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## The BRICs in North Africa: Changing the Name of the Game?

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### Introduction

The BRICs—an acronym regrouping Brazil, Russia, India and China, first coined by Goldman Sachs in a 2001 paper entitled “The World Needs Better Economic BRICs”—have already earned their dues as the symbol of the shift in global economic power away from the developed G7 economies toward the developing world. The four countries, combined, today account for over a quarter of the world's land area, about 40% of its population and more than 15% of global GDP. From 2000 to 2008, the BRICs saw their respective trade volumes grow at average annual rates of between 15% and 25%, far outstripping growth in overall world trade. As a result, the BRICs share in world trade more than doubled from 6.3% in 2000 to 12.8% in 2008. Estimated to account for more than 50% of global economic growth

over the past decade, the BRICs have thus long hence become an economic force to be reckoned with. On June 16, 2009, the four BRICs took this economic reality one step further as they held their first annual summit in Russia (focused on developing a common position on international financial reforms and climate change).

As the BRICs have become an indisputable force in the global economy, their impact on and involvement in Africa has become an area of growing importance and interest. As discussed in the Standard Bank paper entitled “BRIC and Africa: Tectonic Shifts tie BRIC and Africa's Economic Destinies” (October 2009), this relationship—between the world's most dynamic growth-quartet, the BRICs, and Africa, a continent with ample natural resources and arguably the World's only remaining emerging region—is decisively

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impacting Africa's future and potentially that of the world at large. Initially driven by the BRICs, particularly China's need for natural resources, and thus continuously resulting in very sizable trade surpluses in Africa's favor (e.g., more than US\$22 billion in 2008), trade volumes increasingly reflect the BRICs interest in capitalizing on Africa's growing consumer markets. China is thus Africa's biggest source of imports and only second to the USA as a destination for exports. Direct investments from the BRICs have followed trade at an increasingly rapid pace, particularly flowing towards African countries with large natural resource reserves and consumer markets. Political ties between BRICs and Africa have also strengthened over the past decade, with increasingly frequent high-level visits in both directions—notably involving China and Brazil. Most recently, in December 2010, South Africa was thus invited to attend the third BRICs leaders' summit, to be held in Beijing, China in the first quarter of 2011—thus changing the acronym to BRICS.

The evolving relation between the BRICs and North Africa (in this paper primarily referring to Algeria, Egypt, Libya, Morocco and Tunisia with occasional reference to Mauritania) mirrors those of the rest of Africa on many fronts but differs in several important aspects. Like the continent at large, North Africa is rich in natural resources and is a fast growing, emerging consumer markets. However, regrouping nearly 170 million

inhabitants with a significantly shared culture and language and accounting for more than a 1/3rd of Africa's GDP, North Africa has much higher income levels and thus more potential as a consumer market. Furthermore, the region has relatively advanced infrastructure networks and is much better connected to the global market place than the rest of the continent. Finally, North Africa's proximity to the European Union and the Middle East makes it a beachhead for the BRICs to the biggest consumer market in the World. The appeal of these North African dimensions to the BRICs and the potentially game-changing impact of this fast evolving relationship is the subject of this paper.

In the first section of this paper, we will describe how the BRICs' need to secure steady supplies of natural resources combined with the appeal of North African markets, account for the bulk of the increase in trade between the BRICs and North Africa. In the following section, we discuss the evolving nature of BRICs' investments in North Africa, highlighting especially the increasing diversity of these investments and the key drivers behind them. In the third section, the intertwined political and economic nature of the relation between the BRICs and North Africa will be discussed. Finally, the paper will briefly suggest a few potential trajectories in these for North Africa new relationships. ■

# 1 – BRICs in North Africa: Securing Minerals and Capturing New Markets

**China’s relentless pursuit of oil to fuel its growing economy is a key factor driving its North Africa strategy “Chinese-made equipment is widely used in Morocco’s communication networks. Chinese brand name cars are selling well and Chinese commodities for daily use are available in many Moroccan supermarkets”**

*Gong Yuanxing, Chinese Ambassador to Morocco*

## A Story that Began with Minerals

### BRICs increasing need for minerals

BRICs’ demand for primary commodities has increased dramatically over the last decade to fuel their unprecedented economic growth. Today the four BRICs are amongst the top 10 consumers of oil and phosphate in the world and are major consumers of iron (tables 1 and 2)—a pattern that is likely to be accentuated with their continued economic growth (oil for China & India, phosphates fertilizer for India and Brazil). For China, the world’s second largest consumer of oil (and third largest in terms of net-imports), this need is made more urgent by the fact that its oil reserves are estimated to be exhausted within two-three decades. Similarly, with large and increasingly wealthier populations to feed and vast agricultural land to crop, the BRICs

rose by 10% in 2010 alone, from about 1 billion metric tons the year before.

Because of their growing demands, the BRICs are now engaged in a race to find and secure new sources and supplies of minerals to fuel their fast-growing economies.

### North Africa regroups some of the world’s leading producers of energy, phosphate and iron ore

North Africa is particularly well placed to provide the BRICs with access to these resources. As shown in table 3, they are among the world’s leading producers and reserve holders of oil, gas, phosphates and iron ore. In particular, Algeria and Libya are the biggest producers of oil in the region, both ranking among the top-twenty oil producers in the world (and combined, the two

**Table 1: BRICs oil consumption and import dependency in 2008**

Country	Consumption		Import Dependency Net Export/Imports(-)	
	World Ranking	‘000 bbl/day	World Ranking	‘000 bbl/day
China	# 2	7,831	# 3	-4,224.38
India	# 4	2,962	# 6	-2,232.5
Brazil	# 5	2,916	# 67	55.17
Russia	# 7	2,485	# 197	7,193.70

Source : U.S. Energy information Administration, *Independent Statistics and Analysis*, 2010.

have also seen a rise in their demand for phosphates. As it stands, this resource is in tight supply on the international markets. India already imports 90% of its requirements while its fertilizer plants operate at 65% capacity. Likewise, the BRICs’ consumption of iron ore has grown in parallel with their economies. Over the last three years, China and India have experienced an unprecedented demand for iron, despite economic slow-down, as a result of revived construction industries. Brazilian Vale SA, the world’s largest iron-ore producer, estimates that China’s demand for the steelmaking material

**Table 2: BRICs phosphates fertilizer consumption**

Country	Consumption		Import	
	World Ranking	Metric tons	World Ranking	Metric tons
China	# 1	12,145,898	# 21	174,807
India	# 2	6,051,858	# 3	503,164
Brazil	# 3	3,450,114	# 1	1,666,022
Russia	# 13	430,85	# 98	3,573

Source : FAOSTAT, 2010.

countries would be the 5th biggest oil producer in the world, right behind Iran). Similarly, Algeria and Egypt are among the top-twenty producers of gas in the world. Meanwhile, Morocco and Tunisia are the 2nd and 5th largest producers of phosphates and have proven reserves counted among the largest in the world. With 400 million tons of iron reserves, Mauritania is positioned as the 11th producer of iron in the world. Importantly, in addition to being rich in these natural reserves, North African countries also have ample room to export these commodities as their supply far exceeds national demand.

