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## Economic Brief

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**Janvier Litse**  
Acting Vice President ORVP  
k.listse@afdb.org

**Jacob Kolster**  
Director ORNA  
j.kolster@afdb.org  
+216 7110 2065

**Nono Matondo-Fundani**  
Director ORNB  
f.matondo@afdb.org  
+216 7110 2054

## Chinese Investments and Employment Creation in Algeria and Egypt

China's presence in North African economies (Algeria, Egypt, Libya, Morocco and Tunisia) is expanding rapidly as both an important trading partner and increasingly as an investor into the region. Chinese involvement can be readily seen in sectors like energy, infrastructure development and retail trade across the region. Less recognised is the growing position of Chinese firms in the manufacturing sectors of selected North African countries. At the same time, like other lower to middle income developing countries, North African industry has experienced the fallout associated with Chinese competitiveness in manufacturing within their domestic market and in third country markets. This has naturally contributed to the underlying structural problems of unemployment facing countries in the region and raised fears in some quarters that greater Chinese involvement would ultimately harm the development aspirations of North Africa.

Despite this assessment of China's trade competitiveness and its negative impact on North Africa industries, there has been little focus on the impact of Chinese investment into sectors of the North

African economies and, concurrently, its impact on local employment. Given that a key challenge facing contemporary North African economies is that of job creation for the growing population, it is important to assess exactly where China is investing and whether its investments have affected this pressing concern. In particular, is the rising tide of Chinese investment into manufacturing and assembly plants in North Africa a positive harbinger for the region's economies? What is the nature of this investment, which sectors does it target, does it create employment and what kind of jobs is being produced? More generally, does this suggest that Chinese led forms of South-South cooperation can produce tangible benefits for recipient countries?

In order to answer some of these questions, this paper will conduct a survey of China-North African trade and investment patterns across the region, assessing the impact of Chinese FDI into creating employment in two case studies in particular, Algeria and Egypt, and provide an analysis of the factors affecting employment generating investment in the region.

\* This paper was prepared by Chris Alden (London School of Economics and Political Science / SAIIA) and Faten Aggad-Clerx (ECDPM) under the supervision of Vincent Castel (Principal Program Coordinator, ORNA) with support from Paula Ximena Mejia (Consultant, ORNA). Overall guidance was received from Jacob Kolster (Director, ORNA) and Nono Matondo-Fundani (Director, ORNB). The team also included Diabaté Alassane (Principal Country Economist, ORNB), and Richard Schiere (Assistant to the Chief Economist). The analysis and findings of this report reflects the opinions of the authors and not those of the African Development Bank Group, its Board of Directors or the countries they represent.

## I. China's Economic Engagement in North Africa

China's rising involvement in North African economies is part and parcel of its growing share of trade and investment worldwide. This reflects both the re-centring of global manufacturing to coastal China, with the concomitant need for energy and mineral resources to support this process. The widely-touted 'going out' policy, which marshalled the financial means of the world's largest stock of foreign reserves to the expanding capabilities of China's leading state-owned enterprises, marked the emergence of an assertive approach to gaining access to these resources in once-far off regions like Africa. Breaking into the African market through a combination of appealing financial terms and astute diplomacy, China presented a welcome alternative to traditional Western domination. The result is that Chinese trade with Africa has grown more than tenfold over the last decade, from US\$10 billion in 2000 to US\$127 billion in 2010, making China the continent's single largest trading partner.<sup>1</sup> Its investments have surged as well, with China becoming the largest provider of new OFDI to Africa in 2008 with over US\$5 billion and, by the end of 2009 Africa has come to occupy 4% (the same total as it has in Europe) of China's total outward investment stock.<sup>2</sup> And, when you remove OFDI to Hong Kong, Cayman Islands and the British Virgin Islands, China's OFDI stock to Africa is closer to 21%. At the same time, China's trade with Africa remains overwhelmingly dominated by the exchange of resources for finished goods, replicating the pattern seen with other external trading partners, while the bulk of its investments have focused on supporting extraction in Africa's resource sector.<sup>3</sup>

The picture of China-North Africa trade and investment mirrors many features of the overall structure of economic relations across the continent but there are some suggestive distinctions. Trade between China and North Africa and the

Middle East (MENA) has risen to US\$145.46 billion in 2010, with the energy and constructions sectors dominating exchange in countries like Libya and Algeria, minerals like phosphates occupy an important place in Chinese trade with Morocco and fertilisers representing the bulk of trade with Tunisia.<sup>4</sup> Manufactured items such as electronics, textiles and clothing form the bulk of exports from China to North Africa while energy resources, minerals and agricultural and foodstuffs constitute the bulk of North African exports to China. Overseas Foreign Direct Investment (OFDI) flows from China to North Africa are significant in continental terms as they represent 15% of all flows to Africa, up from 10% in 2003.<sup>5</sup> Nevertheless, it should be noted that China's trade with the region still is less when compared to the European Union, with two-way trade set at US\$ 193.3 billion in 2010 between with the MENA region and the European Union.<sup>6</sup>

The impact of Chinese competitiveness in manufacturing, something widely remarked and experienced in other African countries (not to mention globally), is more selectively felt in region. According to a World Bank study of the impact of China and India on the Middle East and North Africa, Chinese (and Indian) exports have displaced some key industrial products in areas like steel textiles, apparels and electronics in the period 1995-2005.<sup>7</sup> There is evidence of some relocation and specialisation of North African industries in response to these developments.

At the same time, there have been varied levels of performance on the part of individual North African economies in attracting new OFDI and exporting abroad. This reflects the fact that some North African economies have been able to exploit preferential trade agreements with important exports like the European Union (EU) and the United States. Export

<sup>1</sup> Standard Chartered, 'China-Africa Trade: setting the scene for the future', April 2011, [research.standardchartered.com/researchdocuments/Pages/ResearchArticle.aspx?&R=76277](http://research.standardchartered.com/researchdocuments/Pages/ResearchArticle.aspx?&R=76277)

<sup>2</sup> Statistical Bulletin of China's Outward FDI, Beijing 2009.

<sup>3</sup> Standard Chartered, *op.cit.*

<sup>4</sup> See recent interview with Chinese Minister of Foreign Affairs <http://hr.china-embassy.org/eng/zxxx/t820232.htm>

<sup>5</sup> Castel, V. et al. BRICs in North Africa: Changing the Name of the Game, In *North Africa Quarterly Analytical*, January 2011, pg 8

<sup>6</sup> [http://www.tralac.org/cgi-bin/giga.cgi?cmd=cause\\_dir\\_news\\_item&news\\_id=100135&cause\\_id=1694](http://www.tralac.org/cgi-bin/giga.cgi?cmd=cause_dir_news_item&news_id=100135&cause_id=1694)

<sup>7</sup> World Bank, *Strengthening MENA's Trade and Investments Links with China and India* (Washington DC: IBRD September 2008), pp 9-10.

performance by Tunisia and Algeria, for instance, has improved in EU markets in recent years while Egypt has been able to exploit the preferential access to the US market successfully. Other North African states such as Morocco however have experienced a reduction in exports to the traditional European market. Moreover, some North African economies retain significant tariff and non-tariff barriers to entry which effectively stifle.

## 1.2 Survey of China-North Africa FDI and Trade Patterns

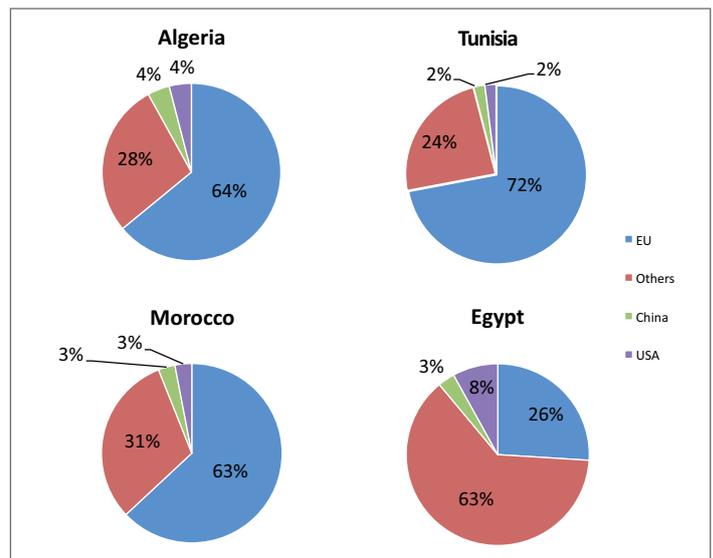
China's expansion into Africa came in different shapes and forms. In many ways China's engagement in North Africa differs from its engagement in Sub-Saharan Africa. Starting with investments in the extractive industries and in infrastructure, China's interest in North Africa quickly expanded beyond these areas to incorporate electronics, automotive, and textiles. This has led to a considerable increase in both investment and trade volumes between China and North Africa. Although the EU and the Gulf countries continue to be the main economic partners of all North African countries (see Figure 1), China is surely gaining space.

China's initial interest when trading with North Africa was oil and gas (from Algeria, Egypt and more recently Libya). However, it also slowly got to diversify its trade with these countries slowly expanding its imports from and exports to North Africa to a variety of goods including fertilisers, cotton, and perishables (see Annex 1 for some examples). For instance, between January and August 2010, Algeria-China bilateral trade amounted to US\$3.98 billion, up by 7.5%, compared to the previous year. It is however important to note the trade deficit. Algeria's export to China was US\$0.8 billion up by 133 %, accounting for 2.3% of its total export. Algeria's import from China was US\$3.18 billion, down by 5.3% and accounting for 12.2% of the country's total import. This puts a figure of US\$2.38 billion in trade deficit. Nonetheless, in 2010, China ranked as Algeria's 12th export partner and its 2nd import partner after France – the second year in a row.<sup>8</sup> The trade figures with Egypt were even higher while trade with

other North African countries was in an upward trend (see Graph 2).

