

“Sino-algerian partnership and its impact on the emergence of Algerian economy.”

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ABSTRACT:

Taking advantage of the various oil crises, particularly during the first fifteen years of the twenty-first century, Algeria has managed to raise significant financial resources who placed it in relatively favorable conditions for take off economically and rank among emerging countries. After a huge effort, the Algerian economy has not been able to emerge, what are the factors involved in this failure? The predominance of the annuitant nature of the economy that gave rise to the “Dutch disease”, has certainly played an important role in the unfavorable evolution of Algerian economy. The solution to the structural problem encountered by Algerian economy is in a structural action. The research of partnership, and especially a win-win partnership is an important part of the solution. Is the partnership with China able to meet this challenge? Sino-Algerian relations are not new and they have experienced over the past decade an important development that places China among the main economic partners of Algeria, and gives it a leading role in achieving the target long-awaited emergence of Algerian economy. This paper will focus on determining the ability of Chinese investment in boosting Algerian economy forward emergence.

Keywords : Algerian economy, Chinese cooperation, annuitant economy, economic emergence.

Africa's strategic geographic location and natural resources endowments are attractive arguments and assets for China which has begun a phase of global economic expansion.

China's interest in the African continent has really started to manifest in a massive manner since the beginning of the decade 2000. Indeed, China

has developed a strategy of expansion in Africa by taking conquest of markets, not only in the field of energy but also in the fields of minerals, building and public works, and consumer goods. For China, Africa has the advantage of being a reservoir of raw material, a vast market accessible to Chinese products, but also an almost open space where Chinese companies are confronted with very little external competition because of the very high competitiveness of Chinese enterprises and products, and because of the Western disaffection of Africa that characterized the end of the Cold War.

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

Algeria played a major role in this African deployment of China, which is clearly reflected in the important increase of the trade between the two countries and also the increase of the share of China in the vast equipment program initiated by Algeria in the beginning of 2000 thanks to the steady and significant increase of its income, result of increase in international hydrocarbon prices. In this paper, we will endeavour to reveal the vital importance of the partnership between Algeria and China, based on the main elements that militate in favor of this partnership.

I. The relevance of the Sino-Algerian partnership

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

in which they have an interest each on its own. In the case of the Sino-Algerian partnership, we will try to highlight its relevance and the importance it can take for each of the parties based on criteria specific to each country.

1-In the case of Algeria:

In this case, there are three main arguments in favor of initiating and expanding the partnership with China. These are the imperative of economic emergence, the diversification of the Algerian economy which depends almost entirely on hydrocarbons, and the fight against the scourge of unemployment which threatens the foundations of the economy and the society in Algeria.

a. The imperative of the emergence of the Algerian economy:

Despite the enormous efforts made by Algeria in the 1970s to set up an efficient economic apparatus through which the Algerian economy could break the vicious cycle of underdevelopment and finally begin a virtuous circle and an unavoidable path for economic and social progress. Despite the Structural Adjustment Program implemented at the end of the 1990s (that has permitted to restore the main macroeconomic balances) and the vast equipment program and the various economic stimulus packages initiated as from the beginning of the decade 2000 that have mobilized a huge material, financial and human resources, the Algerian economy did not succeed in taking off to be placed among the world emerging economies. Nevertheless, Algeria has theoretically all the conditions to make this qualitative leap which would allow the economy to optimize the exploitation of the resources at its disposal to continuously promote the living conditions of the population and to respond positively to its legitimate expectations.

b. The necessity of economic diversification:

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

In fact, two economic characteristics have emerged as result of this evolution: in one hand, the structural vulnerability acquired of the

Algerian economy, in the sense that the evolution of the economy depends almost exclusively on the international price of oil, and in the other hand, the necessity of economic diversification. The first characteristic has been revealed in a first time by the oil price crisis of 1986 which occurs with a very sharp decline in the international prices of oil leading the Algerian economy into a deep crisis that has annihilated the development efforts of nearly two decades. The second time is that the precipitous decline in oil prices that began early in the summer of 2014 which continues to threaten Algerian economy till now.

