

# Europe–Africa Connectivity Outlook 2021: Post-Covid-19 Challenges and Strategic Opportunities

by Michaël Tanchum



## ABSTRACT

The European Union stands at a critical junction in the international scramble to establish Europe–Africa commercial corridors. Morocco, Algeria and Egypt are the geopolitical gatekeepers in the competition for three emerging corridors: Morocco's West Africa–Western Europe corridor, an Algeria-anchored Central Maghreb corridor and an Egypt-based East Africa-Eastern/Central Europe corridor. Undeterred by the Covid-19 pandemic, China, Russia, Turkey and the Arab Gulf states have expanded their economic investments in these countries, reshaping the configuration of the trans-Mediterranean corridors. North Africa's leading foreign partners will be the countries that invest in local manufacturing on a strategically significant scale to create manufacturing value chains. The EU still retains a window of opportunity to influence the direction of Europe–Africa connectivity to promote European priorities and ensure European interests.

*European Union | Infrastructures | Transports | Mediterranean | North Africa | Morocco | Algeria | Egypt*

**keywords**

# Europe–Africa Connectivity Outlook 2021: Post-Covid-19 Challenges and Strategic Opportunities

by Michaël Tanchum\*

## Introduction

Following the Covid-19 pandemic, the European Union stands at a critical junction in the international scramble to establish Europe-Africa commercial corridors across the Mediterranean basin. Prior to the pandemic's outbreak, the EU already faced a pressing strategic challenge to form a coherent policy in North Africa, which has become an arena of intense global competition over the new nexus of trade and energy transit routes as well as industrial manufacturing value chains that will connect Europe, Africa and Middle East.

During the previous decade, China became Africa's top trade partner while Russia and Turkey massively expanded their trade relationships on the continent, witnessing rates of growth in trade that surpassed the EU by a factor of seven and five respectively.<sup>1</sup> The members of the Gulf Cooperation Council (GCC), especially Saudi Arabia, the United Arab Emirates (UAE) and Qatar, have similarly increased their economic engagement with Africa.

The pandemic has intensified the urgency for the EU to focus on trans-Mediterranean connectivity. By 2025, Africa will have over a hundred cities with more than one million inhabitants.<sup>2</sup> The African Continental Free Trade Area,

<sup>1</sup> From 2006 to 2018, Russia's trade with Africa grew by more than 300 per cent and Turkey's by more than 200 per cent, while the European Union's trade with Africa grew by 41 per cent; Economist, "The New Scramble for Africa", in *The Economist*, 7 March 2019, <https://www.economist.com/leaders/2019/03/07/the-new-scramble-for-africa>.

<sup>2</sup> Robert Muggah and Katie Hill, "African Cities Will Double in Population by 2050. Here Are 4 Ways to Make Sure They Thrive", in *World Economic Forum Articles*, 27 June 2018, <https://www.weforum>.

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launched on 1 January 2021, is expected spur international firms to locate even more of their operations in Africa, given its large supply of affordable land and labour, along with its expanding yet under-served consumer market.<sup>3</sup> The post-pandemic global impetus to shorten supply chains has further accelerated this trend as well as the timeframe for investments by international actors. Undeterred by the pandemic's severe economic impact, China, Russia, Turkey and the Arab Gulf states have expanded their economic involvement in North Africa to reshape the commercial configuration and geopolitics of the trans-Mediterranean connectivity.

The fundamental architecture of trans-Mediterranean connectivity consists of the three Europe-Africa corridors: Morocco's West Africa-Western Europe corridor, an Algeria-anchored Central Maghreb corridor and an Egypt-based East Africa-Eastern/Central Europe corridor via the Eastern Mediterranean (Figure 1). Prior to Covid-19's outbreak, Morocco's West Africa-Western Europe corridor was the most advanced in its development while the Egypt-based East Africa-Eastern/Central Europe corridor was at a more preliminary stage, albeit with enormous economic potential. The Algeria-based, central corridor remains in a formative state, characterised by a jockeying among international actors for position. Algeria's political paralysis since early spring 2019 and the resultant pause in foreign manufacturing investments endanger the corridor's development. A short-term development hiatus amidst tensions with Morocco over the Western Sahara and continued instability in Libya could leave Algeria – and Tunisia along with it – dangerously isolated and economically vulnerable.

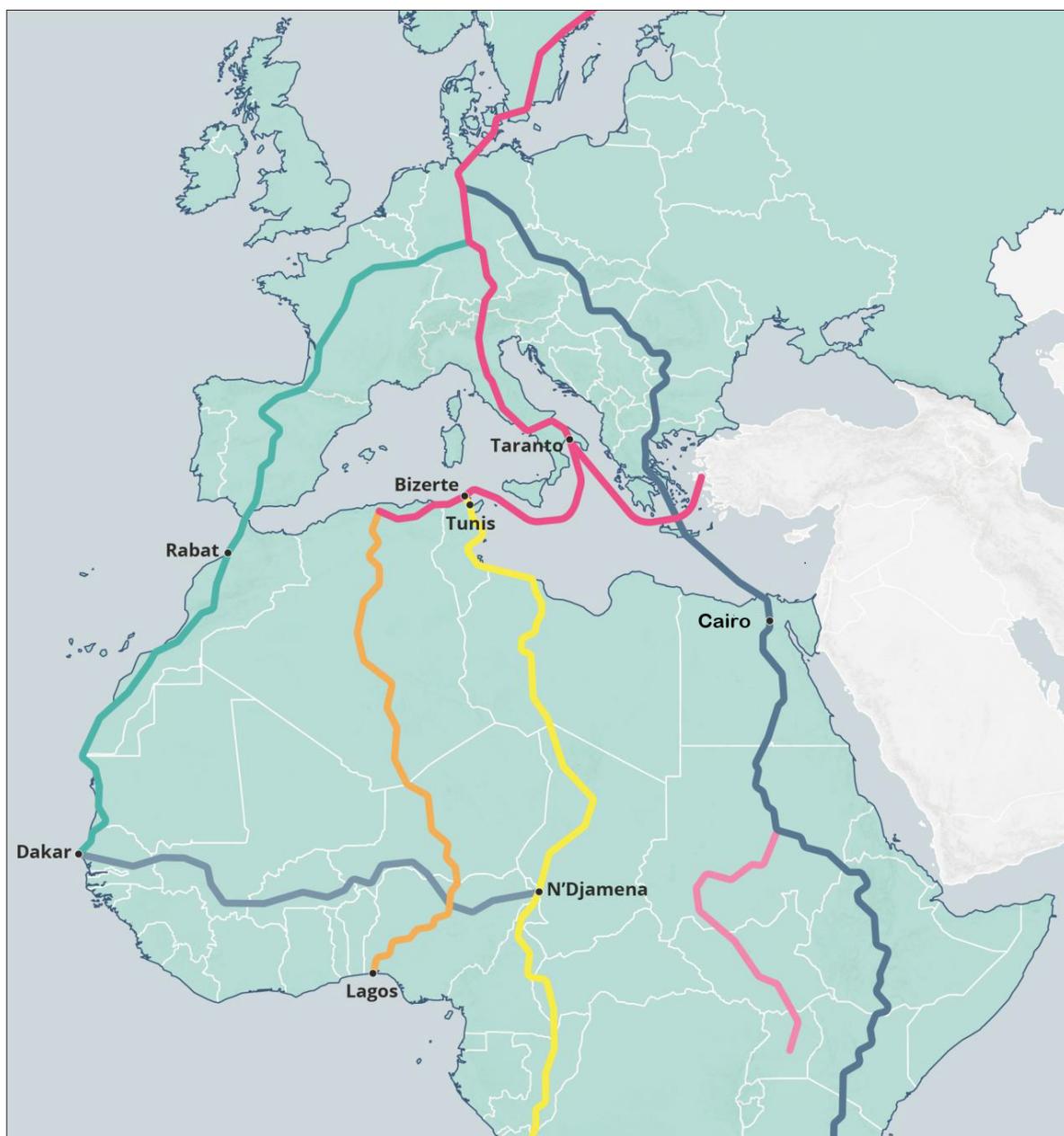
The recent history of all three corridors shows that if the European Union fails to effectively plan ahead and lay the groundwork for industrial base development and value chain integration in partnership with North African nations, this will leave individual EU member states that play leading roles in trans-Mediterranean connectivity little option other than to partner with actors outside the EU system. This will fuel further intra-EU divisions and undermine the basic objectives of the European Neighbourhood Policy as well as the newly announced EU Agenda for the Mediterranean.<sup>4</sup>

[org/agenda/2018/06/Africa-urbanization-cities-double-population-2050-4%20ways-thrive](https://www.weforum.org/agenda/2018/06/Africa-urbanization-cities-double-population-2050-4%20ways-thrive).

<sup>3</sup> Caroline Kende-Robb, "6 Reasons Why Africa's New Free Trade Area Is a Global Game Changer", in *World Economic Forum Articles*, 9 February 2021, <https://www.weforum.org/agenda/2021/02/afcfta-africa-free-trade-global-game-changer>.

<sup>4</sup> European Commission, *Southern Neighbourhood: EU Proposes New Agenda for the Mediterranean*, 9 February 2021, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_426](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_426).

**Figure 1** | Europe–Africa corridors and connectors to the Trans-African Highway network



Note: West Africa–Western Europe corridor (green); Central Maghreb corridor (red); East Africa–Eastern/Central Europe corridor (blue); Algeria–Lagos Highway (orange); Tunis–Tripoli–Widehoek–Capetown Highway (yellow); Dakar–N'Djamena Highway (grey); Continuation of Cairo–Aswan–Khartoum rail line to Uganda (pink).

Source: Michaël Tanchum, "Europe-Mediterranean-Africa Commercial Connectivity: Geopolitical Opportunities and Challenges", in *KAS Mediterranean Dialogue Series*, No. 31 (November 2020), p. 2, <https://www.kas.de/documents/282499/282548/Europe-Mediterranean-Africa+MED+Dialogue+31.pdf>.

