Algeria in Transition

Reforms and Development Prospects

Edited by
Ahmed Aghrout with
Redha M. Bougherira

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To the most cherished memory of my grandmother
FATMA

Contents

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Ahmed Aghrout is a research fellow of the European Studies Research Institute, University of Salford. He specializes in the politics and economics of North Africa and Euro-Maghreb relations. He has published articles in several journals, including *The Journal of Modern African Studies, Canadian Journal of African Studies, British Journal of Middle Eastern Studies, International Politics, European Foreign Affairs Review, The Maghreb Review* and *The European Union Review*. He is the author of *From Preferential Status to Partnership—The Euro-Maghreb Relationship* (2000). He has also contributed to the *Encydopaedia of Modern Political Biography* (1999) and the *Encydopaedia of African History* (2004).

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Foreword

As with any work, one has the right to ask why a particular subject merits study. Other than the general interest that any state in the international community evokes, one may legitimately ask, ‘Why Algeria?’ As with all good stories, the answer is both simple and complex. Simply put, there is an interest in Algeria for its part in Europe’s past and increasingly its future. But the complex issues relate to the problems with which Algeria as a young state has had to contend since the end of its brutal war for independence in 1962, and since what some have described as a ‘civil war’ after 1991. The aim of this book is therefore to consider primarily the period since 1991, and the extent to which Algeria is likely to make a successful and final transition to a peaceful and stable democracy fully integrated into the international community.

For some 170 years Algeria has had a symbiotic, yet unsettled, relationship with Europe. There is of course geographical proximity, for Algeria is Europe’s near neighbour, but for some eighty miles of Mediterranean sea. For much of the period of French colonization from 1830 to 1962 Algeria was a privileged and fully integrated part of the empire of one of the world’s, and certainly Europe’s, Great Powers. It constituted three departments of the French state, with its parliamentary representatives taking seats in the French lower chamber. Its economy was fully integrated into France’s. Algeria was considered the gateway to France’s African Empire to the south. One of the dissident and ferociously colonialist French generals intent on keeping Algeria part of France at the height of the independence struggle in the late 1950s and early 1960s, General Salan, affirmed that ‘the Mediterranean runs through the French Empire as the Seine through Paris’. Since the end of the Cold War, geopolitically the southern Mediterranean rim is still important for Europe and its institutions. To coin a phrase, it is Europe’s ‘back yard’. For numerous reasons, selfish or otherwise, Europe seeks dialogue principally with the Maghreb countries and also with the African continent that lies behind them in order to maintain its own international security and to promote its own interests. Algeria, the largest Maghreb state, is perceived as key to that policy. Even at the height of the French empire before the First World War, when Algeria was the jewel in the French crown, the largest element of the colonizing population was not French, but European, with Spaniards being the largest group. Thus historically and geopolitically Algeria is important for Europeans.

But that story is something of an Algeria with the Algerians taken out. It is a story of things being done to Algeria. Algeria too has a history that is also important in its own right. The period that followed the ‘Savage War of Peace’ and brought Algeria to independence from France in 1962 was not all harmony and prosperity under the one-party authoritarian state dominated by the National Liberation Front (FLN). Some thirty years later, Algeria experienced another difficult phase in its history, this time a painful and critical period of societal transformations. It is this complex picture of change, going beyond the issue of political violence, which is at the root of this book.

In this volume of essays, the principal editor, Ahmed Aghrout, has assembled an impressive team of specialists of contemporary Algeria—economists, political scientists, geographers and historians—drawn largely from Algerian intellectuals supplemented by a skilful admixture of British and American experts. Together they offer us a comprehensive picture of Algeria's attempts at reforming its economy and laying the foundations of a stable and peaceful democracy.

Through its focus, this work tackles the issue of how, following the decade-long violence, Algeria is attempting again to make the successful transition to democracy that it had failed to achieve in 1962. Transition to democracy is not merely about political institutions. It is a process that demands a skilful concoction of ingredients, that may, or may not, produce the magic democratic formula. This book considers those ingredients, from institutions and elections to personalities, economics and emigration, and evaluates their likelihood of success in putting Algeria squarely on the road to smooth and peaceful transition.

What lies in the background of all the chapters is the link with Europe. That is clear whether it be through economic connections and free trade agreements, foreign direct investment, agricultural reform, privatization or, more explicitly, the Euro-Algerian relationship outlined in the 1995 Barcelona process, or, at the individual level, the Algerian immigrant community in Europe. History seems to have turned full circle. Unlike the past, however, it is to be hoped that Algeria and Europe will embrace partnership in a more equal manner, so that Algeria can be strengthened in its march towards stable and full democracy and economic and social development. As readers will discover, policy-makers from both sides of the Mediterranean should have this collection as required reading on their desks.

John Keiger

Preface

Since the end of the 1980s Algeria has undergone major developments with important implications for its political, economic and social life. This difficult process of transformation or, perhaps more accurately, transition has been associated with success in some areas and failure in others. After more than a decade, it is therefore opportune to evaluate the changes that have occurred and to explore the possible outcomes for the country. In an attempt to reveal the complex nature of this important phase of Algeria’s evolution, this volume makes the coverage of issues as comprehensive as possible.

In doing so, this work draws on the multidisciplinary expertise of a number of distinguished academics in the field. Without their cooperation and dedication, this project could not have been completed. I am most appreciative of their endeavours and extremely grateful to them all. The professional support and encouragement received from Professors Martin Alexander (now based at the University of Aberystwyth) and John Keiger at the European Studies Research Institute, University of Salford, are greatly appreciated.

I would also like to thank John Garrard, Matthew Hughes, Ted Harrison, Jams Newell, Larry Valero, Keith Sutton and Michael Hodd (the last two are contributors to this book) for their valuable suggestions and editorial assistance. Further thanks are due to the publisher, Frank Cass, for supporting this book initiative. My special appreciation goes to the editorial administrator, Sarah Clarke, and to editor Sian Mills, for their professional assistance throughout the preparation of the manuscript. Similarly, I am grateful for the hard work put in by Nadhira Benaissa in translating some parts of this project.

A special acknowledgement is due to my family, particularly my wife and children, for their support and patience. I am also grateful to my brother, Rachid, and his family for being considerate and supportive at all times.

Last but not least, my thanks are also due to Debbie Hughes at the European Studies Research Institute for her courtesy, help and understanding. Responsibility for the views expressed and any possible errors rests entirely with the authors.

Ahmed Aghrout

Figures and Tables

FIGURES

TABLES

Abbreviations and Acronyms

AD	Algerian dinars
ADB	African Development Bank
ANDI	National Agency for Investment Development (Agence Nationale de Développement de l'Investissement)
ANR	National Republican Alliance (Alliance Nationale Républicaine)
AoA	Agreement on Agriculture
APN	Popular National Assembly (Assemblée Populaire Nationale)
APSSI	Agency for Promotion, Support and Follow-up of Investments (Agence de Promotion, de Soutien et de Suivi des Investissements)
ASE	Algiers Stock Exchange
ASEAN	Association of Southeast Asian Nations
Attac	Agency for the taxation of financial transactions for the aid of citizens (Association pour la taxation des transactions foncières pour l'aide aux citoyens)
BADR	Agriculture and Rural Development Bank (Banque de l'Agriculture et du Développement Rural)
CCDR	Citizens' Committee for the Defence of the Republic (Comité Citoyen de Défense de la République)
CCOP	Commission for the Control of Privatization Operations (Commission de Contrôle des Operations de Privatisation)
CEN	Centre for Spacing of Births (Centre d'Espacement des Naissances)
CNI	National Council for Investment (Conseil National de l'Investissement)
CPE	Council for State Participation (Conseil des Participations de l'Etat)
DAS	Socialist Agricultural Estates (Domaines Agricoles Socialistes)
EAC	Collective farms (Exploitations Agricoles Collectives)
EAI	Individual farms (Exploitations Agricoles Individuelles)
EPE	Public Economic Enterprises (Entreprises Publiques Economiques)

EPL	Local Public Enterprises (Entreprises Publiques Locales)
EU	European Union
FAO	Food and Agriculture Organization
FDI	foreign direct investment
FFS	Socialist Forces Front (Front des Forces Socialistes)
FIS	Islamic Salvation Front (Front Islamique du Salut)
FLN	National Liberation Front (Front de Liberation Nationale)
FNA	Algerian National Front (Front National Algérien)
FTA	free trade area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	General System of Preferences
HAMAS/MSP	Harakat [Ha] Moujtamaa [m] as-Silm [as] (or Movement for a Peaceful Society)
HCE	High State Committee (Haut Comité d'Etat)
IEA	International Energy Agency
IGO	international government organization
IMF	International Monetary Fund
INED	National Institute of Demographic Studies (Institut National des Etudes Démographiques)
ISMEA	Institute of Mathematical Sciences and Applied Economics (Institut des Sciences Mathématiques et Economie Appliquée)
LADDH	Algerian League for Human Rights (Ligue Algérienne de Défense des Droits de l'Homme)
LMI	lower middle-income
MADR	Ministry of Agriculture and Rural Development (Ministère de l'Agriculture and du Développement Rural)
MDS	Social and Democratic Movement (Mouvement Démocratique et Social)
MEDA	Mediterranean financial aid programme (of the EuroMediterranean partnership)
MEN	Movement for National Entente (Mouvement pour l'Entente Nationale)
MEP	member of the European Parliament
MERCOSUR	Southern Common Market (Mercado Comun del Sur)
MNC	multinational corporations
MPPI	Ministry for the Participation and Promotion of

	Investments (Ministère de la Participation et de la Promotion de l'Investissement)
MRI-Ennahda	Movement for Islamic Renaissance (Mouvement pour la Renaissance Islamique)
MRN-El-Islah	Movement for National Reform (Mouvement pour la Réforme Nationale)
MSP/Hamas	Movement for a Peaceful Society (Mouvement de la Société pour la Paix; also known as Hamas)
NAFTA	North American Free Trade Area
NAM	Non-Aligned Movement
NATO	North Atlantic Treaty Organization
NEPAD	New Partnership for African Development
NGO	non-governmental organizations
OAU	Organization of African Unity
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PNDA	National Plan for Agricultural Development (Plan National de Développement Agricole)
PPP	purchasing power parity
PRA	Party for Algerian Renewal (Parti du Renouveau Algérien)
PSM	Southern Mediterranean countries (Pays du sud de la Mediterranée)
PT	Workers' Party (Parti des Travailleurs)
RCD	Rally for Culture and Democracy (Rassemblement pour la Culture et la Démocratie)
RND	National Democratic Rally (Rassemblement National Démocratique)
SCEA	private farming companies (Sociétés Civiles d'Exploitation Agricole)
SGP	equity management company (Société de Gestion des Participations)
TNC	transnational corporations
TRIPs	Trade-related Intellectual Property Rights
UGTA	General Union of Algerian Workers (Union Générale des Travailleurs Algériens)
UMA	Arab Maghreb Union (Union du Maghreb Arabe)
UNCTAD	United Nations Conference on Trade and Development
UNHCR	United Nations High Commission for Refugees

UNICEF	United Nations Children’s Fund
UNPA	National Union of Algerian Peasants (Union Nationale des Paysans Algériens)
WTO	World Trade Organization

Introduction

There are few countries as little studied and as much misunderstood as modern Algeria, at least in the English-speaking world.

Martin Shaw

For more than a decade Algeria has experienced one of the most difficult periods in its post-independence history. Until the early 1980s, however, Algeria gave the impression of a country enjoying a degree of political stability and economic and social development. It was a period referred to as the ‘golden age’, characterized by sustained levels of economic growth and substantial improvements in social welfare. Benefiting from important economic windfalls, the state was able to act as the principal force behind the social and economic transformations.

Yet the conditions that made possible state control over the economy and its commitment to a policy of social justice and equity had substantially changed by the mid-1980s. The collapse in oil prices and the subsequent austerity measures laid bare the dismal performance of the economy and the state’s inability either to continue directing the country’s economic development or to fulfil the society’s growing expectations. In such circumstances of economic hardship, social malaise and a changing international environment, the authorities were left with no other alternative than to embark on programmes of economic and political reform.

The process of change, initiated by the end of the 1980s, went through different sequences that shaped both its speed and nature. There were periods characterized by bold measures such as the ending of the single-party system, the legalization of political parties and the organization of multiparty elections. There were also times of resistance and even retreat—as evidenced by the cancellation of the elections in January 1992. As the commitment to change fluctuated over time, in part because of political instability, it was predictable that reforms would not progress further. Renewed momentum came with the new leadership in 1999, once the restoration of legitimate institutions had taken place during the 1995–97 period. Against a background characterized by a multidimensional crisis—the apparent facets of which were, among other things, a stagnant economy, deteriorating social conditions and violence—the pledge was made to revive and deepen the process of political and economic liberalization. This marked a significant departure from the slow and limited pace of transformation during the early phase.

It is the purpose of this book to examine what has been accomplished since and what remains to be done. The key issues addressed in these essays include political reform and stability, external relations, social conditions, and features of economic reform and integration into the world economy.

This volume is divided into two parts. Part I consists of eight chapters that address the political economy of reforms in Algeria from the perspectives of theory, policy and more focused sector-specific issues. The opening chapter, by Kay Adamson, discusses economic policy in Algeria and the political context, internal and external, within which it operates. In other words, the attempts that were made to restructure the Algerian economy cannot be abstracted from world economic trends, in particular the role of oil within the process of globalization, the political situation that has prevailed in Algeria since 1991, and Algeria's relationship with France and the European Union. Adamson asserts that all these contexts, with their influential effects, offer insights into the prospects for political and economic change within Algeria over the next decade.

Chapter 2, by Michael Hodd, begins with a review of the broad macro-economic structure of the Algerian economy and then, in order to put the recent record in context, takes a long-term perspective, spanning five decades, to look at macro-economic performance. Although some areas have the potential to generate performance improvements, Hodd outlines the policy measures that he believes are essential to bringing about a more broad-based macro-economic performance.

In light of the reforms embarked upon in recent years, Salah Salhi investigates in Chapter 3 the extent to which Algeria is effectively well prepared to commit itself to an unprecedented level of openness, transparency and policy consistency as required by membership of the World Trade Organization. Analysing the impact on sectors such as trade, agriculture and property rights, he contends that the process of accession might prove detrimental to the country's economy, since potential costs outweigh potential benefits in the short and even medium term. He considers that some policy changes are necessary to cushion the effects of membership.

In Chapter 4 Cherif Begga and Kamel Abid review the development of Algeria's relationship with the European Union. Their assessment is that the previous development cooperation policy of the Union, which achieved mixed results, was less effective in furthering the economic development of Algeria than is the present partnership policy. This relative lack of effectiveness of the earlier policy is something the authors do not entirely impute to the European side. They argue that the present policy, with a free trade area as its central element, will represent a serious challenge to the local economy if more resources, financial and otherwise, are not made available to upgrade both industry and infrastructure.

Hakim Meliani, Ahmed Aghrout and Ammar Ammari explore in Chapter 5 the issue of foreign direct investment in Algeria. After briefly surveying the global perception of this type of investment and highlighting some of the progress made in fundamental structural changes, they show how foreign investment has become a key component of the whole package of reforms. With very few exceptions, the provision of incentives and guarantees has had little effect in attracting foreign investors thus far. The inference is that Algeria remains a less attractive destination, even when compared to neighbouring countries. This can be attributed to the fragility of the business environment marked, among other things, by an ambivalent and slow privatization programme and a financial sector in need of urgent reform, issues that are also raised in Chapters 7 and 8 respectively.

In Chapter 6 Aghrout assesses the attempts at reorganizing and reinvigorating Algeria's agricultural sector, their implications for growth, and the constraints and challenges encountered by this sector. The different phases of restructuring have meant less bureaucratic control and greater liberalization, with a view to raising the sector's economic efficiency. The relative success of these reforms, as corroborated by statistical analysis, is still not as hoped for, notably in terms of bringing down the high levels of food imports. Notwithstanding the relative improvement seen in recent years, the author argues that Algeria's international commitments (the association agreement with the European Union and Algeria's future membership of the World Trade Organization) should be pondered, as they may prove costly—owing to the prevailing difficulties facing the agricultural sector and the currently low potential for exports.

The process of restructuring and privatization is analysed by Aghrout, Mohamed Bouhezza and Khaled Sadaoui in Chapter 7. Viewed as a key element of the transition towards a market economy, this process was first concerned with restructuring public sector enterprises, which is still going on. They note that the programme of privatization that followed, even with the successive attempts at enhancing the regulatory and institutional framework, has not been a success story. Evidence is provided to show that this programme has not gone beyond a few successful cases, and the authors conclude that some policy options could be contemplated to overcome the problems encountered at the decision-making and implementational level, and thus ensure that the process moves ahead steadily.

Chapter 8, by Mahfoud Djebbar, examines the range of investment opportunities available in the Algerian capital market. While acknowledging that it is still in its very early stages of development, the author stresses this market's potential in terms of capital securities and diversification of financial instruments, along with other opportunities in the financial sector. But he considers that recent experience points to the urgent need to revitalize this stagnant market through further reforms and privatization.

The second part contains five chapters that focus on a number of political and social dimensions. Chapter 9, by Yahia H.Zoubir, explores the evolution of Algeria's external relations since January 1992, a date marking the interruption of the electoral process. Zoubir maintains that the pervasive civil strife and a host of other domestic factors were damaging to Algeria's foreign policy and resulted in its isolation internationally. His argument is that much of the country's international standing was lost, mainly because of the negative reactions of Western countries towards successive governments. The author asserts that only in the last couple of years has Algeria started to experience some recovery, something that has made it possible for the country to regain, albeit with less power and prestige, the place it once occupied on the world stage.

In Chapter 10 Robert Mortimer analyses the challenge of restoring political stability since Abdelaziz Bouteflika's assumption of power in 1999. The author explains how the president has succeeded in leading Algeria to a more stable situation and, through an active foreign policy, has projected a restored image of a stable and forward-looking Algeria on to the international scene. But he argues that improving the country's image abroad is not enough, since economic and social problems are still unfinished business in Algeria. He believes that the president's emphasis on foreign policy has moved him closer to the possibility of dealing with many of Algeria's ills, such as entrenched interests, corruption and the maldistribution of wealth.

Aghrout discusses the country's 2002 legislative elections in Chapter 11. He associates these elections with two major features. First is the large electoral success of the National Liberation Front party (Front de Liberation Nationale; FLN), marking this party's comeback to the main national political scene. Second is the low electoral turnout, reflecting popular discontent. The author also makes a tentative assessment of the present potential for future democratic development, and argues that an adequate response from the regime to the society's needs can only help sustain the pace of transition.

Chapter 12, by Keith Sutton and Salah Zaimeche, looks at the trends in population increase in Algeria and their impact on social, economic and environmental conditions. The authors ascribe the recent recorded fall in fertility rates to a lack of housing and the improved access of women to education and work. Still, the population will keep on rising, although at a slower pace, and adding to existing numbers will exert considerable pressure on the country's resources. The authors conclude that, given Algeria's continued heavy dependence on hydrocarbons exports, in the event of a fall in oil prices the outcome is likely to be the same crises experienced before, or worse.

In the final chapter Salah Mezdour traces the development of the Algerian community in Europe. According to him, this community has undergone significant transformations that have affected both its nature and its purpose in recent decades. Its changing character from being originally a community of temporary economic migrants to becoming one of permanent settlers has ended the prospects of return. Mezdour contends that, by inducing a shift in the type of link with the country of origin, this settlement has diminished the scope of the community's contribution to the economic development of Algeria.

In this varied collection of essays, drawing from different disciplinary backgrounds, the authors have attempted to offer insights into the complex process of change taking place in Algeria by examining and highlighting the degree of transformation attained at various levels—be they economic, political or social. The authors have also sought to examine the nature and scale of the impediments and the challenges lying ahead. From their analysis and assessment of this critical period of Algeria's process of transition, with its domestic and external dimensions, two main conclusions may be drawn.

First, the reforms undertaken have enabled Algeria to make some progress in a number of particular respects. This is noticeable in the country's success in managing to restore macro-economic stability, promote the elements of a market-led economy and enhance its business environment. On the domestic political front, tangible signs of a gradual return to normality are perceptible in the institutional legitimacy, reduced violence and improved stability and security. Internationally, the country has made significant headway against its isolation, as evidenced by the rapid developments in foreign policy, the conclusion of the partnership agreement with the European Union and the well-advanced membership negotiations with the World Trade Organization, among other changes.

Second, while these are unquestionably positive steps, they remain fragile and vulnerable. There is, therefore, a strong case for further structural reform in critical areas of the economy (such as public sector enterprises and the financial system), and a need to strengthen the capacity of the country's institutions not only to carry out these reforms, but also to mitigate their wider cost. Concomitantly, there is a need for a broader political and social consensus, albeit a difficult task, to manage the various stages of liberalization. This consensus will help ensure the feasibility and sustainability of the reforms and, as such, is of significant importance for the future development of Algeria.

In the final analysis, the contributors remain optimistic about Algeria's potential to move ahead. Their ultimate hope is that this volume, by providing an update and a timely account of the transformations in Algeria, will have made a modest contribution to the understanding of this country.

Ahmed Aghrout

PART I
POLITICAL ECONOMY: GENERAL AND SECTORAL INSIGHTS

CHAPTER 1
Political Contexts and Economic Policy in Algeria: Some Theoretical Considerations and Problems

KAY ADAMSON

This chapter sets out to provide the reader with some sense of the different ways in which Algeria can be situated within the global economic and political developments of the twenty-first century. To do so, however, raises both the analytic and normative problems identified by Robert Gilpin in his discussion of the extent to which it was possible to argue that 'a new global economic order' had been established.[1] Gilpin therefore provided a starting point for a series of questions that appeared to offer a useful way to explore the political contexts within which economic policy-making decisions have been made during the last ten years. The first series of questions—explored in the first section of this chapter—arose from the fact that when I began thinking about writing this chapter, the world economy was booming, and it was thought that the new technology industries would transform the basis of economic life. Manuel Castells provides one example of this viewpoint.[2] He also represents the perspective that sees 'globalization' and the associated processes not only as inevitable, but also to be welcomed. This is in sharp contrast to a variety of writers, including Zygmunt Bauman, Noreena Hertz and the new anti-globalization movements such as the Association for the Taxation of Financial Transactions for the Aid of Citizens (Attac), who see these processes not only as something that is quite new but also as detrimental both to political and economic life in general and to poor countries in particular.[3]

However, there are also commentators who argue that globalization is not something new and different, but rather a phenomenon that ought to be seen as merely a new phase in an ongoing process—Andre G.Frank and Barry K. Gills as well as Said Bouamama.[4] The final set of questions in this section emerged from a comparison of studies of the history of occidental economic development, such as those of Niall Ferguson and Charles Tilly, with those studies that deal with the prospects for Third World economic development, for example, Hernando de Soto.[5] This comparison points to different analytic bases being adopted depending on whether the focus is how the Occident had developed or how the Third World ought to develop. Furthermore, they give rise to rather different schema of what constitutes the route to economic success.

The second set of questions reflect Gilpin's discussion on the often acrimonious debate over which is of greater significance in economic development—the state or the market.[6] Although this particular question is also pertinent to the anti-globalization critique, it has significance in the context of Algeria because of the policies that were adopted by the first post-independence Algerian governments, and the critiques that were subsequently made of these policies. These are discussed in the second section through a comparison of André Nouschi's *L'Algérie amère, 1914–1994* and Saïd Bouamama's *Algérie: Les racines de l'intégrisme*.[7] The final section has used John Allcock's study of the social economics of the former Yugoslavia, *Explaining Yugoslavia,* as a means both to explore and compare contemporary Algeria with the analytic and normative elements identified in Allcock's study, primarily because many aspects of post-independence Algerian economic practice were in part modelled on those of the former Yugoslavia.[8]

However, since this chapter was originally conceived, the central question of the political and economic contexts within which economic policy-making in Algeria has necessarily to take place has taken on new dimensions. This is due to the political impact on the Muslim world of the destruction of the World Trade Center in New York on 11 September 2001, which can be measured by the subsequent US involvement in the overthrow of the Taliban regime in Afghanistan, the war against Iraq by US (and British) forces in 2003, and the emergence of a more critical voice within the Occident of the role of Saudi Arabia in international affairs.[9]

Meanwhile, in Algeria, despite a lull during the second half of 2001 and the recognition by President Bouteflika of Tamazight (the main Berber language) as a national language in April 2001 (approved by the parliament a year later), the conflict in Kabylia that began in March 2001 resumed in March 2002. It was followed by further arrests of militants and by the boycott of the legislative elections in May 2002 by the two principal representative parties in the region: the Rally for Culture and Democracy (Rassemblement pour la Culture et la Démocratie; RCD) and the Socialist Forces Front (Front des Forces Socialistes; FFS). There has also been a resumption of the conflict between the Algerian state and the Islamists that may be partly linked to a change in the leadership of the Armed Islamic Group (Groupe Islamist Armé; GIA) in April 2002, but which also involves the other major Islamist grouping, the Salafist Group for Preaching and Combat (GSPC). The resumption of this conflict has resulted in over six hundred deaths since the beginning of 2002. Furthermore, a Paris court has had to consider the claims made by the former army officer, Habib Souaïdia, in his book *La Sale Guerre,* that many of the Islamist attacks had in fact been perpetrated by the security forces.[10] This accusation was reiterated in a French television programme that was broadcast in May 2001, as a result of which the now retired Algerian army leader, General Khalid Nezzar, brought a judicial complaint.[11]

On the economic front, the immediate consequences of 11 September 2001 have been to exacerbate the tendencies to crisis that were already manifest in the world economy. This has led to the sharp fall of many of the world's stock exchanges and the collapse of a number of major global corporations such as Enron and Worldcom, as well as France's Vivendi Universal. The impact of this new tendency to crisis has to be taken into account in considering both the immediate future of the Algerian economy and the opportunities for a political resolution of its conflicts. The repercussions of these for countries like Algeria are important in themselves but are not the immediate focus of the discussion in this chapter, which is to review the general question of how Algeria fits into the global economy. One important new development is that the Organization of African Unity (OAU), the symbol of African states' independence, has dissolved itself; but the dissolution has been accompanied by a joint initiative between Algeria, South Africa, Nigeria and Senegal to found a new Africa-wide organization, NEPAD (New Partnership for Africa's Development). Proposals for NEPAD had originally been outlined at the G-8 working session at Kananaskis on 27 June 2002, and it was then formally set up at the Durban meeting in July 2002.[12] August 2002 also marked the Earth Summit in Johannesburg, with its slogan of 'sustainable development'.

The effects of the changes in the world economic situation are therefore of considerable concern, particularly if one gives at least some credence to Hertz's argument that a feature of the current stage of capitalism is that the state has been systematically ceding power to corporations. In some respects, Algeria's economy had seemed to be stabilizing, to the extent that the reduction in the number of violent incidents attributed to the Islamist groups prior to 2002 had enabled Algeria to be seen once again as a site for foreign investment, particularly in the oil sector, even though it was in the oil capital of Hassi-Messaoud that one of the more extreme of the Islamist attacks on women took place on 13/14 July 2001—an attack for which the pursuit of justice has proved difficult.[13] This event and the complexities of the subsequent legal process reflect just how much issues of economic development are tied up with wider questions about the development of civil society.

ALGERIA AND WORLD ECONOMIC PROCESSES

It has already been suggested that normative considerations of the character of the Algerian regime have prescribed the boundaries within which the economic policies that each successive regime has followed have tended to be judged. As a result, the way in which Algerian economic policy—making has been contextualized has largely taken as a given that, with the correct policies, Algeria might once again find itself in the position of a global actor, much as it seemed to be when Boumédienne made his 1974 speech to the UN General Assembly.[14] However, while it has certainly been the case that decisions have been taken by key Algerian actors, particularly in dictating policy in the oil and gas sector, nevertheless, as Ali Aïssaoui has shown, there seem to be several fundamental problems with a scenario that suggests that structural issues can be resolved solely at the local level.[15] To the extent that the Algerian economy rises or falls with hydrocarbon revenues, it has always been a globalized economy irrespective of the political nature of the particular economic regimes that have been adopted. It is how one reads that global economy and the relations between states and economic enterprises that affect the choices Algeria is seen to have. That this is ultimately no easy task can be gauged by the different readings of the impact of these global developments made by the five selected authors who are the focus of this section, de Soto, Ferguson, Frank, Castells and Hertz.[16] In their different ways, four of them—de Soto, Ferguson, Frank and Castells—welcome these developments whereas the fifth, Hertz, argues that they present serious dangers to the democratic process.

As the founder and president of the Institute of Liberty and Democracy based in Lima, as well as a key adviser to Peru's President Alberto Fujimori after his accession to power in 1990, Hernando de Soto has powerful credentials for reflecting on the difficulties that have been faced by countries seeking to achieve a level of economic prosperity that is taken for granted in most of the principal economies of the West. His book, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, is essentially concerned to explore why it is that poor countries have stayed poor. Ferguson, on the other hand, is a former Oxford historian who wrote a study of the Rothschilds. His book is entitled *The Cash Nexus: Money and Power in the Modern World 1700–2000*. The expression 'cash nexus' was first used by the conservative political philosopher of the nineteenth century, Thomas Carlyle, and in essence explores why rich countries became rich.[17] Hertz is a Cambridge academic whose focus is the world of business. Her evocatively titled *The Silent Takeover: Global Capitalism and the Death of Democracy* has received considerable publicity, particularly in the light of the anti-capitalist protests that occurred at the meetings held by the World Trade Organization in Seattle and Prague, as well as at the European Union summit held in Gothenburg in June 2001 and at the subsequent G-7 summit in Genoa.[18] Although each of these three books is, in its own way, populist, each nevertheless poses important questions about our understanding of global economic processes.

In contrast, Frank's *ReOrient* and Castells's *End of Millennium*, both published in 1998, represent a rather different phenomenon in that they were among the radical anti-imperialist/anti-capitalist authors of the 1970s.[19] But both of these books in different ways are arguing that in order for countries to survive, it will be necessary to come to terms with, and to seize, the opportunities that are being provided by current economic processes of globalization. Thus, in one way or another, all five authors are arguing that unless some way is found to manage the increasing wealth gap between the countries of the world—the problem that, as will be shown in the second section, also governed the attention both of Albert Hirschman and François Perroux—it will mean, as Ferguson concludes, that the world may not be as safe for capitalism and democracy as one has come to think.[20] The events of 11 September 2001 and the financial crises in South America, particularly in Argentina and Brazil, serve to illustrate this conclusion.

The primary task now is to explore what are the different scenarios for economic and political change in Algeria that can be deduced from an examination of the wider history of capitalism in the present age, embodied in these authors' arguments. The second task is to consider the impact of the contradictions in terms of the economic development outcomes to which each author's core argument leads. Before exploring each argument in more detail, it may be useful to state, if in a slightly crude form, the broad propositions being made by each author. In essence, I would suggest that they are:

1. Poor countries are not poor at all, but what they have not managed to do is to realize the capital resources that they have. Consequently, what Algeria needs to do is to focus on the poorest of its inhabitants and provide a framework within which they may realize the capital resources that they have (de Soto).
2. Economic growth is possible assuming that the strategies that enabled the rich countries to develop their economic hegemony are followed, for example, war, tax collection, debt and capital growth (Ferguson).
3. A world system is not a new phenomenon and within its history there have occurred shifts in the location of its centres of articulation; thus, just as the rise of the West was inextricably linked to the decline of the East, its dominance is not necessarily a permanent feature and the centre of political and economic power may shift once again

(Frank).

4. Permanent structures of inequality are in the process of being created as a result of the technological changes that took place during the 1990s; as a result of this, countries such as the Soviet Union that focused on heavy industry organized within a 'statist' political structure were unable to connect themselves to this technological revolution or 'Information Age' (Castells).
5. Global corporations are taking over the functions of government, with the result that governments are in effect ceding the power of governance to corporations, and it is these corporations that are actually responding to and therefore speaking to the people (Hertz).

Of these five propositions, those of de Soto, Ferguson and Frank share some amount of common ground, in the sense that in spite of their different interpretations of how political and economic system/s work, they nevertheless have a number of recognizable points of reference. It is interesting that all three return to some of the principal classical economists of the eighteenth and nineteenth centuries, including Adam Smith (de Soto, Ferguson and Frank), with de Soto also referring both to Say and Sismondi. Ferguson's title is derived from Thomas Carlyle; and both de Soto and Frank make use of the work of one of the key economic historians of the twentieth century, Fernand Braudel.[21] Castells and Hertz differ significantly in focus not only from the other three but also from each other, as Castells is in a fundamental sense welcoming the changes that have been taking place under the rubric of the 'Information Age', whereas Hertz is intentionally polemical and her political stance is a rejection of the basis of the globalization project that, in one way or another, all the others have accepted. By contrast, the rereading of the classic texts which is found in de Soto and Frank is clearly aimed, now that Marxism seems not to offer alternative strategies and structures, at finding a new understanding of the ways in which economic life operates, so that the current reality of global inequalities can in some key sense either be overcome, or at least minimized. What is of course different between them are their strategies for exit.

In some ways, this discussion recalls the debates of French economists of the first half of the nineteenth century such as Say, Blanqui, Chevalier,[22] who sought to find the recipe for the promotion of the economic growth of the French economy by visiting England and the United States. Then among the solutions to the French economic impasse was the envisaging of Algeria as the 'Wild West' of the French economy. This utilization of territorial expansion to resolve economic problems at home is something that Graeme Snooks interprets, in his theorizing of global economic dynamics, as one of the principal strategies available to be used by what he calls 'the dynamic society'.[23] By this he means the place of opportunity, as well as of the provider of the required creative dynamic, to catalyse or kick-start an economy such as France's in the nineteenth century. One hundred and fifty years later, it can be reasonably argued that the French economy was indeed a beneficiary of this strategy, which enabled the country to play a strategic role within European economic space and also globally. On the other hand, the Algerian economy, apart from a brief period in the 1970s, has been largely in the doldrums, in spite of periodic rises in oil prices. At the same time, this economic instability produces political tensions that are exorcized through violence against Algeria's own civilian population. The discussion that now follows cannot answer one of the most important questions of our time, but it may open up new avenues for thinking about the possibilities for action in a world in which some of the central strategies of the past, such as war, conquest and colonization, appear no longer to be seriously available options for the stimulation of economic growth.

Central to de Soto's argument is, as has already been suggested, that poor countries are not poor at all, but that in order for the poor within these countries to escape from their poverty it is necessary that there is a recognition of the riches that they actually have. These, he suggests, are not only enterprise and organizational skills displayed in the way in which any city of the Third World is full of small-scale businesses; but also, and more importantly, in that they are rich in assets, that is the houses, land and property that they utilize to do their work. However, these assets are generally speaking dead, in the sense that there is no legal title and therefore no accompanying legal right to use them. From this absence of right, two major consequences follow: the first is that such assets cannot be used as collateral to raise money to expand the businesses in which the people are engaged; and the second, that a great deal of time and valuable capital is spent attempting to obtain legal title. Consequently, the simple act of providing title to these assets would have the effect of freeing up time and releasing valuable capital that could then be invested in the applicants' businesses.[24] De Soto argues that registering title is a major preoccupation of poor individuals in countries as far apart as Egypt and Peru, where a combination of bureaucratic procedures and legal processes ensure that the process is a long-drawn-out, time-consuming and not necessarily successful affair. At a theoretical level, the purpose of a bureaucracy is to formulate a precise definition of an object, but for a number of reasons that Castells graphically illustrates in *The End of the Millennium*, the good intentions associated with its creation may, in certain economic and political conditions, have negative outcomes. At the same time, although legal procedures are, on the one hand, concerned with ensuring regulation and making sure that transactions are formalized and incontrovertible; on the other, because these very processes are formalized and no longer open to question, they also have the effect of making procedures and processes static in practice.

If we then consider the emergence of bureaucracy and the use of legal procedures in colonial and post-independence Algeria, some interesting questions arise. In the first place, legal procedures intended to ensure fairness became, within the colonial context, the means by which illegal action—the seizure of title—was legitimized. Second, law, as it was developed during the post-revolutionary period in early nineteenth-century France, also itself became a bureaucratic process, enshrined as it was in a series of legal codes governing civil and commercial life, the substance of which are still in place in France at the beginning of the twenty-first century. This use of law and bureaucracy to regulate and legitimate what in other circumstances would have been considered to be unlawful processes, meant that law and bureaucracy developed in Algeria as a means of containment rather than of support to economic and social activity. Unlike the American west in the nineteenth century, when it was the absence of law that enabled economic activity to expand, the insistence on legal process in colonial Algeria not only forms an interesting contrast to the realities of the conquest process itself, but also meant that clear constraints were placed on the evolution of economic activity, so that the benefits could be channelled towards the rise of French capitalism. In this context, the appearance immediately after Algerian independence of a number of works, such as Maxime Rodinson's *Islam and Capitalism*, that were focused on the question of whether or not the belief system of Islam was favourable or antagonistic to the development of capitalism is, in the current debate, interesting.[25] However, reviewing this discussion 30 years on, the question perhaps ought to have been, not whether Islam could be capitalist, but what particular characteristics of the structuring of society and economy under colonialism created structural, that is, legal and bureaucratic obstacles to the development of capitalism?

The importance of that question can be gauged when one considers that, central to Ferguson's argument on the reasons why particular countries of the western world succeeded more than others, is the effective nature of their power systems. However, these power systems of modern societies are the result of what he terms the 'square of power', which is based on four institutions: 'a tax-gathering bureaucracy; a tax—authorizing parliament, a system of national debt; and a central bank'. Importantly, though, these have been created by a special relationship that evolved between war, the expenses of government and the development of modern systems of taxation. In formulating his argument, he contrasts differences between Britain and France in the 1780s in which the latter, despite an actual smaller debt burden, found itself paying 'roughly double' that paid by the British government for a much larger real debt burden—the consequence of the absence of a parliamentary system and of a developed capital market. Interestingly, as I have argued elsewhere, this contrasting of the French economy with that of Britain during this period was also a preoccupation of French economists in the first half of the nineteenth century.[26] Although to explore the impact of this on the economic formation of Algeria in the nineteenth century would be interesting in itself, for the moment I want to concentrate on two other aspects of his argument, namely, the impact on the economy of the political representation of those who do not pay income tax, and the growth of a large bureaucracy, because both of these have been major influences in the post-colonial economy.

Thus, approaching the post-independence Algerian economy through the medium of Ferguson's argument about how the rich countries became rich raises a different set of questions from those that emerge from a discussion of what makes a poor country poor. However, in both arguments there are certain commonalities. These are the existence and impact of large bureaucracies, war, debt, mass voting, but within a context in which many will not be taxpayers and democracy may be on paper rather than real. These basic structural considerations have then to be borne in mind when considering the economic decision-making processes and the wider economic climate within which Algerian economic policy has been made in the period since independence. The contradictions that arise are extenuated by the directions taken by the global economy. The idea that war has had an important role to play in the formation of states is not a new argument; it was, for example, the central focus of Charles Tilly's 1992 book *Coercion, Capital, and European States*, which was also concerned with the interrelationship between force, capital accumulation and taxation, but Ferguson's contextualization is different.

This question of the difference in contextualization is particularly interesting when one turns to consider the direction of the discussion by Frank in *ReOrient*.[27] The general character of his argument was first exposed in a book he edited with Gills, *The World*

System: Five Hundred Years or Five Thousand?, but is more fully worked out in this single-authored work by Frank himself. In *ReOrient*, the centrepiece of his argument is that there is, as he and Wallerstein had earlier argued, a world economic system, but that this system has been in place for much longer than the generally assumed timespan of the 500 years from 1500.[28] Frank's argument in *ReOrient* is that 1500 is a marker for the beginning of the shift of the centre of this system from the East to the West. He has therefore changed his ground from fixed notions of centre and periphery—the 'development of underdevelopment'—to a view of international economic relations that is altogether rather more fluid. In doing so, he draws to our attention that it was Adam Smith in *The Wealth of Nations* who first pointed out that Europe was a rather late arrival on the world economic scene and that it was only because of its capacity to innovate, in part brought about by the control of American silver, that it was able to make the quantitative leap forward necessary for this shift to occur.[29]

However, and this is important for our consideration about Algeria's potential, in Frank's various trading circuits the north-west African area, of which Algeria is the largest single country, appears not to have figured within any of the major trading circuits that characterized this period and the beginnings of the shift from East to West. Furthermore, although Frank uses the growth of the new Asian economies to suggest that it may be possible for countries to buy their way into the world system, and it might be argued that this was indeed the basis of the 'industrializing industries' strategy that Algeria adopted in the 1960s and 1970s, nevertheless that did not happen.[30] One central reason why it did not occur in the way in which it may be taking place in the new Asian economies, may actually be linked to the nature of the commodity that was chosen as the means or the route by which entry might be made—oil.

At first sight, oil and also natural gas are new commodities, consequently it might have been expected that given that many of the major producers are new countries, they ought to have been able, as Qadaffi sought to do, to control the terms of trade and bring about their insertion into the world system. However, the reasons why this may not have been such a simple matter become clearer if one accepts Kapstein's argument that oil should not be seen as a neutral commodity, but as a commodity that has been central to the security strategy of the hegemonic power of the post-Second World War era—the United States.[31] The importance of oil in the political process in the United States has been made highly visible in the administration of George W.Bush, where many of the key figures in his government, including himself, have direct links with the oil industry. As a result, even though there have been periods since Algerian independence in 1962 when the other oil-producing countries have been able to determine the terms of trade of the commodity that they produced, its centrality to wider security considerations has meant that such efforts have always been temporary. Perhaps the temporary nature of this can be gauged from the establishment of the International Energy Agency (IEA) in 1974 at the instigation of Henry Kissinger, Nixon's Secretary of State, and as a direct result of the failure of the European powers to adequately respond to the Qadaffi nationalizations and the price rises inspired by the Organization of Petroleum Exporting Countries (OPEC). It is also perhaps interesting to note that of the three Organization for Economic Co-operation and Development (OECD) members who did not sign up to the IEA in 1974, one was France. In his *La France et le pétrole,* Nouschi interprets France's refusal to join as a reflection of its view of the IEA as deliberately intended to be an organ of confrontation with the producers, as well as a means by which OECD countries would become more dependent upon the USA.[32] However, one key consequence of the French refusal to sign up to the IEA was that it pursued a policy of interstate bilateral agreements, at the centre of which petrol was exchanged for military and civil, but especially military, hardware—important given that civilian governments have been dependent upon the the Algerian military to sustain their hold on power.[33]

Clearly, then, a commodity such as oil, which had been central to US foreign policy strategy since the Marshall Plan era, held an extremely sensitive place not only in international economic but also in international political relations, and as such its potential role as the means by which Algeria might be able to buy its way into the world system is ambivalent. If oil cannot then be said to constitute a way in which entry into this world system can be bought, then the Frank scenario does not offer as much in the long term to Algeria as the earlier writers envisaged, and in his discussion of the uncertainties of the oil rent, Ali Aïssaoui argues that neither oil nor gas can necessarily provide sufficient revenues to ensure the development potential of Algeria's economy.[34]

If Frank's overall argument does not offer much positive hope for the position of the Algerian economy in the new global economic regime, the implications of Castells's argument are even bleaker. His analysis is wideranging and is concerned with the shape of the world as a result of the technological changes that have been taking place since the mid-1980s. In so far as he argues that it is both access to and control of the new means of technology that will determine whether or not a country will be at the centre of the economic system or on its periphery, then Algeria is not entirely excluded from participation in the new Internet economy—indeed, its education system has been able to supply computer-literate personnel to countries such as Canada, and Algiers has become a place for pirate versions of digital information.[35] Nevertheless, Algeria is still very much on the periphery of technological developments themselves.[36] In addition, Castells offers another series of reasons for why it may be difficult for the Algerian economy to experience the benefits of these technologies. These are outlined in his discussion of the forms of control that marked the conduct of affairs of the Soviet economy. In an interesting and pertinent discussion, he identifies a number of fundamental flaws in the very structure of the planned economy, which mean that in spite of the technical expertise that may exist within it, the use of this expertise for actual innovation is more problematic. Furthermore, if he is correct in arguing that it is only through participation in these new technologies that countries will be able to play a part in the global economy, then not only is Algeria's ownership of oil reduced in importance, but it is also possible to understand why oil seems to fail to deliver the economic benefits that it was assumed it could, not only in Algeria, but also in other oil-producing countries. However, there is a problem with Castells's analysis, in that it was written at a time when the benefits of the new technologies seemed uncontested and when they were the principal motor of the economic boom of the late 1990s.

If Castells welcomed the emergence of the new technologies in the 1990s, Hertz, in *The Silent Takeover: Global Capitalism and the Death of Democracy*, is less certain, arguing that such technologies have given companies unprecedented powers, with the result that they have been gradually assuming the functions of government, so that it is

AOL Time Warner that pays the US debt. At the same time companies such as India's Sun Group (and BP in Algeria) view themselves as having a wide range of social responsibilities, with the result that it is no longer governments that respond, and therefore speak, to the people but corporations. As these are unelected bodies over which only a few have any direct control, it is the weakest countries that are the biggest losers. She further argues that competition takes place between developing countries in order to obtain at least some of the production associated with such corporations, but that this competition is detrimental to political development. The arguments that Hertz puts forward form part of a wider critique of recent economic developments in which organizations such as Attac have played a leading role. However, such movements are heavily dependent upon the wider political climate and the willingness of governments to take the initiative. This is one of the problems that Hertz has highlighted—the extent to which governments, whether of the First World or not, can indeed take the initiative away from the corporations, and it does not seem that governments of the developing world, given their instability, have the capacity to do so in practice.

HISTORICAL CONTINUITIES: THE POLITICS OF ECONOMIC IDEAS IN ALGERIA

In this section, I want to focus on some of the specificities of the economic analysis of Algeria, using as the starting point Gilpin's plea to separate and identify what are analytic and normative elements. There are two major reasons. The first is a restatement of a point made by Albert Hirschman in his reflections on the durability of a previous book that he had written during 1940–41.[37] He accounted for that book's continued relevance by the fact that 'the political dimensions and side effects of foreign trade and investment are still very much with us', but added that the attempts to explain resultant inequalities, although they produced what seemed to be useful working accounts of their effects, nevertheless only managed to explain what was visible.[38] In other words, they did not generally manage to take full account of 'the contradictory character of social processes'.[39] As an observation, this has as much relevance today as it did in 1981, particularly given the context of the second Earth Summit in Johannesburg with its new slogan of 'sustainable development', meaning that economic development should both respond to 'present needs but without compromising the capacity of future generations to respond to their own needs'. Two articles published in *Le Monde* on 23 August 2002 by welfare economist Amartya Sen and World Bank president James Wolfensohn respectively indicate the variety of potential interpretations that can be extracted from a slogan such as this, depending on the normative position from which economic development issues are being approached.

The second reason for seeking to clarify the terms of the debate concerns the character of many of the critical works that have been written about the Algerian economy throughout the post-independence period. I have argued that post-independence Algeria was, for the western political left of the 1960s, the object of a political and economic experiment that they hoped would realize their goal of a non-communist socialist state.[40] What is now striking is that the traces of this discourse are still as apparent today as they were in the leftist critiques of the 1960s and 1970s. Examples of the deeply embedded character of this particular critical approach are Nouschi's *L'Algérie amère 1914–1994* and Bouamama's *Algérie: Les racines de l'inté-grisme*. Another, related strand of critique is that exemplified by Djillali Hadjadj in *Corruption et démocratie en Algérie*.[41] Nouschi's position can be partly explained by the centrality of his work to the radical critiques of the 1960s and 1970s.[42] Bouamama's critique, although contemporary, is also explicitly linked to this same era by the fact that its Preface was written by Samir Amin—one of the central figures of alternative economic theories of development.[43] Hadjadj's critique, while different, and in many ways compelling as a description of what Algeria is like, employs a powerful moral fervour that juxtaposes political and economic failure against a vision of untapped human and material resources. Consequently, what all of these books serve to illustrate is just how closely allied the economic analyses of the Algerian economy (the analytic) have been, both explicitly and implicitly, with particular political projects (the normative).

They also recall Hirschman's argument that economic analyses are as much influenced by contemporary political realities as they are by the economic conditions of the day, with the result that however convincing an explanation of economic circumstances a theory may appear to be, its usefulness is always likely to be limited to a particular historical conjuncture.[44] Hirschman's own example was 'dependency theory'. It had been used as one of the principal means to explain the apparent failures of the economies of South America to achieve their anticipated economic take-off, and a key exponent of this theoretical explanation was one of the authors discussed above, Andre G.Frank. Frank had argued that it was possible to explain a state's economic positioning uniquely in terms of visible relations between economically unequal partners. His reorientation, explored in the previous section, is perhaps also symbolic of the disappearance of what had seemed to be a bilateral division of the modern world into two broad economic systems: socialist and capitalist. Given that the failure of the post-independence Algerian economy has been attributed either to its adoption of the symbols and practices of what was deemed to constitute a 'socialist' economy, or its incomplete adoption of these same symbols and practices, it seems apposite to retrace some of the elements that this trajectory embodies. To do so requires that one revisits some of the areas of debate that were critical during the 1960s and 1970s, reconsiders the limits of the political structures that were established, and focuses on the diversity of views of the merits of the pattern of articulations within the global economy today.

In order to clarify further the extent to which our understanding of how the political basis of post-independence Algerian economic policy-making has impacted on the ways in which its success or failure have been viewed, we need to turn briefly to the first years of Algerian independence and explore the extent to which analysis of the future of the Algerian economy was linked to a normative political project. It is generally accepted that the post-independence Algerian economy was 'planned'. However, it is not always quite so evident that it was planned, not simply in terms of the institutional economic structures that were established, but also in the sense that both those who were involved in the setting up of these structures and those who criticized them also believed that they would serve to produce the particular political outcomes that, on the one hand, they were seeking to achieve and on the other, that they thought ought to be achieved. They also involved, paraphrasing Bauman, the idea of socialism as the active utopia where predictions turned out to be false and plans failed to prove their realism.[45] Bauman's discussion also serves to illustrate how, in the debates that took place about the need for socialism, there was a tendency to focus on economic structures, leaving the political structures rather vague. He also argues that 'the most constant feature of socialism'—and this is where Algeria's situation in 1962 is crucial—is 'the desire for a just society, coupled with the renunciation of the present one as unjust'.[46]

While Bauman's statement is generalized, it nevertheless still describes the core assumption that underpinned the struggle for Algerian independence and the post-independence economic and political objectives; and in the translation of these into policy, one can observe not only that economic issues were paramount, but also that political questions were treated as capable of being reduced to an idealized notion of the 'community'. The notion of what constitutes the 'community' in Algeria is, as is now apparent, a crucial element both in the struggle between the state and the Islamist movements during the 1990s, and in the emergence of a regionalist assertive movement in Kabylia, which provoked mass demonstrations there during 2001 and 2002.[47]

While it may have been reasonable to attribute the inspiration for some of the economic aspects of this socialist utopian model to the Leninist economic and social model, this ignores both the French intellectual roots of these models and the creation in post-revolutionary France of a centralized bureaucratic state within which the military were given a significant role.[48] Indeed, Bauman argues that it was Babeuf's discourses in the post-1789 revolutionary debates that 'cut the umbilical cord tying it [socialism] to bourgeois individualist egalitarianism', and prepared the ground for the dispossessed to look towards the state 'as an active power to be used for curbing and controlling the individual in the name of the community'.[49] It is important to bring this intellectual and cultural heritage into focus precisely because the colonial education system made it available to non-European Algerians, and taught them as if they were Frenchmen in France. This should be seen as bequeathing two legacies, the first of which, as Edward Said argued in *Culture and Imperialism*, is that the European empires were at one and the same time oppressors and the purveyors of emancipatory ideas; and second, that these ideas and the revolutionary tradition they espoused were a mirror of the specificities of France's own social revolution.[50]

Consequently, even if there were other inspirations, they still have to be interpreted within what was effectively a teleological framework, as much as it was an ideological one reflective of the generalized currents, whether radical or liberal, of French economic and political thinking in general. They were therefore present both as a subliminal influence on the Algerian policy-makers themselves, and in the persons of the French advisers to the regime. One of the central figures in this interactive exchange of economic and political ideas was the French economic thinker François Perroux. In fact, it is impossible to discuss the structuring of the post-independence Algerian economy without a consideration of Perroux's economic ideas, with their appeal to notions of 'justice' and their insistence that economics was also a matter of the political and social order. That these ideas were largely translated into practice through the technocratic vision of one of Perroux's associates at the Institute of Mathematical Sciences and Applied Economics (ISMEA), Gérard Destanne de Bernis, only serves to highlight the fundamental importance of the political in economic affairs.[51] However, it also needs to be remembered that the ideas they used not only form the basis of political and economic thinking in the western world, but also underpinned Lenin's thought.[52] It was, though, an inherently ambivalent legacy that poses real analytic problems for the contemporary critique. In many ways these problems cannot be disposed of, either at the analytical or the normative level, with the same ease as the normative political projects of the 'socialist countries' of Central and Eastern Europe, when these countries exited from their political allegiance to the Soviet Union in 1989–91.

Perroux (1903–87), who acts as a pivot within this discussion, was a French economist whose work aimed to incorporate factors of domination and power into a revised theory of development. Clearly, in the context of 1960s decolonization, Perroux, by raising questions of domination and power, had something to say to the victors of the Algerian War of Independence. Almost 30 years later, it is tempting to suggest that his ideas no longer have any concrete influence. Nevertheless, the minister who is in charge of participation in and co-ordination of reforms, Hamid Temmar, wrote several studies of economic underdevelopment in the early 1970s. In his *Approche structurelle du phénomène du sous-développement* he makes clear and explicit reference, in the formulation of his own analysis of the structure of an underdeveloped economy, to Perroux and Destanne de Bernis as well as to Hirschman.[53] However, while it does not necessarily follow that because Temmar had direct intellectual links with the authors of the Algerian 'model' of the 1970s that these links continue to influence his policy-making in 2002, neither can it be assumed that they have no influence, nor that those policies themselves were as mistaken as it has become commonplace to argue. We need to remind ourselves of Hirschman's point that the time-scale of the success or failure of an economic policy is too often viewed over the short term rather than the long term, and also that our view of the inappropriateness of the analytical and normative basis of the original model has been very much influenced by the radical socialist critiques of Algerian economic policy that are characterized, for example, by Marc Raffinot and Pierre Jacquemot.[54] Furthermore, the key issue in all the debates is still the inequality in political and economic relations that exists between the dominant capitalist countries and those outside of their networks, as the reconvening of the Earth Summit in Johannesburg illustrated.

Given that the inequalities in economic performance between the Third World and the major western economies have not substantially altered in the 40 years since Algerian independence, it is useful to consider briefly the bases of Perroux's economic thinking as a means of understanding why it had something to offer to newly independent Algeria. First, Perroux, unlike many French economists, wove together the ideas of an eclectic selection of both European and Anglo-Saxon economic thinkers, which meant that he opened up different ways of economic thinking. He was, for example, heavily influenced by Edward Hastings Chamberlin's work on the theory of the firm, while his own work sought to reconcile the needs of the individual nation with the workings of transnational corporations—as pertinent today as in 1962. Furthermore, central to Perroux's work was his critique both of the Walras/Pareto model of general equilibrium and of the Keynesian model, based on his belief that they could be redefined to be relevant for the second half of the twentieth century.[55]

Although at the heart of Perroux's economic thinking was the question of power and domination in regulating economic affairs, he also adopted the notions of 'growth poles' *(pôles de croissance)* and 'propulsive industries' *(industries moteurs)*. This idea of motor industries is similarly present in Hirschman's concept of growth disequilibrium, with its forward and backward linkages. Here development is seen as discontinuous in space—an idea that has re-emerged in the debates on the negative effects of globalization.[56] However, the basis of the original argument was that development was dependent upon the establishment of these 'motor industries', identified in Hirschman as iron and steel and mechanical engineering. In their translation into the Algerian context by Perroux and de Bernis, although iron and steel were seen as important, the central 'motor industry' was taken to be hydrocarbons. Perroux outlines the theoretical base for adopting such a strategy in *L'Economie du XXe siècle*.[57] In spite of the critique, it is nevertheless important to remember that the roots of Perroux's strategy for the development of the Algerian economy were ideas that were widespread in economic thought in Europe and the United States at the time of Algerian independence, so that the contemporary critique of them represented the counter-image provided at the time by non-Soviet western Marxism.

The above discussion of the ideological base of economic policy-making is important because of the normative expectations that have been so influential in the understanding of the success and failure of different Algerian regimes. As a result, they continue to play a role in the analytic literature. To illustrate this continuity, two examples of this critique have been selected for a more detailed discussion. They are Nouschi's *L'Algérie amère, 1914–1994* and Bouamama's *Algérie: Les racines de l'intégrisme*. Both authors have focused their critique on the period of the presidency of Chadli Benjedid, but they have different normative bases, with the result that what is for one the sign of the regime's success, is for the other the reason for its failure. This is illustrated, for example, by Bouamama's description of the period of Benjedid's presidency as 'the black decade', whereas Nouschi initially takes the view that the accession to power by Benjedid was a positive development in the history of post-independence Algeria. In part, the more positive attitude taken by Nouschi to Benjedid is attributable to the ambivalence that had earlier been felt by the radical European left of the 1960s and 1970s to the fact that Boumédienne had come to power in 1965 through a *coup d'état*. This manner of Boumédienne's accession to power consequently rendered his regime illegitimate—very much as the December 1851 *coup d'état* by Louis-Napoleon had made the Second Empire forever illegitimate to the French republican left.

Benjedid's subsequent purge of several of the principal ministers of the Boumédienne period, accompanied as it was by an initial admission from many of them that the country's development since independence had been marked by 'serious distortions', was therefore from Nouschi's perspective an event to be welcomed.[58] The idea that the death of Boumédienne and the recognition by the successor regime of the problematic nature of Boumédienne's economic policy, characterized as it had been by its emphasis on industry, could therefore be seen to inaugurate a new beginning for Algeria. Such a viewpoint was then reinforced by the fact that the new government appeared to undergo a shift of emphasis in its economic policy towards agriculture. It was the subsequent failure of the Benjedid government to have maintained its focus on agriculture, on the one hand, while on the other encouraging the development of a private sector, that was for Nouschi the source of disillusionment in his government. However, the privileging of agriculture raises important theoretical issues concerning the place and role of this sector within contemporary national economies.

The ambivalent relationship between nationalism and land is brought out in a discussion by Levy, who persuasively argues in a chapter entitled 'Blood and soil, place or property: liberalism, land and ethnicity', that many nationalists tend to see the possession of 'land' and an engagement in agriculture as a key mechanism for the assertion of a sense of themselves as a whole people, whereas liberalism and liberal political theory conceptualizes 'land' as impersonal.[59] Levy's discussion implies that more attention should be paid to establishing a distinction between the economics of agricultural production and the politics of land ownership, suggesting also that Gilpin's distinction between the analytical and the normative is once again relevant.

Nouschi's critique, with its accompanying moral judgement on the regime, is in part therefore a reflection of this problem; and in part a reflection on his early critical work on colonial agriculture and its disinheriting effects. This question of the nature of the critique of the colonial period and its influence on the critique of the post-independence political economy is repeated in Nouschi's condemnation of the policies of the Benjedid era as inappropriate, because they resulted in increased rural-urban migration and were accompanied by continued emigration. It represents another example of the conflation of the analytic and the normative, in that the economics of migration and the politics of migration are themselves conflated. In practice, they have to be seen as essentially different phenomena. Indeed, Hirschman's discussion of the relationship between 'exit' and 'voice' is pertinent, as it is by no means clear that migration is always detrimental. For example, nineteenth-century economists such as Michel Chevalier took the view that a dynamic economy required a high level of migration, and this idea of migration as the key to economic development was one of the principal reasons for encouraging European settlement in colonial Algeria.[60]

If Boumédienne's presidency was essentially compromised for Nouschi, and Benjedid's presidency was therefore one that offered a new return to the sources of the 'Algerian Revolution', Bouamama has to reconcile the view that the industrial policy of the Boumédienne regime was essentially correct, while welcoming the new directions in agricultural policy adopted by the Benjedid regime. However, given that Bouamama inserts Algeria within the trajectory of globalization, recording that the death of Boumédienne coincided with a 'phase of qualitative transition of the world capitalist system', where the cycle that had begun with the Second World War ended and gave way to a new cycle based on a 'technical and scientific revolution', his critique of the Benjedid regime is based on its shift away from an economic policy that was focused on the creation of a broad industrial base in Algeria, to one in which imports, and in particular imports of consumer goods, grew in importance.[61] As a result, many of the industrial projects of the Boumédienne era were abandoned. In this sense, Boumédienne is not for Bouamama the negative figure depicted by Nouschi, as his policies were more closely in line with those that Bouamama would advocate. Moreover, whereas it was the issue of migration that marred the Benjedid regime for Nouschi, for Bouamama it is the increasing emphasis on trade and the world market to the apparent disadvantage both of

Algerian agriculture and industry that forms the core of his critique, particularly as it seemed to make France the principal beneficiary. Both of these analyses of the Algerian economy illustrate clear antecedents with the critiques published in the 1960s and 1970s. In a sense, they continue to embody the idea that there are identifiably 'correct' policies, which if implemented as they ought to be, will produce the economic development expected of them.

TWO MODELS OF NON-SOVIET MARXISM: ALGERIA AND THE FORMER YUGOSLAVIA

The discussion above has illustrated that from the beginning, the analytical and the normative were brought together to articulate very clear views about the form and structure that the post-independence Algerian economy and state should take. In many ways, this rather formalistic approach to how the economy and the state might be organized, reflected a view of both as being capable of rational manipulation. This idea that it was possible to control both the state and the economy through the application of rationality meant that when the post-independent Algerian state experienced difficulties in its attempts to realize both the economic and the political projects, the failure was interpreted as an absence of capacity to properly implement the model. There are clear parallels between aspects of this critique and that concerning the former Yugoslavia. Useful comparisons can therefore be made particularly by moving away from the paradigm of Algeria as 'different', that is, as subject to different economic processes from the rest of the world. It is intended to explore this idea that Algeria is not part of a different economic space, and that comparisons can be made, through a brief discussion of John Allcock's analysis of the reasons behind the collapse of Yugoslavia in *Explaining Yugoslavia*.

In the section above it was argued that the model advocated by Algeria's French economic advisers such as Perroux and de Bernis, and adopted by the Algerian government, was quite explicit in its view that the economic route to prosperity lay in the adoption of a strategy of rapid industrialization based on the creation of autonomous heavy industrial production and using the revenues provided by oil. As a result of this, the post-independent Algerian state invested heavily in the creation of an industrial infrastructure founded on traditional heavy industries—'the industrializing industries'—which were to be financed by means of the exploitation of the 'new' energy sources of oil and natural gas. That this strategy was acceptable to the majority of the political elite in 1962 is evidenced by the fact that it was Ben Bella who, in 1963, was responsible for the creation of the state oil conglomerate, Sonatrach, with the explicit aim of ensuring that a greater share of revenue through the medium of taxation would accrue to the Algerian government. The partial nationalization of oil interests in 1971, and rising oil prices in the 1970s brought about by the oil embargo of producer states led by Libya, helped to deliver some of the promises of economic prosperity that had been made, even if they did not provide for political participation. However, the subsequent fluctuations in the price of oil as well as of natural gas revealed the fragility of this foundation of the economy, as well as the optimism of the original forecasts of potential revenue.

Thus a strategy that in many ways directly embodied contemporary theories of economic development, in practice largely ignored consumer and service industries, as these were considered to be sectors of unproductive investment.[62] Part of the problem lay in the fact that the principal, apparently successful, model of rapid economic growth after the establishment of the major industrialized countries was the Soviet Union. Thus one finds that de Bernis is using the Soviet economy as a benchmark for his policies. However, real knowledge of the Soviet economy in 1962 was rather sparse, and to the extent that the outcomes were unknown, its capacity in practice to deliver on its promises was largely speculative. It is, in a sense, this element that helps to explain the virulent character of the critique that it stimulated and that has continued, but within which it is often difficult in practice to separate the critique of economic policy-making from a judgement about the absence of democratic political institutions and the failure to deliver politically.

If some of the problems that Algeria had encountered can be found elsewhere, then the phenomenon with which one is dealing cannot be solely attributed to a failure by the country's political elite to implement an independently valid economic development model. This is why it is helpful to examine certain key points of Allcock's argument in *Explaining Yugoslavia*. Central to his argument is an identification of the various ways in which political and economic factors interacted to bring about a series of crises, after Tito's death in 1980, both in the economy and the political institutions of the state established by Tito and the Partisans in 1945. The parallels between the two economies and political systems can begin with the way in which Algeria did present itself as an alternative model of socialist practice, even employing visible forms of economic organization that were practised in Yugoslavia, most notably *autogestion* or self-management; and a public commitment to the Non-Aligned Movement, as seen in Boumédienne's speech to the Sixth Special Session of the General Assembly of the United Nations. In his account of the collapse of the economic and political system in Yugoslavia, Allcock links Habermas's concept of 'legitimation crises' with Bauman's view of socialism as essentially utopian.[63]

The essence of Habermas's argument is that where there is an unequal distribution of the social product, other mechanisms have to be found to legitimate it. However, such mechanisms can themselves engender various kinds of crises. These may be economic or 'rationality' crises, which result from 'steering problems within social systems' in which 'directional learning processes' involving control over outer nature, such as the non-human environment or production processes, have disconnected from processes of socialization; political or 'legitimation' crises, which are linked to what he refers to as the problematic of 'the truth-dependency of legitimation', or what is legitimate authority, with the result that where there is an absence of generalizable interests there is a tendency for the regime to attempt to retain its power by the application of force; and finally, sociocultural or 'motivation crises', which arise from questions posed about the nature of values and norms. In a general sense, these can be interpreted within the Algerian context in the following way. The economic or 'rationality' crisis is to be found in the instability and vulnerabilities of the oil and gas markets; the question of what constitutes legitimate authority in Algeria, while present during the struggle for independence, became visible during the 1980s; while the sociocultural crises are represented, first of all, by the struggle between the state and the Islamists, and second, by that between the state and the regionalist movement in Kabylia.

Allcock argues that the Second World War national liberation struggle provided a popular legitimation of the post-war Yugoslav regime, which had only begun to unravel around the time of Tito's death in 1980, as the partisans like him had aged. In the same way, the national liberation struggle in Algeria legitimated the post-independence political regime installed by Ben Bella; and in spite of his *coup d'état,* Boumédienne as the former head of the national liberation army was able to retain this legitimating authority. However, with his death in 1978, a similar process of unravelling began because legitimation had been linked, as in Yugoslavia, to those who had fought under the aegis of the National Liberation Front (Front de Liberation Nationale; FLN) in the liberation struggle against France. To this may be added the point, taken from Bauman, that the choice of a post-independence regime of socialist pretensions was a logical consequence of an affirmation of the colonial regime as unjust.[64] However, such a highly specific form of relational legitimation could not be passed on to the post-independence generations. This factor is perhaps more significant in Algeria than in Yugoslavia, where there had been a falling birth rate. By contrast, post-independence Algeria experienced a population explosion. Initially, the investment in education, which was endorsed by Boumédienne in order to help provide the skilled labour that was required by the industries of the 'industrializing industries' strategy, successfully countered the impact of this demographic growth. However, it could only do so as long as the economy was growing fast enough to absorb new labour resources, or while emigration was a viable alternative route.

The crises in the global economy and its subsequent restructuring during the late 1970s and early 1980s, as well as the political constraints that this imposed, in particular on the European Union countries, brought about an accompanying closure of the exit route of emigration—apparent both for the former Yugoslavia and for Algeria, as the receiving European countries established and encouraged policies of return.[65] The external barriers to emigration compounded the fact that the Algerian economy had not been able to grow at a rate that would provide sufficient employment opportunities for the new labour entrants. Moreover, as both Nouschi and Bouamama point out, other factors, and in particular the crisis in agriculture, had also increased labour pressure on industry as labour continued to move from the countryside into the urban areas. A similar point is made by Ferguson, who comments that the appearance of regional nationalism is an indication that the demographic growth that has taken place exceeds the capacity of the current boundaries of the state to contain its periphery.[66] Consequently, despite the fact that the post-colonial Algerian state had invested heavily in education, demography had outstripped the post-independence state formation, thereby introducing new possibilities for fragmentation, while the character of the regime's legitimation meant that there was limited space to provide either for increased employment opportunities or for political participation.

A second key factor that Allcock identifies as undermining the capacity of the Yugoslav state to maintain its legitimacy and that also applies to Algeria, was its failure to institutionalize citizenship, with very much the same consequences. In this, the link between what he calls 'regime legitimacy' and 'military legitimacy', which had been made possible by the previous character of a resistance struggle that was subsequently transformed into a ‘people’s defence’, outlived itself.[67] That this happened in Algeria can be observed by the transformation of the Army of National Liberation (Armée de Liberation Nationale; ALN) into the Nationale Popular Army (Armée National Populaire; ANP), and the succession of former military commanders (Boumédienne, Benjedid and then Liamine Zeroual) or former resistance leaders (Ben Bella, Boudiaf and, today, Abdelaziz Bouteflika) who have been presidents; and this is not to mention the importance of the military establishment in the political life of the country. A telling additional point that Allcock makes, and argues was crucial to the direction that was taken by Serbia in the 1980s, can also be applied to Algeria: the existence, or rather the operation, of an ‘esprit de corps’ between ‘the Party and the army’.[68] By adopting this form of comparative argument as a means towards explaining what has happened in Algeria since independence, it is possible to avoid the simplistic view that attributes the disillusionment of the population and the rise of Islamist movements in Algeria solely to the focus of the post-independence economic strategy on heavy industry—even if, viewed from today, that economic strategy seems to have been clearly flawed.

The third characteristic of the Yugoslav state that can be transferred to the Algerian situation is the characterization by Allcock of the Yugoslav state as a ‘paternalist state’, as it can be argued that this would also be a key descriptor of the Algerian state since independence, and one that the rise and support for the Islamist movements has actually served to reinforce. Islamist movements ought perhaps also to be seen as concerned with trying to retain those elements of the ‘paternalist state’ that globalization has made difficult to sustain, such as the role of the state in the provision of social welfare, housing and education. Their importance in this area is evidenced by the fact that the impetus to the growth of the Islamic Salvation Front (Front Islamique du Salut; FIS) in Algeria in the 1980s was precisely because it offered to the marginalized urban dweller, elements of a social welfare system that the state could no longer supply. Moreover, the welfare crisis in Algeria continues to manifest itself in a variety of ways, not least in the inability of different regimes to provide generally available basic housing for large sections of the urban population.

CONCLUSION

Since I began to think about this chapter and its issues, the situation both in Algeria and the world at large has changed. The government of President Bouteflika seems less in command than it was, given the resumption of Islamist-originating violence and the conflict that has arisen in Kabylia, which has led to a devastating critique of policies there by the Algerian League for Human Rights (LADDH).[69] At the same time, as the Kabyle-based parties of the RCD and the FFS boycotted the May 2002 legislative elections, the FLN witnessed a recovery that would probably have been unthought of five years ago—becoming once again the major party in the National Assembly. The extent to which the destruction of the World Trade Center in New York on 11 September 2001 has really created a world situation that is new, remains to be seen. Nevertheless, it does mark a point at which the certainties about the direction that the global economy appeared to be taking have been put in question. Through combining a discussion of general works about the nature of economic development, the particular history of economic development writing in Algeria and a comparison between Algeria and the former Yugoslavia, it is hoped that a variety of questions have been raised not only about the actual state of the Algerian economy and polity, but also about the manner in which it is studied and commented on. Perhaps the only sure thing that results is that in reality nothing is certain, and Algeria's future, whether political or economic, will depend upon the willingness of its citizens to continue to struggle to create a polity that reflects their legitimate aspirations and permits the great majority of them to benefit from the creation of the basis of economic prosperity.

