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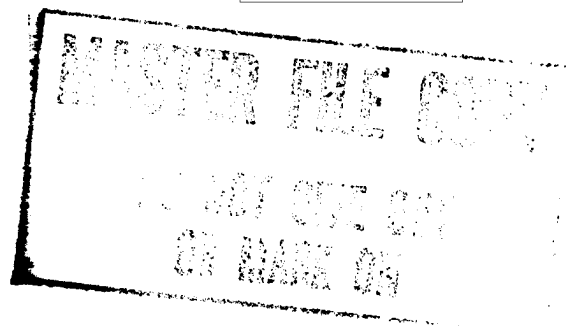
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Algeria and the United States: A Changing Relationship



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An Intelligence Assessment



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*NESA 83-10146
July 1983*

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Algeria and the United States: A Changing Relationship


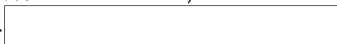


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An Intelligence Assessment

This paper was prepared by 

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 It was coordinated with the
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**Algeria and the United States:
A Changing Relationship**

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Key Judgments

Information available as of 30 June 1983 was used in this report.

Under President Chadli Bendjedid, Algeria has significantly adjusted its foreign policy to include a more open and positive approach to relations with the United States. Bendjedid's purpose is to reap economic benefits, balance Algeria's dependence on the Soviet Union for arms, and encourage the United States to take a more evenhanded position on North African issues. Broader changes in Algeria's foreign policy have created a confluence of interest with the United States that allows for more lasting cooperation.

[Redacted]

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Bendjedid's more moderate approach reflects what appears to be a maturing of the revolutionary Algerian regime and society and demonstrates more understanding on the part of the Algerian leaders of events beyond the country's borders

[Redacted]

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Bendjedid's election in 1979 ended the radical era dividing the United States and Algeria. Bendjedid has weeded out radical holdovers from the previous regime and replaced them with leaders who share his own pragmatism. There is still some jockeying for power among his closest advisers, but we are unable to identify any senior officials who favor a return to the heavily pro-Soviet socialism of the previous regime. The only legal political party, the National Liberation Front, used to preserve the country's revolutionary credentials, often holds a more radical position toward the United States than the government does.

[Redacted]

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The Algerian leadership has been trying to introduce a measure of tactical flexibility into its ideological framework. In practical terms, Bendjedid:

- Has muted Algeria's anti-Western rhetoric.
- Is gradually seeking to diversify Algeria's arms procurement.
- Is expressing a deeper commitment to regional stability.

[Redacted]

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Bendjedid's pragmatic style is also reflected in the reorientation of Algeria's development strategy toward agriculture, housing, irrigation, and light industry and away from heavy industry. Algeria's ambitious development plans will probably continue to offer a good market for US products over the long term. The government has indicated it is willing to increase US imports, particularly in high-technology items and agricultural products, to reduce a trade imbalance that has always been in Algeria's favor. Despite the leadership's interest in closer ties with the United States, the performance of the Algerian economy will limit the level of realized investment and subsequent trade opportunities.


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Despite a variety of common interests, closer relations with the United States will be constrained by the following divergent political perspectives:

- Algiers has expressed growing dissatisfaction over what it perceives to be excessive US-Moroccan military cooperation.
- The conflict in the Western Sahara is likely to remain the most contentious issue between Algiers and Washington.
- Algeria's dependence on the Soviet Union for military supplies will restrain efforts to diversify arms procurement significantly.
- Algeria's reputation as a radical revolutionary state continues to be perpetuated by the Algerian press, its former association with radical Arab regimes, and the symbolic "fraternal" support that it provides to a wide variety of Third World progressive movements and Communist, socialist, and leftist parties in Western Europe, Latin America, and Africa. 

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Algiers will be cautious and pragmatic in its efforts to strengthen ties with Washington. Bendjedid's success in moving Algeria into the Arab mainstream will determine to what extent Algeria supports US policy in the Middle East. Although political differences will not preclude closer economic and military cooperation with the United States, they will be a disincentive. 

