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The Algerian drama : consequences of a bureaucratic-socialist experiment

Jacques Fontanel, Fanny Coulomb

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Since its independence, Algeria has exerted an important influence in the international community, advocating since the late 1970s the establishment of a New International Economic Order. In order to avoid the effects of "imperialist" domination, Algeria conducted a self-centred policy, but this was more of a declarative order than a discourse of reality. The idea of a fight against colonialist capitalism led to close ties with the Soviet Union, which posed some major problems for the implementation of its own centralized planning when setting up a transition economy in Russia. Algeria has an important economic potential, but it is still dependent on its energy resources, the production of which fluctuates according to the political crises of a Nation, strongly controlled by the army, always close to internal conflicts, even civil war.

Depuis son indépendance, l'Algérie a exercé une influence importante dans la communauté internationale, en prônant dès la fin des années 1970 la mise en place d'un Nouvel Ordre Economique International. Pour éviter les effets de domination « impérialiste », l'Algérie a conduit une politique autocentrée, mais celle-ci était plus de l'ordre déclaratif qu'un discours de réalité. L'idée d'un combat contre le capitalisme colonialiste a été à l'origine de liens étroits avec l'Union soviétique, ce qui a posé quelques problèmes importants à la mise en place de sa propre planification centralisée lors de la mise en place d'une économie de transition en Russie. L'Algérie dispose d'un potentiel économique important, mais toujours dépendant de ses ressources énergétiques, dont la production oscille au gré des crises politiques d'une Nation, contrôlée fortement par l'armée, toujours proche de conflits internes, voire de guerre civile.

Keynotes : Algeria, Socialism, Russia, imperialism, oil, civil war, economic crisis

Mots clés : Algérie, Socialisme, Russie, impérialisme, pétrole, guerre civile, economic crisis

Introduction

Strong interactions between strategic discourses, political decisions, Islamic influences, and national socio-economic outcomes have marked the post-colonialist history of the Algerian economy. Algeria offers an interesting example of the inextricable links between ideologically-based governmental will and the government's role as the main economic agent. Because of the anti-colonialist and pro-socialist line followed by Algeria in its early post-colonial history, it refused dependence on international markets and on Western defense systems. Instead, it developed macroeconomic planning based on heavy-industrial development and an industrialization process managed by the state. In this chapter, the study of the Algerian economy only tangentially concerns defense economics *per se*; instead, it looks at the totality of Algerian economic, political, and security considerations within which defense economics may play its role.

Since independence, Algeria has exerted an important influence on international socialism. It even played a prominent role in building the concept of a New International Economic Order: indeed, Algeria spearheaded the demands of the less developed countries. Yet Algeria's internal economic and political "self-centered" strategy, whose principles were widely declared by official authorities, was more discourse than reality. Marked by cultural contradictions and sterile internal political struggles, it experienced progressively growing political and economic difficulties.

Long attached to Soviet anti-imperialist policy, Algeria strove to develop close links with this “main combatant against capitalism”. Even while adjusting them to local needs, it tried to imitate Soviet notions of public planning and economic organization. This had three main consequences:

- ▶ The strong political links with the USSR progressively gave rise to bad economic working relations with capitalist, developed countries.
- ▶ The search for a progressive and planned economy accelerated, with the demise of the USSR, the degeneration of the Algerian economy.
- ▶ The Algerian civil war called into question the great economic potential of the country, where each temporary respite from economic crisis is susceptible to destruction by political crisis.

This chapter examines each of these three consequences in turn.

Links with the USSR and withdrawal from capitalist developed countries

During decolonization, the USSR became for Algeria the primary anti-imperialist example, not only a political ally but an alternative to capitalism. At the same time, various Algerian governments were very active in the Third World movement. Algeria's links with Western countries, notably with France, deteriorated (Kadri and Fontanel, 1996).

The USSR: anti-imperialist “big brother”

To Algeria, the Soviet Union provided both intellectual attraction, based mainly on socialist ideology, and strong military relations with the leader of the Warsaw Pact. With decolonization, the USSR and the United States engaged in a struggle of influence and power in which decolonized countries were voluntarily and directly involved. The Soviet strategy had as its main aim the thwarting of Western influence in the newly independent countries, particularly in the Middle East and in Asia, and to secure strategically important supplies. Early on, this led the USSR to support independence movements and progressive regimes in the Third World notably by means of military aid. But the early 1980s marked the end of Soviet power expansion in the Third World, weakened as it was by the Afghan war. To reinforce its position, the USSR switched emphasis from providing military aid to promoting the economic efficiency of its financial aid and to establish new links with more solvent partner countries, especially oil producers such as Algeria (Isaev, 1991).

For Muslim Algeria, even if the materialist side of the socialist system should be rejected, rigid Soviet economic planning constituted an interesting way of fostering national development. The Algerian political apparatus became convinced that centralized, national economic management was necessary. Moreover, as less developed countries revolted against economic oppression, they perceived the USSR as a military resource, a great nuclear power able to protect them against American imperialism. Great artisan of the ideas of the New International Economic Order, Algeria borrowed some of her anti-colonialist slogans from Marxist analyses developed by Soviet people. But it was a marriage of convenience based only on intellectual attraction; the cultures of the two countries were very different and their efforts at cooperation did not always succeed.

