

Economic Reform & Political Openings

Lessons from Algeria

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AFTER GAINING INDEPENDENCE in 1962, Algeria faced many economic, social and political troubles. Like many developing and post-colonial countries at the time, Algeria chose to address these hardships by adopting socialist principles, financed by oil export revenues and foreign borrowing. However this socialist experiment collapsed in the late 1980s with the decline in oil revenue due to falling oil prices, and with the collapse of the Soviet Union and the strength of socialist ideology, leaving Algeria to face both economic and social crises. The Algerian government was forced to reexamine many principles that had not previously been open to discussion, and Algeria began evolving into a market economy. At the same time, Algeria amended its constitution in 1989 to reflect new political pluralism. Thus, beginning in the 1990s, Algeria was simultaneously undergoing two crucial processes: economic and political liberalization. This article will examine the sweeping economic reforms that Algeria implemented under the structural adjustment program and again in the early 2000s, in conjunction with an examination of the effects of political reform and the security situation on Algeria's economic development.

Reforms before 1999: harsh structural adjustment and democratic labor pains

By the late 1980s, it had become apparent that extensive economic and social reforms were required to transform the prevailing model of planned economic development that had been applied after independence and which relied heavily on oil export rev-

enue and foreign borrowing to support the Algerian economy. After huge, organized demonstrations took place in Algeria's major cities on Oct. 5, 1988 to protest the declining economic and political situation, the government took steps toward converting to a market economy and enacted a series of political reforms, the most important being the transformation to a multiparty system.

Economic reforms in the structural adjustment program (1995-1998)

Facing a dire economic situation, Algeria, in cooperation with the World Bank and IMF, initiated far-reaching reforms in the form of a structural adjustment program in 1995. Before carrying out the structural adjustment program, the Algerian economy was struggling,¹ characterized by dwindling foreign exchange reserves, rising foreign debt, dropping GDP growth rates, persistent budgetary deficits, high inflation (32 percent in 1992), malaise in the private sector areas of agriculture, construction and industry, rising unemployment, and supply and demand imbalances. In addition, Algeria relied heavily on imports of basic foodstuffs (accounting for 50 percent of the average Algerian's diet). There was also a dearth of more than one million housing units in public housing, poor integration between different industries, declining export revenue due to collapsing oil prices, and falling foreign investment and capital inflow figures. To combat these fiscal and social problems, the fundamental pillars

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of the structural adjustment program were laid out in a May 1994 standby agreement, which was followed by an extended fund facility accompanied by the rescheduling of Algeria's foreign debts over three years.² The program included a set of stringent guidelines for monetary and financial policy, international trade and the various economic sectors.

In terms of fiscal policy, the structural adjustment program attempted to reduce the deficit in the state budget through measures targeting increased GDP and minimized government expenditures. These policies included abolishing consumer subsidies, increasing the value added tax, increasing government tax income by fighting tax evasion, boosting loans from the financial market to avoid inflationary financing, decreasing government expenditures by limiting government and fixing public sector employees' salaries to avoid inflation driven by rising wages. Subsidies on essential

1 P. A. Belgherbi, *Economique: Les principaux elements*, No. 8, (1994): 24.

2 Mohamed Ratoul, "Transformations of the Algerian Economy – the Structural Adjustment Program and the Extent of its Reflections on the Level of Interactions with the Outside World," *Bahuth Iqtisadiya Arabiya*, No. 23. (Arab Organization for Economic Research, 2001).

goods were also abolished to reign in government spending, following the logic that liberating prices was a necessary goal of the structural adjustment program.

In addressing monetary policy; the structural adjustment program focused on interest rates and regulating the financial sector. Strict financial and monetary planning was followed regarding the resources collected, with the printing of money capped, internal borrowing limited, and an attempt made to raise foreign currency reserves to support the exchange rate and level out the balance of payments. In the same context, some measures were taken to restructure the financial system so that it would better suit the requirements of the free market and the pace of reform was hastened. Another goal of the structural adjustment program was exchange rate reform, with emphasis on reforming the balance of payments.³ In this framework, the Algerian dinar was devalued 7.3 percent in March 1994, then 40.1 percent the following month. To liberalize the exchange market, a hard currency interbank market was created, permitting commercial banks to freely offer hard currency to their clients, and foreign exchange offices were permitted to open. All of these initiatives aimed to reduce the gap between the official exchange rate and the parallel exchange rate.

