AN ECONOMIC SOLUTION TO THE CRISIS?

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1. Introduction: The Economic Dimension of a Multiform Crisis

Only hours after achieving victory for his party, the National Liberation Front (FLN), in the legislative elections on May 30, 2002, the Algerian Prime Minister Ali Benflis reiterated his previous declarations concerning “the multiform crisis that the country is undergoing”\(^1\). In his own words, this crisis “goes beyond the factual and temporary and may have lasting effects on our farthest future”.\(^2\) It might be the only case in the world of a leader making such radical declarations at the very moment as he prepares to succeed... himself.

But such declarations are more than justified if we consider that only two decades ago Algeria was admired as an example to follow by the entire Arab world, thanks to its own unique development model. It boasted a powerful heavy industry and generous social benefits: universal schooling and free health care and medicines since 1973, an advanced code of workers’ rights, subsidized consumer prices, developing urban infrastructures. It also could be proud of having achieved a certain degree of independence with respect to the world capitalist system, built mainly on the windfall of hydrocarbon exploitation, making it one of the champions of Third Worldism and the New International Economic Order alternative\(^3\). At present, Algeria has fallen to the bottom positions in the Arab world in terms of indicators such as unemployment, information society, or productivity.

This is just one of the many paradoxes that we have become accustomed to in the case of Algeria. More recently, in the past three years, the principal Algerian economic paradox is undoubtedly rooted in the contradiction that exists between the macroeconomic exuberance that the country proudly displays, thanks to the rise of the international oil prices, and the microeconomic bankruptcy into which it has sunk. The most eloquent manifestation of this microeconomic ruin is the pauperization of ever-wider segments of the population. This is necessarily the double starting point for any analysis of Algerian current economic policy.

The National Economic and Social Council (CNES) summed up the situation at the end of 2002: “the economic and social circumstances have not experienced [...] a significant inflection, in spite of the consolidation of the financial bonanza”.\(^4\) In practice, the country’s macroeconomic stabilization has not been accompanied by a parallel improvement in the variables that directly affect the population, such as employment, growth (and, hence, household income) or access to public infrastructures. On the contrary, the situation has grown worse and worse in the last three years, to the point that analysts habitually speak of the “risk of a social explosion” in Algeria.\(^5\)

Nevertheless, an attentive observer of Algerian reality has every reason to claim that this schizophrenia between macroeconomic success and microeconomic failure is already producing, day by day, a social explosion in installments. The population’s discontent has become evident in the proliferation of riots and disturbances of all kinds,\(^6\) frequently associated with material issues. The most pressing expression of this discontent is the social explosion in Kabylia against the established powers: it burst out in April 2001 and has prevailed ever since, reaching the point where the entire region is at risk of becoming disconnected from the rest of the country and permanently distressed. But the contents of the El Kseur Platform\(^7\) show that the nature of the Kabylian population’s demands is above all socioeconomic, attacking the central government particularly for its incapacity to satisfy...
the population’s most basic expectations and needs. Thus, it is not only Algerian public life that is officially in a state of emergency since February 1992. The Algerian economy has also been in a state of emergency at least since October 1988. Considering the country’s demographic situation, it is only a question a time before the Algerians will begin to “vote with their feet” and emigrate, in the pursuit to remake their lives somewhere else.

This conspicuous continuity of the plagues that the Algerian population has suffered since the mid-1980s explains the relative scarcity of specific analyses of recent Algerian economic policy, a scarcity that borders nonexistence in the case of prospective studies (as if Algeria had no future, only a past). This objective continuity has been reinforced by the pervasive logic of structural adjustment which has informed the economic measures applied by successive governments in the past fifteen years.

The bibliography about the causes and manifestations of the Algerian political, economic, and social crisis from 1988 on is abundant, and, despite appearances, it expresses a certain degree of consensus rather clearly, occasionally becoming even reiterative. Actually, what varies is less the basic diagnosis than the analytic framework used, the emphasis on one aspect or another, and at times only the metaphors the authors resort to in order to better represent reality. The most extended interpretations of the crisis are articulated around the concepts of a rentist State, an administered economy, a “plunder economy”, or a “bunker State”. On a more concrete level, these interpretations try to explain the actual evolution of the Algerian economy by factors such as the development of hydrocarbon prices, the military’s economic interests and infiltration into the economic fabric, the appropriation of hydrocarbon rents, corruption, or violence. The official interpretation, even though it recognizes many of the aspects pointed out by the analysts (corruption or rentist behavior), tends to emphasize the destructuration caused by Islamist violence, a focus that completely overlooks the social and economic context in which this violence aroused.

However, despite the unarguable continuity of the main drivers of Algerian reality, the economic policy of the last three years presents specific characteristics and deserves a detailed analysis by itself. The point of inflection was, on the economic level, the expiration of the structural adjustment program that the International Monetary Fund (IMF) imposed in 1994 as a condition for approving the restructuring of Algerian external debt (in May 1998). On the political level, the inflection point was the election of Algeria’s first civil president since its independence, Abdelaziz Bouteflika (on April 15, 1999). Therefore, without disdaining further-reaching efforts to explain the “Algerian agony”, this paper focuses on Algerian economic policy during the last three years and attempts to trace the prospects of this economic policy for the coming years.
The point of departure cannot be other than the structural constraints that frame and limit – and upon occasion quite clearly orient- economic policy and its results. There is no doubt that violence, in all its forms, continues to be Algeria’s principal economic problem: not only in the form of Islamist terrorism and of repression, but also as the manifestation of deep social discontent and, above all, of the internal contradictions in which Algerian society is immersed. Even though it would be correct to state that political and social stability in Algeria are themselves key factors of production (and very scarce ones, at that), these elements are not the object of this study; their solution exceeds the limits of economic policy and can only be achieved through political action.¹⁴

The structural problems that Algeria needs to overcome in order to take the road to development are equally difficult to face, but they are directly embedded in the economic policy matrix. These structural problems are, specifically, the demographic boom, the massive need to create employment, the imperative to offer the population decent living conditions and economic prospects, and the triple external dependence (on hydrocarbon exports and food imports, but also on international loans every time that a drop in oil prices cuts off the economy’s principal source of financing).

### 2. a) Demographic Dynamics

Algeria is about to culminate its demographic transition (the fertility rate in the year 2000 was 2.54 children per woman, slightly above the replacement level). Nevertheless, due to the extreme youth of the population (40% of the Algerians are under 15 years of age, and 70% are under 30 years of age), the demographic dynamics will put additional pressure on the Algerian economy and society in the next two decades, with the labour force growing at rates close to 4%. The relevant projections are shown in Table 1.

<table>
<thead>
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<th></th>
<th>2000</th>
<th>2010</th>
<th>2020</th>
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<tbody>
<tr>
<td><strong>Total population</strong></td>
<td>30.31</td>
<td>35.23</td>
<td>40.63</td>
</tr>
<tr>
<td><strong>Working-age population</strong></td>
<td>17.25</td>
<td>23.2</td>
<td>28.3</td>
</tr>
<tr>
<td><strong>Labour force</strong></td>
<td>9.416</td>
<td>12.2</td>
<td>15.28</td>
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Source: Prepared by author using data from UNDP (2002, p. 144)
* Assuming a reduction of the birth rate according to the United Nations estimates (the most conservative scenario).
** Author’s calculation, assuming a constant rate of activity (labour force/working-age population) equal to the present rate of 54% (91% for men and 17% for women).

In comparative terms, we should point out that Algeria is now the Arab country –with the exception of Iraq and Palestine- with the highest unemployment rate, affecting approximately 30% of the labour force (three million unemployed people¹⁶). 83% of these unemployed people are under 30 years of age and 68% have never had a job before; thus, the unemployment rate for young people under the age of 25 is 54%. And this despite the fact that, for statistical purposes, only 17% of working-age women are included in the
labour force figures. So these projections do not take into account the foreseeable transformation of women’s social roles in the future.

Leaving aside the social infrastructure requirements that this demographic dynamics will create, “the greatest single issue facing the economies of the Middle East and North Africa [especially Algeria] is the challenge of employing its people in good jobs”. In order to prevent the number of unemployed people from increasing in the next years, it will be necessary to create at least 300,000 new jobs each year (if these jobs are not created, then there will be that many more candidates for emigration). The fact that, in historical terms, all of the countries that have undergone a demographic transition have generated important migratory movements that have lasted for several decades makes this even more pressing. In the case of the Maghreb countries, however, the restrictions on this escape valve for demographic pressures are increasingly insurmountable.

2. b) Material Living Conditions: Running Water and Housing

In spite of its enormous territorial extension, Algeria is an excessively populated country, with a population density in the coastal areas of over 250 inhabitants per square kilometer. Far from being in any condition to satisfy its population’s basic needs, Algeria must face a chronic shortage of food and running water. According to United Nations data, the amount of water for all uses available annually is 470.4 m$^3$ per person (in 1996 that amount was 527 m$^3$ per inhabitant). Even so, estimates suggest that between 35% and 50% of the water consumed in the country’s large cities is lost through leaks in the canal system and illegal taps. As a result, a large part of the population has to put up with permanent restrictions on their water consumption, to the point that water availability is becoming a permanent source of social discontent in Algeria.

Another symptom of the penury of Algerian living conditions is the housing situation. With more than 30 million inhabitants, the country is estimated to have 4,100,000 housing units (a quick calculation of the average number of people per housing unit, with an average of three rooms, gives us an approximate average of 7.3 people per housing unit, as opposed to 5.7 in Morocco or 4.9 in Egypt). The average household size is 6.58 people (which gives a result of nearly 350,000 households with no housing). The CNES (2001) has estimated a deficit of 1,600,00 housing units, but in 2001 only 66,000 subsidized housing units were provided. In contrast with this, it is estimated that a million empty housing units that are not used by their owners exist. In the face of these difficulties for access to housing and employment, the average age of marriage is getting later and later (31.3 years of age for men and 27.6 for women).

2. c) External Dependences

With a 45% rate of dependence on food imports, Algeria can only guarantee the food supply of less than half of its present-day population. In fact, the cultivated surface area per inhabitant (0.265 hectares) has decreased by 50% with respect to the early 1970s. This is due to the fact that the population has tripled since Algeria’s independence, but it is also due to the occupation of an increasing proportion of the most fertile land by uncontrolled
urban development. According to official estimates, only 18.5% of potential farmland is actually farmed. Just as the food supply has become another serious preoccupation for public order, the food bill is a (macro)economic structural problem of great importance for economic management in Algeria.

