Diversifying Algeria’s exports

Challenges and prospects relating to the African market
Acknowledgements

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1 Introduction

The rise in oil prices between 2000 and 2014 enabled Algeria to accumulate substantial financial resources and finance ambitious development programmes, particularly infrastructure projects such as the East-West Highway, and to implement two growth and stimulus plans, for the years 2002 to 2004 and 2005 to 2009, respectively, at a total cost of more than $180 billion. Those plans were followed by a five-year plan covering the years 2010-2014, with a budget of $286 billion, and the 2015-2019 plan, with a provisional budget of $262 billion. These stimulus plans have focused on capital spending. As a proportion of total government expenditure, capital expenditure increased from less than 20 per cent in the late 1990s to an average of more than 32 per cent during the period from 2000 to 2005, and to 40 per cent over the period from 2006 to 2014. Total government expenditure increased from $1.178 billion in 2000 to $7.033 billion in 2014. The significant budget increases to support the country’s economic and social development were sustainable as long as the price of oil remained high. However, the sharp decline in oil prices, which went from an average of more than $111 per barrel in 2011 to less than $55 per barrel at the end of December 2014, made clear the country’s economic vulnerability: indeed, the economy of Algeria remains heavily dependent on the hydrocarbon sector, which on average accounts for almost 35 per cent of the country’s gross domestic product (GDP) and finances up to 60 per cent of the national budget. Furthermore, the country has failed to implement the economic structural reforms needed to end that dependence: industry accounts for less than 5 per cent of GDP (compared with 10 per cent in the mid-1990s) and exports of hydrocarbons account for more than 95 per cent of total exports. Growth in the services sector (primarily trade and transport), which makes a significant contribution to GDP growth, is dependent on public spending. In the medium term, the country does not face a balance of payments problem. However, if the price of oil remains persistently below $60, the country could face both an internal and external deficit.

Given this situation, diversification of the country’s economy and exports is a major challenge that Algeria must address urgently. The country has the necessary resources to do so, but it will need to carry out ambitious reforms.

The purpose of the present study is to analyse the diversification of Algerian exports, and its export growth to sub-Saharan Africa. Algeria aspires to increase its trade with the rest of the African continent significantly, from what is admittedly a very low base. In 2014, Africa accounted for only 0.2 per cent of Algeria’s total exports, and 0.8 per cent of its imports. With its total exports excluding hydrocarbons (but including their derivatives) currently at less than $800 million, Algeria has considerable scope to improve those figures.

The first section of the present report provides an overview of the country’s macroeconomic performance, while the second section looks at Algeria’s external trade, its regulatory framework, and public policies to promote exports. A third section examines the reasons why the country has failed to diversify its exports and explores a number of theories that were tested in a survey of business leaders in Algeria. The conclusion of the report sets forth public policy recommendations that could accelerate export diversification and increase trade with the African continent — the obvious place for Algeria to enhance its economic footprint.
2 Economic development in Algeria: an economy struggling to diversify

In this section, the discussion focuses on the recent performance of the Algerian economy on a macroeconomic level and in terms of foreign trade.

2.1 Economic performance

Growth is heavily dependent on the hydrocarbon sector. In 2013, for example, growth stood at 2.8 per cent. This followed a decrease of 5.5 per cent in the contribution to GDP made by the hydrocarbon sector. Hydrocarbon sector production has been declining for nearly nine years. Indeed, due to the direct effect of the decline in energy production, and the indirect effect of rising domestic energy demand, the sector’s contribution to growth is actually minimal, despite appearances to the contrary. In 2013, the hydrocarbon sector’s contribution to growth was negative, at -1.9 per cent.

The year 2014 saw a sharp drop in oil prices with a 40 per cent decline in less than six months. Oil prices fell from an average of over $111 per barrel in 2011, to less than $55 at the end of December 2014. However, growth has rebounded since 2013 to 3.8 per cent, in large part due to a smaller decline in hydrocarbon volumes (-0.6 per cent) and strong domestic demand driven by public spending (public investment, redistribution policies, public-sector employment, civil service wage increases, etc.) Public spending increased by 6.8 per cent in 2014, whereas it had decreased by 2.1 per cent in 2013. Household consumption rose by 5.3 per cent in 2014, compared with 3.5 per cent in 2013. Non-hydrocarbon sector GDP, which was also driven by government spending, grew by 5.6 per cent in 2014 (down slightly from 5.9 per cent in 2013). The contribution made by the construction industry (including public works construction) rose by 0.7 per cent, transport and communications by 0.5 per cent and trade by 1.2 per cent: those sectors contributed the most to growth. On the other hand, the contribution made by the hydrocarbon sector decreased by 0.2 per cent.

In 2015, GDP growth remained stable at 3.9 per cent (see figure 1), despite the historically low oil prices. Non-hydrocarbon sector GDP grew by 5.5 per cent as compared with 5.6 per cent in 2014. However, that figure is significantly lower than during the years 2012-2013, when GDP growth stood at 7 per cent. Non-hydrocarbon sector GDP growth was primarily driven by agriculture, which contributed 0.8 per cent, buildings and public works construction (0.5 per cent), transport and telecommunications (0.5 per cent), and trade (0.7 per cent). Growth in the latter two sectors was driven by higher imports, and those sectors have grown dramatically, increasing from 1.82 billion Algerian dinars (DA) in 2005 to 4.78 billion DA in 2015.

1 Unless otherwise indicated, all macroeconomic data in this section were provided by the Ministry of Finance, Directorate of Studies, Algeria.
Public investment was the main driver of increased imports. The capital expenditure budget increased from 1.921 billion DA\(^2\) in 2010 to 3.154 billion DA in 2015. Capital expenditure imports accounted for 32.4 per cent of total imports in 2014. It should be recalled that the Government had formulated very ambitious five-year development plans. The 2004-2009 and 2010-2014 development plans had budgets of 17.5 billion DA and 21.214 billion DA, respectively. For the 2015-2019 period, the Government has budgeted more than 23 billion DA, equivalent to $264 billion. On average, between 60 and 70 per cent of development plan initiatives are implemented.

These plans focus primarily on State-funded structural investments (infrastructure and housing). Prior to 2014, such public expenditure was funded by oil revenue. Owing to the drop in oil revenue, however, this expenditure had placed a heavy burden on the country’s public finances since 2014. The strong economic growth in 2015 was achieved at the expense of a significant budget deficit increase, which reached -15.5 per cent of GDP.

The sectors with the highest growth rates in 2015 were agriculture (7.6 per cent) transport (6 per cent), trade (6 per cent) and construction (5.3 per cent). Agriculture sector growth was due to high cereal production following favourable weather conditions. Growth in transport and trade was due to a 10 per cent increase in imports, in view of the fact that those sectors are heavily import-dependent. There was, however, a slowdown in trade and construction, which, in 2014, had stood at 10.2 per cent and 6.9 per cent, respectively. Industry also remained weak, contributing only 5 per cent of GDP in 2015 (see figure II), compared with more than 7 per cent in the early 2000s, and registering growth of 4.6 per cent in 2015 compared with 4 per cent in 2014. The hydrocarbon sector rebounded in the fourth quarter of 2015, with a 5 per cent volume increase compared with a 7.9 per cent decline in the fourth quarter of 2014. The hydrocarbon sector’s share of GDP increased by 0.4 per cent in 2015, compared with a decrease of 0.6 per cent in 2014.

\(^2\) To obtain the approximate equivalent value in United States dollars, divide by 106.
The agriculture sector accounted for 0.8 per cent of GDP growth in 2015, followed by trade, which accounted for 0.7 per cent, and the construction and transport and communication sectors, which each accounted for 0.5 per cent of GDP growth.

In the short term, a drop in oil prices has a limited impact on growth because of the internal dynamics of the private sector, high levels of public investment (although allocated budgets are not spent in their entirety), and large-scale social transfers that accounted for 10.4 per cent of GDP in 2015 and 9.4 per cent in 2014. Over the medium term, a freeze on planned extrabudgetary investments may have a negative impact on growth, especially if there are no ambitious reforms to diversify budgetary resources and the economy.

The slowdown in the economy is already becoming apparent and unemployment is on the rise. The unemployment rate stood at 15.3 per cent in 2005 but hit a low of 10 per cent in 2010. It increased again to 10.6 per cent in 2014, and to 11.2 per cent in 2015. Young people between the ages of 16 and 24 years are those most likely to be unemployed; the unemployment rate for that age group reached 29.9 per cent in 2015, as opposed to 8 per cent for people over 25 years.

Although Algeria enjoyed a trade balance surplus of 1.89 billion DA in 2011, there was a trade balance deficit of 18,016.7 billion DA in 2015. Exports fell by 34.6 per cent between 2011 and 2015, while imports increased by 54 per cent. Compared with 2014, exports fell by 27.9 per cent, while imports increased by 10.7 per cent.

Structurally, despite enjoying unprecedented affluence since the early 2000s and a surge in oil prices, the country has failed to diversify its economy, exports and budgetary resources.

Industry accounts for only 5 per cent of GDP, compared to more than 15 per cent in neighboring countries, and the services sector remains dominated by trade and transport, which are heavily dependent on revenue generated by the hydrocarbon sector.

Exports of hydrocarbons invariably account for between 95 and 97 per cent of total exports (see figure II).

Figure II
Composition of Algerian exports, 2015

![Composition of Algerian exports, 2015](image)

Source: CNIS/DG Dounaes (National Centre for Customs Data and Statistics/Directorate of Customs), 2016
The decline in exports in 2015 was due to a 3.9 per cent drop in total export volume in the first nine months of that year, coupled with a 47.7 per cent drop in the price of oil over the same period (compared with the first nine months of 2014). In the first quarter of 2016, hydrocarbon exports were down 40 per cent compared with the first quarter of 2015.

The balance on services, excluding factor income, decreased slightly from -957.9 billion DA in 2014 to -755 billion DA as imports increased.

Factor income also deteriorated slightly in 2015 to -455.6 billion DA (compared with -397.7 billion DA in 2014), as a result, primarily, of dividend repatriation in the first half of the year.

Current transfers remained stable at 257.6 billion DA in 2015, compared with 262 billion DA in 2014.

Overall, the current account balance deteriorated, and went from -760.2 billion DA in 2014 to -2,760.4 billion DA in 2015 (see figure III).

**Figure III**

**Changes in current account balance (DA billions)**

![Chart showing changes in current account balance](chart.png)

*Source: Bank of Algeria, 2016*

Merchandise imports rose from 3.418 billion DA in 2011, comprising 23.43 per cent of GDP, to 5.289 billion DA in 2015, comprising 29.6 per cent of GDP. The largest import item was foodstuffs and non-food consumer goods, accounting for 35 per cent of GDP (see figure IV), followed by industrial equipment, accounting for 33 per cent.
More than 60 per cent of budgetary resources are raised through taxes imposed on the hydrocarbon sector. Thus, in the medium to long term, Algeria will continue to face the challenge of economic diversification. In the short term, the country faces a growing fiscal deficit due to the fall in oil prices: the fiscal balance deteriorated from -9 per cent of GDP in 2014 to -17 per cent in 2015. The challenge for the Algerian authorities is to find ways to prevent any further deterioration to the country’s public finances while simultaneously sustaining economic growth.

### 2.2 Trade structure and evolution

As of 2015, the steel, metals, mechanical and electrical industries accounted for more than 53 per cent of total imports; this was driven by public investment. These industries were followed by the agrifood industries, tobacco and matches, and the agriculture, fishing and hunting sector, which together comprised 19.44 per cent (see table 1).
### Table 1
**Distribution of imports by sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>2015 Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, fishing and hunting</td>
<td>9.10</td>
</tr>
<tr>
<td>Water and energy</td>
<td>0</td>
</tr>
<tr>
<td>Hydrocarbons</td>
<td>4.60</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>0.32</td>
</tr>
<tr>
<td>Steel, metals, mechanical and electrical industries</td>
<td>53.06</td>
</tr>
<tr>
<td>Building materials, ceramics and glass</td>
<td>2.01</td>
</tr>
<tr>
<td>Buildings and public works</td>
<td>0.10</td>
</tr>
<tr>
<td>Chemicals, rubber and plastics</td>
<td>13.38</td>
</tr>
<tr>
<td>Agrifood industries, tobacco and matches</td>
<td>10.34</td>
</tr>
<tr>
<td>Textile industries, hosiery and clothing</td>
<td>2.05</td>
</tr>
<tr>
<td>Leather and footwear industries</td>
<td>0.48</td>
</tr>
<tr>
<td>Wood, cork and paper industries</td>
<td>3.66</td>
</tr>
<tr>
<td>Other industries</td>
<td>0.89</td>
</tr>
</tbody>
</table>

*Source: Algerian National Statistics Office*

Consumer goods and food, beverages and tobacco comprised 36.4 per cent of imports in 2014 (see table 2) in 2014, as compared with 34.9 per cent in 2004.

### Table 2
**Distribution of imports by product category**

<table>
<thead>
<tr>
<th>Product Category</th>
<th>2004 Percentage</th>
<th>2014 Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverages and tobacco</td>
<td>19.7</td>
<td>18.8</td>
</tr>
<tr>
<td>Energy and lubricants</td>
<td>0.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Raw materials</td>
<td>3.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Raw materials</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Semi-finished products</td>
<td>20.0</td>
<td>21.9</td>
</tr>
<tr>
<td>Agricultural equipment</td>
<td>0.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td>39.0</td>
<td>32.4</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>15.2</td>
<td>17.6</td>
</tr>
</tbody>
</table>

*Source: Algerian National Statistics Office*
In terms of the geographical distribution of imports, the European Union dominates trade with Algeria, and accounted for 50.7 per cent of imports in 2014 (see table 3). The European Union was followed by Asia, which accounted for 23.2 per cent. There was a significant increase in imports from Asia, which had accounted for only 14.5 per cent in 2004. In 2014, the share of imports from Africa was still very low and comprised a mere 0.8 per cent of the total. Imports from other Maghreb countries were also very low, and comprised only 1.3 per cent.