China has also secured several construction contracts in North Africa. Algeria granted China construction contracts worth US\$20 billion to 50 Chinese companies<sup>9</sup> making the country the biggest market in Africa for Chinese construction firms and one of the most important around the world. These contracts went largely into the building of low-cost government housing as well as building parts of the East-West highway. In Libya, the China Railway Construction Corporation (CRCC) won two contracts with a combined value of US\$ 2.6 billion to build the rail connection from the east to the west of the country.<sup>10</sup>

Figure 1: Share of China in North African trade (2008)<sup>11</sup>



Most interesting of all, China has expanded its investments in North Africa to focus on non-oil/gas field. Thus Huawei, the second-largest telecommunications equipment producer in the world, has become the leading provider of digital television technology to Maroc Telecom. Chinese companies also started manufacturing electronics in the region, notably Hisense, which opened in 2008 its fifth production plant outside of China in Egypt. Together with its Egyptian partner, Sun TV, Hisense is also producing 100,000 LCD TVs every year. The total investment into the Egyptian economy

<sup>8</sup> Chinese Ministry of Commerce, Algeria Trade Statistics in August of 2010, February 2011. Available at <http://english.mofcom.gov.cn/aarticle/subject/minister/lan-mub/201102/20110207420824.html>

<sup>9</sup> Castel, et al, The BRICs in North Africa: changing the Name of the Game, North Africa Quarterly Analytical, The African Development Bank, January 2011 pg 8

<sup>10</sup> China Railway Construction Corporation Limited. CRCC Wins USD2.6 bln Railway Contracts in Libya. 24 February 2008. <http://www.crcc.cn/Page/536/Sourceld/1711/Infold/4099/default.aspx>

<sup>11</sup> Invest in Med, Investissements prioritaires pour le développement de la logistique en Méditerranée, Etude no. 4, Septembre 2009

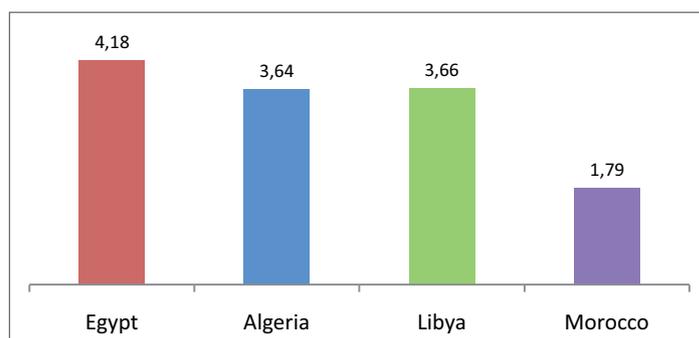
once all phases of the agreement are concluded will be US\$60 million.<sup>12</sup>

Part of the reason for this shift into manufacturing relates to the rising consumer purchasing power in these regions and, concurrently, tough competition within the Chinese domestic market.<sup>13</sup> Indeed, when compared with China, eleven African countries registered higher per capital income in period between 2005-2009.<sup>14</sup> Moreover, according to an UNCTAD report, if Africa is able to maintain an average 5% growth rate over the next few years, the consumer spending is expected to continue to expand from US\$860 bn 2008 to 1.4 tn in 2020.<sup>15</sup> The interest of Chinese companies to establish themselves in North Africa is also related to the prospects of an easier access to the European market. The preferential trade agreement that all North African countries (but Libya) have with the EU mean that goods manufactured in the region can be exported to the EU while facing lower tariff barriers. The decision of the EU in April 2011 to relax requirement on rules of origins for North Africa thus allow exports from North Africa to source products notably from China while still benefitting from a preferential treatment<sup>16</sup>, will provide an additional carrot to attract Chinese investors to establish more factories in the region.

However, the spectacle of unrest in North Africa has already had a negative impact on economic relations, with expected to decrease the trade figures between the two regions.<sup>17</sup> The Chinese Ministry of Commerce indicated that the value of newly contracted projects in North Africa and the Middle East decreased by 53.2 % year-on-year to \$3.47 billion from January to February 2011, notably with a 45.3 % decline in Libya and 97.1% in Algeria.<sup>18</sup> Most dramatically, with the onset of violent demonstrations and outright rebellion in Libya China announced it was ceasing all economic activities in that

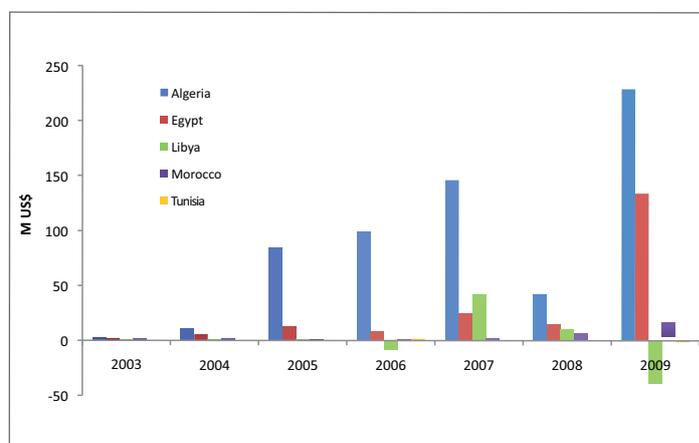
country.<sup>19</sup> Chinese officials indicated that the number of Chinese companies engaged in Libya shrank by more than 45% in the first two months of 2011 thus pushing China to announce the suspension of its activities in Libya.<sup>20</sup> Egyptian-Chinese trade, too, has experienced a sharp downturn since the events in Tahrir Square in January 2011. Like Libya, the evacuation of Chinese citizens hit commercial relations very hard (see below).

**Figure 2: China trade with North African Countries (2009)**



Source : (Graph 2) China's trade with North African Countries (2009)<sup>21</sup>

**Figure 3: Chinese FDI flows to North Africa**



Source : (Graph 2) China's trade with North African Countries (2009)<sup>21</sup>

<sup>12</sup> Eugenia Pecoraro, China's Strategy in North Africa: New economic challenges for the Mediterranean region, Working Paper 26/2010, Institut Universitari d'Estudis Europeus, pg 21

<sup>13</sup> UNDP, Economic Development in Africa Report 2010, Geneva: UNDP 2010, p 82.

<sup>14</sup> UNDP, Economic Development in Africa Report 2011, Geneva: UNDP 2011, pp 82-83.

<sup>15</sup> UNDP, Economic Development in Africa Report 2011, Geneva: UNDP 2011, p. 84.

<sup>16</sup> Council of the European Union, Council authorises signing of the Euro-Mediterranean convention on preferential rules of origin, 14 April 2011, 9101/11

<sup>17</sup> Chinese Ministry of Commerce, China's ODI set to Grow despite setbacks, 23 March 2011. <http://english.mofcom.gov.cn/aarticle/newsrelease/counseloroffice/westernasiaandafricareport/201103/20110307462670.html>

<sup>18</sup> Chinese ministry of Commerce, China's ODI set to Grow despite setbacks, 23 March 2011. <http://english.mofcom.gov.cn/aarticle/newsrelease/counseloroffice/westernasiaandafricareport/201103/20110307462670.html>

<sup>19</sup> This was reported by several news outlets. See for instance Reuters, China Railway suspends Libya projects, evacuates workers. 2 March 2011 <http://www.reuters.com/article/2011/03/02/chinarailway-idUSTOE72100Q20110302> and Ding Q, S. Jingting & Z. Siyu, China Daily, 22 March 2011, [http://www.chinadaily.com.cn/cndy/2011-03/22/content\\_12205738.htm](http://www.chinadaily.com.cn/cndy/2011-03/22/content_12205738.htm)

<sup>20</sup> Chinese Ministry of Commerce, MOFCOM: Unrest hits China's foreign cooperation, 25 March 2011. <http://english.mofcom.gov.cn/aarticle/newsrelease/counseloroffice/westernasiaandafricareport/201103/20110307466776.html>

### 1.3 Impact of Chinese Trade Competitiveness on North African Manufacturing

China's trade competitiveness in manufacturing is a recognised world-wide phenomenon. In this regard, the impact of Chinese trade would be expected to undermine the capacity of North African industries which, until recently (and still is the case in certain sectors) benefited from subsidies, tariff walls and other forms of state shelter. This can in fact be seen in the textiles, shoes and clothing sectors, where Chinese imports have had a dramatic effect on the ability of locally-manufactured products to sell to its most lucrative overseas market, that is the European Union. For instance, the textile sector in Morocco employs around 200 000 workers, providing the highest source of income in manufacturing sector in that country. With the phasing out of the multi-fibre agreement at the end of 2004, Chinese textiles, clothing and shoes exports broke in the European market, causing an immediate crisis,<sup>22</sup>. With intensive lobbying by European and North African manufacturing firms, the EU introduced a quota system that restricted the import of Chinese garments to the EU in 2005. This was supposed to provide an opportunity for both Tunisian and Moroccan industries to retool production, cut costs and

rethink their market strategy.<sup>23</sup> Nonetheless, with the ending of the quotas in 2007, the Tunisian and Moroccan economies was exposed yet again to Chinese competition. Two months after the lifting of the quota, Moroccan textile exports to the EU fell by 22%.<sup>24</sup> Chinese exports thus continue to challenge North African producers in third country markets and increasingly domestically as well, producing further losses to local businesses that were compounded by job losses.

