

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco
Diversification des exportations, attractivité des IDE et zone franche en Algérie : Etat des lieux et analyse comparative avec le Maroc

Bouaichi Numidia¹, Rezki Djalal²

¹University of Bejaia - Bejaia (Algérie), numidia.bouaichi@univ-bejaia.dz

² University of Bejaia - Bejaia (Algérie), djalal.rezki@univ-bejaia.dz

Date de réception : 17/01/2024

Date d'acceptation: 22/03/2024

Date de publication : 31/03/2024

Abstract :

This article aims to primarily study the possibilities of constructing an industrial export free zone in Algeria through a comparative analysis with the Tanger Free Zone in Morocco. To achieve this, we first began by analyzing the economic characteristics of both countries (structure, export diversification, attractiveness for Foreign Direct Investment). Subsequently, we examined the Tanger industrial free zone to gain a thorough understanding of its structure and operation. Finally, we constructed a SWOT matrix for Algeria to identify its strengths and weaknesses, opportunities, and threats. By comparing these two analyses, we concluded that establishing an industrial export free zone is a crucial step for Algeria. This zone is unique in its ability to create a conducive business environment in terms of fiscal, customs, and exchange conditions. Consequently, this will enable the country to attract more investors and benefit from a strong and diversified economy oriented towards exports

Keywords: Free zone; Diversification; FDI; Algeria; Morocco.

JEL Classification Cods : F18, F21, F23.

Résumé:

Cet article a pour objet principal d'étudier les possibilités de construction d'une zone franche industrielle d'exportation en Algérie à travers une analyse comparative avec la zone Tanger (Maroc). Pour ce faire, nous avons d'abord commencé par l'analyse des caractéristiques économiques des deux pays (structure, diversification des exportations, attractivité des IDE). Nous avons ensuite étudié la zone franche industrielle de Tanger pour bien comprendre sa structure et son fonctionnement. Enfin nous avons tracé la matrice SWOT pour l'Algérie, pour détecter, ses forces et faiblesse, ses opportunités et menaces. En confrontant ces deux analyses, nous avons conclu que la zone franche industrielle d'exportation est une étape cruciale que l'Algérie doit franchir. Cette zone a comme particularité de préparer un environnement des affaires propice et adéquat en terme fiscal, douanier et de change. Par conséquent, ceci permettra au pays d'attirer plus d'investisseur et de bénéficier d'une économie solide et diversifiée orientée vers l'exportation.

Mots-clés: Zone franche ; Diversification ; IDE ; Algérie ; Maroc.

Codes JEL: F18. F21, F23.

Corresponding author: Numidia BOUAICHI, e-mail: numidia.bouaichi@univ-bejaia.dz

Introduction

The Algerian economy is rentier and economic growth is very dependent on the price of oil and gas. As an oil exporting country, its economic situation strictly follows oil prices. Algeria experiences economic crises each time the price of a barrel of oil on the world market decreases, and experiences situations of prosperity each time the price on the world market of a barrel increases. (Bouzidi.A, 2011). This reversal of trends in the oil market often puts the Algerian economy in a situation of major difficulty, both for its public finances and for its foreign trade.

The requirement for Algeria to integrate into the regional and global economy and above all to survive at the national level must go through the establishment of a competitive economy, which results in a structural transformation of its economy dependent on export of hydrocarbons, towards a diversified economy. Indeed, economic diversification refers to the strategy aimed at broadening the economic base of a country by developing new sectors of activity, thus reducing its dependence on a single sector. (Hausmann, R, Kling B, 2007).

Transformations in international economic relations concern economic mergers, institutional alliances and regional integrations, the establishment of free zones and economic openings through international and regional agreements. These transformations have an impact on the functioning of international markets dependent on a single source to generate their profits.

In this regard, following the different periods of crisis that Algeria is undergoing, several politicians, experts, economists agree on the fact of creating free zones, in which the companies which set up there will benefit from a fiscal and more favorable regulations than those in force in the rest of the country. Therefore, this initiative will have a positive impact on the host country in terms of FDI attractiveness, industry development and especially export diversification. This involves revitalizing the national economy and the industrial sector for the production of goods and services, following the example of what is being done in other countries such as Jebel Ali (United Arab Emirates), Hamburg (Germany).), Jurong (Singapore), and Tangier (Morocco).

To succeed in such an approach, it is always recommended to draw inspiration from countries that have started and succeeded in such an experience to draw basic lessons and apply them to the Algerian case. To do this, we wanted to do it by comparing to Morocco (Tangier free zone) which therefore represents the main object of our study

The choice of Morocco among other countries is not trivial. It is a North African country bordering Algeria with which it shares the same history, the same identity, the same culture and the same religion. Despite this similarity, Morocco manages to impose its place better than Algeria in the diversification of its exports and the attractiveness of FDI and the culmination of the creation of a free zone. This prompts us to ask the following questions

What are the economic characteristics of Algeria and Morocco in terms of economic structure, diversification and attractiveness of FDI?

What lessons can be learned for the Algerian economy from the Moroccan experience to successfully build an industrial export processing zone?

The methodological approach adopted to answer the questions asked is based on theoretical analysis and statistical analysis. We will first present the economic characteristics of Algeria and Morocco. We will then analyze the industrial free zone of Tangier (Morocco). Thus, we will draw the SWOT matrix for Algeria, to detect its strengths and weaknesses, its opportunities

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco

and threats. By comparing these two analyses, we will try to suggest some improvement and support measures for the feasibility of an industrial export processing zone in Algeria.

