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China's Strategy in North Africa: New economic challenges for the Mediterranean region

Eugenia Pecoraro

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Eugenia Pecoraro*
Pecoraroeugenia@gmail.com

Abstract

The WP aims to examine why North African countries are increasing their imports from China and why China is increasing its foreign direct investments in the area. The advantages for North African countries lie in the existing free-trade agreements, the absence of tariff barriers and its highly beneficial geographical location as a Mediterranean hub. The role of the Union for the Mediterranean is to identify key aspects of regional policy taking into account the Chinese involvement in the area. As a result we conclude that political actors should find a balance between sustainable development and economic interests in the region.

*Eugenia Pecoraro is a MA graduated in "EU-China: Culture and Economy" at the UAB (2010). She is currently working on the EU, the Mediterranean Union and China.

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INTRODUCTION

With the opening of the Barcelona Process, in 1995 the Euro-Mediterranean dialogue began with the aim of creating an alliance between the countries of the Mediterranean region, an initiative that officially materialized with the creation of the Union for the Mediterranean in 2008. Since then, the European Union has dedicated part of its policies in this area, through the instruments of the European Neighborhood Policy (ENPI), the institution of the Euro Mediterranean Parliamentary Assembly (EMPA) and the Euro Mediterranean Regional and Local Assembly (ARLEM). The research on the different characteristics of the Chinese presence in the Mediterranean region, especially in North African and the Middle Eastern countries which are members of the Union for the Mediterranean (Morocco, Algeria, Tunisia, Egypt, Lebanon Syria and Jordan) represents an attempt to reconstruct the face of China's strategy in the area. The Chinese presence in the Mediterranean is analyzed within the perspective of the overall relations between China and Africa. In this case we found a highly differentiated and complex geopolitical context where actors belong to various political superstructures. Morocco, Algeria, Tunisia, Egypt, Lebanon, Syria and Jordan are related to the Union for the Mediterranean and the European Neighborhood Policy. They are also interconnected through the Arab League and through the Maghreb Union. These countries have experienced significant advances in their governance model compared to countries in sub-Saharan Africa, which face an unstable internal situation and a weak economy. All the different actors of the Union for the Mediterranean (UfM) cooperate in projects aimed at enhancing the economic competitiveness of the region. The financing instruments have been primarily three: MEDA I (1995-1999), MEDA II (2000-2006) and the European Neighborhood and Partnership Instrument, which has replaced MEDA II. The Euro-Mediterranean partnership works on two levels: a bilateral level, between the EU and member countries and a regional level, between the EU and the countries of the region. In the area of bilateral cooperation, the EU has signed association agreements focused on common principles: political dialogue, respect for human rights and democracy, rules of competition and immigration. In the area of the Mediterranean regional cooperation, the partnership covers more specific areas such as industry, energy, environment, finance and agriculture.

1. RESEARCH METHODOLOGY

The objective of our research was to find out that Chinese penetration in North Africa follows a commercial and political strategy for approaching European markets. In the first part, we analyze the characteristics of North African and Middle Eastern economies and their trade relations with China. In the second part, we extend our analysis of the key sectors in the southern Mediterranean region and, at the same time, we examine the influence of the Chinese presence in the area. In the third part, we broaden our focus to consider the challenges of the Union for the Mediterranean in the framework of EU-China relations. The methodology centered on a comparative analysis of economic data collected from Chinese embassies' websites and from Chinese trade offices in North Africa and Middle East as well as from North Africa and Middle East embassies' websites and trade offices websites in China. Another valuable source was the information gathered from Chinese local digital newspapers and news agencies, academic articles and contributions by Western media, which provided a critical and objective approach to the topic. The interviews held with representatives of political and economic institutions from the III Mediterranean Week of Economic Leaders held in Barcelona in November 2009 have been very significant, especially in terms of unofficial opinions. Finally, the latest *Economic Review of EU Neighbour countries* published by the European Commission was a useful reference in order to collect more precise information concerning the economic background of each country, which can lead us to a better understanding of EU-China relations in the field.

2. BACKGROUND: CHINA-AFRICA RELATIONS

The southern Mediterranean countries have a quite diversified economy compared to sub-Saharan Africa and, following economic growth in recent years, the society is also more stratified. The purchasing power of the population is higher than in sub-Saharan African societies and, at the same time, meets the characteristics of Chinese exported products: middle-level products which do not have exorbitant prices and are accessible to most of the population. Foreign direct investments in the Mediterranean region have been very important throughout 2007, due to the efforts of the countries to improve their business environment, and the creation and expansion of networks of banks and insurance companies. The Mediterranean region achieved a great deal of progress on trade liberalization: in 2000-2006, total exports to the EU grew by an annual average of 10% and the engines of this growth were Algeria and Egypt (which registered an increase of 17%), Tunisia, Syria and Jordan (which registered an increase of 6%). Among the countries of the region, Morocco is the place where it is easier to establish a business, followed by Egypt, which lowered the minimum amount required to open a business from \$ 50,000 to \$ 1,000. Our research shows that Chinese penetration in North African countries uses a commercial and political strategy to approach European markets. The "countries segmentation" allows us to identify the key sectors of the Mediterranean economy and we can reflect on the impact and consequences of Chinese presence. In the conclusion, we expand the focus to the European Union especially to the challenges of the Union for the Mediterranean in the EU-China relations framework. It is important to consider the potential of the region within a space which, in the last fifteen years, has developed into a scene of heterogeneous actors. China and the Union for the Mediterranean would be interested in strengthening their relations. The Union for the Mediterranean, on one hand, could involve China in its economic cooperation projects as an external actor; on the other hand, it has an interest in safeguarding the progress made towards achieving the Mediterranean region as an area of integration. For China it is also important to ensure its strategic position in the Mediterranean area. In the framework of China-Africa relations, the most important and visible instrument is the Forum on China-Africa Cooperation, since its launch in Beijing in 2000. It takes place every two years, alternatively in China and Africa. The 4th ministerial meeting of the Forum was held in November 2009 in Egypt, one of the North African countries and member of the Union for the Mediterranean. The $5 billion loan announced in 2006, during the Egyptian summit, has been doubled to $10 billion. Both parties also discussed and launched measures in different fields such as agriculture, food security, infrastructure, trade, investment and public health. In addition, during the summit the need to improve the conditions of people's livelihood has been highlighted. The priorities of Chinese foreign policy today are focused on developing countries and among them, on the African continent. In the space of south-south relations, China and Africa have mutually established beneficial relationships that also include development cooperation policies[1]. China has a large dependence on oil, metals and other raw materials, goods that are usually produced in emerging economies: depends on 50% of oil imports and is expected to grow 75% in 2020.[2] In 2006, oil and gas accounted for more than 60% of African exports to China, while the other minerals and metals accounted for 13%.[3]

