

74 How will Algeria reinvent itself ?

JULY
2013

Francis Ghilès, Senior Researcher (CIDOB)

Algeria will have to reinvent itself to meet the challenges it will face on the departure from the scene of President Abdelaziz Bouteflika who has ruled Africa's largest country since 1999. The country sees itself as a regional powerhouse in the Maghreb but also in the broader Arab, African and developing worlds. This attitude has not changed since its hard won independence from France half a century ago. A former head of France's external security (DGSE) calls Algeria "the key to the future stability of North West Africa and the Western Mediterranean". Yet, despite the unprecedented turmoil surrounding it since the Arab Spring, it has been reluctant to flex its muscle. Political leaders in the US, Europe and the Arab world are conscious of the need to engage the country. They are frustrated by what they see as its lack of vision and willingness to engage more

fully with foreign partners. President Bouteflika's attempts to reinvigorate his country's foreign policy after he came to power in 1999, following eight years of international isolation, have paid off. Yet Algerian views today command less attention than before. In the 1970s President Houari Boumediene was a key player in the Non Aligned Movement. In the early 1980s President Chadli Bendjedid helped secure the release of the US hostages held in Tehran.

Algeria defies two trends in the Arab world

Two and a half years into the Arab spring, the Algerian regime finds itself in a remarkable position, having defied two trends that dominate the debates on the region. "It has bucked the larger trend affecting Arab republican regimes: protests from the streets have not coalesced into widespread popular calls for regime change. Second, the Islamist

Algeria will have to reinvent itself to meet the challenges it will face on the departure from the scene of President Abdelaziz Bouteflika who has ruled Africa's largest country since 1999. The country sees itself as a regional powerhouse in the Maghreb but also in the broader Arab, African and developing worlds. This attitude has not changed since its hard won independence from France half a century ago.

Throughout the history of Sonatrach, two broad policy rules have guided long term policy planning in hydrocarbons. Algeria would not enter into any new export commitment without the equivalent volume of proven reserves being found; furthermore when any new export commitments were entered into, its authors had to ensure that 35 years worth of domestic consumption were built into the model.

The opaque elite of military, security and business interests which dominate much decision making in Algeria has jealously guarded its turf from encroachment, often holding back a healthy but small private sector. An antiquated and state dominated banking system has provided a key tool for keeping power in the hands of a few: it pumps money into state enterprises and subsidises some companies by up to 40% according to the International Monetary Fund.

While the uncertainty about the future course of political events is palpable, the one thing that all Algerians are sure of is that they want no more war. The current uncertainty in North West Africa would pale by comparison with the havoc any return to Sinin al-irhab in Algeria would bring. French and American leaders have indicated their preference for a semi-open contest between candidates with different views and but are well aware that public admonishing of democracy serves no useful purpose.

The deep instincts of 35 million resilient Berber and Arab men and women and a group of powerful officers and DRS elders will decide who runs Africa's largest country in the coming years. Contrary to the fears of conspiracy theorists and those who claim to know how the inner mechanisms of the regime function, a worst case scenario is not necessarily the most likely.

establishment has been unable to convert regional Islamist electoral victories into local victory.”¹

Collectively, the Islamist parties won 27% of parliamentary seats in 1997, a figure which dropped to 21% in 2002 and 16% last year. Far from sharing the popular mystique the Muslim Brothers or En Nahda had over the electorate in Egypt or Tunisia, Algeria’s Islamists are widely viewed as stakeholders in a system which is “not a dictatorship and (...) not monolithic but (despite) the multiplication of political parties (has not) delivered a transition from the top-down rule of bureaucratic technocracy to one of real political alternatives arbitrated by sovereign popular decisions.”² Elections allow a periodic redistribution of seats among major stakeholders. In other words, the bustle of visible political activity and what goes on backstage are two different political phenomena which seldom intersect.

