

Sino-Algerian Partnership and its Impact on the Emergence of the Algerian Economy.

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Abstract

Taking advantage of various oil crises, particularly during the first fifteen years of the twenty-first century, Algeria has managed to raise significant financial resources and place it in relatively favorable conditions for economic success, to become emerging countries. Despite a huge effort, the Algerian economy has not been able to emerge, what are the factors that contributed to this failure? The predominance of the annuitant nature of the economy gave rise to the “Dutch disease” which certainly played an important role in the unfavourable evolution of Algerian economy. The solution to the problem of the Algerian economy lies in an action of transformation of its structure and the search for partnership, especially a win-win partnership is an important part of the solution. Can the partnership with China meet this challenge? Sino-Algerian relations are not new. Over the past decade they have experienced an important development that places China among the main economic partners of Algeria, which gives China a leading role in achieving the long-awaited target pertaining to the emergence of the Algerian economy. This paper will focus on determining the ability of Chinese investment in boosting the Algerian economy.

Keywords: Algerian economy; Annuitant economy; Chinese cooperation; Economic emergence.

JEL Codes: F21, F35, F63

## **Introduction**

Africa's strategic geographic location and natural resources endowments are attractive elements and assets for China, which begun a phase of global economic expansion. China's interest in the African continent started to seriously grow in the beginning of the 2000's. Indeed, China has developed a strategy of expansion in Africa by taking conquest of markets, not only in the field of energy but also in the fields of minerals, building and public works, and consumer goods. For China, Africa has the advantage of being a reservoir of raw materials, a vast market accessible to Chinese products, but also an open space where Chinese companies are confronted with very little external competition owing to the Western disaffection of Africa that characterized the end of the Cold War.

Referencing the figures reported by the China Press Agency, China has been the best economic partner of Africa in the last decade. As of 2009, China appeared as the leading economic partner of Africa. Between 2006 and 2014, Chinese investment in Sub-Saharan Africa exceeded \$150 billion. Also, Sino-African trade flows increased from \$10 billion in 2000 to \$220 billion in 2014. It then increased to \$300 billion in 2015. And the Chinese aim to increase this figure to \$400 billion by 2020 (Yang Fuchang, 2013). But apart from the development of its trade, China perceives Africa as a favorable zone for the deployment of its investments and for the capacity of its big companies, and as a basis to extend its "tentacles" in the European continent. The Association Agreements signed between the European Union and several African countries (the Maghreb countries in particular) constitute a real bridgehead to invest the European market from Africa.

Algeria played a major role in this African deployment of China, which is clearly reflected in the important increase of the trade between the two countries and the increase of the share of China in the vast equipment program initiated by Algeria at the beginning of 2000 (SalimAGGAR, 2013). Thanks to the steady and significant increase of its income, international hydrocarbon prices have increased.

In this paper, we will endeavor to reveal the vital importance of the partnership between Algeria and China, based on the main elements that militate in favour of this partnership.

### **I. The Relevance of the Sino-Algerian Partnership**

Partnership is defined as an active association between two or more entities that, while maintaining their autonomy, agree to share efforts to achieve a common goal related to a

clearly identified problem or need in relation to their particular interests.

In the case of the Sino-Algerian partnership, we will try to highlight its relevance and the importance it plays for each of the parties based on the criteria specific to each country.

### 1-In the Case of Algeria

There are three main arguments in favour of entering into and partnership with China. These are the imperative of economic emergence, the diversification of the Algerian economy which depends almost entirely on hydrocarbons, and the fight against the scourge of unemployment which threatens the foundations of the economy and the Algerian society.

#### a. The Imperative of the Emergence of the Algerian Economy

Despite the enormous efforts made by Algeria in the 1970s to set up an efficient economic apparatus through which the Algerian economy could break the vicious cycle of underdevelopment and finally begin a virtuous circle and an unavoidable path for economic and social progress, the situation remains fragile and requires structural reforms to diversify the economy and create inclusive growth.

Despite the Structural Adjustment Program implemented at the end of the 1990s (that has permitted Algeria to restore the main macroeconomic balances), the vast equipment programs, and the various economic stimulus packages initiated in the 2000's that mobilized huge material, financial and human resources, the Algerian economy did not succeed in taking off to be placed among the world emerging economies. Nevertheless, Algeria has theoretically all the conditions to make this qualitative leap which would allow the economy to optimize the exploitation of the resources at its disposal to continuously promote the living conditions of the population, and to respond positively to its legitimate expectations.

#### b. The Necessity of Economic Diversification

A glance at the recent history of the Algerian economy shows clearly that it has been marked by the emergence and the almost absolute dominance of the hydrocarbon sector from the early 1970s. This is thanks to the different oil shocks that have permitted Algeria to generate significant financial resources through its hydrocarbon industry.

In fact, two economic features have emerged as a result of this evolution: the structural vulnerability acquired by the Algerian economy, in the sense that the evolution of the economy depends almost exclusively on the international price of oil and the necessity of economic diversification. The first feature appeared for the first time during the oil price crisis of 1986. The sharp decline in the international prices of oil led the Algerian economy to a deep crisis that annihilated the development efforts of the past two decades. The first

feature appeared again for the second time due to the precipitous decline in oil prices that began in the summer of 2014, and which yet continues to threaten the Algerian economy .