Tabla 3

Reservas de gas natural

País	*Gas natural (trillón pies cúbicos) BP Final 2004*	*Gas natural (trillón pies cúbicos) CEDIGAZ 01/01/2005*	*Gas natural (trillón pies cúbicos) Oil & Gas 01/01/2006*	*Gas natural (trillón pies cúbicos) World oil Final 2004*
Argelia	160,439	161,743	160,505	171,5
Angola		13,067	1,62	4
Benín		0	0,04	
Camerún		3,496	3,9	
Congo (Brazzaville)		4,061	3,2	4,15
Congo (Kinshasa)		0	0,035	
Costa de Marfil		0,918	1	
Yibuti	0	0	0	0
Egipto	65,452	66,004	58,5	66
Guinea Ecuatorial		2,472	1,3	3,4
Etiopía		0,883	0,88	
Gabón		1,059	1,2	3,425
Ghana		0,848	0,84	
Libia	52,632	51,313	52,65	51,5
Marruecos			0,06	
Mozambique		2,19	4,5	0
Namibia		2,472	2,2	0
Nigeria	176,394	178,517	184,66	180
Ruanda		2,013	2	
Somalia		0,212	0,2	
Sudáfrica		0,353	0,001	
Sudán		3,037	3	4
Tanzania		0,989	0,8	
Túnez		2,649	2,75	3,885
Otros países sin especificar	41,513	0,177	No disponible	8,899
Total África	**496,43**	**498,86**	**485,841**	**500,759**

Fuente: Energy Information Administration, Estados Unidos

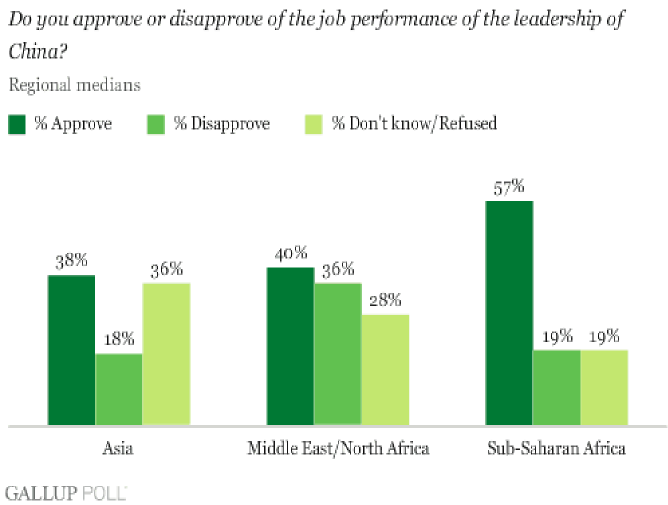
Picture 1.Natural gas reserves in African countries

[1] Chinese relations with Africa refer also to the Three Worlds Theory (三个世界的理论) developed by Mao Zedong which suggests that the world is politically and economically divided into three worlds: the first, the superpowers; the second, the superpowers' allies; the third, the non-aligned nations, like China and Africa.

[2] "Un demi-siècle de relations Chine-Afrique" p.54, Jean-Raphaël Chaponnière in *Afrique Contemporaine*, nº 228, 2008-4.

[3] The Beijing government started to have "energy concerns" from 1978. Since then, the growth of its economy registered a 9% annual rate. In 2003 China overtook Japan, with a daily demand of 5.5 million barrels, as the second largest oil consumer after the U.S.

The policy adopted by China in Africa has been severely criticized by the West.[4] On the other hand, there are different opinions within the African continent: local governments are keen to attract investment to their territories and China is the perfect "client", with its enormous availability of foreign exchange and flexibility in terms of reaching agreements and signing contracts, on the basis of a win-win relationship. The local population considers that China has a positive attitude within a political discourse that moves away from the European colonial past. China represents for Africa a model of economic growth and social transformation achieved in a relatively short period (within the last thirty years), as well as a useful model for poverty reduction.



Picture 2: Level of acceptance of China by geographical areas

[4] In April 2008 the European Parliament adopted a resolution on the impact of Chinese policy in Africa. The paper criticizes China for taking advantage of the lack of experts in African industries and for exploiting their natural resources. In the academic context the European and North American positions are equally critical as in "EU fails to Deal with China's New Scramble for Africa" ASIA BRIEFING, Jonathan Holslag, Brussels Institute of Contemporary China Studies (BICCS), "China Defies Africa Policy Critics", Bernt Berger in *International Relations and Security Network ISN*, 16/11/2009 and "POLICY STATEMENT: China in Africa: Implications for U.S. Policy" in *United States Africa Command AFRICOM.*

Do you approve or disapprove of the job performance of the leadership of China?