Table 3
Geographical distribution of imports

<table>
<thead>
<tr>
<th></th>
<th>2004 (Percentage)</th>
<th>2014 (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>54.7</td>
<td>50.7</td>
</tr>
<tr>
<td>Other European countries</td>
<td>11.2</td>
<td>7.0</td>
</tr>
<tr>
<td>North America</td>
<td>7.40</td>
<td>5.70</td>
</tr>
<tr>
<td>Latin America</td>
<td>6.90</td>
<td>7.20</td>
</tr>
<tr>
<td>Maghreb countries</td>
<td>0.90</td>
<td>1.30</td>
</tr>
<tr>
<td>Arab countries</td>
<td>2.80</td>
<td>3.30</td>
</tr>
<tr>
<td>Africa</td>
<td>0.80</td>
<td>0.80</td>
</tr>
<tr>
<td>Asia</td>
<td>14.50</td>
<td>23.20</td>
</tr>
<tr>
<td>All other countries</td>
<td>0.70</td>
<td>0.90</td>
</tr>
</tbody>
</table>

Source: Algerian National Statistics Office

Table 4 shows the percentage share of total imports of each of Algeria’s top 10 suppliers of imports. The increase in imports from China was particularly remarkable: that country went from fifth largest provider with 5 per cent of total market share, to the largest provider, supplying 14.1 per cent of the total imports of Algeria. That increase was at the expense of France, whose market share fell from 22.5 per cent in 2004 to 10.8 per cent in 2014.

Table 4
Top 10 suppliers of imports to Algeria, 2004 and 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>2004 (Percentage)</th>
<th>2014 (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>22.5</td>
<td>China</td>
</tr>
<tr>
<td>Italy</td>
<td>8.5</td>
<td>France</td>
</tr>
<tr>
<td>Germany</td>
<td>6.6</td>
<td>Italy</td>
</tr>
<tr>
<td>United States of America</td>
<td>5.9</td>
<td>Spain</td>
</tr>
<tr>
<td>China</td>
<td>5.0</td>
<td>Germany</td>
</tr>
</tbody>
</table>
Spain 4.8 United States of America 4.9

Japan 3.6 Turkey 3.6

Argentina 3.2 Argentina 3.3

Turkey 3.2 Republic of Korea 2.8

Belgium 2.7 United Kingdom of Great Britain and Northern Ireland 2.5

Source: Algerian National Statistics Office

In 2014, Algerian imports from Africa, the United States of America and Asia were mainly in the industrial equipment sector. Imports from Latin America comprised 85.8 per cent of total food, beverages and tobacco imports. Imports from the European Union were more diverse (see table 5).

Table 5
Import product category by geographical area (percentage)

<table>
<thead>
<tr>
<th></th>
<th>European Union (Percentage)</th>
<th>United States of America (Percentage)</th>
<th>Latin America (Percentage)</th>
<th>Maghreb countries (Percentage)</th>
<th>Arab countries (Percentage)</th>
<th>Africa (Percentage)</th>
<th>Asia (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverages and tobacco</td>
<td>16.2</td>
<td>20.0</td>
<td>85.8</td>
<td>11.8</td>
<td>9.5</td>
<td>37.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Energy and lubricants</td>
<td>5.6</td>
<td>1.5</td>
<td>1.8</td>
<td>1.7</td>
<td>1.4</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Primary products</td>
<td>3.7</td>
<td>0.8</td>
<td>4.8</td>
<td>0.7</td>
<td>0.5</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Raw materials</td>
<td>0.2</td>
<td>0.0</td>
<td>0.5</td>
<td>2.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Semi-finished products</td>
<td>27.1</td>
<td>12.0</td>
<td>0.7</td>
<td>52.0</td>
<td>58.3</td>
<td>0.9</td>
<td>15.6</td>
</tr>
<tr>
<td>Agricultural equipment</td>
<td>1.1</td>
<td>0.2</td>
<td>1.9</td>
<td>0.7</td>
<td>0.1</td>
<td>0.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td>27.7</td>
<td>58.3</td>
<td>3.5</td>
<td>21.1</td>
<td>8.5</td>
<td>57.1</td>
<td>50.7</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>18.3</td>
<td>7.1</td>
<td>0.9</td>
<td>9.9</td>
<td>21.7</td>
<td>2.7</td>
<td>24.2</td>
</tr>
</tbody>
</table>

Source: Algerian National Statistics Office

If chemicals, rubber and plastics (which are made primarily from hydrocarbon derivatives) are excluded, non-hydrocarbon exports comprised a mere 1.2 per cent of total exports in 2015 (see table 6).
### Table 6
**Distribution of exports by sector (percentage)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>2013 (Percentage)</th>
<th>2014 (Percentage)</th>
<th>2015 (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, fishing and hunting</td>
<td>0.10</td>
<td>0.09</td>
<td>0.16</td>
</tr>
<tr>
<td>Water and energy</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Hydrocarbons</td>
<td>96.94</td>
<td>95.77</td>
<td>94.41</td>
</tr>
<tr>
<td>Mines and quarries</td>
<td>0.15</td>
<td>0.16</td>
<td>0.27</td>
</tr>
<tr>
<td>Steel, metals, mechanical and electrical industries</td>
<td>0.09</td>
<td>0.07</td>
<td>0.11</td>
</tr>
<tr>
<td>Building materials, ceramics and glass</td>
<td>0.04</td>
<td>0.03</td>
<td>0.04</td>
</tr>
<tr>
<td>Buildings and public works</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Chemicals, rubber and plastics</td>
<td>2.07</td>
<td>3.34</td>
<td>4.39</td>
</tr>
<tr>
<td>Food products, tobacco and matches</td>
<td>0.53</td>
<td>0.44</td>
<td>0.52</td>
</tr>
<tr>
<td>Textile industries, hosiery and clothing</td>
<td>0.0</td>
<td>0.0</td>
<td>0.01</td>
</tr>
<tr>
<td>Leather and footwear industries</td>
<td>0.04</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Wood, cork and paper industries...</td>
<td>0.04</td>
<td>0.04</td>
<td>0.05</td>
</tr>
<tr>
<td>Other industries</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

*Source*: Algerian National Statistics Office

Table 7 below shows that hydrocarbon derivatives comprise more than 70 per cent of non-hydrocarbon exports.

### Table 7
**Distribution of non-hydrocarbon exports (value in millions of DA and percentage of total)**

<table>
<thead>
<tr>
<th>Product</th>
<th>Value (in millions of DA)</th>
<th>Total (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Naphtha solvents</td>
<td>75 603.6</td>
<td>38.5</td>
</tr>
<tr>
<td>Ammonia</td>
<td>45 738.7</td>
<td>23.3</td>
</tr>
<tr>
<td>Urea</td>
<td>23 555.2</td>
<td>12.0</td>
</tr>
<tr>
<td>Sugars</td>
<td>18 377.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Benzene</td>
<td>9 967.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Calcium phosphates</td>
<td>7 730.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Methanol</td>
<td>3 811.8</td>
<td>1.9</td>
</tr>
</tbody>
</table>
Rare gases 3,786.9 1.9
Dates 3,125.0 1.6
Water 1,235.0 0.6
Hides and skins 1,044.4 1.0
Ice cream 950.8 0.5
Boards, panels and tiles 714 0.5
Waste and scrap paper and cardboard 690.4 0.4

Source: Algerian National Statistics Office

For Algeria, the top 20 recipients of non-hydrocarbon products in 2004 included only two countries on the African continent: Gabon (324 million DA) and Senegal (385 million DA). There were six countries in 2014: Tunisia (16.674 million DA), Mali (6.644 million DA), Morocco (4.229 million DA), Burkina Faso (3.728 million DA), Egypt (2.790 million DA), and Benin (1.744 million DA).

Table 8 shows the regional distribution of exports in 2014.3 The European Union was the largest trading partner for Algeria, accounting for 64.2 per cent of the total, followed by North America with 10.1 per cent, and China with 10 per cent. It should be noted that the share of exports to North America, which stood at 28.2 per cent in 2004, fell sharply as a result of lower energy imports.

Table 8
Regional distribution of exports (percentage)

<table>
<thead>
<tr>
<th>Region</th>
<th>2004 (Percentage)</th>
<th>2014 (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>54.7</td>
<td>64.2</td>
</tr>
<tr>
<td>Other European countries</td>
<td>4.8</td>
<td>4.4</td>
</tr>
<tr>
<td>North America</td>
<td>28.2</td>
<td>10.1</td>
</tr>
<tr>
<td>Latin America</td>
<td>6.4</td>
<td>5.1</td>
</tr>
<tr>
<td>Maghrebian countries</td>
<td>1.4</td>
<td>4.9</td>
</tr>
<tr>
<td>Arab countries</td>
<td>1.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Africa</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Asia</td>
<td>2.7</td>
<td>10.0</td>
</tr>
<tr>
<td>All other countries</td>
<td>0.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Algerian National Statistics Office

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3 As a percentage of total exports
In 2014, for Algeria, the top 10 destinations for its exports accounted for 78.6 per cent of Algeria’s total exports (see table 9). The United States of America, which was the largest recipient in 2004, dropped to sixth place in 2014.

Table 9
Top 10 destinations for Algerian exports (percentage of exports)

<table>
<thead>
<tr>
<th></th>
<th>2004 (Percentage)</th>
<th>2014 (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States of America</td>
<td>22.1</td>
<td>Spain 15.2</td>
</tr>
<tr>
<td>Italy</td>
<td>15.9</td>
<td>Italy 13.2</td>
</tr>
<tr>
<td>France</td>
<td>12.0</td>
<td>France 11.0</td>
</tr>
<tr>
<td>Spain</td>
<td>11.3</td>
<td>United Kingdom of Great Britain and Northern Ireland 8.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>7.4</td>
<td>Netherlands 8.1</td>
</tr>
<tr>
<td>Canada</td>
<td>6.1</td>
<td>United States of America 7.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.9</td>
<td>Brazil 4.4</td>
</tr>
<tr>
<td>Turkey</td>
<td>4.2</td>
<td>Turkey 4.2</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.5</td>
<td>China 3.0</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.5</td>
<td>Belgium 3.0</td>
</tr>
</tbody>
</table>

Source: Algerian National Statistics Office

In brief, Algeria is barely integrated at all into the wider African economy. The exports of Algeria are extremely undiversified and its trade with the African continent accounts for only 0.2 per cent of its exports and only 0.8 per cent of its total imports.

3 Trade in Algeria: the history of regulation and the state of play of export policy

3.1 Brief history of international trade regulation

There are several phases in the history of Algeria and its foreign trade.

3.1.1 Independence: economic planning and nationalization

Algeria exited from the Franc Zone in 1963, which allowed it to formulate its own monetary policy and to introduce foreign exchange controls. The country also introduced quantitative restrictions on imports, particularly by means of:

- The introduction of import quotas in 1964. This was in the form of import licences, which predetermined the type and quantity or value of the goods to be imported;
An increase in customs tariffs in 1968. The 1973 Finance Law distinguished between two tariffs: a common tariff and a special tariff applicable only to countries (such as the members of the European Economic Community) that treated Algerian products in accordance with a “most favoured nation clause”.

- The reorganization of professional importers by restricting the right to import goods and granting privileges to:
  - the State-owned distribution chain, which was granted a monopoly on the importation of key consumer goods (coffee, sugar, tea, butter)
  - Professional purchasing associations, from 1964. These were companies established primarily with public funds, but also with private capital, that enjoyed monopolies on imports in their areas of activity.

Five product sectors were affected: wood and wood derivatives, man-made and cotton fabrics, milk and milk-based products, hides and skins, and other textiles. The professional purchasing associations operated according to the market rules in force: they drew up an import plan, and then gave responsibility for implementing the various aspects of that plan to their members. A representative of the State sat on their boards of directors, allowing the State to exercise control over and restrict imports. However, as Algeria’s State-run companies developed, conflicts arose between these associations and State-owned businesses producing goods in the same product sectors.

Authorities in Algeria soon sought to diversify the country’s exports, in particular by:

- Allowing new players to enter the export market, especially in agriculture commodity chains, including those for the production of citrus fruits and dried figs. Those new players included cooperatives and public-sector businesses. The export market remained open to private companies, however.
- Granting tax exemptions: exemption from the Turnover Tax on Imports and Production (TUGP) and the Tax on Industrial and Commercial Activity (TAIC).
- Establishing (in 1971) convertible dinar accounts for exporters, in which exporters could deposit a portion of their export earnings.
- Promulgating the 1973 Finance Law, which provided for a special customs tariff for countries granting preferential treatment to Algerian products.

Trade remained dominated by the State, however, it was within the context of a planned economy. In 1971, with a view to better regulating markets and providing an outlet for the growing local production sector, certain State-run companies were allowed a monopoly over imports of products in their respective areas: a steel monopoly was awarded to the National Steel Association (SNS); the National Society for Mechanical Engineering (SONACOME) was given a monopoly over imports of mechanical engineering products, and the National Building Materials Society (SNMC) was given a monopoly over imports of construction materials. In effect, the import-licensing system was a system based on waivers.5

As a result of the difficulties caused by this system, including conflicts between monopolistic businesses and their customers and product shortages caused by inappropriate

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import plans, the rules on imports were revised. In 1974, Ordinance No. 74-12 established a medium term General Import Programme, that allocated import permits on an annual basis. The General Import Programme, which reflected the priorities set forth in the country’s development plan, took into account the progressive increase in the country’s productive capacity. State-run domination of foreign trade became complete in 1978 following the adoption of Law 78-02, which established a State monopoly on foreign trade. That far-reaching law entrusted the management of the State’s monopoly on foreign trade to public companies and public institutions. Imports continued to be managed under the existing General Import Programme and General Import Authorization systems. Exports were managed under a general export programme drawn up by the Ministry of Trade, whereby general export authorizations were awarded to public companies and export licences were granted to private companies involved in production.

3.1.2 Early 1980s: oil price decline and the beginnings of trade liberalization

Attempts to reform foreign trade began in the early 1980s and accelerated with the drop in oil prices in 1986. The first five-year plan (1980-1984) underscored the need to “prepare for a post-oil period” and established the goal of export diversification.

In 1980, the law establishing a State monopoly on foreign trade was amended to make it less onerous; it was now possible to do business with traders or “assembliers” when conducting import operations. But by far the most important change was to the way in which the State monopoly was managed: the public companies were restructured and their production, distribution and development arms were separated from each other.

Licences to import goods without a payment receipt were issued for the first time, making it possible to import goods without requesting payment in foreign currency through the Central Bank (importers could purchase foreign currency on the black market). The deterioration of the balance of payments led to more comprehensive reforms.

The decline in oil revenues made export diversification an urgent matter, and numerous measures were introduced to encourage companies to export their products:

(a) In addition to the exemptions already in force, namely, the TUGP and TAIC, two tax incentives were introduced in 1986 to improve the price competitiveness of exports: an exemption from the tax imposed on the portion of industrial profits attributable to exports, and an exemption from payroll-based lump-sum payments.