Apart from this, the magnitude of the oil monoculture is so great that analyses frequently use the international oil prices (specifically, the Saharan Blend price) as the single explanatory factor for the Algerian economy. This is no exaggeration: over 60% of the State revenues (64.9% during the first semester of 2002, and 77% in 2001) come from “oil tax revenues”. Hydrocarbons make up over one third of the Algerian GDP (41% in 2001) and over 97% of its exports. Although these figures vary from year to year according to the ups and downs of international oil prices, the fact is that for over thirty years no significant advances have been made in reducing this dependence.

The year 1999 clearly marked an inflection point in Algerian economic policy, although the new direction it has taken is not yet clearly visible. After years of economic and social dislocation and the sharp fall in the standard of living between 1988 and 1994—the immediate cause was the steep fall of oil prices—the period from 1994 to 1998 was marked by the painful recognition of Algeria’s lack of economic autonomy with respect to the world capitalist system—as a consequence of the external debt burden and its inability to repay it—and by the implementations of the structural adjustment program imposed by the IMF (during this whole period, between 1986 and 1999 the GDP per inhabitant fell from 2,590 US$ to 1,550 US$). After an impasse of about a year, the election of the new president in the April 1999 elections marked a new period of structural post adjustment that the government would like to have been characterized by normalization on the political level and by “reforms and trade liberalization” on the economic level. What, specifically, was the Bouteflika governments’ economic strategy?

3. a) Economic Strategy: Solvency versus Development

One significant feature of this period is the almost complete absence of explicit programmatic documents that systematically set forth, at least on a rhetorical level, the ends pursued by Algerian economic policy and the means chosen to achieve these ends, beyond general appellations to the market economy, structural reforms, and trade liberalization.²⁵ Scattered political declarations by Algerian leaders, the analysis of events, and press informations are the only materials that allow us to give content to this strategy.

In spite of the illegibility of the present government’s economic program, the broad options of economic policy seem quite clearly to be the following:

- **Governance:** Right from the beginning of his term, President Bouteflika has shown a truly committed and frank public position against corruption and fraud, and has promised to promote transparency and efficacy in public administration, beginning with the reform of the judicial system and State structures.

- **Use of public resources:** In the three government programs approved by the Popular National Assembly (ANP) since 1999, the emphasis has been on reestablishing financial and macroeconomic stability, making the balance of payments viable, and accumulating foreign currency reserves. There is an express choice about the sequence of the economic policy measures: financial redressing and structural reforms must come first, and only after these are achieved can the government undertake to satisfy social needs and redress the socioeconomic situation.

As for economic policy as such it is articulated around three broad axes:

- **Public sector/private sector:** The principal objective in the economic field is to continue with the already initiated “market reforms”, promoting the private sector’s role in the economy and creating a favorable environment for investment. In order to reinforce this
process, the privatization of the majority of public enterprises was proposed. After the dissolution or sale to workers or directors of nearly 1,000 companies during the 1994-1998 period, and staff reductions in the rest (the total volume of dismissals during these years rose to nearly 450,000 people), in November 2000, 910 public enterprises (of the 1,170 companies left) were listed as candidates for privatization. The declared intention was to privatize a hundred of them within a year’s time.

- Trade liberalization: In order to promote competitiveness and to attract foreign investment, the reduction of trade protection in Algerian markets was proposed. Specific actions to this effect were the celebration of a Euro-Mediterranean Association Agreement with the European Union (providing for the creation of a free trade area in a 12 years time period) and the accession to the World Trade Organization, since Algeria is one of the few countries in the world that does not yet belong to this organization.

- Regulation and Structural Reforms: The principal instrument for implementing the Bouteflika governments’ economic strategy should be “structural reform”. This expression refers to a whole series of reforms: the regulation and structure of the administration of justice (specifically, the reinforcement of its independence and its agility and the improvement of judges’ qualifications); education (ending State interventionism in pedagogical orientations and eradicating religious fanaticism, revising school cycles, curricula and textbooks, as well as legalizing the nearly 600 private schools that exist in a legal vacuum, and promoting teacher formation); and the public administrations (administrative reform). In the economic field, the reforms should take shape as: a) the restructuring and privatization of public enterprises, b) the reform of the financial sector – especially by reorganizing the public banks, c) a profound reform of the customs tariff system, and d) the liberalization of the hydrocarbon sector, along with other equally key complementary measures, such as the reform of the tenure and ownership regime of farmlands and industrial plots.

3. b) Economic Results

Before evaluating the specific results of Algerian economic policy in the past three years, we must note that President Bouteflika’s governments have encountered highly favorable economic conditions. The increase in international oil prices registered starting the second semester of 1999 gave these governments a considerable margin within which to maneuver in order to finance their policies and plans. In terms of their own goals regarding the use of public resources and opening the country up for trade, we have to admit that the Bouteflika governments’ economic management has been rather successful. But they have been less so in the areas of governance, promoting the private sector, and structural reforms.

In effect, the country’s solvency has improved both from the point of view of the financial situation and from the point of view of international perception of the country risk. In one evaluation of his first three years as president, Bouteflika stated the following: “[we have achieved] an important surplus in the balance of trade, the control of inflation, the liberalization of foreign trade with an emerging dynamic private sector [and] the
reconstruction and increase of foreign currency reserves”. These achievements are summarized in Figure 1.

Figure 1. Algeria’s Net External Financial Position

Due, mainly, to the rise in international hydrocarbon prices registered since the end of 1999, the value of Algeria’s exports doubled and the country has managed to accumulate 22.5 billion US$ in foreign currency reserves (when these reserves fell to only 4.4 billion US$ in 1999, letting the country on the edge of bankruptcy). In principle, this is a good indicator of an economy’s foreign viability, but it is also a variable that reflects the country’s credit position with respect to the major countries with strong currencies. Simultaneously, the external debt was reduced by a third: from a maximum of 33.7 billion US$ in 1996 it went down to 22 billion US$ at the end of 2002. These figures reveal that Algeria’s net foreign financial position was, at the end of 2002, slightly positive; that is, that Algeria has become a creditor against the rest of the world. A very uncommon position indeed for a less developed country.

On the other hand, the economic logic underlying the country’s positive net balance with the rest of the world (with an accumulation of foreign currency reserves equivalent to twenty months of imports, four times the volume of Morocco’s reserves, for example) is hard to understand. The same is the case for the budgetary surplus that the State has run since 1999 in an underdeveloped country with the social deficiencies that the Algerians suffer, not to mention the current account balance surplus of over 6% of the GDP. At any rate, this comfortable financial position is sustained by an excellent development of the
main macro-economic variables: inflation is stabilized at a very moderate level (0.3 % in the year 2000 as opposed to 5.7% in 1997, even if it has rebounded again, partly as a consequence of the depreciation of the Algerian dinar, to 4.2% in 2001 and an estimated 3.2% for 2002) and the budgetary balance went from a deficit (-3.5% of the GDP in 1998 and –0.5% of the GDP in 1999) to a 19.9% surplus of the GDP in the year 2000 and a 3.4% surplus in 2001.

But in order to take full stock of the Bouteflika governments’ economic policy, we must contrast this excellent macroeconomic health with its effects on the population’s living conditions and economic perspectives, as well as with its effects on national development. In this respect, the balance is much gloomier: in terms of growth, for example, the Bouteflika governments have shown themselves endemically incapable of transforming the huge oil revenues into wealth and wealth into well-being. In fact, the growth of the GDP has been slowing down continuously since 1998 (see Figure 2), while the revenues from hydrocarbon exports surpass all historical records. At any rate, this revenue has not stopped increasing since 1998, while the rate of economic growth has shown a sustained decreasing tendency, even though the figures have remained positive.

![Figure 2](image_url)

**Figure 2**


Besides, these rates of economic growth (at real terms) approach the growth rate of the population (1.82% in 2000) more and more closely. That is, they have hardly contributed at all to the growth of the per capita GDP (which went from 1,550 US$ in 1999 to 1,630 US$ in 2001 according to the World Bank). It is true that, starting in 1995, there has been a
small recovery in terms of income per inhabitant (+1.5% per year, instead of –1.7% per year between 1990 and 1995), but the distribution of this income seems to have worsened. Due to the wages’ loss of buying power and the increase in unemployment, consumption per inhabitant fell by 0.4% yearly between 1990 and 2000. Even the guaranteed national minimum wage (SNMG), received by 13% of the wage workers, has incessantly lost buying power (in spite of the last minimum wage revision of 33%, in January 2001, when the minimum wage was placed at 8,000 dinars per month, about 100 €). The average salary in the industrial sector, whose workers are objectively privileged in present-day Algerian society, reaches 23,620 dinars per month (about 300 US$).

As for the unemployment rate, even though President Bouteflika himself admits that it would be necessary to achieve rates of economic growth of 7% to 8% per year in the next ten years in order to keep unemployment from increasing, official forecasts do not anticipate such growth rates. In the budget approved for the fiscal year 2003, the estimated growth rate is 14% (the IMF forecasts a growth rate of 2.9% for 2003, in its September 2002 World Economic Outlook). Even so, the increase in State expenses for the year 2003 will not exceed 4.2%.

From the point of view of population and territory, the difficult living conditions and the State’s growing disengagement in an ever-growing number of areas are palpable. The poverty statistics mark this tendency quite clearly. These statistics show a growing pauperization of broad segments of the population: according to these estimates, 23% of the population (that is, 7 million people) are below the absolute poverty line (daily income below 1 US$), while over 40% (a total of 14 million people) have a daily income of less than 2 US$.

The IMF itself, despite being notoriously satisfied with the global development of the Algerian economy since 1994, admits that “the social and political situation has recently deteriorated”. In its report, presented as an alternative to the official report Algeria presented to the United Nations Committee on Economic, Social, and Cultural Rights in November, 2001, the International Federation of Human Rights Leagues goes further, as the report’s title shows: “Algeria. Violation of Economic, Social, and Cultural Rights: A Population Made Precarious”.

