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ALGERIA: A COUNTRY IN CRISIS

By George Joffé

**Director-of-Studies
Royal Institute of International Affairs
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E-mail: writenet@gn.apc.org**

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1. Introduction

Despite the apparent calm that has returned to Algeria since the election of President Abdelaziz Bouteflika in April 1999, the situation there is poised on a knife-edge and may well tip back into violence and chaos. There is little likelihood, however, of the kind of violence that typified the past decade. Instead there is now a real danger of the disintegration of the Algerian state and a concomitant increase in migration flows, both internal and external, as the population seeks a way out of the crisis it faces. To understand the complex and occulted factors that have contributed towards this situation, it is necessary to take into account both the recent history of Algeria and its informal political structures.¹

In essence, Algeria is a state based on arbitrary military power, which has never been successfully institutionalized and legitimized. Even though the Front de Libération Nationale (FLN), through its control of the struggle against France, achieved a popular revolutionary legitimacy, its subsequent marginalization after the Boumediène-Ben Bella coup d'état in July 1962 - when the Algerian Armée de Libération Nationale (ALN) backed Ahmed Ben Bella's seizure of power from the provisional government - meant that it has never been able to recover its former lead position. Houari Boumediène himself, after his seizure of power in June 1965, only captured Algeria's political imagination through his charismatic leadership and did not thereby legitimize the institutional base of his regime or the dominant role of the army leadership within it.² Furthermore, within the army structure, it has been the Sécurité Militaire service - now controlled by General Mohamed "Toufiq" Medienne - which, ever since its creation during the War of Independence as a mechanism of ensuring FLN loyalty by Ahmed Ben Tobbal, has ensured the army leadership's covert authority inside the political system.

The effectiveness of this power structure, with real power embedded in an unaccountable military elite, was underlined in 1979 when it was the army that prevented the FLN from controlling the nomination of the new President, Chadli Ben Djedid, the senior army officer.³ Similarly, although the army agreed reluctantly to withdraw from politics in 1989, accepting that its duty in future would be to guard national territorial integrity, rather than the constitution, it returned of its own volition to politics in 1990 when it arrested the FIS leadership against the wishes of the presidency. Indeed, one reading of the 1992 coup d'état was that the army command simply usurped legitimate presidential authority, thus reasserting its own arbitrary control over the Algerian political process. Further, the struggle in 1998 over the future of the Zerouel presidency was a further example of the army leadership's unwillingness to consider any other kind of ultimate authority but its own because of its control of the political process.

¹ Much of the information used in this analysis of contemporary Algeria has been obtained by constant contact with Algerian political actors and commentators in Algeria who cannot be identified for reasons of personal security. This information has been gathered over the past decade, during which time detailed published analyses of the Algerian situation have been sparse, and it thus forms a major component of the ensuing analysis.

² See K. Adamson *Algeria: A study in competing ideologies* (London: Cassell, 1998) for a discussion of the Boumediène era

³ See J. Ruedy, *Modern Algeria: The origins and development of a nation* (Indianapolis: Indiana University Press, 1992), pp. 204-32

This situation of arbitrary authority is worsened by the fact that the army command, both retired and on active service, has become dominated by former officers of the French army in the 1950s and 1960s. An examination of the current army leadership makes this situation quite clear and is essential for any proper understanding of the events of the past decade. Generals Nezzar, Belkhair, Lamari and Mediène⁴ are all in this position and thus reject, as a matter of course, the FLN tradition of an Arabo-Islamic Algeria. Furthermore, over the years, the army officer corps, particularly in its upper echelons, has become heavily implicated in the private sector of the economy and thus add to their arbitrary institutional power occulted economic control as well. They dominate in the proliferation of import-export agencies and in control of key economic sectors, such as the oil industry, the cement sector and health (as the scanner scandal two years ago made clear). They are backed up by the *Securité Militaire* system and by the so-called *taman* system - the entrenched custom, drawn from tribal antecedent, of ensuring that all factional interests are represented within the decision-making elite, so that elite cohesion will always take precedence over factional interest.⁵ Government and the presidency, in this scenario, become mere executive subordinates to the elite, even if in theory the presidency has virtually unlimited powers and controls the legislative arm of government, through the National Assembly.

The legislature, under the 1996 constitution, consists of two chambers. The lower chamber is elected by universal suffrage but, although it can vote on legislation and is used as the originating chamber, its votes must be confirmed by a majority in the upper chamber, the Senate. This chamber is partly indirectly elected and partly appointed by the presidency. Since the presidency also controls the dominant political party - no longer the FLN but now the Rassemblement National Démocratique (RND) which is, in reality, a loose confederation of the elements in Algeria known as the "Revolutionary Family" and which has no cohesion as a real political party but merely as a presidential support base.⁶ The combination of this control, together with the discrediting of the political system after the last presidential elections in April 1999, means that the genuine opposition parties, such as Hocine Ait Ahmed's Front des

⁴ General Khaled Nezzar was defence minister in the last Chadli Bendjedid government and responsible for the dismissing of the President in January 1992, as he masterminded the coup d'état and was one of the triumvirate (alongside General Larbi Belkhair and General Ahmed Guennaizia) that set up the post-coup d'état regime. General Belkhair was interior minister and, after the assassination of President Mohamed Boudiaf in June 1992, was forced into retirement, although he exerts massive behind-the-scenes power and is very close to Khaled Nezzar. General Mohamed Lamari (not to be confused with General Smain Lamari) is the army commander and, as such, wields much of the real power in Algeria; he is a protégé of Larbi Belkhair. General Smain Lamari is in charge of civil security and is very close to General Mohamed Mediène, the *eminence grise* of the regime, given his control over the *Securité Militaire* which has been implicated in manipulation of the clandestine Islamist movements and in land-grabbing operations on the back of the spate of massacres in January 1998 around Algiers and Blida. This group is the core of the power-elite, although they also struggle amongst themselves in the infamous *lutte des clans*. There are other circles of power radiating away from this core and there are also competitors for power, although the army command constantly seeks to eliminate them. Access to the core group comes through the *taman* system. This core should be distinguished from the informal coalitions of the past, such as the *Oujda Group* or the groups that emerge through common origin, in its cynicism over the purposes of power, for it is totally wedded to the exploitation of material advantage and extension of political control. Earlier groups, whilst informal and unaccountable in nature, did seek to contribute towards Algerian national life.

⁵ H. Roberts, "French conceptions, Algerian realities" in E.G.H. Joffé (ed.), *North Africa: Nation state and region* (London: Routledge, 1993), pp. 111-41

⁶ See H. Gourdon, "La constitution algérienne du 28 novembre 1996", *Monde Arabe Maghreb-Mashrek*, No. 159 (April-June 1997), pp. 36-48

Forces Socialistes (FFS), Sheikh Nahnah's Harakat Mujtam'a is-Silm (HMI), Sheikh Djaballah's Hizb an-Nahda or even the FLN, now undergoing one of its endless splits, have no real role to play. Pseudo-opposition movements - and some would place the HMI within this group, along with Said Saadi's Berberist Rassemblement démocratique et culturelle (RCD) - are effectively parties of government. It is the hegemony of the presidency within the formal structures of government, together with the control of the army and security elite over the presidency that leads Algerians to refer to their constitutional system as "façade democracy".

It also follows that the major pre-occupation of the power-elite in Algeria is preservation of its position. There are no other ideological objectives, whatever the FLN may originally have intended. It is for this reason that, ironically enough, political debate and confrontation in Algeria has been so intensely ideological.⁷ The Front Islamique du Salut (FIS), when it emerged in 1989, was able to offer a genuine ideological alternative; it offered a culturally authentic political vision, based on Islam, of political restructuring, legitimized, furthermore, by reference to the original Algerian revolution of which it claimed to be the true legatee, since the FLN had betrayed the hopes placed in it when it was marginalized by the ALN. Algerians certainly recognized this when, in a play-on-words in French, they referred to the FIS as "Le fils de l'FLN" - "The son of the FLN". The banning of the FIS in March 1992, as with the cancellation of the elections two months before, only demonstrated to Algerians that democratic choice would not be acceptable and that violence was, therefore, the only option. In short, two visions of Algeria's future - one intensely ideological and the other intensely self-serving - could not coexist and one of them would have to be eliminated.

It is for this reason, far more than because of political convictions over the unacceptability of a political Islamic model, that the army command has always espoused the concept of the need to eradicate Islamist opposition, rather than find a basis for conciliation and negotiation. In this approach, the army elite has been joined by elements of the formal political arena, such as the former premiers Redha Malek and Mokdad Sifi, as well as the Berberist RCD and, of course, large elements of the RND, the FLN and individuals in the bureaucracy who face major personal loss in any genuine political transition. They enjoy support from a significant minority within the population that fears the implications for social justice and political rights of an Islamist victory, although they may also fear the implications of untrammelled central and arbitrary power in the hands of the elite. The problem is that eradication does not, by itself, confer popular legitimacy, so that such a policy is only tactical in nature and does not address the strategic choice of how political authority in Algeria should be articulated. Hence, although the technical problem of control of violence appears to

⁷ Ironically enough, when the 1997 constitution was introduced, it provided a new legitimate political arena for discussion since assembly deputies enjoyed parliamentary immunity. Thus some of the vitality of the Algerian political scene which had developed in 1988-1991 re-emerged. This was reinforced by the regime's decision, as part of the run-up to the November 1995 presidential elections, to remove formal restrictions on the press - although official control of access to newsprint and to printing companies was retained and has been used with devastating effect to control press freedoms in 1999. Furthermore, because each newspaper is linked to a political faction, many of them either within the power-elite or a formal political party, there is a genuine freedom of debate within certain recognized, if unspecified, bounds. This is of critical importance, for it does allow for a degree of freedom of expression which otherwise would be inconceivable in a country such as Algeria where the political system is fundamentally corrupt. However, should a journalist or publication threaten basic regime interests, its freedom of action, indeed, of survival, can be very short-lived indeed!

have been solved, at least temporarily, the underlying causes - now powerfully reinforced by the social crisis the country faces as a result of economic restructuring and reform - remain and the crisis will inevitably reoccur. A detailed analysis of the political scene leading up to the current situation makes this quite clear.

2. The political scene

The current situation in Algeria is the direct result of a crisis that developed in the wake of the country-wide riots in October 1988 and appeared to have been resolved by political and economic reform up to 1992. Despite a brief period of political liberalization - which, in reality, was unsuccessfully manipulated by the regime in power to guarantee its own survival - Algeria has been in the grip of a virtual civil war for the past eight years. In these circumstances, the behaviour of the regime and of its clandestine opposition have become parallel experiences, despite the gestures towards renewed democratization made in the past two years. The reality for the vast majority of Algerians - with figures for civilian deaths to date ranging up to 120,000 (a figure of 100,000 was given by the Algerian President, Abdelaziz Bouteflika, in late summer 1999⁸) - is one of constant fear, both of arbitrary arrest and worse from the authorities and of summary and terminal justice from the clandestine opposition. For these circumstances to be properly appreciated, therefore, some knowledge of the events leading up to the contemporary situation is necessary.

