

Clement Henry, “Between the Shocks: ‘White Elephant’ Industrialization in Algeria”

Algeria took major strides in the late sixties and seventies toward building an industrial base. The first oil shock of 1973-74 permitted Belaid Abdesselam, who founded Algeria’s Société Nationale des Hydrocarbures (SONATRACH) in 1964 and then served from 1965 to 1977 as minister of industry and energy, to double the planned investments and ride roughshod over any reservations or criticisms of economic planners, finance ministers, or rival politicians. He enjoyed the full support of President Houari Boumediene, who had seized power in 1965, consolidated it by 1968, and aspired to legitimacy based on economic achievement. Not only were some \$45 billion invested from 1967 to 1978. Price controls apparently inoculated Algeria against Dutch disease – the presumed illness of other oil or gas rentier economies -- during these boom years, but at the cost of rising discontent due to housing and other shortages.¹

Industrialization from above already seemed dysfunctional in 1977, when Boumediene broke up Abdesselam’s industrial empire and demoted him to be minister of light industry, hence in charge of developing those enterprises that in the perspective of “industrializing industry” were supposed to mushroom from a heavy industrial base. Within a year of Boumediene’s death in December 1978 Algeria’s industrialization policies were reversed: not only was yet another import substituting factory project of tires for trucks and automobiles stopped, but so also was an extension of a gas liquefaction plant, designed to maximize oil and gas exports to accumulate the capital for further industrial investment. Even as the second oil shock was doubling Algeria’s export revenues, the drive to diversify Algeria’s economy ended.

Even so, and even though Algeria eventually became a caricature of an oil rentier economy, Algeria’s “white elephant” industrialization showed that oil rents could be used constructively rather than being frittered away in cheap imports pending the next bust, and it also has lessons for others, such as Saudi Arabia, that are attempting to diversify away from dependence on these rents. The even larger capital accumulations of the third oil shock (2003-08) offer extraordinary opportunities that make Algeria’s effort to industrialize all the more relevant.

Industrial white elephants can learn to reproduce. Algeria’s effort did not need to fail. Export revenues were still increasing when President Chadly Benjedid’s new government reversed course. Arguably, too, the reduction by 62.5 per cent of the export revenues from their peak in 1981 to their lowest point in 1987 could have been attenuated by liquefied natural gas exports to the United States, a project delayed until 1990 because of a failure on the part of the Algerian and American parties in 1979-80 to renegotiate the price originally contracted in 1969. By trying to drive harder bargains indexing the price of gas to oil, the new government ended up selling less gas to European markets as well, foregoing an estimated \$2 to 3 billion of annual revenues in the 1980s.² In response to this criticism from his predecessor, Belkacem Nabi, minister of

¹ Alan H. Gelb et al, *Oil windfalls : blessing or curse?* (New York: Oxford University Press, 1988), pp. 147, 159-162.

² Belaid Abdesselam, *Le gaz algérien: stratégies et enjeux* (Algiers, Editions Bouchene, 1990), p. 293.

energy and petrochemicals from 1979 to 1988, tried to defend his policy of renegotiating the contracts – the so-called “gas battle” with the Europeans – by favorably comparing the stream of revenues from the new contracts to earlier projections denominated in dollars of earlier times.³

The new government’s minister of planning and eventual Prime Minister (1984-1988), Abdelhamid Brahimi, was on stronger ground in arguing that Algerian industrialization had produced a series of disconnected projects with few intra-industry exchanges of goods or services. Organization had always been Algeria’s weak point for historical reasons beyond the scope of this essay, and the ambitious turnkey projects inevitably increased Algeria’s technological dependence on the foreign suppliers and contractors.⁴ But Brahimi’s policies of decentralization and restructuring public enterprises, far from improving the situation, simply ruptured the fragile coordination developed among the earlier team of industrialists. Mohammed Liassine, the former heavy industry minister, accused Chadly’s new team of technocrats of “assassinating industry.” The flagship iron and steel complex, for instance, perceived as a “foreign exchange sinkhole,” was inadequately maintained.⁵ Eventually in 2002 the government sold a majority of its shares to an Indian multinational. Other white elephants were not so fortunate. In the course of civil war in the mid 1990s factories were destroyed and some 400,000 public sector employees and workers lost their jobs. Cement plants languished at production levels well below full capacity – even after Abdesselam, who returned as prime minister in 1992, ordered the necessary maintenance -- while Algeria imported cement until 2007, when a new Egyptian owned plant went into production. Scarcities of cement had kept black markets thriving, with benefits to traders and their political protectors; in 2009 Algeria was again importing cement despite ample local supply.⁶

Belaid Abdesselam still insists that “our industrialization aimed at building up integrated industries in our country, that is, industries that would in the end be totally, or as much as possible, sourced by basic and intermediate products through interindustrial exchanges effected

³ Belkacem Nabi, *Où va l’Algérie: Indépendance, Hydrocarbures, Dépendance* (Algiers, Editions Dahlab, 1991), p. 259.

