

THE ALGERIAN CRISIS: NOT OVER YET

20 October 2000

Table of Contents

MAP OF ALGERIA

EXECUTIVE SUMMARY AND RECOMMENDATIONS	1
I. INTRODUCTION	1
II. THE CRISIS IS NOT SOLVED.....	1
A. Violence on the Rise Again	1
B. Growing Signs of Dissatisfaction with the President	2
C. Lack of International Mobilisation.....	2
D. Possible Catalysts for the Re-ignition of Virtual Civil War.....	3
III. WHAT DO THE ISLAMISTS WANT?	6
A. Why the Civil Concord Has Not Succeeded.....	7
B. Islamist Conditions for Peace.....	10
C. A New Islamist Party?	11
IV. WHY HAS THE ARMY FAILED TO CREATE PEACE?	11
A. A Less Homogeneous Structure	12
B. Past Failures, Future Uncertainties	14
C. Losing Faith in the President.....	16
D. Signs of Change	18
E. Future.....	19
V. THE RENTIER ECONOMY AS PART OF THE PROBLEM.....	19
A. The Rentier Economy and the Military Power Structure	20
B. Progress of Economic Reform	20
C. The Hydrocarbon Sector.....	22
D. Future Directions	23
E. External Dimension	25
VI. CONCLUSION.....	26



THE ALGERIAN CRISIS: NOT OVER YET¹

EXECUTIVE SUMMARY

Since December 1991, Algeria has been seized by a wave of violence, which achieved, between 1992 and 1998, the status of virtual civil war. That war was fought between, on the one hand, a military-backed regime and, on the other, a complex, clandestine opposition derived from the country's banned umbrella Islamist movement, the *Front Islamique du Salut* (FIS – *Jabha Islamiyya li'l-Inqadh*). It was triggered by an army-backed coup that blocked the electoral victory of the FIS in the 1991 legislative elections. Official figures put the number of people killed during this period at some 100,000 – or 1,200 deaths a month.

In April 1999, a page was turned in Algeria's lengthy political crisis with the election as President of Abdelaziz Bouteflika, the military's preferred candidate and the country's veteran Foreign Minister under President Boumedienne in the 1970s. Following Bouteflika's election, hopes rose and violence receded, as the new President introduced a limited amnesty for the perpetrators of violence – the Law on Civil Concord – and promised further fundamental reforms designed to bring the crisis of violence in the country to an end.

Today, however, those hopes have been largely dashed. Violence is, once again, on the rise. The amnesty decreed last year has been only partially successful; the Civil Concord Law was denounced by the Islamists as a police measure rather than a reconciliation policy. Eighteen months after Bouteflika's election, there is a growing sense of dissatisfaction with the President's performance among members of the Algerian elite and the Algerian military.

In short, the country's crisis is far from over and the fundamental issues that caused it have not yet been properly addressed. In particular, no attention has been paid by the authorities in Algiers to addressing the key issues around which violence erupted in 1992-93: the need to fundamentally restructure and relegitimise the Algerian state, accept the failure of the strategy of eradication of the Islamists and open up the political process. For the Islamists, there must be legitimate means for them to express themselves within the formal political arena. For the legal political parties, there must be an opportunity to participate meaningfully in political life, and to make the government and institutions of the state accountable to elected politicians – something that would mark a significant new departure in Algerian politics.

Against this background, the role of the Algerian armed forces in Algeria's political life is critical. The army, which continues to see itself as the guarantor of Algeria's stability,

¹ This report is the first in a new series of planned reports on Algeria by the International Crisis Group (ICG). The report has been prepared by a team of experienced Algeria specialists, with input from sources on the ground in Algeria and other experts.

retains an intimate involvement in the country's political affairs. And while tackling the army's role in politics and subjecting the army to civilian control must be a vital goal for any reform program, winning the army's support for change will be an enormous challenge. Much will depend upon the way in which political change is managed in the coming years and the ability of Algeria's political leadership to persuade the military that its core interests will not be adversely affected by change.

Resolving Algeria's crisis effectively will also require new thinking and a new approach on the part of the international community and, in particular, the European states and the European Union, which have an especially important stake in the outcome of the crisis. Until now, European attitudes towards Algeria have tended to put a premium on maintaining the stability of the regime and containing violence, without paying sufficient attention to the root causes of the conflict. A strong Algerian military has been seen as the best means of keeping a lid on unrest, avoiding massive outward migration and the possible spill-over of terrorist violence into Europe itself, and preserving Europe's supply of crude oil and natural gas. For their part, European states have largely accepted that they have no role to play in determining Algeria's future political complexion. This approach has been only partially successful. With a few exceptions, violence has not come ashore in Europe, but has been contained within Algeria; there has been no massive influx of Algerian refugees; and oil and gas has continued to flow. However, as this report demonstrates, the situation remains highly precarious, the country remains in crisis and violence is escalating again.

RECOMMENDATIONS

To the Algerian President and Government:

- 1) Establish a transitional government composed of the political parties that contested the 1991 elections.
- 2) Give legitimate political expression to Islamist political aspirations and sentiments. This would not necessarily require the Government to relegalise the FIS, but could involve, for example, recognising WAFA, Talib Ibrahimi's party, the acknowledged successor to the FIS.
- 3) Engage in a public and transparent dialogue with all Islamist groups, under the leadership of WAFA, with the help of a neutral third party. There is little doubt that any initiative of this kind will have to take account of the Sant'Egidio Accords.
- 4) Dissolve the National People's Assembly, regional and municipal authorities, and set a time frame for new communal, legislative and presidential elections.
- 5) Establish a constitutional review process, designed to produce proposals for restructuring the political system to provide for genuine transparency, greater accountability and free political participation of all parties. As part of this process, the role of the Algerian army within the political system and as an integral component of the political structure must be redefined.
- 6) Establish a Truth and Reconciliation Commission, along the lines of previous examples in Chile, Argentina and South Africa, that includes international observers. The reconciliation process should address the legitimate concerns of those who have been victims of the violence.

To the European Union and other international players:

- 7) Support a dialogue between the Algerian government and the Islamists by providing facilitation and a venue.
- 8) Encourage Algerian acceptance of the Barcelona Charter, which promotes North-South partnership, liberalisation of the economy, good governance and respect for human rights, as part of its entry into the Euro-Mediterranean Partnership Initiative (known as the Barcelona Process).
- 9) Support the political reconstruction process in Algeria, particularly over support for the growth of civil society and for measures designed to end civil violence.

Algiers/Paris/London/Brussels, 20 October 2000



THE ALGERIAN CRISIS: NOT OVER YET

I. INTRODUCTION

In April 1999, a new era in Algeria's lengthy political crisis opened with the election as President of the country's veteran Foreign Minister under President Boumediène in the 1970s, Abdelaziz Bouteflika. The expected lustre associated with the presidential elections – the outgoing President, Liamine Zeroual,² had promised that they would be free of government interference – was seriously dimmed, however, when six candidates withdrew because of electoral fraud designed to ensure victory for Bouteflika, the army's preferred candidate. Nonetheless, the early signs were encouraging. After over seven years of bloody civil conflict – in which, according to official figures, some 100,000 people lost their lives – violence declined. The new President introduced a limited amnesty for the Islamists – the Law on Civil Concord – and promised further fundamental reforms aimed at bringing an end to violence. Over the past few years, there has been increasing awareness that the army's total war and eradication tactics have had limited success. However, eighteen months after Bouteflika's election, the Law on Civil Concord seems to have failed and violence is increasing again.

II. THE CRISIS IS NOT SOLVED

A. Violence on the Rise Again

Violence has been on the rise since the start of 2000, after a six month-long amnesty which led to some 2,000 submissions and the voluntary dissolution of one armed group, the *Armée Islamique du Salut* (AIS, *Jaysh Islamiyya li'l-Inqadh*). While recent killings have not been on the scale of the massive violence that occurred between 1992 and 1998, when deaths averaged some 1,200 persons per month, there has been a marked upsurge of violence in recent months. Official figures put the number of people killed at approximately 300 a month, though the true level could be even higher. Even more disturbing is the fact that the death rate is accelerating: at the beginning of the year, the death toll was between one- and two-thirds of this level. Blame for the violence was pinned on clandestine armed groups which had rejected the amnesty – the revived remnants of the original *Groupe Islamique Armé* (GIA, *Jamiyy'a Islamiyya Muslaha*), under the command of Antar Zouabri and based around Blida, and a new group, the *Groupe Salafiyyste de Daw'a et Djihad* (GSDJ, *Jamiyy'a Salafiyya li'l-Daw'a wa-l Jihad*), led by Hassan Hattab and located to the east of Algiers.

