

Economic development in rentier state

Case study : ALGERIA

Mohamed Réda SOLTANI
Tissemsilt university center
Algeria
poscientist@gmail.com

Abstract :

Last several years, the relationship between economic performance and political reform are so taken into attention among Economics and Political Science scientists lately.

Like other developing countries, Algeria has committed to a program of reforms to establish a new logic of market laws and liberalization in all sectors of activity in order to improve its attractiveness to foreign and local investors. Whereas the various analyses relative to financial sector, notably liberalization of this last, in the developing countries focus on the business climate, this research paper aims to evaluate the effect of financial liberalization policies initiated in Algeria between necessity and refrain.

Focusing on democratization and economic reform, this paper offers evidence for a the relationship over time as well as in a panel setting using a wide range of estimators for various reform measures

Article info

Received 10 November 2017

Accepted 23 December 2017

Key Words:

- ✓ Political Economy
- ✓ Economic Security
- ✓ Boost economic
- ✓ social peace
- ✓ Economic Reform
- ✓ Financial policies
- ✓ Rentier state
- ✓ WTO

. Introduction:

Algeria is among the developing countries where the financial and banking system underwent for a long time since independence until the beginning of the nineties, to the control of the government, and to the central management. Here the basic task of the banks turn to providing loans automatically for public Companies, and for various exclusive economic actors recommended by the political system. These policies had negative impact on several levels, Where devoted to the squandering of financial resources, and did not represent a sufficient incentive to bring the savings of individuals and institutions, which resulted in imbalances in the economic system as a whole, rising inflation and the fiscal deficit deepens public institutions

The goal of this paper: is examining the direct and indirect effects of financial liberalization face welfare & social peace as well political rest average, with a focus on the Economic Policy, State and economic partner's responsibility alike, this paper adopts a two approach: *Glocal theory*, and *Political Economic*.

Besides using *the Quality of Life theory* to explain all of these above-mentioned variables in the first part, if we know that economic security is predicated on people having secure livelihoods. and if that the same for Algerian people under the new financial law of 2016, If that last healthy or not next to the economic rentier nature and the absence of democracy Environment.

This paper invite us to rethinking about *Financial Liberalization calls* under Middle East and North Africa (*MENA*) eco-political environment. Pushing us to figure the truth behind that urgency on the promotion of financial policy in these countries, as well how can we conceptualize the nexus of financial liberalization and economic growth, and conditions for the successful implementation of the policy of financial liberalization, much more answering the following dilemma:

Is required Algeria to hurry the lunching of Financial Liberalization, although the institutional political deficit?

In order to answer to the dilemma at our hand, this Intervention will based on six main axes:

- Overview on the Financial Liberalization.
- Economic reform and Political change paradox.
- What we mean when we say “economic security”
- Algerian economy Ability.
- Anxieties of Economic threat.
- What must be done?

The Financial Liberalization:

Definition of Financial Liberalization:

The concept of financial liberalization appeared with the end of the sixties in the developed countries, followed by a later developing countries through a set of measures aimed at reforming the financial sector, which is considered among the most prominent global economic reform policies.

- According to Kaminsky & Schmukler (2003), the financial liberalization consists of the deregulation of the foreign sector capital account, the local financial sector, and the stock market sector viewed separately from the local financial sector.¹
- Financial liberalization is the process of breaking away from a state of financial repression. As financial repression has been most commonly associated with government fixing of interest rates and its adverse consequences on the financial sector as well as on the economy, financial liberalization, in turn, has come to be most commonly associated with freeing of interest rates.²
- Financial liberalization is defined as a process of dismantling all forms of quantitative or qualitative regulatory control restrictive state-imposed on

1 Philip Arestis, Asena Caner, *Financial Liberalization and Poverty: Channels of Influence*, the Levy Economics Institute, Working Paper (2004) N° 411.

2 Murat Ucer, *Notes on Financial Liberalization*, Proceedings of the Seminar: Macroeconomic Management: New Methods and Current Policy Issues, Held in Turkey (2000), pp01-12

institutional structures, instruments and activities of various agents on segments of the financial sector, not only in internally but also internationally.³

Through the previous we can say that the financial liberalization is the set of procedures that are working on the development of financial markets, which are taken by the State to eliminate or mitigate the degree of restrictions on the financial system, and this in order to enhance the level of efficiency and reform entirely, by opening the financial and capital markets to foreign companies.

