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**Algeria: The Illusion of Oil Wealth**

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## **Algeria: The Illusion of Oil Wealth**

### Abstract

Thirty years after the nationalization of hydrocarbons Algeria's oil wealth seems to have disappeared judging by its absence in the country's indicators of well-being. In Algeria, oil brought happiness to a few and misery for many. The lack of oversight over oil revenue led to the industries downfall. Since 2002, oil wealth has returned to Algeria. The per-barrel price increase from \$30 to \$147 between 2002 and 2008 provided the country with unexpected revenue enabling it to accumulate an estimated \$150 billion in dollar reserves, in 2009. Abdelaziz Bouteflika, who returned to a devastated Algeria to restore civil order, unexpectedly benefited from this price increase. Thus, he was able to offer Algeria not only national reconciliation but also renewed economic growth. However, given that the wounds of the 1990s are not entirely healed and the illusions of oil wealth have evaporated with the randomness of economic instability, this unexpected return of financial abundance raises concerns. To what ends will this windfall be put? Who will control it? Will it provoke or sustain a renewal of violence and conflict?

## **Les illusions de la richesse pétrolière**

### Résumé

Trente ans après la nationalisation des hydrocarbures, la richesse pétrolière accumulée semble disparue tant elle est absente des indicateurs d'évaluation du bien être. En Algérie, elle a fait le bonheur d'une minorité et la tristesse de la majorité. L'absence de contrôle exercé sur la rente pétrolière a conduit à sa dilapidation. Depuis 2002, l'Algérie a renoué avec la richesse pétrolière. L'envolée du prix du baril, bondissant de 30 à 147 dollars entre 2002 et 2008, lui a procuré des revenus extérieurs inespérés qui lui ont permis de se doter d'un Fonds de réserves estimé en 2009 à 150 milliards de dollars pour l'Algérie. Rapatrié pour restaurer la paix civile dans une Algérie dévastée, Abdelaziz Bouteflika a bénéficié de la montée inattendue et inespérée du prix du baril de pétrole. Ainsi, au-delà de la réconciliation nationale, il a pu offrir à l'Algérie, un nouvel envol économique. Mais alors que les drames de la décennie quatre-vingt-dix ne sont pas entièrement pansés et que les illusions de la richesse pétrolière se sont évaporées dans les méandres de la précarité, ce retour inattendu de l'abondance financière ne manque toutefois pas d'inquiéter. A quoi la manne va-elle servir ? Qui va la contrôler ? Va-elle provoquer ou entretenir à nouveau violence et conflits ?

# Algeria: The Illusion of Oil Wealth

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Algeria has once again become a vast construction site: roads, highways, ports, airports, underground rail networks, hospitals, universities, factories, housing units are all under construction, creating a very different landscape than the one that could be seen in the 1990s. Symbolically, after more than 24 years' absence, the Fennecs, the national soccer team, qualified for the World Cup, sparking a wave of euphoria throughout the country comparable to the displays of jubilation following independence. But this rebirth unfortunately remains fragile. Once again a strategic resource, the hydrocarbon sector is at the centre of development policies. The dynamism of the oil sector has stimulated economic growth, which reached a rate of 5% between 2005 and 2010. But like in the 1970s, this economic growth is entirely dependent on the hydrocarbon sector: in 2009, over 98% of the country's revenues came from natural gas and oil exports<sup>1</sup>. In 2008, Sonatrach became the largest and most lucrative oil company on the African continent<sup>2</sup>. In May of the same year, Energy Minister Chakib Khalil announced that Sonatrach would invest \$45 billion in the coming years to reach a production level of 2 million barrels per day and 85 million m<sup>3</sup> of natural gas. Sonatrach is once again the engine of an economy that is struggling to diversify.

The Human Development Index qualified Algeria's development status as mid-level: in 2009, it ranked in 104<sup>th</sup> out of 182 countries. Aside from a handful of propagandists, few people in Algeria believe that February 24, 1971, date on which the hydrocarbon sector was nationalized, hailed the "second independence" proudly declared by an *El Djazair* magazine headline<sup>3</sup>. Just prior to the third oil crisis (2002-2008), a National Economic and Social Council report<sup>4</sup> highlighted the fact that 19% of the population, or nearly 6 million people,

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<sup>1</sup> UN Comtrade.

<sup>2</sup> Political Risk Services, *Algeria Country Forecast*, July 1, 2008, p. 13.

<sup>3</sup> Revue *El Djazair. Nous avons les Hommes, les idées et le pétrole*, "Il était une fois le 24 février. La seconde indépendance" (Algiers), n° 23, February, 2010.

<sup>4</sup> National Economic and Social Council, [http://www.unicef.org/specialsession/hox\\_country/edr\\_algeria\\_fr.PDF](http://www.unicef.org/specialsession/hox_country/edr_algeria_fr.PDF)

lived in poverty. It also pointed up the serious threat represented by an unemployment rate varying between 22% and 28%. From a financial standpoint, service of the debt absorbed the equivalent of 47.5% foreign resources in 2000. When Abdelaziz Bouteflika rose to the presidency in 1999, the state coffers were empty and power was dispersed among a few "generals" who had won the civil war. Brought back to restore the civil peace in a devastated Algeria, Abdelaziz Bouteflika benefited from the unforeseen and unhoped-for rise in oil prices. He was therefore able to offer Algeria not only national reconciliation, but also a substantial growth rate and in 2010, over \$150 billion in foreign exchange reserves. On the face of it, Algeria once again has a strong economy, but actually, the unexpected return of financial abundance merely underscores its weaknesses. As A. Mebtoul points out, if hydrocarbons were excluded in calculating GDP, Algeria would drop back by 20 points: ranked 102<sup>nd</sup> (out of 177) in 2005-2006, it would thus fall back to 153<sup>rd</sup> place<sup>5</sup>.

Forty years after the first oil crisis, Algeria still does not have political institutions capable of exercising control over the uses of the oil rent. Instead of the *Cour des Comptes* (government accounting office), the *Inspection Générale des Finances* (the treasury), or the Parliament, it is the Department of Intelligence and Security (*Département de Renseignements et de la Sécurité* - DRS) which, in the utmost opacity, serves as financial controller, as is apparent in the scandals that periodically shake up the microcosm of power. Far from ensuring efficiency, the arbitrary nature of decisions threatens to paralyze the heads of national companies who panic and try to stall on signing payment orders, thereby further penalizing their clients... In fact, to "escape the oil curse"<sup>6</sup>, more than restore the "order and grandeur of the past", after the fashion of Vladimir Putin in Russia, Algeria must dismantle an opaque system fueled by a booming rentier economy. For Algeria is still plagued by the same scourge<sup>7</sup>: the rentier economy has given rise to a mafia-like system that undermines and destroys hopes of an economic takeoff and hence a lasting improvement in the people's standard of living. The return of a providential figure has not been enough to quell the tensions aroused by this new windfall; without democratic political institutions, this new and unexpected wealth seems like another mirage. Under Boumediene's authoritarian regime (1965-1979), fear and threats did not manage to scare away "those who were only interested in money"; today, under a regime of controlled pluralism, the search for enrichment seems multiplied tenfold and the means to regulate it derisory. In an article published in *L'Expression*, Dr. Chems Eddine Chitour expressed the general feeling about the third oil crisis:

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<sup>5</sup> A. Mebtoul, "Pour l'amélioration du rapport de 2008 du Conseil économique et social algérien sur l'IDH", *El Khabar*, September 14, 2009.

<sup>6</sup> A. Gelb and S. Grasmann, "Déjouer la malédiction pétrolière", *Afrique contemporaine*, n° 229, 2009. The copious literature on the oil curse seeks to explain the paradox between bountiful natural resources and weak economic performance. The theory was formulated in the 1970s taking the Netherlands as an example. Dutch manufacturing industries in fact collapsed in the wake of natural gas exports, which raised the cost of labor and overvalued the florin. The theory has spawned a host of analyses of the rentier state.

<sup>7</sup> S. Goumeziane, *Le Mal algérien. Economie politique d'une transition inachevée*, Paris, Fayard, 1994.

"More" than ever we need to reconsider everything we're doing. To start with, the state has to stop living in a style of wealth that does not go along with the creation of wealth. We have to restore our know-how by counting on ourselves, not on the Chinese, the French, the Turks or the Koreans who treat Algeria as a bazaar where they can sell off any old junk amounting to \$30 billion of instantly obsolete gadgets... A new program is needed to manage Algeria, a program based on training people. It starts at school."<sup>8</sup>

The oil rent has destroyed local know-how, generated consumer expectations, sustained the illusion of wealth and overlooked investment in human capital.

Having become attractive once more, the Algerian market is coveted. With no body to control them, transactions are handled in total opacity, making the prospect of huge waste once again likely, as indicates the high level of corruption<sup>9</sup>. How should this financial surplus be exploited?<sup>10</sup> The national economy proved to be incapable of absorbing the billions of dollars generated by the third oil crisis. It does not have the means required to exploit this unexpected wealth. The major construction projects in Algeria, underindustrialized and lacking the necessary human capital, are designed and carried out by foreign companies. In a context of social and political violence, Abdelaziz Bouteflika is in the grips of the paradox that make this leader of a "rich" country incapable of meeting social demands. Riots regularly break out in Algeria, reminding it how vulnerable its social cohesion remains. Furthermore, terrorist violence continues to prosper<sup>11</sup>. Such violence is useful to the regime: it veils the mechanisms of the government machine and sustains the illusion of an Islamist threat. It also helps to avert a critical gaze on the past and present uses of the oil rent. And yet, in the 1970s, petroleum was perceived as a blessing. President Boumediene was convince that this resource would enable Algeria to buy its way into modernity and catch up with the West. It represented "the people's blood"<sup>12</sup>. Today it seems more like the "excrement of the devil" denounced by the founding father of OPEC, Juan Pablo Perez Alfonzo<sup>13</sup>.

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<sup>8</sup> C. E. Chitour, "Troisième contre-choc pétrolier. Que doit faire l'Algérie?", *L'Expression*, November 24, 2008.

<sup>9</sup> In 2009, Algeria was ranked by Transparency International 111<sup>th</sup> for corruption out of 180 countries.

<sup>10</sup> Should Algeria create a sovereign fund? In June 2008 on Channel France 24, the Energy Minister indicated "it is an idea that must be carefully considered because it would require the means, human resources and possibly partnerships to try to decide where and how to invest, if it should be done abroad".

<sup>11</sup> For some observers, the establishment of Al-Qaeda in the Maghreb is a ploy of the Algerian security services to arouse fear in Europe and the United States regarding their interests in the region, forcing them to cooperate in security matters. F. Gèze and S. Mellah, "'Al-Qaida au Maghreb', ou la très étrange histoire du GSPC algérien", *Algeria-Watch*, September 22, 2007.

<sup>12</sup> "If we were to analyze Algerian oil, we would realize that it contains the blood of our martyrs, because we came into possession of this wealth by paying with our blood." Speech at Skikda, July 16, 1970.