² He had been forced from office by his disagreements with the Algerian army that has traditionally been the guarantor of the country's political system and that also organised the coup which aborted the legislative electoral process in December 1991 when Algeria's Islamist movement, the FIS, was poised to win.

The GIA continues its indiscriminate policy of civilian massacres, whilst the GSDJ focuses its attacks on security force personnel. The area in which these groups operate is widening, too, and has reached as far as the Tunisian border to the east and to the coastal resort of Tipaza in the west. Outside major urban areas, where the security forces now ensure public order through their massive presence, security is uncertain, partly because of the activities of the 200,000-strong paramilitary militias, which were created in the mid-1990s to support the security forces but which are under local control and have, in some cases, been used for personal advantage.

B. Growing Signs of Dissatisfaction with the President

Almost eighteen months after his election, President Bouteflika's record looks increasingly tarnished, particularly to the generals who orchestrated his ascension to power. The generals had hoped and expected that the President would find a way to rehabilitate the military, in the eyes of the Algerian people and the international community, and restore its credibility, which had been severely damaged in recent years. The military had been accused of passivity and, worse, collusion with terrorists in 1998, after hundreds of men, women and children were slaughtered in a single night a short distance from an army barracks. As time wears on, however, the military is starting to realise that rehabilitation has been unsuccessful and is blaming President Bouteflika for its failure.

Bouteflika, the first elected, civilian President of Algeria, played on the army's support to reach this position. Since his election, however, he has sought to sever the traditional link between the power structure and the military and to expand his freedom of action. This has not prevented the military from imposing on Bouteflika its own agenda. The most striking example being the Civil Concord, which the *Sécurité militaire* (SM) intended should divide and therefore weaken the Islamic opposition.

Bouteflika has also failed to achieve significant progress in two other key areas: economic reform and easing political and social tensions. Certain noticeable signs of discontent have been perceived in circles close to the power structure. A recent, unprecedented editorial by the retired but still influential General Benyellès in the Algerian press lambasted Bouteflika and requested his resignation and new presidential elections.

His only significant success has been his diplomatic initiatives. Over the past year, he has contributed to the improvement of Algeria's image abroad, thanks to extensive travel, a successful lobbying campaign and his fruitful mediation efforts as President of the OUA, for example in the Ethiopia/Eritrea conflict.

C. Lack of International Mobilisation

Until now, European attitudes towards Algeria have tended to accord priority to maintaining the stability of the regime and to containing violence through tolerance of the regime's strong-armed strategy of eradicating the Islamic threat. Less attention has been paid that might have been hoped to addressing the crisis's root causes, despite formal support for political reform in the South Mediterranean region through the Barcelona Process. Instead, Europe has kept

its distance, steadfastly avoiding becoming involved or using its leverage to influence the course of events within Algeria. In return, the Algerian regime has assumed responsibility for ensuring there has been no massive outward migration or spill-over of violence into Europe, and no disruption in the flow of crude oil and natural gas.

The problem is that, without external support and encouragement, the Algerian authorities will be tempted to assume that no fundamental change is required to address the underlying problems. At present, there is a belief in Europe that European quiescence over the past eight years has paid off, simply because now the acute crisis in Algeria appears to be waning. Yet without concerted action to address the causes of the conflict, there is a real risk that Algeria's civil conflict will simply revive in more pernicious forms in the future.

D. Possible Catalysts for the Re-ignition of Virtual Civil War

At least six aspects of the current situation inside Algeria could become catalysts for the re-ignition of virtual civil war. Were violence to occur again on the massive scale of the period 1992 to 1998, it is legitimate to question whether the application of the same methods to control it as were used in the past could be effective once again. Almost certainly they could not, and it is for this reason that European politicians should consider what role they could play in trying to re-adjust the Algerian domestic agenda in order to achieve a permanent and effective outcome that would give the country stability and lasting peace. The six areas of concern are the following:

1. Political Stagnation

One major reason for the resurgence of violence now occurring is that the authorities in Algiers have paid no attention to the key issue that triggered conflict in 1992: the future of the Islamist movement, which was poised to win the legislative elections in December 1991, then blocked by the army-backed coup of January 1992. Allied to this is the wider and more fundamental problem of how to restore public confidence in the state and its institutions by ending the political stagnation that has endured since the 1992 coup and creating a genuinely open and pluralist political system. The two issues are separate but inter-linked. For the Islamists there must be legitimate means for them to express themselves within the formal political arena. For the legal political parties, there must be an opportunity to participate meaningfully in political life, and to make the government and institutions of the state accountable to elected politicians – something that would mark a significant new departure in Algerian politics. This is particularly important, not just because of Algeria's long tradition as a single party state but also because of the brief period of political pluralism and liberalisation between 1988 and 1991 when it appeared that such an outcome might be possible.

2. Polarity of the Debate between Secularism and Political Islam

The crisis of the past eight years has created an artificial polarity within Algerian intellectual life between secularism and political Islam that has had a profound effect on the political arena and has severely damaged the country's intellectual vitality. Intellectuals – particularly francophone intellectuals – have long been defined as specific targets of violence in Algeria. Successive regimes have exploited and encouraged this polarity for many years, certainly from the so-called “Berber Spring” of April 1980 when the issue of language policy in Algeria was forced to the front of the political agenda, and set in train a call for greater political liberalisation. The regime sought to exploit Islamic Arabophone sentiment as means of deflecting the reformist lobby, thereby helping to entrench a divide between secularism and political Islam that persists today.

3. The Illusion of Economic Reform

The restructuring and liberalisation of the Algerian economy – quite apart from the political violence that has accompanied it – has been an extremely painful process. Nor has the process yet produced the kinds of results that would persuade most Algerians that it has been worthwhile. Unemployment has risen and now runs at an officially admitted 28 per cent of the workforce, higher still among young people (60 per cent of the population is under the age of 30). Over 120,000 jobs were lost during 1998 and a further 180,000 shed in 1999, as a result of the economic reform process. Inflation has been brought under control but at the cost of a severely weakened currency, which continues to slowly depreciate against international currencies.

Fundamental change to economic structures is only now beginning – there has still been no significant privatisation programme, financial sector reforms have not yet touched the banking system, the trade sector is still dominated by rent-seeking import-export agencies, and the overall economy continues to be acutely dependent on hydrocarbon revenues. But the social consequences of economic restructuring remain the most significant; continued acute economic deprivation will only stimulate the possibility of renewed violence.

4. Social Crisis

Economic and political mismanagement in the past has created a severe social crisis in Algeria. Housing provision is seriously inadequate both in terms of quality and quantity; at least 2 million new housing units are needed and much of the existing stock is in very poor condition. The physical infrastructure needs considerable attention and social provision – largely because of the economic restructuring programme and violence – has undergone serious declines in the fields of education and health. Urban service provision is inadequate and administration is poor. All these circumstances, alongside economic hardship, political exclusion and deficient security, are ideal breeding grounds for renewed anger against

government and for a regeneration of violence amongst those who feel excluded and marginalised.

5. Widespread Militarisation

A major factor that has contributed to the escalation of violence has been the massive involvement of civilian elements in armed anti-Islamist security activities. Some 500,000 Algerians are estimated to be involved in security activities of this kind, including regular army soldiers, police officers, local armed militiamen, and members of private security forces. Action to reduce the size of this large and unwieldy security sector, by demilitarising many of the armed groups and reintegrating them into civilian life, presupposes an effective and productive economy to take them in. Without a job-creating economy, these groups, many of which act with complete autonomy, could easily find it more profitable to continue to gain their livelihood through violence. The role played by such groups in racketeering, organised crime, revenge killings and generalised violence is considerable.

