

# China-Egypt Financial Cooperation: Developments and Problems

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Since the formal establishment of strategic partnership, China and Egypt have continuously strengthened cooperation in the field of finance. The two countries have achieved positive progress through signing memoranda, establishing financial institutions, providing investment and financing support, and implementing the bilateral currency swaps. However, given the lower level of financial inclusion and the lack of efficient investment and financing systems, the two countries still face some difficulties and deficiencies, and it is difficult to achieve in-depth financial cooperation. At present, Egypt, as a country along the Belt and Road, supports the Belt and Road Initiative (BRI) launched by its biggest trade partner, China. Deepening China-Egypt financial cooperation plays a significant role in both promoting the implementation of BRI and advancing China's geopolitics, economic, security, and strategic interests. China and Egypt shall increase the size of currency swap based on existent cooperation, strengthen support for financial projects, build official dialogue platforms, and share achievements in fintech. All the activities mentioned above may contribute to the overcome of challenges, mutual communication, and the next phase of deepened cooperation.

*Keywords:* the Belt and Road Initiative, China, Egypt, financial cooperation, optimization countermeasures

## Main Features of China-Egypt Financial Cooperation

With prominent geographic advantage, Egypt is an important strategic hub for land and sea routes between Africa, Europe, and Asia. Egypt, the most populous country in the Middle East, is the third largest economy in Africa and a core member state of regional organizations such as the African Union, Arab League, and the Organization of Islamic Cooperation. As the first Arab country to establish diplomatic relations with China, China and Egypt have maintained friendly political relations for a long time but achieved little progress in economic and trade cooperation. Since the formal establishment of strategic partnership between China and Egypt, in 1999, the bilateral economic and trade cooperation has continued to expand, which prompted both sides to start financial cooperation. However, the financial cooperation remained at a low level in the following years. Driven by both Egypt's Revitalization Plan and the launch and promotion of China's BRI, China-Egypt financial cooperation has begun accelerating in recent years, enabling both countries to establish financial institutions in each other's regions to start business. In January 2016, the two countries issued *the Five-Year Outline on Strengthening Comprehensive Strategic Partnership Between China and Egypt*. With focus on

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financial cooperation, *the Outline* functions as a basic framework of the following cooperation (Xinhua News Agency, 2016). At present, China and Egypt have achieved certain progress in financial cooperation.

First, China and Egypt signed memoranda and established financial institutions in each other's countries engaged in general financial business. According to relevant agreements signed by both sides, in 1999, the National Bank of Egypt (NBE) which is the country's largest commercial bank started to set up the Asian Affairs Representative office in Shanghai, China. Since 2000, the China Construction Bank (CCB) and NBE have established correspondent banking relationship. In September 2003, CCB and NBE signed a memorandum of understanding for comprehensive business cooperation that will provide more complete financial and information services for Chinese and Egyptian merchants engaged in trade and investment. In May 2007, the China Banking Regulatory Commission approved NBE's application of establishing a branch in China. In December, the National Bank of Egypt Shanghai Branch was formally unveiled (China Network, 2007). In 2011, the China Development Bank (CDB) and Commercial International Bank (Egypt) S.A.E. (CIB) signed a Memorandum of Understanding on Cooperation to offer Chinese and Egyptian enterprises more diversified credit support and financial services. In January 2013, CDB opened the representative office of Cairo branch, China's first branch in North Africa. In May, Bank of China (BOC), in association with CIB, opened a Chinese business desk in Cairo to offer Chinese enterprises financial services such as investment consultation, international settlement, account opening, and project loan. By the end of 2016, many solely Egyptian-funded banks and Egyptian-foreign equity joint banks have provided Chinese Yuan (RMB) and Egyptian Pound (EGP) exchange services, and their ATMs have accepted UnionPay cards. These banks include, without limitation, Alexandria Bank, Ahli United Bank, Crédit Agricole Egypt, and BLOM Bank (Egypt). Banque Misr has cooperated and signed agreements with a large number of state-owned banks like CDB on letters of credit used in bilateral trade, remittance transfers, and other financial services. April 2017 has witnessed the establishment of Banque Misr's first representative office in Guangzhou, China (Southern Daily, 2017). Besides, on 22 June 2000, China Securities Regulatory Commission and the Capital Market Authority of Egypt signed the Memorandum of Understanding on Securities Regulatory Cooperation, encouraging both countries to further cooperate on basis of memoranda of understanding signed before.