On 9 March 2020, the European Commission and the High Representative for EU foreign and security policy issued a joint communication for “a new comprehensive EU strategy with Africa”, based on a programme of “five partnerships” for (1) green transition and energy access; (2) digital transformation; (3) sustainable growth and jobs; (4) peace and governance; and (5) migration and mobility.<sup>5</sup> To realise this ambition, the EU should increase investments in trans-Mediterranean connectivity, assisting in the development of local green economy manufacturing sectors integrated in European value chains.

Without a coherent EU policy to incentivise member states and European firms to cooperate with North African nations, the resulting space left by the European Union in the development of trans-Mediterranean connectivity will be filled by China, Russia, Turkey and the GCC states. China’s early post-Covid economic recovery has provided Beijing with a first-mover advantage in each of the three emerging trans-Mediterranean commercial corridors, opening the possibility for Beijing to reorient them towards its Belt and Road Initiative (BRI) framework.

In the absence of coordinated EU action, the emerging architecture of trans-Mediterranean connectivity is entrenching dangerous divides among the six Mediterranean EU member states as well as exacerbating geopolitical fault lines across North Africa itself. The deepening commercial interests of Turkey, its strategic partner Qatar, and their main regional rival, the UAE, ensure that all three actors will remain engaged across North Africa.

North Africa’s leading foreign partners in trans-Mediterranean connectivity will be the countries that invest in infrastructure that is directly tied to Europe-Africa manufacturing value chains. With the European Neighbourhood Policy’s “strong focus on good governance, democracy and the rule of law”,<sup>6</sup> the EU must navigate additional challenges in developing its trans-Mediterranean partnerships not faced by other international actors. Still, the EU retains a critical window of opportunity to impact the direction of trans-Mediterranean connectivity. The manner and extent to which the EU exercises leadership in the development of trans-Mediterranean connectivity will determine the parameters of its future geopolitical influence in North Africa and the effectiveness of the EU’s Africa partnership strategy overall.

## 1. The West Africa–Western Europe Corridor: The model of Morocco

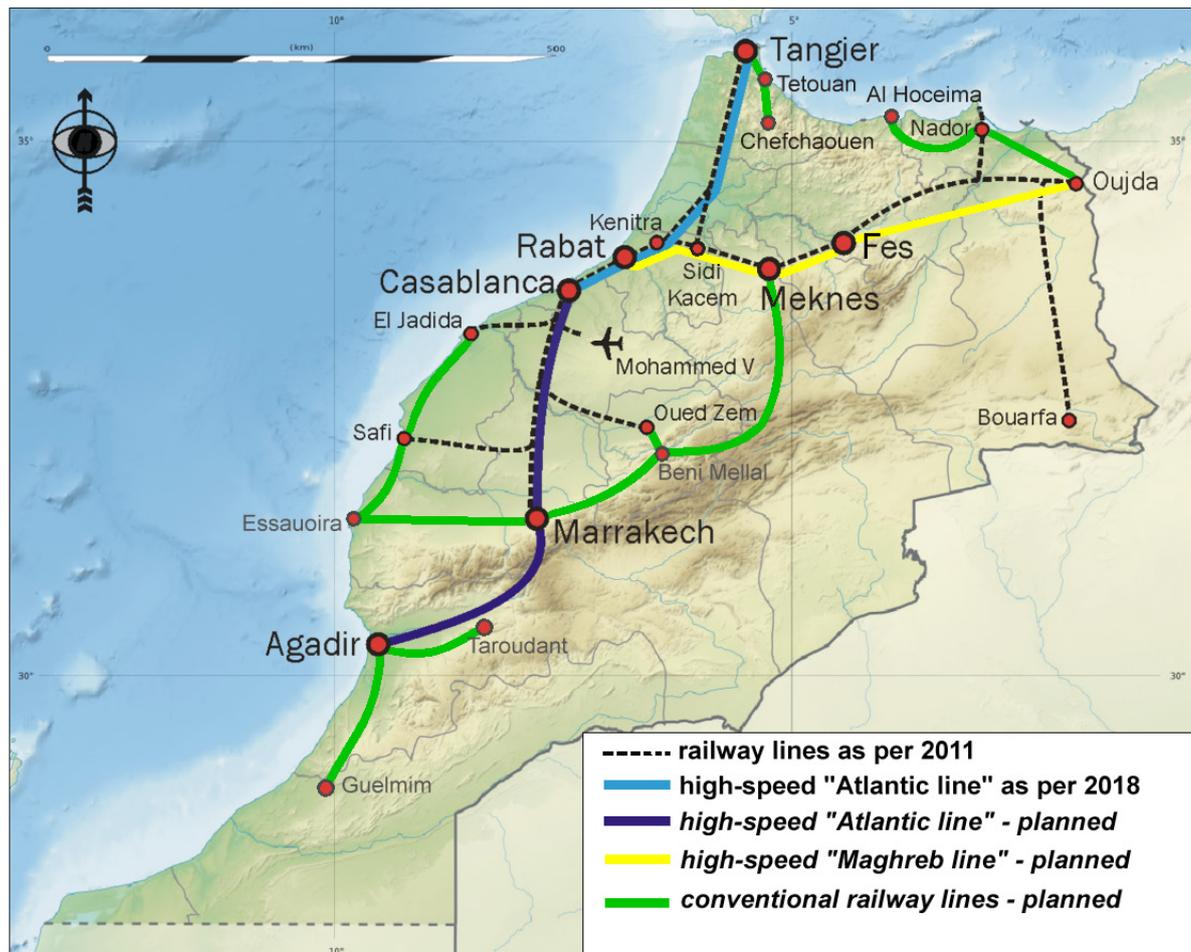
Morocco’s success in advancing its West Africa-to-Western Europe corridor stems from the considerable investments made by Rabat and its foreign partners in the concurrent development of Morocco’s transportation infrastructure and its

<sup>5</sup> European Commission, *Towards a Comprehensive Strategy with Africa* (JOIN/2020/4), 9 March 2020, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020JC0004>.

<sup>6</sup> EU Neighbours portal: *The European Neighbourhood Policy* (ENP), <https://www.euneighbours.eu/en/node/11210>.

industrial base, anchoring Morocco's emerging trans-Mediterranean commercial connectivity in manufacturing value chains.<sup>7</sup>

**Figure 2** | High-speed rail lines in Morocco, including planned extensions of the al-Boraq Line



Source: Wikipedia Commons: *Railways of Morocco as per 2018*, [https://commons.wikimedia.org/wiki/File:Railways\\_Morocco.2018.png](https://commons.wikimedia.org/wiki/File:Railways_Morocco.2018.png).

Prior to the pandemic, Morocco's 2018 inauguration of the al-Boraq high-speed rail line – Africa's first high-speed rail transportation connecting Tangier to Casablanca – consolidated Morocco's unrivalled position as a Europe-Africa commercial corridor (Figure 2). The first segment of the 2.3 billion US dollars, 362 km rail-link was built as a Franco-Moroccan joint venture. The Boraq line is linked to Morocco's new state-of-the-art Tanger Med port on the country's Mediterranean coast 40 km east of Tangier. In June 2019, Tanger Med became the Mediterranean's

<sup>7</sup> Michaël Tanchum, "Morocco's Africa-to-Europe Corridor: Gatekeeper of a Trans-Regional Strategic Architecture", in *AIES Fokus*, No. 8/2020 (July 2020), <https://www.aies.at/publikationen/2020/fokus-20-08.php>.

largest port with a total container capacity of 9 million twenty-foot equivalent units (TEU), surpassing Spain's Algeciras and Valencia ports. The 1.5 billion US dollars capacity expansion was supported by substantial Chinese investment,<sup>8</sup> but China has failed to capitalise on the investment as Beijing has so far been unsuccessful in establishing an independent, Chinese-led manufacturing chain in Morocco.

The importance of integrating infrastructure investment with industrial manufacturing chains is illustrated by Morocco's successful automotive industry, producing over 700,000 vehicles annually and serving as the western corridor's centrepiece. In 2012, Groupe Renault established a second Moroccan manufacturing plant in Tangier to benefit from the expanded Tanger Med Port and rail link. In 2019, Europe's third largest automaker sent six trainloads of Renault vehicles daily from its Tangier factory to the Tanger Med port for shipment.<sup>9</sup> In June 2019, France's Groupe PSA, Europe's second largest automaker, opened a manufacturing plant in Kénitra, north of Rabat, because of the Boraq high-speed rail link to the Tanger Med port.<sup>10</sup>

In early 2019, automotive sectors sales accounted for 27.6 per cent of Morocco's exports.<sup>11</sup> Morocco's present vehicle production led by Groupe Renault and Groupe PSA is supported by approximately 200 international suppliers operating their own manufacturing plants in the country, including major firms headquartered in Germany, France, Italy, Spain and Belgium. Some Chinese manufacturers are using the opportunity of Groupe PSA's new plant in Kénitra to integrate into the French-led European value chain, such as CITIC Dicastal, whose 400 million US dollars Kénitra plant can produce 6 million pieces annually to supply Groupe PSA.<sup>12</sup>

### 1.1 The future Western Corridor: Between Europe and the Western Sahara

The EU faces several challenges coordinating its policy towards Morocco, the principal of which is the disputed Western Sahara region. As Morocco continues to expand its Boraq rail line, Rabat's highest priority is to extend the high-speed rail to Lagouira (La Güera) in the southernmost point of the Western Sahara, which Morocco considers its Southern Provinces. Running from Morocco's Tanger Med Port westward and then down the Atlantic coast to the Mauritanian border, the Tangier–Lagouira line would create high-speed commercial transportation connectivity from the western Mediterranean shore to the border of West Africa.

