

What If Insurgents Close the Suez Canal?

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Islamist violence has chased off tourists, and now it threatens a key waterway - - and Egypt's entire economy.

Most of the attention these days is on Syria, but there is also a growing problem in Egypt with global implications. Nine Egyptian policemen were wounded by a bomb in the northern Sinai Peninsula on Monday. The week before, suicide bombers killed nine soldiers in the peninsula. Shootings, kidnappings and bombings -- roadside, car and suicide -- have become routine occurrences in Sinai. And the burgeoning Islamist insurgency is spreading to other parts of Egypt. In early September, the interior minister narrowly survived a car-bomb attack in Cairo reportedly perpetrated by a Sinai-based jihadist group.

Already reeling from more than two years of civil insurrection, a spike in crime, an epidemic of sexual assault and the military's killing in August of nearly 1,000 Islamists protesting the coup that removed the elected Muslim Brotherhood president from office, the insurgency is bad news for Egypt.

But things could get worse.

On Aug. 31, two militants fired rocket-propelled grenades at a Chinese-owned cargo vessel traversing the Suez Canal. A Sinai-based Al Qaeda affiliate called Kataeb al Forqan claimed credit and posted a YouTube video of the attack. Although the vessel did not sustain significant damage, the group pledged to continue the assault on canal shipping.

Should the militants persist, sooner or later they will all but certainly succeed in damaging, disabling or scuttling a ship in the canal, a development with potentially catastrophic implications for Egypt and international commerce.

The 2011 toppling of President Hosni Mubarak has already had dire consequences for Egypt's economy. Continual protests and sporadic violence throughout Egypt have spooked investors, drying up foreign direct investment, once an economic pillar of the state. Not only is investment down -- 32% in the third quarter compared with last year,

according to Egypt's Central Bank -- foreign capital is fleeing. Over the last six months, more than \$3 billion has been expatriated.

Tourism, traditionally nearly 10% of economic activity in Egypt, has plummeted. In the south Sinai tourist haven of Sharm el Sheik, the occupancy rate has declined to 36%. Meanwhile, across the canal in the Red Sea governorate, a third of the nearly 250 hotels have closed. Absent the legions of journalists, Cairo would also be empty of foreigners spending money.

Even before the August violence, the World Bank had ranked Egypt 140th -- last in the world, behind Pakistan and Yemen -- in terms of tourist safety. And the situation is further degenerating. Over the last month, according to the Ministry of Tourism, the number of visitors dropped an astounding 85%.

Now the third pillar of the economy, Suez Canal revenue, which amounts to nearly \$5 billion a year, is at risk. In 2012, more than 17,000 vessels transited the canal. Lately, fewer ships are utilizing the passage, and last year, revenue declined 5%. The first half of this year saw a 6.6% drop in traffic, prompting Egyptian authorities to raise fees.

Cairo is hoping that an uptick in the global economy will increase canal traffic next year. But the Aug. 31 incident could stymie these aspirations. Security concerns reportedly have some international shipping companies considering alternative routes, including innovative Arctic routes escorted by Russian icebreakers.

In coordination with its Israeli partners, the Egyptian military is flooding Sinai with troops and equipment -- including attack helicopters -- in an effort to contain the insurgency. At the same time, the military has reportedly allowed armed Israeli drones to enter Egyptian airspace to target militants. Still, it's unclear whether the augmented force will be able to pacify the area or mitigate the threat to Suez Canal navigation.

The military, over the last two months, has been making arrests and killing purported terrorists, but the attacks on security officials have not abated. In fact, between foreign fighters, angry Bedouin and members of the Muslim Brotherhood further radicalized by the coup, the number of militants appears to be spiking.

Equally daunting is the challenge of defending the 120-mile-long canal, most of which is vulnerable to attack. Kataeb al Forqan says it is committed to targeting the passage that accommodates "crusader aircraft carriers traveling to attack Muslims" and that serves as "a trade artery for infidel" states.

For a state in which nearly 50% of the population is making less than \$2 a day, with an official unemployment rate approaching 15% and a crippling 2012-13 budget deficit of \$35 billion against \$84 billion in expenditures, the loss of the canal would be devastating. Not only would it undermine confidence in the military's ability to restore stability, it would embolden militants who continue to seek a restoration of Islamic rule in Egypt.

While inconvenient, in the worst-case scenario, Washington could make alternative arrangements to deploy military vessels to the Persian Gulf to counter Iran. And now that the fence along the frontier is complete, Israel too can mitigate much of the terrorist threat from Sinai. For Egypt, however, the targeting of the canal highlights the ongoing vulnerability of the state.

The Egyptian military claims it has made significant progress toward restoring security in Sinai. But Egypt's security problems now extend well beyond the peninsula, so much so that the situation is starting to resemble the low-level Islamist insurgency that persisted throughout much of the 1990s. Bolstered by the technical capabilities of foreign fighters, this round promises to be even more difficult for Cairo to contain. Until security in both Sinai and the Nile Valley is reestablished, Egypt's economic recovery and political stability -- along with Suez Canal shipping -- will remain at risk.

David Schenker is the Aufzien Fellow and director of the Program on Arab Politics at The Washington Institute. ❖

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