To do this, we progress in three sections. The first section will present the basic concepts used in this article, namely export diversification, FDI attractiveness and the export processing zone. The second section will present the main economic characteristics of Algeria and Morocco, their degrees of export diversification as well as the attractiveness of FDI. The third section will deal with the industrial export free zone of Tangier to draw inspiration from its mechanism and its outcome and to subsequently propose measures for the operation, improvement and development of a free industrial export zone in Algeria.

1- Main concepts used

Before proceeding with the analysis of the economic structure of the two Maghreb countries: Algeria and Morocco, we find that it is first useful to explain the main basic concepts linked to the problem of the subject to be treated.

1-1- Export diversification

Economic diversification remains a challenge for most developing countries and is arguably greatest for rentier economies that rely to a large extent on a single product in the export process. An economy is said to be diversified if its productive structure is dispersed over a large number of activities different from each other by the nature of the goods and services produced (Berthelemy.JC, 2005. p598). The idea is based on the fact that the more diversified the production structure of an economy, the more capacity it will have to cope with negative shocks on a given product or sector. It therefore emerges from this analysis that the more countries' economies have diversified production structures, the more they will be able to cope with economic shocks and increase their economies.

It is also announced that export diversification plays a crucial role in economic growth. By expanding the range of exported products, a country reduces its dependence on a single sector, thereby mitigating the risks associated with fluctuations in global markets. This promotes economic stability and stimulates economic growth. Proponents of this view have highlighted the strong impact that diversification has on growth. For example, Romer.P (1990) considered diversification as a factor of production while Acemoglu and Zilibotti (1997) argued that diversification could increase income by spreading investment risks across a portfolio wider.

1-2- Foreign direct investment (FDI)

Foreign direct investment (FDI) is one of the elements that best characterizes the global economy over the past two decades. More and more companies, in ever more diverse sectors and in ever larger countries, are expanding their activities abroad through foreign direct investment. Virtually all economies now compete to attract multinational firms. FDI is a highly evolving concept. Its definition differs depending on the nature of the source which appreciates it. According to (Krugman.P and Obstfeld.M, 2006, p165) "FDI refers to capital flows whose aim for the investing company is to create or expand a subsidiary in a foreign country". While (Crozet. Y, 2001, p. 118) states that "Foreign direct investment is defined as any operation resulting in the creation of a business abroad or an investment in foreign firms".

For developing countries, emerging economies and countries in transition, FDI has become an increasingly important source for economic development. It appears that the processes of regional integration and economic opening and the creation of free zones can

produce different effects on FDI flows. According to A.Goldstein (2004, p7) “FDI plays a key role as a driver of economic growth and development. Engaged under the right conditions, foreign capital can help reduce the gap between capital needs and national savings, raise the level of skills in the host economy, improve market access, contribute to transfer of technology and good governance.

Several factors can influence firms to invest in new regions. These include the enabling environment such as environmental security, tax pressure, the quality of national and regional infrastructure, the necessary reforms for FDI, etc. According to Brainard.L.S (1993) significant demand on the host market, low establishment costs and high transport costs encourage the firm to set up several subsidiaries abroad instead of serving the local market by exports.

1-3- Industrial export processing zone

The free zone differs from other concepts in that it is an export development tool composed of hardware - industrial park - and software - incentive regime. The specificity of a free zone comes from the fact that it is often subject to strict control conditions by national customs services, to avoid any contraband entry into the national customs territory. Likewise, most of the rules applicable to it are similar, or more liberal, than the rules in force in the national economy in general, so as to attract foreign direct investment (FDI) (Ayadi.W,2009, P7).

The free zone can be defined as: “an area located within a country where goods of national or foreign origin can be admitted free of customs duties or taxes” (Fortin. Ph, 2005, pp. 234-247). It implies “the renunciation by the territorial State of several of its economic powers over a portion of its territory” (Carreau.D and others, 1991)

This is a small area, geographically delimited, within which industrial and/or commercial activities benefit from a special tax regime. This may be reduced or non-existent and, most often, it is subject to regulatory relief. It is a phenomenon where physical goods can enter and be stored freely, but with a view to their later exit. (Ayadi.W,2009, P8).

By creating free zones, developing countries hope that they will allow them to resolve a certain number of economic problems they face and create a dynamic of development. The main goals pursued by the host countries are as follows:

- Initiate an industrial development process;
- Create jobs and alleviate their unemployment problems;
- Earn foreign currency;
- Attract foreign capital with the aim of improving the competitiveness of economies;
- Promote technology transfers;
- Improve the efficiency of their production system, thanks to the favorable impact of foreign companies on the training of the local workforce (demonstration effects).

2- Economic characteristics of the two Maghreb countries (Algeria and Morocco)

The main objectives of an industrial export processing zone are the development and diversification of exports and also the attractiveness of FDI. For this reason, we find it important to start by taking stock of sectoral diversification and the attractiveness of FDI in Algeria and Morocco.

2-1- Sector analysis

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco

Table 1 and Table 2 show the economic characteristics of Algeria and Morocco. We find it important to describe the two economies, to show the economic divergence that exists between these two countries in terms of sectoral analysis and the dominant sectors for each economy.

