China’s economic presence in Algeria
Thierry Pairault

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ABSTRACT

This paper examines the sudden acceleration of Sino-Algerian economic relations and the resulting changes in the relationship between Algeria and the world. China’s presence in Algeria combines many interrelated features, which are not only distinctive, but contain their own logic and temporality: these encompass political, diplomatic, cultural, migratory, human and economic relations. This paper will mainly focus on the last category of relations; it will draw on statistical data, as recorded by international agencies, as well as data collected by national statistical agencies in Algeria and China. It will thus seek to improve our understanding of what is meant by “China’s economic presence in Algeria”.

China’s economic presence in Algeria
Thierry Pairault (CNRS/EHESS)
CHINA’S ECONOMIC PRESENCE IN ALGERIA

Thierry Pairault

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ABSTRACT

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KEYWORDS

China, Algeria, FDI, Investment, Trade, Economic Relations

AUTHOR’S RECENT PUBLICATIONS ABOUT SINO-AFRICAN RELATIONS

• « Once upon a time, Africa and China... », in Julien Bokilo, China in Africa: Competition between China, traditional trade partners of Africa and BRIC countries, Paris, L’Harmattan, 2011, p. 9-16.
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FACTS AND FIGURES ABOUT CHINA’S INVESTMENT IN ALGERIA

To assess the economic role that China plays in Algeria, we must examine the importance of both countries’ commercial exchanges, as well as the weight of Chinese direct investment in the Algerian economy. In this paper we will first deal with the investment approach, as “foreign direct investment” (FDI) strongly implies an entrepreneurial commitment to the medium and/or long term in the economy of a country. According to the definition proffered by international authorities such as the OECD, FDI “…is an activity in which an investor resident in one country obtains a lasting interest in, and a significant influence on the management of, an entity resident in another country. This may involve either creating an entirely new enterprise (a so-called ‘greenfield’ investment) or, more typically, changing the ownership of existing enterprises (via mergers and acquisitions).” (OECD, 2003:157, box VI-I).

In 2012, the Chinese FDI flow in (Northern and sub-Saharan) African countries amounted to about 2.9 per cent of the total Chinese outward FDI flow and 0.18 per cent of the worldwide global outward FDI flow1. Looking at Algeria alone, these figures are less than 0.3 per cent and 0.02 per cent, respectively. The low level of the last two global figures should be viewed in terms of a long-term African perspective: China’s FDI stock in Algeria accounted for 6.0 per cent of the total Chinese FDI stock in Africa in 2012. Among those African countries which have benefited from the Chinese FDI, Algeria ranks fourth, behind South Africa (first), Zambia (second) and Nigeria (third). These four countries cumulate about half of China’s FDI stock in Africa. This fact highlights Algeria’s economic interest for China and may indicate a Chinese entrepreneurial and financial long-term strategy. Nevertheless, it cannot be assumed that Chinese FDI is actually impacting on the Algerian economy. To gage a possible influence, Chinese FDI flows must be measured using the yardstick of the Algerian gross fixed capital formation (GFCF), which is an indicator of net investment in a given country2. As FDI inflows can fluctuate greatly

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1 Unless otherwise stated, all statistical figures displayed in this paper are based on the author’s calculations from the United Nations Conference on trade and development (UNCTAD) on-line database (UNCTADStat at unctadstat.unctad.org) and MOFCOM (i.e. the Chinese Ministry of Commerce) annual communiqués, Duiwai zhijie touzi tongji gongbao [Statistical Communiqué of China’s Outward Foreign Direct Investment] (Pairault Th., 2013:261-265). A more minute statistical account appears in our study of Sino-Algerian relations (Pairault Th., 2014:33-62).

2 The gross fixed capital formation, during a given period, measures the value of net additions to fixed assets (less disposals) but without deducting the depreciation of fixed assets. It is not a measure but a statistical “indicator” of (net) investment.