NOTES

1. Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton, NJ and Oxford: Princeton University Press, 2001), p. 14.
2. Manuel Castells, *The Information Age: Economy, Society and Culture—End of Millennium* (Oxford: Blackwell, 1998).
3. Zygmunt Bauman, *Globalization: The Human Consequences* (Cambridge: Polity, 1998); Noreena Hertz, *The Silent Takeover: Global Capitalism and the Death of Democracy* (London: Heinemann, 2001); Attac represents an analytic as well as normative element of the range of anti-globalization movements in contrast to organizations such as 'No Border' which was responsible for the picketing of the European Parliament in Strasbourg during July 2002. The idea embodied in the name 'Attac' is derived from a proposal that was originally put forward by the late US economist James Tobin (1918–2002), who ironically published an article in the *Financial Times* of 11 September 2001 refuting the interpretation of his original proposal as the 'Tobin Tax'. Attac is a primary sponsor of the counter-globalization meetings that have taken place at Porto Alegre in Brazil in 2001 and 2002. The theoretical basis of its thinking can be gauged from articles in *Le Monde diplomatique* and from *Une économie au service de l'homme* (Paris: Mille et une Nuits, 2001). Its president, until December 2002, was Bernard Cassen and the head of its scientific council is René Passet, the author, for example, of *L'Illusion néolibérale* (Paris: Fayard, 2000). José Bové, the leader of the French Confédération paysanne, linked up with Attac in summer 2002.
4. Andre G.Frank and Barry K.Gills, *The World System: Five Hundred Years or Five Thousand?* (London and New York: Routledge, 1993); Andre G.Frank, *ReOrient: Global Economy in the Asian Age* (Berkeley/Los Angeles: University of California Press, 1998); Saïd Bouamama, *Algérie: Les racines de l'intégrisme* (Brussels: EPO, 2000).
5. Niall Ferguson, *The Cash Nexus: Money, and Power in the Modern World 1700–2000* (London: Allen Lane and Penguin, 2001); Charles Tilly, *Coercion, Capita, and European States, AD990–1992* (Cambridge, MA and Oxford: Blackwell, 1992); Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West*

and Fails Everywhere Else (London: Bantam, 2000).

6. Gilpin, *Global Political Economy*, chapter 12: ‘The State and Economic Development’.
7. André Nouschi, *L’Algérie amère, 1914–1994* (Paris: Editions de la Maison des sciences de l’homme, 1995); see note 4.
8. John Allcock, *Explaining Yugoslavia* (London: Hurst & Co., 2000).
9. For example, Claude Feuillet, *L’Arabie a l’origine de l’islamisme: Les réseaux fanatiques formés et financés par le royaume des Saoud* (Lausanne: Editions Favre SA, 2001) *or Arabia at the Origin of Islamism: The Networks of Fanatics, Formed and Financed by the Kingdom of Saud;* a series of articles dominating *Le Monde*, 24 August 2002 that focused on Washington’s unease about the position of the kingdom and its rulers; as well as a debate about the future direction to be taken by the contemporary world of Islam that itself can be illustrated by the fact that the July-August 2002 issue of ‘Manière de voir’ *(Le Monde diplomatique)* carried the title ‘Islam against Islam’.
10. Habib Souaïdia, *La Sale Guerre* (Paris: La Découverte, 2001). A revised edition covering the legal process between General Nezzar and Souaïdia came out in October 2002.
11. The process was considered by the Tribunal de grande instance de Paris, 17e chambre, chambre de la presse; final judgment was made on 27 September 2002. A copy of the judgment was printed by <http://www.algeria-watch.org>.
12. The basic aims of NEPAD are: to eradicate poverty both individually and collectively, by putting their countries on a path of sustainable growth and development; massive investment to revive economies and alleviate hunger, in return for good political and economic governance; new relations of partnership between Africa and the international community, especially the highly industrialized countries, to breach the development chasm. Its model is the US Marshall Plan, see *Financial Times*, 27 June 2002.
13. This incident involved various acts of violence (including rape) against a number of women who worked as domestics for foreign nationals in Hassi-Messaoud. Their case was taken up by Khalida Messaoudi-Tourni and the ‘Rachda’ association after two doctors had refused to diagnose any physical abuse of the women. One year later a judicial process was begun on 15 June 2002 in Ouargla. However, harassment of the women had meant that some of the victims had withdrawn their complaints prior to the case coming to court (see *Le Monde*, 14/15 July 2002 and 26 July 2001).
14. ‘The Battle Against Underdevelopment’, text as reproduced in Spokesman Pamphlet, no. 42.
15. Ali Aïssaoui, *Algeria: The Political Economy of Oil and Gas* (Oxford: Oxford University Press, 2001).
16. De Soto, *The Mystery of Capital;* Ferguson, *The Cash Nexus;* Frank, *ReOrient;* Castells, *The Information Age;* and Hertz, *The Silent Takeover*.
17. Thomas Carlyle, *Sartor Resartus—Lectures on Heroes—Chartism—Past and Present* (London: Chapman & Hall, LD).
18. Hertz was also one of the presenters in the Channel 4 series ‘Politics isn’t Working’, preceding the June 2001 elections; the programme entitled ‘The End of

Politics' was broadcast on 13 May 2001.

19. Castells's volume is the third in his series of works on 'The Information Age'. Probably Frank's most known work in this genre is *Capitalism and Underdevelopment in Latin America* (New York: Monthly Review Press, 1967).
20. Ferguson, *The Cash Nexus*, p. 416.
21. Fernand Braudel wrote a trilogy of works on the foundations of capitalism; a summary of the basic conceptual framework can be found in Fernand Braudel, *On History* (Chicago, IL and London: University of Chicago Press, 1980), translated by Sarah Matthews, in the chapter entitled 'History and the Social Sciences: the *longue durée*', pp. 25–63.
22. See Kay Adamson, *Political and Economic Thought and Practice in Nineteenth-Century France and the Colonization of Algeria* (Lewiston, USA: Edwin Mellen Press, 2002). See also my article, 'French Political Economy in 1840: Evidence from Algeria. An Exploration of the Writings of Blanqui, Enfantin and Bugeaud', *Journal of Algerian Studies,* 4–5 (1999–2000), pp. 21–44.
23. Graeme D.Snooks, *The Dynamic Society: Exploring the Sources of Global Change* (London and New York: Routledge, 1996).
24. Jacob T.Levy, *The Multiculturalism of Fear* (Oxford: Oxford University Press, 2000), p. 208, makes a similar point in his use of two of Michael Walzer's four mobilities, that is, the 'geographic and the social'. These, Levy argues, are closely related to the flexibility of land, which if it is not 'fungible' will tie people to it and as a result limit the opportunities for social change.
25. Maxime Rodinson, *Islam and Capitalism,* English translation (London: Allen Lane, 1974). The original French edition was published in 1966 by Seuil.
26. See note 22.
27. For Frank, see note 4.
28. Immanuel Wallerstein's argument, that there is something called a 'world system' that systemically generates inequalities between different parts of the globe, is laid out in any number of his writings. One example is Wallerstein, *Geopolitics and Geoculture: Essays on the Changing World-system* (Cambridge: Cambridge University Press, 1991).
29. Originally published in 1776, it is undergoing a new lease of life.
30. The premises of this strategy are discussed in more detail in the following section.
31. Ethan B.Kapstein, *The Insecure Alliance: Energy Crises and Western Politics since 1944* (New York and Oxford: Oxford University Press, 1990).
32. André Nouschi, *La France et le pétrole* (Paris: Picard, 2000).
33. Ibid., p. 277.
34. Aïssaoui, *Algeria*.
35. *Le Monde,* 28 March 2002.
36. Even India, whose information technologists are highly sought after throughout the world and which is the host country to the information technology firm Sun Group, has nevertheless not seen a downward filtration of technology, but rather a widening of the gap between the technological elite and the rest of the population.
37. Albert O.Hirschman, *Essays in Trespassing: Economics to Politics and Beyond* (Cambridge: Cambridge University Press, 1981). He refers here to Hirschman,

National Power and the Structure of Foreign Trade (University of California Press, 1980 [1945]).
38. Ibid., p. 28.
39. Ibid., p. 33.
40. Adamson, *Algeria: A Study in Competing Ideologies* (London: Cassell, 1998), p. 4.
41. Djillali Hadjadj, *Corruption et démocratie en Algérie* (Paris: La Dispute/Snédit, 1999). A new edition of this work was published in 2001.
42. Nouschi was responsible for the publication of several seminal works on Algeria, including his 1961 study of rural Algeria, *Enquête sur le niveau des populations rurales constantinoises de la conquête jusqu'en 1919* (Paris: PUF, 1961).
43. Samir Amin is a prolific author on economic development issues. However, he also wrote two key works on the Maghreb itself. They were *L'Economie du Maghreb* (Paris: Les Editions de Minuit, 1965), and translated into English, *The Maghreb in the Modern World* (Harmondsworth: Penguin, 1970).
44. Hirschman, *Essays in Trespassing*.
45. Bauman, *Socialism: The Active Utopia* (London: George Allen & Unwin, 1976), p. 10.
46. Ibid., p. 51.
47. The designation of Berber/Kabyle and Arab in the Algerian context is both an ambiguous and an ambivalent category, as Patricia M.Lorcin showed in *Imperial Identities: Stereotyping, Prejudice and Race in Colonial Algeria* (London: I.B.Tauris, 1995), but like many such ambivalent categories, it creates its own content. In many ways, the adoption by the first post-independence Algerian governments of Arabic as the official language served to highlight the ambivalent ethnic composition of the state. The Kabyle singer Idir, in an interview in *Le Monde* (14 August 2002), explicitly identifies the symbolic impact of the presentation of Arabic as the language of all Algerians as the point at which he began to take notice of his heritage as a Kabyle, as he observed his mother watching television without being able to understand what was happening as it was in Arabic, a language that meant nothing to her.
48. See in particular Theda Skocpol, *States and Social Revolutions: A Comparative Analysis of France, Russia and China* (Cambridge: Cambridge University Press, 1979), and *Social Revolutions in the Modern World* (Cambridge: Cambridge University Press, 1994) on France's dual inheritance of a centralized bureaucratic state within which a key role has been ascribed to the military.
49. Bauman, *Socialism*, p. 44.
50. Edward Said, *Culture and Imperialism* (London: Chatto & Windus, 1993).
51. The ISMEA was founded by Perroux in 1944 and published the journal *Economie appliquée*, of which Perroux was the first editor. His successor as editor was Gérard Destanne de Bernis, and it is in *Economie appliquée* that de Bernis's principal theoretical writings are to be found. De Bernis can also be seen as the guardian of the legacy of Perroux, as he is general secretary of the Fondation François Perroux, which, through the medium of Presses Universitaires de Grenoble, has been republishing Perroux's work. De Bernis's own economic writing, whether general or on the Algerian economy, is to be found largely in edited collections or short

articles.

52. In some ways, Lenin and the Bolsheviks reflected back to the West its own ideas, much in the way that Ayatollah Khomeini would do in his writings on the future of Iran—on which, see Sami Zubaida, *Islam, the People and the State: Political Ideas and Movements in the Middle East* (London: I.B.Tauris, 1993).
53. Hamid Temmar, *Approche structurelle du phenomène du sous-développement* (Algiers: SNED, 1973).
54. Marc Raffinot and Pierre Jacquemot, *Le capitalisme d'état algérien* (Paris: François Maspero, 1977). They referred to the use of these authors by Algerian economic strategists in their preparation of one of the policy texts, 'Le Choix industriel de l'Algérie' (*Dossiers documentaires,* no. 16, November 1970), and republished in Temmar, *Structure et modèle de développement de l'Algérie* (Algiers: SNED, 1974) as nothing more than a 'mode of sophisticated reasoning…[that] served to mask the banality of the propositions…[where the aim] was to overcome the obstacle…of the bourgeois theory of development', Raffinot and Jacquemot, *Le capitalisme,* p. 138.
55. François Perroux was critical of the Walras/Pareto model of general equilibrium, a summary of which can be found in 'Introduction I' to *Dialogues des monopoles et des nations* (Grenoble: PUG, 1982), pp. 21–2. He also considered that despite the availability of Schumpeter's work in France, it was not properly discussed, partly because of a tendency that he felt existed among French economists to recoil from abstract ideas of economic relations. It is interesting, therefore, that two separate articles have appeared in the *Financial Times* written respectively by Martin Wolf (2 May 2001) and Gerard Baker (3 May 2001), that argue that US economic policy is being rewritten on Keynesian principles. Perroux also owed something to, and in some ways shared a common ground with Hirschman, who was himself working on a model of growth disequilibrium during the 1940s.
56. See for example Bauman, *Globalization,* who argues that issues of space and time are central to an understanding of the processes of contemporary globalization.
57. Perroux, *L'Economie du XXe siècle* (Grenoble: Presses Universitaires de Grenoble, 1991[1961]). For a general discussion of the model, see Adamson, *Algeria,* p. 108.
58. Nouschi, *L'Algérie amère,* p. 293.
59. Levy, *Multiculturalism,* p. 204. Although the early 'development economists', in particular Arthur Lewis, identified 'rural underemployment' as the core problem to be resolved if European-style development was to take place in the Third World. Nevertheless, later theories, of which the Perroux/Destanne de Bernis problematic is one, did not really develop the analysis of the relationship between industrialization and agriculture. The question of what role agriculture does, or rather should, play in generating national economic wealth remains unresolved. The various epidemics that occurred within European agriculture in the last two decades of the twentieth century, and the polarized discussions taking place over the introduction of genetically modified crops are, I would argue, indicative of the absence of a proper theoretical understanding of the place of agriculture in industrial economies. The example used by Levy of this process of the valorization of the people through land is the Zionist land policy in Israel. However, I think his argument has a wider

applicability, not only in respect of the situation I am describing here in Algeria, but perhaps also as a means to explain the seemingly irrational character of Mugabe's policy of land seizure in Zimbabwe before his re-election campaign in 2001, and the expulsion ultimatum that was issued to white farmers in August 2002.

60. Hirschman, *Essays in Trespassing,* p. 244. Migration was identified in the nineteenth century by economists such as Michel Chevalier to be a crucial factor in the dynamic development of the United States, and therefore a requirement of the successful colonization of Algeria.
61. Bouamama, *Algérie,* p. 194.
62. At the time, the principal neo-Marxist model that did treat consumer industries as an integral part of Third World development was that of Amin, as worked out in *L'Accumulation a l'échelle mondiale* (Paris: Anthropos, 1970) and *Le développement inégal* (Paris: Editions de Minuit, 1973).
63. Bauman, *Socialism*. It should be pointed out that Habermas's view of 'legitimation crisis' was originally written to explain certain tendencies within what he refers to as 'advanced capitalist societies'. However, as Frank, in *ReOrient,* and others have also argued, to think of a world in which there are distinct 'modes of production' is to ignore the ways in which a global economy has been in operation from earliest times.
64. Bauman, *Socialism*.
65. This view that Algeria might provide the environment for social experiment has a much longer history as I have shown in Adamson, *Political and Economic Thought*. For example, in 1848 the French socialist, Pierre Leroux, advocated to the Assembly the use of Algeria as one place where socialist France might be achieved. Hirschman, *Essays in Trespassing,* p. 244, argues that the availability of different levels at which communities and individuals have access to 'voice' will generally mean a lesser focus on exit. As has already been argued, 'voice' in Algeria was strictly circumscribed, hence the importance of opportunities for 'exit'.The 'exit' and 'voice' argument rests on the idea that if there are adequate avenues for 'voice', then exit strategies are of less significance, but where 'voice' is difficult, as for example because of restricted political options, 'exit' in which migration is clearly the option becomes much more significant.
66. Ferguson, *The Cash Nexus,* p. 380.
67. Allcock, *Explaining Yugoslavia,* p. 387.
68. Ibid., p. 263. This is also precisely the point that Hadjadj makes.
69. Ligue Algérienne de Défense des Droits de l'Homme (LADDH), *Rapport Algérie: La repression du Printemps Noir, avril 2001-avril 2002* (Algiers: LADDH, 2002).

CHAPTER 2
Algeria: Economic Structure, Performance and Policy, 1950–2001

MICHAEL HODD

This chapter begins with a review of the broad macro-economic structure of the Algerian economy. It then considers macro-economic performance, looking back over the past five decades in order to put the recent record in context. Consistent macro-economic series have been put together for the period 1950–2001, and these are presented in tables at the end of the chapter.[1] Comparisons are made throughout with Algeria's two North African neighbours, Tunisia and Morocco. In managing the effects of the oil sector, comparisons are made with the performance of Indonesia. Areas where Algeria should expect to generate performance improvements are highlighted. The chapter concludes by outlining policy measures that can bring about improved macro-economic performance.

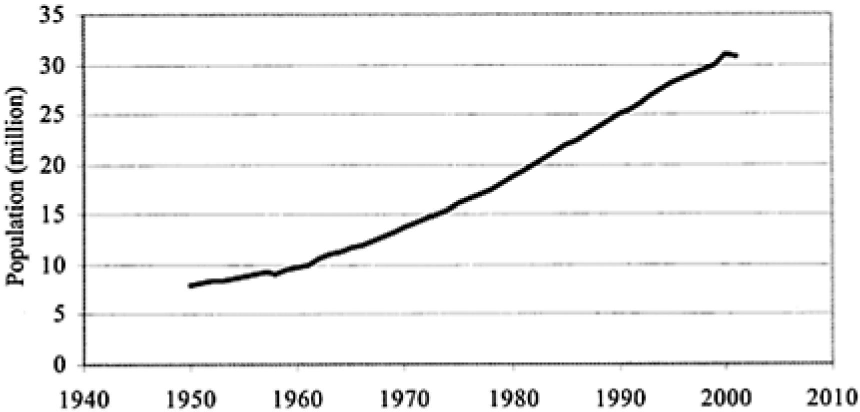
MACRO-ECONOMIC STRUCTURE

Demographics

Current population (see Figure 2.1) is estimated (end first quarter 1999) at 30.3 million, with a growth rate 1990–99 of 2.3 per cent a year. For a country classified as lower middle-income (LMI), this is a high rate. The world average for LMI countries was 1.7 per cent a year for 1990–95.

The relatively high rate of population growth raises three problems. First, in circumstances of sluggish GDP growth (as has been the case at 1.1 per cent a year in the 1990s) there is a steady reduction in GDP per head that will, in normal circumstances, reduce living standards. Second, a higher rate of population growth generates large annual increases in the workforce, making the task of reducing levels of unemployment more daunting. This is a task for the future, as the increases in the labour force for the next 15 years are largely determined by the population growth rate over the past decade and a half. Finally, faster population growth increases the proportion of the population in the 0–15 age group, raising the dependency ratio. In Algeria the dependency ratio is 41 per cent.[2]

FIGURE 2.1 POPULATION (MILLION)



For LMI countries such as Algeria, every 1 per cent fall in the population growth rate reduces the dependency ratio by about 8 per cent. Such reductions can have a significant effect on the health and education demands on the budget, and on the quality of the services that can be provided. These dependency effects are realized quite rapidly, with health gains almost immediate and education gains after about five years.

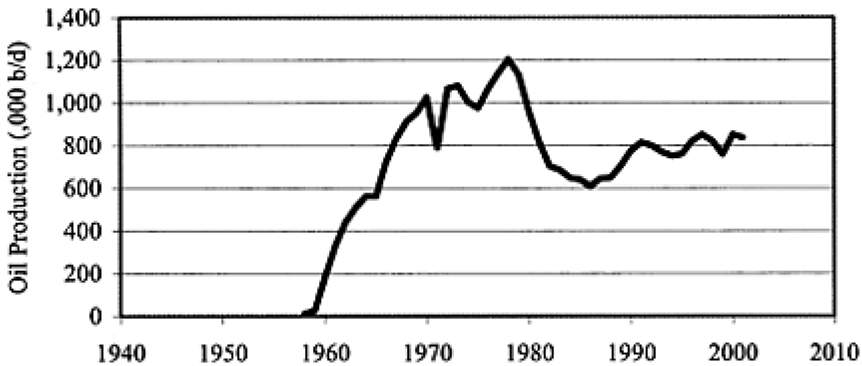
Income

The most satisfactory way of making international comparisons of income is by using purchasing power parity (PPP) estimates. In 1995, Algeria's estimated PPP income was $5,300 per person, putting it in the top 20 per cent of the LMI group.[3] This was higher than Morocco ($3,340) and Tunisia ($5,000), with which Algeria is often compared. As for the distribution of income, an area of concern is the percentage of the population living in poverty, on less than $1 (PPP) per day.[4] In Algeria, 1.6 per cent of the population were in poverty (1.1 per cent in Morocco, 3.9 per cent in Tunisia). Only three LMI countries have better poverty records than Algeria.

Production

The oil sector has had a dramatic effect on the Algerian economy. Oil production began in 1958, reached a peak in 1978 and has declined to around 800,000 barrels per day at present (see Figure 2.2). About 51 per cent of Algeria's GDP was generated by industry in 1997, but most of this was oil production—the oil sector generating 39 per cent of GDP. Only 9 per cent of

FIGURE 2.2 OIL PRODUCTION ('000 b/d)



GDP was generated in manufacturing. Although Algeria has a larger industry share than Morocco (31 per cent) and Tunisia (28 per cent), it has a smaller share in manufacturing (Morocco 17 per cent, Tunisia 18 per cent).

Agriculture in Algeria contributed 12 per cent, and services 37 per cent, both of these lower than for Algeria's two North African neighbours. However, Algeria's agriculture share is not markedly different from the LMI average.

Expenditure

Private consumption expenditure was 54 per cent of GDP in 1997 (World Bank 1998). Only two LMI countries had lower consumption shares. Government consumption was 10 per cent, this being slightly below the 13 per cent average for the LMI countries. Gross domestic investment was 27 per cent of GDP, close to the LMI average of 26 per cent.

Exports of goods and services as a share of GDP vary from year to year with the oil price. In 1997 exports were 33 per cent of GDP, a higher dependence on exports than for Morocco (25 per cent), but less than for Tunisia (43 per cent).

The most noticeable feature of Algeria's expenditure pattern in 1997 is the high level of domestic savings at 36 per cent (compared with Morocco, 16 per cent and Tunisia, 23 per cent). This is achieved by having lower shares of private and government consumption than Algeria's neighbours. Algeria's savings level compares favourably with the average for the LMI group of 26 per cent.

Labour Force

Algeria's production share in agriculture is broadly reflected in agriculture's share of employment, which was 14 per cent in 1996.[5] Industry employs 35 per cent of the working labour force and services 51 per cent. These shares indicate that agriculture in Algeria generates close to national average incomes, industry above average and services below average. The typical, non-oil-producing LMI country would have 36 per cent of labour in agriculture, 27 per cent in industry and 37 per cent in services.

Adult literacy is 62 per cent. Only three of the 40 listed LMI countries have lower literacy rates—one of which is Morocco with 44 per cent. In Tunisia, adult literacy is 67 per cent. Literacy rates in North Africa compare poorly with countries at similar levels of development. Algeria is making efforts to improve basic skills with high enrolment rates in primary education (95 per cent in 1995), but even so, this is below the average enrolment rate for LMI countries. The secondary enrolment rate at 56 per cent is noticeably below the LMI average of 63 per cent, and it is mainly low enrolment of females that is responsible. The tertiary enrolment rate at 11 per cent is half the LMI average. In North Africa, Tunisia has higher primary enrolment. In the other levels of education Algeria is comparable to Tunisia, and has better provision than Morocco.

Employment, including informal sector employment, was estimated at 71 per cent of the labour force in 1998, indicating that 29 per cent was unemployed.[6] Comparable figures are not available for Morocco and Tunisia. High-income country unemployment varies from 4 per cent (Japan) to 18 per cent (Spain).

International Trade

Algeria's oil sector dominates merchandise exports, comprising 96 per cent by value. Manufactured goods are 3 per cent of exports, worth $300 million in 1998. Although they have smaller economies, Morocco exported $2,371 million of manufactures in 1996, Tunisia $4,414 million.[7]

Most of Algeria's merchandise imports are manufactures (65 per cent), with food making up most of the rest (29 per cent). Food comprises 17 per cent of Morocco's merchandise imports, while in Tunisia food makes up 8 per cent, although it needs to be remembered that these figures are compressed by the need to import fuel, 14 per cent of imports in Morocco's case and 8 per cent for Tunisia.

External Debt and Financial Flows

Algeria's external debt stood at $33,000 million in 1996. Servicing of this debt took 39 per cent of export revenue in 1995. The allocations to debt servicing are more of a demand on export revenues than on any LMI country —the average is 17 per cent of export revenues. With outstanding debt equivalent to 83 per cent of GNP in 1995, Algeria is more burdened by debt than Morocco (71 per cent) and Tunisia (57 per cent).

Algeria receives modest workers' remittances—recent figures are not available, but they stood at $300 million in 1990. For Morocco they were $1,890 million in 1995 and for Tunisia $659 million.

Net foreign direct investment is negligible—for 1996 it was $4 million (Morocco $311 million, Tunisia $320 million). Net private capital flows were negative in 1996 (−$72 million) while in Morocco they were positive at $388 million and in Tunisia $697 million. Algeria received $11 per head in aid in 1996, while Morocco received $24 and Tunisia $14.

Government Finances

The oil sector is a substantial source of government receipts, with the actual amounts varying with the oil price. In 1997 61 per cent of receipts came from oil, in 1998 it was 47 per cent. This affects the balance of the budget, and Algeria has oscillated between modest deficits and surpluses: −3.3 per cent of GDP in 1995; −1.1 per cent in 1996; 2.7 per cent in 1997; −3.6 per cent in 1998. The average budget outcome in Algeria 1991–97 has been −2.0 per cent of GDP (ADB 1998), better than in Morocco (−3.3 per cent) and Tunisia (−3.8 per cent).

There is a lack of recent data for comparative purposes on the expenditure side. The following figures for 1990 are indicative. Education was 27 per cent of total public expenditure (Morocco 26 per cent, Tunisia 14 per cent), health expenditure 16 per cent of public expenditure (Morocco 6 per cent, Tunisia 8 per cent), military expenditure 5 per cent (Morocco 23 per cent, Tunisia 7 per cent).

MACRO-ECONOMIC PERFORMANCE

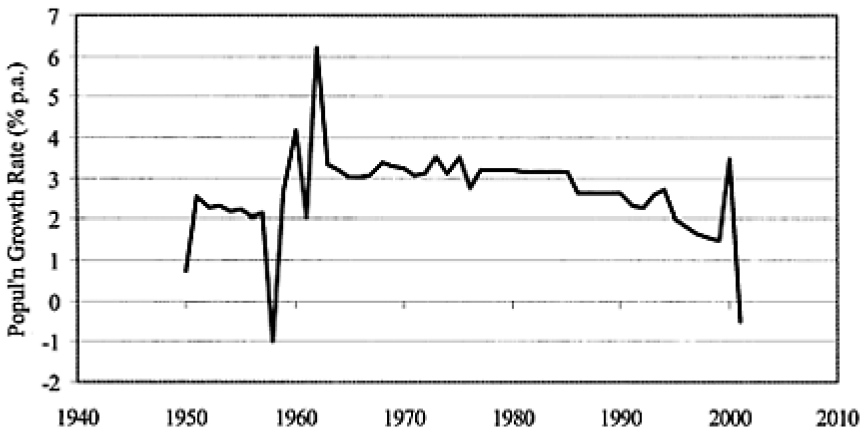
Demographic Changes

Although the run-up to independence saw the population falling in 1958, this was compensated by the return of exiles in the years immediately following independence (see Figure 2.3). Since 1963, population growth rates have been steadily declining decade by decade. In the 1950s, the population growth rate was 1.9 per cent a year; this rose to 3.5 per cent a year in the 1960s, since when it has fallen to 3.2 per cent in the 1970s, 3.0 per cent in the 1980s, to 2.3 per cent in the 1990s. The population growth rate can be expected to continue to fall, and the fall will be accelerated by improvements in educational opportunities for females, better female job opportunities and increases in urbanization. As indicated earlier, Algeria’s population growth rate is higher than for similar LMI countries, implying a higher dependency ratio and providing a constraint to faster development.

Income Growth

Looking at the evolution of production growth in relation to population expansion, the 1950s were the years of fastest improvement with GDP per head expanding at 6.5 per cent a year. The turmoil of the 1960s saw GDP per head declining, the rate being −3 per cent a year. The oil boom years of the 1970s allowed GDP per head to rise by 1.9 per cent a year, followed by slight declines in the 1980s (−0.1 per cent a year) and significant declines in the 1990s (−1.2 per cent a year). Overall, living standards have fallen since 1959, despite the enormous boost of high oil revenues in the 1970s and early 1980s, as can be seen in Figure 2.4. Morocco had GDP per head increases of 2.0 per cent a year in the 1980s but falling GDP per head at −0.8 per cent a year for 1990–95. Tunisia had increases of 0.8 per cent a year in the 1980s and 1.9 per cent 1990–95. On balance, both of these countries appear to have performed better than Algeria in recent decades.[8]

FIGURE 2.3 POPULATION GROWTH RATE p.a.



Output Growth

There was considerable turbulenee in GDP growth rate around the time of independence, as can be seen in Figure 2.5. Over the decades, GDP expanded at 8.4 per cent a year in real terms in the 1950s, 0.5 per cent a year in the 1960s, 5.1 per cent in the 1970s, 3.1 per cent in the 1980s and 1.1 per cent in the 1990s. The deterioration in growth performance is mirrored in the sectors. Agricultural growth declined from 4.6 per cent a year in the 1980s to 1.3 per cent a year 1990–95. Industrial expansion fell from 2.3 per cent a year to −1.1 per cent in the same period, while services growth fell from 3.8 per cent to 1.3 per cent.

FIGURE 2.4 GROSS DOMESTIC PRODUCT PER HEAD (1987 AD ‘000)

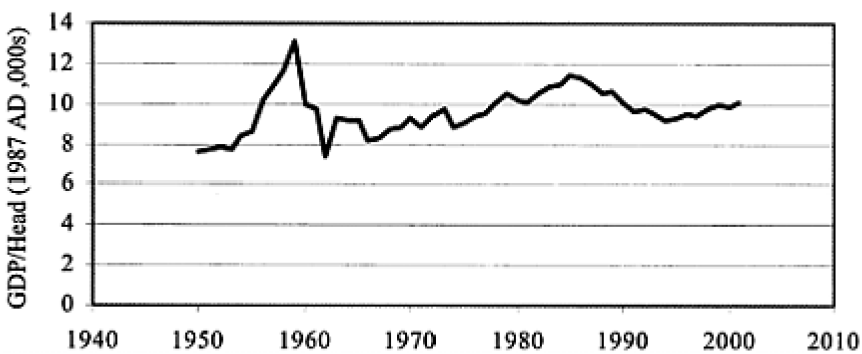
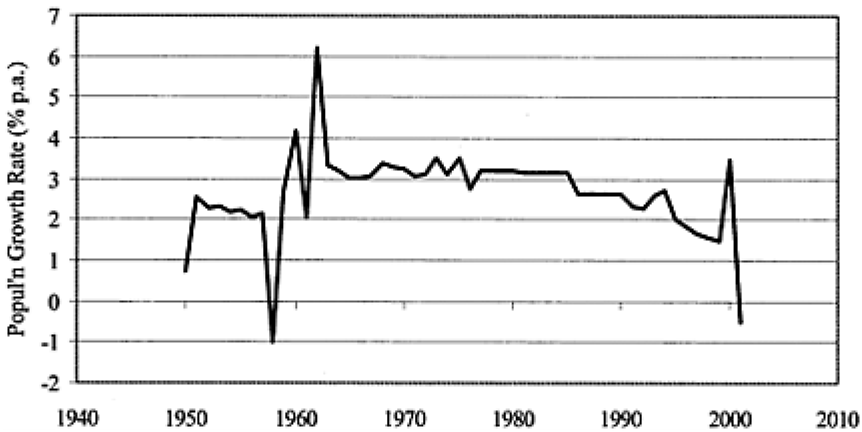


FIGURE 2.5 GROSS DOMESTIC PRODUCT GROWTH p.a.

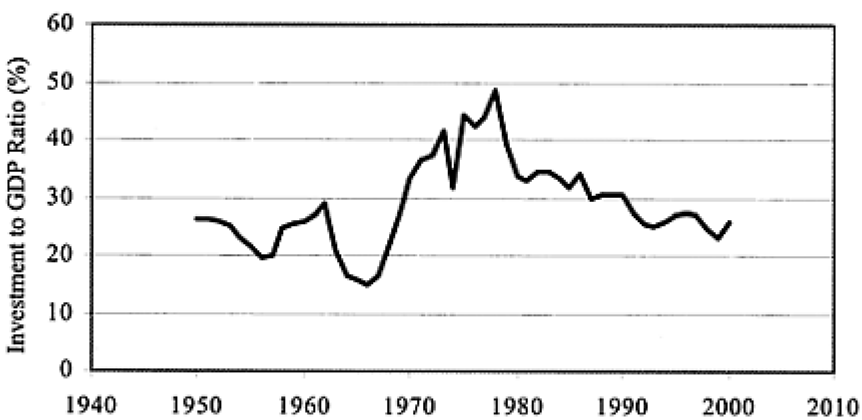


In general the LMI countries have experienced slower growth in the 1990s as compared to the 1980s. Morocco and Tunisia contracted their agricultural output in the 1990s as they moved resources into the faster growing, higher productivity industrial and service sectors, both of which have expanded (Morocco at 1.7 per cent for industry and 2.7 per cent for services; Tunisia at 4.0 per cent for industry and 5.6 per cent for services).

Capital Accumulation and Efficiency

The share of expenditure going to investment in Algeria has generally been high (see Figure 2.6). In the 1950s investment was 24 per cent of GDP; in the 1960s, 22 per cent; during the 1970s, 40 per cent; in the 1980s, 33 per cent and in the 1990s, 28 per cent.

FIGURE 2.6 INVESTMENT RATIO (%)



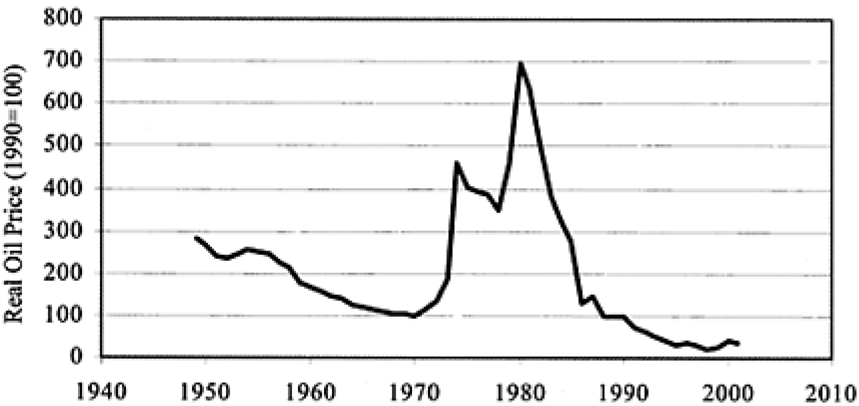
Accumulation of capital is one of the main sources of economic growth. However, as we have seen, Algeria's output growth since 1960 has been disappointing. Calculating capital productivity from the growth rates and the investment ratios, in the 1950s, capital productivity was 0.4 (that is, one million Algerian dinars (AD) of capital generated AD400,000 of output). However, this ratio fell to 0.02 in the 1960s, improved to 0.13 in the 1970s, and then fell to 0.10 in the 1980s and 0.04 in the 1990s.

It is difficult to avoid the conclusion that Algeria's considerable development effort in raising the investment ratio since the 1970s has been largely wasted by choice of inefficient investment projects.

Employment Growth

The high current rates of unemployment, 21 per cent in 1991 rising to an estimated 29 per cent in 1999, suggest considerable under-utilization of human resources, with the problem apparently getting worse.[9]

FIGURE 2.7 REAL OIL PRICE (1990=100)



International Trade Growth and the Exchange Rate

In the trade sector the main features are the heavy dependence on oil for export revenue, and poor performance in the other export sectors. The real price of oil (the dollar price per barrel deflated by the world price index) underwent a dramatic rise in the years 1973 to 1980 (see Figure 2.7). Although the price per barrel of oil in dollars is higher now than in 1973, world inflation has led to the real price being below the price in 1973.

Export volumes for Algeria have fallen in the 1990–95 period at a rate of −0.8 per cent a year. In the same period Morocco has expanded its export volumes (largely manufactures) by 0.8 per cent a year, and Tunisia has expanded its export volumes by 7.7 per cent a year (Tunisia's exports are 75 per cent manufactures).

Despite the sharp fall in the value of the currency in recent years (see Figure 2.8), the poor performance of the non-oil export sector, together with the relatively high reliance on food imports in Algeria, points to an exchange rate policy that has overvalued the Algerian dinar. For a long period, from 1960 until 1986, the exchange rate was maintained at a value of 0.2 dollar or more to the dinar. An overvalued exchange rate discourages non-oil exports and discourages output of import substitutes (such as food).

Inflation

Algeria's price stability has been mixed, but it now appears to be under control (see Figure 2.9). In the 1950s consumer prices rose, on average, by 4.8 per cent a year and by 4.2 per cent a year in the 1960s. In the 1970s the

FIGURE 2.8 EXCHANGE RATE (DOLLAR PER AD)

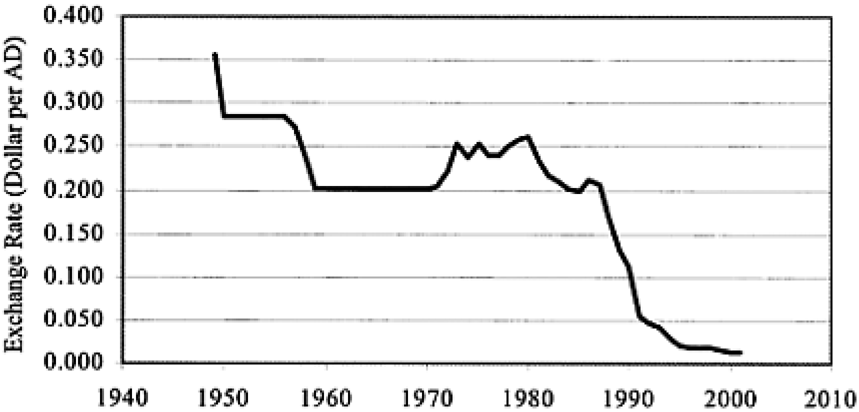
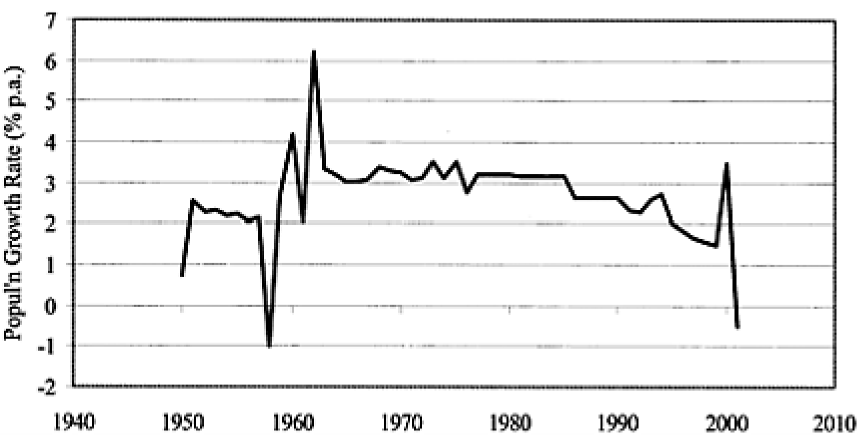


FIGURE 2.9 CONSUMER PRICE INFLATION (% p.a.)



inflation rate accelerated to 8.6 per cent a year, and remained at much this level in the 1980s, when inflation averaged 9.0 per cent a year. In the 1990s inflation was above 20 per cent for a period of six years, but since 1997 it has fallen to below 6 per cent. Nevertheless, the 1990s was the decade in which Algeria was most troubled by rising prices, and the average for the ten years is likely to be close to 20 per cent. Both Morocco with 7.5 per cent inflation in the 1980s and 5.0 per cent 1991–96 and Tunisia with 8.3 per cent and 5.2 per cent for the same periods, have had better price stability records than Algeria.[10]

MACRO-ECONOMIC POLICY

Overview

The sections on macro-economic structure and performance have indicated various areas of weakness in the Algerian economy. What should be a source of great strength, the presence of substantial oil deposits, has been allowed, through poor policies, to create problems arising from the oil-dependent composition of output and exports. Other countries (most notably Nigeria) have pursued similar poor economic policies and suffered periods of similar economic stagnation and decline. Sound policies by an oil-exporting country, as has been shown emphatically by Indonesia, can result in impressive improvements in prosperity. Estimates of GDP per head indicate that living standards in Algeria are, if anything, slightly lower at the present time than in 1960. Indonesia, by way of contrast, has, in the same period, increased average living standards more than threefold. What has Indonesia managed to do right that Algeria (and Nigeria) have done wrong? Before looking at issues of macro-economic policy, the following sections discuss two aspects of the environment in which the economy operates, both of which have a bearing on the effectiveness of macro-economic policies.

Stability and Security

Significant economic progress is impossible in circumstances of civil conflicts and the absence of law and order. Economic life is reduced to a short-term struggle for survival, and long-term plans and investment—the foundations on which improving prosperity are built—are sacrificed. In the Algerian context, the restoration of stability and security is a challenge for the political leadership.

Inasmuch as economics has anything to contribute to this issue, it is that multiparty democracy is more likely to provide the conditions of general consensus in which absence of conflict and economic progress can be established. However, there are significant exceptions to this generalization, notably China and, until recently, Indonesia.

A second observation is that a competitive market economy based on private ownership is probably more conducive to political stability than an economy with extensive state ownership, regulation and control. In the latter case, political power is frequently perceived as the only route to material well-being and privilege both by individuals and sectional interests. Struggles for power, leading to conflicts and the breakdown of law and order, are the common result of such a system, even though a repressive regime may prevent complete collapse for a considerable period of time.

The Market Economy and the State

There is now strong evidence that a competitive market economy based on private ownership is more efficient in allocating resources and providing incentives, and thus more effective in satisfying the material needs of society, than an economy with enterprises run by the state. The drive towards privatization is thus an essential element in improving economic efficiency and raising the productivity of capital from the current low levels towards those achieved in Algeria in the 1950s.

There is an important role for government in the market economy, however, in providing stability and security, a framework of law and order in which private property is recognized and contracts upheld, in disseminating information, guarding against fraud (particularly in the banking sector) and ensuring competition. Where the private sector is unwilling to provide basic infrastructure, whether because of transaction costs, externalities, or the risk associated with large projects, there is a role for state provision. Where there is a strong social preference for equitable access, as in basic education and health, these considerations can make state provision appropriate despite the lower efficiency.

Finally, it is invariably the wish of the populace that the government endeavours to provide economic policies that lead to improvements in living standards through encouraging economic growth. These are mainly issues of macro-economic policy, to which we now turn.

Inflation, Monetory Policy and the Government Budget

Low inflation, below 5 per cent annual increase in prices, is a key feature of successful economies. It encourages business, including foreign investment, reduces transaction costs and contributes towards the maintenance of a stable exchange rate. Low inflation is achieved by sound monetary policy, which requires careful control of the money supply.

In Algeria the heavy reliance by the government on revenue from the oil sector, especially when oil prices are so variable, make it difficult for the government to avoid budget deficits from time to time. Until recently, there was little scope for funding a budget deficit by borrowing from the public.[11] With the deregulation of the financial sector, particularly the freeing up of interest rates and the introduction of short-term financial assets, it should be increasingly possible to fund a budget deficit without expanding the money supply. However, although this is desirable on inflation grounds, it has the effect of raising interest rates and crowding out private investment, with long-term adverse effects on growth.

In the longer term the government needs to develop other sources of revenue, and this will become more likely if the economy can expand the non-oil sectors. Privatization proceeds can be used to reduce government debt and the burden of recurrent debt servicing. In addition, privatization can end the need for repeated subsidies to loss-making state-owned enterprises.

Savings and Investment

Deregulation of interest rates, such that real interest rates become positive, encourages private saving. There is evidence of this after the financial sector reforms in Algeria.[12] Positive real interest rates are an important factor in raising the productivity of investment. If real interest rates are negative (that is, the inflation rate is higher than the nominal interest rate), borrowers are encouraged to invest in unproductive assets such as land, gold and jewellery, on which they can make comparatively riskless returns.

Trade Policy

There is now considerable evidence that economies that are more open to international trade are more efficient, and grow faster.[13] Liberalization of trade by lowering import tariffs and other barriers brings about substantial long-term efficiency gains by reallocation to sectors where the economy has a competitive advantage, while allowing consumers and importers of industrial raw materials to have access to the cheapest markets.

Foreign Investment

The market economy works best when there is vigorous competition. Foreign investment is vital in this regard, for it can provide competition for familyowned businesses in Algeria, which often enjoy exclusive markets, as well as for privatized state-owned enterprises.[14] Foreign investment is also important in improving the productivity of capital. Investment from outside is the vehicle whereby technological improvements are introduced into the economy. It can also be important in increasing the skill levels of the workforce.

Education and Skills Training

If the labour force is better educated, trained and skilled, workers become more productive, and output and incomes increase. Indeed, it is not possible to introduce new technology, which further serves to improve the productivity of labour, without skilled workers. So important are education and training that they have enabled economies such as Hong Kong and Singapore, without any significant land or natural resources, to develop into high-income economies, relying solely on the enterprise, skill and motivation of their peoples. As we have seen earlier, there is considerable scope for Algeria to improve its educational provision.

Exchange Rate Policy and Export Promotion

The main reason why Indonesia has been able to develop its non-oil sectors and expand its exports of non-oil goods—thus avoiding heavy dependence on the oil sector for both GDP and foreign exchange—has been its exchange rate policy. This issue is dealt with in more detail elsewhere.[15]

Indonesia has ensured that its exchange rate has been set at a level that both makes its exports competitive and encourages import-substituting industries. If this has meant depreciating the currency, then Indonesia has not hesitated to do so. A low value of the Indonesian currency serves first to make imports expensive, encouraging domestic manufacturing. Once established, these domestic manufactures have improved their productivity, competitiveness and quality to the extent that they have been able to become successful exporters. The low value of the currency has also encouraged foreign investors, who have introduced new technologies and improved labour force skills, further raising the competitiveness of Indonesian manufacturing. As a result, Indonesian export volumes grew at 5.3 per cent a year in the 1980s, and for much of the 1990s at over 20 per cent a year. The rapid growth of manufacturing exports has been the main reason for Indonesia's success in avoiding heavy dependence on oil, and has spearheaded its rapid growth in incomes and living standards.

CONCLUSION

It is difficult not to be disappointed in Algeria's economic performance in the last four decades. The presence of oil, and the subsequent dramatic rise in its price, should have provided a major impetus to economic progress and the improvement of living standards. Alas, as in another African oil-producing country, Nigeria, excessive reliance on state-owned enterprises, the discouragement of foreign investment and a misguided exchange rate management, have resulted in minimal improvements in living standards. By contrast, Indonesia, another oil producer, has made remarkable progress—tripling living standards—by virtue of avoiding the mistakes of Nigeria and Algeria. The economic lessons are clear, and with the political will to implement them, economic progress can be restored.

TABLE 2.1 POPULATION GROWTH, 1950–2001 (ALGERIA)

Year	Population (million)	Population growth (%)	Population growth (%)
1949	7.88		
1950	7.94	0.7	
1951	8.14	2.5	
1952	8.33	2.3	
1953	8.52	2.3	
1954	8.71	2.2	
1955	8.90	2.2	
1956	9.09	2.1	
1957	9.28	2.1	

1958	9.19	−1.0	1950–59
1959	9.43	2.7	1.9
1960	9.83	4.2	
1961	10.03	2.1	
1962	10.65	6.2	
1963	11.00	3.3	
1964	11.36	3.2	
1965	11.70	3.0	
1966	12.06	3.0	
1967	12.43	3.1	
1968	12.85	3.4	1960–69
1969	13.27	3.3	3.5
1970	13.70	3.2	
1971	14.12	3.1	
1972	14.55	3.1	
1973	15.07	3.5	
1974	15.54	3.1	
1975	16.08	3.5	
1976	16.53	2.8	
1977	17.06	3.2	
1978	17.60	3.2	1970–79
1979	18.16	3.2	3.2
1980	18.74	3.2	
1981	19.33	3.2	
1982	19.94	3.2	
1983	20.57	3.1	
1984	21.22	3.2	
1985	21.89	3.2	
1986	22.47	2.6	
1987	23.06	2.6	
1988	23.67	2.6	1980–89
1989	24.29	2.6	3.0
1990	24.94	2.6	
1991	25.51	2.3	

1992	26.10	2.3	
1993	26.77	2.6	
1994	27.50	2.7	
1995	28.06	2.2	
1996	28.54	1.8	
1997	29.05	1.7	
1998	29.51	1.6	1990–99
1999	29.95	1.5	2.1
2000	30.99	3.5	
2001	30.84	−0.5	

Sources: IMF *International Financial Statistics*, World Bank *World Tables* and EIU *Country Reports: Algeria*.

TABLE 2.2 GROSS DOMESTIC PRODUCT AND ITS GROWTH, 1950–2001 (ALGERIA)

Year	GDP 1987 prices (billion AD)	GDP 1987 prices Growth (% p.a.)	GDP 1987 prices Growth (% p.a.)
1950	60.76		
1951	62.73	3.2	
1952	65.46	4.4	
1953	65.86	0.6	
1954	72.83	10.6	
1955	76.28	4.7	
1956	92.41	21.2	
1957	102.25	10.6	
1958	107.15	4.8	1951–59
1959	123.32	15.1	8.4
1960	98.16	−20.4	
1961	97.35	−0.8	
1962	78.40	−19.5	
1963	102.57	30.8	
1964	103.72	1.1	
1965	107.31	3.5	

1966	98.33	−8.4	
1967	103.55	5.3	
1968	112.05	8.2	1960–69
1969	118.09	5.4	0.5
1970	126.75	7.3	
1971	124.30	−1.9	
1972	137.04	10.2	
1973	147.49	7.6	
1974	136.84	−7.2	
1975	145.32	6.2	
1976	156.11	7.4	
1977	162.84	4.3	
1978	177.63	9.1	1970–79
1979	192.08	8.1	5.1
1980	191.65	−0.2	
1981	195.55	2.0	
1982	208.99	6.9	
1983	222.95	6.7	
1984	233.81	4.9	
1985	250.73	7.2	
1986	253.34	1.0	
1987	253.58	0.1	
1988	249.11	−1.8	1980–89
1989	259.31	4.1	3.1
1990	251.06	−3.2	
1991	245.90	−2.1	
1992	253.51	3.1	
1993	254.10	0.2	
1994	251.30	−1.1	
1995	261.11	3.9	
1996	271.03	3.8	
1997	274.55	1.3	
1998	288.55	5.1	1990–99
1999	297.79	3.2	1.4

2000	304.93	2.4
2001	310.73	1.9

Sources: IMF *International Financial Statistics* and World Bank *World Tables*.
Note: Figures for 1999 and 2000 are estimates.

TABLE 2.3 GROSS DOMESTIC PRODUCT PER HEAD, 1950–2000 (ALGERIA)

Year	GDP per head 1987 prices (AD ’000)	GDP per head 1987 prices, growth (% p.a.)	GDP per head 1987 prices, growth (% p.a.)
1950	7.65		
1951	7.70	0.7	
1952	7.86	2.0	
1953	7.73	−1.7	
1954	8.36	8.2	
1955	8.57	2.5	
1956	10.17	18.7	
1957	11.02	8.3	
1958	11.66	5.8	1951–59
1959	13.08	12.1	6.3
1960	9.99	−23.6	
1961	9.71	−2.8	
1962	7.36	−24.2	
1963	9.32	26.6	
1964	9.13	−2.0	
1965	9.17	0.4	
1966	8.16	−11.1	
1967	8.33	2.2	
1968	8.72	4.7	1960–69
1969	8.90	2.1	−2.8
1970	9.25	4.0	
1971	8.81	−4.9	
1972	9.42	6.9	
1973	9.79	4.0	
1974	8.81	−10.0	

1975	9.04	2.6	
1976	9.44	4.5	
1977	9.55	1.1	
1978	10.09	5.7	1970–79
1979	10.58	4.8	1.9
1980	10.23	−3.3	
1981	10.12	−1.1	
1982	10.48	3.6	
1983	10.84	3.4	
1984	11.02	1.7	
1985	11.46	4.0	
1986	11.28	−1.6	
1987	11.00	−2.5	
1988	10.53	−4.3	1980–89
1989	10.67	1.4	0.1
1990	10.07	−5.7	
1991	9.64	−4.3	
1992	9.71	0.8	
1993	9.49	−2.3	
1994	9.14	−3.7	
1995	9.29	1.7	
1996	9.48	2.0	
1997	9.43	−0.4	
1998	9.44	0.1	1990–99
1999	9.49	0.5	−1.1
2000	9.63	1.5	

Sources: IMF *International Financial Statistics* and World Bank *World Tables.*
Note: Figures for 1999 and 2000 are estimates.

TABLE 2.4 PRICES, 1950–2001 (ALGERIA)

Year	GDP price index (1987=100)	GDP inflation (% p.a.)	GDP inflation (% p.a.)	Consumer price index (1987=100)	Consumer inflation (% p.a.)	Consumer inflation (% p.a.)
1950	7.67	3.8		9.50	3.8	
1951	8.56	11.6		10.61	11.6	
1952	9.60	12.1		11.89	12.1	
1953	9.85	2.6		12.20	2.6	
1954	9.60	−2.5		11.89	−2.5	
1955	9.83	2.4		12.18	2.4	
1956	9.98	1.5		12.36	1.5	
1957	10.50	5.3		13.01	5.3	
1958	11.54	9.9	1950–59	14.30	9.9	1950–59
1959	11.66	1.1	4.8	14.45	1.1	4.8
1960	13.62	16.8		16.87	16.8	
1961	12.28	−9.9		15.21	−9.9	
1962	12.52	2.0		15.51	2.0	
1963	12.89	2.9		15.96	2.9	
1964	13.80	7.1		17.10	7.1	
1965	14.41	4.4		17.86	4.4	
1966	15.15	5.1		18.76	5.1	
1967	15.63	3.2		19.37	3.2	
1968	16.67	6.6	1960–69	20.66	6.6	1960–69
1969	17.34	4.0	4.2	21.49	4.0	4.2
1970	18.02	3.9		22.32	3.9	
1971	18.87	4.7		23.38	4.7	
1972	19.97	5.8		24.74	5.8	
1973	21.68	8.6		26.86	8.6	
1974	32.43	49.6		28.14	4.8	
1975	34.19	5.4		30.66	9.0	
1976	37.95	11.0		33.38	8.9	
1977	42.44	11.8		37.42	12.1	
1978	46.70	10.0	1970–79	43.84	17.2	1970–79

1979	53.19	13.9	12.5	48.86	11.5	8.6
1980	66.81	25.6		53.53	9.6	
1981	76.42	14.4		61.34	14.6	
1982	77.83	1.8		65.44	6.7	
1983	83.17	6.9		69.34	6.0	
1984	88.69	6.6		74.97	8.1	
1985	92.62	4.4		82.83	10.5	
1986	94.71	2.3		93.07	12.4	
1987	100.00	5.6		100.00	7.4	
1988	112.91	12.9	1980–89	105.91	5.9	1980–89
1989	128.76	14.0	9.5	115.77	9.3	9.0
1990	167.01	29.7		135.01	16.6	
1991	265.75	59.1		169.95	25.9	
1992	324.25	22.0		223.78	31.7	
1993	364.93	12.5		269.74	20.5	
1994	408.08	11.8		348.04	29.0	
1995	435.11	6.6		460.10	32.2	
1996	504.13	15.9		559.73	21.7	
1997	505.83	0.3		591.64	5.7	
1998	446.42	−11.7	1990–99	622.40	5.2	1990–99
1999	526.29	17.9	16.4	657.25	5.6	19.4
2000	634.71	20.6		695.38	5.8	
2001	609.41	−4.0		695.38	5.8	

Sources: IMF *International Financial Statistics,* World Bank *World Tables* and EIU *Country Reports: Algeria*.

TABLE 2.5 INVESTMENT, 1950–2000 (ALGERIA)

Year	GDP nominal (billion AD)	Investment nominal (billion AD)	Investment to GDP (%)	Investment to GDP (%)
1950	4.60	1.2	26.1	
1951	5.30	1.4	26.4	
1952	6.20	1.6	25.8	
1953	6.40	1.6	25.0	

1954	6.90	1.6	23.2	
1955	7.40	1.6	21.6	
1956	9.10	1.8	19.8	
1957	10.60	2.1	19.8	
1958	12.20	3.0	24.6	1950–59
1959	14.20	3.6	25.4	21.2
1960	13.20	3.4	25.8	
1961	11.80	3.2	27.1	
1962	9.70	2.8	28.9	
1963	13.10	2.7	20.6	
1964	14.10	2.3	16.3	
1965	15.20	2.4	15.8	
1966	14.70	2.2	15.0	
1967	16.20	2.7	16.7	
1968	18.70	4.1	21.9	1960–69
1969	20.50	5.7	27.8	21.6
1970	22.90	7.6	33.2	
1971	23.50	8.6	36.6	
1972	27.40	10.2	37.2	
1973	32.10	13.3	41.4	
1974	55.60	17.7	31.8	
1975	61.60	27.3	44.3	
1976	74.10	31.5	42.5	
1977	87.20	38.4	44.0	
1978	104.80	50.8	48.5	1970–79
1979	128.20	50.4	39.3	39.9
1980	162.30	54.9	33.8	
1981	191.50	63.0	32.9	
1982	207.60	71.5	34.4	
1983	233.80	80.3	34.3	
1984	263.90	87.5	33.2	
1985	291.60	92.8	31.8	
1986	296.60	101.3	34.2	
1987	312.70	92.9	29.7	

1988	320.00	97.3	30.4	1980–89
1989	422.00	115.8	29.7	32.4
1990	554.40	141.9	30.4	
1991	862.10	215.8	27.4	
1992	1,074.70	278.0	25.6	
1993	1,189.70	329.1	25.0	
1994	1,487.40	407.5	25.9	
1995	2,005.00	541.8	27.2	
1996	2,570.60	639.4	27.4	
1997	2,780.20	638.1	27.0	
1998	2,810.10	728.8	24.9	1990–98
1999	3,215.10	789.9	23.0	26.4
2000	4,078.70	869.3	25.9	

Sources: IMF *International Financial Statistics* and World Bank *World Tables*.

TABLE 2.6 EXCHANGE RATE, 1949–2001 (ALGERIA)

Year	Exchange rate (AD per dollar)	Exchange rate (dollar per AD)
1949	2.82	0.355
1950	3.50	0.286
1951	3.50	0.286
1952	3.50	0.286
1953	3.50	0.286
1954	3.50	0.286
1955	3.50	0.286
1956	3.50	0.286
1957	3.68	0.272
1958	4.26	0.235
1959	4.94	0.203
1960	4.94	0.203
1961	4.94	0.203
1962	4.94	0.203
1963	4.94	0.203

1964	4.94	0.203
1965	4.94	0.203
1966	4.94	0.203
1967	4.94	0.203
1968	4.94	0.203
1969	4.94	0.203
1970	4.94	0.203
1971	4.91	0.204
1972	4.48	0.223
1973	3.96	0.253
1974	4.18	0.239
1975	3.95	0.253
1976	4.16	0.240
1977	4.15	0.241
1978	3.97	0.252
1979	3.85	0.260
1980	3.84	0.261
1981	4.32	0.232
1982	4.59	0.218
1983	4.79	0.209
1984	4.98	0.201
1985	5.03	0.199
1986	4.70	0.213
1987	4.85	0.206
1988	5.92	0.169
1989	7.61	0.131
1990	8.96	0.112
1991	18.47	0.054
1992	21.84	0.046
1993	23.35	0.043
1994	35.06	0.029
1995	47.66	0.021
1996	54.75	0.018
1997	57.71	0.017

1998	58.74	0.017
1999	66.57	0.015
2000	75.26	0.013
2001	77.22	0.013

Sources: IMF *International Financial Statistics* and World Bank *World Tables*.

TABLE 2.7 PETROLEUM PRODUCTION, 1958–2001 (ALGERIA)

Year	Petroleum production (,000 b/d)
1950	
1951	
1952	
1953	
1954	
1955	
1956	
1957	
1958	13
1959	27
1960	188
1961	333
1962	440
1963	511
1964	564
1965	564
1966	721
1967	832
1968	913
1969	953
1970	1,026
1971	789
1972	1,066
1973	1,082

1974	1,005
1975	975
1976	1,067
1977	1,139
1978	1,204
1979	1,132
1980	957
1981	819
1982	703
1983	685
1984	648
1985	638
1986	609
1987	644
1988	649
1989	704
1990	776
1991	814
1992	800
1993	770
1994	750
1995	760
1996	820
1997	850
1998	820
1999	758
2000	850

Sources: IMF *International Financial Statistics* and World Bank *World Tables*.

TABLE 2.8 PETROLEUM PRICES, 1949–2001 (ALGERIA)

Year	Petroleum price index (1990=100)	World price index (1990=100)	Petroleum real price index (1990=100)
1949	9.99	3.5	283.5
1950	9.39	3.5	265.4
1951	9.39	3.9	242.5
1952	9.39	4.0	232.8
1953	10.10	4.1	247.5
1954	10.59	4.1	256.5
1955	10.59	4.2	252.7
1956	10.59	4.3	245.5
1957	10.21	4.5	227.4
1958	10.04	4.7	214.9
1959	8.56	4.8	177.5
1960	8.23	5.0	165.6
1961	7.96	5.1	156.2
1962	7.79	5.3	147.6
1963	7.68	5.5	139.6
1964	7.30	5.8	127.0
1965	7.30	6.0	121.0
1966	7.30	6.3	115.1
1967	7.30	6.7	109.7
1968	7.30	6.9	105.8
1969	7.70	7.2	106.9
1970	7.70	7.6	101.3
1971	9.10	8.0	113.8
1972	11.50	8.5	135.3
1973	17.30	9.3	186.0
1974	49.60	10.8	459.3
1975	49.20	12.2	403.3
1976	54.00	13.7	394.2
1977	59.20	15.3	386.9

1978	58.20	16.7	348.5
1979	86.50	18.8	460.1
1980	152.90	22.0	695.0
1981	162.90	25.6	636.3
1982	147.40	29.5	499.7
1983	129.80	33.9	382.9
1984	125.50	39.1	321.0
1985	125.50	45.2	277.7
1986	65.02	50.6	128.5
1987	83.46	57.9	144.1
1988	66.60	67.7	98.4
1989	76.10	77.3	98.4
1990	100.00	100.0	100.0
1991	84.10	118.0	71.3
1992	84.40	139.2	60.6
1993	84.10	165.9	50.7
1994	84.60	203.6	41.6
1995	71.20	226.1	31.5
1996	86.36	240.7	35.9
1997	79.74	252.8	31.9
1998	54.11	265.4	20.4
1999	77.20	272.7	28.3
2000	117.33	282.9	41.5
2001	100.46	286.3	35.1

Sources: IMF *International Financial Statistics* and World Bank *World Tables*.

NOTES

1. Details of the procedures used to link various series and the construction of the price deflators used to convert nominal values to constant price figures can be obtained from the author. Where possible, figures provided by the IMF and the World Bank have been used for compiling the data series. Experiments with data from alternative sources, although affecting some of the magnitudes, do not affect the general conclusions of the paper.
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CHAPTER 3
Implications of Algeria's WTO Accession

SALAH SALHI

The process of joining the World Trade Organization (WTO) and integrating into the world economy—through adopting economic and trade liberalization policies—would result in a number of consequences for Algeria that require a careful evaluation of the expected costs and benefits. This is imperative, as it enables the decision-makers to adopt appropriate economic policies with a view to restructuring the national economy and enhancing its efficiency and competitiveness, both in the productive and services sectors. The state therefore has to play a major and more active role in modernizing the economy to face up to the regional and global changes.

This chapter seeks to evaluate the costs and benefits associated with Algeria becoming a member of the WTO, under the circumstances prevailing in 2003 and in the absence of a national strategy of economic restructuring. It focuses on the effects arising from the country's commitment to the obligations in the area of trade, services and the trade-related aspects of intellectual property rights. Further, it attempts to delineate some public policy measures deemed necessary to smooth the economic transition and ease the impact of integration.

CURRENT FEATURES OF THE ALGERIAN ECONOMY

To assess the implications of Algeria's accession to the WTO, some characteristics of the country's economy ought to be highlighted. These will help to determine the degree of the impact on the national economy.

The Algerian economy is undoubtedly one of the most important in Africa, thanks to its natural resources, material wealth and the size of its human capital. In addition, there are now important financial reserves as well. However, the succession of inconsistent economic policies every so often and their inefficiency in practice has proved detrimental to the economy and has weakened its chances to integrate into the world economy. As a corollary, Algeria is showing the following features:

- a relatively highly indebted economy;
- an economy relying on the export of natural resources or an oil-rentier economy; and
- an economy increasingly affected by certain bureaucratic practices.

TABLE 3.1 INDICATORS ON ALGERIA'S FOREIGN DEBT, SELECTED YEARS

	1990	*1992*	*1994*	*1996*	*1995*	*2000*	*2001*
External debt (billion dollars)	26.6	25.9	28.9	33.2	30.3	25.1	22.5
Debt service (billion dollars)	8.9	9.3	4.5	4.3	5.2	4.5	4.4
Debt service (%)	66.4	76.5	47	31	47.5	20	22.2
Debt to GDP (%)	48	63	70	74	65	47	47

Sources: Bank of Algeria, Situation de la dette extérieure de l'Algérie 1990–2000; and Conseil National Economique et Social, *Rapport sur la situation économique et sociale du second semestre 2001* (Algiers: CNES, 2001), p. 85.

To start with, one must bear in mind that most government policies have focused on tackling the debt crisis. At present, it is quite clear that the Algerian economy is experiencing what may be termed a chronic indebtedness. Existing levels of external debt make it difficult for the country to escape the stringent conditions attached to it. Table 3.1 provides an indication of Algeria's foreign debt.

External debt remains a constraint and a condition that affects the course that any restructuring of the economy would take. Despite a decrease in debt service—due to the growth of export earnings resulting from an increase in oil prices in recent years—the volume of debt has not decreased to a level that makes possible the revitalization of the economy, especially when the liberalization of trade has already been achieved.

Next is the country's continued economic dependence on the export of natural resources, namely hydrocarbons. A policy of this sort not only seems to have neglected the limits of the oil and gas reserves and the necessity to find alternative sources of energy, but also the need to protect the rights of future generations to these resources. This situation, characterized by a policy chiefly focused on developing and expanding the export of primary commodities, to the detriment of an industrialization strategy, has made the Algerian economy largely dependent on revenues from its natural resources. For instance, the contribution of hydrocarbons to the country's GDP is estimated to be about 35 per cent. These also represent 64 per cent of total revenue, that is, about AD720 billion. Undoubtedly, an economy mostly relying on earnings derived from the export of primary commodities may be adversely affected once membership of the WTO is completed.

Last, but not least, is an economy that is affected by bureaucracy. This has a negative bearing on the dynamism and normal course of economic life. It means that the bureaucracy is acting as a stumbling block to all institutions charged with carrying out the reform programme. It is not surprising to see that parallel economic networks have increased and the volume of wealth that circulates via their channels has developed in recent times. This issue is very serious, as it can most likely affect the reform policies needed to restructure the Algerian economy and the degree of impact expected after the accession to the WTO.

Many reforms have been attempted, but they have proven less successful because of the institutional weaknesses and the prevailing bureaucratic tendencies. There is no doubt that many projects have been delayed, frozen or simply abandoned. In some cases, one can note an absence of law enforcement and abuse of power and prerogatives by certain authorities. As such, this has not only weakened the state institutions, but has reduced public trust in them as well. All these factors are fundamental, and need to be seriously addressed to prepare the economy's integration into the world economy.

EXPECTED EFFECTS IN THE AREA OF TRADE IN GOODS

In order to obtain some indication of the expected effects on the Algerian economy, one needs to examine the country's structure of exports and imports. Given the prevailing economic policy, Algeria may not be able to bring about a change to the structure of its exports and launch new export lines of manufactured products during the first decade of the twenty-first century. Hence the export of primary products, particularly hydrocarbons, may well remain the major source of Algeria's revenue, as shown in Table 3.2. It can be seen that in the year 2000, hydrocarbons accounted for more than 97.2 per cent of all exports in value terms. A similar proportion was recorded in 2001, despite the decline in exports (about $2 billion).

It is obvious that the interest of many countries in joining the WTO is motivated by the prospects of improved and free access to markets, especially those of the developed countries. And since oil and gas products are not included in the WTO arrangements on trade in goods, it means around 98 per cent of Algerian exports would not receive any advantage from the accession of Algeria to this organization. The developed countries, as major consumers, have imposed high taxes justified by what they consider to be the rationalization of consumption and incentives to find alternative sources. Taxation and imposition have become important sources of revenue for the developed countries. A study has shown that the share of the exporting countries does not exceed 18 per cent of the price of manufactured petroleum products—estimated at $96 per barrel—whereas the share of the developed consumer countries is 66 per cent. The costs and profits of oil companies reach 16 per cent. In other words, more than 80 per cent of the price structure goes to the developed consumer countries and their companies.[1]

It is noticeable that, at the time when the crude oil prices declined from $28 in 1984 to less than $19 in 1997, manufactured oil products increased from $60 to exceed $96 over the same period. As far as Algeria is concerned, this suggests that its admission to the WTO is not going to bring the country the advantages that trade liberalization would normally produce. This is because of the composition of Algeria's exports, which, outside hydrocarbons, do not exceed 1.8 per cent of total exports at best.

TABLE 3.2 STRUCTURE OF EXPORTS (BILLION DOLLARS), 1994–2001

	1994	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Total	8.9	10.3	13.2	13.8	10.1	12.3	22.03	20.04
Fuels products	8.6	9.7	12.7	13.2	19.8	11.9	21.42	19.5
Other products	0.28	0.53	0.57	0.64	0.37	0.41	0.62	0.40

Sources: Bank of Algeria, *The Economic and Monetary Development in Algeria* (Algiers: Bank of Algeria, 2000); Direction Générale des Douanes, http://www.douanescnis.dz/cnis/stat/result.asp, accessed 27 February 2003.

If one takes on board the World Bank predictions about the possible decline of oil prices to $13.7 by 2010, this would translate into more adverse effects.[2] This, according to this future scenario, by implying an over-exploitation, could lead to a depletion of energy resources with a view to maintaining export revenues at a level that permits the payment of external debt and the cost of imports of capital and foodstuff products. A situation of this sort requires the adoption of a strategy focused on the development of new exports—agricultural and industrial alike—that could enable the Algerian economy to benefit from its WTO membership.

On the side of imports, Algeria is expected to experience the detrimental effect resulting both from the rising prices of some imported goods and the impact of imports on the national economy. Food products constitute a significant proportion of total imports, and could easily reach nearly $3 billion if local consumers' needs are fully satisfied.

One of the most important accomplishments of the Uruguay Round was the integration of agriculture into the international trading system. With the provisions that require the developed countries to reduce, among other things, domestic support to their farmers and export subsidies for their agricultural products, this may well lead to price rises of these goods on the international market.[3] Therefore, most food importing countries will have to bear the brunt of higher food bills. As far as the Arab countries are concerned, this increase is estimated at about $5 billion per year. For the particular case of Algeria this would amount to $300–$400 million more on an annual basis. According to a study conducted by the Organization for Economic Cooperation and Development (OECD) in association with the World Bank, the effects of the progressive liberalization of trade in agricultural products would result in price increases of the sort revealed in Table 3.3.

On the one hand, this means that Algeria's food import costs would increase or possibly remain unchanged, leading to the growth of poverty. This would be at a time when the agricultural sector continues to suffer serious structural imbalances (see chapter six). The sector suffers from low productivity, deteriorated output, small levels of investment and, above all, rural instability caused by a growing disinterest in agricultural activity as a whole. On the other hand, the positive side is that the effects of multilateral liberalization in this sector could compel the authorities to revitalize the agriculture sector and develop its competitiveness.