Algeria asked for Soviet military aid as early as 1962. The USSR became Algeria's privileged arms supplier (but without gaining monopoly status) and an important partner regarding military assistance and military questions without however being directly associated with the organization of Algerian defense. From the late 1960s, Algeria did seek occasional help from western countries, notably France, for technical and advisory missions. Tables 9.1, 9.2, and 9.3 show Algerian military spending, arms imports, and other indicators as well as the USSR's role in comparison with other Algerian arms suppliers.

Table 9.1: Algerian arms imports (in millions of dollars) and main suppliers (in percent), 1974 to 1995

| <i>Years</i> | <i>Amount</i> | <i>USSR</i> | <i>US</i> | <i>France</i> | <i>UK</i> | <i>Other NATO</i> | <i>Other ex-Warsaw Pact</i> |
|--------------|---------------|-------------|-----------|---------------|-----------|-------------------|-----------------------------|
| 1993-1995 | 395 | 65.8 | 2.5 | 0 | 0 | 7.6 | 15.2 |
| 1987-1992 | 2,490 | 80.3 | 0.8 | 0 | 0 | 0 | 17.3 |
| 1982-1986 | 3,730 | 83.1 | 5.9 | 2.7 | 4.3 | 2.7 | 0.5 |
| 1974-1982 | 2,575 | 84.3 | 0 | 0.8 | 0.6 | 12.4 | 0.5 |

Source: US ACDA (various issues).

Table 9.2: Algerian arms transfers and trade balance

| <i>Years</i> | <i>Arms imports (mn 1995 US\$)</i> | <i>Arms imports/ total imports (in percent)</i> | <i>Trade balance (mn 1995 US\$)</i> |
|--------------|--|---|---|
| 1975 | 151 | 1.5 | - 3,817 |
| 1980 | 869 | 4.8 | + 5,738 |
| 1985 | 685 | 5.1 | + 4,110 |
| 1986 | 801 | 6.5 | - 1,870 |
| 1987 | 906 | 9.9 | + 1,535 |
| 1988 | 1,061 | 11.6 | + 993 |
| 1989 | 749 | 6.6 | + 430 |
| 1990 | 356 | 3.2 | + 3,700 |
| 1991 | 144 | 1.7 | + 5,560 |
| 1992 | 5 | 0.1 | + 2,749 |
| 1993 | 21 | 0.3 | + 2,574 |
| 1994 | 144 | 1.5 | - 502 |
| 1995 | 230 | 2.2 | - 10 |

Source: US ACDA (1997) for 1985-1995; earlier issues for earlier years.

Table 9.3: Algerian military expenditures, arms imports, and ratio of military expenditures to GDP

| <i>Year</i> | <i>Military Expenditures</i> | <i>Arms Imports</i> | <i>% ME/GDP</i> |
|-------------|----------------------------------|-------------------------|-----------------|
| 1988 | 555 | n/a | 1.9 |
| 1989 | 542 | n/a | 1.7 |
| 1990 | (606) | n/a | (1.5) |
| 1991 | 593 | n/a | 1.2 |
| 1992 | 868 | n/a | (1.9) |
| 1993 | 1,067 | 15 | 2.6 |
| 1994 | 1,298 | 161 | 3.2 |
| 1995 | 1,235 | 332 | 3.0 |
| 1996 | 1,401 | 5 | 3.4 |
| 1997 | 1,550 | - | n/a |

Note: In millions of constant 1995 US dollars.¹

Source: SIPRI (1998); n/a = non available; figures in brackets are estimated.

Beginning in 1963, future Algerian marine officers were sent to the USSR to be trained in Soviet naval academies. In the same year, Soviet supplied military personnel and material participated in mine clearing operations in Algeria, mainly along its borders. Between 1968 and 1969, financed by a \$100 million credit, 2,000 Soviet air force and army advisers and another 2,000 marine advisers came to Algeria (Pineye, 1982). Until 1974, Algeria was the second-largest buyer of Soviet armaments, with about 22 percent of such exports for the period 1955-1974, behind Egypt which accounted for 67.5 percent of Soviet arms sales and transfers. These figures are not based purely on political factors. The USSR charged much lower prices than Western countries wanted, it granted steep discounts (of up to 40 percent), and delivery times were relatively short.

Military relations between Algeria and USSR developed especially from December 1974, when the Madrid agreement concerning the sharing of the Western Sahara between Mauritania and Morocco was signed. The resulting tension on the Algerian-Moroccan border drove Algeria to develop air superiority against Morocco.² In 1975 and 1976, the USSR granted further credits of \$500 million for new arms purchases, requiring repayment in convertible currency.³ Additional terms of this credit included an agreement on economic cooperation that entailed a long-term (25 years) development plan by Soviet experts regarding Algeria's oil resources and fuel-stop rights at south-Algerian airports granted to Soviet airplanes to carry arms for the socialist movement in Angola's civil war.

