



Export diversification achievement in a reality of the Algerian economy dependency on hydrocarbon sector

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Submitted:15/08/2023

Accepted:03/10/2023

Published:30/12/2023

Abstract:

The Algerian economy still suffers from dependence on the hydrocarbon sector, despite the government's successive reforms schemes since its independence in 1962. This paper deals with the scourges that the Algerian economy suffers from, such as *Holland syndrome* and *Natural resources` price volatility*, which hamper the Algerian economic diversification. It is noticeable that the state's efforts to promote the private sector, which is characterized by the entrepreneurial and innovative returning, and in collaboration with the public dominant sector. The focus was also on legal reforms in 2019, which were represented in amending laws and regulations related to motivating investors and attracting foreign investments. What causes optimism, is that, these recent legal reforms require time to ensure their effectiveness in achieving economic development and export diversification.

Key words: Export Diversification, Oil exporting economy, Economic diversification, Oil dependence.

JEL Classification Codes: O43, E31, O11, F41.

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Introduction :

Economic diversification is a strategy to transform the economy from using a single source (oil sector in Algeria) to multiple sources of income spread over primary, secondary and tertiary sectors, in the aim of improving economic performance to achieve sustainable growth and high profit in government revenue. According to a 2002 UN report, it is found that in addition to the problems faced by developing countries generally, experience specific problems that arise from the interplay of a number of special factors, which are their smallness, remoteness, geographical dispersion, the fragility of their ecosystems, constraints on transportation and communication, isolation from markets, abundance of natural resources, heavy dependence on imports and limited commodities, depletion of non-renewable resources, migration (particularly of personnel with high-level skill) and their limited ability to reap the benefits of economies of scale (UN, 2016).

More diversified export structure may reduce the volatility of export revenue, by reducing dependence on a limited number of products (such as oil) that are subject to major price and volume fluctuations (Levchenko & J, 2006). The non-hydrocarbon exports in Algeria, for instance, are dominated mainly by chemical products, reflecting a lack of strong industries or products on which to build export diversification. Even, the Algerian manufacturing exports suffer from the low level of high-tech products, and services exports also appear underdeveloped, notably compared to non-oil exporting countries, and are largely related to hydrocarbon exports (Lahreche, December 2014). The non-oil exports, in the Algerian economy, are generally produced with low level of skills and are unsophisticated. Maintaining the stability of the real effective exchange rate is a key determinant to improve competitiveness of, and incentives to invest in non-oil exports (Evolution économique et monétaire en Algérie en 2010, 2011).

Algeria's export diversification has been a topic of interest and concern. Algeria's exports are among the least diversified in the world, even compared to other oil producers like Iran, Oman, Saudi Arabia, or Venezuela. The lack of export diversification in Algeria is explained by several factors, including the country's dependence on oil and gas exports, weak institutional quality, and limited technological capabilities. However, there are efforts to promote export diversification in Algeria. For example, the term "*Promoting and encouraging foreign trade*" has been changed to the term "*Encouraging and promoting exports*", specifically non-hydrocarbon exports, and the evidence for this is changing the name of "*The Ministry of Trade*" to the name of "*Ministry of Trade and Export Promotion*".

Despite several attempts at both organic and financial reforms, the Algerian economy is still dependent on a single liquidity supply resource, hydrocarbons. This is explained by the absence of an economy that creates non-hydrocarbon wealth, which is still very low. This observation leads us to say that despite the possibilities offered for economic diversification, non-hydrocarbon exports are still very marginalized.

In light of what was previously mentioned, the main research question is: **what is the reality of the Algerian economy in its reliance on hydrocarbon sector?**

From the main research question it is unavoidable to ask the following secondary questions:

- What is the role of the Algerian private sector for the economic diversification?
- What are the government procedures to move out from hydrocarbon sector dependency?

In order to answer these research questions, the paper was divided into three sections, the first section was about previous literature and export strategies in developing countries. In the second chapter, it was approached to the reality of the Algerian economy suffering from a phenomenon of *Holland Syndrome* and *Natural resources' prices volatility* in the international market, as well as, the private sector role and position. The third section was about support mechanisms and organisations to enhance the economic development and diversification, in addition to a legal analysis of the latest laws and agreements, including the 2022 investment law, in term to ensure the economic development.

The objectives of this research is the aiming to know about the reality of export diversification outside of oil sector reliance in Algeria according to the latest statistics of national and international organisations, as well as an attempt to enrich the academic aspect in the field of export and production diversification, and trying to find solutions to the obstacles facing it.

The statistical analysis method was adopted to study the phenomenon of hydrocarbon economic reliance and export diversification in Algeria and the prospects for its development by researching in some international data.

Literature review:

Export diversification refers to a set of policies that change the shares of particular goods in the existing export basket, to introduce new goods to the export basket and gain access to new geographic markets (Akram, 2011). Major elements of economic diversification are the following: capital (*human capital, physical capital and natural resources*), competitive markets allowing more efficient use of resources, infrastructure,

sustainable institutional and structural reforms, and flexibility in foreign investments flows, as well as trade and macroeconomic stability. Export diversification requires that local production be competitive in international markets, both in terms of prices and quality. Competitiveness can be divided into three degrees, starting with the company's competitiveness with its counterparts outside the country. This is achieved through the enterprise's strategy and its distinguished and effective policies at the international level. In the second degree, we find the sector's competitiveness, which is achieved through the availability of several companies operating in a successful manner in the same sector. As for the third and highest degree, it is represented by the country's competitiveness in exporting and its dominance in the international market. This is achieved through the country's specialization in limited economic fields, which gives a comparative advantage in producing one commodity over another, by balancing between production costs and income achieved.

both theory and empirical literature generally point out that high levels of export diversification are a favourable condition for positive growth of countries though some theories disagree to this argument .At present, it is particularly important for countries exporting raw materials, whose price fluctuations are very strong, to pursue a policy of economic diversification, in order to mitigate the risks of volatility linked to the concentration of the structure of its production and of exports. The success of emerging countries is undoubtedly partly attributable to their significant progress on the path to diversification. China has even become today the most diversified country in the world, and recent experience has shown its great capacity to resist the consequences of fluctuations in the international market, despite its growing economic openness. Conversely, countries whose exports are not very diversified experience strong economic instability, caused by that of their export income. This observation had already been established by Levy and Marshall (Levy & Marshall, 1970) from an econometric study on a set of 55 developed and developing countries, and continues today to be the subject of investigations. The analysis of diversification as a means of reducing risk can be extended to the question of the vulnerability of an economy or a region facing technological changes or the arrival of new competitors in its markets. From this point of view again, the mitigation of risks provided by diversification is not only an issue for developing countries, but also for developed countries.

