

Algeria

Status Index (Democracy: 1.8 / Market economy: 2.1)		3.9	Management Index		3.1
System of government	Autocracy		Population	30.0 mill.	
Voter turnout	67.0 %		GDP p. c. (\$, PPP)	6,090	
Women in Parliament	6.0 %		Unemployment rate	28 %	
Population growth^a	2.5 %		HDI	0.704	
Largest ethnic community	20-25 %		UN Education Index	0.69	
			Gini Index	35.3 (1995)	
Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

In the parliamentary elections of 2002, the first elections since the pluralist parliamentary elections in January 1992 were canceled, Algeria's voters clearly rejected an Islamist state and social order. Armed underground groups had fought for an Islamist state since 1992, but their militant course and their objective found no resonance among the majority of the population. The voters' priorities were civil harmony, a return to normalcy, and socioeconomic development. President Liamine Zeroual had taken office with this goal in 1995. Before he voluntarily resigned in April 1999, he managed to normalize political institutions and scored successes in the fight against Islamist terrorism.

However, social conditions steadily eroded during his presidency. His successor Abdelaziz Bouteflika, elected on April 11, 1999, likewise promised to establish civil concord and to push ahead with socioeconomic development and modernization. This report thus covers a mixed period in Algeria's history: A breakthrough was achieved in the battle against Islamist terrorism, but socioeconomic and sociocultural unrest intensified.

This assessment of transformation to democracy and a market economy during the assessment period (1998-2003) arrives at the conclusion that, in absolute terms, Algeria fell far short of its goals. The implementation of political democracy and a free market economy is slogging along against resistance from many quarters.

However, given the security issues and the extremely adverse social and economic setting for transformation in Algeria, in relative terms its managers can be credited with success—the introduction of IMF-supported restructuring programs kept Algeria's economy from reverting to its pre-1994 status, and the government is

committed to further steps toward transformation. Today's key actors are skirmishing over the pace and scope of individual measures. The outcome of this dispute will determine the transformation process over the medium term, especially in the economic arena.

2. History and characteristics of transformation

The political and economic aspects of transformation have not advanced simultaneously in Algeria. The first steps toward deregulating the economy were taken after 1987–1988, when the drop in oil revenues exposed the dysfunctions of Algeria's structurally dependent economy and initiated the end of the distributive rentier state. When social unrest broke out nationwide in October 1988, the government reacted with political liberalization, introducing a multiparty system in 1989.

(1) Democratic transformation: This political opening had been intended to increase acceptance for urgently needed economic reforms; instead, it set in motion a political dynamic that particularly benefited the Islamist opposition as an alternative to the discredited FLN (the National Liberation Front, or Front de Libération Nationale) formerly the sole party in Algeria. The Islamic Salvation Front (Front Islamique du Salut, FIS), which called for an Islamist state and social order, had – in comparison to other political parties which had been founded since 1989 – a relatively solid structure and national representation. As a result, it won the multiparty local elections in 1990 and the initial round of the first multiparty parliamentary election in December 1991.

However, the military intervened, with the support of individuals, parties and organizations with a secular orientation, including Algeria's powerful trade union confederation, the Union Générale des Travailleurs Algériens, (UGTA). In January 1992, the president resigned, parliament was dissolved and the elections were halted. In response, Islamist militants took up armed combat and a state of emergency was declared that remains in force today. Until a new president was elected in 1995 and parliamentary elections were held in 1997, a sort of "institutional state of emergency" prevailed.

At least for a time, the democratic transformation stalled, but the influential political actors held fast to the multiparty system and continued the political opening. Political life returned to normal only after the Islamist terrorist groups were greatly curbed. After the 1997 elections, constitutionally-based institutions were restored and overtures were made to integrate cooperative Islamist leaders into the political system.

Reforms pertaining to the judiciary, the administrative system, and the press and other media, as well as free speech and the rule of law, have been heralded since 1995. Some were implemented but fell short of fundamental reform during the

period under study. The government failed to enhance its legitimacy. All political actors have found it more difficult to get voters to the polls as people have lost confidence that promises will be kept.