**Table 3: Oil & gas, phosphate and iron ore production and reserves in North Africa (international rankings)**

	Oil		Gas		Phosphates		Iron Ore	
	Production	Reserves	Production	Reserves	Production	Reserves	Production	Reserves
Algeria	12	15	6	10				
Egypt	28		18	20				
Libya	18	10	33	22				
Morocco	95		79	96	2	1		
Mauritania			88*				11*	
Tunisia	52		53	60	5	9		

Source: Energy Information Administration, U.S. Crude Oil, Natural Gas, and Natural Gas Liquids Reserves, 2006 Annual Report, DOE/EIA-0216(2007); World Proved Reserves of Oil and Natural Gas". US Energy Information Administration. 2007. <http://www.eia.doe.gov/emeu/international/reserves.html>. Retrieved: US gov mineral.

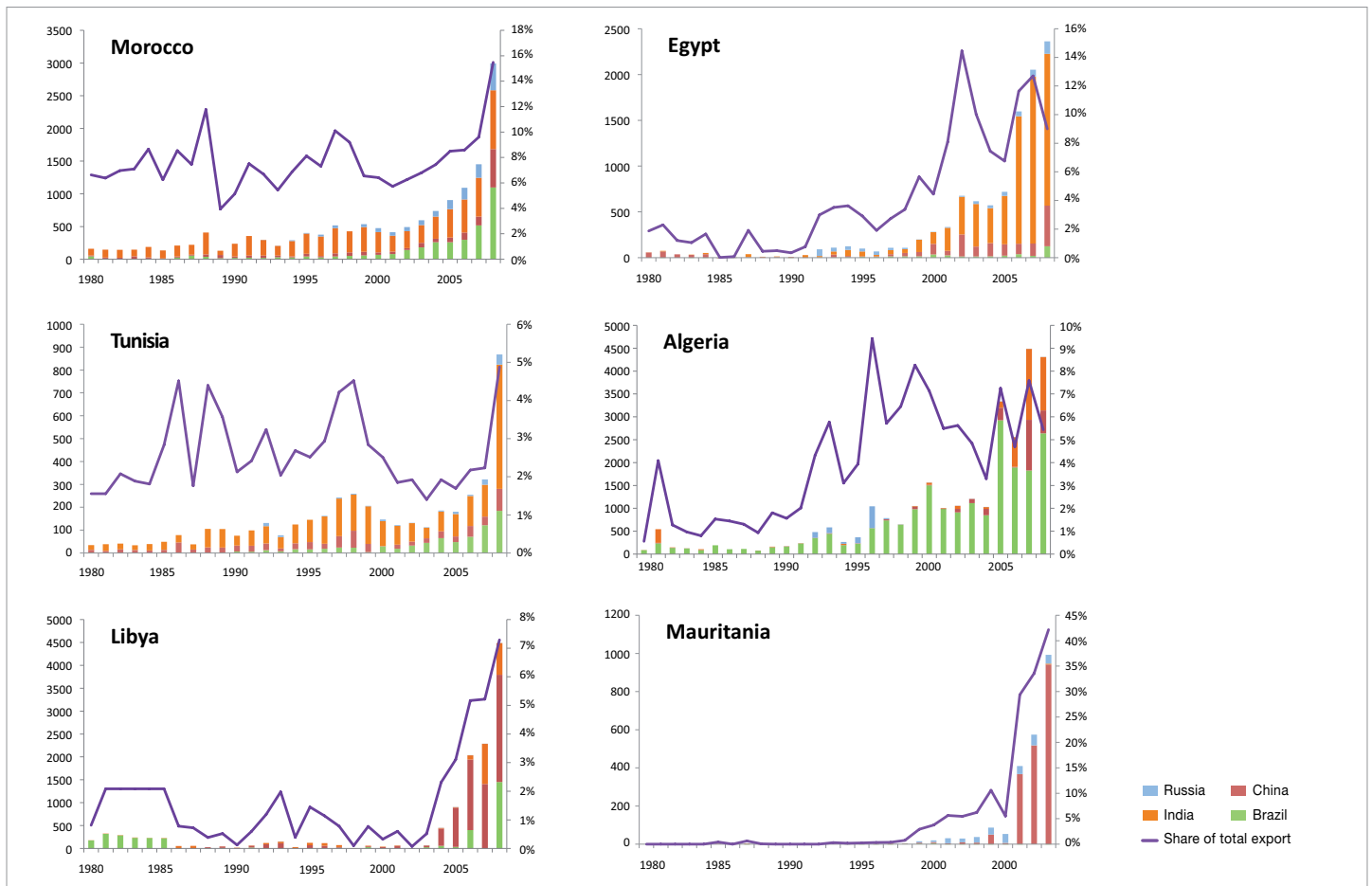
**North Africa's increasing minerals exports to BRICs**

As shown in figure 1, North African exports to the BRICs have been increasing dramatically in value terms over the last decades, driven by a surge in primary commodities' export. Growth in trade accelerated following the surge in commodity prices that commenced in 2005, in most cases driven by a single trading partner.

Oil dominates the rise in exports from Algeria and Libya to the BRICs, with Brazil accounting for 3% of Algeria's country's total exports in 2008 and China accounting for 4% of Libya's total exports in the same year. In 2010 alone, Libyan oil exports to China increased by 250% and it is reported that Libya now accounts for a third of China's overall oil imports.

Morocco, Tunisia and Egypt, on the other hand, have seen an increase in export to the BRICs predominantly as a

**Figure 1. North African export trends to the BRICs**



Sources: AfDB, 2010 ; IMF, 2010.

result of their production of phosphates and fertilizer. While this trend is principally driven by India (accounting for 6%, 5% and 3% of Egypt's, Morocco's and Tunisia's total exports in 2008, respectively), it is not the only country to exhibit this tendency. 50-60% of Tunisia's exports to Brazil are thus made up of phosphates and fertilizer. Similarly, Mauritania has seen a sharp rise in its exports to the BRICs (which account for 42% of Mauritania's total export in 2008), particularly China, as a result of its supply of iron ore. Mauritania is also a major exporter of fish to China.

### **North Africa diversifying exports to the BRICs**

North African countries are eager to exploit these strengthened trade flows by diversifying their range of exports to the BRICs. North African attempts to diversify trading relations have begun in earnest with their traditional export articles notably agricultural products such as dates and olive oil, as well as less traditional exports. Egypt, for example, has seen leather, raw cotton, as well as organic and non-organic chemicals become significant export-items to India.

### **North Africa: A Growing Market**

In parallel to the increased exports from North Africa to the BRICs, North Africa has gradually become an important market for the BRICs. With a combined GDP of about USD 550 billion in 2008 and with a total population of 170 million (more than 15% of the continent's population), the North Africa

products from the BRIC, it increasingly also has the financial wealth to underpin that (see table 4).

North Africa's "human development miracle", recently highlighted in the UN's Human Development Report (2010), has created new needs at the local level due to an overall increase in income, life expectancy, education and urbanization. Morocco, for example, went from an urban population of barely 30% in 1960 to more than 65% in 2009.

Likewise, Mauritania's urban population rose from 4% in 1960 to more than 40% in 2009. Average life-expectancy in the region is about 70 years, and gross enrollment in primary schools averaged over 90% in 2007. Furthermore, North African countries—Algeria and Libya notably-also benefit from ample foreign exchange reserves generated by the export of their natural resources, which in turn allows them to implement vast infrastructure development plans. In particular, Libya and Algeria are currently implementing infrastructure plans estimated at USD 130 billion and USD 286 billion respectively.