Different empirical work has shown that growth and/or factor productivity are positively rather than negatively related to economic diversification (Mudena, 2012). This has been shown, with different methodologies, by Feenstra (Feenstra & al, 1999) for Korea and Taiwan, by Berthelemy (Berthelemy & Chauvin, 2000) for emerging countries in Asia, by Berthelemy and Soderling (Berthelemy & Soderling, 2001) on data

from African countries, and by Taylor (Taylor, 2003) with regard to Latin America. There is therefore a strong presumption that diversification has benefits for an economy at different stages of economic development. This thesis has, however, inspired misguided economic strategies in the past, particularly in various developing countries, which have led to the implementation of diversification policies, under the protection of trade barriers. This approach has obvious costs, and most often turns out to be anti-productive for economic development, as for example in the case of Algeria or India (before the opening-up reforms), due to the inefficiencies associated with the commercial closure. It is necessary to relativize the previous ideas, by consulting other ideas, which tell us on the contrary that the well-being of an economy is maximized when it specializes, according to its comparative advantages. Economic theory and its development goes from the thinking that a country aims to reach economy specialization and achieve self-sufficiency, to the thinking based on export and production diversification and benefiting from the comparative advantage of the country and the competitiveness of its products in international markets.

The backwardness of the manufacturing sector in Africa would simply result from the factor endowment of this continent. The relative abundance of soil and subsoil resources combined with the shortage of human capital explain the concentration of Africa's exports in natural products, unlike Asian countries, which have gradually specialized in manufactured products, due to a relative abundance of human capital and a relative scarcity of natural resources.

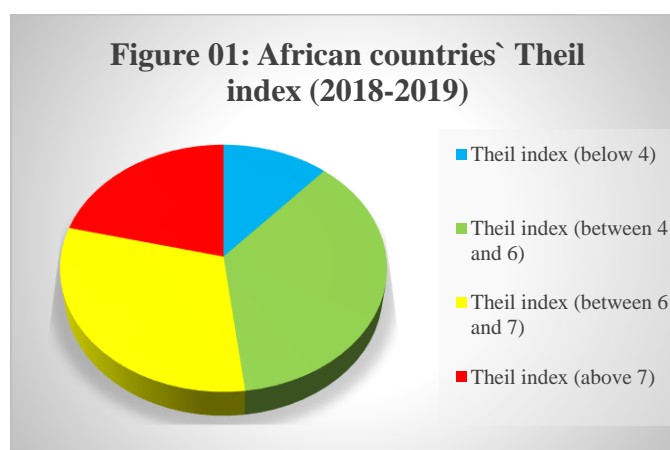
Empirical research (Sala-i-Martin & Arvind, Juin 2003) in Nigeria has made it possible to isolate institutions as an explanatory variable of the "resource curse". Institutions are apprehended by five variables: the law, bureaucracy, corruption, the risk of seizure and the risk of repudiation of contracts. The negative effects of natural resources on growth do not derive from them as such but through the channel of institutions. It is the quality of these institutions that will govern the use of the rent: the enrichment of the elites or the improvement of economic performance and general well-being. This sheds light on Norway's case, whose democratic institutions preceded the discovery of hydrocarbon wealth. In "natural democracies" according to «A. Gelb» expression (Davis, Ronaldo, James, & Steven, Mars 2003), political and institutional stability obliges governments to take their actions in the long term since the results they obtain will be subject to sanction by the vote. The success of the Norwegian fund is due to the fact that it is separated from fiscal policy. It is subjected to rules of public accounting and transparency.

According to the study of Mohammed Dhannoon & al (Mohammed, Hassnain, & Oday, 2018), to achieve the goal of economic diversification, governments in the whole world

need, always, trying to improve and maintain the government expenditure by diversifying into the economic gross domestic product (GDP), importation, exportation and total fixed capital formation and other elements of sustainable supply chain governance, such as, effective governance, rule of law, political stability, quality regulation, control of corruption and accountability.

Holland syndrome and hydrocarbons` price volatility in Algeria:

according to the UNCTAD data about diversified export portfolio of African countries, and the IMF Export Diversification Toolkit, where the aggregate Theil index of export concentration (the opposite if Export Diversification) further maps into the intensive (“within” Theil) and extensive (“between” Theil) margins (Cadot, Carrere, & Strauss-Kahn, 2011), it is found that diversification at the extensive margin occurs when the number of new products exported increases, or when the country starts serving new foreign markets. In contrast, diversification at the intensive margin reflects convergence in export shares among existing exports. The literature disagrees on which margin contributes most to export growth. For instance, Hummels and Klenow (Hummels & Klenow, 2005) find that 60% of large economies’ export growth is attributable to the extensive margin, while Helpman, Melitz, and Rubinstein (Helpman, Helitz, & Rubinstein, 2008); Brenton and Newfarmer (Brenton & Newfarmer, 2007) and Amurgo-Pacheco and Pierola (Amurgo-Pacheco & Pierola, 2008) show the predominance of the intensive margin. Besedes and Prusa (Besedes & Prusa, 2011) also argue that growth at the intensive margin through higher survival and deepening of trade relationships is more important for long-run export performance.