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Socialist Algeria has always maintained friendly relations with Maoist China, but paradoxically, it was only during the 1990s and the 2000s, when Algeria abandoned its official ties to socialism, that the two countries began experiencing an unprecedented expansion in their economic, commercial and human relations. Twelve years ago, China’s share in Algeria’s foreign trade was insignificant. In 2013, China became Algeria’s number one supplier with 6.82 thousand million dollars worth of imports, thus overtaking France (6.25 thousand million dollars), which had long held first position. The European Union, however, still ranks as top trading partner for both imports and exports (Douanes, 2013:17). Excitement surrounded the Algerian media’s announcement of this event, which was portrayed as a competition between the former colonial power and the new global economic giant. France, whose dominant position in Algerian imports had been steadily reinforced ever since the opening of trade in the early 1990s, was now superseded by China. This breakthrough in imports might well be the most obvious expression of China’s increasing presence. However, it is rather difficult to assess the exact importance of this presence as there is much fantasising about it. From the moment the country became more visible, Western observers began to study China’s strategy in Algeria with increasing attention, as it introduced a renewed questioning going beyond the nagging issue of a political, diplomatic, cultural, migratory, human and economic relations. Twelve years ago, China’s share in Algeria’s economic interest for China and may indicate a Chinese entrepreneurial and financial long-term strategy. Nevertheless, it cannot be assumed that Chinese FDI is actually impacting on the Algerian economy. To gage a possible influence, Chinese FDI flows must be measured using the yardstick of the Algerian gross fixed capital formation (GFCF), which is an indicator of net investment in a given country2. As FDI inflows can fluctuate greatly
from one year to another, it is necessary to consider its average value over a given period in order to better ascertain its actual proportion. On average, from 2003 to 2011, Algeria relied little on FDI to finance its GFCF (10.2 per cent as compared to the world average, 21.9 per cent), with a Chinese contribution (0.6 per cent) identical to the Chinese average for the world, but half the Chinese average for African countries (1.2 per cent). Hence, Chinese investment indicates China’s interest in Algeria, but is of marginal economic relevance for the latter and must be seen as part of a more general Chinese concern in investing abroad: oil supplies (cf. figure 1).

The recent period has been marked by a clear commitment to reviving the oil sector by relying heavily on the expertise of foreign companies. In the process, China has received a certain degree of attention, which should, however, be considered in context³. Adding up areas prospected by foreign oil companies in association with the national oil company Sonatrach, the two Chinese companies (CNPC and SINOPEC) respectively rank fourth and sixth; it does not appear that they are particularly advantaged nor disadvantaged relatively to others major oil companies selected by Algeria. Areas conceded to U. S. companies account for one third of the total whilst those granted to Chinese ones account for less than a quarter. In other words, there has been a preference for China without it does call into question the pre-eminence of Western companies that handle more than three quarters of the prospected areas. Preference for China is also played down by direct investment flows as recorded by Algerian statistical services. Between 2000 and 2008, China accounted for 4 per cent of FDI entering Algeria and invested in the energy and mining sector. Thus, China certainly maintained an active presence, but much less so than Algeria’s main partners, such as the United Kingdom, the United States and Spain, which in fact proved to be disappointing. China was also undoubtedly a partner whose technical skills needed to be tested; this is probably why China was not put in charge of the most technically complex projects or the most expensive ones.

Figure 1. — FDI and capital formation (2003-2011)

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<th>Algeria</th>
<th>Asia</th>
<th>World</th>
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<tbody>
<tr>
<td>0.6%</td>
<td>10.2%</td>
<td>28.8%</td>
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China’s presence in the oil and gas sector clearly reflects the Algerian government’s will to open up to an old and faithful ally, whose growing economy offered great hopes of an expanding market for what was expected to be exceptional oil production, but which in fact proved to be disappointing. China was also undoubtedly a partner whose technical skills needed to be tested; this is probably why China was not put in charge of the most technically complex projects or the most expensive ones.

**FACTS AND FIGURES ABOUT SINO-ALGERIAN TRADE**

The total value (imports plus exports) of Sino-Algerian trade increased fourteen fold between 2003 and 2012 (rising from 0.6 to 8.6 thousand million dollars). Negligible in the early 2000s, this trade has therefore progressively gained in quantitative importance: in 2012 it accounted for 7.2 per cent of total Algerian foreign trade⁴. It is noteworthy that China’s rapid progress was due to two main factors. First, it was based on the originally low level of trade. Second, it was a result of the dynamics of Algeria’s economic opening, which benefited all Algeria’s partners. The balance of trade between both countries shows a growing deficit for Algeria. This fact alone suggests that Algeria may well need China more than China needs it – at least from a strictly commercial point of view.

There is little to say about Algeria’s exports, for they consist mainly of crude oil and petroleum products. On average, from 2003 to 2012, they accounted for 98.3 per cent of the value of Algeria’s total exports and 99.2 per cent of the value of its exports to China. Seen from this perspective, it is obvious that exports are not Chinese specific. The structure of Algerian imports of Chinese merchandise does not differ very significantly from that of all African countries: during the period 2003-2012, on average, about 91 per cent of these imports were machinery and transportation equipment⁵ (51 per cent) and miscellaneous manufactured goods⁶ (40 per cent). Once chemicals products⁷ (5 per cent) were added, the proportion of all manufactured goods came to a total of 96 per cent. For Africa as a whole, these figures were 88 per cent, (44 per cent and 44 per cent) and 7 per cent respectively, making a total of 95 per cent.