However this broader observation needs to be balanced against the role of China as an investor in the region. Chinese OFDI has been intensifying over the past few years – especially in Algeria, Libya and Egypt – and has reached 15% of Chinese total FDI in Africa in 2007 compared to 10% in 2003. And while Chinese investment has been aimed primarily at the energy and construction sector within North Africa, there is a small, but growing proportion moving into manufacturing and services. This is especially the case in resource-poor Egypt and in Algeria. The current impact and potential implications of this widening of the OFDI portfolio in North Africa, especially in ameliorating some of the troubling features of North African economies such as unemployment forms the next part of the paper.

<sup>22</sup> Different figures are advanced. See OECD, 2004. Maroc. [www.oecd.org/dataoecd/27/42/36798160.pdf](http://www.oecd.org/dataoecd/27/42/36798160.pdf); News reports claim that 30 000 jobs were lost. <http://www.nytimes.com/2005/09/26/style/26iht-rqa.html>. Other sources mention the amount of 20 000 job losses.

<sup>23</sup> See European Commission. Commission Regulation (EC) No 1402/2007 laying down rules for the management and distribution of textile quotas established for the year 2008 under Council Regulation (EC) No 517/94.

<sup>24</sup> Mohamed Tazi, director of the Association marocaine des industries du textile et habillement (AMITH), quoted in media reports. See for instance: <http://www.executive-magazine.com/getarticle.php?article=10602>

<sup>25</sup> Castel, V. et al. BRICs in North Africa: Changing the Name of the Game, In North Africa Quarterly Analytical, January 2011, pg 8

## II. North Africa – the Challenges of Unemployment and the China Factor

The spectacle of unemployment and under-employment problems across the region is a persistent feature of the regional economies in North Africa. It is especially acute amongst the youth and addressing this phenomenon is amongst regional governments' top priorities. The fact that China's investment has moved outside of the energy and mineral sectors in some North African countries, providing capital to set up manufacturing and assembly plants in areas as diverse as textiles and automobiles, is a potentially encouraging sign. Moreover, the Chinese decision to establish some of its flagship Economic and Trade Cooperation Zones (ETCZs) in the region, linked to meeting both the growing domestic demand in these host countries and as a platform to access other consumer markets, demonstrates a willingness to engage in long term deepening of its economic engagement. Two countries in particular, Algeria and Egypt, have been targeted by Chinese firms who have chosen to set up businesses both within the newly founded ETCZs set up in these countries as well as outside these structures.

### 2.1 Survey of Problem of Unemployment and Labour Markets Within Individual North African States

Despite a steady decrease in unemployment rates in the past decade, North African countries continue to battle unemployment and in particular youth unemployment. With roughly 25% unemployment amongst the youth, North Africa presents one of the most challenging environments.<sup>26</sup> Some governments have introduced employment schemes and educational or training programmes in order to deal with

this phenomenon but not all were successful in curbing the unemployment rates.<sup>27</sup> In the main, these have done little to alleviate youth unemployment in the region as graduates struggle to find suitable jobs.<sup>28</sup> At the one end of the spectrum, countries like Tunisia, with a relatively small population and declining birth rates should have been in a better position to tackle unemployment through a combination of strong policy frameworks and opportunistic use of the EU relationship – seen most vividly in the negotiation of a bilateral trade agreement with Europe. However, like other countries in the region its performance in alleviating this problem has not be spectacular. At the other end of the spectrum, is Egypt with the largest population in the region and a high youth unemployment ratio that, despite the strong growth rates of the past decade, has been unable to improve much upon this.

The countries which have had the most trouble with unemployment of the labour force as those with the largest populations, namely Egypt, Algeria and Morocco. Egypt's population of 80 million is also the youngest of the region. Compounding the population trends is the geography of the country, with the overwhelming majority confined to a narrow strip of arable land along the Nile river and delta, as well as along parts of the Mediterranean coastline. Egyptian unemployment challenges are abundant, with over 35% of all youth without work (with apparently 72% not securing 'good' jobs).<sup>29</sup> Algeria's population stands at 34 million and the unemployment challenges are evident here too, with the latest report of the World Bank indicating that 21% of the youth in Algeria are without a job.<sup>30</sup> The picture in Morocco is slightly better, with a population of 31 million, the strong growth rate of over 6% has helped bring total employment to

<sup>26</sup> Navtej Dhillon et al, *Missed by the Boom, Hurt by the Bust: making markets work for young people the Middle East*, Washington DC: Dubai School of Management/Wolfsenson Centre for Development, Brookings Institution May 2009, p. 8.

<sup>27</sup> Navtej Dhillon et al, *Missed by the Boom, Hurt by the Bust: making markets work for young people the Middle East*, Washington DC: Dubai School of Management/Wolfsenson Centre for Development, Brookings Institution May 2009, p. 8.

<sup>28</sup> UNDP, *Egypt Human Development Report 2010*, UNDP/Egypt Ministry of Planning, pp. 149-154; Also see Navtej Dhillon et al, *Missed by the Boom, Hurt by the Bust: making markets work for young people the Middle East*, Washington DC: Dubai School of Management/Wolfsenson Centre for Development, Brookings Institution May 2009, pp. 8-11.

<sup>29</sup> Navtej Dhillon et al, *Missed by the Boom, Hurt by the Bust: making markets work for young people the Middle East*, Washington DC: Dubai School of Management/Wolfsenson Centre for Development, Brookings Institution May 2009, p. 11.

<sup>30</sup> World Bank. *Country Brief: Algeria*. April 2011 <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/ALGERIAEXTN/0,,contentMDK:20188043~pagePK:141137~piPK:141127~theSitePK:312509,00.html>

under 10% in 2007 for the first time in 35 years (though youth unemployment rates in urban areas remain around 15%).<sup>31</sup>

Arguably a contributing factor to this unemployment is varying business climates and labour markets in the region, inhibiting foreign investment. Tunisia consistently ranked highest amongst North African countries for ease of doing business while Algeria is at the bottom of the list.<sup>32</sup> Companies operating in Egypt found trading their products across borders significantly easier than those based in Algeria.<sup>33</sup> In terms of the rigidity of employment, Tunisia was least rigid while Egypt and Algeria ranked second and third respectively and Morocco at the bottom.<sup>34</sup> Finally, it should be noted that labour migration to Europe plays an important role in North Africa, with large numbers of the working population involved in low skilled employment there, providing a steady stream of remittances that bolsters the coffers of domestic households at home.

Country	Total Labour Force (2009)
Algeria	14 478 825
Egypt	26 315 731.9
Libya	2 294 911.8
Morocco	11 793 737.5
Tunisia	3 789 601.4

Source: Trading Economics

## 2.2 Comparative Case Studies of Chinese FDI in Algeria and Egypt

In order to assess the impact and potential of Chinese FDI on North Africa, we have selected two countries, Algeria and Egypt, to examine more closely. In both cases, the Chinese state has encouraged investment, initially in the energy sector and construction. This has been expanded to the establishment of official Chinese Economic Trade and Cooperation Zones in both

countries, sites where Chinese and local firms have established manufacturing and assembly plants. Chinese migration has followed in the wake of their country's involvement in the local economies.

**Table 2 - Youth Labour force Participation Rate, by Region and Sex, 2010 and 2015**

	Total (%)			Male (%)			Female (%)		
	2000	2010	2015	2000	2010	2015	2000	2010	2015
World	53.8	50.9	50.2	62.5	58.9	58.2	44.7	42.4	41.6
Developed Economies & European Union	53.1	50.2	50.2	55.9	52.6	52.5	50.3	47.7	47.9
Central & South-Eastern Europe (non-EU) & CIS	42.4	41.7	40.8	48.9	47.7	47.0	35.7	35.5	34.3
East Asia	67.2	59.2	56.9	65.8	57.0	57.0	68.7	68.7	59.2
South-East Asia & the Pacific	55.8	51.3	50.6	63.5	59.1	59.1	48.0	48.0	42.9
South-Asia	48.0	46.5	46.3	66.1	64.3	64.3	28.5	28.5	27.2
Latin America & the Caribbean	54.2	52.1	51.4	66.5	61.3	61.3	41.7	41.7	43.5
Middle East	36.9	36.3	34.7	52.6	50.3	50.3	20.2	20.2	20.5
North Africa	39.4	37.9	36.5	53.4	52.5	52.5	25.1	25.1	22.3
Sub-Saharan Africa	57.8	57.5	57.4	64.1	62.7	62.7	51.4	51.4	52.7

Source: ILO, *Economically Active Population Estimates and Projections, 5th Edition, revision 2009*

With regard to the impact of Chinese FDI especially in labour-creating industries in the ECTZs, as was noted above, both Algeria and Egypt suffer from a serious unemployment problem. The labour requirements of these newly established firms have opened up opportunities for local workers to find gainful employment. But, as the comparison below demonstrates, the impact and outcomes have produced varied

<sup>31</sup> Navtej Dhillion et al, *Missed by the Boom, Hurt by the Bust: making markets work for young people the Middle East*, Washington DC: Dubai School of Management/Wolfenson Centre for Development, Brookings Institution May 2009, p. 9.

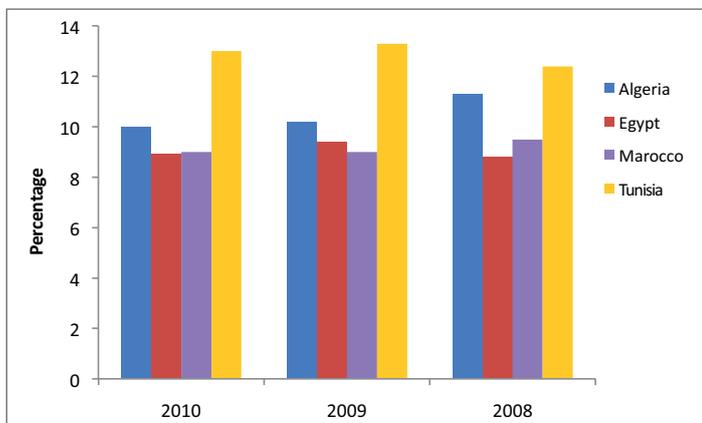
<sup>32</sup> The World Bank, *Doing Business in the Arab World 2010* (Washington, DC: The World Bank 2010), p. 2. Note that some depiction of North Africa include Mauritania which, if included would rank far below Algeria in this survey.