Among residents of Middle East/North Africa

	Approve
Yemen	52%
Iran	50%
Lebanon	46%
United Arab Emirates	42%
Morocco	41%
Egypt	41%
Kuwait	40%
Saudi Arabia	39%
Algeria	38%
Tunisia	36%
Palestine	33%
Turkey	29%
Israel	25%
Jordan	11%

GALLUP POLL

Picture 3: Level of acceptance of China by country

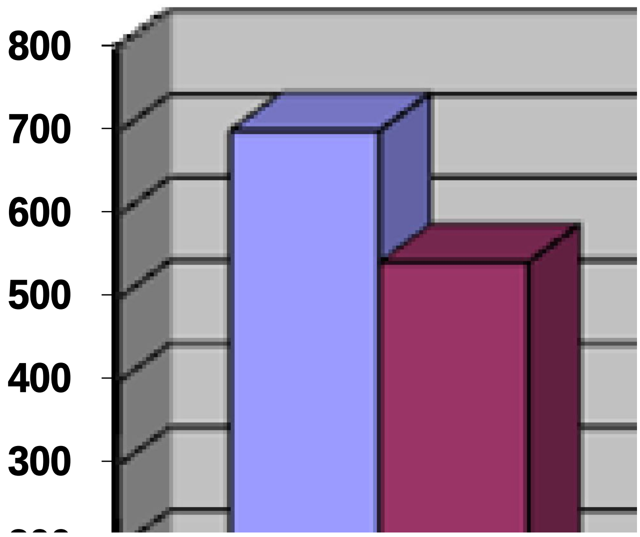
In addition to facilitating the access of African products to the market, China is establishing a major fund to support FDI in Africa through the Export-Import Bank of China and the China Development Bank. In July 2007, a Sino-African Fund (China-Africa Development Fund) has been launched with 5 billion dollars to finance Chinese companies willing to open new businesses in Africa. In order to ensure the implementation of these measures, the conference adopted the Declaration and Plan of Action of Sharm el-Sheikh (2010-2012).

African countries are becoming the energy and mineral providers for China and in the Mediterranean area Algeria stands as the primary supplier. The interest of China in North Africa can be explained by the proximity of this region to the European Union, by the classification of local workmanship and by its higher standard of living compared to Sub-Saharan Africa. China seeks to achieve two objectives through its presence in the area:

1) To find of new suppliers of raw materials.

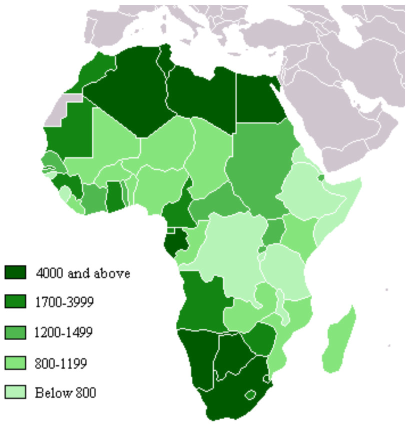
2) To have access to a regional market with more than 800 million consumers.

According to sources of the Mediterranean Centre for Investment Projects (MIPO), between 2003 and 2006 China has invested in the Mediterranean area 1,475 million Euros, mainly in Egypt (701 million €), Algeria (543 million €) and Syria (108 million €).

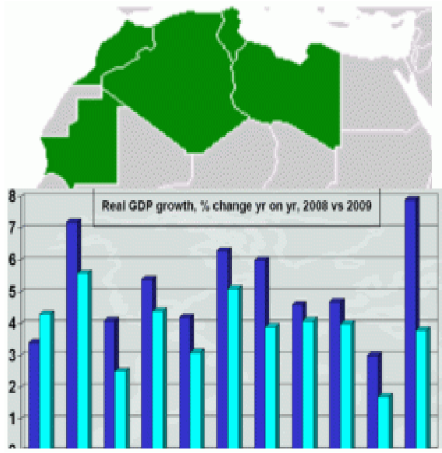


Picture 4: Investments from China

The economies of North Africa and Middle East have similar characteristics and, in general, produce and consume the same products. Due to its geographical position and to the agreements signed with the EU, these countries represent for China a platform for approaching Europe by exploiting local benefits and for testing the quality of export products before their distribution to European markets. North Africa is becoming a key market for the Chinese construction and engineering companies, especially in those countries that have extraordinary natural resources such as crude oil. The sectors of greatest interest to Chinese investments are the textile and mining, agriculture, processing and manufacturing and telecommunications. According to 2006 statistics, among 7500 Chinese companies investing abroad, 900 have trade relations with Africa. The 2006-2008 period is the one we use as a benchmark to understand the trajectories of Chinese investment. In the next part, we will analyze the each of the southern Mediterranean countries which are members of the Union for the Mediterranean. Before progressing with the presentation, it is important to highlight some details: Algeria is the best positioned country in the global competitiveness index for the years 2007-2008 and in 2007 registered the highest industrial Gross Domestic Product of the whole area. The same year, Egypt has registered the highest GDP and Lebanon the highest Foreign Direct Investments FDI flow, with the highest GDP in the services sector. Syria, meanwhile, has registered the highest agricultural GDP growth in the region.



