THE SUEZ CANAL ECONOMIC ZONE:
A Strategic Location & Modern day Innovation
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A MEGA SPECIAL ECONOMIC ZONE TO EGYPT AND THE WORLD

It took only a year for the New Suez Canal to be inaugurated in a massive celebration along the canal, and only three days later the President announced that the Suez Canal Area Development project was to become a special economic zone. It surely turns heads if you study the geographical map and the role the Suez Canal played throughout history. It is considered to be the shortest link between the east and the west, with maritime transportation considered to be the cheapest form of transport, the Suez Canal continues to play an important role in trade. As a Special Economic Zone, it encloses designated areas within Egypt with special economic regulations that are different from other areas in the country in order to achieve the following objectives:

- Help create capital by attracting “Foreign Direct Investments (FDI)”
- Increase foreign exchange earnings
- Support export-oriented growth and integrate in global markets
- Alleviate large-scale unemployment through providing jobs
- Support a wider economic reform strategy
- Act as an experimental laboratory for the application of new policies and approaches

This long-term megaproject is supposed to generate USD 12 billion annually only from its 6 ports, after the completion of all the planned industrial and commercial projects. According to Minister of Investment Ashraf Salman, the zone will hold 30 to 35 percent of Egypt’s economy upon its completion. Internationally, it is to make Egypt a regional industry hub, facilitating trade and complementing it with world-class innovation as well as quality logistical and industry services.

This report highlights the Suez Canal Economic Zone and the investment opportunities that exist in the area. As the leading public strategy and government relations firm in Egypt, N Gage Consulting is supporting the government’s initiatives to promote economic growth and is working closely with the Authority of the Suez Canal Economic Zone to support investment endeavors. For more information, please contact: info@ngage-consulting.com
THE NEW SUEZ CANAL

The New Suez Canal is a parallel canal to the existing one; it was created to maximize the benefits from the Suez Canal, and is considered the flagship project for the current government. It was planned by the «Suez Canal Authority», which administers vessels movement, traffic, and the canal. It is important to note that the project was funded through investment certificates issued to Egyptians only, in local currency for citizens working inside the country and in dollars for those working abroad. The project was considered a national triumph, in only a matter of days the government was able to collect EGP 61 billion through investment certificates, and instead of taking a period of 3 years to complete the project, it was finalized within a year.

The goal of the project was to maximize earnings from the Suez Canal by increasing its capacity from 49 ships/day to 97 ships/day and the revenues from around USD 5.5 billion to USD 13 billion by 2023.

The New Suez Canal shall:

1) Attract more ships to utilize this maritime route, reaffirming it as a focal international maritime route.
2) Double the longest possible parts of the waterway to facilitate traffic in both directions.
3) Minimize the transit time for ships from 18 hours to 11 hours for the southbound convoy.
4) Minimize the wait time for vessels to become 3 hours at most instead of 8-11 hours, thus cutting down on trip costs.
5) Increase the capacity of the waterway to accommodate more ships daily to meet the expected growth in world trade.
6) Enhance the Egyptian national economy through boosting the flow of foreign currency in the country and turning Egypt into an international logistics center.
The following table represents the expected revenues from the Suez Canal for the upcoming 8 years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenues ($ mn.)</th>
<th>Additional Revenues ($ mn.)</th>
<th>Revenues of the Canal ($ mn.)</th>
<th>Payload (thousand tons)</th>
<th>Number of ships</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>6,787</td>
<td>0.158</td>
<td>6,629</td>
<td>1.153</td>
<td>57</td>
</tr>
<tr>
<td>2017</td>
<td>7,462</td>
<td>0.159</td>
<td>7,303</td>
<td>1.245</td>
<td>61</td>
</tr>
<tr>
<td>2018</td>
<td>8,206</td>
<td>0.161</td>
<td>8,045</td>
<td>1.345</td>
<td>66</td>
</tr>
<tr>
<td>2019</td>
<td>9,025</td>
<td>0.163</td>
<td>8,862</td>
<td>1.453</td>
<td>71</td>
</tr>
<tr>
<td>2020</td>
<td>9,927</td>
<td>0.165</td>
<td>9,762</td>
<td>1.569</td>
<td>77</td>
</tr>
<tr>
<td>2021</td>
<td>10,923</td>
<td>0.169</td>
<td>10,754</td>
<td>1.694</td>
<td>83</td>
</tr>
<tr>
<td>2022</td>
<td>12,019</td>
<td>0.172</td>
<td>11,847</td>
<td>1.830</td>
<td>90</td>
</tr>
<tr>
<td>2023</td>
<td>13,226</td>
<td>0.175</td>
<td>13,050</td>
<td>1.976</td>
<td>97</td>
</tr>
</tbody>
</table>