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**Algeria and the
United States:
A Changing Relationship**

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Algeria until a few years ago took a relatively constant negative view of the United States. It was regarded as an imperialist power exploiting less developed nations economically and politically. Algerians have been deeply suspicious of the close ties between the United States and Israel and have interpreted many US actions as anti-Arab, anti-Islamic, and incapable of producing a just settlement in the Middle East. The United States has been perceived as insensitive and even hostile toward the Nonaligned Movement and glued to the East-West perspective on global issues. On matters closer to home, it has been seen as favoring Morocco, to Algeria's detriment, particularly in the Western Sahara dispute.

Only since President Bendjedid came to power in 1979 has this negative image begun to change. Algeria's involvement in mediating the US-Iranian hostage crisis fostered greater familiarity between US and Algerian officials and an appreciation of the sentiments of the US public. The relief assistance the United States sent to victims of the El Asnam earthquake in October 1980 also helped elevate the United States in the eyes of many Algerians, particularly as it contrasted with the somewhat lethargic Soviet response.

The death in December 1978 of President Boumediene—a man of personal ideological rigidity—was probably a natural time for significant adjustments in foreign policy to emerge, including a more open, positive approach to relations with the United States. Although the succession involved intense maneuvering among individuals and schools of political thought, it was completed without violence and followed the legal prescriptions for leadership change, demonstrating to all Algerians a coming of age in the postindependence era. In our view, the characterization of Chadli Bendjedid as a “compromise” candidate—although certainly an accurate description at one level—obscures the likelihood that his pragmatism and less ideological orientation reflect a change in national outlook, not just the persuasion of one man.



President Chadli Bendjedid

Pictorial Parade ©

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The shift in Algeria's attitude seems to reflect a slow and steady maturing of a revolutionary regime that has gained the confidence to consider national goals in a broad context and has moved away from the self-conscious ideology and trauma of the struggle for independence. These legacies still critically influence Algerian foreign policy, but room for other considerations and principles seems to have grown substantially. Moreover, the transformation over the past decade of struggling Third World independence movements into national entities has reduced the importance of the revolutionary standard Algeria most prizes—patron of liberation movements. Leaders of the remaining liberation movements ritually pass through Algiers, to be sure, but there is little evidence that any save the Polisario Front and the Palestine Liberation Organization continue to elicit much sympathy among Algerians.

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Changes in the Arab-Israeli equation have had an important effect on Algeria's foreign policy outlook and its understanding of the role of the United States in the region. The counterproductiveness of terrorism as a tool for the PLO—at least in Algeria's view—the polarization of the Arab world into competing camps populated on the radical side by Libya and South Yemen, and the diminished image of the Soviet Union as an advocate of Arab interests have, we believe, led Algeria to reconsider its place in the Arab and international lineup. [redacted]

Algeria's concentration on the economy also has brought it to view the United States as the repository of technology and expertise that Algeria needs and an important market for its hydrocarbon exports. The close working relationship that developed between the Algerian bureaucracy and US gas companies has, in our view, also helped to modify Algerian attitudes about the United States and Americans. Close to 2,000 Americans involved in gas-related projects have lived in Algeria during the past 20 years. The exploitation of energy resources and the need for advanced technology probably have led the Algerians to reevaluate some of their moralistic postures on "colonial powers" and Western imperialism and introduced shades of gray into political thinking that was once black and white. [redacted]

A New Perspective From New Leaders

The death of President Houari Boumediene marked the end of the radical era that divided the United States and Algeria. Bendjedid's election in 1979, after an intense struggle behind the scenes over the succession, signaled a decision on the part of the military to chart a course for Algerian policies more moderate than it had been. Bendjedid has won considerable allegiance from those military leaders who placed him in power. [redacted]

During his four-year tenure he has weeded out many of the radical holdovers from the Boumediene era who resisted closer ties with the United States. Hardcore radical revolutionary leaders like Mohamed Salah Yahiaoui and former Foreign Minister Abdelaziz Bouteflika—once considered serious political challengers—have been politically neutralized or expelled. The accidental death in an air crash in April 1982 of

Foreign Minister Ben Yahia, probably the last influential adviser with a strong leftist orientation, brought in a moderate, pro-Western Foreign Minister, Ahmed Taleb Ibrahimi. He has been highly visible in directing Algerian foreign policy initiatives, particularly those involving the United States and Middle East matters. [redacted]