Picture 5: GDP per capita in Africa



Picture 6: GDP per capita in Maghreb

2.1 Morocco

Morocco is the only country that has signed free trade agreements both with the EU and the US and also with other countries in the Arab region. The most emblematic is the Agadir agreement, signed with Tunisia, Morocco, Egypt and Jordan in Rabat on 25th February 2004. This deal has strengthened the competitiveness of the national productive networks and aims to promote international investment in the Agadir area, which has more than 120 million consumers. The benefits to Chinese companies are also evident when they produce in the region: local production allows selling without barriers in Europe, U.S. and in many other regions. The government of Morocco created tax-free areas for different sectors such as the Tanger Med port for the automotive industry, the Nouasser Center for Aerospace, the Casablanca Nearshore Park

(CasaShore) and the Rabat Technopolis for business services and communication technologies (ICTs). Chinese industries settled in Morocco belong mostly to the textile sector. Chinese entrepreneurs have opened their businesses in the local commercial districts: the Derb Omar district in Casablanca is the most significant case. In Morocco and Tunisia, the textile and clothing industry are export oriented sectors: ready-made garments are the most exported product. After the abolition of the Multi Fiber Agreement on 1st January 2005, Moroccan firms have faced competition from Asian goods within the European market. Moroccan small and medium enterprises have developed their activities in the “Fast Fashion” sub-sector, becoming the privileged subcontractors for European brands looking for suppliers able to ensure precise delivery time frames.

2.2 Algeria

China and Algeria have signed an agreement on oil and natural gas that has fostered a new era of cooperation in the energy field. The Algerian economy is strongly dependent on oil exports (95% of exported goods). Chinese oil companies (China National Petroleum Corporation, China Petroleum & Chemical Corporation and China Petroleum Engineering & Construction Corporation) have launched the largest investments in the country. They are all state-owned enterprises and this confirms the importance of the control over natural resources for the Chinese government. Algeria, due to its foreign exchange reserves (estimated at approximately 110,000 million $ at the end of 2007) accumulated thanks to its rich oil fields, has become the primary market for Chinese construction. China executes important projects like the Ministry of Foreign Affairs building, a shopping center in Algiers and a highway of 1,200 km on the plateau of Mitiya to connect the east to the west of the country and also Morocco and Tunisia (for this project, 12.878 workers have been imported from China). In the same context, Algeria has requested assistance from China for the construction of housing in major urban centers. While most of the agreements established between China and African countries involve the transfer of money from China to the various national treasuries, in Algeria the banks offer the benefit of financing projects without too many restrictions.

2.3 Tunisia

In 2007 China was the seventh largest supplier to Tunisia. In 2006, bilateral trade reached 3,552,240€ (an increase of 20% compared to 2005). According to the Tunisian Agency for Foreign Investment Promotion, Chinese investments would amount to 1,532,520€, considering only five companies. On 8th June 2009 a major economic event took place, the Tunisia-China Investment and Trade Forum, aiming to strengthen bilateral relations. The total volume of bilateral trade reached 635 million € in 2008. China mainly exports tea and light industrial products and imports phosphate and fertilizers. Currently, is under discussion the construction of an industrial area for Chinese enterprises from the municipality of Chongqing. Also in Tunisia Chinese invest in the construction industry: recently, they have launched a project to build a hospital in the region of Sfax, which should be completed in 2011.

2.4 Egypt

During his diplomatic visit to China in 2006, Minister of Trade and Industry Rachid Mohammed Rachid stated that "Egypt has the ambition to be the first trade partner of China in the next ten years, China's door to Europe, Africa and the Middle East".[5] In 2016 China could become Egypt's biggest trading partner. It was not a coincidence to have chosen an Egyptian town to celebrate the latest China-Africa forum. China and Egypt maintain privileged relations in the southern Mediterranean. The launch of a website in Chinese and Arabic, *Network for Economic Cooperation China-Egypt* (中国 - 埃及 经济 合作 网), confirms these circumstances. The website provides information on business opportunities and investments as well as works as a platform for enterprises, covering functions that traditionally belong to the Economic and Commercial Office of the Embassy.[6] The Cairo government is an influential player among North African countries and many factors confirm that it is one of the most interested actors in the Mediterranean to attract Chinese investment. Egypt's biggest challenge is enabling all

[5] "If Every Chinese Bought Just One Orange", Hadia Mostafa in *Business Today Egipt* http://www.businesstodayegypt.com/article.aspx?ArticleID=6988

[6] 中国-埃及经济合作网 http://www.cec.mofcom.gov.cn/ciweb/cec/info/Article.jsp?a_no=190124&col_no=762

Chinese cargos on their way to Europe to transit the Suez Canal. Currently, the percentage of cargos using the canal is 60% and 2/5 of Chinese cargos heading for Europe circumnavigate Africa to reach Rotterdam and other important ports in northern Europe. China in Egypt leverages tax benefits, like the right to not pay import duties on goods, thanks to free trade zones such as Port Said and Suez Special Economic Zone. The economic processing zones offer the opportunity to Chinese actors to be involved in African society. Official sources of the Chinese Ministry of Commerce agreed that the completion of the Suez Economic and Trade Cooperation Zone will end in 2018. This project is one of the most important within the framework of China-Africa cooperation. In fact, a Sino-Egyptian joint venture (*Tianjin Economic & Technological Development Area Suez International Cooperation Company*) has been set up to manage the construction, development and administration of the area. The project has an investment of $ 293 million and includes the participation of 50 companies in the next 10 years. The first phase should be completed by 2011 with the creation of 10,000 jobs, mostly for locals, according to minister Yang Jiechi. The area has a 5 km2 surface and in the first three years of operations is estimated to attract up to $ 3,500 million.[7] The Suez area has a strategic position because it is located between the major international ocean routes: 45 km from Suez, 110 km from El Cairo, 424.4 km from Alexandria and 240.2 km from Port Said. For several years now, Egyptian law requires foreign companies to hire a percentage of local employees. Following the preliminary agreement signed on July 19 2009, in the Suez area China will keep the land in usufruct in use for 45 years and the investors must be also responsible for promoting the area: Teda has already launched its promotion campaign in China and Singapore, especially for textile and electronic sectors. Overall, around 950 Chinese companies have established operations in the Egyptian free trade zones. Most of them are factories (526): 306 in the service industry, 31 in agriculture and 8 in the sector of tourism according to Egypt's General Authority for Investment (FATF), which oversees the free trade zones in the country.[8]