![No. of Ships](chart1.png)

![Suez Canal Projected Revenues](chart2.png)
Forecasting growth in world trade, the project was done in parallel to the Suez Canal Area Development Project (the second phase of the project). Both projects are to position Egypt on the industrial and logistical map of the world as a center and main passage for trade. The two projects align aim to impact the Egyptian national income positively, inject foreign currency in the economy, provide employment and create new urban communities.

A MAJOR LET DOWN OR UNREALISTIC EXPECTATIONS

It is only objective to note that during the 3 months following the inauguration of the New Suez Canal revenues have slumped lower than the projected revenues, USD 5.175 billion in 2015, a USD 290 million decline form the previous year’s revenue of USD 5.465 billion. The decline was majorly attributed to the slowdown in world trade, crashing in oil prices and the depreciation of the dollar against other currencies. The Suez Canal’s performance has historically been strongly linked to the activity in world trade. With long term projects, the returns are hardly ever seen on the short run, whether it will pick up in the coming years will largely depend on the global economy. The treasure now lies in the Suez Canal Economic Zone, this could be the biggest economic revival in the country’s history, it is important to study the Suez Canal Economic Zone (SCZone) to monitor the opportunities, progress and developments.
A SPECIAL ECONOMIC ZONE: THE SUEZ CANAL ECONOMIC ZONE (SCZONE)

Governing Body and Legal Framework

On August 9th, 2015, three days following the inauguration of the New Suez Canal, Egyptian President Abdel Fattah Al Sisi issued decree No. 330/2015 to create a special economic zone (SEZ) in the area adjacent to the Canal, as a continuation to the long term projected regional development plan to turn the strategic waterway into an industrial hub.

The Presidential Decree establishes the “Suez Canal Economic Zone” (SCZone) spanning over an area of 461 square kilometers and 6 maritime ports. The SCZone aims to transform the area into a world-class global logistics hub and industrial processing center that serves the European, Asian, African and Gulf markets to facilitate economic growth and create sustainable and high quality jobs for Egyptians.

The SCZone is administered by “The Authority for the Suez Canal Economic Zone”, located in the Suez governorate in Ain Sokhna area and is considered to be completely autonomous except for national security matters. The strategy for the authority is to create an environment where investments thrive within the economic zone it oversees, and drive projects that are able to compete internationally. The decree stipulates investments in the Suez Canal region to fall under the Special Economic Zones Law No. 83, 2002. The incentives and guarantees offered to companies choosing to set up in SCZone or a future SEZ in Egypt are specified in the Special Economic Zones (SEZs) Law No. 83, 2002 which was approved by the Egyptian parliament. The purpose of the law is to allow the establishment of special zones for industrial, agricultural or services activities designed specifically for the ultimate goal to increase the export market.