2.1 The background to the crisis

It is important to bear in mind the causes and pattern of events leading up to and following the October 1988 riots in what was then a one-party state governed by an army-backed regime through the FLN - Front de Libération Nationale or Jabhat al-Tahriri al-Watan. They were induced, in part, by a collapse in world oil prices in 1986, which had severely affected Algeria's export revenues. Since most consumer goods, including between two-thirds and three-quarters of the food supply, were imported, the population as a whole suffered a severe decline in living standards when the Government decided to compensate for the shortfall in export revenues by reducing imports. Algerians had, in effect, been living in a situation of austerity ever since the war of independence, which had ended in 1962 with the creation of the independent Algerian state.⁹

However, while the first generation of independent Algerians were prepared to tolerate present austerity for the promise of future prosperity, their successors in a country where the population was increasingly youthful (currently over 60 per cent of the population is under the age of 30) were increasingly reluctant to do so. They were also increasingly reluctant to accept the severe public morality imposed by Islamic tradition and revolutionary austerity, so that interest in Western fashion, social liberalization and global youth culture became increasingly strong aspects of a political rejection of the Algerian revolution by youth.

⁸ *Le Monde* [Paris], 1 August 1999

⁹ W. Ruf, "The flight of rent: The rise and fall of a national economy", *Journal of North African Studies*, Vol. 2, No.1 (Summer 1997), pp. 1-15

Continued poor housing and growing unemployment separated the poorest from those privileged through membership of the single political party and those who benefited from service to the state (which controlled over 60 per cent of the economy) or within the private sector. These general circumstances were supplemented by specific political problems. The Chadli Bendjedid regime, which had succeeded the Boumediène regime in 1979, had attempted to encourage economic liberalization in order to overcome consumer resentment and galvanize the stagnant economy without granting concomitant political liberalization. The result had been an ever more tense social and political scene, particularly after serious rioting in April 1980 when demands for cultural representation by the country's significant Berber minority had developed into country-wide protests over issues of freedom of expression and political liberalization.¹⁰

Young people often embraced the Berber issue as a paradigm for their own sense of alienation, and during the 1980s Berber music became a powerful voice of popular political dissent. By the end of the decade, it had been supplemented by *rai* - a modernized version of traditional popular music originating in western Algeria. This group of alienated youth, linked to the wider demotic culture created by the increasing globalization of the modern world, stood alongside the Francophone elite in opposition (particularly over the Berber issue) to another group spanning the generations of those - increasingly disadvantaged - Algerians educated solely in Arabic. Arab speakers also tended to be far more conservative and thus to support traditional attitudes towards public morality and the growing influence of a clandestine Islamist movement in Algeria. They also rejected the inherent separatism of the Berberist movement, calling for a united Arabo-Islamic Algeria instead.

In reality the Government's actions merely created an ever more divided society. In the public domain, French continued to be the language of commerce, administration and high culture, with the result that Arabophone Algerians felt increasingly marginalized. The government of President Chadli Bendjedid, despite allowing a very cautious degree of political liberalization compared with the era of his charismatic predecessor, President Houari Boumediène, manipulated this cultural confrontation and, as a consequence, between 1980 and 1986 there was a series of confrontations between pro-Berberist and pro-Arabist supporters, particularly in the universities where the Islamist movement that was developing in Algeria was putting down increasingly strong roots. At the same time, potential social and political problems were intensified since the modernist, educated Francophone elite was also marginalized by a regime that endlessly sought to capitalize on the symbols of the revolution 20 years earlier and, by its own repressive policies, devalued the very symbols it sought to exploit as evidence of its own legitimacy as a government.

Riots in Constantine in 1986 expressed frustration at the worsening economic crisis - caused by the Saudi-inspired collapse in oil prices that year which, together with the collapse in the value of the US dollar, meant a 20 per cent decline in Algeria's all-important oil revenues, particularly as the Government then compressed imports to compensate for reduced revenues, despite the hardship to the population - but also provided the first major platform for the country's nascent Islamist movement, which

¹⁰ S. Mezhoud, "Glasnost the Algerian way: The role of Berber nationalists in political reform" in Joffé (ed.), *North Africa*, pp. 142-69

had emerged in the early 1980s after repression during the previous decade. Yet Islam had been one of the earliest strands of resistance to French colonialism in Algeria and thus enjoyed considerable popular support.

2.2 Algeria's Islamist tradition

This Islamist resistance stretched back into the early twentieth century and derived from the Salafiyya movement, which sought to confront and integrate modernity by recourse to the original principles of Islam. In the 1930s, under Shaikh Bin Badis, the Association des Oulémas was one of the most influential factors in stimulating anti-French nationalist sentiment.¹¹ By the time of the revolution in 1954, other, more secular groups had taken over the movement, although Islam continued to be a crucial rallying cry and ideological core in the struggle. However, the refusal of independent Algeria to follow an explicitly Islamic political agenda forced the early Islamists into marginalized opposition. Tolerated during the early years of the Boumediène regime as the Al-Qiyam movement, its leadership was soon forced underground, although frequent gestures were made by the authorities in its direction. The problem was not ideological but political; no Algerian government or president was prepared to share power and no Islamist movement could compromise on its principles over the primacy of Islam within the political process.¹²

As popular discontent mounted with the Algerian experiment in political and economic development towards the end of the 1970s, the Islamist movement received ever greater support - particularly amongst Algeria's youth - in part augmented by the relative leniency shown to it by successive governments. At the same time, its popularity was increased by the Arabization programme undertaken in the late 1970s and early 1980s to counter the persistence of French as the major language and culture for Algeria. Those, particularly young people, who were Arabophone in terms of education and training found themselves disadvantaged in terms of employment and isolated in terms of culture. They were therefore drawn towards the authenticity of an Islamic alternative - something which was encouraged by the fact that many of the teachers employed in the Arabization programme were Egyptian and linked to the Ikhwan Muslimin (the Muslim Brotherhood). It was for this reason that the Union National de la Jeunesse Algérienne (UNJA), the national youth movement originally created as a portmanteau youth organization by the FLN and the Government, became increasingly "Islamized" during the 1980s, as it reflected the growing alienation amongst youth and their search for other ideological paradigms.

By 1984, the movement had its own leaders - Shaikh Nahnah, now the leader of Hamas, and Shaikh Sahnoun, alongside Shaikh Soltani, who died in that year. It also had its own ideologues. Shaikh Soltani had published a widely read attack on the Boumediène regime, and Malek Bennabi was also generally recognized as Algeria's own theoretician of the Islamist movement throughout the region. And the movement had its martyrs. In the wake of the Berberist riots of April 1980, clashes between Berberophone and Arabophone students in Algeria's universities, which effectively set Francophone secularists against Arabophone Islamists, had resulted in deaths and

¹¹ A. Horne, *A savage war of peace: Algeria 1954-1962* (London: Penguin, 1977), p. 38

¹² H. Roberts, "Radical Islamism and the dilemma of Algerian nationalism: the embattled Arians of Algiers", *Third World Quarterly*, Vol. 10, No.2 (April 1988)

arrests, particularly in 1981 and 1982. The Government responded to these incidents with considerable brutality, sentencing those involved to long prison terms.

At the same time, the authorities also tried to placate Islamist supporters, appointing officials who were sympathetic to the underground movement and its values to senior positions in government, especially in ministries connected with religious issues, and encouraging the widespread construction of mosques. Since, in Algerian law, mosques came under state control only when their construction was completed, many Islamic activists left new mosque buildings deliberately uncompleted so that they could be used as centres for education and propaganda outside official monitoring and control. By the end of the 1980s, a majority of mosques were uncontrolled, a situation which persisted up to 1992, when the new post-coup d'état regime brought in new regulations that ended this anomaly. In addition, the authorities tried to adjust Algerian legislation to match Islamist concepts of public morality and social order. Thus, in 1984, the Chadli Bendjedid regime introduced new family legislation which undermined the independent status of women and reinforced their normative inferior role in accordance with *shar'ia* religious law.¹³

During the 1980s and particularly between 1984 and 1988, government ambivalence towards the Islamist movement allowed the movement to garner more popular support, particularly in poor urban areas where the level of youth unemployment was as high as 30 per cent of the youth labour force (and 70 per cent of the Algerian population were below the age of thirty). In 1986, as mentioned above, in a precursor of the 1988 riots, trouble broke out in Constantine. Islamists did not initiate the disturbances, which had begun among students protesting at living conditions; but, by their end, Islamists were prominent in controlling and directing the rioters and they emphasized the need for the public segregation of men and women. By 1988, therefore, although the Islamists were as surprised as the Government when the riots exploded, they were ready to garner the fruits. Some leaders, such as Shaikh Sahnoun, were determined to avoid direct political involvement, but others, led by Abbassi Madani, who had been an FLN activist during the war for independence, were determined to seize the opportunity. One of the results was eventually to be the creation of the FIS in 1989.

2.3 After the October 1988 riots

The country-wide riots of October 1988, which represented a massive rejection of government, were apparently instigated by clandestine elements of the extreme left within the ruling FLN party. The riots were linked to the illegal but tolerated Marxist movement, the Parti de l'Avant-Garde Socialiste (PAGS), which organized strikes in major factories in the Algiers area, particularly in the car assembly plant at Rouiba, just outside Algiers, in an apparent attempt to undermine government economic reform policies. The masses of unemployed and under-employed youth in Algiers - the *hittistes*, from the Arabic word for "wall" (*hait*), in other words "those who prop up walls": the unemployed - joined the demonstrations which then degenerated into riots, and a virtual insurrection then spread throughout the country.

¹³ W.B. Quant, *Between ballots and bullets: Algeria's transition from authoritarianism* (Washington: Brookings Institution, 1998), pp. 37-8

The Islamists appeared only in the latter stages of the unrest but, because of vigorous military repression, came to symbolize the sacrifices of the population as a whole and thereby gained massive popular respect. In addition, the Chadli Bendjedid regime, seeking a new mode of maintaining itself in power, decided to begin a more thoroughgoing restructuring of the economy and to revise Algeria's political structures. A multiparty constitution was introduced in 1989. At that point political parties were allowed to emerge - by the end of 1990 there were over forty of them - and restrictions on freedom of expression were lifted. The presidency then sought to control a multiparty political system by ensuring that no one party would be powerful enough to obtain a hegemonic control over the political scene and, with this end in mind, encouraged the new Islamist movement against the FLN.¹⁴

At the same time, another profound change was made in Algeria's constitutional structure. Ever since independence, the Algerian army, created during the war and based in Morocco and Tunisia because of French measures to keep it out of Algeria itself, had been the essential guarantor both of the country's revolutionary legacy and of the particular regime in power. Indeed, it actually overthrew the Ben Bella regime (which it had levered into power in a post-revolutionary coup d'état in July 1962) in 1965 when Houari Boumediène, then army commander, came to power as President. Following his premature death in December 1978, the army ensured that the next most senior officer, Chadli Bendjedid, should replace him as President. In short, the army continued as the power behind the scenes within the regime and the senior army command acted decisively both in political and in military roles up to 1988. As a result of the 1988 riots, the presidency was able to persuade the army command to withdraw from political life. As part of the new quasi-democratic system it wished to create under its own aegis, the presidency itself would provide the guarantees of continuity and control which had originally been the army's prerogative. The presidency was also able to exploit political divisions inside Algeria, which emerged in the wake of the liberalization introduced after the 1988 riots, to try to assure its own dominant role in the developing political process. A key element in this was to be Algeria's long-standing Islamist movement which was divided into three major factions.