These two experiences of the deep crisis have highlighted the weakness of the Algerian economy. Such weakness is the product of the lack of economic diversification; a phenomenon which unavoidably exposes the Algerian economy to all forms of external shocks. To establish a model of economic regulation based on variables other than oil incomes appears to be a priority of the economic policy in both the short and long terms. This means that solving a structural problem needs unavoidably a structural solution. Therefore, this solution is based on the process of the endogenization of economic growth and development.

The challenge that faces the Algerian economy lies in building a diversified and productive economy which generates sustainable growth and is relatively insensitive to external shocks which are in fact the "Achille's heel" of the Algerian economy. Meeting this challenge requires the establishment of basic infrastructure which can lead to an economic development process.

As well as filling the gaps to use financial resources at its disposal in order to build a diversified production system, the Algerian economy must necessarily resort to economies that have the material (technology) and human means (skills) to achieve this important objective.

#### c. Promoting Employment

Algeria, like all the Maghreb countries, is acutely confronted with the problems of unemployment and underemployment which undermine development efforts and threaten social stability, and the foundations of the society. This problem harms income levels, which is one of the essential elements of the economic and social integration of the individual. Although over the past decade, according to official statistics, unemployment has fallen significantly: from 29% of the labour force in 2000 to 15.3% in 2005, and 11.3% in 2008 to 10% in 2011 ( Ammar Belhimer, 2015) and (ONS,2012 (National Statistics Office)).

Unemployment in Algeria appears as a structural phenomenon that affects the most skilled persons. Indeed, more than 50,000 university graduates each year do not find jobs, thus increasing the number of unemployed people. Unemployment affects much more the young population, which represents 21% of the unemployed in Algeria in 2011.

The persistence of unemployment is the result of two main factors: the unfavorable environment of “doing business” and the characteristics of the Algerian labor market.

According to the ranking of the World Bank concerning “doing business” for 2010, Algeria is ranked third in the Maghreb far behind Tunisia and Egypt (Doing Business, 2010). Algeria’s labor market is rigid both in absolute and relative terms and its impact on unemployment outcomes is negative.

Being aware of the importance of resolving the employment problem in Algeria, the authorities have put in place mechanisms to curb unemployment and promote job creation programs. However, they have shown their limits in an uncertain global economic environment.

A partnership involving labour-intensive productive projects requires a labour force—with a high level of training—that is perfectly capable of contributing to the employment of the young people who constitute in Algeria the most affected fringe affected by the scourge of unemployment.

## 2. In the Case of China

The main arguments that justify China seeking to establish a partnership in Algeria are its strategy of penetrating North Africa for the diversification of the activity of its firms, the relocation of Chinese firms, and the conquest of shares in the European market.

### a. The Penetration in North Africa

The rise of the Chinese economy in the global economic scene is undoubtedly the most significant event of the past two decades. This is particularly apparent at the level of trade flows between China and other parts of the world. Even though it was relatively less, the African continent has not escaped this Chinese wave of trade expansion. Over the past 15 years, the sustained and rapid growth of many African economies, encouraged by their resilience of the global economic crisis has further benefited the South hemisphere compared to the North one. Many multinational companies, including Chinese ones, intended to make use of these opportunities.

The actual place of Chinese products, capital and workers all over the world have engendered many reactions.

Investment in Africa is highly risky, and the infrastructural conditions are not very favourable. Nevertheless, Chinese companies have responded quickly and positively to the situation in Africa.

The prevailing idea is that in Africa, Chinese companies are only interested in natural resources, particularly oil and minerals. Investing in natural resources has often been a gateway due to the availability of resources and the growing needs of China. But in reality, the situation is more nuanced. The latest data collected on the business operations of Chinese firms in Africa show a relative diversification of investments by introducing new sectors such as telecommunications, financial services, food processing, infrastructure, and tourism. The FDI portfolio of Chinese firms into Africa is well diversified across sectors, covering resource-oriented ones as well as services and manufacturing.

b. The Relocation of Chinese Firms

The relocation of Chinese firms is the result of two main factors. The first one is the product of competition between Chinese firms in the domestic market; the second one is the result of the desire of Chinese firms (those most competitive in particular) to develop their skills to make use of their competitiveness and gain a share in the world market.

The economic expansion through foreign markets (the export bias of economic development) constitutes the second phase of the Chinese economic development strategy as it gives priority to the development of the domestic market (domestic demand-led development) to the detriment of export-led development which must emerge and impose itself only when the conditions of domestic demand are satisfied.

The accession of China to the WTO in 2001 allowed the Chinese market free access to foreign products. This openness to world trade prompted Chinese companies to retain domestic market share. The success in conserving shares of the domestic market is the prime condition of survival for Chinese firms so far as they do not consider the establishment abroad as a priority. For Chinese firms, success depends above all on subsistence in the domestic market which is characterized by intense competition this is explained by the existence of a very large number of operators in the Chinese industry. This fact is an obstacle to the achievement of economies of scale because they do not reach an optimal size, so this penalizes their construction phase of production facilities, marketing and R&D (research and development).

