DOI: 10.20472/IAC.2016.025.046

ABDELKADER NOUIBAT

University of M'sila, Algeria

ECONOMIC TRANSITION IN ALGERIA: A REVIEW IN WAKE OF THE RECENT OIL CRISIS

Abstract:

The sudden and sharp fall in oil prices, in the summer of 2014, triggered a new debate about the 'bleak future' that awaits Algeria. Many asked whether the country would experience another economic and political crisis similar to that of the 1980s. In the ongoing debate, some blame the failure of the state for not having a clear and conscience economic policy to deal with this multidimensional crisis, while others refer to the inadequacies of the reforms put in place for the country's transition from socialism to a market economy as the cause of the crisis. Proponents of the economic argument, see the recent crisis in Algeria as a manifestation of the contradiction between the accumulated wealth and the dire economic situation that the country periodically finds itself in because of the instability of oil prices. Political views, on the other hand, differ according to political affiliations, however most political parties call for a "smooth transition" in order to enhance the existing democratic practices and put the country's economy on the "right truck."

This paper will not try to foresee Algeria's near future, but rather to look back at the experience of the country in terms of (1) the economic and political conditions under which the country made its transition from 'socialism' to 'market socialism', then its struggle to make the transition from 'market socialism' to a 'market economy', (2) the reform programs that were deemed necessary to make these transitions, and (3) the economic and political dynamics behind the failure of these reforms that many hoped they would help Algeria to become industrialized nation in the 1980s and an emergent country in the first decade of this century.

Keywords:

Algeria, Dutch Disease, Economic Reforms, Economic Transition, Market Socialism, Market Economy,

JEL Classification: O20, P27, P35

Introduction

This paper will review the issue of transition in Algeria in wake of the recent oil crisis. It examines the actions taken by the government to speed up the transition process, however, it sheds light on whether the government will be able to move away from protecting old premises of the “rentier state” and establish a free and productive system. Under the “rentier state” regime, the government of Algeria neglected the restructuring of the national economy in favor of new petrochemical projects to finance ongoing budget deficits. Also under this regime, the effectiveness of the transitional institutions, laws, mechanisms, and the dynamism of country’s external trade sector were undermined by the inconsistencies of contradictory and overlapping privatization schemes, the predatory nature of the existing private sector, and the country’s unbalanced external trade and finance. To address these issues, the paper will be divided into three sections: in the first one, “Algeria’s golden age of the 1970s” will be reviewed in order to reveal the contradictions it had produced. These contradictions are considered by many analysts to have led to the current transitional crisis; in the second section, analyses are advanced on how the “national natural resources doctrine” has sustained the mechanisms of the “rentier state”, which is largely believed to be a major obstacle to the establishment of a market economy; and in the third section the transition process, taking place in the 2000s, will be analyzed through : (a) the cost of privatization; (b) the ills of the private sector; and (c) the absence of a coherent foreign trade and investment policy.

Algeria’s ‘Golden Age’ of the 1970’s

Algeria gained independence in1962 with an economy lacking both a viable industrial base and a dynamic private sector. The socialistic approach to development gave the government ample powers to plan and execute its ambitious economic and social developmental programs through the pre-plan (1967-1969), the first four year plan (1970-73), and the second four year plan (1974-77). However, “the dominance of the industrial sector in Algeria’s overall development planning reflects the government’s pursued doctrine of putting the industry in the center of all socio-economic activities” (Bouyacoub 2001, p.2). To this purpose, it allocated half of total public investments to the industrial sector, as shown in table 1.

Table 1: Planned Public Investment: 1969-1977 (millions of DZD*)

Sector	1967-69	%	1970-73	%	1974-77	%
Industry	5,460	50	12,400	45	40,000	42
Agriculture	1,869	17	4,140	15	16,600	15
Infrastructure	1,074	10	2,307	8	15,521	14
Education	0	0	0	0	0	0
Training	1,039	10	3,307	12	9,947	9
Transportation	0	0	800	3	6,490	6
Social services	708	7	3,216	12	14,680	13
Tourism	285	3	700	3	1,500	2
Administrative	0	0	0	0	0	0
Equipment	441	4	870	3	1,399	2
Othe	251	2	0	0	2,520	3
Total	11,081	100	27,740	100	116,667	100

Source: Ministry of Planning and Territorial Management (1979), Rapports des Plans de Developpement: 1966-1977, Algiers
**DZD: Algerian dinar*

these plans were implemented according to the following criteria:
(1) An initial industrialization phase would supply the economy with the necessary basic products, such as hydrocarbons, steel, electrical energy, fertilizers, and cement. This phase of heavy industrialization would not create jobs but create capital for the next phase.
(2)The second phase would lead to creating mechanical, electrical, and petrochemical industries. Built around the basic industries, these industries would be lighter and would absorb unemployed manpower.
(3)The third phase would involve creating industries for consumption goods and would use more manpower and the outputs of local industries.

The first phase of development planning led to substantial growth of employment in the country's industrial and construction sectors as table 2 clearly shows.

Table 2: Growth of Employment in the Industrial and Construction Sectors-Newly Created jobs in 000's (1966-1981)

Year	Industry	Construction
1966	164	73
1977	411	356
1981	439	502

Source: Ministry of Planning and Territorial Management 1979, Algiers; Annuaire des Statistiques de l'Algerie 1983, Algiers.

The growth of employment in the industrial sector did not necessarily mean high productivity, however. According to Simmon P. Thiery (1980), industrial value added by employees declined from 36,800 million DZD in 1967 to 31,000 million DZD in 1978, excluding the oil sector. Thiery attributed this decline in productivity to the socialistic management of enterprises. However, According to the report of the 1980-84 plan, industry contributed an increase of 15.3 % in GDP in 1984 compared to 12 % in 1979, this was due not only to the annual growth of the industrial sector, which grew by 9.5 percent, but also to the better use of existing industrial production units. The effects of planned investments on the sectoral growth of the Algerian economy, for the same period, are shown in table 3.