The current situation in Algeria must therefore be seen in the context of the way in which this movement has developed since 1988. During the brief interregnum between the collapse of the old one-party system in 1988 and the army-backed coup d'état of 1992, Algeria, at a popular level at least, experienced a genuine liberalization. Political diversity flourished, the press was virtually unrestricted and public life blossomed with most of the old restrictions on public morality being eliminated. At the same time, public opposition to such diversity also mounted, particularly among older groups and those who sympathized with the nascent Islamic political movements. Before the 1988 riots, the Islamist movement - the movement of Muslims who seek a specific political relevance for Islam as an alternative ideology for the political organization of the state - had existed in effective clandestinity as described above, although it was occasionally exploited by the government of President Bendjedid to counter other political currents that the regime found disturbing.

¹⁴ M. Stone, *The agony of Algeria* (London: Hurst, 1997), pp. 58-101

One of the best examples of this manipulation was the way in which the Islamist movement was used to undermine the Berberist movement which began in April 1980 and rapidly became the vehicle of liberal protest at government refusal to allow political liberalization. Alongside this political role, however, there had also developed a growing intolerance of social behaviour which differed from that generally approved by Islamist activists, particularly in areas where the clandestine Islamist movement was strong, such as Hussain Dey or Kouba in Algiers and in small towns such as Laghouat. On the other hand, the movement gained massive popular support through its social functions, providing social services through the mosques it controlled - some three quarters of the total number of mosques in the country - and giving economic support through the informal "Islamic souks" it created. It also engendered considerable official resentment before it was legalized and its officers, members and supporters were frequently arrested and ill-treated by the security forces.

The FIS (Front Islamique du Salut - Jabha Islamiyya li'l-Inqadh) movement itself was formally legalized on 1 March 1989, when the new party law came into effect after the October 1988 riots and created the conditions for a pluralistic political scene. Its two founding fathers, Abbassi Madani and Ali Bel Hadj, had come to national prominence because of their roles in the immediate aftermath of the riots, when they were consulted by the presidency over the future course that Algeria should take and appealed to the population for support for an Islamist alternative. The creation of the FIS was also implicit evidence of the President's intention to use the new movement to break the monopoly of the FLN, for, although the party law made illegal any reference to religion or language within party platforms, the FIS itself was registered without demur. Alongside it, two other Islamist movements were registered as legal parties: Hamas (Harakat li'l-Mujtama' Islami, the Islamic Society Movement, now known as the Harakat li'l-Mujtama' Is-silmi (HMI), the Movement for a Peaceful Society) under Shaikh Mahfoud Nahnah; and the Hizb An-Nahda (formerly the Harakat an-Nahda Islamiyya, the Islamic Renaissance Movement) under Shaikh Abdullah Djaballah, a Constantine-based religious leader.

Indeed, despite official attempts to manipulate it to control other political parties, the FIS soon acquired a powerful independent voice in the new multiparty political system. Its social and political role was also significantly reinforced, particularly after municipal elections in June 1990, when the movement won control of a majority of municipalities. Indeed, in many respects, public morality was the major plank in its policy platform, for, on this aspect of policy all Islamists could agree. It made political mistakes of course, especially in calling a general strike against government attempts to gerrymander electoral boundaries in 1991 so as to prevent a repeat of its success in the municipal elections the previous year. The strike provoked the army to return to politics and, in a dramatic snub to the presidency, the army command arrested the FIS leadership, placing Abbassi Madani and Ali Bel Hadj in Blida prison where they were tried for treason the following year and sentenced to twelve-year prison terms. Eventually, after the elections of December 1991 - where the FIS won 25 per cent of the vote and seemed set to obtain a clear majority in the legislative assembly, with the promise of governmental control, in the first round - the army once again took control.

The elections were aborted by an army-backed coup d'état in January 1992, the FIS was banned in March 1992 and membership became a punishable offence.¹⁵

3. The Algerian crisis

The last eight years have been marked by a crescendo of violence and failed political initiatives, combined with a worsening economic crisis. The first armed attack on the security forces occurred in January 1992, just after the electoral process had been blocked by the army, but sustained violence only erupted in late 1992 and, very quickly, two major Islamist clandestine resistance organizations emerged. One, which claimed descent from the FIS, sought to force the regime to restore the aborted electoral process. This was the Mouvement Islamique Armé, later known as the Armée Islamique du Salut (AIS - Jaysh Islami li'l-Inqadh). The other, the Groupe Islamique Armée (GIA - Mujtama'a Islami Muslaha), simply sought to eliminate the regime and to replace it in power. It also targeted specific groups within Algerian society from 1993 onwards - intellectuals (particularly if they were Francophone and secular), civil servants, security personnel and foreigners.¹⁶ Relations between the AIS and the GIA became increasingly tense as time passed until, in 1998, with the murder of seven monks in the Tibherine monastery in Central Algeria by the GIA, the AIS declared unrestricted war on it.

As time went by it became increasingly clear that there was not one GIA but several and that the umbrella name was increasingly used by groups which had no connection with the original movement, made up as it was from extremist *salafiyistes* linked to the Bou Yali group of the mid-1980s and of the *afghanistes* - sympathizers with and adherents of the *mujaheddin* in Afghanistan. Often these hangers-on were simply criminal gangs using an Islamist rhetoric to cover their activities, or local vendetta and feuding groups. There was also growing evidence that the GIA leadership had been penetrated by Algeria's ubiquitous Sécurité Militaire, which formed the core of the army leadership and was completely unaccountable for its activities. Thus, by 1998, the activities of the GIA clearly served private interests within the regime - over land clearance in urban fringes, for example, at a time when potential land sales made such areas immensely valuable for building speculators, provided they were cleared of population settlements.

The legal political parties by-and-large sought to build bridges between the FIS - outlawed after 4 March 1992 and largely in exile or in Saharan concentration camps and the regime. Although the FIS leadership - or, rather, its moderate elements who dominated the leadership - were prepared to enter into negotiation, the hard-core of the regime - the *éradicateurs*, mainly in the army - were not prepared to do so except on terms they dictated and eliminated their opponents within government or in the political parties - the *conciliateurs* - who did try to do this. Thus the first President after the coup d'état in January 1992, Mohammed Boudiaf, who had been one of the nine *chefs historiques* of the Algerian revolution and who had sought to build a new consensus in Algeria, was killed in June 1992 at the behest of the then interior minister and former army general, Larbi Belkhair. He was followed a year later, in

¹⁵ G. Joffé, "The army in Algerian politics and government" in R. Shah-Kazemi (ed.), *Algeria: Revolution revisited* London: Islamic World Report, 1997), pp. 106-11

¹⁶ Stone, pp. 177-97

August 1993, by a former premier, Kasdi Merbah, who had advocated dialogue and, in mid-1997, by the head of Algeria's trade union movement, Abdullah Benhamouda, who had tried to set up a political party against army wishes. These were the most notorious assassinations, but there were many more.

Eventually, in April 1994, the army command engineered the appointment of Lamine Zeroual to the presidency with a specific mandate to seek a negotiated solution to the conflict on the army's terms. Contacts were established with the FIS secretly but no common ground could be found, although a few FIS leaders were released from prison in a goodwill gesture - but not Ali Bel Hadj, by then the leader of FIS extremists and still in prison, or Abbassi Madani who was prepared to be more flexible and who was eventually released into house arrest only in 1998.¹⁷ Instead, the FIS, together with the major opposition parties, came to an agreement over the way forward through the good offices of the Catholic Sant' Egidio Community in Rome in January 1995. The subsequent Sant' Egidio Accords, which sought for a transitional government to organize elections but did not require the prior surrender of the armed groups, acted as a beacon for liberal opinion in Algeria thereafter and provoked the regime into a response. In November 1995, the regime organized presidential elections to legitimize Lamine Zeroual in power and, over the next two years, set in motion constitutional changes culminating in new legislative and municipal elections designed to create institutions that undermined the Islamist challenge. In reality, however, the political institutions that were created simply entrenched presidential and army power, despite their formal democratic trappings - in Algeria they were labelled "façade democracy" - and, when the President stepped out-of-line, in late 1998, he was forced from power.

By this time, there were a series of disputes between the presidency and the army command, not least over a truce negotiated between the AIS, with FIS backing, and the army hard-liners in October 1997. This removed the AIS from the confrontation but was supposed to be the beginning of a re-integration of the FIS - in a transmuted form - into formal political life. The presidency refused the bargain, despite its reputation as head of the *conciliateur* faction - probably largely because it was an army initiative - and the deal was never consummated, although the FIS did not renew its attacks on the security forces. Instead, the presidency found itself ever more isolated, so that, in the end Lamine Zeroual, by then ill, had no alternative but to resign. The new elections for the presidency, scheduled for April 1999, were to be, the President promised, "free and fair". As a result, seven candidates emerged, all representatives of the major political currents in Algeria, together with an outsider favoured by the army, the former Algerian foreign minister, Abdelaziz Bouteflika. The actual elections were, unhappily, yet another example of the regime's skill in electoral fraud and six of the seven candidates withdrew the night before polling day. Mr Bouteflika, who had promised that he would refuse the presidential mandate unless he received "a substantial majority" was elected by 74 per cent of a 23 per cent turnout - just over 15 per cent of the electorate!¹⁸

¹⁷ Y.H. Zoubir, "The Algerian political crisis: Origins and prospects for the future of democracy", *Journal of North African Studies*, Vol. 3, No.1 (Spring 1998), pp. 74-100

¹⁸ *Keesings Record of World Events* [Washington], April 1999, p. 42915

4. The current situation¹⁹

Algeria, at present, is experiencing a period of relative calm in the wake of the presidential elections of April 1999 and the general amnesty between 13 June 1999 and 13 January 2000. The level of killings has dropped, although they ran at an officially admitted level of 600 per month during Ramadan at the start of this year. One of the armed Islamist factions, the Armée Islamique du Salut (AIS - Jaysh Islamiyya li'l-Inqadh), has formally abandoned armed struggle, thus completing the initiative begun in October 1997, when it signed a truce with the army, and a degree of calm has been restored to major urban areas. This apparent calm is, however, illusory. The army continues to try to suppress the remaining two major Islamist factions - the Groupe Islamique Armé (GIA - Jam'iyya Islamiyya Muslaha) under Antar Zouabri in the area around Blida to the south of the capital, Algiers; and the Groupe Salafiyiste de Dawa et Jihad (GSDJ - Jam'iyya Islamiyya li'l-Daw'a wa'l-Jihad) under Hassan Hattab in the region between Algiers and Kabylia - so far without success. The 400,000-strong *Patriote* militias continue to terrorize the countryside under the leadership of local notables and urban disorder continues, as the police cannot maintain law and order.

Quite apart from the poor security situation - and it should be remembered that the regime now officially admits that over 100,000 persons have died since the crisis erupted in 1992 - there is also a deepening political and economic crisis as well. Economic restructuring imposed on the disruption created by the civil disturbances in recent years has generated a massive wave of lay-offs, estimated to have involved 300,000 persons in the past two years alone. Unemployment stands at almost 30 per cent of the labour-force and the national housing stock is two million units short of demand. Thus, without determined political action, the violence of the past will undoubtedly erupt again and will take very similar forms since the only ideological alternative for most Algerians, who are pious, if poverty-stricken Muslims, will be renewed support for an activist political Islamic movement and this will not be tolerated by the Government and army.