One synthetic indicator of this rate of negative transformation of wealth into the population’s well-being is the difference between the position that Algeria occupies in the world classification of GDP per inhabitant (84th position) and the Human Development Index calculated by the UNDP (106th position), that is, a value of negative transformation of –22.5

But beyond the economic indicators, from the point of view of the regulation of economic activity, we must also record an evident stagnation, if not a blockage: “since 1999, the effective application of structural reforms has been stagnant in most areas, in spite of the important preparatory work that is going on”.

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economies) to 5 (for repressed economies), even if there is a slight retrocession with respect to 2001 (3.10), which may reflect some deception in the international markets with respect to the advance of the reforms in Algeria. But we must not lose perspective: the category that Algeria continues to belong to in this classification is that of mostly unfree countries.

In any case, the Bouteflika governments’ reforming impulse can only be classified as erratic. The vicissitudes of the successive privatization plans offer a good example. The rhythm, the content, and even the forms of privatization seem to change according to the political ups and downs and the international pressures. While the Minister of Participation and Coordination of Reforms, Abdelhamid Temmar, declared in January 2002 the government’s intention of proceeding shortly to privatize 184 “destructured” public enterprises, at the beginning of November the same minister (now reconverted to Minister of Participation and Investment Promotion) insinuated that, in reality, 400 of the 1,170 State societies were profitable and expanding. According to this minister, only about 200 enterprises were “destructured”, and some 70 of these would be privatized. He then declared, a few weeks later, before the National Assembly, that in a two-year period, 320 public enterprises would be privatized, in “packages” of 40, out of a total of 700 enterprises included in a new privatization program. The reality is that, by December 2002, only one important public enterprise had been effectively partly privatized in that three year period (the iron and steel company Sider, including the big Annaba industrial complex and its port facilities, in which the Indian group ISPAT acquired a 70% participation). The political confusion on this subject could not be greater.

A very significant case is the banking sector. The six public banks continue to concentrate over 90% of the bank assets (although there are 25 other private banks, among them six foreign banks that operate in Algeria). This is a key dossier, since the public banks constitute the principal source of financing for the public enterprises, many of which could be driven to bankruptcy without this financial support. In the last three years, there has been a recapitalization of the public banks which has meant an injection of approximately 1.2 billion US$, in the framework of a large reorganization operation previous to their eventual privatization. At the end of 2001, the unrecoverable credits of these banks rose to over 4.5 billion US$, of which 600 million in public sector enterprises, but the privatization plans seem to have been postponed for the time being.

As for the private sector, its much vaunted expansion needs to be put into perspective; its weight continues to be very limited in the whole of the Algerian economy, and in any case it is much less developed than that of the rest of the Maghreb countries. Besides, a very important part of its business volume corresponds in reality to a handful of private enterprise groups that thrive on the outskirts of power, in a gray area and in conditions that can hardly be described as free competition.

A good indicator of how slowly the modernization of the Algerian economic fabric is advancing is the slight development of telephone communications and Internet connections; these are often leverage sectors for other activities, specifically in the private sector. Even after the new post and telecommunications law was approved in August 2000 and a second GSM mobile phone license was granted in July 2001 (obtained by the Egyptian group
As for the three great reforms the President announced at his inauguration (justice, education, and the administrative reform), after a first stage of preparing expert reports now they are all still awaiting decisions and concrete action. But it is unlikely that the major reforms regarding the legal and institutional framework of economic activity be carried out before the April 2004 presidential elections. A case in point is the reform of the regulation of the hydrocarbon sector. One of the heavyweights in the Bouteflika governments, the Minister of Energy Chakib Khelil, announced as early as March 2001 a draft bill changing the Hydrocarbons Law that provoked widespread social opposition and at present has not even been discussed within the government, much less presented to the ANP. The plan was finally frozen by decision of the President of the Republic in December 2002. Another example is the regulation of the farmland tenure and ownership regime; examination of this subject was postponed by the government once again in November 2002.

Finally, with reference to trade liberalization, this, of all the objectives and achievements, is the area in which the Bouteflika governments can be said to have been most consistent. In April 2002, the government signed the Association Agreement with the European Union, and the negotiations for joining the WTO are well on their way, with their conclusion anticipated for late 2003 or early 2004. Even so, the successive governments have shown rather a lack of interest in constructing the social consensus necessary for such a far-reaching strategic process (see section 5.b).

In conclusion –and referring to a prominent debate in Europe in recent years-, while the Bouteflika governments seem to have advanced considerably in terms of the nominal convergence of the Algerian economy, we could even say that they have moved backwards with respect to real convergence. As for the structural reforms, said governments seem to have wasted these last three years in a propedeutic mission which, for now, has hardly had any real impact on Algerian economic and social reality. But let us move on to a brief analysis of the only element of their economic strategy in which these governments have actually gone from plans or commitments for the future to concrete actions.


In April 2001, the government announced a plan for relaunching economic activity for a four-year period (2001-2004, that is, until the end of Bouteflika’s presidential term), 525 billion dinars (that is, almost 7 billion US$, nearly 13% of the GDP for the year 2000, spread out over three years) were allocated for this plan. The plan’s declared objectives were to “absorb unemployment” and the “relaunching of the State’s basic activities”. Thus, it was a classic plan for stimulating demand through investment in infrastructure and support for agricultural development, for SMEs and for developing human resources. The
plan contained some measures to reduce the tax burden for foreign investments and for private firms at large, as well.

Once the mid-point of the plan had been surpassed, however (in fact, the plan anticipated concentrating three quarters of the spending in the first two years), an evaluation of its impact cannot be very complacent. Despite the triumphalist declarations of the Secretary of State in charge of Relaunching the Economy (370,000 jobs created, 75% of them permanent jobs, with the participation of 11,000 private enterprises), the plan has had only insignificant effects on the economic growth rate. Initially, the government held that the plan could help to achieve a growth rate of up to 5% or 6% of the GDP. These supposed jobs have not appeared in the statistics of social security payments, which are still stagnant. This may be due, in part, to the plan’s limited range, considering that it involved less than a third of the hydrocarbon exports of a single year, distributed throughout four years, and a bit more than half of the annual revenue increase for exports registered in the last three years. It may also be due to the close overlap of the networks of the informal sector at all levels in the Algerian economy (see Figure 3). But it does bring up inevitable questions about the quality of public spending in Algeria. In fact, according to the CNES evaluations, which nevertheless had strongly supported the plan in its previous report (first semester of 2001), the specific application of this plan “often takes on the conventional form of ordinary operations, with no strategic depth whatsoever”.46

The National Agricultural Development Plan (PNDA), approved in July 2001 but inscribed in the same logic, seems to have been a bit more successful, at least in terms of the growth of agricultural production (18.7% between 2000 and 200147). The PNDA basically favors financing agricultural investment for intensifying cultivation by adopting irrigation techniques, growing crops under plastic, or fomenting more intensive crops. The reform of the farmland tenure and ownership regime, apparently postponed at present, should complement this plan for relaunching agriculture.
4. Social Basis of the Reforms and Definition of National Interest

When dealing with such an ambitious (on paper) reform program as the one that the Bouteflika governments undertook, the inevitable question is which social forces support the reforms. Leaving aside international pressures, the first surprise in Algeria’s case is the fact that the economic reforms do not have the definite support of any of the large organized interest groups. Apart from some authentic good-will reformers in the Algerian government itself, the reform’s driving force seems to be the consciousness of the power circles that their own maintenance in the government depends to a large extent on international support. And this international support mainly depends, in turn, on the implementation of the market reforms, which in fact run into strong internal opposition.

The lack of consensus on the principal axes of these reforms is almost total in Algerian society: neither workers, nor entrepreneurs and business community, nor civil servants, nor the media, nor the population in general, nor even the political parties as such, seem to identify with the economic objectives imposed by the Bouteflika governments. On the contrary, criticisms and mobilizations are rife, attempting to block virtually every specific reform initiative of the Government. In fact, we could say that, in present-day Algerian society, there is not even any true consensus on the virtues of a market economy as such. This can be explained as much by the rentist habits acquired by a majority of the Algerian economic agents during the last three decades as by the very lack of credibility of the government’s economic transformation project. This quite clearly shows the need to undertake a radical transformation of all the economic incentive structure in terms of taxes, wages, subsidies, credit access, and prices, in order to culminate the transition towards a market economy. This has become a prerequisite for success in the economic reforms that are under way.

In this context, the lack of political and social debate among the economic agents, the political parties, and the government on the subject of economic policy is conspicuous. Consequently, there is no established mechanism for defining national interests as an aggregate, and this contributes to the opacity of the processes for defining objectives, deciding priorities, and formulating policies. This, in turn, nourishes the population’s disaffection towards the political institutions. Since 1998, the National Economic and Social Council (CNES), and for the last two years the Forum des Chefs d’Entreprise, have tried to promote public debate on economic policy, with a large internal media impact and a noticeable international echo. However, they have not had any visible impact on the decision-making process. As for the political parties, they do not fulfill any role as mediators or in structuring interests, as should supposedly be the case in a democracy.

The political system does not function as a way to aggregate preferences and define collective priorities, but as a stage for the fight to control the management of the oil rents and a screen for interest groups situated on the sidelines of the market and the democratic game. As a result, with this lack of habits and channels for coordination between political representatives and economic agents, and therefore the inexistence of agreements and commitments that should be respected between them (that orient and determine government action), there is a “gap between the generosity of the declared intentions and lack of dynamism in everyday practice” and “this gap is due to very profound reasons related to the
nonexistence of any serious economic projection for the country’s economic and social development”. Thus, building established fora of discussion, negotiation, and arbitration among the diverse interests that enter into play is a key element for guaranteeing effectiveness in formulating and defending national interests, and, on an instrumental level, of Algerian economic policy. This takes us to the inevitable interaction between economic reform and political reform (see conclusion).