For example, China has more than 30 handset manufacturers, while the world is dominated by a half-dozen international suppliers. It affects all sectors. In the field of white goods, China still has 1,300 manufacturers, while in the medium term, only a dozen at most of them should

stand the test of consolidation which is a necessary step before considering any form of internationalization.

Only a limited number of groups on specific market segments has succeeded in consolidation and so extricated themselves from the specific crowd of the Chinese economy. This is the case in the electronics sector, home appliances, white goods, PCs, mobile phones, and in telecommunications equipment where ZTE and Huawei are hugely competing.

Chinese companies that managed to remain in the domestic market experience a decline in their growth rates because of the difficulties they face in terms of increasing their market share.

Difficulties to impose on the domestic market have sometimes led some Chinese companies to look outward, especially those with significant financial resources, accumulated experience, and domestic notoriety. In other words, it is the saturation of the domestic market which encouraged Chinese companies to look outside in order to maintain and to develop their business.

The first objective of Chinese companies seeking to expand abroad is to gain market share in the global market. But this not the only goal. They also seek to increase their sales, reach a critical size, compete with world leaders in any particular industry, and diversify their sources of income in terms of geographical areas. From a purely financial point of view, China is aware of their limited dimensions compared to multinational western firms that have penetrated the global markets for several decades.

Their logic of growth in foreign markets also responds to this fact and explains their tendency to focus on the volume of appearance. This objective is also reflected in the product portfolio of Chinese companies. Indeed, compared to the American, Japanese and European companies, they differ in general by a much broader mix product.

#### c. A Basis to Enter the European Market

In addition to intensifying its trade with the Maghreb countries, China aims to facilitate its enterprises access to the European market. Indeed, the Association Agreements that link the Maghreb countries (with the exception of Libya) to the European Union (EU) allow all goods manufactured in the region to be exported to the UE with advantageous customs duties. And in addition, the EU decision taken in April 2011 made it possible to relax the rules of origin for Maghreb countries that have signed an association agreement by allowing exporters from

these countries to source their products from abroad, including China, while benefiting from preferential treatment. This should be an opportunity for business and at the same time an incentive to invest and seek partnerships in northern Africa.

The activity of Chinese enterprises in Algeria is a preliminary phase known as “capacitation” (enabling) which places these companies in a condition to approach the European market where the competition is intense and conditions of access are more rigorous and require a level of competitiveness relatively higher than in the North African market. It should not be forgotten that in the framework of the W.T.O, China has literally invaded Europe through its products (consumer goods, equipment goods). The financial windfall accumulated thanks to the dynamism of the Chinese economy during the last two decades, has permitted China to take over several European companies (especially those that have experienced difficulties). At this rate, it is not surprising that the “Chinese tide” will eventually also reach the European market for equipment projects (auctioning), once the Chinese enterprises have finished sharpening their competitiveness in less demanding areas as Africa.

## **II- Favorable Sectors for Sino-Algerian Partnerships**

The main areas that may be covered by Chinese companies outsourcing are as follows:

- Energy sector: Taking into account Algeria's energy potential, this sector can play a decisive role in the development of a win-win partnership between China and Algeria.
- Mining sector: In this sector, Algeria has important possibilities to promote the Sino-Algerian partnership.
- The high-tech sector: It is the sector that has seen the emergence of China’s largest companies by size (excluding the energy sector) and notoriety. The main segments concerned are consumer electronics, household appliances, telecommunications equipment. and personal computers.
- The construction and textiles: In both intensive activities and workforce, Chinese companies can integrate into the African market.
- Agricultural development: Along with its ‘Marshall Plan’, Algeria has decided to boost its agricultural sector with the stated objectives of national food security and limiting the food bill. The Sino-Algerian partnership may play a decisive role in achieving these highly strategic objectives.

- The development of basic infrastructure: The large program of infrastructure development also opens important opportunities to the Sino-Algerian economic cooperation. In the medium term, other sectors such as pharmaceuticals (generic), automotive, machine tools, electronics will undoubtedly also play a dynamic role in boosting Sino-Algerian partnership.

The challenges of Chinese penetration in Algeria are important. But through partnership, and with an effective, lasting, and interesting support, we can consolidate Sino-Algerian cooperation to accelerate economic diversification in Algeria and allow for the so long-awaited emergence of the Algerian economy.

The continuation and the future development of the Sino-Algerian cooperation must necessarily take into account the crucial problems that the Algerian economy faces, and avoid making the benefits of the Sino-Algerian cooperation one-way, but shared between the partners in order to evolve towards a “win-win” cooperation.

In view of the objectives pursued by each of the partners (China and Algeria) and the possibilities offered, there is a great coincidence and a real convergence of interests in setting a partnership as varied as possible to make use of all the opportunities offered by the Sino-Algerian model of cooperation.

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