China’s role aids Egypt’s army more than the economy

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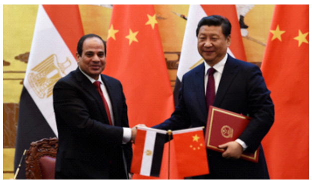
Egypt is signing numerous deals with Chinese companies for major construction and infrastructure projects


Sisi and Xi shake hands after signing partnership agreements, December 2014 (Reuters/Greg Baker)

China is stepping in to become one of the largest foreign contributors to leading megaprojects in Egypt, and is partnering with the Egyptian military on a range of multi-billion-dollar ventures. China’s ability and willingness to build and finance mammoth initiatives of questionable national value has made it a convenient partner for President Abdel Fatah el-Sisi.

What next

The Egypt-China partnership will continue to expand as both countries seek to diversify economic partners. This partnership will further entrench the Egyptian military’s economic interests and capabilities. Egypt’s mounting debt burden will grow, facilitated by easy access to Chinese capital.

Subsidiary Impacts

- Both sides will tout projects that reflect the personal visions of their leaders.
- Private-sector Egyptian companies will be crowded out of the market by military-led enterprises.
- Egypt’s main economic partners will remain GCC countries, Europe and the United States for the foreseeable future.

Analysis

Sisi visited Chinese President Xi Jinping in Beijing shortly after taking office in 2014, where they declared a "comprehensive strategic partnership". Four further trips to China each brought announcements of memoranda of understanding. During Sisi's latest visit, in September 2018, the presidents signed 18 billion dollars' worth of deals.

Wider picture

Despite greater media attention, China's economic weight in Egypt is much smaller than that of Western and Gulf Cooperation Council (GCC) countries.

The petroleum sector -- accounting for some 67% of foreign direct investment (FDI) in the 2017/18 fiscal year -- is dominated by European and US firms (see EGYPT: Focus will shift to direct investment - November 15, 2018).

34.5%

Proportion of Egypt's FDI inflows coming from the United Kingdom

The United Kingdom has long been the pre-eminent investor, accounting for 34.5% of FDI inflows in 2017/18.

Italian oil major Eni alone has invested some 13 billion dollars in Egypt since 2015. By comparison, cumulative Chinese FDI was estimated to be 4.3 billion dollars in mid-2018.

Where Egyptian-Chinese partnerships have been significant, however, is on programmes whose economic benefits are questionable, but which serve a valuable political purpose or offer rewards to the Egyptian military class.

There has been deepening cooperation in areas that complement the leaders' personal visions -- Sisi's military-led megaprojects and Xi's Belt and Road Initiative (BRI), launched in 2013.

China is the largest foreign contributor to both of Sisi's leading megaprojects: the 45-billion-dollar new administrative capital and the 461-square-kilometre Suez Canal Economic Zone (SCZone).

New capital

The China State Construction Engineering Corporation (CSCEC) in March 2018 began construction of the first phase of the business district in Sisi's new capital scheme with a 3-billion-dollar price tag, 85% of which has been financed by Chinese banks.

In February, the company poured the concrete for what is to be the district's crowning achievement -- Africa's tallest skyscraper. CSCEC signed preliminary deals in September for another 3.5 billion dollars' worth of construction projects, likely for the second phase of the business district.

A consortium led by Chinese firms is also building a 1.2-billion-dollar light rail system linking the new capital to surrounding satellite cities. Egypt finalised a loan from China's Export-Import Bank in January to finance the venture.

The Egyptian authority leading the new capital project, the Administrative Capital for Urban Development (ACUD), is majority-owned by the military and chaired by Ahmed Zaki Abdeen, a retired general. The Armed Forces Engineering Authority (AFEA) supervises and collaborates as a central developer.

Questionable viability

The economic viability of the plans for the new capital is very much open to question. Officially, property sales will finance most of the development, although it is doubtful whether there is sufficient demand in the real estate market for more high-end developments (see EGYPT: New capital will not alleviate housing crisis - January 29, 2018).