Theil index (below 4)	Egypt, Kenya, Mauritius, Morocco, South Africa, Tunisia
Theil index (between 4 and 6)	Benin, Cap Verde, Cote d'Ivoire, Djibouti, Eswatini, Eethiopia, Gambia, Lesotho, Madagascar, Mauritania, Mozambique, Namibia, Rwanda, Senegal, Sierra Leone, Tanzania, Togo, Uganda
Theil index (between 6 and 7)	Algeria, Burkina Faso, Burundi, Cameroon, Central African Republic, Comoros, Democratic Republic of Congo, Ghana, Liberia, Malawi, Niger, Sao Tome and Principe, Seychelles, Somalia, Sudan, Zambia
Theil index (above 7)	Angola, Botswana, Chad, Congo, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Libya, Mali, Nigeria

Source: UNCTAD calculations, based on data from the international trade analysis database and the Centre d'études prospectives et d'informations internationales data set.

Export diversification in Theil index is explained by the effect of a diversified portfolio, which is shocks absorption and natural resources` price volatility reduction. In addition to a dynamic effect, such as the experience gain from the introduction of new products to the basket of goods. Export concentration is an important driver of trade volatility. (Figure 01) shows a comparison of the volatility of three indicators – terms of trade, government revenue and GDP – by export diversification performance of 52 African countries (Theil index 2018–2019). These calculations show that, on average, countries with the lowest levels of export diversification (Theil index above 7) experienced the highest volatility in all three indicators, followed by countries with a Theil index ranging between 6 and 7. Countries with high levels of diversification have the largest government revenues as a share of their GDP. In 2019, while the highly diversified countries yielded an average government revenue of 24% of GDP, the least diversified countries not only had the most volatile revenues, but the lowest levels of government revenues, with a value of 19.4% (countries with a Theil index above 7) and 13% (countries with a Theil index between 6 and 7). As illustrated in (Figure 01), the Algerian economy is found in the penultimate (yellow) zone, this is due of the weakness of economic diversification, which is because of the authorities` interest in the hydrocarbon sector instead of the innovative and productive sector. This explains the economic concentration in the oil and gas sector in Algeria, and that can expose the economy to continuous trade fluctuation shocks, including " natural resources` price volatility".

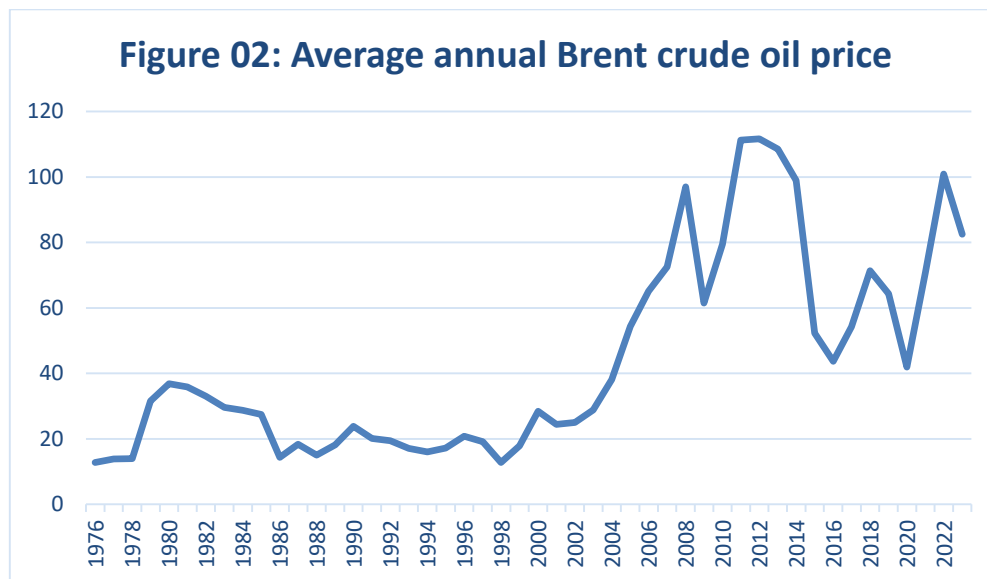
Natural Resources` Price Volatility: Most of studies demonstrate the importance of economic development and diversification upon the revenue volatility degree. They show that volatility of income growth is initially decreasing in the level of income and the degree of diversification. As state continues rising economic diversification, its volatility starts decreasing. It is noticed how changes in volatility are related to the level

of economic development and diversification. There is a robust relationship between a state's income and its income per capita. The increasing in economic specialisation contribute to increase in volatility. The country's economy volatility is elated to several factors, such as: banking integration, monetary and fiscal policy, the structure of production sector and employment, financial regulations and the age distribution of the population. Increase variety augments the freedom of human agents to choose, and it is obvious that human development policy has to go together with an industrial policy that promotes qualitative economic diversification. economic diversification can be achieved when starting from entrepreneurship promotion in a domestic economy. Algeria depends heavily on the hydrocarbon sector despite the huge accumulated financial surplus and the government's investment on the economy; outcomes have fallen short of targets set out for the national visions, while the challenges of economic diversification and governance continue.

Table 01: Average annual Brent crude oil price (1976 – 2023)

year	Average crude oil price in U.S Dollars per barrel	year	Average crude oil price in U.S Dollars per barrel	year	Average crude oil price in U.S Dollars per barrel	year	Average crude oil price in U.S Dollars per barrel
1976	12.8	1988	15	2000	28.4	2012	111.63
1977	13.9	1989	18.2	2001	24.45	2013	108.56
1978	14	1990	23.8	2002	25.01	2014	98.97
1979	31.6	1991	20.1	2003	28.83	2015	52.32
1980	36.8	1992	19.4	2004	38.1	2016	43.67
1981	35.9	1993	17.1	2005	54.38	2017	54.25
1982	33	1994	16	2006	65.14	2018	71.34
1983	29.6	1995	17.2	2007	72.52	2019	64.3
1984	28.7	1996	20.8	2008	96.99	2020	41.96
1985	27.5	1997	19.1	2009	61.51	2021	70.86
1986	14.4	1998	12.8	2010	79.47	2022	100.93
1987	18.4	1999	17.9	2011	111.26	2023	82.55

Source: <http://www.statista.com/statistics/262860/uk-brent-crude-oil-price-changes-since-1976/>



Source: accomplished from (Table 01)