Table 3: Sectorial Growth of GDP: 1979-1984 (Millions of DZD; Current Prices)

Sector	Value 1979	%	Value 1984	%	Change in Value 1979-1984
Agriculture	10,776	9.5	12,101	8.6	5.0
Industry	13,570	12.0	21,400	15.3	29.4
Hydrocarbons	33,535	39.6	33,070	23.7	-1.7
Housing & public works	18,535	16.0	23,376	16.7	19.8
Transport and	6,726	6.0	8,758	6.3	7.6
communication	16,790	14.8	20,744	14.8	14.9
Trade	5,105	4.5	6,395	4.6	4.8
Services	104,621	92.4	125,848	90.0	79.8
Total value added	6,072	5.4	9,544	6.8	13.0
Taxes	2,514	2.2	4,411	3.2	7.2
Customs/duties					
GDP	113,207	100	139,806	100.0	100.0

Source: Ministry of Planning and Territorial Management 1985, *Rapport de Plan 1980-1984,* Algiers.

Nevertheless, if the share of the industrial sector in GDP has increased by 30 percent in terms of value added by the end of 1984, the share of the agriculture sector increased by only 5 percent during the same period. The reason behind this small growth of the latter sector was the drought that swept the country during early 1980s. The other sectors show generally a stable-to-moderate growth. Also the goal of the first five year plan (1980-84), the creation of more jobs in the agricultural sector, was not attained according to the same report. As the data in table 4 show, the proportion of the labor force employed in the agrarian domain fell from 32 % in 1979 to 26 % in

1984. Meanwhile, the nonagricultural sector, excluding administration, employed 48 % of all workers in 1979 and 51 % in 1984.

Table 4 : Employment Structure : 1979-1984

Sector	1979	1984
Agriculture	969,172	960,000
Industry	401,428	503,684
Construction	437,009	652,526
Transport	128,892	165,885
Trade and	469,750	603,509
Services	615,000	845,000
Administrative		

Source: Ministry of Planning and Territorial Management 1985, Rapport de Plan 1980-1984 Algiers.

Bennoune (1988) explained the government's failure to modernize the agricultural sector during the 1980s .The shifting bureaucratic interventionism of the Ministry of Agriculture, the National Bank of Algeria, and the existing of innumerable national boards created more obstacles to farmers instead of providing them with indispensable services.

The disappointing results of the first five year plan (1980-84), in regard to the still-problematic agricultural sector, led the Algerian government to assign realistic objectives to a second five year plan. At the end of the 1984, the planning authorities decided to enhance agricultural and social services sectors, yet maintain industry as a priority. Table 5 summarizes the investment allocations of the new plan. Although the higher share of industrial investment created more jobs, the sharp decrease in oil revenues in the mid-1980s led the government to cut both imports and spending, which itself led to a decrease in the total value of exports by 41 % from 69.2 DZD billions to 41 billion (MPAT 1988 , p.292). The reduction of imports, however, affected mainly capital goods and semi-finished products. The first was cut by 29 % in 1986, the second by 31 % in 1987. These categories of imports were essential for enhancing productive activities .The imports of foodstuffs was reduced by 12.6 % and 11.8 % during 1986 and 1987, respectively. Despite these cuts, the balance of payments deficit amounted to six DZD billion, that is 5.5 % Of GDP in 1986 alone (MPAT 1988, p. 293) .

Table 5: Second Five Year Plan Investment Structure: 1984-1989 (Billions of DZD).

Sector	Billions of DZD	%
Agriculture	79.00	9.6
Water resources	30.00	3.6
Fishing	41.00	5.0
Forests	1.00	0.1
Industry	174.20	21.28
Hydrocarbons	39.80	4.8
Means of	19.00	2.3
Implementation	15.00	1.8
Transport	15.85	1.9
Storage and	8.00	0.9
distribution	45.50	5.5
Telecommunications	149.45	17.7
Economic	86.45	10.5
infrastructure	45.00	5.4
Social Infrastructure	10.00	1.2
Housing	8.00	0.9
Education & training	44.00	5.3
Public health	818.25	100.00
Social services		
Total		

Source: Ministry of Planning and Territorial Management 1984, Plan Quinquenal: 1985-1989, Algiers

The reduction of capital goods importation had clear effect on the country's economy. The growth of GDP in current prices declined from an annual average rate of 15 % during 1979-1984 to 5.2 % during 1985-1989, and to 2.9 % in 1989, against an annual average rate of 5.8 during the first five year plan (1980-1984). The gross fixed capital formation fell for the first time since independence by 3.4 percent in 1986 and 6 percent in 1987 (MPAT 1988, p. 299) . Having said that, it's worth noting that over the period 1968-1980, the rate of gross capital formation in Algeria was over 40 percent, that is more than twice the rate of

Table 6 : Job Creation Outside the Youth Employment Program1980-1990

Branch of Industry	1980-85	1986-90
Industry	107 700	28 000
Public Works	221 000	41000
Services	183 000	89 000
Administration	285 000	173 000
Agriculture	30 000	20 000
Total	824 000	310 000

**Data not available*
Source : Brahimi (1990), p. 332

Lahouari Addi, summed up the results of Algeria's industrialization strategy in the 1970s and the1980s as follows (Addi1995, p.3)

(1) Though investments were large, results were modest- beyond all expectations. Between 1967 and 1978, the GNP grew from 40 billion to 86.8 billion dinars, which was very little given the amount of investments.
(2) One of the noticeable traits of the Algerian industry was its feeble return on investment. Industry did not replace hydrocarbons as a major source of revenue, as government planners had wished.
(3) Newly created enterprises, unable to recoup their original investments or cover their current expenses, generated larger and larger debt. The total deficit of state-owned businesses grew from DZD 408 million in 1973 to 1DZD 1.88 billion DZD in 1978 and reached DZD 110 billion in 1987.
(4) The massif deficit of the newly created public enterprises generated inflation and tended both to reduce the purchasing of people living on fixed income and to encourage speculation.
(5) Imports of foodstuffs made up 17% of total imports between 1967 and 1978, and 19% between 1979 and 1982. Only a huge petroleum income could permit constantly growing food imports- growing from DZD 731 million in 1967-69 to a close to 9 billion in 1980-84. This reflected what many observers were saying: Algeria was literally eating up its petroleum resources.