Although disagreement still exists within the leadership and there is almost certainly jockeying for power among those around Bendjedid, we have been unable to identify any senior Algerian who seriously favors a return to the strongly pro-Soviet socialism that prevailed under Boumediene. [redacted]

Bendjedid and his advisers are not entirely free to discard the more radical policies of the past. The underpinnings of the regime are the revolution and its ideology, and they are still the basis for the leadership's legitimacy. We believe that even though Bendjedid has no serious political competition, neither he nor his colleagues believe in tampering with the core elements of Algeria's revolutionary heritage. The country's sole political party, the National Liberation Front (FLN), is a symbol to the Algerian people and a useful way for powerful government officials to mobilize grass-roots support. The government uses the party to preserve the country's revolutionary credentials, particularly on issues involving nationalism, anticolonialism, and self-determination. Thus, the party's position toward the United States is often more radical than the government's. [redacted]

We believe that at lower levels of the party, bureaucracy, and military there are people whose viewpoint and loyalty remain with the previous leadership. They will be critical of Bendjedid for seeking closer ties to the United States and may agitate within their own spheres of influence against his policies. Concerns recently articulated by Algerian officials over the growing appeal of Islamic fundamentalism indicate that a new kind of opposition to a friendly relationship with the United States and to Bendjedid's more

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modern, pragmatic posture could develop. In our view, however, Bendjedid and his colleagues are in sufficient control and have enough popular support to pursue their course. [redacted]

The reorientation of the Algerian economy also reflects Bendjedid's pragmatic style. According to Embassy reporting, Boumediene's successors realized shortly after his death in 1978 that certain socialist precepts introduced earlier had failed. The growing industrial sector had run into trouble. Modern business techniques such as inventory control, production scheduling, and distribution were poorly managed. The level of technology insisted on was often beyond the capability of the local work force, fostering dependence on foreign technicians and reliance on France as an outlet for Algeria's surplus labor. Central planning proved ineffective in matching production with demand. As a result, the output of the country's expensive industrial plant did not meet the demands of the people. [redacted]

Although Bendjedid has not implemented new programs as fast as some Algerians would have liked, the policies now in effect have slowly begun to improve productivity and efficiency and given a more realistic cast to Algeria's development strategy. Algeria continues to be strongly committed to socialism, but development strategy nonetheless is beginning to change direction under a \$104 billion, five-year development plan (1980-84). The plan demonstrates a willingness to break away from the old system of centralized control favored by Boumediene. It also encourages private-sector participation, loosens foreign investment restrictions, and decentralizes the mammoth bureaucracy that runs state companies. Emphasis has shifted from heavy to light industry. The 1983 annual investment plan stresses the completion of projects already started and the launching of new projects in high-priority sectors such as infrastructure, housing, and agriculture. [redacted]

New Foreign Policy Directions

Broad changes in foreign policy have begun to cast Algeria in a less radical and confrontational light and have uncovered possible areas of mutual interest with the United States. The most significant shift under Bendjedid has been to a more active and cooperative

posture in promoting stability in the Middle East. Algeria has come to realize that regional tensions, particularly the Arab-Israeli dispute, have been a destructive force that saps the energies and largess of many Arab countries. In the broad Arab context, Bendjedid has taken a number of steps toward reducing tensions. He has:

- Abandoned the radical Steadfastness Front—made up of Syria, Libya, South Yemen, and the PLO—which was formed to resist Egyptian President Anwar Sadat's peace initiative in 1977.
- Joined the more moderate Arab states in support of the Fez summit peace proposals and acknowledged positive elements in President Reagan's initiative last fall.
- Accepted about 2,000 Palestinian fighters last summer to help defuse the Lebanese-Israeli crisis. Assurances of more assistance and the decision to host the Palestinian National Council meeting illustrate Algeria's willingness to assume a significant role in dealing with the Palestinian issue.
- Taken steps to mediate the Iran-Iraq war, enhancing Algiers's role as an evenhanded peacemaker.
- Decided to no longer condone terrorism as a legitimate political tool nor to permit hijacked aircraft to land, except by request of an international organization. [redacted]