<sup>13</sup> M. Sol Pérez Schael, *El Excremento del diablo. La democracia venezolana y sus protagonistas*, Caracas, Alfadil Ediciones, 1997.

## THE IMPASSE OF THE RENTIER ECONOMY

First discovered in 1948, oil became a major stake in the war for liberation (1954-1962). When the French authorities began to envisaged granting independence, they only considered it as long as the "southern territories" remained under French control. The promulgation of the Sahara Oil Code in 1958 defined the conditions for exploiting oil in terms that were eminently favorable to the French companies. In reaction to the independence movement's unconditional refusal to see Algeria deprived of its southern territories, the fate of oil was turned over to a joint Franco-Algerian organization under the Evian Accords of 1962. Once independent, FLN-governed Algeria fully realized the limits on its sovereignty over exploitation of its energy resources. The establishment of Sonatrach in 1963 aimed to give Algeria the oil technology it lacked and which remained concentrated in the hands of French oil companies. Following Algeria's request to modify the Evian Accords on hydrocarbons, the Franco-Algerian accord of July 1965 promised cooperation in this sector. Putting it into practice remained "difficult", however, due to irreconcilable "divergences of interest"<sup>14</sup>. For the FLN-state ruled by Boumediene since the 1965 coup d'état, foreign company control over hydrocarbons could not endure. The regime had no other resource. On February 24, 1971, Algeria nationalized the hydrocarbon sector and placed all its development hopes in black gold.

In the collective memory, this decade appears as a golden age, a period when Algeria promised to become a regional power guided by a strong and respected state and bolstered by a prosperous economy, which itself was drawn by the success of "industrializing industries". Under the influence of G. Destanne de Bernis, Algeria espoused these remarks:

"Developing countries can only hope to catch up to countries that began their industrialization over a century ago if they decide to plough ahead and focus immediately on the most modern production processes."<sup>15</sup>

The complex and sophisticated strategy of "industrializing industries" aimed to create a dynamics of full economic integration (of metallurgy, mechanical and electrical industries) to establish industrial exchange. The aim was to have the Algerian economy produce its own industrial facilities to the greatest extent possible. This strategy was also based on the theory that "industry should not rely mainly on export, but should help to turn the Algerian economy inward". Algeria's ambition was to manage to build an industrial sector that could manufacture producer goods more than consumer goods<sup>16</sup>. The success of this model depended on the

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<sup>14</sup> N. Grimaud, "Le conflit pétrolier franco-algérien", *RFSP*, Vol. 22, n° 6, 1972, p. 1284.

<sup>15</sup> G. Destanne de Bernis, "Industries industrialisantes et contenu d'une politique d'intégration régionale", *Economie appliquée*, n° 3-4, 1966, pp. 415-473.

<sup>16</sup> G. Destanne de Bernis, "Les industries industrialisantes et les options algériennes", *Tiers-Monde*, Vol. 12, n° 47, 1971, p. 550.



trickle-down capacity of industry to agriculture, a lasting coordination among administrations involved in implementing it and, especially, sustained financial investment.

The construction of natural gas liquefaction complexes (Arzew, Skida), oil refineries (Algiers, Arzew, Hassi Messaoud), a mercury plant (Bou Ismail), a hot rolling mill (Annaba) and fertilizer and plastic manufacturing units met the goal of offering the petrochemical industry the most modern means of production. In short, they had to jump the gun, so to speak. Boumediene's Algeria was a perfect illustration of oil nationalism and its faith in industrial development. Unlike Algeria, South Korea's industrialization strategy in the 1970s had given precedence to import substitution industries and relied on exports. Heavy industry was developed later<sup>17</sup>. Algeria chose the opposite route of heavy industrialization first without having had the time to develop substitution industries due to the dry-up of investments after 1986 with the collapse of oil prices, condemning itself to import heavily, thereby unbalancing its budget at the slightest drop in oil prices.

## **POLITICAL INSTITUTIONS INCAPABLE OF CONTROLLING THE OIL WEALTH**

Oil revenues fostered the edification of complex political and security frameworks that have ensured the consolidation of broad coalitions. They have also reinforced traditional practices of predation that progressive elites viewed as a threat to be eradicated and which President Boumediene decried:

"Using cunning to steal from the state seems to have become the rule, as if the state were a foreign state. We must erase from people's minds the archaic idea of the beylicate."<sup>18</sup>

In the 1970s, the huge influx of revenues in the state coffers severely disrupted the functioning of the government apparatus. The problem then facing the Algerian socialist revolution was as follows: How is it possible to manage at once the revolution, redistribution of wealth, political stability, the desire for enrichment, conflicts and rivalries and clan struggles? Lacking political institutions that could secure negotiations among the various clans, Algeria soon found itself controlled by Military Security ("SM"), which served as a regulator. The "SM" used violence to establish the rules of the game in the republic, define legitimate actors and build political stability using intimidation

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<sup>17</sup> Ick-Jin Seo, *La Corée du Sud. Une analyse historique du processus de développement*, Paris, L'Harmattan, 2000, p. 165.

<sup>18</sup> *Révolution africaine*, September 28 – October 4, 1977, p. 13.

and elimination of insubordinates. In short, it established order in the state to be able to redistribute the revenues of the oil rent. The socialist revolution's aim was to fill "empty stomachs", because, as Houari Boumediene believed:

"People don't want to go to heaven with an empty stomach. People who are hungry don't need to listen to verses. I say that with all the consideration I have for the Qur'an, which I learned at the age of ten. People who are hungry need bread, people who are ignorant need knowledge, people who are sick need hospitals."<sup>19</sup>

This historic period, an extremely important one in the formation of the political system, was characterized by the unexpected conjunction of the socialist revolution, the goal pursued by the nationalist revolutionary elites, and the financial abundance inherent in the nationalization of hydrocarbons and later the first oil crisis. It should be remembered that the price of a barrel of oil went from \$2 in the early 1960s to \$40 at the end of the 1970s. That fact alone suggests to what extent the organization of a revolution could only be subject to fierce rivalries. A position with Military Security was tantamount to a guarantee not only of protection but especially rapid enrichment. The countless economic projects undertaken, some more realistic than others, were in fact indirect operations for reinvesting revenues from the rent. Public investment in the 1970s was enormous, but there were no legitimate political institutions capable of exercising control over these expenditures any more than a free press capable of giving an account of the arbitrages underlying the projects chosen. The system would make Algeria a textbook case "to analyze the curse of wealth and the symptoms of a rentier economy: monopolization of the rent by a class of state racketeers who use the control of power as a means of personal enrichment and systematic corruption"<sup>20</sup>. And yet, Boumediene had other ambitions. He aspired to bring Algeria from

"[...] a capitalist society of exploitation based on selfish profit, domination of the wealthy and class struggle to a socialist type of society based on social justice, equal opportunity and respect for the general interest... and requires that structural transformations necessarily be allied with the transformation of behaviors and mentalities. This cultural revolution is a long-term battle."<sup>21</sup>

Then, as well as today under Abdelaziz Bouteflika, the ambitions of the Algerian leadership is not to establish democratic political institutions but to ride the wave of oil profits. Criticism of the Boumediene regime thus carried little weight in view of the economic success achieved. Throughout the 1970s, growth rate hovered around 7% and the gross rate of investment

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<sup>19</sup> Speech at the Islamic summit in Lahore, February 1974. See H. Sanson, "L'Islam de Houari Boumediène", *AAN*, Vol. xvii, 1978, pp. 267-277.

<sup>20</sup> M. Chatelus, "Nouvelles orientations de la politique pétrolière algérienne", *Maghreb-Machrek*, octobre-décembre 1999, p. 5.

<sup>21</sup> H. Boumediene, APN Speech, April 23, 1978, quoted by M. E. Bénissad, *Economie du développement de l'Algérie*, Paris, Economica, 1979, p. 23.



exceeded 35%. GDP (in millions of current dinars) reached 80,573 DA (Algerian dinars) in 1977, whereas it was only 13,130 DA in 1963<sup>22</sup>. This exceptional growth rate made Algeria look like a "Mediterranean dragon".

But even before fully measuring the vulnerability of its industrial strategy, the Boumediene regime already inspired ambivalent sentiments, a mix of fear and hope. Most saw authoritarianism as legitimate given the outstanding economic results. Its use of the oil rent seemed fair because it contributed to substantial social and economic redistribution. Moreover, Boumediene not only displayed charisma, but an ethic of justice and a condemnation of corruption that sustained a perception of a state that, however authoritarian, was honest. The oil rent was presented as a just reward for the sacrifices the people had made to give birth to the Algerian nation. Consequently, it could only be used in the "general interest", and Boumediene issued a warning to those who did not see things that way:

"As for those whose only aim is to make money, they should realize once and for all that they have no place in the government, the party or the army."

He reiterated this message on a number of occasions, as in 1976:

"Those who have opted for wealth can step back and keep their distance from the Revolution."<sup>23</sup>

But was it politically astute to stigmatize those who were "interested in wealth"? Was that not, on the contrary, the best way to encourage theft?

Boumediene's death hailed the end of a dream. The strong state and promising economic outcomes of the exceptional decade concealed the shortcomings of a young nation carried away by its enthusiasm. Boumediene had managed to inspire a vision of the future and impose an obligation to succeed in order to move Algeria away from its colonial past. The FLN's anti-colonial discourse remained credible as long as it could put its revolutionary legitimacy into practice: seizure of "vacant goods", nationalization of the oil sector, the agrarian revolution, the transition to socialism were as many events that fuelled the revolutionary dream. But at the end of the 1970s, the vacuity of the FLN discourse became evident well beyond circles that criticized the revolutionary experience. Boumediene's departure revealed the failures, drawbacks and shortcomings of a development policy that Algeria could hardly afford to finance<sup>24</sup>.

The illusion of a hardworking Algeria came to an end. Unemployment remained massive due to the arrival of increasingly large numbers of people on the job market every year and steady population growth (from 11 million inhabitants in 1960 to 33 million in 2005). The failure of the agrarian revolution found an outlet in mass emigration of peasants to the former colonial

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<sup>22</sup> M. E. Bénissad, *Economie du développement de l'Algérie*, op. cit, p. 49.

<sup>23</sup> H. Boumediene, Constantine speech, 1974.