While the USSR remained Algeria's main supplier, from 1978 the United States, the Netherlands, Italy, and France obtained an increasing role, notably for technical and advisory missions and for the formation and organization of the state police force. Still, owing to financial constraints that required the reduction of hard-currency outflows and impeded supply-diversification attempts, Algeria bought 75 to 80 percent of her military equipment from the USSR. Moreover, given the predominance of Soviet equipment, maintenance was naturally obtained from the USSR as well.

Socialist activity of Algerian governments

Socialist activity of Algerian governments was expressed by their strong involvement in the Non-Aligned Movement and the New International Economic Order. During the Boumedienne era, Algeria progressively became a forerunner of the non-aligned countries, together with Cuba, Yugoslavia, India, and Egypt. In United Nations agencies, developing countries often appeared as natural allies of the USSR, notably in their condemnation of Western imperialism. Leftist intellectuals embraced anti-capitalist or anti-American theses. It is a paradox of

history that “progressive” people condemned capitalism as exploitative while human rights violations multiplied in the USSR.

Algeria was very involved in this behavior. It took an active part in the debates about the construction of a New International Economic Order. In Algiers, a summit of non-aligned countries in September 1973 stated that the failure of United Nations development strategies was caused by the unwillingness of developed countries to change and help, and imperialist policy was characterized as open economic aggression against the people that capitalism does not cease to exploit. Established international trade, based on an unequal North/South division of labor, and stemming from the mode of determination of international prices, was held responsible of the deterioration of the terms of trade. The best hope for economic development would therefore consist of reaching and preserving unity among Third World countries and to press for collective autonomy (Fontanel, 1995).

But the Algiers conference also revealed fragility. The ideals of the movement of non-aligned countries were formally based on notions of peaceful coexistence, support to liberation movements, refusal to join military alliances and engage in bilateral great-power military-aid agreements, and rejection of foreign military bases on indigenous territory. Yet, these criteria were obviously not respected by most of the movement’s own members, in part because of the excessiveness of its ideological claims. Still, Western countries were depicted as the main cause of economic underdevelopment, and this favored, given the lack of non-capitalist alternatives, the development of commercial exchanges between the South and the East. In 1974, Algeria’s president, viewing the economic order as an hindrance to development, suggested LDC’s development be thought of from “a perspective of struggle on the international level” and advised LDC’s to “count on themselves and on their own means from an internal point of view” (Destanne de Bernis, 1977). He proposed the nationalization of natural-resource industries (so as to keep its earnings), launching of an integrated and coherent development process involving the entire agricultural and industrial potential, mobilization of the international community for economic equity, reduction of the debt burden, and an aid program for the poorest countries. The strategy consisted of devising a “self-centered” development policy. The economic reality, however, was that hydrocarbons accounted for 90 percent of exports and of 20 to 30 percent of GDP and obliged him to temper his discourse.

Algeria’s declining links with Western countries, notably France

The degradation of Algerian links to Western countries was the consequence of the after-effects of decolonization, fractious cultural and weak economic

cooperation, and reduced economic aid due to Algeria's socialist stance. One of the after-effects of decolonization concerned the continuing immigration problem between France and Algeria. Another was that Algeria inherited a totally non-structured economy, as it was actually marked by two diverging ideologies of state control (Muslim-Arabism and socialism). Claiming status as an equal with France, Algeria was replete with contradictions, such as how to develop relations with France while refusing neo-colonialism, how to advocate socialism while accepting the assistance of a capitalist country, and how to search for normal relations with France in spite of reciprocal resentments stemming from the national war of liberation.

By 1962, the Algerian economy was totally torn down, unbalanced, and financially, technologically, and commercially dependent on France. Moreover, the departure of more than 900,000 Europeans left an economic and social vacuum, leading to the cessation of many industrial activities, decreased production, and above all to a relative lack of executive, technical, and skilled personnel. Excessive recourse to foreign technical assistance, notably from France, generated a new dependency, even as the Algerian state did not want France to have a monopoly on cooperation and wished to cooperate with socialist countries.

In this climate, cultural cooperation was thought of by both as a stabilizing element in the political relations between Algeria and France, and it was the only permanent link between the two countries. But in 1971, an "Arabization" program began with the objective to remove Algeria from French cultural influence and language. Difficulties of adapting the Arab language to the modern, technological world, and the lack of skilled teachers, then brought about a near dismantling of science and the university system in Algeria. The linguistic problem and attempts to "Arabize" the whole of society served as vehicles to Islamic fundamentalism. On 5 July 1998, the government decided on the total Arabization of the country.

Even before the first oil crisis, France and Algeria experienced numerous difficulties in reaching agreement on oil prices. France argued that historical links, cultural cooperation, and its active engagement in Algerian oil production gave her some rights. Algeria, even before taking its strong anti-imperialist, anti neo-colonial stance, wanted to obtain prices that would permit it to engage in its own economic development and to diversify its international economic relations. The famous privileged bilateral agreements were not satisfactory to Algeria and became a decisive factor in its progressive attraction to socialism and the USSR. Economic aid from France and Europe was reduced in like measure. Justifications were numerous. Algeria's behavior in international organizations was judged as not always friendly, "flirting" as she was with the USSR during

the cold war. Algerian emigration to France was an important foreign-exchange resource for Algeria but France reduced transfer possibilities. In short, bilateral agreements became less and less privileged.