2-1-1- Economic characteristics of Algeria

Table 1 represents the economic characteristics of Algeria

Table .1. Economic characteristics of Algeria (2015-2021)

	2015	2016	2017	2018	2019	2020	2021
Total trade (in millions of US dollars) US							
Exports	34668	30026	35191	41797	35312	21925	38558
Imports	51702	47089	46059	46330	44632	35547	37464
Sector analysis							
- Hydrocarbon	94.32%	93.99%	94.51%	93.13%	92.80%	90.52%	93.10%
- Excluding hydrocarbons	95.68%	06.01%	05.49%	06.87%	07.20%	09.48%	06.90%
Contribution of hydrocarbons							
% GDP	18.8%	17.3%	19.6%	22.2%	19.5%	14.5%	21.5%
% of total budget revenue	46.5%	34.9%	36.0%	42.3%	40.4%	34.1%	39.6%
Main foreign trade indicators							
Commercial sale ¹	-17034	-17063	-10868	-4533	-9320	-13622	1094
Coverage ²	67.05%	63.76%	76.40%	90.21%	79.11%	61.67%	%102.92
Coverage ³	59.36%	55.51%	54.84%	57.58%	51.54%	44.94%	52.06%
Concentration index ⁴	0.485	0.489	0.480	0.483	0.480	0.446	0.490

Source: 1) IMF, 2) General Directorate of Customs of Algeria, 3) Annual report of Bank of Algeria (2011, 2012, 2013, 2014), 4) Author's calculation.

Algeria is characterized by an economy dominated by the hydrocarbon sector which represents the locomotive of the national economy and the main provider of funds for the state budget. According to the annual reports of the Bank of Algeria (2015, 2016 2017, 2018, 2019, 2020, 2021), this sector generated 46.5% of total state budget revenues in 2015, 34.9% in 2016,

¹ The trade balance, also called trade balance, is calculated by the difference in exports and imports during a specific period, which is most often a month, a quarter or a year. Its calculation formula is as follows $SC = \text{Export (X)} - \text{Import (M)}$.

² The foreign trade coverage rate is used to measure the economic independence of a State. When the coverage rate is less than 100%, the balance is in deficit. When the coverage rate is equal to 100% the trade balance is balanced. When the coverage rate is greater than 100%, the trade balance is in surplus. Its calculation formula is as follows $(X/M)*100$.

³ The trade openness rate measures the place that the rest of the world holds in a country's economy. In other words, it measures the total value of a country's trade with the outside world and the wealth created within a country. Its calculation formula is as follows $(X+M)/GDP$.

⁴ This indicator was developed by Herfindahl-Hirschmann regarding the measurement of the degree of market concentration. It is normalized to obtain values between 0 (zero concentration) and 1 (maximum concentration). If the index is close to 0, exports are less concentrated, that is to say the country exports a range of products. If it is close to 1, the export concerns few products.

36, 00% in 2017, 42.30% in 2018, 40.4% in 2019, 34.1% in 2020 and 39.6% in 2021. Its contribution to GDP during the same period was respectively 18.8%, 17, 3%, 19.6%, 22.2%, 19.5% and 14.5% and 21.5% (Reports of the Bank of Algeria, 2015, 2016, 2017, 2018, 2019, 2020, 2021).

With 93.20% of hydrocarbon exports for the period (2015-2021), the Algerian economy is considered a concentrated and not very diversified economy, which explains the share of non-hydrocarbon exports which is estimated at 5.80%. The analysis of Algeria's foreign trade shows that imports are higher than exports. This explains the negative trade balance which goes from 2015 to 2020 which is estimated at -17,034 billion in 2015; -17,063 billion in 2016; -10,868 billion in 2017; -4533 billion in 2018; -9320 billion in 2019; -13,622 billion in 2020 to return to a positive balance in 2021 which is estimated at 1,094 billion.

Furthermore, in terms of coverage of imports by exports for the period from 2015 to 2021, Algeria achieved coverage rates lower than 100 with the exception of 2021 where the indicator rose to a value greater than 100. They are respectively 67.05% in 2015, 63.76% in 2016, 76.40% in 2017, 90.21% in 2018, 79.11% in 2019, 61.67% in 2020 and 102.92 in 2021.

D'autres parts, Les résultats du tableau traduisent une ouverture commerciale relativement moyenne de ce pays vers le reste du monde. Pour la majorité des années le taux d'ouverture s'élève à plus de 50%. Si l'on se base sur le niveau de concentration des On the other hand, the results in the table reflect a relatively average trade openness of this country towards the rest of the world. For the majority of years the opening rate is more than 50%. If we base ourselves on the level of export concentration as an indicator of economic openness, we see that Algeria has made no progress. It is one of the most concentrated countries in the world. The export concentration index is 0.44.

2-1-2- Economic characteristics of Morocco

Table 2 represents the economic characteristics of Morocco

Table 2. Economic characteristics of Morocco (2015-2021)

	2015	2016	2017	2018	2019	2020	2021
Total trade (in millions of US Dollars)							
Exports	22334	22661	25272	28609	29132	27159	35843

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco

Imports	38100	41391	44490	51038	50734	43831	58034
Sector analysis							
- Food, drink and tobacco	18.92%	20.20%	19.77%	19.29%	19.78%	21.58%	19.09%
- Energy and lubricants	1.41%	0.83%	0.91%	1.16%	1.52%	0.51%	0.65%
- Raw products of animal and plant origin	2.19%	2.09%	2.12%	1.98%	2.10%	2.27%	2.20%
- Raw products of mineral origin	7.51%	5.54%	6.12%	5.33%	4.71%	4.62%	5.01%
- Semi-finished products	22.77%	20.68%	21.05%	22.01%	20.61%	22.24%	27.64%
- Finished agricultural and industrial equipment products	17.83%	17.55%	18.22%	19.61%	20.85%	20.14%	18.02%
- Finished consumer products	29.06%	32.58%	31.55%	30.45%	30.18%	28.44%	28.46%
Industrial gold	0.13%	0.51%	0.23%	0.13%	0.21%	0.16%	0.11%
Main foreign trade indicators							
Commercial sale	-15766	-18730	-19218	-22429	-21602	-16672	-22191
Coverage rate	58.62%	54.74%	57.37%	56.05%	57.42%	61.96%	61.76%
Coverage rate	67.48%	71.27%	74.42%	77.45%	76.12%	69.14%	75.10%
Concentration index	0.166	0.174	0.177	0.182	0.181	0.179	0.189

Source: 1) IMF, 2) Annual report (2008, 2009, 2010, 2011, 2012, 2013, 2014) of the balances of payments of the Moroccan exchange offices: <http://www.oc.gov.ma>, 3) Author's calculation.