<sup>33</sup> The World Bank, *Doing Business in the Arab World 2010* (Washington, DC: The World Bank 2010), p. 33.

<sup>34</sup> The World Bank, *Doing Business in the Arab World 2010* (Washington, DC: The World Bank 2010), p. 18.

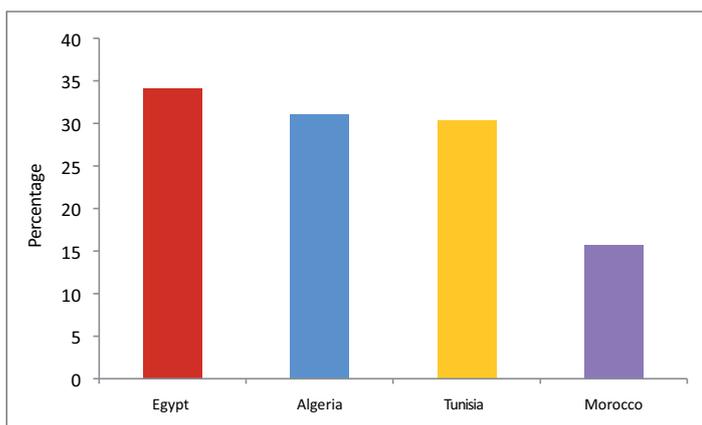
<sup>35</sup> Trading Economics data. Available on <http://www.tradingeconomics.com/World-Economy/Unemployment-Rates.aspx>

**Figure 4: Unemployment in North Africa – A steady decrease in some countries (recent figure for Libya not available)**



Source : Trading Economics<sup>35</sup>

**Figure 5: Youth Unemployment in North Africa (figures for Libya not available) - Source: Trading Economics**



Source : Trading Economics<sup>35</sup>

### 2.2.1 Algeria – China

Like with many countries in Africa, the relationship between China and Algeria dates back to pre-independence days with the newly established Peoples Republic of China providing diplomatic, economic and military support to the liberation movement, the Front de Liberation Nationale (FLN) against French colonialism. Indeed, upon the conclusion of the

negotiations in Evian, Beijing was the first non-Arab country to recognise independent Algeria in 1962.<sup>36</sup> Despite this propitious beginning, it wasn't until the early 2000s that the two countries registered a boom in their bilateral economic and political relations. This was largely driven by a number of internal factors in Algeria, first amongst these being the newly found security stability in Algeria, which saw the beginning of a wide economic programme to rebuild the country and put it back on the path of economic growth. Strengthening economic ties was further helped by the 2003 oil crisis which helped Algeria accumulate petrodollars which it converted into major national infrastructure projects while ensuring its economic stability by beefing up its foreign exchange reserves, currently estimated at US\$157 billion<sup>37</sup> and thus ranking Algeria among the top-15 countries worldwide in terms of its reserves. Moreover, after a series of reforms aimed at improving the investment climate especially with respect to the construction sector in 2008-2009, Algeria was ranked as fourth amongst North African countries making it a more appealing investment destination.<sup>38</sup>

As a result, Algeria launched a raft of major infrastructure projects mainly to build low-cost government housing (a central political issue for successive governments in Algeria), extend the railway network as well as embark on the mega East-West highway project, the latter being estimated at US\$ 286 billion.<sup>39</sup> Besides some contracts for natural resource exploration, Chinese companies have benefited from a large amount of the infrastructure contracts. By the end of 2002, Algeria has signed 198 labour contracts with China totalling a contractual value of US\$ 1.898 billion and a business turnover of US\$ 902.48.<sup>40</sup> By 2007, the value of the contracts signed between Chinese state-owned companies and Algeria was the highest in Africa and the fifth in the world making Algeria China's most important contract provider in Africa.

These initial contracts signed in 2002 brought 5067 Chinese workers to Algeria.<sup>42</sup> Through the years the Chinese

<sup>36</sup> Dalila Nadi, Chinese State –Owned- Enterprises Engagement in Algeria, in Expert Meeting Report Chinese State-owned enterprises and Stability in Africa, Meeting Organised by IKV Pax Christi and Clingendael Clingendael Institute, 30 May 2008.

<sup>37</sup> IMF, IMF Executive Board Concludes 2010 Article IV Consultation with Algeria, 26 January 2011, <http://www.imf.org/external/np/sec/pn/2011/pn1110.htm>

<sup>38</sup> The World Bank, Doing Business in the Arab World 2010 (Washington, DC: The World Bank 2010), p. 2; p. 6.

<sup>39</sup> Castel, V. et al. BRICs in North Africa: Changing the Name of the Game, In North Africa Quarterly Analytical, January 2011, pg 6.

<sup>40</sup> Xu Weizhong, A review of Sino-Algerian Relations in Retrospect, china.org.cn. 26 February 2011. <http://www.china.org.cn/english/2004/Feb/85979.htm>

<sup>41</sup> Xu Weizhong, A review of Sino-Algerian Relations in Retrospect, china.org.cn. 26 February 2011. <http://www.china.org.cn/english/2004/Feb/85979.htm>

<sup>42</sup> People's Daily Online, Al-Qaida threatens Chinese abroad, 15 July 2009 <http://english.people.com.cn/90001/90776/6700510.html>. Official figures however refer to a number of 35 000 workers (excluding the expat community), Xinhua news interview with Chinese Foreign Affairs Minister, 4 May 2011, <http://hr.china-embassy.org/eng/zxxx/t820232.htm>

community in Algeria would expand to reach an estimated 35 000 to 50 000 individuals currently working and residing in Algeria, thus making Algeria the host of the largest Chinese community in North Africa and one of the largest on the continent. Though data is difficult to come by, anecdotal evidence suggests that some of these Chinese workers have learned to speak Algerian-Arabic and some of them have married locally. The relatively recent establishment of a Chinese quarter in a section of old Algiers is testimonial to the demographic impact that this migration is having on the country.

Since 2002, Chinese firms have won an increasing number of contracts in Algeria. After an initial start in the low-cost housing sector, state-owned companies quickly secured contracts in major infrastructure projects notably in the expansion of the railway network and the East-West highway valued at around US\$ 20 billion (see table 1 for summary of recent railway network contracts granted to Chinese companies).<sup>43</sup> In 2002, China also made its debut in the Algerian hydrocarbon sector when the China National Petroleum Corporation (CNCP) was granted the contract for the transformation of Algeria's Zarzaitime oil field. This was followed in 2003 by two joint ventures between the CNCP and Algeria's Sonatrach for risk petroleum and gas exploitation in the Chlef Basin (North-western Algeria).<sup>44</sup> In the same year China also built the Adrar refinery (South-west Algeria), a contract totalling US\$ 350 million.<sup>45</sup> Algeria also granted China's National Offshore Oil Corporation (CNOCC) an exploration license for Hassi Bir Rekaiz (South West Algeria).<sup>46</sup> Currently a total of 50 Chinese companies are active in Algeria and around 20 cooperation contracts have been signed.<sup>47</sup>

**Table 3: Contracts granted to Chinese companies to expand the Algerian Railway Network (2007-2010)<sup>48</sup>**

Year	Project	Chinese firm	Contract worth	Status
2009	railway link between Tissemlit and Boughzoul (western Algeria)	China civil engineering Construction Corporation (CCECC)	\$553.8 million	Ongoing
2009	151km railway line linking M'sila and Boughezoul (Western Algeria)	CCECC (in a joint venture with Infrarail-Algerie)	\$544.7 million	Ongoing
2009	Railway link between Tiaret and Saida (western Algeria)	CCECC	\$ 808.6 million	Ongoing
2007	Provide GSM-R system to run the 220km line Tabia-Mechria	Huawei		Ongoing
2010	170-km electrified double track between the cities of Bordj Bou Arréridj and Thénia	CCECC (in a joint venture with Canadian Dessau and Turkish Ozgun Constructions)	\$38.8 million	Ongoing
2010	Railway line linking Relizane-Tissemsilt	CCECC (joint venture with Infrarail-Algerie)	\$ 1.2 billion	Withdrawn by the Algerian Government (regranted to Spanish FCC)

Since 2007, however, China has sought to expand its investment in Algeria to new sectors. One of the key sectors of interest to Chinese investors is that of automobiles. In terms of trade, Chinese cars have registered a notable success among

<sup>43</sup> Castel, et al, The BRICs in North Africa: changing the Name of the Game, North Africa Quarterly Analytical, The African Development Bank, January 2011 pg 8

<sup>44</sup> Xu Weizhong, A review of Sino-Algerian Relations in Retrospect, china.org.cn. 26 February 2011. <http://www.china.org.cn/english/2004/Feb/85979.htm>

<sup>45</sup> Chris Zambelis, China's inwards into North Africa: An assessment of Sino-Algerian Relations, In China Brief, Vol. X(1), 7 January 2010 pg 11.