Second, Chinese financial institutions provided Egypt with investment and financing support. China offered loans to Egyptian banks, encouraged Chinese and Egyptian financial institutions and enterprises to carry out financing cooperation, and assisted in Egypt's economic and social development plans and projects with grants or interest-free loans. All the activities have facilitated the financing of many development projects that Egyptians need. In 2009, CDB started its first business in Egypt and now cooperates with numerous local financial institutions such as the Central Bank of Egypt (CBE), helping Egypt increase its foreign exchange reserves and promote the development of its industrial sector and SMEs. For example, in 2016, CDB provided financing support and all-round financial services for the Jushi Egypt second phase project in addition to a loan of 1 billion USD to CBE (Invest In China, 2016). Besides, the Dairut independent power project gained support in financing and investment from Silk Road Fund and ACWA Power. February 2016 marked that CBD had offered a loan of 1.425 billion USD to Egyptian financial institutions with 900 million dollars received by CBE and 525 million dollars by NBE (China Investment Advisory Network, 2016). The credit granting project launched for CBE witnessed the first time CDB granted a large amount of credit to overseas central banks. As of May 2018, CDB had accumulatively granted USD 4.8 billion credit to Egypt projects, and invested and financed nearly 3 billion USD in Egypt. CDB had given support to some representative major projects

including Egyptian interbank credit, construction of the China-Ethiopia Suez Economic and Trade Cooperation Zone, fiberglass production line of Jushi Egypt, and 500 kV transmission line in Egypt (CRI Online, 2016). At present, Chinese financial institutions have invested more than 7 billion USD in Egypt.

China also invested and financed major Egyptian projects through development financial institutions targeted on developing countries such as the China-Africa Development Fund (CAD Fund), Silk Road Fund, and Asian Infrastructure Investment Bank. For instance, in 2008, the CAD Fund and Tianjin TEDA Investment Holding signed the investment agreement on Suez Economic and Trade Cooperation Zone which was the first industrial park CAD Fund had invested (China Trade News, 2016). In addition, the green finance has already become an important part of China-Egypt financial cooperation. In January 2016, China State Construction Engineering Corporation (CSCEC), which is one of the world's largest green infrastructure builders has been the first to obtain the franchise rights for the construction of important projects in the new capital of Egypt, providing this green project with investment and financing support (Dai, 2020).

Third, the bilateral currency swap was done. On September 20, 2016, the Central Bank of Egypt (CBE) and the People's Bank of China (PBOC) reached a preliminary agreement on bilateral currency swap arrangements, and signed the three-year currency swap agreement with a scale of 18 billion RMB (approximately 47 billion EGP) on December 6, which will ease Egypt's pressure on foreign exchange reserves (Xinhua News Agency, 2016). Under the agreement mentioned above, Egypt can use RMB in transactions with China which can use the Egyptian pound in return transactions.

Fourth, China and Egypt opened fintech cooperation. Recently, China and Egypt have taken corresponding policies and measures to vigorously develop various services in fintech. In November 2019, at the 16th annual global conference of the international financial forum (IFF) (F20 summit), China and Egypt determined the content of fintech cooperation which included two levels (Global Network, 2019). First, at the regulatory level, PBOC had issued relevant regulations and policies on the supervision of the fintech sector, while CBE was still a blank in this regard. China can provide Egypt with existing regulatory experience. Second, at the application level, China had such representative digital payment platforms as Alipay and WeChat payment, whereas the coverage of Egypt's banking system was relative limited, as well as many payment barriers to government services. It was the fintech applications like mobile payments that Egypt needed. Furthermore, diversified forms of financial businesses were also the important direction of fintech cooperation such as wealth management and lending. The two countries may deepen fintech cooperation through direct business or indirect investment. What is certain is that China-Egypt's fintech cooperation and digital finance industries imply good investment opportunities, development prospects, and vast development space.

### **Major Problems in China-Egypt Financial Cooperation**

The China-Egypt financial cooperation is facing the following four major problems need to be solved.

First, there is abundant cooperation in development finance but insufficient cooperation in commercial finance and relatively few branches established in each other's countries. At present, only CDB, the Representative Office of BOC, Silk Road Fund, and CAD Fund have investment and financing businesses in Egypt. The four Chinese state-owned commercial banks have not set up branches in Egypt let alone daily loan services, namely the Industrial and Commercial Bank of China, the Agricultural Bank of China, Bank of Communications, and China Construction Bank. As for Egypt, it has only two commercial banks in China. This situation does not match the two countries' positive economic relations and their relatively large trade volumes.

Second, the financing channels are limited, and only a few entities have access to finance. Particularly, the investment and financing system function at low efficiency. Since Egypt's domestic financial policies are not liberalized, the financing channels are not diversified, and the financing is inadequate. As a result, it is unlikely to carry out cross-border financing, equity financing, financial lease, and onshore guarantees for offshore loans. In addition, it is difficult for Chinese-funded SMEs in Egypt to get loans and finance.

Third, China and Egypt lack cooperation in insurance and securities. The agreement they reached has not been implemented. China Securities Regulatory Commission and the Capital Market Authority of Egypt have entered into the Memorandum of Understanding on Securities Regulatory Cooperation on 22 June 2000 to encourage both countries to further cooperate on basis of memorandums of understanding signed before, however, there has been no substantial progress on the cooperation.

Fourth, it is hard to deepen financial cooperation due to the lower level of financial inclusion in Egypt. Plenty of Egyptian financial business is not open to international market. CBE hasn't granted a new license to commercial banks or insurance companies for several decades. Therefore, the only way for foreign companies to enter Egypt financial markets is to acquire local banks or insurance companies. Chinese enterprises in Egypt are supposed to focus on how to properly conform with the two countries' accounting standards, as all Egyptian tax authorities follow the Egyptian Accounting Standards to calculate an enterprise's taxable amount of income. From the first half of 2003, Egypt has begun to implement the Compulsory Foreign Exchange Settlement and Sales System, requiring export enterprises and agencies that collect traveling foreign exchange to sell 75 percent of their foreign exchange earnings to bank (China Ministry of Commerce, 2011). Investors face challenges in the investment of Egyptian projects, the use of foreign exchange to pay for imported products, and in the repatriation of capital and profits.