When we compare the Moroccan economy to the Algerian economy, we see that the Moroccan economy is more competitive due to the diversification of its exports across several sectors. This is shown by the concentration index which is estimated at 0.178 during the period studied.

- The sectoral analysis carried out using data from the Maghreb Bank of Morocco shows that the structure of its exports during the period (2015-2021) is distributed across several sectors. Four groups constitute the main goods exported from Morocco to the rest of the world during the period.
- Mainly formed consumer finished products (made-up clothing, hosiery and passenger cars, etc.) come in first position with 30.10%.
- Semi-finished products including (natural and chemical fertilizers, phosphoric acids, electrical components, etc.) are placed in second position with 22.43% of total export revenues.
- The export of food, drink and tobacco products is in third position with 19.80% of total export revenues.
- The export of finished agricultural and industrial equipment products is in fourth position with 18.88% of total export earnings.
- The rest of the exports concern products of mineral origin (5.47%), energy and lubricants with 0.99%, raw products of animal and vegetable origin with 2.13% and industrial gold with 0.21%.

The analysis of Morocco's foreign trade shows that imports are higher than exports during the period studied. This dominance of imports over exports generates a trade balance deficit throughout the period studied and consequently a coverage rate less than 100%. In terms of commercial openness, Morocco is characterized by an outward-extroverted economy with an openness rate of around 70% during the period studied.

2-2- Export diversification

It is generally emphasized that countries that have diversified their export structures are more likely to produce a wider range of products. This constitutes a possibility to allow countries to have commercial potential to exchange with regional partners (Yeats, 1998). One metric that is commonly used to measure the degree of export diversification and concentration is the Herfindahl-Hirschman Index (HHI).

The value of this indicator has been normalized to obtain values between 0 and 1. In other words, 1 is the maximum concentration and 0 is the minimum concentration.

The closer the value of the indicator is to 1, the more the country's economy represents strong concentration, and the closer the value of the indicator is to zero, the more diversified the country's economy is. The formula used is as follows:

$$IH H_i = \left[\sqrt{\sum_{i=1}^n (x_i/X)^2} - \sqrt{1/n} \right] / \left[1 - \sqrt{1/n} \right]$$

I country diversification index (i), x = value of exports of the product (c),

$$X = \sum_{c=1}^n x_c \text{ et } n = \text{number of product groups}$$

The Herfindahl-Hirschman diversification indicator (HHI) aims to evaluate the weight of each product, by country, in total trade. If the value of exports is high, then it will have a significant influence on the final indicator, which combines all products. Otherwise, the value of the index will be low.

Table 3. Degrees of economic diversification in the Maghreb countries (1995-2022)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
--	------	------	------	------	------	------	------	------	------	------	------

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco

Algeria	0,82 5	0,80 6	0,80 6	0,86 9	0,82 6	0,83 4	0,82 0	0,83 5	0,81 7	0,82 6	0,81 1
Tunisia	0,67 5	0,65 5	0,67 3	0,67 6	0,68 3	0,66 7	0,64 5	0,62 5	0,62 8	0,63 5	0,59 9
Marroco	0,72 5	0,71 1	0,71 0	0,72 5	0,74 4	0,71 9	0,72 0	0,69 2	0,69 6	0,68 1	0,66 7
Libya	0,82 3	0,79 9	0,80 1	0,79 6	0,81 6	0,81 3	0,81 7	0,82 4	0,83 4	0,82 3	0,81 9
Mauritani a	0,83 1	0,79 2	0,83 3	0,83 5	0,80 0	0,79 9	0,80 2	0,83 4	0,77 8	0,83 5	0,84 8
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Algeria	0,80 0	0,80 3	0,76 1	0,79 2	0,78 2	0,71 8	0,72 4	0,73 2	0,74 3	0,78 3	0,81 4
Tunisia	0,55 5	0,55 3	0,55 1	0,55 1	0,54 6	0,54 1	0,48 3	0,49 6	0,51 8	0,51 7	0,51 9
Marroco	0,66 4	0,67 6	0,71 6	0,69 6	0,69 5	0,68 6	0,65 4	0,63 8	0,64 1	0,66 1	0,66 0
Libya	0,80 9	0,79 6	0,79 2	0,82 0	0,80 1	0,77 7	0,78 6	0,78 5	0,78 2	0,80 1	0,81 3
Mauritani a	0,81 5	0,78 2	0,74 2	0,78 2	0,79 8	0,80 8	0,79 5	0,78 7	0,79 7	0,85 5	0,82 9
	2017	2018	2019	2020	2021	2022	Moy				
Algeria	0,79 1	0,80 7	0,80 5	0,82 8	0,81 4	0,77 0	0,79 7				
Tunisia	0,52 6	0,53 5	0,52 6	0,52 2	0,51 3	0,50 6	0,57 5				
Marroco	0,65 3	0,66 0	0,68 9	0,68 3	0,65 0	0,68 1	0,68 5				
Libya	0,82 7	0,80 9	0,82 6	0,83 3	0,85 2	0,80 7	0,81 0				
Mauritani a	0,85 1	0,86 3	0,86 7	0,87 8	0,90 6	0,89 8	0,82 2				

Source: Constructed by the author, using UNCTAD data

To be able to make an observation on economic diversification in Algeria and Morocco, we will position these two economies in the Maghreb framework.