Algeria’s recent history needs to be recalled as one tries to di-

All the more galling was that the civil war erupted after two years of bold economic reforms. Had they succeeded, they would have thoroughly modernised the management of what was a tight command economy, would have entrenched freedom of opinion and would have brought in a measure of political pluralism. This failure was first and foremost the consequence of bitter fighting within the Algerian leadership

vine Algeria’s future. It explains many features of the country’s economic and political situation and the behaviour of its leaders. Algeria’s army and security forces won a brutal civil war in the 1990s against Islamist forces. Well over 100,000 people were killed, over 17,000 disappeared and hundreds of thousands of the country’s best educated fled the country. *Sinin al-irhab* (the years of terrorism) left bitter memories. All the more galling was that the civil war erupted after two years of bold economic reforms. Had they succeeded, they would have thoroughly modernised the management of what was a tight command economy, would have entrenched freedom of opinion and would have brought in a measure of political pluralism. This failure was first and foremost the consequence of bitter fighting within the Algerian leadership. But French hostility to the reformers did not help. The European Union (EU), which until recently delegated its Algeria policy to France did nothing to help either³. France’s political and

military establishment still thinks of Algeria as its special reserve, its *chasse gardée*. Other EU member states such as Spain, the UK and Germany no longer fear to step on French toes. Abdelaziz Bouteflika’s insistence on the need to diversify partners with Europe and beyond is paying dividends.

Algeria is the world’s fifth largest producer of natural gas and the third largest supplier to the EU after Russia and Norway. This asymmetric interdependence has resulted in the sense that the EU needed Algeria more than Algeria needed the EU. But changing gas market conditions in Europe and the rapid rise in US domestic production of gas have put the state company Sonatrach and other gas suppliers to the EU such as Russia’s Gazprom in a more defensive position. Its pride has been dented. It feels that France failed to acknowledge its historical crimes and the EU failed to recognise its regional and geopolitical importance. Algeria has, for reasons of its perceived self interest and national pride, shown much less enthusiasm than neighbouring Tunisia and Morocco for

signing up to EU policies in the region. Falling gas sales to key European customers, fast rising consumption of energy in Algeria and the damage to the country’s reputation from the terrorist attack on the gas field of In Amenas in January 2013 have weakened the hand of the state oil company, Sonatrach. The company was already struggling from the fall out of a major corruption scandal. This, in 2010, led to the purge of several senior managers and the eventual dismissal of minister of en-

ergy Chakib Khelil, a close ally of the head of state and the brain drain of any of its engineers who went off to better jobs in the Gulf. The cost of doing business in Algeria has risen. The recent arrest of senior executives at the state gas company, Sonelgaz, will do nothing to improve Algeria’s image internationally.

Throughout the history of Sonatrach, two broad policy rules have guided long term policy planning in hydrocarbons. Algeria would not enter into any new export commitment without the equivalent volume of proven reserves being found; furthermore when any new export commitments were entered into, its authors had to ensure that 35 years worth of domestic consumption were built into the model. Aggressive policy depletion was to be avoided at all costs. These rules were nearly discarded with the Vallyd Plan in 1977 and the attempt to sell the major oil field of Hassi Messaoud in 1991 to foreign companies. In both these cases those in Algeria who favoured a policy of maximum production of oil and gas were strongly supported by US oil and gas interests. The third attempt to maximise production, encouraged as in 1977 by the US, failed in 2005 with the King of Saudi Arabia and the Russian head of state lobbying hard against. They argued the draft law of Chakib Khelil, a close ally and business partner of US vice President, Dick Cheney, would

1. *Algeria and the Arab Spring*, Robert Parks in *The Arab Spring: Will it lead to Democratic Transitions?* Clement M. Henry and Jang Ji-Hyang (eds), Ansan Institute for Policy Studies, Seoul, South Korea 2012.

2. *After the War: Algeria’s transition to Uncertainty*, James McDougall, Middle East Report 245 (Winter 2007)

3. *L’Armée Algérienne a-t-elle une politique économique?* Francis Ghilès, Pouvoirs, Automne 1998.

give US companies too easy access to the country's hydrocarbons reserves.⁴

Algerian capitalism has grown vigorously under Abdelaziz Bouteflika. However, the economic system functions according to a logic which does not fit neatly into neo-liberal categories but is no less effective for that. The rise and fall of Rafic Khalifa who began with a pharmacy and a modest Euros 1,500 in the mid 1990s, moved on to own a bank, a TV station and in 1999, an airline, Khalifa Airways symbolises the rough and tumble quality of part of Algerian capitalism. The Khalifa group, which cleared Euros200m in profit, collapsed in 2003 with \$45m missing from its flagship private bank. Such a story is hardly surprising in an economy where an estimated one third of money circulates outside the banking system and the informal commercial sector accounts for a similar proportion. The many trials for corruption and large cost overruns on major projects all speak of a rise in high level corruption and absence of long term economic strategy. These need to be addressed if Algeria has any hope of improving its ranking of 105th in the annual Transparency International Perception of Corruption index.