### **BRICs are gaining market shares in North Africa and exports have evolved from basic needs to manufacturing and services**

Conscious of the growing wealth and market opportunities in the region, the BRICs have increased their export to and market shares in North Africa (see figure 2). In Algeria, for example,

**Table 4: Socio-economic indicators – North Africa region**

	2009 GDP (current prices) in Million \$	Real GDP growth (annual %) (2009)	Population, Total 2009 (million)	2009 GDP Per capita (current price \$)	Life expectancy at birth (2009)	Population above the poverty line (%)
Algeria	137,059	2.4	34.90	3,928	73	77.4 (2000- 2006)
Egypt	186,585	4.7	83.00	2,248	70	83.3 (1999-2000)
Libya	69,987	2.1	6.4	10,901	74	86 (2000-2005)
Mauritania	3,891	-1.1	3.3	921	57	58 (2009)
Morocco	95,732	5.0	32.0	2,992	72	81 (2007)
Tunisia	38,896	3.1	10.3	3,787	74	96.2 (2000)
<b>Total</b>	<b>532 149.31</b>	<b>3.75</b>	<b>169.87</b>	<b>3,132.69</b>	<b>72.76</b>	

Sources: African Development Bank , 2010; World Bank, 2010.

region constitutes more than one-third of Africa's GDP and a sizeable potential market for BRICs exports. The region not only has growing needs that could be met by importing

imports from the BRICs accounted for nearly 15% of total imports in 2008 compared to barely 1% in 1990. Similarly, in Egypt, imports from BRICs accounted for almost 20% of total

imports in 2007, up from 3% in 1990. In this race, China is systematically leading the way among the BRICs.

The BRICs' capturing of North African markets has been in areas of basic and critical needs. For example, food security and water availability for agricultural use are fundamental stress-points in North Africa, and imports from the BRICs have been able to help overcome these deficiencies. The BRICs have thus been long-standing suppliers of water-intensive foodstuffs to North African countries.

Egypt, the world's top importer of wheat, relies on import from Russia for 50% of its 7 million tons annual wheat import. Egypt relies heavily on India for its imports of coffee, herbs, and lentils. Similarly, Algeria relies on imports from Brazil for staples like meat (chicken and beef), sugar, soy, oil and milk whereas China is the major supplier of tea and coffee to Tunisia.

Imports of pharmaceutical products in general, and generic drugs in particular, from the BRICs have also helped lower the costs and access to health service for North Africa's population. India primarily exports drugs to Egypt and Tunisia while Brazil exports these products to Libya and Tunisia.

Likewise, primary products for the traditional textile industry from the BRICs have also become important import articles for North Africa. Indian cotton yarn has thus become an important import item for Egypt; Chinese silk and synthetic textiles for Tunisia; and Brazilian cotton and leather also for Tunisia.

In recent years, the BRICs' exports to North Africa have evolved toward services and manufactured products, including notably as turn-key suppliers of major infrastructure projects. China, for example, has secured 80% of the recent infrastructure contracts in Algeria, turning the country into one of China's largest overseas markets for infrastructure development. In recent years, Algeria has awarded contracts worth USD 20 billion to 50 Chinese firms—contracts spanning the East-West Highway project, construction of railway networks in the western region of Algeria, and building of affordable housing units for Algerian families. Despite China's dominant presence in Algeria's infrastructure projects, it is not exclusive, and authorities have recently officially encouraged Indian and Brazilian companies to compete in such public tenders.

Libya has also shown itself receptive to the utilization of BRICs companies for major infrastructure projects. A Russian group was thus recently awarded a USD 2.2 billion contract for the construction of 550 km railway links in Libya and a similar contract in the amount of USD 2.6 billion was awarded to China.

In addition to infrastructure projects, the BRICs have become important suppliers of manufactured products to North Africa, particularly in the areas of electronics, cars and telecommunications. Brazil is thus a major exporter of electronic equipment, telecommunication equipment and transport vehicles to Tunisia. In fact, Tunisia has become the biggest export market for Brazilian cars in the Arab world. China, meanwhile, dominates among the BRICs in Algeria and Morocco as a major supplier of electronic equipment, clothing and shoes, as well as light industrial and mechanical products.

The BRICs have also become major players and alternatives to Western power politics in more controversial areas. Russia has thus become a dominating supplier of weapons to North Africa. For example, in 2010 Russia sold USD 1.8 billion worth of missiles, fighter planes and tanks in a single deal with Libya.

Even then, Algeria remains one of Russia's top weapons clients having signed an USD 8 billion deal in 2006. Nuclear cooperation between North Africa and the BRICs is also on the rise. Russia and Libya thus signed one such agreement in 2008, two years after China signed a similar agreement with Algeria, which included supply of one nuclear facility. India and Egypt are currently negotiating a nuclear cooperation agreement.

## **China's Diaspora Plays a Role**

The growing Chinese immigration to North Africa is progressively giving China a comparative advantage in accessing and operating within the region. As elsewhere on the continent, the immigration usually follows major infrastructure developments by Chinese companies, with construction workers staying in the country after the completion of the projects that brought them in the first place.

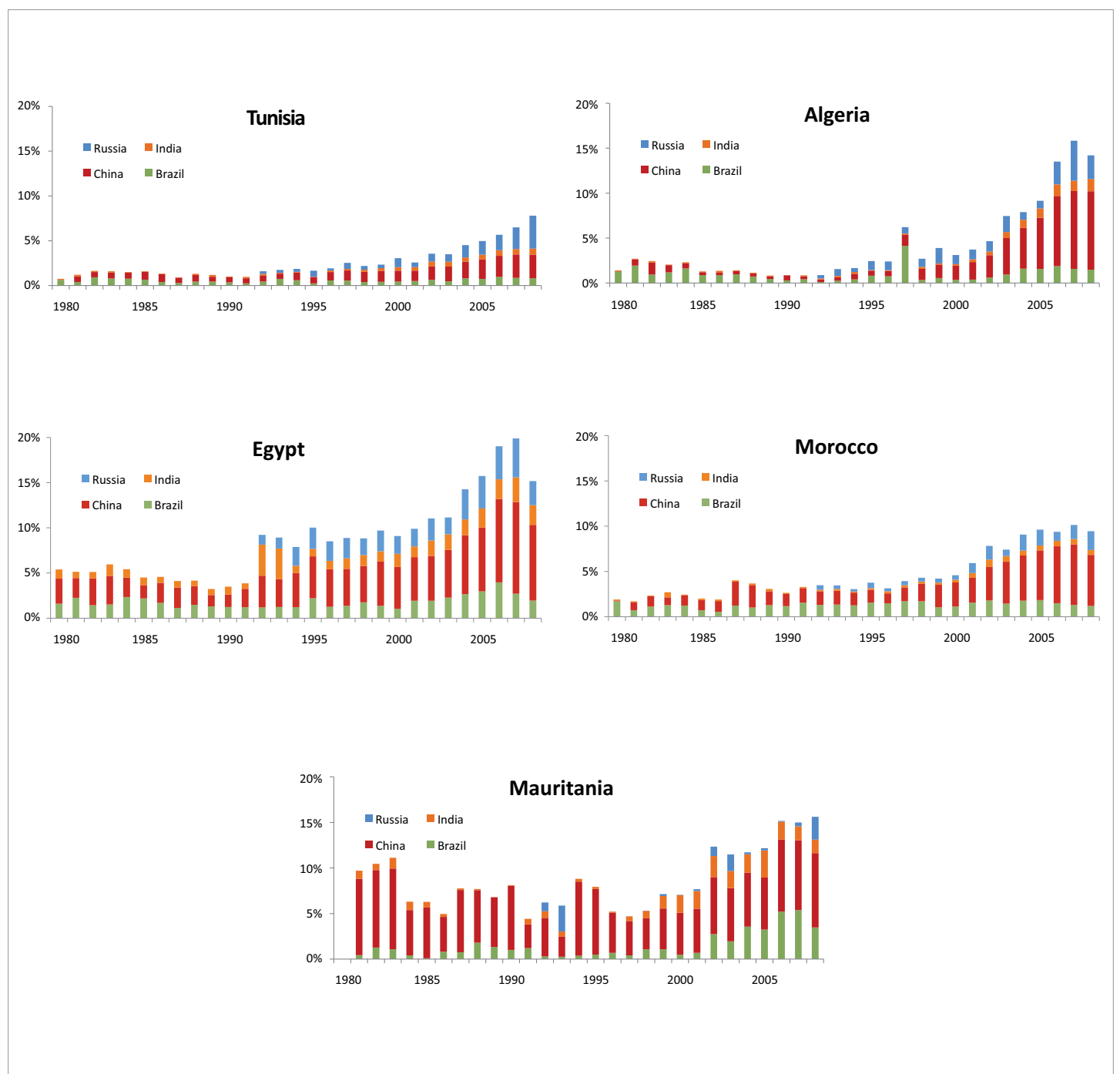
In Algeria, which hosts the largest Chinese community in North Africa of more than 35,000 individuals, the Chinese communities began to emerge in the early 2000s when a number of Chinese companies were commissioned to build the aforementioned affordable homes (100,000 units of such). Since