Those that benefitted from Soviet bloc assistance were newly independent, developing countries, and especially those that chose a socialist way of economic development based on heavy industry and/or on the construction of an enormous public sector (India, Egypt). But, rapidly, other economic considerations prevailed. At the end of the 1960s and the beginning of the 1970s, the USSR proposed civilian as well as military assistance, the idea being that it would often be more desirable to import products and raw materials from developing nations than to produce them at higher costs in the USSR itself (Valkenier, 1983). The Soviet Union thus reoriented its aid program toward solvent countries, particularly those with natural resources.

From planned progression to degeneration

After independence, the objective of the Algerian state was to induce a total break with the colonial system. Exercising political will through a strong state and a single-party system, development was to take place by recuperation of national wealth via a state-controlled development strategy. Indeed, the Algiers Charter of 1964 clearly spoke of the necessary and major role of centralized planning in a non-Marxist, but socialist, type of development strategy. Therefore, the post-colonial Algerian transition commenced under the guidance of the state, public-sector industrialization being perceived as the core of development, financed by oil earnings. But the chosen strategy, strongly inspired by the Soviet model and the “developmentalist” thesis (Lamchichi, 1991), showed its limits as early as the mid-1970s. It eventually led Algeria, and other ex-socialist countries, to reject a system and development model vulnerable to external shocks and unfit for international trade.

Uncertain plans: between desired ideal and concrete reality

The Soviet model of organizing power (with the single-party principle) inspired, especially since 1965, the organization of the Algerian economy, as did the economic theories of the “developmentalist” school that became the fundamental reference point of Algeria’s industrialization model. This centralist method of economic organization, along with a hierarchical decision system (Goumeziane, 1994), was very similar to the Soviet one.

But there were shortcomings, especially with regard to the (misinterpreted) concept of planning, insufficient Soviet aid, and ill-focused international relations. Economic planning was reduced to the strict determination of investments allowed in the public industrial sector. Economic development was centrally controlled, through direct state intervention, so as to exclude all foreign economic influence. The model was based on the promotion of the public industrial sector, able to produce necessary goods for other economic sectors (unbalanced growth). This was thought of as the only way to build an independent and fully integrated economy. Financial resources were used in the planning system so as to bring about the industrial objectives determined by the state, the single economic agent able both to set industrial investment programs (public for the most part) and to nationalize foreign assets, particularly those involving oil activities. Thus, the Algerian development plans determined investments in primary industries only (iron and steel, manufacturing, electricity, and hydrocarbon industries), and not, as in the USSR, in all economic activities. The functional ministries (Plan Administration, Finance, and Trade) did not take part in the decision process; they came into play only once the strategy and the plan were discussed for adoption in ministerial council. Oddly, the Plan Administration was progressively marginalized. The economic outcomes were disappointing (Kadri and Fontanel, 1996).

Soviet aid was insufficient and mostly based on arms. Though based on comparable ideological principles, the bilateral political relations between Algeria and the USSR were marked by increasing difficulties that explain the limited amount of Soviet aid to Algeria, except for armaments. Soviet aid was limited to a few developing nations, mostly countries of the Middle East and potential "progressive" belligerents. Arms sales to Algeria reflected relatively clear strategic priorities, as the logic and the nature of the East-South trade were not, in principle, economic. Moreover, military transfers were often in compensation for oil sales, owing to comparative advantages. For the Eastern countries, the economic reasons behind this arms-for-oil trade were as strong as the strategic and political reasons. "Military material was the only type of equipment for which the East could pretend to be in quasi-technical parity with the West, in some cases even with superior quality or performance relative to price" (Portes, 1979). Soviet military aid was geographically highly concentrated, and it became very intense in the 1970s, especially with Middle-East countries. Thus, the relations between Algeria and the USSR were paradoxical: commercial trade was weak but military trade was high (90 percent of the Algerian army was equipped with Soviet material).

Actually, relations between Algeria and the countries of central and eastern Europe have always been minor and may lead one to think that commercial

realism has always been stronger than political considerations. Algeria and the USSR, countries with different levels of development but specialized on the same groups of primary products, were rather in a situation of competing for the same world oil and natural-gas markets, hydrocarbons constituting, to diverse degrees, key elements of both economies (Locatelli, 1992). Algeria and the Soviet Union participated in the global oil market with different objectives. Both were highly dependent on oil exports, supplying them with convertible currency, but Algeria intended to use its earnings to finance its industrial development strategy whereas the USSR needed currency to modernize its production apparatus. For both, oil served to finance the necessary imports. Therefore there really existed no complementarity between the Algerian and Soviet economies, explaining the low level of bilateral commercial trade as well as the highly developed political relations.

Last reference point

With the disappearance of the USSR, Algeria lost its major political and economic point of reference. Today Algeria is neither socialist, nor capitalist; economically, it occupies a no-man's land between liberalism and socialism. It is destitute, and its economic performance is a cause for worry.

After independence, the prevailing idea was to get rid of underdevelopment by building a socialist society. Post-colonial transition led to a system dominated by oil rents and speculation. Oil price increases in the 1970s and early 1980s financed the reform of the political economy but the vulnerability of this strategy was revealed with declines in oil prices after 1986. Mass mobilization accelerated industrialization, but economic policy did not lead to economic development. The Algerian model of "self-centered" development, one that sacrificed agriculture and celebrated industrial development, failed.