The opaque elite of military, security and business interests which dominate much decision making in Algeria has jealously guarded its turf from encroachment, often holding back a healthy but small private sector. An antiquated and state dominated banking system has provided a key tool for keeping power in the hands of a few: it pumps money into state enterprises and subsidises some companies by up to 40% according to the International Monetary Fund. More than a third of all public bank loans are non-performing. Yet young entrepreneurs who are not well connected find it impossible to get bank loans. Massive handouts of public money secure social peace. And they fail to address the question of unemployment - which among the young is officially recorded at 21.5% but which some analysts put much higher.

The ingredients for unrest and upheaval are clearly present. This is why many pundits predicted that Algeria would fall like a domino to the Arab spring. "A deep sense of *al-hogra* (government contempt towards the population) is widely felt among ordinary people; corruption is said to benefit the few, the promised political opening of the late 1980s ended in a failed transition, a coup d'état and civil war have failed to bring about the explosion so many pundits took for granted" (1). By the time Ben Ali fled Tunisia, riots by young people had spread to nearly half of Algeria's *wilayas* (provinces). Yet when the former Islamic Salvation Front's deputy leader Ali Belhadj attempted to mobilise young people in the Bab el Oued neighbourhood of Algiers, he was stoned and chased

away. "We are not sheep of our parent's herd" young protesters shouted at him. The authorities meanwhile made sure that on a number of occasions police officers were ordered to hand in their firearms into their local police stations before the protests. There were no serious casualties.

Algeria's role in the Arab spring

Algeria, however, played a central role in the Arab spring. Many observers fail to grasp that "In many ways, the Arab spring was incubated in Algeria. In the discourse of protest, in rap music, in roiling protests that spike and become regional every few years, Algerian youth created much of the narrative and language of protest that spread across the North African region in 2010 and 2011."⁵ Young Algerians were also among the first to create the spirit of reconciliation of the Arab spring. This spirit sought to break down what young people viewed as regime-engendered divisions between Is-

An antiquated and state dominated banking system has provided a key tool for keeping power in the hands of a few: it pumps money into state enterprises and subsidises some companies by up to 40% according to the International Monetary Fund

lamists and non-Islamists, between leftists and liberals, between men and women. Arab spring protests that began in Tunisia with a somewhat Algerian songbook quickly spread back to Algeria, which then saw more self-immolations than any other Arab country, including Tunisia.

There are several reasons why young Algerians did not continue to rebel en masse. These include the regime's ability to buy social peace; the fact that the country's Arab spring had occurred in 1988-1991 and led to civil war; widespread fear about another lurch to extreme versions of political Islam; and the ferocity of the military. The complete lack of trust in political parties and all state institutions among young people may explain why anti-riot police were deployed to quell 10,019 disturbances in 2011 according to the Director General of the Algerian Police, General Abdelghani. Hamel The countrywide confrontation of January 4-10 2011 quickly dissipated. A keen observer of the Algerian scene has characterised the situation as 'tribalism without tribes'⁶. Shared political and social grievances abound but there is a noteworthy absence of "clearly articulated groups (i.e. political parties and civil society)". This fragmentation must be set against the broader canvas of a progressive weakening of the legislative branch since 1999. Lacking teeth and controlled by pro-regime parties, this has lost what little credibility it ever

4. *Algerian gas faces three challenges*, Francis Ghilès, Middle East Economic Survey, 01 March 2013 and *AHEAD OF SPRING IN ALGERIA: Tough Energy and Economic Challenges Await*, Francis Ghilès, CIDOB, Notes internationaux 32, May 2011.

5. William Lawrence, North Africa Project director of International Crisis Group in a conversation with the author.

6. *A l'ombre de l'autoritarisme. Ethnographie de l'Algérie contemporaine*, Mohammed Hachemaoui, Paris Khartala 2012.

had. Participation in legislative elections has plummeted from two thirds of those entitled to vote in 1997 to one third in 2007 and less than a fifth last year.

