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The Pandemic, Debt and Sino-Algerian Relations

When the first cases of Sars-Cov-2 infection were detected in Algeria, in mid-March, the protest movement that led to President Abdelaziz Bouteflika's resignations had just turned its first year. Suddenly, those animating the *hirak* had to question the advisability of continuing the Fridays' marches gathering hundreds of thousands of people across the country every week, as they now appeared as dangerous occasions for mass infection.

The new Algerian President, Abdelmajid Tebboune who emerged from a highly contested scrutiny held in December 2019, swiftly ordered restriction measures to halt the diffusion of the virus. Despite initial divisions, even prominent supporters of the *hirak* called protesters to pause the weekly marches to protect public health. But the lockdown also presented President Tebboune with the opportunity to strengthen its position which also did not rely on solid bases within Algerian institutions. Under the pretext of enforcing public health measures, Tebboune launched an arrest campaign targeting prominent opposition figures such as Khaled Drareni and Karim Tebbou.[1] This «stick» followed the «carrot» offered with the promises to fight corruption and the trial of former officials within the Bouteflika clan, the initiative to review the constitution and the quest for dialogue with some representative of the *hirak*.[2]

Although the outbreak of the Covid-19 pandemic may have provided Tebboune with an opportunity to relieve the pressure of mass protests and stabilize his position, its unprecedented economic and social fallout is already looming at the horizon. While Algeria is coping with the consequences of shutting down the economy, this task appears particularly dire due to low oil prices. Since the discovery and marketization of hydrocarbons reserves, notably oil and liquified gas, Algeria remained dependent from their export to earn hard currency to ensure investments and food imports. Despite decades of economic experimentations, first with centrally planned industrialization, later with the introduction of liberal reforms, Algeria has never emancipated itself from hydrocarbon exports to secure its financial balance. Algeria's full reliance on oil and gas has left the country exposed to the shocks coming from the globalized economy: throughout the late 1980s and the 1990s, Algeria already experienced an economic and debt crisis due to the mid-1980s collapse of oil prices and the devaluation of the US dollar, namely the currency of world oil market. At the time, Algeria went through a decade of structural adjustment programs under the supervision of the International Monetary Fund (IMF) and the World Bank (WB). Nonetheless,

it was only thanks to the early 2000s rise in oil prices that the country overcame its budget problems and replenished its foreign currency reserves.[3] The record fall that oil prices have recorded in April 2020 due to the current pandemic, now appears as an ominous sign heralding possible future predicament for Algeria in handling its debt.

In fact, after a first collapse in 2015, the cost of oil never fully recovered, and this contributed to the dramatic erosion of Algeria's reserves: if in 2013 the North African country could count on $194 billion, by 2020 its reserves amounted to only $62 billion. In a moment in which governments around the world are working on wide financial injections to stimulate their economies, Algeria might face hard times in securing food provision, let alone kickstarting the economy with public funds.[4] At present, the country has no significant international debt but, as the 1980s crisis showed, this could change rather quickly given that oil and gas count for more than 90% of the exports. Algeria's President affirmed that the pandemic will not drag Algeria into a major debt crisis requiring IMF assistance.[5] Such position expressed by President Tebboune confirms that the IMF is never the first choice for a regime that still rhetorically values protecting its sovereignty against foreign interferences. But what options could Algeria consider were a new debt crisis finally come about?

When in the late 1980s Algeria was forced to reschedule its debt with both Paris and London Club creditors, it could nonetheless count on some strong points to rebalance its unfavourable position. Countries such as Spain and Italy looked at Algerian gas as a strategic supply to meet their energy needs. Furthermore, as the embattled regime faced a jihadist insurgency, the prospect of radical Islamists taking over the Algerian national oil reserves pushed Europe to ensure its financial support. This allowed Algeria to weather the crisis as well as implementing the required liberal reforms in a way that did not threaten the dominant position of state bureaucracy in the economy. But more than twenty years later, Algeria's stand vis-à-vis Europe has changed significantly. Algerian gas has lost much of its strategic importance for Mediterranean Europe due to the latter investment in projects, such as the Trans Adriatic Pipeline, ensuring supplies from other sources.[6] This has contributed to a marked decline in Algerian gas exports towards its main European partner, again Spain and Italy. In this context, there have been speculations about the goal of the recent constitutional revision project which also foresees major shift in Algeria's foreign policy orientation. Reversing the neutralism that distinguished the Algerian foreign policy since independence, the constitutional revision project aims to allow the deployment of the national army beyond its borders.[7] In a context of growing international penetration around its borders, from war torn Libya to jihadist militancy in Mali, Algeria might be interested in increasing its

diplomatic weight, particularly toward Europe and the US.[8] Should a debt crisis hit Algeria again, it is likely that the regime would try again to balance Western geopolitical concerns against its need for financial assistance.