<sup>24</sup> T. Benhouria, *L'Economie de l'Algérie*, Paris, Maspero, 1980, p. 300.

power. Algerian society was sinking not into the tranquility of a fair society but into the throes of bitterness and feelings of jealousy. This state, which according to the official rhetoric had come into existence on the backs of the million and a half martyrs of the revolution, had become the instrument of wealth for a minority who had taken possession of the legacy of the war for independence and placed it in the hands of the "revolutionary family"<sup>25</sup>. The artificial barrier constructed to protect the state from those who were "interested in money" would be broken down by the development of a state bureaucracy that instituted a system in which corruption spread to all echelons of the administration. Boumediene's dream thus turned into a nightmare during the "dark decade", as Chadli Bendjedid's opponents called his rule, followed by the bloody decade of civil war (1991-1998). The development process created by the oil rent suddenly ground to a halt. All that remained were the usurped "vacant goods", diverted farmland (via the agrarian revolution), and pillaged public investments (in the context of industrialization). The oil rent itself, the only source of available revenue, would also soon become the object of organized and structured plunder in the context of "state capitalism" and for the benefit of a "bourgeoisie that had invested the entire state apparatus"<sup>26</sup>. Without transparent political institutions to manage transactions, Military Security assumed the role of "controller", becoming a fearsome instrument:

"Its networks have penetrated administrations, the FLN, the police, and choose representatives at the municipal and regional level. The role of Military Security is preponderant in co-opting elites, organizing congresses and public debates... Fear has become a factor in the exercise of power."<sup>27</sup>

Military Security performed the function of regulating conflicts and rivalries; it distributed wealth and privileges to its allies, helped its former partners go into business and eliminated insubordinates. It was a violent secret organization that aimed to establish political stability and secure transactions. Financial abundance had led to collective enrichment strategies in a country devoid of democratic institutions and therefore incapable of establishing formal rules of the game. Concentration of political and military power in small circles enabled wealth to be redistributed in a selective but controlled manner. In short, Military Security fulfilled the functions usually attributed to mafias: making transactions secure in a market lacking any instruments of protection.

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<sup>25</sup> Expression used by the PRI in Mexico and which, in Algeria, qualifies government representatives: "this family is not only metaphorical, it is indeed founded on kinship. Made up of former mujahideen or who claimed to be, it also includes 'the children of *shuhadâ*', and 'children of *mujahideen*', called 'legal claimants'. The progeny of the later is already organising as 'children of legal claimants'. Government representatives believe that these descendents are the extension of their parents and should be appreciated and rewarded in this right", in A. Moussaoui, "Algérie, la guerre rejouée", *La Pensée de midi*, n° 3, 2000, pp. 28-37.

<sup>26</sup> M. Raffinot and P. Jacquemot, *Le Capitalisme d'Etat algérien*, Paris, Maspero, 1977.

<sup>27</sup> M. Harbi, "Processus de relégitimation du pouvoir en Algérie", in M. Camau, *Changements politiques au Maghreb*, Paris, CNRS Editions, 1992, p. 134.

## THE POLITICAL-FINANCIAL MAFIA

The economic reforms enacted in the mid-1980s modified property rights of agricultural land and public companies, import licenses and access to foreign currency. Until the oil counter-crisis in 1986, the state held a monopoly over access to its resources. Joining the administration or security apparatuses remained the primary means of personal enrichment. Throughout the period of financial abundance, regime stability was ensured by "coalitions that seek to exploit sources of revenues"<sup>28</sup>, which thus rested primarily on their ability to portion out the allocation of revenues. But after 1985-1986, modification of property rights led to the appearance of new actors that aimed to gain access to the resources thus "freed." The sale of public property therefore became simply a means of redistributing investments made over the course of two decades using the oil rent. The aim was to sell or distribute goods and services financed during the period of abundance. Such transfers of property ownership were protected by criminal groups and took place in a totally opaque manner. The phenomenon was facilitated by the lack of an independent judiciary.

In the late 1980s, in an international and national context threatening to the regime, a process of reconstructing new coalitions began that was no longer based on managing and distributing the rent, as was the case during the national and socialist revolution, but on the transfer of ownership of state goods and services to the open market. The auctioning off of state land, real estate and industrial property bought new protagonists on the scene and a resurgence of violence due to this new competitive context. The need to guarantee the security of property transactions made in the context of liberalization and privatization policies caused mafia-like groups to emerge. These criminal organizations fulfill regulatory functions, to some extent supplanting the role played by Military Security throughout the 1970s. They foster the organization of new coalitions that no longer aim to capture the oil rent but to take control of land, real estate, and industrial and commercial property that the new economic situation now offered—and which at the same time plunged the people into even greater instability and poverty. State property, valued by the rentier economy, became a fundamental stake in the battle to reorganize the authoritarian coalitions.

President Boudiaf, who had called this predatory system a "political-financial mafia", was assassinated on June 29, 1992. What was he criticizing? Ingrained practices of capturing the rent in the context of the policy of importing pharmaceutical products and weapons, skimming profits from oil contracts and money transfers to accounts abroad. Economic

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<sup>28</sup> G. Favarel-Garrigues, "Mafia Violence and Political Power in Russia", in Jean-Louis Briquet and Gilles Favarel-Garrigues, *Organized Crime and States*, New York, Palgrave Macmillan, 2010, p. 148.

liberalization and privatization programs only amplified this trend<sup>29</sup>. Ownership transactions were handled in total opacity. Journalists avoided "talking about anything that resembled embezzlement of public funds or corrupt practices"<sup>30</sup>. And in fact they had already paid a high price, with over 60 journalists murdered between 1993 and 1997. Opacity was all the thicker since there was great confusion between Islamist groups and the government. As one Algerian lawyer pointed out:

"In a fairly peculiar situation, certain corrupt milieus and their mafia-like practices have in recent years meshed with the schemes of legal fundamentalist organizations, even those that were secret at first. Today, terrorism and even Islamist subversion cover and protect the development of corruption and contraband."<sup>31</sup>

Economist Fatiha Talahite indicates that between 1986 and 1988, over \$9.7 billion "was allegedly transferred out of Algeria illegally". This amount is believed to have reached \$16.3 billion in late 1990, or nearly 55% of the foreign debt (\$30 billion in 1990)<sup>32</sup>. At the end of the civil war in 1999, the assets of Algerian billionaires held abroad were estimated at \$40 billion<sup>33</sup>.

In the early 1990s, the reformers attempted to put a halt to this system. They took advantage of the financial failure resulting from the collapse of the price of oil to promote a structural reform of the Algerian economy. Two schools were divided over the reform: some maintained that the crisis was due to the economic climate, that the economy had to adapt while waiting for oil prices to go back up; others believed the crisis was structural, revealing the failure of economic policies and that the remedy was a complete overhaul of the rentier economy. But the hydrocarbon sector seemed untouchable, so great was the fascination it continued to hold: It was responsible for the growth in external revenues from \$0.2 billion in 1970 to \$12.5 billion in 1980.

Yet, with annual receipts continuously at about \$5 billion between 1986 and 1990, the state could no longer meet current expenditures without going heavily into debt. Between 1985 and 1988, the total volume of debt doubled to reach \$26 billion. Reimbursing it would bring Algeria to the brink of bankruptcy in the early 1990s, the service of the debt absorbing most of its hydrocarbon revenues. In 1989, a reform-minded government finally set itself the task of "making irreversible institutional and economic changes"<sup>34</sup> with the IMF's discreet support. Resistance to such a plan was widespread, both among those who had benefited from the

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<sup>29</sup> In 1991, the state monopoly over foreign trade was ended and in 1993 a new investment code was enacted "lifting the constraints on private, domestic and foreign investment".

<sup>30</sup> D. Hadjadj, "Violence et corruption: cas de l'Algérie", *Le Bulletin de l'APAD*, n° 25, June 2003.

<sup>31</sup> Account given by Abderrahmane Boutamine in *Le Matin*, October 15, 1998.

<sup>32</sup> F. Talahite, "Economie administrée, corruption et engrenage de la violence en Algérie", *Revue Tiers-Monde*, n° 161, 2000, p. 9.

<sup>33</sup> *Challenges*, n° 135, April 1999, cited by F. Talahite in "Economie administrée, corruption et engrenage de la violence in Algeria", art. cited, p. 21.

<sup>34</sup> G. Hidouci, "L'Algérie peut-elle sortir de la crise?", *Maghreb-Machrek*, n° 149, July-September 1995, p. 27.

state's largesse and those who had profited from it but who were now, in the context of the crisis, accused of corruption and embezzlement. Eager as they were to carry out economic and political reforms at once, the reformers ended up losing control of the transition with the overwhelming and unexpected victory of the FIS in the municipal and legislative elections of 1990 and 1991. The Islamist threat hanging over the regime relegated reform to oblivion.

Ten years later, under Abdelaziz Bouteflika's presidency, a new coalition formed under the influence of "energy specialists", pro-Western elites who took as a model the rentier economies in the Gulf. The aim was no longer to reform the economy but to improve the economic performance of the energy sector. Although Bouteflika's Algeria was not striving to become like Malaysia, it made clear its ambition to become associated with the emerging economies. Owing to the third oil crisis, they thus managed to marginalize the "Arab socialists" that represented the military-industrial complex influenced by the USSR model and that were backed by the military. For the "energy specialists", oil nationalism had had its day and no one any longer dared believe that petroleum was an ideological weapon. For these new elites<sup>35</sup>, the convergence of interests (the energy market) and concerns (the fight against terrorism) after September 11, 2001 was a historic opportunity to be seized.

Freed from anti-Western rhetoric—which Al-Qaeda had taken up as its own—the liberal coalition felt it was in a position to convert Algeria to a market economy to join, belatedly, the category of emerging economies that Morocco, Tunisia, Egypt and especially the rich Gulf monarchies had entered. The hydrocarbon sector, the nationalists' proudest achievement in the 1970s, no longer seemed to the post-embargo coalitions to be the answer to development. Thus, President Bouteflika declared before the James Baker Foundation:

"We have resolutely opted to end monopolies and establish a regulatory framework that guarantees fairness and transparency for all national and foreign operations."<sup>36</sup>

When the Khelil bill on the "privatization" of Sonatrach was debated, it raised emotional protest from the old guard:

"Hydrocarbons are the lifeblood of the economy"; "privatization of the hydrocarbon sector would be tantamount to entrusting the circulation of one's own blood through the heart to another."<sup>37</sup>

As a symbol of oil nationalism at the heart of major conflicts of interests, Sonatrach escaped the logic of privatization; the coalitions in charge of using the rent won out.

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<sup>35</sup> On the elites in Algeria, see the volume by I. Werenfels, *Managing Instability in Algeria. Elites and Political Change since 1995*, London, Routledge, 2007.

<sup>36</sup> Quoted by A. Rebah in *Sonatrach, une entreprise pas comme les autres*, Algiers, Casbah, 2007, p. 227.

<sup>37</sup> M. Benachenhou, "Dix arguments contre la privatisation de la Sonatrach", *Le Jeune Indépendant*, November 3, 2001, and A. Belaid, *Le Jeune Indépendant*, February 24, 2000, quoted by A. Rebah in *Sonatrach, une entreprise pas comme les autres*, *op. cit.*, p. 227.

