China in North Africa

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Over the last ten years, the economic presence of the People's Republic of China (PRC) in Africa has notably increased (Goldstein and Pinaud, 2006). African countries have become major suppliers of raw materials for Chinese energy and mining industries. But China's interest in North Africa is also explained by the proximity of this region to the European Union – the first world consumer market –, the local qualified workforce, and a standard of living, like Morocco's, appreciably higher than in sub-Saharan Africa.

China in North Africa: An Overall View

Trade between the PRC and the African continent experienced new advances in 2007. Bilateral trade grew from 39.7 billion dollars in 2005 to 55.5 billion in 2006 and later to 73.3 billion in 2007. In North Africa, China has again consolidated its trade positions by significantly increasing its market shares. Bilateral exchanges between China and Morocco, Algeria, Tunisia, Libya and Egypt amounted to 13.9 billion dollars in 2007 in comparison to 10.1 billion in the previous year (i.e., an increase of 38%).
Since 2007, China has been a major supplier of southern Mediterranean countries. The PRC is now the first supplier of Egypt; the third of Algeria, Morocco and Libya; and the seventh of Tunisia. Chinese imports have continued to increase (by 38% in Algeria and 47% in Egypt) in comparison to 2006. Moreover, in 2008 China should become the second supplier of Algeria after France but ahead of Italy. Nevertheless, as in other North African countries, bilateral trade is highly unbalanced. Tunisia's cover rate in its trade with China is only 6% in comparison to 42% for Algeria. And these five North African countries only represent 3.4% of the PRC's exchanges in 2007. However, these encouraging figures for Peking should not conceal the reality. The PRC is unable to transform its commercial revenues into political influence and energy cooperation.
The PRC established close relations with the Maghreb countries at the time of independence, in 1956 with Egypt and in 1958 with Morocco. In December 1958, China was the first non-Arab state that recognised the Provisional Government of the Algerian Republic (GPRA). After the independence of Algeria, political relations continued to be close, marked by frequent bilateral meetings. On his recent trips to Africa, Hu Jintao visited Algeria and Egypt (2004) and later Morocco (2006) but his third trip to Africa in January 2007 did not include any stop in North Africa. Diplomatic relations with Libya were only established later, in 1978, given that Tripoli had until then recognised the island of Taiwan. And despite the rupture of diplomatic relations, Libya continues to have quite close links with the nationalist island which in early 2008 opened a trade representative office in Libya. In January 2006, Muammar Gaddafi's son, Saif al-Islam, visited Taiwan, and in May 2006 Tripoli received the Taiwanese President Chen Shui-bian on his way back from Costa Rica.
Like in many African countries, such as Angola, the PRC has built numerous civil infrastructures in North Africa. Algeria, due to its high foreign currency reserves (of around 110 billion dollars at the end of 2007) brought by the oil manna, has become a privileged market for Chinese construction and public works companies. The plan of support for the economic re-

[1] Data from the PRC Ministry of Overseas Trade: www.mofcom.gov.cn

launching approved in 2001 by the Algerian government seeks to improve the road, railway and sea infrastructures of the country and to construct more than one million homes (Lafargue, 2007). Chinese companies have multiplied civil engineering works. CSCEC (China State Construction & Engineering Corporation) has constructed several buildings, such as the Sheraton Hotel in Algiers or the Al Qods shopping centre, heralded by its promoters as the largest in Africa. CSCEC has also built numerous civil and industrial infrastructures such as the Oran hospital or the Algiers airport and is currently completing the new headquarters of the Ministry of Foreign Affairs in Algiers. In September 2007, CSCEC won the contract for the construction of 700 houses in the new town of Massinissa. The Chinese consortium CITIC-CRCC obtained the construction of two of the three sections of the motorway linking Annaba to Tlemcen for an amount of 6.2 billion dollars. The Chinese company Sinohydro is undertaking the drainage work in the Souf Valley in Algeria and is involved in the construction of several dams in the country such as that of Bouggous in the *wilaya* of El Tarf. Finally, CSCEC will participate in the extension work of the University of Mansourah in Tlemcen. The presence of Peking is not limited to the construction sector. Several mine prospecting authorisations were granted in June 2007 to Chinese companies such as CGC Overseas Construction and China Geo Engineering. Some months earlier, in January 2007, the Chinese mining company Shaolin signed two contracts in order to start prospecting in the south of the country, in the region of Ahaggar, in the *wilaya* of Tamanrasset.

