

# China's growing North Africa footprint

**THE RELATIONSHIP BETWEEN THE ECONOMIES OF NORTH AFRICA AND CHINA HAVE BEEN STRENGTHENING YEAR-ON-YEAR - A TREND THAT LOOKS SET TO CONTINUE. DR FLORENCE EID-OAKDEN EXPLAINS**

Diplomatic relations between China and North Africa date back to the 1950s. Egypt became the first Arab and African country to establish diplomatic relations with China, in 1956. And as the first non-Arab country to recognise Algeria's independence in 1962, China occupies a special place in Algerian diplomacy.

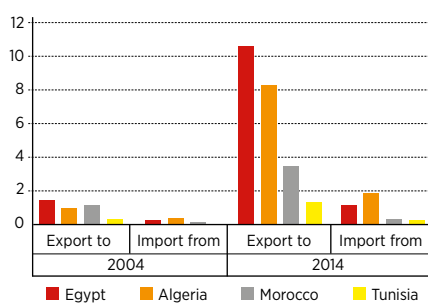
Trade between China and North Africa amounted to around \$4.4bn in 2004, but by 2014, it had grown by 20% annually on average to reach \$28.7bn. North Africa's large population provides a consumer base for Chinese goods and technical expertise, and China's total exports to North Africa have been far greater than its imports from the region, resulting in a large trade surplus in China's favour (see figure 1, right)<sup>1</sup>. Some North African countries have become important destinations for Chinese foreign direct investment (FDI). The total FDI received by North Africa in 2014 was more than £840m, accounting for 30% of China's total FDI in the Arab world (see figure 2, right)<sup>2</sup>. North Africa is set to benefit from growing investment inflows from China as part of the One Belt, One Road strategy.

In the past decade, Sino-Egyptian trade has grown at an average annual rate of 22%, and this is expected to continue following the Suez Canal expansion. While FDI flow from China to Sudan rose from \$146m in 2004 to \$174m in 2014, FDI from China to Sudan as a proportion of total Chinese FDI to North Africa dropped from 88% in 2004 to 17% in 2014. The 2015 strategic framework signed with Tunisia to establish a free-trade zone will help China further leverage North Africa to strengthen EU economic ties.

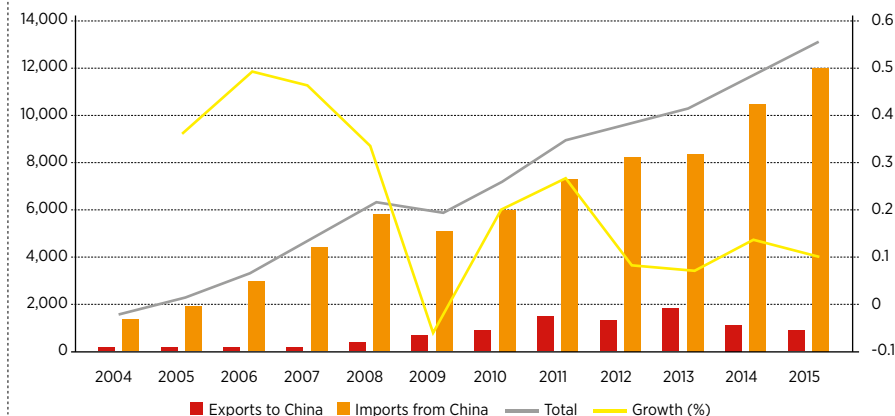
## China-Egypt: a model for south-south cooperation?

Egypt leads Sino-North African bilateral trade relations. Alongside vital political and cultural relations, Sino-Egypt economic relations hold great potential for development and benefits for both countries. Bilateral trade between Egypt and China (mainly non-oil) increased from \$1.6bn in 2004 to \$11.5bn in 2014

**Figure 1** China-North Africa imports and exports (USD, bn)<sup>1</sup>



**Figure 2** Sino-Egypt bilateral trade (USD, bn)<sup>2</sup>



(see figure 2, below), at an average annual rate of 23.3%.

There is, however, a trade surplus in favour of China, highlighting potential opportunities for scaling up Egypt's exports to China (which include marble, granite, cotton, carpets, glass, fruits and condensed juices), which increased from \$187m to \$1.2bn during this period. China, meanwhile, exports textiles, metal products, electrical appliances, toys and school equipment, among others, to Egypt. Imports from China rose from \$1.4bn in 2004 to \$10.4bn in 2014.

