

Smooth Sailing

Suez Canal expansion might not have churned in billion-dollar revenues just yet but it is set to shape Egypt's long term economic growth as it fights for a share of global trade.

When Egypt inaugurated its newly expanded Suez Canal in 2015, the country was saddled with economic challenges. But cautious optimism tinged the air for the opening of a reworked Suez Canal, that has over the years come to symbolize Egypt's might within the global trade corridors.

President Abdel Fattah El Sisi described the Suez Canal as "Egypt's gift to the world" and even released a stamp to commemorate its opening. It was not all show and pomp that characterized the opening since the project had its economic benefits too. For one, the newer canal was able to accommodate two-way traffic while reducing the waiting time for ships- an integral factor when maritime traffic builds up. It also cut the transit time of southbound ships from 18 hours to 11 hours.

Aside from the economic impetus, the new Suez Canal enjoyed grand public support. With overall project cost touching \$8 billion, the government raised the funds through public subscription and completed the canal works in a record year's time. Nearly 45 dredgers worked round the clock, dredging up about 258.8 million cubic meters of sand, increasing the overall length of the project to 72 kilometers.

However, market observers were skeptical of the project expenditure, often questioning its urgency. Two years on, their words might sound prophetic as Suez Canal has not churned out any impressive figures and definitely not reached its promised targets. According to latest available figures released by Suez Canal Authority (SCA), the canal revenues rose just marginally to reach \$447.1 million in July from \$427.2 million in June this year thanks to depressing global trade volumes. Such figures are a far cry if the canal is aiming to earn its projected annual revenues of \$13 billion by 2023, up from \$5 billion in 2015. But experts agree though they are not entirely decrying the performance. "The process of building the canal certainly boosted domestic demand in FY 2014/2015," says Oliver Reynolds, Egypt economist at Focus economics. "However, the full potential of the completed canal has yet to be realized. Receipts actually fell in 2015 and 2016, reflecting a general slowdown as the economy was held back by shortages of foreign currency and a weak export sector."

It might be premature to rule out that it did not meet some objectives. Suez Canal opening came at time when Egypt was struggling from a dipping forex reserve that was accompanied by a low public morale. If nothing, it lifted the economic sentiments albeit slightly. Charles Robertson, Global Chief Economist at Renaissance Capital, says: "The Suez Canal widening was a project that helped raised morale, brought "under the mattress" savings into the economy and showed President Sisi is keen to develop the economy." Egypt's government hoped that it would boost its currency earnings but the officials have made it no secret that Suez Canal is a long-term project.

"Was this the project that could provide the maximum economic return on the country's

multi-billion-dollar investment? Probably not, as the money could likely have been better spent improving domestic infrastructure and addressing critical shortcomings in the health and education sectors. However, the impact on Egypt's economy in the medium term could still be positive. The expansion of the canal was never going to immediately transform Egypt's economic reality; it was a bet on the future," says Reynolds.

Fighting Competition

As global trade continues to be exposed to market risks and volatility, Suez Canal might have a slower growth than anticipated, making it tough to reach its projected annual revenues. "Judging by current trends, the \$13 billion figure does look farfetched, especially in view of rising global protectionist trends," says Reynolds. "Global trade would need to grow unusually fast over the next several years for Egypt to get close to meeting its target."

However, its widening might have come at a right time. Another trading route- the Panama Canal, which connected the Atlantic Ocean to the Pacific Ocean opened last year after a \$5 billion expansion program. Following the revamp, ships carrying triple the capacity was able to pass by the canal, helping it to usher in a large chunk of maritime traffic while reportedly helping cut global shipping costs by \$8 billion. Reynolds agrees as he says that the recent expansion of the Panama Canal will heat up competition on the "lucrative route between Asia and the U.S. Eastern seaboard."

Economists estimate that prior to Panama Canal expansion, Suez Canal was able to increase their share of vessel traffic from the Far East to the U.S. "This was because of economies of scale and vessel cascading," explains David Buckby, economist at Transport Intelligence. "It was more efficient to send 5,500-10,000 TEU vessels through the Suez Canal, rather than take the route through the Panama Canal with smaller ships (maximum 5,000 TEUs), even if the Panama route was shorter." But if figures are to be believed, Panama Canal might be stealing the traffic share from Suez Canal following its expansion.

"According to recent Alphaliner data, headhaul capacity on the Asia to U.S. East Coast route transiting the Panama Canal has risen to 74%, similar to the level it had in 2010. Its share of container traffic had fallen to 48% at the beginning of 2016 (post-Suez expansion, pre-Panama expansion), so that is clearly a substantial shift away from Suez towards Panama," says Buckby.

"The Suez Canal expansion was helpful as the additional lane allows vessels to travel concurrently in both directions, which has decreased waiting times and hastened transit times. But put next to the capability of being able to move much larger vessels through the Panama Canal, it is clear why so much traffic has switched."

Egypt's officials are only well aware of this threat. Mohab Mamish, the head of SCA, has confessed that the canal faces stiff competition from the Panama Canal and Cape of Good Hope. But the Arab country has taken many steps to offset the competition including organizing a conference to publicize Suez Canal's capabilities and by forming an economic zone around the canal for global manufacturers in order to transform it into a distribution and logistics hub. The number of ships sailing through Suez Canal is unfortunately heavily dependent on trade. Reynolds rightly says that "the country is at the whim of the evolution of global trade" but is not totally powerless.

"Certain steps, such as providing a stable political environment and ensuring the smooth

passage of ships are important, but will not alone determine whether the \$13 billion target is met.” However, Buckby is less optimistic about the future as he says that Suez Canal’s performance will also be determined by oil prices. “When the price of oil falls, its tolls become much less competitive; the alternative of taking longer journeys around the Cape of Good Hope with cheap shipping fuel is more attractive. Currency fluctuations also come into it if you’re talking about canal revenues in dollar terms.”

Much hangs in balance with regards to the future of Suez Canal. But as economic headwinds gather strength, the country might need to be innovative transforming Suez Canal into a revenue churning.

<https://forbesmiddleeast.com/smooth-sailing>