In the telecommunications sector, Chinese companies such as Huawei and ZTE (Zhongxing Telecom Equipment) are also very active. In January 2007, the Chinese telecommunications company ZTE opened a training centre in Oran in partnership with ENPT (National Post and Telecommunication School). In January 2008, ZTE signed an agreement with the Libyan operator for the construction of the first network in Africa following the WiMax regulation. In Morocco, Huawei has become the technology supplier (IPTV) for the operator Maroc Telecom. Chinese automotive manufacturers are gradually setting up in countries such as Algeria and Tunisia (notably the motor vehicle manufacturer Foryota). The increase in trade between the countries of the Mediterranean shores and China also fully benefits Egypt. The trade traffic through the Suez Canal rose greatly in 2007, providing the country with unprecedented revenues. In 2006, Egypt received 3.8 billion dollars from customs revenue and 4.6 billion in 2007, i.e. 4% of the country's GDP.

Also in Egypt, a Chinese company will invest 30 million dollars in a textile factory in the town of Borg al-Arab. And a Sino-Egyptian company will participate in the development of the Suez free zone called Sezone.

The main assets of Chinese companies are their competitiveness in relation with Western suppliers (the Chinese workforce is paid according to the conditions of the country of origin), their rapidity in execution of works and a quality considered superior to that of local suppliers. In Morocco, Transtech Engineering Corporation (TEC) constructed the Borj Moulay Omar railway tunnel in 2004 linking Sidi Kacèm to Meknès and is responsible for the railway link works between Tangiers and the port of Ras R'mel. The use of Chinese companies is equally justified by the very worrying social situation in the region, as in Algeria with a notable lack of housing. Nevertheless, this foreign presence is paradoxical in a country where the unemployment rate is about 15% of the active population (30% for the under-25s).

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For a long time this workforce provoked little disapproval because the Chinese do the jobs that the Algerians reject and because their work directly benefits the Algerian population. However, far from the official discourses, the still muffled criticisms are multiplying. The issue of Chinese immigration is now recurrent in the Algerian press, such as in the daily *El Watan*. There is a latent feeling of xenophobia towards these thousands of Chinese workers, who live isolated from the rest of the population.

China's Motivations

In North Africa, China pursues two main objectives: finding new suppliers of raw materials for its energy and mining industries and entering a regional market of almost 150 million consumers.

In the energy sector, the results are still half-hearted. The oil contracts signed by Chinese companies in