6. The Uncertainty of the Army's Reaction

Against this background, the role of the Algerian armed forces in Algeria's political life becomes even more critical. The army, which continues to see itself as the guarantor of Algeria's stability, retains an intimate involvement in the country's political affairs. And while tackling the army's role in politics and subjecting the army to civilian control must be a vital goal for any reform program, winning the army's support for change will be an enormous challenge. Much will depend upon the way in which political change is managed in the coming years and the ability of Algeria's political leadership to persuade the military that its core interests will not be adversely affected by change. In essence, the army, in its self-appointed role as arbiter of the Algerian state – a role now void of much content largely because of the army's behaviour since 1991 – has two choices available to it:

- **Persevere with the status quo:** The army could continue to pursue its current course, attempting to choreograph Algerian politics, excluding tendencies it dislikes and encouraging those it prefers. This would imply that it ultimately controls the presidency and that, conversely, it cannot conceal its role behind a constitutional façade or behind a hollow structure of democratic choice that Algerians themselves refer to as "façade democracy". It would also continue to alienate itself from the population-at-large because of its role in violence and in pushing through intensely unpopular economic reforms. The outlook for Algeria, both domestically and internationally, will then be grim as a failed state and an army incapable of controlling the political scene confront renewed conflict with the concomitant danger that violence may spread into Algeria's neighbours, Morocco and Tunisia.

- **Accept the need to change:** Alternatively, the military could accept that fundamental reform of the political scene is necessary in which the army retires from direct political management and a proper constitutional, accountable and transparent system of government is introduced. This would restore conditions that existed between 1988 and 1992 when Algeria was evolving into a more participatory political system, although allowance would have to be made for the experiences of the past eight years. Most importantly, it will require a reconsideration of a more effective amnesty. Such an approach, which recalls some of the assumptions behind the Sant'Egidio process,³ offers the possibility, at least, of avoiding a renewed descent into violence, despite the massive social and economic problems Algeria still faces.

Once again reformers are faced with an intersecting set of problems. The problem of how to advance military reform is bound up with the problem of political stagnation and, in particular, the exclusion of Islamists from the political process. The military sought to redefine its political credentials in 1992 by virtue of its antagonism towards the Islamists and, in particular, the FIS. Yet Algeria's future stability depends in large part on accepting as a political reality the body of opinion which the FIS represented in 1991-92 and which remains significant in today's Algeria, and on giving it some form of expression within the political system.

Some kind of adjustment must also be made to address the legitimate resentment and anger of those hundreds of thousands of Algerians who have been victims of violence – whether from the clandestine resistance or from the forces of law and order. Finding a means of accommodating such demands, while at the same time pressing forward with military reform, remains a major challenge yet to be tackled.

III. WHAT DO THE ISLAMISTS WANT?

Given the fact that the Islamist movement represented by the FIS was able in 1991 to pose as the legitimate alternative to the established political regime under President Chadli Benjedid, it follows that any new political departure now will have to take into account the existence and views of the movement, even though it is formally banned within Algeria. It is not that the FIS is the sole or dominant political current outside the regime that must be taken into account; the political field is populated by many other political movements and parties that reflect the complexity of contemporary Algeria. However, because of the violence of the past eight years, the FIS still represents the essential opposition force in Algeria with which any regime must reckon if it is to establish the

³ The agreement, reached in Rome in January 1995 between the FIS and legalised political parties under the auspices of the Sant'Egidio Community, brought together Algerian opposition groups in order to find a solution to the worsening spiral of violence and a solution to the political deadlock. The Agreement, also known as the Rome Platform, pledged an end to violence and the state of emergency and sought to set an agenda for a return to the multiparty and democratic political process established in 1989 and cancelled by the military authorities in January 1992. The platform also stipulated the rehabilitation of the FIS as a full-fledged political party. The Rome Platform was never applied since the military regime in Algiers never recognised it.

necessary conditions for a viable formal political arena to be established. The Algerian population could then voice its true feelings about an opposition party which, because of its persecution by the regime, has been able to claim a legitimacy that it might otherwise not have enjoyed.

The presidential election campaign in April 1999 opened the possibility of reconciliation between the Islamists and the military authorities for the first time since the electoral process was interrupted in December 1991. Abdelaziz Bouteflika, the regime's official candidate and the victor by default of the presidential elections, carried out an energetic campaign in favour of reconciliation with the Islamists of the FIS. The representatives of the banned party, in exile abroad, recognised that the presidential elections would be "the real start of a political solution" to Algeria's crisis, even though the circumstances under which Abdelaziz Bouteflika was actually elected – with the abstention of six other candidates – underlined the fragility of his claim to legitimacy and therefore the difficulties he would have in freeing himself from control by the military backers of the regime

President Zeroual had already initiated a policy of reconciliation with the Islamist movement in 1995 (Ordinance 95-12, 25 February 1995) but this had yielded very limited results because of the anxieties of the army command. In order to reinforce his authority and to achieve a genuine reconciliation with the Islamist movement, Abdelaziz Bouteflika took a new approach by organising a referendum on the issue which allowed him to ask the citizens of Algeria directly their views on the question of the armed Islamist movements and reconciliation. In diplomatic and political terms, the new President sought to present himself as a Head of State above political parties, on the model of General de Gaulle in France. The referendum, and the amnesty that followed, were at the core of Bouteflika's strategy for bringing an end to civil conflict and brokering civil peace.

A. Why the Civil Concord Has Not Succeeded

The continuing violence, even if it is at a lower level than in the past, demonstrates that civil peace has not yet been restored. From an Islamist point of view, the law on the Civil Concord was not a political project designed to bring about reconciliation but rather a police measure designed to respond in judicial terms to the issue of violence amongst the protagonists. The Islamists blame the military, which they believe used their capacity to manipulate the political agenda and frustrate efforts to establish a more genuine process of reconciliation. The refusal of a number of still-operational armed groups to negotiate with the government demonstrates the depth of the failure of the government's approach.

1. Civil Concord as a Police Measure

One of the major criticisms of the Civil Concord law has been of its judicial aspects, rather than its political implications. The Civil Concord, rather than establishing and describing the shared responsibilities of various actors in the Algerian crisis – as had been the case, for example, with the Truth and Reconciliation Commission in South Africa – simply laid down the conditions under which Islamists could surrender. For the legal expert of the FIS, Ibrahim Taha, its purpose was merely to define the judicial

legitimation of armed Islamists, described as “terrorists, criminals, deviants and so forth.” It included a sliding scale of penalties – no penal consequences if the offence had not involved death; a probationary period of three-to-ten years except for those who had committed massacres or used explosives in a public place, provided they admitted responsibility within three months; all penalties for other offences to be reduced, except for rape. In addition, where the penal code provided for a death penalty, the Civil Concord law provided for a reduction of sentence to no more than twenty years imprisonment for crimes involving collective massacre.

These conditions made the amnesty insufficiently attractive to persuade all armed groups to lay down their arms. It did, however, provide a political and juridical framework for the negotiations that had been undertaken in 1996 between the *Armée Islamique du Salut* (*Jaysh Islamiyya li'l-Inqadh* – AIS) and the Algerian army. The AIS had stopped all military operations on 1 October 1997 and had decreed a unilateral unconditional truce. The Civil Concord law was intended to rally the other armed Islamist formations into the peace camp. Even though the relevant statistics are unreliable, the number of Islamists who did surrender under the law in order to benefit from the probationary period was around 2,000, but these did not constitute the hard core of the armed groups. Only the auxiliaries, not the fighters, surrendered.

2. Judicial Opacity of the Civil Concord Law

This law's perceived security bias has been one of the obstacles to genuine peace and its effect has been amplified by the lack of clarity concerning the process by which penalties should be determined. For Ali Benhajar, the leader (*emir*) of the *Islamic League for Predication and Holy War* (*Ligue islamique pour la predication et le djihad* – LIDD), the Civil Concord law:

... is not clear. The law itself excludes those who voluntarily abandoned armed struggle before it was promulgated... In this case, between whom is there to be peace? Is it to be with the members of the groups led by Antar Zouabri and Hassan Hattab who have publicly rejected reconciliation and dialogue? In reality, reconciliation needs two parties, so that each can make concessions. But this law is a *diktat* by the victor towards the vanquished. Those who took up arms have become the deviants, the criminals, the repentant who are to be pardoned whilst the others are just like flies in the ointment. This has nothing to do with reconciliation and everything to do with security.