[7] "Egypt courts China for Suez special zone", Tom Mitchell, *Financial Times*, 2 March 2010 http://www.ft.com/cms/s/0/5a3445fa-2625-11df-aff3-00144feabdc0.html
[8] "Made in China is now Made in Egypt", in African Manager http://www.africanmanager.com/site_eng/articles/14140.html

2.5 Lebanon

The Lebanese economy is based on the services sector, especially tourism and banking. The banking sector represents 4.5% of the national GDP and is the only sector which continued to grow despite the global financial crisis. Trade between China and Lebanon reached in the period January-June 2009 a total of € 48,749,800, with an annual growth of 17%. Houssam Kobayter, [9] member of the board of the Chamber of Commerce, Industry and Agriculture of Tripoli and North Lebanon, made a positive evaluation about the economic relations between China and Lebanon. Lebanon has taken part in several fairs in China, especially in construction materials and clothing sectors. Meanwhile, the image of Chinese products has improved in recent years, particularly for appliances. Due to the composition of the Lebanese economy, focused on the services sector, the trade balance between China and Lebanon is unequal. Lebanon basically imports light industry products, including construction materials, garments and food products (the volume of imports has raised in ten years 500%). The Lebanese and Chinese governments held diplomatic talks regarding a project to open in Tripoli a permanent exhibition of Chinese products and a free zone. The project involves the establishment of a number of shops in a 100,000 m2 area and one of the basic conditions would include the relocation of 20,000 Chinese workers. China asked Lebanon for special treatment, such as the cancellation of the residence tax. Chinese strategic plans include using the geographical position of Lebanon as a platform to distribute its own products throughout the Middle East and then sell to the other neighboring countries such as Jordan and Syria. Because of the regional political situation and the war in 2006, the project has not yet started. It is estimated that within this year 2010 Lebanon will dismantle trade barriers. For some products, the local government has asked to extend the limit to two or three years.

[9] Interviewed in November 2009 in the 3rd Mediterranean Week of Economic Leaders held in Barcelona.

2.6 Syria

The Syrian government is promoting reforms and competitive incentives to attract foreign investors: in 2006 launched the Investment Law and created seven tax-free areas in Damascus, Aleppo, Adra, and in the ports of Latakia and Tartus. Syria is also one of the few Arab states that is member of the World Trade Organization. Currently, Syria is experiencing growth especially in the services and banking sector; two new private banks opened and three insurance companies have promoted their operations. In the framework of bilateral cooperation, Syria and China are debating the creation of an industrial area and a Sino-Syrian investment bank. The Chinese companies currently established in Syria belong to the textile, construction, and transportation sector. CNPC owns a stake in oil production and created a joint venture with the Syrian government to build an oil refinery in Deir Ezzor, as part of the plans to promote cooperation in oil and gas.[10]

2.7 Jordan

In the southern Mediterranean, Jordan has great potential in the service sector. China has a strong presence especially in the telecommunications field. Huawei and ZTE are the most important companies established in the country. Jawad Abbassi,[11] General Manager of Arab Advisor Group (consulting member of the Arab investment bank in Jordan), declared that these companies are among their best customers and evaluated the level of technology they promote, commenting further that this sector could create competition in the Mediterranean area. 2007 was a milestone year for Jordan and the government expressed its willingness to diversify its economy beyond the traditional sectors of tourism and real estate. In 2007 two automotive Chinese companies, Chery Automobile and ZXAUTO, entered the local market to build assembly factories. China and Jordan cooperate also in the energy sector. Energy projects have been selected as priorities for the future of the Mediterranean economy. The Jordanian government stipulated a nuclear cooperation agreement with China to supply 1/3 of its energy

[10] "China to build oil refinery in Syria near alleged nuclear plant bombed by Israel", 04/03/2008 in Ynet.News http://www.ynetnews.com/articles/0,7340,L-3527387,00.html
[11] Interviewed in November 2009 in the 3rd Mediterranean Week of Economic Leaders held in Barcelona.

demand by 2030; a contract for the implementation of power plants has also been signed between the Shandong Electric Power Corporation (SEPCO III) and Samra Electric Power Generating Co (SEPGCO). This pilot project is useful to meet the Jordanian demand for electricity and also to export to neighboring countries. Following the agreements, the Chinese company SEPGCO will support SEPCO III for the installation of a gas generator with a 100 MW capacity, in order to complete the establishment, in a second phase, and achieve an electrical capacity of 300 MW. The project is located in Zarqa, a town 35 km away from the capital, Amman and the premiere opening is scheduled for June 2010.[12]

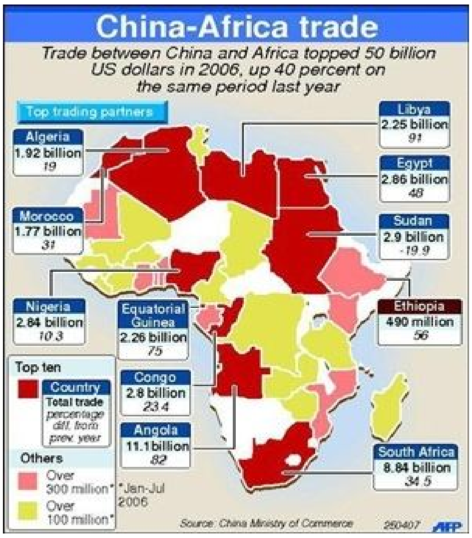
3. THE IMPACT OF CHINA'S PRESENCE IN THE MEDITERRANEAN REGION: A COMPARISON OF ECONOMIC SECTORS

In this section, we will identify Chinese economic actors in the region. The most active are the multinationals which, in addition to receiving support from the government, obtain also special incentives such as tax deductions. The *go out strategy* (走出去), initiated by Chinese leaders since 1999, aims to internationalize the enterprises in 28 key sectors (including agriculture, automotive, energy, machinery, pharmaceuticals and transport). Considering the reasons for expansion of Chinese multinationals, we are able to identify some of the most evident features of the Chinese strategy in the Mediterranean area:

1. China is searching for energy resources as well as wood and fish resources to maintain its economic growth.

2. China is facing industrial overproduction and market saturation in several sectors, such as textiles and electronics, and needs new markets for the economic expansion.