Thus, the government does not carry out its role as mediator among the different interests and pressure groups, fitting together the traditional lines of social fracture (workers and unions/entrepreneurs/farmers; exporters/importers) in an integrating and mobilizing political project. Instead, the government superimposes opaque power structures on these fracture lines, insofar as economic policy does not seem to respond to the interests of any of the organized pressure groups, let alone represent a compromise between different economic, political and ideological goals and interests in the society, but is rather defined with no substantive political debate. Under these circumstances, it becomes hard to avoid interpreting Algerian economic policy in terms of the political cycle as a mere strategy for maintaining power. Even though the Bouteflika governments have not adopted proactive measures to improve the population’s lot in the last three years, at the same they have carefully postponed all of the reforms that could have negative effects on the socioeconomic status quo, such as the privatizations. The specific measures that they do have implemented will not show their effects until far beyond this presidency’s time horizon; in the case of the Association Agreement with the European Union, for instance, these effects will not be seen until much later, even after President Bouteflika’s eventual second term (2004-2009).

In this context, another issue of great importance is the (lacking) quality of economic information. Paradoxically, in an economy that continues to be subject to strong planning mechanisms and where the State reigns almost in every important sector, there is an almost total lack of detailed prospective studies and analyses on the probable effects of the government’s broad economic options, such as studies on the impact of trade liberalization in different industrial sectors, credible economic forecasts, or even exhaustive stocktaking of the socioeconomic situation. In fact, trustworthy economic statistics are often unavailable. In its reports, the IMF refers to this lack of quality in the national economic information system, pointing out that “data weaknesses [...] currently hamper the monitoring of economic conditions and formulation of economic policies”51. What this means for companies is that they do not have key data available for their forecasts and calculations, specifically on market size, household income, the development of the economic environment, etc. At the same time, this justifies the doubts expressed by the main economic agents about the existence of a true national economic strategy.52 In these circumstances, any Algerian economic analysis can only, by definition, be a mere approximation.

All in all, this means that Algerian economic policy is not something that the economic agents appropriate. This seems to have put an end to the traditional legitimation of power function that economic policy has had in Algeria since the country’s independence.53
5. Some Key Issues for the Future: An Economic Solution to the Crisis?

In present-day conditions, and from the point of view of economic policy, Algeria needs a true national plan for rescuing the economy, based on a well-articulated modernization project with a reform program that will offer a clear vision of the main national economic problems:

- Improvement of the economic perspectives of the majority of the population. This implies a strategy for creating employment and a strategy for facing the institutional distortions that prevent an improvement in living conditions, in particular the housing and water shortage.

- Insertion in the international markets. This means responding to the issues that arise from opening national markets up to international competition (in terms of the intensity and the sequence of this liberalization), the role that foreign investment should play in this process and the incentives that it should be offered, and the optimization of hydrocarbon resource exploitation (with the objective of maximizing the transformation of hydrocarbon rent into national wealth, which also brings up, among other subjects, a series of issues related to intergenerational fairness).

- The reform of the country’s institutional framework. Specifically, this means fighting corruption, increasing the State’s efficacy, and reforming education and justice. This will all be tremendously difficult without a simultaneous process of real democratization in the country.

After defining the objectives of the strategy, building the necessary social consensus around these objectives (overcoming the entrenchment of vested interests) and mobilizing all available resources to achieve them will both be indispensable moves. In particular, hydrocarbon rent will need to be mobilized, but private initiative and international financial markets will also have to be harnessed. A country with such important social and development deficits that nonetheless refuses to exhaust all its borrowing capacity in international markets, as Algeria has been doing for the last three years, reveals the existence of serious distortions at the level of the collective decision-making mechanisms.54

In short, it needs to be borne in mind that the economic and social dynamics that led to Algeria’s catastrophic civil war over ten years ago were unleashed by the October 1988 revolts; and the principal cause of these revolts was the deteriorating material living conditions of broad segments of the Algerian population. At a time when the terrorist threat seems to be lessening, the risk is that the civil war will have ended without the deeper causes that provoked it having been resolved. Thus, any policy of social pacification (without which there can be no national concord, to use the term of the main political initiative of President Bouteflika to pacificate the country, approved in a referendum in September 1999) should be based on an appreciable improvement of the future economic perspectives and of the present-day living conditions of the majority of the population.
5. a) Employment

On the other hand, this improvement in living conditions cannot actually occur without the creation of millions of jobs in the next ten years, in order to remedy the rampant unemployment (there were two million unemployed people in 1997, compared with around three million at present). Jobs must also be created in order to incorporate the new cohorts of Algerian youth that will enter the job market in the next years (to absorb these cohorts, at least 300,000 jobs will need to be created annually; see section 2.a). This means achieving an increase of over 50% in the employed population over the next ten years, “an accomplishment [...] not even achieved by the high performing East Asian economies during the height of their employment growth periods”.

Between 1989 and 1997, the employment growth rate was 3.2%, clearly below the growth rate of the labour force (4%). According to Eurostat (2002, p. 2), the growth rate of employment in Algeria in 2001 was 1%, absolutely insufficient for absorbing the growth rate of the labour force, which was over 3.5%. This failure to create employment is due, in part, to the low labor-intensiveness of Algerian production, but it is explained above all to the lack of economic growth. Between 1990 and 1999, the average economic growth rate was 1.5%, but a rate of 5.5% would have been necessary to absorb the growth of the labour force. This considerable increase in the growth rate can only be achieved, however, through substantial increases in investment. In Algeria, the direct or indirect source for accumulating this capital investment in the short term can be none other than hydrocarbon rent or foreign investment.

Under these conditions, any economic policy that attempts to face the country’s various problems and, therefore, create a basis for a minimum of social stability, should be oriented towards an intense creation of employment and thus towards promoting labor-intensive activities such as construction, agriculture (that at the same time promote internal demand), and public works. In order to do this, public investment and expenses should be evaluated in terms of shadow prices (that is, taking into account the indirect social benefits of the employment-creating activities). What is outrageous is that a country with an unemployment rate of this kind resorts to 6,000 Chinese workers (hired by a Chinese company that won a public bid) to construct public housing in Algeria.

Judging from official documents, Algerian authorities are perfectly aware of this priority and of the remedies required, but they do not seem to feel the necessary urgency for mobilizing and concentrating all of the national resources to achieve this objective. The delay or inexistence of a clear general concept of the reform of structures and contents of the national educational system is conspicuously revealing in this respect. Educational policy (particularly in primary and secondary education, victims of the explosive mixture of negligence and zeal for manipulating contents for several decades) acquires a fundamental importance in a country in which over 40% of the population is in school-age, because it determines the future.
5. b) Trade liberalization

Algeria is still one of the most strongly protectionist countries in the world: the customs tariffs’ average nominal rate is 21.3\% and the weighted rate (customs revenue/export value) is 16\%. Nevertheless, since 1999 Algeria has taken on an express commitment to trade liberalization, an “irreversible option” according to President Bouteflika himself. This option has specifically translated into a profound reform of the tariff protection system, in the conclusion of an Association Agreement with the European Union that includes the creation of a free trade area within a 12-year period and the negotiations under way for Algeria’s accession to the WTO.

This option, however, seems to have been undertaken without sufficiently considering its probable impact on Algerian economic activity. The sustainability of this liberalization process cannot be taken for granted, in a country in which the only export sector is the hydrocarbon sector (97\% of the total value of exports) and which suffers from a considerable rigidity in the composition of its imports. For the last seven years, imports have been stable at around 10 billion US$. Of this amount, approximately 3 billion US$ are bound for food and pharmaceutical imports, 3.5 billion for capital goods, 2 billion for semi-finished goods, and 1.5 billion for consumer goods. These last two items are the most sensitive to foreign competition, especially because there are indications that the demand for imports in these sectors has been strongly repressed since the early 1990s.

While the Algerian government tried to overcome the country’s dependence on hydrocarbons by developing heavy industry in the 1970s and the 1980s, now the watchword is to open up and liberalize the economy. But there is no guarantee of success this time, either. At any rate, one important difference is that then there was a broad social consensus about industrial policy and the general strategy of development; even the structural adjustment program was imposed in the 1980s and early 1990s without excessive social opposition. In contrast, at present the trade unions as well as the entrepreneurs and business community are using all the means they have to fight the major liberalization initiatives that the government is undertaking.

1) The Association Agreement with the European Union

In December 2001, the Algerian government and the European Commission reached an agreement on the text of the new Euromediterranean Association Agreement between the European Union and Algeria, later signed in Valencia (Spain) in April 2002. It is interesting to note that, despite the difficulties in reaching an agreement – Algeria was the last Maghreb country to sign the Association Agreement within the framework of the Euro-Mediterranean Partnership, after Tunisia in 1996 and Morocco in 1998 –, the Agreement is not, in the end, very different from those signed by the other countries. However, hydrocarbon trade is really regulated by long-term bilateral State contracts, and will not be affected by the Association Agreement.

From a strictly economic point of view, it is difficult to understand why the Algerian government was willing to sign such an agreement. In this case of a country whose exports
are exclusively concentrated in the hydrocarbon sector, this Agreement means that it will, in practice, be granting unilateral concessions. In effect, with reference to the cooperation funds provided by the European Union, the European Commission did not wait for the Agreement to be signed in order to draw up a Strategy Document for the 2002-2006 period, to prepare an Indicative National Program for the 2002-2004 period (endowed with 150 million €), and to start the selected projects: 60 million € for a program supporting SMEs and 38 million € for another one supporting privatization and industrial restructuring. At any rate, this volume is rather insignificant in a country where the revenue from hydrocarbon exports—and, therefore, State revenue—has risen by nearly 10 billion US$ a year during the last three years.

It is thus not surprising that social partners have criticized the Algerian government for having “negotiated its insertion into the world economy badly”. This refers to the unilateral reduction of customs tariffs approved by the government in August 2001, to take effect on January 1, 2002 (see note 60), precisely at the moment when Algeria was in the midst of the final run-up to negotiate the Association Agreement. The program for dismantling customs tariffs provided for in the Agreement will be based on these lower tariffs. In any case, it does not seem that for the Algerian government the key consideration were the scope and impact of the economic commitments it has acquired once the Association Agreement comes into effect: time runs on its side. The experience of other Association Agreements shows that it will take two to three years for the Parliaments of the EU member States to ratify the Agreement, so that, assuming that none of these countries blocks it, the Association Agreement will enter into force by 2005-2006. In addition, the creation of the free trade area provided for in the Agreement is set to be completed after a twelve-year transition period; thus, the dismantling of the customs tariffs will only affect the most important sectors of national production from the sixth year on (not before 2012). On the other hand, the Algerian government rejected the European Commission’s offer to implement immediately a provisional Association Agreement limited to its trade provisions.  