Ali Benhajar went on to question the arbitrary power of judges to decide who should benefit from the provisions of the law and who should be excluded, without there being any external authority or organisation to monitor what they do. In these conditions, he considered that, “Even if the regime is satisfied with this law, it will inevitably fail, whether it lasts for six months or six years.”

3. Lack of a Political Solution

The most interesting comments on the failure of the amnesty law to offer any real prospect of a political solution to Algeria's crisis come from Islamist spokesmen themselves. As far as Mourad Dhina, a FIS spokesman, was concerned, in July 2000:

The Civil Concord policy has not restored peace in Algeria. The FIS has always rejected this "concord" because it ignores the political nature of the crisis and is only designed to absolve the generals and their allies from the crimes for which they are responsible. The restoration of a just and lasting peace is possible in Algeria but only through the exercise of memory, truth and justice. We consider that Mr Bouteflika could play a role in such a context if he liberates himself from the fifteen or so generals who poison Algeria's political life.

For Abassi Madani, one of the two paramount leaders and founders of the FIS, the failure of the law of Civil Concord was explained by presidential betrayal as long ago as late November 1999:

After he had promised reconciliation as a remedy to the crisis, thereby recognising its essentially political character and, in consequence, implicitly accepting there could be no other kind of solution, the promise simply disappeared. The regime puts a solution based on security at a premium, on the grounds of restoring order and now under the umbrella of concord... Bouteflika has promised to resolve the crisis by political means, an approach which he warned would mean a definitive solution, without damaging the interests of any party in order to achieve real reconciliation... The unyielding monologue of the regime reveals its own bad faith and its unwillingness to contemplate a real solution to the crisis, even if this means the simple elimination of the population and the complete destruction of the country.

For Ali Benhajar, "The solution must be political... A political solution will involve the liberation of all prisoners, including the FIS leadership; a general amnesty for both parties without subsequent threat. It will also involve freedoms of communication, expression and association."

In short, for the FIS leadership, the conditions for peace are not met by the amnesty law; indeed, to the contrary, it conceals another policy – of war legitimised by referendum – behind its discourse of reconciliation.

B. Islamist Conditions for Peace

1. Create a Climate of Reconciliation

For Abassi Madani, any policy of reconciliation must begin by creating a climate that will restore confidence as well as – “conditions prior to the improvement of the climate as evidence and guarantee of good intentions, such the freeing of political prisoners, the return of people who have been seized or exiled and the removal of the state-of-emergency.” It is true that President Bouteflika had begun to introduce such a climate by liberating 2,600 prisoners just after the referendum, but this gesture quickly came to be seen as inadequate.

2. Promote a Political Solution

For the FIS leadership, whether in prison or in exile, peace will only be achieved through a genuinely political solution. This signifies, for them, that the military authorities stop negotiating in secret with the armed groups – whether the AIS or others – in favour of direct negotiations with the leaders of the “banned party”, the FIS. Ali Benhajar, the *emir* of the LIDD, said, in an interview in October-November 1999 that, “We confirm that the solution must be political in nature and that the regime will have to negotiate with the political wing [of the Islamist movement], rather than trying to by-pass it.” Nor did military initiatives for negotiations with the AIS provide an effective alternative to war for Abassi Madani, who said at the time:

It is no longer possible for us to accept today dilatory manoeuvres threatening the destiny of the people, the current situation in the country and its future. To that extent this is not a serious dialogue about the groundwork for peace which is designed to achieve national reconciliation within the framework of a political solution, involving all responsible parties and honest witnesses, with powers of political discernment, moral integrity and credibility, with no intention of manipulating each other, a dialogue which will unite Algerians and foreigners, if necessary, as happened at Evian or in Ireland, in an environment with the requisite objective conditions as far as security questions are concerned.

3. Judicial Reform as a Trust Building Measure

The success of any reconciliation process depends upon having an impartial judicial system, independent of and not subordinate to the arbitrary will of the regime. Under the February 1989 constitution, the judicial system was transformed from being a “judicial function to serve the socialist revolution” into an autonomous regime which could therefore contribute effectively to the introduction of the rule of law for the first time into Algeria’s constitutional and political life. However, in reality, the legal system continued to be an instrument under the control of the

executive and part of the repressive apparatus used to counter political crisis and violence. It has even, on occasion, been used to settle scores within the regime.

Since coming to power, President Bouteflika has voiced his own complaints against the justice system. In January 2000, the President created a "National Commission for Judicial Reform" charged with undertaking a thorough examination of the system and with recommending reforms. Their findings were contained in a report submitted to the President in June 2000. At the start of August 2000, several judges were dismissed for "corruption". It is not clear, however, whether this showed a real determination to restore moral authority to the legal system, or whether it was simply meant to restore public confidence.

For his part, the minister of justice, Ahmad Ouyahia, has promised new measures, including limits on preventative detention, judicial control over the police and improvement in prison conditions. These he sees as a prelude to basic legal reform.

C. A New Islamist Party?

The law of Civil Concord has failed to meet the Islamist conditions described above, as have secret negotiations between the army and Islamist groups, based as they were on a policy of division towards the guerrilla movement as a means of ending the violence. Now the time may have come, eight-and-a-half years after the FIS was dissolved, to reconsider creating a new Islamist political party, which would include the leadership of the original party, to undertake substantive negotiations with the regime. The current strategy of the regime, based on the dissolution of the FIS and the eradication of its memory by replacing it with one of the moderate Islamist parties already in existence, is essentially bankrupt.

The issue of peace in Algeria continues to be essentially political in nature and the conditions for its return can only be established if the regime's policies over the Islamist question are put to one side. Since the regime has failed to eradicate the Islamists, solutions must be found which involve their re-integration. The conflict was born from the dissolution of the FIS and peace cannot therefore be achieved without the return of this party or its equivalent to the formal political arena. It is for the regime to establish the political conditions in which a party that does not adopt democracy as its political ideal can be included. The last decade has shown that to ban such a party to save democracy bears an extremely heavy human cost.

IV. WHY HAS THE ARMY FAILED TO CREATE PEACE?

In essence, because the Algerian state had failed to resolve the political crisis of the early 1990s, the Algerian army, which has always enjoyed a peculiarly close linkage with the institutions of government since the end of the war of independence, effectively took it over in 1992 by sponsoring a coup d'état. In engaging in such an explicit political intervention – previously it had brought its influence to bear in indirect ways, even though it had, except for a short period

between 1989 and 1991, always been intimately associated with the exercise of power – it also threatened its own status within Algeria's political system. The past eight years have seen a significant loss of elite support for the army's policies and the consequent alienation of the army from the population-at-large, and thus the destruction of the implicit constitutional bargain of the post-revolutionary period of independence.

A. A Less Homogeneous Structure

The army is less and less perceived as a monolithic and homogeneous structure. In spite of continued shared interests, clear fault lines are noticeable:

1. Historical Rivalries

The first cleavage separates those officers who joined the anti-French guerrilla movement early in the War of Liberation, who perceive themselves as the authentic and legitimate wielders of Algerian nationalism, from officers who joined the liberation movement in its later stages, once the ALN victory was assured. Many of these officers were deserters from the French army and were referred to by the acronym DAF, the acronym for *Déserteur de l'Armée française*.

2. Generational Divide

The second cleavage is between the generation of officers who were directly involved in the liberation movement, and the younger generation. This younger generation, who did not experience combat first-hand, was for the most part trained in military academies abroad in Western and Communist countries. Each group has a different perception of the role of the military within society and of its political responsibility. The older, Liberation War generation perceives the army as the guarantor of the Algerian nation and state since the time of national emancipation. The younger generation, through its specialised training in military academies, sees the army as a professional and technical body whose mission is the protection of the nation's territorial sovereignty from outside aggression.