<sup>46</sup> Chris Zambelis, China's inwards into North Africa: An assessment of Sino-Algerian Relations, In China Brief, Vol. X(1), 7 January 2010 pg 11

<sup>47</sup> Statements by Chinese representative in Algeria reported in Algerian press. Au Centre des études stratégiques du journal Echaâb : Les investissements chinois en Algérie ont atteint 1 milliard de dollars. 18 January 2011, <http://www.elmoudjahid.com/fr/actualites/8105>

<sup>48</sup> This data was reconstituted on the basis of press releases by Chinese companies and Algerian media reports. Source for 2007: Huawei, Huawei Wins Algeria GSM-R contract, 16 March 2007, <http://www.huawei.com/news/view.do?id=3365&cid=42> .Source for 2009: World Railway, CCECC wins contracts in Algeria. [http://www.worldrailway.com.cn/Market-Weekly/file/english/230\\_en.htm](http://www.worldrailway.com.cn/Market-Weekly/file/english/230_en.htm) , El Watan, Transport ferroviaire : 146 milliards de dinars de contrats pour le CCECC, 21 July 2009, <http://www.djazairress.com/fr/elwatan/132417> . Source for 2010: Le Financier, Réalisation de la ligne ferroviaire Relizane-Tissemsilt : Les chinois s'en vont, le groupe Haddad et le FCC arrivent, 2 May 2010, <http://www.djazairress.com/fr/lefinancier/6196>.

Algerian consumers due to three factors: their low costs, boosted by a hungry consumer market within the country and helped with a relaxation of regulation on consumer loans. The Chinese Giant Motor Company (GMC), which is responsible for the distribution of Zotye and Zongshen-produced cars, has recorded a major success with its Nomad 4 X 4 which sold out its stock of 300 units in January 2007 alone.<sup>49</sup> According to news reports, Algeria (and Egypt) was among the top 10 importers of Chinese cars in 2007.<sup>50</sup>

During the period of high demand for Chinese cars by the Algerian middle class, the Chinese saw a potential market and have therefore sought to import their automobile manufacturing sector to Algeria. Reflecting this, in 2008 China and Algeria entered into an agreement to establish a second Chinese Special Economic Zone in North Africa, the Jiangling Economic and Trade Cooperation Zone, which was to be hosted in Mostaganem (western Algeria) with the focus on assembling cars. The agreement involved the Chinese Jiangling Motors Cooperation and Jiangxi Coal Corporation Group and their Algerian partner, Groupe Mazouz. The activities of the Jiangling Zone were expected to assemble 50 000 units in the five years that would follow. The deal was welcomed as Algeria seeks to revive its automobile sector, which collapsed in the 1990s.

Similar contracts were signed in the same period. Notably a US\$100 million deal was signed between the Chinese Shaan Xi and the Algerian GM Trade for the launch of a car-assembling factory in Setif (eastern Algeria). The factory, which would start its operations in 2009, would produce 11 000 units of different types and would create 4000 jobs. The Algerian Fandi Motors and Shaan xi have also signed another contract for the assembling of two types of cars of Shaan Xi. The factory, which was to be located in Borj Bouarrerdj, would employ 1200 Algerians. Fandi Motors also signed an agreement with the Chinese Jiangxi Changhe Automobile for the assembling of two models of the Chinese group's mini-buses.

Less than a year later, these deals came to a halt. Fandi Motors and Shaan xi had completed 80% of the construction of the factory when the Algerian Minister of Industry announced in January 2009 that Algeria would prefer attracting companies that would construct cars in Algeria and not only assemble them and as a result all car assembling deals will now be suspended.<sup>52</sup> There was much speculation as to why such decision was made. Some have argued that the 2009 complementary finance law influenced the 180-degree of the Algerian government. The new law requires foreign investors to partner with Algerian companies in all their ventures, regardless of sectors, and to ensure that Algerian companies maintain large shares in the ventures (a minimum of 51% of shares).<sup>53</sup>

Others have argued that the decision was influenced by ongoing negotiations between the Algerian government and the French car manufacturer, Renault, for the establishment of the Renault car-assembling factory in Algeria. Renault was said to be concerned that it would face stiff competition from Chinese car manufacturers if they were to also produce in Algeria<sup>54</sup> (Renault eventually withdrew its offer and opened a factory in neighbouring Morocco). Subsequent interviews with Groupe Mazouz also indicated a concern over the quality of Chinese products given the high demands of the Algerian consumer and their attraction to anything produced by the West.<sup>55</sup> Furthermore, as noted above, the Chinese companies and their Algerian partners have been involved in fraud cases further damaging the reputation of Chinese companies.

This negative perception of Chinese automobile companies was exacerbated when Charak Motors, the local representative of the Chinese Sifing, was taken to court for fraud charges totalling an amount of US\$ 2 million. According to Algerian media reports, the case is still in courts after an Algerian consumer group won the case against the company in 2008 but still has not received any

<sup>49</sup> algerie-dz, La voiture chinoise séduit en Algérie, 30 March 2007

<http://www.lesvoitureschinoises.com/2007033058/voitures-chinoises/La-voiture-chinoise-seduit-en-Algerie.html>

<sup>50</sup> algerie-dz, L'Algérie séduite par les voitures chinoises. 12 June 2007. <http://www.algerie-dz.com/article10017.html>

<sup>51</sup> Le Quotidien d'Oran, Algérie : Une usine de voitures chinoise à Mostaganem, 7 December 2008. <http://www.bladi-dz.com/articles/2064/1/Algerie--Une-usine-de-voitures-chinoise-a-Mostaganem/Page1.html>

<sup>52</sup> Abdelhamid Temmar, Algerian Minister of Industry and Investment quoted in Jeune Independent, Un véhicule made in Algeria, sinon rien ! 29 January 2009, <http://www.presse-dz.com/revue-de-presse/verion-imprimable/8752-un-vehicule-made-in-algeria-sinon-rien.html>

<sup>53</sup> KPMG. 2009. Mise à jour à la loi de finances complémentaire pour 2009, [www.algeria.kpmg.com](http://www.algeria.kpmg.com)

<sup>54</sup> Abdelhamid Temmar, idem

<sup>55</sup> El Watan. Ahmed Mazouz. PDG du groupe Mazouz (industrie automobile). 11 Decembre 2008. <http://www.setif.info/article2944.html>

compensation.<sup>56</sup> In other areas of cooperation, China was also hit by some scandals notably the corruption case on the East-West highway and more recently the news that CITIC and China Railway Construction Company (CRCC) gave bounced checks to at least 15 Algerian subsidiary enterprises. Chinese companies are reportedly upholding over US\$4.2 million in wages.<sup>57</sup>

Despite these problems facing Chinese firms and their products in the automobile sector, discussions on the launch of the Chinese manufacturing sector in Algeria did not completely draw to a halt. Recently, Groupe Mazouz announced that it has entered into a partnership with the Chinese Higer for the assembling of the Higer minibuses in Algeria. This new initiative would create 1200 jobs.<sup>58</sup> Moreover the interest of the Chinese now extends to include the area of electronics. In May 2009, China Great Wall Computer Shenzhen Co announced that it would open its first manufacturing plant in Africa in partnership with Algerian EEPAD. It is a US\$4 million project with the Chinese company holding 30% of the investment while the local Algerian company would be providing the rest. The factories, which were expected to start its production of sim-cards late in 2010 but has incurred delays, will be located in Annaba (eastern Algeria), Blida and Rouiba (near the capital Algiers) and is expected to employ 3000 new workers.<sup>59</sup>

## 2.2.2 Egypt – China

The relationship between Egypt and China, like that of Algeria, has gone through periods of close political ties but only recently have these expanded into growing commercial interests between the two countries. Beijing recognised Egypt in 1956, a few years after independence and political

ties warmed initially during the Nasser years. The longstanding political, economic and military ties with the US since the late 1970s however had caused Beijing to approach its ties Cairo cautiously.<sup>60</sup> These have grown in recent years, with Sino-Egyptian cooperation expanding in the economic sphere to increasingly close political ties. This trend was reflected in Egyptian government's hosting of the fourth Forum on China-Africa Cooperation in the Sharm el-Sheik in November 2009, demonstrated its desire to foster deeper links between the two countries and, concurrently, it has demonstrated a parallel interest in promoting closer ties through the China-Arab summit process.

A lengthy process of economic restructuring, beginning in the 1980s and carrying on to the present was the precursor to Chinese investment.<sup>61</sup> Of particular note was the removal of regulatory restrictions on doing business, putting Egypt second after Tunisia amongst North African countries.<sup>62</sup> These reforms accelerated in the period between 2006 to 2009, reducing pre-approvals on construction and strengthening the legal structures of commercial law.<sup>63</sup> During this time, the economic take-off of Chinese-Egyptian bilateral economic relations has been gradual, beginning in 1994 when a new investment agreement was signed that set the stage for increased economic activity. During the last decade, two-way trade grew from US\$3 billion in 2006 to US\$6.24 billion in 2008, making Egypt one of China's top trading partners in the continent.<sup>64</sup> According to the Chinese Ministry of Commerce, however, the upward trend in investment fell 44% during the global economic crisis from US\$90 million in 2009 to US\$50 million in 2010.<sup>65</sup> The bulk of Chinese products imported into Egypt are mechanical and electronic products, chemicals and textiles while Egyptian exports include oil products,<sup>66</sup> steel, cotton, textiles and

<sup>56</sup> L'Expression. 288 personnes escroquées par Charak Motors. 7 February 2011.

<http://www.lexpressiondz.com/article/2/2011-02-07/85843.html>

<sup>57</sup> Martin, M., 'The East-West Highway: A Tale of Chinese bribery and non-payments,' 22 December 2010 [http://www.majalla.com/en/international\\_investor/article217659.ece](http://www.majalla.com/en/international_investor/article217659.ece)

<sup>58</sup> Le Soir D'Algerie. Projet d'une usine de montage de bus en Algerie. 2 Novembre 2010.