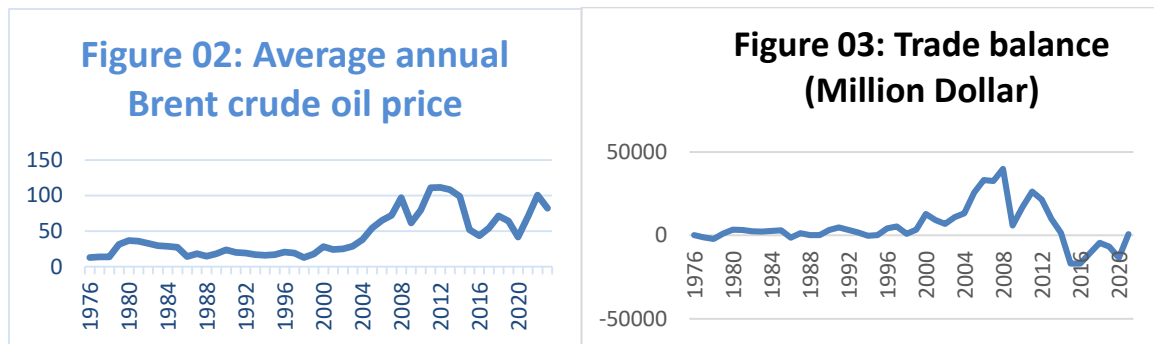
The (Figure 02) shows the annual average of the price of crude oil for a period of 46 years (from 1976 to 2022). What distinguishes the curve is the instability of oil prices, between the highest value of \$111.63 in 2012, and the lowest value of \$12.8 in 1976. This rapid change in oil prices is based on geopolitical variables that affect the demand for this raw material, such as the oil crises of 1988 and 2014, which were characterized by a decline tangible

Table 02: Algeria's trade balance (1976 – 2021)

year	Trade balance (Million Dollar)	year	Trade balance (Million Dollar)	year	Trade balance (Million Dollar)	year	Trade balance (Million Dollar)
1976	177.4 M€	1988	120 M€	2000	12,860 M€	2012	21,488 M€
1977	-1,180.6 M€	1989	100 M€	2001	9,193 M€	2013	9,946 M€
1978	-2,221.7 M€	1990	3,110 M€	2002	6,829.7 M€	2014	1,481 M€
1979	1,148.1 M€	1991	4,670 M€	2003	10,782.6 M€	2015	-17,034 M€
1980	3,313 M€	1992	3,200 M€	2004	13,135.4 M€	2016	-17,063 M€
1981	3,093 M€	1993	1,625 M€	2005	25,645.4 M€	2017	-10,868 M€
1982	2,416 M€	1994	-261.9 M€	2006	33,157 M€	2018	-4,474 M€
1983	2,184 M€	1995	158.2 M€	2007	32,532.2 M€	2019	-6,845.9 M€
1984	2,507 M€	1996	4,160 M€	2008	39,819 M€	2020	-13,604.7 M€
1985	3,000 M€	1997	5,206 M€	2009	5,880.1 M€	2021	700 M€
1986	-1,396 M€	1998	809 M€	2010	16,579.6 M€	/	/
1987	1,183 M€	1999	3,363 M€	2011	26,242 M€	/	/

to oil prices. In addition to the crisis related to the COVID19 pandemic (2019-2020), which witnessed a decrease in both supply and demand in the same time, which led to a decline in oil prices. Starting from the year 2022 and related to the beginning of the Russian-Ukrainian war, it was noticed that oil prices rose due to the doubts that characterize the world about the possibility of a third world war.

Source : <https://fr.countryeconomy.com/trade/tradebalance/algeria>



Source: accomplished from (Table 01 and 02)

In the analysis of (Figure 03) related to the trade balance of the Algerian economy, and in comparison with (Figure 02) related to oil price volatility, it is found that the two curves are very similar. In the period of (2005 - 2014) the trade balance reaches its highest value of (39,819 M€) in 2008, and this is largely due to the increase in the value of Algerian -mainly hydrocarbon- exports due to the rise in oil prices. And compared to (Figure 02), it is noticed that the price of oil in 2008 was at its highest values of (96.99 €). As for the period of (2014 - 2020), which was characterized by a decline in hydrocarbons prices due to the first crisis in 2014, which was caused by America's production of shale gas and oil, as well as Saudi Arabia's refusal of OPEC's instructions to reduce oil production to ensure oil prices balance. Likewise, the crisis related to the COVID-19 pandemic, which led to the imposition of health distancing measures by the High Health Organization, as citizens' stay at home led to a decrease in oil production, in addition to a decrease in government demand for fuel due to the paralysis of all productive industries at the same time. Since (93%) of the Algerian exports are based on hydrocarbon sector, the decline in oil prices during this period led to a significant deficit in the trade balance, as the Algerian economy recorded the highest deficit value of (-17,063 M€) in 2016.

All these previous observations explain the negative impact of the dependence of the Algerian economy, and the concentration of its production on a single sector, which is the hydrocarbon sector, that requires the intensification of field efforts to realize the economic diversification.

Private sector's role in the Algerian economy: Deindustrialization, which has been going on since the end of the 1980s, is an undeniable fact in Algeria. It is supported by the public sector. Except for rare years, the manufacturing industry in the public sector has experienced negative growth since the end of the 1980s. Despite the dynamism attributed to it, the private sector has not been able to offset the recession and the deindustrialization of the public sector. This dynamism is currently experiencing a

marked decline. The growth rate of the private sector is still lower than that of GDP and non-hydrocarbon GDP.