3. Regional Divisions

The third division within the military is along regional lines. Algeria being such a vast and – until recently – very rural country, regional, even tribal affiliations are not to be underestimated. The main cleavages lie between officers whose origins are from the east of the country and officers from the western provinces. The divisions between these regional affiliations can be located along an historical, tribal, and socio-economical plane.

4. Business Cleavages

Business affiliations and the division of the corruption market show the different "territories" exploited by generals and clans. This is particularly clear with certain segments of the rentier economy, like the hydrocarbon sector.

5. Competition between Different Services

The most noteworthy division in the military structure is between the *Etat major* (the High Command) and the *Direction des Renseignements et de Sécurité, ex-Sécurité militaire* (SM), which is the regime's military intelligence service, comparable to the soviet KGB. The SM's sole mission is the preservation of the regime against any form of destabilisation, be it internal or external. SM agents have infiltrated all segments of society ranging from factories, political parties and media organisations. Its senior officers for the most part received their training abroad, in France or in communist bloc secret service academies. In theory the SM is attached to the overarching *Etat major* but they see each other as competitors.

The *Etat major* and the SM have, throughout Algeria's recent tumultuous past, had convergent and divergent perceptions of the situation and eventual retaliation to the crisis. At the onset of the conflict, in 1993, the two sides agreed on a war strategy against the Islamist groups who had emerged as the victors of the December 1991 legislative elections. A few years later in 1995 they rejected unanimously the Sant'Egidio initiative of roundtable negotiations with principal political movements and parties. After the election of Liamine Zeroual in November 1995, a clear division appeared between the SM and the *Etat major* on what strategy to adopt in dealing with the persisting Islamic threat. The key advisor to President Zeroual, General Bétchine, contacted representatives of the banned FIS in order to initiate negotiations. Simultaneously, the SM General Smâin Lamari travelled to the *maquis* and initiated negotiations with the principal leaders of the AIS guerrilla movement, which resulted in the unilateral seize-fire proclaimed by the AIS in October 1997. This increasing friction and covert grappling between the two groups led to the sudden resignation of President Zeroual after a long lambasting campaign in the press against his aide Bétchine. In other words, the President's resignation marked a clear victory of the SM over the *Etat major*. Once again the different military factions had to find a quick solution to the crisis initiated by Zeroual's sudden departure. The election of Abdelaziz Bouteflika was their solution.

6. Different Perceptions of the Algerian Crisis

As the country plunged further into civil conflict and violence became more widespread, perceptions of the conflict became increasingly polarised. Society became polarised between "*éradicateurs*" who want to repress and eliminate the armed Islamic guerrillas while "*réconciliateurs*" see dialogue and compromise with the Islamists as an eventual political solution.

For the past few years these different factions have been struggling for supremacy within the army. Over time, the *réconciliateurs* have gained increasing influence within the military structure. The reasons for this are twofold. First, the army has achieved a position of superiority and could

use this to its advantage in negotiations with the Islamists. Secondly, its international and national credibility has been seriously undermined by the accusations of massacres and the increasing human and material cost of this civil conflict. This cost has become more and more difficult to support on the medium/short term politically and socially.

The opposing *éradicateur* faction is led by SM commander General "Tewfik" Médiène, whose strategy is to weaken and divide the Islamist groups and their command structure. On one side they negotiate with the AIS for a ceasefire, but in reality they drive at weakening the Islamist movement by isolating the political wing (FIS) from the military wing; by playing on the multiple and complex internal divisions of the Islamist movement; by amplifying propaganda internationally and locally on the massacres perpetrated by Islamists in 1997; and by infiltrating the different movements and trying to destabilise them through massacres that would be attributed to rival groups.

B. Past Failures, Future Uncertainties

Insofar as the army has succeeded in militarily containing the civil conflict which has persisted at varying levels of intensity since 1992, it can only claim a temporary success. It is not clear, however, that it has sufficient reserves in terms of personnel, imagination, insight and popular support to confront a renewed crisis, not least because it cannot count on the political institutions of the state as the means by which its political unpopularity could be diffused. Thus, without an effective state structure to support its initiatives and without elite support for its policies, the army command is isolated and exhausted in terms of what it can propose to deal with renewed violence. It is particularly hampered by its rejection of the Islamists as a viable element within a formal political opposition representing a genuine alternative point of view which must be taken seriously if an overall integrative settlement is to be achieved. This rejection in turn stems from the army's refusal to see the recent crisis as, in effect, a civil war where different visions of Algeria's political future were in contention. Instead, it has preferred to treat the violence as an attack on a legitimate and legitimised state structure of which it is the appropriate guardian.

Given its increasing isolation from the wider Algerian political elite, the army, in its attempt to control the future behaviour of the administration, will be forced to increasingly interfere in the operation of the civil authority. In addition, the means by which the head of that authority – the President – came to power through a fraudulent manipulation of the popular vote will mean that the administration cannot escape from army tutelage. However, such activities, which are essentially repressive in nature, are bound to further de-legitimise the army as the embodiment of the Algerian state and this, in turn, will render it ever more difficult for the army to control the objective political situation. In short, should the virtual civil war re-ignite again, it is not clear that the army could, once again, ensure its control of the situation in view of the anticipated breakdown of security and urban control, let alone the social and environmental consequences of radical economic change.

The army's unique role in Algeria's political life since independence has been based on an implied contract in which it was seen as the embodiment of popular aspiration within the institutions of the state. In the aftermath of independence, it secured a position for itself as both the motor of the state and its source of legitimacy, since only the army was able to mobilise and integrate the pro-independence guerrilla movements. From the start, therefore, it was the army which sought to manage radical changes in the regime, such as those that occurred in 1962 and 1965 – when it also benefited from the international and domestic charisma of the Boumediène presidency. During the 1980s, however, its position began to slip, so that with the countrywide riots in 1988, in which it played a major role in brutally restoring order, it lost popular support. It could be argued that the actions of the army command since then – even the decision to withdrawal from an active political role in 1989 – have all been governed by a desire to restore its bridging role as the popular guarantor of constitutional institutions within the country.

In seeking to achieve this, the army has been unsuccessful, even if it has been able to contain the virtual civil war of 1992-98. That failure was typified by its inability to deal with the political significance of the FIS between 1989 and 1992, partly because the FIS was able to pose as a legitimate competitor for popular support. In reality, there were other competitors, too, not least amongst established political parties, such as Hocine Ait Ahmed's *Front des Forces Socialistes* (FFS). The army's response to the FIS – itself covertly encouraged by the Chadli Bendjedid presidency as a means of weakening the effects of political pluralism – first in arresting its paramount leadership in June 1991 and then in aborting the elections, paradoxically elevated the FIS to a position of primacy within the Algerian political scene, exaggerating its importance and lending it a legitimacy it might otherwise not have been able to sustain.

The military intervention to prevent a FIS victory in the elections in December 1991 – although the proportion of the vote won by the FIS had actually fallen, compared with the municipal elections six months earlier and only one quarter of the electorate actually voted for it – also prevented Algerians from establishing a new basis for the legitimisation of their political system in the wake of the October 1988 riots. Indeed, since 1992, the army has systematically prevented any new system of legitimisation emerging unless it itself defined what it should be. Thus, the Sant'Egidio initiative in January 1995, where the legal political parties concluded an agreement with the FIS, by then banned in Algeria itself, to provide a way back to constitutional government and civil peace, was greeted by the army with hostility and, eventually, with its own legitimisation project. This was to consist of presidential elections in November 1995 and the new 1996 constitution, followed by legislative and municipal elections in 1997. The reality has been, however, that these initiatives have not been convincing at a popular level and the Algerian political scene continues to be fragmented by violence and the gulf that separates the army-backed regime and popular political aspirations. And this has been reinforced by the army's role in forcing through economic reform, largely at European behest, both to resolve the foreign debt crisis of the 1980s and to seek European support through the Barcelona Process in the 1990s.