### **Suggestions on Deepening China-Egypt Financial Cooperation**

*The Five-Year Outline on Strengthening Comprehensive Strategic Partnership Between China and Egypt* put forward three guiding opinions on the financial cooperation: firstly, encouraging Chinese and Egyptian financial institutions and enterprises to carry out financing cooperation; secondly, strengthening cooperation in banking supervision; promoting the timely signing of the memorandum of understanding on regulatory cooperation between the two countries' competent authorities, and supporting the existence of mutual banks and sharing banking experience under applicable laws and regulations; thirdly, stimulating the two countries' stock exchanges to further cooperation on basis of memoranda of understanding signed before. Based on the three guiding opinions, this paper provides the following suggestions.

First, create a long-term plan for China-Egypt financial cooperation. The plan as well as some transparent cooperation rules shall be formulated according to not only the features and demands of the economic and trade cooperation between China and Egypt but also the requirements of BRI for financial sector in the field of opening-up and cooperation. The two countries need to create a China-Egypt financial information exchange system based on the cooperation and gradually establish a multilateral coordination mechanism for the two countries' financial policies.

Second, synergize the cooperation in development finance and commercial finance. The financial cooperation between China and Egypt is mainly carried out through the cooperation with development financial institutions represented by the BRICS New Development Bank, Asian Infrastructure Investment Bank, Silk Road Fund, and the China Development Bank (CDB). The cooperation with commercial finance institutions

shall keep the pace. There should be more encouragement for Chinese-funded banks and financial institutions to set up branches in Egypt as a method to deepen financial cooperation. There should also be measures to promote the establishment of a broader network of correspondent banking relationships between the two countries and measures to expand bilateral cross-border settlement channels for domestic currency which is the basis to start cooperation in trade financing, property rights supervision, demand draft, and commissioned training.

Third, actively establish dialogue and cooperation mechanisms at various levels. On the one hand, boost bilateral cooperation mechanism. Subject to bilateral agreements, China is supposed to further the two countries' cooperation in monetary and financial stability through in-depth cooperation arrangements such as free trade agreements and bilateral currency swap agreements. The two countries shall formulate a cooperation plan through negotiation and shall strengthen the communication of information, policies, cooperation projects, and operating mechanisms to deepen the bilateral financial cooperation. Both China and Egypt should strive to promote in-depth and diversified development of regional financial cooperation in financial enterprises, services, markets, product innovation, and opening-up. On the other hand, develop the framework of multilateral cooperation and exchange forums. China and Egypt have various communication channels. The China Expo, China-Arab States Expo, China-Africa Economic and Trade Fair, and China International Industry Fair are all communication platforms where China and Egypt can discuss financial cooperation (Financial Information Network in China, 2020).

Fourth, strengthen financial support for China-Egypt key construction projects and continue to expand the influence of RMB in Egypt. There should be more financial support for China-Egypt key construction projects. The cooperation in bilateral domestic currency settlement and clearing should be carried out to facilitate the connectivity between the two countries' payment systems. There should be measures to actively promote China UnionPay to cooperate with CEB and CIB in bank cards and measures to build platforms for bilateral insurance cooperation.

Fifth, accelerate the development of China's fintech in Egypt. China has a higher level of online payment platform fintech than many developed countries. Moreover, China has established strategic partnership with more than 180 domestic and foreign banks and with some international organizations like VISA and MasterCard. In 2019, Egypt's first fintech center, FinTech Egypt, was established in Cairo as a provider of intellectual services for the country's financial development (Fintech Egypt, 2019). Given that Egypt has 50 million users with young in the majority, the largest number of Internet users among the Arab countries, China shall use financial infrastructure and scientific information technology management to accelerate the development of mobile payments in Egypt to share fintech achievements; to promote the interconnectivity of big data, and to help develop Egypt's economy and finance.

### **Conclusion**

The China-Egypt financial cooperation now remains in the initial phase which has achieved some progress. However, it still faces many difficulties and deficiencies. To deepen the financial cooperation, the two countries need to create a long-term plan and a high-level dialogue and cooperation mechanism, synergize the cooperation in development finance and commercial finance, strengthen financial support for China-Egypt key construction projects and accelerate the connectivity of fintech. In consideration of the strong economic complementarity and profound foundation of cooperation between China and Egypt, the deepening of

China-Egypt financial cooperation, to a certain extent, has benefited from the mutual need of material structure and the role cognition of strategic partnership. It is certain that under the background of the synergy between China's BRI and Egypt vision 2030, financial cooperation will be a catalyst for further activating bilateral cooperation between China and Egypt. The joint efforts of the two sides will promote a new round of development opportunities and prospects for China-Egypt financial cooperation.

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