[12] "Jordan Project Participated "Going Out" Plan Research Meeting Organized by Embassy in Jordan" in SEPCO III 山东电力建设第三工程公司 http://www.sepco3.com/English01/newsdisp.asp?id=717



Picture 8: Africa-China bilateral trade in US$ (2006)

In this section we describe the textile, the automotive and the electronic and telecommunication sectors as follows.

3.1 The textile sector

With the end of the Multi-Fiber Agreement on 1st January 2005, protection quotas also disappeared. After that, China reached the production of more than half of all textile products and clothing worldwide, which has sharply raised the level of competitiveness.[13] In the southern Mediterranean countries, the textile sector is the pillar for Moroccan and Tunisian economies. The industry represents approximately 5% of Moroccan GDP and ready-made garments are the main export products. Although the dependence of European markets is very strong, in 2005 Moroccan exports to EU decreased by 7.4%. To avoid this situation, the Government of Morocco launched a structural adjustment plan, *Plan Emergence*, which aimed to modernize key sectors of Moroccan industry, including textiles and the automobile industry.

[13] "China's Rising Role in Africa", Princeton Lyman in *Council on Foreign Relations* http://www.cfr.org/publication/8436/chinas_rising_role_in_africa.html

In Tunisia, Monastir is one of the most innovative textile centers. The primary market for Tunisia is the EU, with 96% of total exports. In 2006 the country reached the 7th position in European imports of clothing after China, Turkey, Bangladesh, India, Romania and Hong Kong. Since 2000, Tunisia adopted a strategy aimed at promoting vertical integration, high-end clothing and small and medium-sized production series. This choice has allowed differentiation from Chinese production, which is based more on low-end production.

In Egypt the textile sector has a structured organization. In terms of regulations, for example, it is carrying out tariff dismantling, which facilitates the procedures for companies wishing to export: the only requirement is to be registered in an official list. Regarding the local wages issue, Chinese entrepreneurs find good conditions in North Africa. In 2007, the Chinese government in its Eleventh Five-Year Plan formulated policies for the textile industry and identified North African countries as potential competitors. The Egyptian Ministry of Commerce and Industry is promoting investment in the Qualifying Industrial Zone (QIZ), advertising additional benefits for exporting to the U.S. market, as added-value to existing agreements with the EU. Along with low labor costs, Egypt also offers low prices for the supply of raw materials, as well as for electricity and water tariffs, essential for industrial production. One of the most successful cases of Sino-Egyptian trade is the joint venture *Nile Textile Group*, led by Li Jinglin, an entrepreneur who previously worked for a state-owned company in Jiangsu province and decided to move to Egypt when competition between industries in mainland China led to the closure of many businesses. The group has created a workforce of 600 employees in the free trade zone of Port Said, at the northern entrance of the Suez Canal. Chinese investment represents 20% of total capital, while the remainder is Egyptian.

3.2 The automotive sector

China is becoming the first global car market, close to replacing the U.S. The Association of the Automotive Industry of China affirmed that in 2009 the sales of cars and buses increased by 46%, reaching a total of 13.6 million vehicles. In China the financial crisis affected the textile sector but, on the other hand, benefited the automotive industry. While many European industries have been exposed to financial troubles, the Chinese automotive industry continued to produce vehicles for a growing domestic market where the population is increasing the purchasing power. In the Mediterranean scenario, Chinese production is rapidly expanding, especially in Jordan and Egypt; consumers evaluate the price-quality convenience compared to the European, Japanese and South-Korean brands which previously monopolized the market. Chery Automobile Co. Ltd., one of the major automobile manufacturers in China, started selling cars in Jordan in 2004 and the results exceeded the expectations, despite the initial uncertainties. In fact, the company implemented a direct penetration strategy by setting up a local branch, the Chery Jordan Company Ltd. The new plant is part of a major operation which aims to distribute the end product to the neighboring countries such as Syria, Saudi Arabia and Iraq. The enterprise achieved great results also in Egypt, by establishing a factory with an annual production capacity of 25,000 units. Around 20 Chinese companies in the automotive sector have sold their cars in the Egyptian market since 2003, with annual sales between 3,000 and 4,000 units. With 80 million inhabitants and 2.5 million vehicles, Egypt is a promising market especially for private cars. In the southern Mediterranean area, Chery exported cars to Syria, announcing in 2007 the target to reinforce its presence with the establishment of an assembly line also in Iran. Algeria is among the top ten countries importing Chinese vehicles: in 2006, 26.000 vehicles have been sold. The Automotive Fair in Algiers is an important event in the Maghreb area and several top Chinese firms (Jiantmotor, Foryota, JMC, Foton, Hafei) exhibited in the last edition.