(b) In 1986, Decree 86-46 established Export Assistance (Ampex), a price subsidy that offset the effects of the overvaluation of the dinar exchange rate. The subsidy varied according to the type of product and its level of integration. The subsidy was limited to 50 per cent of any repatriated earnings. The depreciation of the dinar in 1990 and 1991 led to the elimination of the subsidy.

(c) Foreign currency accounts were created for export companies into which a portion of their foreign currency earnings was paid. These accounts could be used to pay for imports of manufacturing inputs or equipment.

(d) A subsidized freight rate of up to 50 per cent was introduced for new exports.
The repatriation period for foreign currency earnings was extended to four months; the Central Bank could agree to even longer repatriation periods when necessary.

The first measures to liberalize imports were implemented in 1988, as part of the reforms to State-run companies and the banking system. Decree No. 88-201 of 18 October 1988 repealed all regulatory provisions awarding monopolies to State-run companies. With the introduction of the currency budget system, which replaced the general import authorization regime, a certain amount of foreign currency was allocated to companies to use at their discretion. Law 88-29 of July 1988 gave private companies the authority to import goods and foreign currency allocations were managed and allocated by the Algerian Chamber of Commerce and Industry. The law did not distinguish between private and State-run companies, except in the case of products that were subject to a particular regulatory regime.

The 1990 Money and Credit Law (Law 90-10), and the 1990 Supplementary Finance Law introduced significant changes to foreign trade oversight; while the concept of a State monopoly was retained, concessions for managing that monopoly were introduced. It was on this basis that the Bank of Algeria drew up regulation 90-04 of 8 September 1990 on the establishment of distributors and wholesalers in Algeria.

Furthermore, a decree of 13 February 1991 stipulated that any public or private operator could have access to imports by meeting the condition that that operator’s banking domicile was in Algeria. However, these changes did not attract much interest from domestic or foreign business stakeholders. There are several reasons for this, namely, the complexity of the regulations, the constraint of having to make an investment, and the uncertainty stemming from the depreciation of the dinar.

Following a change of government, the 1992 Finance Law revisited certain reforms that had been implemented to promote import liberalization. The Law empowered the customs authorities to take measures to prohibit or suspend products that impeded domestic production.

In January 1992, however, a tariff reform was implemented bringing the tariff structure of Algeria more into line with the Harmonized Coding Description and Coding System, with the number of tariff rates reduced from 18 to seven, namely rates of 0, 3, 7, 15, 25, 40 and 60 per cent.

The fall in foreign currency revenue prompted the successive Government, which was headed by Belaid Abdessalam, to abandon the liberalization of foreign trade by adopting a restrictive import policy and centralizing the allocation of foreign currency, which was distributed by an ad hoc committee. The re-establishment of the monopoly was justified on the grounds that a monopoly was needed to address the foreign currency shortage.

### 3.1.3 Early 1990s: structural adjustment and foreign trade liberalization

Despite this attempt to centrally manage the external payments crisis, the deterioration of the country’s external financial position led to the rescheduling of debt repayment and the negotiation of a structural adjustment programme with the International Monetary Fund (IMF).

Foreign trade and trade policy reform was a central element in that programme, which introduced fundamental changes, including the full liberalization of imports and unrestricted

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access to foreign currency in exchange for dinars at the Bank of Algeria with a view to regulating imports by making the dinar convertible at market rates.

This reform had two objectives: to increase the competitive pressure on domestic firms to improve their efficiency, and promote competition among importers in order to reduce the costs of imports. Imports were, moreover, required to comply with safety, health and environmental standards.

In 1994, the Bank of Algeria amended the requirements for financing imports:

(a) A banking domicile was made an obligatory requirement; 7
(b) Commercial banks were given oversight over import operations:

(c) A number of ways to settle imports transactions were devised: cash settlement, debit payment from a foreign currency account, settlement through a supplier credit line for export, and settlement through a government provided line of credit.

In addition, the banking, customs, transport and insurance procedures relating to foreign trade operations were simplified.

Today, foreign trade policy in Algeria is subject to the rules established in the reforms enacted under the structural adjustment programme between 1994 and 1998. The State has, moreover, taken action with a view to liberalizing foreign trade and strengthening the economy.

The State takes action to improve the business environment and to improve the competitiveness of companies.

The process of liberalization continued, following the end of the structural adjustment programme in 1998 and at the start of negotiations with the European Union. In 2002, after taking into account the comments of Algeria's world trade organization working group, Algeria submitted a second memorandum of accession to the World Trade Organization. In addition, Ordinance No. 01-02 of 20 August 2001 reduced customs tariffs, stipulated a maximum tariff of 30 per cent, and reduced the number of tariff rates to four, namely 0 per cent, 5 per cent, 15 per cent and 30 per cent.

The average protective tariff rate has decreased significantly. Indeed, in nominal terms, the partial dismantling of the tariff regime has lowered the simple unweighted average tariff from 23.4 per cent to 17.5 per cent. 8 Through the Ministry of Industry, the Government launched a new industrial export strategy in 2007 that comprised a re-industrialization policy and a policy to boost and diversify the country's exports.

The objectives of the latter policy are:

(a) To develop the energy-intensive sectors in which Algeria has a comparative advantage;
(b) To enhance industrial integration with a view to reducing imports of components and semi-finished products that could be produced cost-effectively in Algeria;

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(c) To promote innovative technology-based industries, particularly in the fields of information and communication technology, and biotechnology.

3.2 Existing export-friendly public policies

The reforms implemented under the structural adjustment programme have proven insufficient to boost non-hydrocarbon sector exports. The Government has implemented further, more ambitious measures, which are only slowly having a positive impact.

These measures fall into three main categories:

(a) Trade measures enacted through the conclusion of trade agreements;
(b) Measures to improve business productivity in terms of encouraging modernization and promoting standardization;
(c) Measure to boost exports by: supporting the creation of export intermediaries; strengthening foreign trade supply chains; streamlining customs procedures and reducing customs duties; supporting efforts to identify markets abroad; providing financial assistance; and offering tax incentives.

Algeria’s trade agreements include regional agreements with the European Union, the Arab Maghreb Union and the Greater Arab Free Trade Area as well as bilateral agreements with Jordan and Tunisia.9

3.2.1 Measures to improve business competitiveness

Improving the competitiveness of companies is a key consideration in the development and diversification of exports from Algeria. To achieve that goal, measures have been taken to encourage modernization and ensure that goods produced comply with established norms and standards.

A. Measures to encourage modernization

In collaboration with its international partners, the Government has drawn up four modernization programmes that target a number of company categories.

- The national programme to boost industrial competitiveness

This programme was launched by the Ministry of Industry, which established a directorate general for industrial competitiveness. The programme, which was formulated in collaboration with the United Nations Industrial Development Organization, aimed to upgrade and enhance the competitiveness of one thousand businesses by 200610 and targeted both public and private companies.

The first upgrades took place in 2002. Pursuant to the 2000 Finance Law, an Industrial Competitiveness Promotion Fund (FPCI) was established to finance those upgrades. The National Committee for Industrial Competitiveness (CNCI) was responsible for setting the terms and conditions for FPCI operations.

9 See Appendix for further information on Algeria’s trade agreements.
The results of the programme fell short of expectations, and failed to achieve its goal of upgrading one thousand businesses by 2006.\(^\text{11}\)

- **Euro Developpement PME/PMI programme (EDPME)**

  This programme was launched pursuant to an agreement between the Government of Algeria and the European Commission. It sought to strengthen the private sector by supporting small and medium-sized enterprises and industries, so that the private sector could make a more effective contribution to economic growth following the country’s conclusion of an Association Agreement with the European Union. The programme was piloted by the Ministry of Small and Medium-sized Enterprises and the European Commission Delegation to Algeria, in collaboration with small and medium-sized enterprise representatives. The programme, which was managed by Euro Developpement PME/PMI, was launched in July 2002 with an endowment of 57 million euros. The programme ended on 31 December 2007 without any tangible success.

- **The national programme for the modernization of small and medium-sized enterprises in Algeria**

  This complementary upgrade programme was launched by the Ministry of Small and Medium-sized Enterprises in February 2007 and was intended to run for six years. Its ambitious objective was to upgrade six thousand small and medium-sized enterprises. Pursuant to decisions taken by the Council of Ministers on 8 March 2004, the programme was given an annual budget of 1 billion DA. The programme was overseen by the National Agency for the Development of Small and Medium-sized Enterprises and was designed to complement existing upgrade mechanisms.

- **The programme to support small and medium-sized enterprises and industries and promote mastery of information and communication technologies (SME II)**

  SME II was a second programme run in cooperation with the European Union. Launched in 2009 with an endowment of 44 million euros, the programme ran for four years and sought to upgrade 500 small and medium-sized enterprises and business services.

**B. Measures to support standardization**

Exports must comply with two types of standards:

(a) The standards established by the authorities of the target countries, including technical standards and standards for safety, health and the environment. A product must comply with these standards in order to be allowed onto the market of the target country. These standards can be at the national level, such as the technical standards established by the Deutsche Institut für Normung-DIN in Germany, or international, such as standards established by the European Commission on the basis of European norms, or professional standards in certain industries that are established by companies within that industry.

(b) The standards assure customers (importers and purchasing bodies) that the product meets quality standards. These are expressed as International Organization for Standardization (ISO) standards.

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\(^\text{11}\) Benabdallah, Y., op. cit., 2008.
The Law on Standardization of 23 June 2004 and its implementing decree of 6 December 2005 govern standardization in Algeria. The decree defines the main standardization bodies: the National Standardization Council, the national technical committees for each sector, the Algerian National Standardization Institute, and the ministries responsible for setting technical regulations. The Algerian National Standardization Institute is responsible for coordinating standardization initiatives. It carries out the following tasks under the supervision of the Ministry of Industry:

(a) Provides guidance and training on standards;
(b) Develops standards at the request of business sectors;
(c) Provides access to international standards;
(d) Adapts standards as per the needs of relevant stakeholders;
(e) Certifies products and management systems.

The Government is also establishing a national quality-control regime to prepare for the country’s accession to the World Trade Organization, and facilitate implementation of Algeria’s Association Agreement with the European Union and all related instruments.12

The Ministry of Industry oversees the development of that system and, to that end, has established an Industrial Quality and Safety Division, which supports efforts to enhance quality and standardization.

The Industrial Quality and Safety Division provides financial assistance to successful companies and seeks to promote competitiveness and boost exports by certifying that those companies are in compliance with international standards.

3.2.2 Measures to help exporters

Export intermediaries

Algeria has established export intermediaries to help small and medium-sized enterprises gain a foothold in export markets. The main initiatives in this area include the following:

In 2008, the Algerian-French Export Consortium (CALFREX) was created by the National Agency for the Promotion of Foreign Trade (ALGEX) and the National Chamber of Agriculture in Algeria, and the Optimexport association in France to promote the export of agricultural products. The impetus for the Consortium came from a group of Algerian exporters, as well as Algerian and French distributors based in Marseille. The Consortium was established as a public limited company: the Algerian contingent owns 60 per cent of the Consortium and the French side owns 40 per cent. The Consortium has three subsidiaries, two of which are based in Algeria and one in France, and seeks to enhance the quality of agricultural products, ensure that they are labelled correctly and promote them in international markets.

In 2013, with the support of the United Nations Industrial Development Organization, two agrifood export consortia were established: the General Industrial Agrifood Products

12 Specifications relating to the selection of companies and organizations applying for the State certification assistance programme, Preamble, available at: www.mdipi.gov.dz/IMG/docx/CAHIERS_qualite_.docx
Consortium (GIPA), for animal proteins, and the Algerian Agrocereal Consortium (AAC) for cereal products.

In 2014, the Algerian Agrifood Industry Consortium (ACIA) was established. This Consortium comprises 45 companies and promotes the export of agrifood products. It carries out promotional activities, and product labelling for its members, and in 2015 organized several trade fairs. It has already provided assistance to 80 companies.

In 2015, a consortium specializing in the export of dates was set up in Tolga in the province of Biskra and comprises 12 producers in that province.

**Enhancing logistics chains**

Logistics chains comprise all physical product distribution activities, including those related to transport, transit and warehousing.

Several stakeholders are involved, namely, transport operators, customs services, warehousing companies, port and airport management companies, and storage and stocking companies.

Logistics chains play a crucial role in international trade. Two important logistics chain parameters have a direct impact on export competitiveness, namely, logistic costs and delivery times.

The logistics capacity of Algeria is considered to be weak: indeed, the country is ranked 140th out of 150 countries in the World Bank's Logistics Performance Index. Its logistics capacity is undermined by two types of constraints:

(a) Constraints related to inadequate port capacity, which added an estimated $750 million to costs in 2009;

(b) Challenges related to organization and coordination among the various stakeholders involved in foreign trade logistics chains.

A number of steps are being taken to address those constraints:

(a) A project is under way to modernize the ports of Oran, Algiers and Djen-Djen. Dubai Port World, the manager of the ports of Algiers and Djen-Djen, is modernizing the container terminal in Algiers and undertaking a complete renovation of the port of Djen-Djen;14

(b) The Bejaia port authorities and Portek, a company based in Singapore, have initiated a project to upgrade the shipping container storage areas;

(c) The port of Skikda has invested in new equipment;

(d) Adequate storage and storage areas outside ports have been built;

(e) Initiatives have been launched to promote private-sector investment in maritime transport;

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(f) A committee has been established to facilitate commercial operations at ports and airports by coordinating actions by all the stakeholders involved in the logistics process (transport operators, customs, banks, forwarding agents, technical control administrators and port operators);

(g) The Algerian Chamber of Commerce and Industry (CACI) has established a committee to improve logistics and transport in order to strengthen and streamline logistics capacities and reduce logistics-related costs.

**Simplifying customs procedures and reducing customs duties**

Steps taken to simplify customs procedures include:

(a) Customs clearance at trader’s premises and on-site verification;

(b) Accelerated customs clearance procedures for goods transported by road, under which an exporter who frequently imports or exports a single product, such as cement, minerals, machines or strategic goods, at a specific border control office can export and clear his or her merchandise by completing a removal form; the exporter then files a weekly declaration of the total goods exported;

(c) The Green Circuit: a mechanism to simplify customs clearance operations by minimizing person-to-person interactions in clearance procedures. This mechanism can be used only by approved operators, known as Green Circuit operators, or for certain product categories, known as Green Circuit products.

Steps taken to reduce customs duties include the imposition of less onerous rules for customs guarantees. These steps have been taken by the customs authorities in order to reduce costs for approved firms and other businesses.