Although Algeria has not moved completely into the moderate Arab camp or given unqualified support to US negotiation efforts, the change in its posture is dramatic as compared with only a few years ago. A host of factors have made for change. Disappointment over the results of the strict application of social, economic, and political radicalism and a desire to rechannel national energies and resources have probably been most important. Algeria has been a distant and relatively ineffectual influence in the Arab world and yet has been buffeted by many of the negative effects of regional turmoil. The prospect of more

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productive economic cooperation with its neighbors, of less concern over outside intervention in the region, and of dampening the political ferment that produces religious radicalism and political subversion seem to be pushing Algeria to assume a moderate and more active role in the region. [redacted]

The clearest evidence of changed policy has been the steps Algeria has taken over the past year to normalize relations with its North African neighbors. Bendjedid's efforts have resulted in a limited opening of the border with Morocco, settlement of a longstanding border dispute with Tunisia, and resumption of the dialogue with Libya. Bendjedid has met with Moroccan King Hassan, Tunisian President Bourguiba, and Libya's Jallud and with each has made a strong pitch for greater Maghreb cooperation and political unity. Normalizing relations with Morocco is the linchpin of Bendjedid's broader plan. Success will require the two sides to reach an accommodation in the Western Sahara dispute. [redacted]

Efforts toward rapprochement with Morocco come more from Bendjedid's economic and political needs than from a shift in either Algeria's or Morocco's position in the dispute in Western Sahara. The two countries broke diplomatic relations in 1976 over the Western Sahara issue. Whether Bendjedid and Hassan resolve the dispute or will simply set it aside depends largely on the willingness to compromise on who will have sovereignty over what territory in the Sahara. So far, neither appears to be considering major concessions, although new negotiating formulas for achieving a settlement are under active consideration. [redacted]

The initiatives Bendjedid has taken suggest that he does not want to allow Western Sahara to stand in the way of regional cooperation. We believe a settlement of the dispute is not yet in the offing. A renewal of serious fighting is always possible but is unlikely at this point. Bendjedid and Hassan seem to have reached a tacit understanding that the status quo—minimal skirmishes with both Morocco and the Polisario controlling the territory—is acceptable and that renewed talks might uncover areas for compromise. If compromise does not emerge, the process of negotiation at least allows the two countries to go forward with bilateral relations. [redacted]



Bendjedid and King Hassan at meeting on border in February 1983 [redacted]

Liaison ©

In our view, Bendjedid's good neighbor policy appears to have a variety of other objectives, which include:

- Providing support and asserting influence with Tunisia in anticipation of what may be a turbulent succession once President Bourguiba leaves the scene. The Algerians seem particularly concerned that Libyan meddling in Tunisian politics will escalate when Bourguiba's hold on power falters.
- Reestablishing a closer relationship with Qadhafi and the Libyans with the aim of trying to contain their troublemaking and to develop knowledge of the current Libyan scene to work toward a more reasonable replacement for Qadhafi.
- Orchestrating bilateral and multilateral cooperation in the area to preclude chances of superpower intervention. Morocco's increasingly close ties to the United States and Libya's growing reliance on assistance from the USSR and its allies are of great concern to the Algerians, who would like to maintain North Africa's relative noninvolvement in East-West tensions.

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- Building tangible economic and political accomplishments that would enable Algeria to assert leadership in the region—a goal that failed to materialize under the leadership of Boumediene.

[redacted]

Political Constraints

Ideological and regional policy differences will continue to constrain relations between Algiers and Washington. Algerian foreign policy is riddled with contradictions that may make it difficult for the leadership to pursue a consistent or coherent policy toward the United States. Algeria is still struggling 20 years after independence to develop its identity and to reconcile traditional, Islamic, and Arab values with those that are modern, Western, and pragmatic. Moderation and pragmatism coexist uneasily with a revolutionary past. In our view, developing a foreign policy that encompasses these competing forces is of primary concern to the Algerians and has often resulted in a policy that appears inconsistent and erratic.

[redacted]

Of the issues that are likely to inhibit better relations, concern over US "favoritism" toward Morocco is likely to be paramount. Morocco is Algeria's historic rival in the region and its primary strategic threat. According to Algerian officials, the Bendjedid government is especially sensitive to what it regards as "excessive" US-Moroccan military cooperation. Moreover, Algeria regards US backing for Morocco as unwanted involvement by a superpower in regional issues and as encouraging Moroccan intransigence over the Western Sahara conflict. Algiers has been unwilling to urge restraint and compromise on the Polisario if Washington does not urge the same on Rabat.