While Chinese FDI to Egypt represents less than 1% of Egypt's total FDI stock, Chinese companies are becoming major beneficiaries of high-profile infrastructure projects in Egypt. China's accumulated investments in Egypt surpassed \$500m during 2004-2014, growing by 12.2% per annum and accounting for more than 3,000 local jobs. Egypt received \$162.8m worth of Chinese FDI in 2015, equivalent



to 7% of China's total FDI to the Arab world (\$2.3bn).

As China's economy and consumer spending slows, access to Egypt's population of 85 million may provide a new outlet for cheap consumer goods. China also benefits from cheaper Egyptian labour, as well as free entry to markets where Egypt has signed free-trade agreements, including Mercosur, the European Free Trade Association and Turkey.

Frequent high-level visits indicate that China values its new Comprehensive Strategic Cooperative Partnership with Egypt. President Sisi visited Beijing for the second time in September 2015 to attend the 70th anniversary of the World War II victory. Chinese president Xi Jinping visited Egypt during his January 2016 tour of the Middle East (Saudi Arabia and Iran included).

During Xi's visit, the Egyptian government signed deals worth \$15bn with Chinese companies, including in energy, transportation and sanitation, aimed at boosting FDI from China to Egypt. One memorandum of understanding brought China State Construction Engineering Corporation into Egypt's new administrative capital project.

In February, the Central Bank of Egypt received \$900m from the China Development Bank under a \$1bn financing agreement signed during Xi's visit. This raised Egypt's dollar reserves to around \$17.4bn. On 6 March, the

National Bank of Egypt also received the \$700m loan pledged during Xi's visit from the China Development Bank to finance infrastructure projects in different sectors.

#### China-Sudan: for better or worse?

The picture is a little more mixed when it comes to Chinese-Sudanese relations.

The year 2011 was something of a special case in trading relations between the two countries. In 2011, Chinese FDI to Sudan surpassed \$900m, the highest among all Arab countries. President Omar al-Bashir's visit to China and the 10 investment contracts signed explain the sudden spike in FDI from China that year. Chinese companies were very active in exploiting gold mines in Sudan before the Sudanese government imposed an evacuation order in May 2015. There were 17 Chinese gold-mining companies based in Sudan, and their investments amounted to more than \$100m. Chinese companies accounted for 98% of all foreign companies and 15% of the entire market share.

China and Sudan became strategic partners in September 2015. Sudan is eyeing natural gas exploration and production, creating opportunities for foreign investment in its extraction and export. Sudan has proven gas reserves of three trillion cubic feet, but development has been limited. It lacks pipelines and port terminals, and is seeking China's help to explore, produce and export natural gas. China will start gas production in Zone 15 in the Red Sea, as

well as in the Baleela field in Zone 4, and in two other zones.

In February 2016, president al-Bashir announced the formation of a special committee for Chinese affairs tasked with developing Sudan's political, economic and military relations with China – a move that underscores growing cooperation between the two countries.

Awad al-Jaz has been appointed to head the committee at the rank of presidential assistant for Sudanese Chinese Affairs. Al-Jaz is one of al-Bashir's closest allies, having been oil minister for many years. He was also one of 10 Arab figures honoured by president Xi for developing relations between their countries and China.

The new committee aims to act as a direct liaison between China and Sudan, and help organise visits and meetings between both countries. This also means that anything with China would now be done through this committee. Al-Jaz has been reviewing a number of projects in the Khartoum State that require cooperation with China for funding and implementation.

#### China-Tunisia: a quiet partnership

While China's relationships with Egypt and with Sudan have shown positive growth trends, trade between China and Tunisia has yet to become as well established. Trade between the two nations reached \$1.4bn in 2014, compared with only \$28m a decade ago. China's FDI flow to Tunisia was not as significant – only \$710,000 in 2014.

A strategic framework was signed in April 2015 between China and Tunisia to establish a free-trade zone in Tunisia. This could further facilitate China's interest in leveraging North Africa's location to strengthen its economic ties with the EU.

The diplomatic and economic groundwork established to date means that China is well placed to take advantage of North Africa's growing economies.

<sup>1</sup> Arabia Monitor; IMF

<sup>2</sup> Arabia Monitor; China National Bureau of Statistics



**Dr Florence Eid-Oakden** is CEO and chief economist at Arabia Monitor, a research and strategy advice firm that specialises in MENA