Benefits and Risks of Financial Liberalization:

Financial liberalization policy has many advantages, also has a lot of challenges and risks; In recent decades, there has been a gradual trend toward liberalization of capital flows, both inward and outward, among member countries. The trend has been particularly pronounced in emerging Europe, although systemically important emerging economies (including, for example, China and India) have also announced plans for further liberalization. The pace of liberalization moderated slightly in the wake of the global crisis, but the general trend across the world remains one of increasing openness to cross-border capital flows. Where authorities have intervened to influence capital flows, they have generally done so not by re-regulating permanently significant parts of the capital account but by targeting temporarily specific types of flows.

- It is recognized that CFMs can impose costs on the economy: They can reduce discipline in financial markets and public finances, tighten financing constraints by restricting the availability of foreign capital, and limit residents' options for diversifying their assets. They can also be costly to monitor and enforce, promote rentseeking behavior and corruption, and facilitate repression of the financial sector, impeding financial development and distorting the allocation of capital.

³ Saoussen Ben Gamra & Dominique Plihon, *Politiques De Libéralisation Financière Et Crises Bancaires*, journal of Économie internationale, N° 112 (2007), pp5-28..

- The move toward liberalization reflects countries' recognition of the benefits of capital flows under the right conditions: At a microeconomic level, capital flows can enhance the efficiency of resource allocation and the competitiveness of the local financial sector. Moreover, as countries develop they require more advanced financial systems, which often go hand in hand with greater cross-border capital flows.¹⁶ In addition, capital flows can facilitate the transfer of technology and management practices, particularly through foreign direct investment (FDI). Capital flow liberalization can have indirect or collateral benefits for intermediate objectives, such as financial sector development, macroeconomic policy discipline, trade, and economic efficiency.⁴

Economic reform and Political change paradox:

A good deal is known about what makes for successful economic development, but very little is known about how to get there - that entails an understanding of the process of economic change.

Over the last two decades MENA countries as much of the developing countries have experienced a wave of liberalization of financial sector. For a long time, the primary task of financial system has been to finance the government needs, public enterprises, and priority sectors through mandatory holding of treasury bills and bonds issued by development banks.

This paper revisits the dynamic interaction between political and economic change, building on two ideas. The first idea concerns the economic effects of democracy. If democracy influences economic performance, to a large degree this must happen via investment decisions and hence through expectations. The prospects of future democracy are a crucial determinant of current economic performance. This means that, to correctly assess the economic consequences of democracy, we must look beyond the current regime. The stability of democracy, and the expectations about stability, are key.

⁴ Olivier Blanchard and all (2012), *The Liberalization And Management of Capital Flows: An Institutional View*, *International Monetary Fund*, November 14, pp01-48, Available: <http://www.imf.org/external/np/pp/eng/2012/111412.pdf> (January 22, 2015).

Cross-national evidence on the impact of democracy on economic growth, and of democracy on equity, is highly inconclusive. Whereas all democracies may share some political traits that are economically consequential, non-democracies do not. In the latter case, many countries have had highly development oriented authoritarian regimes.

Many factors, which include rates of investment, infrastructure, quality of human capital, level of research and production of knowledge, quality of organization and management, and balance of intersectoral investments, influence economic growth. Since it is even difficult to assign weights to these proximate determinants of growth, the cross national quantitative studies, attempting to relate democracy systematically, are bound to remain highly inconclusive.

In financial liberalization theory, financial repression, i.e. distortions of financial prices such as interest rates, reduces the real size of the financial system relative to the non-financial, which leads to slow real rate of economic growth (McKinnon, 1973 and Shaw, 1973). The theory rests on the assumptions that saving is an increasing function of real rate of interest on deposits and real rate of growth in output and that investment is a decreasing function of the real loan rate of interest and an increasing function of the growth rate. At the initial repressed stage, the nominal interest rate is administratively fixed, and thus the real rate is kept below its equilibrium level.

Low interest rates encourage current consumption and discourage saving. Ceilings on loan rates reduce the average efficiency of investment projects since investments with lower returns that would not be profitable under the higher equilibrium interest rate, are now profitable. Removing the ceiling on interest rates leads to an increase in saving, as rising real interest rate traces the saving curve. The average return to investment increases, as the low-yielding projects are no longer profitable. Rising efficiency of investment leads to increased output, which further increases saving. Therefore, according to this theory, in an

environment where investment opportunities are plentiful but the financial system is repressed.

What we mean when we say “Economic security”:

Economic security is composed of basic social security, defined by access to basic needs infrastructure pertaining to health, education, dwelling, information, and social protection, as well as work-related security.

“Security” has become a very prominent issue in recent years. Faced with an array of potential hazards, from terrorism and computer viruses to fraud and organised crime, the world is perceived by many to be an increasingly dangerous place. As a result, the focus on security issues has sharpened and the demand for security-related goods and services has steadily grown, giving rise to a wide and varied range of economic activities in both the government domain and the business sector. This is the emerging security economy.