<sup>8</sup> China Merchants Group, *Chairman Li Jianhong Visits Tanger*, 5 August 2017, [https://www.cmhk.com/home/a/2017/h07/a34075\\_34173.shtml](https://www.cmhk.com/home/a/2017/h07/a34075_34173.shtml).

<sup>9</sup> El Mehdi Berrada, "Morocco Now Has the Largest Capacity for Shipping Containers in the Mediterranean", in *The Africa Report*, 7 August 2019, <https://www.theafricareport.com/16021>.

<sup>10</sup> Kawtar Ennaji, "PSA Kenitra Plant Officially Opens", in *Morocco World News*, 20 June 2019, <https://www.morocoworldnews.com/2019/06/276284>.

<sup>11</sup> "Morocco Trade Deficit Expands 2.5% Year/Year in Jan-May", in *Reuters*, 1 July 2019, <https://reut.rs/2FI7Mdy>.

<sup>12</sup> Michaël Tanchum, "Morocco's Africa-to-Europe Corridor", cit., p. 4.

As Morocco expanded the high-speed rail line southward in 2020, Rabat concurrently obtained diplomatic recognition of its Western Sahara sovereignty claims by a significant number of nations. From December 2019 to October 2020, fifteen African nations opened consulates acknowledging Morocco's sovereignty there.<sup>13</sup> In November 2020, the UAE became the first Arab country to do so. In December, Bahrain opened a consulate and Jordan announced its intention to follow suit. As African and Arab solidarity with Algeria's opposition to Morocco's sovereignty claims eroded in 2020, tensions between Algiers and Rabat increased.

Since 1991, the Algerian-backed Polisario Front, which seeks an independent Sahrawi state in the Western Sahara, abandoned its armed struggle in favour of working through the United Nations Mission for the Referendum in Western Sahara (MINURSO) framework. The Covid-19 pandemic and Morocco's diplomatic successes, culminating with the December 2020 recognition of Moroccan sovereignty over the Western Sahara by the United States,<sup>14</sup> have altered the long-standing regional status quo. In November 2020, the Polisario Front ended its 29-year ceasefire with Rabat and resumed armed resistance.

Against this backdrop, the EU faces increasing challenges to form a coordinated policy on the Western Sahara, as illustrated by the recent rift in German–Moroccan relations. Immediately following Berlin's June 2020 promulgation of its German "National Hydrogen Strategy",<sup>15</sup> Morocco became the first country to sign a green hydrogen agreement with Germany.<sup>16</sup> The German–Moroccan initiative seeks to create Africa's first industrial plant for green hydrogen production using Morocco's extensive solar power infrastructure. In January 2021, Morocco and Germany signed a letter of intent for the transport of Moroccan-produced hydrogen from Tanger Med to Germany's Hamburg port. The promising initiative to create a green hydrogen value chain has, at least temporarily, been paused with Rabat's 2 March 2021 suspension of diplomatic contact with Germany over Berlin's opposition to Moroccan claims to the Western Sahara.<sup>17</sup> China, on the other hand, maintains a more neutral policy on the dispute,<sup>18</sup> supporting the efforts of MINURSO while

<sup>13</sup> Ali Haidar, "Zambia and Eswatini Open Consulates in Laayoune", in *Sahara News*, 27 October 2020, <https://sahara-news.org/?p=2587>.

<sup>14</sup> The US recognition of Moroccan sovereignty over the Western Sahara was part of a broader US diplomatic initiative to facilitate the normalisation of relations between Morocco and Israel.

<sup>15</sup> German Federal Ministry for Economic Affairs and Energy, *Securing a Global Leadership Role on Hydrogen Technologies: Federal Government Adopts National Hydrogen Strategy and Establishes National Hydrogen Council*, 10 June 2020, <https://www.bmwi.de/Redaktion/EN/Pressemitteilungen/2020/20200610-securing-a-global-leadership-role-on-hydrogen-technologies.html>.

<sup>16</sup> Inès Magoum, "Morocco: Partnership with Germany for Green Hydrogen", in *Afrik 21*, 15 June 2020, <https://www.afrik21.africa/en/morocco-partnership-with-germany-for-green-hydrogen>.

<sup>17</sup> Malek Bachir, "Germany-Morocco Tensions: Why Is Rabat So Upset with Berlin?", in *Middle East Eye*, 5 March 2021, <https://www.middleeasteye.net/node/202721>; Safaa Kasraoui, "Morocco-Germany Tensions, Western Sahara Tip of the Iceberg", in *Morocco World News*, 2 March 2021, <https://www.morocroworldnews.com/2021/03/336408>.

<sup>18</sup> Hang Zhou, "China's Balancing Act in the Western Sahara Conflict", in *Africana Studia*, n. 29

carefully balancing its economic interests in Morocco and Algeria. With large investments in both countries and playing a conciliating role, Beijing has the potential to bridge the divide and reorient the Western Mediterranean closer toward the BRI.

The Boraq high-speed rail line, as a French–Moroccan joint venture, is emblematic of France’s role as Morocco’s leading foreign investor. France provided 51 per cent of the financing for the initial segment with Morocco providing another 27 per cent. The project’s remaining 22 per cent was financed by the UAE, Saudi Arabia and Kuwait.<sup>19</sup> Along with France, GCC nations – particularly the UAE – have been mainstays of foreign investment in Morocco, with the Boraq line representing a good example. The EU27 collectively is Morocco’s largest trade partner, accounting for 55 per cent of Morocco’s 2019 total bilateral trade volume. Nonetheless, France’s principal partners for strategic economic engagement with Morocco are Abu Dhabi and Riyadh, not Madrid, Rome or even Berlin.

In 2020, Morocco’s economy underwent a 7 per cent contraction, but is expected to accelerate to 4 per cent GDP growth in 2021.<sup>20</sup> The EU27 accounts for 59 per cent of Morocco’s foreign direct investment (FDI).<sup>21</sup> A slowdown in the EU’s economic engagement with Morocco opens further opportunities for China. Beijing’s attempt to establish its own industrial chain in Morocco though Chinese Automaker BYD’s effort to create an electric vehicle (EV) manufacturing plant has so far stalled.<sup>22</sup> BYD’s successful creation of an EV manufacturing value chain would significantly alter China’s position in the western corridor, transforming it into one of the corridor’s principal agenda-setters.

France remains bereft of European partners willing to play a strategic role in Morocco’s infrastructure development. Morocco is well-suited for electric vehicle manufacturing and hydrogen production, both EU priorities. Spain’s new Horizonte África (Horizon Africa) initiative to facilitate the operation of Spanish companies in Africa, with Morocco at its core,<sup>23</sup> may provide a platform for deeper French–Spanish coordination. In the absence of strategic coordination between France and other EU members, Morocco’s Africa-to-Europe corridor will increasingly depend on the strategic relationship between France and its Arab Gulf partners on the one hand or on Chinese investments on the other.

(2018), p. 145-156, [https://ojs.letras.up.pt/index.php/1\\_Africana\\_2/article/view/7635](https://ojs.letras.up.pt/index.php/1_Africana_2/article/view/7635).

<sup>19</sup> Lahssen Moqana, “Moroccan King, French President Inaugurate Al Boraq High Speed Train”, in *Asharq Al-Awsat*, 16 November 2018, <https://english.aawsat.com/node/1465551>.

<sup>20</sup> World Bank, *The World Bank in Morocco – Overview*, last updated 25 March 2021, <https://www.worldbank.org/en/country/morocco/overview>.

<sup>21</sup> Mohamed Chtatou, “Coronavirus in Morocco: Economic and Social Implications”, in *Fikra Forum*, 23 April 2020, <https://bit.ly/3n4rCmi>.

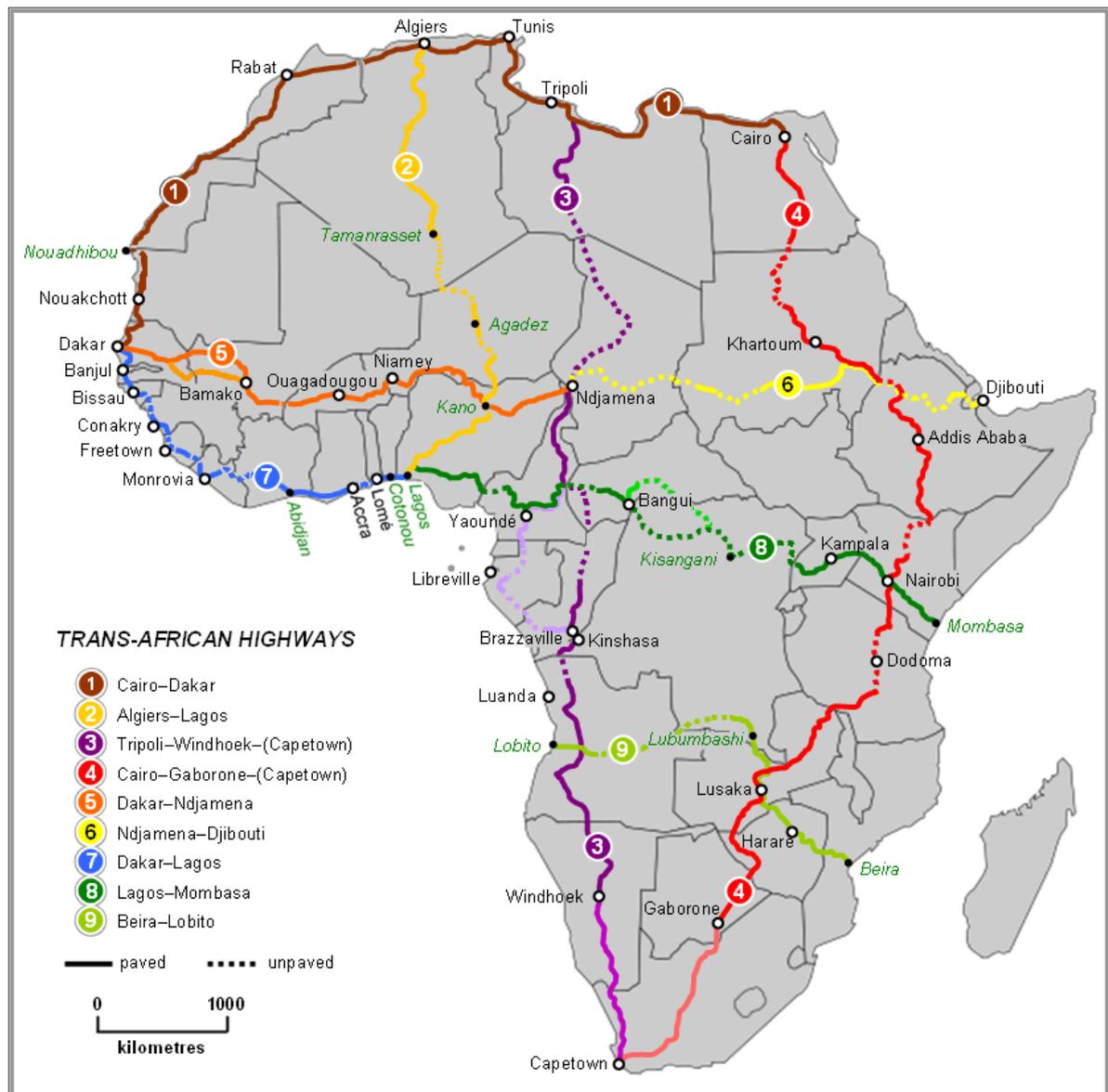
<sup>22</sup> Michaël Tanchum, “Morocco’s Africa-to-Europe Corridor”, cit., p. 4.