Different patterns may appear if Algeria’s imports...
China’s economic presence in Algeria

are examined in terms of the contributions of different categories of countries: this provides a comparison between China and other developing - and developed - countries (cf. figure 2). The forty- seven countries with a “very high human development” index according to the UNDP (2013:144) are considered to be “developed countries”, while the other countries are categorised as “developing countries” – this last category being divided into “China” and “other developing countries”. In 2012, Algerian imports from “developed countries” accounted for two-thirds (65 per cent) of the total imports of goods, whereas it was three-quarters (73 per cent) of the total in 2003. Even if exports from “developed countries” to Algeria are still increasing, the proportional loss in market shares is China’s gain (12 per cent), and China’s gain alone, as “other developing countries” have not experienced any increase. The three groups of countries play very different roles, because the main goods they supply are not of the same kind. Imports from “other developing countries” are made up of 51 per cent primary commodities (food items: 40.5 per cent; fuel: 10.5 per cent). Imports from China are almost exclusively made up of manufactured goods (96.2 per cent). Imports from “developed countries” show a comparatively more even distribution, as they are made up of 26.2 per cent primary products and 70.2 per cent manufactured goods.

There are three groups of goods that deserve a more detailed analysis, as they are economically and socially sensitive: Clothing (including footwear), Telecommunication equipment and Road Vehicles. In 2012, clothing import statistics showed the opposite situation to that recorded in 2003, when the “developed countries” had 42 per cent of market shares and China had 30 per cent: in 2012 the figures were 29 and 43 per cent respectively. On the other hand, “other developing countries” did not undergo any changes. This underlying trend should not conceal two facts: first, the clothing industry in China is partly the result of the delocalisation of Western enterprises, and, second, the clothing industry’s share in the total value of Algerian imports is extremely low (2.1 per cent). Hence, China’s share accounts for 0.9 per cent of the total value of Algerian imports. Throughout the 1980s in Algeria, well before the liberalisation of foreign trade and while local consumer goods were in short supply, of poor quality and limited variety, “suitcase traders” started ferrying contraband, first from Europe, then from Asia, to meet the needs generated by rising incomes and the emergence of a middle class. In 2009, Ben Simpfendorfer described the liveliness of the “New Silk Road” stretching from Chinese market towns to Cairo, Damascus, Riyadh and Dubai. Because of the policy of economic openness, the impact of indirect imports going through such commercial hubs may now be more limited (textile imports from Egypt, Syria, Saudi Arabia and the United Arab Emirates amounted to 10.3 per cent of textile imports from China in 2012).

The entry of smuggled goods is not recordable, but their impact a fortiori can only be diminishing. Importation of telecommunication equipment is an

8 Classification: STIC 0 + 1 + 2 + 3 + 4 + 68.
9 Classification: STIC 5 to 8 less 667 and 68.
10 Classification: STIC 26 + 65 + 84 + 851.

11 Classification: STIC 764.
12 Classification: STIC 78 (including motor vehicles for the transport of persons and goods, motorcycles and cycles...).
equally sensitive issue, particularly as the Chinese telecom giant Huawei has recently been at the centre of legal proceedings in Algeria (Mira R. and F. Talahite, 2014:138-139). Obviously, the “developed countries” have lost their monopoly in supplying telecom equipment, but still remain the leading suppliers. As the flow of imports by country varies considerably from year to year, depending on the signing of contracts and the completion of projects, the average figures for the period 2003-2012 provide the best illustration of the respective position of the competitors: imports from China account for 28 per cent, whereas those from “developed countries” stand at 70 per cent on average. If looking at individual countries, France is certainly the biggest loser: it ranked first in 2003, with a quarter of all Algerian imports of telecom equipment; in 2012 not only did its market share fall to less than two per cent, but the value of its sales dropped to one-tenth of its 2003 value. Conversely, the United States, which sold less than China in the early 2000s, gained an identical market share of about one third in 2012. Actually, the real competition may be between the “developed countries” themselves, not between these countries and China. The lists of telecommunication equipment approved by the Algerian Post and Telecommunications Regulatory Authority do not show a marked preference for Chinese brands, but rather for Chinese-made products such as those sold under brand names like Alcatel, Ericsson and Nokia, for example. The Value-Added Export Ratio (i.e. the total domestic value added to the share of gross exports) in this sector reached only 57.4 per cent for China, whereas it stands at 87.9 per cent for the United States, 87.5 per cent for Japan and 70.4 per cent for France.

Algeria granted China a large share of its imports of road vehicles, to the extent that, in 2009, it became the first market abroad for Chinese vehicles, according to the Chinese Ministry of Commerce (MOFCOM, 2011). Despite its present success and impressive progress, China has not yet dethroned the automakers from “developed countries”. In 2012, China won about 16 per cent of the market share of imported cars, but the “developed countries” still held almost two-thirds (65 per cent). Here again, France is the biggest loser in market shares, even if it is still able to keep pace with the Chinese, who are in first position. In the near future, competition between car makers will not be restricted to imported vehicles, so may shift to locally manufactured cars. In this situation, the French automakers may have somewhat of an advantage (see infra).