The term “security economy” is, like the concept it denotes, relatively new. It attempts to describe a kaleidoscope cluster of activities concerned with preventing or reducing risk of deliberate harm to life and property. At the broadest level, it could include all matters related to defence and counterintelligence, the public police force, private policing, armed guards, and security technology providers. In a much narrower sense, it might comprise just private spending on personal and corporate security. For the purposes of this paper, the security economy is considered to comprise principally the security industry, including its interfaces with security-related activities of governments and their agencies.⁵

Economic security is the ability to protect or advance Algerian economic interests in the face of events, developments, or actions that may threaten or block these interests. These challenges or obstacles may be foreign or domestic in origin, intentional or accidental, and the consequences on Algeria’ ability to

⁵) Barrie Stevens & others, *The Emerging Security Economy: An Introduction (The Security Economy)*,

shape the international economic environment to its liking for example, by playing a major role in establishing the rules that govern international economic relations and by using economic means to influence the policies (economic and otherwise) of other countries.

Economic security also requires possessing the material resources to fend off noneconomic challenges. Among other things, one must have the economic wherewithal to support an adequate military.⁶

There is no commonly accepted definition on what constitutes "security" or even "security economics."⁷ Often "security" is defined as absence of threats or risks. Thereby, the attention nowadays shifts away from the state-centred notion as "national security" to a concept of "human security" which focuses on individuals. One example for this approach is the definition of the UNDP (2005, 28):

"Human security aims at addressing today's security threats in an integrated multidimensional and comprehensive way. By focusing on individuals and communities human security looks beyond the security of borders to the lives of the people and communities inside and across those borders, and provides the analytical framework for developing policies that not only shield people from critical threats but also empower them to take charge of their own lives.

(United Nations, 2005)

Algerian economy Ability:

Algeria made uneven progress in democratization during the 1990s, but this limited progress was reversed after the arrest of the legislative election process 1991, the first multi-party elections since independence according to many observers. During this period, the National People Assembly (lower legislative chamber) became dominated by government approved parties after the second elections in 1996, gubernatorial elections were abolished, and the government

⁶) C. R. Neu and Charles Wolf & Jonathan Pollack, *The economic dimensions of national security*, RAND Foundation, 1994. P. 13

7) Abadie, Alberto and Javier Gardeazabal, *The economic costs of conflict: A case study of the Basque country*. American Economic Review 93, 2003, P113-132.

consolidated ownership or control over major media and industries, including the energy sector. The government showed low regard for the rule of law and human rights.

Attempts at reform have been made twice in the past. In 1989, following a popular uprising, a glimmer of hope was quickly stubbed out in the name of "defending the Republic" against the Islamist insurrection. As of spring 1991, economic reforms were buried and free elections postponed.⁸

Algeria's economy is struggling with low oil prices taking a heavy toll on its finances, Hydrocarbons such as oil and natural gas account for 60 percent of Algeria's budget and make up 97 percent of its exports.

On the other hand, Algeria's economy began to recover last past 10 years, led mainly by oil and gas exports, but the decline in oil and gas prices and other aspects of the global economic downturn beginning in 2008 contributed to an 8% drop in gross domestic product in 2009. Since then, rising world oil prices have bolstered the economy, although reduced energy exports, faltering investment and consumer demand have contributed to slow economic growth in 2013.

Other factors that retard economic growth include unreformed healthcare and educational institutions and high rates of crime, corruption, capital flight, and unemployment.

Anxieties of Economic threat:

Algeria face at this moment the threat of a possible crisis, the era of easy energy is over. The Algerian economy is in danger, without political and economic reforms, Algeria will remain a disaster waiting to happen and the burden will be on the poor people, today Algeria face three major challenges: excessive public spending, an ineffectual national energy policy and growing distrust in government policies. An informed public debate is needed.⁹

8) Jean-Pierre Sereni, *What is the future of the Algerian state?*, The New Arab, 27/12/2015 on : <http://www.alaraby.co.uk/english/politics/2015/6/28/what-is-the-future-of-the-algerian-state>

9) Caitlin Poling, *Algeria on the Edge*, US News 28/12/2015 on:

The collapse of Algeria's Oil bulwark could lead to large swaths of ungoverned territory in which terror groups could find safe haven, creating an even graver threat to international security than what currently exists in neighboring countries.

It's becoming increasingly clear that Algeria is sitting on political powderkeg. If the political system fails to push ahead with real social and economic reforms, he could very well spark the fuse. Here the Algerian government need to do more to avoid that outcome.¹⁰

The Future of Algeria.

Contemporary Algeria presents a puzzle for Political & economic Scientists. Since the protests of the Arab Spring toppled governments in Tunisia, Libya, and Egypt, policymakers and analysts have devoted increasing attention to Algeria.

