



Suez Canal and Its Long-term Prospects

The employer — the legal entity that runs the Suez Canal — is the Suez Canal Authority, but that authority is an agency of the Egyptian Government. This strike will increase the political pressure on President Mubarak to leave office in Egypt. The six thousand workers in the three principal communities around the canal, Suez, Port Said, and Ismailia, are needed to maintain and operate the canal.



Maritime commerce has several key choke points in the world. The Straits of Malacca, the Straits of Gibraltar, the Dardanelles, the two narrow channels on either side of Jutland, and several other similar natural landforms have historically provided politically sensitive areas and inspired wars. The British, for that reason, hold Gibraltar still. They held Singapore and Malta for centuries. The Trojan War was fought to determine who would control access between the Black Sea and the Mediterranean Sea. Russian efforts to acquire a warm water port was a catalyst for the Crimean War, with all the horrors that inspired Florence Nightingale. Natural harbors like San Francisco Bay or ports that were at the end of great rivers, like New Orleans, also had distinct advantages that translated into national political advantage.

The two most famous, and probably most important, canals — or manmade channels from one body of water to another — are the Panama Canal and the Suez Canal. Canals are very old systems and the idea of a canal connecting the Red Sea and the Mediterranean Sea is a very old idea. When the Suez Canal was built, it was less a political endeavor and more a straightforward economic business. The Suez Canal made sense because it provided an economic benefit over other means of transporting trade from the area of the Indian Ocean to Europe.

The Panama Canal, like the Suez Canal, provided important strategic and military benefits to the nation or nations who controlled them. The ability of the American fleet to shift naval vessels from one ocean to another gave that fleet a decided edge, as the Germans and Japanese well understood in the Second World War. Rommel and Montgomery grasped that control of Suez could easily pivot the North African Campaign as well.



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The Suez Canal was a primary cause of the 1956 war, which involved France, Britain, and Israel on one side and Egypt on the other. After the Six Day War in 1967, the opposing Egyptian and Israeli forces on the western and eastern side of the Suez Canal meant that it was not used for years. One benefit of the Camp David Accords was the open the canal.

Politicians and global strategists, however, forget how easily the benefits of transportation systems can be overplayed in market economies. The Suez Canal is a route for oil tankers, but the economies of scale of constructing oil tankers has made the canal itself too small to accommodate the oceans' largest tankers (although the canal is being widened.) The Panama Canal, an engineering feat of a century ago, could be replaced by other canals in Central America, if the capacity of the canal for certain types of traffic or if the pressures and dangers to that trade route made it too risky to use.

In the case of the Suez Canal, it is better for the workers, for Egypt, and for the civilized world if the operation of the canal is, as much as possible, a purely business enterprise. Private companies have a vested interest in the health, stability, and productivity of their workers. The Government of Egypt derives significant income from the operation of the canal. Government bureaucrats, not being good businessmen, will try to extract maximum immediate profits and eschew long-term planning. Well-trained, fit, workers, perhaps workers also with a profit-sharing plan, might be interested in making the Suez Canal as friendly to commerce as possible.

Instead, strikes and instability, political upheaval and the threat of war are, as always, very bad for business. What will a new Arab-Israeli War do to the profitability of Suez? What will a rising oil price, pushed higher still by the increased transportation costs and delays by strikes along the canal do for other options, like drilling in the Atlantic and Pacific oceans, mining for more coal, building nuclear power plants and even developing new whole systems for transporting oil?

Railroads in America once felt themselves the feted creatures of federal largesse, "too big to fail" in our federal transportation system. Yet all of the transcontinental railroads except for Great Northern, which did not accept any federal grants or help and which, instead, constructed the most sensible and cost-effective routes, flopped. Great Northern thrived purely on the efficient use of advanced technology and market planning. The government managers who oversee the operations at Suez, and any strike leaders who fancy that a sympathetic strike against Mubarak is smart politics will find out that smart politics is, almost always, bad business.

Once emirs and sultans in that part of the world possessed an immense natural trading advantage because of where they sat at the junction of lands and waters. Europe had a passion for the spices of India and the Indian Ocean basin: black pepper, nutmeg, cinnamon, allspice, and other treasures worth their weight in gold. China or Café also possessed a vast array of goods and products as well. The trade routes, the "spice roads," were the best — sometimes the only — way to traffic in these goods in meaningful quantities.

Then these masters of the spice ports and spice roads got greedy, not only for money but for power. European nations saw their gold being used to enrich beyond good reason these Arab and Moslem leaders. Several things happened. Most famously, a number of explorers sought alternative routes to India, around Africa, across the Atlantic, and across, ultimately, the Pacific. In the course of these journeys, explorers found new continents — and also hospitable climates to grow spices and to provide new fruits and vegetables unknown to Old World.

How high was the fall of those men who once mastered the spice trade? Today, in any fast food



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restaurant in America, children can have almost all the packets of black pepper and refined sugar they want. The reaction of markets, through exploration, invention, investment, and strategic economic thinking has been such that goods once, quite literally, worth their weight in gold are now given away without a thought. Could that happen to oil again (anyone remember “gas wars”?) Could it happen to transportation systems (it has, almost without fail, happened whenever governments tried to run ahead of markets.)

Photo of Suez Canal: AP Images



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