Under Law No. 83, 2002, the government formed a board of directors for the Suez Canal Economic Zone, which acts as the governing body of the Authority. The board of directors are authorized to have the same powers as the cabinet or ministers stipulated in the laws and regulations when it comes to making decisions except for Ministers of Defense, Interiors, Foreign Affairs and Justice. The board of directors includes an array of ministers, as well as financial and legal experts from both public and private sector as shown on the below chart:
Chairman of the Suez Canal Economic Zone Authority:
Dr. Ahmed Darwish

Vice Chairman of the Suez Canal Economic Zone Authority
Admiral, Abdel Kader Darwish

Minister of Trade and Industry
Tarek Qabil

Minister of Investment
Dalia Khorshid

A representative from the Ministry of Defense
Governor of Port Said
Adel Ibrahim El Ghadban

Minister of Transport: Galal Saeed

Chairman of the Suez Canal Authority: Admiral Mohab Mamish
The board of directors act as the governing body and is authorized to create the regulatory framework of new businesses in the SCZone, establish its own company or create partnerships, a tax system (with the approval of the Ministry of Finance), registrations and licensing.

It is important to note that according to Law No. 83, 2002, each special economic zone has a special customs and tax administration system established by its board of directors with the approval of the Minister of Finance. Incentives and guarantees offered to projects operating in SEZs include the following: The projects operating in economic zones may not be subject to nationalization, nor may they subject to sequestration, freezing of assets or confiscation (except by a judicial judgment). Firms are entitled to decide on the prices of their products and services without governmental interference. Projects may terminate the employment contracts of their employees in SEZs according to terms simpler than those generally prevailing under the “Egyptian Labor Law”. Firms are also permitted to establish a special system for the social insurance of terminated employees. ¹

The Authority of the Suez Canal Economic zone

THE REGIONAL DEVELOPMENT STRATEGY

The regional development strategy is founded as the second phase of the Suez Canal project. It entails the development of the lands and facilities adjacent to and in the proximity of the canal, mainly in the Port Said, Ismailia and Ain Sokhna-Suez. A consortium led by the Bahraini-based Dar El Handasa developed a plan for the land use of only 20 km of the SCZone out of the 461 km. The regional developmental strategy is founded on three primary development nodes:

Port Said

- The development of the East Port Said Port into a major transshipment hub and a “logistical center” with facilities generating over 105,000 jobs. Noting that the current Port Said Port has become among the 40 busiest ports in the world with the planned expansions, it will further increase the port’s standing.

- The establishment of an industrial zone that focuses on light-intermediate industries with a capacity to support 80,000 jobs. Industries will include agribusiness, textiles, automotive assembly, pharmaceutical and other export-oriented industries.

- The development of the new urban areas at East Port Said and Bardawil City, hosting up to 250,000 residents.

- The East Port Said industrial area is the most wanted but is
least ready in terms of infrastructure development, though it can only sustain light and medium industry because the land cannot handle heavy industries.

**Ismailia**
- It is planned to be the “administrative center” of the SCZone.
- The establishment of specialized clusters for R&D activities in both ICT and renewable energies in Ismailia City and in East Ismailia, planned to be Egypt’s tech valley.
- Ismailia will mainly have light industries agribusinesses; textiles, a dry port and other light manufacturing activities supported Qantara.
- The development of urban areas at Qantara and New Ismailia City, hosting over 350,000 residents.

**Ain Sokhna - Suez**
- The creation of one of the largest industrial and port complexes globally.
- The expansion of the ports and logistics facilities at Sokhna and Adabiya, and establishment of maritime-related activities including bunkering, shipbuilding and repairs to support over 70,000 jobs.
- The industrial development of over 16,250 hectares supporting light, medium and heavy manufacturing activities including: petrochemicals, building materials, automotive assembly and manufacturing of energy components, as well as commercial and business activities to support over 85,000 jobs.
- The establishment of new integrated communities at Ain Sokhna and new Suez City for over 260,000 residents.  

