

Algeria

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|--------------------------------------|-------------|
| Status Index (Democracy: 4.23 / Market economy: 4.61) 4.42 | | Management Index 3.63 | |
| HDI | 0.722 | Population | 31.9 mn |
| GDP per capita (\$, PPP) | 6,107 | Population growth¹ | 2.5 % |
| Unemployment rate | - | Women in Parliament | 5.3 % |
| UN Education Index | 0.71 | Poverty² | 15.1 % |
| | | Gini Index | 35.3 (1995) |
| Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Population living below \$2 a day (1990- 2003). | | | |

A. Executive summary

The election of President Bouteflika in 1999 – and, largely, his overwhelmingly clear reelection in 2004 – has permanently shaped the political agenda of Algeria. In 1995, Bouteflika’s predecessor in office, Liamine Zeroual, ran a successful campaign based on the goal of finding a way out of the country’s civil war. Zeroual had concentrated his efforts on political-institutional normalization and the fight against Islamic terrorism. President Bouteflika continued the policies of his predecessor, supplementing them, however, with economic measures designed to reconstruct the economy and dismantle any persistent barriers to reform.

Yet, democratization efforts and economic reforms in the direction of a market economy promised by the new government were not as successful as expected by sections of the Algerian population and many in the West. President Bouteflika did enjoy a clear boost to his image because of the withdrawal of military influence from the political sphere in 2004. However, he did not introduce any significant or lasting measures that might improved the freedoms of assembly, association, the press and the protection of human rights. On the contrary, any real democratic transformation was prevented by the president’s obsession with maintaining control and by his persistent use of classical clientelistic methods.

Algeria’s relevant political actors are politically and ideologically split over the necessity for fundamental reforms. The actors also differ with respect to their willingness to insist on the prompt implementation of these reforms. The reform group within the government and among political parties is simply too weak to affect the rate at which reforms are implemented. An acceleration of reforms could take place only if the sole political veto power, in this case President Bouteflika, were to decide to pursue this energetically. This is, however, not the case.

The state of reforms in the economic sector looks more promising. Economic transformation has been supported by two major economic stimulation programs

(1999-2004; 2004-2009) and by high oil revenues over the past several years. The rate of implementation of these reforms, however, has not been tailored to match the magnitude of existing reform barriers; rather, it has been kept at a pace that seeks to maintain stability in the face of certain domestic issues and socio-politically motivated resistance, mostly from employee and trade unions. This slow transformation policy also results in economic misallocations, for example, in insufficient dismantling of subsidies. The population continues to cling to the “retirement fund mentality” because of their awareness of the country’s high oil revenues.

The status of Algeria’s overall transformation is ambivalent. Macroeconomic stability is clearly the most meaningful transformation success so far for which domestic actors are responsible. The key democratic and market reforms that must be implemented in the medium-term concern matters of stateness, institutional efficiency, the government system and administration, the fight against poverty, the fight for sustainable development, the effective promotion and use of human resources, the intensification of privatization, the transformation of Algerian companies into competitive players, and the development of the hydrocarbon sector, including job creation.

B. History and characteristics of transformation

So far, the political and economic transformation of Algeria has been uneven in terms of both speed and intensity. The country’s first liberalizing economic measures were undertaken in 1987/88, when the decrease in foreign exchange income from oil exports helped expose the dysfunctional nature of the structurally dependent and socialistically administered economy. This led to the end of the distributive rentier state. Political liberalization took place only in 1989, after the effects of nationwide urban unrest in October 1988 forced the government to liberalize politically and introduce a multiparty system.

The loosening of the single-party political system was designed to increase the acceptance of urgent economic reforms. However, on the contrary, it set into motion a set of dynamics in domestic affairs that benefited above all the Islamic opposition in its function as an alternative to the discredited National Liberation Front (FLN) Unity Party. As the only well-structured, nationally represented organization aside from the former Unity Party, the Front Islamique du Salut Party (FIS), which advocates an Islamic state and an Islamic social order, achieved victory in the local elections of 1990 and in the first ballot of the first pluralistic legislative election in December 1991. In January 1992, the intervention of the military – supported by secular personalities, parties and organizations (including the influential Federation of Trade Unions, and the General Union of Algerian Workers or UGTA, among others) – led to the resignation of the president, to the dissolution of the parliament and to an abortive election. After Islamic militants took up their armed struggle in 1992, a state of

emergency was imposed that continues to this day. Indeed, up to the election of a new president, Liamine Zeroual, in 1995 and the legislative election in 1997, a kind of "institutional state of emergency" prevailed. Thus, democratic transformation came to a grinding halt. The relevant political actors were nevertheless able to maintain the multiparty system and continue the process of political opening.

Political normalization was initiated in 1996 only after a clear containment of the activities of Islamic terror groups. After the legislative elections in 1997, the country once again made use of its constitutional institutions, and cooperative Islamic groups were offered the possibility of integrating into the political system. With the election of President Bouteflika in April 1999, the focus was placed on national reconciliation, international rehabilitation and economic reconstruction. (The damages resulting from the Algerian civil war are estimated at \$30 billion.) Starting from Bouteflika's reelection in 2004, focus was also placed on the completion of the reconciliation process and the goal of an economic upswing. The desire for control on behalf of the president, however, has so far prevented any actual democratic transformation, even though it remained high on his political agenda and dominated the rhetoric of the day.