However, there is a new element distinguishing today's scenario from what happened in the late 1980s and throughout the 1990s and that is China-Algeria economic relations. Chinese presence in Algeria has been growing since the early 2000s and over the last decade: Chinese companies secured major construction contracts in the country and included it in its wider vision for global infrastructural revision, better known as Belt and Road Initiative (BRI). At present, China has become Algeria's main trading partner albeit with a stark imbalance as Beijing is flooding the country with its commodities while the share of Algerian exports to China is negligible and confined to the oil sector.[9] Chinese importance as trading and financial partner cannot be overlooked when considering Algeria's potential debt problems. China is a newcomer among major world creditors, and this poses many questions on what policies will it adopt in case its partners start to experience financial turbulence. China is not in the Paris Club and while being member of the IMF and the WB, so far it has preferred addressing debt-related problems with its partners on an ad-hoc, bilateral level. In managing its loans to African countries, Beijing has consistently favoured rescheduling instead of cutting debt: China seems to be interested in what the projects financed can achieve in its vision for trade and infrastructural integration rather than in each country's ability to repay its debt. That is why negotiations usually involve single programmes instead of the whole debt portfolio and usually lead to lengthening the repayment period.[10] This approach has made China a more palatable creditor for African countries and also in light of Algeria's rhetorical and practical aversion to the IMF, the idea that Algiers would deepen its financial relations with Beijing is not without sound basis. But as the Covid-19 pandemic risk leading to widespread debt crisis all over Africa and Asia while also threatening China's economic outreach, it is not clear whether China will change its approach. In its responses to the question of debt repayment problems caused by the pandemic, China hinted to a shift toward a more multilateral approach as its endorsement of the G20 calls for a common framework underscored. At the same time, China has apparently resorted to medical assistance on a global scale to strengthen its image and position.[11]

Future Chinese orientations notwithstanding, internal factors will have a major influence on the evolution of Algeria's financial situation and on how external actors will interact with its economy. Although paused at the moment, the *hirak* protests are likely to resume and as other movements around Middle Eastern and North African countries have showed, (Iraq, Lebanon even before the

Beirut explosion), the risk of infections is not necessarily sufficient to stop popular participation. With Algeria's critical social issues unresolved and even worsened due the pandemic, it is legitimate to wonder how a country like China, which has always displayed unwillingness to interfere in domestic affairs, would react in case of renewed social instability. Furthermore, when it comes to debt related problem, the competence of state officials handling the issue is fundamental. According to some former Algeria high functionaries in charge during past debt renegotiations, the current political leadership and state bureaucrats do not hold the same competence of the technocrats who were in office in the late 1980s and 1990s.[12] Today both the wider public, particularly *hirak* protesters and the new leadership within the regime seem to be aware of the need to emancipate the country from hydrocarbons rent. Whether this awareness will be enough to address Algeria's pressing problems and avoid a new debt crisis while reigniting the economy remains to be seen.

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[2] "Algérie: le hirak face à l'offre de «dialogue» du President Tebboune", 16 December 2019, accessed on 4 August 2020, https://www.middleeasteye.net/fr/en-bref/algerie-le-hirak-face-loffre-de-dialogue-du-president-tebboune.

[3] Francesco Saverio Leopardi, 'Algeria and the Washington Consensus: Debtor-Creditor Relation Re-Examined', *Annali Di Ca' Foscari-Serie Orientale* 55 (2019), https://doi.org/10.30687/AnnOr/2385-3042/2019/01/005.

[4] Dalia Ghanem, "Algeria: Toward and Economic Collapse? May 26 2020, accessed on 5 August, 2020, https://www.mei.edu/publications/algeria-toward-economic-collapse.

[5] Karam Souhail, "As Taboos on IMF Aid Crumble, Algeria Remains an African Holdout", 16 June 2020, accessed on 5 August 2020, https://www.bloomberg.com/news/articles/2020-06-16/as-taboos-on-imf-aid-crumble-algeria-remains-an-african-holdout.

[6] See https://www.tap-ag.com/the-pipeline/the-big-picture.

[7] "Algeria Weighs Plan to Allow Army Deployment Abrod, as Tebboune Insists on Diplomatic Solution in Libya", 18 June 2020, accessed 8 August 2020, https://english.alaraby.co.uk/english/news/2020/6/18/algeria-weighs-plan-to-allow-army-deployments-abroad.

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[9] John Calabrese, "Sino-Algerian Relations: On a Path to Realizing Their Full Potential?", 31 October 2017, accessed on 8 August 2020, https://www.mei.edu/publications/sino-algerian-relations-path-realizing-their-full-potential.

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[11] Yahya H. Zoubir, "China's 'Health Silk Road' Diplomacy in the MENA", 27 (2020) Med Dialogue Series, Regional Program Political Dialogue South Mediterrenean, Konrad Adenauer Stiftung.

[12] Author's interview with former Algerian state officials, Algiers, May 2018.