Furthermore, Addi described how the authorities ignored essential technical, material, and managerial issues in investing income from oil exports to create an industrial base (Addi 1995, p. 4)

(1) Several industries were established in the absence of necessary infrastructure such as water, communication and transportation systems, and skilled labor in the 1960s and 1970s.

ISBN 978-80-87927-27-4, IISES

(2) Market equilibrium was not respected as industrialization was realized. Planners, thinking only in technical terms, ignored the equilibrium of the market between production and consumption. As they allocated high salaries they fueled inflation which itself reduced the value of workers' salaries but supported the accumulation of large fortunes for businesses.

(3)The government, for political reasons, refused to face up to fiscal limitations; it failed to pressure workers to increase production; and it failed to pressure management to expand markets and improve product quality for fear that such confrontational actions might lead, at least temporarily, to the shutting down of state enterprises. By sidestepping these difficulties, the government opted for financing the deficit and importing consumer goods, thus wasting oil wealth and provoking disequilibrium on the macroeconomic level.

The above economic constraints created a macroeconomic disequilibrium in the Algerian economy which was perpetuated by means of deficit spending. A deficit that was acceptable until 1985-86 only because of the availability of significant external resources. When these resources were no longer available, because of the sharp fall in the price of oil from $30 a barrel in 1982 to $12 a barrel in 1988, state revenues became not enough to support both the importation of food and service the external debt[1] (Addi 1995, p.5). Addi linked the troubles of the Algerian economy, at the beginning of the 1990s, to the "rentier state" system that was deliberately maintained by a national petroleum strategy that was put in place by the government of Algeria mainly for political reasons.

An Oil Strategy to Sustain the Rentier State

In the above sections, it was argued that the dysfunctions of the Algerian economy during the pre-reforms period (1962-1993) were due to emphasizing the technical aspects of economic planning and ignoring the equilibrium of the market between production and consumption; fuelling inflation because of artificially established high salaries; the government's refusal to face up to fiscal limitations and to workers and management of state enterprises to increase productivity and products' quality. By sidestepping these difficulties, the government provoked disequilibrium at the macroeconomic level as it opted for financing the deficit and the imports of necessities. However, as oil prices collapsed in the mid-1980s, authorities attempted to modify the national petroleum strategy in order to encourage foreign investment in the petrochemical sector and to finance ongoing budget deficits (Addi, 1995,6).

[1] Data supplied by Houari Addi (1995), the external debt reached $1 billion in 1970, $16 billion in 1980, $13.6 billion 1986, and was estimated by the World Bank 1989-90 report at $24.8 billion. Service on the debt cost $8.4 billion annually, compared to annual receipts totaling $10-$12 billion, which led to a deficit in the capital balance of $2.54 billion.

According to Addi, the new petroleum strategy was not an expression of real economic reforms but to sustain the “rentier state”, a “state regulated by a neo-patrimonial logic and by the redistribution of wealth generated from oil sales”. The Algerian “national natural resources doctrine”, changed with the oscillation of oil prices and the need to maintain the petrochemical sector as the main source of the government revenue. This doctrine started on a solid premise in 1970s: “gaining control of the mechanisms for setting prices”, which Algeria and its follow OPEC members were able to achieve until 1985. However, the oil market has been modified to the extent that legal possession of petroleum and gas fields became no longer sufficient to set the price of crude oil. In this situation the nationalist doctrine became ineffective, even counterproductive for Algeria, a country that became in need of more financial and technical means to raise oil and gas production. To achieve this, the national oil company Sonatrach called for foreign participation according to the enacted Petrol Code of 1986 (Addi, 1995, 7).

The initial version of the 1986 Petrol Code discouraged all outside investment because it granted foreign companies minority interests in ongoing production for given a period and according to specific conditions. However, modification to this code, regarding foreign interests, was introduced in August 1986 allowing access to old, newly discovered as well as currently producing fields. Also the new code introduced modification regarding fiscal policy offering more incentives, with possibilities for reduction of tariffs and taxes on revenue in order to direct exploration efforts towards ignored regions in the Algerian Sahara. The Ministry of Energy and Mines and the national oil and gas company, Sonatrach, felt compelled to change because the latter had neither the technical nor the financial means to put new field into production, despite the existence of proven reserves, and had hard time convincing members of national assembly that this move was just a “new oil strategy” and not a “new oil policy” (Addi, 1995, 7).

The “new oil strategy” was in fact part of a general policy of economic liberalization in Algeria. The government had two policies on hand: the first one meant restructuring the national productive system to render it efficient enough to generate new wealth to meet domestic demand. However, this option was not easy to implement because it necessitated an openness to compete in the international market that would eventually lead to the bankruptcy of the majority of state owned companies. No regime could survive the social consequences of such reforms. The second one meant keeping the existing economic apparatus, i.e. generating more state budget deficits, business deficits in the public sector[2], and artificial markets, while increasing oil exports. The government leaned towards the second policy simply because it was less troublesome for all parties concerned: the state, the society, and the polity (Addi, 1995, 8).

[2] Public budget deficit reached DZD 1,768 billion (1DZD = $0.0092 as of Sept 19, 2016), whereas trade balance deficit amounted to 12 billion dollars according to the same source (Berkouk 2016).

3. Economic Reforms in 1990s

The continuing decline in the productivity of the Algerian industrial sector outside hydrocarbons (see table 7), the collapse of oil prices in the 1986 and the financial crisis of 1993 led the government to reschedule its external debt and implement economic reforms. By 1994, these reforms took a two way track: macro-economic and medium-term structural adjustment measures. Supported by the IMF, the World Bank, and the EU, the Arab Monetary Fund and the African Development Bank,

Table 7: Public Sector Industrial Production Index

Activity	1989	1994	1999
Hydrocarbons	100	106.1	121.6
Industries outside the hydrocarbons sector	100	84.4	74.8

Source: Bouyacoub, 2001, 5

these reforms aimed at (Aghrout 2004, p. 91):

(1) restoring sustainable economic growth and reducing unemployment ;
(2) bringing inflation down to accepted levels ;
(3) improving the balance of payments ; and
(4) limiting the impact of the reforms on the most venerable segments of the society.