Nevertheless, we must consider that the new Agreement, which replaces the 1976 Cooperation Agreement (in effect for over 25 years), will constitute the legal and institutional framework for the relations between the European Union and Algeria in the coming years and perhaps even decades. This Agreement irreversibly establishes a framework of insertion for the Algerian economy into the world economy. To this extent, the Association Agreement probably represents the main long-term strategic economic decision adopted by the Bouteflika governments. In spite of this, the Algerian government signed the Association Agreement in a completely unilateral manner, with no consultation or articulation of social consensus of any kind. Faced with this lack of “socialization” of the challenges that the future implementation of the Agreement will bring, it is difficult to imagine that the population will be ready to put up with the sacrifices it will require in the middle term.

The principal challenge is the creation of a free trade area, with the suppression of the Algerian customs tariffs on industrial products originating in the European Union. The Agreement provides (Article 6) for the creation of a “free trade area throughout a transition period with a maximum length of twelve years”, although this twelve-year period will
“begin on the date it enters into effect” that is, starting in 2004-2006. The industrial products are classified in three categories: the products included in the first category (Annex 2 of the Agreement) should be liberalized as soon as the Agreement enters into effect.

Customs rights for the products included in Annex 2 should be eliminated progressively (80-70-60-40-20-0 %) in a six-year period (by 2010-2012 at the soonest), while the rest of the products will enjoy a more prolonged protection, which will be dismantled throughout a twelve-year period (90-80-70-60-50-40-30-20-10-5-0 %), that is, around 2016-2018. Besides, the provisional additional right that is presently perceived for 48 products (48% ad valorem) should be eliminated in a four years period starting on January 1, 2002, with a 12 percentage point reduction each year; thus, these will really be the only products (tractors, trucks, equipment for public works) that will immediately feel the effects of the free trade area. As for agricultural products, the Agreement confirms the preferences that the European Union already grants Algeria, and mentions (Article 13) the establishment of “a greater liberalization of reciprocal exchanges of agricultural products” that should be negotiated within a period of five years.

As for the foreseeable impact of the Agreement, any specific measurement comes up against great difficulties. The standard quantitative methods and techniques for measuring the impact of a trade liberalization process have very limited utility in the Algerian case. To begin with, these techniques are assumed to measure the impact on a market economy, and this does not exactly define the reigning situation in Algeria. In effect, almost all of the exports and a very large part of the imports (perhaps even over 50%, among them a large part of the imports in capital goods deemed for public enterprises and food products such as grain) occur in a regime that could very well be described as State trade—or an administered economy-. This means that they will not be affected by the liberalization of market exchanges (since they are subject to discretionary decisions by State bodies, rather than by the play of market forces and prices), and that, through these products, the government will be able to manage to a certain extent the impact of liberalization through its public acquisition practices. Moreover, in a country in which the State accounts for virtually all exports (through the public hydrocarbon enterprise, Sonatrach), the allocation or access to foreign currency plays a fundamental role for the materialization of the effects of the free trade area through an increase in imports. However, in Algeria, in spite of the formal liberalization of the foreign currency market that began in January 1996 and of the dinar’s current account convertibility, it is in fact the Banque d’Algérie—the central bank which directly receives all the foreign currency originating in hydrocarbon exports—that monopolizes the supply of foreign currency in the weekly foreign currency auctions among the commercial banks and, through these auctions, the exchange rate (another fundamental variable for measuring the impact of trade liberalization).

But the dismantling of the customs tariffs will also be felt in State revenue, since presently nearly 10% of its total revenue (that is, approximately 1.5 billion US$ per year, or 25% of the budget revenue from sources other than hydrocarbons) comes from customs revenue, and a large part of this revenue will gradually disappear with the creation of the free trade area (the imports originating from the European Union constitute two thirds of the total Algerian imports). In order to compensate the loss of this revenue with an increase in tax
revenue, it will be necessary to increase tax pressure by approximately 25% above the present levels. The Algerian population and companies will not easily accept this, but, above all, this measure runs the risk of affecting the degree of social support for the Association Agreement and, more generally, for trade liberalization and for economic reforms.

Having said this, the question must be raised of the sustainability of the agreement is, especially considering that the effective application of the free trade area will create new tensions for the Algerian economy:

- From a macroeconomic point of view, the liberalization of exchanges and the structural dependency on world hydrocarbon prices and on importing food products and capital goods will probably give raise to a bottleneck in the foreign sector. This shortage of foreign currency could force a reintroduction of exchange rate controls, and would cast doubts on the dinar’s convertibility, one of the fundamental conditions in order for the very creation of the free trade area to work. In any case, more detailed studies on its impact are indispensable.

- On the level of politics, the negative effects in terms of employment and of prolonging the logic of the structural adjustment that Algerian economic policy has been following since the 1980s could turn the creation of the free trade area into an additional factor of destabilization. Not only could the Algerian leading class risk losing legitimacy, but also the European Union and the capitalist system as such.

2) Multilateral Trade Liberalization

According to the Algerian government’s announcements, accession to the WTO is expected for the end of 2003, before the new round of Doha multilateral trade negotiations begins. Contrary to what the Algerian press tends to affirm, this accession is not necessarily linked to a greater degree of trade liberalization. It actually only means a “consolidation” of the present-day protection levels, that is, it means taking on a firm and irrevocable commitment not to increase protection in the future and to convert all trade barriers into customs barriers in order to increase the transparency of the protection mechanisms. Therefore, the accession to the WTO involves, above all, a modernization of Algerian trade legislation, and, as such, presents no alternative. It reflects a commitment to belong to the international community in its present-day form; but it does not necessarily reflect a specific option of economic policy. Even so, it has provoked strong opposition from unions and entrepreneurs, an opposition which may actually reflect the frustration caused by the conclusion of the Association Agreement with the EU, which does represent a much more certain and immediate risk for their direct interests. The negotiations for accession to the WTO run the risk of becoming the scapegoat for the shortcomings in the negotiation process of the Association Agreement and the hurry in which it was finalized with no public debate about its consequences.
5. c) The Unknown Factor of Foreign Investment

Since 2001, the treatment of foreign investment has been assimilated legally to that given to national investment. Nevertheless, this equal treatment does not hide the persistence of numerous administrative and/or bureaucratic, even legal, obstacles to the activity of foreign enterprises in Algeria. One good example is the regulations for lay-offs or for worker participation in the company governing bodies inherited from the socialist period; often, these regulations are not respected in practice in private companies, but they still create legal uncertainty for would-be investors. Add to all of this the slowness and the lack of independence of the judicial system. The result is that no foreign investor dares to enter the Algerian market without previously being sure at least of a certain degree of complicity with the authorities.

Starting in 1993, when foreign investment was first liberalized, and continuing up to the present, foreign investment has been almost exclusively limited to “extraction” activities, mostly in the oil sector (which has absorbed almost all of the foreign investment in the last ten years). There has also, however, been foreign investment in the concession of non-tradable public services such as telecommunications licenses, public works contracts... But until now Algeria has not managed to attract the attention of productive investments.

It is hard to see how this situation could change. While it is true that the international export credit insurance and risk rating agencies have pointed out a positive evolution of risks for foreign investors in Algeria in recent years, it is no less certain that foreign investors continue to be subjected to innumerable bureaucratic delays and obstacles (not to mention corruption practices) and to administrative practices that are often arbitrary and generally very inefficient. Besides, the conditions for hosting and ensuring a quick absorption of foreign investment flows are not met outside the hydrocarbon sector as regards, for instance, logistic infrastructures like ports, airports and roads. Worse yet, the perception of social and political risk in the country continues to be very high, now that the relative position of the Maghreb area as an investment field has deteriorated as a result of the eruption of the East European countries in the international markets. In addition, plans for reforms that are constantly reiterated but never carried out, along with persistent social instability, create considerable insecurity for potential investors.

5. d) Diversifying Exports and Promoting SMEs

In the last three years, Algeria has pursued its process of deindustrialization. The industrial output of public enterprises has dropped by 25% in the last ten years, and the majority of the public industrial enterprises are in a state of technical bankruptcy, with utilization rates below 40% of their theoretic production capacity. Paradoxically, the public industries that are most clearly suffering this retrocession are the labor-intensive ones such as the textile or leather industries, or the agro-alimentary industry, industries in which Algeria should, in principle, have a comparative advantage. It is, in fact, in these very sectors that private enterprises are experiencing a great expansion. Symmetrically, the heavy industries (the metal-mechanic or the iron and steel-making industry), which are, in principle, less competitive, are the industries that are managing to increase their production.
The revitalization of national industry –public as well as private- is, however, the only way at hand to overcome the structural dependence on hydrocarbons. In Algeria, agriculture is not likely to become an export sector –or only a marginal one- due, on the one hand, to the situation of the international markets, and, on the other hand, to the deficit of Algerian food production and to the prospects of demographic dynamics. Algerian agriculture suffers serious limitations as a consequence of several factors. One factor is the water shortage and the variable pluviometry. Another is the small proportion of cultivatable land (no more than 8.4 million hectares, 3.4% of the national territory) and the even smaller proportion of irrigated land (only 7% of the usable farmland, and this irrigated land is the only land capable of sustaining the intensive productions characteristic of potential export sectors). Finally, agriculture has suffered great neglect in the four decades since independence. In addition, there is the subject of the scarcity of mechanization and the judicial uncertainty about whom the farmland belongs to, at least until the reform of the farmland tenure and ownership regime is undertaken and clarifies this matter. As a matter of fact, the agricultural sector does not contribute more than 10% to the Algerian GDP (even though it still accounts for nearly 25% of national employment). And we must never forget that Algeria is one of the world’s most important importers of agricultural products. So there is no doubt that agriculture, in particular the agroalimentary sector, could become the key sector for Algerian development in terms of employment and of reducing dependency on imports; but it is hardly likely to generate a significant exportable surplus in the next years.

Even so, the stagnation that the non-hydrocarbon exports registered in spite of the strong depreciation of the dinar between May 1999 and November 2000 (nearly 20%) shows that the elasticity of the exportable supply, under present-day economic conditions, is at best very low. A combination of several factors can explain this: the lack of entrepreneurs with an enterprising spirit, prepared to play along with the rules of a free market and with no support from public powers; the inexistence of an effective finance sector that guarantees loans for expanding companies; and the institutional –or bureaucratic- restrictions that continue to obstruct legal exports (President Bouteflika himself referred to the “container mafias” at Algerian ports in a speech).