[redacted]

The war in the Western Sahara will remain the most contentious problem between Algiers and Washington. Algeria is committed to the Polisario for reasons that are more important than mere support of a revolution as a matter of principle. As the Polisario's main backer, Algeria is interested in maintaining its control over the guerrillas. Any shift in its support would make it more difficult than it already is to control assistance from Libya and other external sources like Cuba and the Soviet Union. Moreover, we do not believe Bendjedid is prepared to see Morocco enhance its size, resources, and prestige by the full

incorporation of the Sahara. In our view, it is unlikely that Algeria will soon change its position on this fundamental point. Algeria's support for an OAU-sponsored referendum, its encouragement of other negotiating efforts such as a confederated state, and Bendjedid's promotion of greater Maghreb cooperation are, in our view, based on the assumption that Morocco will ultimately be forced to reach an accommodation on the Sahara.

[redacted]

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Algeria's relationship with the Soviet Union is not likely to hinder improved ties with the United States. Indeed, Algeria's desire to reduce its dependence on Soviet military equipment has helped stimulate interest in closer cooperation with the United States. Much of Algeria's advanced equipment is relatively new, however, and Algiers will continue to deal closely with Moscow to keep its inventory operational. This dependence, in our view, is likely to restrain criticism of Moscow and thus perpetuate whatever impression there is that Algeria is a client of Moscow's. In fact, Algeria has occasionally collaborated with the Soviets but has never been a surrogate and is putting distance between itself and Moscow on a variety of issues:

- The Algerians departed drastically from their previous position when they abstained on the UN resolution condemning the Soviet invasion of Afghanistan and registered private disapproval.
- Algeria has worked hard to check Cuba's attempts to define the Nonaligned Movement in pro-Soviet terms.
- The Algerian leadership has disapproved of Cuban and Soviet activities in Africa and has been disappointed with Moscow's refusal to recognize the Polisario's government.

[redacted]

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In searching for new military suppliers, Algeria thinks Western Europe looks more attractive than the United States for practical and ideological reasons. A closer military and economic relationship with Western Europe looks as if it would be less complicated and have fewer political repercussions than one with the United States. The fact that there are new socialist governments in France, Greece, and Spain

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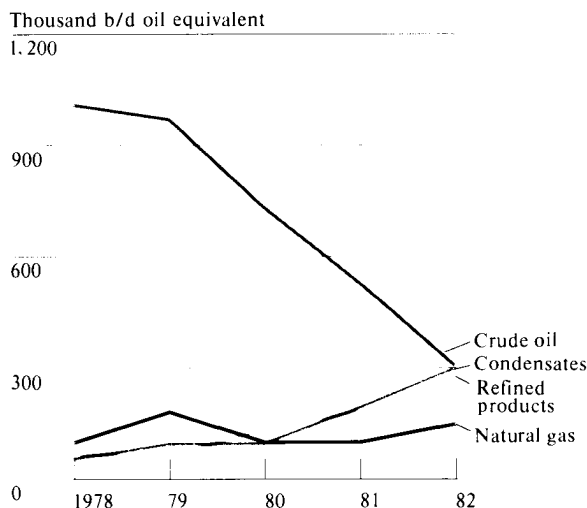
has led to a sense of common purpose and encouraged Algeria to promote the notion of a cohesive and unified socialist Mediterranean "lake." In Western Europe, Algeria can deal with nationalized firms similar to its own, whereas in the United States Algeria must deal with private firms whose contracts are not guaranteed by the US Government. For the time being, therefore, the Algerians are more likely to conclude major deals with the British, French, Italians, and Belgians than with the United States. [redacted]

Algerian support for a variety of Third World progressive movements, parties, and "fronts" has often strained relations between Algiers and Washington. The United States protested strongly against alleged Algerian involvement in the transshipment of Soviet weapons to Nicaragua via Algiers last spring, particularly after a transshipment that occurred following assurances from the Algerians that such activity would cease. [redacted]