<http://www.lesoiralgerie.com/articles/2010/11/02/article.php?sid=108204&cid=2>

<sup>59</sup> Great Wall Computers. Great Wall Computer will cooperate with Algeria's company to manufacture internet surfing laptop. 27 May 2009. <http://www.greatwall.com.cn/5a/groupE-NewsDetail.asp?id=309> and RouibaVille, Computer délocalise son usine en Algérie. 2 June 2009. [http://rouibaville.blog4ever.com/blog/lire-article-42044-1305281-computer\\_delocalise\\_son\\_usine\\_en\\_algerie\\_.html](http://rouibaville.blog4ever.com/blog/lire-article-42044-1305281-computer_delocalise_son_usine_en_algerie_.html)

<sup>60</sup> 'Down the River Nile: China gains influence in Egypt', Jamestown Foundation Briefing 5:22 2005, [www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=31022](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=31022),

<sup>61</sup> For an overview of the developments in the Egyptian economy, see Khalid Ikram, *The Egyptian Economy, 1952-2000* (London: Routledge 2006).

<sup>62</sup> The World Bank, *Doing Business in the Arab World 2010* (Washington, DC: The World Bank 2010), p. 2.

<sup>63</sup> The World Bank, *Doing Business in the Arab World 2010* (Washington, DC: The World Bank 2010), p. 6.

<sup>64</sup> 'China, Egypt eye closer economic ties', China Daily, 27 September 2010, [www.chinadaily.com.cn/bizhchina/2010-09/27/content\\_11352522.htm](http://www.chinadaily.com.cn/bizhchina/2010-09/27/content_11352522.htm)

<sup>65</sup> 'Other figures reported in the Chinese press suggest it stood at US\$70 million: compare Egyptian Uncertainty Hits Commerce', China Daily, 18 May 2011, p. 14 with 'China offers \$9 million aid to Egypt', China Daily, 22 May 2011, [www.chinadaily.com.cn/china/2011-04/21/content\\_12370217.htm](http://www.chinadaily.com.cn/china/2011-04/21/content_12370217.htm)

<sup>66</sup> 'China pledges to ease trade imbalance with Egypt', press release by Chinese Embassy in Cairo, 10 June 2004; [www.chineseembassy.org/eng/zaigx/jmw/t163348.htm](http://www.chineseembassy.org/eng/zaigx/jmw/t163348.htm).

marble. At the same time, the Egyptian government has been concerned about the growing trade imbalance and has undertaken visits to Beijing to convince Chinese authorities to do more to open up their domestic market to Egyptian products. During this time, over 1,100 Chinese companies have established their presence in the country.<sup>67</sup> Tourism, a mainstay of the Egyptian economy is also growing, with Chinese have designated the country as one of its approved destinations, but not as fast as Egyptians expected. Along with this activity has been the growth of the Chinese community to, according to one Chinese scholar, approximately 35,000.<sup>68</sup> However, the popular uprising which unseated longstanding leader, Hosni Mubarak, in early 2011 brought about a major evacuation of Chinese nationals from Egypt, causing their numbers to shrink to 20,000.

With US\$ 50 billion invested in 76 projects in as early as 2002, Chinese OFDI had begun to make a discernible impact on the Egyptian economy.<sup>69</sup> By 2005, China's Import-Export Bank had provided a loan worth US\$15.3 million to Egypt to rehabilitate a textile factory. In October 2006, CITIC provided finance alongside one of China's leading aluminium mining firms, Chalco, to invest US\$940 million in aluminium.<sup>70</sup> The Chinese Harbour Engineering Company invested US\$220 million in shipping in 2008. This was followed in 2010, by a major investment of US\$2 billion by Rongshen Holding and Sinochem in the oil sector. As a result of this activity, by 2011 Chinese cumulative investment in Egypt was said to be US\$ 336 million.<sup>71</sup>

A notable trend in Sino-Egyptian relations is the push for technology transfer on the part of Cairo.<sup>72</sup> For instance, China has provided technological assistance and support in agriculture for decades while in November 2006, the two

governments agreed to develop a nuclear plant at al-Dabaa to improve energy supplies to the country.<sup>73</sup> This has extended into the area of military cooperation, where the China National Aero-Technology Import and Export Company (CATIC) and Egypt's AOI Aircraft are involved in joint production of the K-8E flight trainers.<sup>74</sup> Furthermore, the Egyptian government has tried to encourage technology-based investment into the Suez trade zone as well (see below).

The expansion of Chinese interests into manufacturing mirrors to some extent the Algerian experience. With the Egyptian middle class consumers demanding low cost automobiles, Chinese cars became favourite imports. In fact, by 2007 Egypt had become one of the top 10 importers of Chinese cars globally.<sup>75</sup> At the heart of this new phase of Chinese investment into the region is the Egypt Suez Cooperation Zone. The deal, which apparently has its origins discussions held between the Chinese and Egyptian leaders in the late 1990s, took several years to come to tender.<sup>76</sup> Frustrated by a number of obstacles to export led growth such as high transaction costs, communication problems between the Chinese and hosts and the relative isolation of the chosen site, in 2000 a new initiative was started with the Chinese backers of the project settling on creating a zone aimed at SMEs called the Egypt Suez Cooperation Zone. By the time of the official launch in 2009, the zone included an integrated service centre with housing for workers and was able to attract 18 new Chinese businesses involved in petroleum services, textiles and garments, steel products and furniture to the site with a total capital outlay of US\$180 million.<sup>77</sup> The Tianjin Economic-Technological Development Area (TEDA), working with its Egyptian partner, holds a 49% share in the venture with an investment of US\$1.5 billion of investment.<sup>78</sup> The Chinese-backed trade zone differed from the others in that it not only

<sup>67</sup> 'China offers \$9 million aid to Egypt', China Daily, 22 May 2011, [www.chinadaily.com.cn/china/2011-04/21/content\\_12370217.htm](http://www.chinadaily.com.cn/china/2011-04/21/content_12370217.htm)

<sup>68</sup> Interview with Chinese scholar, Johannesburg, April 2011.

<sup>69</sup> Economic Counsellor's Office, Chinese Embassy in Egypt, 'Cooperation between Egypt and China in brief', 17 November 2004, [www.eg2.mofcom.gov.cn/aarticle/bilateralcooperation/inbrief/200411/20041100001446.html](http://www.eg2.mofcom.gov.cn/aarticle/bilateralcooperation/inbrief/200411/20041100001446.html)

<sup>70</sup> Heritage Foundation, 'China Global Investment Tracker 2010', Washington DC 2011.

<sup>71</sup> 'China offers \$9 million aid to Egypt', China Daily, 22 May 2011, [www.chinadaily.com.cn/china/2011-04/21/content\\_12370217.htm](http://www.chinadaily.com.cn/china/2011-04/21/content_12370217.htm)

<sup>72</sup> 'Wen Jiabao hlds talks with Egyptian Prime Minister Nazef', Chinese Foreign Ministry, 18 June 2006; [www.fmprc.gov.cn/3ng/zxxx/5258798.htm](http://www.fmprc.gov.cn/3ng/zxxx/5258798.htm)

<sup>73</sup> 'China-Egypt nuclear energy deal', news.bbc.co.uk/1/hi/world/middle\_east/6128438.stm

<sup>74</sup> 'Down the River Nile: China gains influence in Egypt', Jamestown Foundation Briefing 5:22 2005,

[www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=31022](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=31022),

<sup>75</sup> [algerie-dz. L'Algérie séduite par les voitures chinoises. 12 June 2007. http://www.algerie-dz.com/article10017.html](http://www.algerie-dz.com/article10017.html)

<sup>76</sup> For a comprehensive review of this topic, see Deborah Brautigam and Tang Xiaoyang, 'Africa's Shenzhen: China's Special Economic Zones in Africa', *Journal of Modern African Studies* 49:1, 2011. Unless otherwise cited, the material on the ECTZ is drawn from this article.

<sup>77</sup> These included a range of supply side constraints. Khalid Ikram, *The Egyptian Economy, 1952-2000* (London: Routledge 2006), pp. 284-292; Also Chinese Academy of International Trade and Economic Cooperation, *China-Africa Trade and Economic Relationship: Annual Report 2010*, p. 13-14.

<sup>78</sup> Financial Times, 15 May 2010.

enjoys the conventional privileges of duty free privileges that the Egyptian government provides to the other established trade and industrial zones in country (including the right to claim their products as 'Egyptian' for purposes of exploiting existing preferential trade agreements in Europe and the United States), the Chinese government has its own array of incentives for their companies to invest. The idea of the joint Chinese-Egyptian developers is to promote Egypt – with the TEDA supported project as a flagship – as both a headquarters and gateway for Chinese companies into both Africa and the Middle East.

From the Egyptian perspective, as was indicated by the Minister of Trade and Investment in 2009, the key aim has been to encourage Chinese investment into sectors such as ICTs, renewal energy and a series of joint ventures involving insulators and transformers as well as automobiles.<sup>79</sup> Indeed, while Brilliance Junbei vehicles are being produced by an established Egyptian-German firm called the Bavarian Auto Group in another zone near Cairo, new investors Chery Automobile and BYD Automobile have both opened up

assembly plants in the TEDA in 2010.<sup>80</sup> This is part of a larger trend in Chinese investment into Egypt, with the reportedly 90% of all new FDI going into the Egypt Suez Cooperation Zone.<sup>81</sup> Moreover, the fact that the Egyptian government stuck to its requirements that only one out of every ten employees be foreigners had ensured a strong, recognisable gains in local employment.