As for industrial policy –non-existent at present, as the authorities themselves admit-, it should concentrate on two aspects: the renewal, in terms of equipment and very often management as well, and the reactivation of public enterprises. The public enterprises were, for years, conceived more as terminals in the system for distributing the oil rent than as nodes of the productive fabric. The articulation between the private and public sectors should be facilitated in order to safeguard and mobilize the physical patrimony and the know-how accumulated over the years in these public enterprises, and to undertake a definite policy of modernization. But there should also be a policy of promoting new companies and new sectors; Algeria is, for example, an importer of petroleum derivative products with a low technology content, such as asphalt and adhesives. It is difficult to exaggerate the importance of undertaking an integral policy of increasing Algerian companies’ productivity; according to Arab Human Development Report (UNDP 2002, p. 87), Algeria is the Arab country (with the exception of the Comoro Islands) with the lowest level of physical capital productivity (i.e. investment efficiency). Added to this, labor productivity is also low. In fact, productivity per worker fell by 2.2% per year between
This, even more than the reduction in investment levels, is what explains the lack of economic growth previously noted. But advances in productivity will do no good without a policy of change that ends the dinar’s endemic overvaluation (partially corrected since 1999), which threatens Algerian companies’ competitiveness in foreign markets.

5. e) The Hydrocarbon Sector and Its Systemic Function

The hydrocarbon sector continues to be a basic necessity sector for the Algerian economy. In the short term, it is the only trustworthy source of foreign currency, its only certain comparative advantage, and the principal source for capital accumulation. The cost of oil extraction in Algeria is approximately 4 US$ per barrel, and its proximity to European markets, which reduces transportation costs and allows exportation by gas ducts, gives Algeria a comparative advantage in this sector. Assigning these scarce resources (foreign currency) is necessarily a public function, particularly in a country with such a marked food dependency. The hydrocarbon reserves allow Algeria to solve the first development problem of any country, the accumulation of capital, but they do not resolve the problems of distributing and mobilizing these resources, with the inherent efficiency issues they raise.

The reform of the hydrocarbon sector is a good illustration of the Algerian government’s real space for maneuvering between the opposed pressures of the international markets and the internal forces that resist changing the status quo. As an expression of these international markets, the Deputy Secretary of the Department of Commerce of the United States, Samuel Bodman, declared, in a visit to Algiers on September 27, 2002, that “Algeria should open up its legislation in the hydrocarbon sector. Time is pressing.”

In any case, it is evident that Algeria will sooner or later reach the limit of its capacity to export raw oil. Even though its quota within the OPEC is 693,000 barrels per day, Algeria has been exporting an average of 848,000 barrels daily for the last two years (and Sonatrach foresees an increase in production to 1.3 million barrels daily). But because of Sonatrach’s policy of diversification, raw oil (the only product subject to quotas) now only accounts for 20% of hydrocarbon export revenues, thanks to its betting on increasing the production of petroleum condensates and natural gas. Beyond the increase in gas production, there is a wide margin for increasing energy exports in the form of electricity (several projects are already under way with Spanish and Italian partners) and by expanding the petrochemical sector, until now clearly underdeveloped, as well as other energy-intensive sectors.

It could be said that the management of oil rent generation has been the area in which the leaders responsible for Algerian economic policy have shown their greatest dexterity since the 1991 modifications to the hydrocarbon law. The liberalization of exploration and exploitation by multinational oil companies has allowed Algeria to discover more new reserves and to attract capital to this sector for financing its expansion.

The government’s intention to reform this sector was made explicit in March 2001 with a draft bill containing a new hydrocarbon law presented by the Minister of Energy. This bill, however, gave rise to bitter opposition and it now seems that it will not even come under
consideration by either the Government or the National Assembly. This draft for a new hydrocarbon law anticipates separating Sonatrach into three entities:

1) An agency that will take on the function of ownership of the public mining domain (the national agency in charge of valuating the hydrocarbon resources), and thus the management of exploration and/or exploitation concessions. In any case, it seems that Sonatrach would keep 43% of the oil domain for itself.

2) An authority for hydrocarbon regulation that will regulate transportation tariffs and access to the Sonatrach network, and will control the activity of hydrocarbon exploitation.

3) Sonatrach, a commercial enterprise in a regime of free competition with foreign enterprises. It will eventually be authorized to open up its capital in order to obtain additional financial resources (the draft bill does not at any point mention privatization).

One of the most important issues that comes up in this context is Sonatrach’s true competitiveness for facing outside competition (and the lay-offs that its restructuring might involve). Besides, will the liberalization of the sector mean the suppression of present-day subsidies for fuel prices, the total estimated value of which ascends to nearly 1.5 billion US$ per year? The strong opposition that the draft hydrocarbon bill has raised among the unions (in particular, UGTA, the former single union and particularly strong in the oil sector) and even among wide circles of entrepreneurs and the party in power –as well as part of the executives of Sonatrach itself- is due to the fear (no doubt legitimate) that this support for consumption will disappear and this source of resources will be lost to big multinationals. But it is also due to the desire (more difficult to defend) to maintain present-day privileges –true rents-, very often linked to the serious inefficiencies that exist within Sonatrach. In this sense, it seems to have been a mistake to mix the reorganization of Sonatrach –for which a consensus could have and should have been reached with the social partners for the sake of national interest- with the forced liberalization of the hydrocarbon sector in Algeria (for which social consensus is at present much harder to reach, despite the strong international pressure in this direction).78

At any rate, one thing is sure: in the near future, there is no other source for accumulating capital in sight in Algeria other than exploiting the hydrocarbons, which by their very nature constitute a rent. And it is the State that must maintain this rent, distribute it, and channel it toward the society and the economy. The challenge is to do this without reproducing its rent nature, that is, by stimulating productivity and facilitating the working of the markets as a mechanism for creating wealth, not only as a space in which rents do circulate. This can be carried out in either of two ways. The first is through public transfers (for example, in the form of subsidized prices, as were common in Algeria up to the mid-1990s), with the drawback of creating important distortions in the market; this may, however, be necessary in some selected cases in order to face the poverty problem and provide the basic necessities to the least favored section of the population. The second option is through a direct demand for goods and services on the State’s part, in national markets and at market prices. This second mechanism is, of course, much more efficient.
5. f) The Institutional Framework and the State’s Role

In practice, Algeria is running the risk of creating a market economy without markets. More than three years after the new President’s inauguration, the fact remains that the implantation of a market economy is not enough, but it must also be a liberal economy, something admitted even by some Government members themselves. Private ownership must be completed with the commercial law rules of a liberal economy, in the areas of competition, protection of intellectual property, contracts enforcement, collecting debts, quality standards, etc. But these norms are closely linked to an equally liberal political system, that is, the rule of law. And this presupposes a far-reaching political reform.

The omnipresence of the informal economy, which has become an authentic escape valve and lubricant for the deficiencies of the Algerian economic system, dilutes all of the reforms that Algeria needs. The weight of the informal economy is estimated by the government itself—probably underestimating it—at 30% of the GDP and approximately a million jobs. The black economy creates important distortions in the functioning of all the Algerian economic institutions; it affects the workings of the market, subject to unfair competition in terms of prices and often in terms of quality also, and in mechanisms of State intervention as well, since it reduces the tax base.

A schematic diagram of the Algerian economy (see Figure 3) shows that an important part of the economic circuits operate outside of the market. State transfers to public companies and to the population are evidently in this category, but a very important part of the economic flow between the private sector and the consumers, and between these two economic agents and the international markets (by way of smuggling), also are. Consequently, the market in Algeria can be viewed as a link for rent appropriation and circulation, but rarely as the economic framework for income creation and allocation. Similarly, the market does not carry out its theoretical function as integration mechanism for production factors either; it simply plays a role of interaction among economic agents whose income is determined somewhere else (and depending to a large extent on non-economic factors). As a result, the market does not work as a mechanism that provides signals and incentives, nor does it necessarily stimulate an increase in productivity.

This inevitably brings us to the tax collection issue. Between 60% and 70% of State revenue originates in the hydrocarbon sector, with another 10% originating in customs tariffs; so less than 15% of State revenue comes from taxes. In fact, ordinary taxes, which in 1997 meant 16.2% of the GDP, dropped to 14.7% of the GDP in the year 2000. Even so, simply by actually implementing the tax legislation in force and collecting due taxes, this total tax revenue could easily be duplicated. This would, however, assume the existence of a political legitimacy and an administrative capacity on the government’s part that, nowadays, are far from being evident.

The dynamism of the parallel circuits and the widespread tax avoidance must be added to the corruption that pervades throughout all levels of the economic system and that is recognized by the authorities themselves. The fact is that, for a large part of the private sector—in any case, for all significant parts of it—proximity to the power circles continues to be as important in order to thrive as a company’s productivity and competitiveness.
FIGURE 3. DIAGRAM OF THE ALGERIAN ECONOMIC SYSTEM

International markets

Sonatrach
(hydrocarbon production)

Public enterprises

Private sector

Market

State

Urban population

Rural population

Subsidies

Smuggling

Informal economy

Circuits of rent extraction and production
6. Conclusion

Algeria presents many of the basic elements that characterize an economy undergoing the transition from a planned economy to a market economy. But, in contrast to what has taken place in the case of other countries, both the authorities and the international community seem determined to push this transition forward without a previous mutation in the power structures and in the behavior of those in power, that is, without an effective transition in the political system.\(^{85}\) It is clear that this is becoming more and more difficult.