then, the community has grown steadily, and their prevalence is most notable in Algiers' eastern suburbs, the new Chinatown.

The large Diaspora in North Africa has followed the successful model of the Chinatowns present in most countries with a significant number of Chinese immigrants. The model's

success revolves around the creation retail businesses and shops specializing in Chinese products in the local area. By entering the market in working class districts and selling in bulk, the Chinese Diaspora has been able to market its products at very low prices and thus develop an inherent advantage that allows them to penetrate local markets. ■

**Figure 2. North African import trends from the BRICs**



Sources: AfDB, 2010 ; IMF, 2010.





## 2 – BRICs Investing in North Africa: From Made-in-China to Made-in-Egypt

***Indian companies could promote their products/services under "Made in Tunisia" brand. "That will make it easier for you".***

*Montassar Quaili, Tunisia's Minister for IT and Internet*

***"Tunisia offers direct access to nearly 500 million consumers in the Euro Zone and the Mediterranean basin"***  
*Chairman of Tunisian Industry, Trade and Handicrafts Union*

Valued at between USD 70-90 billion by end-2009, the importance of the BRICs investments in Africa is becoming indisputable. Chinese and Indian investments dominate the picture (estimated at about USD 35 billion and USD 26 billion, respectively, by end-2009) but Brazil and Russia are also becoming important players in Africa (with investments estimated at about USD 10 billion and USD 5 billion, respectively). South Africa is clearly the dominating pole of attraction for BRICs investment in Africa. For example, Chinese investments in South Africa reached about USD 4.8 billion in 2008) alone.

Nevertheless, North Africa is also becoming an increasingly important destination for BRICs investments (map 1). For example, North Africa is estimated to account for about 15% of Chinese investments in Africa in 2007, compared to less than 10% only four years earlier (figure 3). While Algeria and, to a lesser extent, Libya have been the traditional poles of attraction for Chinese investments in North Africa, Egypt has followed suit in the past couple of years. In 2009, China was thus the largest foreign investor in Egypt with investments exceeding USD 500 million. Most recently, in October 2010, some 22 agreements were signed between companies from Egypt and Guangdong, China, concerning investments totaling more than USD 250 million. With the current high level of unemployment in North Africa (a 1/3 of the youth is unemployed in Egypt and Tunisia), BRICs investments are welcomed by the governments and the populations as they are among the key drivers of job creation and economic diversification.

The BRICs investments in North Africa—today ranging from tourism, telecom, construction, cars and electronics to oil & gas extraction and production of chemicals and fertilizers (see figure 4 and Annex table 1)—seem to follow two major thrusts. First, the BRICs invest massively in the dominant extraction industries of the region (i.e., oil, gas, iron and phosphates) and related up-stream processing (e.g., petro-chemicals and

chemical fertilizers). Second, BRICs are increasingly investing in manufacturing and services, responding to incentives provided by North African governments and the region's growing consumer market and potential as a beachhead to the European Union.

### Investing in Minerals and Down-Stream

North Africa has become an attractive destination for BRICs investments in extractive ventures as exploration and development agreements increasingly guarantee investors a stake in the resulting findings. In 2008, Brazil's Petrobras thus invested USD 21 million in an oil-search venture in Libya. Likewise, in 2005, India acquired a license to look for oil in Libya (which included a provision guarantying India 18% of future production resulting from its findings) and Algeria has also been ground for oil exploration in the form of a joint venture between China petroleum and China Corporation.

In the area of gas, Russian Gazprom signed a memorandum of understanding with Algeria's Sonatrach (state-owned company responsible for all aspects of oil and gas production in Algeria) in 2006. The memorandum paved the way for deeper cooperation between the two companies, identifying major directions of further joint businesses including geological exploration, production, transmission, and distribution in Algeria, Russia and third countries. Also in 2006, Sonatrach and the Chinese National Petroleum Corporation (CNPC) brought online the small, 13,000 bpd Adrar refinery following a USD 350 million investment.

Gazprom has also sought active involvement in oil & gas exploration in Libya, and announced in 2010 plans to join the Elephant oil field and its intention to "buy all future volumes of gas" Libya may produce.

Meanwhile, in 2004, Indian GAIL (Gas Authority of India Limited, Government-owned natural gas company) bought 15% of Egypt

NatGas, Egyptian natural gas distribution and marketing company. In 2010, Indian companies were invited to participate in a USD 10 billion project to build a trans-Saharan gas pipeline in Algeria. Three years earlier Brazilian Petrobras made a joint investment with Sonatrach for liquefied natural gas exploration.

The BRICs are also investing in phosphates and fertilizers projects in the North Africa region. In 2005, Tunisia was thus approached by Rashtriya Chemicals and Fertilizers Limited, India's largest fertilizer group, with a proposal to build a sulfuric acid plant. In 2010, the Brazilian mining group La Vale expressed interest in

exploiting the phosphate of Tunisian Sra Ouertane for USD 2 billion in exchange for exporting the entire production of the field to Brazil. Meanwhile, in Egypt, the Indian ministry of petroleum negotiated the establishment of a natural gas operated fertilizer plant in 2010.