To achieve these objectives the government adopted several measures, chief among these were (Aghrout 2004, p. 91)

(1) realignment of prices through rapid and progressive liberalization;
(2) adoption of a tight monetary policy;
(3) adoption of a strong fiscal adjustment;
(4) liberalization of trade and payment systems;
(5) liberalization of exchange regime;
(6) restructuring of public enterprises;
(7) keeping a manageable debt profile trough rescheduling and prudent debt management; and
(8) strengthening the social safety net and the establishment of an unemployment insurance scheme.

As early as 1998 the International Monetary Fund's assessment of Algeria's first legislated economic reforms program came out a positive one. According to the IMF, despite the fact that the reform program was launched in a difficult social and political environment, it had been remarkably successful in restoring financial stability and establishing the building blocks for a market economy. However, serious challenges remained in areas such as speeding the pace of sustainable growth, raising the standard of living and reducing unemployment (Aghrout 2004, p. 92).

The concerns of the IMF were not off the mark. Data about the performance of the Algerian economy, after five years of reforms, show mixed results as indicated in table 8.

Table 8: Some Socio-Economic Indicators: 1994-2000

	1994	1996	1998	2000
GDP (billion dollars)	42.0	45.6	47.7	53.4
GDP growth rate	-0.9	3.8	5.1	2.4
Per capita GDP (dollars)	1,510	1,581	1,605	1,673
Imports (billion dollars)	9.7	9.1	9.8	9.7
Exports (billion dollars)	8.9	13.5	10.0	21.7
of which Hydrocarbons	8.6	12.6	9.7	21.1
Foreign debt (billion dollars)	29.5	33.7	30.5	25.3
Population (million)	27.5	28.6	29.5	30.4
Active population (million)	6.8	7.8	8.3	8.1
Unemployment (%)	24.4	28.0	28.0	29.5

Source: Adopted from Aghrout 2004, p. 92

Although GDP showed steady increase, inflation dropped from 39 % in 1994 to 0.3 % in 2000, the recorded unemployment stayed at high level of almost 30%, a sign of the inadequacies in the restructuring of the Algerian economy. Reform measures targeted public enterprises and banks to prepare their transition to a market economy. Such measures included, among other things, the liquidation of around 935 loss-making out of 1,324 local public enterprises. Some of these had their assets transferred to employees. In the process many national companies, particularly in the commerce and building sectors were liquidated, a process that led to steady unemployment rate during the first five years of reforms (Aghrout 2004 , p. 92).

The reforms of the financial sector, however, were primarily concerned with the assessment of national banks massive bad loans to Algeria's failing public enterprises. According to the IMF, these banks saw a large influx of liquidity as the government implemented recapitalization and debt takeover measures at high cost to the treasury-about 45% of average GDP for the period 1991-99. Only few banks have reached the capital adequacy ratio of 8% this period. The government took some steps to enhance competition and improve the financial sector's performance by (Aghrout2004,p.93):

(1) allowing and encouraging the establishment of new private banks; (2) opening of capital of existing state owned banks to private minority participation; (3) letting the gradual entry of foreign banks into the domestic market.

As for the liberalization of the external sector of the country's economy, a remarkable progress has been made in eliminating restrictions on external trade, the payment system and the exchange regime. However, the improvement of Algeria's foreign exchange stock, estimated to have increased from $21.1 billion in June 2002 to $23.1 billion at the end of the same year, was due to an increase in oil prices, and the rescheduling of the country's external debt. The burden of the latter been reduced considerably as the debt ration went down from 82% by the end of 1993 to around 22% in 2001. Meanwhile, total external debt went up again in 2002, when it reached nearly $23.1 billion (it was $29.5 billion in 1994 and $22.6 billion in 2001 (Aghrout 2004, p. 94).

4. Transition in the Midst of Political and Economic Crises in the 2000s

In spite of the economic reforms that aimed at liberalizing the economy and attracting foreign investments in 1990s, Algeria's business environment was characterized as 'mostly un-free in early 2000s'. In a study by Miles, Feulner, and O'Grady in 2004 (cited in Aghrout 2004), the country ranked 100 out of 161 countries in terms of easiness of conducting business. Moreover, the civil disorder that country experienced in the same decade, led to economic mismanagement, high unemployment, housing shortages, and lack of private business growth. Economic reform towards privatization has been practically nonexistent due to private interests in the system found among the country's new business elite and labor unions. The hydrocarbon sector, in which the government holds a monopoly, constituted 30% of GDP and 95 % of exports. The trade policies exacerbate any progress towards an open market, having an average tariff rate of 15%. The customs process continues to be controlled by bureaucratic time-consuming clearance procedures (Schachmurove 2004, p. 17).

The above observations seem to explain the challenges that Algeria faced in her way to establish a market economy in the early 2000s. If these challenges were of economic and political nature, as it has been analyzed in the above sections, they are of organizational and managerial nature as well. The ills of the private sector, the inadequacies of the banking system, and the ineffectiveness of foreign trade policies all led the weakening of the processes behind bringing foreign direct investment (FDI) in, which may the only viable solution to a failed 'rentier state' system.

4.1. The Cost of Privatization

Privation is one the core processes upon which the transition to a market economy is built. It implies “involvement of market forces to ensure greater competition and economic efficiency on the one hand, and reduction in the role of the state as regulator, facilitator, provider, and producer of goods and services on the other.” (Gupta, cited in Aghrout 2000). Theoretically, privatization has the support of neoclassical theorists, who contend that the transfer of ownership economic enterprises from public hands to private ones, within a framework of a competitive environment, leads to greater efficiency and rapid economic growth. Pressed by an inefficient public sector, many developing countries embarked on wave of privatization to achieve a number of goals such as (Aghrout, 2004 p. 122):

(1) improving economic efficiency, to be reflected in lower consumer prices and improved product quality.
(2) reducing fiscal deficits through increased tax revenues on the output of enterprises with a reduction in central government transfers to public enterprises and the benefit from revenues from privatization sales.
(3) shifting the balance between the public and private sectors and promoting market forces within the economy; and generating new investments (including foreign investment).

