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By Richard J. Pera

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A ship docks at Algiers port, Friday Nov.25, 2016. Tensions are mounting over Algeria's 2017 budget, which foresees tax hikes and salary freezes to offset a plunge in gas revenues. (Source: AP Photo/Anis Belghoul.)

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Billboard showing MPLA candidate, João Lourenço, in the province of Huila, February 18, 2017. (Source: photo taken from MPLA campaign page, http://tinyurl.com/y9djb38w.)

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A ship docks at Algiers port, Friday Nov.25, 2016. Tensions are mounting over Algeria's 2017 budget, which foresees tax hikes and salary freezes to offset a plunge in gas revenues. (Source: AP Photo/Anis Belghoul.)

Effects of Falling Oil Prices

During late 2014, as prices began to fall, Algerian officials repeatedly expressed confidence that the country could withstand collapsing oil prices. By early 2015, however, such confidence had eroded. Between 2013 and early 2017, the nation's "Oil Stabilization Fund," created in 2000 to mitigate the effects of downward fluctuations in oil revenues, decreased from $75 billion to under $7 billion. The nation's foreign exchange reserves, which stood at nearly $200 billion in June 2014, dwindled to $112 billion by March 2017. Algerian public debt as a percentage of GDP rose from nearly 8 percent in 2013 to about 18 percent in 2016. Likewise, the budget deficit rose from under 1 percent in 2013 to nearly 13 percent in 2016. From 2014 to 2015, Algeria's gross domestic product (GDP) per capita dropped 24 percent, from $5,496 to $4,154. Finally, in 2015, Algeria registered its first negative foreign trade balance since 1994.

New Economic Policies

In response to worsening economic conditions, Algeria enacted budget deficits and increased borrowing. In 2016, Algeria raised $5.2 billion via the "National Bond for Economic Growth," with financing coming from its domestic debt market. Previously reluctant to borrow on international markets, the government obtained a $1 billion loan from the African Development Bank.

Despite falling revenues, Algeria, which has the largest defense budget in Africa, opted not to cut military spending.

In May 2016, the Algerian government adopted a three-year economic strategy called the "New Growth Model." The plan, which envisages that the price of oil will increase about 10 percent each year through 2019, sets the following goals:

- Increase the annual growth of the non-oil economy by 6.5 percent per year between 2020 and 2030.
- Double the contribution of manufacturing to 10 percent of GDP by 2030.
- Modernize the agricultural sector.
- Cut the growth of domestic energy consumption from 6 percent in 2015 to 3 percent by 2030.
- Diversify exports.
- Grow the economy at 7 percent a year.

To accomplish these goals, the plan outlined several "strategic axes," including stimulating creation of new businesses, encouraging private investment, diversifying industry, reorganizing land management, ensuring the security and diversity of energy supply, and improving economic governance.

The World Bank endorsed the plan, and analysts agreed, noting that the "objectives set Algeria on the right path." Analysts also pointed out that implementing the changes implied restructuring the socialist model adopted after independence from France in 1962.

Likelihood of Fundamental, Structural Changes

Success of the New Growth Model depends on the political will of the government to make fundamental, structural changes in the following areas:

- *Limiting State Subsidies*. The government has been unable (or unwilling) to deal adequately with the key issue of state subsidies, which total about $45 billion and comprise 25 percent of the budget. Algerians, both rich and poor, enjoy substantial subsidies on food, consumer goods, and energy. For example, in June 2017, because of subsidies, gasoline in Algeria registered as the fourth cheapest out of 170 countries surveyed. In addition, Algerian citizens (and even foreign residents) enjoy free health care and education. Although the government increased the value added tax (VAT) and tariffs on gasoline and electricity in 2016, economists continue to view subsidies as regressive and unsustainable in the long term.

- *Encouraging the Private Sector and Foreign Investment*. The government has stated its intent to increase the private sector's share of the economy by encouraging economic development and foreign investment. So far, Algeria has not demonstrated a willingness to solve the underlying problems that make Algeria one of the least desirable states for business (131 out of 139 countries, according to the Forbes 2017 list). The International Monetary Fund listed the following structural impediments: difficult access to finance, weak governance and corruption controls, high barriers to entry, a rigid labor market, jobs-skills mismatches, and insufficient legal transparency. Further, the government has done little to encourage foreign investment. Algerian law generally limits foreign ownership in Algerian companies, and Algerian bureaucracy is notoriously cumbersome. For example, some American companies have waited months for simple responses to queries about exporting products to Algeria. Expansions of the tourism and renewable energy industries seem years if not decades away.

- *Countering Corruption*. Not mentioned in the nation's economic plans is the need to control corruption. According to one measure, the country is so corrupt that one-half of all economic transactions occur in the "informal sector." Further: "The prevalence of corruption is the real economic ailment. With their sense of entitlement, the political elite has long skimmed off the nation's wealth, typically through over-invoicing on imports and exports." For example, the nation's largest development project—construction of the 756-mile-long East-West Highway from Tunisia to Morocco—reportedly was plagued by corruption. The project began in 2007 and was scheduled for completion in 2011 at a cost of $6 billion. Instead, due to "rampant graft," the highway was completed at the end of 2016 at an estimated cost of $15 billion, making it—mile for mile—the most expensive road in the world.