**Support for market research**

Exporters are allowed to export a reasonable quantity of sample products to help research foreign markets. The value and quantity of the sample product determines which export procedure is authorized. That procedure can be either without a written declaration (hand baggage), or with a definitive export declaration (for primary use or low-value products) or a temporary export declaration for goods such as machine tools or machines.¹⁵

**Financial support**

Mechanisms that provide financial support to exporters include the Special Export Promotion Fund (FSPE)¹⁶ and the National Agricultural Regulation and Development Fund (FNRDA).¹⁷

Established in 1996, the Special Export Promotion Fund aims to provide financial assistance to resident export companies that produce goods or services to help them promote and sell their products abroad. The Fund covers: a portion of the costs incurred when those companies participate in international fairs and exhibitions; a portion of transit, and handling

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¹⁶ Fonds Spécial de Promotion des Exportations

¹⁷ Fonds National de Régulation et de Développement Agricole (FNRDA).
and transport costs incurred both within and outside the country; a portion of the costs of export diagnostics and the creation of internal export cells to help small and medium-sized enterprises, and; a portion of the costs of external market research and prospecting. The Fund also provides assistance to small and medium-sized enterprises to help them penetrate foreign markets, publish and disseminate promotional materials for products and services for export, label products correctly, pay for product protection abroad (labels, trademarks and patents for inventions) and conduct training courses on exports.¹⁸

The National Agricultural Control and Development Fund (FNRDA),¹⁹ established pursuant to the Finance Law of 2000, provides financial support for the development of agricultural production and supports the export of dates.

**Tax incentives**

Tax incentives include tax exemptions, suspensive customs regimes for exports, and incentives for repatriation and the use of export earnings.

The tax exemptions include:

(a) A tax exemption on the portion of profits generated through exportation;
(b) A tax exemption on professional activities (TAP);
(c) A VAT exemption on exported products;
(d) A VAT exemption for when an exporter purchases either foreign products or those from Algeria, or imports products, semi-finished products or components that are used to make a product for export. In such cases, the goods and services directly linked to the export are exempt from VAT.

Processing enterprises are also entitled to duty and tax exemptions. In addition, Algerian law provides for a suspensive customs regime that includes the following:

(a) Customs warehouse facilities: storage space is made available to exporters free of charge and is exempted from all customs duties in view of the imminent export of the goods stored there;
(b) Temporary admission: a customs procedure whereby imported goods are admitted into the customs area, without the payment of duties and taxes, provided they are imported for a specific purpose and if the intention is to re-export them within a specified period;
(c) Duty-free replacement of goods: a customs procedure whereby goods are imported without the payment of customs duties and taxes, provided that they are used to produce exportable local products;

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¹⁸ Executive Decree No. 14-238 of 25 August 2014 amending and supplementing Executive Decree No. 96-205 of 5 June 1996 regarding the modalities for the operation of Trust Account No. 302-084, entitled “Special Fund for the Promotion of Exports”.

(d) Temporary export: a system which allows a product to be exported for further processing without payment of customs duties and taxes if these goods are to be re-exported as a finished product after being re-imported, modified and finalized within the country.

Finally, there are incentives for the repatriation and use of export earnings.

The repatriation obligation: as of October 2011, the exporter must repatriate the revenue earned on the export within 180 days from either the date of dispatch of the goods or the completion date of the services. In addition, there is the retrocession of foreign currencies: as of 2011, an amount of foreign currency, limited to 40 per cent, may be taken from the share of non-hydrocarbon export earnings to be used at the discretion of the exporter and under his or her responsibility to promote his or her exports provided that those earnings are not earned from hydrocarbons and mining products, have been repatriated and are eligible for registration in the foreign currency account(s) of legal persons.20

4 Factors impeding export diversification

Over the long term, the share of non-hydrocarbon exports has remained consistently low, at around 4 per cent, even though a number of incentives have been put in place to boost exports. Although non-hydrocarbon exports have increased in volume terms, they remain very low in total value terms: in 2015, they stood at a mere $1.784 million.

The question is why, despite the introduction of incentives and the implementation of measures to support exports, export diversification has remained so slow. Several working hypotheses are discussed below that may explain the very limited diversification of Algerian exports.

4.1 Theories

It could be argued that Algeria’s trade liberalization programme started late and was not undertaken aggressively enough. The reforms were, moreover, carried out under and, later, in line with the provisions of the structural adjustment programme of the 1990s. It could also be argued that the country’s incentive measures were put in place only recently. That being said, there has been minimal evolution in Algeria’s non-hydrocarbon exports since the early 2000s, despite the support mechanisms created. Algeria’s conclusion of an agreement with the European Union and its bid to join the World Trade Organization have resulted in a lowering of customs barriers. Some consider that Algeria’s failure to join the World Trade Organization stems from its lack of clear vision in terms of trade policy and rules. Disagreements between Algeria and the Organization regarding natural gas may explain the delay. However, it should be conceded that the country has still failed to develop an industry that is not based on hydrocarbons, and the effectiveness of public policies to promote exports may also be questioned. Doubts may arise about such policies and whether they address the constraints on companies and the challenges that are faced when exporting products. A further question would be whether those policies are being implemented effectively.

To understand the lack of export diversification, we can develop a number of theories based on determining factors relating to exports. These factors are linked both to the eagerness.

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20 Article 2 bis of Instruction No. 05-2011 of 19 October 2011 amending the provisions of Instruction No. 22-94 of 12 April 1994.
of entrepreneurs and firms to enter foreign markets, and the eagerness of a country to foster an export-friendly environment.

It should be pointed out that exporting is a rather rare phenomenon. Indeed, in every country, firms that export their products are a very small proportion of the total number of companies. For example, in the United States of America in 2000, only 4 per cent of companies were exporters. Furthermore, the 10 largest companies in the United States accounted for 96 per cent of the country’s exports.

As highlighted in academic literature, exporting firms are among the most productive. Productivity is therefore an important determining factor for exports. Exporting companies are not more productive because they export; rather, it is the most productive enterprises that can most successfully deal with the fixed costs associated with their entry into new markets.

Bernard et al. (2007) illustrated that exporting companies are very different from those that operate only within their domestic markets. In the United States, for example, companies that export are larger, more productive, pay higher wages, and have greater depth in their skilled labour and capital. This is, in general, also the case in other countries.

Academic literature also makes clear that numerous factors can encourage companies to export, including, in particular, the desire of companies to enter new markets and increase sales, their desire to reduce costs, their desire to diversify their product range, and their desire to protect their competitive advantages.

Fundamentally, countries wish to exploit their national resources because those resources can be used to gain a competitive advantage that allows a country to generate a surplus. A country can then exchange its surplus with other countries to meet its own needs. The more efficient a country is in exploiting its resources, the greater the surplus it can generate. Policies that increase exports are needed to maximize trading gains, and countries therefore adopt policies to that end.

Of course, for countries to export, companies must be allowed to develop and grow and they must be able to compete successfully in international markets. To achieve that objective, strong political will coupled with strong company motivation is critical.

The degree to which the motivation of companies at the microeconomic level is supported by the strong political will of the national authorities at the macroeconomic level determines a country’s export landscape. Figure V seeks to explain the low diversification of Algeria’s exports.

The motivation of companies to export is, moreover, dependent on the political will of the national authorities. Indeed, the desire to increase exports and the capacity to export are elements that are dependent, on both microeconomic and macroeconomic levels, on the will to foster the necessary conditions for the creation and development of companies.

Another important factor, namely, the effectiveness of public policies and the capacities of the State, determines the strength of the country’s political will. If the export diversification of Algeria remains weak, despite the easing of the financial constraints that had a negative effect on the country in the 1990s, this could be due to a lack of favourable conditions for the creation and development of enterprises; public policies that do not support the development of exports, either because they are non-existent or insufficient, or because they are inappropriate; or a lack of motivation among companies to enter global markets. Looking at the three elements in greater detail:

(a) A lack of favourable conditions for the creation and development of enterprises. Discussing the conditions for private sector development in Algeria is beyond the scope of the present study, but it should be noted that these conditions encompass key areas such as:

- Business environment
- Public regulation
- Public services
- Infrastructure
- Education system
- Taxation
- Financing mechanisms
- Macroeconomic environment
- Policies to support private sector development

Each of the areas mentioned is problematic in Algeria. As regards the business environment, for example, the World Bank ease of doing business index ranked the country 163rd out of 189 countries in 2016 and the World Bank’s 2017 Doing Business Report ranked Algeria 156th. Although efforts that have been made should be welcomed, the country still has significant progress to make, as shown by the results of the survey to test this first hypothesis, which highlighted the less than optimal conditions for private sector development in Algeria.
(b) Public policies that do not support the development of exports. Export development is difficult to achieve unless appropriate conditions are in place to foster private sector development. Algeria has, moreover, adopted specific export policies. The impact of those policies on exports was addressed in Chapter 3 of the present report. The second theory tested is the idea that export-specific public policies, including those relating to customs and logistics, are not sufficiently effective.

(c) A lack of motivation among companies to enter global markets. A company’s guiding strategy can favour its entry into foreign markets if the company has the capacity to do so. A company’s decision to internationalize depends on its understanding of the barriers to entry that it would face and the costs it would incur. The third theory tested concerns the perceptions of Algerian companies of the barriers impeding their entry into foreign markets, particularly in Africa.

4.2 Support for theories: a survey to understand the views of Algerian business leaders

ECA conducted a survey of 50 business leaders in the form of individual interviews. The composition of the survey sample is described below. The small size of the sample means it is not representative, but rather a random sample that allows for qualitative interviews and the identification of factors that can be confirmed with a representative survey. Companies were contacted at random from lists of business associations, including the Algerian Business Leaders Forum (FCE).

The survey aimed to facilitate understanding of the business leaders’ perceptions of doing business with Africa and the competitiveness of the Algerian economy. Questions in the following areas were asked:

(a) Perceptions of perceived barriers impeding exports to Africa;
(b) Knowledge and perceptions of the African marketplace;
(c) Perceptions of the competitiveness of the Algerian export sector;
(d) Knowledge of business support mechanism;
(e) Perceptions of the State’s role in promoting exports.

Although the results of the survey would need to be verified by carrying out a survey of a representative sample of business leaders, given Algeria’s current economic and public policy realities, the results obtained are undoubtedly indicative of the wider business environment.

Description of the sample

The sample comprised 50 business leaders who were interviewed on their company premises. See figure VI for the distribution of those leaders’ business sectors.
Twelve per cent of respondents’ companies had a turnover of less than 500 million DA, 18 per cent had a turnover of between 500 million and 3 billion DA, and 14 per cent had a turnover of more than 3 billion DA (see figure VII).

Sixty-three per cent of respondents’ companies had, on at least one occasion, exported abroad or researched the possibility of doing so (see figure VIII).
More than 55 per cent of respondents’ companies conducted import operations prior to starting production (see figure IX).

Forty-two per cent of respondent’s companies had formulated a business strategy for Africa (see figure X).
“NRP” indicates that no response was provided.

Source: Survey conducted by ECA

Survey results

Attractiveness of the African market

Nearly 80 per cent of business leaders surveyed believed it would be easier to export to Africa than to the rest of the world (see figure XI).

An open-ended question was asked in order to understand what makes the African market more attractive than markets in other parts of the world. Sixteen business leaders expressed an opinion on the subject, and the interviews revealed the following:

(a) Africa’s development opportunities: 10 out of the 16 business leaders thought of it as a virgin market, where everything remains to be done;

(b) Geography: the geographical position of Africa was cited by five business leaders;
(c) Nearly 60 per cent of respondents believed that sub-Saharan Africa was a more attractive market for exports than was North Africa (see figure XII).

Figure XII
Do you think that sub-Saharan Africa is a more attractive market for exports than North Africa?

Source: Survey conducted by ECA

Perceptions of barriers to entry into the African market

Business leaders were interviewed in order to understand their perception of barriers to entry into the African market. For each factor, the following scale was used to evaluate their perception of the degree to which it impeded entry:

1) not at all;
2) slightly;
3) moderately;
4) considerably;
5) very.

The factors perceived as those that most impeded exports to Africa included those relating to the African continent as a whole and those specific to Algeria.

The factors specific to Algeria were:

- A lack of measures of support or incentive on the part of the Algerian public authorities: 70 per cent of business leaders believed that this was an impeding or very impeding factor; 44 per cent believed it was very impeding.

- Limited access to foreign currency: 60 per cent of the respondents believed this was a considerably impeding or very impeding factor; 52 per cent believed it was very impeding.

- Difficulties in the repatriation of foreign currency: 52 per cent believed this was very impeding and further 10 per cent believed it was considerably impeding.
- **An insufficiently pro-business environment in Algeria:** 56 per cent of the business leaders surveyed considered this an impeding or very impeding factor; 18 per cent stated that it was a very impeding factor.

- **Transport and logistics challenges, including those related to transport costs, delays, and bureaucratic procedures:** 30 per cent of respondents believed that this was a very impeding factor; 20 per cent believed it was a considerably impeding factor. (This factor relates to both Algeria and Africa as a whole)

- **Access to export credit:** 42 per cent of respondents believed this was a considerably impeding or very impeding factor.

The factors below are specific to the African market:

- **The risk of non-payment by customers:** 50 per cent of respondents believed that this was a very impeding factor; 20 per cent believed it was a considerably impeding factor.

- **The perception of corruption:** 80 per cent believed this was a considerably impeding or very impeding factor.

- **Political instability:** 78 per cent of business leaders surveyed believed this was a considerably impeding or very impeding factor.

- **Lack of transparency in trade and investment rules:** 82 per cent considered of respondents believed this was a considerably impeding or very impeding factor.

- **Customs tariffs:** 46 per cent of respondents believed that this was a considerably impeding or very impeding factor.

Participants in the survey were asked the open-ended question: “What do you believe are the risks of exporting to the African continent?” Their responses underscore the importance of a number of factors that were perceived as impeding exports to Africa. The opinions of the 19 entrepreneurs that answered the question can be summarized as follows:

- 16 cited political instability
- 15 cited the risk of non-payment by customers
- 12 cited security issues
- 11 cited corruption
- 6 cited logistical problems

Finally, the participants from companies that had already exported abroad were asked an open-ended question about the challenges they had encountered. Of the 11 participants who were asked that question:

- Seven participants mentioned administrative challenges, including customs formalities and multiple bureaucratic procedures were deemed too burdensome.
Below are excerpts from interviews:

“Administrative complexity and delays, particularly at the customs and ministry levels, jeopardize the export process. The lack of export experience of these entities also slows down process implementation. For example, with regard to export authorization, a lack of experience means that customs officers refuse to cooperate. Despite being given all the necessary documents, they require an “export authorization” even though that document is not mandatory. The same is true of ministries.”