Any initial impulses toward free market transformation were halted in 1992 with the installation of Belaid Abdessalam, an anti-reformer from the state monopoly period, as prime minister. Only after the dramatic deterioration of the economic situation were reformers able to succeed again in government. In 1994, this group implemented an IMF-sponsored restructuring program. The stand-by agreement with the IMF facilitated the conversion of debts and required that the government pursue policies of structural adjustment.

The subsequent intervention in the state economy resulted in macroeconomic stabilization but at an incredibly high social cost: from 1994-2004 up to 600,000 jobs were lost and a large informal sector developed.

At the same time, political opposition from the Federation of Trade Unions UGTA increased. The gradual reform measures introduced since then (including liberalization and deregulation measures and the abolishment of several monopolies) have established the fundamental attributes of the promised social market economy. They have also solidified the desire to become affiliated with the World Trade Organization and the European Union through an Association Agreement. Yet, during the period under review, the activities of the private sector and the flow of foreign direct investment were consistently obstructed by countless administrative barriers, deficient legal regulations and corruption, thus preventing job creation in the production sector, among others.

C. Assessment

1. Democracy

1.1. Stateness

Problems of stateness do not exist in Algeria despite continuing attacks by Islamist groups and in spite of the still unresolved Kabylie crisis. The state's monopoly on the use of force is established throughout the country. It is affected only selectively by some remaining terrorist Islamist groups of around 300-600 people, but these no longer represent a threat to political stability. Questions regarding the definition of who qualifies as a citizen (member of the nation-state) are of issue only to a minority of the militant Berberophone population. Overall, the question of stateness is not a relevant political question for Algerians. All citizens possess the same citizenship and the political process is formally secularized, even if Islam is the state religion. Non-Islamic religious communities (primarily Christian) are able to practice their faith freely. Open preaching is forbidden, however, and conversion to Christianity is punishable by law. In practice, the religion (including mosques and Imams) is under state control. The instrumentalization of religion for legitimate purposes is practiced by government as well as by Islamic organizations and groups. The separation of state and religion is made more difficult by an influential fundamentalist and religious-conservative current among the population, as well as by Islamists who reject such a separation.

The presence of the state is felt throughout the country in the form of a fundamental infrastructure. Public security and order are currently guaranteed largely by the state, but there still exist distinct areas in which terrorist groups endanger security and order. In the fields of education, health, etc., the administrative system and the state infrastructure are in place and able to function, but they are also overly bureaucratized, slow, corrupt and fundamentally in need of reform.

1.2. Political participation

The postcolonial Algerian constitution places a high value on the political participation of the population as a mode of governance. This is true even if electoral options up until the political liberalization introduced with the constitution in February 1989 were limited. A multiplicity of parties was represented in the legislative elections of 1991, as well as after the civil war in 1997 and 2002. Since the legislative elections of May 2002, nine parties and independents (30 deputies) are represented in the first chamber of the parliament, which has 389 seats. The conservative to reform-oriented parties (FLN: 199 seats; National Rally for Democracy or RND: 47 seats) dominate parliament with a total

of 246 seats, while the Islamist parties (Movement for National Reform, MRN: 43 seats; Movement of Society for Peace, MSP: 38 seats; Nahda Movement, MN: 1 seat) have a total of 82 seats. The smaller, often liberal and socialist-oriented parties have 31 seats. The make-up of the parliament reflects the political-ideological rifts within society.

The presidential elections of 1995 and 2004 also resulted in pluralistic representation, whereas the election of 1999 was only formally pluralistic because most candidates withdrew their candidature within a short period. In the 2004 presidential election, the incumbent Bouteflika was up against five competing candidates. Participants in all elections (legislative, presidential and municipal) were granted universal, active and passive voting rights. Turnout for the 2002 legislative elections and the 2004 presidential elections was high. Election results are tainted by electoral influence and manipulation, although this appears to be decreasing. The 2002 legislative elections and 2004 presidential elections were considered relatively fair. In the 2004 presidential election, the military leadership refrained from submitting a candidate for the first time. Within the constitutional presidential system, the elected president has various and extensive prerogatives.

In spite of its renouncement of direct political influence, and in accordance with the constitution, the military leadership continues to be able to exercise veto power (as it has done in the past) when it fears serious consequences for the political orientation of the country, for domestic security and for the balance of power as a result of political decisions.

The elected representatives of the first legislative chamber are, with respect to their power to legislate, not entirely authorized to implement laws; the second legislative chamber (the senate) performs a corrective function on the president, who exerts great influence on the make-up of the second chamber.