## THE CORRUPTION MARKET

Unable to remedy the bureaucracy's "mafia-style encystment"<sup>38</sup>, Abdelaziz Bouteflika attempted to restore order in business. But his anti-corruption policies seemed futile indeed, endeavoring as they did to punish men caught red-handed rather than to dismantle a system that fostered wrongdoing, even encouraged it. After ten years under his presidency, the Parliament appears to be an empty shell, the *Cour des comptes* remains paralyzed, and only the *Inspection générale des finances* seems encouraged to take action. This indicates to what extent uses of oil revenues still escape rigorous and transparent control, to the population's great despair. When the amounts misappropriated are too large, the Department of Intelligence and Security (DRS) steps in to regulate the corruption market and force the actors to exercise an acceptable degree of restraint. As Military Security once did, the DRS now ensures the proper functioning of the system while waiting for the 470 magistrates to complete their training in financial scandals.

The Algerian press reports with malicious pleasure how "DRS military judicial officers"<sup>39</sup> have conducted investigations into the largest corruption cases in Algeria. Whereas the Algerian people were waiting impatiently for the country's "largest civil construction project" to be completed, the East-West Highway (927 kilometers long), in Autumn 2009 they discovered that this project, overseen in part by the CITIC-CRCC, a Chinese consortium, "thanks to lobbying carried out by Pierre Falcone"<sup>40</sup>, is not only the most costly on the African continent (\$11 billion), but also the one that gave rise to "the largest bribe known in history", some 200 million euros! Predictably, the return of financial abundance has translated into increased perception of corruption, as indicated by Algeria's backslide on the Transparency International list (in 2009, it ranked 111<sup>th</sup> out of 180 countries). The East-West Highway scandal illustrates the huge challenge Abdelaziz Bouteflika's Algeria must meet: to establish institutions that can exercise control over ministerial decisions in a transparent manner, such as public works in this specific case. Hardly had the scandal been denounced that the population learned that Sonatrach, the "jewel of the Republic", was at the center of an equally outrageous scandal. On January 13, 2010, CEO Mohamed Meziane was suspended from his functions and placed under arrest. There again the press highlighted suspicion of mishandling the way contracts were awarded, particularly with foreign partners. Hocine Malti, former Sonatrach vice-president, in an "open letter to DRS investigators"<sup>41</sup>, urged it to go further and look into "senior political and military officials" and not stop at the technocrats. He in

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<sup>38</sup> M. Bennoune and A. El Kenz, *Le Hasard et l'Histoire. Entretien avec Belaïd Abdesselam*, Algiers, Enag, 1990.

<sup>39</sup> *Liberté*, April 24, 2010.

<sup>40</sup> *Le Quotidien d'Algérie*, April 26, 2010.

<sup>41</sup> *El Watan*, January 31, 2010.



particular encouraged the DRS to take a look at the management of the Gassi Touil and El Merk gas production projects. With suspected corruption cases in the hydrocarbon sector on the rise, Chakib Khelil, Energy and Mines Minister since 1999, was forced to resign on May 28; he was replaced by Youcef Yousfi. After public works and hydrocarbon projects, next to make headlines was the Port of Algiers, with the arrest of the main Algiers Port Authority (EPAL) officials. This came as no surprise for the population. As *El Watan* pointed out:

"Many Algerians tempted by climbing the social ladder dream of a career in customs, however brief [...] fear, the dread of reprisals and the long arm of the 'political-financial mafia' stifles any thought of bringing acts of corruption to public view."<sup>42</sup>

These events give rise to contrasting interpretations. Some believe that the various scandals and their corollaries (arrests, indictments and resignations) are not the product of the impending establishment of a constitutional state but of the gradual dismantling of presidential powers. Many consider it is those loyal to the President who are the targets. Ill, weakened and vulnerable, Abdelaziz Bouteflika is believed to be the victim of the return of the system's "barons", the army and its services, who only reluctantly accepted his domination. In a period of uncertainty, particularly regarding his health, hypotheses about the post-Bouteflika era are fueled by the omnipresence of his brother Said and the nomination of Yazid Zerhouni, Interior Minister and loyal to the President, to the position of first vice-prime minister. For others, all these scandals are merely the natural result of the end of a reign: "The republic of the President's *walis*"<sup>43</sup> is coming to an end, and hence it is urgent to maximize profits by all possible means before a new team comes to power, one that will pocket the goldmine inherent in the opaque management of revenues from the third oil crisis.

In fact, under Abdelaziz Bouteflika's presidency, the Algerian regime has undergone profound changes. Captivated by Ben Ali's Tunisia, Bouteflika reinforced the police: It now has a force of 200,000, and in the past decade the Interior Ministry has granted considerable investments to modernize it. Can the assassination of Ali Tounsi, director-general of the national police, on February 25, 2010 be said to symbolize, as some claim, the high tension line between two visions for Algeria: the vision of the past, with the army and its all-powerful services, and a vision of the present, and even future, where the seat of power is the Interior Ministry, as it holds key information on affairs of corruption? In short, has Bouteflika's Algeria conducted its security revolution without anyone being aware of it? Are all these scandals, which involve people loyal to the President, exchanges of favors among complementary enemies eager to define the red line not to overstep? However difficult it may be to interpret these scandals from a political standpoint, it seems clear that through the 2000s, the liberal coalition formed around the President, of which Chakib Khelil was a representative, had managed to broaden its sphere of action. But after flirting with a free market economy, new

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<sup>42</sup> *El Watan*, October 28, 2009.

<sup>43</sup> The *walis* under Bouteflika have extensive powers since the communes were dissolved.

threats of nationalization again weigh on an already highly unstable business climate. Algeria seems to want to put an end to its "liberal experiment"<sup>44</sup>. Like the short-lived reformers' era (1989-1991), it is afraid that the coalition devoted to exploiting the oil revenue might once again implode and pitch the country into violence.

## THE RETURN OF ECONOMIC NATIONALISM

Armed with foreign exchange reserves, the government has since 2008 undertaken a policy to buy up subsidiaries of foreign firms. Aside from the fact that this policy meets the approval of public opinion that is eager to criticize the plundering of Algeria by foreigners, the government has expressed its disappointment that foreign companies have not produced the expected results in Algeria in terms of knowledge transfers and development. For the Algerian leadership, the crisis with Orascom, a major Egyptian group, illustrates the perils of privatization: Orascom's sale of two cement factories to Lafarge (for a profit of 2 billion dollars) took place without the government's knowledge, prompting an immediate reaction. The country has since imposed oversight over the transfer of assets; it tightened legislation on the conditions governing foreign investment and capital transfers<sup>45</sup>. More generally speaking, through a public investment fund of \$1.5 billion, it hopes to recover a number of subsidiaries of foreign companies. The battle with Orascom for it to sell the government Djezzy (its Algerian subsidiary), the country's leading mobile telephone operator with 14 million subscribers, was soon followed by a host of other local subsidiaries. Algeria's fierce competition with Egypt during the qualifying soccer matches for the World Cup gave Algeria a fine opportunity to further denigrate Egyptian group Orascom. This confrontation shows that beyond Algerian-Egyptian rivalry or its disappointment in the behavior of foreign companies, Bouteflika's Algeria has withdrawn into itself, convinced once again that it will not find its economic partners either in the European Union or in its southern neighbors.

And yet, one of the possible routes to lasting development in Algeria involves increasing trade with southern hemisphere countries. In June 2005, Rodrigo Rato, Managing Director of the International Monetary Fund, made the following critical observation about the region:

"Greater regional economic integration would yield important benefits. It would create a regional market of more than 75 million consumers (...). It would bring efficiency gains and make the region

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<sup>44</sup> "End of the liberal experiment", *MEED*, June 4-10, 2010.

<sup>45</sup> A foreign group cannot hold more than 49% of the capital of any project; it is obliged to have a national investor as partner.

more attractive for foreign investors. And, most important, the complementary economic structures of the Maghreb countries would create opportunities for mutually beneficial trade within the region."<sup>46</sup>

According to Mohamed Boussetta, one of the solutions to boost intra-regional trade is the dismantling of tariffs:

"A cut of 50% or 100% in taxes to farming imports from Morocco and Tunisia would lead to a 20.9% and 47.9% increase in trade with these two countries respectively (...); with regards to industrial trade it would amount to an increase in trade of 34.4% and 84.9%, respectively."<sup>47</sup>

The cost of this low level of integration is estimated to deprive North African countries of 2 to 3% of their annual GDP, and it is only natural to raise questions as to the reasons for this shortfall<sup>48</sup>. Indeed, given their economic situation, North African countries do not seem to be in a position to afford to waste such opportunities. The "benefit for all" has so far been denied. When the North Africa Trade Forum was organized on February 19-20, 2007, the introductory memo bearing the subtitle "Trade for Growth and Job Creation" pointed out that "while the increase in economic growth rates didn't have a significant impact on unemployment reduction in particular and poverty alleviation in general, recent studies... show that with basic and adequate measures, intra-regional trade could be multiplied by 5 to 10." One of the Forum's objectives was to "explore the solutions to the issues that are preventing trade promotion in the region."<sup>49</sup> Could the rentier economies of Algeria and Libya be an obstacle to regional integration? In short, has the assurance of being able to take advantage of the European market released them from the political constraint of working toward regional integration?

Today, with the European Neighborhood Policy (ENP), Algeria has shed the burden of regional integration. Morocco and Tunisia, although interested in it, as it would enable them to increase exports, are forming ties in all directions to make up for the lack of a regional market (Morocco-United States Free Trade Area in 2006, Morocco-Turkey in 2006, Agadir Treaty in 2004). The cost of disregarding the Maghreb exasperates companies working in the region, for whom national strategies are at odds with the needs of their societies. On February 17, 2007, heads of Maghreb employers associations met in Marrakech and announced the founding of the Maghreb Employers Union. The date was not chosen at random: it was on February 17, 1989 that the AMU (Arab Maghreb Union) was created. The AMU, originally

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<sup>46</sup> R. de Rato, "Intégration économique au Maghreb: sur le chemin de la prospérité", *L'Economiste* (Morocco), June 15, 2005.

<sup>47</sup> M. Boussetta, *Femise*, August 13-21, 2004, p. 95.

<sup>48</sup> "The North African development strategy is based on the 'Ras Lanuf programme' adopted in Libya in 1991. It lays out the three stages of regional integration, namely, a free trade area, a customs union and a common market". P. Botha and F. Aggad, "The Arab Maghreb Union as a Regional Economic and Political Grouping: a case study", *Politics*, 2004, n° 42, pp. 33-47.

<sup>49</sup> North Africa Development Forum, <http://.northafricaforum.org/memo.html>

a political undertaking, has become a major issue for business. As Hammad Kassal, vice president of the General Confederation of Moroccan Entrepreneurs and one of the founders of the Maghreb Employers Union, points out:

"It is the economy that will break down the political barrier that exists today. We want to put pressure on our governments to improve their relations."<sup>50</sup>

By increasing its energy demand, the EU has heightened the ascendancy of the hydrocarbon sector over the Algerian economy. It is virtually hegemonic; hydrocarbon exports already make up 98% of external revenues. The rentier economy paralyzes Algeria's development, and EU policy does nothing to help foster regional integration in the Maghreb, the only lasting solution for growth not driven solely by hydrocarbons and diversified economic development.