**CHINA’S ECONOMIC PRESENCE**

Sino-Algerian economic relations reflect the overall dynamics of the Chinese economic expansion in Africa. China has entered the African market thanks to its ability to meet the urgent needs of these countries and, to some extent, because of its capacity to contribute to GDP growth. Meanwhile, China is looking for suppliers of raw materials (crude oil, mining products...). In Algeria, consumer goods imported from China have become an indispensable part of everyday life and have led to consumer patterns which would not otherwise have developed. These goods are not actually in competition with local production, which is virtually non-existent, since private capital is still essentially invested in merchant activities and flourishes especially in the wholesale consumer goods trade. Therefore, Chinese small businessmen do not really threaten the retail industry in Algeria, no more than Syrian, Tunisian, Egyptian, Moroccan, Turkish and other foreign petty traders do (Hammou S. and Th. Pairault, 2014:163). Even if the available capital is invested in the manufacturing sector, low-end necessities imported from China are the key to keeping the cost of labour relatively low. Trade relations between Algeria and China are not really in competition with those involving the traditional partners either (Pairault Th., 2014:55-56). Generally speaking, developed economies and China are not in direct competition in their trade relations with Algeria: according to the merchandise trade correlation index, as calculated by UNCTAD, the Euro area countries should have better opportunities in Algeria than other developed countries and even better ones than China (the indexes are, respectively, 55 and 56).

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13 See www.arpt.dz/fr/downloads.
14 Trade in Value Added (TiVA) indicators by industry are calculated by OECD and WTO (stats.oecd.org).

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15 “Trade correlation index is a simple correlation coefficient between economy A and economy B’s trade specialization index. The resulting coefficient can take a value from -1 to +1. A positive value indicates that the economies are competitors in global market since both countries are net exporters of the same set of products. Consequently, a negative value suggests that the economies do not specialize in the production/consumption of the same goods, and are therefore natural trading partners”. See the statistical data provided online by UNCTADstat at unctadstat.unctad.org.
the following: -0.358, -0.249 and -0.180). There is often speculation that China is making the most of the withdrawal of Western companies from Africa in order to promote projects that they have abandoned because of low returns (inter alia Hugon Ph., 2009:164-165). For instance, according to Mathieu Pellerin, this may have been the case in the oil sector in Niger (Pellerin M., 2012). The facts may prove to be more complicated. A recent audit by Ernst and Young found the China National Petroleum Corporation (CNPC) guilty of bloated costs and undue charges. In 2008, CNPC concluded an agreement with the former president, Mamadou Tandja, to lend money to Niger in order to launch operations at an oil field near Diffa and to build a refinery at Zinder. The audit revealed that the Chinese financial package was inflated by hundreds of millions of dollars, interest rates were set very high (market rates over ten years) and, finally, there was a kickback scheme involving 300 million dollars. The new Niger government renegotiated the contract, but did not obtain complete satisfaction. In neighbouring Chad, the government has been more cursory, shutting down the Chinese operation and accusing the CNPC of “blatant disregard of environmental legal standards”.

In Gabon, the Obangue oil field, operated by SINOPEC since 2009, was seized and handed over to Gabon’s state company. (Boisbouvier C., 2013a et 2013b; Nossiter A., 2013). Thus, things are not as simple as they seem at first sight.

Another example may be useful in evaluating all the speculation about the withdrawal of Western companies. Ever since 2006, FAW (First Automotive Works – one of the main Chinese central enterprises – has been soliciting the Algerian government for an agreement to install an assembly line, but high tariff and land policies make direct imports of finished products no more expensive than local assembly. So it comes as no surprise that the presence of Chinese automakers is linked mainly to imports of Chinese vehicles and that their investments are limited to the opening of sales representative offices. That is also true of the Shaanxi Automobile Group (a publicly funded enterprise under the supervision of the Shaanxi province government), which had planned to set up an assembly unit in Sétif, scheduled to be operative in 2010, but in the end only opened a sales representative office in 2011. Similarly Higer and JMC, too, only opened offices (Pairault Th., 2014:50-52). On the other hand, the French car maker Renault, which was said to be reluctant to invest in Algeria, finally accepted, in 2012, the proposal to create a new production unit at Oued Tiélat near Oran (Chaal M., 2012). In that particular case, the Algerian government voiced a political choice (rapprochement between Algiers and Paris) as well as an obvious industrial preference (veteran carmaker versus newcomers). The revealed comparative advantage (RCA) index, based on gross exports of motor vehicles and transport equipment, shows that France has a clear comparative advantage whereas China has a significant comparative disadvantage in that sector: this index is 1.7 for France, but 0.3 for China (1.6 and 1.9 respectively for Germany and Japan)16. Nevertheless, a year later, in December 2013, the Chinese automaker FAW was finally able to sign an agreement for a partnership with Arcofina, a private Algerian group that is already marketing its vehicles (Kerri N., 2013). Sometimes, the announcement of investment projects involving Chinese companies acts as a signal to Western companies and vice-versa.