Indeed, it is the army command that is still the core of the regime, so that real power in Algeria is arbitrary in nature and politically unaccountable - as it always has been. This was, of course, one of the major reasons for popular support for the FIS (Front Islamique du Salut - Jabha Islamiyya li'l-Inqadh) in 1990-1992, since the FIS could lay claim to legitimacy, both from the Algerian revolution in 1954-1962 and from Islam itself. In short, very little has changed during the past decade on the political scene at least. It is true that President Zeroual did seek to create a constitutional framework for the state in 1995, but this was discredited by the conduct of the last presidential elections in April 1999, where official manipulation of the voting procedure led to six of the seven presidential candidates withdrawing the day before the election. The current President, Abdelaziz Bouteflika, was, therefore, elected with less than 20 per cent of the vote and can only earn credibility and legitimacy by his own actions and by his ability to restructure the regime itself.

In reality, of course, this would mean him distancing himself from the army and ensuring that he controlled its command structure. He has been unable to do this

¹⁹ All details in the sections on the current situation are taken from *Le Monde* [Paris] or *El Watan* [Algiers], unless otherwise stated in the text

during the past year and now will not be able to do so. The result has been that, apart from the six-month amnesty offered last year - which, apart from the AIS, was accepted by just over 1,000 other militants - he has not undertaken any other major policy initiative. Even the number of prisoners released on 5 July 1999 - Algeria's National Day - which totalled some 2,400, was far below the promised 5,000 and only involved persons who had been held on suspicion of involvement in Islamist activities or found guilty of minor misdemeanours. It is also worth noting that the amnesty was not quite what it purported to be. Under the "Law of Civil Concord", a full amnesty was only offered to those who had not been engaged in violence. Involvement in violence required that those who accepted the amnesty had to pass before the Algerian courts and accept either military service or imprisonment or both. Evidence of involvement in the massacres placed those involved outside the amnesty arrangements.

In any case, the popular support for the amnesty initiative reflected the weariness of the population overall with the endless struggle, not their rejection of the principles on which resistance was originally based in 1991. A measure of the President's real impotence was the fact that he could not even form a government until December 1999 and then only because he agreed to leave the defence portfolio vacant at army insistence. It is true that he replaced more than half the country's governors last December, ostensibly on the grounds of maladministration. In reality, he sought to insert his own placemen in power and was allowed to do by his army patrons because their interests were not threatened. The same has not proved to be the case with army appointments even though, in theory, the President is also commander-in-chief. The big question facing Algeria at present is how long the current President will last before he is ousted by the army - as was Mohamed Boudiaf, killed at army instigation in June 1992. Political assassination continues to be the currency of political debate in Algeria as the death of FIS leader Abdelhamid Hachani in November 1999 demonstrated. Current estimates in Algiers of the President's survivability expect him to be ousted by mid-2001 at the latest.

It is clear that the President's hands are tied by the army leadership, even in those initiatives which appear to demonstrate his independence. For example, in late February, wide-ranging changes in the army command structure were announced with many senior officers being retired. This is formally part of the President's prerogative as commander-in-chief. In reality, however, those forced to retire were those opposed to and by the current army and security leadership, dominated by Mohamed Lamari, Smain Lamari and Mohamed Mediène, because of their support for the former President, Liamine Zeroual. The same was true of his removal from office in March of the governor of Algiers, Cherif Rahmani, who, as an ally of the former President, was disliked by the army leadership. In short, President Bouteflika's freedom of action is heavily circumscribed and he is forced to acquiesce in army preferences, as he did when he eventually appointed a new government last December (nine months after his election!) which contained no defence portfolio - the army objected to his nominee - and a former premier, Ahmed Ouyahia, who is execrated in Algerian political circles but who has powerful backing within the army leadership, as justice minister.

The current calm is, therefore, merely a lull in an on-going crisis and the fundamentals of the Algerian political and security scene have not altered significantly during the last decade. Indeed, it could be argued that it is already drawing to an end and replaced by a new upsurge in violence. In the one month since the end of the amnesty period on

13 January 2000, more than 230 people died in terrorist attacks, 42 in one week alone in mid-February. The attacks have ranged from the machine-gunning of two minibuses, involving 14 deaths and 30 persons injured on the main road between Khemis and Miliana in the Ain Defla region to the south-west of Algiers - a region well-known for its insecurity - to 12 persons being killed at Tipassa and Medea four days before the machine gun attack. At the end of January 22 persons were killed in a series of attacks, despite on-going security force operations, particularly in the Ain Defla region. And this level of violence continues despite the submission of the AIS and claims in the Algerian press that Hassan Hattab had sought also to surrender. Indeed, at the start of February press reports suggested that he had been killed by his subordinates who were not ready to abandon their struggle, although this now appears not to have been the case.

Nor did March see much improvement, with the Algerian press admitting that at least 300 people had died in the first eight weeks of the year and other reports suggesting that the true number was closer to 400 dead since the end of the amnesty on 13 January. During March, reported massacres included 20 deaths at El-Baydhah, 400 km south of Algiers, the capital, 4 deaths in a hotel take-over in Tizi Ouzou, the centre of Kabylia just 50 km east of the capital; militia deaths in Djelfa, 400 km south-east of the capital and a clash between security forces and Islamists in the centre of Oran, Algeria's second-largest city which is on the coast and close to the border with Morocco, which resulted in 6 deaths. In the middle of the month, there was a massacre just before the major Muslim feast of *'Id al-Kabir* when 11 people were killed at Chaiba in Bou Ismail, 40 km west of the capital, which would have been far worse, had not paramilitary security forces intervened. The incident occurred at a place where 12 people were killed last December as they emerged from a mosque and 6 more were assassinated in a café in January.

Many deaths, of course, are not reported, so that these details probably represent just the tip of the real total, but - more importantly - the reports do demonstrate just how widespread the violence still is, thus giving the lie to regime claims that it is localized and under control in the wake of wide-ranging security operations launched in mid-January, just after the amnesty came to an end. Indeed, the President launched a new appeal for remaining Islamists to surrender under the same terms as offered under the amnesty in late March, even though, just two months earlier he had expressly excluded any renewal of the amnesty at a later date. In effect, although he has claimed that 80 per cent of the armed Islamist movements have now surrendered, they appear to be as active as ever and the security forces have not been successful in containing them. In the words of a leading panjandrum of the regime, former defence minister and army commander Khalid Nezzar, "The civil agreement [law on civil concord] has unfortunately had no effect on the terrorists. They must be exterminated."

5. The consequences

This means, inevitably, that the security forces will have to continue their operations, for the GIA and GSDJ will not be eliminated from the very rugged countryside that they occupy, nor will their support networks be removed from the towns. It should not be forgotten that, in 1998 and 1999, the security forces discovered - to great, albeit private, consternation - that the GIA had created massive fixed defensive systems in the Blida plains area and the Beinem forest outside the capital, Algiers, simply

because of the army's inability to sustain its offensive operations in the region through lack of men and *materiel*. Similarly, in late 1998, an underground defensive network was discovered in the centre of Algeria's second city, Oran, in the west of the country. In short, even though official sources claim that the remaining dissidents are numbered in the low thousands, such resistance can be extremely tenacious and will be fed by disillusioned urban youth who otherwise will swell the ranks of the unemployed. Now the army appears to be seeking help from Israel in effective counter-terrorist operations for there have been secret meetings between Ehud Barak's adviser, Danny Yatom, and representatives of the Algerian President at which the matter was discussed, although this has been formally denied by the Government in Algiers. All in all, violence is not ended and is, on the contrary, beginning to explode again as the Algerian security forces realize that they are still not equipped or trained appropriately.

5.1 The potential victims

Those who do not confirm to Islamist ideals will, therefore, once again become targets for attack by Islamist groups, particularly the GIA. As mentioned above, since 1993, the GIA has targeted security personnel deliberately, alongside civil servants, intellectuals and foreigners. Its militants and sympathizers, particularly in urban areas, have also enforced behaviour in accordance with Islamist codes and practices so that persons engaged in activities, such as theatre, television or the amusement industry generally continue to be under threat, as do women who do not observe Islamic dress codes. Only in areas where the security forces have established a massive presence, as in central Algiers, and other major towns, is this not the case. Since late 1999, the GSDJ has specifically targeted only security personnel and has been highly successful. The attacks are quite indiscriminate - security personnel as a class or category are killed, there is no attempt made to distinguish between front line troops and support personnel. Since Algerian identity papers indicate professional activity and must be carried by law, identification is not a problem, even if the person concerned is in civilian clothes. The false road blocks, which often lead to the massacre of travellers on inter-urban buses and in cars as happened, for example in late August 1999 and at the end of February 2000, particularly target security personnel and there has been an increasing frequency of attacks on military posts in the past year.

In addition, despite official claims that security in urban areas has been re-established, these are not fully supported by the evidence. Local *emirs*, claiming to be part of the GIA, still run protection rackets in urban areas, particularly in the poorer *medina* and new *medina* areas - even in the *medina-casbah* in Algiers, which used to be a GIA hotbed, calm is only maintained by a constant and heavy security force presence - the police are notoriously corrupt, engaged in smuggling and extortion rackets (120 policemen are currently facing charges of extortion and murder); and, in the countryside, as mentioned above, there are still 400,000 armed militias who are controlled by communal authorities. These communal authorities are, in turn, dominated by local notables who increasingly use militias as personal armies to terrorize and exploit local populations, as with the Smira family in Kabylia or the Relizane mayors who, in April 1998, were arrested for murder and kidnapping - they had been caught red-handed - but were released on presidential orders because of their political contacts. In this context, it should be borne in mind that no less an authority than the French ministry of foreign affairs, in February 1998, formally stated that the

Algerian Government had failed in the most elementary of its duties, that of protecting its own citizens. The situation has not radically improved since then except in central urban areas.

5.2 The human rights situation in Algeria

It follows from what has been described above that human rights observance in Algeria is deplorable. The arbitrary nature of state power, with its lack of accountability, even under the current constitution where the Senate, which is appointed by the presidency, outvotes the National Assembly and the presidency itself is effectively outside legal restraint, whilst the army command and the security services have no political masters, ensures that this situation will continue. Nor does the Algerian Government take much notice of external criticism. The European Union did raise objections timidly in 1998 but then blocked a damning resolution put before the United Nations Conference on Human Rights later that year because it feared that all opportunities for “dialogue” over the issue would be lost if the resolution were passed. The European Parliament also sent a delegation to Algiers in February 1998 but, under the influence of its head, a French national with interests in Algeria, it forbore from making any serious criticism. The Algerian authorities rightly interpreted both events to mean that official diplomatic protest would not be followed up by substantive action. They even welcomed a United Nations mission, led by Mario Soares, former President of Portugal in July 1998, but its conclusions, which were very critical, were watered down - again by the French representative because of France’s determination to retain its influence in Algiers. Individual countries have, on occasion, made private diplomatic representations but have never threatened practical measures to sanction the regime.