We believe that tangible support from Algiers to these groups will remain small and in most cases symbolic. Many liberation groups are allowed to maintain offices in Algiers under the sponsorship of the FLN's Commission for International Relations. Algeria has provided some financial support to Communist, socialist, and leftist parties in Western Europe, Latin America, and Africa and, [redacted] [redacted] has assisted in the organization and training of military and security forces in some African countries. Algiers, however, judiciously avoids involvement in subversive activities by these groups. [redacted]

Improved ties between Algiers and Washington will also depend on US tolerance of Algeria's vitriolic press, which has consistently criticized US foreign policy and the US presence in the region. The local press carried strong objections to the recent US-Moroccan military exercises off the coast of North Africa and claimed that there was US involvement in the Israeli invasion of Lebanon. US officials have often complained to the Algerian Government about this anti-US tone, but the government has been slow about reining in the leftists, who have been allowed to dominate the government-controlled media. We can expect the Algerian press to continue to reflect a sharper anti-US position than policymakers do and to distort issues on which the United States and Algeria differ. [redacted]

Figure 1
Algeria: Hydrocarbon Export Mix



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Economic Obstacles

Despite the government's interest in developing economic ties with the United States, the performance of the economy will limit opportunities for investment and trade. This consideration is especially significant in Algeria because the economy is heavily dependent on a single industry—hydrocarbons—in which the world market has not shown strength recently. [redacted]

Thus far Algeria has been able to weather the oil glut. Although crude output averaged only 700,000 b/d in 1982—about half former levels—expanded sales of petroleum products and natural gas lessened the revenue shortfall. Production of condensates increased 30 percent in 1982, while marketed natural gas increased by about 50 percent. Algeria was able to sustain export revenues in 1982 of \$12 billion and, consequently, maintained its trade surplus as well. [redacted]

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Algeria: Current Account ^a

Billion US \$

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Trade balance	1.2	-0.7	0	-1.6	-1.6	1.3	5.6	2.4	2.2	1.9
Exports (f.o.b.)	5.3	4.9	5.3	5.9	6.6	9.5	15.9	13.4	12.0	11.4
Oil	4.7	4.2	4.8	5.7	6.1	8.8	14.9	12.2	10.3	8.6
Nonoil	0.6	0.6	0.5	0.3	0.5	0.7	1.0	1.2	1.7	2.8
Imports (f.o.b.)	4.1	5.6	5.3	7.5	8.2	8.2	10.3	11.0	9.8	9.5
Net services and private transfers	-0.5	-0.8	-1.6	-2.4	-2.8	-3.3	-3.9	-4.2	-4.8	-4.9
Freight and insurance	-0.4	-0.7	-0.6	-0.9	-1.0	-1.0	-1.2	-1.3	-1.2	-1.1
Investment income receipts	0.1	0.1	0.1	0.2	0.2	0.4	0.7	0.9	0.6	0.5
Other	-0.2	-0.3	-1.1	-1.7	-2.0	-2.8	-3.3	-3.7	-4.2	-4.2
Grants	-0.1	0	0	0	0	-0.1	-0.1	-0.1	-0.1	-0.1
Current account balance	0.6	-1.6	-1.6	-4.0	-4.4	-2.2	1.6	-1.9	-2.7	-3.1

^a Because of rounding, components may not add to the totals shown.

^b Projected assuming average oil, refined products, and NGL production of 900,000 b/d and average price of \$31.20 per barrel. Gas exports of 16 billion cubic meters at \$4.25 per million Btu are assumed for 1983.

[REDACTED]

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Algeria would face far more serious economic problems if oil prices were to fall sharply. A price of \$25 per barrel of oil would push the 1983 projected current account deficit to \$4.9 billion at 1982 hydrocarbon production levels. The Algerian Government has told foreign financial, commercial, and government officials that imports will be cut in 1983 by whatever percentage is necessary to balance a decline in hydrocarbon export revenues. This would mean delaying investment in development projects and making fewer consumer goods available. Algeria can also resort to borrowing money internationally, but it has been loath to do this in recent years. [REDACTED]

Algeria has been able to limit borrowing in the international capital market since 1979 by relying on unused credit lines and drawdowns in foreign exchange reserves. This three-and-a-half-year hiatus ended in April 1983 when Algeria began seeking a \$500 million Eurocurrency loan to help finance capital projects for the state petroleum company. The loan received a very positive response from international