<sup>23</sup> Nicholas Norbrook and Marie Villacèque, “Spain Launches Horizonte África to Increase Regional Presence”, in *The Africa Report*, 23 February 2021, <https://www.theafricareport.com/67642>.

## 2. The Central Maghreb corridor: Post-Covid challenges

The central Maghreb Europe–Africa corridor presently centres on Algeria’s road connectivity from its Mediterranean coast to West Africa via the Trans-African Highway system (Figure 3), but has much potential to link up with other infrastructure connections with Tunisia.

**Figure 3** | Trans-African Highways



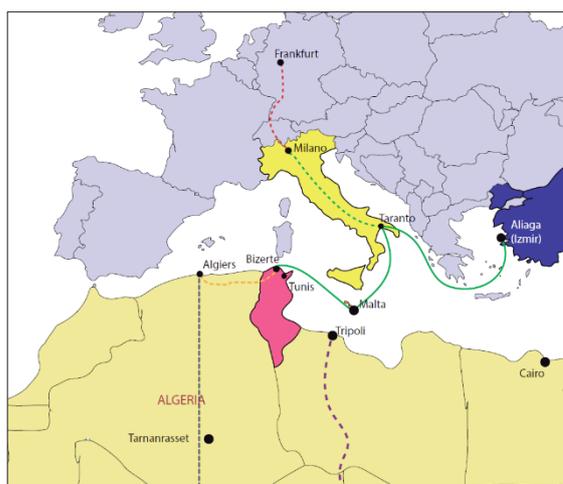
Source: Wikipedia Commons: *Map of Trans-African Highways based on data 2000 to 2003*, [https://commons.wikimedia.org/wiki/File:Map\\_of\\_Trans-African\\_Highways.PNG](https://commons.wikimedia.org/wiki/File:Map_of_Trans-African_Highways.PNG).

Indeed, the recently formed Turkey–Italy–Tunisia transportation network that slices across the centre of the Mediterranean, creating an arc of commercial

connectivity from the Maghreb to the wider Black Sea, forms the primary link in the embryonic central Maghreb Europe–Africa corridor that utilises Algeria’s connectivity.<sup>24</sup>

The Turkey–Italy–Tunisia network’s central hub is Italy’s deep-sea port of Taranto located on Italy’s southern tip at the heart of the Mediterranean Sea. Managed by Turkish port operator Yilport, the Taranto port began servicing the Turkey–Italy–Tunisia network in early July 2020 (Figure 4). The Taranto–Tunisia segment of the network simultaneously forms the core link of a potential Europe–Africa commercial transportation corridor by connecting the central Maghreb’s coast to Europe via Italy’s high-speed rail system. From Tunisia’s Bizerte port, the corridor can also reach (by highway) Algiers, the Mediterranean terminal for the Trans-Saharan Highway (Route 2 in the Trans-African Highway system in Figure 3), potentially extending the Italy–Tunisia corridor southward into West Africa as far as Lagos, Nigeria.

**Figure 4** | The Turkey–Italy–Tunisia corridor



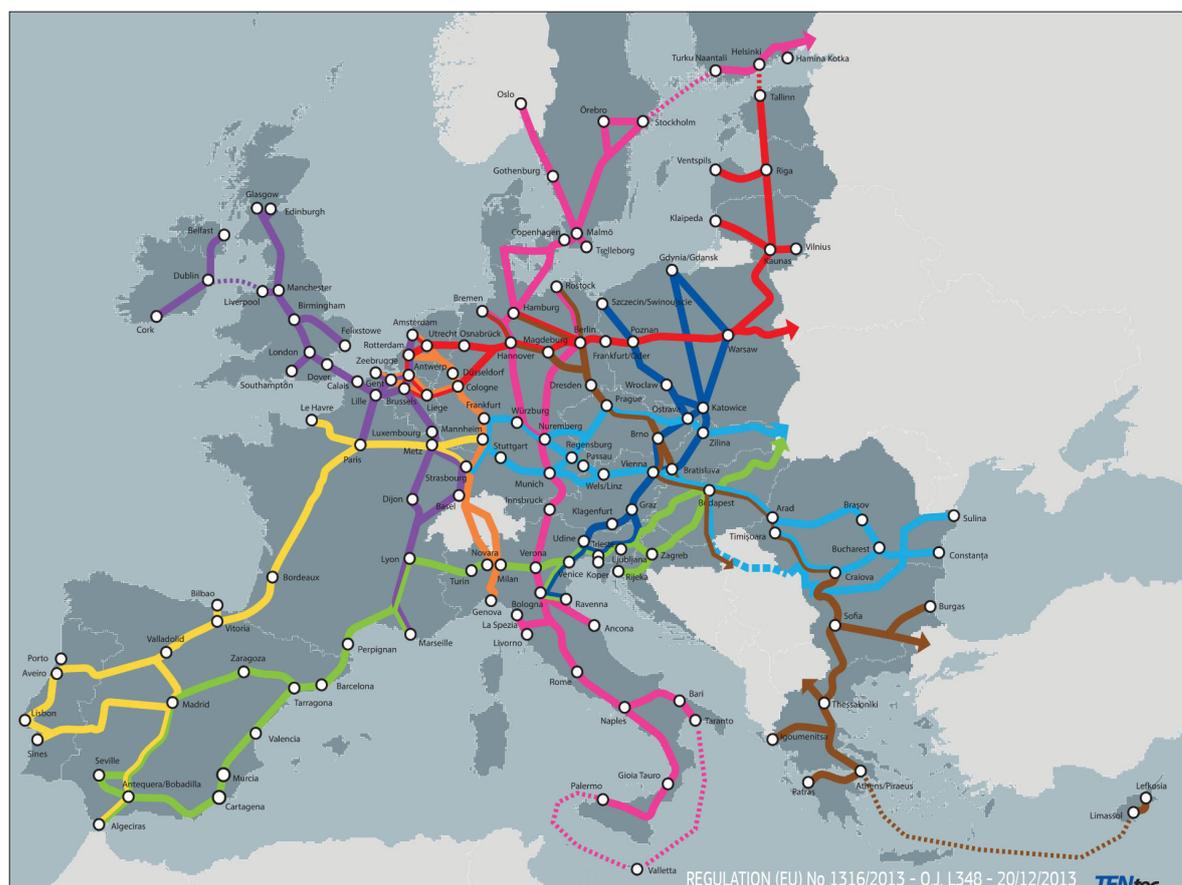
Source: Michaël Tanchum, “Libya, Energy, and the Mediterranean’s New ‘Great Game’”, cit.

The Europe–Africa segment of the Turkey–Italy–Tunisia network’s central node at Taranto extends southward to Malta’s Freeport Terminal at Marsaxlokk – also owned and operated by Yilport – and then to Tunisia’s port of Bizerte. The Taranto–Malta maritime link is also supported by the EU as the southernmost link in the Union’s own “Scandinavian–Mediterranean Corridor”, one of the nine core corridors of the European Commission’s Trans-European Transportation Network, or TEN-T programme. TEN-T’s Scandinavian–Mediterranean Corridor is the EU’s

<sup>24</sup> See, Michaël Tanchum, “Libya, Energy, and the Mediterranean’s New ‘Great Game’”, in *Analyses of the Elcano Royal Institute (ARI)*, No. 110/2020 (23 September 2020), [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/ari110-2020-tanchum-libya-energy-and-the-mediterraneans-new-great+game](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari110-2020-tanchum-libya-energy-and-the-mediterraneans-new-great+game).

central north-south transportation artery, spanning the Scandinavian peninsula, Denmark, Germany, Austria, Italy and Malta (Figure 5 – pink line).

**Figure 5** | TEN-T core network corridors



Note: Baltic-Adriatic (dark blue); North Sea-Baltic (red); Mediterranean (green); Orient/East Med (brown); Scandinavian-Mediterranean (pink); Rhine-Alpine (orange); Atlantic (yellow); North Sea-Mediterranean (violet); Rhine-Danube (blue).

Source: European Commission website: *Trans-European Transport Network (TEN-T)*, [https://ec.europa.eu/transport/themes/infrastructure/ten-t\\_en](https://ec.europa.eu/transport/themes/infrastructure/ten-t_en).