The second trend in the Arab world which Algeria defied is that, unlike in Egypt and Tunisia, the Islamist parties failed to capture the Arab spring. In the general election in May 2012, the combined Islamist bloc won 61 seats in the new parliament, one more than in 2007, but with an overall loss of close to three per cent of the total parliamentary vote. The policy of measured political Islamist inclusion and limited but symbolic (and lucrative) power sharing adopted by the regime has bred dissonance among and within the Islamist parties. Some of those who have held ministerial portfolios have been caught up in accusations of corruption. Inclusion in the political system has resulted in a proliferation of Islamist parties which have been divided as a result but moderated overall. Many of them share the discredit of other political parties – in Oran, the capital of western Algeria, the beard is often sarcastically referred to as

A broader regional conclusion can be drawn from the recent history of Islamist parties in Algeria. Recent events in Egypt suggest if Islamists parties are unable to address the aspirations of their own citizens – finding solutions to basic demands – they too might find they are part of the problem, hardly the solution.

a ‘commercial register’. A broader regional conclusion can be drawn from the recent history of Islamist parties in Algeria. Recent events in Egypt suggest if Islamists parties are unable to address the aspirations of their own citizens – finding solutions to basic demands – they too might find they are part of the problem, hardly the solution.

Bold economic reforms are unavoidable.

On superficial reading, the first decade of the new millennium brought plenty of good news for the Algerian economy. Gross Domestic Product increased at an annual average of 3.7%. Real GDP per head rose by more than a fifth. Poverty is widespread and Algerians spend an estimated 50% of their household budget on foodstuffs. The cost of housing is prohibitive as wave after wave of speculative building destroy the fragile Mediterranean environment of cities like Algiers and Oran. Buoyed by a favourable macro-economic environment marked by high oil and gas prices, very conservative fiscal policies have resulted in large fiscal surpluses, foreign reserves of 190bn as of December 2012 and the paying off of the country’s foreign debt. Agricultural production has risen as terrorism in most areas has for all intents and purposes disappeared. Long term leases have become more readily available. New motorways, hospitals, conference centres, airports and university building bear witness to a construction boom which has, predictably left a trail of corruption and over-pricing in its wake.

Bare statistics do not tell the whole story however. Subsidising everything from foodstuffs to energy only feeds corruption and waste: one quarter of the 265m litres of petrol Algeria produces every year is sold illegally in neighbouring Tunisia and Morocco according to the Minister of the Interior, Dahoul Kablia. The government gives foreign investors a hard time. Many French, Spanish, German, Japanese and US companies operate in Algeria. But opportunities for investment to create more jobs would soar if the regulatory environment were to be made attractive. For example, the relaxation of the rule which obliges an Algerian to hold 51% of the shares of any joint venture would encourage investment. Bureaucrats should be actively encouraging private investors, be they Algerian or foreign, as partners. The requirement in whole sectors of activity for the patronage of senior members of the elite puts a brake on investment and encourages cronyism of the worst kind. As Algeria opens up to the global economy, the already highly unequal distribution of benefits has been sharpened.

The lack of strategic economic thinking is glaring. Even senior Algerians bemoan the absence of any serious think tank in the country. Why does Algeria not set up a sovereign wealth fund and, as suggested by the former governor of the central bank, Abderrahmane Hadj Nacer, empower it to take stakes in foreign companies such as Peugeot and Volvo whose

activities are deployed in industrial sectors Algeria wishes to develop? The absence of strategic thinking which has characterised Algerian leadership in recent years must not be taken to mean nobody in the country is interested in the future. A group of private sector entrepreneurs and former state company and government officials earlier this year published a very lucid analysis of what they regard as their country’s poor economic performance. For the anonymous – but in Algiers well known authors of *Enseignements et Vision pour l’Algérie de 2020*, “the idea of a perpetual rent, that might isolate Algeria from international competition and protect it against future challenges such as climate change, the environment and the growing shortage of resources is nothing more than a mirage.”⁷ They express alarm at the decline of industrial production. It fell from 20% of GDP in 1986 to less than 6% in 2011 – compared with an average of 25 to 35% in fast growing emerging economies.

More worrying still is the need to avoid the “Egypt syndrome” where natural gas policy is concerned. Surely policy makers in Algeria realise that, without major policy changes, production of gas cannot keep up with fast-growing domestic demand fuelled by massive and unaffordable subsidies. As a former senior official at the ministry of energy in Algeria

7. *Cinquantenaire de l’Indépendance: Enseignements et Vision pour l’Algérie de 2020*, Rapport Notre Algérie Bâtie sur de Nouvelles Idées (NABNI) Janvier 2013.