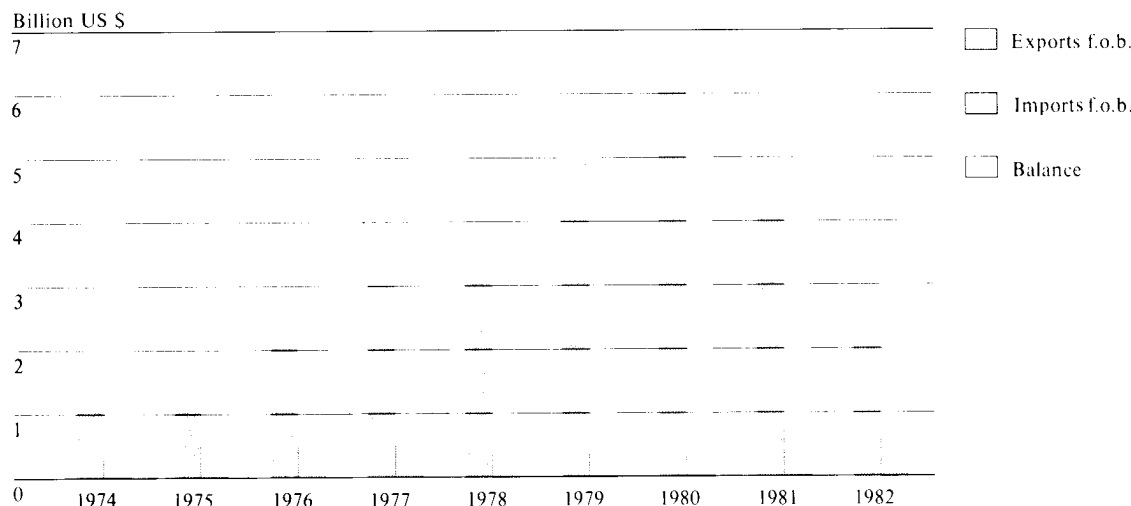
banks, and the favorable terms offered—0.5 percentage point above LIBOR initially—reflect Algeria's cautious financial management. As of March 1983, Algeria had foreign exchange reserves (excluding gold) of \$2.1 billion—enough to cover approximately two and a half months of imports. These reserves are supplemented by gold holdings worth \$2.3 billion as of the end of March. [REDACTED]

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As long as the oil market does not drop drastically, the United States has an opportunity to expand its market share and increase exports to Algeria. The Algerian Government has expressed interest in increasing US imports and equalizing the trade balance, which has always been heavily in Algeria's favor. The United States has such a small share of the Algerian market that there is plenty of room to expand sales before overdependence on the United States would

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Figure 2
Algeria: Merchandise Trade With
the United States



[Redacted]

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become an issue. Currently, the United States holds 52 percent of the world market for grain sales but supplies only about 30 percent of Algeria's grain imports. Embassy reporting suggests that US unwillingness to enter into long-term grain agreements has resulted in a decline in its grain market share in Algeria. The Algerian Government seeks US participation in cooperative programs that will develop human resources and result in a true transfer of technology and does not want to be simply a market for grain sales. [Redacted]

as the outcome of negotiations on existing US/Algerian natural gas contracts will determine whether this interest in increased economic cooperation produces new contracts and a greater US market share in Algeria. [Redacted]

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Outlook

There is little chance that Algeria's foreign policy under Bendjedid will return to the radical posture of the Boumediene era. Like some other Arab states, Algeria would probably like to reap the benefits that often accompany closer relations with the United States, such as training and educational opportunities and favorable financial terms. Bendjedid probably realizes that Algeria's nonaligned or Arab credentials would not be severely damaged by cultivating stronger and more open ties with the United States. Despite the advantages Algiers may see in closer ties