TABLE 3.3 ESTIMATES OF PRICE RISES OF SOME AGRICULTURAL PRODUCTS

Goods	*Percentage of price rises (year 2000)*	*Value (dollar/tonne)*
Cereals	9	15
Wheat	17	26
Sugar	47	152
Vegetables	12	42
Fruits	12	47
Meat	18	255
Dairy products	41	845

Source: Abdelwahed Al-Afouri, *Globalisation and the GATT: Challenges and Opportunities* (Cairo: Madbouli, 2000), p. 190.

As regards manufactured goods, prices will gradually rise especially in certain industrial branches, regardless of measures agreed upon at the Uruguay Round such as the decrease of taxation, subsidies and so forth. A number of reasons can be adduced to explain this trend. The most important are the growth of business mergers and the monopolistic grip of multinational companies on key industries and obviously on controlling prices. This may well affect national economies, given their limited competitiveness in some strategic areas in which the multinationals have complete control. It should also be borne in mind that the WTO has not thoroughly examined the role of multinational corporations, notably the impact of their monopolistic position on market performance and free competition. Thus, in the case of Algeria, one may expect a higher bill for the imports of manufactured and semimanufactured goods. This would be at a time when the domestic economy is incapable of developing import alternatives and its industrial output continues to decline. More important, there is not enough concern on the part of public authorities about assisting and promoting private and public enterprises, providing sufficient protection to domestic production and improving the support environment, notably in the banking sector. All these factors maintain pressure on the activity and operation of these enterprises.[4]

After briefly reviewing the implications of liberalization on certain imports (foodstuffs and industrial products), the expected impact resulting from the flow of imports in general on the domestic economy should be examined. In fact, Algeria has abolished all quantitative barriers on imports and has lowered tariffs to a certain extent, especially during the implementation phase of the structural adjustment programme.[5] This resulted in bigger trade liberalization, particularly with respect to imported products. Also, the number of importing companies rapidly increased to reach 45,000. Most of these were set up to benefit from import transactions for a limited period of time, and the authorities are finding it difficult to monitor them, or even to identify their revenues as they are well connected to some corruption networks.

With negotiations towards accession to the WTO at an advanced stage, this suggests that, once concluded, Algeria will have to adapt its tariff policies according to the trade arrangements designed for developing countries.[6] The corollary would be an increase in imports, which, in turn, might not augur well for the development of local production. Moreover, many domestic industries could experience a hard time, as they cannot face up to competition. Given the lack of competitiveness and the risks associated with it, there is a possibility that investment of local origin would target marginal economic activities at the expense of large-scale productive units. In one of its regular reports, the Conseil National Economique et Social, an Algerianbased think tank, raised this issue by pointing out that The absence of an industrial strategy capable of redressing domestic production has in no way helped existing companies as many of them are facing peril.'[7] A clear indication of this is revealed by the continuous decline of industrial production, which has decreased by nearly 30 per cent compared to the start year of 1989. This situation may well continue under present conditions, characterized by growing trade liberalization undertaken within the framework of the partnership agreement concluded with the European Union; the economic policies supported by the international organizations (World Bank, International Monetary Fund, etc.); and the preliminary arrangements for joining the WTO.

A final point of no less importance is that related to the impact on the state's revenue. The accession to the WTO, with all its requirements and subsequent commitments, would entail losses of revenue—including a reduction in export earnings. These losses are expected to result from:

- a fall in customs duties estimated between $1 and $1.5 billion per year;
- a higher bill on increased imports subsequent to the lifting of quantitative barriers;
- an increase in the cost of food imports consequent on higher prices on the international market, and the stagnant, if not deteriorating domestic production in the agricultural sector. In the event that the purchasing power of the Algerian consumer improves, this is expected to cost the public treasury between an extra $500 million and $1 billion; and
- a rise in expenses—in the form of subsidy and support to tackle, among other things, unemployment and poverty—to cushion the negative effects stemming from current economic changes. In the light of the official figures, these expenses vary between AD150 and AD200 billion, that is, the equivalent of more than $2.5 billion per year.

All in all, the total loss is believed to be no less than $3.5 billion yearly at a conservative estimate. Without a well-thought-out policy to restructure the economy in a way that smooths its integration into the world economy, it would prove hard for the authorities to maintain such levels of spending in conditions increasingly beyond their control.

EXPECTED EFFECTS IN THE AREA OF SERVICES

Before dealing with the impact of services on the country's economy, it is worth providing some facts about the importance of this sector. Indeed, prior to the conclusion of the Uruguay Round, international transactions in services became important both in developed and developing countries. For instance, between 1982 and 1992, exports of services grew at an annual average rate of 9.5 per cent, compared with 7.1 per cent for merchandise exports.[8] The result was that the share of services in total exports of goods and non-factor services increased from 17.7 per cent in 1982 to 21.1 per cent in 1992.[9]

In recent years the services sector has continued to witness rapid growth, estimated at nearly 3 per cent on average during the period 1999–2000.[10] It has also come to represent 60 to 70 per cent of GDP in the developed economies and more than 50 per cent in the developing ones. The significance of this sector can also be seen in its value, which reached more than $1,458 billion in 2001, representing more than 24 per cent of world exports of merchandise.[11]

Having said that, it was reported that the United States was the main proponent of the inclusion of trade in services in the Uruguay Round, while many developing countries resisted it until it was agreed that negotiations would be conducted outside the framework of the General Agreement on Tariffs and Trade (GATT).[12] It became one of the new areas that entered the remit of the international multilateral trading system, becoming as a result the General Agreement on Trade in Services (GATS). This arrangement was inspired by essentially the same objectives as its counterpart in merchandise trade, the GATT:[13]

- creating a credible and reliable system of international trade rules;
- ensuring fair and equitable treatment of all participants (principle of non-discrimination);
- stimulating economic activity through guaranteed policy bindings; and
- promoting trade and development through progressive liberalization.

Apart from two exceptions, the GATS applies to the entire services sector.[14] According to the WTO, there are at least six benefits associated with services liberalization: economic performance; development; consumer savings; faster innovation; greater transparency and predictability; and finally, technology transfer.[15]

This liberalization of trade in services takes place through market access and national treatment for each of the four modes of supplying services defined in Article 1 of the GATS.[16] These are:

- cross-border supply (the user receives the service from a provider located in another country);
- consumption abroad (the user consumes the service outside his country of residence);
- commercial presence (the service provider establishes a facility in the user’s country); and
- movement of natural persons (the service provider needs the temporary presence of non-resident natural persons in the user’s country).

As of June 2002, the state of play in the services negotiations was that 55 member governments of the WTO—32 of which represented developing countries—had put forward written proposals, either individually or jointly (European Union, Andean Community, Southern Common Market [MERCOSUR] and others).[17] Among the sectors covered were professional services (18 proposals), tourism (14 proposals), telecommunications and transport services (12 proposals each), financial services (11 proposals) and distribution (10 proposals).[18]

Like other sectors, the services sector displays disparate levels of development and progress between industrialized and developing countries. Overall, the latter are characterized by the weakness of this sector. In view of this gap, a speedy liberalization in this context would expose their services industries to stiff competition, given the asymmetrical level of development between both sides. Therefore it was no surprise to see the developed countries, led by the United States, pushing hard for greater liberalization given their competitive edge in this respect. This is despite the fact that the conclusion of the agreements in trade services—the subject of multilateral negotiations since January 2000, but formally launched in February 2000—would cover about 25 per cent of this sector in the developed countries and 7 per cent in the developing countries.

The effects of liberalization of the services sector in Algeria would amount, under present economic policies, to a difficult time given this sector's inadequate development, weak performance and consequent incapacity to face up to competition. If one considers areas such as the financial services, including banks and insurance companies, neither of Algeria's public or private sectors could compete with major foreign banks and insurance companies. These companies, with their efficient service quality, administrative competence and marketing and publicity strengths, would be in a better position to attract most of the deposits. Similarly, they could monitor the direction of this capital into investment areas and uses that are consistent with their strategies, taking less account of the interests of the national economy in which they are operating. In addition, the local consumer could benefit from their services (prices, quality, time, performance and diversity of service). For instance, the well-established international banks offer more than 360 services to their customers, whereas banks in developing countries offer at best around 40 services, mostly at lower standards.

The picture for the Algerian banks is no different from that of other developing countries. It constitutes a real risk and challenge for the domestic economy, which continues to suffer from the shortcomings of the services sector. Hence a rushed integration, through liberalization, would tend to put the economy under the control of international financial interests, be they banks or other organizations. The same could happen to the tourism industry, which is mostly still not developed. The absence of highly competent domestic businesses may well result in the expansion and control of international travel agencies and related companies over this industry, leading to outward flows of hard currency and the benefits of added value via the transfer of profits abroad.

EXPECTED EFFECTS ON INTELLECTUAL PROPERTY RIGHTS

Intellectual property rights, or more accurately the Trade-Related Intellectual Property Rights (TRIPs), are among the new areas to be brought under the discipline of the WTO. The agreement has been considered one of the most significant accomplishments under the Uruguay Round. It was also a success for the developed countries, as they were the almost exclusive instigators for its integration into the multilateral trade system.

Previously, intellectual property rights were the subject of many international agreements such as copyright (Berne Agreement), patents and trademark (Paris Agreement), the Rome convention and Washington convention for property rights on integrated circuits, in addition to the World Intellectual Property Organization (WIPO) founded in 1967. Notwithstanding all these agreements, the developed countries, led by the USA and the EU and under pressure from international companies, insisted on ensuring more protection within the framework of the TRIPs. Initially, the developing countries resisted the idea, maintaining that this area came under the auspices of the WIPO. Their argument was that its inclusion in TRIPs would prevent them from controlling technology and would allow the developed countries to maintain their monopolistic position in the scientific and knowledge areas on the pretext that the developing countries, companies violate the property rights through inventions, trademarks imitation, and so forth.

In the event, the developed countries succeeded in settling the issue through some sort of a mutual solution with the developing countries. As a result, the TRIPs arrangement became part of the multilateral trading system. The agreement states that 'The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.'[19]

It is quite clear that the agreement's aims would not automatically be realized in practical terms. On the contrary, it might prevent knowledge dissemination and the command of new techniques, burden the developing economies with high expenses for their technology acquisition and deprive them of the opportunities of participating in its development. Indeed, some observers pointed out that 'the developing countries, as net importers of technology, were initially reluctant to agree to higher levels of intellectual property protection because of concerns about its potentially adverse impact on prices and welfare'.[20] Furthermore, the agreement ensures high levels of protection in the area of property rights, something that is often in contradiction with the WTO liberalization principles and claims of worldwide cooperation and coordination in this context. All in all, the main beneficiaries of this arrangement are almost certainly to be in the high technology industry, the entertainment sector and the luxury goods industry.[21]

The TRIPs agreement came into force in January 1995. It is, to date, the most all-embracing multilateral agreement on intellectual property. The areas that it covers are: copyright and related rights (i.e. the rights of performers, producers of sound recordings and broadcasting organizations); trademarks, including service marks; geographical indications, including appellations of origin; industrial designs; patents, including the protection of new varieties of plants; the layout designs of integrated circuits; and undisclosed information, including trade secrets and test data.[22]

All contracting parties have committed themselves to well-defined and agreed-upon standards. These standards are aimed at protecting intellectual property rights against violations through each member's legislation by delineating permissible rights and exceptions and setting the minimum duration of protection. Cases of disputes between members have been made subject to the organization's dispute settlement procedures.

The key purpose of the TRIPs agreement is to control all stages of technological operations, starting from patents, to manufacturing procedures and then the final producer. In the past, the issue was just a control on the basic procedures and manufacturing operations of production that gave the developing countries some scope to produce similar products via various and cheap manufacturing methods. Today this is no longer the case, and it leads to depriving the developing economies—including Algeria—of the possibility of copying and imitating existing products. Henceforth, the control will be on two principal types of technology that influence the course of technological progress. These are the technology of production operations and the technology of new products. Moreover, it is expected that there will be an increase in the fees or royalties related to licences and patents, with all the repercussions this has on the cost of goods produced locally and on their competitiveness. In the pharmaceutical industry, for instance, the cost of producing a new, efficient and usable product may require something like $100 million to be spent on research and development. It is clear that a cost of this sort exceeds, most of the time, the developing countries' capacities.[23]

It has been argued that developing countries will experience welfare losses. For example, earlier estimates of annual static welfare losses for some developing countries ranged from $67 million to $387 million in the case of Argentina, and $220 million to $1.3 billion for India.[24]

In short, this confirms that the accession to the WTO under prevalent policies would prove costly to the Algerian economy. As the country can afford neither to be isolated from, nor to be affected by the world's rapid economic changes, the state is called to play a major role in restructuring its economy.

RESTRUCTURING TO MAXIMIZE THE BENEFITS OF INTEGRATION

There are a number of fundamental issues related to the state's role in reforming the national economy. These can be summarized as follows:

1. The strategic restructuring of the domestic economy is essential, as it enables Algeria to secure a smooth and beneficial integration into the world economy and to realize a balanced partnership with existing economic groupings. The reliance on unplanned economic policy measures cannot secure the right level of restructuring needed to adjust the economy and its productive institutions.
2. The role of the state in the developing and the developed economies is quite different. In the former, the size and nature of the challenges confronting the development course make the state's role more forceful and demanding, whereas in the latter this role is confined to facing up to those challenges that may affect the stability and durability of economic progress.
3. There is no strong economy in the modern world that can develop without the state's involvement. In all economies the state has, at different stages and times, played a strategic role. Furthermore, its role becomes more important through the diversity of its functions, especially under present developments, where this role goes well beyond the national arena.
4. There is no unique pattern in the nature of the role played by the state in the different economies. It is evident that discrepancies in performing this role do exist between the developing and developed countries. It differs in line with the size and kind of

economic resources, the levels of economic development, the nature of the political circumstances and of the economic and regional conditions. One may sometimes find that this role, its extent and limits differ within the same economic grouping. For example, the role of the state and the extent of its tasks are distinct in the French, British, German and Swedish experiences. Considering these experiences and benefiting from them could be quite valuable when engaging in the process of economic reforms.

Given these issues, one can only emphasize the major task to be performed by the state: that of upgrading the economy. The process of restructuring and modernizing the economy to smooth its integration into the world economy would be carried out both domestically and at regional and international levels.

The state's domestic task

In order to face up to the consequences stemming from strong and growing external competition, any restructuring of the national economy should focus on relying on its own potential. This potential ought to be enhanced, and would require taking a number of important measures. First, there is a case for sufficient time to be allowed before joining the WTO. This is needed to reconsider present economic policies. It seems that they have been followed in order to tackle short- or even medium-term problems, rather than to provide a long-term perspective on ways and means to restructure the country's economy. The experience Algeria had with international financial institutions (the World Bank and the International Monetary Fund) in recent years is also a consequence of these policies. Based on the priority given to monetary and financial balances, this experience had no major positive effect on economic development or on improving social conditions.

Second, because of these shortcomings, it is fundamental that current policies be changed. The changes in question must include the following components:

- the development of local economic potential;
- the upgrading of economic sectors or activities—industry, agriculture and services—in which Algeria enjoys comparative advantages;
- the support and restructuring of the private sector to expand its contribution to the developmental efforts by eliminating all bureaucratic and procedural barriers standing in its way;
- the promotion and development of partnerships with foreign parties in productive joint ventures; and
- the protection and preservation of public ownership in some strategic sectors of economic activity.

To all these elements, it is essential that there be added an effort at promoting the country's human resources, and reforming and modernizing its administrative and legal systems. Such an effort should also extend to all companies, by providing them with the necessary support in the form of an improved financial and banking system, a more reliable and transparent system of information, and so forth.

The state's regional and international role

There is no doubt that the integration into the world economy is necessary and inevitable. The use of various measures with a view to protecting the national economy has, all in all, resulted in industries lacking competitiveness and, in many cases, suffering from obsolete technology and low productivity. Surely, there are circumstances under which some form of protection may be required, but this should be on an exceptional basis only. The decision-makers need to adopt forward-looking and open policies that first and foremost enhance the comparative advantages of the national economy both regionally and internationally. This obviously requires the adoption of international standards and norms and improving the quality of domestic production. It also involves finding ways to cushion the effect of liberalization on the economy, through, for instance, active participation of the state in the decision-making process affecting international economic relations, and eventually taking part in economic integration schemes.

According to the 1997 UN statistics, the number of multinational companies was 44,508, including 276,660 subsidiaries worldwide.[25] These companies feature highly developed capabilities in production, technology, marketing and information. Although the negative perception of multi-national corporations has broadly changed in recent times, the state needs to make sure that there are minimum risks associated with the involvement of these multinationals in the local economy. Eventually, this can be done through some kind of coordinated position with other the developing countries, using existing regional and international frameworks and endeavouring to establish mechanisms that protect and enhance these countries' economic interests

CONCLUSION

Despite the size and significance of Algeria's economic resources, certain prevalent features in its economy might have an impact both on the process and outcome of accession to the WTO. It is an economy relatively indebted, largely dependent on natural resources export revenues, and affected, to a certain extent, by bureaucratic practices. Such a situation may well produce negative consequences for the country's economy if the arrangements made to join the WTO are taken too hastily, and without a clear vision and wellconceived strategy that not only takes on board strengths and weaknesses of the domestic economy, but weighs up the implications (risks and benefits) for its development as well.

Accordingly, the state is expected to embark on a serious and sustained programme of reforms that would ensure an efficient restructuring of the economy. The role the state should perform in an economy in transition, like that of Algeria, must take into consideration the importance of existing economic resources, and the extent to which they can be developed through the process of liberalization and integration into the world economy.

NOTES

This chapter was translated from Arabic into English by Nadhira Benaissa.

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3. United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report 1994* (New York and Geneva: UN Publications, 1994), pp. 132–4.
4. CNES, *Rapport sur la Conjoncture Economique et Social du Deuxième Semestre 2000* (Algiers: CNES, 2001), p. 1.
5. Karim Nashashibi, Patricia Alonso-Gamo, Stefania Bazzoni, Alain Feler, Nicole Laframboise and Sebastian Paris Horvitz, ‘Algeria: Stabilization and Transition to Market’, *IMF Occasional Paper*, 165 (6 August 1998).
6. This includes tariff and eventually non-tariff barriers.
7. CNES, *Rapport*, p. 9.
8. Richard Harmsen and Arvind Subramanian, ‘Economic Implications of the Uruguay Round’, in Naheed Kirmani (ed.), *International Trade Policies: The Uruguay Round and Beyond* (Washington, DC: IMF, 1994), p. 9.
9. Ibid.
10. World Bank, *World Development Indicators 2002* (Washington, DC: World Bank, 2002), p. 206.
11. WTO, *International Trade Statistics 2002* (Geneva: WTO, 2002), p. 3.
12. UNCTAD, *Trade and Development Report*, p. 151.
13. WTO, *The General Agreement on Trade in Services (GATS): Objectives, Coverage and Disciplines,* <http://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm>, accessed March 2003.
14. The exceptions are related to ‘services supplied in the exercise of governmental authority’ (Article 1[3]). These are services that are supplied neither on a commercial basis nor in competition with other suppliers. Cases in point are social security schemes and any other public service, such as health or education, that is provided at non-market conditions. In addition, the Annex on Air Transport Services exempts from coverage measures affecting air traffic rights and services directly related to the exercise of such rights. It may be helpful to mention here the most important services, as follows:

- *Business* includes specialized services (legal, accountancy, engineering, health…); computing and all related services (programming, data input, data processing…); research and services in natural, social, human sciences, property, rent and hire services (ships, aeroplanes, equipments and machines…); services related to publicity; marketing; administrative, scientific, tion and distribution; energy;

maintenance; photography, printing, publishing… artistic and analytic consultancies; services related to agriculture, fishing; steel; film produc-

- *Communication* includes post and telecommunications (express services, telephone, fax, telegraph, electronic mail, voice mail, facsimile, codes and signals…), audio-visual services (TV film production, distribution and release, video films, radio and TV services and broadcasting, recording…)
- *Infrastructure* and all related engineering services include general works of building and civil engineering, finishing off services…
- *Distribution* includes agents' services, wholesale and retail sales services, trade rights services…
- *Education* includes primary, secondary and higher education services, adult literacy…
- *Environment* includes services such as drainage, waste disposal…
- *Finance* and *insurance* include insurance services (life insurance, health insurance…), reinsurance, insurance assistance services, banking and financial services (deposits, loans, credits, payment, transfer services…), and all sorts of financial consultancy and assistance…
- *Health* and *social services* encompasses hospitals and other social and human health services…
- *Tourism* and *travel* include hotels and restaurants and associated supplies, services provided by the travel and tourism agents, tourist guides…
- *Sport, culture* and *leisure* comprise such activities as singing, theatre, circus; the services of the press agencies, libraries, museums…
- *Transport* includes maritime, air, space, rail, road and pipelines transport; assistance services for all means of transport (goods transport agencies, storage, warehouses…). There are services excluded from the Agreement that are more connected to domestic sovereignty, such as defence, security and justice services…

15. For details about these benefits, see WTO, *GATS—Facts and Fiction,* <http://www.wto.org/english/tratop_e/serv_e/gats_factfiction_e.htm>, accessed 8 March 2003.
16. Harmsen and Subramanian, 'Economic Implications', p. 9.
17. WTO Press Release, 300 (28 June 2002).
18. Ibid.
19. See Article 7 of the TRIPs.
20. Harmsen and Subramanian, 'Economic Implications', p. 12.
21. Ibid.
22. WTO, *Overview: The Trips Agreement,* <http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm>, accessed 11 March 2003.
23. Osama Al-Mejdub, *GATT, Egypt and Arab Countries: From Havana to Marrakech* (Cairo: Egyptian-Lebanese House, 1997), p. 308.
24. Judith Chin and Gene Grossman, 'Intellectual Property Rights and North-South Trade', in Ronald Jones and Anne Krueger (eds), *The Political Economy of International Trade—Essays in Honor of Robert E.Baldwin* (Oxford: Blackwell, 1990), quoted in Harmsen and Subramanian, 'Economic Implications', p. 12.

25. Figures quoted in J.-Louis Mucchielli, *Multinationales et Mondialisation* (Paris: Editions du Seuil, 1998).

CHAPTER 4
The Euro-Algerian Relationship: A Review of its Development

CHERIF BEGGA and KAMEL ABID

The exceptions to multilateralism provided for by the General Agreement on Tariffs and Trade (GATT) have led to a proliferation of regional agreements. Some of these bring together developed countries such as the European Union (EU), whereas others involve participation between developing countries, as is the case of the Southern Common Market (MERCOSUR) or the Association of Southeast Asian Nations (ASEAN). In another instance, membership includes both developed and developing countries—a prime example being the North American Free Trade Agreement (NAFTA). Of all the world groupings that furthered regional cooperation or integration, Europe is undoubtedly the one that has invested more in this area, both within its borders and in relation to the external world. As regards the internal level, the number of countries joining the Union passed from six in 1957 to 15 members in 1995, and with the planned enlargement in 2004 is expected to rise to 25. At the external level, the number of countries with which the EU has developed some form of contractual relationship has grown from 18 in 1957 to 117 countries in 2002.

These external relations—preferential and non-preferential trade links have taken two forms: a horizontal (or symmetrical) form involving member states with a comparable level of development, and a vertical (or asymmetrical) form involving developed and developing countries. It is this second type that marks North-South relations, because one can notice, particularly at the level of trade exchanges, a very pronounced South-North dependence and a less evident one on the opposite direction of North-South. The links between Algeria and the EU fit within what can be termed an asymmetrical form of relations.

The purpose of this chapter is to examine the development of this relationship. It is a review of the different stages that characterized these links—from cooperation to partnership—and an assessment of their effects, with special focus on the shortcomings of the previous period and the possible implications of present EU policy.

THE PHASE OF DEVELOPMENT COOPERATION

The Mediterranean global policy

Between 1975 and 1977, the European Community concluded cooperation agreements with the southern countries of the Mediterranean. These were the product of the

Mediterranean global approach, whose guiding principles were laid down at the Paris Summit in 1972. This approach, which established the first basic foundations of the Community's Mediterranean policy, defined in a clear and coherent way the type of preferential relations to be developed with the Mediterranean countries. Before that, the Community had already been involved in a network of conventional relations with most of these countries but without having a broad conception, since the agreements concluded during the 1960s were confined to commercial links and ignored wider cooperation.

The restricted approach that characterized relations on both sides was replaced by the introduction of a different policy at the beginning of the 1970s. This policy, based on a new generation of agreements, went far beyond the then existing system of generalized preferences. In addition to trade, it was enlarged to cover financial and social issues (migrant workers). Under this policy, products originating from southern countries of the Mediterranean were granted duty-free access to the Community market, even if this access was restrictive in regard to certain goods. The restrictions in question were concerned with textiles and clothing products. However, these limitations, or more accurately voluntary export restraints as they were called, although restrictive in nature, remained considerably less harsh than the restrictions provided for in the Multi-Fibre Agreements that were imposed on the exports of other countries.

The agreements concluded in 1976 and 1977 between the Mediterranean Arab countries and the European Community were based on a single model, that is, having the same broad-based coverage of areas (trade, finance and social provisions concerning migrant workers). As far as the trade side was concerned, the share of the Mediterranean countries in extra-Community trade passed from 5.4 per cent in the 1970s to 8.2 per cent in 1985. After this, it started to decrease gradually until 1991.[1] This decline was essentially because of the slump in oil prices and the subsequent massive cut in imports by the oil exporting countries, notably Algeria.

Trade with the Maghreb countries represented a mere 2.4 per cent of the Community's external trade (outside the EU) in 1995. Imports from the Maghreb countries amounted to a similar proportion (2.46 per cent) of the Community's total imports.[2] However, the Community was, and still is, the major trading partner of these countries and an average 65–67 per cent of their total trade (exports and imports) is conducted with it.[3] In sum, the relations between the EU and the Mediterranean countries, and the EU and the Maghreb, clearly exhibit the asymmetrical nature of the link between the North and the South.[4]

One should not lose sight of the fact that the development of Algeria's relations with Europe has not altered its traditional exchange pattern, which is, chiefly, the export of primary products and the import of consumer and capital goods. This remains, even if the importance of Algeria's energy resources (especially gas) constitutes a powerful factor of integration into the European economic space. In general, the outcome of regional cooperation within the Euro-Mediterranean framework has remained characterized by traditional aspects of North-South complementarity, despite the relative success of some countries in managing to export more manufactured goods than primary products and, as a result, to develop intra-industry trade.[5]

Extent and limits of cooperation with Algeria, 1976–96

The 1976 agreements have had an important trade component that goes beyond the mere granting of tariff concessions, for they have taken into account not only existing economic development levels and potentials of Maghreb countries, but the real and potential trade of each individual country.[6] Therefore, these agreements have provided for a regime related to agricultural and industrial products as well as to other trade provisions. The trade stipulations had an ambitious general content, along with a restrictive side that in some respects limited the scope of the whole provisions.

The preferential trade regime for agricultural products consisted of tariff concessions ranging between 20 and 100 per cent and covering around 80 to 90 per cent of Maghreb agricultural exports towards Community markets.[7] In regard to Algeria, these measures were in the main concerned with the export of dates (a reduction rate of 100 per cent) and citrus fruits (a reduction rate of 80 per cent).[8]

Special provisions were made for some farm products. These measures were meant to reconcile two contradictory options: to protect the interests of the Community producers whose products are in direct competition with those of the Maghreb countries, and for the latter to continue and increase some of their exports into the European market.[9]

As for the exports of industrial products and raw materials (energy, coal and steel), the agreements have provided for their admission without quantitative restrictions or any measures of equivalent effect, through exemption from customs duties or similar taxes. However, the special provisions reduced the scope of these concessions for some goods, notably refined oil products and cork products. These have been subject to a yearly ceiling system that would increase annually by 5 per cent for oil products and 3 per cent for cork products. The access of these products to the European market is exempted from customs duties, and, above these limits, the Community reserves the right to restore the provided-for external customs tariffs.

Unlike Algeria, Morocco and Tunisia obtained a concession that the arrangement planned for these products would not alter the possibility of benefiting from the provisions set by the Community under the General System of Preferences (GSP). Nevertheless, the agreements concluded in 1976 envisaged the abandonment of these restrictive measures by January 1980. But the very modest share of these products in all exports (with barely 6.5 per cent for Algeria in 1974) largely limited the significance of this arrangement. As to the raw materials, which represented the main part of exports (90.9 per cent in 1974, of which 90 per cent was crude oil), the advantages arising from this arrangement were restricted, since, by virtue of the GSP, the principal commodities entered the European market duty-free.

In addition to this preferential trade regime, there was a financial component in the cooperation agreements. Its main objective was to provide assistance—very limited, incidentally—to Algeria in order to contribute to the economic development of the country in some way. Table 4.1 gives an indication of the volume of financial appropriations to the Maghreb countries, including Algeria. As can be noted, Algeria, compared to its neighbours, appears to be the country with the most limited absorptive capacity, ultimately indicating a lack of interest, given the modest size of this financial aid. Its sectoral distribution was as follows: economic and social infrastructures (60 per cent), water management (11 per cent), agriculture and fishing (9 per cent), energy (7 per cent) and scientific cooperation (5 per cent).[10]

TABLE 4.1 FINANCIAL APPROPRIATIONS UNDER THE FOUR PROTOCOLS, 1976–96 (MILLION ECU)

	Algeria	Morocco	Tunisia	Maghreb (Total)
1st Protocol 1976–81				
Budget	44	74	54	172
EIB	70	56	41	167
Total	114	130	95	339
2nd Protocol 1981–86				
Budget	44	109	61	214
EIB	107	90	78	275
Total	151	199	139	489
3rd Protocol 1986–91				
Budget	56	173	93	322
EIB	183	151	131	465
Total	239	324	224	787
4th Protocol 1991–96				
Budget	70	218	116	404
EIB	280	220	168	668
Total	350	438	284	1,072
Total Protocols 1976–96				
Budget	214	574	324	1,112
EIB	640	517	418	1,575
Total	854	1,091	742	2,687

Source: Commission of the European Communities, *Report on Cooperation with the Mediterranean Partners*, COM (97) 371 final, Brussels, 18 July 1997, pp. 36–7; quoted in Ahmed Aghrout, *From Preferential Status to Partnership—The Euro-Maghreb Relationship* (Aldershot: Ashgate, 2000), p. 86.

After this brief review of the commercial and financial aspects of EuroAlgerian relations, the level of cooperation can be assessed by identifying its shortcomings. One of the essential aspects of the Community’s programme of development cooperation lies in the unilateral response that it has given to varied types of demands, especially those emanating from developing countries. The result has been a system of agreements that distinguish between regions and establish a series of dialogues without a global finality: EuroAfrican dialogue, Euro-Arab dialogue, African, Caribbean and Pacific states (ACP) agreements, Southern Mediterranean countries (PSM) agreements, third-country agreements, and so forth.[11] This was the result of a strategy whose aim has been to maintain traditional exchange links at a time when there were clearly political motives within the framework of East-West confrontation. The different dialogues embarked upon and agreements concluded did not allow the development of a workable model of cooperation. Nor did they remove many of the restrictions.[12] Indeed, these restrictions started to emerge particularly after the Community's enlargement.

These limits or restrictions can also be demonstrated through the essential elements of cooperation. In the area of trade, they resulted in a breach of the provisions that granted advantages. In terms of tariff advantages, it was the adoption of restrictive measures such as tariff quotas, dismantling schedules of these quotas, the obligation to respect reference prices (minimum prices) and the introduction of the safeguard measures. As for the principle of free access to the Community market, it was a question of introducing protectionist measures concerning certain competitive sectors of Community productions. This was at a time when the countries benefiting from concessions had developed competitive industries giving them a comparative advantage (in textiles in particular). It was also a matter of applying ceilings and quotas for the agricultural products in competition with those of the Community countries, which obviously benefited from the Common Agricultural Policy, as well as of adopting restrictive standards and norms limiting the entry of the products from third countries into the Community market.

With the exception of Algeria, which benefited from its particular situation characterized by hydrocarbons-based exports, the rest of the countries experienced a trade balance deficit with the Community because of the erosion of the advantages or concessions initially granted. However, Algeria was all the more penalized, first, at the level of traditional exports that were subject to restrictive access conditions, and second, at the level of its very modest share of exports outside hydrocarbons.

In the field of financial cooperation, the salient feature in the process of implementation was the long delays in the disbursement of funds. This was largely due to the complex nature of the procedures. The end result was reflected in the slow process of consumption and delays in realization of the planned projects. In addition, there were instances where the Community decided to freeze the funding of projects when it emerged that they were aimed at exporting into its market products for which there were surpluses.

To these restrictive measures, administrative problems in the Maghreb countries, notably Algeria, should also be mentioned. For all these countries, the level of consumption of Community aid (grants and loans) was 94 per cent in 1987.[13] For Algeria, the residual funds at the end of the three financial protocols amounted to 56.4 million Ecus of total allocated budget funds, equal to a consumption rate of 61 per cent.

Although supposed to be an instrument contributing to the development of the beneficiary countries, this financial cooperation was in actual fact very limited, as the size of aid, meant to finance priority actions, remained extremely modest and was disbursed with discrimination between the countries and sectors of priority.

The modest impact of the cooperation agreements on development—both in economic and financial terms—and on trade diversification have led the EU to rethink its policy with a view to strengthening the integration of its Mediterranean partners into its economic space. This was all the more necessary since a combination of events, internal and external, has led to a change in the perception of international relations.[14] Among these events, the most important at the external level were undeniably the dismantling of the former Soviet bloc and the Gulf War, and the changes brought about in Europe by the prospect of completing the internal market in 1993 and the results of Barcelona Declaration in 1995.

THE PARTNERSHIP POLICY

The Euro-Mediterranean conference of ministers of foreign affairs held in Barcelona on 27–28 November 1995 was the starting point of the EuroMediterranean partnership. This was an expanded framework for political, economic and social relations between the 15 members of the EU and their 12 Mediterranean partners (Algeria, Morocco, Palestine, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Syria, Tunisia and Turkey).

A common initiative laid the foundations of a new regional space that represented a culminating point in Euro-Mediterranean relations and a rupture with the traditional policy of the Community. The objective is to make the Mediterranean basin into a zone of dialogue, exchange and cooperation that would guarantee peace, stability, security and prosperity.[15] The partnership consists of three important components:

1. Political and security partnership: this is meant to define commonly a peace and stability zone.
2. Economic and financial partnership: the objective is to set up a large zone of shared prosperity in the Mediterranean, notably through progressive free trade.
3. Social, cultural and human partnership: these aspects are aimed at promoting understanding between cultures and exchanges between civil societies.

Having concluded that Europe could no longer afford to ignore the deteriorating socio-economic and political conditions on its southern borders and their potentially destabilizing effect on the whole regions EU foreign ministers decided to come up with a new initiative that was believed to be capable of responding to these dangers and threats. In fact, south Mediterranean countries were confronted with many diverse problems, including:[16]

- the social crisis caused by the weakness, if not the failure, of development strategies;
- increased population growth;
- uncontrolled urbanization;
- the development of opposition movements that have turned to political violence;
- the growing dependence on industrial countries, notably the EU;
- the severity of the debt burden;
- the low levels of foreign investment;
- the re-emergence of anti-western sentiments in some parts of the region;
- the migratory pressures of an economic and political nature, reinforced by the contiguity of zones of poverty and wealth, stability and unrest; and

- the degradation of the Mediterranean ecosystem that endangers the fragile balance between populations and sea resources.

These problems and others have, in part, led the European countries to act in favour of a project that enables them to manage and monitor this situation of multiple crises, and to establish a Mediterranean space of peace and stability.

THE ASSOCIATION AGREEMENT

The change or, more accurately, the shift in Euro-Mediterranean policy formalized during the Barcelona conference resulted in the southern Mediterranean countries, and particularly those of the Maghreb, signing the partnership agreement with the EU. Algeria, unlike its two neighbours in the Maghreb region, did not sign the association agreement until the end of 2001. Tunisia and Morocco signed two similar agreements with the EU in 1995 and 1996 respectively that came into force in 1998 and 2000. Their delay in concluding an association with the EU was for the most part due to security, economic and financial considerations or problems.

According to a group of experts, Algeria's delay did not work to the country's benefit. For Morocco and Tunisia, the suspension of negotiations with the EU for at least four years for political and security reasons was in a certain way beneficial to both countries. They managed to obtain the maximum of Mediterranean financial aid (MEDA) funding to modernize their industries at a time when Algerian decision-makers were obstinately working on patched-up solutions that further aggravated the public sector situation.[17] Some observers noted that the commitment of the Algerian authorities to concluding this agreement before 31 December 2001 penalized Algeri's representatives in their negotiations with their European counterparts. In their view, the prompt conclusion of this agreement was no more than a form political marketing.[18] Nevertheless, it is believed that a 12-year transitional phase before the establishment of free trade between both sides (Algeria and the EU) and tariff dismantling are quite sufficient to upgrade and modernize the manufacturing sector—a condition fundamental to the success of such an agreement.

The content of the project

The discussion process for an association agreement with the EU was launched on 13 October 1993, a date corresponding to Algeria formally expressing its readiness to engage in talks to conclude an association agreement. On 19 December 2001, that is, more than eight years later, these negotiations were finally concluded. The agreement was signed by the two parties on 22 April 2002 in Valencia. It was approved by the European parliament in October that year.[19] It also needs to be ratified by the Algerian parliament and, of course, by the national parliaments of member states, given that it is a mixed competence agreement. With the ratification process taking two to three years, this agreement was expected to enter into force by the end of 2003. Its objectives are to:[20]

- provide an appropriate framework for political dialogue between the parties, allowing the development of close relations and cooperation in all areas they consider relevant to such dialogue;

- promote trade and the expansion of harmonious economic and social relations between the parties and establish the conditions for the gradual liberalization of trade in goods, services and capital;
- facilitate human exchanges, particularly in the context of administrative procedures;
- encourage integration of the Maghreb countries by promoting trade and cooperation within the Maghreb group and between it and the Community and its member states; and
- promote economic, social, cultural and financial cooperation.

The agreement covers political and security, economic and financial, and social, cultural and human dimensions. However, it is the economic and financial dimension that is central to the whole association project. This aims at the gradual setting up of a space where movement of goods, capital and services would be free from all barriers. The agreement also includes special stipulations and safety measures.

In the area of trade, 'The Community and Algeria shall gradually establish a free trade area (FTA) over a transitional period lasting a maximum of twelve years starting from the date of entry into force of this agreement.'[21] This zone of free trade will be set up in accordance with the provisions of the 1994 GATT and of the World Trade Organization (WTO).

As far as industrial products are concerned, those originating in Algeria enjoy free acces to the Community market—that is, no customs duties and charges having equivalent effect. On the other hand, Algeria is expected to remove on a gradual basis all existing trade barriers to products imported from the Community. This process takes place in accordance with the following timetable:

- a first list of products for which tariffs and other duties are to be removed upon the entry into force of the agreement (list contained in Annex 2);
- a second list of goods for which all duties are to be lifted over a six-year period, starting two years after the entry into force of the agreement (list referred to in Annex 3); and
- a final group of products not listed in Annexes 1 and 2, whose duties and charges will be dismantled over an eleven-year period, starting two years after the entry into effect of the agreement.

In case of any serious difficulties to be encountered regarding a given product, the timetables set up may be revised by both parties to the agreement. This is possible only when the schedule for which the review has been requested may not be extended in respect of the product concerned beyond the 12-year transitional period.[22] Exceptional measures, of limited duration, may be taken by Algeria in the form of an increase or reintroduction of customs duties concerning infant industries, and certain sectors undergoing restructuring or facing serious difficulties, especially if these difficulties might result in major problems of a social nature.[23]

The provisions applying to agricultural products do not equate with an immediate and complete liberalization in this sector. Given its sensitive nature, especially for the European side, it is stated that The Community and Algeria shall progressively establish greater liberalization of their reciprocal trade in agriculture, fisheries and processed agricultural products of interest to both parties.'[24] The lists of these products were provided for in five protocols annexed to the agreement. All things considered, the trade regime to be applied consists of a combination of free access for some products and reduced customs duties and tariffs quotas for others.

The limited liberalization in this sector means that, as agreed between both parties, further negotiations will take place with a view to examining the possibilities of granting each other further concessions. In this regard, talks are expected to be engaged in five years after the entry into effect of the agreement.[25]

In terms of financial cooperation, provision was made for an assistance to allow the relaunching of many projects and the gradual implementation of the free trade area.[26] In the framework of the MEDA programme, a financial package was set up and adapted according to the pace and effort of each country in accelerating the liberalization of its economy. In this context, the funds made available are in the form of non-refundable aid. These are complemented by financial support provided by the European Investment Bank in the form of refundable loans.

TABLE 4.2 BREAKDOWN OF MEDA I (1995–99) COMMITMENTS AND PAYMENTS BY COUNTRY

	Commitments (million Euros)	*Payments (million Euros)*	*Payments/Commitments (%)*
Algeria	164	30	18.2
Egypt	686	157	22.9
Jordan	254	108	42.5
Lebanon	182	1	0.5
Morocco	656	127	19.4
Syria	99	0	0.0
Tunisia	428	168	39.3
West B. and Gaza S.	111	54	48.6
Turkey	375	15	4.0
Bilateral cooperation	2,955	660	22.3
Regional cooperation	480	230	48.0
Total	3,435	890	26

Source: The European Commission, *Annual Report on the Meda Programme 1999,* COM (2000) 472 final, Brussels, 20 December 2000, p. 8.

An amount of €4.685 billion in total was earmarked for the first phase of this programme

1995–99 (MEDAI).[27] However, the many difficulties experienced led to a low rate of payment of 26 per cent, that is €890 million at the end of 1999 (see Table 4.2). The bureaucracy that characterizes the administrative procedures governing the project implementation has, as a result, sparked an important review of the way the programme has been operating. The European Commission has taken measures with a view to ensuring that the second phase of the programme, 2000–06 (MEDA II), with an amount of €5.350 billion, continues to honour the Union's commitments in the region in a more rational and effective way.

In respect of Algeria, the funds were, at first, committed at a rather slow pace due to the political situation of the country and the low absorptive capacity of the Algerian administration. During the period 1996–99, €164 million were committed. This amount represented 66 per cent of the national indicative programme initially provided for this period (€250 million). The programmes committed over this period of time were:[28]

1. A mechanism for structural adjustment facility (€125 million, of which €30 million came from MEDA) was committed in 1996 to support the transition and the economic reform process. This programme involves basic reforms such as the liberalization of foreign trade, privatization, social insurance and housing.
2. The promotion of small- and medium-sized enterprises (€57 million), a project that has been operational since October 2000.
3. The support for industrial restructuring and privatization (€38 million), a programme that has been operational since June 2001.
4. The modernization of the financial services sector (€23 million), a project that has been operational since September 2000.
5. An interest-rate subsidy on EIB loans (€10.75 million) for projects in the area of industrial waste clean-up operations.
6. A project for Algerian development organizations and non-governmental organizations (€5 million) that was committed at the end of 1999, and aimed at supporting these organizations' activities in their fight against poverty and targeting deprived populations.
7. The EIB has granted loans worth €620 million since 1996. This funding has targeted energy, transport, water resources management and the environment.

The new national indicative programme, MEDA 2000–02, confirms the existing strategic orientations and focuses on the improvement of the economic environment of companies and the social conditions, including the efficient management of public affairs. Between 2000–01, the EU approved projects worth €90 million embodied in four programmes. These were:[29]

- support for telecom and postal services reform (€17 million);
- support for journalists and the Algerian media (€5 million);
- support to modernize the police force (€8 million); and
- reform of professional training (€60 million).

Socio-economic implications

The Euro-Algerian association agreement, like the agreements signed with other

Mediterranean countries, appears to be the most exhaustive type that the EU has so far developed with third countries. It is not confined solely to cooperation and trade commitments, but includes provisions dealing with relations of a political, economic, social and cultural nature as well. However, it is undoubtedly the economic area that reflects the most important aspect of the Union's new Mediterranean policy.

Hence the most significant aspect of this agreement is the progressive setting up of an FTA with the EU. The interest here is not in an exhaustive and final judgement on its impact. It is simply an attempt to underline some effects of the establishment of this zone on the Algerian economy. Indeed, the agreement introduces mechanisms that expose Algeria to the harsh reality of a market-oriented economy and the consequences of increasing competition.

TABLE 4.3 EXPECTED FISCAL LOSS IN THE MAGHREB COUNTRIES (PERCENTAGE)

	Algeria	Morocco	Tunisia
Import duties and taxes			
Share in total fiscal revenue	10.2	19.0	33.0
Share in GDP	2.9	5.0	8.2
Imports subject to dismantling			
Share in total imports	53.2	58.3	73.5
Fiscal loss			
Share in total fiscal revenue	5.4	11.1	24.3
Share in GDP	1.5	2.9	6.0

Source: Agnès Chevallier and Isabelle Bensidoun, 'Libre-échange euro-méditerranéen: Marché de dupes ou pari sur l'avenir?', *La Lettre du CEPII*, 147 (June 1996), p. 3.

The impact of this agreement on public finances will certainly be considerable. According to a study carried out by Agnès Chevallier and Isabelle Bensidoun, 'The fiscal loss constitutes one of the main direct effects of liberalization, and particularly that of the free trade.'[30] The loss of fiscal revenues will be significant (as shown in Table 4.3).

The importance of infrastructure needs and the industrial restructuring that require additional costs following the opening up of these economies to competition would require an increase in public expenses, while fiscal losses are inevitable.

At the industrial level, the FTA will, as in countries with similar agreements in the region, lead to a gradual opening of Algeria's market to manufactured products originating in Europe. This is expected to cause the disappearance of many industrial companies, especially those incapable of facing up to external competition. Kebadjian considers that abandoning industries that cannot survive without protection can be seen as the accepted compensation, that is, the choice of creating an FTA.[31]

In terms of employment, Algeria, like the other Maghreb countries, will experience, at least in the short and medium terms alike, negative consequences in this regard. In particular, the disappearance of part of the existing industrial sector as a result of the strong European competitive edge will translate into job losses. If one considers the current employment situation, it can be argued that the country risks confronting very serious social problems.

In addition to the use of valuable resources in the upgrading of the infrastructure and the industrial sector to adequate levels, it can be predicted that the FTA project will create, in the short and medium terms, an unbalanced situation in employment, salaries and fiscal resources. The positive side of the story is that if the following conditions are met—a regular flow of foreign direct investment, a sustained programme of restructuring and upgrading, and adequate financial assistance—this will allow a revitalization of the Algerian economy and an alleviation of the adverse effects stemming from the implementation of the association agreement.

CONCLUSION

The Euro-Algerian association agreement is now an inevitable reality. Its apparent and potential effects on Algeria's development process cannot be ignored, particularly at a time when the upgrading programme, export promotion and financial assistance are among the issues that remain a challenge.

Indeed, it is clear that the gradual preparation for complete reciprocal free trade will engender negative effects at the economic and social levels. It is also a question of mobilizing important resources, financial and otherwise, to smooth the transition from a protected economy to an open economy capable of standing up to external competition. One can argue that at this stage it is difficult to produce a final judgement on the implications of this change in Euro-Algerian relations. However, one must point to the fact that the transitional period provided for in the agreement represents a challenging and costly test both to the economy and the society. The expected gains will undoubtedly depend on the way this transition is conducted. This not only entails a high cost but, more importantly, a sustained effort in carrying out all the necessary adjustment.

NOTES

This chapter was translated from French into English by Nadhira Benaissa.

1. Isabelle Bensidoun and Agnès Chevallier, 'Les échanges commerciaux euro-méditerranéens', *Revue du CEPII* (La documentation française), 2, 58 (1994), p. 114.
2. Ibid., p. 119.
3. Ahmed Aghrout, *From Preferential Status to Partnership—The Euro-Maghreb Relationship* (Aldershot: Ashgate, 2000), p. 16.
4. For further details on the nature and characteristics of the Euro-Maghreb relationship, see ibid., pp. 14–16.

5. Agnès Chevalier, Françoise Lemoine, Laurence Nayman, ‘L’Union européenne et sa périphérie: consequence de l’intégration commerciale de l’Europe centrale’, *Revue Economique*, 150, 6 (1999), p. 174.
6. Article 8 of the agreements was concerned with the promotion of trade in three ways: ensuring a better balance of trade; increasing the rate of growth of Maghreb countries, trade or exports; and improving the conditions of access for their products to the Community market.
7. See Articles 15 to 23, Annex B of the agreements.
8. Figures cited in Abdelhamid Brahimi, *L’économie algérienne* (Algiers: OPU, 1991), pp. 28–9.
9. These measures (provisions) are varied and consisted of applying the tariff reductions only according to a certain ceiling or quota; to limiting the application of the exemption or the reduction of the customs duties to certain periods of the year and to applying the reduction or the tariff exemption only if a minimum price is respected. Moreover, these measures can be applied separately or together. See Appendices of the 1976 agreements for further details.
10. Fathallah Oualaou, *Après Barcelone… Le Maghreb est nécessaire* (Paris: l’Harmattan, 1998), p. 159.
11. Messaoud Boudiaf and Jean-Marc Siroën, *Ouverture et développement économique* (Paris: Economica, 2001), p. 25.
12. Ibid., p. 28.
13. Bruno Callies de Salies, ‘Méditerranée: quelle politique envers les Etats du Sud?’, *Défense Nationale* (February 1996), p. 96.
14. Gérad Kebabjian, ‘L’euro et l’avenir des relations monéètaires en Méditerranée’, *Mondes en Développement*, 26 (1998), p. 9.
15. For further details on formulation, motives and dimensions of the partnership, see Aghrout, *From Preferential Status to Partnership*, pp. 126–34.
16. Bichara Khader, ‘Le partenariat euro-méditerranéen’, *Working Paper* (Economic Research Forum), 23 (1995), p.21.
17. Abderrahmane Mebtoul, ‘L’accord d’association de l’Algérie avec l’Europe et les défis de la mondialisation’, *Liberté Economique*, 29 May-4 June 2002, p. 15.
18. Fayçal Mataoui, ‘Partenariat: Accord d’association Algérie-UE’, *Liberté Economique*, 12–18 December 2001, p. 9.
19. It was reported that the association agreement and an accompanying resolution were approved by 458 votes to ten, with 20 abstentions.
20. See Article 1 of the association agreement.
21. See Article 6 of the association agreement.
22. See Article 9 (Paragraph 4) of the association agreement.
23. See Article 11 (Paragraph 1) of the association agreement.
24. See Article 13 of the association agreement.
25. See Article 15 of the association agreement.
26. According to Article 79 of the agreement, the scope of this cooperation should apply to the following: facilitating reforms aimed at modernizing the economy; upgrading economic infrastructure; promotion of private investment and activities generating employment; offsetting the effects on the Algerian economy of the

progressive introduction of a free trade area, in particular where the upgrading and restructuring of industry is concerned; accompanying measures for policies implemented in the social sectors.

27. The remaining amount of €1.248 billion comes mainly from the budget lines of the older Financial Protocols, the Peace Process and the United Nations Relief and Work Agency.

28. ‘The EU’s relations with Algeria’, <http://europa.eu.int/comm/external_relations/algeria/intro/index.htm>, accessed 10 February 2003.

29. Ibid.

30. Isabelle Bensidoun and Agnès Chevallier, *Europe—Méditerranée: Le pari de l’ouverture* (Paris: Editions Economica, 1996).

31. Gérard Kebadjian, ‘Le libre échange euro-maghrébin: Une evaluation macro-économique’, *Revue du Tiers Monde*, 371, 144 (1995).

CHAPTER 5
Economic Reforms and Foreign Direct Investment in Algeria

HAKIM MELIANI, AHMED AGHROUT and AMMAR AMMARI

From the early 1980s Algeria, like many other developing countries, started to experience major difficulties, not least in relation to the economic policy it had pursued so far. The poor performance of the state sector, which was quasi-omnipresent and dominant, and the changes in the global economy left the country with no other alternative than to engage in a process of reform. Conscious that it was a matter of survival, successive governments have embarked on programmes designed to restructure the economy via liberalization and privatization. While this process of transformation has until recently been pursued with caution, and at times even halted, it seems that the present political leadership is not only determined to continue this restructuring, but is committed to speeding up its implementation as well.

The whole undertaking is meant to redress the economic stagnation, or more accurately the economic decline. The shift from central planning to a market-oriented economy is perceived as the key to rapid economic growth. It is a fact that foreign aid has become much more difficult to obtain, and that other sources need to be found to support this transitional phase and to achieve the development objectives. The entire package of reforms that have been implemented and are still under way, is, among other things, expected to provide a favourable environment and attractive location for private foreign capital, especially in the form of foreign direct investment (FDI).

This chapter focuses on Algeria’s programme of economic reforms and the significance given to the contribution of the private sector, especially in the form of FDI. It begins with an overview of why FDI has become an important source of external finance, in particular for developing countries. The following section examines, although not in-depth, the main aspects of the economic transformation, the results reached and the challenges that remain to be addressed. The next section takes a closer look at the policy framework for FDI. The final section provides an evaluation of recent trends in FDI both within the country and in comparison with countries of a similar level of development.

THE RATIONALE FOR FDI

Arguably, perceptions of FDI have changed drastically. A large literature, theoretical and empirical, about the implications of multinational corporations (MNCs) and FDI on growth in developing countries has proliferated. During the 1960s and 1970s MNCs were often seen as a vehicle of foreign economic domination, and thus of maintaining the development gap between industrialized and developing countries. More recently, this perception seems to have been substituted by a rather more optimistic view on their role. With the 1980s debt crisis, many developing countries started to find it difficult to obtain financial resources. Given these constraints, inward investment in the form of FDI has become an attractive source of foreign capital.

Case studies of the impact of FDI on the host countries' economies have dealt with broader effects such as growth, or specific implications for sectoral issues such as trade, technology, employment and so forth. Borensztein et al. have found the overall impact of FDI on growth to be positive. Accordingly, one percentage point rise in FDI increased domestic investment in developing countries by 0.5–1.3 per cent; and a one percentage point rise in the ratio of FDI to GDP increased the rate of per capita income growth of the host country by 0.3–0.8 per cent.[1] However, an examination of the social welfare impact of FDI indicates a rather negative picture. Moran, on the basis of several empirical case studies of FDI in many countries, concluded that a large proportion of them had negative welfare implications for the host countries.[2] However, these were mainly caused by lack of competition and the distorted incentive and regulatory domestic frameworks.

In terms of sectoral impact, the FDI is also expected to contribute to the growth of host economies through the promotion of physical capital formation, including technology transfer, managerial skills and employment, production linkages, foreign trade and so forth. Nevertheless, such benefits cannot be reaped in the case of a distorted host economy.

First, FDI can be a source of technology transfer. This is considered the most important benefit. It would allow the transfer of new varieties of capital inputs, a transfer that cannot be achieved through financial investments or trade in goods and services.[3] But the beneficial impact would depend on the degree of mastery of this technology, which, in turn, requires the development of new skills and knowledge, and efficient institutions and organizational structures in the host country.

The second benefit is concerned with the development of new managerial skills and the generation of employment opportunities. In the course of establishing new businesses, beneficiaries of FDI would expect to gain worker training that would contribute to their human capital development.[4] The other aspect, also of importance, is that of creating new jobs. Its significance depends upon the nature of the investment: a higher employment generation is often associated with 'greenfield' FDI or investment into new business sectors; and a lower employment rate or even staff lay-offs when joint ventures, acquisitions and mergers are undertaken. Overall employment in foreign affiliates is typically a small share of total paid employment in the host countries, amounting to not more than 2 per cent of the labour force. In the manufacturing sector, recipient of the bulk of FDI, this share is higher.[5]

Another benefit is that FDI may promote different types of linkages with local companies. This may stimulate local productivity through backward linkages to domestic service suppliers. Indeed, backward linkages from foreign affiliates to domestic firms are important channels through which intangible and tangible assets can be passed from the former to the latter.[6] They can have the potential both of contributing to the upgrading of domestic firms and establishing foreign affiliates more firmly in host economies. In this context, the host government needs to play an important role in promoting linkages, via policies addressing different market failures at different levels in this linkage-formation process.

Last, but not least, is the fact that the presence of foreign companies in various economic sectors is expected to promote and develop niche export markets. As a matter of fact, the most recent (2002) *World Investment Report* produced by the United Nations Conference on Trade and Development (UNCTAD) was specifically devoted to this issue. The document argues that:

> TNCs play an important role in the exports of many developing countries and economies in transition. Indeed, for the most dynamic products in world trade, TNCs are central for enabling these countries to reach world markets, and they provide some of the 'missing elements' that developing countries need to upgrade their competitiveness in export markets.[7]

For instance, foreign companies have successfully managed to account for important shares in the manufactured exports of developing countries. In Malaysia this proportion reached 49 per cent in 1995, in Singapore 38 per cent in 1999 and in China 50 per cent in 2000.[8]

MAIN FACETS OF ECONOMIC REFORMS

When Algeria gained independence in 1962 there was a lack both of capital and of a well-established private sector. This gave way to heavy intervention by the state in the economic sphere. The building of a socialist economy was based on an ambitious programme of public investment that targeted the development of heavy industries and human capital. This socialist path, relying on central economic planning, saw the establishment of a large number of public enterprises and state-owned farms.

During the 1960s and 1970s in particular, Algeria succeeded in expanding growth through high levels of public spending financed by rising revenues generated from the export of oil and by relatively easy access to foreign borrowing. This provided the government concerned with substantial resources and the latitude to intervene extensively in economic activities. Significant economic growth certainly did take place. This can be seen, for instance, from the country's GDP, which grew at a rate of over 6.8 per cent per year from 1965 to 1980.[9] This performance was attributable to a considerable investment programme where gross domestic investment averaged an annual growth rate of almost 16 per cent over the same period.[10]

The availability of financial resources also enabled the state to launch a programme providing for welfare necessities, especially in terms of access to health care and other social services. As a corollary, substantial progress had been achieved in bringing down the illiteracy rate, increasing life expectancy and ensuring a high level of education for the population.

Thus, until the closing years of the 1970s, Algeria performed relatively well, corresponding to what was described as 'the golden age'. By contrast, the beginning of the 1980s ushered in a period of economic difficulties resulting from, among other things, unfavourable external conditions—including a prolonged worsening of the terms of trade of primary commodities' exports—and inadequate earlier domestic policies. Also, this period was to coincide with the adoption and implementation of reform programmes to restructure the economy that inevitably affected the prospects for resuming growth on the scale enjoyed before.[11] In other words, the cycle of economic expansion was to be followed by contraction, that is, from boom to bust.

By the time oil prices collapsed in 1986, Algeria had already started introducing some economic reforms that were concerned with the restructuring of public enterprises and the state agricultural sector.[12] Because of their slow process and limited scope these reforms did not have any significant impact on the performance and direction of the national economy. With the situation continuing to deteriorate—for example, the average GDP growth rate was less than 1 per cent per year during the period 1986–98—the country was to experience social discontent. The dismal performance of the economy, laying bare the shortcomings of state intervention and management, and the subsequent diminishing ability of the state to fulfil the society's expectations, lay behind the events of October 1988, which amounted to the most violent social upheaval since independence.

The aftermath of these riots was to mark the regime's commitment to accelerate political liberalization and economic reforms. The political sphere saw more liberalization and the legalization of a wide spectrum of political parties. Nevertheless, the cancellation of legislative elections in December 1991 resulted in a political stalemate, and led to an escalation of violence the ramifications of which were seriously damaging to socio-economic infrastructure and human life. In the meantime, poor economic performance and increasing unemployment contributed to the deterioration of living conditions and the pauperization of large segments within society.

By 1993, Algeria's economy was experiencing a severe financial crisis that made imperative the rescheduling of external debt and the undertaking of sweeping economic reforms. For instance, the debt service amounted to more than three-fourths of the value of exported goods and services (nearly $9.2 billion). Aware of its inability to honour its debt commitments, Algeria made a daring break with its long-lasting opposition to debt rescheduling.[13] In April 1994, a stand-by agreement was concluded with the International Monetary Fund (IMF). Subsequently the Paris Club agreed to reschedule $5.3 billion. This was followed in 1995 by an arrangement to reschedule $3.2 billion of commercially held foreign debt. Also, a total of $1.8 billion of IMF-backed structural reform credit, under the Extended Fund Facility, was extended over a three-year period to support Algeria's medium-term reforms package.[14]

These reforms were to be accelerated from 1994 by means of a combination of macro-economic stabilization and medium-term structural adjustment measures. They were supported by the IMF, World Bank, the Arab Monetary Fund, the African Development Bank and the European Union (EU). On the whole, the aims were:

- to restore sustainable economic growth and reduce unemployment;
- to bring inflation down to reasonable levels;
- to improve the balance of payments situation; and
- to limit the impact of the reforms on the most vulnerable segments of the society.

In order to achieve these objectives, the Algerian government adopted a series of measures, whose chief components were the following:

- the realignment of relative prices, including the exchange rate, through rapid and progressive liberalization;
- a tight monetary policy, to reduce inflationary pressures and encourage domestic savings, through the promotion of positive real interest rates, while ensuring sufficient credit to the productive sector;
- a strong fiscal adjustment aimed at ensuring a tight demand management, by reforming the tax system and tightly controlling government expenditure, including the control of personnel expenditure, the elimination of subsidies and the reduction of public investment;
- the liberalization of the trade and payments systems;
- the liberalization of the exchange regime;
- the restructuring of public enterprises and banks, including the implementation of a privatization programme;
- ensuring a more manageable debt profile through rescheduling and prudent debt management; and
- the strengthening of the social safety net and the establishment of an unemployment insurance scheme.[15]

Both the World Bank and the IMF have expressed their satisfaction with the progress made so far. On a number of occasions the international agencies

TABLE 5.1 SOCIO-ECONOMIC INDICATORS, SELECTED YEARS

	1994	1996	1998	2000	2001
GDP (billion dollars)	42.0	45.6	47.7	53.4	54.6
GDP growth rate (%)	−0.9	3.8	5.1	2.4	2.1
GDP per head (dollars)	1,510	1,581	1,605	1,673	1,773
Imports (billion dollars)	9.7	9.1	9.8	9.7	10.4
Exports (billion dollars)	8.9	13.5	10.0	21.7	19.5
of which Hydrocarbons	8.6	12.6	9.7	21.1	18.5
Foreign debt (billion dollars)	29.5	33.7	30.5	25.3	22.6
Population (million)	27.5	28.6	29.5	30.4	30.8
Active population (million)	6.8	7.8	8.3	8.1	9.1
Recorded unemployment (%)	24.4	28.0	28.0	29.5	28.4

Source: Ministère des Finances (Algeria), *Principaux indicateurs de l'économie algérienne,* <http://www.finance-algeria.org/dgep/a31.htm>, accessed 10 April 2003.

have praised the results obtained within the programme of reforms. As early as 1998, the IMF considered that 'despite the fact that the reform programme was launched…in a difficult social and political environment, it has been remarkably successful in restoring financial stability and establishing the building blocks for a market economy'.[16] Even recently, the IMF managing director, Horst Köhler, while pointing to the remaining challenges (speeding the pace of sustainable growth, raising living standards and reducing unemployment), remarked that 'Algeria has succeeded in restoring financial and monetary stability and has made progress in modernizing its economy'.[17]

To provide an account of the progress achieved under this programme of reforms, it is worth reviewing a number of its elements, by singling out the signs of improvement and the challenges still lying ahead (on some indicators see Table 5.1). To start with, inflation, which was estimated at 39 per cent in 1994, dropped to about 0.3 per cent in 2000, although it jumped to 4.2 per cent in 2001, partly because of wage increases granted at the beginning of 2001 and higher food prices.[18] It is considered to have started to fall again from the second half of 2002.[19] The fiscal deficit, representing 8.7 per cent of GDP in 1993, turned into a surplus of 2.4 per cent of GDP in 1997. However, this fiscal performance was affected by the drop in oil prices a year later, leading to a budget deficit of 3.9 per cent of GDP in 1998.[20] With oil prices recovering and their corollary, an increase in hydrocarbons revenue after that, the deficit became a surplus of 1.6 per cent of GDP in 2001.[21]

Reform measures have also targeted the public enterprises and banks to prepare their transition to a marked-based system. The process of restructuring publicly owned enterprises included, among other things, the liquidation of numerous loss-making and non-viable ones.[22] Out of 1,324 local public enterprises *(entreprises publiques locales)*, according to official figures, 935 were liquidated.[23] Some of these had their assets transferred to employees. In the process many national public enterprises, particularly in the retail and building sectors, were dissolved.

Financial sector reform, on the other hand, has mainly been concerned with addressing the banks' massive portfolios of bad loans to the country's non-performing public enterprises. The banks saw a large influx of liquidity as the government implemented recapitalization and debt take-over measures at high cost to the treasury—about 45 per cent of average GDP for the period 1991–99, according to the IMF. This process is still continuing as only a few banks have reached the capital adequacy ratio of 8 per cent.[24] Steps have also been taken to enhance competition and improve the financial sector's performance, especially by allowing and encouraging the establishment of new private banks and the opening of the capital of existing state-owned banks to private minority participation, as well as the gradual entry of foreign banks into the domestic market.[25]

While these reforms have been appreciated, the IMF considers that the banking sector still needs further restructuring. Privatization of the large public sector banks is seen as a priority to promote the development of industry and the fair distribution of credit, something analysts argue is the prerequisite to putting Algeria's economy on a strong foundation.[26]

As regards the external position, substantial progress has been made in terms of eliminating restrictions on external trade, the payments system and the exchange regime. In the same vein, this external position was accompanied by a significant improvement in the country's stock of foreign exchange reserves, which at the end of 2002 was estimated at $23.1 billion, whereas it had been about $21.1 billion at the end of June 2002.[27] This was achievable because of overall favourable international market prices for oil and the rescheduling of the country's external debt. As a result, the burden of the latter has been considerably reduced, especially in relation to debt servicing. Algeria's debt ratio, which was more than 82 per cent at the end of 1993, fell to around 22 per cent in 2001 (total external debt stood at $29.5 billion in 1994 and went down to $22.6 billion in 2001).[28] However, the total external debt went up again in 2002, when it reached nearly $23.1 billion.[29]

None of these transformations seems to have had a decisive effect in inducing a strong economic recovery, perhaps explained by the fact that Algeria is going through a transitional phase. Economic growth, measured in real GDP increase, indicates that the average annual growth rate did not exceed 2.6 per cent during the period 1994–2001.[30] For instance, in 2001 the growth rate was only 2.1 per cent, instead of the 3.5 per cent predicted a year before. This was in spite of the good performance of the agricultural sector, and for the most part the rate achieved during this year came from the contribution of the hydrocarbons and construction sectors.[31]

In general, economic growth has tended to fluctuate over the years, largely because of the structural nature of the economy. The preponderant weighting of hydrocarbons in the economy means that the country remains very sensitive or indeed hostage to price changes in the world market. For the World Bank, the main priority should be to reach quickly at least a 6 per cent growth rate in the medium term to bring down existing high levels of unemployment, raise the standard of living of the population and improve the environment for the development of the private sector. So far, according to this institution, 'the poor growth performance in Algeria is mainly due to delays in completing the transition to a market economy'.[32]

It is such a situation that most likely prompted the government, helped by the availability of financial resources, to launch an economic recovery plan for the period 2001–04. The $6.5 billion earmarked for this favour spending on modernizing infrastructure and services, restructuring of public enterprises, developing human capital and improving living conditions. The hoped-for growth rate of 5–6 per cent under this plan would give a new lease of life to the economy after years of recession.

THE INVESTMENT ENVIRONMENT

Parallel to the headway that has been made in recent years to restore macroeconomic balances, Algeria has also endeavoured to improve its investment climate.[33] To promote an investment-friendly environment, the government enacted a new investment code in October 1993.[34] This code does not distinguish between non-resident (foreign) and resident (Algerian) investors, so that they are subject to equal treatment. Among the incentives granted under this legislation are:

- a three-year exemption from value-added tax on goods and services acquired locally or imported;
- an exemption from property taxes;
- a two to five-year exemption from corporate income taxes;
- the right to pay 3 per cent customs duties on 30 products (for which duties are normally between 25–45 per cent); and

- the right to pay no more than 7 per cent of gross wages as the employer contribution to social security (normal rate being 24 per cent).

Incentives are made much more attractive to companies interested in setting up export-oriented projects, for which they would enjoy a 100 per cent exemption on all taxes and pay only the 7 per cent employer contribution. Similarly, additional incentives or benefits are granted to investment projects in free zones where, in addition to the government taking charge of any infrastructural works and of employers' social security contributions, these projects are exempt from all taxes and customs duties. These incentives are equally extended to projects located in specific geographical areas (commonly referred to as *zones spécifiques*) to promote their development.

The government also established in May 1995 a one-stop shop, the Agency for Promotion, Support and Follow-up of Investments (APSSI). Its main mission consisted of registering investment applications and determining the advantages granted by the investment legislation. However, this institution's bureaucratic functioning and low performance exposed it to sharp criticism from the country's senior officials. Partly because of this, the institutional and legal framework was recently revamped through the creation of the National Council for Investment (CNI) and the National Agency for Investment Development (ANDI). These structures, having replaced the former APSSI, are being entrusted with the task of contributing to change the 'image issue' and providing simplified and adapted conditions, including regulations, for potential local and foreign investors. In this context new legislation has been enacted, granting further guaranties and lifting many of the obstacles experienced before.[35] Also the Investment Support Fund (Fonds d'Appui a l'Investissement), set up for the first time with an initial budget of almost $16.4 million (AD1.3 billion), is destined to finance infrastructural works needed for the implementation of the investment projects.

It is also the case that privatization remains a main policy area for action that can boost the business environment. As argued elsewhere, 'no single policy could do more for improving…the investment environment than an acceleration of privatization efforts. Privatization helps to improve economic performance, contributes to the growth of financial markets, and builds credibility in overall reform by limiting the scope of future government involvement in the economy.'[36] As a matter of fact, the importance of privatization was stressed by the IMF staff in their annual examination of the Algerian economy in 2002, when they recommended that 'priority should be given to reducing the size of the public sector, which remains large and inefficient, and developing an efficient private sector'.[37]

In this regard, the present government seems resolved to go ahead with its programme of privatization, even though previous attempts were not quite convincing.[38] The Algerian authority in charge, the ministry for participation in and promotion of investments, has been reported to be in the process of drawing up a plan that would target about 320 public enterprises whose situation is considered disastrous.[39] It is worth mentioning that the privatization programme has been supported by the EU.[40]

In fact, the Union, through its new Euro-Mediterranean policy endorsed at the Barcelona conference in 1995, is involved in supporting the process of adjustment and reforms under way in several of its southern Mediterranean partners. Within the framework of this policy, Algeria, like a number of other countries in this region, has already concluded an agreement with the EU. This accord involves the establishment of a free trade area, to be phased in over a transitional period of 12 years.[41] It comes at a time when the country is in the process of a vast programme of reforms. Entering a phase of free trade with the EU, while motivated by securing—and even prospects for improving—access to the European market, also implies the benefits of locking in these policy reforms. Consequently, liberalizing trade *vis-à-vis* a major trading bloc (the EU) can have a positive effect for the Algerian government by enhancing the credibility of its packages of domestic reforms.[42]

With the EU association agreement becoming an anchor for policy reforms, any attempt at reversing them would seem rather difficult, not least because of the high cost that might be incurred by Algeria as a result. Not only is there a possibility of EU retaliation for failing to abide by the agreement, but there is also a risk of losing credibility, something that would prove difficult to regain in the future. All this would, in principle, reinforce the process of reforms by making it sustainable. Thus an irreversible commitment to economic changes, with an enhanced credibility through the linkage to Europe, is likely to foster a favourable investment climate and provide a positive signal, even a powerful incentive, to potential foreign investors.

TABLE 5.2 ALGERIA'S BUSINESS ENVIRONMENT RANKINGS

Value of index (out of ten)		Global rank (out of 60 countries)		Regional rank (out of seven countries)*	
1997–2001	2002–06	1997–2001	2002–06	1997–2001	2002–06
4.04	4.88	57	58	5	5

(*) Algeria, Egypt, Iran, Israel, Saudi Arabia, Nigeria and South Africa.