The reality is better described in Amnesty International reports that have regularly described the ways in which human rights abuses go unchecked in Algeria. These reports describe the torture that is regular in Algerian interrogation centres, the repeated instances of summary execution, the casual abuse of prisoners and the use of selective massacres by the security forces in their campaigns against Islamist opposition, whether imagined or real. They have also highlighted the increasing numbers of “disappeared” persons - 3,000 in the Algiers *wilaya* (province) alone by the start of 1999 - and the ineffectual measures taken by the authorities to trace them. There are frequent reports of mass graves being discovered, always attributed to Islamists but known to be connected to clearing operations by the security forces as well. These reports, which are confirmed by similar work done by Human Rights Watch in New York, are supplemented by the work of a small group of human rights activists in Algeria, around the figure of Yahia Abdenmour, a well-known human rights lawyer. Some of the group have been killed in mysterious circumstances, others have been threatened by the security services, particularly the *Securité Militaire* which coordinates security force operations and which is believed to have infiltrated the Islamist resistance, exploiting its penetration to discredit the groups involved. There is, in short, no protection whatsoever for individual human rights in Algeria, whatever the regime may claim.

And it does claim this - at the annual United Nations Human Rights Commission meeting in Geneva at the end of March, the Algerian Government was forced to renew its contacts with four leading human rights organizations - Amnesty International, Human Rights Watch, Reporters sans frontières and the *Fédération Internationale des*

Droits de l'Homme - just to find a valid response to continued accusations (it has not allowed any visits by them since 1995). Their representatives still do not believe that they will be granted the unfettered access they need to establish what is really happening there, not least over the cases of the “disappeared” conservatively estimated at 4,000 country-wide and suspected to number as many as 10,000 persons in reality. They fear, too, that the proposed visits may also be cancelled at short notice for technical reasons, as has happened in the past. They also worry about army complicity in civilian deaths - constantly denied by the regime but confirmed by independent observers and recently confirmed by material released in Britain from government sources during the Kebiline-Boukhemiche-Souidi case which collapsed when the British authorities refused to allow security service sources to be questioned.²⁰ The fact is that the army has been massively implicated in human rights abuses against the civilian population.

5.3 The outlook

There is, in short, far less improvement in the situation of individual Algerians than a simple reading of recent events would suggest. The authorities are aware of the general alienation of the population and of the continuing sympathy for the Islamist ideals espoused by the FIS in 1992, even if violence appears to have receded slightly. They also know that a recrudescence of violence is almost inevitable because of the worsening economic situation and the ongoing lack of legitimacy enjoyed by the regime in the eyes of the public at large. For their part, they still view all opposition, whether implicit or explicit, as evidence of Islamist sympathies beyond those tolerated in the two legal political parties which claim to enshrine Islamic values - the HMI (Harakat Mujtam'a'i il-Silm) and the Hizb an-Nahda. The *éradicateurs*, who are now in the ascendant within the army and the regime, have no intention of allowing the FIS back in any form, whether renamed or not, and consider the HMI as a suitable vehicle for tamed Islamists, for it is a movement that they believe they can control. The Hizb an-Nahda was so fragmented by the presidential elections that it is hardly a credible political force.

Worst of all, it is clear that major tensions are developing between the President and the army command. The causes seem to be that the President is straying into areas that have been denied him by the army commanders - who, under Larbi Belkhair, jockeyed him into power - and that he no longer carries credibility whilst he is trying to force the army's hand over the future resolution of the problem of violence. An indication of the strength of the tensions that have resulted is given in a recent interview given in the London-based Arab daily, Al-Hayat, by General Atayli, a pro-Bouteflika activist who retired from the army in 1990. He pointed out that the amnesty had not resolved the problem of violence and argued that a general amnesty was now needed. Such an idea is anathema to the generals, for it would imply that the FIS project had succeeded in part and they originally forced the President to restrict the civil concord law precisely to avoid such an outcome. General Atayli went on to criticize General Nezzar by name for his public intemperance and concluded by demanding that those generals responsible for the 1992 coup d'état which started the current crisis should be held to account.

²⁰ *Guardian* [London], 21 March 2000

Such an explicit threat to the power elite cannot have occurred without the express agreement of the President and it represents the first public challenge made by the President in response to increasing pressure from the army command. In the past two months, in an eerie replay of the destruction of the Zerouel presidency, President Bouteflika has been savaged in the press as incompetent, particularly by the former premier, Sid Ahmed Ghazali, who is close to Khaled Nezzar. The attacks indicated that the President had lost the confidence of the army commanders, including his own patron, Larbi Belkhair. A further warning of his tottering situation emerged in mid-April when another former premier, Ahmed Ouyahya - generally considered the most unpopular man in Algeria but influential in the RND central committee and foisted on the President by the army command as justice minister - warned that there would never be a general amnesty, nor would the FIS ever be allowed into formal political life.

If the President persists in insisting that security and a genuine end to violence in Algeria can only be bought at the price of a general amnesty - something which, it appears, the power-structure will never accept - the army may be left with no other option but to remove him from office. Such a repetition of what occurred in 1998 to Liamine Zerouel will be highly embarrassing, particularly in the international arena. However, if the President persists in challenging the army leadership, its members will be left with little choice. They have already made it clear who would replace him - Ahmed Ouyahya, a choice which runs directly counter to popular preference where, despite a recent poll, Abdelaziz Bouteflika's popularity and credibility is very low. Mr Ouyahya will be their choice, if new presidential elections cannot be avoided, simply because he will be obedient, unlike the other *éradicateur* politicians, such as Redha Malek or Mokdad Sifi.

The problem that faces the army command is that its own power-base outside the army is now very thin after the 1998 presidential crisis and the 1999 election fiasco. The result is that it would like to avoid further problems, particularly if these would damage the popular credibility of the regime. General Atayli's criticisms and subsequent irritated comments from Ali Kafi, a former President before 1995 and head of the powerful veterans' association, are a warning of what could become an embarrassing flood of public disapproval, including from within the junior officer corps of the army, where Bouteflika has regained some credibility because of his recent support for the Polisario Front in the Western Sahara dispute with Morocco. Were this to occur, it would destroy the already weakened RND, the major political vehicle open to the elite and might disrupt the pro-regime coalition in the National Assembly involving the RND, the FLN conservatives, the RCD and the HMI. For these reasons, the army command might decide to ignore the President and his demands for a wider security agenda, in order to let him serve out his term.

The problem is that Mr Bouteflika is unlikely to be cooperative and may, therefore, precipitate a crisis as a trial of strength - even though he is very unlikely to win it because he, too, is criticized in the wider public arena. Former General Ben Yelles, who has no links with the power-elite, recently rounded on him in the press on the grounds of his demonstrated incompetence and called for his removal from office. There is also a danger that the repeat scenario arising from a determined attempt to unseat the President would not be that of 1998 but that of 1988 instead. Popular anger at economic conditions is growing and Algeria has recently been riven by a series of strikes in, amongst other institutions, the national airline, Air Algérie. These strikes,

organized by the country's integrated trade union, the Union Générale des Travailleurs Algériens (UGTA), have had Sécurité Militaire backing but, if not carefully controlled, could easily become the catalyst for generalized anger, just as occurred in 1998 when the PAGS was the clandestine organizing agent. Such a development could lead to a real breakdown of regime control.

Nor are there obvious contenders for power outside the confines of the regime itself. The politicians discomfited by the presidential elections fiasco but who might have created a constitutional basis for change - particularly Mouloud Hamrouche and Ahmed Taleb Ibrahimi - have been deliberately neutralized by both the army leadership and the presidency. Mr Ibrahimi's attempts to form a political party have run foul of Algeria's extremely complicated and restricted party law and he has recently been publicly lampooned for acting as a FIS stooge, since 46 of the 94 leading personalities in his proposed party have had FIS connections. He will not be allowed to create a viable political organization as a power-base for a credible alternative. Mr Hamrouche is convinced that President Bouteflika cannot survive for long but, again, has now power-base from which to act.

It is against this background that the growth in violence must be seen. Although organized violence is more localized - the authorities claim that there are now only 1,500 militants left at liberty and that 6,000 have taken advantage of the amnesty, although independent figures suggest less than half as many did so - there is a new arena in which it occurs; the west of Algeria, around Oran, where several Islamists were surprised by the security forces in the centre of the city a few weeks ago and where there is an unofficial curfew in rural areas after 5 pm at night. Nonetheless, it is certainly true that organized violence has been marginalized, despite recent increases. Unorganized, chaotic violence has not been controlled, however, and, should this link with a new outbreak of country-wide strikes, the difficulties for the regime could multiply. This potential scenario has led some observers of the Algerian scene to warn of a possible Rumanian scenario for the future, should President Bouteflika be unseated. Whatever the reality, the fact is that Algeria today is a far more dangerous place than it was a year ago.

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APPENDIX: THE ALGERIAN ECONOMY

In August 1996, the International Monetary Fund (IMF) reported with some satisfaction on the progress of the reform process in Algeria. Their annual conclusions have subsequently been reported in similar terms and, from a macro-economic point-of-view, Algeria is considered a relatively successful example of economic adjustment.¹ The micro-economic consequences and the social reality of reform are, however, another matter entirely

1. The progress of economic reform

The IMF has highlighted five areas where reform had been crucial - domestic price regimes, state enterprises, the financial sector, the external sector and fiscal policy. In all areas it noted major progress on which a healthy economy would be built, which would be capable of interacting effectively in a globalized world economy and of easing the process of distributing economic benefit to the Algerian population at large.

1.1 Price reforms

The price structure in Algeria was based on a 1989 law which ensured that prices were either fixed by the administration, or had controlled profit margins, or were allowed to be freely set, provided authorization were received. This price structure was paralleled by a subsidy system for 15 food staples and for energy products, as far as consumers were concerned, and for agricultural inputs and crop sales for producers. Not only did this produce misallocation of resources, it was also inherently unfair as 60 per cent of the subsidies went to the richer 50 per cent of the population.

As a result, in April 1994, the profit-controlled price list was abolished and administratively set prices were transformed into profit-controlled prices. In 1995 and 1996, these remaining profit controls were abolished except for medicines, food and energy. In January 1995, a new law on competition policy set out the principle that prices should, in principle, be free of governmental control. Subsidies were removed by January 1996 for foodstuffs and by the end of 1997 for energy products. Instead, a targeted public works programme was introduced which either guaranteed employment in the state sector for those able to work or provided a minimal income support to those who were not.

1.2 State enterprises

The public enterprise reform programme was directed towards 400 large enterprises and 1,300 small and medium enterprises, all of which suffered from low productivity, obsolete equipment, inefficient management and over-staffing. They represented two-thirds of the industrial value added and of the industrial work-force, as well as one third of the work-force in the construction sector. Measures had been taken before 1994 to deal with the problems of the sector, with a 1992 law which rendered them autonomous in financial and managerial terms, the restructuring of 23 of the major loss-makers through a World Bank scheme, the 1992 Commercial Code which gave public and private sectors fully equal status in law and the 1993 Investment Code which gave foreign and domestic investors equal rights.

The 23 remaining major enterprises, which represented two thirds of the industrial sector, generating 13 per cent of value added and employing 130,000 persons, as well as one third of the construction and transport sectors, were placed under new budget constraints in terms of their access to commercial financing and were forced to cut their operating losses and improve their competitiveness. In the 1994 and post-1994 IMF-inspired reform programme, 88 enterprises were liquidated in 1994 and a further 13 were dissolved in 1995, with the loss of 40,000 jobs and a bar on further state loans.