The creation of political and civil society organizations is freely permitted with only partial restrictions (primarily with respect to Islamist-oriented groups). Associations that define themselves according to ethnic and linguistic or cultural cleavages are permitted to exist and count among the most active associations at the local level in Algeria. Trade union activity is also permitted, both within the former standard union UGTA as well as in the countless new independent unions. The right to strike is guaranteed. The rights to assemble and demonstrate are only partially limited.

Freedom of information and opinion is limited, for example, where security issues are at stake and where criticism of the state exceeds a certain level. In such cases, the usual result is repression: the year 2004 was designated by international human rights organizations as a “black” year for trade union rights and freedom of the press in Algeria.

1.3. Rule of law

Considerable deficits exist in the Algerian presidential system with respect to independence, definition of competencies, and the system of checks and balances between the executive, legislative and judicial branches. The parliament has no real power of control in this system. The introduction of a second legislative body in 1997 led to the consolidation of the subordination of parliament in favor of the executive. The judicial branch is formally independent and institutionally differentiated. However, judicial decisions have been known to be affected by politics. Corruption is also a problem in the judiciary; the law is often implemented selectively and depending on political pressure. The abuse of office is common and represents a much-discussed topic in public. The fight against the misuse of office and bureaucratic corruption, as well as the improvement of the legal rights of citizens, is desired by wide segments of the population, including by non-governmental organizations (NGOs). The press often reports on corruption cases.

Civil rights have been partly suspended ever since the state of emergency that was declared in 1992. Laws that are in effect are themselves only selectively enforced by the administration. Civil lawsuits are lengthy and complicated by bureaucracy; the lack of legal protections has led to a loss of confidence in the justice system. Judicial reform is therefore an important segment of the reform agenda that was announced by the government in 2004. It is interesting to note that, in this case, the assistance of the European Union was accepted.

1.4. Stability of democratic institutions

Since the “institutional normalization” initiated after the 1996 presidential elections and the 1997 legislative elections, those existing institutions whose reform was not penetrated by authoritarian system have proven themselves stable and competent within the range of their responsibilities. Political measures were introduced to support the president and his informal decision-making but, however, not to strengthen the government and the parliament and to create a definition of competencies. A coherent and goal-oriented political program in the field of political reform was not achieved during the observation period. In some areas, several reforms were introduced at different rates, which resulted in a stabilization of power. Due to their short duration, however, the extent of state reforms (such as judicial reform) cannot yet be estimated.

The administration was plagued above all by inefficiency, by the lack of availability of sufficient state services, and by a lack of connection to the public. Clientelism and regionalism play an important role in the distribution of state services and allowances; increasing social protests in the past several years have consistently pointed to this problem.

State institutions are not organized in an effective system of mutual control; the executive branch does not have to answer to the legislative branch. Transparency in terms of decision-making simply does not exist.

The interests of the “representatives of the people” in parliament are closely aligned to those of their “clients”; the behavior of the respective party leadership is adjusted to the desires of the executive to secure their continued participation in power and in the resources of the country. However, none of the major participants questions the existence of any of the national institutions.

A transformation of the foundation of the current political system during the second political term of President Bouteflika (2004-2009) is not to be expected.

1.5. Political and social integration

Since the opening of the political system in 1989, party pluralism has developed and formally consolidated itself in Algeria. The party landscape is fragmented. The parties are characterized by a tendency to split when it comes to internal differences and rival claims to power. Parties are anchored in the population only on a superficial level. Popularity with the voters is dependent upon material promises (in the past, this has gone so far as to mean direct allowances just before an election) and promises that suggest a material improvement in the standard of living. In the presidential system, this means that the president’s party – or any party close to him or regarded favorably by him – is seen as the party with the best chances to actually fulfill the promises made. In this manner, the party is guaranteed to be successful in gaining voters. Party apathy is dominant in the younger generation. In Kabylei, for example, the representative function of parties has been increasingly rejected since 2001.

The parties form two political-ideological blocks: an Islamist and a non-Islamist one. Since the discrediting of the Islamist movement, clientelistic relationships have favored the FLN Unity Party – which has renewed its program and personnel – as well as its spin-off party, the RND.

There are countless interest groups in Algeria, some of which are affiliated with a specific political party. These interest groups are usually weak and, because they lack any potential for pressure and mobilization, are relatively cooperative with the government. The influential Trade Union Association UGTA and the autonomous trade unions represent large groups ready to protest and provoke conflict – particularly because of the degradation of the social situation of workers and the permanent threat of losing their job because of restructuring and privatization of state companies. Relations between the state and the trade union association UGTA have been cooperative since 2004, when the UGTA actively supported the reelection of President Bouteflika

Islamist and anti-democratic groups are active in the armed underground. According to the most recent official data, these groups currently number 300-600 people. State efforts to reintegrate their members into society have been only partially successful. The differentiation of civil society organizations is deep-seated. However, only 5,000 of the over 70,000 registered associations are operationally active. Their party or political affiliation determines whether they pursue a cooperative or confrontational course. Civil society organizations and a large part of the population generally focus on demands for the implementation of a just state and for the promotion of economic development. (No reliable poll data is available on the agreement among the population regarding democracy as a form of government.) Electoral participation cannot be used as an indicator as to whether the Algerian population is in agreement with democratic and market-economic transformation (2002: 46.17%; 1997: 67.08%). The relatively low election turnout in 2002 was the result of the protest by a part of the population against the party-political establishment and the insufficiencies of the system. The activities of the majority of civil society organizations are subject to financial and structural-organizational restrictions.