Source: Economist Intelligence Unit, *Country Forecast—Algeria 2002* (London: EIU, 2002).

Another factor that is extremely decisive is political stability. Algeria, in its transition towards multipartyism, went through several years of political turmoil. This projected an image of a country 'riddled by crises and not conducive to investment'. Excepting the hydrocarbons sector, Algeria was perceived as an unsafe place to invest in, not least because of the deterioration of the security situation. In the last couple of years that situation has been much improved, and the political system seems to enjoy greater stability than before. Algeria ended its isolation by asserting its presence on the international scene. On the domestic front, the peace plan, the civil concord *(Concorde Civile)*, approved through a national referendum on 16 September 1999, contributed to reducing the scope for internal conflict and political violence.

Overall it can be argued that Algeria's business environment is changing in a positive way.[43] According to the Economist Intelligence Unit's business environment rankings model (see Table 5.2) it is expected to improve. The improvements are, however, based on the expectation of relatively high oil prices and incremental economic reforms. In other words, a sustained pace of reforms, especially at this juncture, characterized by an improved level of foreign exchange reserves, would normally help promote and develop the country's investment-enabling environment.

RECENT TRENDS

Although they declined in 2001, inward FDI flows reached a record level of almost $1,492 billion worldwide in 2000. This compares with $1,088 and $694 billion in 1999 and 1998 respectively.[44] The share of developing countries, which was on average about $51 billion per year during the period 1985–95, increased to nearly $205 billion in 2001.[45] Nevertheless, the figure for 2000 was perceptibly bigger, almost $238 billion. Hong Kong, China and Brazil were the major recipients, representing 58 per cent of all FDI inflows to developing countries during that year.

In spite of the efforts being made to attract FDI, Algeria, Morocco and Tunisia (the Maghreb region) have, compared with other regions, remained one of the less attractive options. By way of illustration, their share of FDI flows to developing countries and economies as a group, was 2.2 per cent in 2001, a proportion that was quite exceptional when compared to previous years (0.45 per cent in 2000, 0.77 per cent in 1999 and 0.8 per cent in 1998). Yet this pattern needs to be differentiated when examining these countries separately. As Table 5.3 reveals, in the Maghreb both Morocco and Tunisia have performed fairly well, although this has tended to fluctuate over the years. By contrast, FDI flows to Algeria remain modest, if not small, in an economy considered the second largest in Africa. It is not surprising, then, to see that the FDI stocks vary considerably.

TABLE 5.3 FDI INFLOWS INTO ALGERIA, MOROCCO AND TUNISIA (BILLION DOLLARS)

	1985–95 (annual average)	1997	1999	2000	2001
Algeria	0.017	0.260	0.507	0.438	1.196
Morocco	0.264	1.079	0.850	0.201	2.658
Tunisia	0.262	0.365	0.368	0.779	0.486
Developing countries	50.9	191.0	225.1	237.9	204.8
World	181.1	478.0	1,088.3	1,492.0	735.1

Source: UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness* (New York and Geneva: United Nations, 2002).

Inflows by absolute values and stocks may not providé a much clearer picture of the importance of inward FDI for the host country or countries. The attractiveness of a country can be better appreciated by looking at the significance of the ratio of FDI to GDP. Table 5.4 indicates the importance of this ratio in Algeria's economy. Its pattern (ratio) over time shows no major change, thus reflecting a low degree of attractiveness.

This is particularly true when Algeria is compared to its neighbours in the Maghreb and to developing countries in general. With a ratio of 6.5 per cent in 2000 Algeria is still lagging far behind, while other countries or regions of a similar development

TABLE 5.4 FDI STOCKS IN ALGERIA, MOROCCO AND TUNISIA

	Stocks (billion dollars)				GDP (% of)		
	1985	1995	2000	2001	1985	1995	2000
Algeria	1.28	1.47	3.44	4.64	2.2	3.5	6.5
Morocco	0.44	3.32	6.14	8.8	3.4	10.1	18.4
Tunisia	7.2	10.97	11.45	11.67	85.6	61.0	58.8
Developing countries	344.5	849.9	2,002.2	2,181.2	13.9	15.3	30.9
World	913.2	2,911.7	6,258.3	6,845.7	7.8	10.0	20.0

Source: UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness* (New York and Geneva: United Nations, 2002).

level are making significant advances. The marginal role played by FDI in Algeria is further evident when taking into consideration the impact of FDI on gross fixed capital formation. Between 1977–2000, the FDI contribution was 3.6 per cent, whereas Morocco registered 8.2 per cent, Tunisia 10.9 per cent, and the average in developing countries was 12.3 per cent.[46]

No doubt all these indicators suggest that Algeria needs to make a much greater effort to improve its image as an attractive location for business and private investment. However, it should be borne in mind that reforms undertaken in Morocco and Tunisia, especially in relation to privatization, progressed at a relatively faster pace than in Algeria. Indeed, the privatization programme contributed to increasing FDI inflows in these countries. During the period 1990–99, proceeds from privatization amounted to $3,102 million in Morocco, $523 million in Tunisia and only $55.1 million in Algeria.[47] In addition, the available statistics on Algeria have tended not to include those investments by foreign companies into the hydrocarbons sector (exploration and production sharing), which has been the major recipient.[48]

According to available statistics, there were 379 FDI projects recorded between 1993 and 2001, amounting to AD 3,344 billion, that is, nearly $42 billion.[49] This was to result in the creation of around 1.7 million jobs. In this context, it is worth stating that these projects were originally an expression of intent to invest and, in the absence of reliable statistics, it is not possible to know precisely what materialized and what remained a blueprint or was even abandoned.

Nevertheless, certain examples of investment projects, implemented or in the process of materializing, can be mentioned. In early 2000, the German firm Henkel acquired a 60 per cent stake in the state-owned detergents company, Entreprise Nationale des Detergents, by investing $15 million over a period of three to five years. Similar types of medium-sized investment included joint ventures between Algeria's pharmaceutical company, Saidal, and other foreign groups. The most important of all, and at an advanced stage of implementation, is the $45 million joint venture to produce insulin with the French company Pierre Fabre and Denmark's Novo-Nordisk. In the area of telecommunications, Algeria granted a new GSM mobile telephony licence to Orascom Telecom, Egypt's mobile phone company. The bid, announced in July 2001, was estimated at $737 million. The same company, Orascom Construction Industries, in collaboration with the Danish FL Smidth, is also investing $250 million in a cement factory that it has already started building.

The most recent operation involved the takeover of the majority of the equity (70 per cent) of the state-owned steel firm Alfasid and certain subsidiaries, including iron ore mines El-Ouenza and Boukhadra, by the Indian Consortium Ispat in October 2001. The new company created as a result of the transaction is to invest $175 million over a ten-year period.

Other investment operations at an advanced stage of preparation include the German firm Fritz Werner's joint venture with the Algerian state company Asmidal to invest $370 million in an ammonia plant in the Arzew region. This is also the case with the planned $800 million tobacco plant in a joint partnership between the Algerian private company, Tobacco Bentchicou Corporation, and the American Medallion Company, which was agreed upon in March 2001. The government claims that several other investment projects in areas such as agriculture and electricity are under consideration by the newly established CNI.

CONCLUSION

The foregoing examination has shown that Algeria is going through a phase of important economic transformations. The abandonment of the socialist path for a market economy was prompted by the deteriorating economic situation that surfaced from the mid-1980s in particular. The package of reforms put in place, with the involvement of international and regional financial institutions, enabled the country, to a degree, to brazen out the crisis and even achieve some progress in restoring macro-economic stabilization. This would not have been possible without some commitments to adhere to the stabilization and adjustment measures. Nevertheless, one should not lose sight of the fact that the improvement recorded has also been possible because of favourable conditions on the international market for oil prices.

Policy-makers are well aware that macro-economic performance remains very sensitive to fluctuations in these prices. The growth rates achieved in recent years continue to depend largely on the contribution of the hydrocarbons sector, and are far from being sufficient to improve living standards and bring down increasing levels of unemployment. Accelerating and deepening the process of reforms in the non-hydrocarbons sector (industry, agriculture and services) is therefore vital in order to induce or generate stable economic recovery. This is equally a determining factor in boosting the country's image as an attractive location for private sector investment, especially FDI.

The statistical analysis of FDI trends has revealed that Algeria is still lagging behind, even when compared with its neighbours in North Africa. Apart from the oil and gas sector, the performance of other sectors has until recently been very poor. Recent legal and institutional measures, along with the current economic recovery plan, may help to reverse this tendency. For some time to come, the importance of foreign financing in the form of FDI promises to be extremely decisive in smoothing Algeria's transitional process.

NOTES

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4. Ibid.
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7. UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness* (New York and Geneva: United Nations, 2002), p. 189.
8. Ibid., p. 154.
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16. Martha Bonilla, ‘Algeria’s Reform Program Promotes Economic Growth and Transition to the Market’, *IMF Survey,* 27, 17 (31 August 1998), p. 277.
17. See *IMF News Brief,* 02/106 (17 October 2002).
18. IMF, ‘Algeria: 2002 Article IV Consultation’, *IMF Country Report,* 03/68 (March 2003), p. 6.
19. Bank of Algeria, *Tendances monétaires et financières au premier semestre de 2002,* <http://www.bank-of-algeria.dz/notes2.htm>, accessed 11 April 2003.
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23. Ministère de l’Industrie et de la Restructuration Industrielle, *Restructuration Industrielle Point de Situation et Perspective,* <http://www.mir-algeria.org/articles/restructuration.htm>, accessed 21 February 2002.
24. Until recently only the Credit Populaire d’Algérie and Banque Nationale d’Algérie have reached such a norm.
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30. Ministère des Finances, *Principaux indicateurs;* this average rate was quite low, standing at 1.9 per cent during the period 1990–2000; see World Bank, *World Development Indicators 2002* (Washington, DC: World Bank, 2002), p. 204.
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33. For a detailed account on host country determinants of FDI, see for instance UNCTAD, *World Investment Report 1998: Trends and Determinants* (New York and Geneva: United Nations, 1998); Padma Mallampally and Karl P.Sauvant, 'Foreign Direct Investment in Developing Countries', *Finance and Development,* 36, 1 (March 1999), pp. 34–7.
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37. IMF, 'Algeria: 2002 Article IV Consultation—Staff Report', *IMF Country Report,* 03/68 (March 2003), p. 25.
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39. *Le Soir d'Algérie,* 3 February 2003.
40. The European Commission allocated about €38 million within its MEDA I programme (1996–2000).
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42. On the issue of credibility, see for example Paul Collier and Jan W.Gunning, 'Trade Policy and Regional Integration: Implications for Relations between Europe and Africa', *The World Economy,* 18, 3 (May 1995), pp. 395–8.
43. Based on a number of indicators, the IMF's assessment considers that more needs to be done to improve investors' perception of the business environment in Algeria. See IMF, 'Algeria Selected Issues', pp. 9–10.
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CHAPTER 6
Algeria's Agriculture: Policy Reforms and Achievements

AHMED AGHROUT

The agricultural sector in Algeria has gone through a series of reforms since the early 1980s.[1] These have been part of the economic liberalization programme that successive governments endeavoured to implement, with some degree of success. With agricultural production increasingly not large enough to meet the rising needs of a growing population, this has not only led to the importing of large amounts of food, but has placed a heavy financial burden on the country as well. At the heart of the whole process has been a determination on the part of decision-makers to free the agricultural sector from most, if not all, forms of state control that over a period of time had come to be regarded as hindering its progress. Hence, restructuring this sector and allowing market forces to shape its development were deemed necessary. The various reforms undertaken have had as their ultimate aim the significant improvement of the country's food security, something that has not been achieved on the whole so far.

This chapter reviews the main stages in the reform and transformation of the agricultural sector, and assesses the impacts that these policy changes have had on its performance in terms of boosting production and improving productivity. It also attempts to characterize the present situation in this sector by singling out prevalent natural and policy constraints, and the range of challenges being confronted now and in the near future as a result of Algeria's regional and international commitments.

THE RESTRUCTURING PHASES

Prior to process of restructuring in the 1980s, Algerian agriculture was made up of three sectors. First was the self-managed sector *(autogestion)*—often referred to as the socialist sector—which consisted of the abandoned colonial farms that were nationalized during the early years of independence. This sector accounted for 30 per cent of the useful agricultural area, that is, more than 2.3 million hectares (ha), and was organized into 2,099 production units with an average size of 1,110 ha. It represented the modern sector and included the most fertile land. The second sector resulted from the agrarian revolution launched in 1971. State lands and expropriated large private holdings were redistributed to poor and landless peasants in the form of production cooperatives, numbering about 6,000 and covering 19 per cent of the arable land, that is, more than 1.3 million ha. Third was the large residual private sector, that ranged from micro to large landholdings and occupied 51 per cent of the land.

Of all these three sectors the self-managed one was by far the most important in terms of contribution to national agricultural output. During 1978–79, it produced 90.2 per cent of wine, 86.7 per cent of citrus fruit, 68.4 per cent of industrial crops, 44 per cent of dry vegetables and 38.3 per cent of cereals.[2] Despite this vital role in the country's agricultural economy, it suffered state bureaucratic intervention through excessive control over output prices, provision of inputs and credit and the marketing of produce, including what and how much to cultivate. Similarly, the agrarian reform policy failed to attain its ultimate aims of boosting agricultural production and improving the living standards of the targeted rural population, since only about 100,000 recipients benefited from land redistribution and new dwellings within the programme of socialist villages. Like the self-managed sector, the contribution of the private sector to agricultural production was not negligible, accounting for almost half the output of crops such as dry vegetables and cereals. However, this sector continued to be neglected, and the bulk of it faced major structural problems stemming from its fragmentation into small production units based for the most part on traditional farming practices.

By the early 1980s, the agricultural policy pursued thus far had proved inefficient, or perhaps more accurately a failure, as Algeria continued to rely on increasing food imports to meet the needs of its growing population. The government, having noticed this deteriorating trend in the country's selfsufficiency in food production, decided to give top priority to the revitalizing of the agricultural sector. Besides being part of a shift in policy advocating openness, it was also, and for obvious reasons, dictated by the increasingly unbearable burden the sector was placing on the state's financial resources. As a corollary, the 1980s witnessed two major phases of policy changes directed at the state sector, both of which inaugurated, on a progressive basis, a process of liberalization.[3]

The first phase, which started in 1981 and was completed in 1984, involved rehabilitating private landownership, mainly through access to and restitution of property, and merging into one state sector the self-managed farm units and the agrarian reform production cooperatives.

The law of 13 August 1983 on land ownership made possible, for the first time after the 1971 agrarian reform, 'the access to land ownership through the development of public lands located in the Saharan regions or those lands presenting similar characteristics, as well as other public lands not distributed and suitable for agriculture after their development'. In this regard, recent available figures show that 511,315 ha were distributed to 77,333 beneficiaries, but only 109,286 ha—about 21.4 per cent—were put into actual cultivation.[4] The limited financial resources of the beneficiaries and the insufficiency of investment credit from the banks have been seen as the major obstacles to a more intensive use and development of the land distributed.[5] But whatever the assessment of the effect produced by this law, it remains, despite excluding from its scope the lands occupied by the selfmanaged and agrarian reform sectors, a first practical step towards the privatization of existing public lands.[6]

Parallel to this, a programme of restructuring the state agricultural sector was launched. Over a period of three years both the self-managed and agrarian reform sectors were merged, and the result of this reorganization was the creation of 3,415 new farming units called Socialist Agricultural Estates (Domaines Agricoles Socialistes; DAS). One main purpose was to set up economically viable and easily manageable production units. The

DAS covered 2.83 million ha and involved 155,368 farmers. More than 0.7 million ha were also distributed as individual holdings to 103,168 private farmers where most of them were members of the agrarian reform cooperatives. For the remaining recipients it was no more than a restitution of their land nationalized during the 1970s. This restitution was from the beginning carried out in a discreet way by the state until 1990.[7] The adoption of a law on land policy during that year not only legalized previously restituted lands, but also made it possible for those who had not yet received their land to claim it back, or in some instances to obtain financial compensation.[8]

These policy changes were also accompanied by other supportive measures, designed to provide a propitious environment for the overall development of the agricultural sector. They included, among other things:

- liberalizing marketing networks of fruits and fresh vegetables by abolishing the state marketing circuits;
- granting more autonomy to farmers in the management of the state sector;
- raising producer prices to boost production and improve farmers' income;
- providing credit facilities to both state and private sectors from a specialized bank established for this purpose in 1982, the Agriculture and Rural Development Bank (BADR); and
- increasing access to various inputs on subsidized terms, especially for private sector farmers.[9]

In December 1987 a second and more radical restructuring was initiated. This consisted of dismantling the state sector.[10] The continuous inefficiency and low productivity, combined with the financial crisis that the country experienced in the aftermath of the collapse of oil prices in 1986, were among the major reasons precipitating this restructuring. The whole process amounted to a subdivision of the DAS into much smaller farming units. The result was the creation of two types of units: Collective Farms (Exploitations Agricoles Collectives; EAC), involving at least three members, and Individual Farms (Exploitations Agricoles Individuelles; EAI). By May 1990 the state or socialist sector had been reorganized into 22,356 EAC and 5,677 EAI. Recent available figures released by the 2001 general census of the agricultural sector show that at the end of 1994 the number of these farming units had increased to 36,727 EAC and 109,685 EAI.[11] This can be explained by a de facto tendency towards the fragmentation of the EAC into much smaller collective and/or individual holdings.

Under this restructuring, while the state retained its ownership of the land, it granted usufruct or cultivation rights to the members of these farming units either individually or collectively. The farmers enjoy full latitude in deciding about production plans, marketing, finance and so forth. In other words, this equated to a reversal in the state's former policy of excessive involvement in and control of such activities. The transfer of state-owned lands to private ownership was initially the subject of a law submitted to the parliament in 1996. If passed, this law would have marked the complete privatization of Algeria's agricultural economy. Instead, the issue of privatization turned out to be highly sensitive, as a result of the heated debate it sparked off between those in favour and those resisting the sale of public land.[12] Examples of these differing attitudes are: the National Liberation Front (FLN) party—in power since 2002—whose position has constantly been in favour of maintaining state ownership of public land; a similar stance is defended by the Workers’ Party (Parti des Travailleurs; PT) as well.[13] On the contrary, the National Democratic Rally (Rassemblement National Démocratique; RND) party supports complete privatization of this land. However, it is the National Union of Algerian Peasants (Union Nationale des Paysans Algériens; UNPA), the FLN’s satellite organization, whose position is quite ambiguous given the fact that it opted for the privatization of agricultural land in 1995. Currently, the UNPA, while supporting a system of concessions or leases of land with the state remaining the sole owner, rejects the introduction of any new types of exploitation to replace the existing ones (the EAI and EAC).[14]

To end the uncertainties surrounding the fate of about 30 per cent of arable land still publicly owned, the minister of agriculture, Said Barkat, was reported to have said that ‘Politically, the President of the Republic helped us to get rid of this problem, by refusing the sale of the arable lands while settling on their exploitation via a system of concession.’[15] For some observers this new tenure system is no more than another form of ‘disguised’ privatization.[16] Thus it is clear that for the time being, ‘full private ownership’ of these lands is excluded and their exploitation amounts to leasing them out for a period of 90 years to users in return for a tenure fee levied by the state and calculated on the basis of their actual value. It is also the case that the acquisition of the right to use them through a lease has been subordinated to the creation of what are called Private Farming Companies (Sociétés Civiles d’Exploitation Agricole; SCEA), which, in addition to the farmers, may involve other partners such as firms and financial entities. According to the 2001 census, there were 14,701 farms of this type, representing 1.5 per cent of all farming units, and for the most part managed by family members.

In a more recent attempt to stimulate the agricultural sector, the government launched the National Plan for Agricultural Development (Plan National de Développement Agricole; PNDA) in September 2001. It represents the government’s ambitious strategy to develop the agricultural sector with a view to improving food security. This is particularly evident in the government programme, adopted in July 2002, which states that ‘The country’s food security is of crucial importance given the high demographic rate, the relatively limited natural resources, both in land and water…as well as the uncertainties stemming from the world economic situation.’[17]

Incorporated into the government Economic Recovery Plan for the period 2001–04, the PNDA has been allocated AD65 billion, that is, about $900 million.[18] Among its objectives are:

- improving food security through increased domestic production;
- exploitation and promotion of produce for possible export;
- rational use of natural resources;
- protection of agricultural employment and its increase via the promotion of investment; and
- improving farmers’ incomes and living conditions.

The major medium-term effects the Algerian government is expecting by 2004 as a result of the implementation of the PNDA are:

- achievement of a growth rate of 10 per cent (under favourable or normal climatic conditions, of course);
- creation of 330,000 jobs;
- extension of the area under cultivation by an additional 700,000 ha (now amounting to more than eight million ha);
- an increase in irrigated land by an additional 200,000 ha (estimated at about 420,000 ha in late 2002); and
- an increase in the area dedicated to fruit trees, forests and pastures by an additional 500,000 ha.

For the government, these effects would also have a positive impact on the rural economy as they contribute to the stabilization of population, the freeing of initiatives and the creation and development of economic activities in the rural areas.

PERFORMANCE: MIXED RESULTS

It is obvious that the agricultural sector has been through a difficult period of adjustment since the transition to a market economy; a difficulty that can also be traced back to the period of state control. All the policy changes embarked upon since the 1980s have therefore been aimed at giving greater play to market forces. These market-orientated reforms should help promote agricultural development and spur greater production.

To get an overview of whether the new policies have brought any significant changes, one needs to look at the way the agricultural sector has performed in relation to the national economy in general, and within the sector itself.

TABLE 6.1 SECTORAL ECONOMIC GROWTH RATES

	Average annual growth (%)	
	1980–90	1990–2000
Gross domestic product	2.7	1.9
Agriculture	4.1	3.6
Industry	2.6	1.8
Manufacturing	4.1	-2.1
Services	3.0	1.9

*Source: World Bank, World Developme*nt Indicators 2002 (Washington, DC: World Bank, 2002), p. 204.

As Table 6.1 indicates, agriculture has witnessed much better growth rates than other sectors of the economy. This is evident even in the period 1990–2000, during which the country was confronted with serious political and economic problems. While that is the case, the performance of this sector, when measured in terms of contribution to GDP, shows no notable improvement since 1980 (Table 6.2). In value terms, the amount has remained within the range of $4.5 to $5.0 billion on average. Of course, the agricultural sector is no exception, since other sectors have also experienced fluctuating outputs. The recovery that can be discerned in industry is very much associated with changes in oil prices in the international market. In other words, apart from somewhat favourable conditions for oil products, one may argue that the industrial sector, especially manufacturing, has on the whole stagnated.

Another way to gauge the agricultural sector's performance is its contribution to employment. According to the ministry of agriculture and rural development (MADR), the total number of people employed in agriculture has reached almost 2.36 million, of whom nearly 1.29 million represent the permanent labour force in 2002.[19] A more or less detailed picture of the contribution of this sector to employment in the country is given in Table 6.3.

This contribution has been in the region of 20 per cent during the 1990s, compared to more than 25 per cent in the 1980s. Even with this decline, agriculture still occupies the second position in terms of employment. Compared to sectors such as industry and services, agriculture has performed fairly well. Between 1990 and 1999 it provided 35,000 jobs on average per

TABLE 6.2 INDICATORS OF SECTORAL ECONOMIC PERFORMANCE, SELECTED YEARS

	1980	1990	1996	1997	2000
GDP (billion dollars)	42.3	41.4	45.7	47.1	53.3
Agriculture (%)	10	13	13	11	9
Industry (%)	54	47	48	49	60
of which Manufacturing (%)	9	9	8	9	8
Services	36	41	38	39	31

Source: World Bank, *World Development Indicators* (Washington, DC: World Bank, 1997, 1998, 1999 and 2002).

TABLE 6.3 LABOUR FORCE BY SECTOR, SELECTED YEARS

	1990	1993	1995	1997	1999
Total labour force (million)	5.67	6.56	7.56	8.06	8.29
Total employed population (million)	4.52	5.04	5.44	5.71	5.88
Agriculture (%)	20.1	20.5	19.9	21.0	20.8
Industry (%)	14.8	10.6	9.5	8.8	8.3

Public works (%)	15.1	13.1	9.5	12.3	12.5
Services (%)	20.7	17.4	17.1	17.8	17.3
Government (%)	24.0	23.2	23.8	23.2	23.0
Other (%)	—	15.3	17.1	16.9	18.1

Source: Office National des Statistiques (Algeria), quoted in Slimane Bedrani, 'L'Agriculture et le rural durant la période 1990–2000', in Ahmed Mahiou and Jean-Robert Henry (eds), *Où va l'Algérie?* (Paris: Editions Karthala, 2001), p. 221.

annum, that is, an almost 2.6 per cent increase yearly. This at a time when the services sector managed to create only about 9,000 jobs per year and while the industrial sector saw the loss of more than 20,000 jobs annually. For an observer, the performance in question was 'the result of a certain return to the land (or of maintenance in the agricultural sector) of a population that cannot manage to find as many jobs in other sectors as was the case in the 1970s and 1980s.'[20]

It is worth pointing out that in the latest evaluation of the PNDA in October 2002, the authorities in charge asserted that about 173,350 jobs—of which 60 per cent were permanent—were created since the inception of this programme in September 2001.[21] With a similar pace to be sustained over the following three years of the programme, the target set in terms of job generation (350,000 jobs) may well be within reach. The programme as such represents an important policy measure to tackle the problem of unemployment, particularly in rural areas. On the whole, however, the issue of unemployment is so serious that bringing down existing high levels of unemployment would necessitate stimulating growth in other sectors as well.[22]

After this discussion of how the agricultural sector has performed relative to other sectors of the economy, it would also be interesting to make some evaluation of the measurable impact the various policy reforms have had on this sector, especially in terms of recorded output. In fact, agricultural output in Algeria remains to a large extent dependent on weather conditions. In view of this, crop production tends to fluctuate from one year to another.

Between 1988 and 1994, official figures show that fresh fruit crops increased by 53 per cent, market garden crops by 16 per cent, citrus fruit by 26 per cent and meat by 36 per cent.[23] This was at a time when other crops fared less well. For instance, cereal production declined by 22 per cent, fodder by 45 per cent, dried vegetables by 14 and poultry by 7 per cent.[24]

Over the period 1991–2001, the average annual growth rate of agricultural output increased by 2.38 per cent for vegetable products and 0.19 per cent for livestock. During this period important variations can be observed. For instance, vegetable production recorded the highest growth rate in 1991 (64 per cent) as opposed to a negative growth rate in 1997 (–46 per cent).[25] Similarly, livestock production registered the highest growth rate in 1992 (19 per cent) and was negative in 2000 (–11 per cent).

As far as agricultural output is concerned, cereals remain the major product. They are a basic food of general consumption and continue to represent a major financial burden for the country. By way of illustration, the share of cereals in total food imports was more than 47.5 per cent in 2002 (almost $1.3 billion in value terms).[26] Table 6.4 shows cereal production trends, covering the two major phases in the restructuring of the agricultural sector. A number of conclusions can be drawn from this Table. First, excluding the effect of weather conditions, the production of cereals shows a fairly small increase in volume during the period 1988–2001. Second, this period saw less harvested area compared to the 1983–87 phase. Finally, there is a slight improvement in terms of cereal yields achieved per ha. Certainly, low productivity still prevails, and is very obvious when compared to European countries such as France and the United Kingdom, which, for example, achieved 7,429 kg/ha and 7,006 kg/ha respectively in 2002.[27]

TABLE 6.4 CEREAL PRODUCTION, 1983–2001

	1983–87 (average)	1988–2001 (average)
Total production (thousand metric tons)	2,028,200	2,196,286
Area harvested (thousand ha)	2,737,400	2,377,929
Yield (kg/ha)	727	887

Source: Based on data derived from FAO, *Faostat Agriculture Data*, <http://apps.fao.org/page/collections?subset=agriculture>, accessed 12 April 2003.

An additional and more reliable measure of the impact the successive reforms have had is cereal production per person (per capita production). This time the statistics indicate that per capita cereal production decreased from a yearly average of 96 kg/person during 1983–87 to 78 kg/person during 1988–2000. Within these two periods there are important variations, ranging between the lowest level of 39 kg/person to the highest of 171 kg/person.

All that can be said is that the performance of the agricultural sector has not witnessed a steady and sustained progress, but has tended to fluctuate. Strong recovery of agricultural output in one year was not sustained in the year or years following. Thus the various phases of restructuring seem not to have had a strong effect on reducing the country's food dependency. Of course, one should not lose sight of the consequences of population growth on agricultural resources. In other words, with high rates of population growth, agriculture has not been able to keep pace with demand, even if at certain periods the performance of the sector has been quite good. Also, it is the case that production has been adversely affected by the erratic changes in weather conditions, as cereal production especially is heavily dependent on rainfall. Yet these are not the only problems that have so far limited the success of the reforms in boosting agricultural production.

DIFFICULTIES

Without intending to undervalue the successive policy measures—with their successes and failures—undertaken so far to tackle the country's agricultural problems, it should be borne in mind that this sector continues to be exposed to a variety of constraints that hamper its potential development. Since this is not an all-inclusive listing of the sector's difficulties, it may be possible to focus on a number of natural resources limitations and policy development inadequacies.

First, it is obvious that the development of agriculture continues to be hindered by prevailing natural factors. To start with, Algeria may be classified as a land-scarce country. This means that despite its vast land area (238.17 million ha), the amount of arable land is very small, estimated at only 3.2 per cent in 1999—it was 2.9 per cent in 1980.[28] The cropland is extremely limited, amounting to 0.2 per cent of Algeria's total area in 1999, compared to 0.3 per cent in 1980.[29] The arable land is located essentially in the coastlands and the contiguous plains. The whole agricultural area—consisting of arable land, permanent cropland and permanent pasture—represents about 17 per cent of the land area. The rest is for the most part composed of infertile desert. Erosion, desertification, industrialization and excessive urbanization (including rapid demographic change) have all taken their toll on the limited land suitable for agriculture.[30] In that case, it is not surprising to see that arable land per capita has declined from an annual average of 0.37 ha during 1979–81 to 0.26 ha during 1997–99.[31] It was 0.73 ha per person at independence in 1962.[32] Measures to protect this land have until recently proven less efficient, while at the moment considerable efforts are being directed towards increasing the cultivated area. Available figures show that 47,760 ha in 2001 and 73,108 ha in 2002 of new productive land have been put into production.[33]

Second, as stated earlier, agricultural production is to a large extent dependent on weather conditions. The changing climate is causing substantial year-to-year variations in agricultural output. Irrigation, as an alternative, is used on a limited scale. Again, the authorities' objective, through the PNDA, is to extend the irrigation of additional land (200,000 ha). There is no doubt that some progress—although not sufficient—has been made, since the proportion of irrigated land increased from an average of 3.4 per cent of cropland during 1979–81 to 6.8 per cent during 1997–99.[34] However, this progress is still far from matching that of Algeria's western neighbour, Morocco (13.1 per cent), for instance.[35]

Undoubtedly, these limitations of land and water have adversely affected the agricultural sector's performance, but deficient, inadequate and at times timid policies are also to blame. At least three issues can be singled out: financing, material investment and land tenure.

First, it is evident that access to financing is of paramount importance for agriculture. The state retreat from productive sectors should have resulted in a more important commitment from the banking sector.[36] However, the bank set up to finance the agricultural sector, the Agriculture and Rural Development Bank (BADR) seems not to have shown much involvement, especially since the 1990s. For instance, its credit facilities to the sector passed from nearly AD12.4 billion in 1987 to AD1.63 billion in 1991, representing a drop of 87 per cent over this period.[37] These facilities did not even exceed AD0.5 billion in 1998. For the most part this was explained by the farmers' reticence to provide real guarantees for their loans and the bureaucratic functioning of the banking system.[38]

With a sector suffering from very low levels of investment, partly because of access to credit becoming difficult, measures have been taken to tackle this situation. One important measure consisted of writing off the farmers' debts, estimated at around AD17.6 billion, owed to the BADR.[39] In addition, within the framework of the government-sponsored PNDA, the National Fund for Agricultural Solidarity (Caisse Nationale de Mutualité Agricole) saw itself entrusted with the huge task of providing adequate financial support to this sector.[40] The most recent statistics indicate that during the first phase of implementation of this programme (September 2000-February 2001) AD70 billion were committed, of which AD22 billion had already been made available to farmers.[41] Indeed, measures of this sort are an acknowledgement of the need to boost the agricultural economy and thus the country's food production. While this may well give a new lease of life to the sector, it will be some time before the real impacts of such policy actions can be assessed.

The second issue is that of material investment. One major problem raised above is the major dependence of agriculture on rainfall. The development of irrigation—as an alternative to the erratic weather conditions—has not been a top priority, despite a potential that was highlighted as early as 1992 in a study commissioned by the ministry of agriculture. This study pointed to the possibility that about 1.5 million ha could be irrigated.[42] In addition to the problem of limited irrigation, there has been a decline in the use of some inputs such as fertilizers. Consumption of these products has dropped from an annual average of 277 kg/ha during 1979–81 to 152 kg/ha during 1997–99.[43] During the latter period, Morocco and Tunisia used 369 kg/ha and 377 kg/ha respectively.[44] A different picture emerges when it comes to items such as tractors and harvester-threshers, as the use of this agricultural machinery in Algeria is greater than that of its two neighbours.[45]

By and large, this low level of capital investment has been paralleled by a tendency—perhaps even the cause of this low investment—towards the fragmentation of large landholdings into small or micro landholdings (average size ranging between 0.1 ha and 5 ha), representing 56 per cent of cropland.[46] The land restitution started in the early 1980s may have been a factor in this fragmentation, but the process accelerated after that, especially in the publicly owned land (EAC) and in the absence of strict and permanent state control.

Finally, the 1987 law granted usufruct or cultivation rights to farmers on state-owned land. It was accompanied by a total retreat of the state from management of the farming units. This, if it has increased private stimulus for agriculture, has not brought about significant development of the sector and greater productivity as originally expected. It is quite clear that despite legally recognizing their long-term land use rights, this law has not completely ended the tenants' anxiety and doubts. Justified or not, the fact is that state-owned land has until recent times been a prominent political issue, causing speculation and divergent debates and attitudes. Many were predicting the transfer of ownership rights to the farmers. This did not happen, and it seems that the country's highest authority has already settled the fate of this land by opting for a system of leasehold. As a result, a law has been drafted to establish rights for its use. Yet it has not been submitted to parliament for debate and adoption. Clearly, the longer it takes to pass this law, the more the uncertainty prevails. A legal framework, defin-ing clear ownership of land and clear rights to its use, is needed to stabilize farm structures, boost investment and help achieve the hoped-for growth of agricultural production.

CHALLENGES AHEAD

In addition to this constraining environment—both natural and policy-related—the agricultural sector is faced with other challenging issues either now or in the near future.

Food deficit and import costs

The most serious manifestation of the challenges this sector is confronted with is its present incapacity to meet the population's growing food needs. From being once called the 'granary of Rome', Algeria has over the years become one of the major purchasers of food products on the world market. The growth of domestic production has not kept pace with an increasing and unrepressible demand for these products. Given that agricultural production tends to fluctuate from year to year, the country's food self-sufficiency ratio has remained overall within a proportion of 20 per cent. Recent available figures for some major products show a self-sufficiency ratio of 35 per cent for cereals and derivatives, 42 per cent for milk and dairy products, 30 per cent for dried vegetables and zero for sugar, tea and coffee. However, the country produced most, if not all, of the meat, vegetables and fruits it consumes.[47]

The major basic food products for which Algeria did rely on external supply sources in 2002 were cereals. These accounted for nearly 48 per cent of all imports of food products.[48] This is because they overwhelmingly represent the staple diet of the Algerian population. With a domestic production far from meeting local needs, Algeria is now one of the world's biggest importers of cereals. According to the Food and Agriculture Organization (FAO), it imported 6.8 per cent of a total of 234.9 million tonnes in 2000–01, and 6.6 per cent of a total of 237.6 million tonnes in 2001–02 of all cereals traded on the world market. The forecast for 2002–03 is expected to be 7.2 per cent.[49]

This heavy dependence on imports of foodstuffs is paralleled by very low levels of agricultural exports. For the most part Algeria relies on hydrocarbon products for its export earnings, representing more than 96 per cent of all exports in value terms in 2002. Exports of food products made up 0.15 per cent ($28 million) and 0.21 per cent ($39 million) of total exports in 2001 and 2002 respectively.[50] Looking back to the 1960s, such exports were estimated at about 33 per cent of all exports at independence.[51]

Given the loss of food security and the need for large imports, Algeria devotes a significant proportion of its earnings to this end. Since the 1980s the food bill has, on average, ranged between $2.0 to $2.5 billion per year. The situation seems not to have improved at all since 1980. The cost of food imports in the 1970s was in no way as huge as it is today. For instance, these imports amounted to $326 million in 1973.[52] The ever growing food deficit attributed, on the demand side, to rising consumption caused by high rates of population growth, the rapid rise of incomes and, until recently, subsidized prices, and on the supply side, to the slow growth of agricultural yields—explains why this cost has, in recent times, reached alarming levels. Table 6.5 reveals that, on average, food products account for almost one quarter of total imports in value terms, a substantial level if one considers the burden these imports place on the country's financial resources, which ought to be channelled to more productive investments.

TABLE 6.5 SHARE OF FOOD IMPORTS IN TOTAL IMPORTS (MILLION DOLLARS AND PERCENTAGE)

	2000		2001		2002	
	Value	%	Value	%	Value	%
Total imports	9,173	100	9,760	100	11,749	100
Food imports	2,415	26.3	2,395	24.1	2,678	22.8

Source: Based on data derived from Direction Générale des Douanes, <http://www.douanes-cnis.dz/cnis/stat/result.asp>-, accessed 27 September 2002 and 21 February 2003.

Liberalization and its effects

Algeria's agriculture is faced with the prospects of further liberalization through accession to the World Trade Organization (WTO) and as signatory to the Euro-Mediterranean association agreements—with all that this may occasion in terms of impact on this sector.

The successful completion of the Uruguay Round in Marrakesh in 1994 was believed to usher in a new era that would see an increase in trade, income, investment and welfare. Developing countries were set to benefit from these developments. However, for some countries, especially net foodimporting developing countries, this was believed to result in increases in the prices of temperate zone food products (between 5 to 10 per cent on average). The consequence of cuts in domestic and export subsidies, as stipulated by the Uruguay arrangements on agriculture (referred to as the Agreement on Agriculture, AoA), could imply rather higher import prices. These concerns were certainly acknowledged, since

> Ministers recognize that during the reform programme leading to greater liberalization of trade in agriculture least developed countries and net food-importing developing countries may experience negative effects in terms of the availability of adequate supplies of basic foodstuffs from external sources on reasonable terms and conditions, including short-term difficulties in financing normal levels of commercial imports of basic foodstuffs.[53]

This decision seems not to have witnessed a great deal of implementation since the inception of the AoA. The FAO, having acknowledged this fact, has come up with a proposal to make it more effective that revolves around the idea of setting up a fund to help eligible countries in the event of higher world food prices and import bills during certain periods of time.[54] The FAO contends that, with the exception of the 1995–96 period, the prices of most agricultural commodities have since then been experiencing low levels, something the organization believes is not closely related to the AoA. Instead, it has to do with certain market developments where the depressing of world prices has partly been imputed to the support and subsidy policies of the Organization for Economic Cooperation and Development (OECD).[55]

Negotiations with the WTO would, once completed, bring Algeria's agriculture policies under multilateral rules and disciplines. Thus, to reduce the trade distortions arising from national policies, the AoA provides for applicable rules in areas related to domestic support for agriculture, export subsidies and market access. Member countries must commit themselves to these rules with a view to achieving 'a fair and market-oriented agricultural trading system'. The MADR claims that the issue is being seriously examined and that the necessary adaptations of the agricultural sector are under way.[56] Accordingly, the MADR considers that with a level of support of 4.5 per cent, Algeria is in a better position than some of the OECD countries (Japan, 65 per cent; USA, 25 per cent; Canada, 20 per cent, and so forth). In addition, it is claimed that support for agriculture is directed towards investment (about 80 per cent of the PNDA) in the farms and protection of the farmers' incomes that are not subject to reductions within the WTO commitments, commonly referred to as the 'Green Box' measures.[57] In this regard, these measures are permitted as they fall within what is called in the WTO, 'certain government assistance programmes to encourage agricultural and rural development in developing countries', that should not be more than 10 per cent of the total value of the product or products supported (5 per cent or less in the case of developed countries).

As for the second commitment, export subsidies, developing countries have been given a ten-year period (starting from 1995), to cut the value of subsidized exports by 24 per cent on the basis of the 1986–90 average level (36 per cent in the case of developing countries over a six-year phase). Algeria is still an important net food importer, and its agricultural exports, as recorded in 2002, are a tiny proportion of the total, for the most part consisting of dates, crustaceans and molluscs, butter and fat products, wine and grapes.[58] Any export subsidies that the country has to commit itself to will depend on the outcome of the ongoing negotiations and the capability of Algeria to develop certain competitive products—for which it has a comparative advantage—for export in the future. In addition, Algeria can benefit from an implementation period (a six-year period for developing countries, as stipulated by the AoA), under which it may be allowed, in certain circumstances, to resort to subsidies associated with both marketing and transporting exports.[59]

Market access is also a central issue in the AoA. Put simply, this commitment means that market access for certain agricultural products—previously subject to non-tariff measures—is to be replaced by tariff measures alone.[60] For developing countries, these tariffs are to be reduced by 24 per cent over a period of ten years (36 per cent in the case of developed countries over a six-year period). Algeria, like any other acceding country, can use the option that consists of offering ceiling tariff rates that are not binding. These would give the country some margin of manoeuvre to restrict imports of products that could, under certain circumstances, threaten local production.

All that can be said at this stage is that Algeria may well lose out, because the agricultural trade liberalization is more likely to result in higher prices for food imports. As already documented, the depression of world prices for major food products in recent years has been attributed to the slow progress made in terms of cuts in domestic and export subsidies. But once these cuts, as mandated by the AoA, start to witness an effective implementation, especially by the major exporters, a rise in the prices to be paid by net foodimporting countries can be predicted.[61] In addition, the commitment to the AoA would not translate into any significant gains for Algeria, which is far from being a large exporter at the present day. Depending on future policy, it seems that the priority now and for some time to come is food security. Any emphasis on the conversion of agriculture into cash/export-oriented crops may not go hand in hand with the attempts to reduce food dependency; a policy carried out through the ongoing PNDA. Also, the safeguard measures provided for in the AoA might prove insufficient to protect domestic production against external competition and could, as a corollary, call into question or even jeopardize the whole policy of improving the country's rate of self-sufficiency in the most important food products.

The other challenge is expected to come from the association agreement that Algeria concluded with the European Union (EU) in Valencia in April 2002. This agreement provides for reciprocal gradual liberalization between the two parties. The EU claims that it 'has opted for a policy of immediate liberalization (without duty or quota) for a great number of Algerian agricultural products upon entry into force of the agreement'.[62] This also suggests that there is still 'a limited list of sensitive categories, where tariff quotas are established'.[63] For its part, Algeria is also expected to make substantial tariff reductions on agricultural products originating in the Union. According to the MADR, the agreement has not only consolidated/maintained the trade concessions granted under the 1976 agreement, but has extended them to new products as well. On the whole, 123 products will benefit from the full removal of customs duties, including 21 that are subject to limited quantities either in the form of tariff quotas or reference quantity. As for the EU products, they will enjoy tariff concessions covering one third of the volume traditionally imported by Algeria from the Union. The MADR considers that these are products of larger consumption. They are imported, and the customs duties applied to them do not exceed 5 per cent.[64]

It is stipulated that six years later further negotiations will be held with a view to establishing greater reciprocal trade liberalization. This will give the agricultural sector at least five years to adapt, at a time when the government is counting on its PNDA to modernize this sector and stimulate its productivity. It has to be admitted that Algeria does not have an agricultural potential for export that could make the most of what it is believed to be fairly sig-nificant trade concessions provided for by the association agreement. Even if these concessions might give an impetus to the development of some cash crops, these would be minimal because of the growing needs of the local market and strong competition from external suppliers in the European market. Unlike Algeria, however, Morocco and Tunisia may reap some relative benefits from the concessions granted, as both countries already have a quite important export-oriented agriculture. On the import side, the entry of European products would not have substantial fiscal implications, as implicitly asserted by the MADR. Yet the issue here is the extent to which this progressive liberalization will affect the country's agricultural sector. The government is now striving to revitalize the agricultural economy to foster food security. Sustained and long-term reform efforts are required to enable this sector not only to meet the population’s needs, but also to face up to external competition, especially from the EU. The challenge lying ahead is huge and the cost is very high.[65]

CONCLUSION

Until recently, the reforms that Algeria carried out in the agricultural sector have shown their limitations and thus the inability of this sector to keep pace with the needs of the population. Yet, despite some improvements, the aim to raise agricultural productivity and foster food security seems not to have been attained. There is no doubt that natural conditions have to a certain extent been unfavourable, but the transformations undertaken proved both their limited effects and the neglect of areas of vital importance for the sector’s expansion.

The most recent policy, as exemplified by the government-sponsored PNDA, represents an important package of measures that may provide a stimulus for agricultural development and the achievement of a number of goals, including improvement of the country’s food security. At this stage, it appears that the authority in charge, the MADR, is very confident about the positive implications of this programme and contends that its targets may well be reached. The predicted high agricultural output because of the clement weather during 2003 will lend credence to the authorities’ expectations. Ultimately, it will be some time before a conclusive judgement can be made about this plan’s implications, not only in relation to the agricultural sector itself, but also in relation to other issues that will affect this sector’s future prospects.

NOTES

1. For an early account on these reforms, see Keith Sutton and Ahmed Aghrout, ‘Agricultural Policy in Algeria in the 1980s: Progress towards Liberalization’, *Canadian Journal of African Studies*, 26, 2 (1992), pp. 250–73.
2. Mahfoud Bennoune, *The Making of Contemporary Algeria, 1830–1987* (Cambridge: Cambridge University Press, 1988), p. 177.
3. Sutton and Aghrout, ‘Agricultural Policy’.
4. *El-Watan, 29 May 2002.*
5. Ibid.
6. Conseil National Economique et Social (CNES), *Communication sur le Foncier Agricole*, <www.cnes.dz/cnesdoc/cneshtm/foncier.htm>, accessed 5 October 2002.
7. Hamid Ait Amara, ‘La terre et ses enjeux en Algérie’, in Pierre R.Baduel (ed.), *L’Algérie incertaine* (Paris: Edisud, 1994), p. 190.
8. See Law 90–25 (18 September 1990).
9. Sutton and Aghrout, ‘Agricultural Policy’, pp. 255–60.
10. See Law 87–19 (December 1987).
11. Ministère de l’Agriculture et du Développement Rural (MADR), Résultats Préliminaires du Recensement Général de l’Agriculture, <www.minagri-algeria.org/resultats_rga.htm>, accessed 7 October 2002.

12. A new bill modifying and completing law 87–19 (8 December 1987), was to be examined by the government and parliament during 2003. While ownership of the land is vested in the state, this act will only define the manner of its exploitation.
13. To back up its position, this party resorts to Article 17 of the constitution, which stipulates that: ‘Public property shall belong to the national collectivity. It shall include the underground, the mines and quarries, the natural resources of energy, the mineral, natural, and living resources in the various national maritime areas, waters, and forests. It shall also include rail, maritime, and air transport, mail and telecommunications, as well as other properties defined by law.’
14. *Le Quotidien d’Oran*, 24 November 2002.
15. Ibid., 10 May 2001. The minister refers to a speech given by the president on 26 November 2000.
16. *Liberté,* 10 May 2001.
17. Service du Chef du Gouvernement, *Programme du Gouvernement,* <www.cg.gov.dz/gouvernement.htm>, accessed 2 November 2002.
18. Service du Chef du Gouvernement, *Le Plan de Relance Economique,* <www.cg.gov.dz/dossiers.htm>, accessed 16 October 2002.
19. MADR, *Résultats Préliminaires*.
20. Slimane Bedrani, ‘L’Agriculture et le rural durant la période 1990–2000’, in Ahmed Mahiou and Jean-Robert Henry (eds), *Où va l’Algérie?* (Paris: Editions Karthala, 2001), p. 208.
21. *El-Khabar,* 23 October 2002.
22. Within the whole Economic Recovery Plan for the period 2001–04, Abdelkader Khelil, the government delegate in charge of this programme, declared that 457,431 jobs have been created as a result. See *El-Moudjahid,* 31 March 2003.
23. CNES, Le programme d’ajustememt structurel, <http://www.cnes.dz>, accessed 13 October 2002.
24. Ibid.
25. MADR, *Indices et agrégats économiques,* <http://www.minagri-algeria.org>, accessed 15 October 2002.
26. Direction Générale des Douanes, <http://www.douanes-cnis.dz/cnis/stat/result.asp>, accessed 12 April 2003.
27. FAO, *Faostat Agriculture Data,* <http://apps.fao.org/page/collections?subset=agriculture>, accessed 12 April 2003.
28. World Bank, *World Development Report 2002* (Washington, DC: World Bank, 2002), p. 134.
29. Ibid.
30. Aghrout, ‘The Food Deficits Problem in the Arab Maghreb Union: Present State and Future Perspectives’, *British Journal of Middle Eastern Studies,* 19, 1 (1992), pp. 58–9.
31. World Bank, *World Development Report 2002,* pp. 138–9.
32. Ministère de l’Agriculture (MA), *Evaluation de l’Etat du Secteur Agricole* (Algiers: MA, 1991), p. 2.
33. MADR, *Plan National de Développement Agricole,* <http://www.minagri-algeria.org/resultatspnda.htm>, accessed 13 April 2003; see also *El-Watan,* 22

January 2003 *and Liberté,* 22 January 2003.

34. World Bank, *World Development Report 2002,* pp. 138–9.
35. Ibid.
36. Abdelmadjid Djenane, ‘Adjustement structurel et secteur agricole’, *Les Cahiers du CREAD,* 46–47 (1998–99), p. 134.
37. Ibid.
38. Bedrani, ‘L’Agriculture’, p. 218.
39. *El-Khabar,* 10 January 2002.
40. Two other schemes have already been established with a view to providing financial support: Fonds National de Regulation et de Développement Rural (FNRDA) and Fonds de Mise en Valeur des Terres par les Concessions (FMVTC).
41. *El-Moudjahid,* 28 February 2001.
42. MA, *Le Secteur Agricole et les Perspectives de sa Promotion et de son Développement* (Algiers: MA/Commission Consultative sur l’Agriculture, 1992), p. 15.
43. World Bank, *World Development Report 2002,* pp. 138–9.
44. Ibid.
45. According to the FAO 1999 estimates, tractors and harvester-treshers totalled 102,200 in Algeria and 84,939 in both Morocco and Tunisia; see FAO, *Production Yearbook 2000* (Rome: FAO, 2000), p. 257.
46. MADR, Résultats Préliminaires du Recensement Général de l’Agriculture.
47. Noureddine Zeid, ‘Comment assurer la sécurité alimentaire?’, *El-Moudjahid,* 21 November 2002, p. 4.
48. Calculations based on data derived from Direction Générale des Douanes, <http://www.douanes-cnis.dz/cnis/stat/result.asp>, accessed 2 February 2003.
49. *Food Outlook* (FAO), 5 (December 2002), p. 18.
50. Direction Générale des Douanes, website accessed 12 April 2003.
51. *La Tribune,* 14 May 2001.
52. MA, *Le Secteur Agricole,* p. 6.
53. This was referred to as the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries.
54. FAO, *Impact of the Uruguay Round Agreements of Relevance to Agricultural Sector: Winners and Losers,* <http://www.fao.org/trade/docs/ur.htm>, accessed 2 March 2003.
55. Ibid.
56. MADR, *Négociations de l’Algérie avec l’OMC,* <http://www.minagri-algeria.org/omc.htm>, accessed 21 March 2003.
57. Ibid.
58. Direction Générale des Douanes, website accessed 12 April 2003.
59. See Article 9 of the AoA.
60. As stipulated in the AoA, these measures included quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state-trading enterprises, voluntary export restraints, and similar border measures other than ordinary customs duties.

61. For a recent account, see World Trade Organization (WTO), *State of Play in the WTO Negotiations on Agriculture*, <http://www.fao.org/trade/docs/4th_ministerial_en.doc>, accessed 2 March 2003.
62. ‘The EU’s Relations with Algeria’, <http://europa.eu.int/comm/external_relations/algeria/intro/ip02_597.htm>, accessed 26 March 2003.
63. Ibid.
64. MADR, *Accords d’association avec l’Union européenne,* <http://www.minagri-algeria.org/ue.htm>, accessed 26 March 2003.
65. Ali Sassi, ‘Après l’accord d’association—Quel avenir pour l’agriculture algérienne?’, *La Tribune,* 7 January 2002.

CHAPTER 7
Restructuring and Privatization in Algeria

AHMED AGHROUT, MOHAMED BOUHEZZA and KHALED SADAOUI

The mid-1980s corresponded with a period characterized by a slump in oil prices; a phenomenon that had serious implications for Algeria, especially its economy, which was and continues to depend heavily on revenue from oil exports. The shrinking of this major source of income made it plain to decision-makers that the state's role in the conduct of the country's economy—through centralized planning and large public ownership—ought to be reconsidered. Although there had been some piecemeal reforms during the first half of the 1980s, such as the privatization of public property, together with a recognition of the economic importance of the private sector and the need to downsize public enterprises, the significant leap forward occurred during two major phases of reforms starting at the end of the decade: a phase of self-imposed structural adjustment (1989–91) and a phase of IMF-imposed structural adjustment (1994–98).[1] Under external pressures and budgetary constraints, the reform measures have targeted, among other things, the restructuring and privatization of public sector enterprises. These measures, as one key element of the transition towards a market economy, have been undertaken with a view to improving economic efficiency and thus reducing, if not ending in the longer term, the public sector drain on the state's resources.

This chapter begins with a general review of some basic themes related to privatization, highlighting the diversity of its meaning as a concept and surveying it as an instrument of policy reform adopted by developing countries to restructure their public sector economies. Next is an examination of the process of restructuring public enterprises in Algeria; a process started before privatization and continuing today. This is followed in section three by a presentation of the legislative measures taken and the institutional frame-work set up, which the government kept revising and adapting to promote its privatization programme. The results and progress accomplished in implementing this programme and the difficulties encountered are discussed in sections four and five respectively. The final section concludes with suggestions for policy options that might contribute to the debate about possible ways to advance the process of privatization.

BROAD ISSUES ON PRIVATIZATION

The issue of privatization has gained currency since the 1980s as a key element of the renewed emphasis on market-oriented reforms. As far as these are concerned, the term privatization has no single meaning and may prove difficult to define. Indeed, the experience of many countries—both developed and developing—shows that privatization policies may involve different measures and take different shapes. However, there is an agreement between various perspectives that the concept has both a narrow and a broad sense. For Gupta, privatization, narrowly defined, ‘refers to divestiture, implying transfer of ownership from the state to private hands on the one hand, and non-ownership options such as load-shedding, franchising, leasing or contracting-out public services on the other’. Broadly speaking, according to her, privatization ‘implies involvement of market forces to ensure greater competition and economic efficiency on the one hand, and reduction in the role of the state as a regulator, facilitator, provider, and producer of goods and services on the other’.[2]

It was during the 1980s that policies of privatization were embarked upon in developed and developing countries alike. In the developed world, it is considered that the wave of privatization was ‘originated by two ultraconservative, ideologically oriented governments of Ronald Reagan and Margaret Thatcher in the United States and Britain’.[3] In many countries of the developing world, on the other hand, privatization policies were, for the most part, actively and strongly promoted by the multilateral institutions (for instance, the World Bank and the International Monetary Fund) as a key feature of the programmes of structural adjustment.

For decades the public sector, especially in the form of state-run companies, has in varying degrees played a major role in almost all sectors of the economy—from utilities, transport and communications to manufacturing, agriculture, construction, finance and services. In general, after World War II, most developing countries portrayed an image of less developed and weak economies, dependent to a great extent on agriculture and the production and processing of raw materials. The state became the main actor and promoter of economic development, through the creation and proliferation of public enterprises. The rationale behind their establishment was to fulfil one or more of the following objectives:

- the desire to nationalize a foreign-owned enterprise, and this applies particularly to the exploitation of natural resources;
- the collection of monopoly rents, especially on natural resources, in order to boost government revenue;
- the failure of the private sector to establish profitable and efficient enterprises, resulting in the creation of public sector enterprises to meet the shortfall; and
- the promotion of regional development and the creation of employment were the motivation for creating a number of public corporations, especially in manufacturing and services.[4]

This is not an inclusive list of all underlying aims behind the setting up and proliferation of public enterprises. In some instances, the expansion of public corporations was seen as the means by which industrialization and economic independence could be achieved. In others, their creation was motivated by the desire to control the commanding heights of the economy, since these were key or strategic sectors that could stimulate industrialization and growth and could therefore not be left to market forces or the private sector.[5]

It is clear that the public sector enterprises have played a significant role in the economies of developing countries, contributing an average 7 to 15 per cent to gross domestic product.[6] That was also the case for investment, as such enterprises accounted for 20 per cent of gross domestic investment in 1995 in these countries. However, this contribution, which also extends to other areas, has not taken place without putting a heavy burden on the governments' resources. Except for cases of successful public enterprises—operating efficiently and generating profits—in countries as diverse as France, South Korea and Singapore, the truth is that in a large majority of developing countries these corporations proved to be a drag on development, and by the early 1980s were posing an unsustainable macro-economic burden.[7]

As a result, these public companies have encountered scores of problems: weak management and pervasive corruption, bureaucratic interference, high administrative and fiscal costs, overstaffmg, blatant inefficiency and poor financial performance, or even huge losses in many other instances. With these problems plaguing them—something that cannot, of course, be generalized across all countries, as already suggested—the governments concerned have found themselves faced with the inevitable alternatives either of reforming to improve efficiency and profitability, or transferring ownership and control to the private sector. In a number of countries both options have been attempted as mutually supporting policies. Nevertheless, it is a fact that the option for privatization has proved widely attractive.

A major argument in favour of privatization stems from neoclassical theory, which contends that privatization of public sector enterprises—that is, their transfer to private ownership within the framework of a competitive environment—leads to greater efficiency and rapid economic growth. Dictated mainly by the inefficiency and poor financial performance of public enterprises, governments have sought through the drive towards privatization to achieve a number of goals, such as:

- improving economic efficiency, to be reflected in lower consumer prices and improved product quality;
- reducing fiscal deficits through increased tax revenues on the output of enterprises with a reduction in central government transfers to the enterprise sector and the benefit of revenues from privatization sales;
- shifting the balance between the public and private sectors and promoting market forces within the economy; and
- generating new investments (including foreign investment).[8]

There is no clear-cut evidence to show that privatization of public sector companies has been a success story across the board. Yet one cannot deny that the transfer of ownership and control to the private sector has overall resulted in higher output and greater efficiency, especially in high- and middle-income countries, less so in lower-income countries.[9] On the other hand, in a study analysing macro-economic data for 63 developing countries over the period 1988–97, doubt was cast on the prevailing consensus that privatization has had a sizeable positive effect on economic growth.[10] Another study focusing on the experience of privatization, promoted by the World Bank in low-income countries in Africa, shows that the process has encouraged over-optimistic expectations—especially in terms of reducing poverty through the development sector—and, as currently conceived by policymakers, will not help and may even be detrimental to development prospects.[11]

THE 1980s RESTRUCTURING OF PUBLIC ENTERPRISES

Well before committing itself to a policy agenda of privatization per se, Algeria had, as early as the 1980s, undertaken a series of reforms that targeted the public sector, including the public enterprises.[12] These reforms were deemed necessary, because the development strategy followed until then was viewed as having shown its limitations. The change of leadership, after the death of Boumédienne in 1979, was also concomitant with a quite different vision of how the country's economic affairs were to be conducted. The new regime, in its evaluation of the previous strategy of economic and social development, concluded that The conduct of our development was accompanied by grave distortions and profound imbalances both on the economic and social planes and even certain deviations which may compromise dangerously the construction and consolidation of our development.'[13] The charges levelled against former development policies focused on the public sector, particularly public companies. First, they were experiencing financial problems, reflected in their deficits and growing debts. Second, they were of large size and thus very often referred to as a 'state within a state'. The first step towards restructuring these companies was, therefore, 'to reduce their sizes into functional enterprises so that they would supposedly be transformed into manageable small entities and hence easily controllable'.[14] Their number, which was around 150 companies in 1980, increased to 480 corporations during the 1982–83 period.[15]

The subsequent and final step of this early restructuring, set in motion at the beginning of 1983, was aimed at sorting out the financial situation of many of the public enterprises—especially their accumulated losses—to enable them to operate on different norms and to improve their performance as a result. Between 1983 and 1987, 300 public companies were targeted by the government plan and AD60.5 billion were earmarked for this operation.[16]

Before the end of the 1980s, it became clear to the government that further changes in the management of public sector enterprises would be necessary, especially at a time characterized by dwindling financial resources—following the collapse of oil prices—and changing world economic relations. These would involve a shift in the state role, acting as a key economic agent. As an observer put it: 'This goal was to be achieved through state disengagement from direct management of the economy. This disengagement was to give the company complete autonomy in the day-today management of its production, investment, human and financial resources and strategic choices. Only the law and market forces were to extend or to restrict this autonomy.'[17]

By early 1988, six landmark laws on the autonomy of public enterprises had been passed.[18] In principle, this legislation was to subject these companies, renamed Public Economic Enterprises (Entreprises Publiques Economiques; EPE), to full marketplace disciplines. As a corollary, they were converted into commercial joint-stock companies managed by stockholding funds (Fonds de Participation).[19] With the state having handed over its role as owner, the stockholding funds were entrusted with the task of exercising trusteeship over the public property. Improving the efficiency of and developing business-oriented practices in the EPE were among the main tasks assigned to these stockholding funds.

As this restructuring had mainly relied on reconfiguring the relationship between the state and the enterprises it owns, it cannot categorically be assumed that, in the mind of the policy-makers at that time, it was a preparatory phase or a prelude to privatization. It is quite plausible that the process was intended to remedy the poor performance of the public enterprises in what was the beginning of a deregulated and competitive economic environment. Enhancing their autonomy and financial responsibility was aimed neither at reducing the scope of the public sector, nor at discouraging the development of the private one. Therefore, at that stage it was not a question of divestiture, that is, of a significant change in the ownership and thus its transfer to the private sector, but basically an undertaking carried out with a view to turning these enterprises into viable and efficient businesses capable of effectively operating in a competitive market. In short, this restructuring was confined to organizational measures to introduce market discipline, good business and management practices at different levels of the publicly owned companies.

The process of restructuring that was started in the 1980s continued throughout the 1990s, especially in the form of financial clean-up of public enterprises. Between 1990 and 1998, according to the World Bank, this process proved extremely costly, being estimated at over $25 billion.[20] For Abdelmadjid Menasra, former minister of industry and restructuring, the government had injected more than $15 billion into restructuring the industrial sector up to the year 2000, involving measures such as the liquidation of non-viable companies, the shedding of staff and the implementation of finan-cial recovery schemes (debt-equity swaps, capital injections, debt forgiveness, refinancing, and so forth).[21] This process may well continue in the future, and the government's $7 billion Economic Recovery Plan (2001–04) has committed a portion to finance the public sector reforms, including the cost of liquidation and employee reduction schemes.[22]

LEGAL AND INSTITUTIONAL FRAMEWORK

The regulatory and institutional framework for the privatization programme was initially elaborated during the 1995–98 period.[23] The 1995 Ordinance first spelt out this programme, defining the modalities and methods of privatization, areas/sectors targeted and other legal procedures related to privatization transactions. In June 1998 a list of 88 public enterprises to be privatized was identified. The institutional framework set up to manage the privatization programme consisted of a number of organs, such as a Privatization Council and a Commission for the Control of Privatization Operations (CCOP).

However, these initial measures proved both ineffective and insufficient to move forward the privatization programme. There is no doubt that a large part of this had to do with factors that had nothing to do with the legislative package as such, but the authorities focused their attention on revising the legal and institutional framework. As a consequence, new legislation was enacted in 2001 that, to a large degree, improved on the previous laws. At least three major innovations can be singled out.

First, while the former legislation was selective in its approach towards the sectors affected by privatization, the new law extended the scope of the policy to all economic sectors. Article 15 stipulates that 'public enterprises operating in all sectors of the economy are eligible for privatization'.[24] While all the EPE are eligible, the state reserves the right to ensure, after privatization, that there is continuity in the provision of services or goods in enterprises that have a mission of public service.[25] One wonders whether in the future this right could take the form of regulatory watchdogs, as in the United Kingdom, where these bodies enjoy large powers that include, among other things, the control of the quality of service and the protection of customers' interests.

In line with this stated purpose of privatization, the legislation also grants specific incentives or advantages, to be negotiated and granted on a case-bycase basis, for acquirer(s)/buyer(s) who undertake to reinstate or otherwise modernize the enterprise and/or to maintain employment (for part or all employees) and keep the enterprise in operation.[26] The legislation on promoting foreign and local private investment, enacted concurrently with that on privatization, provides for an elaborate range of incentives.[27]

Second, was the streamlining of procedures with a view towards eliminating any legal provisions that may constitute an obstacle to the normal conduct and implementation of the privatization programme. For instance, previous legislation stipulated that privatization of public enterprises would take place only if there was a commitment from the buyers to keep them in operation for a minimum five-year period and to bring in new investment (to reinstate or modernize them), or to maintain all or part of the workforce. Conditions of this sort may well have discouraged potential investors, who would have regarded them as another form of bureaucratic interference in a supposedly liberalized economic environment. As such, the new legislation did away with the inflexible nature of these obligations, by making the commitment to them optional and attractive in terms of additional incentives to be granted.[28]

Third, was what is claimed to have become a 'simpler and more efficient' institutional framework. In view of that, the new legislation established an institution called the Council for State Participation (CPE) under the authority of the head of the government and composed of several ministerial departments.[29] The CPE is responsible for, among other things, the definition, examination and approval of policies, programmes and proposals in connection with the privatization of public enterprises. Provision was also made for the setting up of another institution, the CCOP. This was basically the same structure as previously provided for. Also placed under the authority of the head of the government, this commission is assigned the role of reporting on privatization operations and ensuring that the rules of transparency, sincerity and equity are respected in this process.[30]

Another structure, the ministry for participation in and promotion of investments (MPPI; formerly the ministry for participation in and coordination of reforms), was placed in charge of the public sector enterprises and the promotion of foreign and local private investment.[31] The MPPI was assigned the role of determining the valuation of the public enterprises and their assets, examining and selecting bid(s), and finally reporting to the CCOP in the form of a detailed file regarding the selected bidder(s). Led by Hamid Temmar, this ministerial department vigorously campaigned for the disbanding of the Public Holding Companies that originally replaced the stockholding funds, following a restructuring programme of the public sector supported by the World Bank in 1994. These Public Holding Companies, tasked with the mission of managing and divesting the state's assets in various sectors of the economy, were criticized for their rigidity and lack of progress in moving the process of divestiture forward. As a consequence, and given the need to speed up the programme of privatization, they were replaced in late 2001 by what is claimed to be much more flexible and efficient equity management companies (Sociétés de Gestion des Participations; SGP). Placed under the direct authority of the CPE, these SGPs have in theory been given the responsibility for preparing the EPE for privatization and for initiating schemes in this context. Noureddine Boukrouh, who replaced Temmar in 2001, was reported to have said: 'What characterizes the new process is that all intermediate structures—the holding system, the National Privatization Council, the secretariat—have been liquidated. Instead we have made the institutional process more practical by shortening the decision-making route.'[32] The setting up of a privatization fund, Fonds de Participation et de Partenariat, was also planned in order to speed up and finance privatization operations. The government-sponsored Economic Recovery Plan allocated AD22.5 billion to this institution.

The legislation also provided for the methods or modalities of privatization. It is unequivocal that privatization may take different forms in different countries, depending not only on the motivations, but also on prevailing political and economic conditions. In the Algerian context, this would take place via the following forms or modalities:

- listing on the stock exchange or public offering at fixed prices (through the financial market mechanisms);
- public tender;
- mutual agreement (*gré à gré* method) subject to the authorization of the CPE on the basis of a detailed and recommending report from the ministry or the structure in charge of state shareholdings; and
- any other forms conducive to promoting wider share ownership.[33]

In addition, shares and other equity instruments may be issued at low nominal face values. This is to facilitate the acquisition of shares in the public sector enterprises by their employees and the general public, and by the same token to give a boost to the development of the capital markets. As far as the employees of the public enterprises included in the programme of privatization are concerned, the legislation has provided for special arrangements in their favour. Hence, employees of enterprises eligible for full privatization would benefit from free distribution of shares, not exceeding 10 per cent of the asset value of the enterprises concerned. Nevertheless, this does not give them voting rights or entitlement to representation on the board of directors. Employees can also benefit from a pre-emptive right to buy the enterprise for which they work. They must do so within a period not exceeding one month from the date on which the offer of sale is notified to them, and must constitute themselves as a legally recognized company. The acquisition of the enterprise gives them a 15 per cent discount on its market price.

PROGRESS ON PRIVATIZATION

An article in *El Watan* in April 2003, entitled *'Les privatizations, tout reste a faire'* ('Privatization, everything remains to be done') was indicative of the progress that has so far been made in this context.[34] While such a statement may sound critical of the entire process, it can also suggest that not much has actually occurred in terms of real privatization of public sector enterprises and that more still needs to be done. One way of making a judgement about the performance of Algeria is to compare its level of privatization transactions (value of sales) with those of countries of a more or less similar level of development and that are likewise in transition towards a market economy. Table 7.1 reveals that the total proceeds from the privatization process in Algeria during the period 1990–99 was only $55 million, compared to $3,102 million in Morocco, or even Tunisia with $523 million. By and large, what these figures suggest is that Algeria is lagging far behind its North African counterparts. This is despite the fact that some of them officially launched their programmes of privatization at almost the same time as Algeria (Morocco in 1993 and Egypt in 1994). In Tunisia, where the process started as early as 1987, 165 enterprises had been restructured and privatized as at April 2003; most of these were fully privatized (85), while 30 were partially privatized and 38 had been liquidated.[35] Hence, if there is a real intention to proceed quickly with privatization in Algeria, further efforts are needed just to catch up with these countries.

To grasp the full picture, however, one needs to go beyond these general considerations and examine how the privatization process has evolved since its inception. This process was initiated following Algeria's agreement with the IMF in 1994, and was a key element in the broad structural reform programme agreed with this institution. In its assessment of 24 February 2003, the IMF, while expressing its satisfaction about some of the privatization transactions carried out up to then, 'urged the authorities to move ahead with the remaining privatization agenda in a timely and measured fashion'.[36] In other words, the IMF recognized that a process of privatization was taking place, but that it needed to be consistent with a programme that was continually and appropriately adhered to.

TABLE 7.1 PROCEEDS FROM PRIVATIZATION, 1990–99

	Amount (million dollars)
Algeria	55.1
Egypt	1,070.1
Morocco	3,102.2
Tunisia	523

Source: World Bank, *World Development Indicators 2001* (Washington, DC: World Bank, 2001), pp. 270–2.