The liberalization of prices was also incorporated into the program. Before 1994, public subsidies had reached as high as 5 percent of GDP. However, prices began to be liberalized in 1994, and the legalized profit margin system was gradually phased out to disappear at the end of the structural adjustment program. Tied with this liberalization process was the application of a social compensation system to lighten the effects of rising prices and a falling dinar on the lower classes.

In keeping with the Algerian government's fiscal policy as put forth in the structural adjustment program, many public entities were restructured. State organizations were reconfigured, guaranteeing them more legal and financial independence. The cost of this financial restructuring from 1994 to 1999 alone was around \$13 billion.⁴ Harsh financial restrictions were imposed on these institutions to force them to become self-sustaining. A reform program was also imposed upon the public institutions responsible for construction and public works, with some of them privatized, others dissolved, and the rest downsized. The same policies were applied to government agencies, public utilities companies and local government institutions.

In addition to the sweeping reforms the structural adjustment program imposed on the state and financial institutions, the program also greatly affected Algeria's private sector. With the adoption of the program, for the first time, the sale of public

3 Mohamed Ratoul, "The Algerian Dinar between the Theory of Flexibility Methods and Rectification," *Iqtisadiyat Shamal Afriqiya* No. 4 (Algeria, June 2006): 233.

4 *Al-Khabar* 2 (January 3, 2000): 2.

institutions and their management by the private sector was allowed, and the private sector was also permitted to contribute to the capital of these institutions. Other laws further liberalized by ending the state monopoly over the insurance business and opening the door to foreign investment in commercial banks. Along the same lines, a set of measures was applied to encourage productive private investment. In this vein,

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the structural adjustment program included a number of measures specifically targeting agricultural reform, including returning some of the land that had been nationalized after independence to its previous owners. At this time, a bill was also put forward to privatize land by converting the right to use state-owned agricultural lands into full private property rights. However, this bill has yet to become law. In addition, steps were taken to encourage agricultural produc-

tion and defend agricultural products from foreign competition. The development and reform of the fishing industry won particular attention through the reform of this sector's regulatory frameworks, the improvement of fishing methods and ports, and the facilitation of access to capital, allowing fishing to emerge as a professional, profitable sector attracting private domestic investment. The housing sector also experienced many reforms during this period. Many institutions that could not be restructured and downsized were dissolved completely, and most of the workers in this sector were pensioned off. These actions were paired with the encouragement of private investors to enter the sector.

To maintain the momentum of the structural adjustment program and the ambitious reforms it outlined, the Algerian government negotiated with the World Bank and the IMF and was able to secure funding and lighten the external financial burden. An agreement was also reached with the Paris Club and the London Club to reschedule debts of about \$20 billion over the four-year structural adjustment period.⁵ Furthermore, the IMF, along with other international and regional financing organizations, and other creditors set aside exceptional aid worth \$5.5 billion to rectify the balance of payments. These two measures (debt rescheduling and exceptional aid) and the fiscal relief they provided for the Algerian government during the structural adjustment process undoubtedly contributed to the program's success.

5 Karim Nashashibi et al., "Algeria: Stabilization and Transition to Market," IMF Occasional Paper 165 (Washington: IMF, 1998): 10.

Results of the structural adjustment program

Many aspects of the structural adjustment program had great success and revitalized Algeria's economy. On the macroeconomic level, some indicators showed a return to more economically acceptable levels. After the program's completion, growth rates reached 5 percent (though this was less due to actual growth in industrial activity than it was to the national economy having shed the social burdens which it had shouldered for so long), inflation fell to under 1 percent and the real interest rate became positive. In addition, the dinar's exchange rate was relatively stable against major currencies, and the gap between the official rate and the parallel market's rate dwindled.

After sharp price increases in the initial stages of the structural adjustment program, progress toward establishing a market economy also led to relative price stability, and declines were recorded in some widely consumed products due to dropping prices in the international market.⁶ Price liberalization also had significant positive effects, and the upward trend of prices when the program was first applied led to a reduction (or rather, rectification) in national demand, and the elimination of a large part of luxury consumer spending. Furthermore, prices also leveled out with those in neighboring countries, which in turn shut off cross-border commodity smuggling and speculation on widely consumed goods.