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2 Authority of the Suez Canal Economic Zone
LAND ALLOCATION BY SECTOR

This map presents the layout of the land allocation by sectors:

Zone A: Agriculture

Zone B: Logistics, Industry, Maritime, Renewable Energy and Agriculture

Zone C: Mining and Extractive Industries, Tourism, Renewable Energy and Agriculture

Zone D: Mining, Tourism and Renewable Energy

Zone E: Tourism and Renewable Energy
PROJECTS IN THE PIPELINE

In order to make this plan a reality, several projects are in progress to cater to the regional development strategy of the Suez Canal Economic Zone, some of which are the following:

- Upgrading the Cairo-Suez and Ismailia-Port Said to free roads
- Establishing 6 tunnels that connect the area and the Suez Canal banks.
- Develop Nuweiba Port to form a free zone
- Upgrading Sharm El Sheikh Airport
- Upgrading 6 ports (East Port Said, West Port Said, Al Arish, Adabeya, Tur, and Ain El Sokhna)

OPPORTUNITIES

Diverse investment opportunities exist in at the Suez Canal Economic Zone and the development nearby areas, we have divided these opportunities into 6 segments:

Diverse investment opportunities exist in at the Suez Canal

1) Ports & Logistics: Opportunities exist in the development of Ain Sokhna Port and East Port Said Port and the associated terminals and facilities, including: container terminals, bulk and general cargo terminals, logistics, warehousing and distribution centers as well a dry ports.

2) Maritime Services: Noting that over 17,000 ships pass through the Suez Canal yearly, opportunities exist in the development of maritime related activities including shipbuilding and ship repair services, bunkering, vessel scrapping and recycling.

3) Industry: Potential opportunities exist along the industrial areas planned in East Port Said (light and medium industries only) and Ain Sokhna, and Qantara for light, medium and heavy industry. These potential opportunities include pharmaceuticals, consumer electronics, automotive, textile, food processing, and petrochemicals. The Authority is also interested in establishing a sports industrial city with the aim of increasing employment opportunities.

4) ICT: The technological sector in Egypt is expanding, and the SCZone offers many opportunities to engage in research and development, software development, among other activities. Especially that the city of Ismailia is planned to become Egypt’s Tech Valley and also the administrative center for SCZone.

5) Renewable Energy: With the increasing energy demands of the country, the renewables sector is highly promising with potential development to build clean energy industries using solar and wind farm energy.

6) Infrastructure: Opportunities in infrastructure are endless and is the most needed at this stage, Dr. Ahmed Darwish stated that consulting is needed as well as developers. The
infrastructure manual is to be written then developers will invite contractors to implement. **The needed infrastructure entails water mainly desalination and electricity among others.** Infrastructure design is much needed in the East Port Said zone at this stage.

**PREFERENTIAL MARKET ACCESS**

An impactful preferential policy in the SCZone, is the offering of Egyptian certificates of origin on products that are to be exported. In practice, this means that foreign companies can take advantage from Egypt’s international trade agreements. These bilateral and multilateral agreements connect Egypt’s trade to Africa, the Middle East, Europe and the USA. Most significantly, the Common Market for Eastern and Southern Africa (COMESA), an Agreement with the European Union, Egypt – Turkey, Aghadir, Great Arab Free Trade Agreement (GAFTA), Qualifying Industrial Zone (QIZ), European Free Trade Association (EFTA). Also two more agreements that will be beneficial but are not yet enforced are the Africa Tripartite agreement and Mercosur. By taking advantage of these economic and trade partnerships, and through Egypt’s geographical location, there is access to

**BENEFITS: WHAT’S IN IT FOR INVESTORS?**

**STRATEGIC RICH LOCATION**

The Suez Canal links two oceans and two seas, the Atlantic and Mediterranean via Gibraltar to Port Said, and the Indian Ocean and the Red Sea via Bab Al Mandab and the Gulf of Suez to the port of Suez. At the heart of international trade, the SCZone is strategically located alongside one of the world’s most important maritime routes; as such, over 17,000 vessels, or 9% of global seaborne trade, pass through the region each year. Additionally, catering to today’s global industry needs, the canal shall be complemented by world-class ports and high quality logistical services.
Foreign companies have lower costs exporting from Egypt, because of customs reduction owed to these preferential trade agreements. Not only can companies take advantage of the preferential trade policies but also can benefit from distance savings. Most notably, Chinese companies when producing goods in Egypt, their route to consumer markets is significantly reduced. The distance to ports is much shorter, hence cutting fuel and operational costs and they will have reduced the distance by approximately half to North American consumer markets. Moreover, importers and exporters to Europe can benefit from the cuts in costs by operating from the East Port Said Zone, because they don't have to cross the canal, and subsequently they don't have to pay crossing fees.