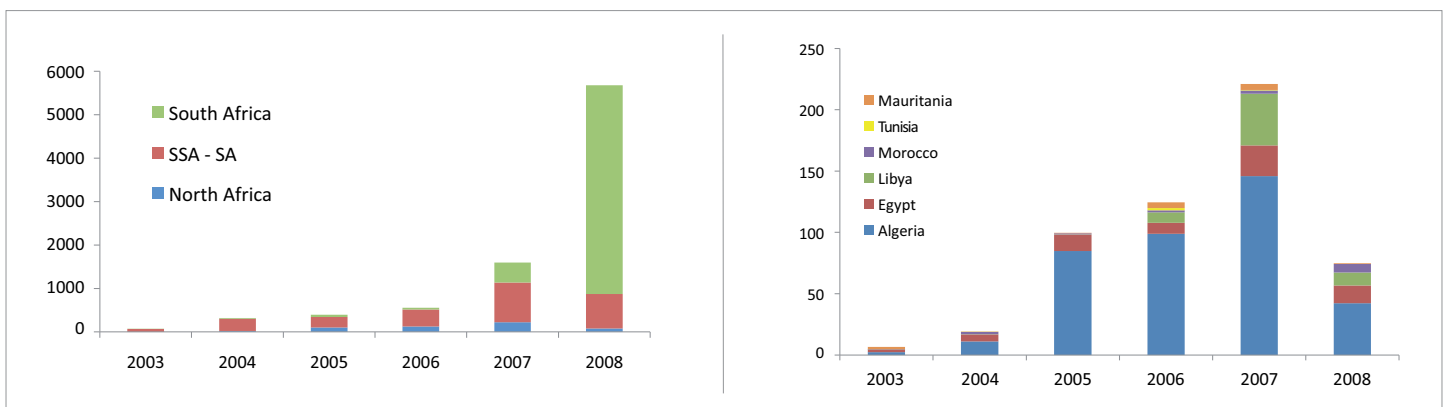
Similarly, for iron ore in Mauritania, the National Industrial and Mining Company (SNIM) has created a new subsidiary (Tazadit-Souterrain), whose capital is owned 20% by China. The Compagny will double its iron production by 2012 to reach 25 to 30 million tonnes per year and will mainly be exported to China, Japan and the EU.

**Map 1. Location of BRICs investments in North Africa (2006-2010)**



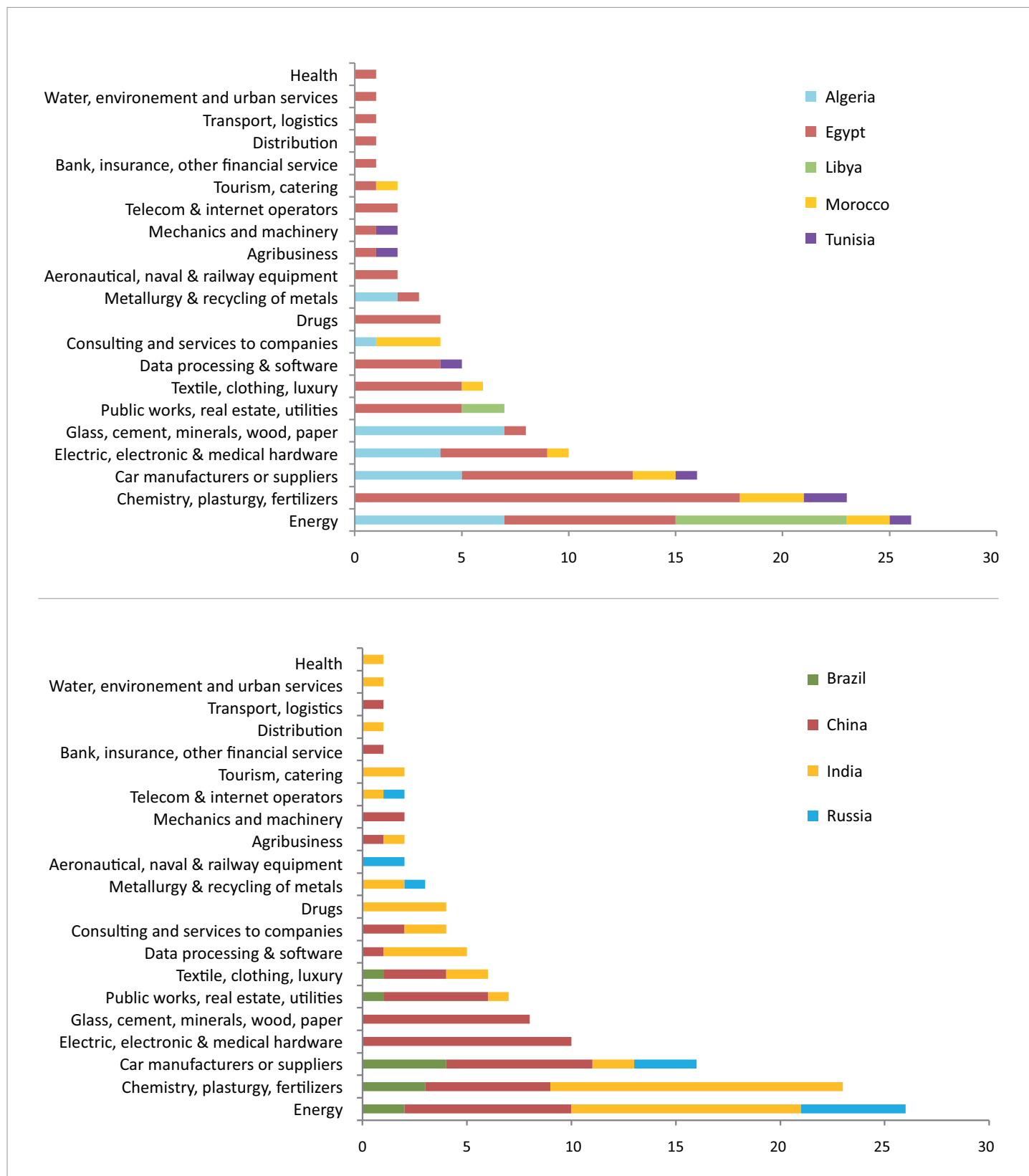
In red: Chinese investments; in blue: Russian investments; in orange: Indian investments, in green: Brazilian investments.  
Source: Anima Investment Network, 2010.

**Figure 3. China's investments in Africa and North Africa (USD million)**



Sources: Statistical Bulletin of Chi-'s Outward Foreign Direct Investment, 2008 ; UNCTAD, FDI/TNC database, 2010.

**Figure 4. BRICs investments in North Africa by sectors (number of project financed between 2005 and 2010)**



Source: Anima Investment Network, 2010.

## New Incentives and Markets

### ***Growing investments in manufacturing and services***

North Africa's manufacturing and services sectors have increasingly attracted investments from BRICs (see table 5 which provides recent examples of such investments). China, for example, has invested USD 100 million in two car assembling units in Algeria in 2008—a venture expected to create 4,000 jobs, and will be accompanied by training centers. In Mauritania, Hong Dong International a Chinese company is investing USD 120 million to develop the fishing industry with the creation of 2,500 Jobs. Egypt and Tunisia are also benefiting from major Chinese investments in both manufacturing and services.