In the case of Algeria, the government has committed itself to a policy agenda of privatization as early as the 1980s as it undertook a series of reforms that targeted public economic enterprises, a task that was seen to be technically difficult if not unachievable by some analysts at that time. In his study of the state of the Algerian economy, Ahmed Bouyacoub (2001) referred to these enterprises as “assets turned into handicaps.” He argued that the organizational aspect of “industrializing industries” made the management of these enterprises difficult if not impossible as oil prices collapsed. The vertical integration of industrial public companies carried out by planning authorities gave birth to large industrial entities expected to create economies of scale using high tech machinery and capital intensive production processes. By 1991, these entities employed 80% of the country’s labor and produced 82% of the national economy’s added value. Out of the 22,754 public enterprises, 62 in the heavy industry sector such as oil, iron and steel, building material, mines…etc., each employed 2,110 people at the average, absorbed 26% of industrial work force, and produced 36% of the industrial added value (Bouyacoub 2001, p.4).

The size of the Algerian public enterprises reflected the importance of industrial concentration in the national productive system. In 1991 the government started the process of dismantling 41 industrial branches where 96% of these branches had a four-enterprise-coefficient of concentration between 80 and 100%. This high coefficient neither produced the wished for "poles of growth" during socialism nor helped in the restructuring process of public enterprises during the reforms era. In the end, the high industrial concentration created financially unbalanced enterprises kept alive by public deficit financing perpetuated by a "rentier state" regime (Bouyacoub 2001, p.5).

Nevertheless, the restructuring of industrial public enterprises continued as the government moved to transform these entities into easily manageable small enterprises. Their number, which was around 150 companies in 1980, increased to 480 corporations during 1982 and 1983. The process of restructuring continued well in the 1990s in the form of financial clean-up of national companies. Between 1990 and 1998, the liquidation cost was estimated at over $25 billion by the World Bank. By 2000, the government put up another $15 billion to dissolve non-viable companies, lay off staff, and implement recovery financial schemes, such as debt-equity, swaps, capital injections, debt forgiveness, refinancing, and so forth. The regulatory and institutional framework put in place to manage the privatization program was initially elaborated during the 1995-98 period. It consisted of a number of organs, such as the Privatization Council and the Commission for the Control of Privatization Operations (CCOP), which proved to be ineffective to carry out the privatization program. But starting in 2001, new structures were established such as the Council for State Participation, which was responsible for, among other things, the definition, examination and approval of policies, program and proposals in connections with privatization (Aghrout 2004, pp. 125-126).

Another structure, the ministry for participation and promotion of investments (MPPI; formerly the ministry of participation in and coordination of reforms), was put in charge of public sector enterprises and the promotion of foreign and local private investment. The MPPI was also assigned the role of determining the valuation of the public enterprises and their assets, examining and selecting bids through Public Holding Companies, which were tasked with the mission of managing and divesting the state's assets in various sectors of the economy. These companies, criticized for their rigidity and luck of progress in moving forward with the privatization program, were replaced in 2001 by what was claimed to be a much more flexible and efficient equity management companies (Sociétés de Gestion des Participations; SGPs). The SGPs have in theory been given the responsibility for preparing economic public enterprises for privatization. The setting up of a privatization fund (Fonds de participation et de partenariat) was also planned in order to speed up and finance privatization operations. The government-sponsored Economic Recovery Plan allocated DZD 22.5 billion to the SGPs (Aghrout 2004, p. 127).

In spite of all these measures, the privatization process was criticized for being slow, even inexistent according to an article published in April 2003 in *El Watan,* a respected daily, published inside Algeria. The International Monetary Fund was much less critical of the matter, however. In its assessment of February 2003, the IMF, while expressing its satisfaction about the ongoing reforms, it urged authorities to move ahead with the remaining privatization process, but suggested that it needed to be consistent with a program that should have been continually and appropriately adhered to. Using proceeds from privatization as a benchmark to compare the results obtained in Algeria with the results obtained by some MENA countries (Egypt, Morocco, and Tunisia), Ahmed Aghrout found that these proceeds amounted to $55 million in Algeria, $3,102 million in Morocco, $1,070.1 million in Tunisia, and $523 million in Egypt during between 1990 and 1999. Obtaining such low proceeds, Algeria had to make more efforts to catch up with her neighbors in its transition to a market economy (Aghrout 2004, p. 127). Other studies on economic transition in Algeria, revealed similar results as to why there was a gap between the government's goals and the poor state of the country's private sector. In the next few sections the ills of the private sector, the inadequacies of the foreign sector and its inability to attract FDIs will be addressed.

4.2. The Ills of the Private Sector

The private sector in Algeria is composed of three sectors: one is a "learning space for new entrepreneurs"; the other is a sector of "unadapt entrepreneurs", i.e., people who go through the "motions of entrepreneurship", that is investing money and making profit yet unable to build a dynamic private sector of their own. The beneficiaries of these two sectors get their capital from the government in order to learn how to be traders, farmers, industrialist, and services providers, but in the process they waste huge amount of resources. Simply put, we cannot improvise to be an entrepreneur without a cost. In Algeria, "entrepreneurship" has been in last few decades a means of losing public money and, in many ways, a stopper of economic reforms (Bouyacoub 2001, p.8).

And there is a third type that makes, with the previous two, the private sector in Algeria: the "officially excluded one", the informal, yet it is the creator of most jobs in the country. The informal sector in Algeria is where poor people can work illegally but honestly. Honesty here means producing and exchanging in a morally correct environment away from illicit trading, racketeering, trafficking, and the like (Bouyacoub, 2001, 9). One can philosophically agree with Bouyacoub's categorizing of the Algeria's private sector. However, one may add that although it has wastefully benefited from the reforms, this sector is, out of necessity, a major player in the country's economic transition. The question is what can be done to correct its numerous shortcomings in order for it to play its rightful role in this transition.