**BUREAUCRACY-FREE**

The Authority of the Suez Canal Economic Zone enjoys a level of autonomy as government ministers, governors, and authority chairpersons. Its Board of Directors puts in place policies and regulations to achieve the goals and the purpose of the zone’s establishment. For example, (i) the conditions and standards of urban planning and construction; (ii) rules pertaining to the management of ports, airports and their efficient operation; (iii) conditions of export-import from and to the zone in a way that ensures efficiency, health, safety and environmental protection; and (iv) conditions relating to real estate authorization, notarization and legalization. This contributes to a more business-friendly environment that is supportive of private sector growth.

**A TRUE ONE STOP SHOP**

The SCZone offers investors a facilitated process with absolute ease, unified and streamlined procedures and processes designed to minimize delays and costs to the investor. The investor deals with only one individual for his whole application process till he signs the documents. The vision of the Suez Canal Economic Authority is for the investor to be able to register online by submitting all the data, then he is able to attach and upload all the required documents on the website, while monitoring his/her own progress. The investor only has to be physically present at the signing stage. All supporting offices for the one stop shop are on site to ensure efficient processing. However, the investor only deals with one employee namely the “Investors’ Relations Manager” and if his/her documents are complete, the investor can register and establish the company within a day or two.

Find a detailed illustration of the process on the following page:

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3 Suez Canal Authority
4 Authority of the Suez Canal Economic Zone
5 Ministry of Foreign Affairs
The Authority of SCZone has its own commercial register. Local investors with existing commercial registers can notify the authority and it will be recognized. The Authority SCZone has the capacity to issue new commercial registers for new companies.
CUSTOMS BENEFITS, TAXES AND REPATRIATION OF FUNDS: THE CONTROVERSY

The SEZ law permits firms operating in the SCZone to import capital equipment, raw materials and intermediate goods duty-free and passing goods will only be tracked for security purposes including drugs and explosives. There is no customs in the SCZone, however, the Authority of the SCZone is mandated to collect taxes on behalf of the government. In theory, the SEZ law subjects companies operating in these new zones to lower corporate taxes and exempts them from sales and indirect taxes. These companies will also operate under more flexible labor regulations and enjoy other incentives.

The issue of taxes has been a long running debate when discussing the SCZone. Being governed by law 82/2002 (Special Economic Zones law), it was expected that the SCZone would be subject to a 10% corporate tax. Yet, amendments to the special economic zones law via law 27/2015 have subjected new projects in special economic zones to 22.5% corporate tax. Companies that were established in the North West Gulf of Suez Economic Zone before stabilizing the tax value are exempted from the decision throughout the periods of the projects they have undertaken.

This might impact the SCZone negatively since it competes with regional special economic zones such as Jebel Ali which offers better tax incentives for investors. However, the authority is looking for a firm to conduct a study in order to find the best possible outcome in order for the SCZone to maintain its competitiveness.

SKILLED WORK FORCE & COMPETITIVE COSTS

Egypt has a huge skilled workforce that also happens to be competitively priced. Egypt’s labor force is approximately 27.6 million, and is considered to be one of the largest and youngest in the region. The labor force in Egypt is also highly trained, with 300,000 university graduates entering the labor market annually (20,000 are engineers, 15,000 are science and technology graduates and 22,500 are foreign language speakers). The Authority of the Suez Canal Economic Zone is also planning to establish a training center on site where employees can attend workshops and courses to improve their skill and on the job performance. Egypt has always been deemed as an exporter of skilled labor; yet, young skilled individuals are increasingly opting to seek employment locally. Egypt’s labor force’s true advantage lies in the fact that their wages are, on average, lower and much more competitive than in neighboring economies. 