North Africa continue to be limited. In the hydrocarbon sector, China is for the time being only a minor client of the North African countries because just 2.1% of oil exports from Algeria go to China in comparison to 5% for Libya. In total, this North African region only covers 2% of Chinese oil imports. China is certainly penalised because of its distance vis-à-vis the Mediterranean countries and because of the obligation for oil tankers to use the now highly congested Suez Canal.
In Libya in 2004, the CNPC (China National Petroleum Corp) constructed two oil pipes linking the Wafa oil field with the port of Mellitah in the west of Tripoli on behalf of the Italian ENI (Ente Nazionale Idrocarburi) and the Libyan NOC (National Oil Corporation). But, for the time being, Chinese investments in the country continue to be low despite the interest expressed by Peking. Libya has significant oil reserves (3.4% of world reserves) and, above all in the next few years, the pipelines linking the oilfields of the Murzuk basin (in the south-west of the country) with the Mediterranean ports could be extended in order to allow the export of oil from Niger.
But in Libya, where the CNPC had invested taking advantage of the isolation of the regime, Chinese companies are now confronted with Anglo-Saxon competitors, since the lifting of American sanctions from 2004. The first tenders have only granted Peking still limited prospecting areas. And the PRC has even been snubbed, given that in the third tender session in December 2006, the Taiwanese public company Chinese Petroleum Corporation, was granted an exploitation concession in the Murzuk 162 oilfield.
In Algeria, American interests continue to be well established, notably with the presence of Anadarko and Amerada. The events linked to the promulgation of the law on hydrocarbons have dissuaded numerous investors from carrying out their projects. In March 2005, the Algerian Parliament had adopted legislation allowing foreign companies to hold the majority, indeed the totality, of the capital of the oilfield that they would discover. This liberal legislation has never been applied and, in October 2006, a marked turning point in the oil policy started with the adoption of several amendments (decree no. 06-10 of 29th July 2006) stipulating that Sonatrach had to continue as major shareholder in all exploitation projects.
For the time being, the cooperation projects in the field of hydrocarbons are below Peking's expectations. But the next few years should be more favourable, because China could benefit from the establishment of a gas cartel, an idea supported by Vladimir Putin, which would notably involve Algeria, Russia, Qatar, Venezuela and Iran. Peking, which is for the moment just a weak importer of gas (2% of its gas consumption is bought abroad in comparison to 50% for oil), should look favourably on this project. According to the report of the International Energy Agency (IEA, 2007), the PRC's gas imports will experience a significant increase in the next twenty years, undoubtedly meeting 40% of the domestic demand in 2015. Although Australia and Indonesia will be privileged suppliers, the countries of the southern shore of the Mediterranean should be equally solicited. For the moment, 90% of the gas exports of Algeria and 65% of those of Russia are to the European Union. In order to be a real threat for prices, these two suppliers must first reduce their trade dependence on Europe, their main client. The creation of a gas OPEC would therefore oblige Russia and to a lesser extent Algeria to further export to Asia (mainly China and India) in order to reduce their dependence on the European market.

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The five North African countries with a population of 156 million consumers are a promising market for the PRC companies. Chinese products (common consumer goods such as small electrical appliances, clothing, tea…) are adapted to a population with a still limited purchasing power. The standard of living in Tunisia or Morocco represents only 15% of that of a French person. Western brands with excessively high prices do not meet the demands of the local clientele. North Africa can also act as a springboard for Chinese investors in order to get access to more developed markets on the northern shore of the Mediterranean. The success of low-cost products, such as the Logan, shows that in the European Community there is also a demand for products of rudimentary technology but with competitive prices. Haier and Lenovo test their products in Africa and improve their reliability and their safety regulations to prepare them for the Community market.

A Still Limited Chinese Presence

Although trade exchanges advance significantly, the economic and financial presence of China in North Africa is still limited. For the year 2007, according to the data of the United Nations Conference on Commerce and Development (CNUCED, 2007), Chinese investments in Morocco only represented 4.5% of the total of Foreign Direct Investment (FDI) and 3% of the total stock. A situation that contrasts with certain Sub-Saharan African states in which the PRC is now the main investor. This situation is explained by the size of the economies of North African countries and their particularities. In 2007, DFI was established at 10.2 billion dollars in Egypt and at 5.2 billion in Morocco but for China it continues to be weak.

This situation can be explained in several ways. In the first place, the states of the Maghreb and the Mashreq are beneficiaries of mass investment made by the monarchies of the Arab-Persian gulf and more frequently than by European countries. In 2006, France and Spain represented 61% of the FDI in Morocco. Chinese capital is not therefore as indispensable as in sub-Saharan Africa, where the backers of western funds appear more cautious (notably because of political instability and bad governance practices). North African countries, due to their more rigorous public management, further reassure the international financial community and can therefore obtain financial aid from the European Union, the International Monetary Fund (IMF) and the World Bank. Algeria and Libya estimate that relations with China should not be exclusive. All the more so as China is not capable of providing them with the latest military and nuclear technology they need. In this field the Maghreb countries prefer to turn to the United States, Russia or France. Moreover, on the occasion of his visits to Algeria (March 2006) and Libya (April 2008), Vladimir Putin signed several arms deals.