These two experiences of deep crisis have highlighted the weakness of the Algerian economy, weakness which is a direct result of a lack in economic diversification, phenomenon which unavoidably exposes Algerian economy to all forms of external shocks. To establish a mode of economic regulation based on variables other than oil incomes appears as a priority of the economic policy in the short and in the long term. That means that solving a structural problem such as that which the Algerian economy is facing, needs unavoidably a structural solution. Therefore, this solution is based on the process of indogenization of economic growth and development.

The challenge that faces the Algerian economy lies in building a diversified productive economy which generates sustainable growth and is relatively insensitive to external shocks which are in fact the "Achille's heel" of the Algerian economy. Meeting this challenge goes irreparably by the establishment of basic infrastructure on which can emerge a sustainable cumulative processes which are appropriate to the economic development process.

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

c. Promoting employment:

Algeria, like all the Maghreb countries, is acutely confronted with the problems of unemployment and underemployment which undermine

development efforts, threaten social stability and the foundations of the society in the sense that income is one of the essential elements of the economic and social integration of the individual. Although over the past decade, according to official statistics, unemployment has fallen significantly, from 29% of the labor force in 2000 to 15.3% in 2005 and 11.3% in 2008 and 10% in 2011.

Unemployment in Algeria appears as a structural phenomenon that affects more the most skilled persons. Indeed, more than 50,000 university graduates each year come feed reserves of unemployed population. Unemployment affects with more acuity the young population that represented 21% of unemployment in Algeria in 2011.

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

According to the ranking of the World Bank concerning “doing business” for 2010, Algeria is ranked third in the Maghreb far behind Tunisia and Egypt.

Algeria was at the same rank concerning the degree of domestic labor market flexibility.

Aware of the importance of resolving the employment problem in Algeria, the authorities have put in place mechanisms to struggle unemployment and promote job creation programs, which have however shown their limit in an uncertain global economic environment. A partnership involving labor-intensive productive projects requiring a labor force with a high level of training is perfectly capable of contributing to the employment of the young people who constitute in Algeria the most affected fringe affected by the scourge of unemployment.

2. In the case of China:

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

a. The penetration in North Africa:

The rise of the Chinese economy on the global economic scene is undoubtedly the most significant event of the past two decades. This is particularly apparent at the level of trade flows between China and other parts of the world. Even though it was with a relatively less degree, the African continent has not escaped this Chinese wave. Over the past 15 years, the sustained and rapid growth of many African economies, encouraged by their resilience to the global economic crisis has further benefited the South hemisphere than the North one. So multinational companies, including Chinese ones, intended to take advantage of these opportunities. The actual place of Chinese products, capital and workers all over the world have provoked many reactions. Investment in Africa is highly risky and the infrastructural conditions are not very favourable. Unlike these factors, Chinese companies have responded quickly and positively to the situation in Africa.

The prevailing idea is that in Africa, Chinese companies are only interested in natural resources, particularly oil and minerals. Investing in natural resources has often been a gateway due to the availability of resources and the growing needs of China. But in reality, the situation is more nuanced. The latest data collected on the business operations of chinese firms in Africa show a relative diversification of investments by introducing new sectors as telecommunications, financial services, food processing, infrastructure and tourism. If investment in natural resources still dominates FDI portfolios of chinese firms in Africa in terms of value, the number of FDI projects in other sectors has known an important growth this last decade.

b. The relocation of chinese firms:

The relocation of chinese firms is the result of two main factors. The first one is the consequence of competition between chinese firms in the domestic market, and the second one is the result of the desire of chinese firms (most competitive in particular) to develop their skills to take advantage of their competitiveness to gain a share in the world market.