In the last three years, the Bouteflika governments seem to have counted above all on the announcement effects of the reforms, particularly as regards the flow of inward investment, a key link to the success of its entire economic strategy. It is true that they have undertaken a very necessary task of preparation. But they have not reached the point of making these reforms real, of putting them in practice, nor have brought about economic growth and improvement in the population’s living conditions. All they have done is to improve the financial frequentability of Algeria. In most cases the hyperactivity that these governments have shown with respect to the reform programs in all areas (reports, announcements, but no debates with social partners) has not even translated into the approval of a legislative framework for applying these reforms. This has been the case with the new hydrocarbon law, the bank reform, the privatizations of public enterprises, and the reform of the farmland tenure and ownership regime. Meanwhile, the population’s situation keeps degenerating (and consequently the material bases of social instability become more and more consolidated), and the irregular circuits of the Algerian economic system have continued to develop (interest groups close to power appropriate sources of rent, the informal sector expands...). As for the decisions that have in effect been applied (in particular, the signing of the Association Agreement with the European Union), they all share a common element: they are all decisions with time-delayed effects (in the case of the Association Agreement, for at least a ten-year period). Notwithstanding, if the appropriate strategy for dealing with them is not adopted, these decisions could turn into an additional destabilization factor in the middle term.

This approach seems to be confirmed by the proliferation of ad hoc initiatives to deal with emergencies as they arise, or even more frequently with specific conflicts or even revolts against the authorities. In the words of the Forum des Chefs d’Entreprise,\(^{86}\) “what occurs is that, in the absence of a solid consensual reference framework, the authorities’ day-to-day action appears more like a continual series of specific improvisations determined by the situation”. And determined by international pressures, we could add.

In these circumstances, all the conditions seem to be given for launching a big national investment program of Keynesian inspiration,\(^ {87}\) the only kind of program that seems able to provide simultaneous solutions to all of the great problems of the Algerian economy. These investments should be concentrated in social infrastructure (housing and water distribution systems, especially), in physical infrastructure (particularly in (tele)communications and environmental infrastructures), and in human infrastructure (specifically in education and training). In addition, there need to be plans for reconverting and relaunching national industry and agricultural production and for effectively applying the structural reforms formulated so long ago (with, however, the necessary social consensus, that would come
more easily in the context of a general investment program). This could create the necessary conditions for developing the private sector and for a process of massive creation of employment and of economic growth. But in order for the link between public investment and growth and employment to work in practice, a profound tax reform and the elimination –necessarily progressive- of the informal and smuggling circuits are needed. The tax reform would have to guarantee the subjection of all economic agents to the tax system, for which, once again, a wide political consensus is needed, in addition to an improvement in administrative efficiency. If these conditions are not met, there is the risk that the resources injected into the economic system through physical investments will leak into the informal economy, as seems to have happened with the investments of the support plan for relaunching the economy, and thus contribute in reality to perpetuate and reproduce the inherited rent situations. That is, the economic flows must be reoriented through the market and the parallel circuits (see the diagram of Figure 3) that reduce the transparency of the Algerian economic system must be progressively eliminated.

In this context, the opening of markets to foreign competition is not in itself prioritary or urgent. It is true that the horizon of the free trade area with the European Union –already a commitment- and of accession to the WTO –still under negotiation, but very advanced- could act as an important catalyst for modernizing the Algerian economy and for effectively modernizing its companies. But this can only happen if a broad social consensus is built up around this process. This social consensus would serve as the basis for defining a national strategy to deal with the challenges that this liberalization entails –with transactions and compensations between winner and loser social groups in the process- and with the mobilization of all kinds of resources necessary to carry it out. In any case, detailed sector by sector studies must be undertaken urgently to determine the impact of the trade liberalization in terms of production and market quotas, employment, public sector revenues, etc. Such studies will lend transparency to the process and, above all, make possible the formulation of strategies that will optimize the transition to liberalization and allow anticipation of the quite significant risks that it involves.

This must all necessarily be inscribed within an overall project that, in the case of a country like Algeria, should have the scope of a new social contract involving all the important social and economic actors. But this true constitutional refounding for development (i.e.: for economic independence after political independence was painstakingly achieved four decades ago), even if it basically refers to issues that concern the economic organization, requires a social and political dynamic that far exceeds the limits of pure economic policy. It also assumes a deep social consensus and the deactivation of the vested interests that have always prevented reforms so far.

Evidently, a program of this scope would question the economic power structures that exist at present in Algeria: “an economic reform in Algeria depends on the implantation of effective institutions that will function under democratic control, authority, and law”. 88 In other words, “reform is highly problematic in any bunker regime because economic liberalization requires a change of political system” and “adjustment to the global economy, however economically necessary, will undermine” this regime. 89
All things considered, Algeria’s *economic normalization* is still pending, even if the leaders make every effort to convince us otherwise, and it is unlikely to happen without a previous normalization of the political system, which is also far from complete. The prospects for the next two years are no better: the April 2004 presidential election date runs the risk of blocking any new initiatives in the field of economic policy until then. Meanwhile, the social instability -and perhaps emigration- is being nourished. After the lost decade of the civil war in the 1990s, another five years have been lost for Algeria’s development.
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Le Matin daily, June 1, 2002.

Speech by Ali Benflis at the closing session of the work groups on the El-Kseur Platform, February 7, 2002.

On the rise and fall of Algeria’s Third Worldism, see Malley (1996), especially Chapters 4 and 5 (pp. 115-203).

CNES (2002).


It would be too bothering to try to give a complete list of all the popular revolts. Not a week goes by without the Algerian press reporting incidents of the population’s violent protest at one location or another in the country. Apart from the Kabylie region, we could mention, in only the first four months of 2002, the violent demonstrations registered in the town of Ain Fekroun, in the western area of the country, to protest the new policy of co-payment for medical attention in public hospitals, the uprisings of inmates and their families in Algiers after a fire in a prison, looting in the Saharan cities El-Golea and d’In-Salah motivated by a multinational oil company’s policy for selecting personnel...

The El-Kseur platform is a list of vindications presented by the representatives of the Kabylie vilayats on June 11, 2001, at the highpoint of the revolts against the established power that began on April 18 throughout the region. Four of the fifteen claims are of a socioeconomic nature; three are general and programmatic claims (“For a State that will guarantee all socioeconomic rights”, “Against policies of underdevelopment, pauperization, and the reduction of the Algerian people to misery”, and “For a socioeconomic emergency plan for the entire Kabylie region”); and one very specific demand (“The creation of an unemployment benefit for all applicants for employment, for the amount of 50% of the minimum wage”).

This is probably the most commonly used concept to make sense of Algerian political economy. For a recent approach see Dillman (2000), who offers a review of the rentist State theory applied to Algeria (pp. 11-15).

Talahite (2000).

Defined as “praetorian republics ruled physically or metaphorically from bunkers”, the most notorious example of which, according to Henry and Springborg (2001), is precisely the case of Algeria (see chapter 4). According to these authors, these States “display the least institutional capacity of any of the MENA states to manage their economies. These countries have the largest informal economies [...] Tax revenues outside the oil sector are low, and some of those revenues are being siphoned off to ruling factions. [...] The technocrats of these regimes have little opportunity to make or even influence policy, as the ruling clans typically filter and distort economic information. No significant economic establishment, public or private, eludes the predatory rulers, although some firms [...] enjoy special protection. Private entrepreneurs may accumulate capital, but only so long as they enjoy the special favor of those who control the military or security services” (p. 100).

See, for example, President Bouteflika’s inaugural speech on June 1, 1999: «I state it with utmost clarity: the State is ill. Ill because of its institutions. Ill because of its administration. Ill because of its large-scale practices of fraud, clientelism, abuses of power and authority, because the widespread inefficiency and vanity in the use of resources, the unjustified privileges, the waste and the unpunished diversion of collective resources». An expression that was common at the time (Stone 1997, p. 10). An effort in this direction, undertaken some years ago by the author of the present study, is the working document “Algeria: An Economic Approach to the Crisis” (Martín 1998).

In this respect, it may be useful to consult the International Crisis Group report (2001) «Algerian Economy: The Vicious Circle of Oil and Violence».

Other statistical sources (for example, Eurostat, the Algerian Office Nationale de Statistiques, or the International Labour Organization offer slightly different figures, generally even more alarming: for example, according to the figures used by Keller and Nabli (2002, p. 21), it would be necessary to create more than 500,000 jobs a year instead of the 300,000 calculated here.

Official unemployment figures were last published in June 2000, establishing a jobless rate of 28.8%.

Keller and Nabli (2002, p. 1). The official unemployment figures for the Arab countries are probably underestimated (ibid., p. 4).
Creating these jobs will reduce the unemployment rate to 24% of the labour force in 2010 and to 20% in 2020; that is, in twenty years it will place the unemployment rate on a level close to the average for Arab countries.

Anything below 1,000 m$^3$ per year indicates a situation of structural shortage. Perhaps the sharpest symptom of Algerian economic policy’s (or simply of politics’) shortsightedness is that the authorities are incapable of guaranteeing the water supply in the city of Algiers. The four million inhabitants of Algiers have for several years only had running water every other day, or one out of every three days in the summer. And this water is often turbid.

Office Nationale des Statistiques, 2001 census.

66% for dairy products and 95% for cooking oil, to mention only traditional agricultural products produced in the Algerian countryside.


A variation of 1 US$ in international oil prices causes a variation of 700 million US$ in exports and of 500 million US$, that is, 3% of the state budget in budget revenue (Aïssaoui 2001, p. 240).

No distinction will be made in this paper between the successive governments of President Bouteflika: the Ismail Hamdani government (December 1998-December 1999) inherited from the previous president, the Ahmed Benbitour government (December 1999-August 2000), and the two Ali Benflis governments (August 2000-June 2002 and from June 2002 on). Although the government teams have also partly changed in the economic ministries, and although attentive observers detect certain variations in style, the truth is that there is no interruption between them with respect to economic policy; there is, rather, a high degree of continuity – not necessarily coherence, though- which seems to be guaranteed by President Bouteflika himself, who manages the important economic proceedings directly. The apparent internal contradictions between “technocrat” and “political” members of the government –such as those that have come out between the then Minister of Reform Participation and Coordination, Abdelhamid Temmar, and Ahmed Benbitour himself, or between the Minister of Energy, Chakib Khelil, and Prime Minister Ali Benflis- do not justify a different focus.

The three government programs presented to the Popular National Assembly by Prime Minister Benbitour in December 1999 and by Prime Minister Benflis in September 2000 and July 2002 are very generic.


The current account balance went from a 1.9% deficit in 1998 to a 16.7% surplus in the year 2000, and a 12.4% surplus in 2001. For 2002, the Ministry of Finance foresees a new 12.5% surplus of the GDP, approximately 7 billion US$. We must keep in mind that, from a macroeconomic point of view, the current account balance represents the difference between national savings and national investment; thus, a positive current account balance reflects the fact that the country finances investment (and development) in other countries, and not the other way around, as would seem logical in the case of a less developed country.

