# Economy

# Algeria leans on France to develop domestic automobile industry

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The Algerian government is turning to French carmakers for support in expanding its domestic automobile industry as it competes with neighbouring Morocco in the trade.

Algerian officials are putting pressure on France to further integrate car assembly lines into the local economy. French Firm Renault has been operating in Algeria for two years.

On November 12, the French car and motorcycle manufacturer Peugeot Citroen PSA announced it would invest 100 million euros ($117 million) to build a factory in the western city of Oran.

The plant is expected to begin operations in 2018 and produce 75,000 cars annually once it reaches full capacity.

PSA also announced plans to set up a "car academy" in Algeria to train Algerian workers and technicians.

The announcements were made at a joint ministerial meeting in Algiers on November 12, during which both countries affirmed their commitment to economic cooperation.

The day before the meeting, the Algeria Patriotique newspaper, the unofficial mouthpiece of the Foreign Ministry, quoted unnamed Algerian officials as saying that "Algeria has decided to bang its fists on the table to signal to France our dissatisfaction."

"French investors must do serious work here if they want to preserve their business interests in Algeria. This is the case for Peugeot, which must build an assembly line here. Otherwise, Peugeot will lose its Algerian market," the newspaper reported an official saying. "For its part, Renault must expand its production, which is now lower than the local market needs."

In 2014, Renault began operations in Oran, but the plant has produced less than half of the 75,000 vehicles planned per year.

France has shown more interest in Morocco as a hub for producing and exporting vehicles.

In 2015, Peugeot Citroen signed a deal with Rabat to build a plant in the northern city of Kenitra.

The $632 million plant, likely to be operational by 2019, is expected to produce 200,000 vehicles per year and create 3,500 jobs.

Peugeot will use the Moroccan plant as a launching pad for regional expansion, following in the footsteps of rival Renault, which recently topped 1 million vehicles produced from its Moroccan plants in Tangier and Casablanca.

The Rabat government aims to increase industrial contribution to GDP from 16% to 20% by 2030 and create about 500,000 jobs in the same period.

While Algeria has yet to match Morocco in trade incentives, authorities have leveraged the country's huge domestic market, currently dominated by Renault and Peugeot, and the two countries' bilateral trade of around $8 billion per year.

Algiers' plan to increase French direct investments is part of a bold scheme to rebuild its manufacturing industry, which shrank from 10% of GDP in the 1980s to less than 3% this year.

Previous attempts to develop an industrial sector in Algeria have been hampered by decades of political instability and violent uprisings by Islamist jihadists.

In the 1970s, Algerian President Houari Boumediene put forward an ambitious plan to invest oil money in the manufacturing sector. In the 1980s, however, the country was forced to prioritise security spending during a decade-long civil war that cost an estimated $20 billion.

**High demand.** An employee works on a van as it moves along the assembly line at Peugeot Citroen PSA Sevelnord carmaker factory in Hordain in northern France. (Reuters)

As oil prices rose in the years leading up to 2014, Algeria took in more imports, further straining its local manufacturing sector.

In 2014, Algeria ranked as the Maghreb's largest market for cars, bringing in about 40,000. It plans to import 50,000 units in 2017.

But with oil prices declining in recent years, Algeria's auto imports have dropped from $2 billion in 2015 to an estimated $1.3 billion in 2016 to a projected $900 million this year.

With high demand, however, Algeria is viewing its auto industry as a prime place to start for building up the manufacturing industry.

Some, however, have noted that Algeria lacks the right industrial environment to ensure the long-term success of a domestic car industry.

"The Algerian economy produces nothing outside of hydrocarbons," said Algerian economist Abdelatif Benachenhou, noting that the population still enjoys living standards similar to those in most developed countries thanks to oil exports.

In August, Algeria's then Industry and Mines Minister Mahdjoub Bedda said the domestic industry was merely "disguised imports."

He promised to "put an end to the current model," which was based on automobile assembly.

His successor, Youcef Yousfi, said he would release details of the "new model" in the next few days, adding that about 30 car manufacturers from across the world want to launch ventures in Algeria.

Increasing French direct investment in Algeria, including in car manufacturing, remains Algeria's economic priority.

Algerian officials said the topic will be among the main issues discussed when French President Emmanuel Macron visits Algiers December 6.

Viewpoint

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# By going back on VAT agreement, Qatar is only hurting itself

In early January, four Arab Gulf countries are expected to implement the value added tax (VAT). The UAE and Saudi Arabia were the first to approve VAT implementation regulations last September, while Oman's Consultative Assembly approved them November 15. Kuwait's VAT bill is still under consideration in its National Assembly.

While five Gulf Cooperation Council countries have remained committed to introducing the VAT, Qatar has announced that it will not implement the tax, despite having signed onto the GCC Unified VAT Agreement.