(2) *Market economy transformation:* The first steps toward transformation to a free market economy halted in 1992 when an opponent of reform—a holdover from the period of state monopoly—was appointed prime minister. Only after drastic downturns in the economy did the reform faction in the government regain the upper hand, concluding an IMF-supported restructuring program in 1994.

The IMF standby agreement rescheduled debts and committed the government to a policy of structural adjustment. Subsequent economic interventions brought macroeconomic stabilization, but at immense social costs. As a result, the UGTA does not unconditionally support the restructuring policies. In exchange for its cooperation in the structural adjustment program, this large and powerful trade union confederation demands measures to cushion the social costs for workers.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

Algeria struggles to maintain steady progress toward the transformation of its political system while preserving domestic order. All the influential actors face opposition.

3.1.1 Political regime

(1) *Stateness:* Despite persistent social unrest in the Kabylia region, state identity is not a problem in Algeria. The state exercises its monopoly on the use of force throughout its territory. Terrorist groups consisting of some 700–800 people challenge this monopoly but do not currently represent a politically destabilizing factor. Defining citizenship and identifying who qualifies as a citizen is a concern only for a militant minority of Berberophones, who demand autonomy. In principle, state sovereignty is not a politically relevant issue for the majority of Algeria's population.

All citizens have the same civil rights. The political process is formally secularized, although Islam is the state religion. In practice, the religious arena is under state control. Both the government and Islamist organizations and groups use religion as a tool to reinforce their legitimacy and to mobilize support.

The separation of state and religion is made more difficult by a powerful fundamentalist undercurrent in the population, as well as by Islamist movements that reject any such separation. The basic infrastructure of a state is present throughout the country. At present, the state generally maintains public safety and

order, though terrorist groups pose a threat in some regions. The administrative system is established and functional throughout the country, but it is cumbersome, overly bureaucratic and fundamentally in need of reform.

(2) *Political participation*: Universal suffrage and the right to campaign for office are assured. General elections are accepted in principle as the method of filling leadership positions. Elections are subject to influence and manipulation, however, and the political-military ruling elite has attempted to tilt the outcome of elections in its favor. The elected president has limited power to govern, as the military leadership can exercise veto power—and has done so in the past—if it fears that political decisions will have serious consequences for the state's political orientation, domestic security and distribution of power.

The elected deputies in the lower house of Parliament have limited power. The second chamber, the senate, acts as a corrective in favor of the president, who strongly influenced its composition. Political and civic organizations can form freely, though with some restrictions, especially on Islamist-oriented groups. Associations that define themselves along ethnic or linguistic and cultural lines are permitted; indeed, they number among the most active groups in Algeria. Union activities are allowed. However, freedom of assembly and freedom to demonstrate are somewhat limited. Freedom of information and freedom of opinion are partly restricted, for example when security issues are at stake or when criticism of state officials and institutions exceeds a certain level.

(3) *Rule of law*: In the hypertrophied presidential system, there are transformation shortcomings regarding independence, jurisdictional boundaries and checks and balances among the executive, legislative and judicial branches. Parliament really has no control function in this system. The second chamber introduced in 1997 brought the legislature squarely under the thumb of the executive branch. The judiciary is formally independent and institutionally well differentiated. Nevertheless, judicial decisions are in part subject to political influence. Corruption is a problem in the judiciary, too, which is occasionally and selectively employed to exert political pressure.

Abuse of authority is widespread and the subject of much public discussion. Broad segments of the population call for campaigns to combat abuse of office and bureaucratic corruption and to enhance civil rights. However, elected officials are generally immune to criminal prosecution for abuse of authority or for corruption. Some civil rights have been suspended under the state of emergency in force since 1992. By selectively applying established law, the authorities limit its value. Citizen complaints must work their way through complicated and tedious red tape, while legal uncertainty reduces confidence in the judiciary.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Despite reservations about the rule of law, Algeria's democratic institutions, including the judicial and administrative systems, are functional and stable. Most political actors accept them and regard them as legitimate. On the other hand, the judiciary and the administration in particular receive low marks from many in Algerian society because of widespread corruption and the absence of the rule of law.

