ALGERIA:

POLITICAL STALEMATE OPENS UP VULNERABILITY TO REGIONAL POWERPLAY

The political stalemate between the new military establishment and the protest movement that is increasingly tilting in favour of Islamist ideology risks dragging a politically destabilised and economically weakened Algeria into a broader regional conflict that would put at risk contracts signed with key investment partners from across the Gulf and Europe.

On 4 May, Algeria’s new military leadership arrested three of the former regime’s highest profile leaders, namely Generals Mohamed Mediène and Athmane Tartag, both former heads of the powerful intelligence agency the Département du renseignement et de la sécurité (DRS) – later called the Département de Surveillance et de Sécurité (DSS) – as well as Said Bouteflika, the brother of former President Abdelaziz Bouteflika, who was forced to step down by the military last month.

The three men arguably posed the greatest resistance to the authority of General Ahmed Gaid Salah, who as military chief of staff forced the ouster of president Bouteflika on 2 April. Even though Mediène was removed from the DRS in 2015 after serving as intelligence chief for 25 years and replaced by Tartag, he has remained an influential figure. Last month, Salah accused Mediène of trying to undermine the transition that is due to end with the presidential election on July 4. Meanwhile, Said Bouteflika was the
primary gatekeeper to his brother, as the latter became infirm and wheelchair-bound, building up a vast business network and exceptional political influence.

The three arrests show the growing confidence of the new military leadership under Salah to strike against top figures of the ousted Bouteflika regime and culminate a series of military-ordered detentions over the past month.

**Purging the elite**

EXX Africa had accurately forecast the series of arrests of high-profile Bouteflika regime leaders following the removal of the former president. Immediately following the military intervention, soldiers arrested the head of business association Forum des chefs d’entreprises (FCE), Ali Haddad, who has been at the centre of the patronage bestowed for years on Algerian politically-connected businesses. Well-placed local sources then reported that the detention of Haddad and a dozen other businessmen on corruption charges was ordered by the military under the command of General Salah (See ALGERIA: THE MILITARY TAKES CHARGE IN AN APPARENT CONSTITUTIONAL INTERVENTION).

We subsequently assessed that Saïd and Nacer Bouteflika, the ousted president’s brothers, as well as former prime ministers Abdelmalek Sellal and Ahmed Ouyahia, along with others, would be prime targets of arrest. Almost all the names we mentioned last month are now facing corruption charges or have been imprisoned. Several businessmen, including the country’s richest man, Issad Rebrab, have been placed in custody pending completion of investigations of corruption allegations. Current Finance Minister Mohamed Loukal, former police chief Abdelghani Hamel, and former prime minister Ouyahia appeared in court last week on embezzlement charges.

The purge of Algeria’s business tycoons is most significant from a commercial risk perspective, since their removal may augur contract reviews and cancellations. Other notable business tycoons who have been arrested or face charges include Chamber of Commerce chairman Mohamed Laid Benamor and Condor group chief Abderrahmane Benhamadi. Together with Ali Haddad and Issad Rebrab, as well as other prominent tycoons such as the Kouninef brothers, these individuals represent the senior leadership of corporate Algeria that was firmly intertwined through the FCE with the political establishment of the Bouteflika family. As corruption proceedings unfold, pressure will mount on the new military leadership to redistribute the former Algerian oligarchs’ wealth among the new regime and their business backers.

The same is true in the oil sector, where an extensive reform process has been halted following the removal of state energy company Sonatrach CEO Abdelmoumen Ould Kaddour. The military is reportedly preparing to also remove the company’s vice-president Abdelhamid Rais Ali. Meanwhile, Algeria’s supreme court has started investigating
cases of alleged corruption relating to Chakib Khelil, energy minister from November 1999 to May 2010. The cases include capital movements and contracts signed by Sonatrach with two foreign companies. This could mean that military courts are seeking the dismissal of the entire Sonatrach management board. Newly-appointed head Rachid Hachichi lacks the clout of his predecessors and is more open to political influence from the military.

**Placating the protesters**

The high-profile corruption crackdown is a typical post-coup strategy aimed at both eliminating former regime rivals to avoid a counter-coup, while also placating the civilian protesters whose obstinate demonstrations provided the impetus for the military intervention in the first place. While the Bouteflika regime has been decapitated and left powerless, the protesters have been less amenable to appeasement. On 3 May, after Friday Prayers, hundreds of thousands of protesters rallied peacefully in the capital Algiers calling for the resignation of interim president Abdelkader Bensalah, who is due to serve until the election slated for July, and Prime Minister Noureddine Bedoui, appointed by Bouteflika days before he stepped down as president. Many protesters also insist on the removal of General Salah, although the opposition is split on the role of the military in the transition.

While the protest movement has remained incorruptible and persistent in its daily and weekly turn-out, its leadership remains divided. Since Bouteflika’s resignation, many demonstrators have rejected military intervention in civilian matters, while others have been supportive of the army’s role in the transition. The military is now attempting to split the protest movement by co-opting some into their fold with promises of influence in an eventual political transition. Several prominent opposition leaders have backed the military intervention, perhaps viewing an opportunity to re-enter government with army support after the elections. Ali Benflis, a former head of the ruling FLN party who now leads the Talaie Al Houryiet party, said he prefers military stability than the ongoing political chaos. Benflis has been unsuccessfully scrambling for support among the protesters and may view his closeness to the FLN as a political advantage. Others, like Mustapha Bouchachi, a lawyer and protest leader, have rejected the caretaker government.