Today, the army command structure gives the impression that it has run out of options and inspiration. The tensions between the presidency and the army suggest that the generals regret their decision to lever Abdelaziz Bouteflika into power whilst the President himself seeks to escape from their custody. At the same time, army commanders realise that they may have to tolerate him simply because the institutions of the state are so lacking in credibility that it will not be possible to replace him through constitutional means or to make use of the constitution to cover his removal from office. In addition, the army itself is being diverted from its primary professional purpose of defending the state because of the demands made upon it by the essentially policing role imposed upon it by the continued violence of providing internal security.

Yet it, too, needs a viable state system to free resources for its own revival as a modern military body dedicated to national defence. Furthermore, its lack of vision of a future Algeria, as it deals with the short-term problems of political control and security, means that it is becoming increasingly reactive at a time when a new strategy is desperately required. Nor can the officer corps, from which the army's political stature and role are derived, be considered to be cohesive in its perceptions of what the political future should be. The consensus of the past is being replaced by increasingly divisive views between junior and senior officers that contribute to the growing paralysis of strategic vision. In addition, the arbitrary exercise of power without individual accountability has also damaged the integrity of the officer corps, whilst competing visions of Algeria's future have undermined coherence in the army's relations with government and society.

C. Losing Faith in the President

When Algeria's military chiefs decided to support the candidature of Abdelaziz Bouteflika for the April 1999 presidential elections, they could not have imagined that they would regret their choice so quickly. Yet they knew perfectly well what they would get. Mr Bouteflika had taken time to negotiate his return with those who had wanted him back and there was no doubt over his political views or his economic preferences.

The withdrawal of six opposition candidates before the first round of the presidential elections seriously undermined Abdelaziz Bouteflika's potential legitimacy as President even before he had taken his presidential oath. Afterwards, he sought to compensate for his domestic isolation and very quickly exploited the media, particularly those operating abroad. He gave countless interviews in which he constantly reiterated the point that the army and he both accepted the same division of responsibilities between them, something that he also made sure to repeat in his writings. During the first six months of his presidency (April 1999 to October 1999), the bargain appeared to hold and he faced virtually no problems in his relationship with the army. Inevitably, the formation of a new government involved hard bargaining, but nobody had expected that it would occur without disagreements and a kind of consensus was eventually established.

Things began to go wrong when the President's diplomatic self-restraint failed him and he made public attacks on Morocco and Tunisia. They worsened at the end of 1999 when he erroneously claimed that the assassination of Abdelkader Hachani – the only Islamist leader at liberty with a charismatic personality that appealed to both FIS militants and sympathisers⁴ – was an attack against his amnesty project in the law of Civil Concord. The statement was interpreted as an indirect attack on the army leadership – something for which he would not be forgiven easily.

At the same time, dissatisfaction with the President has grown among army commanders for other reasons. Despite his promises, President Bouteflika has been unable to attract significant investment from the Gulf, which he had hoped might help re-launch a prostrate economy. His frequent foreign journeys and the attendant publicity are increasingly poorly received at home and the renewal of violence at the start of Ramadan in 2000 marked the failure of his Civil Concord policy. At the start of Spring 2000, the Algerian press, sifting through the sparse information available to it, had come to the conclusion that the army wanted to replace Bouteflika. Less than a year after he was elected, "Boutef", as he was popularly known in Algiers, was holed up in the imposing Presidential residence in El-Mouradia in Algiers, believed by many in the army to have wasted the advantages with which he had started his presidency.

The print media have played an important role in mobilising opposition to the President. They were hostile to him before he came to power and continues to perceive him as unable to handle Algeria's crisis, often presenting him as a megalomaniac with a flawed personality. President Bouteflika therefore prefers television as his chosen medium, and has placed one of his cronies, Habib Chawki Hamraoui, in charge of the state broadcaster and has used it so often that the channel has become derisively known in the country as "Canal Boutef". He has never tried to change the attitudes of the press and its journalists towards him, regarding with contempt those who he usually calls "the mercenaries of the pen."

Unlike other Algerian statesmen before him, such as President Zeroual, Bouteflika has never fully exploited the potential role of the press as a pro-regime propaganda medium. General Betchine, for example – now in retirement and the power behind the throne of former President Zeroual – had very early on during his period as presidential adviser appreciated the importance of the written word, creating several newspapers which blindly supported the policies of their owner. However, luckily for President Bouteflika, the press itself wounds but doesn't dare go for the jugular. Proprietors, editors and journalists know that the Algerian military prefers to prevaricate, to manipulate and to intimidate. It had, after all, created a press law which allowed the judges to imprison journalists on the

⁴ Mr Hachani had been imprisoned for eight years without charge, trial or sentence and became the only intermediary still in Algeria acceptable to both the military and the FIS leadership in exile. His death stimulated unexpected homage from those who had fought him, with particular praise being given to his constant refusal to endorse violence. He had led the FIS to its December 1991 electoral victory, despite the imprisonment of Abbassi Madani and Ali Benhadj and he had captured majority FIS opinion during the Batna conference when the most radical members had already demanded a resort to violence.

grounds that they were suspected of having information considered to be related to security issues.

D. Signs of Change

After the election of Liamine Zeroual as President in 1995, the leading military officers decided to give him a written statement of their views of Algeria's regional and Mediterranean role, taking into account the implications of the collapse of the Soviet Union. One part of this study, which had been carried out by the most competent experts in the army, recommended an approach for resolving the Western Sahara issue. The authors, making use of the Catalan case in their detailed arguments, suggested finding a solution with Morocco that was based on a large measure of internal autonomy for the Polisario Front. The study also suggested that the armed forces within Algeria's frontiers should be re-deployed in radical ways. It is worth noting, in this connection, that some officers were sufficiently audacious to argue that contemporary threats no longer came from Algeria's western neighbour but from the adverse consequences of economic globalisation, so that Algeria should rethink its defensive needs in economic and industrial terms, as well as from a military viewpoint.

That confidential report has never been made public, both because of internal tensions within the army and because of the wider political situation. But ICG's knowledge of it does, however, permit some of the current trends in the army's own strategy to be clarified, even if firm conclusions cannot be drawn. This is particularly important in the context of the Middle East and relations with the United States – areas in which the presidency has tried to assert a hegemonic position but where the army has its own preferences. One consequence has been that Algeria has now joined NATO's Mediterranean dialogue and is even prepared to come to terms with political realities in the Eastern Mediterranean – even though President Bouteflika, who regards foreign policy as his personal concern, may not agree.

The evolution of the military's position in relation to the Arab-Israeli conflict has been particularly interesting. In October 1999, the press published news of a visit by a large Israeli delegation, consisting of military figures, economists, businessmen and some representatives from the Mossad (Israel's external security service). Algeria's diplomatic position remained unchanged and there is no question of there being diplomatic relations with Israel until there is an agreement with the Palestinians over the unresolved final status issues: Algeria, along with Libya, is the only Maghreb country to reject official public contacts with Israel – at any level – even though it lies on the periphery of the Arab-Israeli conflict. Nonetheless, contacts with representatives of Europe's Jewish communities have also increased in recent months. In autumn 1999, for the first time ever, the Algerian ambassador in Paris dined with the President of the French Jewish association, the CRIF, which brings together the various Jewish organisations in France. It was General Ahmed Sanhadji, then the military attaché in France and who is close to the Algerian *Etat major*, who convinced his superior to renew links with the Jewish community originally from Algeria.

General Sanhadji has just returned to Algiers after spending four years improving relations between France and Algeria. In 1994, he was also one of the officers

behind the national dialogue conference with Islamists and he may well be nominated Secretary-General at the Ministry of Defence, thus making him, in effect, the second most important person in the army. During his period in France, General Sanhadji tried to limit the growth of American influence in Algeria and called for closer links with Europe, including the participation of the Algerian army in institutions such as the Western European Union and for observer status at NATO for the army, as enjoyed by Morocco's armed forces, so that Algeria would not be overlooked in decisions on Mediterranean security. His political role indicates the degree to which Algeria's armed forces affect the country's political life and emphasise the importance of their inclusion in any ultimate political settlement designed to achieve permanent stability and peace.