## **ABDELAZIZ BOUTEFLIKA'S PRESIDENCY: THE AUTHORITARIAN IMPASSE**

To lift Algeria out of a long period of poverty, violence and instability, Abdelaziz Bouteflika, like Vladimir Putin in Russia, decided to bring on the scene a policy of restoring past order and grandeur. Although at first it met people's expectations, it soon showed its limits, particularly as regards improvement in the standard of living. The spectacular increase in oil prices between 2002 and 2008 left the government with \$150 billion in foreign exchange reserves in 2008. In 2007, export receipts reached \$56 billion and, in 2008, a record \$81 billion. Never since the beginning of its short history had the state had such abundant financial resources. The third oil crisis enabled it to repay the debt quickly<sup>51</sup>, embark on major civil infrastructure projects once again and especially rebuild a semblance of national cohesion damaged by years of civil war. In a context of economic growth and renewed financial abundance (annual per capita GDP went from \$1,600 in 1999 to \$4,593 in 2010, not to mention a huge drop in unemployment, from 30% to 13%)<sup>52</sup>, Abdelaziz Bouteflika's presidency has become synonymous with prosperity and renewed confidence owing to the revival of state charity. Whereas during the 1990s, the Algerians were violently at odds over the identity of the state and its evolution, today in the framework of the national reconciliation

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<sup>50</sup> *Le Figaro*, February 16, 2007.

<sup>51</sup> Algeria's external debt was \$30.47 billion, which was 63.2% of its GDP. In 2008, after early repayment, it was \$4 billion and represented only 2.39% of the GDP. *Economist Intelligence Unit*, "Algeria Country Forecast", July 1, 2008.

<sup>52</sup> Political Risk Services, *Algeria Databank*, December 1, 2008, p. 6.

policy, they are invited to return to the path of civil concord and put the "tragedy" behind them, as the President stated on the eve of the Third Millennium:

"You know, I don't expect congratulations for performing a miracle. I am trying to act with a modicum of good sense to get to the bottom of a tragedy that will soon have lasted for eight years. My personal feeling is that it is time for all this to stop. Life is not going to improve if we have 200,000 or 300,000 dead and three million victims of terrorism. So at some point things have to stop before they get worse. I'm trying to steer a narrow and tricky course through all the obstacles."<sup>53</sup>

Using "good sense", the president's office organized a national reconciliation program that was based not on a concern for obtaining justice for the victims or uncovering the truth, but on a desire to turn the page and forget the tragedy. The national reconciliation policy focused on reintegrating thousands of combatants from the Islamists insurgency, disarming the militias, compensating the victims' family and granting amnesty for defenders of the state. The problem of the disappeared<sup>54</sup> illustrated the difficulty of implementing the national reconciliation policy, as it first of all addressed the living (Islamist combatants, defenders of the state accused of violating human rights). The policy disregarded the people disappeared. The issue moreover reminded people of the expeditious methods used by the regime in violation of human rights. Although the government tried to demonstrate that the army and security services conducted "a clean war", the question of the disappeared raised and sustained the debate on the methods as well as the political and human cost of the victory over the FIS and armed groups. To put an end to this problem, Farouk Ksentini, President of the National Human Rights Commission of Algeria (CNCPPDH), thus stated in an interview that he recommended compensating the families of the disappeared for the amount of "100 million centimes, plus a death certificate, to close the matter of the disappeared!"<sup>55</sup>

The Algerian state survived the civil war and did not founder. Its civil administrations continued to function as best they could and the security apparatuses maintained the necessary cohesion for a counterinsurgency. It nevertheless remains clear that the civil war caused tragedies that resulted in a deep transformation of individual behaviors. It left Algerian society, which paid a high price for the collapse of the national community, traumatized. The end of the FLN-state monopoly on what defined the Algerian national community opened the way to questioning Algeria's history and identity. Through violence, society rediscovered its political pluralism. Abdelaziz Bouteflika's approach opened new perspectives for Algeria on a symbolic level. In his many speeches, the President readily points out that the regime's revolutionary legitimacy is washed up and that the state must now be built on other foundations than the war of independence. His calls for reconciliation

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<sup>53</sup> Interview given on RFI radio, July 17, 1999.

<sup>54</sup> The National Human Rights Commission of Algeria (CNCPPDH) claims to have received 4,753 files from families of the disappeared. The International League for Human Rights estimates that 10,000 persons actually disappeared.

<sup>55</sup> *Echourouk El Yaoumi*, November 3, 2001.

are addressed as much to Islamists as they are former Algerian-born colonists and Jews. For the first time since independence, a head of state has sought to redefine the components of the state's identity, which until then rested on the Islam, Arab and Nation triad. Naturally, such an approach appeals to the international community and particularly France, eager to see Algeria reconcile itself. Yet, this approach soon revealed its limits, both from a political and economic standpoint.

## THE AWAKENING OF A FEELING OF INJUSTICE

The third oil crisis re-awakened feelings of injustice<sup>56</sup> similar to those that fueled FIS discourse and ensured its success at the polls in the 1990s. In the mean time, civil war violence had led people to withdraw into themselves and feel disgusted with politics. Resigned because defeated, "ordinary people" seemed to accept their fate. With the return of oil wealth, the question of fair distribution was once again raised. The return of financial abundance has thus provoked the same anxiety based in the conviction that this unanticipated wealth would not benefit the population. As a thirty-year-old unemployed man explains:

"When oil was \$9 a barrel, we unemployed didn't reap any benefits. They told us there was a crisis on, but at over \$100 a barrel, it's the same thing. Things were better back then than they are now! Most young people don't work, they have no social coverage, even university graduates don't have jobs. Do you think that's normal? " (Algiers, 2009)

The return of oil wealth occurred in a context of deep disenchantment and pessimism. Unlike the first oil crisis, which fostered fierce oil nationalism, the third crisis sparked no enthusiasm among population at large because in the meantime it had become apparent to them that oil wealth was vain if no democratic authority could exercise control over the way it was used.

The changes that occurred during the first decade of the 2000s have raised questions about the uses of the oil rent. Forty years after the Arab nationalist slogan "Arab oil for the Arabs" was coined, a local population group, the Mozabites, began demanding a fair return on the wealth from oil-producing regions to the people that live there. These demands, new in Algeria, raise the question of democratic control over the oil rent. In 2004, the administered price of butane gas rose in Algeria from 170 DA to 300 DA. In January 2005, in the middle of winter, riots that the press labeled "gas riots" broke out in the *wilaya* of Djelfa and spread to central and western Algeria. Since then, uprisings have regularly occurred in southern

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<sup>56</sup> I am grateful to Kamel Cheklat for collecting some of the data on this topic.



Algeria, sparked by a feeling of injustice: why should the main source of external revenue, i.e. hydrocarbons, be controlled, managed and distributed by "foreign" elites (in Algiers) to the oil-rich areas? For the first time, the population claimed a right to control Algeria's main resources and demanded that the government account for its spending choices. Why is Algeria's richest area in terms of energy resources not better equipped with civil infrastructure? Disturbingly, the rioters concluded that the answer lay in their Berber identity. In May 2008, in the M'zab valley, the city of Berriane became the symbol of a clash between "Arabs" and "Berbers". Clashes broke out in the city streets among people convinced that the amount of oil wealth distributed depended on their ethnic or racial belonging. After Islamist protest and violence, it seemed that the time had come for regional vengeance, from Kabylia to the M'zab Valley. In 2006, according to a study commissioned of the national planning agency (*Agence nationale de l'aménagement du territoire* - ANAT) by the Ministry of Employment and National Solidarity, over 177 communes (out of Algeria's 1,200) are considered disadvantaged; 11% of them are located in the northern regions, 53% in the High Plateaus and 36% in the southern region. In these areas, household income varies between 5,000 and 10,000 DA/month (between 50 and 100 euros).

By popular belief, Bouteflika's Algeria first benefits "people in the West", where the President hails from, and to some extent "those in the south", Algeria's main oil producing area. Oil wealth goes first to them. The third oil crisis thus reignited issues related to regionalism: the first oil crisis is believed to have made notables in the East rich, the third bringing prosperity to the "people in the West". Oil wealth is once again seen as being exempt of any control and seems to be exclusively in the hands of the President, who decides how to orient its use in whatever way he sees fit. In the opinion of this former Boumedienist:

"The current Parliament carries no weight in the debates affecting the nation. It's worse than the era of single party rule, MPs have no influence. Everything is done by presidential decree, and that's a real problem" (Algiers, 2009).

And why doesn't the Parliament do its job? Answers abound. The MPs, although theoretically responsible to their voters, are in fact only clients of a patron who pays them handsomely:

"The changes to the Constitution benefited MPs and senators<sup>57</sup>. Their salary was multiplied threefold, now reaching 300,000 DA (3,000 euros), whereas minimum wage is 15,000 DA (150 euros). These groups have taken advantage of the oil rent in a roundabout way" (Algiers, 2009).

The feeling of being doubly dispossessed is dominant: oil wealth is believed to be taken over both by the "local mafia" and by "foreigners". As this Hamas-MSP activist claims:

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<sup>57</sup> Ordinance of September 1, 2008. According to *Le Quotidien d'Oran* newspaper: "It's clear that given the little work done by the MPs, it is very well paid and serving in Parliament is bound to remain a sinecure that will always attract candidates. All the more since the functioning of the system has operated in a political vacuum of the Parliament since MPs can no longer – as stipulated in the organic law of 1999 – discuss the government's program, criticize it and eventually censure it" (September 17, 2008).

"We need transparent management and Algerian leaders, not foreigners, to manage our oil, honest officials, real Algerians and not people who have sold out. The controls and the percentages applied to foreign companies need to be revised; they cheat the Algerian side. We need honest MPs to find out what goes on at Sonatrach, to know about its books and bookkeeping" (Algiers, 2009).

The only Algerian company to turn a profit and which ensures 97% of its external revenues has lost its ability to impress the population. Like the FLN and later the army in the 1980s, Sonatrach has come to embody a state that people find repulsive. There is a high risk of seeing those excluded from the oil wealth launch a violent attack on the symbols of the national oil company in the near future. In 1988, rioters destroyed FLN headquarters in Algiers; during the 1980s, the Islamists set against the army. The post-Bouteflika generation might very well tackle oil infrastructures, as the people living in the Delta in Nigeria have done<sup>58</sup>.

For many express their incomprehension. Why doesn't oil wealth bring the country happiness? Why hasn't it managed to improve everyday lives?

"The Moroccans and the Tunisians don't have oil and they're better off than we are. They live better than we do without oil and the cost of living is acceptable there. Here, we only give to foreigners. A huge iron ore project is managed entirely by the Chinese!" (Algiers, 2009).