“Export procedures are slow. Inspection bodies such as laboratories and banks take a long time to carry out fairly straightforward procedures. Such procedures should be very quick and completed within one or two days.”

“There are administrative and banking difficulties, such as customers wanting to pay in cash, and problems with customs, such as it taking three to five days to get export documents so the lorries can be sent out.”

- Six participants made reference to the cumbersome nature of banking procedures and difficulties in repatriating foreign currencies

“We encountered difficulties with the banks relating to the repatriation of foreign currency: each agency had its own interpretation of how it needed to be done.”

Perceptions of the competitive advantages of the economy of Algeria

Business leaders were asked about their perceptions of the competitive advantages of the economy of Algeria regarding exports and were asked to rate a number of competitiveness factors on a scale of 1 to 5 with the following designations:

1) very weak;
2) weak;
3) average;
4) strong;
5) very strong (see figure XIII).

Two factors were perceived as giving a competitive advantage to Algeria:

(a) Geographical position: 80 per cent of the business leaders surveyed considered this to be a strong or very strong competitive advantage;

(b) Energy costs: The cost of energy should be kept in perspective. Nonetheless, 38 per cent of respondents believed that energy costs did not provide a strong competitive advantage.

Three factors were perceived as sources of a competitive disadvantage for Algeria:

(a) Business environment: 74 per cent of respondents answered “medium” to the question regarding the business environment and 42 per cent responded with “weak” or “very weak”;

(b) Taxation: 66 per cent of respondents answered “average” and 30 per cent answered “weak”;

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(c) **Infrastructure:** 34 per cent of respondents answered “weak” or “very weak” and 28 per cent answered “medium”.

The last factor considered was the **overall cost of labour.** Fifty-six per cent of the business leaders did not perceive overall labour costs as a factor that gave Algeria a competitive advantage, while 42 per cent did believe that it was a source of competitiveness.

**Perception of the role played by the State**

In order to understand the perception of the role of the State, we asked the business leaders to assess the importance of government intervention to promote exports in a number of areas on a scale of 1 to 5 with the following designations

1) not at all important;
2) not important;
3) moderately important;
4) rather important;
5) very important.

As expected, customs, logistics and access to foreign currency were seen as important areas for State intervention; 90 per cent said that State intervention with regard to customs procedures was important or very important, 78 per cent said the same for State intervention in logistics, and 78 per cent said the same for State intervention to facilitate access to foreign currency.

Access to export credit was also considered an important area of intervention to promote exports: 70 per cent of respondents answered that this was important or very important.

Sixty-eight per cent of respondents believed that the State had an important role to play in providing financial support for international prospecting.

When it came to non-financial support for exports, however, respondents were less likely to believe that the State had an important role to play.

Thirty-eight per cent believed that it was important for the State to provide technical assistance and raise awareness of standards. Fifty per cent believed that it was important for the State to help raise awareness of regulations, procedures, prices, etc. Forty-eight per cent believed that it was important for the State to help gather information on markets, including by means of market studies.

Lastly, there were two areas in which the State’s role was deemed important: improving Algeria’s image abroad: 78 per cent indicated that the State had an important role to play in that regard. Economic diplomacy: 82 per cent believed that the role of the State was important in that area.

**Knowledge of business support mechanisms**

We asked two questions to ascertain respondents’ awareness of business support mechanisms.
The first question sought to ascertain whether business leaders were aware of business modernization support programmes. The majority of business leaders surveyed – a total of 66 per cent – were unaware of any such support (see figure XIII).

**Figure XIII**  
**Number of business modernization support programmes with which the business leaders were familiar**

![Pie chart showing the number of business modernization support programmes with which business leaders were familiar.](image)

*Source: Survey conducted by ECA*

The second question concerned public business support mechanisms with which business leaders were familiar. As shown in figure XIV, 10.36 per cent of the respondents were unaware of any business support mechanisms.

**Figure XIV**  
**Number of known business support mechanisms**

![Pie chart showing the number of known business support mechanisms.](image)

*Source: Survey conducted by ECA*

Based on what was learned from this, the discussion will focus on measures to accelerate the diversification of exports, and particularly exports to Africa.
5  Diversifying exports to Africa: what reforms?

With a view to identifying the reforms needed to accelerate the diversification of exports to the African continent, the first case under discussion is that of Turkey, which in a limited time has succeeded in putting in place effective public policies. The result of the survey is used to identify the key factors that must be addressed by public policies.

5.1. International experience: the case of Turkey

The case of Turkey is particularly interesting because the industrialization of the country was initially based on an unsuccessful import substitution strategy. A parallel can be drawn with Algeria, which appears to have opted for industrialization through a substitution of imports. Turkey also needed to rapidly diversify its exports, with a view to addressing its external debt and a currency crisis, while Algeria does not face such challenges. However, the sharp decline in hydrocarbon export revenues is threatening the sustainability of Algeria’s public finances and could eventually give rise to balance of payments challenges. Although still adequate, the country’s foreign exchange reserves have fallen rapidly from $178.94 billion at the end of 2014 to 144.13 billion at the end of 2015.

At the end of the 1970s, Turkey experienced an economic crisis that led it to reorient its industrialization model.

Between 1973 and 1979 Turkey’s foreign exchange reserves rose sharply due to an export boom, an increase in remittances from Turks living in Europe, and the availability of external credit at negative real interest rates. This all gave an illusion of invincibility of the country’s external financial situation. Thus, the 1973-1977 five-year plan oriented State support towards capital-intensive industries as part of its efforts to promote industrialization through import substitution. The development of capital-intensive industries necessitated an increase in the investment to GDP rate, which reached 18 per cent over the period 1973 to 1977. This resulted in GDP growth of 6.5 per cent between 1973 and 1977.

However, Turkey’s import-substitution industrialization policy gave rise to significant price distortions, widening public enterprise deficits, a fall in exports, and a decline in remittances from emigrants. Domestic market protections through high tariffs distorted incentives for local production and discouraged exports, since it is more profitable and less risky to produce for the domestic market than to export.

By 1979, the current account balance had deteriorated to $-1.35 billion and the main economic indicators were all at crisis levels. In 1980, inflation stood at more than 100 per cent, while Government borrowing needs and the trade deficit stood at 7 per cent and 5 per cent of GDP, respectively. The unemployment rate reached 15 per cent and the loss of confidence by creditors and the drying up of external credit sources generated a foreign exchange reserves crisis in 1978 and 1979. The country became increasingly indebted:

(a)  External debts: generated by the balance of payments crisis, indebtedness rose from $1.7 billion in 1970 to $10.5 billion in 1977;

(b) Internal debts: generated by the increase in the public deficit, including the State budget deficit and the State economic enterprises deficit.

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The foreign exchange reserves crisis in 1978 and 1979 was a critical lesson for decision makers and had a major impact on Turkish public opinion:

(a) External shocks have a permanent and non-transitory nature;
(b) The potential for growth through import reduction and substitution was limited by the Turkish economy’s stage of industrialization, in that the level of imports was too high to be reduced significantly, and it was difficult to find substitutes for more complex products;
(c) A consensus emerged on the need for a macroeconomic stabilization programme coupled with strong export incentives in order to drive growth and to manage external shocks.

The turning point came in 1980 with the launch of a macroeconomic recovery programme, economic liberalization and export-led industrialization.

### 5.1.1 Implemented reforms

Turkey has targeted specific sectors and implemented cross-sectoral measures in order to boost exports.

**Targeted sectors**

Starting in 1980, Turkey’s reform programme initially focused on sectors that had successfully exported products in the 1970s, including textiles and clothing, leather goods, agrifood products, agricultural products and plastics.

These sectors were the same sectors that had been restructured in developed countries, particularly in Europe, where fewer companies were operated in traditional industries and entry-level segments, whose products were being substituted by imports, and greater attention was being paid to the development of high-tech industries. In developed countries, this had led to specialization within each sector, with companies importing low-value products and exporting high-value products, as well as integration, with companies retaining certain segments of the value chain, such as research and development and design, and outsourcing labour-intensive activities, such as product assembly.

Turkey therefore sought to support those sectors that had enjoyed a comparative advantage in external markets prior to 1980, meaning that they had enjoyed either a labour advantage (where the wage gap was greater than the productivity gap) or a comparative advantage related to natural resources (production of agricultural specialties). It was not until the 2000s that, for a number of reasons, Turkey turned its attention to innovative exports in areas such as motor vehicles, automotive parts, electrical machinery and electronics. Those reasons included the following: non-traditional exports were generating greater added value; European companies were relocating parts of their supply chains to benefit from Turkey’s custom union agreement with the European Union; and

the country was seeking to diversify its exports and did not wish to depend on a limited number of export industries.

Figure XV provides data on product sector concentration over the period 1982–2006. In the early part of that period, from 1982 to 1993, exports were concentrated in a limited number of sectors, with 10 sectors accounting for more than 75 per cent of exports. The period of economic hardship in the 1990s led to exports becoming concentrated in an even smaller
number of sectors. With the development of non-traditional exports in the 2000s, sector concentration has fallen once more.

Figure XV
Top 10 exports by product sector, 1982–2006

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Source: Hülya Saygılı, Mesut Saygılı, (2011)

From 1980 onwards, a selective investment promotion policy drew up a “positive list”, updated on an annual basis, of industries to be promoted. Later, a “negative list” of industries that were not to be supported was formulated. This selective policy of sector targeting lasted until the mid-1990s. Turkey then revised its system of incentives to align it with Turkey’s 1996 customs agreement with the European Union and to comply with the conditions for the country’s accession to the World Trade Organization in 1995. The World Trade Agreement effectively prohibits member States from adopting measures that are based on export performance or intended to benefit local production. Measures targeting specific products may be the subject of a complaints filed with the World Trade Organization by other member States.

From 1995 onwards, cross-sector measures were also implemented, including, in particular, measures to support research and development, regional development and product quality improvement as well as devaluation and fiscal and financial support measures.
Practically speaking, in the period 1980–1995, the sectoral dimension played an indirect through the country’s selective investment promotion policy, which led to the formulation of a positive list of industries to be promoted on the basis of their export potential, as well as on their potential to substitute imports and, more generally, increase Turkey’s foreign currency reserves.

The serious crisis that played out in 1979 and 1980 led to the implementation of a more radical set of reforms than the reforms attempted in 1953 and 1954. These reforms included macroeconomic measures: liberalization of foreign trade and imports, and the adoption of monetary, budget and fiscal policies in line with International Monetary Fund recommendations; and measures to promote exports: steps to improve the overall environment for exports and incentivize exports.

The following discussion focuses on measures in place to promote exports.

**Enhancing the overall environment for exports**

Numerous steps were taken to enhance the overall environment for exports, including, in particular, the following:

(a) Updating the country’s currency exchange regulations to move from a fixed exchange rate to a floating one;

(b) Introducing refunds of value added tax;

(c) Establishing an export incentive scheme that took into account the volume of exported goods, whereby exporters who successfully exported a determined volume of exports enjoyed more favourable financial terms.

(d) Establishing export credits;

(e) Supporting the establishment of international general trading companies modelled on Japanese “sogo shosa” companies;

(f) Facilitating imports of equipment and products that could be used to make goods for export;

(g) Simplifying administrative procedures by cutting red tape and by eliminating the need for an export licence for most goods; export licences remained obligatory only for a very small number of products.

**Strengthening export incentives**

*Export credits:* The export credit system structure is a typical example of those adopted in developing economies. The central bank channels funds through commercial banks under favourable terms to producers and exporters of selected products. The Government provides subsidies to commercial banks that grant export credits using their own resources. In both cases, the credits are exempt from duties and taxes.

*The tax relief scheme:* This scheme had already been introduced in 1963 and has three levels, which are the standard tax relief, the additional tax relief, and the accelerated export tax refunds. The tax relief scheme was established to reimburse taxes paid during the various manufacturing stages of a product. The 1975 Tax Rebate Decree classified products into 10 categories, with a rate of relief defined for each category.
Following publication of the export tax regime, the rate of relief was amended annually. In 1986, the number of categories was first reduced to four, and then increased to five, and rebate rates were adjusted for each category. In 1988, a decree reduced the rate of relief by 10 per cent per month beginning in April of that year. An October 1988 decree stipulated that the tax relief scheme would continue until April 1989, after which point it would be terminated.

A special tax relief plan for large exporters was also put in place. In 1981, an additional relief rate was applied for export values between $4 million and $15 million. When the value of exports exceeded $15 million, the rate of additional relief increased to 10 per cent. Those rates were modified in 1982 and 1986.

Tax refunds are calculated at the end of each year and paid to the exporter accordingly. The Finance Law introduced the practice of advanced payment of part of export tax refunds for companies exporting at least $10 million. This amount can be assimilated into an interest-free credit. The proportion reimbursed in advance varies according to the value of the exports.

Exemption from customs duties and taxes on raw materials and intermediate goods: Exporters or exporting producers can import items duty-free and without customs-related duties. To encourage exporters to produce goods for export that are made from imported materials, a duty-free arrangement was established for imported raw materials and intermediate goods that are used to make goods exported by a company or by a subsidiary of that company. This reduces the exporter’s material costs and cash flow requirements.

The VAT exemption: In the first half of the 1980s, exporting companies were exempted from production taxes under the Expenditure Tax Law. At the end of 1984, taxes on production were abolished and VAT was introduced. Exported goods are exempt from VAT.

Foreign currency allocation to exporters: In 1980, the Export Promotion Decree came into effect. This allowed exporters to obtain foreign currency at the official rate in order to finance input importation. This right was granted to exporters who had obtained an export promotion certificate issued by Incentive Office of the State Planning Organization. This access to foreign currency gave exporters two advantages: it allowed for the purchase of foreign currency at the official rate (lower than the black market rate) and it allowed them to benefit from the exemption of customs duties and taxes on raw materials and intermediate goods.

Reduction of the corporate tax: The business income tax law grants exemptions for exporters, whereby a portion of the profits they earn on exports can be deducted from their business income. This deduction pertains to exports of industrial goods, fruits and vegetables, and seafood products. It is also applicable to earnings from operations to transport goods to foreign markets and tourism sector foreign exchange earnings.

Financial support for exports: In 1986, a new financial support regime for exports was put in place. This support is determined per ton of exported goods or by the number of units exported (as in the case of eggs or car tyres) or per square metre exported (as in the case of ceramic tiles). As an example, the value of support for certain products is as follows:

- Transmission mechanisms: $1,000 per ton
- Passenger cars: $550 per ton
- Eggs: $4 per thousand
A support scheme for the transport of products exported from Turkish ports was established in 1986. Support is between $3 and $12 per ton if the vessel sails under the Turkish flag and between $1.50 and $6 per ton if the vessel sails under a non-Turkish flag.