The year 2007 therefore confirmed the establishment of the PRC in North Africa. This Asian presence was firstly well received but now the criticisms, both in the Maghreb press and in the Moroccan magazine *TelQuel*, of Chinese companies are increasingly frequent.

A Questioned Chinese Presence

Several criticisms are levelled at PRC companies. Imported goods are deliberately undervalued at customs and the products sold are of mediocre quality and sometimes prove to be dangerous. Chinese companies are equally accused of not respecting the fishing quotas assigned to them and of infringing the regulations on fishing zones.

The lack of reinvestment by Chinese entrepreneurs in Africa is also frequently denounced. The profits made by Chinese merchants are sent back to China. The imbalance of trade relations also awakens a larger number of criticisms. Morocco's cover rate in its trade with China therefore grew from 18.6% in 2006 to 16.3% in 2007. And China is often seen as responsible for the increase of prices of foodstuffs such as rice or wheat (the price of a bushel of wheat on the Chicago market has multiplied by two since May 2007). In China, the reduction of the useful agricultural surface area (because of the weakness of irrigation and the urbanisation of the country) and the changes in food consumption involve an increase in food imports. The appreciation of the oil barrel (notably caused by the strong Asian demand) also increases the cost of food transport. Finally, the promotion of agrofuels in Europe, as in the United States, also explains this inflation of prices of agricultural products. In Egypt, a wheat importing country, the social situation is worrying. Several riots took place last April to protest against the increase in the price of bread and flour.

Moreover, Morocco and Tunisia are also the victims of industrial delocalisations of Western companies that decide to settle in China. In spring 2007, the American manufacturer of electronic components for the car industry Technitrol announced the closing of its head office in Tunisia to settle in China.

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In Morocco, the presence of Chinese investors in the textile sector is regarded with mistrust. Since the abolition of Multi Fibre Arrangements (MFA) on 1st January 2005 (which eliminated any quota for the

Chinese textiles when entering the European Union), Moroccan companies are faced with the formidable competition of Asian goods on the European market. Chinese production has a weaker cost price thanks to its wage competitiveness (the cost of time in the manufacturing industry in China is about 0.7 dollars against 1.25 dollars in Morocco) and to a more important volume allowing economies of scale. Moroccan small and medium-sized enterprises (SMEs) have then developed their activities in the field of fast fashion thus becoming the privileged subcontractors of European brands concerned with regularly renewing their collections and searching for suppliers capable of guaranteeing delivery in a few days. But in this market niche, Chinese entrepreneurs in Morocco, notably in Derb Omar, the large trading district of Casablanca, are equally active, arriving with their own cloth and rarely using the local workforce. Because of the free trade agreements signed by the European Union and the United States, Morocco is an ideal production base. However, in 2007, textile production strengthened after several months of difficulties and Morocco, as well as Tunisia and Egypt, should be the beneficiaries of the introduction of the gradually implemented pan-Euro-Mediterranean cumulation system of origin. Within the framework of this mechanism, the textile products aimed at the European Union must be manufactured or significantly modified in partner countries such as Turkey and the five North African countries. This initiative should limit the abuses committed by factories, whose activity is limited to assembly without any real added value on site.

In the next few years, China must take into consideration India's ambitions in this region. In April 2008, the first India-Africa summit was held in New Delhi, with the presence of fourteen heads of state and government including those of Algeria, Egypt and Libya. Bilateral trade between India and Africa is steadily progressing (25 billion dollars in 2007) but is still notably lower compared to Sino-African trade. Like Peking, New Delhi is searching for suppliers of raw materials for its energy and mining companies and outlets for its industry in Africa. But for the time being, relations between India and North Africa are still limited, notably for political reasons due to the close links between New Delhi and Israel.

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