For many years, the Algerian economy encountered severe macroeconomic and macro-financial constraints which deeply limited its dynamics and openness. Its grave situation is sometimes attributed to financial crisis and sometimes to the failure of her economic system. It is a crisis of organization and regulation, generating the need for a quick transformation of the entire economy toward a market economy. The increasing importance of the trade imbalance, foreign debt, foreign exchange shortages, and the ill-functioning of the economy all gave rise, in 1987, to an economic reform process and to Algeria's rapprochement with international institutions, such as the IMF and the World Bank. The reform program entered in 1987 and 1988 marked the official break with the centrally administered economy. And as from 1989, military expenditures, which had grown until then, progressively decreased until 1993 (see Table 9.4).

Table 9.4: GNP, armed forces, military expenditures, GNP per capita, and ratio of military expenditures to GNP, 1985-1995

| <i>Year</i> | <i>GNP (millions, 1995 US\$)</i> | <i>Armed forces (000')</i> | <i>Military expenditures (millions, 1995 US\$)</i> | <i>GNP per capita</i> | <i>ME/GNP (%)</i> |
|-------------|--|------------------------------------|--|-------------------------------|-----------------------|
| 1985 | 38,690 | 170 | 982 | 1,744 | 2.5 |
| 1986 | 38,300 | 180 | 1,121 | 1,676 | 2.9 |
| 1987 | 38,700 | 170 | 1,086 | 1,648 | 2.8 |
| 1988 | 37,570 | 126 | 1,225 | 1,559 | 3.3 |
| 1989 | 39,600 | 126 | 1,175 | 1,602 | 3.0 |
| 1990 | 39,150 | 126 | 801 | 1,544 | 2.0 |
| 1991 | 38,270 | 126 | 643 | 1,473 | 1.7 |
| 1992 | 39,000 | 139 | 741 | 1,465 | 1.9 |
| 1993 | 38,500 | 139 | 1,091 | 1,413 | 2.8 |
| 1994 | 37,880 | 126 | 1,257 | 1,358 | 3.3 |
| 1995 | 38,940 | 120 | 1,238 | 1,365 | 3.2 |

Source: US ACDA (1997).

The fall of export earnings contributed to growth in the demand for short-term credit and the decline of the world oil market resulted in underutilization of productive capacities (which, however, recovered from 35 percent utilization in 1988 to 50 percent in 1992). Oil sales represented 91 percent of export earnings in 1980, 85 percent in 1985, 89 percent in 1990, and more than 85 percent in 1994. That is, despite large oil exports, falling oil prices did not allow Algeria to diversify its economy. It remained fundamentally dependent on this market without benefitting from induced multiplier effects.

The reform program suggested by international financial organizations led first to a policy of money depreciation, then to macroeconomic measures such as price liberalization. Inflation, only 6 percent in 1988, rose to 31.7 percent in 1992, then fell to 20.5 percent in 1993, and rose again to 28.6 percent in 1995.

Algeria's economic crisis was not merely a financial crisis but also a systemic crisis, necessitating a total break from the former mode of economic management. Exclusively based on oil and natural-gas exports, once virtually the only source of finance for industrialization (Hadjseyd, 1994), Algeria today remains characterized by her dependency on hydrocarbon-based natural

resources. This is a consequence of the first quadrennial plan that laid out investment priorities in basic and hydrocarbon-based natural-resource industries at the expense of agriculture, consumption-goods industries, and export-oriented industries.

In 1986, the brutality of the Algerian economic collapse raised the problem of systemic vulnerability to fluctuations in external markets and therefore to economic indebtedness in the context of oil-rent depletion. External support became unavoidable owing to insufficient internal saving and to firm's incapacity at self-financing. The state's principle of resource centralization did not allow self-financing. Enterprises were subject to a centralized system of resource allocation and to central planning of investments. Small, private enterprises had no interest in investing either, as they were not officially allowed to derive benefits or to reinvest freely. However, savings from the private sector were directed toward a shadow market where yields were much better.

To prevent the industrialization process from slowing down, it became indispensable for Algeria to take up loans from the international markets. Algerian indebtedness, then, is not recent, but its size is new and now constitutes a huge burden for society (see Table 9.5). As with all semi-industrialized countries, Algerian indebtedness accelerated. Until 1985, Algeria had no strategy of external debt management (Guillaumont, 1985), and debt service absorbed three quarters of her export receipts. In fact, potential oil and gas earnings were considered sufficient guarantees to mobilize credits on international financial markets.

According to IMF criteria, Algeria is placed among moderately indebted countries, since two of three important debt-ratios do not reach critical levels: total debt to GDP, at 57.4 percent in 1993, placed Algeria in the little-indebted countries category and the ratio of total debt to exports (216.6 percent in 1993) placed her in the moderately-indebted countries category. But the ratio of debt *service* to exports was 76.9 percent (in 1993) and shows that Algeria was heavily indebted. The debt burden imposed a strong constraint on export receipts and led to excesses — exports at any price or contraction of imports. But debt service is a short-run problem, linked exclusively to oil price and dollar volatility. Algeria is not structurally indebted, but it must offer securities and face the repayment of her debt.