Neighbors live better and foreigners plunder resources. For many, one word explains it: corruption. It is Algeria's scourge. Why work for a paltry salary when huge sums are embezzled? The motivation is lacking:

"At Sonatrach, you have to be like them, steal like them, corrupt like them. Billions of dollars have gone into channels of corruption instead of solving economic problems. Young people refuse to work for starvation wages, they'd rather steal. Organized crime is developing due to social injustice" (Algiers, unemployed, 2009).

And criminality is indeed on the rise. In Kabylia, for instance, considered as a "haven of peace" during the civil war, has become emblematic of the problem: 4,118 of the cases handled are crime-related (armed robbery, bank holdups, and for the year 2007 alone, 87 cases of kidnapping). This phenomenon can of course be explained in part by the gendarmerie's withdrawal in 2002 following the crisis that blew up in the wake of a teenager's death in a police station. But some young people also openly admit it as a rational choice: criminality is viewed as positive due to the material and symbolic resources it procures. Kabylia is no exception because economic development is not on the agenda of an Algeria faced with the influx of wealth ensured by petroleum sales revenues. The slide of a segment of the population into relative poverty fosters an increase in criminality, which becomes a way of making ends meet.

The litany of corruption cases in the press heightens the feeling of injustice and the desire to demand a right of oversight over oil wealth:

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<sup>58</sup> A. Oyefusi, "Oil and probability of rebels participating among youths in the Niger delta of Nigeria", *Journal of Peace Research*, Vol. 45, n° 4, 2008, pp. 539-555.

"Oil wealth is not private property. Every Algerian has a right to his share of the oil. This wealth should benefit society as a whole, we need transparency in accounting and revenues. If you make 10 billion dollars, you have to explain how it is spent" (Algiers, 2009).

In front of their television set, many listen proudly to the endless list of contracts Algeria signs with international oil, mining and gas companies. The country has become attractive again, it is rich and "we should never experience poverty", as people in Algiers said in 2009. But for those excluded from the oil wealth, it is "in the wrong hands". One young unemployed man recounts:

"When I was in school, the teacher told me in class: "if they've declared 20 billion dollars in receipts, they have certainly swallowed a zero..." (Algiers, 2009).

With mockery, frustration and bitterness, everyone in his own way comments on the tragedy of his country. Some scarcely dare ask the question out loud: what if oil was Algeria's biggest misfortune after French colonization?

Oil wealth no longer holds any illusions for a population that has experienced how fleeting it can be. Between 1986 and 2001, the oil counter-crisis plunged it not only into civil war, but into poverty and instability as well. The rentier economy has doubtless helped to improve general living conditions over time. Investments in health and education infrastructure have resulted in an increase in life expectancy from age 47 in 1960 to 74 in 2005. Even if oil wealth has made considerable public investments possible, the serious mismanagement of it has had little effect on the population's standard of living and well-being. Without the third oil crisis, Algeria would have experienced even more serious economic and social difficulties. In 1998, unemployment reached 25%; in 1995, per capita GDP was \$1,496. Between 1989 and 2003, the average salary dropped by 20%, "provoking a feeling of impoverishment that did not vanish when the economy improved and wage increases were given"<sup>59</sup>. Traumatized by the collapse of the price of oil in 1986, the Algerian population has remained convinced that they cannot depend on oil wealth: in the 1990s, 25% of the population was considered poor; 4 million people lived below the poverty threshold (\$1 per day), and 22% did not have access to drinking water. Exhausted by civil war, the population had neither the strength nor energy to revolt.

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<sup>59</sup> *Human Development Report 2006*, p. 32.

## EVANGELIZATION AND SALAFISM: VARIOUS FORMS OF PROTEST

The death of high school student Massinissa Guermah on April 18, 2001, in the Béni-Douala gendarmerie headquarters sparked riots leading to the death of some one hundred people in Kabylia. The scale of the repression would spawn a protest movement that spread beyond Kabylia, reaching towns in the Babor mountains. The gendarmerie and government were heckled by groups of demonstrators made up of young unemployed, managers, etc., who, like the young FIS sympathizers in the early 1990s, shouted their anger at the scorn (*hogra*) shown toward them by the police forces. For the regime, the events in Kabylia marked the opening of a "second front" after its war against the Islamists<sup>60</sup>. As the commission of inquiry into this event pointed out in a December 2001 report, "unrest continues, sometimes spreading, and nothing suggests that it will die down in a reasonable time frame". A few years later, Kabylia was once again a bee in the regime's bonnet: rumors of conversion to Christianity fueled fears that Islam was on the wane:

"Some time ago, the media drew attention to a phenomenon considered 'new' in Algeria: increasingly numerous conversions to Christianity. There is talk of a 'return to grace' of the Protestant and Catholic churches in Kabylia, an intriguing, even irritating trend for the powers that be."<sup>61</sup>

In fact, since 2004, the local press has been reporting a new phenomenon: the evangelization of Kabylia. Although it is hard to measure and assess the scope of such an event, it is interesting to analyze the political reactions it arouses, as they are extremely informative about the tensions running through Algerian society and the anxieties preying on the regime. The affair of the Kabyles' "conversion to Christianity" fits in with a post-traumatic context for the regime and society at large. It comes all the more as a surprise since Algeria's religious landscape has grown increasingly uniform in recent history: Islam is now professed by 99% of the population. The account given in *El Watan* newspaper<sup>62</sup> of a symposium held at the Emir Abdelkader University of Islamic Sciences in Constantine seems to have started the "affair". In it, the author sums up the remarks made about the phenomenon by various participants, which can be likened to a conspiracy theory: Algeria is allegedly the target of a campaign focused on Kabylia but that is actually directed at the entire country.

"The truth is that, official or not, visible or not, there are many churches in Kabylia. They are being created at lightning speed throughout the entire region [...]. Although evangelization in Kabylia is not new, its growing scope, its obvious ideology, its unavowed aims and its instrumentalization by national and international forces will produce additional crises in a Kabylia and an Algeria already saturated with all sorts of crises."

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<sup>60</sup> A. Mahé, *Histoire de la Grande Kabylie, XIX<sup>e</sup> et XX<sup>e</sup> siècles*, Paris, Editions Bouchène, 2001, p. 506.

<sup>61</sup> J.-F. Petit, *Quand les Kabyles redécouvrent Augustin*, Paris, Augustin de l'Assomption: <http://www.assomption.org>

<sup>62</sup> S. Lounès, "Évangélisation en Kabylie", *El Watan*, July 26, 2004.

After colonialism and Wahhabism, some believe Algeria is now a victim of evangelists:

"Evangelization in Kabylia is not spontaneous today any more than it was in the past. It is the result of proselytism organized and funded by a global strategy to evangelize Muslim peoples."

The investigation concludes with an appeal to the government authorities:

"It is dismaying to note that the government hardly utters a critical word in response to the new American colonial policy!"

The government's reaction was not long in coming. On March 20, 2006, Parliament passed Ordinance 06-03 that set "the conditions and rules for worship of other religions than Islam" and reiterated that the state guarantees tolerance and respect between the various religions, but then listed the new conditions governing non-Muslim religious worship:

– Article 5. The use of a building for religious worship is subject to prior approval by the national commission; any activity in designated places of worship other than their intended use is forbidden.

– Article 7. Group worship will take place solely in structures set aside for this purpose, open to the public and clearly identified on the outside.

– Article 8. Religious services must take place in designated structures; they are open to the public and subject to prior approval.

– Article 9. A national commission for forms of worship is hereby established under the Ministry of Religious Affairs and *Wakfs*."

The conditions in which religious worship may take place are subject to criminal provisions. This fact did not fail to provoke outrage. According to article 10:

"one to three years' imprisonment and a fine of 250,000 to 500,000 DA may be levied on anyone whose speech or writing posted or distributed in places of worship, or conveyed by any other audiovisual means, contains an appeal to resist the enforcement of laws or decisions by the public authorities..."

Article 11 lays down from two to five years' imprisonment for anyone who:

"incites, constrains or utilizes means of seduction tending to convert a Muslim to another religion, or by using to this end institutions of learning, education, health, or of a social or cultural nature, or training institutes or any other establishment or any other means; [or who] makes, stores or distributes printed documents, audiovisual materials or another other medium with the intent of shaking the faith of a Muslim."

How is this legislative reaction to be interpreted? How can this decision to develop a legal arsenal reacting to religious worship by non-Muslims be explained? For the Minister of Religious Affairs, Algeria is undergoing "a serious cultural and religious crisis". The conversion of Kabyles fits into a political *imaginaire* where individual choices are perceived not as made out of free will but instead the result of a conspiracy, a strategy, in short, a trap. The anxiety is amplified by the fact that the phenomenon is located in Kabylia:

"Many missionaries dream of turning Kabylia into a new multiconfessional Lebanon. Currently without legitimate elected officials but with 'illegitimate' officials, Kabylia gives the impression of being colonized by a foreign power. The idea of autonomy gaining ground, the ingredients for Kabyle secession multiply day after day amid general political indifference."<sup>63</sup>

With the issue thus posed, the author then appealed to the authorities, claiming it was urgent to act. And yet, Christian presence in Kabylia is nothing new and the myth of an artificially Islamized land is tenuous<sup>64</sup>. Historian Karima Dirèche-Slimani points out that Christians in Kabylia number only a few thousand<sup>65</sup>. Already in the 19<sup>th</sup> century under colonial rule, Kabylia became a political and religious issue where colonization was associated with Christianization. The work of the Catholic missionaries, based on the notion that Islamization was less frequent among Kabyles, was to facilitate their reintegration into the "religion of their ancestors". Once viewed as a colonial policy, today as an American strategy of evangelization, conversion of the Kabyles to Christianity still remains a huge source of worry.

Although there is no reliable data on the number of non-Muslims in Algeria, they are estimated at about 5,000. To believe the figures supplied by Christian community leaders alone, there are 3,000 members of evangelical churches—most of them living in Kabylia—and 300 Catholics. Actually, Algeria views the arrival of new Christians as unsettling, as they are often migrants from sub-Saharan Africa seeking passage to Europe and finding shelter among the last remaining Christian communities. The departure of a million Europeans and the exile of 140,000 Algerian Jews impoverished the diversity of Algerian society. This all the more since the phenomenon is occurring at a time when the identities forged during the war for independence (1954-1962) are being questioned. In fact, at the same time as straying from Islam and espousing Christianity, there is also a trend of drifting from "official Islam" toward "sectarian Islam".

Salafism<sup>66</sup> has grown increasingly popular in Algerian society. The Algerian authorities have divided into three different currents: "scientific Salafism", which obliges the people to obey the prince according to tradition; "active Salafism", which is the work of former FIS radicals and tends to make the individual into a "fortress" built on Islamic values; and lastly "Jihad Salafism", embodied by the GSPC, which has become Al Qaeda in Islamic Maghreb.

The first two currents occupy a large majority in Salafist circles. They can be seen as a religious reaction to the civil war that aims to restore the image and message of Islam after its

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<sup>63</sup> S. Lounès, "Évangélisation en Kabylie", art. cit..