Table 03: gross added values by economic sectors (in millions of Algerian Dinar)

	2019		2020		2021	
	public	private	public	private	Public	private
Agriculture	18562.3	2510491.6	19750.5	2527109.6	22476.3	2665839.4
Hydrocarbons	3488510.2	502518.2	2317317.7	257818.9	4497555.8	414509.1
Petroleum (goods/services)	91592.7	0	82165.8	0	122846.4	0
Non-hydrocarbon industry	573736.5	587917	546785.8	601595.8	590305.3	640492.9
Building and public works	423598.4	1976791.2	405430.1	1879658.4	444013.8	2011356.1
Transport/communications	329281.2	1858834.6	301623.3	1743726.1	310722.8	1815023.9
Trade	144073.7	2302069	127890.9	2189323.7	151209.5	2469731.7
Services	177390.6	715818.8	167815	628717.8	186304.1	734800
Total (A.V)	5246745.5	10454440.4	3968779.3	9827950.3	6325434	10751753.1

Source : Rapport N° 963 des comptes économiques de 2019 à 2021, ONS, Algérie 2022.
 (ISSN 1111 – 5939)

For a combination of public and private sector in 2019, stakeholders are involved in developing, diversifying and promoting Algeria's export portfolio. Key government actors include the Ministry of Industry and Mining, the Ministry of Trade and Export Promotion, the minister delegate to the prime minister in charge of micro-enterprises and the minister delegate responsible for start-ups and the knowledge economy.

The first observation that can be drawn from (Table 03), which relates to the contribution of the public and private sectors to gross added value (2019-2020-2021), is the superiority of the private sector in all economic activities that are outside of hydrocarbon sector. Other than this, the public sector excels in all activities related to the oil sector. However, the contribution of the private sector to economic development is still weak and does not amount to achieving economic take-off to get out of hydrocarbon dependency. The total added value of the private sector in 2020 was (9827950.3 DA) lower than 2019 total A.V (10454440.4 DA), Due to the negative economic consequences of the COVID-19 pandemic .However, in 2021, a significant increase was recorded in the private sector total A.V (10751753.1 DA), and this is due to the global economic recovery after the end of the pandemic. All this proves the role of the private sector in creating manufacturing projects related to advanced technology. This can only be achieved through permanent cooperation and collaboration between the public and private sectors.

A transparent business environment: It is also a question of creating a transparent and fair business environment, favorable to investment and entrepreneurship; to set up a

new mode of economic governance and management of the company; and to bring about a new economy based on innovation, competitiveness, quality and knowledge. In this context, we can read in the government's action plan that companies constitute an important economic heritage if they contain significant productive capacities. In this regard, the Algerian government intends to pursue and boost SME upgrading programs in all sectors of activity. "Preoccupied to develop and erase all artificial discriminations that have characterized relations between private and public companies, the government will work to adopt an economic doctrine for the development of Algerian companies without distinction between public and private entities." according to Ferhat Aït Ali the Algerian Foreign Minister of Industry and Mines (Mines, 2020). For example, and regarding to active companies in the national economy, and according to the National Agency for Support and Development of Entrepreneurship (ANAD), their number on paper has reached 22,440 institutions, while in reality there are only 8,464 active companies, and the rest is 1,448 institutions that are suspended from activity despite having the necessary equipment, while There are 12,528 institutions - which represent the majority - are fake and do not exist in the field. and all this is because of the absence and delay in the government system digitization.

An urgent program for the benefit of Start-ups and SMEs: The action plan expects, as part of an urgent program for start-ups and small and medium-sized enterprises (SMEs), in particular the creation of a Special Fund or a bank intended for their financing. It is also a question of ensuring the launch of a several inter-sectoral actions, having in the purpose of stimulating and bringing about the emergence of the economy based on scientific knowledge, such as the establishment of sectoral competitiveness poles by geographical areas, the installation of technology transfer institutes in partnership with manufacturers, universities and major schools, as well as the launch of industrialization projects in "industry 4.0" standards. The program also provides for the establishment of an information system to monitor and develop start-ups and their environment (incubators, accelerators) (Mines, 2020).

Support mechanisms and advantages offered to non-hydrocarbon exports in Algeria:

In order to provide effective support for non-hydrocarbon exports, public institutions for export support and production enhancement have been created. citing for example:

- The National Agency for the Promotion of Foreign Trade (ALGEX);
- The National Association of Algerian Exporters (ANEXAL);
- The Algerian Export Insurance and Guarantee Company (CAGEX);
- The Algerian Society of Fairs and Exports (SAFEX);
- The Algerian Center for Quality and Packaging Control (CACQE);

- The Special Export Promotion Fund (FSPE);
- The Algerian Institute for Standardization (IANOR).

Tax exoneration granted to exporters: Algerian tax legislation grants many advantages for export operations, namely, Companies benefit from corporate income tax (IBS) exemption, and the exclusion of the tax on professional activity (TAP) of the turnover made on export. In addition to that, companies benefit from (VAT) exemption for all exported goods of national origin.

State financial support: Under the national agricultural development program, the financial support of the State resides mainly in the establishment of financing structures, such as, the Special Fund for the Promotion of Exports (FSPE), and the National Fund for Agricultural Regulation and Development (FNRDA).

Legal analysis of the Algerian state`s efforts since 2019 to attract foreign investors:

Current global geopolitical changes have opened up new prospects for Algeria. On the one hand, Algeria is being courted by Europe and redoubling its efforts to increase its energy offering to reap record profit amid high gas prices. On the other hand, additional gas revenues offer opportunities for Algeria to develop the local industry in order to reduce its dependence on imports and fossil energy in the long term, and create jobs and technological partnerships.

In an interview accomplished by the President of Algerian Republic, Abdelmadjid Tebboune, to "Al-Jazeera Podcast" (Benguenna, 2023) about 2022 economic statistics, he said that for the first time in four decades, Algeria's non-hydrocarbon exports exceeded \$7 billion, and that Algeria recorded an internal growth equivalent to 4.3%, which made the volume of foreign exchange reserves exceed 64 billion dollars, part of it is due to the rise in energy prices, while more than 1,300 investors are waiting to obtain a license before starting investment work. The president added that the business sector will create 55,000 jobs by the end of the first semester of 2024, and there are expectations that the value of investment in the private sector will exceed \$30 billion by 2027.