The nation has yet to deal with the human rights violations associated with the domestic political conflict with militant Islamism that broke out in 1992. In the context of the discussion regarding a general amnesty (since 2004), this question is currently a hot topic and a very controversial subject of discussion.

2. Market economy

2.1. Level of socioeconomic development

Despite the country's oil wealth, Algeria achieves only a low level of development and ranks 108th on the 2002 HDI with a value of 0.704 (central zone in the category "Medium human development"). During the period of observation, although there was a decrease in terrorist activities and the situation in the Kabylie has calmed, social exclusion did not improve due to continuing poverty, increasing regional disparities and gender discrimination. On the contrary, there was actually an increase in social protest in marginalized regions. In other words, Algeria did not see a reduction in regional development inequalities. The number of Algerians living in poverty varies according to each official source: The Conseil National Economique et Social (CNES) counts 15 million Algerians as living in poverty; according to statistics provided by the statistical office, only 15.1% of the population live under the poverty level of \$2.00 per day; according to the UN Human Poverty Index, Algeria ranks 43rd with a poverty rate of 21.9%.

The loss of jobs and purchasing power because of economic restructuring measures are the main causes of this poor showing. At the beginning of 2005, the statistical office announced an unemployment rate of 17.7% for the year 2004; in March 2004, the minister responsible spoke of 23%. The CNES listed a rate of

25.4% in 2004, which is nonetheless a decrease of over 8% from 2000. An impressive Gini coefficient is present.

The rate of illiteracy in adults remains quite high at 31%. Between 2001 and 2005, expenditures for education were usually less than that spent on defense. Average expenditures for healthcare amounted to only one-third of those funds spent on defense and achieved only a rudimentary supply of healthcare. Production of medicine is highly deficient and leads to an annual rate of imports costing approximately \$600 million.

2.2. Organization of the market and competition

The first basis for the transition from a planned to a market economy was introduced with the initiation of restructuring policies starting in 1995. Important transformation targets were established with the abolishment of monopolies and privatizations. These developments were hindered significantly by the employment protection policies of labor movements and by specific parties such as the Parti des Travailleurs (PT) (“Privatization = Selling out our country”). The reform or liberalization of the hydrocarbon sector, which had been controlled by the government since 2001/2002, was established by law at the beginning of 2005. In contrast, other sectors, such as foreign and domestic trade, were completely liberalized. In 2004, the import sector registered approximately 14,000 private importers. On the other hand, the large informal sector – which employs approximately one million people, 850,000 of which are street vendors – continues to represent a problem. Yet other liberalization measures were aimed at the agriculture and financial sectors. The EU Association Agreement (signed in 2002, ratified by Algeria at the beginning of 2005, EU ratification still pending) and the hoped-for membership in the WTO have encouraged the willingness for reform and have successively anchored Algeria in the world market. Possibilities for foreign direct investment have clearly improved as a result, especially in terms of security and politics. However, aside from the hydrocarbon sector, foreign investment remains small because of administrative problems and bureaucratic conditions (2004: hydrocarbon sector \$4 billion; non-hydrocarbon sector \$1.98 billion).

In spite of liberalization efforts, the bank sector remains dominated by the state bank. The private banks Khalifa Bank and BCIA were plagued by scandals that ultimately led to their liquidation and the harming of private banks in general. The ministerial order in the summer of 2004 inspired criticism of the fact that state companies are only permitted to operate via state banks. Because of the country’s slow privatization, Algeria’s stock exchange has only a small turnover. Algeria’s economic reform polices are taking the country on the right path, but yet, according to the IMF, Algeria still does not live up to requirements in terms of the

intensity and speed of reforms. Seen on a global scale, Algeria continues to have one of the least free economies in the world (Freetheworld 2002 ranking: index 4.6 = 118th of 123).

2.3. Stability of currency and prices

During the period under review, Algeria's ongoing inflation and exchange rate policies, which are set according to domestic interests, were successful – based on the standard of the 1990s. The inflation rate was 3.6% in 2004, a slight increase over 2003. This can be traced back to the negative price reactions in the face of the dollar's devaluation against the euro and including the factoring-in of oil and natural gas exports in US dollars and the largest part of the imports in euro. Algeria is not able to exert any influence on this development.

The Algerian central bank is not independent. Instead, it is guided in coordination with the Ministry of Finance (presidential appointments require cabinet decisions). However, the fiscal and debt policies are largely in accordance with the IMF ("prudent medium-term fiscal policy"). Considering high foreign exchange incomes, they are also characterized by early debt redemption. The reform of all matters relating to taxes is still being discussed.

2.4. Private property

The right to private property is defined by law. The acquisition of private property as well as the running of a private company is possible. However, wide-reaching corruption, inefficiency and the party-oriented nature of the courts represent a risk to anyone who owns private property, intellectual or copyright property. For example, efforts to combat product piracy are considered insufficient.