This is not to say that structural adjustment was wholly successful, as the improvement in some economic indicators was actually due to favorable external factors. While structural adjustment contributed to lowering foreign debt and debt servicing rates at the end of the program's application, imports as a percentage of foodstuffs continued to increase. Foreign trade liberalization measures helped expand the import business, with foreign goods flooding into the domestic market despite Algeria's high customs rates. While foreign currency reserves rose, this stemmed fundamentally from sharply rising oil prices, not other factors. In addition, attempts to lure foreign investment to Algeria also failed to have the desired effect, not only because of lingering bureaucratic complications, but also due to the poor political and security environment in Algeria throughout the 1990s. The flow of Algerian investment abroad also remained limited because of the weakness of Algerian capitalists, with the notable exception of some modest investments made by hydrocarbon giant Sonatrach in a number of countries.

As with foreign investment, the banking reform aspect of the structural adjustment program had limited success due to an entrenched bureaucracy and the lack of timeliness in applying modern banking technologies. This was also the case for both public and private economic institutions, many of which remained far from imple-

6 Ibid.

menting international best practices, whether regarding technology, prices, or quality and despite the progress made in restructuring these institutions.

In addition, it is necessary to speak to the real social costs of the structural adjustment program. Nearly 300,000 workers were laid off from government jobs, which led to rising discontent and poverty rates. Augmenting the negative social effects was the fact that the program's application overlapped with the proliferation of organized domestic terrorism, which helped destroy many public and private facilities. The security situation also had a considerable economic and social impact upon the rural population, and many people migrated back to their hometowns searching for greater security.

Political reforms: from a single party to pluralism

The successes of the structural adjustment program paved the way for further democratic reforms and ultimately the adoption of a new constitution in 1989 that recognized pluralistic ideals. While far from a real democracy, the language of democracy had been an important part of the liberation movement that freed Algeria from French colonial rule. For instance, the National Liberation Front (FLN) communiqué of Nov. 1, 1954, which laid the groundwork for the revolution, included an important paragraph which called for “the restoration of the Algerian state, sovereign, democratic, and social, within the framework of the principles of Islam.” Thus, the concept of democracy was embodied in the basic national charters and constitutions, beginning from the official naming of the state: the People's Democratic Algerian Republic. However, practically speaking, the FLN was wary of losing the gains of the revolution and as a result, pluralism was not acknowledged until the 1989 Constitution. The constitution came amid various crises, giving new life to Algerian politics by accepting the principle of the freedom to form political organizations. Article 42 stipulated that: “The right to create political parties is recognized and guaranteed. However, this right cannot be used to violate the fundamental liberties, the fundamental values and components of the national identity, the national unity, the security and integrity of the national territory, the independence of the country, and the People's sovereignty.”⁷ The adoption of the new constitution did not automatically lead to a vibrant democratic awakening and many of the political parties that formed at this time were either stagnant or worked secretly, and had widely varying political leanings. After more than a quarter century of suppression of party activity, the constitution's sanction

7 1989 Algerian Constitution, dated February 23, 1989, and amended in 1996. Available in English at <http://www.conseilconstitutionnel.dz/Const89-5.htm>

of the multiparty system led to the appearance of more than 60 parties: they ranged from Nationalist parties that drew inspiration from the anti-colonial movement and pan-Arabism, to Democratic parties, and both moderate and extremist Islamic parties. The democratization process, as much as it made Algeria a pioneer in the Arab world, was a bitter experience, in part due to the rapid descent into violent conflict after the electoral process was called off in the wake of fears of an Islamic majority in the Dec. 27, 1991 elections,⁸ and in part due to the blatant contradictions among the active political parties. Algeria's adoption of democracy was also difficult due to the novelty of its experiment, which had no precedent to follow in the region.

Despite its descent into violence as the frequency of terrorist attacks increased during the 1990s, Algeria remained on the path of pluralism, at least on a minimal level, through the participation of the interim council and the peaceful succession of power. During this violent period, the presidency of Algeria passed from Chadli Bendjedid to Muhammad Boudiaf, who was assassinated on June 29, 1992, and was succeeded three days later by Ali Kafi. Liamine Zeroual then took office on Jan. 30, 1994, followed by the current president Abdelaziz Bouteflika beginning April 27, 1999. This period of political unrest also saw 10 different prime ministers.⁹ While this rapid succession of power, both for presidents and prime ministers, shows the extent of the political crisis in Algeria, it also demonstrates the level of harmony with democratic principles in the attempt to correct the political course that Algeria had followed from independence until the 1989 constitution.