To restore the confidence of existing investors and attract new business in the country, a number of legal reforms have been launched to effectively create a competitive and business-friendly climate. Investors have been promised tax incentives, legislative stability, transparency, guarantees for the transfer of funds and less bureaucracy. The Algerian government hopes that the new legislative framework will convince foreign investors to come in Algeria. The new laws and decrees dedicated to improve the entrepreneurial situation in Algeria are as follows:

A. New investment law to attract foreign investors:

The law No. 22-18 of July 24, 2022 relating to investment, which was published in the Official Journal of People's Democratic Republic of Algeria, on September 18, 2022. Replacing the Law No. 16-09 of August 3, 2016 relating to the investment promotion, is a new Law, which expresses the firm will of the Algerian State to relaunch a diversified economy conducive to the development of value-added investments. This law is applicable for investments in economic activities of goods and services by individuals or legal entities, national or foreign, resident or non-resident (Article 1), and it states the principle of freedom to invest, in addition to transparency and equality between investors in the processing of the applications (information about the size of the investment, the amount of equity, the number of jobs created, and the integration rate such as the ratio of goods and services of local origin) (Art 3), that is why This investment law tends to impact on the business of relocation activities operations from abroad, by granting the exemption from the formalities of foreign trade and bank domiciliation (Art 7), otherwise, the Bank of Algeria ensures the transfer guarantee of the external origin invested capital and the resulting income. In addition of the attractiveness for foreign investors and foreign investments, The provisions of this law are intended to encourage investment with the aim of developing priority of industries with high economic added value, ensuring sustainable and balanced territorial development, in addition of enhancing natural resources and local raw materials, and generalizing the use of new technologies by promoting technology transfer and developing innovation and the economy of knowledge, without neglecting the boosting creation of sustainable jobs and promoting the human resources skills, and finally the strengthening and improving the competitiveness of the national economy and its export capacity, which explains the intention of the government to get out of the hydrocarbons' dependence and join the economic diversification (Art 2). The Algerian government guarantees the protection of intellectual property rights, in accordance with the legislation in force (Art 9), and gives incentives to investors during the realization and operation phases of the investment, such as the benefit from land, which is granted by bodies in charge of, by providing the investor all information on land availability through a digital platform (Art 6). A "digital investor platform" is created, to provide all the necessary information, in particular on investment opportunities in Algeria, land availability, incentives and advantages related to the investment, as well as the related procedures. This digital platform allows the dematerialization of all the procedures and the online completion of all the formalities related to the investment (Art 23), the Law states also, that the Algerian Agency for the Promotion of Investment (AAPI) must ensure that all procedures are dematerialized and all formalities can be

completed online and that its platform is interconnected with those of the agencies or administration in charge of the act of investing. The attractive procedures are fiscal, para-fiscal and customs incentives, like the exemption from customs duties for imported goods, all other taxes (VAT, TAP, IBS) fees and duties.

The leader Director of the Algerian Investment Promotion Agency (AAPI), Omar Rekkach, announced that 233 projects have been registered since the entry into force of the new investment law (Almostathmir, 2023).

B. The basic law for the self-entrepreneur:

The very slow transition for the private sector can be interpreted as the private investment is trimmed towards activities that are naturally not very open to foreign competition. It also remains in the family character in order to benefit from conditions to operate in both, formal or informal sectors. The private sector fails to create a viable alternative for growth less dependent on hydrocarbons. It invests in the non-tradable goods sector (services, building and public works) to take advantage of the demand generated by budgetary action and escape from foreign competition, this latter is becoming increasingly fierce with the increased openness of the countries (association agreement with the European Union, upcoming membership of BRICS, and regional integration agreements).

The structure of the private sector (97 % of firms, employ less than 10 workers) is likely to accentuate its refuge in these sectors and in the informal economy. The family and patrimonial nature of Algerian SMEs is likely to aggravate institutional constraints. Indeed, the majority of Algerian SMEs (more than 95%) have EURL status (single-person company) or SARL (limited liability company); they do not yet take the step towards private ownership of a social type where the joint action of shareholders necessarily leads to a reduction in the degree of informalization of activities.

The Basic Law of the Self- entrepreneur was issued in the Official Journal No. 85, on December 19, 2022. It aims to regulate the new economic activities that have created with the emergence of digital economy and the economy of knowledge, which were not subject to any legal framework to that day. this law is for liberating the entrepreneurial spirit and facilitating young people's access to the labor market through self-employment, in order to ensure social coverage to the largest possible number of individuals who are active in the parallel market and to integrate them into the formal sector.

On the other hand, this law gives start-ups (emerging companies) an opportunity to reduce their burdens and enable them to get help from independent dealers and jointly exploit human resources among many companies. This law is also considered an

appropriate legal formula for exporting some digital services in the future, such as developing web and mobile applications and digital marketing, managing social media platforms and infographics, especially in the context of the new regulations issued by the Bank of Algeria regarding the authorization to transfer all the monetary revenues from the export of digital services from foreign currencies to Algeria, according to the Ministry of Knowledge Economy, start-ups and micro-enterprises. This law has proven its effectiveness in many countries of the world by regulating many new unstructured professions and activities.

C. The law of free zone:

Algeria also recently adopted the Law No. 22-15 of July 20, 2022, laying down the rules governing the economic free zones, which are opened for industrial and commercial activities with resident and non-resident entities, with the hope to attract, in particular, start-ups and these exporting foreign entities. This law contains several incentive facilities, as in (article 13), it gives the investors operating in the free zone the free choice to export and import goods and services in accordance with local tax, customs and exchange regimes. Adding the (article 08) which asserts that The activities performed in the free zone are exempted from all duties, taxes, and levies on fiscal, para-fiscal and customs nature, except the duties and taxes relating to tourism motor vehicles and contributions for the Algerian social security system.

D. Transparency high authority law:

The law No. 22-08 of May 5, 2022 is setting the organization and composition of the "High Authority of Transparency", as well as its power and control for the purpose of prevention and fighting against corruption. This High Authority is an independent institution with legal personality, and financial and administrative autonomy. The council of this high authority is in charge of administrative and financial investigations for signs of illicit enrichment of the public official who cannot justify the substantial increase in its wealth. Like these procedures go into the progress of the Algerian government to stop the dependence on hydrocarbons.