Because the Taranto–Malta segment of the Turkey–Italy–Tunisia connectivity network was previously designated as TEN-T’s Scandinavian–Mediterranean corridor’s southern terminal link, Turkey’s Yilport could eventually become the operator of the hub of what could be the most prized Europe–Africa corridor. Interconnecting the EU’s Scandinavian–Mediterranean Corridor with Africa’s Algeria-to-Nigeria Trans-Saharan Highway, the Italy–Tunisia segment of the Turkey–Italy–Tunisia network could potentially form the vital link for a mega-corridor connecting Europe and Africa.

Italy is laying the groundwork for the Turkey–Italy–Tunisia network’s extension to Algeria through the involvement of Italy’s leading construction firms in Algeria’s East-West highway mega-project traversing the entire length of Algeria’s coast.

Italy's Anas International and Italconsult are building the 399 km easternmost segment that runs from Bordj Bon Arreridj to the Tunisian border.<sup>25</sup> The upgrade accounts for over half the 783 km distance between Tunisia's Bizerte port, the Turkey–Italy–Tunisia corridor's African landfall, and Algiers, the northern starting point of the Trans-Saharan Highway. Although Italy has been intimately involved in the construction of Algeria's transportation infrastructure and maintains a substantial presence in Algeria's oil and natural gas industries, Rome has not coupled Algeria's transportation infrastructure development with investments in local industrial production linked to a manufacturing value chain. As such, Italy's role in Algeria's commercial connectivity remains far from certain as Turkey's presence in Libya is increasing Ankara's political and economic clout in neighbouring Tunis and Algiers.

Turkey has made strong inroads in Algeria through 3.5 billion US dollars of investments, ranking Turkey as one of Algeria's top foreign investors.<sup>26</sup> One month into Turkey's game-changing Libya intervention, Turkey's President Recep Tayyip Erdoğan visited Algeria in late January 2020, where he announced the goal of raising Turkey–Algeria bilateral trade to 5 billion US dollars. Declaring Algeria as "one of our strategic partners in North Africa", Erdoğan explained that "Algeria is one of Turkey's most important gateways to the Maghreb and Africa".<sup>27</sup>

Turkey's strategic partner Qatar also has invested in Algeria, creating a Qatari manufacturing presence. In 2013, Qatari Steel International opened a steel manufacturing complex, Algerian Qatari Steel, with an annual production capacity of 500,000 tons of wire rod and 1.5 million tons of reinforcing bar.<sup>28</sup> Qatar has also made sizable investments in Tunisia. Doha's approximately 3 billion US dollars of investments makes Qatar Tunisia's second largest investor, behind France but leaping ahead of both Italy and Germany.<sup>29</sup>

While the Turkey–Qatar partnership has gained economic and political influence in the central Maghreb, it has not secured a dominant position in the central corridor's development. Bizerte and Tunisia's five other medium-sized ports do not provide an economy of scale to sustain an economic corridor. With Tunisia's

<sup>25</sup> Anas International Enterprise website: *Marché n. 5 - Lotto Est Autostrada Est-Ovest*, <https://www.anasinternational.com/it/algeria?layout=edit&id=29>; Italconsult website: *Algeria East West Highway, Lot East*, <http://www.italconsult.com/en/projects/algeria-east-west-highway-lot-east>.

<sup>26</sup> Michaël Tanchum, "Italy and Turkey's Europe-to-Africa Commercial Corridor: Rome and Ankara's Geopolitical Symbiosis Is Creating a New Mediterranean Strategic Paradigm", in *AIES Fokus*, No. 10/2020 (August 2020), p. 2, <https://www.aies.at/publikationen/2020/fokus-20-10.php>.

<sup>27</sup> Turkish Presidency, "We Will Increase Our Trade Volume with African Countries to \$50 Billion", 26 January 2021, <https://tccb.gov.tr/en/news/542/116415/-we-will-increase-our-trade-volume-with-african-countries-to-50-billion->; "Turkey, Algeria Aim for \$5 Billion Trade", in *Hürriyet Daily News*, 27 January 2020, <https://www.hurriyetdailynews.com/turkey-algeria-aim-for-5-billion-trade-151454>.

<sup>28</sup> Algerian Qatari Steel website: <https://aqs.dz>.

<sup>29</sup> "Amir's Visit Confirms Tunisia's Distinguished Ties with Qatar", in *Gulf Times*, 25 February 2020, <https://m.gulf-times.com/story/656843>.

8.8 per cent economic contraction in 2020,<sup>30</sup> it remains unclear when construction will begin on Tunisia's proposed deep-sea port at Enfidha. In the absence of a modern deep-sea port, the Turkey–Italy–Tunisia network could become a sub-system in China's BRI architecture.

### 2.1 China's opportunity in the Central Maghreb corridor

The incorporation of the Turkey–Italy–Tunisia network into a BRI-oriented central corridor may result from China's construction of El Hamdania port in the Algerian municipality of Cherchell. Following China's CITIC Construction's success in building a sizable segment of Algeria's East-West highway, Algiers inked a 2016 deal with the China State Construction Engineering Corporation and the China Harbor Engineering Company to construct El Hamdania as a massive transshipment port located about 60 km west of Algiers.<sup>31</sup> With a container capacity of 6.5 million TEU, El Hamdania could function as the hub of a Europe–Africa corridor linking the Taranto port to the Trans-Saharan Highway.

In July 2019, Algeria confirmed by presidential decree its September 2018 Memorandum of Understanding (MoU) with China in which Algeria agreed to participate in Beijing's BRI programme. Slowed but not deterred by Covid-19 or Algeria's changing political environment, on 11 October 2020 China's International Development Cooperation Agency signed an economic and technical cooperation agreement with Algiers to deepen Algeria's BRI participation.<sup>32</sup> Algeria's economy contracted by about 6 per cent in 2020,<sup>33</sup> forcing Algiers to reduce planned investments, slashing investments of its state-owned energy company Sonatrach by 50 per cent.<sup>34</sup> Requiring seven years of work at an estimated 6 billion US dollars cost,<sup>35</sup> El Hamdania's completion remains uncertain.

In 2020, Algeria's crude oil and liquefied natural gas (LNG) exports dropped by about 30 per cent each.<sup>36</sup> While a recovery in energy prices could push Algeria

<sup>30</sup> Mongi Saidani, "Tunisia's Economy Records Unprecedented Contraction", in *Asharq Al-Awsat*, 17 February 2021, <https://english.aawsat.com/node/2811171>.

<sup>31</sup> "China to Construct Mega Sea Port in Algeria", in *Construction Review Online*, 5 April 2016, <https://constructionreviewonline.com/?p=32254>.

<sup>32</sup> China International Development Cooperation Agency (CIDCA), *CIDCA Chairman Holds Talks with Secretary-General of Algerian Foreign Ministry*, 13 October 2020, [http://en.cidca.gov.cn/2020-10/13/c\\_549673.htm](http://en.cidca.gov.cn/2020-10/13/c_549673.htm); "Algeria, China Ink Economic and Technical Cooperation Agreement", in *APS*, 11 October 2020, <http://www.aps.dz/en/economy/36083>.

<sup>33</sup> International Monetary Fund (IMF) Datamapper: *Algeria - Real GDP Growth*, [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/OEMDC/ADVEC/WEOWORLD/DZA](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD/DZA).

<sup>34</sup> "Algeria to Cut Spending and Energy Investment, Delay Projects", in *Reuters*, 22 March 2020, <https://reut.rs/2J9MmaK>.

<sup>35</sup> "Infrastrutture: Tanchum (Aies) a 'Nova', porto di Hamdania progetto win-win per Algeria e Cina", in *Agenzia Nova*, 7 October 2020, <https://www.agenzianova.com/a/5f7d82ada87644.05066204/3131170/2020-10-07/infrastrutture-tanchum-aies-a-nova-porto-di-hamdania-progetto-win-win-per-algeria-e-cina/linked>.

<sup>36</sup> Verity Ratcliffe, Souhail Karam and Salma El Wardany, "An Oil Country No More? Algerian

into positive economic growth in 2021, Algiers would require an oil price of 135 US dollars to balance its budget, which is hardly a realistic scenario.<sup>37</sup> Algeria is unlikely to increase production capacity to meet the rising global demand without outside financing. Despite depleting its foreign reserves, Algeria remains reluctant to seek assistance from the International Monetary Fund (IMF), leaving it more vulnerable to increasing its dependence on China, Russia, the Gulf states and Turkey – should the EU also fail to enter the game.

## 2.2 Algeria's challenge to establish manufacturing value chains

The central corridor's greatest challenge is the lack of progress in establishing a manufacturing base in Algeria, reflecting both a delivery deficit on the part of Algeria's principal European partners and the inhospitable business climate created by the country's political system. Algeria's commercial connectivity to Europe has focused on hydrocarbon energy exports, with the trans-Mediterranean natural gas pipeline to Italy and the MedGaz pipeline to Spain emblematic of the relationship. Despite extensive European partnerships with Sonatrach for the extraction and export of Algeria's hydrocarbon energy resources, Europe's energy majors are barely involved in enhancing Algeria's position in the hydrocarbon value chain through establishing petrochemical production plants in the country. European firms are likewise largely absent from Algeria's embryonic efforts to develop green energy manufacturing value chains.

Among European energy majors, France's Total stands out for its 2018 investment in Algerian petrochemical production, forming a joint venture under Algeria's 51/49 framework called Sonatrach Total Entreprise Polymères (STEP) to produce the thermoplastic polypropylene.<sup>38</sup> Annual global demand for the thermoplastic is expected to grow by 5 per cent throughout the decade.<sup>39</sup> STEP's combined 1.4 billion US dollars investment will create Algeria's first polypropylene production facility with an annual output capacity of 550,000 tons to supply Algerian and regional demand while Total will be responsible for the commercialisation of the remainder in Europe.<sup>40</sup>

Exports Sink Rapidly", in *Bloomberg*, 8 February 2021, <https://www.bloomberg.com/news/articles/2021-02-08/an-oil-country-no-more-algeria-s-energy-exports-sink-rapidly>.