On the 8th of October 2011, in Algiers, the Algerian Minister of Health, Djamel Ould Abbès, organised a lavish ceremony to entertain “la crème de la crème” of Western pharmaceutical industries and announced a “mega-project” for the manufacture of drugs at the technopole located in the new city of Sidi Abdellah, near Algiers (Merabet H., 2011). A few days later, Djamel Ould Abbès reported that foreign direct investment in the pharmaceutical sector amounted to 420 million dollars in 2011 – of which 320 million from European companies and 100 million from Indian, Egyptian, Jordanian, Turkish and Saudi companies (Ould Abbès D., 2011). A few days after that, Algeria and China agreed to set up a joint committee for the technical study of this “mega-project”, the purpose of which was to enable Algeria to eventually become «a hub for the Middle East and North Africa» in medicine, according to a statement by the Algerian Minister of Health, Djamel Ould Abbès (Haider K., 2011). Subsequently, the press never again mentioned any such prospective Sino-Algerian partnership.

16 Custom duties on imported auto parts to be assembled are very high. An exemption of such duties could be why Renault recently (December 2012) accepted to invest in Algeria.

17 Access to industrial land is a major impediment to investment in Algeria. There is no shortage of land but there are poor land policies and inefficient institutions together with frenzied rent seeking competition. As a consequence, investors are discouraged by land price, opaque transactions, time-consuming procedures and extra-legal payments.

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On the other hand, in December 2013, the French pharmaceutical leader Sanofi, whose Algerian market has long accounted for about 25 per cent of its turnover in Africa, undertook the construction of a plant in Sidi Abdellah which is to become the largest Sanofi unit in Africa (Smati S., 2013). Therefore, speculation about the supposed withdrawal of Western companies and their alleged unwillingness to invest should be weighed alongside the capacities, as well as the (alleged or proven) behaviour, of Chinese firms and, last but not least, the industrial and political choices of the African partner countries – in our case, Algeria.

In the 2000s, Algeria frequently appealed to Chinese contractors to implement the Programme of Support for Economic Revival (2001-2004) and the follow-up Economic Growth Support Programme (2005-2009) which were financed by soaring oil revenues. The goal was to make up for the time lost during the 1990s, i.e. during the “black decade” marked by the Structural Adjustment Programme (1994-1998) that Algeria had to endure when oil prices were low and when the “struggle against terrorism” was dictating expenditure priorities and budget allocations. Once the legislation on foreign investment was liberalised, under the constraint of structural adjustment programs, Chinese contractors became very competitive, won numerous public tenders easily and took away the best part of the loot. Thus, China may have secured 80 per cent of recent infrastructure contracts in Algeria (Castel V. et al., 2011:5). Algerian contractors, mainly small and medium enterprises, cannot compete de facto with the large Chinese public groups (Souiah F., 2011:8). Thus, Chinese contractors have managed to get a step ahead by positioning themselves on the Algerian construction market at a time when Western contractors were fleeing the insecurity and the poor business climate. The current Minister of Housing, Abdelmadjid Tebboune, seems to somehow regret past choices and now urges French contractors to respond to tenders. He adds that “the timeliness and quality required in the completion of our housing projects require us to explore new solutions.” (Lamriben H., 2014).

The entry of Chinese expertise and investment into Algeria does not automatically fall within the authorities’ sphere of decision. It may also occur via Western firms, without being checked by the Algerian decision-makers and sometimes even against their will, as in the case of Terramin Australia and Desertec (Talahite F., 2014:20-21). Formally, the disagreement between Terramin and Algerian authorities is said to have focused on technical issues, but in fact, it is the involvement of a Chinese partner that has been the bone of contention. The arrival of the State Grid Corporation of China as a shareholder of Desertec was not Algiers’ choice for its energy policy; however, the Algerian authorities had no alternative but to accept it. And what about Peugeot’s investment plan in Algeria, now that one of its shareholders is Dongfeng Motor (DFM) – one of the “Big Three” Chinese public automakers? It is worth pointing out that DFM has entered into joint ventures in China with Citroën, Honda, Kia, Nissan, Peugeot and Renault. This automaker may consider Algeria to be a bridgehead for securing its commercial expansion in Africa (Zhu G., 2014).

