



Stagnation or Growth? Algeria's development pathway to 2040

Conclusion

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Conclusion

Algeria's current regime (*Le pouvoir*) is in a difficult situation, having to adapt in the face of the *Hirak* movement. The country has endured a surfeit of crises resulting from protests, the collapse of oil prices since 2014 and the global downturn owing to the COVID-19 pandemic. It is one of the hardest-hit countries in Africa.

These persistent economic and political crises, coupled with unfulfilled promises of reforms, culminated in sustained demonstrations in 2019, which only stopped in March 2020 because of the pandemic. The demonstrations led to the purging of key officials and eventually the resignation of Bouteflika. Despite *Le pouvoir's* yielding to some of the protestors' demands, they consider the administration's response inadequate and want a complete overhaul of the system.

Algeria's economic system is characterised by a bloated bureaucracy, lack of competition and diversification, cronyism and an overregulated business and investment environment. The heavy dependence on hydrocarbons and past administrations' failure during years of high oil prices to capitalise on revenues for more diversified investments are coming back to haunt the nation.

Dwindling foreign reserves amid one of the worst oil price plunges have left the country vulnerable. The GoA is unable to increase social spending, which has historically been used to negotiate a social contract with the population.

Despite the relatively good stock of human capital in Algeria, the country has not fully achieved the benefits associated with its favourable population structure. This is largely owing to its higher education system's incompatibility with the needs of the labour market, as well as the restrictive nature of its economic system.

The education system should adapt to provide a better skills match, while considering the future of work and the influence of technology. Algeria will need to invest in a robust digital economy to boost productivity.

The country's healthcare costs will eventually also rise given the inherently expensive nature of the NCDs associated with older cohorts.

The economic and social challenges are spread across sectors, including agriculture, where food imports take up a significant portion of Algeria's budget and speak to the country's state of food security. Natural resources like water are strained and badly managed. The shift to renewable energy could also be fast-tracked to reduce dependence on hydrocarbons.

Finally, according to various studies, regional economic integration could contribute about a percentage point to economic growth in each Maghreb country in the long term.[1] In addition to resuscitating the Arab Maghreb Union, implementing the African Continental Free Trade Area could play an important role in this regard.

Our analysis shows that Algeria needs a comprehensive overhaul of its governance and economic structure to achieve harmony and inclusive development, as well as pursue good relations in the region. In summary, it should:

- **Prioritise a new social compact based on trust and good governance:** It is evident that the Algerian people seek a new social contract with a responsive, efficient and more democratic government. This includes better service delivery, elimination of corruption and cronyism, and a just and inclusive system of governance.
- **Open the economy:** Algeria needs to open up its economy to allow competition, efficiency and a favourable business

climate to attract investment and skills. Such a reform would stimulate entrepreneurship and job creation to create a level playing field that rewards merit.

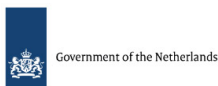
- **Diversify the economy in a sustainable manner:** The country needs to diversify its economy away from hydrocarbons to other sectors that promote robust growth and create jobs, particularly for the youth and women.
- **Improve the quality of education:** Although Algeria's educational outcomes are generally good, the quality of education has started to deteriorate owing to the requirement for different languages of instruction at various stages of learning and subject matter level. Capable and well-trained teachers, use of technology in education and adequate provision of educational supplies in all regions are necessary for the education sector to close the gap with market needs.
- **Promote food security:** Algeria's agricultural sector could be much more efficient and productive. The country currently relies heavily on food imports, which exposes it to risks associated with fluctuations in international commodity prices and disruptions in supply chains.
- **Better manage natural resources and adapt to climate change:** Algeria is already experiencing water stress. Efforts to promote better management and use of water could reduce wastage, so helping the country to cope with the impacts of climate change. Water needs to be priced appropriately as steady progress is made in removing subsidies.
- **Shift to renewable energy:** Algeria has vast potential for solar and wind energy. Implementing plans to promote investment and greater production in this sector, as well cutting back fossil fuel subsidies, could lessen its dependence on hydrocarbons and promote the use of clean energy.
- **Reset relations in the region and rigorously pursue regional economic integration:** To integrate, the IMF finds that:

Maghreb countries would need to lower trade and investment barriers, and connect their infrastructure networks. Their efforts should focus on goods, services, and capital and labor market liberalization. Gradually eliminating barriers to intra-regional trade, building regional infrastructure, and improving the business environment would boost trade within the Maghreb and help further integrate global value chains. Greater regional integration should be complementary to Maghreb countries' global integration.[2]

Endnotes

1. A Kireyev et al., *Economic Integration in the Maghreb: An Untapped Source of Growth*, IMF, Departmental Paper 19/01, 8 February 2019, vii
2. A Kireyev et al., *Economic Integration in the Maghreb: An Untapped Source of Growth*, IMF, Departmental Paper 19/01, 8 February 2019, vii

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Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees, head of the African Futures and Innovation (AFI) programme at the Pretoria office of the Institute, and is an extraordinary professor at the University of Pretoria. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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