6 General Authority for Investments and Free Zones (GAFI)
7 Central Agency for Public Mobilization and Statistics (CAPMAS)
THE PLANS GOING FORWARD: CURRENT STAKEHOLDERS

CHINESE TEDA AGREEMENT
STATUS: DELIVERED

As part of the Chinese government’s initiatives to strengthen ties with Egypt and its linkage to Africa and Europe, as well as the Egyptian government’s development initiative to turn Suez from a passage that brings in USD 5.2 billion annually to an investment zone that later would bring in USD 100 Billion, In 2013, Chinese TEDA Corporation signed an investment development agreement with SCZone (commonly referred to as SEZone).

SEZone and TEDA signed a 45-year contract that establishes investment projects in an area spanning 6 square kilometers in the industrial zone, and an additional 1.23 kilometers was contracted after to make a total of 7.23 kilometers. TEDA will invest over USD 500 million and in return bring in USD 2 Billion. Within the same framework, China-Egypt Suez Economic and Trade Cooperation Zone, TEDA Chairman confirmed that USD 600 million were invested in a total of 38 projects. The Chinese work as an investor developer, for an example; they invited China Glass Holdings to establish a fiberglass plant in the SCZone.

A SPANISH-RUSSIAN INDUSTRIAL DEVELOPING FORCE
STATUS: MOU PHASE

The Authority has also signed a Memorandum of Understanding (MOU) with an alliance of Spanish companies to develop the industrial area in East Port Said. The Spanish alliance includes Grupo Enza, Ferrocarrils de la Generalitat de Catalunya, Cox Energy, and Safex Energy, among others. The MoU is said to hold an investment value of 8 billion Euros.

RUSSIA TO ESTABLISH AN INDUSTRIAL ZONE
STATUS: MOU PHASE

Russia intends to build an industrial zone in SCZone spanning over an area of 2 square kilometers in East Port Said. The Memorandum of Understanding (MoU) that is to be signed entails the establishment of a petroleum refinery and petrochemicals complex.

8 SEZone
9 China Daily News
Toyota has signed a memorandum of Understanding (MoU) to establish a distribution hub in East Port Said, to become the main distribution point for the Mediterranean, Eastern Europe, Middle East and Africa. If this MoU materializes, it could make sense for Toyota to relocate its manufacturing plant.

UK’s trade envoy has visited Egypt with several scheduled trips that included Port Said and Ismailia. He had met with the Egyptian prime minister, minister of investment and chairman of the Suez Canal Economic zone as well as top Egyptian businessmen Naguib Sawiris and Ahmed El Sewedy. The meetings were set to discuss the UK trade relations with Egypt and possibility of investments in infrastructure, energy and education. Nothing has been documented or signed but it was enough to show that SCZone is on their radar.

It was reported that Italy has agreed to upgrade Egypt’s Middle East Oil Refinery (MIDOR), by participating in building a complex for petrochemical industries in Ain Sokhna and update a number of combined-cycle power plants. Italy is said to establish an industrial area divided into two portions of land spanning approximately to 2 square kilometers to build a factory for textiles and another for car manufacturing. It has been announced that more agreements between Italy and Egypt was to be signed during the Italian delegation’s visit; unfortunately, the delegation’s trip was cut short by the sad news of the Italian student’s death.

Dr. Ahmed Darwish has expressed that the “Authority of the SCZone” is currently passive in finalizing deals; they are collecting and studying all proposals. Once the proposals are studied, the Authority will aggressively capture opportunities. This approach might explain why most stakeholders are still in the MoU phase.
DRAWING COMPARISONS: ECONOMIC ZONE OF SPECIAL NATURE:

SHENZHEN IN CHINA

To ensure the success of the SCZone and fulfill the aspired economic roadmap for it, it is important to study a successful model, namely Shenzhen in China (A Special Economic Zone). Shenzhen is link between the Chinese mainland and Hong Kong and a transport hub for coastal southern China. The city leads in high-tech development, financial services, foreign trade, shipping, and creative and cultural industries.