Conclusion

Benchmarks in the New Growth Model likely seem unrealistic. Regarding a 10 percent annual increase in the price of oil, the World Bank points out that, while price increases are possible, certain factors could work against this projection. Similarly, achieving a goal of 7 percent annual growth in GDP in 2017 and beyond is also unlikely; the last time the Algerian economy grew at about 7 percent was 2003.

Algeria's plan pays lip service to fundamental, structural changes necessary for growth. There is little evidence the government is willing to cut subsidies meaningfully—doing so would likely prompt large-scale demonstrations that could threaten the regime, especially with presidential transition (President Bouteflika is 80 and ailing) looming on the horizon. Even the 2 percent increase in the VAT in early 2017 caused the most disruptive violence the country has seen since 2011. Limiting corruption would mean cutting the wealth of elites, making it similarly unlikely.

It appears that Algeria will cling to its long-standing model of socialist-inspired centralism to ensure survival of "Le Pouvoir" (French for "The Power")—the interconnected group of military, political, and business oligarchs who run the country. More budget deficits and additional borrowing on the international market may work in the near term, but with youth unemployment already at 30 percent and millions of young people expected to enter the labor market in the next few years, Algeria's failure to strengthen its economic outlook could be a significant long-term risk.

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Billboard showing MPLA candidate, João Lourenço, in the province of Huila, February 18, 2017. (Source: photo taken from MPLA campaign page, http://tinyurl.com/y9djb38w.)

Background

Angola is a semi-authoritarian country located in southern Africa with a population of 25 million and a Gross Domestic Product of $102 billion. Angola is Africa's second largest producer of oil. The MPLA fought a decades-long civil war against the National Union for the Total Independence of Angola (UNITA) (now the main opposition party) that came to an end in 2002. The post-war oil-dominated economy, which initially generated tremendous but uneven growth, has contracted significantly as of late due to low oil prices (as highlighted in the August 20, 2015, edition of *Africa Watch*).

Angola watchers have long debated who would eventually succeed dos Santos as head of state. Until last year, the main candidates appeared to be Vice President Manuel Vicente, the former head of Sonangol, the state oil company, and dos Santos's son, Jose Filomeno de Sousa dos Santos, who leads the country's $5 billion sovereign wealth fund. But with a bribery charge hanging over his head, Vicente's political stock fell in 2016, and the old guard of the MPLA reportedly nixed any plans for a dynastic succession (dos Santos's daughter, Isabel dos Santos, is head of Sonangol and is cited as Africa's richest woman). These developments opened the door for Lourenço to become the heir apparent; he was elected as vice president of the MPLA at a party congress held in August 2016.

Repression and Pre-Election Protests

Dos Santos has ruled Angola with the backing of a strong and loyal military and security apparatus, which he has used to crack down on dissent in Angola. In 2015, 17 opposition activists were arrested and sentenced to prison for merely participating in a book club on nonviolent movements. In April 2017, seven other activists who held an unauthorized protest calling for transparency in the upcoming 2017 elections were arrested and handed 45-day sentences for "rebellion and association with criminals."

But in a sign that the MPLA may be becoming more tolerant of dissent, earlier this month 4,000 Angolans rallied in Luanda during an authorized protest organized by UNITA calling for free and fair elections. Isaias Samakuva, the leader of UNITA, explained the reason for the protest: "This protest is to denounce the vicious system of fraud perpetuated in recruiting the same companies that participated in manipulating elections of 2008 and 2012." The MPLA won the 2012 elections with 71.9 percent of the vote (in 2010, the country moved away from a presidential race; under the current system, the lead candidate of the party that wins the parliamentary election becomes president). The European Union is set to monitor the 2017 poll.

Prospects for 2017 Elections

Given the MPLA's dominance in previous elections and the opposition's lack of unity, the MPLA and Lourenço are likely to prevail in August's elections. While opinion polls are scarce in Angola, the MPLA is believed to remain popular, in part because it is seen as the party that ended the civil war. Lourenço, who has a military background and extensive international connections, has avoided being tainted by Angola's many corruption scandals. According to Darias Jonker, Africa Director at Eurasia Group, Lourenço "has proven himself as competent technocrat without major scandals in his past and he's probably the best selection the party could have made." Lourenço is campaigning on a platform of combatting corruption, increasing foreign investment, and strengthening the economy. Last month, he told the Washington Post: "We are going to make every effort to have a transparent administration. We are going to combat corruption, and we are going to underscore the fact that we want the private investors to be a major part of our future economy."

Despite Lourenço's rhetorical shift and anti-corruption focus, his deep party and military ties make him likely to play by the MPLA rules, safeguard the status quo, and not contest the powerful roles of dos Santos's family in the political economy of Angola. This is especially so because despite stepping aside from the presidency, dos Santos is expected to continue as the leader of the party. As UNITA's parliamentary head, Adalberto da Costa Jr., put it, since the leadership of the MPLA remains largely unchanged, "therefore its essence has not changed."

Conclusion

After decades of dominating the political scene, dos Santos's impending departure is an important moment in the country's political trajectory and should not be underplayed. Indeed, Alex Vines, a scholar at Chatham House, calls it "a watershed moment in Angola's modern history." That said, dos Santos will continue to lead the MPLA and maintain significant residual economic power through his family. Therefore, while some marginal policy shifts should be expected in Angola under Lourenço, large-scale political change remains unlikely.

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