E. Future

The current head of the armed forces *Etat major*, Mohamed Lamari, who effectively heads the army's role in government in Algeria, has around him loyal and competent officers, who are aware that the emerging contemporary international scene will require an understanding of international affairs and technology, rather than the brute force of the past.

From a military point of view, it is clear that subordination to civilian authority cannot happen without compensation, including an amnesty for past corruption and repression, and the survival of the military caste's privileges, such as housing, pensions and diplomatic passports. Financial incentives may need to be offered to induce officers to accept their new role, or step aside.⁵

Today's military leaders were shaped, in large part, by their involvement in the War of Independence. In contrast, today's junior officers, who will take over leadership positions in the coming years, have been shaped by very different circumstances and have their own ideas about the future of their country and its place in the world. In this respect, change must, sooner or later, come from within the military structure itself. The Algerian army has the habit of making its important decisions after long debates in private. This process has, in the past, provided for the peaceful settlement of differences of view within the military and, in turn, ensured the military's survival as a cohesive force in national life.

V. THE RENTIER ECONOMY AS PART OF THE PROBLEM

In 1993, the regime was faced with impending financial collapse, while the Islamic groups were approaching victory in the field. In 1994, it was saved by an IMF restructuring program, which produced sizeable economic changes between 1994 and 1998. From a macro-economic point of view, Algeria is considered today by the IMF to be a relatively successful example of economic adjustment. This assessment, however, ignores the failure of the government's economic policies either to tackle the dominant role played by the military elite in the economy or to address widespread social misery.

⁵ As experiences in Latin America, Greece or countries like Poland, Czechoslovakia or Hungary, show.

A. The Rentier Economy and the Military Power Structure

Two factors have prevented the military from committing genuinely to a serious peace process: first, the Islamists no longer represent a threat to the army's interests and position; and secondly, the massive revenue generated by the hydrocarbons industry assures the military of its survival as an institution.

Since the beginning of the 1990s, Algeria has laid particular emphasis on developing its oil and gas sector with foreign participation as a means of accelerating development, balancing the budget and maintaining a healthy current account balance. Oil, gas and refined products generate 97 per cent of export earnings. With the exception of one year, the current account balance has been in surplus for the past decade, with the result that Algeria has been able to amass sizeable foreign currency reserves, sufficient, according to former premier Ahmed Ouyahia, to finance the country's debt servicing obligations into the next century. Indeed, although low oil prices meant that in 1998 revenues were only \$10 billion, rather than the expected \$13-15 billion, there was still more than \$1 billion surplus on current account.

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

In fact, the real picture is not quite so rosy. Structural problems persist in the development of a viable and competitive market economy. The economic influence wielded by senior SM officers is tremendous, with much-needed economic reforms dependent on the approval of senior level military officers. The economy suffers from a lack of transparency and accountability, which in turn deters foreign and domestic investment and entrepreneurship. It is scarcely credible, for instance, that there should be 27,000 import-export agencies in Algeria (a figure recently quoted in the European press by a respected commentator) - all primarily concerned with importing - that can find legitimate business in which to engage. Nor is the legal and administrative system sufficiently objective in its operations to convince private investors that they can enjoy both a stable and a financial viable investment climate - yet *both* conditions must be fulfilled if there is to be adequate private investment in the non-oil sector.

B. Progress of Economic Reform

The IMF has highlighted five areas in which significant progress must be made, if Algeria is to build a strong, stable economy capable of interacting in a globalised world economy and of creating significant economic benefits for the Algerian

population. The five areas are: domestic price regimes; state enterprises; the financial sector; the external sector; and fiscal policy.

1. Price Reforms

Price controls in Algeria were generally removed by 1996, and subsidies were removed by January 1996 for foodstuffs and by the end of 1997 for energy products.

2. State Enterprises

The public enterprise reform program was directed towards 400 large-sized enterprises and 1,300 small and medium-sized enterprises, all of which suffered from low productivity, obsolete equipment, inefficient management and over-staffing. Between them, these enterprises employed two-thirds of the industrial workforce, as well as one third of the workforce in the construction sector. The program also set up new holding companies for the public sector, designed to obtain positive rates-of-return, liquidate or downsize loss-making companies and prepare the sector for privatisation. The restructuring process has been delayed, however, by social and political factors. A further complication has been the lack of a properly developed financial capital market - the Bourse only began to operate in 1999 and the five commercial banks which were allowed to engage in money-market activities were also undergoing restructuring.

3. Financial Sector

Algeria's financial sector had never been strong, largely because, until the late 1980s, it had merely been an instrument for public sector investment. By 1998, the banking sector had become reliable enough for at least three foreign groups to wish to enter it and, during the year at least three new commercial banks were authorised involving French and Arab partners. This development also reflected a renewed confidence amongst domestic investors, a factor which was expected to be dynamised by the new stock exchange which began to operate in 1999.

4. External Sector

The external sector had, in some respects, been the least affected by the post-1989 reforms, partly because of the problem of debt repayment. The post-1994 IMF-inspired reforms were, therefore, particularly important and, by the end of 1995, all restrictions on foreign trade were removed. Sonatrach, the state oil concern, is the primary foreign currency earner in the country and thus dominates foreign trade. As a result of its activities, Algeria's foreign reserves at the end of 1998 were of the order of \$US 7.4 billion - sufficient for the authorities to decide to ignore IMF advice in May 1998 to renew the IMF's extended fund facility on the grounds that Algeria could now meet its foreign debt servicing costs without further rescheduling. By the start of 2000, however, they had declined to \$US 5.4

billion because of low oil prices and the demands of debt servicing. They are now rising again, given high oil prices.

5. Fiscal Policy

The IMF has insisted that neither budgetary nor current account deficits should exceed 3 per cent of GDP. The result was that the budget deficit declined from 8.7 per cent of GDP in 1993 to 1.4 per cent of GDP in 1995. There is no doubt that oil revenues are crucial to fiscal health and the oil price declines of recent years have caused havoc with budgetary balance. Yet Algeria needs to establish a budget surplus, partly to ensure against oil price volatility and to be able to construct an economy which is not oil-dependent, as well as to pay off debt. It must also deal with its housing crisis and it must support the private sector in its preparations for the challenge of globalisation and the regional environment. One of the keys to this is, the oil sector.

C. The Hydrocarbon Sector

The development of the oil sector since 1990 has meant that production capacity has steadily risen: from 755,000 barrels per day (b/d) in 1994 to a peak of 850,000 b/d in 1997 before dropping back in 2000 to 811,000 b/d as a result of Opec quota cuts, although, once condensate (430,000 b/d) and natural gas liquids (145,000 b/d) are added in, overall production reached 1.4 million b/d. Crude production capacity will soon reach 1.4 million b/d on a reserve of 9.2 billion barrels, a reserve which, moreover, is constantly growing as new discoveries are made. Sonatrach, the state hydrocarbon company, is also being remodelled. Its status as a public sector company will not change, even if subsidiary functions are privatised, but it is now trying to reposition itself as an international player through a \$US 19.2 billion five year development plan. In addition to oil-field development, pipeline construction, exploration and gas liquefaction technology, the company is seeking foreign opportunities, both upstream and downstream. Its domestic downstream interests will, continue, with four refineries with a combined capacity of 502,665 b/d, largely for export, and petrochemical and fertiliser plants as well.

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

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

D. Future Directions

1. Institutional Issues

Algeria, as a high capital absorber (unlike, for example, the Gulf states) and a major hydrocarbon exporter, runs the risk that access to profitable and abundant oil rent saps at the viability of other non-oil economic activities in terms of economic efficiency since primary economic policies favour oil production. This tendency – the so-called “Dutch disease” – could seriously hinder the development of other economic sectors.

The challenge is to transform such a potential vicious circle into a virtuous circle where the state can use foreign exchange revenues to encourage development and provide the social and physical infrastructure that creates a suitable development and investment climate. Oil revenues are, in effect, an alternative to development aid and foreign investment in a world in which official aid is at an all-time low and where the Western Mediterranean has consistently failed to attract the foreign investment it anticipated. Algeria will not be able to enjoy an investment or aid bonanza, certainly not in the immediate future. Oil revenues, however, represent the means by which the development objectives that might have been sought through such external aid can be met.