ECONOMIC GROWTH

In 1979, In China, Shenzhen's total value of local manufactured goods in the city did not exceed 190 million yuan (the equivalent of less than USD 30 million at today's rate), and the special economic zone experience transformed the total value of local manufactured goods in the city to amount to 1 trillion and 600 billion yuan in 2014 (over USD 245 billion at today's rate).

In only one year, 2013 to 2014, Shenzhen's GDP grew 8.8 percent to $260 billion (per capita GDP $24,336, expanded 10.62 percent) f. High-tech industry has helped Shenzhen achieve high economic growth and its six strategic industries — biotechnology, information technology, new energy, new materials, telecommunications and the cultural and creative industry. Shenzhen invested about 4 percent of local GDP in research and development. Its total retail sales of consumer goods increased by 9.3% to 484.4 billion yuan. Foreign trade volume increased by 9.8% to US$487.77 billion. Export and import volume has stayed at the top of the nation's large and medium-sized cities for the third consecutive year. In fiscal revenue, Shenzhen reported 208.2 billion yuan in local revenue in 2014, up 20.3% from 2013.
ECONOMIC POWER

Shenzhen is ranked fourth on the Chinese mainland in terms of economic power and is one of the country’s top cities for economic returns. Surpassing Hong Kong for the first time, Shenzhen placed first on the list of 2014 Chinese cities’ comprehensive economic competitiveness, according to the 2015 Competitiveness of Chinese Cities Blue Book.

*Shenzhen has been so successful that it has undertaken a mission to pilot China’s structural reform and continuous opening to global markets. This resonates with Egypt’s objective in implementing structural reform as part of achieving its 2030 vision, perhaps the Suez Canal Economic Zone could be the starter of a domino effect in a country with much need reform and endless opportunities.*

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Shenzhen Statistical Bureau for 2014
SUCCESS FACTORS OF SEZS: WHAT CAN EGYPT LEARN AND APPLY?

1) **The Vision:** The clarity of the objective that the SCZone is an economic zone for the purpose of attracting foreign investments and investors, to boost capital by establishing new industries so that the final products are strictly for exporting.

2) **Taxation:** The decision that taxes should be at its lowest, and providing a tax exemption to many of the companies and products as a way to encourage growth and development. In some zones, as an incentive for attracting investments, tax holidays are employed, allowing zone enterprises to avoid some or all taxation for a fixed time period after commencement of operation. For example, The Chinese government specified taxes to amount to 15% only on companies’ income in the special zone, with the exception of many to be completely exempted from taxes. On the other hand, the government had exempted companies located at the port or the port basin for a period of more than 15 years, for the first 5 years of its commencement until it starts making profit, then the corporate income tax would be less than half on the next 5 years to follow, and if the contract length for the company exceeds 10 years, then it would be completely tax exempt for that period, taxes would be imposed 2 years after it starts making profits. In addition, companies that export 70% of its production, it would be tax exempted on its remaining 30% of its production. Moreover, manufacturing materials as well as goods produced in the special economic zone would be customs exempt.

3) **The Right of Land Use:** Foreign investors and foreign companies would acquire the right to use the land for long periods with a marginal rent as an incentive for continuity and growth.

4) **The Transfer of Currency and Returns:** Foreign Companies need to be able to transfer their gains from the working companies in the economic zone and also the foreign currency acquired from their exports with no fear. For example, foreign banks located in the SCZone could be permitted to transfer foreign currency. Companies should be able to transfer their returns abroad after their corporate income tax collection and paying employees’ salaries. Consequently, foreign companies should also be able to acquire foreign currencies in the SCZone through banks or a foreign currency supply center.

5) **Marketing of Goods:** Foreign companies would be free to sort their export methods either through exporting agencies or others, complying with the pertaining governmental regulations. In partnered projects, foreign companies would be able to sell a portion of its goods in the local market and as an incentive, it could get a larger market share if the finished good was manufactured using local materials or local modern technology. This promotes local goods and improves its quality.