Finally, all transactions relating to exports are exempt from duties and taxes relating to loans, insurance and notary fees.

Other incentives: A temporary import regime has been established for imports of semi-finished products intended for processing and re-export, under which those products are exempt from taxes and duties.

Exporters are allowed to hold and use foreign exchange earnings abroad in order to cover export-related expenses such as imports of raw materials, operating costs abroad and the repayment of foreign currency loans.

**Measures to attract foreign direct investment**

Reforms in the 1980s favoured foreign direct investment in Turkey in order to meet the resource needs of the country. A number of measures were implemented to attract foreign direct investment, including measures to accelerate administrative procedures and to establish free trade zones.

A number of liberalization measures and measures to enhance market flexibility were implemented with a view to encouraging foreign investment. These included measures to:

(a) Deregulate interest rates;

(b) Reform currency and capital markets and move from fixed to floating rates. In this context, the decline in the nominal exchange rate of the Turkish lira facilitated foreign capital flows since it made Turkish assets cheaper;

(c) Reform the banking system (this was carried out a little later), which streamlined financial transactions with entities abroad;

(d) Liberalize capital flows by removing obstacles impeding the movement of capital and discontinuing the country’s selective foreign direct investment policy (whereby the State decided whether investments could be received from abroad, making the entry of capital selective).

The State Planning Organization registered nearly $4 billion of new foreign investment between 1980 and 1989, of which 50 per cent comprised physical capital flows.

This foreign capital was invested, primarily, in the service sector, particularly the tourist sector, and the trade and the banking sectors. Together, these sectors attracted between 55 and 60 per cent of all new foreign investment.

During the 2000s, this trend became more pronounced with the adoption of the 2003 foreign direct investment law (Law No. 4875). This law streamlined procedures significantly by:

(a) Simplifying administrative procedures considerably and providing a broader definition of an investor; Turks living abroad, international companies, and foreign legal entities became eligible for investor status;
(b) Guaranteeing investment freedom and the repatriation of profits, offering protections against expropriation and improving access to land and real estate;

(c) Establishing an agency to promote investment.

The law of 16 July 1997 facilitated investments in the high-tech, textiles, services, telecommunications, shipbuilding, electronics and biotechnology sectors and export-oriented projects through the conclusion of Build, Operate and Transfer agreements.

5.1.2. Institutional framework for the design and implementation of reforms

The design of the reform policy by the Government means that the Government has played a particularly important role compared with the other public institutions involved in that process. The policy aims to:

- Establish the country’s aspirations and goals for export earnings, export growth rates and export diversification;
- Define and develop actions and interventions, including incentive regimes;
- Identify which entities should oversee implementation of the policy.

The policy was formulated at senior Governmental level, namely by the Ministry for Foreign Trade and the Prime Ministry Undersecretariat for Foreign Trade, which formulates and implements the country’s export promotion strategy. The Prime Ministry Undersecretariat, moreover, plays a facilitating and coordinating role in that process.

Figure XVI below provides an overview of Turkey’s institutional architecture for the design and implementation of the country’s export promotion strategy. The annex to figure XV (provided in figure XVIII) provides additional information about those institutions.

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24 Vedat, K., op. cit.
### Figure XVI

**Design and implementation of the export promotion strategy**

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<th>Tasks</th>
<th>Institution or Organization</th>
<th>Partners and institutional ecosystem</th>
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<tr>
<td>Strategy design: objectives, support programmes, incentive measures and schemes</td>
<td>Prime Ministry Undersecretariat for Foreign Trade</td>
<td>National Chamber of Commerce and Industry, exporters’ associations, Small and Medium Industry Development Organization (KOSGEB)</td>
</tr>
<tr>
<td>Implementation of the support programme and support mechanisms</td>
<td>Export Development Center of Turkey (IGEME)</td>
<td>Prime Ministry Undersecretariat of the Treasury (Directorate of State Support) National Chamber of Commerce, exporter’s associations, Small and Medium Industry Development Organization (KOSGEB)</td>
</tr>
<tr>
<td>Improving the competitiveness of export companies: certification, research and development, compliance, technological innovation, training</td>
<td>Export Development Center of Turkey (IGEME), Small and Medium Industry Development Organization (KOSGEB), exporters’ associations</td>
<td>Technological research organizations, European Turkish Business Center</td>
</tr>
<tr>
<td>Financing of exports</td>
<td>Türk Eximbank</td>
<td>Prime Ministry Undersecretariat for Foreign Trade, Small and Medium Industry Development Organization (KOSGEB)</td>
</tr>
<tr>
<td>International environment: creating a favorable institutional framework through agreements with other countries</td>
<td>Government, Foreign Economic Relations Board (DEIK), Export Development Center of Turkey (IGEME)</td>
<td>Algerian Chamber of Commerce and Industry, exporters’ associations, Small and Medium Industry Development Organization (KOSGEB)</td>
</tr>
</tbody>
</table>

*Source: ECA*

**Results: Increase and diversification of exports**

**Growth of exports**

The value of Turkish exports increased by more than 60 per cent between 1980 and 1981. From $2.9 billion, exports crossed the $10 billion threshold in 1987 and reached $11.7 billion in 1988. This is equivalent to an average annual increase of 20 per cent over the period 1979–1988.

The ratio of exports to GDP increased from 5 per cent to 17 per cent. During this period, Turkey almost tripled its share of global exports, which went from 1.4 per cent to 4.1 per cent of the total.
Radical change in the composition of exports

As a percentage of total exports, industrial products increased from less than 30 per cent in 1980 to 50 per cent in 1983 and stood at 71.5 per cent in 1989;

As a percentage of total exports, unprocessed agricultural commodities decreased from 57 per cent in 1980 to 18 per cent in 1989.

Increased productivity

Figure XVII below shows average growth rates in labour productivity. The 1980s appear to have been a period of relatively high growth in labour productivity, although some of this growth was probably due to a rebound following the crisis years in the late 1970s.

Figure XVII  
Labour productivity

<table>
<thead>
<tr>
<th>Period (Years)</th>
<th>Growth rate (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-1990</td>
<td>3.42</td>
</tr>
<tr>
<td>1991-2000</td>
<td>2.08</td>
</tr>
<tr>
<td>2001-2010</td>
<td>2.36</td>
</tr>
</tbody>
</table>

Source: Turkstat

5.2 Reforms to be implemented in Algeria

Some of the outcomes of this report are already common knowledge. Nonetheless, the survey, which addressed a broad range of topics, allows us to identify certain key areas for action.

5.2.1 Factors to be addressed by public policies

Factors specific to Algeria

The case of Turkey provides lessons for public policy action in Algeria. In Algeria, the factor that the survey respondents consider the most significant impediment to exports is “a lack of measure of support and incentive on the part of the Algerian public authorities”. Numerous measures are, however, in place. This survey result may be due to the fact that business leaders are unaware of all existing measures, or that those measures do not fully address their concerns. The reason is certainly a combination of the two.

The questions regarding business leader’s knowledge of business support mechanisms revealed that 60 per cent of the business leaders surveyed were unaware of any business modernization support programmes, and 36 per cent were unaware of any (more general) support programmes for companies.
The Algerian public authorities seem to be taking minimal action to address the constraints faced by companies, notably in the following areas:

(a) Facilitating access to foreign currency and its repatriation;
(b) Fostering a competitive business environment, the need for which is underscored by Algeria’s low ranking in the World Bank ease of doing business index;
(c) Improving transport and logistics: 90 per cent of respondents believed that the State had an important role to play in that regard;
(d) Facilitating access to export credit: 70 per cent of respondents believed that the State had an important role to play in that area, and sixty-eight per cent believed that the State had an important role to play in providing financial support for international prospecting.

Furthermore, respondents did not believe that the country’s taxation system and infrastructure promoted competitiveness; this implies the need for the State to take further action in that area.

Lastly, the overall cost of labour was not viewed by the majority of business leaders as a factor that promoted competitiveness.

Factors specific to the African market

By itself, Algeria cannot overcome all the obstacles related to the African market that were identified by the business leaders. There are, however, areas where public policy action is possible. It is also possible to envisage collaborative steps that could be taken by African States.

The survey identified several areas where public policy action is needed, either by the Algerian authorities, or by African States working together.

(a) The risk of non-payment by customers;
(b) Corruption in African markets;
(c) Political instability
(d) Lack of transparency in trade and investment rules;
(e) Customs tariffs.

Algeria could take action to address non-payment risks, the transparency of trade and investment rules and customs. Corruption problems could be addressed on a pan-African level.

5.3 How can Algeria diversify exports to Africa?

There is no silver bullet to achieve export diversification, and economic development encompasses a significant learning dimension. Positive external factors are critical, particularly as Algeria’s experience with exports remains limited. Indeed, it should be remembered that Algeria’s non-hydrocarbon exports are less than $800 million. State intervention seems not only important, but also justified.

If Algeria has not been able to develop and diversify its non-hydrocarbon exports, it is not merely because its public policies to promote exports have proven inadequate. Figure XVIII, contained in the appendix to the present report, compares public policy measures to
promote exports in both Algeria and Turkey. The measures are generally identical, with two major differences: access to foreign currency is much more limited in Algeria; and direct subsidies to exports affect a wide range of products in Turkey.

In addition to implementing public policy measures to support and stimulate exports, Algeria must remain cognizant of a number of factors that are critical for success, namely:

- A combination of coherent complementary mechanisms, including fiscal and financial incentive policies, devaluation measures and measures to enhance the overall export environment;

- An awareness of the strategic nature of the country’s export promotion policy, which must be managed at the highest level of Government — this requires the creation of high-level oversight mechanisms;

- An export strategy formulated at the highest levels of Government;

- A pro-export environment that brings together the Government (which establishes objectives, determines actions to be taken and guides strategy implementation), funding sources, the Algerian Chamber of Commerce and Industry, exporters’ associations, large business enterprises, small and medium-sized enterprises and non-profit organizations;

- Export incentive regimes designed specifically for large business enterprises, as well as regimes designed specifically for small and medium-sized enterprises;

- A combination of export promotion initiatives and initiatives to attract foreign direct investment.

Regardless of which export market is targeted, the development of exports requires rapid and ambitious action in four policy areas, namely:

1) Strengthening institutional frameworks;
2) Developing the private sector, including business creation, business development and investment, and enhancing company competitiveness;
3) Supporting exports;
4) Promoting regional cooperation.

The first policy areas must be addressed in a coherent manner and regarded as national priorities. An assessment of the country’s administrative capacities, which appear insufficient, should be conducted, as well as an assessment of institutional red tape and inefficiencies impeding implementation of needed reforms. Beyond the formulation of a strategy, the major challenge for Algeria lies in its limited capacity to implement and oversee reform. The country’s institutional framework must therefore be robust enough to address the challenge posed by that limited capacity.

As regards the third policy area, Algeria lacks an effective strategy for building partnerships with its African neighbours to address issues a wide range of fields.
Recommendations will follow the discussion of the case of Turkey, which can provide valuable lessons for Algeria.

5.3.1 Establishing more effective institutional architecture

Beyond conceiving and implementing public policies, the main challenge for Algeria is to strengthen its economic governance. Specifically, this includes: providing robust institutional support to the development of non-hydrocarbon exports, enhancing the coordination of public policies, establishing clear targets and a road map for the implementation of reforms, and strengthening reform implementation and oversight.

In this context, Algeria should:

(a) Establish quantitative export targets for several time horizons;

(b) Create a high committee on competitiveness and exports council to be overseen by the Office of the Prime Minister or the President of the Republic that would:
   - Set quantitative and realistic targets for diversification, and economic competitiveness and exports,
   - Develop a strategy for diversifying the economy, improving the competitiveness of enterprises and increasing exports,
   - Ensure the coherence of all relevant mechanisms overseen by Government ministries,
   - Monitor the implementation of reforms,
   - Keep a “competitiveness and exports” scorecard on a limited number of indicators for export growth and the performance of the Algerian economy (including, in particular, Algeria’s economic competitiveness). This scorecard would serve as a tool for guiding reforms;

(c) Establish a participatory process for designing business support schemes that brings together companies, agencies and administrations involved in exports and the high committee on competitiveness and exports;

(d) Conduct frequent surveys of business leaders with a view to establishing a “barometer on reform”. That barometer could include indicators related to the business climate (see below);

(e) Implement a limited number of “delivery units” under the authority of the office of the Prime Minister and in close collaboration with the high committee on competitiveness and exports in the key areas described below. The delivery units would provide services, monitor the implementation of specific reforms and take action to address any obstacles encountered;

(f) Implement targeted awareness-raising campaigns: the survey revealed a lack of knowledge regarding support mechanisms for companies. Informational campaigns targeting relevant audiences regarding these support structures are therefore necessary;

(g) Implement a communication plan to explain and illustrate the importance of reforms already under way.
With regard to exports, Algeria should:

(a) Establish indicators to guide public policies to promote exports, including:
   - Statistics on exports and export companies
   - Indicators on the evolution of reforms and their effectiveness

(b) Improve the alignment of industry and exports by consolidating oversight of all export support mechanisms within a single ministry for industry and export promotion. This would strengthen public policy coherence among, and promote more concerted action by, a future export agency and existing agencies, such as the National Agency of Investment Development (ANDI) and the National Agency for the Development of Small and Medium-sized Enterprises (ANDPME).

5.3.2 Accelerating private sector development: setting ambitious goals for the business environment

The articulation of a private sector development strategy goes well beyond the scope of this study. The survey highlighted four areas where Government intervention is critical and urgently needed, namely in the business climate, infrastructure, taxation and labour costs.

The present discussion focuses on the business climate in Algeria, which constitutes a major reform challenge.

Guided by the Office of the Prime Minister, a project to streamline and improve administrative procedures is currently in progress. However, progress towards improving Algeria’s ranking in the World Bank ease of doing business index has been slow. Accelerated and more ambitious action is needed. Steps should also be taken to

set quantitative targets with a well-defined timetable and define the reforms needed to achieve those targets. For example, Algeria could aim to reach 100th place in the ease of doing business index within three years. In addition, there should be steps to instigate a “simplification shock” by eliminating all rules that could allow the authorities to interpret rules in an arbitrary manner and/or constitute barriers to entry, including certain licences and approvals. The rules currently in place in Algeria mean that business leaders can be subject to the whims of the authorities: these rules, which constitute a considerable obstacle to investment and job creation, should be eliminated.