Complete details of the financing and price-sharing agreements with CSCEC for their work have not been disclosed.

The original plan, agreed in 2015, was for Mohammed al-Abbar, head of UAE real estate giant Emaar, to lead the whole project. Abbar has since reduced the scale of his involvement. In January, Abdeen said talks with Emaar had stalled entirely amid disagreements over land prices.

In December 2018, the publicly traded China Fortune Land Development Company also cancelled a long-negotiated 20-billion-dollar deal to develop 15,000 acres of the city.

Suez Canal

China is the largest investor in the SCZone, another military-led project, launched in 2015 to create a strategically located industrial and logistics centre. The SCZone, touted as China's 'gateway to Africa', holds particular significance for Xi's BRI.

Chinese state-owned industrial developer TEDA Holding is expanding its TEDA-Suez Industrial Zone, the largest industrial hub in the SCZone, which hosts the Suez Canal area's largest industrial partner, Jushi Group's fibreglass company.

Additional notable investments in the SCZone include a 7.1-billion-dollar oil refinery to be constructed by CSCEC and a terminal basin at Sokhna port, under construction by the China Harbour Engineering Company.

Other military ventures

The Egyptian military (which boasts a sprawling commercial empire) has established various other partnerships with Chinese firms, primarily through the Ministry of Defence, the Ministry of Military Production and the Arab Organisation for Industrialisation.

Chinese state-owned firms are building or have agreed to build, among other things, a coal-fired power plant, a cement factory, a textiles industrial park, a hydroelectric power plant, a solar panel complex and a facility to manufacture trains.

All of these projects are valued at over 1 billion dollars and are undertaken in partnership with the Egyptian military, which receives substantial rents and manufacturing opportunities of its own from the deals (see EGYPT: Military sway in the economy will grow - January 10, 2018).

China's contribution to the ever-expanding complex of military-owned companies takes the form of smaller projects too, benefitting army retirees and those further down the hierarchy.

Chinese company New Hope, for instance, in January established a 20-million-dollar poultry farm in cooperation with the General Authority for Reclamation Projects and Agricultural Development -- a government body led by retired military officers.

In October 2018, the Holding Company for Maritime and Land Transport, also dominated by army pensioners, signed a 133-million-dollar contract with Chinese firms to supply 900 buses.

Private sector squeeze

The military's expansion into all areas of economic life is damaging to the private sector, which cannot compete, as military-owned companies enjoy cheap (or free) energy, land and labour.

> Private companies cannot compete with heavily subsidised military-led firms

It is often unclear what value these projects offer the local economy. The Egyptian cement market was already oversupplied before China built the military's 1.2-billion-dollar cement plant in Beni Suef. Meanwhile, many fear the planned textile city, which aims to attract hundreds of Chinese factories, will ruin local firms in the sector, Egypt's largest non-petroleum export industry.

Diversifying patrons

Sisi's overtures to Beijing represent an explicit attempt to diversify sources of income, and to reduce dependency on both Western and GCC countries.

Moreover, China is willing to step in where other funders will not, such as for the new capital and the 4.4-billion-dollar Hamrawein coal power plant. The China Development Bank is now offering 3.7 billion dollars' worth of financing for the latter, led by Shanghai Electric.

Mounting debts

Egypt has engaged in a programme of heavy borrowing under Sisi. This has seen external debt rise dramatically, from around 15% of GDP in 2013/14 to 37% in 2017/18.

In raw figures, the Central Bank in September 2018 estimated that debt to be 93 billion dollars. Borrowing from GCC countries or international financial institutions accounts for around half of this.

Debt to Chinese institutions in July 2018 stood at just 5.1 billion dollars, and is not a major concern for Cairo in the medium term. Yet as Chinese firms continue to assist in major construction projects, financed by Chinese state-owned banks, this balance is likely to shift.