The results show that the economies of the Maghreb countries are very little diversified. Degrees of diversification differ between countries. We can classify all of these countries into two categories.

- The countries with the most diversified economies in the region, namely Tunisia and Morocco. The export diversification index shows that the Tunisian economy is more diversified, followed directly by the Moroccan economy. Morocco's diversification index increased from 0.725 in 1995 to 0.681 in 2022.
- Countries with concentrated economies such as Algeria, Libya which are the main hydrocarbon exporting countries and Mauritania. While dependence on hydrocarbons is seen as carrying risk, diversification leads to an improvement in factor productivity and a reduction in risks linked in particular to the downturn in the economic situation. Although unanimously reaffirmed for decades, the objective of diversifying exports away from natural resources is far from being realized. Algeria presents a strong index of divergence from the world structure of exports.

2-3- Attractiveness of FDI in Algeria and Morocco in the Maghreb context

According to many specialists, foreign direct investment is a key factor for the progress of the economy and a crucial element for economic integration and economic openings. The two North African countries (Algeria and Morocco) have in the past attracted little foreign capital, this is due to several reasons (Rougier, E and others, 2009):

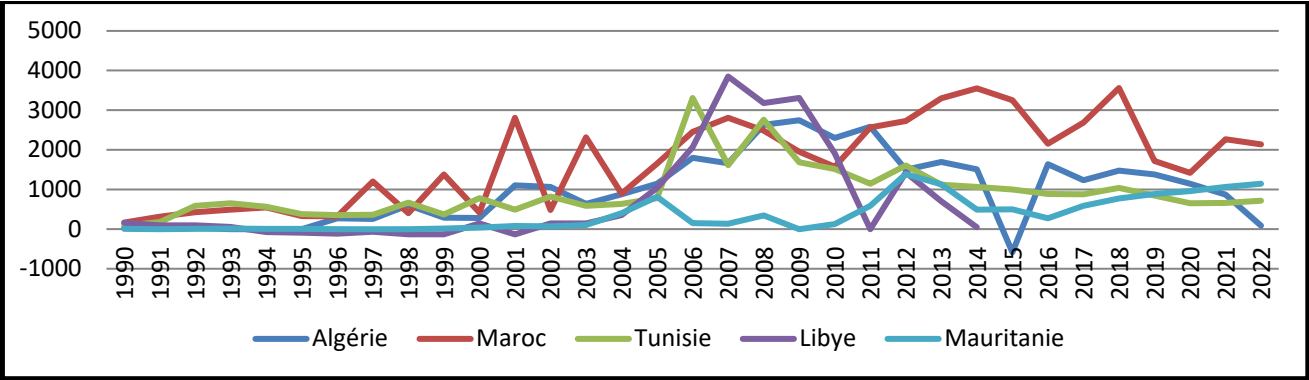
- First, they have long been under the control of a planned and centralized economic system. They challenged FDI by opting for import substitution strategies like the case of Morocco or industrializing industry like the case of Algeria.
- Second, the low attractiveness of FDI is due to low economic openness, macroeconomic instability and political and institutional problems.

Since the end of the 1940s and the beginning of the 1990s, the perception that these countries have regarding FDI has changed significantly. We are witnessing attractiveness policies being carried out by Mediterranean countries including the Maghreb countries and which cover both macro-economic and micro-economic aspects which encompass several programs and several reforms. These include exchange rate policies, tax exemption, the creation of free zones, partnership agreements with Europe, upgrading programs, structural adjustment programs, privatization operations, etc. .

Graph 1 illustrates the attraction of FDI by Algeria and Morocco, and this by comparing with the rest of the Maghreb countries for the period from 1990 to 2022. The choice of this comparison is to position these two countries with other countries with a similar economic atmosphere. There is an economic similarity between Algeria and Libya, and between Morocco and Tunisia.

Graph 1: Inward FDI flow to Maghreb countries (1990-2022 in millions of Dollars)

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco



Source: Developed from UNCTAD data Source: Developed from UNCTAD data

2-3-1- Analysis of FDI flows entering MOROCCO (1990-2022)

During the period (1990-2002), Morocco recorded a weak attraction of FDI, but it did better than other North African countries. It remains the most efficient country in terms of welcoming FDI, followed by Algeria and Tunisia in the Maghreb (UNCTAD, 2004, P9). It occupied the first places in the Maghreb region during the years (1997, 1999, 2001, 2003 and 2005) when FDI receipts were respectively 1207 million dollars, 1364 million dollars, 1364 million dollars, 2807 million dollars, \$2314 million, \$1654 million. This advance of Morocco compared to other Maghreb countries is due to a set of measures undertaken by this country. Since the beginning of the 1990s and after the adoption of the structural adjustment program in 1983, Morocco has given major priority to FDI and is committed to promoting the latter.