But have tended to see it in rather one-dimensional terms. Formerly regarded as a bulwark of regional stability, Algeria is now more often described as a potential source of tension and conflict in the future, especially as the price of oil – the bedrock of Algeria's economy – remains at its lowest levels in more than a decade.

At the same time as Algeria faces a looming economic crisis, the country has been forced to deal with an increasingly hazardous regional security environment due to terrorist threats in Tunisia, insecurity and political breakdown in Libya following the 2011 NATO intervention, jihadist occupation and enduring civil conflict in northern Mali, and a continued flow of weapons, narcotics, people, and fuel across the Sahara. These events coincide with a period of uncertain political leadership and prospective transition in Algeria following the 2013 stroke suffered by President Abdelaziz Bouteflika, who has

<http://www.usnews.com/opinion/blogs/world-report/2014/04/17/algerias-political-and-economic-woes-threaten-stability-on-election-day>

10) Ali Aissaoui, *The threat of a possible crisis*, About oil Journal, 28/12/2015 on:

<http://www.abo.net/oilportal/topic/view.do?contentId=243473> 3

occupied the presidency since 1999 and was elected to a fourth term in office despite appearing only once during the entire electoral cycle.¹¹

Current politics in Algeria are a game of wait -and-see. While Algerians and international observers have for years described the military leaders, intelligence officials, businessmen, and politicians who make up the country's leadership elite as *le pouvoir*, the reality is somewhat more complicated. Mechanisms for exercising political power remain opaque, but most close observers of Algerian politics agree that power passes between different "clans" or groupings of influential figures bound by diverse ties, from Revolutionary solidarities to school relationships to family and regional divisions.¹²

Algeria's economic situation is a matter of concern both within the country and for the international community. Doubts about the stability of Algeria's economy are not new,²³ but the precipitous slide in oil prices in 2015 has thrown into sharp relief Algeria's dependence on hydrocarbon exports, which account for nearly 60 percent of GDP and 95 percent of foreign receipts.²⁴ The fall in the price of oil led to a series of dire pronouncements from Algerian officials last summer, with news that Algerian receipts from hydrocarbon exports had dropped more than 45 percent in the first five months of 2015, followed by a Banque d'Algérie report that Algeria's foreign exchange reserves had fallen by \$19 billion in the first quarter of 2015.²⁵ Overall export receipts dropped 40 percent with a deficit of more than \$8 billion in the first half of 2015,²⁶ and there seems little prospect for improvement given the long decline in exports of gas and the difficulties surrounding.¹³

Conclusion: What should be done?

11) Robert P. Parks, "*Algeria and the Arab Uprisings*", in Clement Henry and Ji-Hyang Jang (eds), *The Arab Spring: Will It Lead to Democratic Transitions?*, New York: Palgrave Macmillan, 2013

12) Isabelle Werenfels, *Managing Instability in Algeria: Elites and Political Change Since 1995*, New York: Routledge, 2007

13) Mansouria Mokhefi, "*Algeria – an unsteady partner for Europe*", European Council on Foreign Relations, 29 July 2014, on: http://www.ecfr.eu/publications/summary/algeria_an_unsteady_partner_for_europe316

We should not deny that the Algeria joining to The World Trade Organization make part of large Financial Liberalization process as a principal condition. This last is with positive and negative dimensions, in way that exposes the fragile economy (Algerian Economic operators Lobby), which mean creates a new philosophy of the national economic security, besides new factors have a long-term

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Algeria is a key supplier of gas to Europe, despite concerns about its stagnating oil and gas production in the last few years¹⁴, besides renewable energy privilege and agricultural potential, this gain would help to keep up with the dominant WTO countries policies as well for sustainable development, in short word the joining is matter of time face to that, Algeria need to trengthening Growth through Diversification of the Economy by support the agricultural and rural development strategy, improve the investment climate particularly for small and medium enterprises, and modernize the financial and banking sectors.

Promoting Sustainable Development and Reducing Spatial Disparities by provide technical assistance and support to implement environment protection initiatives and government programs; and help preserve desert ecosystem; and ***strengthening the Institutions of Economic Planning***, Monitoring, Evaluation and Policy-Making: Provide technical support to strengthen the planning, monitoring and evaluation capacity of

14) Hamid Ould Ahmed, “*Algeria's Bouteflika approves constitutional reform proposal*”, Thomson Reuters, 28/12/2015 on: <http://www.reuters.com/article/algeria-politics-idUSL8N14I1G320151229>

various sectors in the Government. The World Bank is working with the Government to define a streamlined and flexible framework agreement.¹⁵

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