E. Amendment to the commercial code:

the ordinance No. 75-59 of September 26, 1975 bearing the code of trade, which was containing the following four types of companies: general partnerships, limited partnerships, limited liability companies and corporations by shares. This ordinance was amended and supplemented by the Law No. 22-09 of May 5, 2022, by adding another company form, with a name of "the simplified joint stock companies" created to encourage the emergence of start-ups. The simplified joint-stock company is established exclusively by companies that have been certified "start-up". This company whose capital is divided into shares and which is constituted between

partners who bear the losses only in the limit of their contributions, it can be set up by one or more natural and/or legal persons. Start-ups can benefit from a tax exemption regime (TAP, IRG, IBS, VAT, IFU) for a four years' period with a possible one-year extension, for the realization of the investment project.

F. African Continental Free Trade Area Agreement (AfCFTA):

The African Continental Free Trade Area Agreement (AfCFTA) was entered into activity on July 1, 2022 in Algeria. Its aiming is to deepen Africa's economic integration, and the boosting of intra-African trade; facilitate structural transformation; create a single market for goods, services and the movement of people; liberalize trade policies; and enhance members' and industrial products' competitiveness on a global scale.

The establishment of the (AfCFTA) should unlock a range of opportunities for Algeria including greater market access; lower-cost and higher-quality production resources due to the reduction in trade barriers and an expanded market; the opportunity to benefit from emerging regional value chains and increase economies of scale; and lower trade and production costs, which would boost the country's competitiveness. At the same time, Algeria may become more attractive to global investors, which would unlock productivity gains and technology spillover that could help diversify the country's export portfolio. The 4500 km Trans-Sahara Highway, which will run between Lagos and Algiers, will facilitate this new African trade.

G. The creation of Algerian Innovation Fund:

On January 25, 2023, the Minister of Knowledge Economy start-ups and Small Enterprises signed an agreement to establish the Algerian Innovation Fund (AIF) at the headquarters of Algeria Venture (Almostathmir, 2023). A project to establish a new venture capital fund under the name of "Algeria Innovation Fund" was announced, with a value of \$80 million. The Leader Director of the General Accelerator for Emerging Enterprises "Algeria Venture" signed an agreement with Mr. Hebertus Vandervart, Director of Investments in the "Small Enterprise Assistance Funds" (SEAF), which is an international fund for financing start-ups, and this is to establish the new fund, as an Algerian investment institution in accordance with the legislation in force in Algeria. This agreement comes in line with the objectives set by the "Algeria Venture" foundation to attract international venture capital for the benefit of Algerian start-ups, to open new growth horizons inside and outside Algeria, as the SEAF investment institution is considered one of the most important managers of risk capital in the world, and is present in more than 30 countries across the world (Almostathmir, 2023).

H. Electronic portal for enterprises creation:

The Executive Decree No. 23-169 of April 24, 2023, which determines the modalities for the management and functioning of the electronic portal dedicated to the establishment of companies as well as formalities of registration, transfer, receipt of electronic documents, and granting the common identification number. The electronic portal is dedicated to business creation, and it is managed by the national center of the commercial register, in coordination with the tax authorities, the national social security fund for non-employees (CASNOS), the national social security fund for employees (CNAS) and the national statistics office (ONS). In this case, the applicant is not required to move to carry out the registration of his company, which can be carried out via an electronic registration through a national identification number, and using an electronic signature (avoid providing the paper documents justifying the creation of his company). These procedures are intended to facilitate the procedures of new projects creation, which means the creation of the economic added value.

I. The new "Monetary and Banking Law":

The lack of cohesion in the Algerian economic reforms, and the lack of consistency is particularly noticeable in the treatment that has been made of the relationship between the real sphere and the monetary sphere. The *Law on Currency and Credit* contrasted sharply with the context of the Algerian economy, and the system of the Algeria's administered economy united the two spheres of the economy.

The inefficiency of the Algerian banking system is probably one of the important factors explaining the weakness of investment in industry. It is also an essential element in understanding why the macroeconomic health of the nation does not yet succeed in decisively influencing the real economy. Banking is the blocking link that hardens the financial constraint of companies. However, these companies encounter several obstacles such as: access and cost of credit, unfair competition from the informal sector, power to access land ownership, the tax rate imposed by the authorities, the uncertainty of economic policy and corruption rate in the economy. The payment system is extremely slow, which encourages cash transactions even for large amounts, thus discouraging recourse to the banking system, that's why, more than half of the broad money supply is held in cash. The heaviness of banking services to process customer demand is undoubtedly a major obstacle. The non-existence of a venture capital market is a major characteristic of the Algerian financial market when the issue of investment financing is addressed. Not being set up to take risks, banks prefer to move towards lucrative and less risky markets.

To recover this shortage of cohesion which is between the real and monetary field, the "*Monetary and Banking Law* " No. 23-09 of July 21, 2023, was approved by the Algerian

Parliament a few days ago, and will be issued soon, it will cancel the Law 90-10 on money and credit. And the first step in this law is to raise the travel grant, as well as the establishment of branches for Algerian banks abroad, which will be inaugurated at the end of the first semester of the year 2023, and the evidence that the first Algerian public bank (BNA) obtained accreditation in Senegal, which its branch name is the "Algeria-Senegal Bank" on April 13, 2023 (Imadalou, 2023). Among the law provisions, is the opening of private exchange offices in ports, airports, hotels and cities, in addition of the adoption of the "Algerian Digital Dinar" to facilitate the financial and monetary transactions, including export and import operations. This, proves the government efforts to position itself as a major economic actor, with time, to contribute to the achieving of financial inclusion. The new law touches on the creation of the digital version of the Algerian Dinar, digital banks, Islamic banking windows, and adopting the green financing, in order to encourage financial inclusion and sustainable development.

Results and Discussion:

The rentier nature of the national economy and the acute ambiguity surrounding its working mechanisms and the nature of the relations and practices of its various parties, who brought it together between the socialist and capitalist systems, as well as the failure to find a national private sector capable of bringing about the desired economic dynamism.