(2) *Political and social integration*: Institutional efficiency is hampered by the party system's high degree of fragmentation and its tendency toward further fragmentation. In terms of political ideology, the parties form two blocs: the Islamist and the non-Islamist. Now that the Islamist movement has been discredited, the ubiquitous patronage network favors the FLN, formerly the sole party, which renewed both its platform and its leadership. Among the younger generation, disaffection with the party system is widespread. Young people increasingly dismiss the parties as not representative of their interests, for example, in Kabylia. Algeria has a plethora of interest groups, some of them affiliated with political parties.

Although poorly organized and lacking the ability to mobilize supporters and apply pressure, they are generally relatively cooperative. The powerful and influential union federation, UGTA, can count on a membership ready for confrontation and possible strikes because workers' social conditions are worsening and layoffs loom as state enterprises are restructured and privatized.

Relations between the state and the UGTA are conflict-ridden, so the UGTA's willingness to cooperate fluctuates. Islamist and antidemocratic movements are active in the armed underground. Government offers of amnesty to reintegrate their members into society have had only limited success. The range of NGOs is varied, with groups choosing to be cooperative or confrontational according to their political and party orientation. In general, NGOs and most of the population call for implementation of the rule of law and economic development. However, there are no reliable survey results regarding public approval of democracy as a form of government.

Voter turnout fell from 67.08 % in 1997 to 46.17 % in 2002 and cannot be taken as evidence of approval of democratic and market-economy transformation in Algeria. The relatively low voter turnout in 2002 reflects protests by part of the population against the political party establishments and the system's inadequacies. Most NGOs are constrained by financial and organizational limitations.

Human rights abuses related to the domestic political conflict that has persisted since 1992 have not been addressed on the national level. Neither the offenses of Islamist militants nor the government's heavy-handed measures in its battle

against Islamist terrorism have been made an issue. Some sections of the population refuse to obey orders from “on high” (President Bouteflika) calling for reconciliation with those members of terrorist groups who are willing to reintegrate into Algerian society.

3.2 Market economy

Structural problems all but forced the Algerian government to commit to market-economy transformation, beginning in the mid-1990s. There were delays—2000 was the “year of inertia”—but reform measures have intensified since 2001. Transformation shortcomings generally exist in deregulation, in restructuring the public sector and in pruning back the rent-seeking economy.

3.2.1 Level of socioeconomic development

The key indicators, with an HDI of 0.697, show a low level of development; Algeria ranks at the low end of “moderate development” in 100th place. Social exclusion because of poverty, lack of education and gender discrimination intensified during the period under study. The poverty rate is 22.6 % and income disparities increased during the restructuring process as the middle class became impoverished. The economic restructuring measures introduced since 1995–96 brought a drop in incomes and a drastic increase in unemployment and poverty. Existing development imbalances between Algeria’s northern and southern regions were not eased during this period.

3.2.2 Market structures and competition

The restructuring policies implemented in 1995 and afterward laid the initial groundwork for a competitive market economy. As monopolies were eliminated and enterprises were privatized under the banner of deregulation and opening the market, progress toward transformation was achieved in various sectors, through the Privatization Act in 1995, the Competition Act, and others.

Within the national economy, competition continues to be distorted by the definition of strategic sectors and the exclusion of specific state enterprises from the privatization policy. These decisions can be blamed on opponents of reform and on the UGTA’s insistence on preserving jobs. The first private banks were approved in 1998, but comprehensive reform of the banking and financial sector is overdue. Reform of the hydrocarbon sector was blocked in 2000 by resistance from the affected unions. On the other hand, sectors such as foreign trade, agriculture and much of domestic commerce have been deregulated. Algeria is seeking membership in the WTO.