2. Providing Services

In fact, it is in the economic field that Algeria's President ultimately has to achieve success if he is to solve the political crisis that the country continues to face. But the economy is profoundly oil-dependent and dependent, therefore, on its external revenues. As ever, Algeria is trapped between the rock of political irredentism on the part of its political classes and the hard place of economic realities of an increasingly oil dependent economy to which, at present, it has no effective answer. There is, a risk that the increase of oil prices in 2000 may serve as a catalyst to halting or slowing essential reforms and to entertain once again the illusion of a rentier economy.

The World Bank has estimated that countries in the demographic position of Algeria need to enjoy consistent GDP growth rates of between 5 and 7 per cent simply to ensure maintenance of social service provision in health, education and similar services. In this decade, Algeria has enjoyed negative GDP growth rates up to 1994 and growth rates of 3.95 per cent and 3.8 per cent in 1995 and 1996. In 1997 and particularly in 1998,

growth rates again fell because of low oil prices. It is therefore vital that GDP growth be maximised towards the upper level proposed by the World Bank because of the importance of social service provision to a country where over one-third of the population is less than fifteen years old.

Among the services desperately in need of new investment:

- **Education:** A critical need exists for a revived educational system that responds to the demands of a developing economy seeking integration in the global and regional economic worlds. Although Algeria has been in the lead of developing countries in the funds it has spent on education - at 5.7 per cent of GDP in 1993 - it is open to question as to whether those funds have been most appropriately spent. Not only are literacy rates still low at 57.4 per cent of the population, but vocational training and higher education are not yet at the level of a modern developing economy.
- **Health:** There are similar requirements for expanded medical services as part of a social contract to persuade the Algerian population to support new initiatives in economic development - particularly if they otherwise require delayed expectations.
- **Housing:** There is a desperate need for adequate housing, given population growth rates of in excess of 3 per cent per annum until the 1980s and of 2.6 per cent since 1985 alongside urbanisation growth rates of 4.5 per cent per year. In 1996, 28 million people lived in 3.6 million housing units - an occupancy ratio of 7.8 - in which 55 per cent of the housing stock had been built before independence in 1962 and 10 per cent is considered to be unsanitary. There is an estimated shortage of at least 2 million units and the current construction rate of 100,000 per year is only slightly in excess of the annual growth in demand. This should be a high priority area for state intervention, whether direct or through public-private partnership.

One of the most important factors feeding opposition to the regime before 1988 was the perception that the state was uninterested in social provision or in social welfare. This perception has been reinforced in recent years. Thus, if the population is to be persuaded to join in the process of major economic restructuring now proposed it must be given some tangible evidence of official concern for its wellbeing. The three areas of health, education and housing are key in this respect, as are the provisions that need to be made to compensate, retain and, eventually, re-employ workers who are made redundant or who form part of the long-term unemployed. If attention is not given to this, social peace will be unattainable in the near-to-medium term.

E. External Dimension

Algeria is not an economy in isolation. It has major foreign debt – \$29.9 billion in 1998 – to service and depends on its ability to export oil to ensure payment for essential imports. Its commercial and economic environment is therefore an essential component of any consideration of its economic future. Similarly, its currency regime will be important in determining the response it obtains from the international market place. In terms of foreign trade, over 60 per cent of Algeria's imports come from the European Union and over 70 per cent of its exports go to the same destination. Trade with the neighbouring countries of Morocco and Tunisia is about 2-to-2.5 per cent of total exports and imports respectively. There is no doubt that Algeria is totally dependent on its relationship with Europe; in view of this, Algeria should accelerate its negotiations for a free trade area agreement with the European Union in industrial goods and services.

There are dangers in this. Even though long adjustment periods are provided for in the agreements drawn up under the Euro-Mediterranean Partnership Initiative (the Barcelona Process)⁶ and even though transitional aid is available through the MEDA programme, the immediate consequences for Algeria will be twofold. First, state revenues will decline as tariffs are removed, a development that will be reflected in greater domestic indirect taxation. Secondly, the nascent non-oil Algerian industrial and service sector will be exposed to the full weight of unfettered European competition, once the transition period is over. There is also the danger that, once the free trade area has been created, the asymmetry in market demand across the Mediterranean will persist, with North African states merely becoming satellite economies of Europe and with each economy becoming "leopard-spot" in nature as only some economic sectors successfully integrate into Europe and others remain isolated and under-developed, so that overall economic benefit is not achieved.

This can be overcome if the second stage of the Barcelona Process - due to come into effect after 2010 - is accelerated. This anticipates the integration of the southern Mediterranean economies into a single market, so that they can take advantage of economies of scale to exploit the relationship with Europe. Such a development also gives Algeria the opportunity to re-assert its naturally dominant geo-strategic position inside the Maghreb.

⁶ The Euro-Mediterranean partnership was established in 1995 between the 15 EU member states and 12 partners of the southern Mediterranean. In the Barcelona Declaration, the participating countries, including Algeria, established the three main objectives of the Partnership:

1. The establishment of a common Euro-Mediterranean area of peace and stability based on fundamental principles including respect for human rights and,
2. The construction of a zone of shared prosperity through an economic and financial partnership and the gradual establishment of a free trade zone,
3. The rapprochement between peoples through a social, cultural and human partnership aimed at encouraging understanding between cultures and exchanges between civil societies.

VI. CONCLUSION

The revolutionary option – whether secular or Islamist – has failed in Algeria and the army's role as guarantor of revolutionary legitimacy is no longer effective, whilst popular disaffection is a threat to the country's political future. Instead, a modern state with accountable institutions and an effective economy must be created if the Algerian crisis is to be brought to a permanent conclusion and replaced by conditions of peace and prosperity. Europe, given its interests in Algerian energy and its concerns over economic migration and the spill-over of violence, should the crisis continue, has a key role to play in helping to create viable political institutions to oversee permanent change. Algeria's position as a sub-regional hegemon also means that the wider world, including the United States, has an interest in the way in which the country's crisis is eventually resolved.

This report has sought to demonstrate that certain specific measures will be needed if such an outcome is to be successfully achieved. These include the following:

End to Violence

- A reconciliation process to address the legitimate concerns of those who have been victims of the violence;
- The reintegration of the banned Islamist movement within a pluralistic political process; and
- The redefinition of the army's role within the constitutional process.

Construction of a Constitutional Government

- The creation of an independent judiciary, guaranteed by the constitution and autonomous.
- Constitutional redefinition to ensure accountable, transparent government, legitimised by democratic political process in which Algeria's armed forces have a formalised, constitutional role;
- Political pluralism involving parties committed to democratic principles, whatever their ideological positions;

Economic Reconstruction

- Reform of economic institutions to achieve transparency and accountability;
- Restructuring of the economy to encourage foreign and domestic private investment within a reformed domestic banking sector;
- Privatisation programmes designed to minimise social disruption and unemployment;
- Refurbishment of physical infrastructure, including the housing stock;
- Expanded social provision, including educational reform designed to encourage economic growth; and
- Initiatives designed to reduce dependence on hydrocarbon export revenues.

External Dimension

- Algerian acceptance of the Barcelona engagements highlighted in the accord as part of its entry into the Barcelona Process; and
- Active European participation in the political reconstruction process in Algeria, particularly over support for the growth of civil society and for measures designed to end civil violence.

Such a program of reform is highly ambitious and assumes that Algeria's traditional reluctance to tolerate external interference will be laid aside. This will, no doubt, be the first hurdle that the international community will confront if it wishes to engage in the Algerian crisis. There is no doubt that, outside the economic sphere, it will be very difficult for the Algerian authorities to accept external aid in handling such matters, but there is equally no doubt that, unless it does, change will be hesitant at best. There is little time for the introduction of fundamental reforms, if a new crisis is to be avoided. Both Europe and Algeria, therefore, have a common interest in co-operating with the regime over basic political and economic reform. In future reports, ICG will provide more detailed analysis of the key areas of a future reform program, spelling out the steps that need to be taken by the Algerian authorities as well as by foreign governments and relevant international organisations.

Algiers/Paris/London/Brussels, 20 October 2000