The programme also set up new holding companies for the public sector, designed to obtain positive rates of return, liquidate or downsize loss-makers and prepare the sector for privatization. The restructuring process has been delayed, however, by social and political factors. Up to 130,000 workers were laid off in 1998 and the Union Générale des Travailleurs Algériens (UGTA) threatened strike action if new compensation schemes and management or worker buy-out schemes were not given immediate attention. A new severance pay system had been brought in in 1995 but was considered to be inadequate.

¹ International Monetary Fund, *Country assessment: Algeria* (Washington, 1996 and 1998)

The basis for privatization already existed in the legal structure, through the 1990 company law and the 1992 Commercial Code bankruptcy provisions. It was extended through the 1994 amended Investment Code which allowed foreign participation in the banking sector, the 1995 privatization law and the decision in 1995 to restore nationalized land to private ownership. A Privatization Agency was also established to oversee the process. The process has been slow to date, partly for political reasons, although small and medium enterprises in the construction and hotel sectors have been sold off, often through management buy-outs. A further complication has been the lack of a properly developed financial capital market - the Bourse only began to operate in 1999 and the five commercial banks which were allowed to engage in money-market activities were also undergoing restructuring. Nevertheless, private capital has now entered two former state companies - Eriad-Sétif, a cereals processor, and Saidal, a state pharmaceutical company.

1.3 The financial sector

Algeria's financial sector had never been strong, largely because, until the late 1980s, it had merely been an instrument for public sector investment. An attitudinal change began in 1989-1990 as part of the new attempt at market-led liberalization, with an inter-bank money market being created in 1989, as a first step towards a stock exchange (introduced in early 1999). The 1990 Law on Money and Credit made the Banque d'Algérie autonomous from the ministry of finance, with a special council being created to set credit, monetary, exchange rate and debt policies. In 1991-1992, the commercial banks were regulated by limiting their access to central bank support and further reforms continued in 1994, despite the problems created for the banking sector by public sector enterprise insolvency.

Money market interest rates which had been restricted by a government-imposed interest rate ceiling, were liberalized in 1994, with the 5 per cent cap on commercial interest rates being removed in December 1995 so that positive real interest rates are now possible. At the same time, money market operations were improved by imposing reserve requirements on commercial banks at 3 per cent of their deposits in autumn 1994. Greater liquidity was created by the introduction of central bank repurchase auctions in May 1995 and formal treasury bond auctions at the end of the year.

As all this was going on, the commercial banking sector was restructured to overcome the weakness caused by its poor portfolios of state enterprise debt. The Government took over all non-performing loans in return for government bonds at 5 and 6 per cent interest. The five banks were also audited and new capital/asset ratios were established for them, whilst other procedures were standardized to ensure transparency in the future. By 1998, the banking sector had become reliable enough for at least three foreign groups to wish to enter it and, during the year at least three new commercial banks were authorized involving French and Arab partners. This development also reflected on renewed confidence amongst domestic investors, a factor which was expected to be dynamized by the new stock exchange.

1.4 The external sector

The external sector of Algeria's economy had, in some respects, been the least affected by the reforms after 1989, partly because of the problem of debt repayment. The post-1994 reforms were, therefore, particularly important. In the visible trade sector, apart from essential consumer imports, only imports for the oil and gas sector or imports for production or investment projects were allowed. All other imports were banned, unless an importer could pay for them in advance in foreign exchange. As an interim measure, a three-item list system was introduced - banned goods for social and religious reasons; temporarily suspended imports (which was abandoned at the end of 1994); and controlled imports of ten basic commodities until May 1995. All other goods entered without restriction and, by the end of 1995, all restrictions were removed.

Exchange rate controls were more complex as they involved the transformation of the system from a pegged basket system of 16 currencies to a controlled float system. After the April 1994 devaluations, the currency basket was replaced in October 1994 by a daily fixing system in the Banque d'Algérie. This was supplemented in December 1995 by the creation of an inter-bank foreign exchange market. In reality, though, the central bank dominates the market because of its access to Sonatrach, the state oil concern, which is the primary foreign currency earner in the country. As a result of its activities, Algeria's foreign reserves at the end of 1998 were of the order of US\$ 7.4 billion - sufficient for the authorities to decide to ignore IMF advice in May 1998 to renew the extended fund facility on the grounds that Algeria could now meet its foreign debt servicing costs without further rescheduling.

1.5 Fiscal policy

Tight budgetary control had been exercised in Algeria up to 1991 but an easing in 1992 and 1993 generated significant levels of inflation, so new fiscal rectitude had to be introduced with an attempt to meet the IMF prescription that neither budgetary nor current account deficits should exceed 3 per cent of GDP. The result was that the budget deficit declined from 8.7 per cent of GDP in 1993 to 1.4 per cent of GDP in 1995. This success should be seen against the fact that oil revenues, which had declined by 3 per cent in 1990-1992, recovered to reach 12.3 per cent of GDP in 1995 but that direct taxes had declined from 4 per cent of GDP in 1990 to only 2.7 per cent in 1995. The introduction of VAT, however, dramatically improved indirect tax collection.

There is no doubt that oil revenues are crucial to fiscal health. The oil price declines of recent years have caused havoc with budgetary balance. As far as the budget is concerned, the Government claims that the deficit in 1998 was only 2.5 per cent of GDP but, in reality, the figure was closer to 5 per cent. The 1999 budget, which projected a deficit of 5 per cent of GDP, probably came in at 8-9 per cent of GDP, with a concomitant 10-15 per cent devaluation of the dinar to reduce inflation, officially admitted to be 5 per cent but in reality closer to 12 to 18 per cent.

Yet Algeria needs to establish a budget surplus, partly to ensure against oil price volatility and to be able to construct an economy which is not oil-dependent, as well as to pay off debt. It faces considerable pressures in trying to achieve this objective: non-performing bank loans which it took over in mid-decade; the crushing burden of unemployment, now officially admitted to be 28 per cent of the work-force and up to 40 per cent of the youth now out of school. It must also deal with its housing crisis and it must support the private sector in its preparations for the challenge of globalization and the regional environment. One of the keys to this is, of course, the oil sector.

2. The hydrocarbon sector

Since the beginning of the 1990s decade, Algeria had laid particular emphasis on developing its oil and gas sector with foreign participation as a means for fuelling development, balancing the budget and maintaining its current account balance. Oil, gas and refined products generate 97 per cent of export earnings. Indeed, except for one year, the current account balance has been in surplus with the result that Algeria has been able to amass a sizeable foreign exchange reserve surplus which, according to the former premier, Ahmed Ouyahia, will be sufficient to ensure that Algeria can continue to meet its debt servicing obligations into the next century, even if oil prices remain low. Indeed, although low oil prices meant that in 1998 revenues were only US\$ 10 billion, rather than the expected US\$ 13-15 billion, there was still more than US\$ 1 billion surplus on current account.²

In addition, the development of the oil sector since 1990 has meant that production capacity has steadily risen: from 755,000 b/d in 1994 to a peak of 850,000 b/d in 1997 before dropping back at the start of 1998 to 816,000 b/d as a result of Opec cuts. Output fell to only 788,000 b/d over the year as a whole because of new Opec cuts, although, once condensate (430,000 b/d) and natural gas liquids (145,000 b/d) are added in, overall production reached 1.4 million b/d. Crude production capacity will soon reach 1.4 million b/d on a proved reserve of 9.2 billion barrels, a reserve which, moreover, is constantly growing as new discoveries are made. In 1998 alone there were 15 new discoveries by the 25 foreign firms operating in the sector in partnership with the state oil concern, Sonatrach. There has, however, been a decline in the rate of major exploration contracts awarded with only five being allocated since December 1996. Sonatrach now promises a speeding up of this process in hitherto unexplored areas and offshore. Two companies are negotiating over concessions in four new fields, 11 more contracts are expected in the first six months of 2000 and 30 more possible concession areas are under study.

A new US\$ 770 million deal has also been signed with Anadarko in Central Algeria to quadruple production in the Hassi Messaoud field from 65,000 b/d to 285,000 b/d. Sonatrach holds 51 per cent of the venture and the field itself contains 60 per cent of Algeria's proved oil reserves. The reserve base is expanding, however, and two recent finds were of the order of 1 billion barrels each. Interestingly enough, France's Elf Aquitaine, a division of Total, has decided to go back into Algeria after a 28 year break. Its Algerian subsidiary has taken a 40 per cent stake in a production-share contract with Atlantic Richfield in the Rhourde el-Baguel field in order to raise production to 120,000 b/d. Atlantic Richfield itself, which has now been absorbed into BP-Amoco, has sold its share in the field to Sonatrach.

² M. Chatelus, "Nouvelles orientations de la politique pétrolière en Algérie", *Monde Arabe: Maghreb-Mashrek* [Paris], No. 166 (October-December 1999)

Sonatrach itself is also being remodelled. Its status as a public sector company will not change - and rumours at the start of the year 2000 that it would be partially or completely privatized should be discounted - but it is now trying to reposition itself as an international player through a US\$ 19.2 billion five year development plan. In addition to oil-field development, pipeline construction, exploration and gas liquefaction technology, the company is seeking foreign opportunities, both upstream and downstream, such as the BSAF project in Tarragona in Spain to construct a propane hydrogenation plant using liquefied Algerian gas as feed-stock. Its domestic downstream interests will, of course continue, with four refineries with a combined capacity of 502,665 b/d, largely for export, and petrochemical and fertilizer plants as well.

The most important sector, of course, is natural gas, for Algeria's reserves of 3.6 trillion cubic metres place amongst the world's top ten natural gas domains. Sonatrach estimates that these reserves could rise to as much as 5.78 trillion cubic metres. At present the gas is exported either by pipeline or in liquefied form. Liquefied gas exports are of the order of 28 billion cubic metres per year and the two pipelines (the Trans-Med and the Trans-Maghreb lines) export some 26 billion cubic metres per year. The original target of 60 billion cubic metres per year total gas exports is expected to be increased to 65 billion cubic metres per year, with Europe being the main beneficiary - at present some 18 per cent of European natural gas demand is satisfied by Algeria, but this figure will rise towards 25 per cent in the next decade. In this connection, the BP-Insalah project could be of crucial importance.

Gas, of course, also generates domestic electricity supply for Algeria, being responsible for 95 per cent of output. In the electricity, interestingly enough, Algeria is prepared to allow Sonelec's monopoly position to be eroded. Legislation passed at the end of 1998 will allow the development of independent power projects, as in Morocco, and three such initiatives are planned. For the state electricity company, however, the new situation has some advantages, as it will now be able to charge realistic prices for its product and major development is now expected in its activities.