<sup>64</sup> Kamel Chachoua inventories the clichés about Kabyle religiosity. He quotes Alfred Rambaud, author of a book in the 19<sup>th</sup> century on Greater Kabylia, who wrote "After having been rather doubtful Christians, they have become Muslims of a peculiar sort." Or again Father Dugas, "They say that Kabylia is Algeria's Switzerland, but for the Archbishop of Algiers, it is Africa's Lebanon." See K. Chachoua, *L'Islam kabyle*, Paris, Maisonneuve et Larose, 2001.

<sup>65</sup> K. Dirèche-Slimani, *Chrétiens de Kabylie, 1873-1954. Une action missionnaire dans l'Algérie coloniale*, Paris, Bouchène, 2004.

<sup>66</sup> An ideology that advocates a return to the religious practices of the Prophet (*salaf* means "ancestor" in Arabic). For a complete approach to the term, see B. Rougier (ed.), *Qu'est-ce que le salafisme?* Paris, PUF, 2008.



having been misused by radical Islamist groups. The aim is to bring the faithful back to the path of inner peace by making Islamic values their own once again. The regime encourages these two currents: they help to redirect former FIS values from the political to the private sphere. But Salafism, including in its most pacifistic version, also poses a threat for the authorities in that its "values" and some of its "practices" would appear to be incompatible with those of "official Islam". Little subtleties are used to work around it that nevertheless carry heavy symbolism and defy the regime: loudspeakers in certain mosques that call for breaking the fast a few minutes before the legal time, the broadcasting of *tarawih* prayers, or even the importing of Qur'ans that, according to the Ministry of Religious Affairs, contain "serious and malicious alterations of the verses", etc.

The third current presents the regime with a security challenge: it draws the most media attention because it is the most violent. On Thursday 6, September 2007, a suicide attack targeted the presidential cortège in the city of Batna, killing 22 and wounding over 100. On Saturday, September 8, another suicide bombing—perpetrated by a 15-year-old boy—targeted the coast guard barracks in Dellys. The toll was 28 dead. On April 11, a triple attack killed 30 and wounded 220 in Algiers. All of these attacks were claimed by Al Qaeda in Islamic Maghreb.

Evangelization in Kabylia and the spread of Salafism fit in with an overall context in which religious worship is diversifying due to a broad offer. The phenomenon is worldwide, and Algeria is not exempt from it. Algerian society has rediscovered not only its political pluralism but also its fragility. As psychoanalyst Nourredine Toualbi once pointed out:

"The young generations are in a crisis of meaning. Their life trajectory is thwarted by the weight of countless existential impoverishments (social, affective, and sexual poverty). Destructive anguish can be feared as a backlash. These youths sometimes represent a danger for others as well – and perhaps they are dangerous especially for themselves, struggling with serious disenchantment in a supposedly egalitarian society that has not kept its promises."<sup>67</sup>

## MEETING ALGERIA'S "OCEAN OF NEEDS"

The launching of an ambitious economic program lifted Algeria out of its economic slump, without for all that bringing it out of its post civil-war depression. If the aim of national reconciliation was to rebuild the national cohesion damaged by years of civil war, the government's economic plan was intended as a response to the economic and social problems

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<sup>67</sup> *Liberté*, December 7, 2000.

of part of the active population—out of the 8.7 million people comprising it, 2.5 million were unemployed in 2000 (27%). On the horizon of 2010, pessimistic IMF forecasts readily predicted an unemployment rate of 37% if the growth rate excepting hydrocarbons remained lower than 7%. The revenues of the third oil crisis were used both to finance the return of civil peace and to purchase social peace. The three-year economic stimulation plan (2001-2004) sought to fuel investment—about \$7 billion after a decade of capital flight:

"We never said that this program would make Algeria prosperous overnight. It is business that creates wealth. It must not be forgotten that this plan comes after ten years of terrorism and destruction. Whatever you do, it will always seem insufficient with respect to the ocean of needs to be met."<sup>68</sup>

A flourishing informal economy has taken over to meet those needs since the state's disengagement. In 2005, this unobserved economy accounted for 16 to 17% of the GDP and employed 50% of the active population. It must be admitted that since 2003, the government has devoted 50% of oil revenues to social transfers (770 billion DA), or about 13% of the GDP, in order to correct the destructive effects of the oil counter-crisis (1986-2001). The results are plain to see: the poverty level has fallen to 4.9% of the total population compared to 12.1% in 2000. The fact remains that even if poverty has declined, the majority continues to live in unstable conditions: 4 million people, or half the active population, has no social protection and works in the informal sector (services, agriculture and construction), and 500,000 youths leave the school system prematurely with no qualification, convinced that the unemployment rate rises with educational level (17% of the unemployed have a university education).

## THE LIMITS OF BOUMEDIENISM

Renewed oil wealth has enabled Abdelaziz Bouteflika's Algeria to make itself heard once again on the regional and international scene and reappear as an attractive emerging market for investors. For Algerians, Abdelaziz Bouteflika's presidency primarily means a semblance of state re-engagement after mafia rule. The Khalifa scandal illustrated the audacity of those

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<sup>68</sup> Prime Minister Ali Benflis, *Jeune Afrique – L'Intelligent*, n° 2186, December 2002.

who openly laundered the capital they accumulated during the decade of violence<sup>69</sup>. The anti-corruption campaigns in the wake of this scandal helped to show that the state was back. Between 1999 and 2009, Abdelaziz Bouteflika, aided by the price of oil, managed to restore, if not the legitimacy of institutions, at least order in business. However, his determination to pursue in 2009 the "task" begun in 1999 has raised doubts and concerns. His crushing victory in the May 2009 presidential election with 90% of the vote was predictable. Given that the incumbent president's rivals did not have the state machinery or the logistics of a major popular political party to back them, Bouteflika was bound to be elected by an overwhelming majority. The President wanted to recreate the illusion of a popular presidency on the model of Houari Boumediene (1965-1979). The stakes of the election therefore lay mainly in the rate of voter turnout. The official turnout of 74.11% raised questions as to its accuracy. In 1999, the "Bouteflika vote" indicated a desire to turn the page on years of violence and forget the tragedy of the civil war. In 2009, the presidential landslide suggested that there was no political void, that the nation had a chief of state who enjoyed the strong backing of the people: with the return of financial abundance, Abdelaziz Bouteflika brought back "Boumediénisme".

And yet, as some observers point out, if the per-barrel price is less than \$70 dollars beyond 2011, "the Algerian economy will be confronted with a serious upheaval leading to massive layoffs"<sup>70</sup>. Since 1999, except for repaying the debt, Bouteflika's Algeria has not been able to shake its hydrocarbon dependence. Rightly concerned by national reconciliation after the civil war, the president implemented an amnesty policy that functioned: the tragedy of the civil war was buried in the collective memory and there is a tacit agreement not to bring it up again. The fear of mutual responsibility has paralyzed the former protagonists. It is a wound that has closed without being disinfected. The president's eagerness to go down in history as Algeria's "savior" masks his inability to build legitimate political institutions. The renewal of patronage may function temporarily thanks to oil revenues. But the problems remain: dependence on oil, weak institutions, unemployment, corruption, etc., all ingredients that undermine the bases of future stability. Algeria is not Tunisia, and the state does not have the means to restrain the population or the competence needed to offer it a better standard of living. Without democratic institutions or legitimate opposition, the illusion of overwhelming support for the president will only delay Algeria's confrontation with the challenges it must face.

Restoration of "past grandeur" under Abdelaziz Bouteflika's presidency is only a partial answer to Algeria's problems. Even if this policy has led to improved security, citizens show no sign of being convinced of this when called on to elect their representatives. The extremely

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<sup>69</sup> The Khalifa scandal refers to the spectacular rise of the Rafik Khalifa banking and transport group during the 1990s. The group was accused of laundering the "generals'" money. Countering this hypothesis, A. Belkaid writes, "with considerable financial means, unwavering political support until at least 2002, and the support of Western business circles, Khalifa had the opportunity to build a powerful and credible group similar to the Russian oligarchs." See A. Belkaid, *Un regard calme sur l'Algérie*, Paris, Seuil, 2005.

<sup>70</sup> C. E. Chitour, "Troisième contre-choc pétrolier. Que doit faire l'Algérie?", *l'Expression*, november 24, 2008.

high abstention rate at the polls shows that Algerian voters do not believe political parties are capable of representing society; they view them as instruments in the service of a system that grants them a very slim margin for maneuver. Thus, more than the third oil crisis, it is the lack of democratic institutions that is a source of concern because, as sociologist Zoubir Arous points out, there is considerable risk:

"There are no organized forces capable of carrying out peaceful change. The path is therefore open to change through chaos."<sup>71</sup>

In the May 2007 legislative elections, editorialists underscored the urgency of restoring the link between voters and political leaders. Yet, voter turnout was 35.51%, one of the lowest on record since independence in 1962. Worse still, the "real" turnout was allegedly less than 20%, according to the first secretary of the *Front des Forces Socialistes* (FFS), Karim Tabou, who had called for a boycott of the elections. In fact, as the author of a column aptly entitled "Vote for Whom, and Why?" noted,

"[Voters] penalized the political void and the transformation of parties into mere instruments and cogs in the machine of the system... That implies doing away with a façade rationale to move toward real and effective democratization."<sup>72</sup>

The high abstention rate pointed up the inability of political parties to mobilize the electorate, as political parties seem to be an instrument in the service of a system of patronage that no longer meets people's expectations. The lack of interest surprised the government all the more since its economic achievements exceeded even the most optimistic forecasts. With an economic stimulation plan of \$140 billion in five years (2004-2009), an average growth rate of 4.9%, a 92% increase in GDP and 29% in per capita income, an 11% drop in unemployment, the governing parties should have roused a wave of enthusiasm. Yet it was the opposite that occurred. The FLN, for instance, lost seats. That indicates that the voters do not perceive the recent performance of the Algerian economy as a guarantee of lasting development but instead as the effect of the rise in oil prices. Algeria became richer, but its leaders did not manage to convince the citizens that they were the first to benefit. They are no longer satisfied with a paternalistic distribution of the oil rent. For Bouteflika's Algeria, the challenge is not to reinvent Boumedienism but to establish the foundations of a political system based on democratic institutions. This alone would help to counter the toxic effects of a lucrative rentier economy. Expectations of change from within are nonexistent, as are those based on the EU's capacity to export its norms and values.

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<sup>71</sup> *El Watan*, May 20, 2007.

<sup>72</sup> "Voter pour qui, pourquoi?" *Le Quotidien d'Oran*, May 19, 2007.