For example, any investment in restoration projects in Algiers is subject to the written approval of the provincial authorities, which is issued at the discretion of those authorities only once the investment has been made. This rule creates uncertainty for investors and subjects the businessperson to the arbitrary whims of the authorities.

Further, it is important to ensure that the National Agency of Investment Development (ANDI) establishes a one-stop shop for investors encountering administrative problems, and that free trade zones are created that operate according to the highest international standards and are managed, from within those zones, by an entirely new authority that is completely independent from existing administrative authorities. Establishing service delivery units, which will, inter alia, monitor the implementation of business environment reforms is also essential.
5.3.3 Improving public policy on exports

With regard to public policies to promote exports, the survey identified three areas where significant action is still required:

- Access to foreign currency and export finance;
- Logistics, transport and customs;
- The risk of non-payment.

Access to foreign currency and export finance

The national authorities must devote particular attention to promoting access to foreign currency and export finance.

With regard to access to, and the repatriation of, foreign currency, exporters must enjoy unrestricted access to foreign currency so that they can cover costs related to their export activities, including all costs related to prospecting, marketing and the purchase of production inputs. Furthermore, export earnings must be fully convertible into foreign currency and easily accessible to exporters. Simplified banking procedures should also be introduced.

State intervention in export financing is justified by: the positive externalities that exporters will generate, particularly in terms of market knowledge, commercial networks and best practices, and; existing information asymmetries that limit the capacity of banks to finance export activities. State intervention should not, however, remain limited to the provision of subsidies or bank loan guarantees; Algerian banks must also strengthen their presence abroad. Market knowledge requires a local presence. Moreover, the internationalization of Algerian banks would allow them to mobilize additional resources and diversify their risk through local investment in other projects.

To that end, it is important to:

(a) Set up a temporary arrangement of a few years’ duration for the sharing of risks taken by banks that finance export related activities:
(b) With State-funded or State-guaranteed loans;
(c) With tax incentives for banks;
(d) Lift the restriction prohibiting Algerian banks from opening branches abroad and amend relevant regulations (particularly those related to prudential supervision) so that Algerian banks can conduct operations abroad;
(e) Set a positive example to follow by opening branches of a public bank abroad.

Logistics transportation and customs

Customs reforms are currently ongoing. These reforms should be expedited, and the creation of free trade zones with green corridors could be an effective way of moving forward while the custom reforms are being completed.

As is the case with the overall business environment, we recommend that customs performance indicators should be developed and frequent surveys of companies conducted in
order to monitor reforms and identify bottlenecks. The high committee on competitiveness and exports should be responsible for monitoring those indicators.

In addition to overall infrastructure improvement, the public authorities should provide export companies with high quality logistical and transport services, including services related to logistic chains (warehouses, storage areas including cold storage, customs zones, etc.), which should be developed in tandem with the development of industrial parks and free trade zones. The authorities should also establish a modern transport infrastructure system that supports those logistics chains.

Management indicators should also be developed with a view to monitoring logistical and transport infrastructure improvements (for example, by evaluating companies’ logistical and transport costs and the length of delays).

**Risk of non-payment**

Non-payment risk can be managed with State-guaranteed export insurance, similar to the insurance offered by the French Insurance Company for External Trade (COFACE), for example.

**Subsidies**

Direct subsidies are mainly offered in connection with the country’s date exports. Our recommendation is for targeted subsidies to be provided in sectors in which Algeria may ultimately be able to compete on the international market. We recommend proceeding in stages and gradually broadening the product range.

### 5.4 Exporting to Africa: removing barriers identified by entrepreneurs and building partnerships

If Algeria believes that the African continent is a strategic space that can spur its own economic development, it should adopt a comprehensive and multisectoral approach. Indeed, business relationships among countries are not based exclusively on trading in goods and services, but are also based on exchanges of knowledge, culture, and investment, among other things.

The first step is to consider the actions that Algeria can take to remove the obstacles identified by Algerian companies as impeding exports to Africa. A comprehensive approach for strengthening relations between Algeria and Africa and boosting trade will then be proposed.

The survey revealed five obstacles:

- Risk of non-payment by customers;
- Lack of transparency in trade and investment rules;
- Customs tariffs;
- Corruption in African markets;
- Political instability.
Non-payment risk was discussed above. To address the other obstacles, it is essential to strengthen cooperation among States through the following types of partnership: agreements/rules for trade and investment; joint investment projects; and non-economic exchanges.

As far as agreements are concerned, Algeria needs to strengthen its partnerships with Africa through subregional and global trade agreements. Algeria has very few trade agreements with African countries. That situation must be remedied at the earliest opportunity, with a view to facilitating trade and developing Algeria’s exports to its neighbours.

Another way to strengthen its partnerships is through the investment framework: facilitating African investment in Algeria as well as Algerian investment in Africa is the key to promoting economic development and trade. This can only be achieved through coordinated action and, first and foremost, action to foster partnership-based regional development. It is crucial to exploit synergies more effectively and pool resources. Furthermore, incentive frameworks to promote investment are more effective if they are designed by a group of countries with a view to implementing joint projects; the African Union could facilitate discussions in that area.

The development of joint projects is an essential prerequisite for cooperation among countries. It is also an important vehicle for encouraging economic exchange and the pooling of resources and skills.

Major projects of this type can be grouped as follows:

- Common interest infrastructure projects, including roads (such as the Trans-Saharan Highway), telecoms-related infrastructure (a key sector for Africa), and energy-related infrastructure. These projects would be financed using pooled funds. They would facilitate African joint ventures, or perhaps even equity alliances that would spur the creation of pan-African groups. In telecoms, for example, it makes sense to support the development of regional giants.

- Major research projects at the subregional level to develop African technologies that are supported by a consortium of research centres. Pooling resources is important because no country by itself has the means to compete with industrialized countries, or even emerging powers, such as China or India. Led by Algeria and other countries in the region, Africa could develop research centers in technology sectors that are critical for the continent’s future, including the energy, agrifood and telecommunications technology sectors.

- Regional value chains: the industrial development of the continent must not be seen merely as a task for individual countries; the coordination of industrial strategies will prove crucial if Africa is to develop local value chains while also successfully integrating the continent into global value chains. This should be a key consideration in the development of pan-African regulatory frameworks for investments, trade agreements and taxation regimes.
Finally, initiatives to boost trade with Africa must not focus exclusively on the economic sphere. There are many areas in which Algeria would benefit from promoting exchange and cooperation, including:

- Education and research: training Africa’s best and brightest is a key challenge for the continent. Africa has no universities that can compete with the highest ranked universities in the Shanghai Ranking, which lists only four universities in South Africa and one in Egypt among the world’s top 500 universities. Also in this area, the pooling of resources could enable Africa to develop university centres of excellence, with well-funded research laboratories.

- Strategic thinking: the influence of think tanks in industrialized societies has become such that they can sometimes surpass political parties in terms of their capacity to stimulate debate. In Africa, a culture of think tanks is developing at varying speeds across regions and countries. As is advocated by the Economic Commission for Africa, Africa must develop the capacity to develop strategies in areas that are critical to the continent’s future, such as energy and energy security. In partnership with other countries in the region, Algeria could spearhead the development of a continent-wide centre for strategic thought. With funding from a wide range of sources, an African think tank could be created in Algiers to reflect on shared challenges that the countries of the continent will face in the future.

Lastly, economic diplomacy should be another strategic focus for the country; Algeria’s network of embassies should be organized in such a way that Algerian companies can rely on them to provide accurate information about host countries on a range of issues that may be of interest to investors, and facilitate their interactions with host country authorities and local economic stakeholders.
### Appendix

1. **Comparison of public policies in Turkey and Algeria**

Figure XVIII  
**Comparison of measures to promote exports**

<table>
<thead>
<tr>
<th>Action</th>
<th>Algeria</th>
<th>Turkey</th>
</tr>
</thead>
</table>
| Foreign currency allocation   | There are no specific measures to facilitate exporters’ access to foreign currency | - Allocation of foreign currency to exports, who are allowed to buy foreign currency at the official rate (lower than the black market rate).  
- Authorization allowing exporters to hold and use foreign currency earnings abroad in order to cover export-related expenses. |
| Financing of exports          | Export credit is provided by commercial banks. | Turk Eximbank provides:  
- Short-term export credit: pre-export credit, pre-export credit for small and medium-sized enterprises  
- Specific credit programmes: credits for establishing distribution networks abroad, shipbuilding credits, letter of guarantee for construction companies operating abroad, loans financed by the European Investment Bank  
- Credits to support participation in international trade fairs.  
- Foreign currency credits. |
| Subsidies and financial support measures | **Subsidies:**  
- National Agricultural Control and Development Fund (FNRDA): incentive premium for the export of dates:  
  - 5 DA per kilogram for natural dates (up to 12 kg);  
  - 8 DA per kilogram for packaged dates in separated containers of 1 kg or less.  

**Financial support**  
National Agricultural Control and Development Fund (FNRDA):  
- Partial assumption of the interest charged on operating loans granted by commercial banks (3%) | Financial support for exports based on exported volume.  
E.g.:  
- Transmission mechanisms: $1,000 per ton  
- Passenger cars: $550 per ton  
- Eggs: $4 per thousand  
Support for the transport of products exported from Turkish ports:  
- $3 to $12 per ton for goods transported on vessels sailing under the Turkish flag:  
- $1.50 to $6 per ton if the vessel sails under a non-Turkish flag. |
<table>
<thead>
<tr>
<th><strong>Special Export Promotion Fund (FSPE):</strong></th>
<th><strong>Measures to modernize companies and improve company competitiveness</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Assumption of costs related to international market prospecting;</td>
<td>- Assumption of costs of evaluation studies and costs related to the design of upgrade plans for companies;</td>
</tr>
<tr>
<td>- Partial assumption of costs related to transit, handling and transportation, both domestically and internationally;</td>
<td>- Assumption of costs of evaluation studies and costs related to ISO and IANOR certification;</td>
</tr>
<tr>
<td>- Assumption of costs of participation in trade fairs and exhibitions abroad.</td>
<td>- Assumption of costs of quality evaluation and implementation of quality management systems;</td>
</tr>
<tr>
<td></td>
<td>- Development of quality control laboratories;</td>
</tr>
<tr>
<td></td>
<td>- Agreement on the mutual recognition of norms and standards.</td>
</tr>
</tbody>
</table>

**The Small and Medium Industry Development Organization (KOSGEB), the Export Development Center of Turkey (IGEME) and scientific and technological research organizations provide:**

- Support for research and development;
- Support for compliance with norms and standards guidelines;
- Support for certification;
- Support for technological innovation.

<table>
<thead>
<tr>
<th><strong>Tax incentive measures</strong></th>
<th><strong>Exemption from direct taxation:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exemption from corporate tax (IBS);</td>
</tr>
<tr>
<td></td>
<td>Exemption from tax on professional activity (TAP);</td>
</tr>
<tr>
<td><strong>Exemption from turnover taxes:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exemption from value added tax (VAT);</td>
</tr>
<tr>
<td></td>
<td>VAT waiver;</td>
</tr>
<tr>
<td></td>
<td>VAT refund.</td>
</tr>
</tbody>
</table>

**Suspensive customs regime:**

- Customs warehousing; temporary entry;
- Duty-free replacement;
- Temporary export.

- Standard tax relief;
- Additional tax relief;
- Accelerated refund of export taxes;
- Exemption from customs duties and taxes on raw materials and intermediate goods;
- VAT exemption;
- Reduction of corporate tax.
| Measures on foreign market information and monitoring | - National Agency for the Promotion of Foreign Trade (ALGEX) conducts forward-looking global studies on foreign markets. | - Regional export associations carry out economic and commercial studies. |
| Measures to support training | - ALGEX offers assistance and consultancy services to companies through its training courses on export methodologies.  
- The Algerian Chamber of Commerce and Industry (CACI) offers training courses for export-related occupations. | KOSGEB, IGEME and Foreign Trade Capital Companies (FTCCs) provide:  
- Training on foreign trade.  
- Training on export topics.  
- Training for instructors on business management systems.  
- Training for instructors on developing export thematic groups and export networks. |
| Measures to facilitate exports | - Reduced customs clearance times;  
- Reduction of customs clearance costs;  
- Support to companies’ international market prospecting efforts. | - Reduction of bureaucratic procedures: elimination of export licences;  
- Facilitating export operations. |
| Measures relating to investment | - The National Agency of Investment Development (ANDI) provides a wide range of benefits to support export-oriented investments;  
- Foreign investments may only be made through partnerships in which a resident domestic shareholder provides at least 51 per cent of capital requirements;  
- Three investment schemes are planned as part of a National Investment Council strategy to be implemented by ANDI;  
- A general investment regime (ongoing project)  
- The derogation regime for projects located in priority development zones (High Plateau and the south)  
- The regime for “strategic” projects, including import substitution and exports. These projects qualify for a wide range of benefits. | - From the 1980s until 1996: maintenance of a “positive list” of activities to be supported, including, in particular, export-oriented investments. |
| Measures to support the development of export intermediaries | - Support for the creation of consortia, particularly in the area of agricultural products. | - Creation of Business Councils with a view to improving trade relations and industrial cooperation with partner countries. - Establishment of export consortia in cooperation with the European Union to support small and medium-sized enterprises that export their products. |
| Measures to promote domestic production | - ALGEX and the Algerian Company of Fairs and Exports (SAFEX), organize national and international events, including trade shows, exhibitions and business-to-business meetings, to promote domestic economic sectors. | - IGEME - Support for Turkish trade shows with global reach. - Support for participation in international trade shows. |
Comparison of public policy mechanisms to promote exports