3.2.3 Stability of currency and prices

During the period under study, an inflation and exchange rate policy oriented to national interests was successfully pursued. The independence of the central bank is not assured, as its members are appointed by the president, a policy that naturally leads to decisions being taken in conformity with his politics. The debt rescheduling with the Paris and London Club, approved in 1995, lowered the short-term foreign debt. High foreign exchange revenues from petroleum exports made it possible to reduce the foreign debt and build foreign currency reserves. Fiscal reform is under discussion, but, like all reform projects, it depends on the prevailing distribution of power. The government has made the stabilization of macroeconomic fundamentals a major priority.

3.2.4 Private property

Property rights are defined by law, and property acquisition is possible. Privatization of existing state companies—except in strategic sectors of the petroleum industry—is advancing only slowly because of frequent administrative reorganization. As a result, the market is still quite concentrated and the economy densely regulated.

3.2.5 Welfare regime

The existing welfare regime is inadequate and covers only some of the employed. Provisions to compensate for social risks remain rudimentary, and are available to only specific professional groups in the formal economic sector and the administration. Since 2001, discussions between the government and the UGTA have focused on antipoverty programs and social security for those who lose their jobs. Reforms of the health care system, renovation of the health infrastructure and increased staffing to make health care universally available have yet to happen.

The scope of the problems and the government's limited financial resources impede any comprehensive improvement of the welfare regime. Education policy in the 1970s to mid-1980s targeted egalitarian goals, but the education system no longer offers this relative equal opportunity. Social differences are especially evident in higher education, as those who can afford to study abroad do so, and in access to higher public office. Access to education also differs markedly between urban and rural areas. Depending on their social status and whether they live in the city or the countryside, women have less access to education than men and traditionally hold only a small fraction of positions in the upper levels of government.

3.2.6 Strength of the economy

After a crisis-like deterioration in the macroeconomic fundamentals at the start of the 1990s, the government's stability-oriented economic policy brought some successes in recent years. Economic growth was not untouched by the world economic situation, but it was unexpectedly favorable, at 3.2 % in 1999, 2.4 % in 2000 and 1.9 % in 2001. The economic recovery plan for 2001–2004 countered the downward trend. However, the growth potential of the Algerian economy, especially the private sector, is still unrealized. Drastic reforms are needed here, but bureaucratic structures and the negative consequences for the job market make these unlikely.

3.2.7 Sustainability

Algeria has only a rudimentary social safety net to compensate for poverty and other such risks. Instead it is left to family structures to compensate for state failure. Basic health care is universally available, but there are major shortcomings in specialized areas. Access to higher-quality health care rises in proportion to income.

The government's environmental awareness has grown significantly and is reflected institutionally. The 2001 budget provided 30.8 billion Algerian dinar for environmental protection and sustainable development and also established a fund for the environment. However, environmental concerns tend to take a back seat to growth considerations. In education, the state primary and secondary schools and universities are inadequate, and the upper classes go abroad to get a good education. State spending on education for the years 1995–2000 was about 9.8 % of GDP, or 16 % of total government spending. The domestic conflict since 1992 has caused many teachers to leave the country, some of them permanently. In general, the educational, professional training and research systems need an infusion of personnel, as well as substantive reform.

4. Trend

(1) *Democracy*: State identity has definitely improved since 1992–1997, when the armed conflict with Islamist terrorist groups reached its peak. Institutional life returned to normal during the period under study. Formal structures for political participation were enhanced, but this did not bring a significant qualitative improvement. Some segments of the population currently boycott elections, but the 2002 elections were considered relatively fair.

The administrative system and the courts are plagued by inefficiency as well as red tape, patronage and corruption. Existing approaches to reform hold little promise of qualitative success. The reform of state structures announced in 1999

has stalled, thus there has been no significant change in the balance of power among the president/prime minister, the government/parliament and the judiciary. The situation has not deteriorated, however.

Civil liberties and freedom of opinion and of the press are inadequate, and recent laws have further limited press freedom. Algeria took a significant step toward pluralism in 2002 when the president agreed to recognize Berber as the second national language.