The process of privatization of state companies is accepted in principle, but it is advancing at too slow a pace according to both Algerian and foreign business people. Of the total 1,200 companies destined for privatization, only 111 were privatized by 2004; the denationalization took place with 49% private domestic capital, 14% by employees and 37% by foreign partners. The state organs responsible for privatization simply do not place sufficient emphasis on the process because of the substantial social resistance from the employees concerned.

2.5. Welfare regime

The existing welfare system is deficient. The health insurance and pension scheme applies almost exclusively to those employees in the formal sector. The war against poverty is a main field of action of the UGTA Trade Union Association, but the association lost much of its ability to apply political pressure because of its

support of President Bouteflika in the 2004 presidential elections. The state continues to subsidize things such as basic food, water, energy; the government is attempting to scale back these subsidies in line with IMF criteria. However, because of the high foreign exchange incomes (in 2004: \$31.5 billion; in 2000-2004, a total of \$124 billion), parliamentarians refused to implement most or all of suggested subsidy reductions in the 2005 budget. The pension and health insurance systems are currently being examined.

Equal opportunity does not exist in Algeria, neither in the entry to the labor market, in education, nor in terms of health care. This is primarily because deficits in the quantity of opportunities lead to distortions based on criteria such as social origin, language, gender, family influence, etc. The educational system has not offered equal opportunity since the 1980s; the attempt to overcome educational deficits by way of private schools requiring tuition is a direct result of this failure. Social differences become clearly apparent in education, for example in foreign study, and in the access to public office. Traditionally, women have even fewer opportunities in all sectors in Islamist conservative Algeria.

2.6. Economic performance

After the catastrophic degradation of Algeria's macroeconomic situation at the beginning of the 1990s, the stability-oriented economic policies of the government in the past several years continue to exhibit good growth rates in the gross domestic product. Economic development is not unaffected by global developments, particularly with regard to oil prices, and yet it has progressed more than favorably since 2000. With a continued positive outlook, an increase in foreign exchange reserves by approximately \$40 billion in 2004 to almost \$100 billion in 2009 could be expected. The implementation of the 2001-2004 economic recovery plan (a \$7 billion investment) has worked against the negative trend and the 2004 plan (a support plan for economic growth 2005-2009 worth \$55 billion) is designed to further this course. According to many critical Algerian economists, however, the focus on infrastructure projects will not lead to a lasting growth but only to a temporary spurt because too few productive investments will be made, particularly in the private sector.

2.7. Sustainability

Despite the revaluation of environmental protection by the Ministry for Regional Development and Environment, and in spite of the existence of the subordinate environmental authority Agence Nationale pour la Protection de l'Environnement (ANPE), the environment does not rank among the priorities of the government. Nevertheless, the government did set up an environmental fund in December 2001. At the same time, the environmental awareness of the population is only slightly palpable. The country's large supply of natural gas has resulted in

minimal research being done in the field of renewable energies such as solar and wind power. However, initial steps are being taken to protect biodiversity and concrete measures have been taken to fight palm tree disease.

Algeria's educational system (primary and secondary schools and universities) suffers from a lack of quantitative and qualitative funds, further complicated by the destruction of infrastructure between 1994 and 1999. In 2004, barely 10% of the budget of 1.95 billion dinars was spent on education, which exhibits significant regional and gender-based disparities. In 2003, only 75% of boys and 70% of girls of school-going age were actually registered at school. Because of higher discipline and diligence, the percentage of female students at the secondary level is 56.7% (56% of high school graduates) and 75% of university students in 2004 were female. This means that women will play a larger role in future employment, for example, in administration.

Data on state expenditures on research and development are not available in an accurate form, but they are actually quite insignificant.

3. Management

3.1. Level of difficulty

The implementation of necessary reforms suffers from the lack of basic essential market structures (for example, because too few people have an understanding of market-oriented behavior), from the dominating pension-oriented economic structures and modes of behavior, from persistent conflict-oriented social problem constellations, widespread poverty and the general lack of education. Although the scope of armed Islamic terrorists has been significantly reduced due to massive suppression measures, the soil is still fertile for resistance and militant social protest due to widespread conservative and fundamentalist ideas, large zones of poverty and a fundamental lack of perspective among young adults. In contrast to this state of affairs, the security sector and the oil and gas sector are considered efficient. The state presence in the entire territory is considered a positive basic condition for the organization of the transformation. The stability of the state and its institutions is ensured by authoritarian measures, even if the degree of difficulty of the transformation may be seen as extremely high.

Since the 1980s, deficiencies in state action have led to the creation of a comprehensive network of civil society associations. In the context of the civil war of the 1990s, even more associations emerged, for example, to take care of victims of terror and trauma. NGOs in the fields of education, health, the environment and human rights are present on a nationwide scale with local representations. NGOs operating solely on a national level are in decline: in 2003, a total of 70,000 NGOs were counted, only 1,500 of which operated on a national

level. Most NGOs operate in the social and health sectors (ca. 45%), followed by NGOs in the social and humanitarian fields.