By reneging on the accord, the Qatari regime is once again pushing its country into being the odd man out in a united region, where cooperation on economic matters has always been regarded as a priority.

Qatar's latest attempt to disrupt the implementation of a GCC agreement comes as no surprise given its policies over the last few years. It is the third common agreement that Qatar has failed to uphold in that time.

On November 23, 2013, GCC countries signed the Riyadh Agreement, a document stipulating that members would avoid interfering in the internal affairs of other Gulf countries and barring the provision of financial or political support to "deviant" groups. The agreement specifically names the Muslim Brotherhood and Yemeni opposition factions as groups not to support. Doha, of course, flatly disregarded the agreement and failed to live up to its commitments.

A second agreement, dated November 16, 2014, called on signatories to support Egypt's stability and avoid using the Doha-based Al Jazeera media network as a platform for challenging the Egyptian government. Qatar, however, acted as if the recommendations of the second agreement never existed

The implementation of the VAT is in line with a recommendation by the International Monetary Fund for Gulf states to impose revenue-raising measures, including excise and value added taxes, to help adjust to lower crude oil prices, which have slowed regional growth. The GCC countries have already agreed to implement selective taxes on tobacco as well as soft drinks and energy drinks this year.

Though it previously approved the VAT agreement, Qatar is now claiming it does not want to further burden consumers. Such a claim not only underscores Qatar's duplicity but shows that the country is trying to emotionally manipulate people in the Gulf.

According to economy experts, the VAT is expected to generate significant outcomes, resulting in greater stability for Gulf economies and increased stability of state budgets. It also builds on the successes of others: Since 1967, when the first VAT directive was adopted in Europe, the model has proven to be somewhat successful, with it playing a key role in the European Single Market.

The system was designed to do away with turnover taxes, which can distort competition and hinder the free movement of goods, and to remove fiscal checks and formalities at internal borders. Over the years, VAT has proved to be a major and growing source of revenue for the European Union, raising more than $1.18 trillion in 2015, equal to 7% of EU GDP. One of the European Union's own resources is also based on VAT, which, as a consumption tax, is one of the most growth-friendly forms of taxation.

Qatar's latest move does not emanate from its concerns about consumers' well-being given that the tax rate is relatively low (5%). It is a futile attempt to hinder the implementation of the VAT, not a well-thought-out economic decision.

Now, who will be the biggest loser?

Eventually, Doha will feel the economic losses. The gap between Qatar's financial systems and the rest of the Gulf's will continue to grow, with Doha lagging sorely behind in enacting much-needed financial reforms. In the meantime, other Gulf countries will move forward.

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## Briefs

### Monetary impact of Lebanon crisis limited

Lebanon's central bank governor Riad Salameh said November 23 that the monetary impact of a political crisis in Lebanon was limited and there was monetary stability.

Salameh was speaking at the Annual Arab Banking Conference in Beirut a day after Lebanese Prime Minister Saad Hariri shelved his decision to resign, easing the political crisis.

(Reuters)

### Turkish lira tumbles to record low

The Turkish lira hit a record low on November 22 and local bond yields rose to fresh peaks on political strains and worries about the central bank's ability to curb inflation.

The lira hit 3.98 against the dollar, coming under renewed pressure ahead of the US trial of Turkish gold trader Reza Zarrab, who is accused of violating US sanctions on Iran. The Turkish government has described the case as a "clear plot against Turkey" that lacks any legal basis.

Foreign investors, which Turkey needs to finance its large budget and current account deficits, are also concerned about political pressure on the central bank, which is struggling to tame high inflation.

(Reuters)

### Iran pushes to retain Asia oil buyers as possible US sanctions loom

Iran is pushing to retain customers for its oil in Asia, hoping that price reductions will boost the appeal of its crude compared with other Middle Eastern supply even as the potential threat of further US sanctions on the country looms.

The National Iranian Oil Company (NIOC) has in the last few weeks offered spot cargoes, ranging from light to heavy grades, to its term buyers in Asia, after setting December prices at the lowest in years against comparable Saudi grades, three sources with knowledge of the matter said.

The sources declined to be identified as they were not authorised to speak with media, while NIOC was not immediately available for comment.

(Reuters)

### Qatar lobbies WTO without support

Qatar took the final step on November 22 to start litigation at the World Trade Organisation in its row with the United Arab Emirates, but no other WTO members supported its move, which many trade experts see as a dangerous precedent.

The UAE was one of four countries – along with Saudi Arabia, Bahrain and Egypt – that cut ties with Qatar, a major gas supplier and site of the biggest US military base in the Middle East, on June 5. They accused Qatar of financing militant groups in Syria and allying with Iran, their regional foe.

(Reuters)