<sup>37</sup> IMF estimates, see *ibid*.

<sup>38</sup> Total, *Algeria: Total Strengthens Its Cooperation with Sonatrach and Launches the Engineering Studies for a Petrochemical Project in Arzew*, 11 May 2018, <https://www.total.com/node/9405>.

<sup>39</sup> Fortune Business Insight, *Polypropylene Market Size, Share & COVID-19 Impact Analysis...*, September 2020, <https://www.fortunebusinessinsights.com/industry-reports/polypropylene-pp-market-101583>. Demand will be effected by how quickly China achieves polypropylene self-sufficiency in the post-COVID-19 period.

<sup>40</sup> 30 per cent of the project's financing will consist of equity, while the remaining 70 per cent will be funded through bank loans from BNA Algérie. See "Joint-venture entre Sonatrach et Total pour la réalisation d'un complexe de polypropylène à Arzew", in *El Watan*, 18 January 2019, <https://www.elwatan.com/?p=553781>.

Italy is also partnering with Algeria and Tunisia to interconnect electricity grids upon the scheduled 2025 completion of a 192 km-long, 600 MW undersea cable between Tunisia and Sicily.<sup>41</sup> The electricity interconnection could help promote the development of renewable power production in Algeria. In 2015, Algeria announced a strategic energy plan with the objective of adding 22 GW power production capacity from renewable energy sources by 2030, equivalent to approximately 27 per cent of the country's total capacity. Nonetheless, Algeria's installed solar capacity stood at a paltry 343 MW in 2020.<sup>42</sup> The majority of Algeria's green energy production, 13.5 GW, is slated to come from photo-voltaic (PV) solar energy. Eni and Total's involvement in Algeria's solar plant construction is relatively small and progress has been slow. In 2018, Eni and Sonatrach built a 10 MW PV plant to support their Bir Rebaa North upstream oil and gas operations.<sup>43</sup>

In 2018, Algeria's state-owned Elec El Djazair Group signed a *Protocole d'Accord* with Italy's Fimer to be the lead foreign partner in the realisation of Algeria's 2030 renewable energy production goals.<sup>44</sup> In 2020, Fimer installed inverters for one of Algeria's showcase solar projects – the rooftop solar power system at Oran's Ahmed Ben Bella International Airport.<sup>45</sup> Africa's largest rooftop PV installation, the 3.04 GW system will supply approximately 30 per cent of the airport's electricity, helping to keep Algeria on track to meet its 2030 objective of installing 13.5 GW PV production capacity.<sup>46</sup> However, Algeria's flagship renewable energy project, the 3.6 billion US dollars, 4 GW Tafouk1 solar power complex, remains stalled for lack of foreign investment, even prompting Algiers to suspend its 51/49 requirement capping foreign stakeholders at 49 per cent.

Algeria's push for solar energy creates the potential for the establishment of a PV manufacturing value chain. Despite Fimer's spearheading Algeria's renewable energy development, Italy has been conspicuously absent from manufacturing value chain development in the renewable energy sector. In January 2021, Algeria's Minister of Energy Transition and Renewable Energy issued a specific invitation to Italy to invest in Algerian manufacturing of equipment for the renewable energy sector.<sup>47</sup> The sole European foray into developing a PV value chain in Algeria is the

<sup>41</sup> "Italian-Tunisian Elmed Interconnector Given Go-Ahead", in *Industry Europe*, 9 May 2019, <https://industryeurope.com/italian-tunisian-elmed-interconnector-given-go-ahead>.

<sup>42</sup> Darrell Proctor, "Algeria Targets Renewables to Diversify Generation", in *Power Magazine*, 1 July 2020, <https://www.powermag.com/?p=153487>.

<sup>43</sup> Eni, *Eni and Sonatrach Inaugurate the 10 MW Bir Rebaa North Photovoltaic Plant and Sign Agreements in the Renewable Energy Sector*, 25 November 2018, [https://www.eni.com/assets/documents/press-release/migrated/2018/11/PR\\_Eni\\_BRN.pdf](https://www.eni.com/assets/documents/press-release/migrated/2018/11/PR_Eni_BRN.pdf). Eni plans to build a similar PV facility for the gas treatment plant in the Berkine Basin.

<sup>44</sup> "L'italiana Fimer ottiene contratto per impianti fotovoltaici in Algeria", in *InfoAfrica*, 2 August 2018, <https://www.infoafrica.it/?p=79783>.

<sup>45</sup> FIMER, *FIMER Chosen for Largest Solar PV Airport Installation in Africa*, 15 December 2020, <https://www.fimer.com/node/1163>.

<sup>46</sup> Ibid.

<sup>47</sup> "Algérie-Italie: la coopération dans le domaine de la transition énergétique évoquée", in *APS*, 27 January 2021, <https://www.aps.dz/economie/116589>.

French–Algerian joint venture Aurés Solaire’s 2017 opening of a 30 MW PV module production facility. Aurés Solaire was formed under Algeria’s 51/49 requirement by Algeria’s Condor Electronics and France’s Vincent Industrie, with the latter investing 10 million euro and providing the plant’s fully automated manufacturing line.<sup>48</sup>

In 2020, the UAE entered Algeria’s PV manufacturing value chain, when the Dubai-based renewable energy supplier Qi-Energy formed a joint venture with Algeria’s SPS (Système Panneaux Sandwichs) for an Algerian production facility to supply high quality PV mounting structures for locally produced solar panels to be sold in Algeria and various other African markets.<sup>49</sup> According to reports, Chinese PV manufacturers have been in discussion with Algerian officials about manufacturing PV modules to create a Sino–Algerian PV value chain.<sup>50</sup>

The lack of a robust PV-manufacturing sector reflects Algeria’s general difficulties in developing a local manufacturing base, as evidenced by the inability of Algeria’s nascent automotive sector and of its foreign partners to establish a reliable automotive manufacturing value chain in the country. In contrast to Morocco, automobile manufacturing has produced disappointing results so far for Algeria, owing to a combination of government mismanagement and foreign companies’ extensive use of complete knockdown (CKD) and semi-knockdown (SKD) kits for vehicle assembly. CKDs and SKDs kits comprise all the components of a car, totally unassembled or partially assembled respectively, manufactured elsewhere and exported for final assembly in a host country. While the use of CKDs and SKDs is not uncommon for manufacturers that are establishing operations in a developing market like Algeria, the practice results in car assembly without the creation of local manufacturing to supply components.

Algeria’s President Abdelmadjid Tebboune, elected in December 2019 following the Hirak protests, has sought to promote robust automotive manufacturing, but his policies have alienated foreign automakers operating in the country. In December 2019, Volkswagen suspended operations in its plant indefinitely, following the arrest of the head of its Algerian partner on corruption charges and Algeria’s ban on CKDs and SKDs.<sup>51</sup> Groupe Renault’s plant near Oran has been shut down since February 2020 due to Algeria’s ban on imported components. Declaring that “the Renault factory here is nothing like the one in Morocco”, President Tebboune publicly rebuked the French automaker over its use of knockdown kits and blamed

<sup>48</sup> Emiliano Bellini, “Aurés Solaire Commissions Algeria’s Second Module Factory”, in *PV Magazine*, 25 April 2017, <https://www.pv-magazine.com/?p=32377>.

<sup>49</sup> Inès Magoum, “Algeria: SPS and Qi-Energy to Build Solar Equipment Mounting Stations”, in *Afrik 21*, 26 June 2020, <https://www.afrik21.africa/en/algeria-sps-and-qi-energy-to-build-solar-equipment-mounting-stations>.

<sup>50</sup> Emiliano Bellini, “Algeria Plans 4 GW of Solar Tenders”, in *PV Magazine*, 29 May 2020, <https://www.pv-magazine.com/?p=110663>.

<sup>51</sup> AFP, “Volkswagen Says Production Suspended in Algeria”, in *France 24*, 16 December 2019, <https://www.france24.com/en/20191216-volkswagen-says-production-suspended-in-algeria>.

Renault for Algeria's automotive manufacturing woes: "How can we create jobs when there is no integration, no subcontracting?"<sup>52</sup> Groupe PSA has likewise refrained from opening its Peugeot Citroën Production Algeria plant in Oran, planned since 2017.<sup>53</sup> Meanwhile, South Korea's KIA subsequently closed down its Algerian plant in May 2020 due to the import ban.<sup>54</sup>

In April 2020, the Tebboune government adopted new guidelines to promote Algeria's swift transition to electric vehicles. The measures included requirements for all imported second-hand vehicles to be either hybrids or EVs and an outright ban on diesel engine vehicles.<sup>55</sup> Without investment in the requisite charging infrastructure, the large-scale use of electric cars is unlikely to materialise in Algeria. As both Morocco and Egypt move towards EV production and use, Algeria's continued difficulty in attracting foreign investment in the EV sector will further setback progress in developing the needed manufacturing value chains for the central corridor.

### 3. The advance of Egypt's East Africa–Eastern/Central Europe corridor

With approximately 103 million inhabitants, Egypt is the largest Mediterranean nation by population and the third largest in Africa. With its vast labour and consumer markets, Egypt is rapidly advancing towards becoming the hub of an emerging Euro–Africa commercial transportation corridor connected to the European mainland via the Eastern Mediterranean at the massive Chinese-run trans-shipment port in Piraeus, Greece. Piraeus's port operator China Ocean Shipping Company (COSCO) provides freight rail service that ultimately reaches Austria, the Czech Republic, Germany and Poland. By linking Piraeus' freight rail service with Egypt's rail connectivity to the booming "African Lion" economies of East Africa, Egypt and its Greek partner will become the gatekeepers of a multi-modal East Africa-to-Eastern/Central Europe corridor (see Figure 1 – blue line).