The debate about privatization has commonly centred on the process of transfer of the state's assets in the public sector to the private sector. This 'amounts to mere explicit privatization', remarks one observer.[37] In developing countries, the same observer argues that 'implicit privatization can be perhaps more important and relevant' and 'may be defined as yielding a larger place in economic space to the private sector than before, without transforming the ownership of the public assets as such'. If one takes this line of argument and considers its relevance to Algeria, it may be possible to assert that, at least officially, this 'implicit privatization' started in the early 1980s. The adoption of a new private investment code in 1982 was primarily concerned with the provision of a framework, within which the private sector was encouraged to make new investment in accordance with the objectives set out in the national development plans.[38] The economic space provided for local private investment no doubt started initially with well-defined sectors expected to complement the public sector, but this was to develop into areas traditionally considered the preserve of the public sector. Not only has such investment come to compete with the public sector, but also, more importantly, it has overtaken it in many areas such as light industries and services. This can be corroborated by the fact that in 2000, public sector enterprises (excluding hydrocarbons and public services) contributed only 7 per cent to the country's GDP.[39]

In terms of 'explicit privatization', the first operations launched in 1994 targeted local public enterprises (Entreprises Publiques Locales; EPL). Before the restructuring process they numbered 1,324 and employed almost 220,000 people.[40] At the end of 1998 the bulk of these EPL had been liquidated, with the transfer of assets of 486 of them to employees.[41] They consisted of state-owned small and medium-sized companies in agriculture, commerce, transport, construction and services. During the same year other state-owned big importing and distribution networks or agencies had also been dissolved.

In addition to this initial privatization-liquidation process, there were other forms of privatization of three public sector enterprises (Eriad in agrofood, Saidal in pharmaceuticals and the El-Aurassi Hotel) through the opening up of 20 per cent of their capital on the newly set up Algiers Stock Exchange in 1999. The AD12 billion bonds issued by Sonatrach (the stateowned oil company) are also traded via this institution. In 2001, three important transactions were concluded with foreign companies. One included the transfer of 70 per cent of the assets of the public sector steel producer, Sider, to LNM Holdings, believed to be one of the world's largest iron and steel producers. Sider was one of the loss-making public enterprises, and for a variety of reasons, including its strategic importance, it might not have been possible to sell it off in its entirety. Thus the option of a joint venture, as a measure of ownership divestiture, had the advantage of retaining a public stake in the company while enabling it to benefit from the foreign private entrepreneur's contribution in the form of new technology, capital, managerial know-how and markets.[42] The second transaction, also a joint venture, was between the state-owned detergents company, Enad, and the German firm Henkel. The third transaction involved the sale to a private foreign company, the Egypt-based Orascom, of a new cellular telephone licence.

Following these three major divestitures, it seems that the momentum behind the privatization process has slowed down. This does not mean that it has gone relatively smoothly. The revamping of the legal and institutional framework in 2001 was an indication of the need to put the whole process on the right track. Even since then there has been no significant headway in terms of concrete implementation, apart from stated intentions and recurrent lists of public enterprises to be privatized being announced. As some observers have aptly put it, 'for most developing countries, the plans for privatization greatly outweighed their implementation'.[43]

CONSTRAINTS TO PRIVATIZATION

The intention here is an attempt to identify a number of factors that, with varying degrees, have acted and continue to act as stumbling blocks in the way of the privatization programme and its implementation. It is argued that privatization is 'a tedious process, and resistance can come both at the policy-making stage and at the implementational stage'.[44] At the decision-making level, there is no doubt that the commitment to carry out the programme of privatization is an irreversible policy in Algeria. However, recent experience shows a lack of consensus at the governmental level that, in a way, reflects the divergent stances among the various institutions involved in the process. On a couple of occasions, it has been reported that disagreement caused the minister concerned, Temmar, to oppose the prime minister about the whole strategy of privatization. This has been the case since the government of Benbitour (1999). The MPPI approach has even been discredited by Ahmed Ouyahia, the present prime minister, who stated that 'I have nothing against Mr Abdelhamid Temmar [MPPI], but the privatization of 340 enterprises rapidly seems to me not feasible…perhaps in theory, but in practice I doubt it.'[45] It is not surprising, then, that both the MPPI and its boss disappeared from the government after the reshuffle of May 2003. Divergent attitudes and conflicting prerogatives of this kind have not helped either the devising of a thought-through strategy of privatization, or the pace with which the ongoing process is implemented, still less the convincing and attraction of potential private investors, local and foreigners alike.

To a great extent these problems at the decision-making level are also a reflection of the entrenched positions of interest groups. Regardless of how significant the privatization programme pursued up till now has been, the fact is that it has been regarded unfavourably by the political parties (for instance, the Workers' Party, PT), the managers of public sector enterprises, part of the private sector and the General Union of Algerian Workers (Union Générale des Travailleurs Algériens; UGTA).[46] The resistance has been particularly high from the UGTA, which, while not being entirely opposed to the economic reforms undertaken, rejects what it considers 'a programme of privatization unilaterally elaborated'.[47] The trade union is not prepared to accept further hardship in terms of workforce lay-offs. The view is that surely the reform process has taken its toll, with hundreds of thousands of people having already lost their jobs as a result. Privatization is therefore viewed with apprehension and the UGTA leader, Abdelmadjid Sidi Said, made this clear when he asserted that 'We do not accept putting at risk the fate of 900,000 jobs.'[48] At the heart of this resistance is the fear of massive job losses following what the UGTA calls the *bradage* (selling off cheap) of the public sector.

In an attempt to show its intention of doing things in consultation with concerned parties and at the same time gaining their support, the government set up a meeting with the UGTA in December 2002. Instead of bringing the parties closer together, the event drove them further apart and highlighted their divisions. To press its case, the government, represented by the MPPI, pointed to the difficult situation in the public sector, revealed by a debt of AD 1,202 billion ($14 billion). Upgrading and maintaining this sector, according to the government, would require the injection of $60 billion, something that could not be done due to the state's limited financial resources.[49] With a sector consisting of 1,110 enterprises, the privatization of at least 321 was the only alternative. However, the UGTA was unconvinced by the government's plea for a number of reasons. First, it rejected the 'gloomy picture' as painted by the government statistics, which it viewed as unrealistic. Second, there was no clear indication of the social implications, that is, the cost in job losses. Third, and more important, was that the UGTA, being a fervent proponent of the public sector, firmly believes that more can be done to improve the efficiency of the public enterprises (facilitating access to credit, for instance). Even when privatization is the only option, the employees' interests and rights should be protected. The culmination of this opposition was the organization of a two-day strike on 26–27 February 2003, which paralysed many sectors in the economy and signalled to the government the challenges ahead if it carried on with its existing privatization policy.[50]

It would be an incomplete exercise to confine the obstacles to privatization to purely political constraints, since economic factors have also had their effect on the process. Like many other developing countries, Algeria's economic setting is in a phase of transformation, and as such, plans for privatization have been hindered and may continue for some time to be so by the prevailing institutional and structural weaknesses.

For example, the process of valuation requires considerable expertise and resources before the divestiture of public enterprises takes place. In most cases this has to be done with the assistance of external agencies (banks or consultancy companies) when the necessary skilled personnel are not available locally. This is particularly true when it comes to large publicly owned companies and where the government is seeking to open them up to outside investors. In a well-known case, the opening up of the capital of the Credit Populaire Algérien (CPA) bank to a foreign company has taken a long time, and the operation has not been concluded yet, despite being conducted with the financial assistance of the World Bank. The latter's decision to withdraw from the process because of a disagreement with the government over the proportion of capital to be made available will lead to further delays. Additionally, there is the financial cost to be incurred by the government if it continues to cling to 51 per cent public ownership in the CPA. In general, the cost involved has been estimated by the MPPI to be at least $1.5 million for every process of valuation.[51] In short, these problems associated with the valuation of public enterprises, which under certain circumstances cannot be avoided, significantly delay their privatization. Perhaps this is one of the reasons why plans for privatization have so far proceeded very slowly.

By and large, a privatization programme may well be implemented successfully if occurring in a country or countries with developed capital markets. These markets provide efficient and helpful support for the process. Apart from the initial three companies and the Sonatrach bonds, the Algiers Stock Exchange (ASE) has since then had no effective role in this context (see chapter eight). There is also the problem of availability of capital to buy the enterprises planned for privatization. The existing banking system, which is by far the most important component of Algeria's financial sector, suffers from deficiencies that make it a marginal player in the whole privatization process. With credit generally in short supply, partly because of low levels of domestic savings, the purchase of companies through the financial intermediation of the banking sector is unlikely to be a promising avenue. Therefore, the absence of a well-developed stock market and modernized banking sector, as is the case in Algeria today, inevitably affects the pace at which privatization plans can be implemented.

CONCLUSION

This analysis of the evolution of Algeria's plans for privatization, and the examination of the progress made and the constraints faced, have shown that the process is not only at an early stage in terms of achievements, but is also now a highly contentious issue. This is understandable, since privatization is a fundamental policy that involves a significant change in the social and economic role of the state.

Recent changes in the government may herald an end to the conflicting stances and overlapping prerogatives, as the programme of privatization now falls under the prime minister's direct control. Yet even these changes are not sufficient to cushion the programme against the difficulties arising at the implementation level. It is important that consideration is given simultaneously to three areas of major concern: strengthening the economic environment through further reforms, choosing the appropriate form of privatization and widening popular support.

First, for a programme of privatization to succeed, it is necessary that it takes place in an enabling environment. This means that other institutional and structural reforms are still needed, such as strengthening the regulatory capacity and judicial system and improving the business environment (competition, capital markets). Privatization is a central component of a reform package, without which the process would prove much more difficult to put into effect.

Second, when embarking on the privatization programme, the government or the authorities in charge are faced with the delicate issue—given the interests at stake—of deciding which public enterprises to privatize and how to do it. Since privatization is often perceived as a cheap sell-off of the public patrimony, every effort has to be made to opt for alternative(s) that may help change this perception. Examples of these range from improving the performance of public enterprises (by setting clear commercial objectives, ending guaranteed access to credit, controlling spending and developing adequate managerial skills), to mass privatization, as was the experience of ex-socialist countries. It is the case that mass privatization in these countries speeded up the pace of divestiture and created a broad-based support for it (in the form of a large number of shareholders).

Last, but not least, is that plans for privatization ought to be designed and conducted in consultation with the concerned parties, including the labour union. This would ease the tensions from the sources of opposition, enhance the credibility of the government's privatization programme and provide the necessary popular support among the general population.

NOTES

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11. For further details see Kate Bayliss, 'The World Bank and privatization: a flawed development tool', <http://www.id21.org/society/s7bkblgl.html>, accessed 12 May 2003.
12. Prior to the 1980s, public enterprises in Algeria witnessed a series of transformations. After the short post-independence phase of self-management *(autogestion)* that concerned the corporations inherited from the French following their departure, there was the experience of the *sociétés nationales,* denoting a direct intervention of the state in the economic sphere from 1963. Some of these were set up, and others resulted from the transformation of self-managed companies and the nationalization of foreign-owned firms. A third phase, launched in 1971, was the introduction of the *gestion socialiste des entreprises,* which resulted in transforming the *sociétés nationales* into *entreprises socialistes* with an increased role given to the workers in their management.
13. Mahfoud Bennoune, *The Making of Contemporary Algeria, 1830–1987—Colonial Upheavals and Post-independence Development* (Cambridge: Cambridge University Press, 1988), p. 263.
14. Ibid.
15. Abdelhamid Brahimi, *L'Economie Algérienne* (Algiers: Office des Publications Universitaires, 1991), p. 391.
16. Ibid.
17. Mahrez Hadjseyd, *L'industrie Algérienne—Crises et Tentatives d'Adjustement* (Paris: Editions l'Harmattan, 1996), pp. 181–2.
18. This legislative package consisted of Law 88–01 (on the direction of public

enterprises), Law 88–02 (on the new system of planning), Law 88–03 (creating the stockholder funds), Law 88–04 (reforming the commercial code), Law 88–05 (reforming the making of finance laws) and Law 88–06 (related to the banking and credit regime).

19. These stockholding funds were: agro-food industry; mining, hydrocarbons and hydraulics; construction; services; electronics and communications; and various other industries.
20. World Bank, *Algeria in Brief*, <http://lnwebl8.worldbank.org/mna/mena.nsf/Countries/Algeria>, accessed 6 April 2003.
21. Quoted in Arab Communication Consult, *Algeria—Investment Report 2002*, <http://www.arabcomconsult.com/algeria2002/indstrength.htm>, accessed 6 May 2003.
22. Ibid.
23. The first legislation directly concerned with the privatization of public enterprises was Ordinance 95–22 of 26 August 1995. Later this legislation was amended and supplemented by Ordinance 97–12 of 19 March 1997.
24. Ordinance 01–04 of 20 August 2001 concerning the organization, management and privatization of public enterprises.
25. See Article 16 of Ordinance 01–04 of 20 August 2001.
26. See Article 17 of Ordinance 01–04 of 20 August 2001.
27. Ordinance 01–03 of 20 August 2001 relative to the development of investment.
28. The changes in the legislation can be found in Ordinance 97–12 of 19 March 1997 and Ordinance 01–04 of 20 August 2001.
29. For more details, see Article 2 of the Executive Decree 01–253 of 10 September 2001.
30. See Executive Decree 01–254 of 10 November 2001.
31. The MPPI disappeared in the recently formed government of Ahmed Ouyahia. Now it consists of a small structure directly attached to the prime minister’s cabinet.
32. Arab Communication Consult, <http://www.arabcomconsult.com/algeria2002/little.htm>, accessed 6 March 2003.
33. These modalities are defined in Articles 26 and 27 of Ordinance 01–04 of 20 August 2001.
34. *El-Watan*, 17 April 2003.
35. Tunisiainfo (Sources d’information sur la Tunisie), *La privatization en Tunisie*, <http://www.tunisieinfo.com/privatization/bilan-global.html>, accessed 7 April 2003.
36. *Public Information Notice* (IMF), 03/35 (5 March 2003).
37. *Gupta, Beyond Privatization*, p. 138.
38. See Law 82–11 of 28 August 1982 relative to the national private economic investment.
39. Ministère de la Participation et de la Promotion de l’Investissement, Les Réformes économiques en Algérie: Bilan et Perspectives, <http://www.mpcr-dz.com/site/actualites/inter_reformes.php>, accessed 21 May 2003.
40. Ministère de l’Industrie, *Restructuration—Privatization des Entreprises Publiques*

Industrielles, <http://www.mir-algeria.org/privatization/privatization.htm>, accessed 1 May 2003.

41. Ibid.
42. A first indication of the positive effect of this joint venture was given by El-Hachemi Djaâboub, minister of industry, who was reported to have said that the production of steel increased by 7.5 per cent during the first nine months of 2002. See *Le Quotidien d'Oran*, 23 February 2003.
43. Paul Cook and Colin Kirkpatrick, 'Privatization policy and performance', in Paul Cook and Colin Kirkpatrick (eds), *Privatization Policy and Performance—International Perspectives* (Hertfordshire: Prentice Hall/Harvester Wheatsheaf, 1995), p. 5.
44. *Gupta, Beyond Privatization, p.* 144.
45. Quoted in *Liberté,* 4 June 2003.
46. On the issue of privatization, Omar Ramdane (chairman of a private sector organization, Forum des Chefs d'Entreprises), citing the case of the publicly owned cement plants to be privatized, complained about the conditions set for the transfer of their assets that, in his judgement, made it difficult or excluded the private national sector from buying them. See *ElMoudjahid,* 20 February 2003; *Liberté,* 20 February 2003; *Le Matin,* 20 February 2003.
47. *Le Soir d 'Algérie,* 18 February 2003.
48. *Liberté,* 16 December 2002.
49. *El-Moudjahid,* 16 December 2002.
50. The tension between the government and the UGTA has arisen since September 2002, when Chakib Khelil, minister of energy and mines, proposed ending the monopoly that state-owned Sonatrach has had over the country's oil and gas sector.
51. *Le Quotidien d'Oran*, 7 November 2002.

CHAPTER 8
The Algerian Capital Market: Investment Opportunities

MAHFOUD DJEBBAR

After the failure of the centrally planned economic model—adopted in Algeria during the 1960s and 1970s—characterized by its rigidity, heavy intervention of the state in the economic sphere, poor economic performance, unjustified overvaluation of the local currency and marginalization of the private sector, public authorities spent the entire decade of the 1980s reorganizing the national economy. A new strategy in economic development based primarily on the decentralization of the decision-making process was embarked upon. This consisted of attempts to restructure the inefficient public sector to improve its competitiveness, and to encourage the promotion and development of the private sector so that it could play its role in economic life.

At the end of the 1980s and the beginning of the 1990s, the Algerian government launched its economic and financial reforms. Although these reforms and measures were slow, they enabled the authorities, to some extent, to re-establish macro-economic balances and to reduce various distortions in credit allocation, prices, currency value, investment decisions and extensive controls, all of which marked the post-independence period. In 1994 and after an arrangement reached with the International Monetary Fund and the World Bank, Algeria embarked on a programme of structural adjustment. By the beginning of this millennium, Algeria seems to have entirely liberalized prices and, to a certain extent, international trade, reduced public expenditures, which brought down inflationary pressures, and started the sell-off, partially or completely, of a number of public enterprises to both domestic and foreign private investors (see chapter seven). Some of the objectives behind these transformations are the acquisition of new technologies, the improvement of management techniques and the possibility of attracting more foreign capital inflow, chiefly in the form of portfolio investment, which is very much needed at this time.

At this stage some questions ought to be raised. They relate to the investment opportunities in general in the country and to those in the capital market in particular. Given the fact that the domestic market is narrow and national capital is limited, the issue here is the host of guarantees and incentives offered to foreign investors in order to attract international savings that could be used to relaunch the country's economy.

In this process of transition towards a market economy, Algeria is trying hard to provide a more secure and reliable environment for foreign investment, especially after the relative improvement both in security and in economic conditions. As a corollary, legislation on competition and investment was passed in 1998, 1990, 1993 and 2001 that changed investment priorities and policies, with a greater emphasis on attracting private investors. The introduction of a more liberalized exchange system has led to a reduction of the gap between the official and the parallel exchange rates (less than 10 per cent in 2002), thus preparing for full convertibility of the local currency, the Algerian dinar (AD). Procedures have been facilitated for investors, as they are now entrusted to a single office, or more accurately a one-stop shop (called *Guichet Unique*). Moreover, in addition to the possibility of opening the capital of local banks to foreign investment in the near future, a financial market has been set up to attract more investment in Algeria's capital market.

In considering this market, this chapter starts with a background on the evolution of the Algiers Stock Exchange (ASE) from its inception to the present time, focusing on regulatory, organizational and operational issues. An outline of present and future investment opportunities in the ASE, such as the creation and management of indexes, follows. Another area of significance within the capital market—investment opportunities in the banking and financial sectors—is also examined. Finally, an initial assessment is made of what may be regarded as an emerging capital market still in its infancy.[1]

THE ALGIERS STOCK EXCHANGE

Although the ASE was one of the main objectives of the 1988 economic reform programme, its establishment has been delayed several times. This institution is part of an overall policy aimed at modernizing the financial system in general. The first legislation concerning the stock exchange was passed in the early 1990s.[2] It defines the types of securities exchanged, by requiring shareholding companies to issue shares and making clear the categories of financial instruments, including the requirements of their issuing, in particular the Exchange Commission's approval and the disclosure of information necessary to investment decision-making. This legislation also lists the agents who have the right to intervene in the exchange, such as the public treasury, the Bank of Algeria and brokers.[3]

The ASE was set up in accordance with Legislative Decree 93–10 of 23 May 1993. It is considered to be the only framework within which transactions on securities are completed.[4] Intermediaries or brokers are allowed to act as market makers, that is they can buy and sell securities for their own benefit. Until recently there were five brokers: Errached el-Mali d'Intermédiation en Bourse, Société Financière en Conseil et Placement, Société de Placements des Valeurs Mobilières, Société Générale Financière and Union Bank Brokerage.[5] The management and supervision has been entrusted to two main bodies:

1. The stock exchange management company, Société de Gestion de la Bourse des Valeurs (SGBV), chiefly supervises the companies in order to raise finance through the issuance of shares on the primary market. It is also responsible for the management of trading sessions, clearing and disclosure.
2. The exchange organizing and supervision commission, Commission d'Organisation et de Surveillance des Operations de Bourse (COSOB), set up in 1991, has a role similar to that of the Securities Exchange Commission and Securities and Investment Board in the United States and United Kingdom respectively. It ensures that all investors have

equal and transparent access to information about the performance and strategies of listed companies. It also delivers the 'visa' or the approval of listing to companies that meet the requirements of the exchange.

Since its creation, the ASE has gone through several stages and experienced many difficulties. After a delay of many years—for the simple reason that the companies eligible to raise finance through the exchange had not finished the listing procedures—it was officially opened, for the first time, on 13 September 1999. In addition to the 115,000 Sonatrach bonds from the state-owned oil company, three shares are traded at the exchange:

1. Eriad Sétif Group specializes in the transformation of cereals and the production and marketing of their derivatives. The group has issued one billion ordinary shares at a nominal value of AD 1,000 each;
2. Saidal Group specializes in the production and marketing of pharmaceutical products. It has sold two million ordinary shares at a face value of AD250 each;
3. EGH El-Aurassi operates in the field of hotel and tourist services. It has sold 1.2 million ordinary shares at a nominal value of AD250 each.

As a basic requirement for each listing on the ASE, each of these three com-panies has sold 20 per cent of its capital to private investors. Their total market value was \$290.33 million in September 2000, but dropped to \$158.68 million in May 2002. During the same period, the capitalization of shares traded was around \$58 million, but decreased to \$31.73 million, that is, a fall of 45.3 per cent.[6]

The low demand that characterizes the market has compelled listed companies to sign liquidity contracts *(contrats de liquidité)* with the intermediaries to buy up to two blocks of shares each trading session (for Eriad, as an example), to back prices and bring transactions to a close in reasonable conditions.[7]

INVESTMENT OPPORTUNITIES AT THE STOCK EXCHANGE

It can be argued that more opportunities are available in newly established exchanges than in those that have been in existence for a long time. As far as Algeria's stock exchange is concerned, there are several opportunities for investors. The most important are portfolio investment, financial services, debt-equity swaps, the creation and management of indexes and other financial instruments.

Investment in portfolios

Individuals and companies may invest in securities traded at the ASE, such as shares and bonds. Trading shows that the imbalance between supply and demand for capital securities is chronic, despite the small number quoted. Therefore, different combinations of securities are available at reasonable prices and costs (see Table 8.1).

TABLE 8.1 TRADING DATA, SUPPLY AND DEMAND AT THE ASE, 1999–2001

	Total
Number of securities traded*	719,343
Amount of transactions (AD)*	1,357,137,845
Number of transactions*	8,435
Supply (number of securities)**	1,775,718
Demand (number of securities)**	491,898

(*) Years 1999–2001, (**) Year 2001.
Source: SGBV, Algiers.

It is evident from this table that the total supply of capital securities is much higher than the demand during the period under consideration. Thus, on average, the supply exceeded the demand in 2001 by 3.61 times, denoting the existence of many investment opportunities in Algerian portfolios.

A closer look at the listed securities reveals that the reason for this imbalance is the situation in which capital instruments (i.e. shares) find themselves. As Table 8.2 indicates, the offer largely exceeds the demand (Eriad Group, Saidal Group and EGH-Aurassi), while loan instruments (i.e. Sonatrach bonds) are more demanded than supplied.

As Table 8.2 reveals, the supply of Eriad Group shares is 10.85 times its demand, and this figure is 5.57 and 1.44 times in Saidal and El-Aurassi respectively, which means that these shares offer considerable investment opportunities. According to the ASE authorities, this imbalance deteriorated during 2002.

Finally, and in relation to portfolios investment, treasury bills can be purchased (maturity: 3, 26 and 52 weeks) as they are traded in the money market that opened in 2001.

TABLE 8.2 THE IMBALANCE BETWEEN SUPPLY AND DEMAND FOR SECURITIES, 2001

	Eriad Group	Saidal Group	EGH-Aurassi	Sonatrach
Demand (number of securities)	27,568	195,731	268,599	5,289
Supply (number of securities)	299,220	1,090,147	386,351	2,521
Supply/Demand (times)	10.85	5.57	1.44	2.09

Source: SGBV, Algiers.

Financial services

Understandably, the five existing intermediaries authorized by the Algerian financial authorities have very limited experience in financial market techniques. Consequently, establishing intermediary and other financial services, such as brokerage houses, are considered as an attractive investment opportunity, especially the practising of intermediation in its broader meaning. That offers the possibility to local people of trading in securities and acting as analysts, researchers and advisers. Also, they can help to improve financial disclosure, thereby enhancing market efficiency.

Algerian legislation allows intermediaries and brokers to act as dealers in securities, and, as such, they are regarded as market makers. This means that they can have their own portfolios. It also gives them the right of signing binding liquidity contracts with listed companies, as mentioned earlier.[8]

International brokerage houses have vast experience in the field of financial services, including in some emerging markets. Merrill Lynch, for instance, has opened offices in Cairo, Casablanca and other emerging financial centres to provide financial services to investors there. In Algeria, the establishment of such brokerage houses is more than necessary both for the Algerian financial market—which needs experience and new techniques—and for the international firms as an investment opportunity.

Another area of financial services that may be considered quite an attractive investment opportunity is the process of assets valuation for the many companies that are candidates to raise funds through future stock market listing. The few Algerian offices specializing in this field lack the experience and efficiency to carry out this large and complex operation. For this reason, foreign firms have the opportunity to provide these important services in a new field. Numerous public enterprises are waiting for assistance with their assets valuation and their preparations for listing in the next few years. It is also possible for international houses to invest in other areas of financial services such as portfolio management, clearing, transfer of securities and helping financial authorities to phase out the securities system in the near future.

Debt-equity swaps

The country's total external debt was estimated at $22 billion in early 2002. The government has embarked on a programme destined to privatize a significant number of state-owned enterprises. It offers them an extremely valuable opportunity to exchange some of their heavy debt burden for equities in the privatized companies, through debt-equity swaps. So doing would not only alleviate this burden, but would also reduce the pressure on the public treasury's subsidizing of these inefficient companies.

The Algerian external debt exceeds 53 per cent of GDP and debt-service payments represent 60 per cent of export revenues. Public authorities might favourably view, and speedily implement, any method or way that could lessen this burden. Among possible options is the debt-equity swap technique. Although experience has shown that its effect in attracting foreign capital is limited, as in Latin America, it can be argued that a flow of capital from foreign private investors towards Algeria, however small, is of great benefit to the Algerian economy.

Creation and management of indexes

At the present time one cannot talk about exchange indexes in Algeria for the simple reason that there is no representative sample of listed companies to reflect the activities of different sectors of the national economy. However, in the medium term, it is a logical step to create and manage one or more indexes to guide investors in taking investment decisions. By way of consequence, it is an opportunity for specialized financial institutions and private domestic and foreign investors to develop and manage indexes, studies and analyses of the Algerian financial market and to sell information in general.

Issuing other financial instruments

As has been mentioned, only two types of securities are traded on the exchange—shares and bonds. However, Algerian legislation allows for the issuing of about ten different kinds.[9] Such instruments, especially with the assistance of international brokerage firms, would present an attractive opportunity for foreign investors, because these securities are up till now unknown in Algeria and foreign investors have substantial experience in investing in them. It is also considered as a diversification, using available resources and reducing risks.

It should be borne in mind that investment on the ASE, whatever its form, is not immune from risk, which is a normal attribute of a new institution. Moreover, equities prices fell sharply during 2001–02, which seemed like a crash of the ASE (a 45.30 per cent reduction in market capitalization). However, the point is that almost, or perhaps all, foreign investors have long experience in hedging strategies, diversification and spreading of risks that enables them to take advantage of a range of investment opportunities.

THE BANKING SECTOR

The Algerian authorities realized that reform and modernization of the banking sector were of vital importance to the whole process of economic transformation. Therefore, the launching of the banking reforms required new and flexible financing mechanisms, while awaiting the restructuring process of the whole financial sector. It is worth mentioning that from independence in 1962 until the mid-1980s the role of Algerian commercial banks was, unfortunately, limited to intermediation between the treasury and public enterprises, instead of the practice of regular banking operations.

The Bank of Algeria has now been given a role to play in a competitive market economy—to organize and supervise credit. Incentive procedures were applied to increase banking competitiveness and ensure the efficient reallocation of the treasury's available resources between credit institutions.[10] Moreover, banks were urged to improve the quality of their services and to enhance the performance of their staff through greater spending on information and training, in order to adapt to the new economic and financial environment.

To achieve this goal, more autonomy in decision-making has been given to banks. For the first time they started to be considered as public economic enterprises, governed by commercial law.[11] Perhaps one of the most significant elements of the reforms is the possibility for Algerian banks and financial institutions to raise long-term capital by issuing loan stock in the international capital markets. This may be a first step towards linking the Algerian capital market to its international counterparts.

Subsequently, another important piece of legislation on money and credit was adopted in the early 1990s.[12] It brought major changes to the financial sector by defining the role of banks in general, and of the central bank (Bank of Algeria) in particular, within the wider framework of economic reforms undertaken by the government. Another major change was to end the monopolistic position hitherto enjoyed by the public sector to the detriment of the private sector, especially in the area of access to sources of finance. Existing regulations that discriminated between domestic and foreign investors were also abolished. The result has been to increase investment opportunities in this important sector, and private investors can now set up their own banks or branches of banks that are already established in their countries of origin.

Since the conditions of establishment were defined in January 1993, many banks and branches of banks have been set up.[13] Thus, in addition to the seven publicly owned banks, Algeria saw the establishment of another seven private Algerian banks and nine branch offices of major foreign banks.[14] Some publicly owned banks, particularly after the long restructuring process of their treasury departments, are opening their capital to interested investors. This is the case of ongoing negotiations between France’s Société Générale and Algeria’s Credit Populaire d’Algérie (CPA), which are now at an advanced stage. The rationale for this change was explained by the CPA’s general manager, El-Hachemi Meghaoui, who stated that, ‘We have made a major step as to the opening of our bank capital since 1999. Thus, we decided according to guidelines and [the] agreement of our shareholders to open our capital. This has been considered as necessary in order to achieve our ambitions and then become open to the world markets.’[15] Once the green light is given by the Algerian authorities, the French bank may well acquire up to 70 per cent of CPA’s capital.

There are at least two other areas where the legislation is more or less favourable to private investment. First is the establishment of offshore banks. Although in this case the legislation is not quite clear, the Algerian-Libyan Offshore Bank has been financing many activities for some time now.[16] Second, is the possibility of buying shares from public banks whose capital the government intends to release a part of within the privatization programme. In normal circumstances this would provide another investment opportunity in a sector that can absorb much more domestic and foreign capital.

Finally, the insurance industry is another sector that holds significant potential. This sector was worth more than $1 billion in 2002 and its value is expected to triple in the next five years, according to estimates given by Mohamed Naouri, the general secretary of the National Council of Insurance.[17] It is not surprising to see that several private insurance companies have already established their branches in this promising sector. Moreover, its first case of foreign investment is that of Trust Algeria, an insurance and reinsurance company that opened in mid-1997.[18] Since then many more foreign insurance companies have followed suit.

It is not the intention to focus here on a detailed discussion of the investment environment, since the issue is dealt with further in chapter five. Nevertheless, it is worth mentioning, even briefly, some of the efforts being made at offering a range of facilities and guarantees that might lure foreign investors. Indeed, this is what can be observed from the assurances of successive governments and the legislative and regulatory framework provided for that purpose.

Algerian officials have indeed been trying to encourage foreign investors by pledging to protect their investments. In a meeting with French businessmen in France in June 2000, the president of the republic stated that ‘the national economy is open to foreign investment. All sectors are open to any businessmen wishing partnership or investment, making it clear that there is no strategic sector foreign investors cannot invest in.’[19] At the International Meeting for Investment and Business Opportunities held in Algiers in 2000, the prime minister also assured foreign investors of the government’s full preparedness to facilitate procedures and provide them with incentives, including the transfer of capital and revenues and the possibility of going to international arbitrage in case of dispute. Moreover, the chairman of the Association des Banques et Etablissements Financiers Algériens invited foreign investors to establish their own banks, or enter into partnership with existing ones by buying shares after their privatization. This is a clear indication that the Algerian capital market is no longer under the total control of the state via its publicly owned companies.

Examples of sectors and industries being open either to partnership or private ownership are small and medium enterprises, agriculture, housing, financial services, transport, chemical and pharmaceutical industries, mechanical and electronic industries, in addition to the hydrocarbons sector, which has been opened to foreign investment since 1992. During an international conference on Private and Public Partnership held in Algiers in September 2000, the finance minister, taking advantage of the opportunity, pointed to the possibility of partnership—either for financing or management—with foreign partners in sectors such as infrastructure, public services, transport, airports, water, electricity, post and telecommunications.

It seems that Algerian officials are not missing out on any occasion or opportunity to give assurances to private investors about investment, be they nationals or foreigners, emphasizing the considerable improvement in the political and security situations. Similarly, the legislative side has also been taken on board. Since the beginning of the last decade, numerous legislative measures have been introduced with a view to contributing to improving the investment environment both in terms of opportunities and guarantees. To encourage investment in general and placing in capital markets in particular, financial authorities offered, within the framework of the 1998 budget, the following advantages and incentives:

- dividends are exempt from taxes;
- capital gains realized either by individuals or to companies are not subject to tax of any kind;

• interest gained from investing in bonds is exempt from tax;
• to encourage companies to issue shares, all transactions carried out in relation to securities are exempt from registration fees; and
• returns on investment to be at the official fixed exchange rate (7.95 per cent for the 1999–2000 period, compared to the interest rate for savings of around 7 per cent).[20]

In addition, foreign investors can benefit from the advantages offered by the National Agency for Investment Development (ANDI). During 1998, foreigners invested AD70 billion (around $1 billion) in the hydrocarbons sector and AD85.9 billion (about $1.22 billion) in other sectors.[21] More importantly, they invested more than AD34 billion (around $486 million) in services (excluding tourism, health and commerce). Most of it has been channelled to the financial sector, to assist in setting up private banks and their branches.

TABLE 8.3 BASIC PROFILE OF NORTH AFRICAN STOCK MARKETS, 2001

	Market capitalization (billion dollars)	Listed domestic companies
Egypt	24.335	1,110
Morocco	9.087	55
Tunisia	2.303	46

Source: World Bank, *World Development Indicators 2002* (Washington, DC: World Bank, 2002), pp. 288–90.

A key objective of the financial reforms carried out during the last two decades has always been the mobilization and allocation of domestic as well as foreign savings in an efficient way. As a result, the banking system has to some extent improved, due to the increasingly competitive climate that ended some thirty years of monopolistic practices. However, the money, bond and equity markets are still at a very early stage and investment prospects depend on how the capital market will develop in future. There is no doubt that the volume of activity generated in the ASE is insufficient, given the low level of transactions, usually not exceeding AD 10 million ($130,000) per month. Even when compared with the financial markets of some North African countries, Algeria's financial market is extremely narrow and small (see Table 8.3). First, measured in terms of market value, the ASE's market capitalization has, according to recent available figures, not exceeded $80 million on average, thus representing a mere 0.15 per cent of the country's GDP.[22] This compares with more than $24.3 billion (29.1 per cent of GDP) in Egypt, nearly $9.1 billion (32.7 per cent of GDP) in Morocco and $2.3 billion (14.5 per cent of GDP) in Tunisia. Second, another measure of market size is the number of listed domestic companies; again, Algeria's stock exchange has a long way to go to catch up with the emerging capital markets of its neighbours.[23]

Since it is a newly established institution, the ASE faces a number of problems, such as low liquidity and limited demand for securities. The main reasons for this are the inadequate information conveyed to savers pertaining to investment in securities; lack of a saving and investing culture among a large number of citizens; and weakness or shortage of savings for the rest; and, most importantly, the slow process of privatization that exacerbates these problems.

The ASE therefore needs to be developed and given more importance by public authorities, mainly by privatizing state-owned enterprises and offering many more portfolio investment opportunities to foreign and domestic private capital owners. Only when this has been accomplished could this institution be in a position to play a key role in financing the national economy.

CONCLUSION

The Algerian authorities have endeavoured to improve the investment environment and open up the economy to foreign competition. In the finan-cial sector, there are diverse investment opportunities that could contribute to an increase in resource allocation efficiency. To make these reforms as effective as possible, successive governments have offered several guaranties, incentives and advantages both to foreign and domestic investors. These have been paralleled by a relatively improved economic situation—especially at the macro-economic level—and by political stability.

However, until now Algeria's capital market, and more particularly its stock exchange, has remained tiny in world terms and can best be described as very marginal when assessing its contribution to the country's economy. It is quite clear that this is a market in its early stages of existence and that its expansion may be a matter of time. It is also a question of how important and sustained the reforms are, mainly in relation to the privatization of stateowned enterprises. Given the slow pace of privatization because of strong social and political resistance, the stock market is prevented from being a key element in the whole operation. In addition, it seems that private sector companies are not considering, or are still not convinced of, the exchange as a means of raising new capital. The state of the stock market was candidly expressed by Fatiha Mentouri, minister in charge of financial reform, for whom

> Its effective stimulation depends on the implementation of a programme of partial or total privatization of the public companies. It also depends on the issue of titles by private enterprises… It is the case that our private companies are of family type, capital closed, which naturally does not encourage them to go to the stock exchange. Perhaps they are also unable to provide reliable and regular financial information, which is a precondition for listing in the stock market.[24]

An assessment of this kind may have to do with the lack of a market culture that it is imperative to promote and develop if the country is to attract muchneeded investment.

NOTES

1 Literature on emerging capital markets has proliferated in recent years. Examples of

published material on this topic include Joseph Norton and Mads Andenas (eds), *Emerging Financial Markets and the Role of International Financial Organizations* (London: Kluwer, 1996); Henry Azzam, *The Emerging Arab Capital Markets—Investment Opportunities in Relatively Underplayed Markets* (London and New York: Kegan Paul, 1997); Peter Marber, *From Third World to World Class: The Future of Emerging Markets in the Global Economy* (Reading, MA: Perseus, 1998); Jeffrey Garten, *Big Ten: The Big Emerging Markets and How They Will Change Our Lives* (New York: Basic Books, 1998); Jongmoo Choi and John Doukas (eds), *Emerging Capital Markets: Financial and Investment Issues* (London: Quorum Books, 1998); Hak-Min Kim, *Globalization of International Financial Markets: Causes and Consequences* (Aldershot: Ashgate, 1999); Larry Sawers, Daniel Schydlowsky and David Nickerson (eds), *Emerging Financial Markets in the Global Economy* (River Edge, NJ: World Scientific Publishing,1999); David O.Beim, Charles W.Calomiris and Charles Calomiris, *Emerging Financial Markets* (New York: McGraw-Hill, 2001).

2. See Executive Decree 91–169, 28 May 1991.
3. *Journal Officiel de la République Algérienne* (JORA), 26, 1991.
4. JORA, 34 (1993).
5. 'Intermédiaires en operations de bourse', <http://www.cosob.com.dz>, accessed 12 January 2003.
6. Figures obtained from the ASE.
7. A block consists of 1,500 shares.
8. Article 715 of the Commercial Code and Legislative Decree, 93–08, 25 April 1993.
9. Ordinary shares; shares with priority in dividends and voting rights; shares with priority in dividends without the right of voting; investment certificates with the voting rights; investment certificates without voting rights; ordinary bonds; participation bonds; bonds attached by warrant permit that can be exchanged for shares; see Executive Decree relative to transactions on securities, 91–169, 28 May 1991; see also JORA, 26, 1991.
10. Hocine Benissad, *La Réforme Economique en Algérie* (Algiers: Editions OPU, 1991), pp. 128–9.
11. See Legislative Act, 86–12,19 August 1986 and Legislative Act, 88–06, 12 January 1988.
12. Legislative Act, 90–10, 14 April 1990.
13. JORA, 26, 1991.
14. The Algerian private banks consist of Union Bank, Banque Commerciale et Industrielle d'Algérie, El-Khalifa Bank, Mouna Bank, Compagnie Algérienne de Banques, Banque Générale Méditeranéenne and Algerian International Bank. The foreign banks are Al-Baraka (Saudi Arabia and Algeria), Arab Banking Corporation (Bahrain), Citibank (United States), Ntexis (France), Société Générale (France), Credit Lyonnais (France), Banque Nationale de Paris/BNP—Paribas (France), Arab Bank (Jordan), Ryan Bank (Qatar) and, most recently, Algeria Gulf Bank (Jordan and Tunisia). See *El-Watan*, 13 February 2003.
15. Electronic edition of the special country report on Algeria published in *Far Eastern REVIEW*, 28 November 2002; <http://www.winne.com/algeria2/english/cr-

finance.htm>, accessed 15 February 2003.

16. Sid-Ali Boukrami, ‘Les questions financières et de change au cours de la transition dans les économies du Maghreb’, *Annales de L’IEDF*, 1995, p. 239.
17. *Le Quotidien d’Oran*, 29 April 2002.
18. *El-Khabar*, 28 December 1997.
19. Ibid., 17 June 2000.
20. For details of the 1998 budget, see JORA, 89, 1997.
21. Conjoncture, 57, August 1999.
22. ‘Algiers Stock Exchange—80 million dollars not enough to revitalize the economy’, *ElKhabar* (weekly), 206, 8–14 February 2003. Algeria’s GDP stood at $54.7 billion in 2001, according to World Bank estimates.
23. Emerging markets represent about 10 per cent of world market capitalization, and 55 per cent of total emerging markets is accounted for by just five countries: Korea, Taiwan, Mexico, South Africa and Brazil.
24. See the interview by the minister for financial reform given to *El-Watan*, 16 February 2003.

PART II
POLITICAL AND SOCIAL ISSUES

CHAPTER 9
The Dialectics of Algeria's Foreign Relations, 1992 to the Present

YAHIA H.ZOUBIR

The second largest and one of the richest countries in Africa, Algeria enjoyed relative political and social stability until the 1980s. With its sheer size, real and potential wealth, Algeria could conceivably be considered a pivotal state.[1] The government used its hydrocarbon revenues to institute a welfare system under an authoritarian regime. The oil income allowed the country to pursue a dynamic and quite successful foreign policy. The international legitimacy that the Algerian War of Liberation against France (1954–62) conferred upon Algeria's rulers strengthened its image as one of the 'leaders' of the Third World. Algeria's diplomacy elicited envy among its neighbours and from most less developed countries. The state produced outstanding diplomats, some of whom have served as UN special envoys to mediate international conflicts. In fact, Lakhdar Ibrahimi, one of the products of the National Liberation Front (FLN), served as UN special envoy to Afghanistan after the attacks on the United States on 11 September 2001. Following in his steps, in the mid-1990s, Mohamed Sahnoun, former Algerian ambassador to the United States, served as UN special envoy to Somalia.

Because of the domestic stability and international legitimacy that had characterized Algeria since independence, few observers had predicted the social explosion of October 1988.[2] That upheaval resulted mostly from the bleak socio-economic conditions that followed the crumbling of oil prices and the concomitant delegitimization of the regime from the mid-1980s onward.[3] This tragic situation, which developed after the cancellation of the electoral process in January 1992, surprised most Algeria experts. Indeed, for almost a decade, the country experienced a high degree of instability manifested in the near collapse of the state, as well as in massacres of civilian populations.

Given its relative regional and international influence, western countries hardly ever perceived Algeria as a capricious or erratic state, such as Libya, for instance. However, Algeria's relations with the western world, especially with the United States, have invariably been marked by misunderstandings, suspicion and at times great animosity, mostly regarding the Arab-Israeli conflict, but also the hostilities in Vietnam, Cuba and the Western Sahara. The reasons for Algeria's deep-seated stance are primarily historical, and have thus affected the Algerian psyche and historical memory. Needless to say, Algerians resented the North Atlantic Treaty Organization (NATO) mainly because the allies sided with France during Algeria's War of Liberation. The war experience compelled the newly independent nation to adopt, from 1962 until at least the mid-1980s, a radical and principled foreign policy. Hence the country held a position of leadership in the Non-Aligned Movement (NAM), the Organization of African Unity (OAU), the Arab League and other international organizations. Algeria's high-minded views and their influence among Third World countries disrupted western interests. Moreover, Algeria's privileged political ties with the former USSR, the West's adversary, resulted in confrontation over regional and international concerns with many western countries, and the United States in particular. In the early 1990s, suspicion that Algeria was developing nuclear capabilities added yet another dimension to the pivotal position of that country.[4]

Following President Houari Boumédienne's death in 1978, relations between the West and Algeria improved considerably because a major shift from the radicalism of the 1960s and 1970s had occurred. The country's more pragmatic foreign policy in the 1980s, coupled with a drive towards economic liberalization, helped to bring about this improvement in relations. The West seemed to appreciate the reforms, albeit timid, that the government in Algiers had undertaken. Failure of the state-led development policies forced the regime to open up the economy and to participate in the world capitalist system. The October riots in 1988 compelled the authoritarian regime to initiate a process of political reforms, which included the introduction of a multiparty system, thus putting an end to the single rule of the FLN party.[5] Given that the West was more interested in the transition taking place in the former Communist bloc, west European countries, let alone the United States, overlooked the auspicious evolution in Algeria. As a result, neither western Europe nor the United States offered any tangible assistance in promoting the liberalization process taking place. Yet both Europe and the USA expressed some concern about the emergence of political Islam not only in Algeria, but in neighbouring Tunisia as well. Although apprehensive about its advent, those powers did not perceive radical Islamism as an imminent danger to western interests. In truth, western countries, especially the USA, actively supported the anti-Communist Islamist guerrillas in Afghanistan. They seemed oblivious to the rise of Islamist ideology in Algeria and did little to counter it. It had been hoped at the time that western countries, although focused on events in eastern Europe, would at least provide support for the small democratic parties that emerged during what promised to be a genuine transition towards democratization in 1989–91.

The crisis in Algeria received a great deal of attention during the 1990s. This was prompted by fears that radical Islamism had replaced Communism as a threat to western interests in the post-Cold War era.[6] The argument in this chapter is that Algeria's diplomacy in that period went through roughly five phases that marked the evolution of the situation since January 1992. The main argument is that until the fourth phase, Algerian diplomacy experienced a phase of isolation and major setbacks. For a decade, Algerian diplomacy lost much of its standing, due for the most part to the negative reactions of western countries towards the regime in power. The first phase centres on the cancellation of the legislative elections and its immediate aftermath. The second phase is the period following President Mohamed Boudiaf's assassination in June 1992 until President Liamine Zeroual's election in November 1995, which marked the beginning of the third period. The third phase ran from Zeroual's election until his announced resignation in September 1998. The fourth phase, which lasted until September 2001, began with the election in April 1999 of Abdelaziz Bouteflika as head of state. It is during this phase that Algerian diplomacy witnessed a major revitalization. The fifth phase has developed since the terrorist attacks on the United States on 11 September 2001.

PERIOD I: JANUARY–JUNE 1992

In January 1992 the Algerian authorities, with strong backing from the military, cancelled the second round of the legislative elections, which the Islamic Salvation Front (Front Islamique du Salut; FIS), a radical, populist Islamist party, was certain to win by an overwhelming margin. The military forced President Chadli Bendjedid, who was apparently intent on striking a deal with the FIS, to resign. The High Security Council (HCS) brought in Mohamed Boudiaf from exile in Morocco to lead the High State Council (HCE), Algeria's transitional collegial ruling body. Boudiaf repressed radical Islamists, banned the FIS and set out to rebuild trust between the state and civil society. In order to re-establish the credibility of the state, he launched a campaign to combat corruption in the country.

Authorities in Algiers justified the cancellation of a promising democratic evolution, arguing that the imminent coming to office of an FIS-dominated government would have ended for ever the democratic transition in Algeria. Henceforth, and until quite recently, successive regimes portrayed radical Islamism (read FIS) as a genuine menace not only to Algeria's internal stability and its democratic aspirations, but also to its pro-western neighbours, Morocco and Tunisia. Aware of increasing western apprehensions about the rise of radical Islamism, the regime played on its western creditors' fears of a domino spillover. Radical Islamism was presented as essentially the result of socio-economic difficulties, hence suggesting that an infusion of foreign capital in the form of direct investment would contain the Islamist movement. According to that view, short of western economic aid, instability would expand not only to neighbouring countries, but would also spread into southern Europe, where millions of North African immigrants reside. The arguments that Algerian officials put forth found some favourable echo in the West, where fears of political Islam had increased.[7]

Initially, most countries remained uninvolved in the Algerian crisis; however, their approaches varied according to geographic location. In Wwestern Europe, for instance, a divide existed between countries in the north and those in the south. Not surprisingly, southern European countries, the closest neighbours, have played a greater role than those in the north. Owing to a variety of factors, France, the former colonial power, took a distinctive path, whereas the role of the United States remained relatively limited. For their part, Arab and African countries adopted ambiguous stances; some supported Algeria's position on non-western interference, while others took a wait-and-see position.

During the first period, France's reaction was the most conspicuous. This was natural given the considerable historical, economic, geographic and psychological considerations that bind that country to Algeria. France not only hosts the largest Algerian immigrant community, but also provides Algeria with more than $1 billion a year in financial aid. Furthermore, France has immense economic and strategic interests in the Maghreb (Algeria, Morocco and Tunisia), with Algeria occupying a central position.

In January 1992, President François Mitterrand condemned the interruption of the electoral process in Algeria and called 'for the renewal of the thread of democratic life as soon as possible'.[8] France offered political asylum to Islamists who fled Algeria after the crackdown of the Algerian government on the banned FIS.[9] But French authorities did not have a unified position on the Algerian crisis. Although France allowed Islamists to enter its territory, many French officials regarded the FIS as a terrorist organization. Owing to inconsistent views within the French government, policy towards the Algerian crisis during the first phase remained ambiguous at best, leading to a profusion of divergent views within the French administration as well as in public opinion. Broadly speaking, there were two dominant views. The proponents of the first argued that the interruption of the electoral process was less consequential than the coming to power of Islamists, which represented a threat to the world. The proponents of the second view contended that the interruption of the electoral process in Algeria was a blow to democracy and to human rights.[10] They reacted negatively to what they saw as the interference of the military in civilian affairs.

The Algerian crisis took European countries and the United States by surprise.[11] In the first phase, they adopted a cautious attitude. In the United States, ambivalence best characterized its response during that period. The initial reaction was one of 'concern', without, however, condemning the cancellation of the electoral process. Indeed, American officials believed that the cancellation did not represent a violation of the provisions of the Algerian constitution.[12] Yet, within 24 hours the USA altered its statement on Algeria in order to demonstrate its impartiality in the confrontation between the FIS and the government.[13] Thus the US government, like its European counterparts, took a 'wait-and-see' stance. Interestingly, however, the USA hinted that it would not object to the coming to power of 'moderate' Islamists, that is, those committed to democratic principles and who would not threaten US interests.[14]

PERIOD II: JULY 1992–NOVEMBER 1995

President Boudiaf's capable rule came to an abrupt end in June 1992. Despite his mishandling of the Islamist issue, Boudiaf had succeeded in eliciting large popular support. Although tense, the situation in the country seemed under government control. Boudiaf's assassination, however, precipitated a quasichaotic situation, which marked the beginning of the second phase in international reactions to the Algerian crisis. The worsening of the crisis in the form of bombings, killing of journalists and intellectuals, artists and foreign nationals, coupled with government repression, marked this phase of Algeria's foreign relations in the 1990s.

In this period, the international community seriously questioned the chances of survival of the Algerian regime. Few doubted that it had lost control over many areas in a country five times the size of France. While some western governments believed that they should save the regime from disintegrating, others felt that since the coming to power of the Islamists was inescapable, they should be prepared for that possibility and should reach out to the FIS. Regardless of their respective positions *vis-à-vis* the regime, most of them were convinced that the downfall of the Algerian state was only a question of time.[15] For their part, Algerian Islamists were convinced that they would seize power and sought to persuade the West of that reality. Indeed, following an anti-FIS statement made by Charles Pasqua, France's minister of the interior, the FIS representative in the USA, Anouar Haddam, declared that 'It is in his [Pasqua's] best interest to retract his reckless statements in which he depicts as terrorists those [i.e. FIS leaders] who have been democratically elected in Algeria. Who does he think France will be talking with in a near future?'[16]

The intensification of violence affected France's policy towards Algeria. There was an obvious lack of cohesion in French policy.[17] The realist camp split into two groups. The first group was made up of those who argued that the Islamist takeover of power was inevitable, and that France should prepare itself for an Islamist victory and should thus distance itself from the regime in place.[18] The second group felt that, on the contrary, France should support the regime, albeit discreetly, and nudge it to return to the democratic path. Thus, while socialist President François Mitterrand manifested a relatively less hostile attitude towards the rulers in Algiers, the conservative government of Prime Minister Edouard Balladur pledged to assist Algeria in combating extremism and fimdamentalism.[19] These attitudinal shifts in policy resulted from the heavy influence that Interior Minister Charles Pasqua exerted on the French political establishment. He ordered the close surveillance of Islamic centres in France, and at the same time French authorities harassed Islamists established in the country. Pasqua tried unsuccessfully to convince the United States, Germany, Britain and other countries to show less tolerance for the activities of Islamist militants in their respective countries. That position led Islamists to depict 'French alignment' with the Algerian regime and the repression of its opponents as a 'declaration of war'. From the Islamists' perspective, France distinguished itself by being less tolerant towards political Islam than other western countries. Anouar Haddam went so far as to criticize the French political system, stating that 'French political milieux must understand one thing: the regime of the Fifth Republic, which allows security forces to meddle in political affairs, must be revised. Thank God, such a system does not exist in the United States.'[20] Whatever France's actual position, the perceived proregime attitude resulted in terrorist activities on French soil.

While other western countries sought to distinguish between moderate and radical Islamists, the French officials hostile to Islamism increasingly made no such differentiation. According to Pasqua (and those who shared his views), 'the only choice is between the existing government's ability to control the situation and the fundamentalists seizing power'.[21] Despite statements to the contrary and their insistence on being neutral in the crisis, both the socialist and conservative governments, in fact, sided with the Algerian regime against the Islamists, albeit reluctantly, because they perceived the incumbent regime to be a better alternative than seizure of power by its chief opponents. Indeed, as one observer put it, 'even if Paris does not wish to be accused by the Islamists as an unconditional ally of the incumbent regime in Algiers, French support remains. The best proof is the backing that the government of Edouard Balladur provided to Algeria during Algeria's negotiations with the International Monetary Fund.'[22] The French backed the Algerian regime in those negotiations without any apparent political strings attached. They provided assistance to the regime, serious disagreements between the two governments notwithstanding. France also succeeded in convincing the European Union to give economic aid to Algeria.[23] The rationale for unconditional support stemmed from French officials' fears that an Islamist regime in Algeria would produce a 'domino effect' with negative consequences for the region. Undoubtedly, the savagery of the Armed Islamic Group (Groupe Islamique Armé; GIA) helped French officials in their decision to support the incumbent regime. It is precisely because the emergence of the GIA led to France's decisive shift in supporting the Algerian regime that some observers have questioned the true nature of the GIA, suggesting that it was the creation of the Algerian secret services.[24]

Unlike France, the United States was among those countries, for instance Germany, which felt that seizure of power by the Islamists was plausible and that policy should be tuned accordingly.[25] From 1993 until 1995, some American officials took the view that the Algerian regime could be near collapse. Unwilling to repeat the mistake that the USA had made during the Iranian Revolution in 1979, some analysts argued that the US government should reach out to Islamists and 'check what they are up to'.[26] This led American officials to communicate routinely with Islamists. In fact, Anouar Haddam, the FIS representative, enjoyed relative freedom in regard to militant activities in the United States. There is ample evidence to suggest that in this second phase, the US government was willing to cooperate with the 'moderate' militants inside the FIS. Such dialogue, those officials hoped, would perhaps 'improve America's reputation among fundamentalists, [thus] diminishing the chances of the United States being portrayed again as the implacable enemy of Islam.'[27] Algerian diplomats seemed impotent to convince Americans that Islamism was a threat not only to the Algerian government, but also to western countries. This led to jokes in Washington DC that the FIS's self-proclaimed representative was more visible than the Algerian ambassador to the United States.[28]

During this same period, US policy-makers wished to see a compromise between moderate, non-violent Islamists and the regime in Algeria. American officials exhorted the Algerian government, to no avail, to find a compromise between moderate forces on each side.[29] Undoubtedly, the US government was hostile both to extremists in the Islamist movement and to so-called 'eradicators' in the Algerian regime. However, the prevalent premise among US policy-makers was that reconciliation in Algeria that included the participation of moderate Islamists in power, would isolate the extremists. This was precisely the approach that put the United States at loggerheads with some French officials, but that also prevented Islamists from targeting US interests and citizens.[30]

The Rome conference, which the Sant'Edigio Catholic Community in Rome organized in late 1994, represented the first attempt of the international community to seek a peaceful solution to the Algerian crisis. The Sant'Edigio Community invited all Algerian political parties and the government to participate in the forging of a political platform. Some parties, such as the FLN, the FIS and the Socialist Forces Front (FFS) accepted the invitation in order to pressure the government to allow the FIS to reintegrate into political life. Others, such as the moderate Islamist Hamas, now known as the Movement for a Peaceful Society (Mouvement de la Société pour la Paix; MSP) and the Party for Algerian Renewal (Parti du Renouveau Algerien; PRA) took part in the conference because they believed that it could constitute an effective means of heightening the international community's awareness of the crisis in Algeria. For its part, the Algerian government rejected the invitation because it saw such an initiative as meddling in the country's domestic affairs. This became the consistent position of the government, which saw as 'interference' in its internal affairs any suggestion that outsiders be involved in resolving the crisis. The second five-day meeting in Sant'Edigio resulted in the signing on 13 January 1995 of the Platform for a Peaceful Political Solution of Algeria's Crisis. While many perceived this as a positive step towards resolution of the crisis, the Algerian authorities and many people inside the country believed that it was in fact a scheme concocted by the United States to impose the FIS on the regime.[31]

In so far as the United States was concerned, the Sant'Edigio Platform represented potential ground for national reconciliation. At the same time as they pushed the Algerian government towards reconciliation with the Islamist opposition, American policy-makers sharply criticized the regime for its failure to implement market reforms, to respect human rights, or to institute a more democratic system. Yet the United States could not impose a comeback of the FIS because many in America did not share the views of the so-called 'accommodationists'—those who believed that Islamists would be better controlled if they were included in the political process. Furthermore, the governments of Tunisia, Morocco and Egypt, as well as many NATO allies, considered Islamists to be a real domestic, regional and international threat. NATO chief Willy Claes declared in early 1995 that 'Islamic fundamentalism' represented as big a menace to the West as communism once did.[32]

As has been evident, the positions of the United States and France were incompatible, although neither favoured an Islamist regime in Algeria. The main disagreement revolved around the best strategy to contain the Islamist wave. For the French, however, the Americans were in a more comfortable position and did not face a similar dilemma. Indeed, the USA, whatever its opposition to political Islam, had little influence in Algeria. Furthermore, the consequences of a revolutionary Islamist regime in Algeria were quite different for France because of its proximity, its considerable geopolitical and economic interests, its Muslim population and its cultural ties to the country.

Actually, France's position coincided with that of Maghreb and the Near Eastern regimes. In particular, Tunisia and Egypt, which both faced strong Islamist opposition, supported the Algerian regime and urged the western world to act likewise. From their perspective, a collapse of the regime would have far-reaching consequences for their own countries and would jeopardize western interests in the Arab and Islamic world. Thus, already at the fifth Arab Maghreb Union (UMA) summit held in Nouakchott in late 1992, the five Maghreb states had condemned terrorism, the 'product of religious fundamentalism', and pledged to join their efforts to contain and eliminate it. In fact, the five declared that 'terrorism and extremism constitute the main menace for society and democracy in the Maghreb'.[33] Clearly, the regimes in the region had no other alternative but to mend their differences in order to contain radical Islamists who threatened their regimes. Undoubtedly, those regimes perceived the Islamist movement not just as an internal problem, but as a regional predicament as well.[34]

During the years of intense fighting in Algeria, Egypt professedly supplied anti-guerrilla equipment to the Algerian authorities and shared intelligence with their security forces. Like their allies in Tunisia and Egypt, Algerian policy-makers accused Iran and, until 1997–98, Sudan, of being the main supporters of the local Islamists.[35] Therefore, Algerian authorities maintained close collaboration with their Egyptian and Tunisian counterparts to thwart alleged Iranian and Sudanese designs to destabilize secular governments in the region.[36] The Algerian government endeavoured to convince its Maghreb partners that their stability and security were interdependent and that Maghreb states ought to coordinate their efforts in order to guarantee security and stability.[37] The only problem among the states in the region concerned Algeria's strained relations with Morocco. Algerian officials went as far as to accuse Morocco, as well as Libya for some time, of allowing Algerian and Tunisian Islamists to destabilize their countries by permitting the transit of weapons into Algeria and Tunisia.[38]

The Algerian crisis contributed in large part to the deterioration of Algerian-Moroccan relations, especially after Boudiaf's assassination in June 1992. Following his death, relations between the two countries went from bad to worse, thus jeopardizing the regionalization process to which the North African countries aspired. Algerians were convinced that Moroccans had taken advantage of the Algerian crisis to advance their interests in the region. Worse, they accused Moroccans of overlooking arms shipments smuggled through their border to supply anti-government Islamists in Algeria.[39] Whatever the truth, with or without Moroccan knowledge, arms transited through Morocco into Algeria.[40] Although there is no doubt that he wished to weaken Algeria, the late King Hassan II obviously did not wish to see the emergence of an Islamic republic as a neighbour, despite his public statement in 1993 that allowing the FIS to come to power would have been 'une expérience intéressante. L'Algérie aurait constitué un laboratoire…'[41] Obviously, Hassan sought to wrest concessions on the Western Sahara in exchange for cooperation with Algerian authorities against armed Islamist groups. The difficulty that Algerian officials had in obtaining from Morocco the extradition of Abdelhak Layada, head of the GIA, is a good illustration.[42] Hostility between the two countries grew stronger; in fact, relations were so tense that some observers feared that Algeria would use the domestic turmoil to wage war against Morocco in order to rally Algerians around a national cause, thus creating a diversion.[43] Such a scenario was far-fetched, because the Algerian military was in no position to launch hostilities against Morocco. In fact, the opposite was true: the military had no desire to wage war on two fronts, i.e., against internal armed Islamist groups and against a regional power that enjoys full western support.[44] Algeria was so weak that the regime did not even attempt to use the stratagem employed by its predecessors: to exercise regional or international leadership as an instrument of legitimization of domestic rule. And, although support for Sahrawis had increased considerably relative to what it was in 1989–92, it did not include encouraging Sahrawis to resume war against Moroccan forces in the occupied territory.

PERIOD III: NOVEMBER 1995–SEPTEMBER 1998

The first pluralist presidential election in Algeria in November 1995 marked the beginning of the third period in Algeria's foreign relations during what Algerians refer to as the 'bloody decade'. In addition to demonstrating to the outside world, especially the EU, Algeria's return to the democratic path, that election was also the first step to ostensibly initiate a process of institutionalization aimed at providing the Algerian state with legitimate and, rhetorically, more democratic structures. Subsequently, the authorities revised the country's constitution, which was submitted to a referendum in November 1996. Legislative elections in June 1997, municipal and departmental elections in October 1997, and elections for the National Assembly in December 1997 completed the so-called 'institutionalization process' that President Zeroual and his associates had initiated. On the whole, and despite a good deal of scepticism, the international community was encouraged by the reforms that the Algerian regime pursued—widespread rigging of the elections notwithstanding.[45] Undoubtedly, French and American pressure played a significant role in enticing the Algerian regime to undertake concrete reforms. The institutionalization process, the relative improvement of security in the country, the recovery of a viable government, and the failure of Islamists to win over the population convinced the outside world that the survival of the Algerian state was no longer in doubt.[46] Thus, in the mid1990s, France for instance made clear its support for the Algerian regime, even though this was made conditional on the pursuit of democratic reforms.

In the third phase, the international community showed greater empathy towards the authorities in Algiers. The reforms had produced some positive, albeit limited, developments within Algeria itself, characterized by greater political participation and a growing civil society.[47] However, sporadic massacres of innocent civilians, mostly in isolated villages, undermined the prospects for a speedy improvement of the Algerian regime's image abroad. In other words, the massacres and the inability of the security forces to prevent them cast doubt not only on the capability of the authorities to prevent their occurrence, but also on the identity of the perpetrators of the massacres.

Periodic massacres of thousands of civilians prompted the international community to seek the internationalization of the Algerian crisis. Klaus Kinkel, Germany's outspoken foreign minister, stated in October 1997 before the UN General Assembly that 'We cannot accept mass murders of innocents without the world community standing up and reacting.'[48] Various NGOs, such as Amnesty International, and IGOs, such as UNICEF and the UNHCR, as well as UN Secretary-General Kofi Annan, unanimously condemned the massacres. In response to calls for collective action, Kofi Annan offered to mediate between the government and Islamist insurgents, an offer the Algerian government rejected as interference in its domestic affairs, and a stance that African and Arab governments, for obvious reasons, supported.[49]

Algerian officials refused mediation or international investigation on the grounds that such action would place the state on the same level as the armed groups; accusations of government involvement in the massacres also angered the authorities. From an Algerian perspective, the best aid that Europeans could offer was to dismantle the terrorist groups operating on their own territories. Algerian Foreign Minister Ahmed Attaf charged European governments with undermining his country by allegedly offering money and arms to terrorist groups.[50]

During this period, France had more or less assumed the role of mediator between Algeria and the EU. Presumably, it was France that convinced Algeria to agree to the visits by EU representatives (from the Troika and European Parliament).[51] Indeed, in January 1998, an EU Troika comprised of delegates from Britain, Luxembourg and

Austria opened discussion and political dialogue with Algiers. It aimed at helping the civilian population, which had been cruelly affected by the conflict. The delegation abstained from asking questions that would shed suspicion on the authorities.

Subsequent to the Troika's visit, the Algerian government allowed other European delegations to visit the country. Undoubtedly, the first visit led to a more favourable climate in Algeria's relations with the outside world. A European delegation, composed of members of the European Parliament (MEPs), visited the country in February 1998 for five days. In order to keep their commitment to the Algerian government not to meet with the FIS on Algerian soil, the MEPs tore up, in front of a TV camera, a letter that the FIS leadership had addressed to them.[52] Obviously, Europeans were reluctant to act in any way that would have jeopardized the millions of dollars invested in Algeria.[53] But from a political perspective, the EU visits and open dialogue did much to encourage the Algerian regime to display more transparency on the internal situation.

While the massacres prompted international concern and a determination to put pressure on the government to provide more information on the real conditions in the country, the ongoing economic reforms and the regime's increasing willingness to cooperate with the international community resulted in some positive developments. International pressure, coupled with demands from Algerian's civil society for more transparency, compelled the government to progressively break with the secretive and/or inadequate communication practices of the past.[54] Indeed, in April 1998 the authorities allowed the media to reveal that some government-backed defence groups had committed extra-judicial killings. In fact, many cases had been brought to justice and reported in the independent press.[55] Furthermore, deputies from the various parties represented in parliament undertook visits to Europe and the United States to elucidate the situation in Algeria. The attitude towards Algeria had greatly improved. Europeans even began to claim that Algeria possessed democratic institutional means to solve the crisis on its own. They also downplayed the previously insistent calls for an international commission to investigate the massacres.[56] Naturally, some western governments sought to appease the Algerian regime by exaggerating the democratic credentials of the new institutions. The main reason for such an approach was the conviction that it would be more constructive than seeking to further isolate the regime—a policy that would benefit the Islamist opposition, including its most radical branches. Yet, despite this relative improvement in communication, suspicion towards the Algerian regime continued.

In September 1998, the Kofi Annan-mandated UN panel, led by former Portuguese Prime Minister Mario Soares, published its report on the visit to Algeria between 22 July and 4 August 1998.[57] The regime in Algiers was quite apprehensive about the findings of this panel. Surprisingly, although critical of the Algerian authorities on some issues, the report was in general supportive of the government. The panel made clear its rejection of terrorism, whatever rationalization Islamists and their supporters provided to justify its use. Therefore, the panel supported the battle that the Algerian security forces were carrying out against terrorism. But in the conclusions of the report, the members of the UN panel insisted that the struggle against terrorism must take place within the framework of legality, proportionality and respect for the fundamental rights of the Algerian people. The panel's main objective, as put by Simone Weill, one of its members, was 'not to put on the same plane terrorism and the exaction committed by security forces within the framework of the anti-terrorist struggle'.[58] At the same time, the panel sought to provide advice to the Algerian authorities to help them overcome such correlation. It recommended that the regime pursue democratization and create conditions conducive to democratic rule and economic development.

While the Algerian government welcomed the mission's account of the situation, human rights organizations, such as Amnesty International, Human Rights Watch and the International Federation of Human Rights, were infuriated because, from their perspective, the report exonerated the Algerian regime of wrongdoing. Thus, regardless of the relatively favourable views of the panel, Algeria's relations with the western world remained chilly at best. The country's diplomatic efforts proved ineffective; neither Europe nor the United States showed any open, tangible support of the regime even if they did nothing to trigger its downfall.

Throughout this period, whatever its reservations about the regime, the United States continued to back IMF and World Bank agreements as well as the Paris Club debt rescheduling for Algeria. Also, Algeria seemed to have become an even more attractive market to US business, especially for oil projects worth billions of dollars. A few factors helped in the progressive change of the US attitude after Zeroual's election. The obvious moderation of Algerian foreign policy became attractive to US policy-makers aware of Algeria's status, albeit weakened, in the Third World. More importantly, Americans understood that Algeria has become supportive, even if with certain reservations, of the Arab-Israeli peace process. They particularly appreciated Algeria's participation in the 1996 Summit of the Peacemakers at Sharm al Sheikh, Egypt, and its international cooperation against terrorism.

Whatever suspicions about the possible involvement of the security forces in some of the massacres that occurred in Algeria in 1997 and 1998, the US government was convinced that the GIA had committed those massacres. Thus, the USA continued to 'conditionally' back the Algerian government; but, at the same time—similar to France and the EU—it insisted that the government take steps to guarantee human rights, and to prevent the defence groups, that were armed by the authorities to defend the rural populations against the GIA, from perpetrating criminal acts.

Although political and security issues dominated its views on Algeria, the USA was also cognizant of Algeria's importance in terms of energy supplies. In the mid-1990s, Algeria's proven oil reserves were estimated at around 10 billion barrels (Algerians believe that reserves are five or six times that figure). Algeria also enjoys other important hydrocarbon resources, such as natural gas and liquid natural gas (LNG). The new oil discoveries in the 1990s identified Algeria as one of the most attractive exploration regions in the world. In fact, in 1994 the country had ranked first in the world, thanks to 15 considerable new discoveries. Furthermore, Algeria's more than 130 trillion cubic feet of proven natural gas reserves make it one of the world's ten largest sources of gas. In the same period, Algeria's LNG exports represented one-fifth of the world's total exports. Obviously, the USA could not be oblivious to such realities. Nor could it be unmindful that Algeria is the USA's fifth largest trading partner in Africa. In 1999, trade between the two nations reached around $2.5 billion.

PERIOD IV: APRIL 1999 TO SEPTEMBER 2001

Disagreements at the heights of power compelled Liamine Zeroual to resign suddenly in September 1998 and to hold early elections in 1999. While the reasons for the resignation were numerous, the lack of an end to the crisis played a major role.[59] Thus, the April 1999 presidential election presented yet again an opportunity for Algeria to hope for a resolution of the crisis.[60] Although the military was initially reluctant to support any particular individual among the seven candidates there is no doubt that Bouteflika was the most acceptable, especially to the so-called 'eradicators', not only because of his strong credentials, but also because of his alleged 'modernist' views. His diplomatic experience as Algeria's long-lasting foreign minister (1963–79), his knowledge of the system, relatively good relations with the military and negotiation skills were looked upon favourably by the armed forces, whose support he badly needed and, indeed, succeeded in securing. The military favoured Bouteflika primarily because of the role he could play in revamping Algeria's image abroad; the military hierarchy, despite reservations about him, was convinced that Bouteflika could perform this task better than the other presidential candidates.