<table>
<thead>
<tr>
<th>Activity</th>
<th>Algeria</th>
<th>Turkey</th>
</tr>
</thead>
</table>
| Promotion of exports  | **ALGEX** plays a central role in facilitating and coordinating policies to promote exports. It provides services to exporters, including the provision of relevant information, foreign market monitoring, and training. **SAFEX** assists exporters with organizing and participating in trade fairs and exhibitions. | - The Prime Ministry Undersecretariat for Foreign Trade formulates and implements the export promotion strategy.  
- IGEME provides exporters with information services, training, consultancy services and technical support.  
- The Turkish Cooperation and Coordination Agency (TIKA), oversees cooperation with countries with which Turkey has concluded trade agreements, and with international organizations including the United Nations, the United Nations Industrial Development Organization (UNIDO), the United Nations Conference on Trade and Development (UNCTAD) and the European Union’  
- Foreign Trade Capital Companies (FTCCs) promote the involvement of large companies in export initiatives;  
- Regional export associations represent exporters and defend their interests, vis-à-vis the State and their customers.  
- The Union of Chambers and Commodity Exchanges raise awareness among businesses of support mechanisms and plays a mediating role in interactions with the State;  
- The Foreign Economic Relations Board (DEIK) seeks to improve Turkey’s non-domestic economic relations. |
<p>| Export insurance       | <strong>The Algerian Insurance and Export Guarantees Company (CAGEX)</strong> insures exporters against political risks, risks associated with non-transfer, natural disasters and commercial risks. | Türk Eximbank provides export insurance in tandem with export credit. |
| Financing              | <strong>Commercial banks</strong>: financing of production for export. | Türk Eximbank: financing for foreign trade. This bank acts as an export credit agency, providing support for foreign trade and for investors or construction companies operating abroad. |</p>
<table>
<thead>
<tr>
<th>Financial support</th>
<th>National Agricultural Control and Development Fund (FNRDA): support for agricultural exports (dates). Special Export Promotion Fund (FSPE) supports all types of export.</th>
<th>Prime Ministry Undersecretariat of the Treasury: responsible for financial policies, including those related to the provision of financial support to companies and programme financing.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidies</td>
<td>FNRDA: subsidies for agricultural exports (dates).</td>
<td>Prime Ministry Undersecretariat for Foreign Trade formulates and implements the export promotion strategy.</td>
</tr>
</tbody>
</table>
| Support to improve company competitiveness                                      | **Upgrades for companies:**  
  Ministry of Industry and ANDPME implement national company upgrade programmes and related follow-up activities;  
  **Compliance with norms:**  
  The Ministries of Industry and Agriculture and IANOR raise awareness of international standards, provide guidance and technical support in that area, and help companies obtain certification of their compliance with ISO norms.  
  **System Quality:**  
  Ministry of Industry and the Algerian Centre for Packaging Quality Control (CACQE) provide technical and financial support for the implementation of quality management systems, monitor and safeguard the quality of domestic products and conduct awareness-raising activities that target consumers. | KOSGEB supports measures to improve small and medium-sized enterprise competitiveness, such as facilitating provision of financial assistance to those enterprises to help them improve the competitiveness of their exports;  
  - Scientific and technological research organizations support companies’ technological development and promote medium- and high-tech industries. |
<p>| Free trade zones                                                                | Ministry of Trade, Directorate of Foreign Trade monitors implementation of cooperation and regional trade agreements as well as Algeria’s bilateral trade relations. | Prime Ministry Undersecretariat for Foreign Trade |</p>
<table>
<thead>
<tr>
<th>Type of Zones</th>
<th>Description</th>
<th>Ministry of Industry Directorate General for Industrial Zones manages organized industrial zones, which provide a favourable environment for investors and are equipped with all necessary social and economic infrastructure.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free trade zones</td>
<td>The status of free trade zones was defined by Ordinance No. 03-02 of 19 July 2003, which was subsequently repealed pursuant to the adoption of Law No. 06-10 of 24 June 2006. The status of free zones is not defined in Algerian legislation.</td>
<td>Free trade zones are special areas that are outside the purview of customs. These zones are overseen by the Ministry of the Economy.</td>
</tr>
<tr>
<td>Organized industrial zones</td>
<td>The Intermediation and Land Regulation National Agency (ANIREF) at the national level, and the Assistance Committee for Investment Localization and Promotion and Land Regulation (CALPIREF) at the provincial level, play a key role in land management, promotion mediation and regulation. These two organizations also support efforts to develop a property market for investment. They do not only focus on promoting investment in exporting enterprises, but carry out activities to promote all types of investment.</td>
<td>The Ministry of Industry Directorate General for Industrial Zones manages organized industrial zones, which provide a favourable environment for investors and are equipped with all necessary social and economic infrastructure.</td>
</tr>
<tr>
<td>Technological development zones</td>
<td>The National Agency for the Promotion of Technology Parks (ANPT) is responsible for: developing technology parks with a view to enhancing Algeria’s information and communication technologies and supporting the country’s economic development. There are four technology parks in Algeria: - Algiers Technopark - Oran Technopark - Annaba Technopark - Ouargla Technopark</td>
<td>Technological development areas, known as technoparks, are designed to support research and development and attract investment in high-tech industries. They are overseen by the Ministry of Industry.</td>
</tr>
</tbody>
</table>
2. Trade agreements

Association Agreement with the European Union

In 2002, Algeria signed an Association Agreement with the European Union, which entered into force on 1 September 2005. Its main objective was to develop the trade in goods and services between Algeria and European Union member States. The Agreement provided for the gradual establishment of a free trade area over a period of 12 years, with a progressive reduction of customs tariffs, leading to their eventual elimination.

The Association Agreement with the European Union exempted Algerian industrial products and services from customs duties and taxes upon entry into the European Union. Agricultural and fishery products and processed agricultural products benefited from preferential treatment. The elimination of tariffs was to take place in three stages:

Stage 1: The immediate dismantling of 2,076 tariff lines, comprising, primarily, raw materials and semi-finished products that were not produced within the country and used to make production tools and equipment for metalwork, chemicals, textiles, ceramics and building materials.

Stage 2: The dismantling over a five-year period, beginning in the third year of the Agreement, of 1,100 tariff lines, comprising capital goods, pharmaceuticals, mechanical and electrical equipment, motor vehicles and motor vehicle parts, and diagnostic and measurement instruments and equipment.

Stage 3: The dismantling over a period of 10 years, beginning in the third year of the Agreement, of tariff lines for all other products.

However, in view of the trade imbalance favouring the European Union and the stagnation of Algerian exports other than hydrocarbons, Algeria requested a revision of the schedule for the dismantling of tariffs. The new timetable agreed upon has postponed the dismantling of tariff barriers for a wide range of products to 2020.

Industrial raw materials account for 75 per cent of exports to the European Union.25 Because the modernization of companies was taking longer than anticipated, Algeria negotiated the postponement of the date for the elimination of all customs duties from 2014 to 2020.

Agreement with the Arab Maghreb Union

The Arab Maghreb Union was created with a view to establishing an economic union among the Maghreb countries, namely Algeria, Libya, Mauritania, Morocco and Tunisia. A convention on trade tariff preferences for agricultural products was signed in the early 1990s.

Greater Arab Free Trade Area

In order to promote and facilitate trade, the League of Arab States launched a programme in 1997 to dismantle tariffs at a rate of 10 per cent annually from 1998 and at a rate of 20 per

25 ALGEX interview, 9 July 2015.
cent in 2003 and 2004, so as to completely eliminate all tariffs by 2005. The agreement provided for a tariff-free zone comprising 18 Arab States.

Algeria had planned to reduce its tariffs on Arab products entering Algeria to zero by 2010. The Greater Arab Free Trade Area accounts for only 5 per cent of global trade and its exports consist, primarily, of food products.26

**Algerian-Jordanian Trade Cooperation Agreement**

The Trade Cooperation Agreement between Algeria and Jordan was ratified on 19 May 1997 and came into force on 31 January 1999. The Agreement aims to develop trade between the two countries. With the exception of products included in a “negative list”, the agreement provides equivalent exemptions from customs duties and other charges related to the export and import between the two countries of products of Algerian and Jordanian origin. In order to qualify for preferential treatment, those products must be covered by a special import authorization, which is valid for one year.27

**Algerian-Tunisian Agreement**

The Algerian-Tunisian preferential agreement came into force on 14 March 2014. It provided exemptions from customs duties for products traded directly between the two countries.

Under the Agreement, Algeria and Tunisia had agreed to exempt the following products from customs duties and taxes:

For export:
- List D1: Industrial products exempt from customs duties;
- List D2: Quotas of these agricultural and agrifood products are exempt from customs duties.

For import:
- List C1: Industrial products exempt from customs duties;
- List C2: Industrial products on which customs duties are reduced by 40 per cent;
- List C3: Quotas of these agricultural and agrifood products are exempt from customs duties.

**Negotiations with the World Trade Organization**

In 1987, Algeria filed a request to accede to General Agreement on Tariffs and Trade (GATT). The worsening economic crisis in the 1990s brought Algeria’s accession negotiations to a standstill, but the negotiations resumed in 1996 with the World Trade Organization, which had replaced GATT. Several rounds of negotiations have taken place since then and, at each round, Algeria has responded to questions from World Trade Organization member States and

26ALGEX interview, 9 July 2015.
the Organization’s secretariat. The most important challenges in the negotiations regard Algeria’s subsidies for domestic energy prices, which puts them below global average prices, and the protection of intellectual property rights.

In 2014, the World Trade Organization announced that substantial progress had been made in Algeria's accession negotiations. Algeria had submitted the changes contained in the country’s revised legislative plan of action, which had allowed for the resumption of negotiations. Algeria also announced that it would accede to the World Intellectual Property Organization Internet Treaties, although it has yet to do so.

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28 Algeria achieves substantial progress in its WTO accession negotiations, 31 March 2014.
3. Algerian business organizations

These organizations play an important educational, awareness-raising and promotional role.

Algerian Chamber of Commerce and Industry

The Algerian Chamber of Commerce and Industry (CACI), and 22 regional chambers of commerce and industry were established in 1996 pursuant to Executive Decree No. 96-94. Additional chambers of commerce and industry were established in 2010 and the total number has grown over time from 20 to 48, and every province now has a regional chamber.

The Algerian Chamber of Commerce and Industry and its regional chambers are overseen by the Ministry of Trade and represent regional and national companies in their dealings with Algeria’s public authorities.

The Chamber of Commerce and Industry performs a number of tasks, which include the following:

- Formulating opinions and proposing recommendations to the public authorities concerning the trade, industry and service sectors;
- Organizing meetings and economic events in Algeria and abroad, such as trade fairs, exhibitions, symposiums, study sessions, with the aim of promoting domestic economic activity and developing trade with other countries;
- Fostering dialogue among Chamber of Commerce and Industry members and learning their views on texts submitted by the administration with a view to obtaining feedback;
- Opening representative offices abroad;
- Providing arbitration services, upon the request of relevant stakeholders, with a view to resolving domestic and international trade disputes;
- Providing training for professionals and job seekers.29

National Association of Algerian Exporters

Created in 2001, National Association of Algerian Exporters (ANEXAL) is an association of Algerian exporting companies. Membership is free.

“This Association provides important guidance and consultation service, and brings together exporters, auxiliary export services, including the customs authorities, banks, insurance companies, transporters, forwarding agents, and decision makers.”30

The Association seeks to:

- Bring together all domestic exporters in order to identify and alert the public authorities of common problems;
- Provide a forum for sharing experience and best practices, and foster synergies among Association members;
- Promote the creation of domestic and international networks;
- Support pro-export initiatives;
- Defend the interests of exporters at the domestic and international levels.

In many countries, export associations often interface between companies and public authorities, and they facilitate and coordinate the actions of the many stakeholders involved in the export process.

**Economic actors**

*Algerian Insurance and Export Guarantees Company*

Algerian Insurance and Export Guarantees Company (CAGEX) is a joint-stock company created in 1996 pursuant to Decree 96-235.

The shareholders of CAGEX are public banks, including BAD, BDL, BNA, BEA and CPA, and public insurance companies, including CAAT, CAAR, and SAA.\(^1\)

CAGEX is responsible for insuring against commercial risks under the auspices of the State, and insuring against political risks, risks associated with non-transfer and natural disasters. The company covers risks related to exports, including the risk of non-payment by public or private buyers, the risk of non-repatriation of equipment and products exhibited at trade fairs and exhibitions, and the risk of market disruption. It also insures against political risks stemming from decisions by governments and risks associated with natural disasters.

*Algerian Company of Fairs and Exports*

The Algerian Company of Fairs and Exports (SAFEX) is a public company established following the reorganization of the National Office of Trade Fairs and Exhibitions (ONAFEX). It implements public policies to promote Algerian economic sectors in both domestic and international markets.

SAFEX organizes trade fairs and exhibitions in Algeria. It provides support to Algerian export companies help them promote their products abroad and, to that end, helps them participate in events abroad.

SAFEX also supports companies by providing them with information about the international economic environment including:

- Economic and trade data;

- Information regarding foreign trade regulations in various countries;
- Information on export procedures.

Through meetings of trade professionals, seminars and conferences, SAFEX seeks to put national companies in contact with foreign partners with a view to building business relationships.\(^3\)

**Supporting stakeholders**

**Algerian National Standardization Institute**

The Algerian National Standardization Institute (IANOR) can promote exports through the design national standardization policies. Indeed, with the liberalization of markets and the acceleration of globalization, standards play a decisive role in the promotion of exports because businesses need to know and must comply with norms and standards of destination countries for exports. In addition, businesses must report to their foreign clients on the quality of their products and the extent of their compliance with relevant standards and norms.

To that end, the Algerian National Standardization Institute provides advice and training on standards and promotes compliance with international standards, facilitated access to information on international standards, and certification of products and management systems.

**National Agency for the Development of Small and Medium-sized Enterprises**

The National Agency for the Development of Small and Medium-sized Enterprises (ANDPME) was established by Executive Decree No. 05-165 of 3 May 2005 and is overseen by the Ministry of Industry, Small and Medium-sized Enterprises and Investment Promotion.

The Agency seeks, primarily, to:

(a) Gather information specific to small and medium-sized enterprise activities, and share that information with companies;
(b) Carry out periodic sector studies;
(c) Provide expertise and advice to small and medium-sized enterprises;
(d) Monitor the evolution of small and medium-sized enterprises, including their creation, discontinuation, or any changes in their business activities.

The Agency is responsible for the implementation of the national company upgrade programme and related follow-up activities.

The Agency intervenes indirectly in the promotion of exports by improving small and medium-sized enterprise competitiveness, particularly through company upgrade initiatives.

**Algerian Centre for Packaging Quality Control**

The Algerian Centre for Packaging Quality Control (CACQE) is a public administrative body that was established pursuant to Executive Decree 89-147. The Centre is overseen by the

\(^3\) Source: [www.safexdz](http://www.safexdz), accessed on 8 July 2015.
Ministry of Trade and is one of the main instruments through which Algeria implements policies on quality control.

The Centre has two roles: to monitor and ensure the quality of domestic production; to disseminate information about and raise consumer awareness of quality control issues. The Centre runs 20 quality control laboratories and employs 600 people. It offers diagnostic and consulting services to companies to help them improve the quality of their products, and especially the quality of agrifood products. The Centre also tests domestic electrical appliances.

The Centre helps to promote exports by enhancing the competitiveness of domestic products by improving their quality, and by establishing international reciprocal recognition relationships, including with the Standards Council of Canada, which has granted conformity certification to the Centre’s laboratories.
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