The battle against patronage and corruption has gained very little ground, in large part because they are so entrenched in the workings of Algerian society that it is difficult to devise an effective strategy to root them out. The stability of constitutionally-based institutions has been strengthened. While most political parties lost both cohesion and appeal, the revamped former single party, the FLN, managed to attract and hold more voters. Moving past confrontation, the UGTA union group signaled its readiness to cooperate with the government and no longer categorically opposed the privatization of state enterprises. However, it adopted this cooperative posture in response to government measures and could alter its stance if the situation changes.

(2) *Market economy*: On balance, the development indicators for the period show a slight improvement from a low baseline. The Gini index fell and the rate of unemployment rose from 28 % in 1998 to 29.2 % in 2002. Sustainability received only moderate attention and has not proved to be a structural component of the reform process.

In comparison to previous years, the institutional environment for market-economy action clearly improved. But, official statements notwithstanding, an “irreversible” breakthrough to a market economy was not achieved. Transformation maneuvered its way along a zigzag course. The pace of reform, which speeded up starting in 1996, seemed to slow to a standstill in 2000. Momentum was regained in 2001, but in 2002 the failure of reforms in the hydrocarbon sector again hamstrung progress. The state sector in particular, which remains extensive, runs a deficit and slows the pace of economic transformation.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	UN Education Index	Political representation of women ^a	GDP per capita (\$, PPP)
1998	0.683	0.661	0.888	0.67	-	4,792
2000	0.697	0.679	0.66	0.69	3.4 %	5,308

^a Percentage of women in Parliament after the 1997 parliamentary elections.

Table: Development of macroeconomic fundamentals (1998-2002)

	1998	1999	2000	2001	2002 (2/4)
Growth of GDP in %	5.1	3.2	2.4	1.9	-
Export growth in %	-	21.83	52.04	-3.35	-
Import growth in %	-	-0.68	-9.65	13.17	-
Inflation in % (CPI)	4.19	2.7	4.0	0.5	-
Unemployment in %	28	28	28	28	29.2
Budget deficit as % of GDP	3.64	0.36	-	-	-
Current account balance in billion \$	-	-	8.940	6.760	-

5. Transformation management

5.1 Level of difficulty

The implementation of transformation was hindered by the low level of economic and social development at the start of the period, the lack of basic market economy structures, the inadequate education level, the predominance of rent-seeking economic structures and behaviors, the long years of civil war, as well as the conflict-ridden constellations of social problems, the extensive infrastructure deficiencies, and sociopolitical factors that engendered strong opposition to a free market economy.

Because most of these factors persist, the level of difficulty of transformation in Algeria is extremely high. Furthermore, global economic conditions did not support domestic efforts toward transformation in 1998–2000. Thus, the entire transformation process is still in its early stages. Indeed, in some areas, it cannot be ruled out that the pace will slow down or liberalizing measures will be revoked. However, the effective and efficient authoritarian mechanisms guarantee the stability of the state and its institutions.

5.2 Reliable pursuit of goals

In his first two years as president, 1999–2000, Abdelaziz Bouteflika focused on the goals of civil concord and domestic security—i.e. combating terrorism—and the social reintegration of armed underground militants. The reforms aimed at democracy and a market economy moved at a snail's pace, sometimes in contradictory directions. The president cannot be credited with purposefulness in choosing and implementing his strategies during these years.

Necessary steps toward reform were proclaimed, but, when the UGTA and fundamentalist, Islamist, and Arab nationalist groups protested, measures to modernize Algerian society, such as reform of family law or equal rights for women, were postponed or scaled back to more conservative versions. Mounting societal unrest intensified the government's efforts to work out strategies in concert with the influential UGTA, with the result that reforms were watered down.

Though several departmental ministers have pushed for a long-term strategy, presidential intervention has thwarted this effort. Short-term strategies aimed at averting social protests predominate. This jeopardizes the coherence and consistency of reform policies and hinders the coordination of individual reform measures, even though the government agrees in principle on the goals of democracy and a market economy. Strategies for democratic transformation have likewise followed short-term economic considerations in an effort to overcome resistance.

Moreover, the president and the government cannot agree on coherent individual strategies. The president is primarily responsible for this meandering path of reform—which, however, affects only domestic policy. The president's frequent changes of course and occasionally contradictory policies have shaken the confidence of citizens who support reform, particularly that of entrepreneurs. There is no fundamental confidence. Most citizens complain about the lack of legal certainty and the unstable economic environment. On the positive side, the state has made significant improvements in providing public safety and order.