In his study of the economic and political transition in Algeria, Rachid Tlemçani (2009) delved into more ills of the country's private sector. Tlemçani revealed that among the 94,438 registered commercial enterprises only 44,041 have submitted their financial accounts and pay taxes. The private sector in Algeria, according to Tlemçani, is generally speculative, prefers commercial activities, mainly 'import' deals, over productive investments, and *de facto* supported by the 'rentier state'. Although it is fully immersed in the activities of the country's economy, the value added that the sector produces is minimal. The 2009 Complementary Law of Finance, and its legislation regarding the financing of import activities, was promulgated to curb imports, tax evasion, and the transfer of hard currency overseas. However, its application on the ground reduced the volume of bank loans allocated to the importation of consumer goods. Consumers who apply for loans to import cars for personal use are put in the same category as entrepreneurs who import fireworks or cigarette lighters in exchange for hard currency. This law also imposed the use of bank checks for any transaction that exceeds DZD 500 000, the application of such provision many years ago could have solved many the 2009 Law of Finance was put to solve. The lack of such measures rendered the banking system in Algeria one of the least modernized in the world. It ranked 134 internationally by the International Surveys Institute (Tlemçani 2009, p. 2).

Abdelhak Lamiri in his comments on the sectorial development provisions of the 2009 Complementary Law of Finance, on the other hand, reiterated that this law made it clear that small and medium enterprises had a priority in receiving loans from local banks. Such enterprises were hailed by policy makers as the only way out of unemployment, yet they received a mere 5 to 10% of investment loans in 2009. There are three reasons behind this phenomenon according to Lamiri: one, the decision making processes regarding investments are shared by many ministries and investment agencies, which makes the creation of these enterprises very slow, even difficult at times; two, the prime target of public investment programs, which partnership with such enterprises under many subcontracting schemes, is building the national economy's infrastructure instead of building capabilities in areas such the development of human resources and enterprising; and three, despite the importance given to small and medium enterprises by planning authorities, there is a remarkable neglect in this area; only 70 SMEs are built for one thousand inhabitant in Algeria, whereas neighboring Morocco and Tunisia created 350 SMEs for one thousand people. And the national agency (ANSEJ: Agence national de soutien à l'emploi des jeunes), put in place to create more jobs for youth, received only 3% of overall loans up to 2009 (Lamiri 2009, p. 2).

Some of the problems mentioned above are simply due to the lack of a 'coordinating brain' as Lamiri put it. Countries like China, India and South Korea have such 'brain' to strategically coordinate investments at the national level. In these countries, government owned banks usually finance strategic economic activities, whereas in Algeria these banks finance international commercial operations, which are by law the domain of private banks (Lamiri 2009, p.3). Others see the roots of these problems to be much deeper than in what has been briefly advanced in this section. Algeria's slow economic transition can be explained, partially, by its "protectionist nationalism" and its "static trade structure", which led to the country's failure to forge strategic trade and financial relations with its traditional and potential trade partners.

4.3 The Consequences of Restrictive Trade and FDI Laws in the 2000s

Hamid Darbouche (2011) articulated how the restrictive trade and FDI policies were, fundamentally, the result of the Algerian leadership’s “protectionist nationalism" in terms of economic policy outlook in the 2000s. According to Darbouche, the arrival of the ‘new era’ of high oil prices, the repayment of external debt and the restoration of Algeria’s international standing during this period led the administration to revert back to its preferred model of economic development, which is centered on the “state as the main agent and the hydrocarbon sector as the main lever.” However, the consequences of this outlook had negative implications on the country’s external trade relations and FDI inflows (Darbouche 2011, p.7).

In the early 2000s, Algeria renewed its efforts to join the WTO and signed an Association Agreement with the EU. While the WTO accession negotiations falling apart at the end of the decade, the Association agreement with the EU -entered into force in 2005 and due to take place in 2017- has been since 2009 the subject of intense negotiations between the two parties. Algeria demanded that the full entry into force of the free trade area with the EU be extended by three years because it was deemed unbalanced in favor of the EU. Moreover, the government introduced legislation to tighten the rules for FDI in 2006, starting with the upstream hydrocarbon sector and reaching all other sectors by 2010. The 51/49 investment legislation, which gave 51% ownership of all new FDI projects to the Algerian government, and which aim was to promote national production and domestic investment and curb imports, had little effect on changing the country’s trade structure and foreign investment inflows (Darbouche (2011, 9).

It seems that Algeria’s struggle with its transition to a market economy is marked more by the nature of the country’s politico-economic system than by the oscillations of oil prices in the international market. Addi’s analysis (1995), of Algeria being a “rentier state” and Derbouche’s concept of “protectionist nationalism” (2011), seem to hold if one look at how Algeria’s trade structure and its financial relations with the outside world have been developing during the last few decades and how the decision makers quickly went back to rely on the ‘rentier’ nature of the country’s politico-economic system, and on “protectionist nationalism” to build new agendas and “new economic models” to solve deep rooted structural problems of the national economy in time of oil crisis.

4.3.1 Algeria’s Trade Partners: Unbalanced Payments

Algeria’s economic trade structure stayed mostly unchanged since its independence from France in 1962. For decades the country relied heavily on oil exports and the attempt to diversify the economy outside the hydrocarbons sector did not bring about intended results. Moreover, the change in oil prices always had an immediate impact on how the government changes its trade, monetary, and fiscal policies, affecting its trade and financial relations with its partners and potential partners seen in the often and quick changes in the hierarchical position of these partners in the country's trade dealings as some won and others lost, but not always to Algeria's benefit. For instance in 2015, imports from the EU decreased from $29.7 billion to $25.3 billion, a deficit of $ 4.4 billion. Same result for Asia, imports from this part of the world slipped by 18.6%. Meanwhile Algeria's commercial exchanges with all Middle East and North African Countries (MENA) countries amounted to only $4.8 billion in 2015, a decrease of 24.8% from the previous year keeping the share the country's global commercial exchanges with MENA at 3%. In the same token, numbers for Italy during the first semester of 2016 show that Algeria's exports to this country alone amounted to $1.505 billion occupying the first position as a recipient of Algerian goods ahead of France with $879 million, Spain with $810 million, Turkey with 328 million, and Canada with $278 million (Imadalou 2016, p.1).