The IMF reform program (stand-by agreement) for Algeria of 3 June 1991 emphasized macroeconomic measures, notably price liberalization of subsidized products, the total liberalization of foreign trade, and a 60 percent devaluation of the Algerian dinar (to quickly match the exchange rate in the parallel market). The desperate situation of the Algerian economy leads us to question her future.

Table 9.5: Algerian foreign debt (in millions US\$)

| <i>Years</i> | 1972 | 1973 | 1974 | 1975 | 1976 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|-----------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| Total debt | 2,991 | 3,366 | 4,633 | 6,114 | 10,600 | 15,736 | 18,501 | 19,359 | 18,367 | 17,636 | 16,261 |
| Long term debt | 2,991 | 3,366 | 4,633 | 6,114 | 8,914 | 13,751 | 16,568 | 17,034 | 16,060 | 14,885 | 14,304 |
| Short term debt | - | - | - | - | 1,686 | 1,985 | 1,933 | 2,325 | 2,307 | 2,751 | 1,957 |

| <i>Years</i> | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total debt | 15,883 | 18,243 | 22,634 | 24,395 | 26,038 | 26,999 | 27,637 | 27,919 | 26,349 | 25,757 | 29,470 |
| Long term debt | 14,124 | 16,381 | 19,482 | 23,080 | 24,417 | 25,160 | 26,846 | 26,680 | 25,557 | 24,587 | 28,500 |
| Short term debt | 1,759 | 1,862 | 3,152 | 1,315 | 1,621 | 1,840 | 791 | 1,239 | 793 | 700 | 970 |

Source: World Bank (1994a and 1994b).

Economic potential in political crisis

The army remains Algeria's major internal force but terrorism rages on. Economically, Algeria is faced with globalization requiring strong restructuring. And culturally, Algeria has lost her landmarks.

The grave political question

Algeria's political crisis may last for decades. Islam is a cross-national phenomenon, but the Algerian conflict is purely internal. The Algerian regime is not a democracy, nor really a dictatorship. For three decades, the army comprised the core of the state. Composed of 1,300,000 men, 20,000 gendarmes, and 30,000 auxiliaries to cover a territory four times the size of France, it was the country's only organized strong force. Structured along Soviet lines, it was mainly defensive in posture and strongly hierarchical. Over time, army officers, despite diverging interests, came to hold (and to hold on to) government power. Violent groups do not only threaten Algeria *per se*, they also reject democracy and the application of basic human rights. But Algerian Islamic groups have few leaders and their violent actions are not concerted. Islamism is primarily the political expression of economic despair resulting from failed industrialization, ruined agriculture, unemployment of 28 percent (IMF, 1998), and widespread, endemic corruption.

In January 1995, the Algerian opposition (composed of 16 political parties, including the National Liberation Front) gathered in Rome so as to restart dialogue on possible solutions to the Algerian crisis. The tragic national situation was judged to stem from the interruption of democratic processes, resulting in armed confrontation between state forces and terror groups, threatening the very existence of the country itself. The opposition meeting in Rome called for restoration of a democratic, sovereign Algerian State, within Islamic principles, conforming to the declaration of 1 November 1954. It called on Algeria's army to give up all political activity and to limit itself to territorial defense. In contrast, the Armed Islamic Group (AIG) asks for the application of God's law and for the dissolution of communist and atheist parties. The Rome accord was rejected both by the government and by the AIG which called for the installation of an Islamic regime by means of war. The elections of 16 November 1995 marked the victory of Liamine Zérroual and of the army, but massacres continued.

Having acquired revolutionary legitimacy in the liberation war, the Algerian army suffered a political set-back with the results of the democratic process of 1990-1991 that favored an Islamic state in gestation. Its defenders then advocated "total war". In spite of the conscription of some 15,000 men, the result was not

a strengthened army even if it recovered control over some towns such as Blida. Instead, one observed reinforcement of a repressive state apparatus and the “privatization” of violence as 15,000 militiamen were armed to combat Islamic guerrillas. These groups may even wish to perpetuate a situation which on occasion allows them to enrich themselves. Moreover, some paramilitary groups sent by the Algerian government to infiltrate Afghan Islamic groups during that war have never been broken up upon their return to Algeria.

Algeria, Europe, and Mediterranean countries

Meeting in Corfu in June 1994, the European Council decided to stabilize relations between Europe and the Mediterranean which was quickly becoming a zone of strategic importance for the European Union. Emphasis was put on matters relating to energy, migration, trade, and — of special importance — direct foreign investments. The Council even foresees free trade in agricultural products by 2010, provided that the Mediterranean countries install free-market economies. A follow-up conference in Barcelona in November 1995 proposed the promotion of peace, stability, and security of the European-Mediterranean region, advocating lasting and balanced social and economic development so as to build a shared zone of prosperity. The final document, the so-called Barcelona declaration, includes references to and underlines human rights, citizens' fundamental liberties within the state, people's right to self-determination, and states' obligation to fight terrorism.