3.3 The electronic and telecommunications sector

Traditionally, the African telecommunications market has been controlled by European companies, such as British Vodafone, France Telecom and South Africa's Vodacom and MTN. The most successful Chinese companies in the Mediterranean area are Zhong Xing Telecommunication Equipments Company Limited (ZTE), a state-owned company, and Huawei, a private company. In the case of ZTE, the company chose a business strategy aimed to promote balanced growth and to pursue integration between Chinese and local workers. Some of the biggest Chinese multinationals achieved their objective to reach the European market by setting up local branches: Haier (the sixth-largest household appliances producer in the world) and Galanz, the worldwide microwaves producer, have already reached 40% of the European market. Among the southern Mediterranean countries, Morocco is a very interesting market for Chinese multinationals. Huawei, the second-largest telecommunications equipment producer in the world, has become the leading provider of IPTV[14] technology to Maroc Telecom, the largest operator in fixed, mobile and Internet's technologies in the country.[15] In Egypt and generally, in North African countries, most of the population owns household appliances (TV, hi-fi products, etc.) due to the growing prosperity of the middle classes. Currently, many Chinese companies started to manufacture electronic devices in the Mediterranean, such as the case of Hisense, which opened in 2008 in Egypt its fifth production plant outside of China and joined the local company Sun TV Group. The two partners have invested $ 15 million in an area of 120,000 m2 to establish assembly lines able to produce 100,000 LCD TVs every year. The total investment, once all phases are concluded, will reach $ 60 million. The Chinese group, after opening a representative office in Egypt in 2006, first led the monopoly of the TVs domestic market and, later on, boosted sales activities through the Egyptian branch, increasing its profits by 66%. The Vice-President Lan Lin declared that "the choice to move the production in Egypt is due to very low production and labour costs. This allows also improving the brand image among local consumers".[16]

4. CHINA AND THE UNION FOR THE MEDITERRANEAN: IMPLICATIONS FOR FUTURE RELATIONS

As a result of the countries' analysis, we acknowledge that China has a considerable impact in the Mediterranean region: in fact, in African countries the image of China is very different from the image of Europe, which lies on the colonial past, when natural resources of the continent were exploited over decades.

[14] TV using the IP protocol.
[15] "Maroc Telecom IPTV system built by Huawei started its commercial service" http://www.huawei.com/es/catalog.do?id=173
[16] http://www.hisense.com.cn/en/news/atct_1_1/200811/t20081114_4452.html

However, if we consider the impact of the Chinese presence we can identify both benefits and disadvantages:

- Chinese consumption goods have increased the purchasing power of the African consumers: currently, local people are able to obtain some products that previously could not afford to buy. Moreover, small and medium entrepreneurs improved their working conditions by modernizing, for example, the production chain with newer and cheaper computers and phone lines.

- The relocation of some highly polluting industries from China involves environmental consequences. North African and Middle Eastern governments are enthusiastic to attract Chinese investment but China could behave in the same way Western companies did years ago, as they find favorable conditions to implement production plants. In most of the Mediterranean area, the construction industry works via the extraction of mineral resources in fragile ecosystems.

On the other hand, China is willing to promote in Africa a sustainable model of cooperation to ensure a long term presence and enhance an alternative model of development different to the West. Li Ruogu, president of the Export-Import Bank of China, the major investor in Africa providing credit and financing the most important projects, confirmed these purposes. Chinese' experience in leading the economic transformation from an undeveloped country to a developing country represents a benchmark for African leaders.

Even so sustainable cooperation cannot exclude the impact on civil society. It has been claimed that local populations could take advantage of foreign investments, having the opportunity, for example, to work in Chinese enterprises. Actually, the unemployment rates in North Africa and in the Middle East are very high and this situation could be extremely helpful. On the other hand, the establishment of small Chinese enterprises in the area led to the clash of civilizations. In Morocco, Chinese textile enterprises have been identified being the main reason that leads to the closure of local businesses. In Algeria, have been reported several riots between the two communities. Regarding the situation of Chinese immigrants in the African continent, while in sub-Saharan Africa the Chinese are involved in more profitable economic activities such as the timber industry and oil extraction, in northern Africa trade activities (in most of the cases, family businesses) are operating on a smaller scale.

The economies of the countries members of the Union for the Mediterranean have many common aspects. The energy sector is the one based on most complementarities due to a closer correspondence between the resources and the needs of the region. Moreover, state policies pair with the priorities of the Union for the Mediterranean in the field of renewable energies. Among the possible challenges, the Union for the Mediterranean could encourage the establishment of Mediterranean *joint ventures*. The cooperation in the renewable energy field could be profitable also for China, as publicly declared during the China-Africa Forum in Sharm el-Sheik, through the signing of sector agreements. The Chinese ambassador in Jordan together with the Minister of Energy and Mines of Jordan, Khalid Irani, discussed the possibility of exploiting uranium mines and other natural resources as well as the option of promoting the use of renewable energies. China and Jordan engaged in cooperation also in the field of environmental protection.

Another characteristic segment of the Mediterranean countries is the agricultural sector. Syria, Jordan and Tunisia, for example, export olive oil. In Tunisia, agriculture is the second activity of the economy. The annual growth of agri-food exports (over 12%) confirms the competitiveness of the sector. Behind the European Union, Tunisia is the second largest exporter of olive oil (around 170,000 tonnes per year), and exports its best brands (Terra Delyssa, Sfax Huile and Chaalan) to the Chinese market.

The energy and the agri-food could become the key sectors for the promotion of the Mediterranean in China. Algeria could contribute to energy and marine resources, Morocco and Tunisia to the food processing industry. Agricultural production may also take advantage of geothermal resources. The Union for the Mediterranean should consider those needs as urgent tasks for implementing future projects: there is a wide gap between imports and exports, actually the exports of the southern Mediterranean countries towards China are still estimated on a small scale. Some of the shares do not even reach 1%. This would confirm the importance of strengthening Euro-Mediterranean exports. The Barcelona Process aimed to achieve a free trade area, which would follow the process of tariffs dismantling. On the date agreed, by 2010, this has not yet accomplished. The Union for the Mediterranean could also be in charge of leading environmental issues, since one of its most ambitious plans is the complete decontamination of the Mediterranean Sea by 2020. The Union for the Mediterranean, within its trade projects, could boost the promotion of high-quality Mediterranean products *Made in Mediterranean*: promoting the Mediterranean as a brand can provide a significant model of cooperation in the current economic context in which China is increasing competition for domestic producers.