Egypt is increasing the total container capacity of its Mediterranean ports to partner with Piraeus as the dominant trans-shipment hubs in the Mediterranean basin. Similar to Piraeus, China occupies a preeminent position in both the operation of Egypt's Mediterranean ports and their capacity expansion. The majority of Egypt's foreign trade is handled by the Alexandria port and its auxiliary El Dekheila

<sup>52</sup> Arezki Benali, "Tebboune: L'usine Renault qui est ici n'a rien à voir avec celle qui est installée au Maroc", in *Algerie Eco*, 20 February 2020, <https://www.algerie-eco.com/?p=81950>.

<sup>53</sup> Peter Sigal, "Algeria's Auto Dreams Clouded by Uncertainty", in *Automotive News Europe*, Vol. 11, No. 4 (April 2020), p. 15, [https://www.nxtbook.com/nxtbooks/crain/ane\\_3495899034GGYMR/index.php?startid=15](https://www.nxtbook.com/nxtbooks/crain/ane_3495899034GGYMR/index.php?startid=15).

<sup>54</sup> AFP, "Carmaker Kia Closes Algeria Assembly Line Over Supply Disruptions", in *France 24*, 15 May, 2020, <https://www.france24.com/en/20200515-carmaker-kia-closes-algeria-assembly-line-over-supply-disruptions>.

<sup>55</sup> Boris Ngounou, "Algeria: Algerian President Aims for Electric Cars", in *Afrik 21*, 13 April 2020, <https://www.afrik21.africa/en/algeria-algerian-president-aims-for-electric-cars>.

port with a combined container capacity of 1.5 TEU. The port is run by a Hong Kong-based Hutchison Port Holdings, as a joint venture between Hutchison, the Alexandria Port Authority and Saudi Al Blagha Holdings. Hutchison is also developing a 2 million TEU Egyptian port at the nearby Abu Qir peninsula that will start operations in 2022.<sup>56</sup>

The 5.4 million TEU Suez Canal Container Terminal (SCCT) at East Port Said is owned by Dutch-based APM (55 per cent) and COSCO (20 per cent) with the remaining 25 per cent stake split among Egyptian entities and private sector participants. The SCCT services the entire Suez Canal Economic Zone mega-project, in which China is the largest investor.<sup>57</sup> Although Egypt has successfully leveraged its relationship with China to advance the development of transportation infrastructure required for the corridor, Cairo remains keen to diversify its partners to avoid an inordinate dependency on Beijing. In January 2021, Egypt announced its intent to partner with French shipping giant CMA CGM to develop an additional 1.5 TEU container facility at the Alexandria port,<sup>58</sup> reflecting the wider strategic partnership between Egypt and France in Africa.

The African segment of the eastern corridor will be primarily based on rail connectivity as Cairo has prioritised shifting its commercial transportation from road to rail.<sup>59</sup> Egypt's creation of rail connectivity with Sudan is forging a new north-south rail corridor with the White Nile countries with which Egypt is also becoming increasingly aligned, extending southward to Egypt's partner Tanzania and the other countries of the wider Lake Victoria basin. This development has been facilitated by Egypt's warming relationship with the new Sudanese government after the April 2019 ouster of former strongman President Omar al-Bashir and the multibillion-dollar support provided to Sudan's new government by Egypt's close strategic partners the UAE and Saudi Arabia.<sup>60</sup>

In October 2020, Egypt and Sudan signed a new transportation connectivity agreement that will create modern rail connections between the two countries (Figure 6).<sup>61</sup> The project's first rail link will be constructed from Egypt's southern city of Aswan to the Sudanese border town of Wadi Halfa, which presently is

<sup>56</sup> "Sisi Witnesses Signing of MoU in Abu Qir Port", in *Egypt Today*, 7 August 2019, <https://www.egypttoday.com/Article/1/73665/Sisi-witnesses-signing-of-MoU-in-Abu-Qir-Port>.

<sup>57</sup> "Spotlight: China, Egypt Join Hands to Write New Chapter of Suez Canal Development", in *Xinhua*, 18 November 2019, [http://www.xinhuanet.com/english/2019-11/18/c\\_138563688.htm](http://www.xinhuanet.com/english/2019-11/18/c_138563688.htm).

<sup>58</sup> "CMA CGM to Operate and Manage the Port of Alexandria's Future Terminal", in *Egypt Today*, 30 January 2021, <https://www.egypttoday.com/Article/1/97008/CMA-CGM-to-operate-and-manage-the-Port-of-Alexandria's>.

<sup>59</sup> Dornier Consulting, *Business Line Mobility advising Egyptian National Railways*, 16 January 2020, <https://www.dornier-consulting.com/en/business-line-mobility-advising-egyptian-national-railways>.

<sup>60</sup> Khalid Abdelaziz, "Saudi Arabia, UAE to Send \$3 Billion in Aid to Sudan", in *Reuters*, 21 April 2019, <https://reut.rs/2V5QikN>.

<sup>61</sup> "Egypt, Sudan Sign Railway Cooperation Document", in *Egypt Today*, 25 October 2020, <https://www.egypttoday.com/Article/3/93495/Egypt-Sudan-sign-railway-cooperation-document>.

the northern terminus of Sudan’s rail line from the country’s capital Khartoum. Combined with the eventual upgrade and completion of South Sudan’s rail links between its borders with Sudan and Uganda, Egypt will preside over a rail corridor that connects the growing economies of East Africa to the Eastern Mediterranean coast. With maritime connectivity from Egypt’s ports to Piraeus, Egypt will become Europe’s primary commercial gateway to eastern Africa as far as the equator.

**Figure 6** | Aswan–Wadi Halfa rail link



Source: Minty Clinch, “Along Kitchener’s route from Sudan to Egypt”, in *Financial Times*, 16 May 2014, <https://www.ft.com/content/b3a50556-d9f0-11e3-9b6a-00144feabdc0>.

China’s construction of a high-speed rail line from Egypt’s Red Sea port of Sokhna to its Mediterranean port at Alexandria will accelerate the development of the overland component of the eastern corridor (Figure 7 – red line). The 9 billion US dollars tender was awarded in September 2020 to a Sino–Egyptian consortium led by the China Civil Engineering Construction Corporation and will service the entire Suez Canal Economic Zone mega-project.<sup>62</sup> Although European firms such as Thales, Italferr and Siemens have been involved in upgrading Egypt’s rail system, China is playing the most strategic role. In parallel to the diversification of its port expansion, Cairo also inked a deal in January 2021 with the German-based Siemens AG for the construction of a 23 billion US dollars electric monorail system linking Ain Sokhna city with New Alamein City via Egypt’s new administrative capital, augmenting the Chinese construction of high-speed connectivity between the Red Sea and Egypt’s Mediterranean coast.<sup>63</sup>

<sup>62</sup> “Egyptian-Chinese Consortium Wins Bid to Construct Egypt’s First Electric High-Speed Rail”, in *Egypt Independent*, 5 September 2020, <https://egyptindependent.com/?p=2626793>.

<sup>63</sup> “Egypt, Siemens to Build EGP 360bn High-Speed Rail Network Spanning over 1,000 KM”, in *Daily News Egypt*, 14 January 2021, <https://dailynewsegypt.com/?p=748848>.

**Figure 7** | Egypt high speed rail links



Source: Nada El Sawy, "Full Speed Ahead: Rail Revamp Set to Revolutionise Travel in Egypt", in *The National*, 5 February 2021, <https://www.thenationalnews.com/mena/full-speed-ahead-rail-revamp-set-to-revolutionise-travel-in-egypt-1.1160071>.

Despite its leading role in transportation infrastructure development, China has not developed a production base in Egypt anchored in manufacturing value chains to dominate the commercial landscape, notwithstanding its participation in the Suez Canal Economic Zone. There remains a significant opportunity for Europe to assume a strategic leadership role in the development of the eastern corridor through incentivisation of European businesses to open manufacturing plants in Egypt. Already with a surplus electricity generation capacity of over 10 GW, Egypt is one of the Mediterranean nations best suited for hydrogen production. Cairo's plans for an ambitious 61 GW of installed capacity from renewable energy resources – 32 GW from photovoltaic solar power, 12 GW from concentrated solar power and 18 GW – from wind power could make Egypt one of the world's leading green hydrogen producers.<sup>64</sup>

<sup>64</sup> Michaël Tanchum, "Egypt's Prospects as an Energy Export Hub across Three Continents", in *ISPI Commentaries*, 24 September 2020, <https://www.ispionline.it/en/node/27408>.

### 3.1 Egypt's automotive manufacturing sector: An emerging EV value chain

Egypt is poised to become Africa's next automotive manufacturing centre, with the transition from assembly to component manufacturing driven by Egypt's development of an EV value chain. Since 2019, international automakers have showed renewed interest in production sites in Egypt, as reflected by the June 2019 Mercedes-Benz MoU with Cairo to resume assembly operations after a four-year production hiatus.<sup>65</sup> Egypt's major breakthrough occurred in January 2021 with Egypt's El Nasr Automotive Manufacturing Company's signing an agreement with Chinese automaker Dongfeng to jointly produce electric vehicles in Egypt.<sup>66</sup> Comprised of 55 per cent locally manufactured components, El Nasr and Dongfeng expect to bring out Egypt's first EV for sale on the Egyptian market during 2022.

Prior to the El Nasr–Dongfeng EV production deal, Egypt had already put into place a programme for the development of the required charging infrastructure, also with the help of Chinese investment. In October 2019, Egypt's Ministry of Military Production signed an MoU with China's SSE company to establish a factory to locally produce electric vehicle charging stations.<sup>67</sup> The charging station manufacturing agreement was spurred by an earlier agreement with China's Foton Motor to produce 2,000 electric buses over four years at the Egyptian military owned Tank Production and Repair Company.<sup>68</sup>

Egypt has embarked on a charging station installation programme through the Egyptian firms Revolta and Infinity Energy, the latter of which received a 60 million US dollars investment from the European Bank for Reconstruction and Development (EBRD), which has become an equity shareholder.<sup>69</sup> The EBRD's investment was conducted in parallel to the signing of a joint venture agreement between Infinity Energy and the UAE-based clean energy company Masdar, under which Masdar will invest in Infinity Energy's renewable energy assets and partner in future renewable energy projects.<sup>70</sup>

<sup>65</sup> David Whitehouse, "Nissan Africa Chief Says Egypt Can Become an Automotive Hub", in *The Africa Report*, 18 December 2020, <https://www.theafricareport.com/55683>.