Similarly, in 2010, Russian Vimplecom offered to purchase Orascom in Egypt and Algeria for USD 6.6 billion. In doing so, Vimplecom would become the world's fifth largest mobile phone operator and would control the Algerian unit Djezzy, its largest revenue provider. India, meanwhile, is investing in a broad array of ventures in Egypt, ranging from telecom, car manufacturing, tourism and urban services to drugs and health services.

### ***Why BRICs invest in North Africa: the case of Egypt***

Beyond securing resources and tapping into an existing savoir-faire, a variety of conditions further attract BRICs investments to the region. In the case of manufacturing, Egypt provides an instructive example.

First, production costs tend to be lower in Egypt than in the BRICs. Highly subsidized energy plays an important role, favoring investments in and the development of energy intensive industries. Furthermore, and although labor in the BRICs is inexpensive, Egyptian labor is even less expensive. In the textile industry, for example, where Chinese labor cost about €150 per month, Egyptian labor costs between €46 and €100. Moreover, foreign companies benefit from Egypt's established Free Trade Zones (FTZ), which provide custom and tax exemptions thus sharply reducing production costs.

Second, proximity and preferential trade agreements play a decisive role in turning Egypt—and the rest of North Africa—into an attractive region for BRICs investments. It is faster to ship products from Egypt to European Union countries and the USA than from most of the BRICs to these destinations. When

### **Box 1: North Africa & the European Union**

For North African, trade with the EU has been facilitated through the framework of the Euro-Mediterranean Partnership, also known as the Barcelona Process and more recently under the aegis of the Union for the Mediterranean on the multilateral front. In particular, Association Agreements were signed between the EU and Morocco (1996), Algeria (2002), Tunisia (1995) and Egypt (2004).

Such Agreements incorporate free trade arrangements for goods and services – tailored to the specificities of the respective country - and open up the prospect for the greater liberalization of trade.

In the case of Morocco for example, the association agreement allows free trade in manufactured goods and reinforces the arrangements for free trade in industrial products, which have been in force since the late 1970s. It also includes provision for progressive and reciprocal liberalization of trade for agricultural products. In the case of Tunisia, the agreement establishes the conditions services and capital.

Meanwhile, the agreement with Egypt incorporates free trade arrangements for industrial goods, concessionary arrangements for trade in agricultural products, and opens up the prospect for greater liberalization of trade in services and farm goods.

In June 2010, Libya and the EU signed a Memorandum of Understanding providing for EU technical assistance and cooperation for the period from 2011 to 2013.

takes a few days to ship products from Egypt to Europe it would take weeks if the same products were to be shipped from China. In addition, Egypt—along with the other North African countries—enjoy preferential trade agreements with the European Union which are more advantageous than those enjoyed by the BRICs themselves (see Box 1). In addition, Egypt is also a signatory of the Agadir agreement, a member of GAFTA and CEN-SAD, and has preferential trade agreements with the USA and since 2010 with MERCUSOR

as well. This, potentially, turns Egypt into a beachhead for BRICs to access consumer markets of more than half-a-billion people.

Not surprisingly, therefore, more than 1000 Chinese companies are now established and incorporated in Egypt. An additional 180 Chinese companies are currently awaiting approval to participate in a designated FTZ near the Suez Canal. As for the latter, investments totaling USD 3.5 billion are expected alongside the creation of some 40,000 jobs.

### **North Africa actively encourages BRICs investments**

The Free Trade Zone initiatives, considered a gateway to European and US markets by the BRICs, have proved so successful that all North African countries are considering development of such zones. A particular variant of the FTZ followed in North Africa are zones targeting a particular country. Egypt has thus developed FTZ for Chinese investors while a FTZ for Indian investors is under consideration. Similarly Morocco, is considering the establishment of a FTZ for Chinese investors.

Cognizant of the need to continuously strengthen the attractiveness of the environment for foreign investors, North African countries have taken on important reforms that benefit their trade relations. Egypt for example is now considered one of the top reformers by the World Bank Doing Business report. The country has opened its foreign exchange regime, and has boosted its financial sector including its stock exchange market to attract foreign investments—including notably from the BRICs.

More specifically, investment and trade relations between North African countries and BRICs are being honed through the launching of multiple business fora. The Tunisian-Russian partnership forum and the Tunisian-Russian Business Council

meetings of 2010 are but one such example. Similarly, in 2009, the China–Africa forum was held in Sharm el Sheikh while the China–Egypt forum was held in Guangdong in 2010. Numerous E-fora have also been created to facilitate business between countries (e.g., Tunisia & Russia: [www.rus-tunis.com](http://www.rus-tunis.com)), while investment bureaus are being opened (e.g., Russia–Algeria in 2010). The creation of new direct flights between BRIC countries and the major North African cities (Algiers and Beijing in 2009, as well as Beijing to Libya in 2010) is a further testimony to the fact that all parties are doing their best to overcome the logistical obstacles of conducting business between BRICs and North Africa.

Implicit in these interactions is also an effort to improve mutual understandings and bridge cultural differences—an effort, which is critical to ensure continued strengthened relations between the BRICs and North Africa. The China-Arab economic and trade forum, held in October 2010 in Ningxia, attests to this progress. In covering the event, Chinese news agency Xinhua noted the important place that halal products had in a discussion of promoting trade between China and Islamic countries. As a result of these discussions, several memorandums of understanding and agreements were signed on halal food cooperation and mutual industrial authentication. Meanwhile, Arab participants of the forum visited an Islamic park containing a mosque and an Islamic museum. These cultural excursions are seen not only as a way of improving communication between explicitly different cultures; they are also seen as elements in facilitating future business relations.

In addition to these efforts, other agreements, such as China’s and Algeria’s 2006 commitment to provide mutual assistance in judicial matters for civilian and commercial affairs, as well as the support Brazil showed in 2010 for a trade agreement between MERCOSUR, Algeria, Egypt and Morocco, are demonstrative of a mutual understanding that exhausting all means to facilitate investment is beneficial to all parties. ■



### 3 – BRICs and North Africa: History & Politics Play a Role

***“We are considering giving priority to Chinese and Russian companies”***

*Shokri Ghanem, head of Libya's NOC state energy firm, 2010*

***“The level of European pressure on our economy is so strong it weakens us. We want new partners.”***

*Algerian Ambassador to India, Aug. 2010*

#### **No traumatic past but mutual interests**

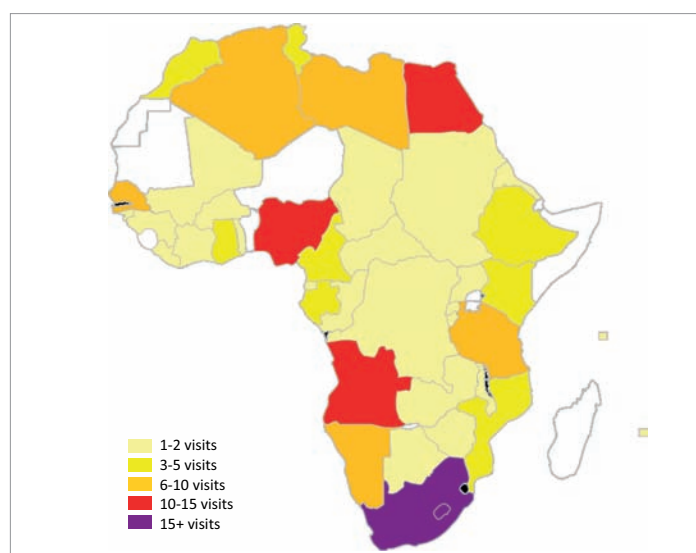
The historic and geo-political dimensions of the relation between the BRICs and North Africa constitute an important pillar in the evolving economic ties. The mutual interests between these countries find their roots during the Cold War period. As members of the non-aligned movement established in 1961, with India and Egypt as co-founding members, North African countries and the BRICs have often benefited from a mutual support in international and multinational fora. For example, Egypt was the first country to recognize China as a state in 1956. Algeria followed suit, and was a major force behind the restoration of China's seat in the United Nations as a co-sponsor of the motion in the 1970s. After all Mao Tsetong's saying famously asserts “It is our African brothers that carried us into the United Nations” and this narrative continues to resonate to this day. These positive memories and milestones are continuously being nurtured and today all North African states adhere to the one-China policy. Similarly, Algeria and Egypt both voiced their support for adding India to the United Nations Security Council.