In addition to the political, economic and human costs caused by the prevalence of terrorism and a deteriorating security situation, there were indirect losses resulting from the redirection of government spending away from economic development and toward the purchase of weapons, the training of internal security forces, the compensation of victims' families, and the provision of ample essential and luxury goods to reassure citizens. There were also the costs associated with instability within the government and the ministerial posts. All of these conditions weakened the state's position abroad, in turn hurting its ability to seek loans and financing concessions. Foreign investment naturally dropped sharply given the security environment. All of

8 The first round of the legislative elections that year resulted in the Islamic Salvation Front (FIS) gaining a majority, an outcome which was undesirable for the ruling powers, especially the secularist and Francophone branches. This result was also frowned upon regionally and internationally, due to fears about the application of the ideas for which some FIS leaders were calling, and concerns that the FIS would abolish democratic, pluralistic principles after gaining power. The democratic process was halted, and the second round of elections was not held, which led to the country entering a wave of violence characterized by organized terrorism.

9 In order, they were Sid Ahmed Ghazali, Belaid Abdessalam, Redha Malek, Mokdad Sifi, Ahmed Ouyahia, Smail Hamdani, Ahmed Benbitour, Ali Benflis, Ahmed Ouyahia once again, and at present Abdelaziz Belkhadem.

these circumstances indirectly reduced the number of resources that could be marshaled toward economic development.

This troubled state of affairs intensified the economic and social damage that the structural adjustment program had inflicted on the lower classes. However, despite the lack of security, the party system stayed active and these parties helped rectify the economic course and deal with its repercussions. In the political process, all of the various ideological trends – whether nationalist, Islamic or democratic – took part in the successive governments, the interim council and the People’s National Assembly, or helped to relax the political and security situation through amnesty laws. This active participation is what ensured Algeria’s ability to overcome the security crisis and move on to other phases of democratic development.

Algeria in the 2000s: economic takeoff and democracy taking hold

The economic and security crises began to show signs of abating with the election of Abdelaziz Bouteflika as president on April 15, 1999. There were two major tasks before the Bouteflika presidency: The first being the preservation of the economic gains realized under the structural adjustment program and the continuation of economic, commercial and financial reforms in order to maintain solid economic growth. The second task was to create a solution to the ongoing political and security crises. In terms of politics, restoring the constitutional rule of law was the most important accomplishment of this period, with all of the constitutional institutions returning

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to their prior status after having been disrupted for a full eight years (1992-1999). In keeping with the constitution and with the participation of most political parties, all political institutions were elected, including municipal councils, people’s assemblies, state assemblies, and the presidency of the republic. Active party participation in government

expanded as President Bouteflika succeeded in bringing together parties with widely varying ideologies for the first time in one government. His first government included seven different parties, which despite the fundamental differences among their platforms, worked together on executive and legislative levels, thus paving the way for a political system built on rotation of power and acceptance of the “other.”¹⁰ Meanwhile,

¹⁰ Hassan Abd Rabbo al-Masri, “Algeria and Bouteflika after Four Years: Paving the Way for a Politics of Succession and Acceptance of the Other,” *Al-Zaman Al-Jadid* Magazine (March 4, 2002).

this period also saw peace gradually take root, based on the Civil Concord Law of July 13, 1999,¹¹ which was followed by the National Reconciliation Law of Feb. 27, 2006.¹²

The early 2000s was also distinguished by the restoration of hope and trust, especially after the civil concord program that led thousands of armed fighters to come down from the mountains. Acts of terrorism became fewer and farther between. These positive political and security developments were reflected in economic life, and various economic indicators showed improvement. Foreign currency reserves rose to nearly \$100 billion, while foreign debt dropped to a mere \$4 billion, mainly due to rising oil revenue. At this time, a set of key economic policies that sought to preserve the gains of the structural adjustment program were implemented. The most prominent policies involved completing the economic reform program; adopting a number of economic and social programs, such as the “Economic Revival” program launched in 2001, for which \$7 billion was earmarked, and the “Supporting Economic Growth” program, for which \$150 billion was set aside for 2005-2009; concluding a partnership agreement with the European Union in 2005; continuing negotiations with the World Trade Organization over liberalizing Algerian external trade; and paying down the country’s foreign debts, which shrank from \$28 billion to \$4 billion. Other initiatives included working to increase domestic investment and direct foreign investment, continuing to privatize many public institutions, and helping encourage the private sector to expand, such that it became responsible for about 70 percent of non-oil economic growth.¹³ In addition to these efforts, banking and financial reform continued, foreign currency law was updated, and infrastructure work continued as roads, railroads, airports and ports were built or rebuilt. These economic policies were positively reflected in Algerian social life and unemployment dropped to about 13 percent, family income rose, poverty rates fell to around 6 percent, and the housing problem was alleviated by large and diverse