and long term analyst of the oil and gas trends worldwide Ali Aissaoui worries that “so far domestic gas prices, which are regulated and strongly influenced by the country’s political economy, have been founded on the obsolete premise of trivial cost. They are passed through into very low – frozen for long periods of time – tariffs to industry and gas and electricity utility customers. Over time, this policy has increased the risk of unsustainable consumption patterns, already manifest in the way domestic demand is strengthening to the detriment of exports.”⁸ Marketed production increased strongly until the end of the 1990s, crept to a plateau of 88 billion cubic metres (bcm) in 2006 and since trended down to 82bcm in 2012. Sonatrach’s exports have contracted more rapidly than domestic demand is contracting. Indeed, while exports declined by 15bcm since 2006, domestic consumption increased by 10bcm. Lower gross production and lower volumes of gas re-injected “suggests that, notwithstanding additional volumes during the last decade...production has at best reached a plateau, probably as a result of mature fields, chief among them Hassi R’Mel, depleting faster than commonly assumed.” Algeria’s leaders will have to address the political expediency and policy-making inertia head on to avoid the most pessimistic scenario becoming reality: unless the current decline in oil and gas production is halted by important new discoveries, Algeria might by exporting only half its current volume of oil and gas by 2030. This suggests a decline of 2% a year by 2015 and 4% between 2020 and 2025, accelerating to 7% thereafter.

The existing system of governance in Algeria has been able to reabsorb most of the Islamic political constituency and manage the country’s recent history by feigning to have forgotten about it. As the great figures of the revolution fade into history, as the old unifying revolutionary project loses legitimacy, continued state control cannot provide long term answers to the challenges the country faces. Algeria’s civil society is combative indeed, the raw energy of its young people only too obvious to any visitor to Algeria. The sharp wit of its private entrepreneurs is there for all to hear. This complex and complexed country “thus displays the frightening fragility as well as the remarkable resilience of the system that has inherited the sideways slide from single-party authoritarianism of two decades ago to the less easily categorized, but certainly no more democratic, dispensation which prevails today.” It is a highly politicised society as witnessed by the print run of its leading dailies: around 450,000 for the two Arabic language dailies, Chourouk and El Khabar, 160,000 and 120,000 respectively for the French language El Watan and Le Quotidien d’Oran. All of these contain better written, better informed and far more hard-hitting articles than their peers in many Arab countries, not least neighbouring Morocco. The economic website and radio Maghreb Emergent, which is co-owned by a group of talented journalists

8. *Algeria’s Natural Gas Policy: Beware of the Egypt Syndrome*, Ali Aissaoui, Apicorp Research, Economic Commentary, Volume 8, No 7, July 2013

publishes articles which are much better than most European media on the region. The articles of Ihsane El Kadi, one of the co-founders are a joy to read. The political and social debate in Algeria is alive and kicking and often freer than elsewhere in the region.

A number of men might succeed Abdelaziz Bouteflika whose mandate runs until May 2014. They include former Prime ministers Ahmed Ouyahia, Abdelaziz Belkadem and Ali Benflis, who enacted no reforms and others such as Mouloud Hamrouche who did and the current incumbent Abdelmalek Sellal. Former president General Liamine Zeroual has ruled himself out. Algeria’s ruling elite has the choice between supporting one heavy weight candidate among the myriad who will stand, or two. If two candidates representing different political constituencies are able to engage in a public debate, Algerians will not hesitate to cast their ballot. A high turn out in any future presidential poll would help to legitimise the new head of state and help Algeria escape from the dysfunction

The absence of strategic thinking which has characterised Algerian leadership in recent years must not be taken to mean nobody in the country is interested in the future

tional manner in which it has been governed. The services of the talented Algerian diaspora are unlikely to be called upon, contrary to the policy of Chinese leaders when they started liberalising the management of the Chinese economy in 1979⁹.

While the uncertainty about the future course of political events is palpable, the one thing that all Algerians are sure of is that they want no more war. The current uncertainty in North West Africa would pale by comparison with the havoc any return to *Sinin al-irhab* in Algeria would bring. French and American leaders have indicated their preference for a semi-open contest between candidates with different views and but are well aware that public admonishing of democracy serves no useful purpose. The deep instincts of 35 million resilient Berber and Arab men and women and a group of powerful officers and DRS elders will decide who runs Africa’s largest country in the coming years. Contrary to the fears of conspiracy theorists and those who claim to know how the inner mechanisms of the regime function, a worst case scenario is not necessarily the most likely.

9. *La Diaspora maghrébine peut elle s’inspirer des modèles asiatiques?* Francis Ghilès, Ecole des Hautes Etudes en Sciences Sociales, Février 2008.