China, on the other hand, became Algeria's prime supplier of capital and consumer goods since 2013. Imports from this country counted for 18,3% of total imports, following France with 11.82%, Italy with 9.45%, Spain with 7.3%, and Germany with 5.81% for the period 2013-2016. Algerian-Chinese commercial exchanges increased by 47% between 2011 and 2014 which amounted to $10 billion. China's exports towards Algeria increase by 70% which meant that China imported practically nothing from Algeria during the same period. Moreover, China is by no means the first investor in Algeria despite the presence of 790 Chinese enterprises in the country. France is the first investor albeit its low FDI in Algeria. It amounted to only $2.2 billion in first quarter of 2016 despite the latter imports from the former reaching $200 billion in ten years (2004-2014). Morocco and Tunisia did better in attracting investment capital from France. French FDIs counted for 50% of total FDIs in Morocco in 2014 and French enterprises reached the 1300 mark in Tunisia in 2016 (Imadalou 2016, p.1).

Some experts see the less advantageous position that Algeria has so far vis-à-vis EU block members is due to the delay that Algeria incurred in signing the association agreement that 15 EU members had with 12 Mediterranean partners in Barcelona in 1995. Unlike its neighbors in the Maghreb region, Morocco and Tunisia, who signed two similar agreements in 1995 and 1996 respectively, Algeria did not sign the association agreement until 2001. The suspension of the agreement for four years by Algeria, for political and security reasons, did not work to it benefits and was in certain way beneficial to its two Maghreb neighbors (Begga & Abid 2004, p. 79).

Commercial relations EU-Algeria were not beneficial to the latter as some trade statistics between the two entities show. Algerian imports from the EU surpassed $30 billion in 2014 against an average of $9 billion annually between 2002 and 2004. Meanwhile, exports from Algeria towards the EU modestly moved from $500 million to $1.5 billion in 2015, a decrease by 31% in comparison to the 2014 figure which

 ISBN 978-80-87927-27-4, IISES

was $2.3 billion (Imadalou 2016, p. 1). However, EU's FDI towards Algeria in the same period were beneficial to the latter as Table 9 shows.

Table 9: FDI in Algeria for 2013-2014 (Billions of Euros)

Indicator	2013	2014	Average annual growth
Stocks: inward	0.9	1.8	88.5
Stocks: outward	13.6	14.1	1.1
Stocks: balance	13.0	12.3	
Flows: in	0.3	0.2	-45.8
Flows: out	2.0	0.7	-63.1
Flows: balance	1.7	0.6	

Source: Algeria Trade Statistics, 2014

Algeria's unbalanced trade situation was explained by it lack of taking advantage of two essential elements of international trade enhancement: geographic proximity and relational proximity (cultural and political). It missed many opportunities to enhance its trade and financial relations with the EU member states, with MENA countries, especially with its neighboring Morocco and Tunisia, and with its old strategic partners like Russia. However, the country seems to be catching up to enhance its foreign exchanges with countries under new trade schemes such as "win-win contracts" and "long term partnerships".

4.3.2. Algeria's Trade Relations with the EU and MENA: Consequences on FDI Flows

Despite the ongoing debate about how disadvantageous Algeria's trade and financial relations with the EU member countries are, statistics of the last few years show an improvement in the matter: six out of Algeria's first eight clients and four of the top five of her suppliers in 2015 were European countries. Percentage wise, Algeria's exports to the EU increased from 55% to 68 % between 2005 and 2010. However, imports from the same block decreased to 50% from 60% during the same period. If China had replaced the EU as Algeria's major trade partner, Europe still her major supplier of services with 40% of total imported services to equal 3.4 billion Euros in 2015 (Berkouk 2016, p. 3)

In terms of FDIs, Algeria's major investors came from the EU. European enterprises were partners in 55% of the projects declared by the Algerian National Agency for the Development of Investment (ANDI for its French initials) between 2002 and 2015. ANDI ranked these projects as the top job creators in Algeria. They added 60% of the new jobs' list in the same period, although the EU was challenged by Arabian Golf countries in FDIs flows. Between 2013 and 2014, the flux of European FDIs towards

Algeria decreased by 2/3 to reach a low level of 0.7 billion Euros. The stock of European FDIs in Algeria, however, reached more than 14 billion Euros, whereas the Algerian FDIs stock in Europe was in the neighborhood of 2 billion Euros during the same period. Moreover, despite Arab Golf FDIs sizable share of 50% of total FDIs in Algeria, they created only 30% of jobs between 2002 and 2015. The first investor in Algeria was Qatar with 530 million Euros, an amount superior to that of France and the United States combined during 2011-2013. Qatari investments were mostly in telecommunication, the production of military vehicles, and iron ore industries. Qatar Telecom acquired all stocks of Algeria's Alwatania Telecom in 2012 as Qatari investors built the iron ore complex of Bellara in Algeria. Meanwhile, the Emirati Aabar became an associate investor in the production of military vehicles with the Algerian government and its other partner, German companies. All these projects were built under the "win-win partnership" scheme (Berkouk 2016, p. 3).

4.3.3. Algeria's Trade Relations with Russia

Old political allies, Russia and Algeria signed a declaration of "strategic partnership" in April 2001 –Russia's first with an Arab country (Donaldson et al 2014, p. 326). This declaration opened up the way to Algeria's acquisition of Russian-made weaponry, the signing of an agreement to develop natural gas fields in Algeria, and the establishment of the Algero-Russian commission on trade, scientific and technical cooperation (MENA Forum 2016, p. 2). Trade between the two countries grew from $885.3 Million in 2014 to $2 billion in 2015 an impressive increase in volume in two years period knowing that it was only $175 million in 2002. Despite this jump in commercial dealings, some observers see the declaration of "strategic partnership" between Algeria and Russia, revived in a series of Memoranda of Understanding (MoU), would work only in the interest of the latter country.