Resource misallocation is a potential problem emanating from concentration in exports of a certain product. A boom from a natural resource discovery could take away resources from a manufacturing sector and most likely it leads to a real exchange rate appreciation. This problem has further consequences in an economy, the so-called "the Dutch Disease", which is a decline in the competitiveness of country's trade products in the world market. Since natural resource abundant countries earn adequate foreign exchange currencies required for their importations, they usually have little incentive to industrialise (Dogruel & Tekce, 2011). If industrialisation takes place in this case, normally a country specialises in a production of physical goods which are capital intensive rather than in goods which are knowledge-intensive, which brings out adverse impacts on equality in wages and human capital developments. However, instead of viewing the abundance of natural resources as a curse, should be regarded as an opportunity to build capacity in competitive advantages in non-traditional goods (Bonaglia & Fukasaku, 2003).

Beside official diversification priorities like information and communication technologies (ICT), Algeria has the elements of agriculture, including pastoral and agricultural natural lands, water resources, animal and plant resources, in addition to human resources that are still considered less efficient, Algeria enjoys a comparative advantage due to large export potential of agriculture and a large variety of agricultural products. Despite extended agricultural development funds from the state budget and financial resources providing for agriculture through different channels, the fact that agriculture did not seriously contribute to economic diversification is explained by the following reasons: (1) the government does not have a well-developed strategy, and short-, mid- and long-term action plan to mitigate loss of land quality; (2) efficiency of subsidies from the state budget has not been ensured. Also, concerning tourism, the geographical location of Algeria, as well as the natural and climatic elements, the mineral baths, the historical and cultural elements, contribute to the advancement of tourism as an alternative sector to depleted hydrocarbons. Lack of necessary coordination among public agencies in the implementation of tourism policy, still inadequate tourism infrastructure, increased prices of goods and services in the country and such factors of tourism sector as a priority field of non-oil sector. Complex measures should be taken in strategic planning, visa and boundary regime, licensing and certification, regional development and strengthening promotion policy in order to accelerate development of tourism sector. Renewable energies, can be also, as a strategic alternative, by balancing between sustainable economic growth, improving energy security and preserving the environment, as well as raising the standard of living for citizens. These renewable energies are represented by wind energy, solar energy, and water flow energy, as they are renewable and non-exhaustible energies.

The creation of "Ministry of Start-ups and the Knowledge Economy" was in 2019 to take charge of business start-ups and expand the knowledge economy. Its objectives during the first year of operation were three fold: first, to put in place a regulatory framework that encourages innovation, especially among young people; second, to create finance mechanisms that will better respond to the needs of start-ups, particularly those to encourage venture capital; and third, to establish support structures that assist project leaders in the area of new technologies so that their ideas can evolve into a viable start-up. As Algeria's population is very young, the Algerian government's aiming is to leverage the potential and desire of younger generations to create start-ups that can help the country diversify away from its dependence on the hydrocarbons industry.

There is already a significant enthusiasm about innovation and entrepreneurship. This has been accompanied by comprehensive regulatory reforms that allow start-ups and entrepreneurs to acquire capital quickly and benefit from tax exemptions.

Conclusion:

Taking into account leading position of oil and gas sector in the national economy, achieving economic and export diversification is a crucial challenge for Algerian economy. A review of state programmes and strategies adopted over the period of 1999-2022 reveals that economic diversification was clearly a priority issue in all the papers of the government's economic policy. The Algerian government has already established various institutions to implement dissimilar aspects of diversification policies. Yet, the government has not taken adequate measures towards establishing an investment environment necessary for economic diversification, nor has it established legislative base required for competition or eradicated official and non-official obstacles. A program of new structural reforms should be designed and implemented to improve economic effectiveness of the government.

Public policy framework towards economic and export diversification also paid special attention to innovations. But insufficient financial opportunities of enterprises, lack of qualitative human capital due to chronic problems in education and health, misuse of public funds, as well as inadequate government support are key economic factors hampering innovation in enterprises of Algeria. Limited financial resources are directed to product innovations due to import of ready-made technologies rather than process innovations.

To remedy this low level of non-hydrocarbon exports, the public authorities must highlight an economic development strategy based on the real valuation of the country's non-hydrocarbon natural resources, import substitution and diversification of the national production as well as the promotion of exports. In other words, it is time to think seriously about the development of non-hydrocarbon exports, by developing the sectors that generate resources for the State budget, in particular, the agriculture and agro-food sectors, tourism, processing industry and renewable energies. Added to this, the development of entrepreneurial orientation of SMEs and start-ups on real economic base, and which operate according to the standards adopted by international companies. As such, the foreign exchange reserves available to the country can be used effectively to carry out an economic development that creates wealth outside the hydrocarbons sector.

To get out of hydrocarbon dependency, efforts must be combined between stakeholders, beginning with the intervention of the state by guaranteeing the optimal investment climate that encourages production and export, as well as the pivotal role of producers who must be imbued with the entrepreneurship spirit. In addition to adopting digitization in the modernization of the financial sector, including the improvement of the quality of banking services and establishing facilities for commercial dealers, in addition to opening bank branches outside the country to contribute to the exports promotion, as well as attracting indirect foreign investments. It should be noted that the judicial side should be developed, which is represented by improving efficiency in terms of international judicial arbitration, in order to deal with judicial disputes related to the opening on the international markets.

Transitioning to a knowledge economy by ensuring successful digitization, which contributes to the development of Algeria's position in terms of financial inclusion and sustainable development.

Establishing facilities for the foreign investors through the administrative one-stop shop, thus, it is important to reduce the package of laws related to investment and economic activity in order to make it easier to comprehend and view them.

There are several legislative amendments related to several areas such as tax and insurance sectors, as well as the economic real estate law, which is currently being discussed in both chambers of parliament, this, can contribute to the transformation and overtaken the indignation of hydrocarbons towards achieving successful economic diversification.

The poor growth performance in Algeria can be explained by: Widespread corruption... poor property rights... weak protection of minority investors and high taxation... the difficult process of starting a business and trading across borders... electricity short coming... poor contract enforcement... the lack of access to financing... the difficulties of dealing with construction permits.

Some of the non-oil sectors that Algeria is looking to develop include agriculture, manufacturing, and tourism. In recent years, there has been some progress in diversifying Algeria's export base, with non-oil exports accounting for around 7% of total exports in 2019. However, there is still a long way to go, and the country faces many challenges, including a lack of infrastructure, limited access to financing, and a relatively small domestic market.

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