3. Future directions

Overall, the general picture of the Algerian economy - leaving aside the problems caused by the ongoing violence and the dependence on the security forces for public order - suggests that the reform and restructuring processes introduced by the IMF in 1994 have been relatively successful. Algeria now has the fundamental elements of a liberalized, market economy; a domestic financial market has been established in order to attract private investors; the legal structure is in place to maintain investment; the state has withdrawn from the economy - at least as far as the non-oil sector is concerned, whilst Sonatrach now operates as an autonomous entity - and the external sector in terms of trade and currency regimes has been significantly liberalized. Only in the fiscal sector are there serious grounds for anxiety, at least as far as the macro-economic position is concerned.³

3.1 The institutional issues

In fact, the picture is not quite so rosy. One consequence of the violence and the recent political upheavals that Algeria has experienced is that the economic process in the private sector is not yet sufficiently transparent and accountable. Until this is achieved, the suspicion of the Algerian population at large - of both the economic and political scenes - and of private investors, both domestic and foreign, will severely hamper investment and entrepreneurship. It is scarcely credible, for instance, that there should be 27,000 import-export agencies in Algeria (a figure recently quoted in the European press by a respected commentator) - all primarily concerned with importing - that can find legitimate business in which to engage. Nor is the legal and administrative system sufficiently objective in its operations to convince the private investor that he can enjoy both a stable and a financially viable investment climate - yet *both* conditions must be fulfilled if there is to be adequate private investment in the non-oil sector.

There is a crucial need to create in Algeria legal structures which, because they are not seen to be an extension of state interests, are considered to be reproducible and reliable. It is a key concern of the private investor that he can ensure stability during the lifetime of an investment, without state action threatening his rates of return or the investment itself. One of the major reasons why non-oil sector private investors shy away from major oil producers - and, indeed, why foreign oil companies are sometimes strangely hesitant in the Middle East and North Africa - is because of the dangers of legal

³ Y. Benabdullah, "La réforme économique en Algérie: entre rente et production", *Monde Arabe: Maghreb-Mashrek*, No. 166 (October-December 1999)

revision of contractual terms in accordance with the principles of the “obsolescing bargain” in the past. It is a similar and important concern that stability is backed up by legal transparency and accountability in the activities of both state and investor. It is also a crucial consideration in the operations of domestic financial markets, particularly when they are designed to attract foreign investment.

Algeria, as a high capital absorber (unlike, for example, the Gulf states) and a major hydrocarbon exporter potentially always faces the dangers of being a rentier state with the attendant disadvantages of the notorious “Dutch disease”. In other words, access to oil rent saps at the viability of non-oil economic activities, both in terms of economic efficiency and in terms of the patronage power of the state over the economy. The solution is to transform this vicious circle into a virtuous circle in that the state can use foreign exchange revenues to encourage development and to provide the social and physical infrastructure that creates a suitable development and investment climate.

It should also be borne in mind that oil revenues are, in effect, an alternative to development aid and foreign investment in a world in which official aid is at an all-time low and where the Western Mediterranean has consistently failed to attract the foreign investment it anticipated. Algeria will not be able to enjoy an investment or aid bonanza, certainly not in the immediate future. Oil revenues thus represent the means by which the objectives that might have been sought through such external aid can be met.

3.2 Providing services

The World Bank has estimated that countries in the demographic position of Algeria need to enjoy consistent GDP growth rates of between 5 and 7 per cent simply to ensure maintenance of social service provision in health, education and similar services. In this decade, Algeria has experienced negative GDP growth rates up to 1994 and growth rates of 3.95 per cent and 3.8 per cent in 1995 and 1996. In 1997 and particularly in 1998, growth rates again fell because of low oil prices. It is therefore vital that GDP growth be maximized towards the upper limit proposed by the World Bank because of the importance of social service provision to a country where over one third of the population is under the age of 15 years old.

A critical need exists for a revived educational system which responds to the demands of a developing economy seeking integration in the global and regional economic worlds. Algeria can never hope to attract foreign investors nor to expand its non-oil exports through the simple process of comparative advantage in labour cost terms. Indeed, although this route has been followed by South-East Asian economies in the past, it is no longer the crucial factor. Instead, it is the ability of a work-force to create value added in processing terms through adequate and appropriate education and training that is important. This may raise difficult social and political questions linked to national culture and language, but it cannot be shirked; without appropriate attention to these issues, all purely economic measures designed to improve the non-oil sector will fail for the key today is interaction with the external world.

Although Algeria has been in the lead of developing countries in the funds it has spent on education - at 5.7 per cent of GDP in 1993 - it is open to question as to whether it has been most appropriately spent. Not only are literacy rates still low at 57.4 per cent of the population at the start of the decade, but vocational training and higher education are not yet appropriate for a modern developing economy. This requires urgent attention and will have to be funded by the state. The experiences of Morocco are significant in this context where precisely the same problem exists and is now recognized to be a significant contributor to unemployment and the failure to attract adequate foreign investment.

There are similar requirements for expanded medical services as part of a social contract to persuade the Algerian population to support new initiatives in economic development - particularly if they otherwise require delayed expectations. In 1990, Algeria spent US\$ 1.845 billion on health care in the public sector, just 2.98 per cent of its GDP of US\$ 61.902 billion. In 1993, the last year for which detailed reliable figures are available, the level of spending had dropped to US\$ 1.652 billion, a greater percentage of its GDP at 3.32 per cent, but of a declining GDP total, at US\$ 49.762 billion. In per capita figures, these translate into US\$ 73.8 per capita in 1990 and US\$ 61.6 per capita in 1993 - in a country where hospital bed provision had dropped from 2.5/1000 in 1990 to 2.1/1000 in 1993. In Great Britain, by comparison, there are around 6.4 hospital beds per 1,000 persons and health expenditure is around US\$ 950 per capita.

There is a desperate need for adequate housing in Algeria, for example, given population growth rates of in excess of 3 per cent per annum until the 1980s and of 2.6 per cent since 1985 alongside urbanization growth rates of 4.5 per cent per year. In 1996, 28 million people lived in 3.6 million housing units - an occupancy ratio of 7.8 - in which 55 per cent of the housing stock had been built

before independence in 1962 and 10 per cent is considered to be insanitary. There is an estimated shortage of at least 2 million units and the current construction rates of 100,000 per year is only slightly in excess of the annual growth in demand. This should be a high priority area for state intervention, whether direct or through public-private partnerships or even support for the private sector.

The importance of this sector of development cannot be over-estimated. Algerians currently face an official 28 per cent unemployment rate, which rises to around 40 per cent for the young unemployed. One of the major recruiting grounds for opposition to the regime before 1988 was the perception that the state was disinterested in social provision or in social welfare. This perception has been reinforced in recent years. Thus, if the population-at-large is to be persuaded to join in the process of major economic restructuring now proposed, it must be given some tangible evidence of official concern for its well-being. The three areas of health, education and housing are key in this respect, as are the provisions that need to be made to compensate, retain and, eventually, re-employ workers who are made redundant or who form part of the long-term unemployed. If attention is not given to this, social peace will be unattainable in the near-to-medium term.

4. The external dimension

Algeria is not an economy in isolation. It has major foreign debt to service and it depends on its ability to export oil to ensure payment for essential imports. Its commercial and economic environment is therefore an essential component of any consideration of its economic future. Similarly, its currency regime will be important in determining the response it obtains from the international market place. In terms of foreign trade, over 60 per cent of Algeria's imports come from the European Union and over 70 per cent of its exports go to the same destination. Trade with the neighbouring countries of Morocco and Tunisia is about 2-to-2.5 per cent of total exports and imports respectively. There is no doubt that Algeria is totally dependent on its relationship with Europe; only the United States is significant as a trading partner in addition to Europe but then only with around 11 per cent of total trade. There is, in short, no other viable foreign trade partner for Algeria in the immediate future. In view of this, Algeria should accelerate its negotiations for a free trade area agreement with the European Union in industrial goods and services.

There are, of course, dangers in this. Even though long adjustment periods are provided for in the agreements drawn up under the Euro-Mediterranean Partnership Initiative (the Barcelona Process) and even though transitional aid is available through the MEDA programme, the immediate consequences for Algeria will be twofold. Firstly, state revenues will decline as tariffs are removed, a development that will be reflected in greater domestic indirect taxation. Second, the nascent non-oil Algerian industrial and service sector will be exposed to the full weight of unfettered European competition, once the transition period is over. In the case of Morocco, 60 per cent of the industrial sector was threatened by this before "*mise à niveau*" programmes were introduced at a cost of MD 5.4 billion. In the case of Tunisia, one third of companies were faced with serious adjustment difficulties and a further third faced bankruptcy whilst transition costs were set at TD 2.2 billion.

There is also the danger that, once the free trade areas have been created the asymmetry in market demand across the Mediterranean persists, with North African states merely becoming satellite economies of Europe and with each economy becoming "leopard-spot" in nature. In other words, only some sectors successfully integrate in Europe and others remain isolated and under-developed, so that overall economic benefit is not achieved. This "hub-spoke" arrangement seems likely to occur unless there are significant increases in transition funding. The dangers arise from static effects such as trade creation and trade diversion which do not generally have beneficial effects on weaker, dependent economies.

This can be overcome if the second stage of the Barcelona Process - due to come into effect after 2010 - is accelerated. This anticipates the integration of the southern Mediterranean economies into a single market, so that they can take advantage of economies of scale to exploit the relationship with Europe. It, in effect, requires the recreation of the Union Maghreb Arabe (UMA) as a vehicle for mutual economic development, rather than as a vehicle for mutual defence. It provides also the additional advantage for the Maghrib economies of taking advantage of complementarity and economies of scale in rationalizing their own economic structures. The multiplier effects of intra-regional trade would undoubtedly be dynamic and dramatic.

Given that Morocco and Tunisia have already undertaken wide-ranging economic reform and that transit fees on Algerian gas supplies to Europe has already given them a vested interest in greater economic co-operation, as do the recent proposals for an integrated electricity grid and a Maghrib-wide

railway system, there should be no major barrier to such a proposal, once the Western Sahara issue has been resolved. Such a development also gives Algeria the opportunity to re-assert its naturally dominant geo-strategic position inside the Maghrib. The basis for such regional co-operation is beginning, in any case, to be restructured, with the recent bilateral free trade agreements between Tunisia and Egypt and Morocco and Tunisia.

5. The current situation

In fact, it is in the economic field that Algeria's new President will ultimately have to achieve success if he is to solve the economic and political crisis that the country continues to face and if he is to successfully challenge the power-structure. Here the current economic indicators are worrying. The macro-economic statistics for the first five months of 1999 show a general decline in economic performance, largely, no doubt, because of the earlier weakness in oil prices. Budgetary receipts declined by 3.8 per cent to AD 309 billion, whilst oil receipts fell by 6.5 per cent to AD 170.5 billion and the trade surplus also declined to only US\$ 667 million, 16.625 per cent down on the previous year but rose slightly after nine months by US\$ 520 million as a result of a US\$ 180 million increase in oil revenues and a US\$ 340 million decrease in the import bill. Only non-hydrocarbon industrial output increased by 3.2 per cent and this was due to the re-entry into service after several years of a new furnace at the El-Hajjar steel complex in the east of the country.

5.1 Algeria seeks new IMF support

Even though Algeria enjoyed good winter rain and the rise in oil prices in the early part of 1999 seemed likely to improve its overall economic health, the fact is that the economy did not come through 1998 in particularly good shape. Reserves, which stood at US\$ 9.2 billion in 1997 fell to US\$ 6.8 billion by the end of 1998 and were estimated at around US\$ 4.8 billion in mid-1999, despite reductions in imports and an across-the-board 40 per cent cutback in government expenditure. Repayment on Algeria's US\$ 30 billion-worth of foreign debt is once again becoming a heavy burden on its financial resources, with repayments reaching US\$ 5.2 billion in 1998, equivalent to 47 per cent of exports - a far higher level of debt service ratio than is acceptable. In 1999 they are expected to total US\$ 4.5 billion. Even though 1998 saw a good harvest and the slow recovery of the country's industrial sector, so that GDP growth was of the order of 5.2 per cent and inflation was kept at around 5 per cent, the dependence of the economy and the budget on oil revenues was worrying.