<sup>66</sup> "Egypt Signs Framework Agreement with China's Dongfeng to Produce Electric Cars", in *Ahram Online*, 18 January 2021, <https://english.ahram.org.eg/News/399091.aspx>.

<sup>67</sup> "Egyptian, Chinese Companies to Manufacture Electric Vehicle Charging Stations", in *Xinhua*, 2 October 2019, [http://www.xinhuanet.com/english/2019-10/02/c\\_138444389.htm](http://www.xinhuanet.com/english/2019-10/02/c_138444389.htm).

<sup>68</sup> Hanan Mohamed, "Into Egypt's Automotive Market", in *Egypt Today*, 12 March 2020, <https://www.egypttoday.com/Article/3/82521/Into-Egypt-s-automotive-market>.

<sup>69</sup> European Bank for Reconstruction and Development (EBRD), *EBRD Becomes Shareholder in Egypt's Infinity Energy*, 15 January 2020, <https://www.ebrd.com/news/2020/ebrd-becomes-shareholder-in-egypts-infinity-energy.html>.

<sup>70</sup> Ibid.

### 3.2 The Egypt–Greece partnership – An opportunity for the EU

Egypt's advances in green energy parallel developments in Greece. In December 2020, the German-based electric vehicle manufacturer Next.e.Go Mobile signed an agreement to establish an EV manufacturing plant in Greece as a joint venture with the state agency Enterprise Greece, investing over 100 million euro.<sup>71</sup> A month prior, Volkswagen Group signed an agreement with Greece to transition the entire island of Astypalaia to renewable power generation and electric vehicles, investing approximately 20 million euro.<sup>72</sup> These ventures follow the success of the EU-funded Tilos Project,<sup>73</sup> inaugurated in 2015, in which the Greek renewable energy developer Eunice Energy Group is converting the island of Tilos into an autonomous green energy zone in the Mediterranean powered entirely with state-of-the-art batteries recharged by wind and solar power.<sup>74</sup>

The potential synergies between green economy investments in Egypt and Greece afford the EU system a strategic opportunity to develop a significant role in shaping the eastern corridor by facilitating multilateral ventures involving both actors that will help green economy value chain integration. Greece–Italy commercial relations also carry great potential to advance the EU's green energy approach to trans-Mediterranean connectivity, provided Rome's willingness to engage Athens as a joint venture partner. Germany is positioned to play a constructive role in facilitating closer coordination between Greece, Italy other member states and European firms to make joint investments on a strategically significant scale in manufacturing facilities utilising the Greece–Egypt partnership.

Despite the Covid-19 pandemic, Egypt's finance ministry forecasts that the Egyptian economy will grow by 3.3 per cent in fiscal year 2020–21. The IMF's June 2020 staff-level agreement with Egypt on a 5.2 billion US dollars stand-by arrangement to offset Covid-19's adverse economic impact will help ensure that Egypt's corridor development maintains momentum. Additionally, the Egypt–IMF agreement was bolstered by a subsequent 2 billion US dollars loan coordinated by UAE-based lenders Emirates NBD Capital and First Abu Dhabi Bank.<sup>75</sup> Egypt's large labour supply and consumer market, along with its ample energy resources, may

<sup>71</sup> Anna Wichmann, "Automobile Giant to Build Electric Cars in Greece", in *Greek Reporter*, 16 December 2020, <https://greekreporter.com/?p=619713>.

<sup>72</sup> Volkswagen, *Volkswagen Group and Greece to Create Model Island for Climate-Neutral Mobility*, 4 November 2020, <https://www.volkswagenag.com/en/news/2020/11/volkswagen-group-and-greece-to-create-model-island-for-climate-n.html>; Maurits Kuypers, "Volkswagen Transforms Greek Island into a Model for Electromobility", in *Innovation Origins*, 9 November 2020, <https://innovationorigins.com/?p=255688>.

<sup>73</sup> Innovation and Networks Executive Agency (INEA) website: *Technology Innovation for the Local Scale, Optimum Integration of Battery Energy Storage*, <https://ec.europa.eu/inea/en/node/2899>.

<sup>74</sup> Iliana Mier, "Renewable Resort: Greek Island to Run on Wind, Solar Power", in *AP News*, 19 August 2018, <https://apnews.com/article/ap-top-news-european-commission-solar-power-international-news-science-22e5eea66f00429d8fc94e5fa8688bc6>.

<sup>75</sup> "Egypt Signs \$2 Bln Loan with Regional, International Banks –Statement", in *Reuters*, 31 August 2020, <https://www.reuters.com/article/ozabs-uk-egypt-economy-loan-idAFKBN25R1H2-OZABS>.

make the eastern corridor the most attractive investment among the three trans-Mediterranean corridors.

## Conclusion

Africa's large supply of affordable land and labour in combination with its expanding yet under-served urban consumers markets make the continent a primary locus of global economic growth. International companies are increasingly scrambling to locate more of their operations in Africa, a trend that will accelerate with the shortening of supply chains in post-Covid economies and the recent launching of the African Continental Free Trade Area.

The North African nations of Morocco, Algeria and Egypt are the geopolitical gatekeepers of the emerging trans-Mediterranean connectivity consisting of three Europe–Africa corridors: Morocco's West Africa–Western Europe corridor, an Algeria-anchored Central Maghreb corridor and an Egypt-based East Africa–Eastern/Central Europe corridor via the Eastern Mediterranean. The lack of EU partnerships with these North African nations on a strategically significant scale will likely result in trans-Mediterranean connectivity that neither represents European priorities nor serves Europe's interests.

In the absence of coherent EU policy to incentivise EU cooperation in partnering with North African nations, leading EU member states will partner with actors outside the Union to create Europe–Africa corridors. Instead of reflecting a European consensus, the emerging architecture of Europe–Africa corridors will widen divides among the six Mediterranean member states of the Union as well as exacerbating geopolitical fault lines across North Africa itself.

The EU should pursue its aspirations in North Africa through European investments in trans-Mediterranean connectivity, on a strategically significant scale, to create local manufacturing that participates in European value chains. Any space left by the EU in the development of trans-Mediterranean connectivity will be filled by China, Russia, Turkey and the GCC states, potentially introducing rule-sets and business practices antithetical to EU values and standards. The emergence of non-European-led manufacturing value chains anchored in North Africa would reconfigure trans-Mediterranean commercial relations, reducing the EU's economic and political clout in its southern neighbourhood.

Automotive manufacturing is one of the key growth sectors for each of the three trans-Mediterranean corridors connectivity. The EU should promote the objectives of the European green deal to combat climate change and encourage sustainable development by incentivising European electric vehicle and charging station manufacturers to open production facilities in Morocco, Algeria or Egypt and to directly employ local workforce in these plants. North African countries are expanding their power production capacity from renewable resources. The

EU should take the lead in developing the newly emerging trans-Mediterranean hydrogen geographies by incentivising European–African joint ventures to produce hydrogen from renewable energy resources in each of the three corridors. The EU should similarly facilitate the local manufacturing of solar panels and other components used in solar power generation.

Better coordination among EU Mediterranean nations – particularly France, Italy, Spain and Greece – is a paramount prerequisite for the EU’s North African outreach. In the western and central corridors, increased Franco–Italian–Spanish coordination is of particular salience as is Franco–Italian–Greek coordination in the eastern corridor. Germany, Europe’s leading manufacturer and exporter whose firms maintain significant North African investments, can play a constructive role as a bridge partner for coordination through multilateral ventures or through EU institutions.

For Europe to maintain its premier position in the western corridor, European countries and firms will need to continue investments in Morocco’s developing industrial base. The current pause in foreign manufacturing investments in Algeria endanger the corridor’s development, leaving Algeria – and Tunisia along with it – isolated and economically vulnerable. The anticipated resumption of large-scale Chinese investment could fundamentally re-orient the central corridor, anchoring it in the BRI framework. In addition to facilitating manufacturing investments in Algeria, the EU should also develop the synergies between the western and central corridors, encouraging commercial connectivity between Algeria and Morocco and even promoting joint ventures as a way of reframing the context of interaction between Algiers and Rabat.

As the Egypt-based eastern corridor develops into one of the most important components of the new trans-Mediterranean architecture, the already deeply entrenched positions of China, Russia and several Arab Gulf states show the urgent need for EU involvement to promote European priorities and ensure European interests. Egypt’s macroeconomic growth, despite the pandemic, combined with robust Chinese and GCC investment is propelling the eastern corridor’s accelerating development. Fundamentally, the EU needs to facilitate France and Italy’s cooperation with Greece and ensure Europe’s role in the eastern corridor. In this regard, Germany’s investments in Greece’s emerging green innovation economy could provide a platform for wider EU system coordination. Greater European involvement in the eastern corridor’s green innovation economy could provide the EU with a wider platform with which to engage Turkey and reset Turkey’s relations with the Union and its Eastern Mediterranean neighbours by encouraging regional stakeholder interest through trans-Mediterranean, multilateral joint ventures.

The implementation of a robust partnership between the European Union and North Africa that produces Europe–Africa value chains will result in trans-regional architectures of commercial connectivity that reflect the Union’s five partnerships framework. Benefitting the nations on both sides of the Mediterranean, robust

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European engagement in the development trans-Mediterranean value chains would accelerate both post-Covid-19 economic recovery and the creation of environmentally sustainable, long-term economic growth.

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