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11 To see the full text of the law (in Arabic), see the following link:<http://www.el-mouradia.dz/arabe/algerie/Histoire/wconcorde.htm>.

12 A law passed by popular referendum on September 29, 2005, and made effective the next year, including the peace accord and national reconciliation.

13 From a speech by President Bouteflika at a dinner banquet honoring German President Horst Kohler, Algeria, November 12, 2007.

programs created to specifically address housing needs. The GDP growth rate was consistently around 6 percent, the dinar's exchange rate stabilized, inflation remained under 3 percent, and living standards improved tangibly.

Political forces agree on economic reform

It is essential to emphasize that the key factor contributing to the success of this second round of economic reforms in the early 2000s was the integration of diverse political parties in formulating and applying these policies. The various parties, whether nationalist, Islamic or democratic, took part in drafting and approving the policies in the National People's Assembly – a first in Algerian history. The principles of acceptance and inclusiveness became part of the new Algerian political status quo, and this period saw coalitions between parties that no one would previously have imagined could work together. Furthermore, there was an accord over the economic reform programs on the part of the 21 parties in the National People's Assembly elected in 2007 for the sixth legislative session.¹⁴

Overall there exists a large degree of consensus among Algeria's political forces over preserving the transformation to a market economy. Disagreement on the matter remains limited to this evolution's rate and scale. Some forces argue that there is no feasible option other than fully applying a market economy, privatization and economic liberalization, while others counter that expanding privatization and selling the remaining public economic institutions will hurt the Algerian people and be a blow against the lower classes. All political entities, however, strongly agree that Algeria must continue on the path of economic reform, toward a market economy that is integrated into the global economy. Most importantly, all agree that Algeria should seek economic efficiency without doing excessive harm to the poor. ■

14 In order of seats won during the May 17, 2007 elections for the 2007-2012 session, the parties were: National Liberation Front, National Rally for Democracy, Movement of Society for Peace, Independents, Workers' Party, Rally for Culture and Democracy, Algerian National Front, National Movement for Nature and Development, Movement for National Reform, Movement for Youth and Democracy, Renaissance Movement, Party of Algerian Renewal, Movement of National Understanding, National Republican Alliance, Al-Infatih Movement, National Reform Movement, National Front of Independents for Understanding, National Movement of Hope, Ahd 54, National Republican Rally, Algerian Rally, Democratic and Social Movement, and the National Democratic Front.

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The Modes of Arab Conspiracy Theories

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IN CONTRAST TO SCIENTIFIC THOUGHT, which relies on logic, causality, observation, experimentation, and methods or theoretical frameworks that assist in the study of various phenomena, markedly non-scientific modes of thought prevail throughout the Arab world. These modes of thought take many forms, one being metaphysical thinking that employs religion to explain phenomena, even when they can be understood by scientific thinking that does not offend religious thought. Another common mode of non-scientific thought is superstition-based thinking, which relies on myths and hearsay. The most prevalent, however, and perhaps the most damaging of the modes of non-scientific thought, is conspiracy-centered thinking. Such thinking is based on nothing more than general frameworks that suggest there exist overarching plans and hidden – or even visible – forces that direct the world as if it were theater. This essay categorizes such conspiratorial thinking into six types, in order to assess the overall impact of conspiracy-based thinking in the Arab world.

1. Direct targeting

Conspiracy-centered thought in the Arab press, in academia and public opinion frequently promotes the notion that Arabs or Muslims are “targeted” by outside powers, preventing Arab nations from becoming politically influential, economically developed, technologically advanced, or militarily powerful.

Adherents to this view often rely on specific historical events for support. The