Regarding the following years (2006 until 2008), Morocco continued to show its performance in attracting FDI: 2449 million dollars in 2006, 2805 million dollars in 2007, 2487 million dollars in 2008 We then witness a decline in 2009-2010 under the effect of the global recession. From 2011, FDI flows started to rise again, with satisfactory results which doubled between 2011 and 2012 in amount and also in number of projects, and this despite the crisis in the euro zone where the main countries are located. emitters of FDI towards Morocco (75% of foreign investors are European) (Ammouche,L, 2013, p43). This explains why the macroeconomic and microeconomic measures undertaken by the latter have had a positive impact on FDI flows to Morocco.

Thus, of all the Maghreb countries, it is Morocco which demonstrates a major driving force from 2013 until 2017 in terms of attracting FDI compared to its neighbors. In 2018, it reached 3559 million dollars which represents the peak of its various sums during this period studied. The arrival of covid in 2019 caused a decline in the attractiveness of FDI which is estimated respectively at 1720 million dollars in 2019 and 1419 million dollars in 2020, to then restart again after the crisis and reach 2141 million dollars in 2022.

Morocco is often considered as a country spared from the unrest (Arab Spring) which shook the region, and is also experiencing an encouraging increase in the amounts invested. This advancement of Morocco compared to other Maghreb countries is due to a set of measures undertaken by this country because since the beginning of the 1990s and after the adoption of the structural adjustment program in 1983, Morocco has given major priority to IDE and engaged in the promotion of these. To do this, the public authorities have taken a series of measures to improve the country's attractiveness for FDI. Among the measures undertaken we

can cite : The adoption of a battery of incentive and tax measures such as: The adoption of the investment charter in 1995, replacing the investment code of 1983, this charter provides in particular for exemption from VAT and taxes on companies for 5 years. The launch of the privatization program since 1993. The repeal in 1990 of the law on Moroccanization of 1973 which constitutes a limitation on the property rights of foreigners, therefore the elimination of discrimination against foreign investors, the active management of debt through the conversion of part of the public external debt into investments, the convertibility of the dirham in 1993, reforms of the financial market and the banking sector, steps towards economic opening were undertaken: The signing of the agreement of free trade with the EU in 1996 which led to the implementation of the program to upgrade Moroccan companies in 2002 and membership in the World Trade Organization on January 1, 1995

2-3-2- Analysis of FDI flows entering Algeria (1990-2022)

Previously, Algeria had remained closed to FDI. It was only from 1998 that Algeria really began to record a clear acceleration in FDI flows which rose from 260 million dollars in 1997 to 607 million dollars in 1998, while they were of 40 million dollars in 1990. Algeria also recorded an improvement in the attractiveness of FDI during the years 2001 and 2002. It is ranked first country for the attraction of FDI in the Maghreb. They were respectively of the order of 1108 million dollars and 1065 million dollars. It was only from 2005 that Algeria really strengthened its attractiveness for FDI. This improvement is reflected in the growing attractiveness of the Algerian market for foreign operators. The inflow of FDI was 1795 million dollars in 2006, and 1662 million dollars in 2007.

This increase in FDI can be explained by all the series of reforms, both structural and institutional, aimed at restoring and stabilizing macroeconomic and financial balances and organizing the liberalization of the economy (UNCTAD, 2006, P5) such as trade policy reforms which focus on integration into the global economy through the processes of opening up foreign trade, and the conclusion of association agreements with the EU which entered into force in 2005, the process privatization of public companies launched in 1995 and implemented at the beginning of 1998, other measures are also at the origin of this improvement such as reforms of the banking system, reforms of monetary policy, and the exchange rate policy. Since 2000, Algeria has also undertaken ambitious economic recovery programs such as the ambitious economic recovery support program launched in 2001 for a period of 3 years.

FDI was 2632 million dollars in 2008, and 2746 million dollars in 2009. According to the 2011 world report on FDI from UNCTAD, Algeria marked a slight decline in the attractiveness of FDI in 2010 by compared to 2009 in terms of the amount of investments. On this basis, committed FDI stood at \$2,300 million in 2010, \$2,580 million in 2011 and \$3,052 million in 2012. There was a slight decline in 2013 and 2014 compared to 2012. They were respectively 2661 million dollars and 1488 million dollars. Algeria kept the same pace of FDI attractiveness during the years 2016, 2017, 2018. It weakened in 2020 when the world experienced a covid19 pandemic. They fell to \$870 million in 2021.

Despite the efforts made by Algeria to attract foreign capital, and despite the reforms undertaken, and compared to its North African neighbors it seems that Algeria only attracts a limited number of non-diversified foreign investors.

3- Industrial free zones in Morocco: what lessons for Algeria

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco

To deal with this part, we will start by showing that the two Maghreb economies are suffering from different economic crises which affect their main sectors of activity. For this reason, countries need diversification strategies. Among these strategies, the industrial export processing zone made in Morocco and which can push Algeria to draw inspiration and follow the same procedures.

3-1- The economies of Algeria and Morocco facing external shocks

Referring to the previous sections, we wanted to schematize the two economies in the flowchart below. This organization chart shows the following elements:

- Promising sectors for economic growth in each country;
- The vulnerability of the economies of the two countries to external shocks;
- The improvement and encouragement programs initiated by the two countries;
- The need for the French industrial export zone in promoting exports.

When we observe the Moroccan economy and analyze its structuring elements and its sectors of economic activity, and its economic diversification, we are led to imagine the Algerian economy without hydrocarbons. We can therefore have an idea of what this economy will be like once it is devoid of oil and gas to export.