Nevertheless, Aïssaoui (2001, pp. 29-30) observes that the 22 billion dollars mark reached in 2001 represents only 40% of the highest ever revenues in real terms obtained in 1981.

It should be noted that, until 1999, the Algerian politicians in power tried to explain –or justify- the Algerian economic crisis using the (negative) evolution of the international oil prices, insinuating that the situation would improve as soon as the prices rose again.

World Development Indicators data base.

Human Development Report 2001, UNDP.


Human Development Report 2002. We must point out, however, that the majority of the Arab countries present strongly negative “transformation rates” of wealth into well-being, due above all to the social situation of the women.


The increase in effective trade protection and the increase in inflation, as well as impatience for the slowness of the privatization process, specifically in the bank sector, have caused this retrocession (see http://cf.heritage.org/index/country.cfm?ID=2.0).

For an analysis of the obstacles to privatizations and vested interests concerning public enterprises, it is useful to read Werenfels (2002).

See Algeria Interface, «Bank Privatization not for now», November 8, 2002
According to IMF estimates (2001a, p. 9), since 1998 the private sector has surpassed the public sector with the exception of hydrocarbons and is experiencing annual growth rates between 6% and 8%, thus already representing, in the year 2000, 55% of the gross national added value. However, in the industrial sector, the public enterprises still account for nearly three quarters of total output. In a series of articles published in the daily newspaper El Watan on October 10, 11, and 12 of the year 2000, A. Bouyacoub claimed that the percentage of business credits granted by the banks to the private sector did not exceed 19% in 1999, contrasting with 32% in 1994 (in a memorandum published in December 2002, the Forum des Chefs des Entreprises gave radically different figures: 20% for 1997 and 36% for 2001). This does not prevent the private sector from undergoing a true explosion in its activities in industries such as construction, internal transportation, commerce, and even the textile sector, and to a lesser degree, in the agricultural sector. At the end of 2002, the Egyptian group Orascom obtained a 60 million euro credit from the European Investment Bank for installing the first private cement company in Algeria (so far, the percentage of foreign ownership in cement companies capital was limited to 49%), and there were plans for privatizing three more cement companies.

There is an econometric correlation between the density of telephone lines installed in a country and its level of development. MEDA Telecom Observatory, NATP Highlights 1/3 (2002): http://meda.encip.org/highlights/issue1_3_2.html.

Data come from the confidential Spanish bulletin Magreb Negocios, October 2002, p. 6.

52 per 1,000 inhabitants, in contrast to 90 in Tunisia and 53 in Morocco (UNDP 2002, p. 156).


However, this growth is largely explained by the agricultural crisis registered in the 2000 season (due to drought). In 2002, agricultural output seems to have shrunken slightly.

In this respect, the position taken by the Forum des Chefs d’Entreprise in its October 2002 bulletin is very clarifying (see the November 17, 2002 edition of the daily newspaper Liberté).

Employer’s association which, although it represents no more than 68 enterprises (among them some public enterprises and some foreign ones), has rapidly acquired a leading role in Algeria’s economic debate.

Ibid.

The official consumer price index, for example, is still calculated based on a basket of goods reflecting consumption patterns in 1988, without taking into account the prices applied in the informal markets (this situation should have been rectified at the end of 2002, after the first ever households budget survey carried out by the Office Nationale des Statistiques was processed).

The state is incapable of determining exact figures of unemployment, nor does it have any parameters at all for evaluating real inflation rates […] no government has taken stock of the situation since the reforms were launched” (interview with Abdelmajid Sidi-Said, Secretary General of the main Algerian trade union – the former single trade union, the Union générale des travailleurs algériens, published in the July 25, 2002 Algerian daily newspaper La Tribune, 25); see also the protests on this subject of the Forum des Chefs d’Entreprise (note 48).


Taking into account the perspectives for development in the hydrocarbon sector, Algeria could easily obtain at short notice international loans for well over 10 billion US$. This would place the external debt ratio to the GDP at 60%, below the level considered sustainable even for developed countries (for example, in the framework of the European Economic and Monetary Union) with many fewer basic needs to satisfy.


On January 1, 2002, the provisions of Decree Number 01-02, August 2001, came into effect, concerning the reform of the customs tariff system. Apart from 104 tariff-free products, customs duties were reduced to 5%
for imported inputs (raw materials and sophisticated capital assets, pharmaceutical products, and grains, a total of 1,417 items of customs tariff) and to 15% for semi-finished goods (1,875 items of customs tariff). In addition, the increased customs tariff (the maximum rate of protection applicable in Algeria) applicable to finished products, specifically to food products, textiles, drinks, and other consumer end-products, with the exception of medicines and automobiles (2,532 items in total), was reduced from 45% to 30%. For 48 particularly sensitive products – finished industrial goods –, the application of specific tariffs for each product (in the form of an administrative decision on the customs value) was substituted by a 48% additional provisional right, to be reduced by 12 percentage points each year until its total disappearance in the year 2006. This is the greatest customs reduction in Algeria’s recent history and it is, moreover, a broad operation to clarify trade protection in Algeria. At any rate, we must not forget that very often Algerian trade protection does not adopt the form of tariff barriers, but rather of administrative or bureaucratic barriers. These barriers sometimes simply impede the importation of certain products, so that real trade protection is not necessarily directly linked with customs tariffs.

61 The IMF calls it « tight demand management » (IMF 2001a, p. 4).

62 For an analysis of the Association Agreement and a review of EU-Algeria relations in the last ten years, see Martín (2002).

63 The European Parliament ratified it on October 10, 2002, along with a long 25-point resolution that has no diplomatic precedent in an act of this nature (Resolution P5_TA-PROV(2002)0462). This resolution urged the Community institutions and the Algerian authorities to guarantee to respect human rights, which constitutes an essential element of the association, and, specifically, to proceed with “lifting the state of emergency” and with the “resolving the problem of the ‘disappeared’ and eliminating all forms of impunity”, as well as to “do their utmost to ensure that the Association Agreement makes for an improvement in the economic and social situation of Algeria’s people, and of its young people in particular”; it also “expresses its concern at the corruption in several sectors in Algeria” and “reasserts the necessity of a withdrawal of the military from political decision-making”.

64 As was done, for example, in the case of Lebanon, which signed the Association Agreement later than Algeria (June 19, 2002), but celebrated a provisional Agreement that will come into effect on February 1, 2003.

65 The European customs tariffs on Algerian industrial exports were already suppressed in the 1970s, and agriculture is still provisionally excluded from the free trade area.

66 Apparently, no serious, complete study has yet been made of the impact of the free trade area on Algeria.

67 When the new 1993 Investment Code was approved. Order 01-03 of August 20, 2001, dealing with the development of investments, replaced this code with an even more favorable regime. But the character of the investment incentives, arbitrary in itself, was perfectly illustrated by the intervention of the Algerian Minister of Reform Participation and Coordination at the time, Mr. Boukrouh, in an organized discussion on October 18, 2001, in the French senate: “a national council on investment has been created. This political authority, presided by the chief of government, can meet at any moment to grant an investor certain advantages that are not anticipated in the code of investments”.

68 The total accumulated stock of foreign investment is estimated at nearly 10 billion US$, principally in the hydrocarbon sector.

69 For an analysis of the causes of and perspectives for foreign investment in the Maghreb countries, see Martín (2000).

70 Especially with reference to the third of the farmlands that continue to be public property but are managed and exploited by private farmers.

71 Afterwards, the dinar stabilized in a range between 75 and 80 dinars per US$ (80 during 2002). Judging from the black market for foreign currency, the dinar continues to be relatively overvalued, since the exchange rate on the free market places at close to 100 dinars per US$, that is, 20% above the official rate.


73 In fact, according to IMF calculations (2001a, p. 17), the total factor productivity has not stopped falling, either, since 1974. All the growth that Algeria has shown can be explained by the accumulation of production factors (labour and capital). In contrast, Keller and Nabli (2002, p. 14) conclude that, during the 1990s, the total factor productivity increased slightly, by 0.88% yearly.

74 It might be asked: pressing for whom?

75 This was, however, increased to 1.1 million barrels a day at the end of 2002, which would translate into an increase of nearly 2 billion US$ yearly in its export revenues.
At present, existing reserves are estimated to be enough for 45 years of consumption and exportation (Aïssaoui 2001, pp. 278-282), while in 1996, the reserves were expected to run out in a period of little more than 20 years (BP Statistical Review of World Energy, June 1996).

Some 45 contracts were signed with 27 foreign companies; partnership agreements account for around 20% of Algerian’s crude oil production, including Sonatrach’s share in them.

An analysis of the reform of the hydrocarbon sector and of the forces that oppose it can be found in Aïssaoui (2001, pp. 27-34 and 217-220).

Speech by Minister Abdelhamid Temmar in the Algeria-Spain Economic Forum, Madrid, October 7, 2002.

In order to keep these figures in perspective, we should remember that the estimates of the volume of the black economy in Spain, Italy, or Greece place it at around 25%.

A similar diagram could be developed for the political system; in this model we would see that an important part of the power flows are situated outside of the electoral system, the political parties, and even the government itself.

By rent, we mean income that is not earned through the economic use of production factors. In an ideal market economy, only the State collects rents.

In Algeria, there are presently around 960,000 taxpayers, 58,000 of them legal persons, and the tax pressure of personal taxes is estimated at 13% to 15%.

Hadjadj’s book (2001) illustrates this aspect very well.

The exceptions are, evidently, China, a whole category of its own, Russia and the states of the Community of Independent States.

See note 50.

In the press conference following his famous conference “Economic Possibilities for our Grandchildren” given by the great economist John Maynard Keynes at the Residencia de Estudiantes in Madrid on June 8, 1930, Keynes was asked his opinion on the level of gold reserves that Spain held at that moment. He answered as follows: “The Spanish economy has, at the moment, one of the highest levels of reserves of all the countries in the world. It does not make sense that a poor country like Spain has not used and is not using these gold reserves to employ them in a development program that would place the country and its population in a better position.” (translation from Spanish by the author). He could have said exactly the same about Algeria in 2002.