Algeria's 1999 budget, which was predicated on a per barrel oil price of US\$ 15, still seems optimistic over the year, despite current oil prices of around US\$ 20 per barrel and, earlier in the year, it was feared that the 1998 deficit equivalent to over 3 per cent of GDP - compared with a surplus in 1997 - would be exceeded significantly in 1999. Oil revenues which totalled US\$ 14 billion in 1997, fell to US\$ 10.2 billion in 1998 and are expected to reach US\$ 11.6 billion in 1999. GDP growth in 1999 was expected to be similar to the previous year, with inflation below 5 per cent, although a sustained growth rate of around 8 per cent per year is needed if Algeria's problems are to be resolved.

Not surprisingly in these circumstances, the Government decided in late May 1999 to abandon its longstanding refusal to seek IMF help and, although it would not reschedule its debts again, having refused to do so when the previous IMF package expired in 1998, it accepted a SDR223.5 million (US\$ 300 million) compensatory and contingency funding facility to offset the shortfall in exports of goods and services as a result of weak oil prices. The loan is for three-to-five years and carries a fixed 3.52 interest rate. The IMF justified the grant by pointing to the 33 per cent decline in oil prices and the 3.9 per cent deficit on budgetary balance in 1998, compared with a 2.4 per cent surplus in 1997. The current account had deteriorated from a surplus of 7 per cent of GDP in 1997 to a 2 per cent deficit in 1998 and oil revenues in the year to the end of June 1999 were expected to be US\$ 1.9 billion less than in the previous year.

The IMF also pointed towards the continuing reform programme in Algeria and to the fact that the dinar had been allowed to depreciate by a further 15 per cent since September 1998. The former finance minister, Abdelkrim Harchaoui, confirmed late 1999 that Algeria's restructuring programme would be pushed forward, with an initial public offering of 25 per cent of the shares in the Banque Nationale d'Algérie and further reforms of the Banque de Développement Local which is to be privatized in ten separate regional lots. The authorities are also anxious to demonstrate that the economy is turning round and, in April 1999, the Industry Ministry, in an attempt to boost non-hydrocarbon foreign investment, announced that industrial turnover had risen by 33 per cent in 1998 to some AD 61 billion.

The head of the Privatization Council, Abderrahmane Mebtoul argues that the lack of foreign investment is due to the weakness of the dinar, now standing at AD 65=US\$ 1, which discourages foreign investors because, in comparison to the hydrocarbon sector, the export potential of the non-hydrocarbon sector is so poor, averaging US\$ 400 million annually, rather than the target level of US\$ 1 billion a year. He also questioned the competence of those running the reformed state sector industry, in the light of their ineffectiveness despite state investment of AD 800 billion to revive them between 1991 and 1998. Instead, he suggested, they should be privatized and foreign investment sought. He omitted to mention the very heavy social costs involved in the reformation of the state sector enterprises which have resulted in 300,000 job losses in an economy where unemployment runs at 30 per cent of the labour-force.

The fact is that Algeria is still totally dependent on oil and gas revenues and the fall in prices have played havoc with its external trade. The trade surplus fell from US\$ 5.3 billion in 1997 to US\$ 800 million in 1998 and reserves fell by 15 per cent, with imports rising in 1998 by 15 per cent and exports falling by 27 per cent. This decline in exports was largely attributable to a decline in oil revenues from US\$ 7.5 billion to US\$ 4.8 billion and this, in turn, meant that the nominal GDP growth of 5.2 per cent was, in real terms, closer to 1 per cent in 1998. Algeria's budget projections for 1999 depend on a sustained recovery in oil prices and this, in turn, will depend on Opec maintaining its oil price and production disciplines. It is a sad irony that little of Algeria's economic future yet depends on the outcome of the Government's economic reforms!

6. Sectoral developments

Given the presidential election, little of note has happened in terms of new initiatives in economic development. The hydrocarbon sector has, of course, pushed ahead, with 35 oil exploration and production share contracts issued since 1987 to twenty different companies and covering 15 per cent of the country's mineral sector. In one important development in the gas sector, In Salah Gas, the joint venture between BP-Amoco and Sonatrach, has made its first sale of 4 billion cubic metres per year of gas to Edison, a subsidiary of the Italian company Montedison, to be delivered over 15 years from 2003 at an estimated cost of US\$ 7 billion. Sonatrach will also transfer its own 4 billion cubic metres per year contract with the Italian company Enel to In Salah, so that the joint venture now has guaranteed sales of 8 billion cubic metres a year of its anticipated 9-11 billion cubic metres per year output. The BP-Amoco award was important because it came at a time when BP-Amoco was reconsidering its potential US\$ 3.5 billion investment in the In Salah gas field with its 1 trillion cubic metres of gas in the light of weak oil prices. Sonatrach, for its part, was beginning to become irritated by the foreign company's caution and threatening to find new foreign partners for the deal. Gas supplies to France also rose in 1998 to 9.26 billion cubic metres, compared with 8.9 billion cubic metres the previous year; it now lies just behind Russia and Norway as the major gas supplier to France.

Sonatrach is also considering expanding its shares in exploration and production share agreements in the future from 25 per cent to 50 per cent, according to Abdelmadjid Attar, Sonatrach's chief executive. This has not deterred Italy's ENI from purchasing the interests of Anadarko and Lasmo in blocks 401a and 402a in the Berkine Basin for US\$ 127 million. ENI may now combine these purchases with Agip acreage in block 403. Sonatrach itself is considering purchasing holdings in some of the companies active in the Algerian oil sector. Investment in Spain's Repsol and Portugal's Petroleos e Gas de Portugal are expected soon. Sonatrach is also considering investing in LPG storage and distribution in Greece, Italy and Turkey.

The power sector in Algeria has begun to be transformed by the change of Sonelgaz into a joint stock company although its shares will not be available for private purchase. It can now, however, seek foreign private investment and will be completely autonomous in terms of management. It will also be able to seek partnerships with private sector gas and electricity companies. One of its main projects, the 420MW Hamma El-Annasser power project, will receive a US\$ 20.25 million loan from the Islamic Development Bank to purchase equipment - a 220kWh transfer station, cabling, transformers and distribution and control equipment. Other hard currency funders include the Arab Fund for Economic and Social Development (US\$ 175 million) and the Saudi Fund for Development (US\$ 22 million). Hard currency costs represent 60 per cent of the total costs of US\$ 288 million. An AD 250 million contract for civil works has gone to a local contract. Sonelgaz has also received a US\$ 250 million loan from the African Development Bank for a domestic gas network.

The mining sector is also progressing, with promises of the first gold bullion in Algeria being produced in the year 2000, according to the former energy and mines minister, Youcef Yousfi, who now occupies

the foreign affairs portfolio. The gold is being mined in the Hoggar region. The minister also signalled that new mining contracts would be offered to foreign companies to increase their interest in the Algerian non-hydrocarbon mining sector. Contracts have already been signed to develop resources of salt, marble, phosphorus, barium and precious metals and jewels. Now contracts are being negotiated for a phosphoric acid and fertilizer plant with a Spanish company and with American, Canadian, South African and Australian companies to develop reserves of gold, iron, lead, zinc and baryta.

Arab investors seemed, at the end of 1999, to have captured two major projects Orascom Technologies of Egypt and UAE investors had agreed to set up as joint venture with HEELIT, the state telecoms holding company to build and operate a GSM cellular telephone network. The contract was expected to be worth US\$ 1 billion. Earlier this year, however, it became mired in controversy, as Iraqi investors in Cairo also demanded access. A presidential adviser, Rachid Aissa, was sent in to sort out the mess but ran up against opposition from the telecommunications minister, Mohamed Maghlaoui. As a result a committee was established to arbitrate the issue under the premier, Ahmed Benbitour, who is close to Larbi Belkhair and will therefore certainly block UAE interest. The same UAE investors also won the contract to refurbish Algiers airport and will seek Western partners to complete this US\$ 1 billion project. The sudden predominance of investors from the UAE has led to suspicions that the President, who was, for a long time, a consultant in the UAE, may have used personal links to ensure the contract awards - a development that may kill off tentative western investor interest, as well as opportunities for the UAE.

7. The new budget

The real question, though, is whether President Bouteflika can dynamize the economy quickly enough to ensure that Algerians do not, once again, abandon their faith in government. Most commentators expect that he will not succeed, not least because, in the non-oil sector, much-sought foreign investment will not arrive because of fears about government stability and security issues, quite apart from on-going concerns over corruption. A new budget, drafted for the year 2000, was based on an oil price of US\$ 15 per barrel and an exchange rate of AD 65=US\$ 1 which should mean, given the caution involved, that the budget deficit should be well below the critical level of 3 per cent of GDP. Spending on social issues dominated its strategy and capital spending was set to rise by 34 per cent, with GDP growth projected at 5 per cent, inflation at 4.5 per cent and import cover remaining at six months. Debt servicing was to take up 30 per cent of current budgetary expenditure.⁴ However, the unexpectedly rapid improvement in world oil prices has meant that it is now being revised and a new version should be published in May 2000.

In any case, the budget would have been likely to hit its targets, given good agricultural output and improved oil prices. Total revenues were expected to be AD 1,032.24 billion (US\$ 15.88 billion), against expenditure of AD 1,252.27 billion (US\$ 19.27 billion). The anticipated deficit, at AD 220 billion, was 6.3 per cent of GDP but better than expected oil prices will probably reduce that to around 1 per cent of GDP - oil taxes make up 60 per cent of fiscal receipts and one third of budget revenues. If that were not the case, cuts would have to be made in public sector wages, which would be difficult in a period of high unemployment. The worrying factor, however, was the decline in foreign reserves to US\$ 4.22 billion in September, compared with its 1997 high of US\$ 8.05 billion, although they should improve markedly during 2000. As ever, Algeria is trapped between the rock of political irredentism on the part of its political classes and the hard place of economic realities to which, at present, it has no effective answer.

Algeria: Economic indicators and forecasts 1998-1999

(AD billion)

	1998	1999
Real growth		
GDP	2,895.0	3,200.6
GDP growth (%)	4.6	6.2
GDP growth per head (%)	5.1	6.3
GDP growth per head (US\$)	1,632.7	1,775.3
State budget		

⁴ *The Maghreb Report* [London], No. 36 (second quarter 2000)

	1998	1999
Revenues	882.0	937.1
Taxes	350.0	380.1
Hydrocarbons	460.0	480.0
Expenditure	1,022.7	1,098.6
Current	760.3	817.7
Capital	262.4	280.9
Budget deficit	140.7	161.5
As percentage of GDP	4.9	5.0
Inflation	5.0	4.0-5.0
Exchange rate		
Annual average (US\$ 1=AD)	59.5	59.5(Official) 65.0 (est.)
Oil Price		
Annual average bbl	13.3	15.0
External indicators (US\$ bn)		
Hydrocarbons exports	9.8	11.6
Imports	9.1	9.5
Current account	-0.82	-
Total External debt	29.9	-

Source: *North African Monitor*

8. Bibliography of sources cited in the Appendix

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