Profile of the Political System

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| Regime type: | <i>Autocracy</i> | Constraints to executive authority: | 2 |
| System of Government: | <i>Presidential</i> | Latest parliamentary election: | 30.05.2002 |
| | | Effective number of parties: | 3.3 |
| 1. Head of State: | <i>Abdelaziz Bouteflika</i> | Cabinet duration: | 8/00- 05/03 |
| Head of Government: | <i>Ali Benflis</i> | Parties in government: | 3 |
| 2. Head of State: | <i>Abdelaziz Bouteflika</i> | Cabinet duration: | 05/03- present |
| Head of Government: | <i>Ahmed Ouyahia</i> | Parties in government: | 3 |
| Type of government: | <i>oversized coalition</i> | | |
| | | Number of ministries: | 29 |
| | | Number of ministers: | 39 |
| <p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p> | | | |

Among those NGOs active in the social sector, there are both secular and Islamic-oriented organizations. Strong individualism and particularism prevent the creation of strong civil society organizations. This also leads to the fact that respective particularistic interests are set absolutely, that is, consensus-building is only present to a very small degree. Although not all particularities lead to violent clashes (such as with the Islamists or in 2001-2004 in Kabylei), Algerian society is still strongly characterized by dualisms. For example, dualisms exist between Arabophones and Berberophones, disciples of Islamic religious-political ideologies and disciples of secular state and societal concepts, the marginalized and the wealthy; and between proponents of reform and defenders of the status quo.

3.2. Steering capability

The first term of office of President Abdelaziz Bouteflika (1999-2004) was guided by the goal of achieving internal pacification, which included the establishment of domestic security and the fight against terrorism, and social reintegration of members of armed underground groups. This process of national reconciliation was designed to combine with the passage of an amnesty law, which is currently being discussed and which has led to a distinct polarization of political participants as well as large numbers of the public. For Bouteflika's second term in office between 2004- and 2009, official presidential announcements have emphasized the modernization of the economy and the improvement of the general socioeconomic situation of the entire country. The basis of this will be

formed by the reform plan, Program of Support for Economic Rehabilitation (the “PSRE II”, known as the Algerian “Marshall Plan”) with a volume of \$55 billion.

The president has addressed the necessary democratic and market reforms, but he has failed to implement these reforms with any significant purpose. In fact, the scheduled reforms and social modernization plans are implemented only to the extent allowed by protests by labor unions (UGTA or autonomous trade unions), Islamic groups and parties, women’s organizations, etc. An example of the postponement of a regulation was the law regarding the hydrocarbon sector, delayed until it was implemented because of the new power constellation in 2005. An example of the implementation of a watered-down law is the 1984 reform of the family status with which the rights of women were to be strengthened. The law was passed in 2005 only after considerable reductions by parliament. The result of such an approach is an inconsistent reform package progressing at different speeds and intensities. Finally, short-term strategies were often used to prevent social protest.

To an extent, the government of President Bouteflika may be said to have shown flexibility in its political activities. The more long-term strategy recommended by individual economic-oriented ministers, however, is not present. For example, free trade zones are still not available for the settlement of foreign companies. Basic fundamental expectations and planning security are simply not available.

Uncertainty still reigns because of the gaping difference between official discourse and real material action. For example, in 2004, President Bouteflika publicly committed himself to democratization and called the freedom of the press an indispensable prerequisite for this process. Yet, the press continues to suffer considerably and it is pursued when reports do not please the government.

3.3. Resource efficiency

In its implementation of the transformation, the government under President Bouteflika does not make optimal use of the available financial, personnel and organizational resources. Apart from the absence of a concrete, long-term reform strategy beyond the slogans for “Democracy” and “Market Economy,” the administrative process remains too bureaucratic and time-consuming, and the coordination between the administrative offices is much too sluggish. Public service in municipalities and in the central administration is still overstaffed, despite more restrictive political programs. The reform of the local administrative law (increase in the prerogatives of the *Walis*) is, however, in the works.

Ingrained hierarchical modes of thinking make administrative tasks and decision-making very difficult. The government is not solely responsible for this: all political and social participants play a part in sustaining this type of behavior and the thought processes behind it. The overestimation of criteria of political loyalty

above criteria of political efficiency is yet another cause for the sub-optimal performance of government leaders. General behavior and thought-processes based solely on criteria of loyalty have only been strengthened under President Bouteflika, for example, through the replacement of critical judges, restructuring of the army, and the replacement of the Director of the Conseil National Economique et Social with a loyal “Algerian soldier”, etcetera.

The massive problems associated with corruption have been recognized, but their prevention is made difficult by governmental structures controlled by personal interests and allegiances. Consequently, the fight against corruption continues to be deficient, even in the presence of legal regulations, and will continue to be deficient even if further control mechanisms were to be introduced, such as full-disclosure rules for high-ranking officials before and after the assumption of office. A new and intensified anti-corruption law has been in the works since the end of 2004. According to Algerian opinion polls, however, its impact will be cosmetic at best. The fight against corruption takes place selectively and according to party-ties. Between 1999 and 2004, only 4,302 cases were brought before the court.