The economic expansion through foreign markets (export bias of economic development) constitutes the second phase of the chinese economic development strategy since this last gives priority to the

development of the domestic market (domestic demand- led development) to the detriment of export-led development which must emerge and impose itself only when the conditions of domestic demand are satisfied.

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

For example, China has more than 30 handset manufacturers, while the world is dominated by a half-dozen international suppliers. It affects all sectors. In the field of white goods, China still has 1,300 manufacturers, while in the medium term, only a dozen at most of them should stand the test of consolidation which is a necessary step before considering any form of internationalization.

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

Chinese companies that have managed to remain on the domestic market experiencing a decline in their growth rates because of the difficulties they face in terms of increasing their market share. Difficulties to impose on the domestic market have sometimes led some Chinese companies to look outward, especially those with significant financial resources and accumulated experience and with domestic

notoriety. In other words, it is the saturation of the domestic market which has encouraged Chinese companies to look outside to maintain and to develop their business. The first objective of Chinese companies seeking to expand abroad is to gain market share in the global market. But this goal is not only the one, they also seek to:

- increase their sales and reach a critical size ;
- compete with world leaders in each industry ;
- diversify their sources of income in terms of geographical areas.

From a purely financial point of view, they are aware of their limited dimension compared to multinational western firms that have penetrated the global markets for several decades.

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

c. A basis to enter the European market:

In addition to intensifying its trade with the Maghreb countries, China aims to facilitate its enterprises access to the European market. Indeed, the Association Agreements that link the Maghreb countries (with the exception of Libya) to the European Union (EU) allow all goods manufactured in the region to be exported to the UE with advantageous customs duties. And in addition, the EU decision taken in April 2011 made it possible to relax the rules of origin for Maghreb countries that have signed an association agreement by allowing exporters from these countries to source their products from abroad, including China, while benefiting from preferential treatment. This should be an opportunity for business and at the same time an incentive for business to invest and seek partnerships in northern Africa. The activity of chinese enterprises in Algeria is a preliminary phase known as "capacitation" (enabling) which places companies in question in a condition to approach the European market where the competition is intense and where conditions of access are more rigorous and require a level of competitiveness relatively higher than in the north african market.

It should not be forgotten that in the framework of the W.T.O, China has

literally invaded Europe through the product (consumer goods, equipment goods). The financial windfall accumulated thanks to the dynamism of chinese economy during the last two decades, has permitted to China to take over several european companies (especially those that have experienced difficulties). At this rate, it is not surprising that the "chinese tide" will eventually also reach the European market for equipment projects (auctioning), and this, once the chinese enterprises have finished sharpening their competitiveness in less demanding areas as Africa.

II- Favorable sectors for Sino-Algerian partnership:

The main areas that may be covered by chinese companies outsourcing are:

- Energy sector: taking into account Algeria's energy potential, this sector can play a decisive role in the development of a win-win partnership between China and Algeria.
 - Mining sector: in this sector too, Algeria has important possibilities to promote the Sino-Algerian partnership.
 - The high-tech sector: it is the sector that has seen the emergence of China's largest companies by size (excluding the energy sector) and notoriety. The main segments concerned are consumer electronics, household appliances, telecommunications equipment and personal computers.
 - The construction and textiles: in both intensive activities and workforce, Chinese companies.
 - Agricultural development: along with its "Marshall Plan", Algeria has decided to boost its agricultural sector with the stated objectives of national food security and limiting the food bill. The sino-algerian partnership may play a decisive role in achieving these highly strategic objectives.
 - The development of basic infrastructure: the large program of infrastructure development also opens important opportunities to the sino-algerian economic cooperation.
- In the medium term, other sectors such as pharmaceuticals (generic), automotive, machine tools, electronics will undoubtedly also play a dynamic role in boosting sino-algerian partnership. The challenges of Chinese penetration in Algeria are important and in particular through the partnership which appears to be an effective,

lasting and interesting support to consolidate sino-algerian cooperation and to accelerate economic diversification in Algeria and the so long awaited emergence of the Algerian economy.

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

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

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