**Human economic presence**

The first wave of Chinese migrants reached Algiers in the late 1990s. Some arrived as migrant workers, hired in China by Chinese enterprises engaged in the construction market in Algeria. Their contract once completed, some of them stayed in Algeria, where they opened small businesses. At the end of 2011, the total number of Chinese nationals on Algerian soil may have reached about 40 to 45,000 individuals, including migrant workers (the manual workforce recruited for a specific job), “expatriates” (managerial staff sent out on temporary assignments by their companies), petty entrepreneurs, shopkeepers and their families. Between 2005 and 2011, Algeria was the African country with the largest number of Chinese migrant workers, peaking at 49,631 in 2009, then falling to 36,562 in 2011, a decrease of 8,646 between 2010 and 2011, mainly due to the migrant workers’ massive return home after the completion of the projects (cf. figure 4). The construction of the West and Centre sections of the East-West Motorway, which is now completed, may alone have mobilised about twenty-two thousand Chinese workers (Michel S., 2007).

The decrease in the number of Chinese workers is expected to continue with the completion of major contracts (Hammou S. and Th. Pairault, 2014:166-168; Pina-Guerrassimoff C., 2014:237-241). It was relatively easy for foreigners to settle down in the early 2000s, but later, administrative constraints (visas, work permits) become tighter – even for the Chinese, who fully felt their effects (Dridi D., 2011).
According to Tayeb Louh, then Minister of Labour, “[for major national projects], we resorted to foreign workers with work visas not exceeding three months and temporary work permits issued by the employment bureaux knowing that foreign workers must return to their home country upon the expiration of his work visa.” (Bouklia-Hassane R. and F. Talahite, 2010:127-129). Thus, in the 2000s, tens of thousands of Chinese workers arrived in Algeria, but only a few hundred of them could have permanently settled in the country – at least legally. This influx of Chinese migrants in Algeria could therefore only have been an interlude and not a groundswell, as some have supposed. This idea was widely publicised in Algeria and abroad, sometimes to the point of feeding the fear of a Chinese “invasion”. However the only outstanding feature of this influx was its novelty in a country where there were very few foreigners, including Westerners, as a result of a long period of insecurity in the wake of the 1992 coup d’état. China’s presence here thus remains marginal when compared to Lubumbashi (DRC), which is “overwhelmed by […] an exhibition of Chinese symbols” (Tshibambe G., 2013:257) or to South Africa, where the Chinese “community” has been formed by numerous waves of Chinese migrants, the first one dating back to the 18th century (Pina-Guerassimoff C., 2014:238).

In the 2000s, the Algerian government had to face two pressing issues: housing and unemployment – both causes of endemic social unrest. To tackle them, it adopted two distinct approaches: on the one hand, it relied on foreign companies to speed up housing construction; on the other, it promoted what in France is called “a social response to unemployment” (Bouklia-Hassane R. and F. Talahite, 2008:423-430). This policy nourished criticism against Chinese enterprises, which were accused of increasing unemployment by importing their own workforce. Bound by their tender specifications, Chinese companies had no choice but to import their own labour force in order to meet a commitment to maintain such low costs and short deadlines. The presence of large Chinese labour forces on construction sites was not at first contested. Later, however, this was often seen as a refusal to provide employment for Algerians – although few Algerians would have agreed to work at wages and under working conditions such as those offered by Chinese enterprises to their own workers. The African Development Bank noted the Chinese enterprises’ low propensity for providing work that could absorb youth unemployment, especially that of graduates (Alden C. and F. Aggad-Clerx, 2012:14). This social discontent might explain why the brawls that broke out between Algerians and Chinese during the summer of 2009 in Algiers’ suburbs were interpreted as the anger and hostility of the young unemployed towards Chinese workers (Hammou S. and Th. Pairault, 2014:165)

The Algerian government did impose a quota of 20 per cent Algerian workers in Chinese construction projects. It is not clear whether this measure applied to all construction sites and, when it did, to what extent it was actually implemented (Dzaka-Kikouta Th. et al., 2014:208; Kpetigo D., 2014:147-148; Provenzano L., 2009). It is difficult to fight unemployment and at the same time to engage in the construction of housing. This should be kept in mind when interpreting the contract signed with Beijing Liujian Construction Corp (BLCC), a Chinese public company under the direction of Beijing municipality. BLCC was founded in 1958 and was authorised to recruit manual labour, skilled workers and executives to supply various construction sites abroad. BLCC was chosen to build 4,000 dwellings in Saida. The agreement signed with the employment services provided that BLCC must recruit 3,724 local workers; in return it was allowed to hire 1,197 Chinese workers to ensure proper supervision. The agreement also stipulated that BLCC was required to promote training operations for young recruits in the various specialised sectors of building and construction. When the agreement was signed, work had already been in progress for almost one year. One year after its signature by both parties, BLCC was employing just 300 local workers, i.e. about 8 per cent of the figure originally put forward (Ahmed S., 2013 & 2014).