For the BRICs, North African countries not only represent a beachhead to access markets in the Mediterranean basin, Europe, the Middle East and sub-Saharan Africa. They are also seen as a platform from which to join the political game in these neighboring regions. Russia's relationship with Libya is a particularly instructive example of how the BRICs are courting North African countries politically. As Russia's strongest ally in the Arab world, Libya was offered the possibility to host a Russian naval base and join the gas OPEC led by Russia. In addition, Russia has written off some USD 4.6 billion in debt for Libya in exchange for new deals.

China, on the other hand, has relied on its Muslim population in order to build on relations with North Africa and further boost trade and investments. It is clear that China is eyeing Middle Eastern resources and that its investment in North Africa will allow the country to play a stronger role in Middle Eastern politics in the future. In late 2010, a China-Arab trade forum was

organized in Ningxia, the home 20 million Chinese Muslims, which eventually led to USD 410 million deals as well as a cooperation agreement on “halal” food production and mutual industrial standard authentication. Tunisia has mimicked this policy and is willing to target Brazilian Muslims for its exports.

**Map 2. Total high-level BRIC visits to Africa (2000-2009)**



Source: Standard Bank, 2009.

As a further testimony to the political and economic importance assigned to the region, North Africa has been frequently visited by high-level officials from the BRICs—even more so than any other African region (see map 2). Algeria, for example, is one of the few African Countries visited by the Chinese State Councilor in 2010. Meanwhile, Libya's foreign minister visited China in May 2010, followed by a visit of Mohammar Quadaffi's son, Saif Al Islam, a few months later.

#### **BRICs strategy for Sub Saharan Africa does not apply in North Africa**

While China has promised USD 10 billion in soft loans, along with debt cancellations, tax exemption for African exports coming from least developed countries, this strategy does not fully apply in the case of North Africa. In particular, North Africa's

resource-rich economies are not in dire need of soft loans. Instead, they are more interested in technical assistance and technology transfers to support the general development and diversification of their economies.

In this regard, BRIC economies are participating in capacity building initiatives in the North African economies (see table 5). From China's maintenance of Algeria's Russian arms to Brazil's support of Tunisia's agro-industry, these initiatives have proven to be successful alternatives to soft loans when it comes to nurturing relations between North Africa and the BRICs.

of workers on Chinese construction sites are Algerian is often unmet.

Behind these complaints is often an underlying accusation that immigrants from the BRICs disrupt the modus operandi that locals have been used to, and that as a result they are now excluded from their country's economic opportunities.

Claims of neo-colonialist intentions have been rejected by the BRICs. During an official visit to Egypt, Chinese Premier Wen Jiabao is thus quoted saying that "the hat of neo-colonialism simply does not fit China." Referring to the colonial aggression

**Table 5: BRICs recent technical assistance activities in North Africa**

	Brazil	China	India
Algeria	Livestock production and sanitary standards	Medical assistance Maintenance of Russian Arms Agro-industry and desertification (\$3mn)	
Egypt		Industrial cooperation Protection of heritage	Health care Desertification
Morocco		Solar energy (\$ 1,5 mn) Social development HealthTourism Radio and television	
Tunisia	Agro-industry	Health care (\$ 2,5 m)	Textiles

Source: Authors' compilation.

However in Mauritania, the situation slightly differs and China has offered in January 2011 USD 9 million in grants and USD 18 million in soft loans to finance development projects. These projects include the construction of transport infrastructure (172km of roads) and a faculty of medicine. Other north African countries are also willing to accept alternative incentives such as China's recent offer to construct an opera in Algiers for USD 40 million.

### Some clouds on the horizon

In spite of diplomatic efforts made to ease the pursuit of ventures between North Africa and the BRIC, the development of these relations is not without tensions.

In Morocco, the resentment associated with making room for cheaper Chinese products in their markets, have led local merchants to decry what they call unfair price competition and poor quality merchandise sold by the Chinese. In Algeria, similar unrest at the local level has been seen. The situation in Algeria worsened, as the target of ensuring 20%

that followed the 1840 Opium War, the Premier further stated that "The Chinese nation knows too well the sufferings caused by colonial rule. China supports the development of democracy and rule of law in Africa. But we never impose our own will on others."

However, North African countries refuse to renounce control over their resources. In 2009, Libya thus rejected the direct transfer of oil exploitation rights between Canadians and Chinese. Tunisia as well has undertaken similar measures by calling for investments into phosphate extraction but requiring that foreign company own under 50% of the venture and commit to bear the entire financial risk of the project.

As Chinese interest becomes increasingly visible, their representatives on the ground have become more susceptible to threats. In 2009, Al Qaeda in the Islamic Maghreb thus threatened to target the estimated 35,000 Chinese nationals working and living in Algeria. Yet, not all complaints are being formulated on the part of North African countries. India has recently banned all visas to Libyans on account of the non-payment of Indian salaries in Libya. ■



## 4 – Looking Ahead: The Story has Just Begun

***China “is not like Europe or the US in terms of needing to get something in return” ...  
“If we can build their sustainability up, then in the long term trade benefits will be seen and will last.”***  
*Ling Wu, Chinese Embassy, Morocco, 2010*

***“China is developing industry in a way that the US and European nations never did. If it continues to be successful the EU is going to have to follow their pattern”***  
*An EU official, visiting Egypt, 2010*

The future, on most economic and developmental accounts, seems exceedingly bright and promising for the BRICs and the African continent. While long-term projections are notoriously uncertain and nearly always fail to identify major turning points, the consensus view is clearly that the BRICs are set to continue their advance toward increasing prominence, if not dominance on the global economic and geo-political stage. The global economic crisis, and its aftermath, has reinforced the BRICs position as the prime engines of global economic growth. With the exception of Russia, which suffered a severe downturn in 2009, the BRICs as a group consistently posted positive growth rates in 2008-2010; and all BRICs are expected to get back on their respective pre-crisis 6%-10% growth trajectory in 2011 and beyond.

Founded on mutual interests, relations between Africa and the BRICs are bound to become tighter and economically more important in the future. The global economic crisis already made it clear to Africa that the BRICs constitute an alternative—and not merely in terms of trade and inflow of foreign investments—to the traditional, occidental economic partners. Fuelled by continued strong economic growth, improved living standards and rapid urbanization, the BRICs’ demand for Africa’s resources will remain a central component of this relation. Meanwhile, Africa’s growing consumer potential will continue to attract BRICs suppliers and investors.