3.4. Consensus-building

A formal agreement exists between all relevant political participants with regard to whether they wish to see the implementation of "democracy" and a social "market economy". The PT, which argues strongly against privatization and capitalism, is not a central political actor. There is, however, disagreement over content, for example, over the future role of the state, social components, the degree of national regulation and/or state disengagement, and the timeframe for reforms. There is a formal agreement between the major participants over the goal of political democracy. For some political participants (those of Islamic orientation), the goal of "political democracy" is, however, only one stage on the way to the implementation of their own political and social concept. This concept is not identical to the concept of a liberal democracy/liberal society that forms the basic understanding of this report.

Reformers have proven to be too weak to maintain the pace of reform in the face of President Bouteflika – who is the current sole veto holder – and against the enemies of reform. The military, which up until recently had been a veto power itself, relinquished its “prerogatives” through its neutrality in the 2004 presidential race and with the departure of General Lamari. It withdrew from politics and returned to concentrating on the professionalization and modernization of the armed forces. A reactivation of the military’s veto role is not expected in the near future. The government was not able to create a group-wide feeling of solidarity during the period of review. Thus far, the political-ideological and religious division of the country is too deep-seated to allow for a compromise.

While President Bouteflika has tried since 1999 to introduce a process of reconciliation between the victims of Islamic terrorism and the perpetrators or members of terrorist groups and formerly active underground organizations, large parts of the population are ambivalent to the process.

Altogether, the present conflicts, including the one in the Kabylie, are not threats to the state, but they do obstruct the path of reform and negatively affect the climate for investment.

3.5. International cooperation

Since 1994, the Algerian government has been working with external economic actors including the IMF, the World Bank, and the Paris and London Clubs. Under President Bouteflika, this cooperation was expanded in both the economic and political fields. The attacks of September 11, 2001 have led to active political cooperation with the United States and North Atlantic Treaty Organization (NATO). One result is that Algeria was ranked as one of the United States and NATO's closest allies in North Africa in the fight against terrorism in 2004 and 2005. In contrast to this, regional cooperation is only slightly pronounced due to Algeria's claim to leadership and the historical support for decolonization efforts. The Arabian Maghreb Union has been banned because of Algerian support for the Polisario since 1994, and the members of the regional organization SinSad are rejected because of the leadership role played by Libya. However, Algeria has been one of the most involved member states (aside from South Africa and Nigeria) in the African Union/New Partnership for Africa (NEPAD) over the past several years. In 2004, as part of the Arab League, Algeria promoted reform suggestions that represented positions contrary to those of Egypt and east Arabian states.

The decision to pursue a market-oriented economic opening has made two central cooperation tracks possible. In 2002, Algeria formulated its intention to join the WTO. Since then, the process of integration has been prepared in countless rounds of negotiations. WTO admission is planned for 2007. Also in 2002, an association agreement was signed with the European Union. At the beginning of 2005, after intense domestic discussions, the agreement was ratified by Algeria.

Under President Bouteflika, the cooperative inclusion of Algeria in the international system has played a prominent role in politics. However, several domestic political figures pleaded for a slower integration into the world market due to feared negative effects on the national economy. All-important political participants are aware, however, that there is no long-term alternative to this step. The demand for support of social cushioning mechanisms is very important among the relevant political actors in Algeria with respect to foreign partners. An abrupt change in political policy is not to be expected under the current administration. All political participants, in contrast, vehemently reject any

pressure from outside to democratize and implement social reforms. This explains the corresponding negative reaction in particular to the Greater Middle East Initiative by the United States since the end of 2003.

4. Trend of development

4.1. Democratic development

The development of democracy and a market economy differed only slightly from the 2003 BTI observation period. The institutional basic structure remained unchanged except for the following: the political system experienced a boost in legitimacy with the high confirmation of President Bouteflika in the presidential election of April 2004 (84.99% voted in support of him), and the de facto withdrawal of the military from politics initiated a new phase in civil-military relations after 40 years. These events, however, did not produce progress in the process of democratization. Instead, they simply proved the flexibility of an authoritarian political system whose central leader showed tendencies toward securing his own power and emphasizing his monopoly over the formulation of policies. The obsessive control associated with this also ultimately hindered the development of market reforms and the acceptance of the free play of market forces. In the course of the transformation of the political order, Algeria has had great difficulty making progress while simultaneously maintaining domestic order. Counteractive forces are at work among all relevant actors.

4.2. Market economy development

In light of Algeria's great wealth of resources and high foreign exchange incomes, the development of the HDI progressed only modestly from 0.664 (1995) to 0.693 (2000) and 0.704 (2002). As a result, Algeria (currently ranked 108th) ranks behind the occupied Palestinian territories (102nd).