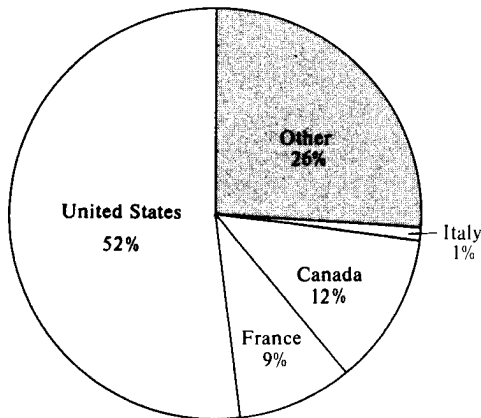
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Despite the weakness in the oil market, Algerian contacts with US firms have increased in the last year, particularly since a trade investment mission headed by the US Secretary of Commerce visited Algiers last December. Algeria has been granted US foreign military sales eligibility for purchase of defense services, and a US/Algerian Joint Economic Commission is now being considered. Both developments should enhance US trade prospects. Oil and gas market conditions and competitive financing, as well

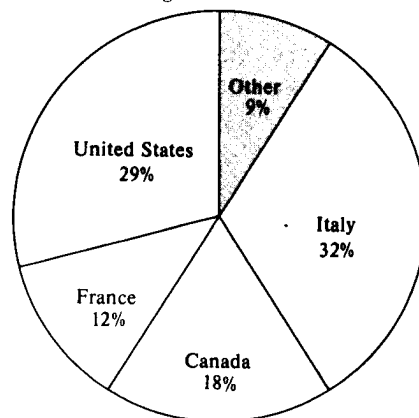
Figure 3
World Grain Sales, 1981-82^a

Million metric tons

Total World Grain Sales: 206.0



World Grain Sales to Algeria: 3.4



^a Market year July through June; grain includes wheat and coarse grains.

[Redacted]

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with Washington, we believe the Algerian Government will continue its cautious approach toward developing those ties and may at times be quite outspoken in its criticism of US policies. [Redacted]

Algerian support for US policies in the Middle East will come slowly and will hinge to a large degree on Algeria's ability to bring itself into the Arab mainstream. Bendjedid's interest in promoting Algeria as an important contributor to regional stability will probably encourage the Algerians to seek a modus vivendi with their radical and moderate Arab brothers. Algeria's efforts will be aimed primarily at curbing what it views as debilitating or divisive forces within the Arab world. [Redacted]

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A number of common interests have brought Algerian goals into closer alignment with those of the United States and have fostered cooperation. Chief among these are Algeria's growing desire for regional stability—in the broadest context and in North Africa—concern over the potential dangers of unchecked Islamic fundamentalism, and an appreciation of the interconnections in the world economy and a desire to see it stabilized. Although Algeria's strategies for pursuing these interests are not necessarily compatible with those of the United States, the confluence of interests is unique in the history of the two countries' relations and appears durable for the foreseeable future. Divergent strategies and lingering suspicions will remain obstacles to the rapid improvement of bilateral ties, and, in conjunction with adverse developments in the region, they could inhibit the current dialogue. [Redacted]

Algeria is a nation more concerned with economic development, regional affairs, and nonalignment than with East-West issues. Bendjedid is more likely to prefer the role of "impartial" mediator in Arab issues to that of taking sides along East-West lines. Algeria's role as an effective negotiator between the moderate and radical Arab states was lent credibility by Saudi King Fahd's unprecedented visit to Algeria late last year to discuss regional problems. [Redacted]

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We believe the current soft oil market will limit Algeria's revenues and, therefore, its demand for imported goods and services through at least 1983. Algeria's considerable energy resources and its ambitious development plans, however, probably continue to make it a good market for US products over the long term. Although US firms must compete with European firms geographically much closer, warmer political relations between Algeria and the United States, coupled with Algeria's desire to remain independent of any one supplier for any commodity and Algeria's respect for US technical expertise, could lead to an increase in US sales to Algeria. Agriculture, construction, and natural gas development are particularly good prospects because of the emphasis given these areas by the current regime. Since last December, several US firms have been meeting with Algerian officials regarding possible contracts in these areas. Political differences will not preclude increased commercial ties but will be a disincentive.

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In Algeria's view, the supply of US materiel and training assistance would lend better balance not only to its own relations with the superpowers but also to Washington's relations with Algeria and Morocco. For political and economic reasons, however, Algeria's military purchases from the United States over the next several years will probably be limited to small military vehicles and other small-scale equipment.

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