Even if it is possible that there might be a reflux, the presence of Chinese migrants and expatriates in Algeria is probably not a cyclical phenomenon, but rather fits into a basic trend in Africa that should gain momentum with ever closer Sino-African economic relations.

**An outstanding relationship**

When compared to other Sino-African relationships, Sino-Algerian relations show certain distinctive features. Two of them are particularly noteworthy: first, the fact that infrastructure investment is self-financed and second, the purchase of military hi-tech equipment. Algeria does not seek package deals (i.e. an agreement including loans, aid and services) in
exchange for granting Chinese enterprises access to strategic resources – *i.e.* the *infrastructures for resources* strategy, often epitomised as the “Angolan model” of bartering (Corkin L., 2013). There is no detailed account of the whole process involved in awarding the East-West motorway contract; nevertheless, what we do know demonstrates the transformation in Algeria’s stance on the financing of such infrastructure investment. The Algerian government was first approached in 2003 by CITIC, a major public investment company under the direct supervision of the Chinese government. In 2004, both parties seem to have agreed to assess the costs of the infrastructure at 10.8 million dollars\(^{19}\) on the basis of studies conducted from the year 2000 on by Western consulting and engineering firms, at the request of the Algerian authorities. Under this agreement, the construction of the East-West motorway’s three sections was assigned to a Chinese contractor designated by CITIC, who would be in charge of financing the project. Moreover, it was understood that the Chinese consortium – made up of the financier (CITIC) and the contractor (CRCC\(^{20}\)) – would be paid in oil deliveries.

The Algerian government challenged this strategy in 2005 when it became aware that higher oil prices made it possible to finance infrastructure investments with its foreign exchange reserves and, thus, to proceed by request for tender. The announcement of this procedural change seems to have been sorely received by CITIC which was originally to play the role of a mere *construction manager*, hiring the CRCC services. In the rehashed version of the project, the Algerian authorities asked the tender winners to act as *project manager* and thereby to assume responsibility for the project design. The panic seems to have been real: the Chinese consortium tried unsuccessfully to retrieve the studies conducted previously by Western consulting and engineering firms. What “rescued” the Chinese consortium was the low priority the Algerian government accorded to the quality of the work and, conversely, the high priority it accorded to the speed of its completion (fast-track EPC project). Consequently, the project design did not necessarily need to be completed before answering the call for tender, but as and when needed. The consortium thus had time to conduct engineering studies. Furthermore, the Algerian government, consistent with its policy of prioritising speed, even at the expense of quality, no longer required, in its final version of the specifications, that bidders should have experience of completing a certain number of linear kilometres of motorway in countries demanding class A standards, such as European countries or the USA. The removal of this constraint meant that the Chinese consortium would not be excluded from the competition and, to some extent, that the previous promise would be respected. On the 16th of April 2006, the Chinese consortium won only two of the three sections of the motorway (the West and Centre sections); the third section (the East section) was won by COJAAL, a Japanese consortium (He Y., 2011; El Kadi I., 2009; CACI, 2006). The experience of the CITIC- CRCC consortium in Algeria merits a few remarks. The completion of the motorway’s two sections in relatively good time certainly could have given a very favourable impression if it had not been for the poor quality of the work and the suspicions of corruption. We will not discuss the later issue here, as both partners (both the supply and demand sides of corruption) may be in the wrong. Furthermore, corruption on construction projects is a worldwide problem, which is not specific to China (Kpetigo D., 2014: 146)\(^{21}\). Promoting the employment of nationals is not easy, as it is neither a mere matter of strengthening legislation, nor a problem of stricter enforcement of quotas. It is, indeed, the entire structure of the policy that must be re-examined, because calling on Chinese workers – in conditions that they are used to – is a *sine qua non* for low cost completion. Organising technology transfer, for the same purpose, is not an easy operation either. China has already experienced these problems when confronted with Western firms. Setting up vocational training centres funded by foreign firms may, wrongly, seem like a good idea: this type of solution cannot be reproduced indefinitely – even assuming the teachers needed are available. Cooperation is probably a more promising path: here, the question is a matter of politics rather than of economic policy. These considerations lead to

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19 This figure has to be compared with that resulting from the call for tenders which two years later reached 11.2 million dollars.

20 The China Railway Construction Corporation (CRCC) is the second largest contractor in China; founded in 1948, it is a public enterprise under the direct supervision of the Chinese government.