Over the next few weeks, the military is likely to co-opt some protest leaders and opposition parties, including the moderate Islamist Mouvement de la Société pour la Paix (MSP) led by Abderazak Makri, along with fragments of the governing FNLA party under the leadership of newly-elected party chief Mohamed Djemai. They are also seeking international support for such a transition, particularly from France and the US. If they are successful, they will be able to split the protest movement and offer a mediated pathway out of the current crisis that would allow the military to retain some political and economic power. However,
some of the protest leaders and opposition parties hold very divergent ideological views for the future of Algeria that would put them in conflict with the military and regional powers in the Middle East and Europe.

Regional partners such as Egypt and the UAE would favour a military-led transition in order to shore up their interests in the Maghreb region. Meanwhile, local sources report that rival regional powers, such as Qatar and Turkey, are seeking a stronger role for Muslim Brotherhood affiliate, the MSP, which would tilt the balance of power in North Africa in their favour. The prominent Islamist protest leader, Seif Islam Benatia has called for a six-month transition period under the leadership of Ahmed Taleb Ibrahimi, a conservative former minister who is perceived as outside of the Bouteflika elite and who retains close ties to Islamist groups. The struggle between Islamists and the military risks dragging in more regional powers and creating a political stalemate, resembling neighbouring Tunisia, or even Libya (See TUNISIA: POLITICAL INSTABILITY AND SECURITY THREATS IMPERIL ECONOMIC RECOVERY).

If the ongoing mediations fail, the military under Salah is likely to move towards further consolidation of political power and seek to contest the elections in the guise of a new political movement. The vote would then be less likely to be free and fair. As a result, protests would continue across Algerian cities, which would be more likely to trigger a violent crackdown from security forces. For now, the protests have remained relatively peaceful, yet hard-line elements would be likely to emerge in case the crisis draws out or security forces deploy more heavy-handed tactics. We have outlined the commercial implications of more violent unrest in previous briefings (See ALGERIA: DESPITE CONCESSIONS, THE POLITICAL ELITE DIGS IN FOR THE LONG HAUL).

**INSIGHT**

The power struggle between the military and hard-line elements in the protest movement risks dragging out well beyond the elections slated for July. The subsequent disruption to commercial activity is likely to further drag down Algeria’s economic outlook, particularly as oil export revenues drop. Algeria’s first quarter energy earnings fell 1.68 percent year on year, from USD 9.153 billion to USD 9.310 billion. As a result, the country’s trade deficit has increased over the same period by 11 percent to USD 1.37 billion. Oil and gas account for 94 percent of Algeria’s total exports and 60 percent of the state revenues.

In its latest updated forecasts, the International Monetary Fund (IMF) expects the Algerian economy to grow by just 2.3 percent this year and then fall well below 2 percent growth in the coming two years. The Fund also expects inflation to shoot up in the one-year outlook and beyond, while the current account deficit could exceed 12 percent this year. Last month, the IMF said the government should carry out reforms to help cut the deficit and reduce reliance on oil and gas. The government last year started implementing changes that allow the central bank to lend directly to the treasury to fund internal public debt. The budget deficit is projected at 9.2 percent of GDP for this year, up from 9 percent in 2018.

The economic outlook is further impacted by the spree of politically motivated corruption charges against the country’s most senior public officials and business tycoons. The liberalisation and privatisation reform agenda of former prime minister Ouyahia has been scrapped, while the military is taking an even more prominent role in Algeria’s economy. This bodes well for contract stability in terms of agreements signed with regional allies of General Salah and other generals, especially the UAE. Dubai’s DP World has jointly operated the Port of Algiers since 2009 and
runs port operations at Djen-Djen under a 30-year concession. Gulf monarchies have long backed the Algerian military. In the 1990’s, Saudi Arabia persuaded the US and other allies to support Algeria’s military after its army intervened to cancel the 1991 legislative elections that were won by Islamists.

Contracts signed with French businesses and the French government and military are also looking more secure if the military remains in charge given French support for the Algerian military over recent years. However, Italian firms may struggle to remain in favour with the Algerian military establishment, given Italy’s vocal support for the Islamist government in neighbouring Libya, which is currently engaged in a war against eastern forces supported by France, Egypt, and the UAE. While supply contracts with Italy’s Eni were recently renewed, Italian firms would be more likely to face discrimination unless they express their firm support for the Algerian military-led transition.

However, the ongoing mass demonstrations are becoming a growing concern for political stability and are shifting the popular mood increasingly towards supporting Islamist groups, especially Muslim Brotherhood affiliates such as the MSP. Gulf monarchies now fear that an anti-status-quo Islamist political order supported by Qatar and Turkey could emerge in Algeria driven by street protests, reminiscent of Egypt in 2011/2012. The MSP and other Islamist parties are already capitalising on growing anti-Israel sentiment by criticising the US and Arab states for supporting a rapprochement with Israel and the Trump Administration’s so-called ‘Deal of the Century’ Arab-Israeli peace plan.

If Islamists gain the upper hand in the political transition, contracts signed with the UAE and perhaps even France could face greater risk of frustration or even cancellation. For DP World this would continue a trend of licence revocations across the region as the geopolitical balance is shaken. In the meantime, the primary fear is that Algeria risks becoming a new theatre of conflict between rival regional powers, like the political stalemate in Tunisia and the military conflict in Libya.