5.3 Effective use of resources

The government's use of available financial, organizational and personnel resources to pursue its transformation policy is woefully inadequate. Quite apart from its lack of a consistent reform strategy for the medium term, it tolerates a bloated administrative system and cumbersome procedures for interdepartmental coordination. Reform of the administrative system is nowhere in sight. Pervasive patronage and corruption inhibit modernization and streamlining, while entrenched hierarchical thinking obstructs administrative procedures and decision-making.

However, this is not the fault of the government alone, as everyone active in the political and social arena helps to maintain this behavior and the underlying attitudes. Despite more restrictive hiring policies, the civil service remains heavily overstaffed both locally and at the central level. Budgetary practices are administratively correct, but revenues do not cover expenditures. As a result, several credit-financed supplementary and amending budgets were necessary during the period under study.

Major shortcomings exist in the area of public and social services. Efforts to combat corruption are inadequate, although statutory regulations are in place and additional control mechanisms have been created. For example, high government officials are required to publish their financial statements before and after taking office. Unfortunately, the application of anti-corruption measures is selective and partisan. The media are relatively free, and criticism of economic and social conditions is allowed. This is less valuable than it might be, as patronage and corruption are so ingrained in Algerian society that media attention makes little difference.

After the reform goals proclaimed in 1999 were not achieved, the president announced them again in 2001. The steps toward reform taken since then have met resistance from influential political figures and societal groups and are now endangered. Some economic reforms were implemented based on consensus with the UGTA, which limits their scope and slows the pace of reform. The provision of public services is inadequate and inhibits transformation. In the area of human resources development, supply does not meet demand. There are few cultural traditions that could support the reform policies.

5.4 Governance capability

Politically and ideologically, key political actors disagree to some extent about the need for fundamental reforms and vary in their willingness to implement such reforms swiftly. The present government supports economic reform, but, owing to considerations of domestic stability, its policies are limited in scope and are implemented only slowly. This delay can be attributed mainly to a domestic political situation that for years has been marked by conflict or crisis. In this context, the government's political authority is reduced. The lagging pace of transformation also means that economic misallocations persist, particularly in the form of high subsidies.

In the first years of the period under study, the reformers in the government overestimated their scope for action in economic reforms. The strategy of dialogue and coordination with influential opponents, intensified since 2001, led to a modified strategy to reduce conflict. Though this approach falls short of what is needed to reach the ultimate goals of reform, it does pave the way for lesser reforms and prevents blockages along the way. As for democratic reforms, their proponents within the government miss opportunities to improve the lot of groups and sections of the population with liberal and democratic leanings. They then lose these potential supporters, because their strategies and goals lack transparency.

5.5 Consensus-building

The key political actors broadly agree on the goal of a (social) market economy. They argue about the future role of the state, the social components of reform, the extent of state regulation or disengagement and the time horizon for the reforms. They agree in principle on political democracy as an aim of reform. However, some political actors with an Islamist orientation seek democracy not for its own sake, but as a staging ground affording greater scope for their own political and social drive toward a goal other than the liberal democracy and society whose characteristics frame this assessment.

The reformers never tested their full capacity for action; instead, they faltered when opponents and vetoing agents blocked the way. In general, the government did not manage to keep the core conflicts from escalating during the period under study. The fault lines run too deep to be repaired simply by meeting individual demands. Nor was the government able to engender a spirit of solidarity that would unite disparate groups. Algerian society is so profoundly split along the lines of political ideology and religion that no compromise seems viable. Since 1999, the political actors have been seeking channels for reconciliation between Islamist terrorists and their victims—a process that large segments of the population view with ambivalence. Although the current conflicts do not pose a threat to the state, they do keep reforms from getting underway and damage the climate for investment.