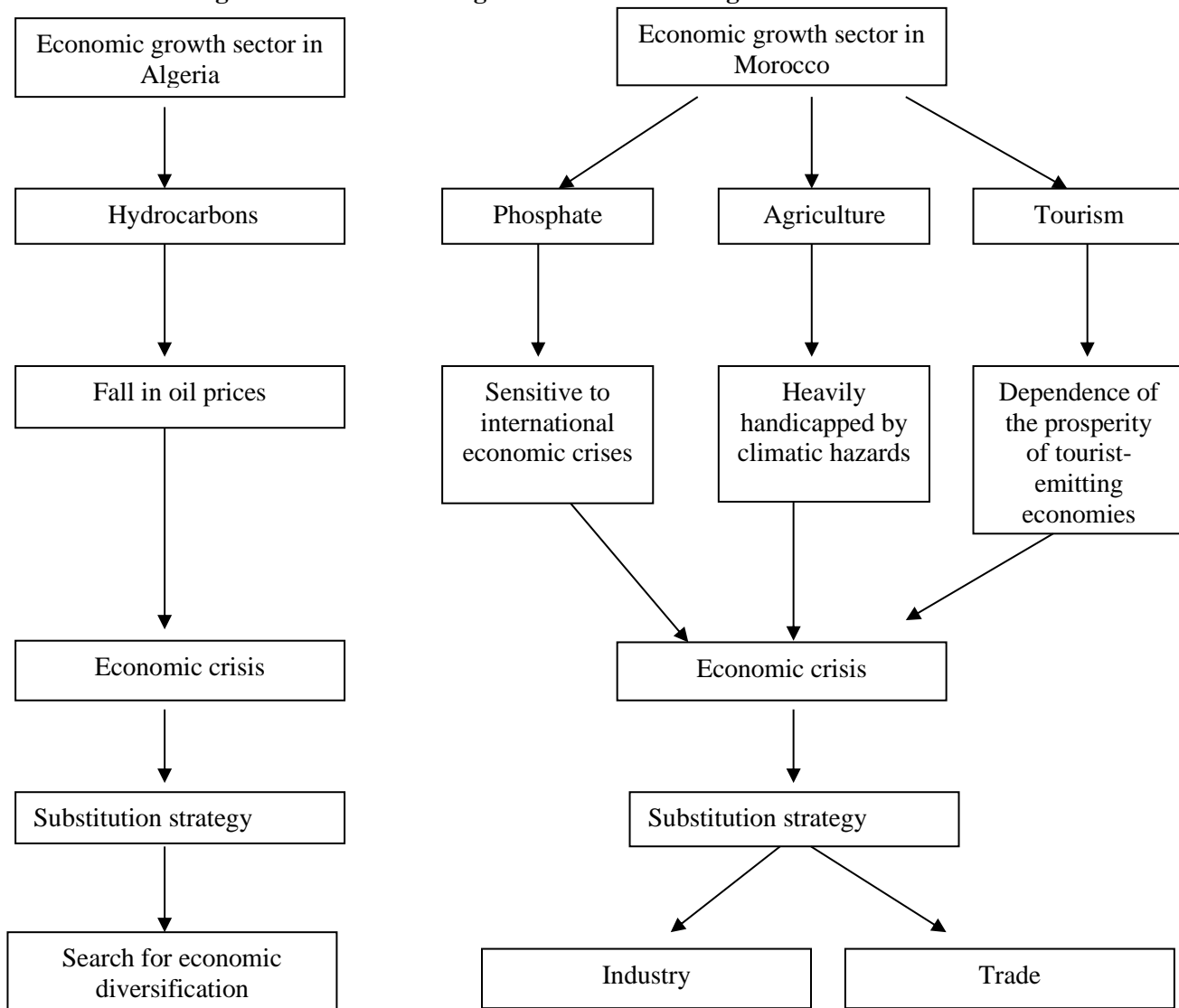
Until now, the Moroccan economy has relied on three key sectors to produce its economic growth: tourism, agriculture and the processing industry, particularly textiles and clothing. Despite this economic diversification, Morocco is also subject to various external shocks such as: Phosphates which provide significant financial resources for export are sold as raw materials. The latter remains very attentive (because very sensitive) to international economic crises and in particular those which hit Europe, Morocco's main and decisive partner. Agriculture is heavily handicapped by climatic hazards. Tourism depends on the prosperity of tourist-emitting economies.

Faced with these various external shocks, and with the aim of economic development, the two countries (Algeria and Morocco) have opted for different programs. Joint programs such as economic opening and structural adjustment agreements, and privatization, and specific programs such as the industrial free zone established by Morocco.