The prospect of a pluralist presidential election in Algeria was favourably perceived in Europe and in the United States. However, the withdrawal of six contenders on the eve of the voting on the pretext that the elections were rigged in advance led to disenchantment on both sides of the Atlantic. The circumstances surrounding the election blemished Bouteflika's legitimacy, but within a short period of time European and American attitudes changed, due mostly to the bold initiatives that Bouteflika undertook, which coincided with a marked improvement of the security situation. The reasons for this evolution rested to a great extent on Bouteflika's effective management of the crisis—at least in the first couple of years after his investiture. The armed forces had already succeeded in securing the full capitulation of the Islamic Salvation Army (Armée Islamique du Salut; AIS) on 1 October 1997, which undoubtedly facilitated Bouteflika's task.[61] In order to initiate a process of reconciliation, the president submitted a text for a 'civil concord', which parliament approved in July 1999. Bouteflika offered a discourse that combined views from the opposition, from people inside the regime, especially the so-called 'conciliators', and from interested parties abroad, particularly the United States, which pressed for a negotiated solution. Indeed, the decision to embark on the civil concord project was strongly supported by the United States. In fact, on 1 February 2000, President Bill Clinton sent a message to Bouteflika praising his bold decision to 'forgive those among Algerians [read Islamist insurgents] who wish to put an end to the use of violence'.[62]

A close analysis of Bouteflika's pronouncements highlighted two intertwined objectives, both of which had a direct linkage to foreign policy: restoration of civil peace and economic recovery. Undeniably, economic recovery or foreign investment would be impossible so long as dire socioeconomic conditions and lack of civil peace continued to swell the ranks of the armed insurgents. Therefore, the objective of Bouteflika's trip in late June to Crans Montana in Switzerland aimed not only at publicizing the government's programme abroad, but also at attracting foreign investors.[63] Although billions of offshore dollars have been invested in the hydrocarbons sector, Algeria still needs approximately $1 billion to $2 billion annually in foreign direct investment in other areas to stimulate growth and reduce unemployment.

The new programme, which found support among most political forces, including the military, the population at large and foreign governments, produced positive effects within a few months after Bouteflika's election. Although killings of civilians in remote villages continued, they diminished dramatically in terms of scale and frequency and were in no way comparable to the horrific mass murders committed in 1997 and 1998. The GIA and the Salafist Group for Preaching and Combat (Groupe Salafiste pour la Predication et le Combat; GSPC), challengers of the AIS, rejected the authorities' proposals and vowed to continue their terrorist activities. Undoubtedly, Bouteflika succeeded in slowly gaining the legitimacy that the six contenders had denied him when they withdrew from the presidential race in April 1999.

The president's hope was to gain a popular mandate for his policies through the referendum on the civil concord held on 16 September 1999. He wished to obtain such a mandate before his trip to New York to attend and address the United Nations General Assembly meeting later that month. The message the new regime hoped to convey to the outside world was that Algeria had risen up from the abyss into which it had descended, and should regain the prestige it had once enjoyed on the world stage, i.e., in the 1970s when Bouteflika himself headed Algeria's diplomacy. As if to respond to the European and American appeals, Bouteflika also wished to show that 'democratization' had resumed; he publicly stated—contrary to what he had said on other occasions, that the FIS would be allowed to reorganize, albeit without its historic leadership.[64] He said, 'If I accept that secularists or even atheists should be involved in political parties, I don't see why I wouldn't accept the same for a man of faith on the condition that he abide by the constitution.'[65] However, the president's contradictory statements would eventually alienate the armed forces and sectors of civil society opposed to the resurgence of radical Islamism.

ALGERIA'S DIPLOMATIC OFFENSIVE: ENDING A DECADE OF ISOLATION

In 1999, Algeria was still faced with two colossal problems: a difficult socioeconomic situation and its isolation from the rest of the world. Thus, soon after assuming the presidency, Bouteflika gave indications that he would tackle these related issues. He launched an aggressive diplomatic offensive aimed at achieving two major objectives: restoring the country's image abroad and attracting foreign investment. The first was quite important, because Algerians in general believed that an unspoken embargo had been imposed upon their country, and that Algeria's detractors at home and abroad distorted the country's real conditions in order to bring down the regime, or at very least, force it to share power with its Islamist opponents. However, Bouteflika undertook an effective marketing campaign to redress that situation. The speed with which he succeeded in opening up relations with the outside world, thus projecting a more positive image of Algeria, contrasted sharply with the lack of communication that had characterized his predecessors, with the notable exception of Boudiaf. Certainly, Bouteflika's long experience in diplomacy and his contacts abroad were considerable assets. Although he served under a socialist/radical regime in the 1960s and 1970s, he was nevertheless always perceived as economically liberal, an important attribute in the eyes of international financial institutions such as the IMF and the World Bank. His eloquent speeches domestically, particularly those relating to the civil concord, helped to restore a relative sense of security and stability in the country. The return to civil peace gave some credence to Bouteflika's dealings with foreign governments, and there is evidence that he succeeded in convincing even the most sceptical of them, particularly the United States.[66]

Almost immediately after the spoilt election of April 1999, the country's leaders started on a diplomatic offensive across the globe. It began in Africa, Algeria's natural environment.

Africa

The holding of the OAU summit in Algiers (12–14 July 1999) was aimed at regaining the prominent role that Algeria had traditionally played on the continent. The summit not only provided Algeria with the international legitimacy that the authorities had promised the country—42 heads of state attended the gathering—but also demonstrated that Algeria was breaking out of its international isolation. The summit was the prelude to a diplomatic offensive in Africa in order to reassert Algeria's leading role in the continent, and also to counter Egyptian, Libyan and Moroccan aspirations. Furthermore, Algeria was intent on reviving its involvement in the resolution of African conflicts. Algiers succeeded in mediating a ceasefire in June 2000 between Ethiopia and Eritrea, resulting in the two warring parties signing on 12 December 2000 a peace accord in the Algerian capital.[67] Algeria's successful mediation earned US recognition, especially since previous attempts to stop the conflict, which resulted in the death of 200,000 people, had failed. Unquestionably, Algerian policy-makers were intent on playing their timehonoured role in Africa. The importance of the continent in Algerian policy is illustrated by the fact that for the first time since its independence in 1962, Algeria decided to appoint a minister of African affairs, namely Abdelkader Messahel.[68] The holding of the summit represented a golden opportunity not only for Bouteflika himself—he became president of the OAU for one year—but for Algerian diplomacy in general. In his role as OAU president, Bouteflika and his associates (Abdelatif Rahal, Abdelkader Messahel, Ahmed Ouyahia and General Rachid Laalali) played an active part in mediating conflicts in the Great Lakes' region, as well as in developing a scheme for the reduction of African debt *vis-à-vis* western countries.[69]

A close partnership between Algeria, Nigeria and South Africa has also developed since 1999. Together with these other two great African powers, Algeria has sought to play an effective role not only in the resolution of conflicts, but also in making Africa's voice heard in international forums dealing with economic, political and cultural issues. Thus, unlike in the past, Algeria participated for the first time in the France-Africa Forum. More importantly, Algeria has been active in the development of the New Partnership for Africa's Development (NEPAD), endorsed by the OAU summit held in

Lusaka, Zambia on 11 July 2001. NEPAD figured in the agenda of the G-8 Summit held in Kananaskis, Alberta, Canada, on 26–27 June 2002. The G-8 members met with the presidents of Algeria, South Africa, Nigeria and Senegal, after which the G-8 adopted the G-8 Africa Action Plan 'as a framework for action in support of the NEPAD'. The members of the G-8 also 'agreed to each establish enhanced partnerships with African countries whose performance reflects the NEPAD commitments'.[70]

Furthermore, Algeria was quite persuasive in eliciting African support in the struggle against international terrorism. Indeed, on 11–14 September 2002 Algeria hosted the African Union's intergovernmental conference on terrorism, which resulted in the adoption of a platform detailing how to eradicate terrorism and the means of tackling its roots.[71]

However, while Algerian diplomacy in sub-Saharan Africa witnessed great success, this was not achieved in the immediate neighbourhood.

The Arab Maghreb Union: 'The Sleeping Beauty in the Wood'

Already during his presidential programme, Bouteflika had emphasized that 'the revitalization of the process of Maghreb integration, through the UMA, should mobilize Algeria's readiness and efforts'.[72] The process of regional integration had been stalled since 1995, when Moroccans decided to suspend their participation in the UMA because of Algeria's strongly held and principled position on the Western Sahara. Certainly, there could be no process of integration without an improvement in relations between Algeria and Morocco. In the 1990s, relations between the two neighbours were at a low ebb.[73] Immediately after his election, Bouteflika seemed genuinely interested in changing the state of affairs with the regional rival. For his part, the late King Hassan II of Morocco, no doubt hoping to guarantee a more secure kingdom for his son, declared his readiness to strengthen relations with Algeria and expressed his determination to cement ties of cooperation and solidarity between the two nations.[74] Thus, in July 1999 a meeting between Bouteflika and Hassan before the UMA summit was imminent. Only Hassan's sudden death on 24 July prevented it being held. Bouteflika's visit to Morocco to attend Hassan's burial was the first such journey of an Algerian president in a decade. The opening of the border became a matter of resolving some 'technical problems', while a summit meeting between Bouteflika and Mohammed VI seemed imminent.[75]

The optimism that surrounded the evolution of Algerian-Moroccan relations experienced an abrupt halt in late August, due to the controversy surrounding Morocco's arrest (or not) of nine members of the GIA who had committed a massacre in Béni Ounif, in south-west Algeria, before apparently retreating into Morocco. A mini-crisis began when Morocco vigorously disputed the Agence France Presse report, insisting that there was no such arrest and that the Algerian-Moroccan border was in fact 'well-guarded and secure [sic!]'.[76] Bouteflika's brutal reaction, according to well-informed sources, alienated even the Algerian military hierarchy.[77] In his speech on 1 September 1999, he insisted that 'double talk' on the part of Moroccan authorities was incompatible with good neighbourly and brotherly relations. He accused Morocco in no uncertain terms of harbouring and financing Algerian terrorists, and allowing arms and drug trafficking.[78] He also explained that the reopening of the border, closed in summer 1994, and the constructiveness of the UMA should not create an opportunity for drug trafficking, nor of keeping Algeria as the ‘milking cow of the Maghreb’.[79] Thus, the reopening of the border would have to wait for better days. Yet, because of the perceived need for regionalization, Algerians endeavoured, with little success, to renew the process of Maghreb integration.

The mood in February 2000 was rather favourable to reconciliation, since that month marked the eleventh anniversary of the creation of the UMA. The two countries reiterated their commitment to the process of integration. In April 2000, the Algerian, Libyan, Moroccan and, apparently, Tunisian heads of state held a short meeting during the Cairo summit. The meeting took place under the auspices of Egyptian President Hosni Mubarak. While Algeria’s relations with Libya and Tunisia had improved considerably, those with Mauritania remained tense, as a result of Algeria’s condemnation of Mauritania’s decision to establish diplomatic relations with Israel without consulting its UMA partners. Regardless, it was hoped that the Maghreb meeting—the first of its kind since the historic gathering in Marrakech in February 1989—was a positive signal and underscored the willingness of the regional actors to revive the paralysed UMA and that a Maghreb summit meeting would soon take place.[80] Undoubtedly, in the face of globalization, Maghreb countries find it increasingly difficult to confront the new economic realities individually. The 1998 Eizenstat initiative to develop closer trade and investment links between the USA and the Maghreb remained a constant reminder that the United States wishes to look at the Maghreb as an integrated whole that could potentially expand eastwards.[81] Algeria sought to take the lead in reviving the UMA. Apparently, a tripartite summit between Algeria, Tunisia and Mauritania was to take place at the end of June 2000. Algeria aimed at mending its relations with Mauritania and strengthening those with Tunisia. During his visit to Paris in June, Bouteflika declared that relations between Algeria and Mauritania were excellent.[82]

Hopes for a Maghreb summit dissipated once again in May 2000 because of the Western Sahara, following the UN’s attempt to propose a solution to the conflict other than the referendum agreed upon by all parties.[83] Resolution 1301 (2000), adopted by the United Nations Security Council on 31 May 2000, extended the mandate of the United Nations Mission for the Referendum in Western Sahara, MINURSO, until 31 July 2000. Although the resolution reiterated UN support for the implementation of a ‘free, fair, and impartial referendum for the self-determination of the people of the Western Sahara’, it barely concealed the fact that France and the United States were pushing for the so-called ‘third way’. Given that both countries seem convinced that Morocco would lose it and thus would never abide by the results should the referendum ever take place, they decided to promote another approach that could dispense with a ‘winner-take-all’ referendum. Acting through the UN, France and the United States encouraged the Sahrawis to accept ‘large autonomy under Moroccan sovereignty’.[84] Both France and the USA believe that a Sahrawi victory would destabilize Morocco’s new king, Mohammed VI, whom they perceived as a modernizer capable of bringing about the necessary reforms to enable the kingdom to enter an era of economic and political liberalization. Undoubtedly, such an attitude by France and the United States bolstered Morocco’s unflinching position on the Western Sahara. Yet, neither France nor the USA was able to convince Algeria to alter its position or to endorse the ‘third way’ alternative.[85]

Although many other issues separate the two regional rivals, the question of the Western Sahara remains the main impediment to a rapprochement, and without such an agreement Maghreb integration is impossible. This explains why the UMA summit, scheduled to take place in Algiers in June 2002, was cancelled at the last minute, allegedly at the Libyan leader's request. In reality, however, King Mohammed VI's refusal to attend, because of the differences between Algeria and Morocco over the Western Sahara, was the main reason for the 'postponement' of the summit.[86] This constituted a real blow to the hopes of renewing the UMA process. Although there was optimism that a Maghreb summit would be held before summer 2003, these hopes too were dashed. The visit to the region in January 2003 of James A. Baker, a UN personal envoy, rather than raising hopes for a resolution of the conflict, instead led to more pessimism. His 'new' proposal, which amounts to no more than a reiteration of the 'third way', i.e., autonomy for the Sahrawis under Moroccan sovereignty, not only violates international legality and the agreements sanctioned by the United Nations, but also has the potential for regional destabilization.[87]

France

For reasons elucidated earlier, the relationship between Algeria and France has always been extremely complex. However, emerging out of foreign policy perspectives in both countries, efforts to institute a higher degree of normalcy and stability in relations became evident on both sides. Although France, like the United States, expressed its disappointment regarding the conditions under which Bouteflika was elected in April 1999, Bouteflika's policy of civil concord and the support it obtained domestically created better prospects for French-Algerian relations. Indeed, both Jean-Pierre Chevènement, French minister of the interior, and Hubert Védrine, foreign minister, visited Algeria in May and July respectively.[88] These visits did much to help an improvement in relations between the two countries. On 25–26 January 2000 Paris extended a warm welcome to Youcef Yousfi, Algeria's foreign minister. This signalled a mutual willingness towards rapprochement between the two countries, both of which sought to consolidate the positive shift following nearly a decade of perceptible resentment, especially under President Zeroual's regime. Of course, France looked rather suspiciously at the progressive evolution of Algeria's relations, particularly in the economic domain, with other Mediterranean countries such as Italy and Spain.[89]

The remarkable improvement in relations resulted in Bouteflika's visit to France (14–17 June 2000), the first since Chadli Bendjedid's visit in 1983. Bouteflika astutely highlighted the exceptional nature of the Algerian-French relationship. He declared unambiguously that 'Algeria seeks to have exceptional, not simply normal or trivial, relations with France'.[90] He also highlighted France's pivotal position in the Mediterranean, as well as its mediatory role between Algeria and the EU. During his visit to Paris, Bouteflika urged French businesspeople to invest in Algeria. Promising sweeping reforms that would make foreign business operations in Algeria easier, he appealed to France to alleviate Algeria's external debt burden—about 50 per cent of which was owed to France. Bouteflika succeeded in getting France to convert a modest $60 million of Algeria's debt into investments.[91] The French government made some gestures during Bouteflika's visit, such as the promise to facilitate the granting of visas to Algerians, especially to businesspeople, researchers and students. However, overall, Bouteflika did not obtain much from his visit to France; but it was obvious that the prospects looked quite promising.

On 1 December 2001, Jacques Chirac undertook a trip to North Africa. Particularly important was his one-day stop in Algiers, where he walked around the flood-ravaged neighbourhood of Bab el-Oued, where hundreds had lost their lives a couple of weeks earlier. Chirac's visit was the first by a French president since François Mitterrand's in 1989. The warm welcome that he received was indicative of the improvement in relations. Since the visit came just two months after the terrorist attacks on the United States on 11 September, Chirac praised Bouteflika's 'determination' to contribute to the fight against global terrorism, and revealed that France and Algeria were in the process of intensifying their intelligence collaboration to confront the new challenge.[92] Clearly, France now provided Algeria with a considerable degree of backing; the best illustration being France's lack of negative comment about the Algerian legislative elections in May 2002, which were basically boycotted by the entire Kabylie region.[93]

In July 2002, Abdelaziz Belkhadem, Algeria's foreign minister, made a trip to Paris in order to give a boost to Franco-Algerian relations. Dominique de Villepin, France's minister of foreign affairs, declared that 'there is a growing determination between France and Algeria to build a strong, friendly and remarkable relationship'.[94] Chirac accepted Bouteflika's invitation for a state visit in early 2003 and both sides agreed to make 'Algeria's Year [2003] in France' a major event that would, as Belkhadem put it, be beyond 'an intellectual curiosity'.[95]

In sum, Algeria's relations with France have markedly improved. Algerians are aware that this is a *sine qua non* for support within the EU. Although economic relations with the United States have increased considerably, France remains Algeria's main supplier with 25 per cent of the market share, ahead of the United States at 11.22 per cent, Italy, 10.52 per cent and Spain, 5.28 per cent. Beyond the political issues, such as the opening of French consulates in major Algerian cities, the most noticeable change in French-Algerian relations concerned economic issues. Indeed, commercial exchanges grew from €4 billion in 1999 to €6.4 billion in 2001, representing a growth of 60 per cent in just two years. Thus, in 2001 Algeria became France's second commercial partner outside OECD countries—China being France's leading commercial partner.[96] That trend is likely to continue, as was clear following the visit of Dominique de Villepin, to Algeria in December 2002.[97] Undoubtedly, Chirac's trip to Algeria in March 2003 amply confirmed the positive trend. Indeed, Chirac declared that 'France intends to develop an exceptional relationship with Algeria' and that it will remain 'the most reliable advocate for Algerian officials within the international institutions and the European Union'. The French president did not set any conditions beyond reiterating the need—already contained in the association agreement between the EU and Algeria—for reforms and 'to put in place a model of society and development based on democratic values, human rights and an open market economy'.[98] Only the future will tell how this 'exceptional partnership' between the two countries will unfold.

European Union

The change in France's attitude towards Algeria in 2000 resulted in a concomitant improvement of Algeria's relations with the EU. In 1994, the EU had recalled its permanent delegation in Algiers. Negotiations between the EU and Algeria resumed in 1997 but were interrupted the same year—due to accusations that Algeria's security forces were involved in the horrific massacres that took place in the country[99]—and did not start again until April 2000. The 18-round negotiations ended in November 2001; on 19 December Bouteflika signed the association agreement in Brussels. Beyond any economic considerations, Algerians found greater satisfaction in the fact that the EU finally endorsed Algeria's position on terrorism. Until then, the EU had refused to insert terrorism as an item in the negotiations, as Algeria requested. Algerians had argued that terrorism was a global phenomenon and that Europe should provide assistance in the fight against it. The events of 11 September resulted in the inclusion in the EU-Algeria Association Agreement of a whole chapter on the fight against terrorism. In this agreement, Algeria secured the EU's cooperation in the anti-terrorism struggle, especially in the eradication of Islamist support groups that operate in Europe.[100] Before 11 September, European governments were reluctant to extradite Algerian Islamists who had found refuge in their respective territories—the governments put a strong emphasis on human rights issues. Undoubtedly, Algeria's swift participation in the global war on terrorism facilitated the EU's decision to add a section on terrorism to the association agreement.

While the agreement did much to break Algeria's decade-long isolation, the most fascinating event was Algeria's participation in the dialogue with NATO, from which Algeria had been excluded until the year 2000. As he visited Brussels to sign the association agreement, Bouteflika also met with Lord Robertson, NATO's secretary-general, to discuss Mediterranean security in general and to work out the details for a security agreement between Algeria and NATO in particular. For most of the 1990s, Algeria was barred from the dialogue that NATO had engaged in with other Mediterranean countries. The immediate objective of an agreement would be to provide a framework for cooperation in the area of military cooperation and intelligence sharing. The accord would also allow Algeria to obtain military equipment to combat terrorism.

Undeniably, Algeria's diplomatic offensive has had far-reaching results with the EU, NATO, France, the United States, Africa, China, Russia, the Arab world and others. Even countries such as Germany, which had shunned the Algerian market for almost a decade, are now exploring the possibility of returning.[101] Germany also reached an understanding with Algeria on cooperation in the war against terrorism.[102] Relations with Spain and Italy, for their part, have developed exponentially.[103] Furthermore, while Algeria has moved much closer to the West than ever, it has maintained or renewed the long friendships that it had in the former eastern bloc. The purpose is, as in the past, is to diversify partners. This explains why Bouteflika and Russian President Vladimir Putin signed in April 2001 a Strategic Partnership Agreement. This was aimed at strengthening political, economic and military relations, and was described by the Russian ambassador to Algeria as 'a document without precedent in Russia's relations in the Arab world and Africa'.[104] Because of Algeria's past military cooperation with the former Soviet Union, the main part of the accord involves the supply of military equipment and expertise, amounting to $3 billion.[105]

Undoubtedly, this accelerated phase in the revitalization of Algerian diplomacy marks the beginning of the end of the Algerian crisis and the reintegration of Algeria in world affairs, perhaps as a pivotal state that can play an important role in the resolution of regional conflicts, such as Ethiopia and Eritrea, or in the Democratic Republic of Congo, and even in the Arab-Israeli peace process. And although Algeria has surprisingly kept a rather low profile on the crisis over Iraq, there is evidence that the Algerian authorities have worked with other governments to avert war.

PERIOD V: ALGERIAN FOREIGN POLICY SINCE 11 SEPTEMBER 2001

While relations with France improved considerably, US-Algerian relations at all levels witnessed an even greater development. The best illustration was President Bouteflika's two-day visit to the United States in July 2001, the first of its kind for an Algerian president since Chadli Bendjedid's in April 1985. The trip came at a time when Bouteflika's policy of civil concord was being harshly criticized at home; yet that policy enjoyed great support in Washington. Furthermore, despite the good impression that Bouteflika made, the USA was until then still reluctant to arrange for a presidential meeting. Except for the brief encounter with Bill Clinton at King Hassan's funeral in July 1999, no official summit had ever been scheduled. Therefore, Bouteflika had great expectations from his trip to America in July 2001. Not only did he hope to obtain support for his domestic policies, he also sought to secure cooperation agreements that would offset Algeria's heavy dependence on France, and compensate for his failure to obtain anything substantial during his visit to Paris the previous year. Algerian officials were hopeful that Bouteflika's visit to the USA would inaugurate a new era in US-Algerian relations. They assumed that the Republican administration would be less critical of the regime on human rights issues. In particular, they were of the opinion that Vice-President Dick Cheney, who had been close to US oil companies operating in Algeria, would be more considerate towards Algiers.

For their part, despite their reservations regarding the Algerian regime, American officials were clearly aware that Algeria's recovery from the decade-long crisis could open up new political and economic opportunities. Under Bouteflika's rule, the country had undoubtedly regained some of the credibility that it enjoyed before the crisis. The USA appreciated Algeria's success in December 2000 in brokering an end to the war between Eritrea and Ethiopia.[106] Algeria's growing influence within the OAU, coupled with the emerging axis of Algeria-Nigeria-South Africa, did not go unnoticed in Washington. Furthermore, the USA remains aware that resolution of the conflict in the Western Sahara, a major issue for North African stability, is impossible without Algeria's involvement.[107] Indeed, the so-called 'third way' that James A.Baker and Kofi Annan tried to impose upon the Sahrawis without Algerian acquiescence, would, if passed by the UN Security Council, have undoubtedly led to destabilization of the region. Even in regard to the Middle East, Algeria's influence is not negligible, which is why Washington has nudged Algerians to establish lines of communications with Israel. Last, but not least, the USA saw the necessity of cooperating with Algeria on matters of global terrorism. In fact, in March 2001, FBI director Louis Freeh made a short visit to Algiers to seek assistance from Algerian authorities in destroying Osama Bin Laden's network.[108]

While Bouteflika's visit was an important one, it did not produce the comprehensive results that Algerians were expecting. Although Algeria and the USA signed a trade and investment framework agreement, America made its view clear that economic reforms in Algeria remained limited. The accord put in place a consultative procedure on trade and investment that will result in a bilateral investment treaty, mutual trade benefits and a double taxation arrangement, and will effectively open up Algeria's profitable oil and gas resources more broadly to multinational corporations. But the United States conveyed to Algeria, as it has on numerous occasions, that the banking system and financial services require serious improvement. In order to attract American businesses outside the hydrocarbons sector, US officials believed that bureaucratic hurdles must be lifted. And without far-reaching upgrading of the telecommunications systems, many US companies would be reluctant to venture into the Algerian market. Only with these improvements could the level of US investment be increased from its current \$4 billion to \$5 billion (mainly in the hydrocarbons sector)—making the USA the largest investor in Algeria—to \$9 billion by 2005. In the political realm, echoing criticism of the regime both within Algeria and across Europe, the USA reiterated its call for a respect for human rights and civil liberties, especially in the wake of the tragic events in the Kabylie region, where gendarmes had used live ammunition against protesters. Although the US government acknowledged the progress Algerians had made, for instance in the area of freedom of the press, American officials expressed their disappointment at the curbing of political participation, such as the refusal to recognize two new parties founded by two former ministers. In short, Washington was willing to expand its relations with Algiers provided that the latter step up its economic reforms, expand its privatization and liberalization programmes, and accelerate its democratization.

A few days before the September terrorist attacks on the World Trade Center and the Pentagon, reports indicated that the US A would deliver sophisticated anti-guerrilla equipment to Algeria, especially for the detection of movements of troops, on the condition that the country would not use such equipment against its neighbours. This decision seemed to indicate that the USA had finally decided to help Algeria eradicate terrorism.[109] Obviously, the 11 September attacks on the USA could not but bring the two countries closer, at the very least on security cooperation. Algeria condemned unequivocally the horrific attacks and agreed to join the international coalition led by the USA, although arguing that a military coalition should be under a United Nations umbrella and not be aimed against 'a country, a religion, a people, a culture or a civilisation'.[110] From Algeria's perspective, the September events vindicated the government's decade-long position on the global nature of terrorism and its capacity to threaten states.[111] Officials argued that Algeria had been at the forefront in the struggle against terrorism, of which it has been a victim, with the loss of more than 100,000 lives and massive destruction. Algerians maintain that they have fought terrorism on their own without the world coming to their rescue. They took the opportunity to criticize Europe, the United States and Canada for having sheltered Islamist groups, thus closing their eyes to the responsibility of those groups in the events that had taken place in Algeria. They asserted that Bin Laden had funded extremist groups like the GIA and the GSPC, both on Washington's hit list. Hence, from their standpoint, the fight against terrorism should be worldwide and the events in the USA should inaugurate a new era of international cooperation against this phenomenon. The authorities handed Washington a list of hundreds of suspected Algerian militants on the run in Europe and the USA, and offered their cooperation in security and intelligence matters. Undoubtedly, Algerians also hoped that the USA and Europe would recipro cate by extraditing wanted Algerian extremists.

While the terrorist attacks on the United States on 11 September and the subsequent recognition of the danger of international terrorism offered Algeria, like many other governments, a golden opportunity to improve relations with America, the US-led 'global war on terrorism' created at the same time a real dilemma. In the period 1999–2001, the war on terrorism was no longer the canon of Algerian diplomacy, as it had been in the period 1991–98. In essence, Bouteflika's civil concord and 'national reconciliation' policies were at odds with Washington's 'global war on terrorism'. Although Algerians asserted all along that they were the real victims of terrorism, which they perceived as a transnational phenomenon, and that the world had turned its back on them for a decade, with Bouteflika they have pursued a policy of national reconciliation, which in many ways absolved terrorists of their crimes. The contradiction in Algerian policy is that the government (and most political parties) wholeheartedly and very quickly adhered to the conditions of the global war on terrorism, as stipulated by Washington, but at the same time Bouteflika still sought to negotiate the surrender of terrorists in the name of national reconciliation.[112] This contradiction is precisely the cause of the tension that persists between the so-called eradicators in the Algerian military, who wish to eliminate terrorism and what they perceive as its causes (religious parties and religiously based educational programmes), and Bouteflika, who believes that pardon is the best policy to bring an end to terrorism and its root causes.

In order to consolidate the international coalition by involving as many Arab and Islamic countries as possible, President George W.Bush invited Bouteflika to come to Washington on 5 November 2001 following the third US-Africa Business Summit, sponsored by the Corporate Council on Africa, held in Philadelphia on 2 November. The trip to Philadelphia was aimed at promoting the idea of 'A New Algeria, a Winning Algeria' and to persuade US businesses that Algeria is a lucrative market. No fewer than 44 Algerian companies participated in the meeting. The visit to Washington, although focused on the issue of international terrorism, was a great opportunity for the Algerian regime to improve its image. Algerians exaggerated the importance of the visit, arguing that it was rare for a president to be invited to the White House twice within a period of four months. However, it was clear that Bouteflika's visit, ahead of Jacques Chirac's, could not but comfort Algeria's sense of self-worth. Algerians felt vindicated, especially since less than a week before the visit Bush had called on Africans to ratify the Algiers Convention on Terrorism of summer 1999, which African countries had failed to endorse.[113] Undoubtedly, Bouteflika's primary objective in meeting with President Bush was to convince him that US-Algerian relations should be strengthened, but he also sought to persuade the US president that the fight against terrorism would be in vain unless the roots were dealt with, that is, the poverty and inequality exacerbated by globalization. Thus the USA should help Algeria economically, perhaps transforming its debt into investments so that the country could regain its stability and eliminate one of the sources of political extremism.

Also high on the agenda was the question of the Western Sahara because, from Algeria's perspective, how could regional stability be achieved without a resolution of that conflict? While Algeria did not receive support on this issue because of the solid relationship between Morocco and the United States, there is no doubt that it obtained positive political results from the visit: support for the anti-terrorist struggle in Algeria; support for the OAU Algiers manifesto on the fight against terrorism; condemnation of violent seizures of power in Africa; and backing for Algeria's present diplomacy in Africa and the Mediterranean.[114] However, while Bush supported the policy of eradication of terrorism, Bouteflika's domestic agenda demonstrated quite clearly that the Algerian president had no intention of allowing the eradicators in the military to gain the upper hand.

Clearly, in the eyes of the United States, Algeria may have gained a new status, that of a 'friend of the United States', which might also confirm its status as a 'pivotal state'. The participation of Bouteflika in June 2002 at the G-8 meeting in Canada was probably no mere coincidence. Moreover, the creation in July 2002 of an Algerian-American Business Council presided over by Albert Zapata and Richard Holmes was yet another sign of Algeria's new standing in Washington.[115] Indeed, this organization has encouraged Algeria to look towards the United States for business opportunities. In fact, in March 2003 Albert Zapata suggested that there was no need to wait for a Maghreb market: 'Algeria first; then the Arab Maghreb. The determination of Algerians to open a market of 30 million consumers is stronger.'[116]

The period since 11 September 2001 has witnessed a closer relationship between the United States and Algeria. Although cooperation in the area of anti-terrorist struggle preceded this event, it has now been strengthened. Indeed, the CIA, FBI and National Security Agency have sought assistance from the Algerians, who have acquired valuable experience in this domain.[117] More importantly, although it will not sell Algeria lethal weapons, the United States has agreed to provide the Algerian security forces with effective equipment to assist them in eliminating the remaining pockets of armed militants in remote areas. In December 2002 Richard Boucher, spokesman for the US Department of State, declared, following the visit of Deputy Assistant Secretary of State William Burns to Algeria, that:

> In light of US interests, in recent years we've approved Algerian purchase of ground control radars for civil aviation, small aircraft for border security, spare parts for C-130 aircraft, radios and Humvee military vehicles. We permitted a US company to sell to Algeria night vision devices for use by the security forces. These night vision devices have not yet been delivered and I would point out no exports of lethal equipment have been approved.[118]

What is surprising, though, is that in spite of such warming of relations and the greatly improved security situation in Algeria, the US government issued in February 2003 a travel warning to its citizens.[119]

CONCLUSION

Algeria's relations with the outside world have witnessed considerable change in recent years. This has been all the more evident since Bouteflika's election as president in April 1999. There is no doubt that the military had backed him as 'the least bad of the candidates', because of the awareness that he would be capable of improving Algeria's image abroad. The standing of Algerian armed forces had been tarnished internationally because of suspicions that they had involvement in at least some of the massacres attributed to armed Islamist groups. The aggressive foreign policy that Algeria has pursued in the last few years has helped to dissipate these suspicions and has definitely ended Algeria's isolation abroad. As put by an Algerian journalist, Today, Algeria does have an international presence.'[120] However, the same journalist commented that it did not mean that Algeria had the weight that it used to have in the past. This is indeed true, for while Algeria has reintegrated into the international community with some fanfare, the results of its improvement of relations with the outside world remain below expectations. The substantial foreign direct investment that Algeria sought to attract beyond the hydrocarbons sector has yet to arrive. It is doubtful that the security situation is to blame for the Algerian market's lack of attractiveness; security has improved considerably, even if terrorism has not been wholly eradicated. Despite good macro-economic indicators, the slow implementation of the economic reforms, combined with various bureaucratic hurdles, as well as corruption, are to blame for the status quo. Algerians are fully aware that unless they tackle these issues, they will not regain the prestige that their diplomacy once enjoyed throughout the world.

NOTES

1. Robert Chase, Emily Hill and Paul Kennedy, 'Pivotal States and US Strategy', *Foreign Affairs*, 75, 1 (January-February 1996). According to the authors, 'A pivotal state is so important regionally that its collapse would spell transboundary mayhem: migration, communal violence, pollution, disease, and so on. A pivotal state's steady economic progress and stability, on the other hand, would bolster its region's economic vitality and political soundness', p. 37.
2. There were cyclical riots in the 1980s, e.g. in the Kabylie region in 1980 and in Constantine and Sétif in 1986, but their significance was in no way comparable to the 1988 riots.
3. Yahia H.Zoubir, 'The Algerian Political Crisis: Origins and Prospects for Democracy', *Journal of North African Studies*, 3, 1 (Spring 1998), pp. 75–100.
4. See 'Algeria: A Nuclear Newcomer?', *IC Publications* (June 2000); Abed Charef, *Algérie—le Grand dérapage* (Paris: Editions de l'Aube, 1994), pp. 68–74.
5. For a detailed analysis, see Zoubir, 'Stalled Democratization of an Authoritarian Regime: The Case of Algeria', *Democratization*, 2, 2 (1994–95), pp. 109–39.
6. This is based on the interview the author had in summer 1997 with the former Secretary General of NATO, Willy Claes; see also Andrew J.Pierre and William

B.Quand, *The Algerian Crisis: Policy Options for the West* (Washington, DC: Carnegie Endowment for International Peace, 1996). Mr Claes told the author that he had warned not only western officials but also Algerian leaders, including President Chadli Bendjedid, about the Islamist threat. He insisted that they did not take his analysis seriously.

7. This discussion draws from extensive interviews with Algerian diplomats throughout the 1990s.
8. *The Economist* (London), 6 November 1993.
9. See Mohamed Issami, *Le FIS et le Terrorisme—Au Coeur de l'Enfer* (Alger: Le Matin Editions, 2001), pp. 297–300; see also Christian Pellegrini, *FIS, un danger pour la France* (Paris: Editions No. 1, 1992).
10. See Jean-François Daguzan, 'Les Relations franco-algériennes ou la poursuite des amicales incompréhensions', *Annuaire Français des Relations Internationales 2001*, Vol. II (Brussels: Bruylant, 2001), p. 441.
11. In an interview he granted the author, a senior White House official close to President George Bush (1989–92), stated that 'we were stunned by the events in Algeria; we had no idea of what was going on there. We were afraid that some Islamic fanatics would take over.' The official requested full anonymity, including the date and place of the interview.
12. *Washington Post*, 14 January 1992.
13. *Washington Post*, 15 January 1992.
14. Edward Djerejian, 'The U.S. and the Middle East in a Changing World', *Dispatch*, 3, 3 (1992), pp. 1–4. For a detailed analysis, see Zoubir, 'Algeria and U.S. Interests: Containing Radical Islamism and Promoting Democracy', *Middle East Policy*, 9, 1 (March 2002), pp. 64–8; see also Zoubir and Stephen Zunes, 'US Policy in the Maghreb', in Zoubir (ed.), *North Africa in Transition: State, Society and Economic Transformation in the 1990s* (Gainesville: University Press of Florida, 1999).
15. Graham Fuller, *Algeria: The Next Fundamentalist State?* (Santa Monica, CA: RAND Corporation, 1996).
16. Cited in *Conjonctures* (Algiers), 23 (25 September–2 October 1994), reported in Issami, *Le FIS*, p. 300.
17. France seemed to follow several competing policies simultaneously. President Mitterrand favoured a continuation of the electoral process and the imposition of conditions on European support for the regime. The Ministry of the Interior under Charles Pasqua pursued an anti-Islamist, pro-Algerian regime policy. Quite often, it seemed as if Pasqua had extended his prerogatives to include those of the Ministry of Foreign Affairs.
18. Daguzan, *Les Relations*, p. 441.
19. *The Economist*, 6 November 1993.
20. Cited in *Conjonctures*, 23, reported in Issami, *Les FIS*, p. 301. Of course, Haddam was trying to exploit the disagreement that seemed to exist between some French policy-makers hostile to Islamists and those US officials within the Clinton administration who were more conciliatory towards Islamists.
21. *The Economist*, 13 August 1993.
22. *Le Monde* (Paris), 29 April 1995.

23. For a discussion of French support to the Algerian regime, see Lucile Provost, *La seconde guerre d'Algérie—Le quiproquo algérien* (Paris: Flammarion, 1996), especially pp. 129 ff.
24. Luis Martinez argues in *La guerre civile en Algérie, 1990–1998* (Paris: Editions Karthala, 1998), p. 349, that 'The GIA greatly contributed to France's support of the Algerian regime …and its claim of responsibility for the attacks perpetrated on French soil in 1995 made the GIA the enemy of the Algerian regime [and] of France, but also of the FIS. In addition, many doubts continue about the "emirs" of the GIA's armed bands, since they weakened the cause they were supposed to be defending.'
25. The idea that the West should prepare for the FIS coming to power is articulated in a fanciful book written by a former CIA official. The book elicited great debates in international media as well as in government circles. See Fuller, *Algeria*.
26. Author's interview with officials at the US Department of State, Washington, DC, May 1996.
27. Edward Shirley, 'Is Iran's Present Algeria's Future', *Foreign Affairs,* 74, 3 (May/June 1995), p. 29. Shirley is the pen-name of a former CIA official.
28. A Congressional aide reported the joke to the author.
29. See the interview of former Assistant Secretary of State for Middle Eastern Affairs Robert Pelletreau in *L'Express* (Paris), 22 January 1998.
30. According to some security specialists in Algeria, Anouar Haddam, who was also a member of the GIA, is the one who urged Zitouni not to attack US interests in Algeria.
31. In an interview with the author in June 1996, a high-ranking Algerian official insisted that the United States was 'the force behind the Sant'Edigio scheme. Americans tried to impose the FIS upon us.'
32. *International Herald Tribune,* 15 February 1995. In a discussion with the author in summer 1997, Willy Claes confirmed his position on this issue. He said that in the late 1980s he himself had already warned Chadli Bendjedid against the dangers of Islamism.
33. See the report published in *El-Watan* (Algeria), 12 November 1992.
34. An interesting discussion can be found in Fernanda Feria, *Politique de sécurité au Maghreb-Les impératifs de la stabilité intérieure* (Lisbon: Instituto de Estudios Estratégicos Internacionais, 1994), pp. 36–8.
35. See *Jeune Afrique*, 1850 (19–26 June 1996), pp. 20–3.
36. Ibid., p. 20; *El-Moudjahid* (Algeria), 8 December 1992.
37. See the report on the meeting of the UMA's ministers of the interior in *El-Watan,* 19 July 1994.
38. Interviews granted by high-ranking civilian and military officials to the author in March 1993 and in June 1997 in Algeria, and in 1994–95 in Europe; see also *Jeune Afrique,* 1850, p. 21. In August 1999, President Abdelaziz Bouteflika accused Morocco of harbouring Algerian terrorists; see Zoubir, 'Algerian-Moroccan Relations and their Impact on Maghreb Integration', *Journal of North African Studies,* 5, 3 (Autumn 2000), pp. 43–74.
39. A high-ranking officer in the Algerian national security establishment told the

author that he personally said to King Hassan: ‘Do not think that because Algeria is on its knees that it cannot hurt Morocco. We, too, have means to do damage to the kingdom’ (interview in March 1993.)

40. Polisario officials told the author that they repeatedly informed the Algerian military about cross-border arms shipments; see also *Jeune Afrique,* 1757 (8–14 September 1994), pp. 8–11.

41. Cited in *Le Monde,* 4–5 September 1994. [It would have been ‘an interesting experience. Algeria would have served as a laboratory…’]

42. See Khaled Nezzar’s letter to *El-Watan,* 2 February 1998.

43. This thesis was advanced by Moroccan scholar Abdelkhaleq Berramdane, *Le Sahara Occidental-Enjeu maghrébin* (Paris: Karthala, 1992), p. 344. Vernon Walters, former head of the Central Intelligence Agency and a long-time friend of the late King Hassan, is reported to have held an almost similar view, arguing that Algerians wished to create a crisis in Morocco in order to bolster Moroccan nationalism, which could then be easily exploited; cited in *Jeune Afrique,* 1757, p. 11. Following the crisis of summer 1994 between the two countries, the French magazine *Le Point* raised the hypothetical question of whether some Algerian leaders would try to accentuate the conflict in order to mend national unity in their chaotic country. The reporter astutely suggested that, for their part, Moroccans would take advantage of the Algerian crisis to settle accounts with a previously powerful neighbour; see Mireille Duteil, ‘Maroc-Algérie: Vieilles rancoeurs’, *Le Point,* 1146 (3 September 1994), p. 14.

44. All the high-ranking military officers whom the author interviewed made it very clear that they had no desire to have a direct military confrontation with Morocco. While they refused to see Morocco gain the upper hand in the Western Sahara, they believed that the conflict should be handled by the United Nations.

45. Whatever their merits, the political and economic reforms in Algeria elicited an unmistakable interest in the international community. During the third phase, for instance, US policy towards Algeria too showed some change. Although still critical of the Algerian regime on a variety of issues, the USA was generally favourable to the reforms; see the US Department of State statement on Algeria issued by its spokesman Nicholas Burns, 9 June 1997, *Africa News Online;* see also Zoubir, ‘The Algerian Crisis in World Affairs’, *Journal of North African Studies,* 4, 3 (autumn 1999), pp. 15–28.

46. See Zoubir, ‘Analysis: Algeria in Crisis’, *Jane’s Defence Weekly,* 30, 7 (19 August 1998), p. 22.

47. Zoubir, ‘State and Civil Society in Algeria’, in Zoubir (ed.), *North Africa in Transition*.

48. E.Weinstein, ‘World: International Community Speaks Out on Algerian Slaughter’, *Radio Free Europe* (3 October 1997); Radio Liberty, <http://www.rferl.org/nca/features/1997/10/F.RU.971003133354.html>.

49. Arabic News, ‘Arab Parliamentary Delegation in Algeria for Solidarity’, <http://www.arabicnews.com/ansub/Daily/Day/981030/1998010313.html, 30 January 1998>.

50. Arabic News, ‘For the First Time, Algeria Accuses Europe of Supporting

Terrorism', <http://www.arabicnews.com/ansub/Daily/Day/971030/1997103035.html>, 30 October 1997.

51. See Daguzan, *Les Relations,* p. 445.
52. L.Marlowe, 'Motorola Supply Algeria with Irish Made Radios', *The Irish Times on the Web,* <http://www.irish-times.com/irish-times/paper/1998/9213/wor14/html>, 13 February 1998.
53. Europe takes two-thirds of Algeria's exports worth $11.6 billion, as well as providing $8.2 billion in imports.
54. Algerian diplomacy had been practically dormant until then. The regime became increasingly aware that unless it provided greater communication with the outside world, suspicion regarding the role of the security forces in the massacres would remain. Not only did diplomats become outspoken on the issue, but so did high-ranking military officers, such as Major-Gen. Mohammed Lamari. The military even allowed journalists to film some operations against GIA strongholds.
55. See 'Bavures et exécutions extra-judiciaires: 128 cas devant la justice', *El-Watan,* 19 April 1998.
56. See for instance, the declaration of André Soulier, who headed the European delegation that came to Algeria in February 1998, *Reuters,* 27 February 1998.
57. The report published by the United Nations Information Department can be found at <http://www.un.org/english/newslinks/dpi2007/contents.htm>. For a detailed examination of the UN panel's visit to Algeria, see Zoubir, 'Analysis: Algeria in Crisis', p. 22.
58. Simone Weill, '"Pas de blanc-seing" au gouvernment algérien', *AFP* (Paris), 17 September 1998.
59. See Zoubir, 'Presidential Elections and Signs of Democratization in Algeria', *Civil Society—Democratization in the Arab World*, 8, 90 (June 1999).
60. See Zoubir, 'Security and the Prospects of Democratization in Algeria', *Jane's Defence Weekly,* 9 August 1999, p. 19.
61. A senior officer told the author in late October 2002 that the AIS did in fact surrender in 1997, and that there was no negotiated secret agreement as was reported in the press and other circles. He insisted that the AIS troops were surrounded and had no chance of escape. Unlike the highly mobile, atomized GIA and GSPC forces, the AIS moved in large numbers and its troops were concentrated in specific areas. It also faced attacks from the GIA, which accused it of apostasy.
62. *Algérie Presse Service,* 1 February 2000.
63. *La Tribune,* 27 June 1999.
64. *Financial Times,* 19 July 1999; but in a speech he gave on 15 September at a meeting in Algiers, Bouteflika made clear that the FIS as a party was defunct. (Author followed speech on Algerian TV.)
65. *Financial Times,* 19 July 1999.
66. See Zoubir, 'Algeria and U.S. Interests'.
67. See *El-Moudjahid,* 13 December 2000.
68. *See El-Watan,* 14 March 2001.
69. Chérif Ouazani, 'L'année Bouteflika: Ce qu'il a fait de sa présidence de

l’organisation continentale’, *Jeune Afrique, L’Intelligent*, 2060 (4–11 July 2000).

70. ‘The Kananaskis Summit Chair’s Summary’, <http://www.g8.utoronto.ca/g7/summit/2002kananaskis/summary.html>.
71. For details, see *Le Matin*, 15 September 2002. The Action Plan can be found in the Algerian Ministry of Foreign Affairs webpage, <http://www.mae.dz/index.asp?rub=2&ntitre=251>.
72. Abdelaziz Bouteflika, *Election présidentielle du 15 avril 1999: Programme* (n.p., February 1999), p. 89; ‘the revival of the Maghreb integration process, through the UMA, will continue to mobilize Algeria’s resolve and efforts’.
73. For details, see Zoubir, ‘Algerian-Moroccan Relations’, pp. 43–74.
74. *Ambicnews*, 19 April 1999.
75. Bouteflika told the Algerian daily *Al-Khabar* that enough time had been wasted, and that ‘if we do not hasten to achieve our aspirations, history will condemn us for negligence’; reported in *Arabicnews*, 4 August 1999.
76. *Arabicnews*, 27 August 1999.
77. A senior intelligence officer told the author in August 2002 that the hierarchy did not approve of such violent reaction because it could have led to direct confrontation with the Moroccans, a scenario that the Algerian armed forces wished to avoid, especially with the difficult struggle they were conducting internally against the GIA.
78. This brief summary is based on my listening to Bouteflika’s speeches in the cities of Béchar and Tiaret during my visit to Algeria (August-September 1999). For more extensive coverage, see *La Tribune* (Algiers), 2 September 1999 and *El-Watan*, 2 September 1999; see also *Arabicnews*, 2 September 1999. Note that *Arabicnews* translated the text from *El-Watan* without, however, acknowledging that source.
79. Ibid.
80. For the details of the meeting, see *La Tribune*, 4 April 2000.
81. Interviews with US officials at the Department of State and the Department of Commerce, May 2000.
82. *Le Jeune Indépendant*, 21 June 2000.
83. United Nations, Report of the Secretary-General to the United Nations Security Council, S/2000/461 22 May 2000.
84. This analysis is based on interviews with US and French officials.
85. For details on the so-called ‘third way’ in Western Sahara, see Zoubir, ‘Sàhara Occidental: La tercera vía: “Realpolitik” frente a legalidad internacional’ [The Third Way in Western Sahara: Realpolitik vs. International Legality], *Nacion Arabe* (Madrid), 15, 45 (October 200), pp. 73–85.
86. For reports and commentaries, see ‘Libyan Ideas to Solve Western Sahara Problem Stall Maghreb Summit’, *Daily Star;* ‘Report du Sommet de l’UMA’, *Le Matin*, 26 June 2002; *Le Jeune Indépendant*, 26 June 2002; ‘Le Maghreb est en berne’, and ‘Le gâchis maghrébin’, *Le Quotidien d’Oran*, 21 June 2002; ‘L’UMA ôtage de l’autisme des se dirigeants’, *La Tribune*, 19 June 2002.
87. See ‘Problème du Sahara Occidental: Baker risque de mettre le feu aux poudres’, *L’Expression* (Algiers), 22 January 2003; ‘Baker a défendu un remake de l’accord-cadre pour l’autonomie’, *Le Quotidien d’Oran*, 21 January 2003; see also, ‘Baker to

have presented proMoroccan solution to Sahara conflict', *afrol News*, 18 January 2003.

88. *Le Monde,* 30 July 1999.
89. See *Agence France Presse* (AFP) (Paris), 23 January 2000.
90. *Le Monde,* 17 June 2000.
91. For details, see *El-Watan,* 17 June 2002 and *Le Monde,* 17 and 18 June 2000; see also Paul-Marie de La Gorce, 'La Passion et la Raison', *Jeune Afrique,* 2057 (13–20 June 2000).
92. *Associated Press* (online), 1 December 2001.
93. *Algérie Interface,* 4 June 2002. The United States insisted that it supported the democratic reforms in Algeria, which was another way of saying that it saw with a positive eye the legislative elections.
94. *AFP* (Paris), 25 July 2002.
95. See Belkhadem's interview in *Le Quotidien d'Oran,* 27 July 2002.
96. *Algeria Interface,* 26 July 2002.
97. 'Alger vise un partenariat politique stratégique avec Paris', *Le Quotidien d'Oran,* 21 December 2002.
98. 'L'Algérie à fond', *Le Quotidien d'Oran,* 4 March 2003.
99. This was the official reason the EU presented. However, in reality the EU suspended negotiations because, unlike their neighbours, the Moroccans and Tunisians, Algerians insisted not only on Algeria's economic specificity, but also on the free movement of people; see *La Tribune,* 19 December 2001.
100. See the report in *El-Moudjahid,* 18 December 2001.
101. See, *Le Jeune Indépendant,* 7 April 2001; *Le Quotidien d'Oran,* 2 February 2002; also the interview with Wolfgang Thierse, president of the Bundestag, during his visit to Algiers in February 2002, *El-Moudjahid,* 7 February 2002.
102. See *El-Watan,* 4 April 2001.
103. Italian President Carlo Ciampi made an official state visit to Algeria on 27–28 January 2003. The two countries signed a Treaty of Friendship, Cooperation and Good Neighbourliness. They also pledged to increase their economic relations. For details, see 'L'Algérie et l'Italie souhaitent renforcer leur cooperation économique', *AFP,* 28 January 2003.
104. *El-Moudjahid,* 6 April 2001.
105. *Le Jeune Indépendant,* 7 April 2001.
106. Secretary of State Madeleine Albright and Anthony Lake, President Clinton's special envoy, attended in Algiers the signing ceremony of the peace agreement between the two warring countries.
107. In the interviews conducted by the author, US officials have asserted that 'With respect to Western Sahara, we will do nothing that would alienate Algerians.'
108. A good report on the visit can be found in *Le Jeune Indépendant,* 25 March 2001.
109. The meetings that Bouteflika had during his visit to the USA in November with leaders of the defence industries, such Northrop Grumman, Lockheed and Raytheon appear to confirm Algeria's request for weapons, such as infra-red and laser military equipment to track down GIA and GSPC forces; see *Le Quotidien d'Oran,* 6 November 2001.
110. Algeria's point of view is articulated in the government newspaper, *El-*

Moudjahid, 22 September 2001. It should be noted that both Bouteflika and the Algerian armed forces made it clear that Algeria would not participate in any military coalition that did not fall under UN control; see the interview with Major-Gen. Mohamed Touati, presidential adviser, in *El-Watan*, 27 September 2001.

111. See *Le Matin*, 22 September 2002; *El-Moudjahid*, 22 September 2002.

112. *La Tribune*, 24 September 2001.

113. The convention resulted from the OAU's summit of heads of state held in Algiers in July 1999. Bouteflika barely succeeded in having that convention approved at the summit and only a handful of African countries had ratified it.

114. See the comprehensive report by Daouadi Miloud, 'Bouteflika-Bush, Au-delà d'une rencontre', *Le Quotidien d'Oran*, 7 November 2001.

115. See *Le Quotiden d'Oran*, 24 July 2002.

116. Cited in 'Le développement du marché algérien ne passe pas forcement par celui du Maghreb', *Le Quotidien d'Oran*, 6 March 2003.

117. See for instance 'Visite d'une mission américaine a Alger—Le FBI, la CIA et la NSA sollicitent le DRS', *Le Quotidien d'Oran*, 10 February 2003.

118. Richard Boucher, spokesman, US Department of State, *Daily Press Briefing*, Washington, DC, 11 December 2002; see also Steven R.Weisman, 'U.S. to Sell Military Gear to Algeria to Help It Fight Militants', *New York Times*, 10 December 2002.

119. Travel warning, United States Department of State, Bureau of Consular Affairs, Washington, DC, 3 February 2003.

120. Telephone interview with editor-in-chief of a reputable newspaper in Algiers, 5 September 2002.

CHAPTER 10
Bouteflika and the Challenge of Political Stability

ROBERT MORTIMER

The turmoil of the 1990s severely undermined the political legitimacy of the Algerian state. This was a decade of political problems: a failed democratization, cancelled elections, presidents assassinated or constrained to resign, appalling acts of terrorism that claimed over 100,000 lives. A once proud regime was reduced virtually to pariah status. From 1996 to 1998, President Liamine Zeroual sought to construct the institutional framework of the state by means of a constitutional referendum, national parliamentary elections and, ultimately, local elections, but these measures did not suffice to restore national and international confidence in the regime. A series of horrendous massacres in the latter part of 1997, coupled with what was reported to be the blatant rigging of the October 1997 local elections, exposed the Algerian authorities to heightened domestic criticism and international scrutiny. Ten years after the destabilizing riots of October 1988, and despite the military's relative success against the armed rebellion, Algeria had not managed to restore a satisfactory level of political stability or legitimacy. In this rather difficult context, Zeroual abruptly announced in September 1998 that he would resign from office well before the end of his term, which was scheduled to run until November 2000.

The task of rebuilding the authority and international credibility of the Algerian state fell to Abdelaziz Bouteflika in April 1999. Bouteflika was a prominent figure from an earlier era in which Algeria had played a respected role in world affairs, earning a reputation as a leader in the non-aligned group that represented the developing states. He was of course the foreign minister of the Algerian government throughout the Boumédienne years from 1965 to 1978, a period of exceptionally dynamic Algerian diplomacy. In backing Bouteflika for the presidency in 1999, the military institution was looking for political leadership capable of establishing a renewed diplomatic standing and overall credibility for Algeria, both regionally and globally.

To achieve this would require resolution of the political challenge presented by the Islamist movement, and this in turn implied tackling the economic and social ills that had given rise to Islamic politics. Needless to say, these were daunting tasks in a highly charged environment of vested interests and armed rebellion. Nor was the task simplified by the context in which Bouteflika was elected. Initially, the new president had only a narrow margin for manoeuvre. His leadership was to depend essentially upon his own political skills, and his ability to exploit the potential for legitimacy that was inherent in the presidential office.

This chapter seeks to assess how well Bouteflika did on this perilous political terrain during his first few years in office. He understood that his own political survival would depend on his capacity to develop and maintain a balanced relationship with the military establishment—i.e. to create a political situation in which both institutions would respect each other's prerogatives. His asset was the army's genuine desire to relegitimize the regime and to withdraw from the frontline of politics. I shall argue that on balance and despite some setbacks, Bouteflika was skilful in exercising what authority he had in order to strengthen his position in the domestic distribution of power. His longer-term success is not foreordained, and indeed his demise has already been predicted. Writing on the occasion of the first anniversary of the election of Bouteflika, the journalist Jean-Pierre Tuquoi observed that some Algerians believed that 'the military are already in the process of preparing the post-Bouteflika era'.[1] Yet by August 2000, the president had consolidated his position via the appointment of his close ally, Ali Benflis, to the post of prime minister. At the same time, there were troubling signs that the security situation was deteriorating, affecting the policy of 'civil concord' that had been one of the key elements in his attempt to restore political stability to the country. Nevertheless he succeeded in defying such predictions of his imminent departure, and not only was he still in office in 2003, but all signs pointed to his running for a second term in 2004.

THE RETURN OF BOUTEFLIKA

Bouteflika was elected to the presidency following a 20-year passage across the political wilderness. A key figure in the so-called Oujda Group that had formed the inner circle of power around Houari Boumédienne, he was probably the second best-known Algerian political figure during the 1970s, having been appointed foreign minister at the tender age of 26 in 1963. President of the United Nations General Assembly in 1974–75, he was the visible face of an extremely active Algerian diplomacy. He aspired to succeed Boumédienne, who died unexpectedly after a short illness in December 1978. But given the difficult task to reconcile the then two dominant ideological currents (one pro-liberal and the other pro-socialist), the compromise was on the rather less well-known Chadli Benjedid, who went on to preside over what Bouteflika and others have called the 'black decade' of the 1980s. The ex-foreign minister left the country, first for Switzerland and later for the Persian Gulf states, and was little heard of during a 15-year period. He resurfaced briefly in 1994, when it was reported that military leaders had presented him with the opportunity to lead the Algerian state after the two-year interim of the High State Committee (HCE), but it proved not yet the case. In the closed politics of leadership succession, this time it was the resignation of Liamine Zeroual, a retired general who had been serving as minister of defence since July 1993. Once again Bouteflika largely disappeared from the public scene, as Zeroual sought first to negotiate a political settlement with the imprisoned leaders of the Islamic Salvation Front (FIS), then to reconfigure the state via a series of elections, the high point of which was his own election to the presidency in November 1995. Unlike Bouteflika, Zeroual had no particular flair for leadership. Once elected in his own right, he sought over three frustrating years to establish an independent authority, only to throw in the towel in September 1998 with his announcement that he would step down before the end of his term. There were claims that Zeroual's resignation had more to do with the departure of his security adviser General Mohamed Betchine; a gesture of solidarity with his long-time close friend, who was forced to resign after a long media campaign accusing him of corruption and the use of his influence for private interests. Shortly thereafter Bouteflika declared his candidacy for the presidency of the republic.

The conditions of the election of 15 April 1999 did nothing to enhance the authority of the winner or the legitimacy of the regime.[2] There were allegations that the results were already fixed, but the main question that remains unanswered is why the other candidates decided to withdraw from the campaign at the last minute, and not before. Nevertheless, Bouteflika assumed his responsibilities with gusto. He adopted an essentially two-pronged approach to the Algerian crisis: a policy of amnesty towards the armed groups and a policy of projecting Algeria on to the world stage. He called upon the National Assembly to vote an amnesty law, and then put his programme of civil concord to a national referendum, which was overwhelmingly approved in September. Internationally over the course of his first year, he travelled to no fewer than 30 countries for a variety of economic and diplomatic purposes; moreover, he directed a summit meeting of the Organization of African Unity (OAU) in Algiers, which allowed him to assume Algeria's customary role of chairman of the continental body. In June 2000 he carried out an exceptional state visit to France, only the second by an Algerian president since independence in 1962. The policies of civil concord and diplomatic activism helped to erase the memories of the 'controversial' conditions surrounding the April 1999 election, and largely justify the view of Luis Martinez, who concluded early in 2000 that 'The election of Abdelaziz Bouteflika to the presidency has modified the image of Algeria abroad.'[3]

PRESIDENTIAL RELATIONS WITH THE ARMY

Success in projecting a new face of the country abroad is not tantamount to genuine power at home. Rather, the accretion of greater power in a civilian presidency can only be the result of success in addressing Algeria's domestic problems while skilfully managing the relationship with the military establishment, which is accustomed to being an important arbiter in the political system. The question of Bouteflika's relationship with the army has been constantly under scrutiny, to the point that it has been said that he suffers from a 'puppet complex'.[4] Frequently questioned about the military, he has dealt with the issue with reasonable candour, acknowledging that he is in a power-sharing relationship with that institution. He gives credit to the army for saving Algeria when 'everything crumbled' in the early 1990s: 'I say it clearly, everything crumbled except the National Popular Army',[5] while at the same time asserting his constitutional prerogative as commander-in-chief of the armed forces. In an interview with a French radio station, Bouteflika responded to a question about the army by saying, 'I need them. But you'll have to ask them if they need me', subtly implying that the need was reciprocal.[6] In the same vein, he told the *Financial Times* of London that the army 'has confidence in me and I have confidence in it'.[7]

While regularly presenting himself as a reformer, Bouteflika implies that there are limits—presumably imposed by other actors in the system—upon the capacity for change. 'I want to change the system,' he declared during a large rally on the eve of the referendum on civil concord, 'but the system that I'm familiar with suits me better than one that is unknown.' In the same speech, he alluded to a 'red line' that he could not cross, probably referring to the constraints imposed on him by the political elite and civil society.[8] Perhaps a sign of 'confrontation' between the military institution and the president in the early months of the Bouteflika presidency was the October 1999 episode of the Reuters dispatch regarding the formation of a government (see below).

It took Bouteflika a full eight months to nominate a prime minister and government. It seems reasonable to assume that he was in no rush at the outset to replace the caretaker government (of Smail Hamdani, named by Zeroual at the end of 1998), pending some consolidation of his own authority via the civil concord referendum. Indeed, according to José Garçon, he said as much to French Foreign Minister Hubert Védrine during the latter's visit to Algiers in July 1999: 'I shall nominate a government only after having sufficiently reinforced my authority'.[9] However, as time passed the absence of a government with Bouteflika's stamp on it began to raise questions about the president's ability to govern. In October Reuters issued a story, the gist of which was that the military command had rejected the government that Bouteflika proposed. Citing unspecified 'highly placed sources', the Reuters release reported that the military institution prevented Bouteflika from forming a government of 'personalities from his own entourage', insisting instead that he choose ministers from the 'ranks of the political parties that had supported his candidacy'.[10] The report, which was circulated by Algérie Presse Service and appeared in various Algerian newspapers such as *Le Matin*, went on to say that The customary practice has been for influential generals to coopt the high state officials.'[11] Not surprisingly, the account was subsequently denied by the authorities, but it had a ring of plausibility about it and it further heightened the pressure on President Bouteflika to produce a government. Likewise it suggested that the presidency and the army were testing the bounds of their relationship.[12]

The government that was finally constituted at the end of December bore out this interpretation, as it contained a rough balance between 'the president's men' and the representatives of political parties, and was headed by a relatively apolitical prime minister. The former, in particular the inner circle sometimes referred to as the president's 'four aces', occupied such strategic ministries as Interior (Noureddine Zerhouni), Finance (Abdelatif Benachenou), Energy (Chakib Khelil), and Participation in and Coordination of Reforms (or the privatization portfolio, Hamid Temmar). None of these men, whose careers had been largely within international institutions and diplomacy, had close ties with political parties. Nor did Youcef Yousfi, another figure described as close to Bouteflika, who was assigned the post of foreign minister, in the president's old stamping ground that he really had no intention of relinquishing.[13]

The parties, however, were amply represented in the other ministries. No fewer than seven parties had representatives in the government, reflecting the military institution's conception of the role of the cabinet. By rewarding the parties with cabinet posts, the military sought to demonstrate that Algeria was a functioning multiparty democracy—thereby seeking to deflect criticisms of the ongoing ban on the FIS, which had been officially dissolved in 1992. Furthermore, control over the ministries gave the parties some access to patronage, and presumably therefore stakes in the political system. The bulk of the ministerial posts went to the parties with the largest representation in the

National Assembly, namely the National Democratic Rally (RND), the 'presidential' party cobbled together by Zeroual in 1997, and the National Liberation Front (FLN, formerly the only political party). Both of these parties had endorsed Bouteflika (although formally he ran as an independent candidate), and both were essentially appendages of the power structure rather than genuinely programmatic parties. Two legal Islamic parties, the MSP (Movement for a Peaceful Society, formerly the Movement for an Islamic Society, and generally known as Hamas) and Ennahda, received ministries in order to demonstrate that Islamic points of view were not excluded from public affairs, notwithstanding the ban upon the FIS. At the other end of the political spectrum, the avowedly secular parties—the Rally for Culture and Democracy (RCD) and the National Republican Alliance (Alliance Nationale Républicaine; ANR)—were awarded secondary ministries. Finally, the head of the small Party for Algerian Renewal (PRA), Noureddine Boukrouh, a centrist who had run for president in 1995, was named minister of small business promotion.

The nominal head of this rather heterogeneous coalition was a quintessential manager who had contributed his talents to several governments during the 1990s. Ahmed Benbitour, who had a doctorate in economics and an MBA from the University of Montreal, had taught economics before becoming a high-level manager in the economic bureaucracy. He was as apolitical as Bouteflika was political, as reserved as Bouteflika was open. He had served as minister of the budget in the Ghozali and Abdesselam governments, as minister of energy in the Malek government, and as minister of finance in the Sifi administration. He seemed the perfect figure to manage the affairs of government, notably economic policy, while Bouteflika presided over affairs of state. Neither a party man nor a president's man, he had the potential to be an arbiter as prime minister; his academic and administrative credentials were consistent with the army's desire to see the government well and professionally managed. As for Bouteflika, the appointment of the Benbitour government freed him from what had become an awkward situation.

Before very long, however, criticism of the Bouteflika presidency resumed in the form of charges of immobility and failure to address substantively the country's urgent social and economic problems. Moreover, the outcome of the crucial civil concord policy was proving quite ambiguous. Although a significant number of rebels accepted the offer of amnesty by January 2000, a minority did not; the scale of violence declined, but did not cease altogether. On the social front, the unions were calling strikes and protesting against the broad lines of the government's privatization policy. There was no obvious movement towards reform of the justice and educational sectors, both perceived to be in crying need of change.[14] By June 2000 there was ample speculation about major policy disagreements inside the Benbitour government; it was reported that Bouteflika himself roundly criticized its halting pace, lack of direction and internal quarrels.[15] The most public of these disputes pitted the privatization minister, Hamid Temmar, against the prime minister. Temmar gave a televised interview in which he vehemently criticized (without, however, explicitly naming him) Benbitour's reluctance to dissolve the various holding companies that control the state's shares in the major public enterprises like Sonatrach, Sonelgaz and Cosider. Benbitour responded via a press conference, in which he reminded people of his own economic expertise and his direct knowledge of Algerian economic realities. Yet the situation suggested that the technocrat Benbitour was on his way out.

This was confirmed in August, when Bouteflika named Ali Benflis as his new prime minister. Benflis had been serving as head of the presidential staff ever since Bouteflika had been elected, having previously run his 1999 campaign. No one in government was closer to the president than Benflis, a liberal lawyer who had been one of the founders of the Algerian Human Rights League (LADDH) in the 1980s and minister of justice in Mouloud Hamrouche's reformist government of the early 1990s. The nomination of such a trusted ally to the prime minister's post appeared to place Bouteflika much more squarely in command of governmental affairs. In the view of *Le Monde*, it marked a significant step towards the 'presidentialization of the regime'.[16] Indeed, Benbitour's parting shot was a letter of resignation in which he accused Bouteflika of overstepping his constitutional powers to the detriment of the prime minister in several respects. Yet if the matter had a constitutional edge to it, its political significance was to enhance the preeminence of the 'president's men' in the conduct of government, motivated in this context by the need to speed up the process of reforms.

The only other notable change in the August cabinet shuffle pointed in the same direction. This was the nomination of Abdelaziz Belkhadem as minister of foreign affairs, replacing Yousfi (who became minister-delegate to the head of government, a kind of cabinet-level aide to Benflis). Belkhadem was well known as a supporter of the Sant'Egidio initiative—opposed by the Algerian government—which called for the relegalization of the FIS as part of a settlement of the crisis. Seen both as an Arabist (or 'Islamo-conservative') and a 'reconciliationist', he did not appear to have had wider support for such a strategic ministry as foreign affairs. By naming Belkhadem, Bouteflika at once reinforced his Middle East policy, especially *vis-à-vis* potential investors in the petro-monarchies, and strengthened his hand with the Islamic grouping. The choice of Belkhadem was generally viewed as the only real surprise in the reshuffled government, which overall saw only four new faces among its 34 members. To be sure, Hamid Temmar kept his post along with the other three 'aces', emerging victorious from his tangle with Benbitour.[17]

At the same time that Bouteflika was reshuffling the cabinet more to his liking, a concurrent development revealed the ongoing balancing between the military establishment and the presidency. Benflis was replaced as the head of the presidential staff by Larbi Belkheir, a retired military officer who was still seen as a key figure in the top circle of the military institution. Over his long career in the army, Belkheir rose to the rank of major-general while moving laterally in and out of important and influential government positions during the Benjedid years. He served as presidential adviser and head of the High Security Council before ending up as minister of the interior at the end of the Benjedid era. Upon the assassination of Mohamed Boudiaf in June 1992, he retired from the army and the government, but did not lose his influence among his peers in the military, economic and political elites.[18] Belkheir may be seen as at once a political ally of Bouteflika and a voice of the military establishment within the presidency itself. His presence may be interpreted as evidence of the bottom-line influence of the military, as a sign of a power-sharing relationship, or as Bouteflika's liaison to the top circle of military officers.

In retrospect, the Benbitour government lasted barely as long as it had taken to be formed—about eight months. Otherwise put, it took Bouteflika 16 months to get the government that he really wanted, one in which the prime minister could be expected to work hand in hand with him. To be sure, the cabinet still reflected the military institution's notion that the political parties should be broadly represented—none of the parties left the governing 'coalition' in the August shake-up. Yet in the balance between the president's men and party men (no women were appointed ministers at this point, an absence rectified with panache in June 2002 when five women entered Bouteflika's third cabinet), the shift from Benbitour to Benflis certainly strengthened the president's hand. To what should Bouteflika's relative ascendance over this period be attributed?