The BRICs have thus been an important force in reversing Africa’s marginalized position in world trade and contributed to a much better valorization of the continent’s natural resources. Indeed, it may be argued that the BRICs, more than any other external force, have helped Africa position itself on the global stage as the most promising, emerging economic frontier. The invitation of South Africa—already the biggest emerging-market investor in (the rest of) Africa, ahead of China—to attend the 3rd BRICs leaders’ summit in Beijing in the first quarter of 2011, only reinforces the point.

Like for the rest of Africa, the story of the BRICs in North Africa has only just begun and holds promises on many fronts.

The Euro crisis, coming on the heels of the global economic crisis, demonstrated to the North African economies the important counter-cyclical role the growing presence of the BRICs could play. It also opened new opportunities to expand commercial and cultural ties, with tourism as a new and promising area through which to attract increasing relations with BRICs (Egypt thus received upwards of 80,000 Indian tourist in 2010 alone).

The tides may increasingly go both ways, with North African investors beginning to eye opportunities in BRICs. Libya’s sovereign wealth fund has thus made its first investments in Russia, purchasing significant share-stakes in Russian aluminum giant UC RUSAL. Similarly, Egypt holds USD 0.7 billion in investments in India, and expects to see these increase to USD 5 billion before 2014. Common interests and needs, such as in the need for agricultural land and food crops, may also bring together the BRICs and North Africa as partners elsewhere in Africa. In a rice land grab in Mali, China is thus meant to provide improved seeds, while Libya will provide funds for the project.

There seems to be little doubt that the BRICs are in Africa and North Africa for the long haul. By providing the technical expertise to support certain industries, and gradually taking advantage of the growing Diaspora of their countries, the BRICs will be able to continue to tap into North Africa’s mineral riches while securing an increasing foothold in the regions growing consumer markets as a destination to distribute their own products. Moreover, North Africa as a beachhead to the European Union market constitutes an enormous attraction for the BRICs—an attraction which they have only just begun to explore.

Meanwhile, other emerging economies are beginning to appear on the North African scene—notably Turkey, South Korea and South Africa. Turkey has thus begun to facilitate business development with North Africa by removing visa requirements for Libyans, and by setting up a bilateral “High Level Strategic Cooperation Council” with Libya. ■

**Annex Table 1: Examples of BRICs investments in North Africa in 2009-2010**

Bric	North Africa	Sector	Compagny	Detail
Brazil	Egypt	Chemistry, plasturgy, fertilizers	Fitco International	The group to create a JV with Egypt's Orascom Construction Industries (OCI) to distribute OCI's fertilizer products in Brazil
	Libya	Public works, real estate, utilities	Odebrecht	The group to create a 60/40 JV with state-owned company UDHL, named Libyan Brazilian Construction Development (LBCD), for Tripoli's ring road project
	Morocco	Car manufacturers or suppliers	Divmac + Pinto Brasil	The automotive supplier to establish a joint-venture named MST Free Zone with Pinto Brasil and to set up a plant the Tangier Med Zone in Morocco
China	Algeria	Car manufacturers or suppliers	JAC	China's 10th largest automotive group to open with its 2nd local distributor, Sipac Algérie, a showroom in Oued Smar (lorries and passenger cars)
		Electric, electronic & medical hardware	China Great Wall Computer Shenzhen	The group to create a JV with Algerian EEPAD for the manufacture of motherboards with 3 production facilities in Rouiba, Blida and Annaba
		Energy	China National Offshore Oil Company	The oil group to win an exploration and production license on Hassi Bir Rekaiz block, in a 50-50 partnership with Thai company PTTEP
		Glass, cement, minerals, wood, paper	Shaolin	The mining company to launch the production phase in a manganese mine near Bechar, the production of which will be exported to China
	Egypt	Bank, insurance, other financial services	China Development Bank	The State-run bank for public works projects to open a representative office in Cairo to develop cooperation projects in Egypt and in African countries
		Electric, electronic & medical hardware	Midea	The group to acquire from American UTC a 32.5% stake in Egypt-based Miraco, Misr's subsidiary specialising in residential air-conditioning products
		Public works, real estate, utilities	Teda	The group won the bid to develop under a concession scheme 6 km <sup>2</sup> of the 'Northwest Gulf of Suez' special economic zone near the port of Sokhna
	Morocco		Teda	The group to launch construction works for the Suez Economic Zone 'Sezone', a contract awarded in 2009 in which it holds 40% interest
		Consulting and services to companies	ICCM	The Hong Kong-based company to acquire half of the stake in OIP, a leading contracting and engineering company in Morocco
	Tunisia	Car manufacturers or suppliers	SAIC / SsangYong	The car manufacturer to sign a distribution agreement with Sotudis, the Tunisian distribution company
		Mechanics and machinery	China National Construction Machinery (CNCMC)	The Beijing-based manufacturer of shipyard equipment to set up an affiliate in Tunisia
	India		Car manufacturers or suppliers	Bajaj Auto
			Aditya Birla	The Indian diversified group to expand its carbon black factory in Alexandria through its subsidiary Alexandria Carbon Black Company SAE
			Aditya Birla	The Indian diversified group to set up a silica factory in Alexandria through its subsidiary Alexandria Fiber Company SAE
Chemistry, plasturgy, fertilizers			Huber Group / Micro Inks	The paintmaker to produce under license printing inks using the technical expertise and brands of the Huber Group for Egyptian and Libyan markets
			Dhunseri Tea & Industries / South Asian Petrochem	The group to partner with two Egyptian, ECHEM and Enppi, in a 70-23-7 JV to build a new polyethylene plant Northeast of Suez
Egypt		Data processing & software	ICICI Group / First source	The IT-BPO group to set up a regional IT services delivery centre in Egypt
		Drugs	Dabur	The fast moving consumer goods group to open a 2nd personal care products plant in 10th of Ramadan to address local and African markets
		Telecom & internet operators	Comviva	The firm specialised in services to mobile operators to clinch a partnership with Vodafone
		Tourism, catering	Tata / Taj	The chain of luxury hotels to manage 3 hotels to be developed by local Palm Hills Developments by 2012 on the North Egypt, concerning their e-recharge services
		Water, environment and urban services	Shivsu / Canadian Clear	Indian Clear Water installs Partnership : The Indian company to install a desalination plant in Egypt on a turnkey basis
		Health	Shetty	The Indian investor, already operating in the health sector in the UAE, to take over Alexandria Medical Services Company
Libya	Public works, real estate, utilities	Punj Lloyd	The EPC group to enter into a 60/40 JV with Libya's Public Works Company Tripoli to execute infrastructure works contracts	
Russia	Algeria	Energy	Gazprom	The Russian gas giant to sign exploration deals in the El Assel area of the Berkine Basin (eastern Algeria)
			Rosneft + Sstroytransga	2 Russian groups to team up with local Sonatrach in order to develop three hydrocarbon deposits at Gara Tisset, Illizi basin (block 245 South)
	Egypt	Telecom & internet operators	VimpelCom	The telecommunication group to acquire 51% of Egypt's Orascom Telecom, which controls Algerian affiliate Djezzy, from tycoon Naguib Sawiris

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