6) **Entry and Exit of Foreign Investors:** All foreign investors and visitors need to have an easy access to the zone whether through special passes or car plates that could get fast tracked for entry into the SCZone. In addition, special visa regulations
It is fair to conclude that the Suez Canal Economic Zone project sounds promising, not only is it the biggest project the government has planned to date but also it will reshape the regional and global economic map. While we are yet to see progress and developments, N Gage Consulting will surely monitor the project bi-annually (May – December) to give you the latest news, challenges, developments and opportunities.
ANNEX 1

Below is a comparison table which highlights the factors that differentiate some of the most widely known Special Economic Zones (SEZs) around the world. Governments use the below 4 tools to make SEZs more desirable for investors, and consequently enable their success.

<table>
<thead>
<tr>
<th></th>
<th>Panama</th>
<th>India</th>
<th>China</th>
<th>Russia</th>
<th>Jebel Ali</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxation</strong></td>
<td>Tax benefits last for a period of 10 years. Within that timeframe, companies are exempted from taxes on sales, industrial/commercial licenses and registration.</td>
<td>Tax holidays last for 15 years, where the taxation rate gradually increases. Tax exemptions cover service taxes and central sales tax.</td>
<td>Foreigners enjoy a tax rate of %24-15 compared to the domestic firms that face %33. Foreigners’ incomes are tax exempted.</td>
<td>Residents of technology and innovation are exempt from income tax. Income tax for the SEZ residents is %13.5-0 instead of %20.</td>
<td>Corporates are exempted from taxes for a period that lasts for 50 years, and could possibly be renewed. The personal income tax is 0%.</td>
</tr>
<tr>
<td><strong>Labor</strong></td>
<td>Firms have access to higher education centers for training employees. Also firms can open on Sundays and holidays and enjoy fixed overtime rates.</td>
<td>Given the nature of the country, in India there is access to highly qualified individuals who can be trained further subject to the required tasks.</td>
<td>The governing labor laws are lenient toward the foreign firms, where the firms have the right to hire and fire their employees without further legal complications.</td>
<td>In Russia there is access to qualified human capital, which is complemented by a simplified migration regime for highly qualified foreign staff.</td>
<td>There are no quotas or restrictions on the amount of foreign employees that could be hired at Jebel Ali.</td>
</tr>
<tr>
<td><strong>Duties</strong></td>
<td>There are no custom duties.</td>
<td>Investors are exempted from custom duties.</td>
<td>There are no custom duties.</td>
<td>There is a free customs area, where investors don’t have to pay customs duty and value-added tax for foreign goods.</td>
<td>Foreign companies may use the economic zone for distribution or manufacturing without paying import duties.</td>
</tr>
<tr>
<td><strong>Other Incentives</strong></td>
<td>All work permits are handled by an onsite office.</td>
<td>Infrastructure provisions have been made for offshore banking units, and to establish free trade and warehousing zones.</td>
<td>Under Chinese law, foreign investors may lawfully obtain the rights to use and develop the land.</td>
<td>There are reduced administrative barriers, where the investor gives all the documents to a single agency, which reduces the time required to process documents.</td>
<td>There are no currency restrictions on capital repatriation.</td>
</tr>
</tbody>
</table>
The list below pinpoints some of the different sources of revenue that governments gain as well as the different costs they incur when establishing a Special Economic Zone (SEZ).

**Government Revenues and Costs From SEZs**

**REVENUES:**

- Corporate Income tax (if no tax holiday)
- Personal income tax on direct and indirect employment
- Permit fees and service charges
- Rental or sales fees (from sale or rental of public land to developers)
- Import duties and taxes on zone products sold to the domestic customs territory
- Concession fees for other facilities (port, power plant, and so on), linked to zone development

**COSTS:**

- Wage bill of government workers needed to regulate zone activity or operate the zone and other operating expenditures
- Public sector capital outlays for external infrastructure (and internal infrastructure and facilities in the case of a publicly developed zone)
- Import duties and charges lost from smuggling
- Taxes forgone from enterprises relocating from the domestic customs territory to the zone
- Subsidies
THANK YOU

For more info please contact us

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