AN ACTIVE DIPLOMACY

One important arena for Bouteflika's diplomacy has been Africa. He had the good fortune to inherit an OAU summit meeting, scheduled by his predecessor, in July 1999. In accordance with standing practice, he became the acting president of the organization for the following year and thrust himself vigorously into continental affairs, most prominently presiding over peace talks between Ethiopia and Eritrea, which led first to a ceasefire signed in Algiers in June 2000 and subsequently to a full-scale peace accord also signed in Algiers in December 2000. In addition, he projected himself very prominently into continental economic diplomacy alongside his peers, Thabo Mbeki of South Africa and Olusegun Obasanjo of Nigeria. The three, all perchance elected in the spring of 1999, emerged as an African triumvirate promoting the idea of an 'African Renaissance' in a series of continental and global forums. Over time, this theme was refashioned as the New Partnership for Africa's Development (NEPAD), a cause that Bouteflika was always on hand to champion. It is worth noting that Bouteflika created a new cabinet position of minister delegate responsible for African affairs, attached to the foreign ministry, in the August 2000 government, indicating that he intended to keep Africa high on his agenda.[19]

Another major initiative in strengthening Bouteflika's standing was the June 2000 state visit to France. The Franco-Algerian relationship remains ambivalent, sensitive and charged with strong emotions. While France is often criticized in Algeria for its colonial past, Algerians nevertheless see France as a country whose judgements are important. To be held in regard in France can be an asset in Algeria. During his visit, Bouteflika clearly succeeded in establishing himself as a credible leader, someone who represented Algeria well. In the process, he enhanced his stature and legitimacy as an actor in the Algerian political system. What *Le Monde* called 'the Bouteflika Effect' on French-Algerian relations also had an impact on Algero-Algerian relations.[20]

Whether speaking before the French National Assembly or at the monument in Verdun to the Algerians who died under the French flag during the First World War, whether meeting businesspeople and politicians or the 'friends of Algeria', Bouteflika managed to exploit every aspect of the dense fabric of relations between two societies so closely interwoven by history and geography, by settlement and immigration. The visit gave a new impetus to bilateral relations. The editor of the review *Passages*, which sponsored a major forum at which Bouteflika spoke and answered questions (and which was televised live in Algeria), wrote later that the president 'succeeded beyond all expectations in making his visit to France a successful and well accomplished trip'.[21] The extensive media coverage of the visit in both countries, and notably the positive reception in French public opinion, suggests that Bouteflika did contribute to the sought-after rehabilitation of the legitimacy of the Algerian regime. His candour in acknowledging 'the long and unspeakable tragedy that has ravaged my country, tarnishing its image in the world', and his assurances regarding Algeria's evolution 'from a single orthodoxy to democratic pluralism and from a managed economy to a market economy', all contributed to re-establishing Algeria as a partner worthy of confidence.[22] Overall, Bouteflika's representation of the Algerian state during his stay in France enhanced its credibility and perceived legitimacy.[23] In doing so, he also consolidated his own standing in the Algerian political system.

France, however, was not Bouteflika's only platform abroad. The UN has always been an important forum for Algerian foreign policy, and the president made sure that Algeria played a visible role in the Millennium Summit of September 2000. His speech to the General Assembly on the current status of the developing countries in the world economy—an 'alarm bell' according to *Afrique—Asie*—rang with echoes of Algeria's past role of Third World leadership.[24] To be sure, speeches at the UN did not change the world economy in the 1970s any more than they do today, but the vitality of a state's diplomacy is often measured at the UN, and this is a milieu in which Bouteflika excels. In New York as in Paris, Bouteflika's 'performance' added fresh lustre to Algeria's tarnished image, and this in turn added to the stability of the system.

Some prominent journalists have questioned the utility of Bouteflika's emphasis on foreign policy. José Garçon, for example, characterized him as a vendor 'selling Algerians the international role of their country', and Florence Beaugé wrote in the same vein that 'his successes on the international stage do not suffice to attenuate the growing bitterness of the population' in the face of the renewed Islamist violence during the first half of 2000.[25] Yet these comments may miss the point. Bouteflika needed to strengthen his position in Algeria's internal balance of power. His best option for achieving this was to further embellish his reputation abroad. To some degree, given the isolation of Algeria, representation abroad is the task that the many political actors knew that Bouteflika would conduct successfully. Foreign policy is thus a prerequisite for doing other things that most assuredly need to be done. It was fair enough to observe that Bouteflika had made little inroad into these problems after more than a year as head of state. Yet only a strong president can tackle these problems, and Bouteflika was still in the process of attempting to consolidate his power.

The human rights activist, Abdennour Ali Yahia, captured Bouteflika's dilemma acerbically—if with certain exaggeration: 'He can not move forward, his arms and legs are tied. He is a man alone, to whom they have given the right to speak, but nothing else.'[26] Ali Yahia is of course a long-time critic of the regime and was a leading figure in the Sant'Egidio initiative. My argument would be that the president has exploited his skills and constitutional prerogatives at home and abroad to a surprisingly effective degree, consolidating his own political legitimacy in the process. Over his first 16–18 months in office, he tactfully managed to foster a balanced relationship with the military institution.

EXTENT AND LIMITS OF THE REFORMS

The appointment of Benflis and the modest cabinet changes of August 2000 placed Bouteflika more securely at the head of the Algerian state. This naturally raised expectations that the president would move forward on his stated agenda of reform and tackling the country's economic and social problems. Over the next two years, however, he and Benflis made relatively little headway in improving living conditions for the ordinary Algerian, or in increasing popular confidence in the government. Moreover, the president and his prime minister encountered some bumps in their own collaboration. New crises arose, for example in Kabylie in the spring of 2001, even as the old grievances festered. While Bouteflika had survived a rocky start, the presidency and the regime continued to face enormous challenges of governance.

For many Algerians, the fundamental question was whether Bouteflika would take on the entrenched elites. An editorial in *El-Watan* in November of 2000 was indicative of the mood of one sector of public opinion: it was entitled 'Bouteflika does not seem in a hurry to free himself of the mafias that are corrupting this state'.[27] The term 'mafia' has become commonplace to denote the economic/fmancial/political elite that exists in the country. The expression 'political-financial mafia' had already achieved widespread currency in the early 1990s.[28] Journalists visiting Algeria early in 2001 reported a general malaise and disillusionment with the regime. The prevailing sentiment, according to one such report, was that 'we have no idea what is going on in the country, especially at the highest levels [except that] everything is stagnating… Bouteflika promised us justice and peace, but we have neither one nor the other.'[29] The opposition politician Ahmed Taleb Ibrahimi, whose proposed new party, Wafa, was denied legal recognition, declared that the country was in 'misery and despair' over the lack of progress in dealing with the issues of violence, employment, housing and human rights. Bouteflika was being criticized for the lack of positive change as his second year as president drew to a close. Nor did the events of the spring of 2001 in Kabylie help him to advance a reform agenda.[30] Berber Kabylie is of course a region that has always had strained relations with the central authority in Algiers, and this eruption of local violence revealed what a powder keg the region was.

In handling the situation, on 30 April the president made a speech about the situation on national television. In this address, he announced the creation of a national commission to investigate the immediate and underlying causes of the events. The speech was generally deemed quite unsatisfactory by the Berbers, and on 1 May the Berber culturalist party, the RCD, declared that it was withdrawing from the government coalition (in which it held two ministries).[31]

At the end of May, Bouteflika tried again to calm the political storm. He called for 'rigorous sanctions against the instigators of these tragic events and against the authors of excesses, from whatever side they come'.[32] He also promised that the constitution would be amended to recognize Tamazight, the Berber tongue spoken in Kabylie, as a national language. A few days later, 12 gendarmes were arrested for 'abusive use of their weapons'. Although there were further marches and demonstrations on into the summer, the intensity of the confrontation between *'le pouvoir'* ('the central authority') and the Kabylie dissidence gradually receded without, however, any fundamental resolution of the issues.

Much of the first year of the Benflis government, therefore, was overshadowed by the unrest in Kabylie and other events alleging the implication the army. The latter included the publication in France of two books that claimed that the military secret services were themselves responsible for some of the massacres and atrocities attributed to the Armed Islamic Group during the 1990s.[33] While these accounts were vehemently denied by the Algerian authorities,[34] the polemic surrounding the armed forces highlighted further the ever-sensitive issue of civil-military relations in the Algerian regime. Bouteflika appeared shaken by the accumulation of criticism of the situation in Algeria from such foreign observers as the European Union and France. In June, for example, on a trip to Tamanrasset in the far reaches of the Sahara, he erupted with frustration, declaiming, 'I shall not resign, because I have been elected by the people.'[35] These issues and others also took their toll on the Bouteflika-Benflis relationship itself. Reports circulated in the Algerian press of a 'rupture' between the two leaders; Benflis was reported to be as unhappy as his predecessor Benbitour about the president's interference in his own prerogatives as prime minister.[36]

Most crucially for Bouteflika, the disorders in Kabylie seem not to have affected one of his primary missions and strategies, that of projecting a restored image of a stable and forward-moving Algeria on to the international scene. Indeed, with the passage of time it appeared increasingly the case that Bouteflika continued his efforts in this respect. He kept on travelling extensively around the world, still paying special attention to Africa. In January 2001 he visited Nigeria en route to Cameroon, where he attended the Franco-African summit meeting in Yaounde. This was the first time that an Algerian head of state participated in the long-standing series of Franco-African conferences, breaking something of a taboo imposed by the Islamonationalists, who insisted upon Arabic as the key to Algerian linguistic identity. Bouteflika understood perfectly that French was an important language in inter-African affairs, and saw no good reason to abstain from the francophone circle of states. In February, moreover, Bouteflika travelled to another francophone capital, Bamako (Mali) in order to attend a meeting of ten African heads of state with officials of the World Bank and International Monetary Fund. Later in the year he attended the OAU summit in Lusaka (Zambia), and Algiers received a return visit from Nigeria's president Olusegun Obasanjo in September.

Bouteflika's close relations with the Nigerian leader were coupled with similar close ties with Thabo Mbeki, president of South Africa. As alluded to above, the trio represented the African continent at a series of meetings with the Group of 7, the world's most advanced industrialized nations. Together they met with the G-7 in Japan in July 2000 to discuss the issue of debt reduction, then in Italy in July 2001 and again in Canada in the summer of 2002 to set forth the NEPAD programme for African economic development. This association with sub-Saharan Africa's two major powers served to thrust Algeria into greater international prominence, and Bouteflika remained assiduous in cultivating this continental axis.

Yet other major trips abroad marked the first eight months of 2001. From 24–29

January, the president led a large ministerial delegation to India to build economic and political ties with the South Asian giant. The delegation spent two days in Abu Dhabi on the return trip. In March Bouteflika attended the Arab League summit, and then embarked on major trips to Berlin and Moscow in pursuit of economic and arms deals. Having negotiated the purchase of 22 aircraft in Russia, Bouteflika went in search of further arms and military training agreements in Washington in July of 2001. The events of 11 September 2001 provided further opportunities for Bouteflika to project the Algerian state's case abroad.

For Algeria, Al Qaeda's hijackings and attacks on New York and Washington vindicated the regime's longstanding assertion that it was a victim of internationally sponsored terrorism. The government, which had already initiated cooperation with the American Federal Bureau of Investigation (FBI) against the Bin Laden network earlier that year, offered to cooperate in security and intelligence matters. In turn, the United States invited Bouteflika to meet with President George Bush at the White House in November, following the US-Africa Business Summit that the Algerian leader was already scheduled to attend. Suddenly Bush's war on terrorism had provided an opportunity for closer Algerian-American political collaboration than had heretofore seemed possible.[37] The political establishment welcomed recruitment into the coalition of anti-terrorist states. The fact that the Algerian president met twice with Bush in a four-month period did not harm Bouteflika's standing in the political system. By the same token, however, his personal image as primarily an active foreign policy president became even more pronounced.

Whatever the perception made of his role abroad, Bouteflika had an interest in seeing Algeria's institutions function with at least an appearance of normalcy. Restoration of stability implied that the normal cycle of elections should be carried out smoothly and without disruption during 2002. The continuing climate of dissidence in Kabylie complicated the enterprise, but rendered it all the more urgent to conduct parliamentary elections in the spring, as the term of the Popular National Assembly (APN) elected in 1997 came to an end. Although the APN has often been perceived as lacking full legislative powers, the election was a test of stability and of popular attitudes towards the regime. A high turnout would have been a positive sign for the political elite as a whole, whereas merely getting through the exercise without major allegations of fraud was a second-best but tolerable scenario. The regime ended up settling for the latter.

The key player in the electoral campaign was not the president, but rather his prime minister, Ali Benflis. He had taken on the position of secretary-general of the FLN in 2001. The former single party had come in third in the 1997 parliamentary elections behind the RND and the MSP/Hamas, with 16 per cent of the national vote and 69 seats in the 380-member chamber. Benflis campaigned actively throughout the country in May, and succeeded in leading his party to victory. The FLN won 35.2 per cent of the vote and a slight majority of 199 seats in the now 389-member assembly. The RND came in second with 47 seats, while the two Islamic parties, Hamas and El-Islah, had a combined total of 81 seats, the remainder going to minor parties and independents.

While the return of the FLN was the institutional outcome, the real story of the election was the low turnout. Only 46 per cent of the registered voters went to the polls on 30 May 2002 (in 1997, 65 per cent had voted). Some of this was attributable to the enforced boycott in Kabylie where, for example, less than 2 per cent of the people voted in the regional capital of Tizi Ouzou. Yet only 32 per cent of the people in Algiers bothered to vote, and the turnout in the city of Constantine was 41 per cent compared with almost 69 per cent in 1997. It appears evident that despite the exertions of 23 parties (and 123 lists of independent candidates), the population did not believe in the APN elections. As one observer put it, 'Clearly, this was a far cry from the energy and mobilisation that characterised Algeria's original introduction to political pluralism a decade earlier. Deepening political alienation and economic despair…have taken their toll.'[38] Whatever the reasons, the turnout was the lowest ever since Algerian independence. It suggests not only that the population does not see the APN as a significant institution, but moreover that it is disillusioned with the political class as a whole.

FOREIGN POLICY AND REGIME STABILITY

Since April 1999, Bouteflika has succeeded in leading Algeria to a more stable situation. This is not to say that he has largely fulfilled the hopes for reform that many Algerians vested in him. Rather, that the Bouteflika presidency has put an end to the downward spiral that began with the October 1988 riots and accelerated with the January 1992 cancellation of the electoral process. The renowned foreign minister of the Boumédienne era has turned the clock back, not to the halcyon days of the 1970s, but to the relatively stable situation of the mid-1980s, before oil prices descended and Islamic politics mounted. The rehabilitation of the FLN in the spring 2002 parliamentary elections marked what is in large measure a return to the status quo ante—modified to be sure by the end of the single-party system.

To the limited extent that Bouteflika has rendered the presidency more autonomous, he has achieved this first and foremost through international diplomacy. His experience and expertise lie in this domain: this is what he knows and does best. This chapter has demonstrated the extent to which he has defined himself as an active foreign policy president. In all likelihood, this is precisely one of the various missions that favoured his candidacy in 1999. In the early years of Algerian independence, Ben Bella and Boumédienne were committed to an activist foreign policy, because they believed that the country had something to teach to other developing states—that Algeria was a model. By 1999, Algeria had fallen from its earlier pedestal and was in danger of becoming virtually a pariah state. Bouteflika attacked the problem, as the political elite urgently desired him to do, and he made considerable headway in restoring Algeria's international status.

Success in diplomacy does not always ensure popularity at home. As suggested above, many Algerians have become disillusioned by the lack of progress in solving domestic economic problems. They looked for more than restoration of the status quo ante of circa 1988. Despite a healthy boost from rising energy prices, and despite the relative decline in rebel violence, Algeria's social problems remain and are popularly attributed to entrenched interests and to corruption in the elite.

It does, however, appear—contrary to some expectations—that Bouteflika will complete his term (unlike his predecessors of the 1990s, Benjedid, Boudiaf and Zeroual).

Already, potential candidates for the 2004 presidential election have begun to position themselves—Bouteflika included. One of his 1999 rivals, Mouloud Hamrouche, was, according to *Le Soir d'Algérie,* 'precampaigning' in the southern town of Biskra in October 2002.[39] Likewise, *El-Watan* did not consider it premature to ask in November 'Which president for the Algeria of 2004?', noting that the military establishment had once again declared that it would not take any position in future elections.[40] There was at the end of 2002 considerable speculation about the military's disenchantment with the president. Yet the presidency, whatever different people may think about the incumbent, does appear to have regained some measure of the stature that it had in the latter Boumédienne years. In this, Bouteflika has been faithful to his mentor.

A few months before Bouteflika assumed the presidency, Francis Ghilès observed that Algeria's capacity to redress its economic situation would depend greatly upon the turn that political events would take.[41] On balance, the turn to Bouteflika has proved a step in the right direction in terms of institutional stabilization. He has effected this move primarily via activism in the international arena. Indeed, the evidence suggests that the veteran foreign minister perceived his mandate as in large part the rehabilitation of Algeria's image abroad. In the long run, such a conception of the presidential role is not enough; as the axiom goes, all politics is local. The need to address popular grievances regarding privilege, maldistribution of wealth and obscure vested interests constitutes unfinished political business in Algeria. A genuinely popularly elected president will have to take the lead in this process. Bouteflika's foreign-policy-first formula has moved Algeria closer to that possibility.

NOTES

1. *Le Monde,* 11 April 2000.
2. I have discussed the election in 'Bouteflika and Algeria's Path from Revolt to Reconciliation', *Current History,* 99 (January 2000).
3. Luis Martinez, 'De l'élection présidentielle au referendum: la quête d'une nouvelle légitimité algérienne', *Maghreb-Machrek,* 168 (April-June 2000), p. 41.
4. *Jeune Afrique,* 2069 (5–11 September 2000).
5. Interview with *Paris-Match,* 9 September 1999, as cited in Gilbert Grandguillaume, 'Abdelaziz Bouteflika: premiers pas d'un president', *Maghreb-Machrek,* 166 (October-December 1999), p. 114.
6. Cited in *Jeune Afrique,* 2039 (8–14 February 2000).
7. Cited in José Garçon, 'Le Mystère Bouteflika', *Politique Internationale,* 85 (autumn 1999), p. 407.
8. Cited in Grandguillaume, 'Abdelaziz Bouteflika', pp. 112–13.
9. Garçon, 'Le Mystère Bouteflika', p. 402.
10. Grandguillaume, 'Abdelaziz Bouteflika', p. 115.
11. Ibid.
12. Speaking abroad shortly after the Reuters episode to a forum of potential investors, Bouteflika referred to the matter of choosing the government as a 'political minefield', *MaghrebMachrek,* 167, p. 60.

13. A former minister of energy and head of President Zeroual's staff, Yousfi was a member of the RND. *Le Monde* described him as a 'proche du president', 30 December 1999.
14. See, however, the interview with Ahmed Ouyahia, the minister of justice (and minister of state), on the theme 'Dépoussiérons le système judiciaire', *Jeune Afrique,* 2052 (9–15 May 2000).
15. Chérif Ouazani, 'Benbitour marque son territoire', *Jeune Afrique,* 2065 (8–14 August 2000), p. 42.
16. *Le Monde,* 29 August 2000. Simon Malley used the term 'presidential government' to characterize the changes; see 'Un atout nommé Ali Benflis', *Afrique-Asie,* 133 (October 2000), p. 24.
17. In May 2001, Bouteflika removed Benachenou from the position of minister of finance, replacing him with Mourad Medelci, until then minister of commerce. Temmar took over at commerce at this point; *Le Monde,* 2 June 2001.
18. See his portrait in Cherif Ouazani, 'Pleins feux sur… Larbi Belkheir, Un homme d'influence', in *Jeune Afrique, L'Intelligent,* 2155–6 (29 April–12 May 2002), pp. 64–70.
19. Abdelkader Messahel was named to this position. See the interview with him, 'Un ancrage africain profond', *El-Watan,* 14 March 2001. As further evidence of Algeria's African diplomacy, see the lead article in the special section of *Le Monde* devoted to Algeria on 5 September 2002, entitled 'Sur le devant de la scène africaine'.
20. See the front-page headline 'Algérie-France: l'Effet Bouteflika', *Le Monde,* 17 June 2000.
21. Emile Malet, 'Ce que m'a dit Bouteflika', *Passages,* 103 (June-August 2000), p. 5. Malet's organization, Forum International 'Passages', promotes contacts between businesspeople, politicians and academics. Some 200 personalities from the worlds of business, politics and the media attended the event on 15 June 2000.
22. Extracts from Bouteflika's speech to the French National Assembly; *Le Monde,* 17 June 2000.
23. Inevitably, Bouteflika faced the matter of his relations with the military. In response to a question, he replied, 'Why do you insist on raising that question regarding Algeria? In every country in the world, including France, there are civil-military relations. The Algerian National Popular Army is the pillar, the fulcrum of the nation-state, it saved the Republic. No one has ever taken me for a dish-rag, my marriage with the army is a happy one. Let's stop talking about a false problem.' *Le Monde,* 17 June 2000.
24. 'Le signal d'alarme de Bouteflika à l'ONU', *Afrique-Asie,* 133 (October 2000), pp. 26–8.
25. Garçon, 'Le Mystère Bouteflika', p. 413; Florence Beaugé, 'Après un an de "concorde civile", le terrorisme est encore très present en Algérie', *Le Monde,* 14 July 2000.
26. *Le Monde,* 1 June 2000.
27. 'Bouteflika n'a pas l'air pressé de se débarasser des mafias qui gangrènent cet Etat', *El-Watan,* 23 November 2000.

28. Often attributed to the assassinated president, Mohamed Boudiaf, the term was 'very much in vogue in 1992 [to] designate the multiple networks orbiting around the power centre', according to Abed Charef, *Algérie: le grand dérapage* (Paris: Editions de l'Aube, 1994), p. 336.
29. Beaugé, 'Le gouffre se creuse entre le pouvoir et le peuple algérien', *Le Monde,* 14 March 2001.
30. The Kabylie crisis began on 18 April 2001 when a high school student named Massinissa Guermouh was killed in a gendarmerie station in Beni Douala, a small town about 12 miles from the regional capital, Tizi Ouzou. The teenager had been arrested during a banal incident between the driver of a car and a group of youths. It was reported that a gendarme's gun went off, presumably by accident, killing the boy and setting off an explosion of anger and rioting. The Ministry of the Interior later announced an official toll of 42 persons killed (of whom one was an officer in the gendarmerie) as a result of confrontations between violent demonstrators and the local security forces; *Le Monde,* 3 May 2001.
31. See the interview with Saïd Saadi, leader of the RCD, in *Le Monde,* 3 May 2001, as well as that with Hocine Ait Ahmed of the FFS in the 4 May 2001 edition.
32. *Le Monde,* 29 May 2001.
33. Nesroulah Yous, *Qui a tué à Bentalha? Algérie: chronique d'un massacre annoncé* (Paris, 2000); and Habib Souaïdia, *La sale guerre: Le témoignage d'un ancien officier des forces spéciales de l'armée algérienne* (Paris, 2001).
34. See for example two letters from the Algerian ambassador to France, Mohamed Ghoualmi, disputing and critiquing the books' claims, *Le Monde,* 21 November 2000; *Le Monde,* 13 March 2001.
35. *El-Watan,* 20 June 2001.
36. See for example *El-Watan,* 14 August 200.
37. One of Bouteflika's objectives during this visit to the United States was to acquire nightvision equipment for use in the military's continuing battle with the remaining terrorist bands. About a year later, the Bush administration announced that it would sell such weaponry to the Algerian government; see *New York Times,* 10 December 2002. On the visit, see Yahia Zoubir, 'Algeria and US Interests: Containing Radical Islamism and Promoting Democracy', *Middle East Policy,* 9, 1 (March 2002), pp. 78–81.
38. International Crisis Group, 'Diminishing Returns: Algeria's 2002 Elections', <www.crisisweb.org>; this source contains a thorough analysis of the campaign and the official results; see also chapter eleven in this volume.
39. *Le Soir d'Algérie*, 29 October 2002.
40. *El-Watan*, 24 November 2002. The influential Major-General Mohamed Touati, generally viewed as the army's intellectual leader, has stated that the army should not be implicated in the 2004 election.
41. Francis Ghilès, 'L'armée a-t-elle une politique économique?', *Pouvoirs,* 86 (September 1998), p. 105.

CHAPTER 11
The 2002 Algerian Parliamentary Elections: Results and Significance

AHMED AGHROUT

The 2002 parliamentary elections were the third to be held since the introduction of multipartism in 1989. In fact, the first ones were organized in December 1991, but the result was cancelled in January 1992. Since then, the ‘restoration of the electoral process has been a central issue in Algerian politics’,[1] but it took more than five years before legislative elections were called again in June 1997. If the aborted experience of late 1991 is excluded, the 1997 elections were to mark the first multiparty electoral process to have properly taken place in Algeria.

Some 23 political parties and 1,266 independent candidates (represented in 123 lists) contested the 2002 elections. Unlike 1997, the results of the 2002 polls were generally viewed as credible by many close observers. Furthermore, the outcome not only produced a reconfiguration of the political landscape, with new and/or different winners and losers, but also, more importantly, served as a medium through which voters expressed their protest against the failings of the political elite to address many of their demands adequately, not least their socio-economic grievances.

This chapter begins with a brief background outlining the country’s political development since 1989. It then examines the results of the elections in terms of performance of the various participating parties, the effect on existing political configuration and the extent of voter turnout. It also attempts to assess the potential for future democratic development, and concludes with a number of challenges facing the new legislature.

MOVE TOWARDS POLITICAL PLURALISM

The 1980s were to mark a decisive period in the economic and political history of Algeria. In addition to some economic reforms—albeit neither sufficiently substantive nor wide-ranging by market economy standards—‘ground-breaking’ political changes also took place. During this period the country’s single-party regime had come in for criticism, arising from the escalating mixture of economic, social and cultural problems.[2] This culminated in the October 1988 riots, described as the most violent social upheaval since independence. These events triggered a series of political reforms that, in retrospect, appear as a political watershed. They led to the liberalization of the political system and the legalization of a wider range of political organizations.

The opening up of the political system was formalized when a new constitution, put to the electorate, was endorsed by 73.4 per cent of voters. One of its most significant innovations was the abandonment of what was until then an irreversible commitment to socialism. Also important was the ending of the National Liberation Front's (FLN) monopoly of political power by separating it from the state. More freedoms of expression, association and organization were recognized together with the right to form 'associations of a political character'. This right 'permitted the subsequent establishment of a multiparty system, thus terminating the hegemony of the FLN and making the latter 'a party like any other'.[3] Later, a law passed on 5 July 1989 laid down the rules by which these political organizations or parties could be officially legalized. As this ended 27 years of single-party rule, so that multipartism was becoming a reality. By June 1990 about 20 political parties had been established, rising to 60 by 1992.[4]

With these political and constitutional changes, Algeria seemed, at the time, to be an interesting and promising case of transition from an authoritarian to a democratic system. But the multiparty elections—municipal and provincial in June 1990, and the first round of legislative elections in December 1991—resulted in a stalemate when the whole process was brought to a halt. The outcome of this could be seen by the beginning of 1992. President Benjedid resigned and a provisional council, the High State Committee, was set up to manage state affairs over a transitional period (January 1992-January 1994). The subsequent escalation of violence caused considerable damage to several socio-economic infrastructures and the loss of thousands of lives.[5] Yahia Zoubir observed that in the aftermath of the cancellation of elections, 'the Algerian regime lacked any strategy to overcome the ensuing political crisis. The weakness of the regime led to an intensification of violence that almost destroyed the state in 1993–95.'[6]

Given the cycle of violence and its destabilizing effect on the country's institutions, initial attempts were made on both sides of the political establishment—government and opposition—to find a concerted solution to the crisis. These proved unsuccessful. The failure demonstrated the difficult task of reconciling the various, or perhaps more accurately, the divergent stances not only within the opposition, but also between it and the government. The terms set by the government to prepare the ground for a transitional period in which most opposition parties would be involved, were met with scepticism and even distrust. Likewise, little or nothing resulted from the regime's official reaction to the so-called Platform for a Political and Peaceful Solution to the Algerian Crisis, endorsed by a number of opposition parties in their Sant'Edigio meeting in Rome in January 1995. Among the proposals in this Platform was the call to respect a multiparty system, and for the resumption of the political process through free and pluralist elections and the rehabilitation of the banned Islamic Salvation Front (FIS), a demand that the regime refused to countenance.[7]

A positive trend started with the holding of the first ever multiparty presidential elections in November 1995, which saw Liamine Zeroual elected with 61 per cent of the votes cast.[8] A close observer remarked that 'after the relatively peaceful election, hope arose that Algeria finally was on its way toward authentic redemocratization'.[9] The election gave Zeroual the mandate to revive dialogue with political forces, with a view to restoring stability and preparing for legislative and local elections. In the meantime, new amendments to the 1989 constitution were introduced after the referendum of 28 November 1996. These changes were mainly concerned with establishing a bicameral legislature, a provision to revise the legislation on political parties and elections, and a redefinition and strengthening of presidential powers.[10]

The legislative elections were also preceded by the creation of a new political party, the National Democratic Rally (RND).[11] The considerable support it enjoyed from the administrative apparatus led Zoubir to comment: ‘Few therefore doubted that, in spite of its recent creation, the party would garner a major share of the June votes.’[12] As predicted, the RND managed to poll one-third of the vote and to obtain about 40 per cent of the seats. In spite of the many irregularities complained of, the party had to join a coalition with other political groups, including the Islamists, to govern in what was an incipient multiparty political system.

Nearly three years after his election, in September 1998, Zeroual announced his resignation. His stepping down from office was motivated by what he considered to be the need ‘to accelerate the democratization process and strengthen the institutions of the state’. Whatever one makes of this statement, one plausible explanation for his resignation might be the constraining environment that made it difficult for him to carry on with his policy of institutional consolidation. New presidential elections were organized in April 1999, with seven contenders in the race. On the eve of polling, six of them withdrew from the campaign, claiming proof of electoral fraud. The sole remaining candidate, Bouteflika, was elected president after winning almost 74 per cent of the vote, according to official figures.

The assumption of power by Bouteflika was to have two major positive implications. First, in contrast to the isolation that characterized the country over the previous decade, Bouteflika’s presidency brought Algeria back on to the international scene with a more assertive role. Second, the initiation of a process of national reconciliation, after a referendum in September 1999, substantially reduced the cycle of violence and somewhat improved security and stability. However, on the economic and social fronts, no significant progress was made in addressing the people’s needs. It was in this environment of popular discontent, including the protest movement in the Kabylie region, that Algeria’s voters were called to the polls to elect a new assembly in May 2002.

THE FLN RETURNS TO CENTRE STAGE

One of the most noteworthy features of these elections is what is seemingly regarded as a large victory for the FLN (see Table 11.1). The results gave this party 199 seats, thus securing more than 50 per cent representation in the 389-seat National Assembly; a significant improvement on the 1997 elections when it had only held 64 seats. This was an impressive comeback—described as ‘a second life’—for a party that, after its 28-year monopoly of power had been ended by the official recognition and establishment of independent political parties more than a decade previously, had not only seemed discredited, but in complete disarray.

The FLN success can be attributed to changes the party underwent under the leadership of Ali Benflis, who cashed in on his reputation as a modernizer, representing the forward-looking reformist wing within the party. The promotion of a new generation of young educated militants, including more women,[13] gave the party fresh blood and transformed its image from one associated with the old guard and its decades-long mismanagement of the country's resources. The election campaign also paid off by focusing on large projects that the party pledged to implement and that included, among other things, the need to restore peace by ending the cycle of violence and the promotion of regional development programmes to benefit, in particular, the large numbers of unemployed youth.[14]

TABLE 11.1 RESULTS OF THE 2002 PARLIAMENTARY ELECTIONS

Party	Votes (total)	Votes (%)	Seats
National Liberation Front (FLN)	2,618,003	35.3	199
National Democratic Rally (RND)	610,461	8.2	47
Movement for National Reform (El-lslah) (MRN)	705,319	9.5	43
Movement of Society for Peace (MSP/Hamas)	523,464	7.0	38
Independents	365,594	4.9	30
Workers' Party (PT)	246,770	3.3	21
Algerian National Front (FNA)	113,700	1.5	8
Movement for Islamic Renaissance (MRI-Ennahda)	48,132	0.7	1
Party of Algerian Renewal (PRA)	19,873	0.3	1
Movement for National Entente (MEN)	14,465	0.2	1

Source: Journal Officiel de la République Aigérienne (JORA), 43 (23 June 2002), p. 13.

There is also evidence that the FLN would not have done as well if the performance of the RND, the other nationalist party, had not been so disastrous. With the largest share of the vote, 33.7 per cent (155 seats), in the previous assembly, the RND saw its support drop to a mere 8.2 per cent (47 seats).[15] Although in second position after the FLN in terms of share of seats,

TABLE 11.2 COMPARING THE 1997 AND 2002 PARLIAMENTARY ELECTIONS IN ALGERIA

Party	1997		2002		Changes (Seats)
	Votes (%)	Seats	Votes (%)	Seats	
RND	33.7	155	8.2	47	−108
MSP	14.8	69	7.0	38	−31
FLN	14.3	64	35.3	199	+135
Ennahda	8.7	34	0.7	1	−33

FFS	5.0	19	–	–	–
RCD	4.2	19	–	–	–
Independents	4.4	11	4.9	30	+19
PT	1.9	4	3.3	21	+17
MRN	–	–	9.5	43	–
FNA	–	–	1.5	8	–
PRP	0.6	3	0.8	0	−3
UDL	0.5	1	0.6	0	−1
PSL	0.4	1	–	–	–
MEN	–	–	0.2	1	–

Source: JORA, 40 (11 June 1997) and 43 (23 June 2002).

it emerged as the biggest loser in these elections (see Table 11.2). The FLN has assuredly capitalized on the growing unpopularity of the RND.[16] As an observer put it: ‘The mounting social crisis and the increased hardships of ordinary Algerians in recent years will have done nothing to help the standing of the RND.’[17] In addition, the RND experienced internal frictions and conflicts prior to the elections that led some of its militants to defect to the FLN, or, in some instances, to stand for independent lists. Its campaign, designed and for the most part conducted by its leader, Ahmed Ouyahia, made little headway in reaching out to the electorate. Ouyahia’s repeated insistence on the potential return of the ‘fundamentalist threat’ *(péril intégriste)* and his appeal for massive party backing to face it, appears not to have attracted voters. Moreover, on sensitive questions such as support for sweeping privatization of state-owned companies and public land, the campaign may not have worked to the party’s advantage.[18] Nor has the government’s track record been largely dominated by his party. This electoral defeat may herald an uncertain future for the RND, which, some claim, has had its day. With the FLN back in power and having drawn many voters from it, its *raison d’être* has become questionable.

The other losers in this electoral consultation were the two moderate Islamist parties: the Movement of Society for Peace (MSP, also known as Hamas) and Movement for Islamic Renaissance (Mouvement pour la Renaissance Islamique; MRI-Ennahda). The MSP enjoyed the second largest representation in the previous assembly, with 14.8 per cent of the vote (69 seats), but could manage only 7 per cent (38 seats) in 2002. Ennahda’s own performance was nothing short of an electoral debacle. The party won only one seat, having held 34 in the previous legislature.[19] Its share of the vote, which was 8.7 per cent in 1997, fell to less than 0.7 per cent in 2002.

It is clear that these two parties have over the years lost much of their credibility.[20] The decline they have been experiencing is in large part imputed to their Janus role of being both in the opposition and part of the coalition government (referred to as ‘parties with two faces’). It was this ambiguous position that much of the public, and especially those who voted for them in 1997, did not appreciate, especially as their participation amounted to only a few minor cabinet seats without real political weight. The case of Ennahda is a clear example. Indeed, it had started to do badly after the eviction in 1998 of Abdallah Djaballah, its founder and leader, who tried to resist any involvement in the coalition government. Hence the election results for these two parties were a clear expression of the electorate's disillusionment. Voters clearly sided more strongly with the opposition front, represented almost exclusively by the Movement for National Reform (Mouvement pour la Réforme Nationale; MRN-El-Islah), the new party founded by Djaballah in 1999.

El-Islah did best, as it received 9.5 per cent of the vote (43 seats)—a result that made it possible for the party to emerge as the largest Islamist movement and the third political force in the new assembly. Of course, one should not lose sight of the fact that El-Islah's impressive performance in the elections is very much linked to its leader's credentials. Djaballah is known for his firm stance on remaining in opposition and his refusal to take part in the coalition government, a position reinforced by what is reasonably conceded to be the unproductive government experience of the other Islamist parties (MSP and Ennahda). Perhaps from Djaballah's perspective opposition is preferable, as this entails less public accountability than joining a government where participation would simply amount to a marginal role and, in the event of an unsatisfactory performance, more blame.[21] In practice, a position of this sort has proved valuable to him and his new organization. First, after his forced departure many militants and sympathizers deserted Ennahda to rally to his cause and support him. Second, a substantial part of the disenchanted electorate, in particular those who previously voted for parties such as the MSP and Ennahda, switched their preference to Djaballah's organization as the more credible of the Islamist parties.

Besides El-Islah, another unexpected winner was the Workers' Party (PT) led by Louisa Hanoune.[22] The PT obtained 21 seats (only four seats in 1997), a success mirrored in its electoral standing, which rose from 1.9 per cent to 3.3 per cent. However, this party is far from being a major political force in the Algerian multiparty system. There is no doubt that its outspoken criticism of, and opposition to, the government liberalization programme had boosted the party's electoral fortunes. Voters who have had to bear the brunt of this policy in terms of lay-offs and deteriorating living conditions may have found in the PT an echo of their frustration and discontent. On the other hand, Hanoune's party also benefited from the boycott of the elections both by the Socialist Forces Front (FFS) and the Rally for Culture and Democracy (RCD), which, like the PT, are viewed as representing the 'secular-democratic' wing.[23]

Finally, the elections produced other results that were unpredicted, especially those related to the Algerian National Front (Front National Algérien; FNA) and the independent candidates. The FNA, a recently formed political party, surprised many by its electoral success in managing to obtain eight seats in an election it was contesting for the first time. On the other hand, the independents, representing different socio-professional and political backgrounds, increased their seats to 30, well up on the 11 they won in 1997. However, they remain a far from homogeneous bloc within the assembly.

AN UNALTERED POLITICAL CONFIGURATION

The results of the elections have for the most part affected only the balance of power within, and not between, the main political camps in the parliament. Put differently, these elections have by and large consolidated the position of the already dominant political formations. Within the nationalist camp,[24] the RND's defeat has primarily benefited the FLN, which secured a comfortable majority. Together, the two parties held 219 seats in the previous assembly, compared to 254 seats in the 2002 one, including the eight seats won by the FNA. This parliamentary success masks a small decline in their combined share of valid votes cast, from 48 per cent to 45 per cent.

Similarly, within the Islamist group there has been no significant change, with the respective political parties holding on to their positions.[25] There is no doubt that the balance of power shifted within their ranks, but not to the point of meaningfully modifying their standing in the parliament. Yet, both their electoral support and share of seats dropped from 23.5 per cent to 17.2 per cent, and from 103 seats to 82 seats respectively. The loss of 21 seats weakens their position *vis-à-vis* the nationalist formations. The government that resulted from the 1997 parliamentary elections saw the Islamist parties serve in what was considered an attempt to construct a wider coalition. This time it was not the case,[26] and with the FLN's new 'hegemony', these parties are 'symbolically confined to a position of dispensable ally'.

With the FFS and the RCD having not only boycotted, but also led a campaign to convince the electorate to abstain, the outcome of the elections has in the main preserved the status quo, that is, a parliament almost exclusively dominated by nationalist and Islamist formations. It would be interesting to know what the configuration of the assembly would have looked like had these parties and other 'democratic' forces decided to take part in the elections.[27] However, it should be borne in mind that these 'democratic forces are simply too divided and have too little anchorage in society at large to represent any true political alternative in the electoral race'.[28] Their meeting in January 2003—with the participation of the Republican National Alliance (ANR), the Social and Democratic Movement (MDS) and Citizens' Committee for the Defence of the Republic (CCDR)—raised the issue of the lack of a common strategy to carry their objectives through, despite sharing universal values such as democracy, liberty, progress and so forth. Acknowledging their limited social mobilization, these parties planned to convene in April 2003 a 'Forum on Citizenship' with a view to rebuilding their image and opening up to other social forces.[29] Whether this reflected a real attempt at addressing their marginal role in the country's political life, or merely party positioning for the 2004 presidential elections, was uncertain as the Forum was not held.

ELECTORAL TURNOUT

Prior to the elections an opinion poll, conducted by the independent pollster Acom on 2 and 7 March 2002, revealed that almost half of the electorate (48.8 per cent) believed that no political party could solve the country's problems.[30] Similarly, another survey, carried out in November 2000, found that 42.8 per cent of the interviewees responded ‘none’ to the question, ‘Which politician can best resolve the crisis?’[31] The election results largely confirmed these poll findings.

Indeed, what characterized recent elections was this mixture of anger and more particularly apathy. Evidence of anger was expressed by way of an almost total boycott in the Berber region of Kabylie. In some of this region’s electoral districts, the boycott extended to the use of violence to prevent electors from casting their vote. In both Tizi Ouzou and Bejaia districts most of the polling stations were closed just one hour after they had opened.[32] Given these circumstances, a low turnout was to be expected.

In addition, the apathy was evident at the polling booths, where turnout was the lowest since the introduction of multiparty politics, and even since the country’s independence. About 46.2 per cent of the nation’s nearly 18 million registered voters cast ballots, and more than 10 per cent were spoilt.[33] In retrospect, the rate of participation of the 1997 parliamentary elections was much higher, standing at 65.6 per cent. In electoral districts such as Tizi Ouzou and Bejaia, the participation rates were respectively 1.8 per cent and 2.6 per cent because of boycotts and violence on polling day. In the other electoral districts, where there was no threat of violence, the turnout ranged between 31.9 per cent in the capital Algiers (with more than 1.7 million registered voters) and 88.4 per cent in the small district of Tindouf (with 41,142 registered voters). Within this range there were significant variations, with a predominantly low turnout in major electoral districts: Constantine (41.4 per cent), Blida (44.5 per cent), Batna (43.9 per cent), Sétif (50.3 per cent), Oran (53.2 per cent) and Tlemcen (57.6 per cent).[34]

Judging by the election results it is clear that the low turnout, as a form of protest vote, is a reflection of disillusionment with both parties and politicians. As the elections took place against a background marked by social protests, dominated for the most part by socio-economic demands, it was predictable that the electoral process would serve as an opportunity for expressing this popular disaffection. Thus, in many respects, these elections point to the difficult task ahead in mobilizing popular support if public expectations continue to be inadequately dealt with; an issue that is indisputably decisive for maintaining the country’s apparently restored stability and realizing the potential for eventual democratization.

PROSPECTS FOR DEMOCRATIC TRANSITION

The end of the 1990s set Algeria on a path of important political transformations that, despite the blockage of early 1992, did not amount to a lost opportunity. The fact remains that the dynamic released by these changes has engendered a process the complete reversal of which would prove very costly. While not suggesting that Algeria is a ‘normally functioning multiparty democracy’, it is, however, safe to state that the country’s transition to democratic rule does not look as pessimistic as in the early years of the 1990s.

Before reviewing some of the signs that justify this optimistic view, it is worth starting with a number of points that may help understanding of the complex issue of democratic transition. While overall there is an agreement about the values underpinning democratic politics (such as civil and political liberties and effective political participation), some analysts have cautioned against presuming that 'all democracy must necessarily follow a Western liberal democratic model'. Their argument is that, 'Whenever and wherever it operates, democracy is fundamentally shaped by the historical and cultural context out of which it emerges.'[35] It is also the case that even in what are considered to be liberal democracies, there are instances of important imperfections affecting their democratic functioning. In addition to 'serious flaws in their guarantees of personal and associational freedom', wrote Larry Diamond, 'ongoing practices…underscore that even long-established and well-institutionalized democracies…are afflicted with corruption, favouritism, and unequal access to political power, not to mention voter apathy, cynicism, and disengagement'.[36] Thus, even the mature form of democracy that has been attained so far is not immune to or exempt from deficiencies, and its shortcomings should by no means be understood as a denial or an underestimation of what has been achieved. Imperfections and practices are also common in situations of democratic transition. Yet they need not endure, since democracy is not static, but is a 'developmental phenomenon'. Considered from this perspective, 'continued democratic development is a challenge for all countries…; all democracies, new and established, can become more democratic'.[37]

Authors such as Richard Sklar and Larry Diamond have argued that democracy is fundamentally an evolutionary process, and are of the view that it 'emerges in fragments or parts, by no fixed sequence or time table'.[38] A point that seems to be shared with other authors who, focusing on the experiences of the Arab world, have suggested that 'analysts must look not only for dramatic shifts and transformations, but also for extended struggles and incremental change. Indeed, processes of change are unlikely to be either unilinear or unidirectional.'[39] The argument here is that aspects or parts of a democratic system, such as 'the presence of legal opposition parties, which may compete for power and win some seats in parliament, and of greater space for civil society constitute important foundations for future democratic development'.[40]

In the Algerian context, the issues discussed above are relevant. While Algeria shares a number of common problems with other countries' experiences of democratic transition, it is nevertheless its own particularities that have shaped and will continue to shape its political development. Some of the problems found in the most advanced democracies, such as voter apathy and political disengagement, have also affected Algerian politics. The 2002 legislative elections bore witness to an emerging culture of cynicism and citizen disengagement from the political process. Certainly these problems raise serious concerns, but the most important question remains how effectively they are addressed. This, in turn, reflects the political establishment's degree of responsiveness and its readiness to introduce changes or additional reforms. It is therefore on the basis of this responsiveness that a reliable judgement could be made about the direction of the transition process.

In the aftermath of the aborted 1992 elections, it can be observed that attempts have been made to rebuild the state's institutions and restore some legitimacy to them. Since 1995 presidential, legislative and local elections have been held to establish institutions that would contribute to resolving, or at least easing, the political crisis and eventually to providing the framework 'for a properly working pluralistic democracy'.[41] There were claims that some of the elections were marred by fraud, but it seems that this is less and less the case, as evidenced by the 2002 legislative elections. The establishment of democratically elected institutions, including a pluralistic parliament, appears to signal the regime's determination to put the process of transition on the right track. Assuming that this determination is sustained and that the political forces positively exploit the momentum for change, an environment conducive to democratic development could be fostered.

Another potential support to the cause of transition towards democracy is civil society. This is believed to assist the advance of democracy in two generic ways: 'by helping to generate a transition from authoritarian rule to (at least) electoral democracy and deepening and consolidating it once democracy has been established'.[42] To be sure, civil society in Algeria has not reached the stage where one can talk of democracy deepening and consolidating its functions. However, it may be possible to assert that even in a rudimentary form, expressions of a civil society played a remarkable role in the events (strikes, protests and riots) leading to the opening up of the political system in 1989.[43] Whether it was the decisive force that compelled the regime to liberalize, or a factor that enabled some reformers within the regime to press ahead with their reform agenda is another matter. Yet, when taking into account the then prevailing mood for reforms, it is plausible to consider that the popular upsurge provided the needed push. The aftermath of the opening up of the political system saw the proliferation of a vast array of autonomous associations and organizations, as well as an increasingly independent media. This emerging civil society has continued to function, despite the restrictive conditions placed on its space. While the degree of tolerance may have affected the extent of civil activities, it has not prevented activists, at times of political crisis, from denouncing certain undemocratic practices or pressuring the regime to make political concessions. By and large, the basic function to be performed by civil society in promoting the transition to democracy is to provide 'the basis for the limitations of state power, hence for the control of the state by society, and hence for democratic political institutions as the most effective means of exercising that control'.[44] With the political situation in Algeria gradually moving away from the post-1992 stalemate, this can only contribute to strengthening this nascent civil society's resilience: first to developing and acquiring more space for organization outside the auspices of the state, and second, to championing the cause of democratic transition by making the rulers more responsive and accountable.

CONCLUSION

The 2002 parliamentary elections gave rise to no major controversy, whether about their conduct or their results. As such, they should be appreciated in a country striving to rebuild its institutions and to give them a measure of popular legitimacy. However, as the results have revealed, these elections could well indicate an emerging culture of citizen disengagement from, and cynicism about, the political process as it stands today. In other words, this lack of interest is suggestive of disenchantment with the political class, which is perceived to have been too unresponsive to many of society's problems.

The challenge, therefore, is to win over the disaffected, something that will inevitably have a bearing on the country's immediate and future developments. The speed and means by which these demands—be they socio-economic or even political and cultural—are addressed will prove crucial. They condition the restoration of public trust and credibility in the state's institutions and the degree of mobilization of popular support, all of which are essential ingredients for a smooth transition in the right direction. Without an adequate response, it is hard to imagine how the regime could manage the process of change, since its failure to act decisively will be strongly resisted.

NOTES

1. Robert Mortimer, 'Algeria: The Dialectic of Elections and Violence', *Current History,* 96 (May 1997), p. 231.
2. For further details about these problems, see Keith Sutton, Ahmed Aghrout and Salah Zaimeche, 'Political Changes in Algeria: An Emerging Electoral Geography', *Maghreb Review,* 17, 1–2 (1992), p. 5.
3. Yahia H.Zoubir, 'State and Civil Society in Algeria', in Yahia H.Zoubir (ed.), *North Africa in Transition: State, Society, and Economic Transformation in the 1990s* (Gainesville: University Press of Florida, 1998), pp. 35–6.
4. Ibid., p. 36; Sutton, Aghrout and Zaimeche, 'Political Changes', p. 7.
5. The most recent official figures estimate the loss of life at 50,000.
6. Zoubir, 'State and Civil Society', p. 39.
7. For a detailed account on this Platform, see Mortimer, 'Islamists, Soldiers, and Democrats: The Second Algerian War', *Middle East Journal,* 50, 1 (Winter 1996), pp. 35–8.
8. The other candidates were Mahfoud Nahnah (25 per cent), Said Saadi (10 per cent) and Noureddine Boukrouh (3 per cent).
9. Phillip C.Naylor, *France and Algeria—A History of Decolonization and Transformation* (Gainesville: University Press of Florida, 2000), p. 230.
10. For Mortimer, 'The significance of Zeroual's constitutional revision was to neutralise the legislature by extending presidential prerogatives'; 'Algeria', p. 233.
11. The RND was formed in a bid to support former President Zeroual's programme.
12. Zoubir, 'State and Civil Society', p. 40.
13. There are 24 women in the new assembly, approximately 6.2 per cent. The parties with female representation are the FLN (17), PT (3), RND (2), El-Islah (1) and the Independents (1); <http://www.apn-dz.org/french/index.htm>, accessed 10 January 2003.
14. Details about the FLN electoral platform (referred to as the 12 commitments of the FLN party) can be found at <http://www.pfln.org.dz/sommairef.htm>.
15. Indication of the party's decline can also be appreciated by measuring its performance at the level of the 48 electoral districts (called vilayets). In 11 districts the RND obtained no seats at all, whereas it used to hold 33 seats. In another 31 districts it could achieve only one seat in each, contrasting with 90 seats previously held in these districts. In the remaining six districts its score ranged from two and four seats (15 seats in total) compared with 25 seats previously.

16. In 1997 more than 3.5 million people voted for the RND. In 2002 this was merely 0.6 million. In other words, the party appears to have lost nearly three million voters. The picture is more or less proportionally similar as far as the MSP (from 1.5 million to 0.5 million) and Ennahda (from 0.9 million to 50,000) are concerned. By contrast, the FLN saw its voter support increase from 1.5 million to 2.6 million.
17. *Middle East International*, 677 (14 June 2002), p. 15.
18. The General Union of Algerian Workers (UGTA), the most important and influential trade union in the country, was among other organizations that initially supported the RND. Because the UGTA was strongly opposed to an all-embracing programme of privatization, this has most likely led it to change allegiance to the FLN, whose economic programme is considered less radical.
19. Even its leader, Lahbib Adami, who stood in Khenchela district (his own constituency), was not re-elected and therefore lost his seat, most likely to one of the MEN (Movement for National Entente) candidates.
20. With the death of its leader, Mahfoud Nahnah, the MSP may experience problems in regaining some of the credibility it lost following these elections and in the subsequent municipal and provincial elections of 10 October 2002 (7.4 per cent of the vote). Of the problems concerning leadership succession, the most important would be to find a successor with the charisma of the late leader.
21. See Djaballah’s interview published in *El-Watan*, 23 June 2003.
22. A secular party with a Marxist ideological orientation.
23. The leader of the PT, Louisa Hanoune, vigorously criticized the boycott of the FFS and the RCD, which she regarded as destructive and detrimental to the country’s unity.
24. The ‘nationalist’ camp includes the FLN, the RND and, quite recently, the FNA.
25. The ‘Islamist’ group was originally represented by two political formations, the MSP and Ennahda, and now includes an additional formation, El-Islah.
26. Within the Islamist political parties, only the MSP was represented in the government of Benflis, with three ministerial departments.
27. The so-called democratic formations include the FFS, RCD, PRA, ANR (Republican National Alliance), MDS (Social and Democratic Movement), and the CCDR (Citizens’ Committee for the Defence of the Republic).
28. Yahia H.Zoubir, ‘Democratic Elections with Fraudulent Results?’, <http://www.ibnkhaldun.org/newsletter/1999/june/essay2.html>, accessed 2 February 2003.
29. ‘Crise latente au sein des partis démocratiques’, *El-Watan*, 19 January 2003.
30. About 20 per cent expressed their preference for the FLN and the rest were split among the remaining parties.
31. The survey also showed that 27 per cent of interviewees put their faith in the incumbent president, Abdelaziz Bouteflika.
32. Some 705 out of 880 and 455 out 488 polling stations in Tizi Ouzou and Bejaia respectively were closed according to the ministry of interior; see *Le Matin*, 1 June 2002.
33. Some party leaders, especially those representing parties that boycotted the elections, claimed that even this rate of participation was inflated. For Ahmed

Djeddai and Said Saadi, respectively first secretary of the FFS and leader of the RCD respectively, this rate has in reality not exceeded 20 per cent at most; see *El-Watan*, 1 June 2002. However, these claims remain to be proved and, as such, should not be taken for granted.

34. These are districts with a number of registered voters exceeding 500,000.
35. Rex Brynen, Bahgat Korany and Paul Noble (eds), *Political Liberalization and Democratization in the Arab World* (Boulder, CO: Lynne Rienner, 1995), p. 4.
36. Larry Diamond, *Developing Democracy—Toward Consolidation* (Baltimore, MD: Johns Hopkins University Press, 1999), p. 17.
37. Ibid., p. 18.
38. Richard L.Sklar, ‘Development Democracy’, *Comparative Studies in Society and History*, 29, 4 (1987), pp. 686–714; Sklar, ‘Towards a Theory of Development Democracy’, in Adrian Leftwich (ed.), *Democracy and Development: Theory and Practice* (Cambridge: Polity Press, 1996), pp. 25–44; Diamond, *Developing Democracy*.
40. Diamond, *Political Liberalization*, p. 16.
41. Youcef Bouandel, ‘The presidential election in Algeria, April 1999’, *Electoral Studies*, 20 (2001), p. 158.
42. Diamond, *Development Democracy*, p. 233.
43. Sutton, Aghrout and Zaimeche, ‘Political Changes’, pp. 5–7.
44. Samuel P.Huntington, ‘Will More Countries Become Democratic?’, *Political Science Quarterly*, 99, 2 (1984), p. 204; quoted in Diamond, *Developing Democracy*, p. 239.

CHAPTER 12
Demographic Transition, Population Trends and Social and Environmental Conditions in Algeria

KEITH SUTTON and SALAH ZAIMECHE

REGIONAL FERTILITY DECLINE IN THE MAGHREB

By 2000 Algeria's population had reached 30 million, about 2.5 times what it had been at the time of the first post-independence census in 1966. Moreover, this size had been achieved ahead of the neighbouring and sometime rival state of Morocco. However, both countries had experienced a remarkable decade of fertility decline during the 1990s that, arguably, amounted to a demographic transition, or at least to a significant step towards such a transition.[1] Until as recently as the mid-1980s fertility changes in the Maghreb, along with other Islamic Middle Eastern countries, had been relatively moderate, such that Clarke could question whether demographic transition could be regarded as anything other than 'limited'.[2] Islamic religious-cultural factors were offered as explanation. Within a few years, however, Courbage and Fargues were able to demonstrate a clear demographic transition.[3] Table 12.1, based on National Institute of Demographic Studies (INED) data that some would regard as 'conservative', shows a strong fertility decline across the four Maghreb countries. Despite a sharp drop in mortality rates as well, a significant decline in natural increase rates resulted, especially in Tunisia and Morocco. As will be demonstrated later, Algeria's Office of National Statistics has published figures that suggest that Algeria's fertility transition is much closer to that of its neighbouring countries than INED's data indicate.

Fertility decline in North Africa also means a revision in the perception of the Mediterranean as a zone of division in population terms between the stagnating growth rates of Europe and the supposedly 'galloping demographies' of countries of the South. Kliot stressed this North-South contrast in the Mediterranean region's demography, albeit with an appreciation of recently converging fertility rates.[4] George Pierre even wrote of 'a veritable demographic tidal wave' with reference to North African fertility.[5] A drop in Maghreb natural increase rates from 25 to 34 per thousand in 1983 to 15 to 25 per thousand in 1999 (Table 12.1) ought to represent a lessening of any concern about continuing rapid demographic growth in Europe's southern Mediterranean neighbours. Indeed, with 1990–99 average annual population growth rates of just two per thousand for Spain and Italy and five per thousand for France, and the prediction of both an ageing and a declining population for the European Union, the Maghreb's recently lower but positive population growth rates could again represent a potential source of inward-migrant labour in the future.[6]

TABLE 12.1 POPULATION AND DEMOGRAPHIC DATA FOR THE MAGHREB COUNTRIES, 1983 AND 1999

	Algeria	Libya	Morocco	Tunisia
		1999		
Population (millions)	30.8	5.0	28.2	9.5
Birth rate (‰)	30	28	23	22
Death rate (‰)	6	3	6	7
Natural increase (‰)	24	25	17	15
		1983		
Birth rate (‰)	46	47	44	35
Death rate (‰)	14	13	13	10
Natural increase (‰)	32	34	31	25

Sources: John I.Clarke, ‘Islamic populations: limited demographic transition’, *Geography,* 70, 2 (1985), pp. 118–28; Institut National d’Etudes Démographiques (INED), *Population en Chiffres,* <http://www.ined.fr/population-en-chiffres/monde/tableaux1999/afrisept99.htm>.

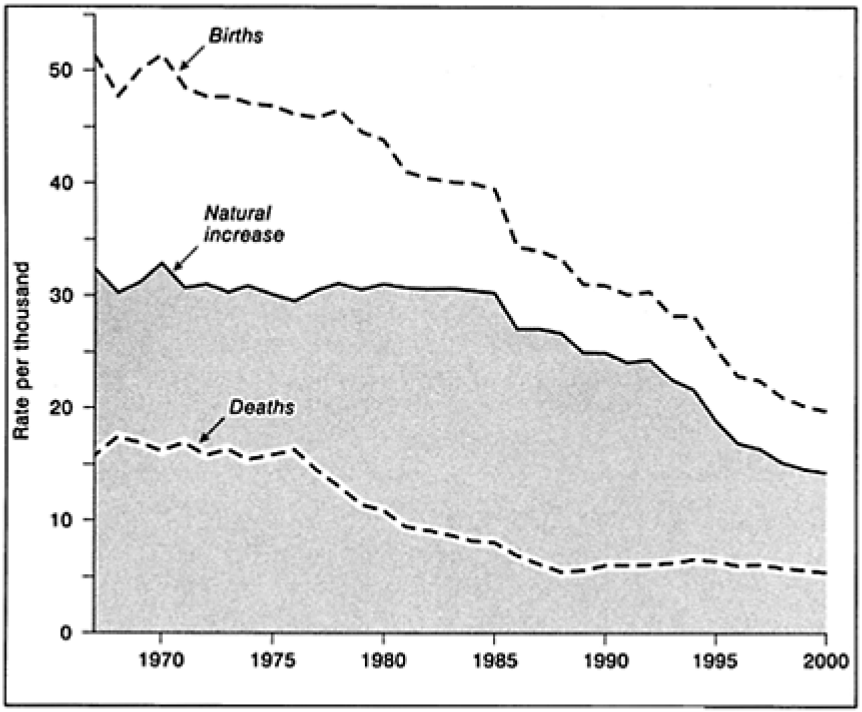
DEMOGRAPHIC TRANSITION IN ALGERIA IN THE 1990s

With specific reference to Algeria’s recent demographic trends, Figure 12.1 illustrates the country’s dramatic fertility decline from Third World levels of natural increase in the 1960s to a situation well on the way to demographic transition by the year 2000. Natural increase rates have halved from about 30 per thousand, which persisted through to the 1980s, to just below 15 per thousand by the end of the century. Birth rates have declined even more steeply, from around 50 per thousand in 1967 to 19.76 per thousand in 2000. Low and declining death rates reflect both social progress and a youthful population. Figure 12.1 shows particularly marked fertility decline in the mid-to-late 1980s and again in the mid-1990s. The demographic pessimism expressed by Zaimeche and Sutton now appears to have been overtaken by events.[7]

A range of population and demographic indicators, with Tunisian and Moroccan data for comparison (Table 12.2), illustrate Algeria’s progress in terms of fertility decline and socio-economic development. Algeria’s fertility, life expectancy, literacy rate and level of urbanization are all well ahead of what still prevails in most Third World countries, thus supporting an intermediate level of development classification for the country. Population growth rates and total fertility rates have declined markedly for all three Maghreb countries from the 1980s to the late 1990s. Life expectancy and infant mortality rates have improved, although the latter show scope for further reduction. The reasons behind lower fertility stem from growing levels of urbanization and contraceptive use and a lower level of illiteracy, but again with much scope for improvement in female literacy.

The often better figures for Morocco and Tunisia undoubtedly reflect the earlier attempts by those governments to control fertility, especially in the case of Tunisia, which has been something of a family planning pioneer in the Islamic and African worlds.

FIGURE 12.1 ALGERIA—DEMOGRAPHIC TRENDS, 1967–2000



It is important to stress that Algeria's fertility decline appeared to continue apace in the mid-to-late 1990s. Having dropped markedly from 28.24 per thousand in 1994 to 25.33 per thousand in 1995 and 22.91 per thousand in 1996, Algeria's birth rate continued to fall each year, down to 19.76 per thousand in 2000 and 20.5 per thousand in 2001 (see Table 12.3).[8] The resulting natural increase rate of 14.3 per thousand in 2000, or a 49-year population doubling time, could not have been predicted back in the mid-1980s when a more typical Third World population growth rate of 3 per cent

TABLE 12.2 RECENT POPULATION AND DEMOGRAPHIC INDICATORS FOR ALGERIA, MOROCCO AND TUNISIA

	Algeria	Morocco	Tunisia
Population growth rate (% p.a. average):			
1980–90	2.9	2.2	2.4

1990–2000	1.9	1.8	1.6
Birth rate 2001 (per 1,000)	25	26	19
Death rate 2001 (per 1,000)	6	6	6
Natural increase (per 1,000)	19	20	13
Fertility rate (births per women):			
1980	6.7	5.4	5.2
2000	3.2	2.9	2.1
Synthetic index of fertility—2000 (children/woman)	3.1	3.4	2.3
Life expectancy at birth 2000	71	67	72
Infant mortality rate 2000 (per 1,000)	33	47	26
Projected population in year 2025 (millions)	43	40	13
Urban population 2000 (% of total)	60	56	66
Adult illiteracy rate (% of population 15 years and above-1999)	33	52	30
Contraceptive prevalence rate 1990–2000 (% of women, 15–49 years)	51	59	60

*Sources: World Bank, World Development Repor*t 2000–2001 (Oxford: Oxford University Press, 2000), pp. 274–87; World Bank, *World Development Report 2002 and 2003* (Oxford: Oxford University Press, 2002); World Bank, *World Development Indicators* 2002 (Oxford: Oxford University Press, 2002) and INED, <http://www.ined.fr/populationen-chiffres/monde/tableaux1999/afrisept99.htm>.

TABLE 12.3 RECENT DECLINE IN ALGERIA'S FERTILITY RATES

	1970	1977	1983	1990	1994	1996	2000	2001
Birth rate (‰)	49.0	46.0	46	30.9	28.2	22.9	19.8	20.5
Death rate (‰)	17.0	14.0	14	6.0	6.6	6.4	5.5	5.4
Rate of natural increase (‰)	32	32	32	24.9	21.7	16.9	14.3	15.0
Fertility index (children/woman)	7.9	7.4	7.0	–	3.97	3.14	2.67 (1998)	–
Infant mortality rate (‰)	141.5	114.0	–	57.8	54.2	54.6	51.1	51.7
Total population (millions)	13.1	16.95	23.04 (1987)	–	–	28.56	30.38	30.84

Sources: Office National des Statistiques (ONS), *Annuaire Statistique de l'Algérie 1974* (Algiers: ONS, 1974); ONS, *Annuaire Statistique de l'Algérie 1977–1978* (Algiers: ONS, 1979); John

I.Clarke, 'Islamic populations: Limited demographic transition', *Geography*, 70, 2 (1985), pp. 118–28; ONS, *Annuaire Statistique de l'Algérie: Résultats 1995–1996* (Algiers: ONS, 1998); ONS, *Natalité, Fécondité et Reproduction des Femmes Algériennes a travers les Résultats Exhaustifs du RGPH 1998* (Algiers: ONS, 2001); ONS, <http://www.ons.dz/Demogr/pop-titres.htm>; ONS, <http://www.ons.dz/Demogr/Demog-1999.htm>.

per annum and a doubling time of just 23 years was giving much cause for concern. Another, perhaps more dramatic way of illustrating Algeria's recent fertility decline is to contrast the absolute total of registered births, which numbered 845,381 in 1985 but had dropped to 711,000 by 1995, with just 603,000 births in 2000 and 631,00 in 2001.[9] These successively smaller cohort groups are now having a major impact on Algeria's formerly broad-based population pyramid.

An alternative to the use of birth rates as an index of fertility decline is changing total fertility rates. Estimates and calculations of the fertility rate vary, but all authorities show a marked decline from very high fertility levels in the recent past (Table 12.3). High fertility indices of 8.36 in 1960, 7.9 in 1970 and 7.0 in 1983 were halved to 3.57 in 1995 and even 3.14 in 1996.[10] These compare with 1990–95 fertility rates of 1.78 for France and 1.26 for Italy.[11] Courbage calculated that by 1995 Algeria's fertility transition from its 1960 peak was 76.5 per cent complete, and population projections by the World Bank predict that Algeria will achieve transition to a replacement level fertility rate of 2.11 by 2025–30, as will Tunisia and Morocco.[12]

Algeria's fertility rate varies markedly by age, rural/urban location and educational attainment. Using 1992 data, an urban fertility rate of 3.6 compares with a rural one of 5.3. Similarly, Algerian women who have had a secondary education have a fertility index of 2.5, compared with 5.6 for women who never went to school. By the late 1990s Algerian women were getting married later than their mothers (at 25.7 years old in 1994 compared with 18.3 years old in 1966) and are having decidedly fewer children, as they are much more in control of their fertility.[13]

TABLE 12.4 FERTILITY RATES PER THOUSAND BY AGE GROUP OF MOTHER—ALGERIA

Years	Age groups						
	15–19	20–24	25–29	30–34	35–39	40–44	45–49
1969	112	324	356	329	263	148	37
1977	97.02	284.6	341.6	336.3	266.8	128.7	27.3
1983	47.83	241.62	325.53	296.57	230.08	104.85	20.39
1988	33	175	260	250	202	104	18
1992	26	151	208	214	174	81	18
1996	19	109	150	154	125	58	13

1998	10.86	81.38	139.67	138.29	104.51	48.56	9.80

Sources: ONS, *Annuaire Statistique de l'Algérie 1992* (Algiers: ONS, 1994); ONS, *Démographie Algérienne 1995* (Algiers: ONS, 1995); ONS, *Annuaire Statistique de l'Algérie: Résultats 1993–1994* (Algiers: ONS, 1996); ONS, *Annuaire Statistique de l'Algérie: Résultats 1995–1996* (Algiers: ONS, 1998); ONS, *Natalité, Féconditée et Reproduction des Femmes Algériennes a travers les Résultats Exhaustifs du RGPH 1998* (Algiers: ONS, 2001); Ali Hemal and Tahar Haffad, 'La transition de la fécondité de population en Algérie', *Revue des Sciences Humaines*, 12 (1999).

The major evidence of Algeria's fertility decline is revealed in Table 12.4, which charts changes in age-specific fertility, 1969–98. Note that 1990s rates are much lower than 1969 and 1977 rates for all age groups of Algerian women, and especially for the age cohorts of 15 to 19 and 20 to 24 years of age. Perhaps more than the birth rate and population growth rate data, these strong and persistent declines in age-specific fertility rates throughout the 1980s and 1990s have convinced observers like Courbage at INED that the UN projections have been too cautious, and that demographic transition is now firmly established in Algeria and indeed across the Maghreb. Indeed, Courbage has revised downwards the UN 1992 projection of 51.8 million Algerians by the year 2025 to 44.8 million.[14] By 2002, INED's projection for 2025 is down to 43 million.

FACTORS BEHIND ALGERIA'S FERTILITY DECLINE

Several explanatory factors behind this 1980s and 1990s fertility decline have already been briefly mentioned. The conventional explanations are that a higher age of marriage, an extension of family planning and the greater participation of women in the workforce and in secondary and higher education have contributed to lower fertility. These will be reviewed before considering two further factors suggested by Courbage—the role of Algerian emigration to Europe and the related feedback of lower fertility practices to friends and relatives remaining in Algeria, and secondly, economic factors, especially the post-1986 drop in oil and gas revenues and the related uncertain economic future.[15]

Rising age of marriage

Although nuptiality levels remain high in Algeria, the average age of marriage has risen considerably for both men and women (Table 12.5). The average age in the late teens for women at time of marriage and early twenties for men in 1966, has risen to 27.6 years for women and 31.3 years for men, according to a 10 per cent sample from the 1998 census. A 1992 enquiry revealed that the average age of marriage of women in the 45–49 years cohort group was as low as 16.3 years, compared with 21.9 years for the younger 25–29 years cohort group. Further, this 1992 survey demonstrated that only 3.4 per cent of women aged 15–19 years were married, compared with 28.1 per cent married for the 20–24 years cohort and still only 60.9 per cent for the 25–29 years cohort. Only 27.5 per cent of men were married before the age of 30 years, according to this 1992 survey.[16] This trend in delayed nuptiality in the 1980s was noticed by Iles, who argued that 'one principal reason is the chronic housing shortage'.[17] For women, Iles has suggested that greater and longer participation in education had also played a part. However, unlike the absolute number of births, the absolute number of marriages registered has

TABLE 12.5 THE RISING AGE OF MARRIAGE IN ALGERIA

Years	Men (years)	Women (years)
1966	23.8	18.3
1977	25.3	20.9
1984	27.4	22.1
1992	30.2	25.8
1998	31.3	27.6

Sources: Ali Hemal and Tahar Haffad, 'La transition de la fécondité et politique de population en Algérie', *Revue des Sciences Humaines,* 12 (1999), p. 67; ONS, *Annuaire Statistique de l'Algérie: Résultats 1995–1996* (Algiers: ONS, 1998); ONS, *4eme Recencement Général de la Population et de l'Habitat 1998: Principaux Résultats* (Algiers: ONS, 1999), P. 9.

increased steadily through the 1990s, from 149,345 in 1990 to 177,500 marriages in 2000.[18] The decline in the younger age groups in age-specific fertility data obviously results from these drops and delays in nuptiality.

Increase in family planning

Furthermore, these Algerians marrying late are more aware of family planning practices and are employing them to reduce their number of children or to space out births. Modern contraceptive practice in the Maghreb was low outside of Tunisia until the 1980s, but by the mid-1990s over half of the region's women were practising family planning. In Algeria, the use of contraception was as low as 2 per cent of women in 1962, rising to 8 per cent in 1968, 25 per cent in 1984, 35.3 per cent in 1986, 50.7 per cent in 1992 and 57 per cent in 1995.[19] This significant growth, which will be even higher among urban and educated women, and its timing are linked to the eventual introduction of an official family planning programme by the Algerian government in 1983, several years after its Maghreb neighbours. The programme focused on Centres d'Espacement des Naissances (CEN), which increased in number from 745 in 1984 to 1,400 in 1986, 1,872 in 1987 and 1,955 in 1988. Ladjali (1985) has shown that the late 1970s were significant years in the popularizing of family planning through the expanding network of CENs.[20] She calculated that already by 1979, 48,898 births a year were being avoided. Arguably, these were the family planning practices on which Algeria's 1990s fertility reductions were based. Before 1990, contraception was mainly used by women in the 35–39 years age group to keep their family size down. By the 1990s, Hemal and Haffad record that 27 per cent of the 15–19 years group and 42 per cent of the 20–24 years cohort were utilizing contraception, mainly the pill (73.2 per cent).[21] Courbage notes that family planning had spread significantly to rural areas with, by 1992, 44 per cent of rural married women and of illiterate women planning their families.[22] Even abortion is practised, despite its interdiction under the Islamic Sharia law. In 1990–92, for each 100 live births there were 10.5 abortions, with only a slightly higher rate in urban areas compared with rural.