CONCLUSIONS

The present research focused on the study of Chinese penetration in the Mediterranean and proved that China is an emerging investor in the region. Chinese economic rise – approximately between 6% and 10% per year- over the latest twenty years has lead to an intensification of trade relations with Middle East and North Africa. Chinese demand for oil, gas and other natural resources needed for its development are the main points of these new partnerships; however, China is also willing to ensure its industrial and commercial presence in several sectors not yet exploited by European companies. Besides, China tends to replace the traditional hegemony of European and North American firms and establish itself as reference power to contribute to the development of the area.

According to the IMF report on global GDP growth between 2010 and 2011, North African and Middle Eastern countries are expected to grow between 3% and 5% and some of them will even overtake the rate of 5%. In the IMF map we observe a turnaround between the northern and the southern shores of the Mediterranean. The growth for the northern shore of the Mediterranean has been estimated between 1% and 3% and in the case of Greece, Spain, Italy and Portugal has been forecasted below 1%. The whole Mediterranean area is a market of 800 million potential consumers and the southern shore is a market of 310 million potential consumers. North African and Middle Eastern countries have not been extremely affected by the global financial crisis as the countries of the northern shore. Therefore, the current situation provides a favorable climate for the development of North African and Middle Eastern economies.

The main challenge of the Union for the Mediterranean is to achieve a real balance between environmental sustainability and social transformations, an objective that clashes with the environmental consequences carried by Chinese presence in the region. China's investment include financing important infrastructure projects such as railways, roads and harbours, as part of a "relocation strategy" to set up manufacturing plants in African countries, in order to minimize its dependency on domestic industries established in China.

On the other hand, the growth of Chinese economy offers new market opportunities for the countries of the Mediterranean region. Besides energy, there are potential opportunities that remain unexplored, such as petrochemicals, crude materials, agricultural products, and a number of manufactured goods for which the Mediterranean region has strong comparative advantages. In response to the global market demand, the Mediterranean region could specialize into complementary sectors, such as renewable energies, because there is correlation between the resources and the needs of the region. The North African and Middle Eastern countries, except Algeria, which is an oil exporter, rely on imports and for this reason in the latest years have launched reforms to promote alternative energies.

Until now, despite the different agreements signed along the years, the Mediterranean region is still not a real competitive area, mainly due to trade and logistical constraints. Although the objectives of the Union for the Mediterranean are really ambitious, it is actually a "technocrat" institution and its main target is to put into practice commercial regional projects, not to implement policies that take into consideration the different costs of the countries involved. For the moment, the Union for the Mediterranean has identified six priority areas, such as the de-pollution of the Mediterranean Sea, the establishment of the motorways of the sea, civil protection measures including initiatives to avoid natural and man-made disasters, the Mediterranean Solar Plan, the establishment of the Euro-Mediterranean University in Slovenia, and the creation of a Mediterranean Business Development Initiative focusing on fostering small and medium-sized enterprises in the region. The future of Euro-Mediterranean projects will depend on financing factors: their feasibility could transform the Mediterranean area as an important platform for structural changes at regional level.

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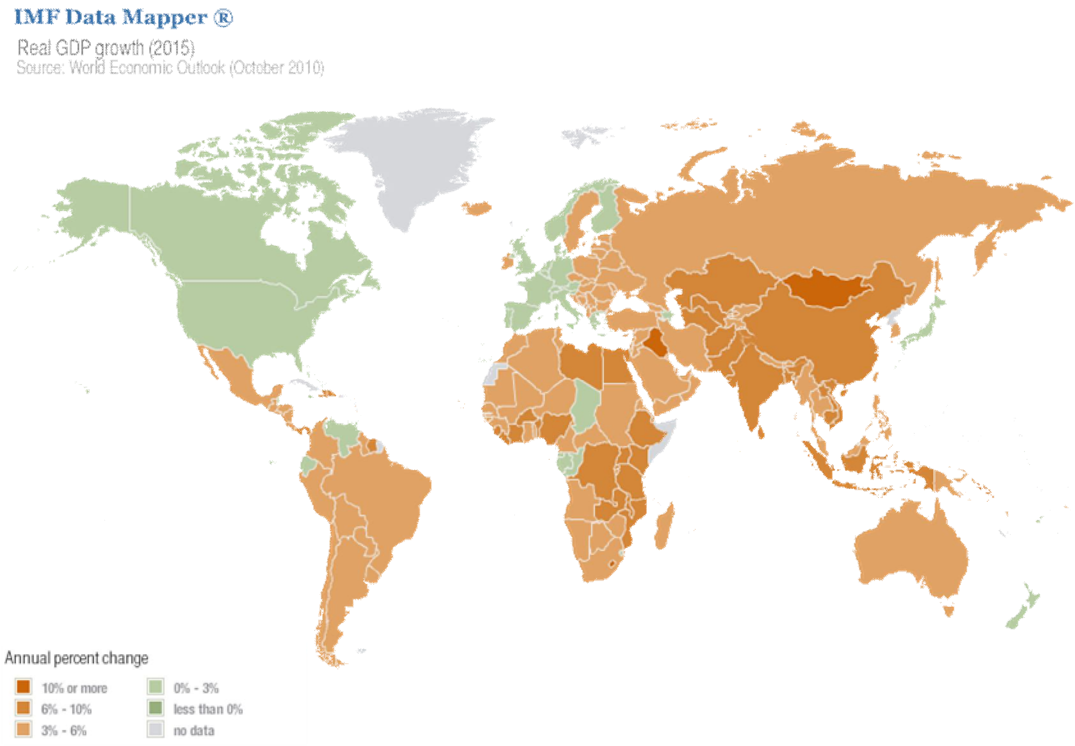
Annexes



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