⁴ Abdelhamid Brahimi, *L’économie algérienne : défis et enjeux* (Algiers : Editions Dahlab, 1991), pp. 133-142.

⁵ Ali El-Kenz, *Le complexe sidérurgique d’El Hadjar : une expérience industrielle en Algérie* (Paris : Conseil National de la Recherche Scientifique, 1987), p. 365. The project had been conceived as part of the Constantine Plan developed by France to consolidate its colony in 1958. Construction began in 1962, before any significant oil revenues. On the inadequate funds for maintenance see the interview with M. Messaoud Chettih, the last CEO of the iron and steel complex before it was privatized, in *El-Watan*, Nov. 13, 2008: <http://www.elwatan.com/L-Algerie-doit-profiter-de-la>. With manpower more than halved since 1979 to 7200 in 2009 and prospective further cuts of 1600 workers, the plant was still producing over 1 million tons of steel annually, but could not begin to meet the domestic demand of 5 million tons of steel bars annually required for reinforced concrete.

⁶ « A-t-on vraiment besoin du ciment que l’on importe ? » *El Watan*, June 25, 2009.

on our national territory.”⁷ In 1979 Brahimi, the new planning minister, had attacked Boumediene’s technocrats for not having accomplished this objective, but such coordination was bound to require many more years of investment and experimentation. Time was also needed to develop an educational system meeting the new demands of industry; indeed a plethora of technical institutes grew in parallel to the traditional educational system. Even as advocates of cultural authenticity were insisting on more rapid Arabization of educational curricula, French remained the language of the shop floor, management, and the technical institutes, where English also appeared.⁸ As for breaking the bonds of technological dependence, the technocrats were helpless: they could not forge effective partnerships between universities, technical institutes, and industrial enterprises in the climate of clientelistic politics that pervades Algeria’s authoritarian system.

Abdesselam could not survive the death of Boumediene because his industrial empire lacked a political base. When asked about not trying to build networks of support like other politicians who enjoyed presidential favor, he observed that Algeria’s omnipresent security services would have observed and sabotaged any such development.⁹ Rather than play the Algerian political game of exchanging favors and building networks, Abdesselam alienated and antagonized much of the *nomenklatura*. Consequently he and his team of industrializing technocrats were easy targets once they lost their presidential protection. The failure of Algerian white elephant industrialization lay in being embedded not in a rentier petrostate but rather in an authoritarian system. Had they enjoyed continued protection, the industrial team might have weathered the ensuing decades with diminished resources but well positioned, with adequate absorptive capacity, to utilize the windfall revenues of the 2000s. As it is, Algeria disindustrialized to the point of manufacturing less than Morocco and even, in 2007, being overtaken by Tunisia, which had produced only one-third as much as Algeria in the early 1970s. Algeria’s politics of adjustment deregulated state monopolies on imports so that a small number of well positioned importers could now command new oligopolies and discourage most local industry. Any Algerian “Dutch disease” is more a symptom of corrupted political will than of oil rents.

The white elephants were victim not so much of the volatility of their hydrocarbon financing as of the short-term perspectives of Algeria’s political leadership after Boumediene’s premature departure. The experience of Algeria and the specter of diminished oil revenues should not deter

⁷ Belaid Abdesselam, blog: http://www.belaidabdesselam.com/?page_id=81: “...notre industrialisation avait visé à faire ériger dans notre pays des industries intégrées, c’est-à-dire des industries devant aboutir à obtenir, totalement ou bien dans la plus large proportion possible, leurs approvisionnements en produits de base et en semi-produits à travers des échanges interindustriels se déroulant sur le sol national. »

⁸ Ali El-Kenz, « Les deux paradigmes (Algérie) » *Revue des mondes musulmans et de la Méditerranée*, Nos. 68-69 (1993), pp. 230-238.

⁹ Mahfoud Bennoune and Ali El-Kenz, *Le hasard et l’histoire: entretien avec Belaid Abdesselam* (Algiers : ENAG Editions, 1990, vol. 2, p. 342. Abdesselam continued : « Dans un système autoritaire, dès que tu constitues une force, on te casse, parce que tu t’engages dans une logique où tu te heurtes au système. » Cf. Aristotle, *Politics* V : 10 : 20, where a tyrant is advised to cut down the tallest ears of corn.

efforts of other wealthier oil rentiers to diversify their economies beyond hydrocarbons and related petrochemical industries and to develop centers of applied research that can mitigate the dependence on foreign partners' technologies.

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