At the same time, the economic impact of Chinese – and in fact all investment – of the fall of Mubarak, which the IMF suggest has caused the Egyptian economy to shrink by 7% between January and March 2011, has been to cause entrepreneurs to adopt a 'wait and see' attitude.<sup>82</sup> This may cast doubt on the positive trajectory seen amongst Chinese entrepreneurs towards Egypt in the short term though the decision by Beijing to offer US\$ 9.2 million in loans by the China Development Bank in late May 2011 – including US\$ 1 million to help cover the costs of evacuating Egyptian workers caught up in the civil war in Libya – to bolster existing projects and encourage local companies to engage in trade with China.<sup>83</sup>

<sup>79</sup> 'Egypt and China Partnership for African Growth', China-Africa [www...](#)

<sup>80</sup> China, Egypt eye closer economic ties', China Daily, 27 September 2010, [www.chinadaily.com.cn/bizchina/2010-09/27/content\\_11352522.htm](#); [www.bag-e.com/BAMCProfile.aspx](#)

<sup>81</sup> 'Egyptian Uncertainty Hits Commerce', China Daily, 18 May 2011, p. 14.

<sup>82</sup> 'Egyptian Uncertainty Hits Commerce', China Daily, 18 May 2011, p. 14.

<sup>83</sup> Though it was unclear as to whether this US\$1 million formed part of the loan.

<sup>84</sup> World Bank, Strengthening MENA's Trade and Investments Links with China and India (Washington DC: IBRD September 2008), p. 14.

<sup>85</sup> Lois de finance since 2000 onwards

### III. Comparative Assessment of the Impact and Potential Impact of Chinese FDI on Employment Creation

It has been observed in a World Bank study that there important export opportunities for China that are not being sufficiently exploited by the labour-abundant economies of North Africa.<sup>84</sup> As has been demonstrated in this paper, some of these synergisms are beginning to be recognised and acted upon by Chinese and North African governments and businesses. Their capacity to address the deeper concerns of structural unemployment in North Africa, however, is at this juncture more limited than this reciprocal pairing of the two regions would imply. Nonetheless, there are already some positive trends in Chinese OFDI and employment creation that can be adduced from this survey of the Chinese-North African experience.

#### 3.1 The Potential of Chinese Investment in Reducing Unemployment in Algeria and Egypt

The correlation between foreign investment, job creation and transfer of technologies in Algeria has never been as central in the Algerian political discourse as it is over the last three to four years. Consecutive budget regulations<sup>85</sup> and the investment code have increasingly incited investors to focus on job creations through the provision of more fiscal and customs benefits.<sup>86</sup> At the same time, more stringent demands on investors to provide trainings and transfer skills have been legislated – some would argue such demands are detrimental to FDI promotion in Algeria. With the current crisis sweeping across the Arab world, the Algerian government hardened its demands from foreign companies.<sup>87</sup> The current discussions in Algeria regarding a new hydrocarbon investment code and the strong emphasis on job creation is a result of the pressure felt by the government to focus on employment of educated youth. In the midst of these reforms, the Chinese companies are expected to

face competition given their traditional *modus operandi* of importing their labour to complete projects.

Nonetheless, it is important to note that as Chinese firms look at expanding their sectors of investment in Algeria, and experience the local content and other constraints of Algerian investment regulations, they seem to be more open to partnerships with local companies (as this is a requirement on foreign companies investing in Algeria since 2009) and local job creation. With the unemployed number over 1.4 million in 2005 – the onset of Chinese investment into Algeria – this has produced tangible gains in resolving the unemployment problem more generally in the country.<sup>88</sup> Although Chinese companies did bring their labour force from China to work on infrastructure projects, they did nonetheless employ a limited number of locals mainly in this sector.<sup>89</sup> It is also important to note that the requirement to work in partnership with an Algerian company, a requirement imposed by law, also contributes to the indirect job creation. However, such optimism must be tempered by the fact that no evidence exists to indicate the managerial level at which Algerian employees would be employed by Chinese firms. Often times, Algerians are employed on construction sites as cheap local labour. Educated Algerians do not seem to have much access to Chinese companies. Exacerbating, is the media focus on continuing tensions between Chinese companies and Algerian workers and contractors (i.e. unpaid salaries, unpaid services).<sup>90</sup>

At the same time, the contribution of Chinese firms in reducing the unemployment challenges in Algeria as currently constituted has its limits. The country has a high

<sup>84</sup> See for instance Code des Investissements (mis a jours de la loi de finance complementaire pour 2009), Government of Algeria

<sup>85</sup> The Algerian government is currently discussing more stringent investment policies requiring investors to transfer technologies and employ locally. <http://www.algerie-news.com/economie/economie-algerie/tic-des-mesures-favorisant-la-creation-demplois-seront-soumises-au-gouvernement/>

<sup>86</sup> UNDP, Rapport Nationale sur le developpement humain – Algeria 2006 CNES/UNDP 2007, p 29.

<sup>87</sup> Algerians are employed as construction workers or as security guards for construction sites.

<sup>88</sup> According to media reports in March 2011, 400 Algerian workers in a Chinese site on the East-West highway protested to demand that they be paid after not receiving their salaries for more than 5 months (<http://www.djazairress.com/fr/lemidi/1103120107>). The workers at the Al Maouane dam similarly went on a strike in May 2011 to demand improved work conditions (<http://www.setif.info/article5439.html>). Algerian sub-contractors of Chinese companies also protested to demand that the Chinese CITIC-CRCC pays them millions due for services they have delivered (<http://communismeouvrier.wordpress.com/2011/03/06/protestations-des-ouvriers-de-citic-crcc-a-boumerdes/>).

level of unemployment among university graduates.<sup>91</sup> 50 000 out of the 120 000 students who graduate from Algerian universities every year are unemployed. In other words three in four university graduates remain jobless for extended periods of time meaning an unemployment rate of 23.3 among university graduates.<sup>92</sup> In fact, unemployment is more severe among university graduates than among less educated labour. While unemployment among the population with no higher education diploma stands at 7.3%, unemployment among university graduates stood at 21.4% by the end of 2010 (11.1% among male graduates and 33.6% among female graduates).<sup>93</sup> According to the World Bank, high unemployment of university graduates is also related to a disconnect between the skills they are taught at university and needs of the job market. This requires employers to train new recruits – in fact a requirement imposed by the investment code for foreign companies.<sup>94</sup>

The data above shows that the type of employment that is needed to help Algeria deal with its high level of unemployment requires an investment in knowledge creation and skills development. Yet Chinese presence in Algeria so far focussed on the implementation of contracts while investment, notably in knowledge-intensive sectors, has been limited. This results in a limited added value in terms of knowledge-intensive job creation, which is what is needed to curb the unemployment rate amongst the growing number of educated but unemployed youth in Algeria. The types of jobs created therefore tend to be for less educated professionals and largely for male workers employed on construction sites or as security guards. Therefore statistically Chinese presence in Algeria targets the less effected group among those who are unemployed. Often times, these employees are also paid minimum wage of around 12 000 DA per month (around €117) while it is anecdotally claimed that Chinese workers receive around 48 000 DA. The contribution to the economy could therefore also be seen as limited.<sup>95</sup>

The unsuccessful conclusion of negotiations to open car assembly factories - a challenge that other European car manufacturers are also facing - is largely seen as a result of stringent government policies that discourage job creation. Although these factories could help in generating employment, especially in large agglomerations and among lower educated labour force, they have a limited potential to address the issue of unemployment among university graduates if local labour is to be used strictly to operate machinery as opposed to knowledge transfer and skills development.

In other words, labour intensive factory work will do little to help Algeria in addressing this dimension of the unemployment crisis. This reflects in part the relatively low wages on offer in this type of work, below the expectations of many university graduates. In addition the perceived non-compliance of the Chinese with Algerian labour regulations (i.e. in relation to wage as described in the example above) add to the view, amongst some Algerians, that China may not be the solution they want to fight unemployment in Algeria.

In Egypt, Chinese investment has performed a similar function. The positive experience of Chinese firms in the Egypt Suez Cooperation Zone have led to expansion plans and, concurrently, encouraged employment creating SMEs to set up business in Egypt. With a business environment that is more conducive to OFDI than in Algeria, including the ability to get greater access to third country markets, both the pace and experience of Chinese firms operating in Egypt has translated into more interest and investment. In the particular case of the Egypt Suez Economic Zone, Egyptian development concerns featured in negotiations by the government through the long trajectory from the formulation of the idea to it being realised in 2009. Moreover, the negative fallout of scandals involving Chinese construction firms seen in Algeria has to date been avoided in the Egyptian case. Like Algeria, however, the immediate gains in areas like youth unemployment accrue to

<sup>91</sup> IMF. Algeria Should Reduce Reliance on Oil, Create More Jobs, Says IMF. 26 January 2011. <http://www.imf.org/external/pubs/ft/survey/so/2011/int012611a.htm>

<sup>92</sup> Office Nationale des Statistiques (Algeria), 2011, *Activité, emploi et chômage au 4e trimestre 2010*.

<sup>93</sup> *ibid*

<sup>94</sup> A tax penalty of up to 2% of equivalent of annual salaries paid out by companies would be imposed on companies which do not provide training and internships according to the Loi de finance 2007, see <http://www.algeria.kpmg.com/fr/Documents/loidefinance07fr.pdf>

This resulted in several riots across the country whereby Algerian workers were requesting an increase of their salaries in the course of 2011.

<sup>95</sup> A tax penalty of up to 2% of equivalent of annual salaries paid out by companies would be imposed on companies which do not provide training and internships according to the Loi de finance 2007, see <http://www.algeria.kpmg.com/fr/Documents/loidefinance07fr.pdf>

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those who are less skilled. Given that the university educated Egyptians are most likely to experience extended periods of unemployment, remaining largely outside the ambit of employment creating initiatives such as we have seen in

Egypt.<sup>96</sup> Ensuring that Egyptians with managerial skills are beneficiaries of Chinese OFDI needs to be as much a priority as that of encouraging Chinese businesses to relocate operations to the country.