To attract international institutions and private investors, the European Commission put some amount of co-financing at the disposal of Mediterranean countries. A further follow-up conference in Trieste (1996) asked Mediterranean countries to agree to European standards in terms of investments, trade liberalization, harmonization of investment legislation and regulations, development of natural gas and electricity networks, and settlement of a system of guarantees for energy investments.

All this may be useful to Algeria but Algeria opposes the constraining character of the charter which it judges inappropriate to its interest.

In 1983, a transmediterranean pipeline, Transmed, was put in service. It runs between Algeria and Italy, via Tunisia. Its capacity has since then been more than doubled, financed by the European Bank. In addition, a Maghreb-Europe pipeline (MGE) links Algeria to Spain and Portugal, via Morocco. The European Union financed part of that project. Another European program, MEDA, was designed to unify various resources and to define sectoral choices. Toward this end, to create new development zones, energy trade, and new economic and social infrastructure, six billion dollars were allocated from 1996 to 1999. The receiving

countries must however agree to respect human rights and make progress toward free trade and the establishing of a free-market economy.

Algeria generates fears in Europe (terrorism, migration, and political instability) and its partnership with Europe therefore faces periodic difficulties. Even though the mentioned projects are profitable, it was necessary for the European Union to reassure partners on all sides so as to allow Algeria to conclude new export contracts. The pipelines in particular are of fundamental importance for Mediterranean cooperation.

An uncertain economic recovery

In an econometric study, covering the period 1971-1995, Teboul and Moustier find the following major relations among economic variables:

- ▶ Algeria's GDP is positively related to exports, investment, indebtedness, and government expenditures ("Keynesian" stimulants).
- ▶ Algeria's GDP is negatively related to inflation and to imports (more consumptive than productive in nature).

Findings such as these are distorted not only by the fact that Algeria's disposition of oil earnings leads to aggravated internal inequalities but in that they fail to consider the state's ability to make its creditors wait and to extract financial aid and resources based on oil-guarantees. For example, under France's insistence, creditors consented to a series of debt reschedulings for Algeria. This ability to manipulate public finance does not change people's daily life but reinforces the position of Algeria's governing military class.

Still, a one-year IMF stand-by agreement signed on 10 April 1994 provided for a macroeconomic and macro-financial stabilization program, based on price and trade liberalization, restrictive monetary and fiscal policies, a rigorous incomes policy, and efficiency improvements in the public sector. It also included provisions to reschedule Algeria's external debt.⁴ The financial stabilization was a real success (see Table 9.6 for some performance indicators) and Algeria entered a virtuous cycle of debt reduction combined with a strong trade and current-account balance.

In June 1997, the IMF recognized the Algerian government's commitment to economic liberalization. At the same time, it cited market uncertainty regarding privatization of the oil sector and the fact that the envisioned privatization process does not extend to small and medium-sized firms. A privatization process was finally engaged in from September 1997, but foreign direct investment did not develop as expected, owing to continued risk perceptions.

Table 9.6: Indicators of Algerian economic performance (1994-1998)

| <i>Variables</i> | <i>1994</i> | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> |
|--|-------------|-------------|-------------|-------------|-------------|
| Population (million) | 27.4 | 27.9 | 28.3 | 28.8 | 29.1 |
| GDP (billions of 1995 dinars) | 1,910 | 1,966 | 2,108 | 2,135 | 2,160 |
| Growth rate | - 1.1 | 3.9 | 3.8 | 1.3 | 1.2 |
| GDP (dollars) per capita | 1,532 | 1,479 | 1,615 | 1,613 | 1,620 |
| Inflation rate | 28.1 | 28.6 | 22.2 | 6.1 | 5.0 |
| Exports | 8.89 | 10.26 | 13.21 | 13.82 | 13.3 |
| Imports | 9.15 | 10.10 | 9.09 | 8.13 | 9.08 |
| % foreign debt / GDP | 70.0 | 78.4 | 73.4 | 63.4 | 67.0 |
| Gross official reserves | 2.64 | 2.11 | 4.23 | 8.04 | 8.71 |
| Debt service ratio (in percent of current external receipts) | 48.6 | 42.5 | 29.2 | 29.8 | n/a |
| Real effective exchange rate (percentage change) | -14.1 | -16.2 | 2.5 | 9.6 | n/a |
| Budgetary balance (% GDP) | - 4.4 | -1.4 | 3.0 | 2.4 | 0.7 |
| Unemployment rate | 26.5 | 28.1 | 28.3 | 28.6 | 28.0 |
| Gross investment / GDP | 31.7 | 32.2 | 26.6 | 20.6 | n/a |

Source: IMF (1998); n/a = not available; p = preliminary.

Eventually, Algeria escaped the umbrella of IMF supervision, but the rescheduled debt payments are due shortly. For 1998, the government proposes to limit public expenditures, modernize the way the economy is financed, rationalize and privatize the part of the public sector that competes with the private sector, progressively contract-out monopolistic public services, rebuild housing, sustain employment, and develop agriculture.

The relatively favorable economic environment is due, in part, to the failure of the Islamic guerrilla movement to dispose of President Zéroual or to engage in decisive attacks against targets such as the country's gas and oil installations. But unemployment keeps rising (28 percent of the labor force, that is 2.1 million unemployed, with three quarters of those never having worked). Wage earner purchasing power decreased considerably between 1989 and 1995 (on average by more than 20 percent per year). Only a minority of the population can buy imported goods. Oil income is extracted mainly by the army (Ellyas, 1999).

