities for Chinese investment. However, due to the special strategic location of Egypt and the political sensitivity of port construction participation, which may be interpreted as an attempt to control the Suez Canal, China should be fully aware of the potential risks involved and make sensible decisions.

First, geopolitical risks shall be taken into consideration. Owing to its unique geographical location, Egypt has long been the focus of all powers who intend to gain political and economic advantages in the area. As the Unites States, the European Union, and other countries all want to defend their own interest in Egypt, the
construction and the use of port included, they are highly sensitive to any cooperation in the framework of the Belt and Road Initiative. Besides, the confrontation between Saudi Arab and Iran intensifies regional tension and deepens the division of the Islamic World, which may result in the collapse and reconstruction of regional political pattern. Meanwhile, the geopolitical conflicts and clashes thus caused may get China drawn into unknown political risks in the process of participating port construction. Moreover, the conflict between Palestine and Israel, the nuclear issue of Iran, ISIS (Islamic State of Iraq and al Shams), and other unstable factors among Egypt’s neighboring countries, including Syria, Iraq, Libya, and Yemen, may adversely affect Egypt’s social stability and pose threats on the cooperation between China and Egypt in the areas of trade, investment, construction contracts, and so forth.

Second, the economic risks cannot be neglected. Currently, Egypt is adopting a proactive fiscal policy and a loose monetary policy with a view to stimulating economic growth. At the same time, it receives substantial financial aids from Gulf Cooperation Council members and IMF (International Monetary Fund). Though its economic risks are in decline in the short term, we cannot neglect the vulnerability in Egypt’s economic growth due to its excessive dependence on external support. The long-term economic prospect is not optimistic. On the one hand, there are risks in commercial environment. The infrastructure construction in Egypt is in need of improving, electricity supply in particular, and the port construction projects open to foreign investments are mostly of great difficulty and with limited profits, while those low-risk, high-return projects are usually designated to domestic enterprises or military troops. On the other hand, there are investment risks caused by the problems of policy inconsistency, fluctuation of exchange rates, etc. Besides, there is no getting around the facts that the payback period of investment in port construction is long, the cost of investment is relatively high, and most of the well-developed ports have already been taken over by the giant terminal operators.

What’s more, China’s participation in port construction has to face security risks including social unrest and terrorism in Egypt. Though social contradictions have been reduced since SISI’s assumption of power, the structural contradiction remains acute, leading to occasional mass demonstrations, strikes, and riots. In addition, ISIS cannot be completely eliminated in a short term. Despite the heavy losses it has suffered, ISIS is adopting a strategy of remaining dormant within Egypt while spreading influence outside, which poses a grave threat to the social security of Egypt as well as the safety of Chinese people and enterprises in the country.

Moreover, there are legal risks out of the corruption of judicature and the imperfection of legal system resulted from political chaos. After the establishment of SISI’s government, Egypt has passed a series of laws relating to investment, including Corporate Law, Bidding Law, Capital Market Law, Land and Real Property Law, Insurance Law, Electricity Law, Maritime Law, Commercial Law, and New Investment Law. But in the process of law implementation, there emerge the problems of ignorance of foreign fund protection and poor performance in law implementation. Apart from the problems mentioned, the sector interest bias and lack of coordination in Egyptian government make it fail to meet foreign investors’ demand of unifying and streamlining the examination and approval procedures (Wu, 2015).

**Suggestions**

On account of what have been discussed, sensible judgments and reasonable measures shall be made and taken based on a comprehensive and careful assessment of the situation in the process of China’s participation in Egypt’s port construction.
First of all, we shall grab the present strategic opportunity, as China has at least two advantages over other countries at the moment. One is the mutual trust shared by China and Egypt, contrasted with the uncertainty characterizing Egypt’s relations with America and Russia. This is the result of Egypt’s adjustments in diplomatic strategy. The other is the fact that China is the largest trade partner of Egypt at present and its direct investment in the country is continuously mounting. Under the circumstance, China can further refine and carry out the plans in “The Five-Year Program for the Strengthening of the Overall Strategic Partnership Between China and Egypt” so as to create a better environment for its investment and participation in port construction.

Besides, we shall make full preparation. In the first place, apart from reminding investors of the possible risks, authoritative departments need to publicize the latest news about China’s investments in Egypt, helping Chinese investors make right decisions and clearing their unnecessary doubts and concerns. Secondly, China’s investments in Egypt shall not be confined to the construction of port itself, as port construction is a systematic program. In terms of project selection, it is highly suggested that investors take part in the infrastructure-related projects, such as express railway, tunnel construction, light rail train, express road, ship building, port operation, and port equipment. And authoritative departments can offer financial support to key projects through Silk Road Fund and AIIB (Asian Infrastructure Investment Bank). Thirdly, Chinese investors shall make full use of the preferential measures and simplified procedures according to the New Investment Law, and investment priorities shall be given to the areas and industries supported by Egyptian government. In addition, all disputes arising from investment projects are supposed to be settled friendly and timely within Egypt by resorting to the help of the newly established units in accordance with the New Investment Law.

Last but not least, we shall enhance the ability of risk management and control. An advanced risk assessing-warning system and a protection mechanism shall be established to provide Chinese enterprises with long-term risk warning. For instance, we can set up particular institutes to research on the situation of Egypt’s security so as to make assessments and issue warnings regularly. We can also establish a coordination mechanism through local Chinese Embassy or Consulate who will collect security information and coordinate emergent actions to offer guidance on or take control over the security management of Chinese enterprises and their staff. Meanwhile, we can seek diversified channels to communicate with Egyptian government, including the talks between Chinese Embassy and central government, communications between Chinese Consulate and regional government, as well as opinion exchanges between Chinese enterprises and local non-governmental organizations. Finally, Chinese enterprises in Egypt shall be staffed by specialized personnel responsible for the prevention and handling of emergencies, and the enterprises need to cooperate with Chinese Consulate in enterprise assessment so as to enhance the capability to withstand risks.

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