Iles, using 1986 survey data, claimed that the east-west gap in family planning practice is greater than the urban-rural gap. He stated that 40 per cent of women in Algeria's western regions used modern contraceptive techniques, compared with 24 per cent in eastern regions.[23]

Urban, educational and social revolutions

In arguing the case for demographic transition in Algeria and elsewhere in the Maghreb, Courbage considered that three revolutions—urban, educational and social—have accounted for the fertility decline discussed so far. The decline is attributed to the increased presence of women in towns, class-rooms, factories and offices.[24] An urban place of residence usually means greater participation by women in education. By 1992, 53 per cent of Algerian women aged 15–49 years were deemed to be literate. Educated women marry later: in 1992 at 30.0 years of age compared with 25.5 years of age for primary school-educated women and only 23.7 years of age for uneducated women.[25] Educated women are more aware of and inclined to use family planning. By the 1995–96 school year 88 per cent of youngsters between six and 15 years of age were in education.[26] The role of educating girls as a factor in fertility control is strongly suggested by a 1992 survey, which produced fertility rates of 5.6 and 2.5 respectively for never-educated women and secondary school-educated women. Even a primary school education lowered the fertility rate to 3.3.[27]

The participation of women in the urban, although not rural, labour force means that pregnancy and child care have to compete with paid work, and thus pose an opportunity cost. Courbage provides some compelling data from Morocco, which suggest that fertility among working women in towns was approaching replacement level.[28] In Algeria, the participation of women in the labour force remains low, at 11.1 per cent of the employed population in 1996.[29] What has probably contributed equally to fertility reduction has been the shortage of dwellings in Algeria's cities, which has served to delay the age of marriage, and then perhaps inhibits a couple from starting a family while still living with in-laws.

Example of Algerian emigrants in Europe

A couple of less conventional factors contributing to fertility decline have been suggested by Courbage. These are the diffusion of pro-fertility control attitudes and practices from Algerian emigrants to Europe, and the mid-1980s slump in oil prices and associated economic decline. Of the first factor, Courbage stated that 'the accelerated pace of demographic transition in the Maghreb may be the unexpected result of the Maghrebin presence in Europe'.[30]

He has demonstrated that fertility among immigrant Algerian and other Maghrebin women in France fairly quickly diverged from that of their country of origin. By 1981, fertility rates of Algerian women in France had dropped to 4.35 compared with 6.39 in Algeria. By 1992, the fertility rate of Algerian women in France had fallen further to 3.27 compared with 4.40 in Algeria.[31] Can a link be hypothesized between these demographic transitions among Algerians on both shores of the Mediterranean? Within a generation a Maghreb immigrant society has been created in France whose values are no longer strictly congruent with those of its founders. Courbage stresses the substantial networks of exchange between Maghreb immigrants and residents still in the Maghreb, and suggests three possible mechanisms that could have influenced fertility in the home region.[32] First, money remittances change consumption patterns. A more consumerist culture in Algeria heightens the desire to acquire further consumer goods, which may compete with an additional child for limited family resources. Aspirations and values then change, including modified family values incorporating less pro-child attitudes. Second, a holidaying migrant has a significant influence at the local level when back in Algeria, affecting opinions in favour of non-traditional behaviour such as more formal education for girls, arguably the keystone to future demographic trends. Third, remittances to Algerian households and the associated desire for more consumer goods engenders rural-urban movement, which in turn promotes increased female education and participation in the formal labour force.

Role of Algeria's economic crisis

Another, more economic argument is that Algeria's emergence from an economy based primarily on income from hydrocarbon exports has been 'the driving force of fertility transition'.[33] In his wide-ranging study of demographic trends in the Arab world, Courbage observes that the years 1985–90 encompass the onset of fertility transition in most Arab countries, including Algeria. He argues that these were mostly countries that had been awash with oil revenues and that 'high fertility is consolidated when the individual is looked after from cradle to grave',[34] as was the case in Algeria's hydrocarbons-based economy of the 1970s. After oil prices plummeted in 1986, and oil revenues were halved, the economic downturn soon had a demographic impact. 'The opportunity costs of a birth became a factor in family strategies even amongst illiterate groups.'[35] As more women had to seek to enter the labour force, female employment became a more significant determinant of fertility. Within the space of a few years from the mid-1980s, the Arab Middle East and Algeria fell in line with the demographic trends experienced in Morocco from the mid-1970s, following its sudden reduction in income from phosphate exports.

Hemal and Haffad also identify Algeria's economic crisis as a factor behind fertility decline, together with related jobs shortages and the housing crisis.[36] The negative social and economic effects of Algeria's structural adjustment programme imposed by the International Monetary Fund (IMF), has arguably had a demographic impact, even and perhaps especially amongst the poor. Algeria's transition to a market economy has apparently contributed to demographic transition.

SPATIAL ASPECTS OF ALGERIA'S POPULATION CHANGE, 1987–98

Algeria's fourth population census since independence was carried out in June 1998. It recorded a residential population of 29,276,767 persons, which represented a 2.15 per cent average annual increase over the 1987 population census. This rate of increase was considerably lower than the two previous intercensal population growth rates of 3.06 per cent per annum for the 1977–87 period and 3.21 per cent per annum for the 1966–77 period. When mapped (Figure 12.2) by wilayate (administrative districts), considerable spatial variation exists in population growth rates across Algeria. High and above average population growth prevails in most of Saharan Algeria, such as Tamanrasset and Illiziz wilayate, and in many interior wilayate in the Saharan Atlas and eastern High Plateaux parts of the country, such as Djelfa and Khenchela wilayate. Exceptions to this higher growth trend are the more urbanized wilayate of Bechar and Ghardaia. Below average population growth has prevailed, 1987–98, in the northern parts of Algeria and especially in the five metropolitan wilayate of Oran, Algiers, Blida, Constantine and Annaba. All of the western 'Oranais' wilayate share this low population growth. Exceptionally low growth of below 1.5 per cent occurred in the four northern wilayate of Relizane, Tissemsilt, Medea and Tizi Ouzou. While the main urban centres experienced low population growth, some adjacent wilayate within commuting distance experienced more average growth rates, such as Tipaza (2.34 per cent) and Boumerdes (2.10 per cent) near Algiers, El Tarf (2.27 per cent) near Annaba and El-Mila (2.57 per cent) near Constantine. In summary, a north-south cleavage exists between a more rapidly growing southern Algeria and a more slowly growing northern Algeria. Within the Tell (or northern) part of the country a further contrast is found between faster-growing populations in the east and a less dynamic western Algeria.

These spatial disparities represent some interesting differences from the 1977–87 population changes discussed and mapped in Sutton and Nacer.[37] High population growth continued in the Saharan and Saharan Atlas wilayate such as Tamanrasset, Illizi, Tindouf, Djelfa, El Oued and El Bayadh between 1987 and 1998. The wilaya of Bechar changed from above average to below average population growth. Lower than average population growth continued during 1987–98, in the northern coastal wilayate focused on the main cities such as Algiers, Annaba and Constantine, and in the group of western wilayate focused on Oran and Tlemcen. This coastal zone of low population growth has spread to become more continuous, incorporating Saida, Relizane, Bouira and Blida, for example, wilayate that had shown greater

FIGURE 12.2 ALGERIA—AVERAGE ANNUAL POPULATION CHANGE, 1987–98

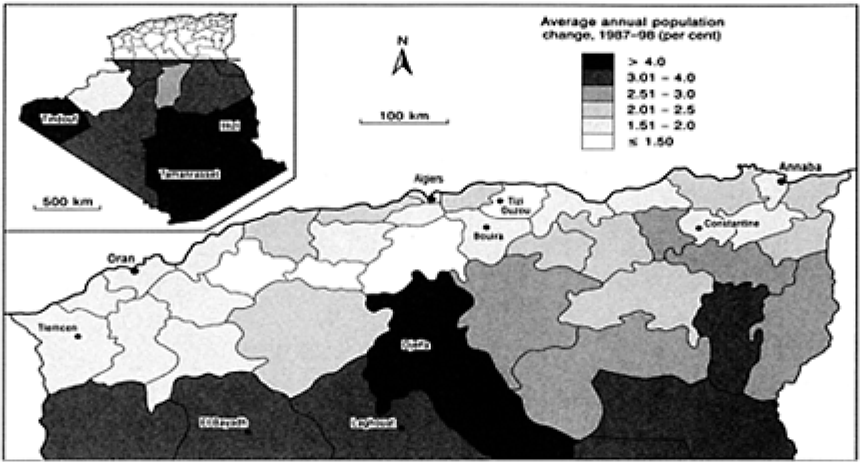
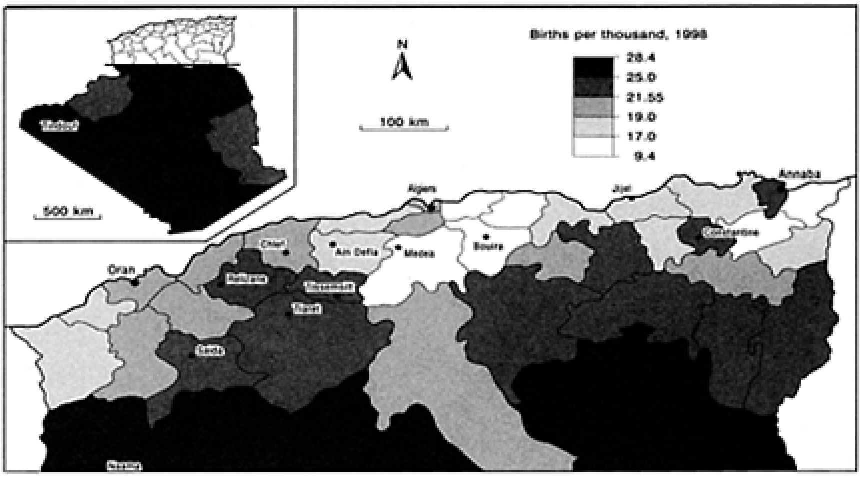


FIGURE 12.3 ALGERIA—BIRTHS PER THOUSAND, 1998



population dynamism, from 1977–87. In contrast, the High Plateaux belt was no longer such a ‘solid’ zone of above average growth. Compared with the previous inter-censal period, wilayate such as Tiaret, Sétif and Batna shows less strong population growth. However, certain eastern wilayate such as Mila and Oum-el Bouaghi moved into the above average population growth category. These spatial variations in population growth, and especially the coast-interior or north-south contrast in population dynamics, mean that the interior and southern wilayate remained as reservoirs of dynamic vitality within this 1990s decade of demographic transition for Algeria as a whole.

This role of a demographic reservoir for the interior and southern regions of the country is also evident in Figure 12.3, which shows regional variations in 1998 crude birth rates. The data for this figure have been calculated from a comparison of 1998 registered births data and the June 1998 census results.[38] Again it is instructive to compare Figure 12.3 with an equivalent map of 1987 birth rates published in Sutton and Nacer.[39] The keys to the two figures reflect the intercensal demographic transition. In just eleven years, birth rates had dropped considerably. Middle-ranking wilayate now had birth rates of 19.0 per thousand to 21.55 per thousand, compared with 34–37 per thousand in 1987. The upper range wilayate dropped from 38.8–41.1 per thousand down to birth rates of 25.0 to 28.4 per thousand. The lowest ranked group of wilayate declined more markedly, from 23.9 to 30.2 per thousand in 1987 to just 9 to 17 per thousand in 1998.

As in the case of population growth between 1987 and 1998, the map of 1998 birth rates (Figure 12.3) demonstrates marked spatial variation from lower rates in coastal and urban wilayate to higher birth rates in the interior and especially in Saharan and Saharan Atlas wilayate, which are almost consistently at the top end of the range. Further north, most of the High Plateaux wilayate also have above average birth rates. The coastal wilayate along and north of the Cheliff River, north of Tiaret, remained consistent in having higher birth rates in both 1987 and in 1998, for example Relizane, Chlef and Tissemsilt wilayate. Relatively lower rankings by 1998 were achieved for wilayate such as Ain Defla, Medea, Bouira and Jijel. Relatively higher rankings by 1998, however, typify wilayate such as Tindouf, Saida and Naama. More interesting are the higher birth rate rankings found in 1998 for the most urban wilayate based on the urban areas of Algiers, Constantine, Annaba and Oran. Indeed, there seemed to have been something of a revival of demographic vitality in these major centres compared with 1987. However, this was not reflected yet in their overall population increases, 1987–98.

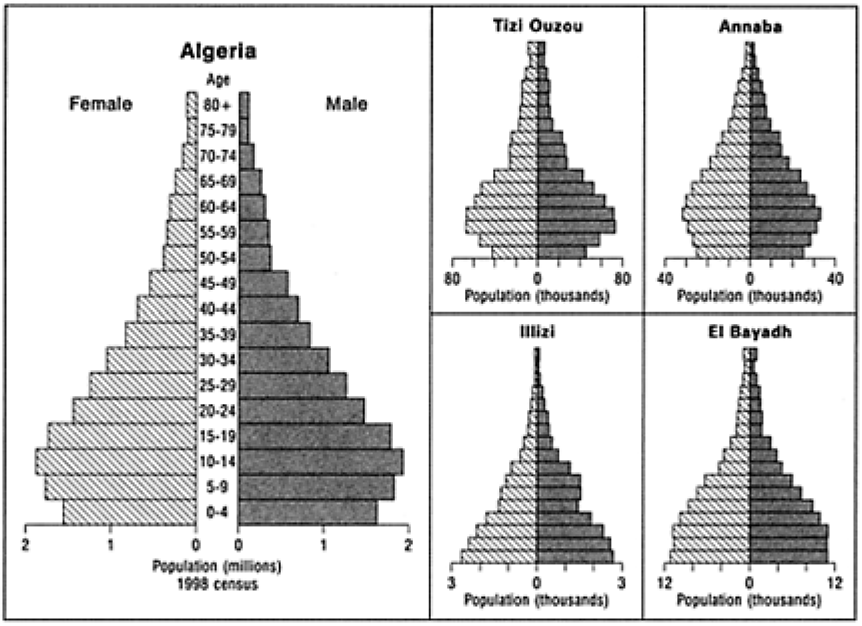
Lower fertility is attributed to female education and improved female literacy. Sample data from the 1998 census can be used to investigate links between progress in female education and regional variations in birth rates. However, there seems to be a lack of correlation between birth rates and levels of female scolarization and female illiteracy. The group of six wilayate with the lowest birth rates have a similar average female scolarization rate of 82.5 per cent and a similar female illiteracy rate of 40.8 per cent, when compared with the rates averaged across the ten largely southern wilayate with the highest birth rates (scolarization rate of 78.2 per cent and female illiteracy rate of 42.6 per cent).[40] This probably results from the fact that many Saharan wilayate are quite highly urbanized, which leads to high scolarization rates. Indeed, female scolarization is now quite high everywhere in Algeria. Also, the main urban metropolitan wilayate have relatively high birth rates, especially in the cases of Annaba and Constantine, and this serves to weaken any attempted correlation. Some indication of rurality and dominance of agricultural employment may well correlate better with birth rates, as rural women's illiteracy tends to be higher and rural scolarization levels are lower.

Regional variations in fertility, as expressed by 1998 birth rates, can therefore be utilized in partial explanation of the regional variations in population change, 1987–98. Another explanation would be spatial variations in migration, with the main urban centres expected to be poles of inward rural-urban migration. Until 1998, Algerian censuses consistently failed to generate migration data, and inter-regional population movement can only be implied from above or below average population changes relative to natural population growth suggested. However, the low population growth in the metropolitan wilayate of Oran, Algiers, etc. between 1987 and 1998, and previously between 1977 and 1987, challenge the expectation of strong rural-urban migration. Some migration data have recently emerged from the 1998 census.[41] This seems imperfect in that it only includes 1998 migrants who had been recorded in the 1987 census. Younger migrants born after 1987, but who then migrated with their parents, do not seem to have been included. This limited set of migration data suggests that the wilayate with high net in-migration, 1987–98, included Algiers and its adjacent wilayate of Boumerdes, Tipaza and Blida, Oran and nearby Ain Temouchent, and the southern wilayate of Ouargla and Djelfa. Regions of strong net out-migration included Adrar, Chlef, Bouira, Jijel, Medea, Tissemsilt, Ain Defla and Relizane. As well as the two main metropolises, other cities such as Sétif, Constantine and Annaba also had quite high figures for long-term in-migration.[42] As observed earlier, these migration patterns do not fit in well with the population change patterns, 1987–98, shown in Figure 12.2.

It is necessary to emphasize how difficult it is to explain regional patterns of population growth and regional birth rates. This is because anticipated explanatory factors such as female illiteracy and female education rates do not appear to correlate. Also urbanization, often regarded as a factor behind lower fertility in the past and in other countries, fails to fit completely. Wilayate dominated by cities, such as Algiers and Oran, show higher birth rates than other northern wilayate. Furthermore, Saharan wilayate with higher population growth and high birth rates are also highly urbanized, adding further complexity to the situation.

What can be suggested from the population change and birth rate data mapped in Figures 12.2 and 12.3 is that interior and Saharan Algeria contain regional pools of demographic vitality and potential population growth. This is ably demonstrated by another section of the 10 per cent sample analysis of the 1998 census,[43] which offers population structures or population pyramids for individual wilayate. At the national level, a decade or more of successively smaller birth cohorts has produced an increasingly narrow base to the population pyramid. Indeed, progress towards a less Third World ‘beehive’ pyramid is well underway. As Figure 12.4 demonstrates, this is also the case for several northern wilayate, such as Bouira, Tizi Ouzou, Algiers and Annaba. More dynamic broad-based population pyramids prevail in El-Bayadh, Illizi, Tindouf, Djelfa and Tamanrasset wilayate. These represent Algeria’s reservoirs of demographic vitality, although further diffusion of demographic transition to such regions can be expected, especially as most other wilayate already show signs of smaller cohorts starting to narrow the base of their regional population pyramids.

FIGURE 12.4 POPULATION PYRAMIDS FOR ALGERIA AND FOR THE WILAYATE OF TIZI OUZOU, ANNABA, ILLIZI AND EL BAYADH



These contrasting population pyramids (Figure 12.4) allow the patterns of regional variations in population change (Figure 12.2) and in birth rates (Figure 12.3) to be interpreted as a late 1990s 'snapshot' of the diffusion wave of successive stages of demographic transition working their way through the Algerian settlement system. Northern and urban regions of the country are now in later stages, as reflected by their 'beehive'-shaped population pyramids. More southern, more rural, and more peripheral regions of Algeria are still in an early stage of transition, as evidenced by higher birth rates and more dynamic broad-based population pyramids. However, the overall national situation is one of strong demographic transition.

One consequence of Algeria's 1990s demographic transition is that earlier population projections of both national and wilaya population numbers are now shown to have been too high.[44] Three hypothetical projections were attempted for each year from 1990 up to 2020, and for each wilaya, using the 1987 population census data together with the fertility data then available. For 1998 the three hypotheses projected national populations of 29.7 million, 30.1 million and 30.4 million, all higher than the enumerated population of 29.276 million recorded in the 1998 census. If one just considers the lowest projection, the ONS demographers underestimated the potential growth of Algiers wilaya, while they greatly overestimated the growth of neighbouring Boumerdes and Tipasa wilayate. They accurately predicted the growth of Oran wilaya but overestimated that of Constantine and Annaba. Elsewhere, they underestimated the future population in strongly growing wilayate such as Tamanrasset, Djelfa and Laghouat and underestimated that in what proved to be more slowly growing wilayate such as Medea, Relizane, Tizi Ouzou and Tlemcen. This shortfall in population growth predictions serves to demonstrate both the complexity and the contrary nature of Algeria's regional population geography, as well as the difficulties of planning for population change in a period of demographic transition.

It can be argued that the patterns of population change, 1987–98, represent a society undergoing transformation. The evident national trend of demographic transition has been partly diffused from the urban and northern regions of the country to the more rural, peripheral, and especially southern wilayate. Birth rates in 1998 and the contrasting population pyramids displayed in Figure 12.4 reflect the contrast alluded to above. What have been interpreted as demographic reservoirs may well be already reducing, as fertility transition extends into more peripheral regions of the country. Demographic change continues to be rapid across Algeria, and earlier scen-arios of development problems as a result of dynamic population growth have had to be revised.

THE IMPACT OF CHANGING POPULATION GROWTH IN ALGERIA

Algeria has in the past decade or so implemented a few policies that have deviated from those of the former disastrous era of the populist state in the late 1960s and 1970s, when the seeds of the country's present misery were arguably sown. However, the measures implemented, with rare exceptions, have lacked sharpness, radicalism and, above all, the required imagination. The approach has been hesitant, as if the new steps were too bold, and often the instinct has been to look for a return to the old secure populist era, and especially to continue the reliance on the same elites and vested interests. Without dwelling on these hesitant approaches, one or two examples of such policies need to be given. A programme to privatize 1,200 enterprises was announced in August 1995 by the Ministry for Industrial Restructuring. Yet by March 1998 it was further announced that only 139 enterprises had been evaluated, and another 49 were being examined, which highlighted the obstacles put in front of the policy.[45] According to Joffé, since then not much has evolved.[46] Joint ventures involving foreign investment remain static too, with only 158 ventures being established with European partners. About 60 per cent of projects have failed even to see the light of day.[47] Of course, the fact that the old vested interests remain in control means that such policies, aimed at dismantling the often inefficient state sector and entrenched practices, will not progress much. In a context of world globalization, this is a serious setback. Without doubt, Algeria possesses favourable conditions to become the economic engine of its region, because of its proximity both to Europe, the African continent and the Middle East, as well as its highly able human resources and abundant energy resources, above all natural gas.

This discussion of policies and politics has a direct relevance to the issues of population growth and demographic change examined in the first part of this chapter. The failure to embark on a more radical approach to economic development now can be seen as threatening the very survival of the country.

This section is not going to look at the earlier, once exciting but now commonplace effect of population growth on services, education standards, savings, imports and so forth, issues that we have covered elsewhere.[48] It is not necessary to repeat that rapid increases in population swallow up foreign exchange reserves, cause pressure on the balance of trade, affect savings adversely, etc. What will be examined here are three other major questions:

1. Is Algeria's falling population growth rate rapid enough, or should it be more pronounced?
2. How is the country's impoverishment affecting its population increase?
3. How is the forecast population growth going to affect the country not merely with respect to its services, or education standards, or any such matters, but rather concerning its very survival over the next decade?

These matters are addressed under two headings: resources as a constraint on population increase, and population growth and its impact on social and environmental resources.

RESOURCES AS A CONSTRAINT ON POPULATION INCREASE

Population increased rapidly in Algeria in the past largely because of state policies during the 1970s and early 1980s. The state gave incomes and jobs, and also built and provided social housing regardless of numbers, all thanks to the oil and gas receipts. No parallel attention was paid to any other considerations (economic performance, environmental constraints, and so forth). Preference was given to policies that, to a certain degree, represented a regime seeking to widen its social base and increase its popularity. Throughout the 1960s and 1970s Algerians looked to the state as the sole provider of their needs and those of their children. And because jobs and housing were readily available, people were hardly constrained from having more children.

Once conditions changed drastically following the oil shock of the mid-1980s, when oil prices dropped and receipts fell markedly, the dismantling of the populist state began, initiated by Chadli, and ably, albeit briefly, pushed forward by Hamrouche's premiership in the late 1980s and early 1990s. In retrospect, the fall in oil prices in 1986 could be seen as a 'blessing in disguise'. The return to the policies of the 1970s, represented by the accession of Belaid Abdessalam to the premiership in 1993, meant to a certain extent a halt to the earlier impetus. Since then, as already noted, economic liberalization has been proceeding but still not radically enough. However, the crisis of the Algerian economy, built around hydrocarbons, together with fluctuating oil revenues, relatively high levels of external debt and, of course, mismanagement, have possibly become a 'great blessing', ending two major sources of Algeria's problems: the state's capacity to employ ever-increasing numbers in a deteriorating economy and to supply social housing.

Unemployment has risen steadily, as discussed later. As far as housing is concerned, house completion has fallen from 90,000 units per year in 1986 to 30,000 per year in the early 1990s, while demand stood at 200,000 per year.[49]

The inability to provide both jobs and houses, and the state's retreat from its role as the once almost exclusive provider have had arguably beneficial impacts. The combined factors of housing shortage, lack of income and the lessening of state provision then impacted people's fertility. Birth rates fell markedly during the 1990s, as is seen in Table

12.3. Hence the Algerian situation called into question the widely held notion that improved social conditions cut population growth.

There is some evidence from other African and Latin American countries that extreme poverty engenders high birth rates as a survival response. Millions of children are born without the security of adequate housing, employment and organized family structures. In Algeria and in other Islamic countries, strong religious customs make children outside of wedlock subject to strong social disapproval. So without marriage there is no reproduction, and without housing there are far lower marriage rates. Perhaps Algeria's shortage of housing has had a favourable demographic impact on its fertility levels. While better education for Algerian women has had an impact too, the state's social policies, like its economic policies, have lacked a radical edge.[50] The result is that Algeria's population is still rising despite declining growth rates, which, in turn, leads us to the next problematic issue.

POPULATION GROWTH, RESOURCE CONSTRAINTS AND SURVIVAL

Forecasts of Algeria's future population increase, compiled from a diversity of international agencies, show that despite falling growth rates, Algeria's population will go up from 31.0 million in 2000 to 43 million or even 44.6 million by 2025.[51] This represents an additional 12 to 14 million people in just 25 years. Despite the falls in population growth rates it seems that damage has been already inflicted on Algeria. The usual traditional policies aimed at cutting growth rates will fail to have a substantial impact in slowing radically the growth of population. A slowdown is very necessary, given the impact of such additional numbers.

Several sources highlight the serious situation reached by Algeria, which, however, is still a major oil and gas exporter. *Le Matin* considered that the unemployment rate in Algeria in 1996 was equal to that at independence.[52] The newspaper highlighted the challenge that just to maintain the 1996 rates of unemployment by 2000, it was necessary to create 200,000–300,000 jobs per year, and to resolve the problem required the creation of a further 700,000 to 750,000 new jobs by 2000. Measures announced to stimulate small and medium enterprises to create employment, and especially to create 1.2 million jobs by the end of the last millennium (1999), ended with a miserable figure of only 34,000 new jobs. This was despite the government's best endeavours, such as the launching in May 1998 of a national programme to fight unemployment under the auspices of the presidency of the republic.[53] Instead, more than 450,000 workers lost their jobs in the restructuring exercises of the last decade, possibly paying for mistakes made 20 or so years before.[54]

Unemployment in June 2000 stood at 2,510,810, or nearly 29 per cent of the active population.[55] It affected 1.58 million people in urban areas and 934,000 people in rural areas. Even these figures hardly represent the true scale of the problem, since over 1.2 million people were not registered as unemployed, but instead were registered officially as apprentices or as part-time wage earners, that is, seasonal workers eking out a living once in a while. The true scale of Algeria's unemployment is that in June 2000, the number of people receiving wages in both urban and rural areas totalled 3.01 million, that is, just half a million more than those unemployed (2.5 million). This means that Algeria's true level of unemployment is not far from 45 per cent to 46 per cent of the total active population.[56]

Another measure of these social problems is the pauperization of the Algerian population. A revealing communiqué by the French Press Agency of 9 December 1999 said that unemployment had, in certain cases, pushed some people who were unable to look after their families to commit suicide. This in a country where people usually had a fatalistic view of life and were relatively immune to such extreme measures. Moreover, much time by voluntary agencies was now spent on setting up public restaurants to feed the ever rising numbers of hungry and destitute people.[57] By 1998, 40 per cent of the population was already living below the poverty line. This was much higher than the official World Bank figures,[58] which reported for the same date only 14 per cent of the Algerian population living below the poverty level, although this was still a high figure of 2.5 million poor.[59] The news-paper *ElWatan* suggested that the true figure was nine million people living below the poverty line, and that in fact half the Algerian population could now be considered as poor.[60] Another report in November 1999 stated that one family in five had food consumption levels below average, and that more than one million children were suffering from malnutrition, 100,000 of whom were at a severe stage of hunger.[61]

The *Maghreb-Machrek* chronology of December 2000 also noted the increase in suicides among Algeria's youth, because of social and economic difficulties together with unemployment rates of over 30 per cent.[62] The same quarterly, six or so months later, confirmed the same trends: unemployment still at 30 per cent; per capita GDP standing at $1,600 ($1,000 less than in 1980); the emigration of 25,000 Algerians to the USA in less than a year; and the preparation of a national conference for fighting poverty.[63] It also unwittingly gave some reasons for Algeria's difficult situation: a call by the main trade union, the General Union of Algerian Workers (UGTA), demanding a 66 per cent increase in wages in the private sector and a 25 per cent increase in the public sector; and the government granting a 33 per cent wage increase in the private sector and a 15 per cent increase in the public sector.[64] Somehow, a trade union and a regime, both eager for legitimacy and popular support, were following the same shortsighted policies that had in the past proven unsuccessful. Indeed, how can any private sector, even in the most advanced countries, afford a 33 per cent increase in wages, let alone a 66 per cent one? This only highlights the need for Algeria to abandon the old ways and embark on well-thought-out measures if it wants escape the present harsh situation.

THE ISSUE OF WATER

It is useful to consider the effects of population growth on the major resource—water. This once again illustrates the demographic problem and shows how this issue can impact on the very survival of the country.

Data for 2000, in the French review *Méditerranée*, give an idea of the already serious situation in Algeria. According to UN figures, Algeria's water potential is 442 cubic metres per person per year, which, compared with that of other countries, demonstrates the predicament the country is in. Morocco has 1,058 cubic metres per person, Albania 8,646, Greece 5,073 and even arid Spain 2,821.[65] In a global context, the poverty of Algeria as far as water is concerned shows up even more starkly. Algeria's annual renewable water resources in 1997 were estimated at 14.3 cubic km, compared for instance with 832 for Congo, over 1,000 for Zaire, 154 for 'dry' Sudan, or the staggering 2,350 for Bangladesh and 6,950 for Brazil.[66] Although statistically, according to the UN Human Development Report for 2000, Algeria officially had only 10 per cent of its population without access to drinking water between the years 1990–98 cuts in water supply nevertheless become consistently regular.[67] In 2002, in Constantine, a city not usually associated with the worst water shortages in Algeria, water cuts lasted two weeks in some instances.

The Mediterranean is expected to be badly affected by global warming. In 1996 the Intergovernmental Panel on Climate Change stated that freshwater resources in many regions of the world are likely to be significantly affected. Gleick explains that the impacts of climate change on the water sector will be very complicated, unpredictable, chaotic and characterized by unusual events.[68] Climatic changes will impact water systems that will be increasingly stressed by other factors, most prominent of all being population growth, competition for financial resources with other sectors, and disputes over water allocations and priorities.[69]

It is worth recalling that the 12 warmest years of the twentieth century have all occurred since 1980, with 1995 and 1997 being the warmest on record.[70] Algeria bore the brunt of such changes, with recurrent dry years and slumps in food production.[71] Regularly, news reports tell of people literally begging for water and, as in 2001, prayers for rain being offered in mosques.[72] Drier conditions come on top of the country already having one of the world's lowest water potentials. Between the years 2000 and 2025 water withdrawal will rise from 5.91 cubic km to 9.90 cubic km, which is near Algeria's total water resources, as noted earlier.[73] It was already nearly impossible to meet the water demands of the year 2000. Where is twice this amount of water going to be found? It is, indeed, difficult to see how the country is going to cope and even manage to survive.

Two elements highlight what this will mean: food self-sufficiency and increased aridity. To look at food self-sufficiency, over the 1990s the index of agricultural production saw erratic variations, including very low harvests in the years 1992–93, 1993–94 and 1996–97. The worst fall was in 1996–97 when production fell by nearly half compared with the previous year.[74] Even if oil revenues can pay for imports of food, the Algerian population is still on the edge of pauperization and hunger. In the future, hydrocarbon resources will probably also fall. Considering Algeria's economic failure—outside the hydrocarbons sector—it is difficult to see where revenues will come from.

Supposing Algeria decided in the future to be content not with development, but only with growing food for survival. Obviously, it will need water to grow food. About 60 per cent of present water resources in Algeria go to farming, according to the Plan Bleu 2000 Study.[75] Already agriculture is deprived of water by demand from cities and industry. In a drier future, when more people, larger cities and industry want more water, conflict over it is going to get worse. As the need to grow food increases, pumping out water wherever it can be found will rise sharply, and often any rationale in managing this scarce, fragile resource will be ignored. At present, investment in small agricultural projects using migrants' capital for the purchase of pumping equipment for irrigation, has led to partially blooming farms in regions such as interior eastern Algeria. But in the end, over-exploitation has caused exhaustion of underground water resources, with permanently damaging consequences.[76] Drier conditions and greater needs will lead to the further destruction of limited and fragile water resources.

If the country is to seriously tackle this issue of increasing water scarcity it has to find other sources. Looking, for instance, at desalinization plants, Algeria's desalination capacity in 1996 was only 190,837 cubic metres/day, compared with Saudi Arabia's over five million, Libya's over 638,000, or even Bahrain's 282,955.[77] Although Algeria has in recent years put more effort into building desalinization plants and water recycling plants, it has a long way to go to catch up. The availability of financial resources at this juncture pleads for them to be reinforced, as the country might not be able to fund such plants in the future. Algeria also needs to start looking at its overall water policy and to make it as stringent as that of the old Islamic state, when a water tribunal was empowered to ban misuse and waste. Currently, irrigation wastes so much water through overuse, poor connections, inadequate drainage systems, etc.[78] Besides, as Kayamanidou observes, although water is at the centre of ecosystems and human development, in the Mediterranean region it is all the more important because it is so scarce, fragile, unequally distributed and over-exploited.[79] Moreover, the considerable water volumes stored in large deep aquifers in Algeria, as in neighbouring Saharan countries, are non-renewable resources and their use is consequently not sustainable. What is pumped from these aquifers is lost for ever.

Supposing Algeria resolved its problem through a combined policy of desalinization, water-saving schemes, better management of its resources and so forth, it might still be impossible for Algeria to maintain its present southern towns and cities in view of continuing increases in their populations. First and foremost, water resources in these Saharan regions are overwhelmingly from 'fossil', non-renewable resources. Already the usual symptoms are present: increased demand met with difficulty and falling water resources. In the 1960s in these southern towns and cities, ten litres per person per day was the average use. Today, new demands such as irrigation for gardens, illegal pumping, wastage of water, the requirements of small urban industries, all mean that the needs have risen to 400 litres per person a day in El-Oued, 500 in Biskra, and 700 in El-Golea.[80] Demand by the oil industry and agriculture has also increased considerably. In addition, the number of people has doubled in the last 20 years. Under drier conditions, it is impossible to expect much relief from rainfall, except once in a while. This is confirmed by some recent figures for the traditionally rainy months of November and December 2000 in some major southern cities.[81] Ouargla, Ghardaia and Touggourt received no precipitation whatsoever in those two months; El-Abiod received only 0.5 mm, Bechar 1.9 mm and Biskra 3.5 mm. It is highly improbable that most Algerian southern oasis towns will survive a drier future with more people. As the desert encroaches more and more, and with reduced financial means, their fate could already be sealed. The demise of some of Algeria's southern towns is more than likely before this decade is out. In the words of Allan:

> Water is part of the economic fabric of a political economy. It is a factor of

> production in the productive sectors; it is an essential source of environmental capital for an economy… Traditional perceptions determine the value of water as well as its cultural significance. The latter is often powerfully reinforced and therefore legitimized by commentary in religious texts. Contradicting this wisdom, there are in contemporary currency, widely and deeply held perceptions of entitlements to access water sources, which are believed limitless… Empirical observation does show that there is not enough low quality, high volume, water in the Middle East and North Africa region to grow the food needs of the population. Nevertheless expectations are deeply embedded that there is enough water in the region for all human needs.[82]

CONCLUSIONS

A recent study of unemployment in a set of countries that includes Algeria projects the active population to increase by 3.7 per cent a year between 2000 and 2015.[83] This means that to cut unemployment in half by 2015 will demand an annual rate of growth of employment of 5.0 per cent and a real growth of GDP of 6.5 per cent, plus a capital/job performance enhanced by roughly 300 per cent.[84] This is unimaginable in view of the moribund state of the Algerian economy. The authors of this 2001 paper, Dhonte et al., make the mistake of suggesting a solution to this problem that consists of launching massive housing projects.[85] But where is the capital and where are the construction materials, which in part will have to be imported? Where is the water to supply these new houses, and how much good agricultural land will be lost to such massive housing schemes? Furthermore, housing the masses in Algeria and employing them could well encourage them to increase family size, which would worsen the demographic situation.

Arguably, Algeria requires alternative and more drastic policies. Initially it has to achieve zero population growth within a decade or two. This would provide scope for tackling environmental problems, in particular water shortages. It is imperative that Algeria avoids a return to the populist policies of the 1960s and 1970s, and to the command economy style of state capitalism of the previous decades that, arguably, bequeathed Algeria the legacy of its present economic and environmental difficulties. Instead of a return to such populist policies, Algeria ought to seek a retreat of the state from economic management, which can be achieved through deregulation legislation. A research-orientated modernization and globalization of the country's economy ought to be attempted, together with a return to the democratic multiparty processes briefly espoused in the late 1980s. Political consensus is highly necessary to involve long-term investment, both domestic and foreign, in modern non-hydrocarbon industries, which alone can effectively resolve the chronic problems of unemployment and poverty outlined above. The country's grossly deteriorated environmental resources must be managed in a more sustainable way, in particular with a reassessment of the fragile and decidedly finite water resources. The warning signs concerning potential environmental catastrophe have been present for some time. A return to 1970s economic policies and associated demographic trends could reduce Algeria to a situation comparable with that of many sub-Saharan African countries, beset by a host of political, economic and demographic problems.

Regional fertility decline occurred during the late 1980s and 1990s, but the demographic pressure on resources, on the provision of schooling, employment and basic water supplies remains critical. Populist economic policies based on the country’s oil and gas wealth seem, in retrospect, to have exacerbated Algeria’s population-resources balance. With a population 2.5 times that at independence and with expectations raised beyond social and economic realities, Algeria urgently needs to complete its demographic transition. The transition to a sustainable economy at a higher level of economic development and to a democratic political situation would appear harder to achieve.

NOTES

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CHAPTER 13
The Algerian Immigrant Community in Europe

SALAH MEZDOUR

Under various forms, individual or collective, intentional or forced, the movements of populations are deep-rooted in world history. They are in some respects due to economic, political and other diverse factors. The case of Algerian emigration to France and Europe embodies all determinants, which are more or less pronounced by case particularities.

This chapter is primarily informative. Its main objective is to highlight a contemporary phenomenon, which concerns the host countries as well as those of origin. Thus, after dealing with the origins of migration, the circumstances surrounding its evolution are presented. Next, the perspectives are examined as they are revealed by private (concerning only the migrants themselves) or public decisions, via policies initiated by the authorities of different countries in order to control the flows, improve the integration or dissuade potential emigrants. Finally, the migrant community's real or potential contribution to Algeria's economic development is also reviewed.

GENESIS OF MIGRATORY FLOWS BETWEEN ALGERIA AND EUROPE

Migration from Algeria to Europe has its origin in history, economic conditions and socio-demographic circumstances.

The historical foundations of Algerian immigration

The French colonization lay behind migration. In fact, before 1830 the Algerian economy had experienced a nearly permanent agricultural-pastoral balance. This was based on regular exchanges between the north and the south of the country. Colonization was to drastically change this balance. By favouring the emergence of a 'trade economy' (turned towards the external market) and expelling the indigenous populations—after their expropriation, of course—to mountainous zones, colonial policies generated the mechanisms of a rural exodus towards the cities, which, in its turn, sustained migratory flows towards France. Deprived of their means of production (land was their only one) and in order to meet their needs, peasants would swell the number of job seekers in urban areas. Furthermore, the absence of a policy of economic development had the consequence of generating low levels of industrial or agricultural jobs, which increased the countryside's population movements towards the cities, creating a migratory pressure that eventually expressed itself when the conditions were favourable.

The economic causes of migratory flows

The historical and economic causes are closely linked. When expelled from their lands, the peasants sought means of subsistence through wage-earning jobs. They would try to sell their labour to colonial agriculture or to the emerging industry in towns, and even in France. Moreover, by destroying traditional crafts, the new industries, although fragmentary, deprived the country of jobs that this established sector, flourishing until then, had offered before the colonization.[1] Today, only some marginal activities remain.

Hence colonization was to create at the level of the whole economy a mass of manpower immediately available, that would serve as a reservoir for the migratory flows.

The socio-demographic origins of emigration

The economic and historical contexts determine the socio-demographic features of emigration. The large numbers of people who had been driven to arid regions and not very accessible zones in the mountains and in the south were to make up the waves of migrants almost exclusively.[2] Therefore, emigrant populations present invariable features, at least as far as Algeria and the other North African countries are concerned:

- A young population: the persons of working age who leave their regions of origin.
- A poorly educated population: having no qualification or aptitude to acquire qualifications beyond on-the-job training; this category is particularly vulnerable to the harsh conditions of the labour market (difficult tasks, low wages, etc.).
- A rural population and often from very deprived conditions: by leaving the countryside the candidates for exile would empty their home regions of their labour force, with the result that some activities would be abandoned there. This would accentuate the precariousness of the economic situation in these regions.

All these elements—common to emigrants from the Maghreb countries—are significant in that they determined the features of this migration, along with the kind of solutions to be proposed to it later.

EVOLUTION OF MIGRATORY FLOWS

The evolution of the Algerian emigration to Europe, and particularly to France, can be characterized by a transition from an economic migration to a structural presence. This reflects an evolution in the behaviour of migrants who, driven at the beginning by economic motivations, turned afterwards into a permanent settlement in the host countries.[3]

The era of revolving migrations

This period coincided with the reconstruction effort in Europe. Driven by the lack of alternatives in the country of origin and attracted by a growing need for manpower in France, the emigrants arrived in constantly increasing numbers. It was a question of satisfying the labour needs of western countries' economies. Indeed, the economic predictions at that time considered that these needs were temporary, and consequently that emigration was provisional and would be stopped at a certain stage. A return to the country of origin was then expected.[4]

However, the persistence of economic growth was to contradict these predictions. The need for labour became permanent and, as a consequence, brought about the extension of the immigrants' stay in host countries. As a result, immigration became a structural fact of European economies, notably because of the attractive circumstances stemming from the economic boom. It then led to increased inflows.[5] This new situation would inspire the policy measures later embarked upon to solve the problems that migration posed, following the intensification of the crisis and its corollary, the increase of unemployment (lack of wherewithal to return home, integration policy, etc.).

During the immediate post-war period and until the end of the last century, the number of immigrants present in France grew from 1.9 million in 1946 to 3.8 million in 1975, and reached 4.3 million in 1999.[6] In terms of volume, the immigrant population in France of North African origin represents various countries, as indicated in Table 13.1.

TABLE 13.1 MAGHREB MIGRANTS IN FRANCE (THOUSANDS)

Years	Algerians	Moroccans	Tunisians
1962	350	33	27
1968	474	84	61
1975	711	260	140
1982	805	442	191
1990	614	573	206
1999	477	504	154

Source: Institut National de la Statistique et des Etudes Economiques (INSEE), *Le recensement de la population* (Paris: INSEE, 1999).

Among this population, the relative proportion of Algerians passed from 11.6 per cent in 1962 to 11.7 per cent in 1968, 14.3 per cent in 1975, 14.8 per cent in 1982, 13.3 per cent in 1990 and 11 per cent in 1999. In the same way, the number of Moroccan immigrants is constantly increasing, notably to fulfil the needs of the mining industry. Their relative proportion reached 1.1 per cent in 1962, 3.3 per cent in 1968, 6.6 per cent in 1975, 9.1 per cent in 1982, 11 per cent in 1990 and 11.7 per cent in 1999.

The distribution of the immigrant population by socio-professional categories shows the low social and professional mobility that essentially characterizes it. This exposes the immigrants to the adverse effects both of the economic crisis—especially unemployment—and of xenophobia. On the whole, half of these populations are labourers, one-quarter are employees and only 7 per cent are managers. This reveals perfectly the insignificant social mobility that the immigrants experience in their host country. It is more serious for women of immigrant origin.[7]

Moreover, the concentration of immigrants in declining industries such as steel, coal or textiles gives good reason for the high rate of unemployment in this category. Indeed, since 1990 the number of unemployed immigrants has increased by one-third, whereas the immigrant population itself has increased by less than 8 per cent during the same period. In 1999 more than 500,000 immigrants were unemployed, that is, 120,000 more than in 1990. By 2002 unemployed immigrants represented 15 per cent of the unemployed, but only 8.6 per cent of the working population. This over-representation is partly due to their qualifications, which are less than average. The immigrants' unemployment rate is higher than the average; it has reached 22 per cent of the immigrant working population, that is, nine points more than the average rate of unemployment (13 per cent of the entire working population). Immigrant women are more affected by unemployment than men: 25 per cent as against 20 per cent. Since 1990, the unemployment rate of immigrants has increased from 18 per cent to 22 per cent.

The unemployment rate of the French by birth is 10.1 per cent, that of the French by acquisition (those who have acquired this citizenship by naturalization) is 17.9 per cent, or eight points more (Table 13.2). Immigrants, even those who hold French nationality, are the most affected by unemployment. However, they are in a better position than foreigners. Furthermore, men and women do not have the same position in the labour market. Men are more frequently employed in construction (one immigrant out of five works there, but almost no women), and less in the services sector. Immigrant women, however, are in the majority in this sector (about 86 per cent of the total). For the most part these are jobs in private domestic services.

The immigrant population, which is uneducated and thus less qualified, is affected by the labour market segmentation and suffers under-employment and unemployment. As a corollary it is deprived of any possibility or chance to enhance its human capital, largely because of the lack of adequate training programmes.[8]

TABLE 13.2 RATE OF UNEMPLOYMENT OF FOREIGNERS

Nationality	All	15–24 years	Women
European Union	10.1	19.0	10.0
Non-EU	31.2	48.0	36.8
Algeria	35.6	64.8	41.3
Morocco	34.4	50.8	44.3
Tunisia	35.4	58.7	46.6

Source: INSEE, *Tableaux de l'économie française* (Paris: INSEE, 1998 and 1999).

The decision to halt further official immigration in 1974 created a new attitude among the majority of immigrants. The trend was henceforth that of settlement in the host country. It caused a slowdown in the number of people returning to their country of origin for good.

The result was 'the end of the myth of return', an increase in familial reunification and a growth in the number of people opting to acquire the nationality of the host country.

The era of immigration settlement or 'the end of the myth of return'

The economic crisis and its effect on the labour market, the arrival of a second or perhaps a third generation, along with limited economic prospects in the countries of origin, are some of the factors that explain the changing attitudes that tend to turn immigration, which started for economic reasons, into a settled population. This trend is reinforced by three significant factors: the decrease in home returns in spite of incentive policies, the growth in arrivals of immigrants' dependants (spouses and children) and the increase in the number of those who acquire the nationality of the country of residence.[9]

First, after officially deciding to stop any immigration into Europe from 1974, the governments concerned attempted more or less successfully to promote the return of immigrants in order to regulate the labour market. Such a policy has been practised in France since 1977. However, it has had no significant effect in encouraging returning candidates. In fact, in four and a half years of enforcement, this measure affected only 94,000 persons, including their dependants, 13,354 of whom were unemployed.[10] Within the same period there were 100,000 entries of workers and 190,000 members of their families. The limited success, if not outright failure, of such a policy is quite apparent. On the other hand, there has been a strengthening of family reunion and acquisitions of nationality.

Second, family reunion is considered as a right that allows an immigrant to have a family life.[11] The Ordinance of 2 November 1945 assigned this task to the National Office of Immigration, today called the International Migration Office (Office des Migrations Internationales). This institution had been charged with managing the entries of workers and their families to France. From a marginal phenomenon at first, it expanded when the demand for manpower became a structural fact of western economies and when periods of stay were extended for the immigrants. The first Algerian families arrived in 1968, preceded by the Moroccans in 1963 and Tunisians in 1964.[12]

Between 1960 and 1973, 57,000 dependants benefited annually from the measure, with a peak of 81,500 reached in 1971. Since then the flow has been in steady decrease and the number of Algerians was about 6,000 persons per annum. This started to fall further from 1994 onwards.[13]

There were 18,000 entries of Moroccan origin in 1976. They provided the most important contingent, even though in decline following the trend of the other Maghreb countries. This general regression was due to administrative cumbersomeness and the evolution of legislation that was sometimes permissive and sometimes restrictive. The management of family reunion did not escape the general tendency towards restrictiveness. Its very tight control, and often its limitation, was among the obstacles to the circulation of other countries' citizens. Drastic measures were brought in to constrain the plan. These consisted mainly of checking out the ability of the immigrant to receive his dependants before the decision to accept the first newcomers was taken. Conditions such as accommodation, resources and so forth were checked out. This explains why the number of admissions as such greatly declined from 1995 onwards.

Finally, the acquisition of the host country's nationality is the most revealing sign of the change in immigrants' attitudes. It expressed a strong will to be settled in the receiving countries. Moreover, this phenomenon has witnessed an increasing feminization. In ten years, between 1988 and 1997, the number of applications submitted by women grew from 40 per cent to 47 per cent. This went together with the growth of women of immigrant origin in the labour market, where parity has been reached. In 1999, the number of working immigrants resident in metropolitan France was 2.25 per cent, of whom 35 per cent acquired French nationality. Taking into account all sorts of applications, the figure for French nationality acquisition was 116,000 in 1997.

Initially confined to people of European origin, the range of beneficiaries was to expand beyond this category in the wake of decolonization, and particularly after the suspension of official immigration in 1974. Since then, applications submitted by immigrants of North African origin have seen a constant increase, followed by applications from southeast Asian countries. After a long-standing hostility towards the acquisition of French nationality—in part because of the common colonial past—the Algerians started to arrive at the beginning of the 1970s. Since then, the North Africans have represented nearly 10 per cent of the total with a constant increase. From 1980 the rates of North African naturalization have multiplied by 250 per cent. Thus the image of the temporary immigrant faded in the face of what has become the dwindling of 'the end of the myth of return'. Moreover, the number of naturalized people of North African origin has been in constant increase, to reach 16 per cent in 1980 and even 40 per cent since 1992. In 1997, the Algerian were the majority of those who became French.

In total, during the 1990s the North Africans represented nearly half of those acquiring French nationality, a trend expected to continue in future. In fact, the acquisition of nationality is considered to be the main factor in integration. Furthermore, according to the results of the population census of 1999, the number of Algerians having French nationality was 157,000. The number of Moroccans was 133,000 and Tunisians, 81,000. This proves and confirms the will of many to settle definitively in the host country and to integrate into French society.

The three factors examined inform national policies on immigration and condition to a large degree the prospects offered to immigrants, notably through a sketching out of a community policy in this context.

MIGRATION POLICIES AND IMMIGRATION PERSPECTIVES

State policy towards foreigners and their descendants traditionally rests on a threefold basis that successive governments have not called into question. It relates to the control of the flows, the integration of legal immigrants and cooperation with countries of origin. However, within the framework of their migration policies, states are mainly concerned about the management of the flows of people entering their territories—the invasion syndrome dear to the extreme right. In Europe, individually or collectively, governments have opted for much more restrictive policies.

The economic crisis and the suspension of official immigration since 1974 were to inspire national policies on migration issues. They were also behind the outline of a community approach in this respect. Restrictive policies have engendered the phenomenon of illegal immigration, and consequently the growth of an informal or parallel economy.[14] Since the 1970s—a period corresponding to the hardening of the labour market, the first victims of which were the immigrant populations—European policies on migration had, with slight variations, followed one of two solutions when they were not implemented concomitantly. These were control of the flows and the process of integration.

Policies of monitoring the migration flows

The state of the labour market and the attempt to reduce unemployment rates have led to the need to monitor migration flows. In France, endeavours to do this have taken many forms: a strong encouragement to return home, the regulation of family reunion, changes to the relevant legislation (manipulation of the nationality law) and, finally, the fight against illegal immigration —given its scale it goes beyond national scope and falls within the EU's prerogatives.[15]

First, a policy measure consisted of granting incentives or 'home return financial assistance' *(aide au retour, aide publique a la reinsertion* and *reinsertion aidée)* to help those immigrants who wish to go back to their countries of origin. The principle remains that of free will. In spite of the improvements introduced here and there into the programme, its results remain below expectations. As has been mentioned, the returns concerned only those who intended to go back home and do so only because they have no particular ties in the host country, for instance. The outcome of the operation is very controversial and the overall figure for migratory settlement remains positive.

Second, family reunification, along with students and asylum seekers, is one of the only legal means that remain for admission of foreigners to French soil. Thus a relatively tolerant period has been followed by a much more restrictive one. Indeed, the admission conditions multiplied and became tighter, so as to discourage immigrants from bringing their families. However, despite the decrease in numbers during recent decades, the programme remains in force and allows foreign dependants to join their parents settled in France. At the community level, from 1993 EU member states adopted a resolution that aims at harmonizing national laws in this context.[16]

Third, to stem the tide of immigration flows, European countries have put in place legislative measures that fall within the framework of entry and stay of foreigners in national territories: visa policies, acquisition of citizenship, and so on. Their intention, in fact, is to limit to the maximum the effect of the 'pull' forces engendered by the flexible policies of the previous period. As for the conditions of access to nationality, France returned to the principle of birthright alone *(le droit du sol simple)* after its amendment.[17]

Finally, the economic crisis and the growth of unemployment have led to the suspension of official immigration. The logical consequence was the appearance and development of illegal immigration. This was furthered by the growth of an informal economy that took on alarming proportions in some countries of the EU, particularly its southern member states. In that case the solution requires an EU-wide approach, since the control of borders exceeds a national scope or remit. The Schengen arrangements are the clear expression of such an approach. Yet, despite the development of instruments of control (Europol, for example), the pressures on borders remain ongoing. The tragic end of some migrants indicates the persistence of the phenomenon and the necessity to double vigilance in order to curb it. But illegal immigration is a complex phenomenon that often transcends the EU framework to become an international problem, requiring multilateral cooperation between country of origin, host country and international institutions. This approach becomes urgent with the development of international movements of people driven by political rather than economic motives.

The concepts of illegal, paperless or undocumented, irregular, etc., cover complex realities and individual trajectories that fall more within a case by case situation rather than a collective processing. The number of illegals is difficult to work out or determine, and difficult to approach because of those who leave the territory without reporting it.

Western countries have frequently proceeded to legalization programmes (see Table 13.3), as was the case in France in 1981 and 1999. Candidates for legalization come essentially from former colonies. Their number soared after the institution of compulsory visas from 1986 onwards. In regard to North Africa, 20,500 Moroccans, 19,000 Algerians and 8,600 Tunisians were legalized. It is within the framework of the initiative started in 1997 that more than a half of these people (25,000) have had their situation legalized.[18]

TABLE 13.3 MAIN LEGALIZATION PROGRAMMES (THOUSANDS)

Country of origin	1981–82	1997–98
Tunisia	17.3	4.1
Morocco	16.7	9.2
Algeria	11.7	12.5

Source: OCDE (SOPEMI), *Tendances des migrations Internationales* (Paris: OCDE, 1991, 1998 and 2001).

The impulses behind the illegal immigration are not different from those of immigration, but they correspond to a mode of migration confronted by flow restrictions. Moreover, these illegals rarely come from the most deprived classes, as is the case with economic migrants. Rather, they come from dynamic sectors: intellectuals, upper middle classes in regard to North Africa, and rural middle classes in regard to West Africa. This structure of illegal immigration raises problems of brain drain and mass exodus of manpower that penalize the countries of origin. This penalization is partly compensated for by the presupposed positive consequences of immigration.

Integration policies

The policy of monitoring the flows concerns the control of entries into national territory. The integration policy is aimed at immigrants who have settled and been in the country a long time, mostly the first generation, but it also covers those who are second and third generation. Its objective is to bring nationals and immigrants closer together, if only at economic and social levels. After all, it is a matter of preventing the marginalization of these populations. The instruments used range from making the access to rights easier, to the exercise of full citizenship and trying to incorporate foreigners into the city management (notably the district/area councils).

The political practices have always borrowed referential patterns from each other: the republican pattern or the French-style citizen. The particularity of the French practice is characterized by the predominance of the republican requirement for equal individual rights, leading to favouring the integration of individuals over that of communities. In the opposite pattern, described as the community one, the search for integration first goes through communities, which are developed for their ability to structure collective life and support individuals. This pattern of communitarianism is apparent in Anglo-Saxon countries. It should be pointed out that a systematic opposition between the two approaches is not effective. In fact, recent studies show the efficiency of communitarianism as a starting point for a successful integration of some nationalities, notably Algerian and Portuguese.[19]

Furthermore, there exists a traditional difference between northern and southern countries in dealing with integration. The northern ones are more advanced in this respect, particularly with the right to vote, which is given to foreigners resident for a certain period.[20] The communitarianization of an immigration policy would allow the resolution of these differences.

In France, alongside the reception policy, the immigration policy covers several measures to help those who face specific difficulties (language, culture, etc.) to adapt better to their new conditions of life. Among these actions are:

- Tackling school failures: success at school is a powerful factor in integration.
- Language courses: the mastery of language favours socio-professional integration and is a priority in the plan. About 75,000 benefited from this measure, 60 per cent of them women.
- Mediation: this is to put descendants of migrants in contact with public services. Thus, measures such as women intermediaries *(femmes-relais)* are promoted. Measures of the sort have recently been completed by the introduction of an adults' intermediary *(adultes-relais)* in districts/areas eligible for the city policy. Over a three-year period 10,000 such positions are expected to be created.[21]
- Preventing/fighting discrimination: this requires at once renewing and going beyond the integration policy. Article 23 of the Amsterdam Treaty prohibits all forms of discrimination.[22] In France, the government displayed for the first time in 1998 its intention to tackle racial discrimination directly. This was followed in 1999 by a round table.[23]

The consequences of European construction on the future of immigration

The European Parliament has always called for the setting up of a common policy that would govern the entry and residency conditions of foreigners on the EU territory.[24] Such a policy would rest on three premises: faithfulness to humanist traditions; guarantee of the rights of asylum seekers and refugees; and firmness in fighting the criminality associated with illegal migration.

The objective is to bring together, if not to harmonize, the rules in force to try to go beyond a minimum at the European level. It is also a reaction against the failure of the option of zero immigration, which did not prevent an increase in illegal immigration with all its adverse social, economic and human consequences. Moreover, the emphasis would be put on the acceptance of legal immigrants, who should, in the end, have rights and obligations comparable to those of European citizens. So far only the monitoring aspect of the flows has seen a beginning of implementation, especially through the creation of the Schengen space for free movement and of Europol, the surveillance institution over this space. The future of European policy will be set both at internal level and external levels that involve the emigration countries.

With respect to the internal level, the implementation of a common policy will contribute to improving the immigrants' situation in Europe. The question here is to go beyond the national constraints exerted through the principle of subsidiarity. It is also an additional guarantee of exercising certain rights that governments refuse to give to foreign citizens. Many actions are likely to improve the status of foreigners:

- Harmonizing nationality laws that will allow the reduction of disparities and avoid repetition of absurd cases or situations caused by differences between soil right and blood right. This is the present tendency, as seen in the flexibility of the German legislation.
- Furthering the integration of legal immigrants by making access to social and economic rights easier, and even to civic rights such as the right to vote.
- Taking into account the will and demand of immigrants, instead of proposing ready-made schemes of integration.

This requirement of common policy on immigration has met with some difficulties, in spite of the establishment, in March 1995, of the Schengen arrangements that removed the internal borders between the member states. In fact, to protect national interests, the states resist the idea of lining up their policies on a common norm. Moreover, the Commission advocates detailed European laws, whereas member states attempt to keep their national laws. Finally, since the beginning of the year 2000 a return to regulation policies at the national level can be observed. All aim at promoting a selective immigration and at the same time fight against illegal flows. In addition, these policies lack a genuine policy of co-development in favour of the emigration countries to stop the flow of would-be migrants. For this, North-South cooperation in its global entirety ought to be considered again.

As for the second level, that of the external relations with emigration countries, the issue is to embark on a cooperation that is off the beaten track, and that the partnership endorsed at the Barcelona conference in 1995 could not do a great deal to change. The objective is to reduce the migratory pressures in the South. Two challenges are to be resolved in common, and represent two kinds of imbalance at the economic level:

- Imbalance in economic development: Europe cannot resist migratory pressures from the South as long as the economic development level is not substantially improved. A rise in living standards and employment opportunities in the South would help stop would-be migrants. The EU would benefit by investing more in the South.

- Demographic imbalance: it is the population explosion in the South and the deficit in the North. Indeed, southern countries have failed to make their demographic transition, which would have alleviated the burden of maintaining acceptable levels of public services. Here as well, southern countries expect some assistance from the EU to help them control their demographic growth.

Nevertheless, the EU’s migration policy is effective in several ways. First, it allows the consolidation of what is called the *‘acquis nationaux’* (established rules and practices at national level). Next, it makes up for the failure of restrictive policies that did not succeed in curbing the illegal immigration they engendered. Lastly, the EU-wide dimension offers a greater guarantee of rights against the arbitrariness of individual states. It is true that there still remains a need for skilled workers coming from abroad with profiles different from traditional immigration. This is notably the case of scientists and leading sportsmen/sportswomen, who have no problem entering the countries of the Union.

Thus despite the change in the nature of immigration (the shift from migration for economic reasons to a settler migration), the evolution of national policies on immigration (the prevention of and fight against illegal flows, and the will to integrate legal immigrants) and the emergence of new forms of immigration—illegal immigrants, and asylum seekers who may include highly skilled persons—certain questions remain unresolved. These are mainly:

- The representation of immigrants that includes their participation in local elections, as is the case in some countries of northern Europe. This question is partly settled once nationality is acquired. As for the remaining categories, the question can be resolved by setting up some sort of specific representation of immigrants.
- The status of individuals and integration: what would become of people in an illegal situation? Those who are hit by the system of double penalty? Without an urgent answer to these questions, the risk is that more people will be encouraged to come as illegal immigrants.
- The role of each institution: state, local authorities/governments. In short, there is a lack of collective debate in France about immigration and integration issues, that is, of a serious parliamentary debate. However, a questioning is beginning to take place at national level that should be encouraged.

THE EFFECTS OF MIGRATION ON DEVELOPMENT

Having examined Algerian emigration from its foundation to its evolution and prospects, to have a more comprehensive representation it is worthwhile assessing its real or potential contribution to Algeria’s economic development. The issue here is whether migration furthers the economic and social development of the country of origin. Such a contribution can be noticed at two levels. The first is direct, and concerns a skilled labour force that benefited from its involvement in European economies. The other is indirect, and relates to the use made of the funds transferred by migrants to their country of origin.

The direct contribution: a skilled labour force

This aspect is less significant, since migrants—especially the first generation—have a low level of education and are therefore less eligible for training programmes. With fewer people tempted by the idea of returning home, it is quite clear that a limited direct participation of migrants in the economic development of their country of origin could be expected. This situation reflects the vulnerability of this population group to unemployment, as it also experiences the effects of labour market segmentation and the limited opportunities for social mobility.

The indirect contribution or the use made of remittances

Remittances proceed from two considerations: to support the families left behind in the emigration countries on the one hand, and to save for an eventual permanent home return on the other. It is these savings that ought to be mobilized. However, depending on the country, the significance of the mobilization varies according to the economic development of the country of origin.

At the macro-economic level, the transfer of funds represents a huge amount. For example, it exceeds the receipts derived from the export of phosphate in Morocco in the 1990s. Yet this quantitative increase is not always followed by qualitative improvement as far as use of the funds is concerned. In fact, the sectors that benefited the most—in the case of Morocco, housing and services—had no subsequent flow-on effects for the rest of the economy. Therefore the evolution of transfers and the use made of them tend to show that this sort of participation in national economic development is quite ineffective.

It appears that Moroccans transfer more than the other Maghreb migrants (see Table 13.4). However, there has been a considerable drop in the amount of money remitted by the Algerian migrants. Two reasons explain this situation: the growth of family reunification—which does not account for everything—and the practice of parallel exchange, that is, of supplying Algerians in Algeria with funds in France that allow them to purchase products in short supply, in return for the equivalent in Algerian currency. One should also point to the almost non-existent state policy in this respect. The economic situation during the 1980s and 1990s furthered the diversion of funds towards more profitable parallel circuits. Expressed in terms of export of goods and services, the transfers in 1995 represented merely 2 per cent for Algeria, while it was 22 per cent for Morocco and 8.5 per cent for Tunisia.

Despite the relative importance of funds transferred, the economic significance of migrants' remittances is measured by the use made of them in the country of origin, that is, the proportion used for purposes of investment in the production sectors (agriculture and industry) to increase material production and therefore raise living standards. When choosing opportunities for investing migrant savings, Maghreb migration does not reflect this pattern. This is attributed to two major factors: the practice of parallel exchange and investment in the tertiary sector.[25]

TABLE 13.4 RECEIPTS OF WORKERS' REMITTANCES, SELECTED YEARS

	Total (million dollars)			Exports of goods and services (% of)		
	1990	1995	2000	1990	1995	2000
Algeria	321	168	–	03.0	01.9	–
Morocco	2,006	1,970	2,161	32.2	21.8	20.7
Tunisia	551	680	796	10.6	8.5	8.1

Source: UNCTAD, *Handbook of Statistics 2002* (New York and Geneva: United Nations, 2002) and World Bank, *World Development Report* (Washington, DC: World Bank, 1992 and 1997).

The economic situation of the Maghreb countries requires that the money transferred should go first and foremost to productive sectors. Nevertheless, for some personal reasons, the migrants make a quite different use of their savings. In fact, the determination not to work as wage-earners and to avoid the sectors where public policies are more restrictive accounts for the poor attractiveness of productive sectors as a destination for their money. Given the lack of recent statistics, those of the 1980s give some indications of how the transfers of migrants were, and probably still are, distributed among the different economic sectors. Table 13.5 reveals this state of mistrust towards agriculture and industry.

TABLE 13.5 DISTRIBUTION OF MIGRANTS' INCOME BY SECTORS OF ACTIVITY (PERCENTAGES)

Nationality	Grocery retailing	Transport	Agriculture	Other trade activities	Total
Algerians	43	26.4	12.3	11.6	93.3
Moroccans	43.5	–	28.7	15	87.2
Tunisians	19.8	–	27.9	19.8	67.5
Spanish	26	–	44	20	90

Source: Gérard Moreau and Marie-Hélène Debart, 'Le retour et la reinsertion des travailleurs étrangers aux pays d'origine', *Revue de Droit Social*, 9–10 (1985).

It is evident that migrant savings are to a considerable extent invested in retail trade. The pattern is different in Spain, where agriculture absorbs almost half of the savings. The case of Algeria is quite revealing. Even with its inefficient agriculture and imports of agricultural products dominating the country's trade balance, this sector does not seem to be high on the public agenda, let alone be a priority or main concern for migrants. Indeed, in all three countries, Algeria, Morocco and Tunisia, the tertiary sector remains predominant as a first choice for investment. Without underestimating the importance of other activities, it is obvious that economic development remains, to a large degree, dependent on agricultural and industrial production.

Combined with the poor direct contribution of returning migrants as a skilled labour force, the use made of remittances or savings seems to confirm the limited role of the migrant community in the economic development of the Maghreb countries. Worse, migration can be seen as an outflow of skilled (brain drain) and unskilled (young manpower) labour, as it can reinforce dependency by importing the consumption pattern it represents. On the other hand, it can bring to the host countries greater flexibility in the labour market.

NOTES

1. Before colonization, some Algerian towns witnessed a variety of manual jobs that largely met local or domestic needs.
2. This was to be the case concerning Moroccan and Tunisian migrants thereafter.
3. When speaking of Algerian migration in Europe, it is often the case of France that is referred to. However, this reference to the French situation does not affect the relevance of the case, since emigrants behave alike independently of where they are.
4. During this period the migrant travelled alone and returned home regularly.
5. From the late 1950s some agreements were signed with sending countries, aimed at curbing the flows of new migrants and regulating labour market needs.
6. INSEE, *Les émigrés en France* (Paris: INSEE, 1997); INSEE, *Le recensement de la population* (Paris: INSEE, 1999).
7. INSEE, *Le recensement*.
8. Annick Loreal, ‘La promotion professionelle des travailleurs immigrés en France: des perspectives limitées’, *Problèmes Economiques,* 1793 (1982), p. 19.
9. There are two ways to obtain French nationality outside the right by birth in France: either through the procedure of a decree (naturalization, integration), or by declaration (a French spouse, for example).
10. This is called the ‘one million home-return financial assistance’ programme *(‘Aide au retour dite du million’)* set up under the Raymond Barre government and aimed at encouraging migrants to return to their home country through providing financial incentives.
11. The right to a familial life for the immigrants was ratified by the Ordinance of 2 November 1945 that fixed the entry and stay conditions of foreigners.
12. These data take into account the fact that at the time Algerians benefited from French status and were not included in the census as foreigners.
13. For more details see INSEE, *Les émigré en France*.
14. It is solely for reference that this aspect is referred to. The informal economy represents a major issue that deserves greater investigation, but it is not the purpose of this chapter.
15. For a further account, see Ahmed Aghrout, *From Preferential Status to Partnership: The Euro-Maghreb Relationship* (Aldershot: Ashgate, 2000), pp. 90–6.

16. The EU summit in Copenhagen in June 1993 set minimal rules governing the admission of foreigners within the framework of familial reunion: accommodation, resources, and so forth. In addition, there are national regulations according to the principle of subsidiarity.
17. The Pasqua-Debré laws amended the nationality code to make birthright conditional on a voluntary declaration. The Chevènement laws reinstated the unconditional right of soil.
18. OCDE (SOPEMI), *Tendances des migrations internationales* (Paris: OCDE, 2001).
19. Jacques Barou, 'Le rôle des communautés', *Sciences Humaines*, 96 (July 1999), pp. 26–9.
20. This is not the case in France, where the right to vote is recognized only for nationals and citizens of the EU. A Finn can vote in France, whereas a North African resident for a decade cannot.
21. See Circulaire DIV/DPT-IEDE 2000–231 of 26 April 2000 related to the implementation of the adults' intermediary scheme within the framework of city policy, *Bulletin Officiel Solidarité-Santé*, 28, 535 (31 July 2000).
22. Two EU directives were adopted in 2000. One recommended fair treatment of third country nationals; the second set the general framework that would promote equal treatment in employment.
23. Other initiatives were taken to consolidate this political orientation: the national meetings on citizenship *(Les Assises Nationales de la citoyenneté)* in March 2000, the creation of departmental commissions to deal with access to citizenship in 1999, and the creation of a central phone service that receives complaints of discrimination (telephone number 114).
24. The 1999 Amsterdam Treaty, which for the first time established EU competence for immigration and asylum, provided, in Article 63 of the Treaty, for the development of a common policy within five years, with May 2004 as the target date. The European Council agreed in Tampere, Finland, in October 1999 on the elements required for an EU immigration policy. Since then, the European Commission has adopted a number of communications such as *A Community Immigration Policy*, COM(2000) 757 final, *An Open Method of Coordination for the Community Immigration Policy*, COM(2001) 387 final, *A Common Policy on Illegal Immigration*, COM(2001) 672 final.
25. This exists particularly among Algerian citizens and serves to supply the parallel market in products subject to shortage. The practice consists of putting at the disposal of fellow citizens, who are resident in Algeria, amounts of money that allow them to meet their supplies, and they in turn put at the disposal of migrants the equivalent in national currency, usually at higher rates than the official ones. Two effects are expected of this practice: a devaluation of the local currency with inflationary risk, and depriving of the public purse of this appreciable windfall.

Index

Page references for figures and tables are in **bold**