## ALGERIA AND THE EUROPEAN UNION

After signing an EU Association Agreement in April 2002, with implementation scheduled to begin in 2005<sup>73</sup>, Algeria first expressed its refusal to join the ENP in September 2007, then in 2008 it showed interest in drawing up a plan. However, in 2010, Algeria no longer wished to be involved in an Action Plan. Taking over for the ailing Euro-Mediterranean Partnership (EMP – the anticipated virtuous circle did not materialize and the track record of the Barcelona process was disappointing to say the least), the ENP, due to its political and economic ambitions, aroused concern in Algiers, which view it as institutionalizing a "logic of hegemony"<sup>74</sup> in the framework of a bilateral relationship that could only be unfavorable, it being likely to strip the Algerian state of control of the agenda for economic and political reforms to be implemented. In 2002, Algeria had reluctantly signed the EU Association Agreement; in 2009, it criticized the EU's lack of support for Algeria's integration in the WTO and the lack of investment outside of hydrocarbons<sup>75</sup>. Through this criticism it expressed its disappointment in the EU and hence its refusal to rush into an Action Plan. In fact, "resistance" to the European Neighborhood Policy is a product of the oil wealth<sup>76</sup>. With Europe, a segment of Algeria's decision-makers are interested in the energy market and security cooperation but not by the political dimension of the ENP and even less so by its intrusion in the agenda of economic reforms. For what reasons would they agree to such constraints? It is easy to understand why Morocco, Tunisia and Egypt play by Europe's rules. These countries expect a return on the investment of their participation in the neighborhood policy, which could come in various forms of financial assistance. But for Algeria, with \$150 billion in foreign exchange reserves, EU financial aid seems to be a tasteless carrot indeed compared to the progress to be made. And this even more since European "hegemony" could seriously destabilize, if not bring down, the "coalitions that seek to exploit sources of revenue"<sup>77</sup> that have managed to survive against all odds. Thus the ideal relationship for Algeria would be to limit itself to active participation in the EU's energy structure and integration into the regional security strategy. But in reaction to the EU's insistence on binding it to the Neighborhood Policy, Algeria takes pleasure in pointing out that unlike other countries in the region, although it

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<sup>73</sup> On April 22, 2002, Algeria signed the EU Association Agreement, to be implemented on September 1, 2005. This agreement provides for reducing customs tariffs, encouraging the free circulation of capital for FDI in Algeria, encouraging political dialogue and respect for democratic principles and human rights, and working toward regional integration.

<sup>74</sup> E. Barbé, "L'UE et son voisinage en Méditerranée", in J. Rupnik (ed.), *Les Banlieues de l'Europe*, Paris, Presses de Sciences Po, 2007, p. 162.

<sup>75</sup> "Le torchon brûle entre Alger et Bruxelles", *El Watan*, May 23, 2009.

<sup>76</sup> H. Darbouche, "Decoding Algeria's ENP Policy", *Mediterranean Politics*, Vol. 13, n° 3, 2008, p. 11.

<sup>77</sup> G. Favarel-Garrigues, "Mafia Violence and Political Power in Russia", in J-L. Briquet and G. Favarel-Garrigues (eds), *Organized Crime and States*, New York, Palgrave Macmillan, 2010, p. 148.

agrees to discuss the ENP, it feels no need to be part of it. This calculated indifference is a strong asset in negotiations with the EU, as it forces the latter to reduce its political ambitions and expectations considerably, even to refrain from broaching the fundamental problems of a lack of democracy and poor governance.

This is all the more true since Russia has offered Algeria strategic cooperation with no political strings attached. Unlike the EU, which couples energy and security strategy with political conditionalities (democracy and governance), Russia focuses solely on energy and security, thereby offering a flexible framework. Vladimir Putin on a visit to Algiers had declared, "Algeria is a key partner for Russia in the Mediterranean". Russia, considering its importance in the EU gas supply system, is eager to draw Algeria into Gazprom's strategy to heighten EU dependence and thereby increase the mutual benefits for the two countries<sup>78</sup>. So when Russia agreed to convert the military debt Algeria incurred in the 1960s-70s (\$4.7 billion) for \$3.5 billion in arms purchases, Putin made it contingent on Gazprom's acquiring a 15% share in Sonatrach. President Bouteflika rejected this condition to the great relief of the European partners who feared that Gazprom would manage to turn Sonatrach into a subsidiary<sup>79</sup>.

Algeria is prepared to rearm in Russia but not deliver its natural gas there, because between EU demands and those of Russia, Algeria can now pick and choose. As it turns out, it continues to use Russia as its main armament supplier, having become the second largest importer of Russian armament in 2008<sup>80</sup>—and has made the EU the main outlet for its gas. Algeria has increased its geopolitical importance in Europe's energy supply system. The Ministerial Declaration of the Euro-Med Energy Forum in May 2003 underscored the need to complete the "Euro-Mediterranean gas ring" by strengthening support for gas pipelines to supply Spain, Italy and France from Algeria. Algeria represents 10% of gas imports to the EU, whose main supplier is Russia. The EU's dependence on natural gas imports is growing constantly: 62% of its gas consumption was imported in 2006. Algeria has the sixth largest proven world reserves and it is the world's fourth largest exporter of natural gas. Benefiting from the development of a gas market in Europe, Algeria has become the EU's third largest supplier, providing it with liquefied natural gas (LNG) and pipelines (Transmed, Maghreb Europe Gas Pipeline). Two projects are underway, GALSI to link Algeria and Italy via Sicily, and "MEDGAZ" linking Algeria and Spain.<sup>81</sup>

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<sup>78</sup> H. Darbouche, "Russian-Algerian cooperation and the 'gas OPEC': What's in the pipeline", *CEPS, Policy Brief*, n° 123, March 2007.

<sup>79</sup> A dispatch from the Russian International news agency entitled "Russia loses footing in Algeria" December 13, 2007, aptly summarizes the stakes of Gazprom's presence in Algeria: "Due to their assets in natural resources, the two countries could have controlled about 40% of natural gas deliveries to the EU. But by trying to neutralize the increasing pressure from Gazprom, European natural gas consumers decided to bank on Algeria and Libya. The stubborn struggle the EU has undertaken to diversify its energy supply makes Gazprom's presence in these countries unacceptable to gas buyers", [http:// fr.rian.ru/russia/20071213/92235860.html](http://fr.rian.ru/russia/20071213/92235860.html)

<sup>80</sup> Algeria possesses "the largest war navy in the region. Even Egypt cannot rival with it. In the field of aviation, the accumulation of Su-27, Su-30 and Mig-29SMT will enable Algiers to have clear superior air power in the entire region." "L'Algérie, puissance régionale méditerranéenne incontournable?", *Défense et sécurité internationale*, n° 25, April 2007, p. 62.

<sup>81</sup> J. Percebois, "The Supply of Natural Gas in the European Union. Strategic Issues", *OPEC Energy Review*, Vol. 32, March 2008, p. 50.



The French initiative of the Union for the Mediterranean project has created an opportunity to re-discuss the place of political reform in the framework of Euro-Mediterranean relations. The very equilibrium of European policy rests on the principle of non-interference and respect for sovereignty. So as not to offend the authoritarian regimes that are party to it, it is commonly agreed that problems touching on violations of human rights and freedoms are excluded from public exchanges and relegated to the private level where "firm by friendly" criticism is voiced. Coupled with this self-censorship is a method based on a step-by-step approach with authoritarian regimes. Rather than tackling the issues of a democratic deficit, the rigging of elections, violation of human rights and corruption, the ENP has "invested" in sectors with potential such as freedom and justice.

## CONCLUSION

Algeria has no lack of financial resources. The state's economic and social development plan for the 2010-2014 period passed by the Council of Ministers involves the investment of 280 billion dollars along six main lines: human development, development of basic infrastructure, improvement in public services, economic development, unemployment measures, scientific research and new communication technologies. To prevent the recurrence of corruption scandals that punctuated the 2005-2009 development plan, the emergence of democratic political institutions would seem to be a prerequisite in order to ensure transparent and controlled management of public expenditures. Failing that, it can be feared that this colossal public development plan will give rise to equally colossal cases of corruption.

In the past, the lack of democratic institutions able to exercise control over spending led to the failure of the Algerian economy. The sudden financial windfall in the 1970s obliterated the leaders' receptivity to the demands of society. Some theorists believe that good governance of the rent would be enough to raise the level of national wealth and the well-being of all. But this reasoning, which holds true for a democratic country such as Norway, is not applicable to authoritarian rentier regimes insofar as the oil bonanza is not invested in achieving economic efficiency but in the mechanisms and structures that reinforce a system of patronage. In short, although Algeria's economic policies have "failed" in the past, the regime has "succeeded" in remaining in power despite meager economic results, revolts and civil war. Since 1962, the ruling elites have all come from the FLN and ensure that the regime remains strong despite highly criticized economic and political choices that have been unable to provoke a regime change. Resource allocation has been used to foster the installation of this regime and consolidate it, but the price of this success has certainly

been Algeria's economic failure: 97% of foreign revenues come from hydrocarbon sales, which ensure 60% of budget receipts.

"The rent is not in itself a curse or a blessing for a country's economy. Its impact varies according to the institutional forms of regulation of said country that can use it to invest in capital formation and can behave in a fashion other than predatory."<sup>82</sup>

In her analysis of Malaysia, another Muslim oil country, Isabelle Beaulieu thus describes the successful cohabitation of a rentier economy and an authoritarian political system. Rent allocation has enabled huge investments in human capital and the birth of an "industrialized rentier state". In short, Malaysia has become the country that Algeria's nationalist elites in the 1970s would have liked to achieve: a strong, industrialized state. Unlike Malaysia, Algeria made poor choices that led it to make ineffective use of the oil rent. By raising oil to the status of the nation's symbol, comparing it to the people's blood, the regime was blinded by the magic powers it projected on this natural resource. This voluntary blindness has only lasted due to the lack of regulatory institutions: the flow of oil wealth was pumped into clientelistic networks without any democratic oversight being exercised. Owing to the third oil crisis (2002-2008), Algeria recovered unhoped-for financial abundance that enabled it to accumulate precious reserve funds in a period of international financial crisis. The needs to be met and the challenges to address are not lacking. At the World Economic Forum on Global Competitiveness in 2009, a dismal report was made of Algeria's competitiveness. Out of a list of 133 countries, Algeria ranked 83<sup>rd</sup>, far behind Tunisia (40<sup>th</sup>). With one of the most rigid labor markets in the world, a deplorable educational system and a lack of transparency in state expenditure, it has a long way to go if it hopes to come close to Malaysia, ranked 24<sup>th</sup>. Oil wealth may offer Algeria a chance, as long as it is invested in the well-being of its people (education, health care, freedoms) rather than in the maze of a clientelistic system. As Amartya Sen has demonstrated, such investments form the essential capital on which to build lasting development<sup>83</sup>.

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<sup>82</sup> I. Beaulieu, *L'Etat rentier. Le cas de la Malaysia*, Ottawa, PUO, 2009, p. 47.

<sup>83</sup> A. Sen, *Un nouveau modèle économique: développement, justice, liberté*, Paris, Odile Jacob, 2003.