21 The 2014 Arachnys Open Data Compass reveals that “intrusive, bureaucratic and authoritarian states often perform quite well in providing open, business-critical data,” with China (20th) and Russia (23th) outranking United States (26th) when it comes to corporate transparency but performing worse than New Zealand, United Kingdom, Australia, France and Germany (to list orderly the top 5). See [compass.arachnys.com/static/download/Arachnys-Open-Data-Compass-2014.pdf](http://compass.arachnys.com/static/download/Arachnys-Open-Data-Compass-2014.pdf).
China’s economic presence in Algeria

the second point mentioned above, the procurement of hi-tech facilities and equipment.

The question of Algeria’s search for investment in industry, defence and technology was clearly raised by Ramtane Lamamra, Minister of Foreign Affairs, when Wang Yi, his Chinese counterpart, visited Algeria in December 2013 (OPR, 2013). China is a long way from being the leading provider of high technology goods to Algeria (Pairault Th., 2014:60). The same is true of “engineering, procurement and construction” (EPC) contracts. The Japanese consortium was entrusted with the hardest part, technically, of the East-West motorway, and the Chinese consortium with the comparatively easier ones. As a result, the eastern part of the motorway will not be finished before 2015. The example of the two Skikda refineries tells the same story. The modernisation of the big Skikda refinery was handed over to the Korean company, Samsung, whereas the renovation of the smaller one was assigned to a subsidiary of the Chinese oil company CNPC (Fachqoul K. and Th. Pairault, 2014:78). Algeria’s acquisition of hi-tech products and equipment is driven by sheer pragmatism: buy them from whichever country manufactures them, i.e. usually the more developed countries.

When it is a question of military supplies, Algerian authorities are not looking for cheap, low-quality weapons like most developing countries, which absorb the arms and military equipment surplus that the Chinese army is getting rid of. Instead, Algeria is primarily looking for high-tech equipment to make its army one of the most modern in Africa. That is why the international community is worried about a possible collaboration with China on nuclear weapons dating from 1980 and continuing today. It has been noted that in November 2005, Jing Zhiyuan – commander of the Second Artillery Corps, which controls the Chinese nuclear forces, and a member of the Military Affairs Commission – went to Algeria to discuss military cooperation. It has also been observed that in March 2008 China and Algeria signed a contract for the construction of a nuclear power plant. Western military authorities are worried about these activities, as they may point to Algeria’s nuclear ambitions (Zarnadi C., 2014:97).

Regarding conventional weapons, the modernisation and professionalisation of the People’s National Army (PNA) was frozen during the civil war. Since 2000, it has been back on the political agenda. Sino-Algerian military relations were the least developed part of the relationship between both countries until 2007, when the Algerian military forces began acquiring defence equipment from China, which is progressively becoming an important partner.

Algeria has obviously made an effort to diversify its suppliers in the sphere of defence and China appears to be one of the main beneficiaries of this policy (Zanardi C., 2014:93-94). Military purchases from China have several advantages: they should reduce the Algerian military dependence on Russia and make it possible to buy less expensive but modern equipment. As a result, competition in the sector of high-tech military equipment is no longer limited to Russian and Western companies and opens up possibilities for negotiation with military equipment suppliers for technology transfer.

Algerian policy-makers try to operate on two fronts. On the one hand, they tend to limit China’s presence to areas where there is no competition with their traditional partners, such as the construction sector. On the other hand, they are tempted to take advantage of China’s economic and technological performance to boost Algeria’s economic growth by engaging in Sino-Algerian joint projects. “China has expressed a strong will to enhance multilevel cooperation with Africa. That is in accordance with Algeria’s development strategy” claimed Abdelkader Bensalah, president of the Council of the Nation of Algeria during the Bo’ao Forum in 2013 (Li X., 2013).

See the documentation collected by the site Djazairess at http://www.djazairess.com/fr/search?q=Skikda++Le+plus+long+tunnel+de+l’au toroute+Est-Ouest

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China’s economic presence in Algeria


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Chine-Algérie
UNE RELATION SINGULIÈRE EN AFRIQUE

Thierry Pairault, Fatiha Talahite [dir.]

China—Algeria: in Africa a unique relationship

Socialist Algeria had friendly relations with Maoist China; it is paradoxically during the 1990s and the 2000s, while Algeria abandoned the official reference to socialism, that economic, commercial and human relations between the two countries began experiencing an unprecedented expansion in such a way that it could feed fantasies about the Chinese presence and expectations in Algeria. This book examines the sudden acceleration of the relations between the two countries. It aims first at assessing the extent and outlines of these relations, then at putting this phenomenon into perspective relatively to what is taking place on the African continent; it therefore distinguishes casual aspects of this presence from those which may last more permanently, singular features from those which are more commonly met in Africa.

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