5.6 International cooperation

The government has worked with outside actors, such as the IMF, the World Bank, and the Paris and London Club, since 1994. The orientation and opening to a market economy gained force in 2002 when Algeria announced its intention to join the WTO and signed an Association Agreement with the EU. Relationships with the EU and the United States, primarily based on economic interests, intensified during the period under study. However, Algeria rejects outside interference in its pursuit of democratic transformation.

Cooperative integration into the international system guides policy, although some domestic political figures argue for a cautious entry into the global market, citing potential negative effects on the national economy. Nevertheless, all the influential actors recognize that, in the long run, there is no alternative to this step. As a result, their dealings with foreign partners uniformly center on seeking support to cushion the social costs of opening up the domestic economy. An abrupt change of policy is not to be expected under the current leadership.

6. Overall evaluation

In view of the originating conditions, current status and evolution, as well as the actors' political achievements (management), this report arrives at the following conclusions:

(1) *Originating conditions*: Overall, the starting conditions for transformation were negative. Before the period under study, Algeria had no functional market economy structures, an armed conflict hampered government action, and traditions of democracy and the rule of law were absent or insufficiently anchored. The society was differentiated, but only a relatively small liberal elite embraced civic values and democratic ideas. The cleavage between supporters and opponents of reform ran through all social strata and divided the key political figures.

(2) *Current status and evolution*: Both the democratic transformation and the transformation toward a market economy gained little ground. The decision-makers failed to achieve qualitative advances in either arena. Progress toward democratic transformation at the end of the period must be rated as stagnant. Interventions to improve political representation, integration, the efficiency of government institutions, and the rule of law—this last to be achieved through judicial reform—are underway, but it is too soon to say how far they will go. Transformation toward a market economy proceeded tentatively. The political decision-makers managed to stabilize macroeconomic development and introduce individual measures to improve the structures that support a market economy. These structures remain inadequate.

(3) *Management*: The process of economic transformation gained intensity overall in the second half of the period under study, but its pace is still too slow and vetoing agents narrow its prospects of success. The qualitative indicators for crisis management reveal a dichotomy between macroeconomic stabilization and the failure to alleviate the desperate socioeconomic situation of most Algerians. Structural reforms in the way the market economy is organized—establishing a healthy banking system and capital market, dispersing the concentration of business power, building up an effective policy to combat monopolies and encourage competition, and refining the market economy within a social state—have been introduced but remain unfinished.

The transformation process continues. In 2002, the government announced that reform efforts for 2003 would focus on the administrative and educational systems. Overall, the government's managerial achievements since 2001 cannot yet be assessed because the period of intensified transformation toward a market economy has been too short. Steps toward political reform were cautious. Measures were implemented that support the president and his informal decision-making, but neither strengthen the government and parliament nor establish jurisdictional boundaries. No coherent, purposeful policy of domestic reform was

implemented in the period under study. Individual measures were introduced in fits and starts, many of which served to stabilize existing power structures. It is too soon to evaluate the impact of recently implemented reforms relating to the rule of law, such as the introduction of a new human rights council and judicial reform.

7. Outlook

Transformation in Algeria presents a mixed picture. The government has declared its commitment to transformation, but relatively few reforms have come to fruition. Macroeconomic stability is undoubtedly the most significant step toward a market economy achieved to date, for which internal actors deserve the credit. The key strategic tasks for democratic and market-economy transformation in the medium term are advancing the rule of law, improving the efficiency of government institutions, implementing antipoverty programs and sustainable development, effectively developing and utilizing human resources, speeding up the privatization process and improving the competitiveness of Algerian enterprises, along with developing the non-hydrocarbon sector to create more jobs.

It remains to be seen how the recently introduced reforms will work out. The reform of state structures to streamline the presidential system has stalled. Whether President Bouteflika will run for office again when his term ends in 2004 is an open question. Also unknown is whether he will continue to pursue and actually attain stronger presidential powers—a reform goal broached in advance of the debate on reforming state structures—or whether the restructuring will strengthen the government and parliament, as well as the separation of powers and the system of checks and balances. Both the government and the political parties face a crisis of support; recovery will depend on management and on surmounting the remaining obstacles to political and economic transformation.