Algeria's current account improved significantly, from a deficit of 5.5 percent of GDP in 1994 to a surplus of 7 percent in 1997. This turnaround was due mainly to increased oil prices (30 percent, on average), to increased natural gas exports via a newly opened pipeline to Spain, and to the rise of the dollar. Good harvests in 1995 and 1996 also allowed reductions in food imports. Moreover, the debt restructuring supported by France and the IMF led to debt service reductions from \$8.1 billion in 1993 to \$4.2 billion in 1996. Whereas in 1992 and 1993, debt service absorbed 90 percent of export receipts, today it is only 30 percent. Despite this good news, gas and oil income goes into a banking and financial system controlled by political power and military *nomenclature* which does not reinvest in the country but imports European consumer goods. We see great concentration of economic power within the governing class as Algeria's population grows poorer. Increasingly, the armed forces are used to protect frontiers and profitable economic zones (the "useful Algeria") rather than its people.

The future of the Algerian economy is uncertain. Oil and gas exports will rise significantly, by about 50 percent, on account of a new gas-export agreement with Italy and Austria on the one hand, and a new oil-export agreement with Spain and Portugal on the other. There are also new export agreements with US companies (Arco, Anaderka, and Schlumberger) and European ones (Total, Repsol). However, the agricultural sector is in difficulties and private industry has collapsed (minus seven percent in 1996). Imports of equipment goods declined by 20 percent in 1997 but imports of non-food consumption goods increased by 18 percent. Algeria's main export customers are Italy (21.6 percent), the United States (17.3 percent), and France (13.3 percent), and its main import-suppliers are France (23.5 percent) and the United States (9.9 percent).

Small and medium-sized firms suffer harassment by armed groups and fail to develop the private sector. Unemployment keeps rising. The growth rate went from 3 percent in 1990 to 1.3 percent in 1997, but only 5.5 million people work out of a population of more than 29 million people. Since 1990, some 400,000 Algerians, especially intellectuals, have left the country. Investors perceive the Algerian country-risk as very high, discouraging foreign investment.

In addition to the IMF, Algerian programs are supported by the Arab Monetary Fund and the World Bank and by debt relief from the Paris and London creditor clubs. The objectives of all these programs include continued macroeconomic stabilization and reform processes to create a market-based, private-sector led economy integrated to the rest of the world. For the IMF Executive Board, Algeria's medium-term economic prospects are clouded by the risk of low export prices and, indeed, in 1998 real GDP growth slowed to 1.2 percent after two consecutive years of 4 percent growth. Industrial production

continues to decline due to difficulties experienced in the ongoing restructuring process in the public sector and low foreign and domestic investment. Algeria introduced the full convertibility of the dinar for the current account and privatization of the economy is underway. The structural adjustment program is necessary and in its way successful, but it is no substitute for a development program.

Conclusion

Abdelaziz Bouteflika's election to president of Algeria in April 1999 does not solve its problems, such as the shortcomings in its democracy, lack of investor confidence, and extraction of oil and gas rents by the army. The electoral defeat of militant Islamism (Lmrabet, 1999) does not mean the end of social and national conflict. Neither do the recurring ideological references to former President Boumediène, based on the principles of socialism, authoritarianism, and concentration of economic power, necessarily create social peace. One can find in Algeria's modern history the fundamental reasons for her numerous crises. Having been a long-standing depository of the hopes of free and progressive developing countries, Algeria has failed in her own course of economic development and important elements of its society have developed an increasingly pronounced non-materialist taste. The relations (always love-hate relations) to economic development, to international relations, to France, to the USSR, and to oil failed and religious reactionism developed. Islamism is the new, big challenge for Algeria. Today, it is important to note that Algeria's main official objectives are liberalization, privatization, and globalization, denoting the end of Algeria's anti-imperialist, socialist experiment. At the same time, an emergent Muslim Algeria has not solved the problem of finding an equilibrium between God and materialism. And it is not clear at all that rapid liberalization, privatization, and globalization will provide Algeria with a way to balance these two opposite objectives between its various citizens and governments.

Notes

1. Algerian arms imports data are not really available before 1993, first because they are not computed by SIPRI and second because the data are heavily modified from one SIPRI publication to another, showing large standard deviations.

2. Algeria bought six MIG-21 and six MIG-21 MF in 1977, 25 MIG-21 MF and 20 MIG-23S in 1978 as well as tanks and land-to-air missiles (*source*: SIPRI Yearbooks 1977, 1978, 1980, 1981, 1982, 1985, 1990, 1991, 1992).
3. The arms contracts between the USSR and Algeria were in US dollars. However, some arms trade was conducted in exchange for oil. Incidentally, when we refer to “oil” in this chapter, we mean oil and natural gas, or hydrocarbon-based natural resources.
4. 15 billion US dollars due for 1994 to 1995 was rescheduled for 1998-2001 in exchange for agreement to reduce the state's budget deficit, further devaluation of the dinar, and total liberalization of foreign trade and prices.

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