Abdurrahman Mebtoul (2016) sees that the cooperation between Algeria and Russia are merely declarations of intent for several reasons. One, is the five Algero-Russian cooperation agreements signed in Moscow in April 2016 appear not to change the trend of Algeria's commercial dealings with the EU and China. Two, both economies appear to be not necessarily cooperating rentier economies but competing ones, as Russia's giant GAZPROM is in direct competition with Sonatrach for the European gas supply market. Three, there seem to exist a strategic energy related interests between the two countries to stabilize oil and gas prices. Four, Algeria's military imports from Russia would allow this latter country to balance its foreign trade accounts and contribute to the former's setting up a military industry as part of its efforts to establish an import substitution industrial base. Fifth, the new cooperation between the two countries reflect Russia's need for expanding its commercial dealings with the world as a new member of the WTO, as of 22 August 2012, and the freeze put on the OECD process in March 2014 because of geopolitical tensions surrounding the Russian Federation. Sixth, the need for Russia to modernize its economy

Conclusion

After more than three decades of socialism and a self-generating "rentier state" system, reform programs were launched in the early 1990s in Algeria to establish a market economy. However, the process of transition, based mainly on the dismantling of public enterprises and the newly created state dependent private sector, is being hampered by the shortcomings of the reform programs and by the ills of this private sector. The recent worldwide drop in oil prices deeply affected Algeria's economic transition, and pushed the state again to return to the premises of the "rentier state" in a new endeavor baptized the "Algerian new economic model", which premises are known so far only to decision makers. In its move towards austerity, the state called on the "private sector" and the citizens at large to finance its budget deficits through "l'emprunt obligatoire" or "forced loans" a form of buying government bonds by private investors. L'emprunt obligatoire had limited appeal so far, and the government is still shying away from foreign debt. However, with a sharp increase of public deficit and a sharp decrease in hard currency reserves, the government has no other choice but to find ways to diversify the national economy with or without a successful transition to a market economy.

References

Addi, H. (1995), 'Algeria's New oil Strategy,' in Clement, H. M. & Gillepsie, K. (eds), Oil in the New World Order, pp. 89-102. University of Florida.

Aghrout, A. & Bougherira M. (eds) (2004), *Algeria in Transition: Reforms and Development Prospects*, RohtledgeCurzon, London & New York.

Begga, C. & Abid, K., 'The Euro-Algerian Relationship: A Review of its Development,' in A. Aghrout & M. Bougherira, (eds) (2004), *Algeria in Transition: Reforms and Development Prospects*, pp. 73-86, RoutledgeCurson, London & New York.

Bennoune, M. (1988), *The Making of Contemporary Algeria*, Cambridge University Press, Cambridge.

Berkouk, S. (2016), 'l'Europe perd du terrain en investissement en Algerie', *El Watan Supplement Economie*, 27 Juin, p. II.

_______________, 'Degradation de la situation financiere en Algeria: la marge de manoeuvre se retrecit ', *El Watan Supplement Economie*, 19 Septembre, p. IV.

Boechat, G. (2015), 'Algeria: New 2015-2019 Investment Plan for a Productive and Diversified Economy', *MedAfrica.* Available from: http://www.medaafricatimes.com/3157-Algeria-new-2015-2019-262 (3 August 2015)

Bouyacoub, A. (2001), *La politique industrielle en Algerie: état et perspectives*, Institut de recherches sur le monde arab et musulman, CNRS, Aix Marseille Université.

Brahimi, A. (1991), *Strategie de Developpement pour l'Algerie*, Economica, Paris.

Darbouche, H. (2011), Algeria's Failed Transitions to a Sustainable Polity: Coming to a Yet another Crossroads" *MEDPRO Technical Report*, no. 8, pp. 1-11.

Donaldson, Nogee & Nadkarni (2005), *The Foreign Policy of Russia: Changing Systems, Enduring Interests*, 3rd ed., M.E. Sharpe.

Gupta, A. (2000), *Beyond Privatization*, London: McMillan.

Imaladou, S. (2016), 'l'Algerie acteur absent sur le marché international, *El Watan Supplement Economie*, 27 Juin, p. IV.

Kichou, L. (2011), 'Privatization in Algeria : An institutional Economic Analysis of the Failed Privatization Process', *East-West Journal of Economics and Business*, vol. 14, no. 15, pp. 109-135.

Lamiri, A. (2009), 'Décisions du gouvernement sur investissement étranger' *El Watan Supplement Economie*, 11 Mai, p. II.

Mebtoul, A. (2016), 'Algeria's Economic Cooperation with Russia', *MENA forum*, Available from: http://www.mena-forum.com/algerias-economic-cooperation-with-russia 2016 (28 August 2016).

Miles, M. A., Edwin J. F.& O'Grady, M. A.,2004, '2004 Index of Economic Freedom', The Heritage Foundation and Dow Jones &Company , Inc., Washington, D.C.

Ministry of Planning and Territorial Management (1979)*, Rapports des Plans de Developpement: 1966-1977,* Algiers

Ministry of Planning and Territorial Management (1985), *Rapport de Plan 1980-1984*, Algiers.

Ministry of Planning and Territorial Management (1984), *Plan Quinquenal: 1985-1989*, Algiers.

Office National des Statistiques (1983), *Annuaire des Statistiques de l'Algerie*, Algiers..

Schachmurove, Y. (2004), '*Economic Development in the Middle East'*, Penn Institute for Economic Research Working Papers 04-022, University of Pennsylvania.

Theiry, S.P. (1980), *Crise du Système Productif Algerien*, Institut de Recherche Economique et de Planification du Developpement, Grenoble.

Tlemçani, R. (2009), 'Néopatriotisme économique, bazar et lobbies', *El Watan Supplement Economie*, 2nd Octobre.

Trade Statistics, Algeria, 2014. Available from : http://globaledge.msu.edu/countries/algeria/tradestats (20/09/2016)