Starting in the mid 1990s, the Algerian government was forced to initiate a market transformation. After years of careful steps and delays since the end of President Bouteflika's first term of office (2003-2004), the government decided, at least rhetorically, to grant economic reforms a high priority. Keeping in mind the real hurdles to reform, transformation deficits generally rise with respect to deregulation and de-bureaucratization, the restructuring of the public sector (the banking sector, among others) and the reversal of the pension economy, which continues to have many proponents both inside and outside the administration.

Economic reforms are progressing but they are too slow and selective in spite of foreign consultation from the IMF and the World Bank and because of the consideration paid to domestic power relations. Risk estimates submitted by rating agencies (Coface, etcetera) have improved slightly over the past few years as a

result of consistently decreasing incidents of terrorism, economic reform measures (in spite of a still high level of regulation), the will of the government to increase foreign direct investment, and improving business prospects, thanks to increasing income from oil and continued growth in the economy (6.8% growth in 2003, the highest rate in 15 years). This growth was still not enough to significantly decrease high levels of unemployment, in particular among young adults under 30, of which 70% are unemployed, or to fight against high levels of poverty. With its one million “employees” and an estimated \$14 billion in sales at the end of 2002, the informal sector remains – with an ever-increasing tendency – an economic buffer zone for the absorption of latent social protest potential.

Development of macroeconomic fundamentals (2000-2004)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------------------------------------|-------|---------|-------|-------|--------|
| Growth of GDP in % | 2,2 | 2,6 | 4,0 | 6,9 | 5,5 |
| Export growth in % | +65,0 | -11,9 | -0,2 | +31,0 | +35,5 |
| Import growth in % | +1,0 | +2,2 | +26,3 | +10,8 | +32,3 |
| Inflation in % (CPI) | 4,0 | 4,2 | 1,4 | 2,6 | 3,6 |
| Investment in % of GDP | 24,6 | 27,0 | 30,5 | 29,6 | 29,7 |
| Tax Revenue in % of GDP | 33,3 | Similar | s. | s. | s. |
| Unemployment in % | 34 | 34 | 31 | 28,4 | 25,4 |
| Budget deficit in % of GDP | +9,7 | +3,4 | +0,2 | +5,1 | +5,4 |
| Current account balance in billion \$ | 9.143 | 7.062 | 4.359 | 8.840 | 10.801 |

Source: Middle East Economic Survey, 7.2.2005; Euro-Stat; IWF; AfDB/OECD 2005

D. Strategic perspective

The strategic perspectives and future development of Algeria must be evaluated separately, at least in terms of domestic and foreign politics. In matters of foreign policy, close cooperation with the United States and the European Union as well as with Russia and China, along with a marked commitment in Africa will continue to dominate the scene. These policies rank among the top foreign policy priorities of President Bouteflika, who is seeking to rehabilitate and expand Algeria’s role in international politics after the image loss of the 1990s. Algeria’s diplomatic skills, along with its oil and natural gas resources – which automatically make the country a “pivotal state” – as well as its geo-strategic location, support these ambitions. In other words, in the future, Algeria will continue to be a force to be reckoned with (although not so openly formulated as such) in its ambition to become a regional power player.

The prospects for the internal political and economic reform process in Algeria are, in contrast, much more difficult to estimate. Even an analysis of the structural conditions can not produce any tangible predictions on the future intensity and speed of reform. The only possible concrete statement may be made with respect

to the reform sector where the goal of economic reform is dominant. The maintenance of political control over all reform processes is, however, in each case sacrosanct.

The positive self-perception of the inner-Algerian condition is evident: President Bouteflika regularly refers to essential democratic structures and all parties call themselves democratic. Positive appraisal has even come from other Arab states: Amr Musa, General Secretary of the Arab League, referred to Algeria as an “Arab locomotive” with respect to its reforms. Part of the logic of this self-perception involves the rejection of external calls to democratize and initiate reform, as well as in the proud postulate: “Ça ne nous concerne pas.” Calls to reform and democratize are considered unnecessary and misplaced. Thus, any attempt to influence Algeria from outside is de facto ineffective. This evaluation is, however, only one side of the perception; in real life one sees not only a high degree of reform blockage and democratic deficit, but President Bouteflika also tends to strengthen his own authoritarianism in spite of his support for democracy, economic reforms and the decreeing of partial liberalization measures, primarily in the economic sector. Algerian commentators speak increasingly of a “facade democracy” and skilled tactical behavior on behalf of the president in an attempt to secure his own personal power.

The destiny of economic and political reforms and the president’s power consolidation process are dependent more upon the domestic Algerian power balance and less on the ideological models that some Algerian analysts recommend based on their political position. The development of a power balance between reform proponents and reform opponents may lead in the short term to reform blockage, to reform acceleration or to the maintenance of the status quo, i.e. a reform program with inconsistencies and only selective reforms. With respect to the question of Algeria’s future, only the following answer may be given: the country’s political and economic transformation is uncertain. This also applies to the democratization so desired by Western states and estimated so pessimistically by the Economist Intelligence Union at the beginning of 2005. Up until now, no adequate cooperative Algerian movement has arisen that would be able to pursue the successful implementation of external reforms and democratization initiatives and make democracy (in the Western liberal sense) into a long-term and realistic alternative.