<sup>96</sup> Navtej Dhillon et al, *Missed by the Boom, Hurt by the Bust: making markets work for young people the Middle East*, Washington DC: Dubai School of Management/Wolfenson Centre for Development, Brookings Institution May 2009, pp. 8-11.

## IV. Policy Recommendations

Based on this preliminary survey of the topic, we have a number of policy recommendations:

- There is a need to continue to encourage Chinese investment into manufacturing and services sectors in North Africa as these countries seek to diversify their economies. The potential complementarities are, as these cases provided in this paper demonstrate, already there. But the barriers to investment need to be reduced further to build upon the existing successes such as the Egypt-Suez Cooperation Zone.
- There is a need to ensure that employment creation must continue to be a criteria for Chinese (and other external sources) investment into the region by North African governments. More focus on integrating local managerial skills into joint ventures between Chinese and North African firms especially considering the type of labour available in the countries. Employment generating Small and Medium Enterprises from China are playing an increasingly visible role as investors in the Egyptian case (and less so in Algeria) and this trend should be encouraged.
- Explore ways to address the trade deficit with China and take advantage of potential opportunities that can emerge in the Chinese market (i.e. as Tunisia did by exporting fertilisers to China and launching the SACF LTD venture – now it is one of the key providers of fertilisers in China).<sup>97</sup>
- A greater focus on technical and vocational training within the educational systems in North Africa. More focused preparation would ensure that the skills called for in the management and engineering sectors of the economy would be available to Chinese (and other) firms setting up businesses in the region. Linking up North African institutions of learning with Chinese educational programmes might be one way to address at the earliest stage the ‘cultural’ component of integration.
- There is a pressing need for more empirical data on the subject. As it stands, no comprehensive survey has been

conducted of Chinese firms in North African economies nor a detailed tally of employment creation. An independent survey Chinese firms in Algeria and Egypt, i.e. through partnerships with national trade statistics offices and economic institutes for an assessment of their view on rationale for investing and obstacles to doing business. This should be complemented by a survey of Algerian and Egyptian policy makers and local businessmen, assessing their experience of joint ventures with Chinese entrepreneurs.

More generally there needs to be a reassessment of the approach towards China which still is, on the part of many regional governments, a defensive one. North African policy makers should see China not necessarily as a threat but as a potential opportunity to increase their competitiveness in third-country markets – but they need to think of a smart solution that would allow them to derive the full benefit from, for instance, Chinese investors opening their factories in North Africa. Similarly, North African governments can advertise themselves to the Chinese as transition economies, a part of the global production and supply chains situated at the geographic and economic crossroads between the various markets.

All of this should inspire a serious rethink on that old chesnut, regional integration. Potentially, North African countries could increase their competitiveness as a region in a way that can allow them to better harness the benefits of OFDI, including Chinese investment. For instance, the countries of the East African Community are in the process of utilising the Chinese-financed infrastructure projects to improve the overall regional infrastructure. Extending the national highway systems into an expanded and joined up regional transportation network would facilitate trade and commerce when linked to a genuine effort to improve an integrated regional policy environment. Reducing intra-regional barriers to trade would mean that the gains being experienced in individual countries through Chinese investment, including the expansion of opportunities the regional consumer market, could then be spread more widely across North Africa.

<sup>97</sup> <http://www.sacf.com/autoweb/autoweb/Eindex.jsp>

## V. Conclusion

It is a fact that the expanding Chinese trade presence in North Africa may have induced painful restructuring within some of the most vulnerable and employment generating industries in the region. But it is also the case that, in countries like Algeria, the Chinese have built the much needed infrastructure and provided new investment into the manufacturing and services sectors. This latter trend is even more pronounced in Egypt where the establishment of a successful trade and industrial zone has encouraged a rising tide of Chinese SMEs into the economy. Despite some of the difficulties experienced, the employment impact is of significance and should be recognised by host governments for its benefits in alleviating some of the pressures of unemployment.

Concurrently, there is a need for North African governments to ensure that their development agenda on issues like job

creation and technology transfer feature in any agreements struck with China (and other international investors). In this regard, the example of the extended engagement and negotiation by the Egyptian government seems to have produced sufficient concessions on the part of the Chinese to satisfy the requirements of both sides. Thus, even in the wake of the uncertainty experienced in the first half of 2011, the General Manager of China-Africa TEDA Investment Company, Liu Aimin, was still able to sound an optimistic note, declaring that 'When the new government (in Egypt) comes into office, the investment environment will be more transparent and standardized and China's investment will recover and grow'.<sup>98</sup> But it is up to the North African countries to re-assess the future contribution of China and see how it can be used to forward their own economic and social agendas.

<sup>98</sup> 'Egyptian Uncertainty Hits Commerce', China Daily, 18 May 2011, p. 14.

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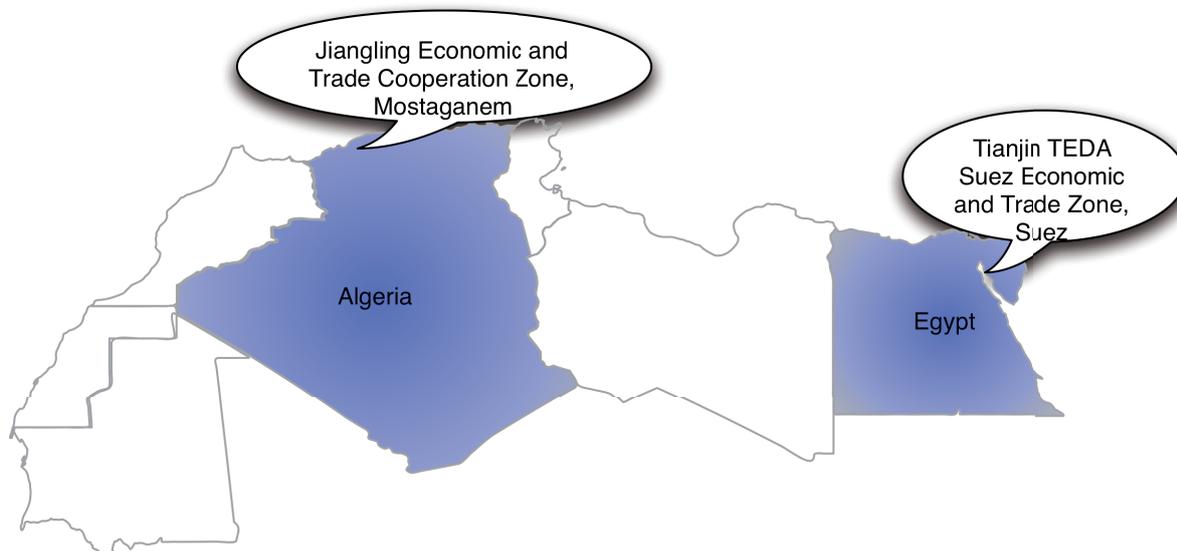
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## Annex 1

Country	Year	Investor	Value (M\$)	Sector	Subsector
Egypt	2010	Rongsheng Holding and Sinochem	\$2,000	Energy	Oil
Libya	2009	CNPC	\$460	Energy	Oil
Libya	2009	China Railway Construction	\$810	Transport	Rail
Egypt	2008	China Harbor Engineering	\$220	Transport	Shipping
Libya	2008	China Railway Construction	\$2,600	Transport	Rail
Algeria	2006	CITIC and China Railways Construction	\$6,200	Transport	Autos
Egypt	2006	CITIC and Chalco	\$940	Metals	Aluminum
Algeria	2005	CNPC	\$390	Energy	Oil

**Chinese Special Economic Zones in North Africa**



Country	Total investment	Size	Beginning of planning	Status	Chinese Developers	Industry focus
Algeria (Jiangling Special Economic Zone)	US\$556M	5km <sup>2</sup> , 1st phase 1.2km <sup>2</sup>	2006-2007	Cancelled	Jiangling Automobile, Zhongding International	Automobile, Construction materials
Egypt (Suez Special Economic Zone)	US\$80M	5.08km <sup>2</sup> , start up 1.07km <sup>2</sup>	1998	Operation and Construction	Tianjin TEDA	Textile & garments, petroleum, equipment, automobile, electronics

## Annex 2

Example of imports and exports from North African countries to/from Foreign Trade (2010 information). For Morocco, data provided by the China (for Egypt, Data provided by the Ministry of Industry and Chinese Ministry of Commerce (2007 information))

	Exports	Imports
<b>Egypt</b>	Perishables (meat, vegetable, fruits, and dairy products) Coffee, tea, spices Cereals Oil seeds and grains Beverages, spirits and vinegar Tobacco Salt, sulphur, stones, plastering material, lime and cement Mineral fuels	Fish and fish products Dairy produce; bird's eggs; natural honey; edible products of anim Live trees and other plants, bulbs, roots, and the like; cut flowe Products of the milling industry; malt; starches; inulin; wheat GL Oil seeds and oleaginous fruits;miscellaneous grains,seeds and fruits,straw and fodder cocoa and cocoa preparation Residues and waste from the food industries; prepared animal fodde Inorganic chemicals; organic or inorganic compounds of precious metals Organic chemicals Pharmaceutical products Fertilisers Tanning or dyeing extracts Photographic and cinematographic goods Plastics & rubber Wood and articles of wood; wood charcoal Silk, wool, cotton Iron and steel
<b>Morocco</b>	Fertilizers	chemical products
	Shoes	glass
	Leather	PlasticIndustrial cars
	Magnesium	air conditioning machines
	Iron and steel	electronics
	Fruits	Motorcycles
	Synthetic fibre	Cotton fabric