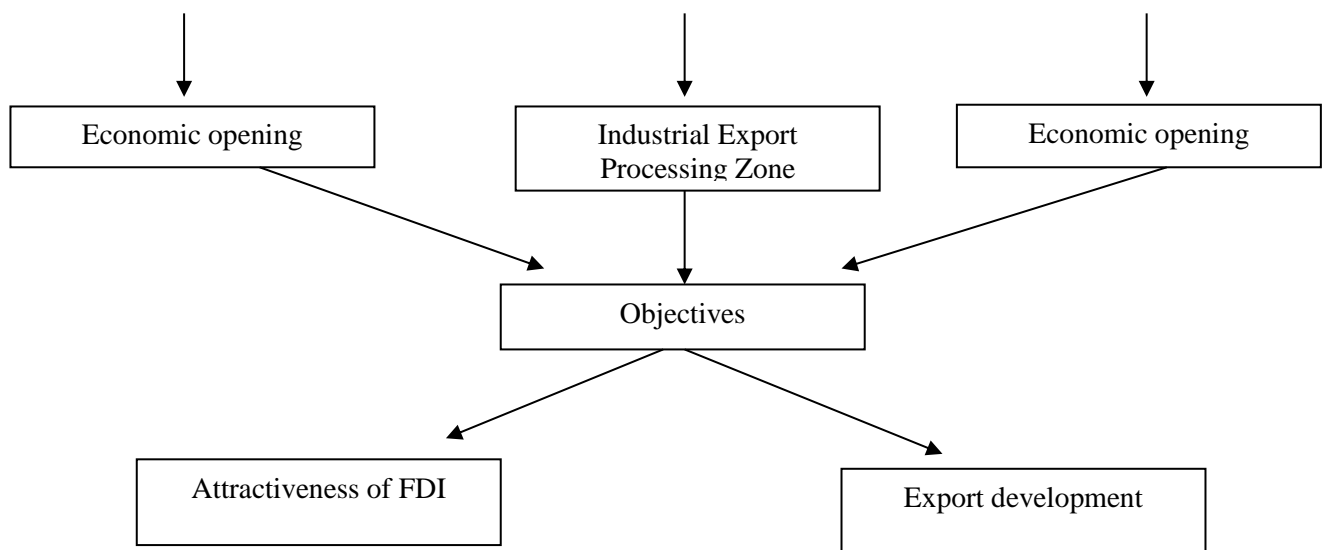
The main objective of economic opening agreements is the partial or total removal of tariff barriers, which allows the circulation of exports, imports, and FDI. These agreements are therefore for commercial purposes. However, free zones have an industrial vocation oriented towards export. The Algerian economy will really need this type of initiative to carry out a diversification strategy based on exports.

Indeed, it is on industry that Morocco primarily bases its strategy of diversification and reduction of its dependence on sectors vulnerable to economic crises. It plans to develop its agro-industry and its textile and leather industry activities. The new Moroccan industry is based on foreign direct investment requested by Moroccans to implement their diversification strategy through free zones which have an industrial vocation oriented towards exports.

Organization chart 1: Maghreb economies facing external shocks



Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco



Source : Developed by the authors

3-2- Operation of the free zone in Morocco and Algeria

In the following, we will study the Tangier free zone and its characteristics. We will also analyze the potential free zone in Algeria.

3-2-1- The industrial free zone in Morocco: The free zone of Tangier

Created in 1999, the Tangier Export Free Zone is the most important center of activity in the region. Computer engineering, automotive and aeronautics industries, aluminum carpentry, textiles, mechanics, training, etc. 475 companies of all sizes resulting from foreign investments from the European Union, United States of America, the Maghreb and the Middle East around thirty different activities concentrate there.

Tanger Med has evolved into a major business hub on the Mediterranean, succeeding its integration into global trade flows, while simultaneously developing an exceptional regional platform for competitiveness focused on industry, logistics and services sectors. In addition to the significant incentive measures put in place on a national scale, the Tangier Free Zone combines notable assets: geographical location, adapted marketing model (sale of land and rental of ready-to-use warehouses), offer of services .

3-2-2- Geographic positioning and infrastructure development

- Strategic location (15 km from Europe);
- Modular surface lots adapted to the needs of investors;
- Developed infrastructure;
- Tangier – Casablanca / Casablanca – Marrakech / Marrakech – Agadir highway;
- Port of Tangier less than 12 km;
- International airport adjoining the free zone;
- Quality equipment and services meeting international standards;
- Advanced telecommunications networks.

3-2-3- The targeted sectors

The activities of companies that can set up in this area are:

- Agro-industry;
- The textile and leather industries;
- The metallurgical, mechanical, electrical and electronic industries;
- Automotive and aeronautics;
- The chemical and paracheical industries;
- Services related to the activities referred to above.

3-2-4- The mode of operation of the Tangier free zone

A special customs regime

- Exemption from import duties;
- Exemption from import taxes and surcharges;
- Exemption from taxes on consumption, production and/or export of goods;
- Simplified customs procedures;
- Lack of exchange controls.

An attractive tax regime

- Exemption from registration and stamp duties for the constitution or increase of capital and for land acquisitions;
- Exemption from professional tax for 15 years;
- Exemption from tax on municipal services for 15 years;
- Exemption from corporate tax for 5 years and reduction in the corporate tax rate to 8.75% for the 20 years following the 5-year exemption;
- Exemption from income tax for 5 years and an 80% reduction in income tax for the 20 years following the exemption;
- Exemption from tax on share proceeds, assimilated for non-residents;
- Exemption from VAT on goods.

Foreign trade

- Entry of goods into export processing zone as well as their exit from these zones are not subject to legislation relating to the control of foreign trade.

Free exchange regime

- • The entry and exit of goods is not subject to exchange control legislation;
- • Total freedom of exchange, regardless of the nationality and place of residence of the operator for the benefit of commercial, industrial and service operations carried out abroad by companies established in export processing zone;
- • Payments for operations carried out within these zones must be made exclusively in convertible foreign currencies.

3-3- A Free zone for the Algerian economy: what possibility?

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco

To successfully implement an export industrial zone in Algeria, you must first start by drawing up a very specific strategy for it. To do this, we try to address the following:

- Set and record Algeria's priorities.
- Take stock of the economic reality to determine the strengths, weaknesses, opportunities and threats, which makes it possible to propose improvement measures.
- The selection of sectors to promote and work on the country's shortcomings to improve the functioning and potential of national value chains through better regional integration.

3-3-1 The contributions of a free zone for Algeria (priorities)

The objectives targeted by the creation of the Algerian free zone must be clarified according to the priorities adapted to the Algerian reality, namely;

- Job creation;
- Generate foreign currency income flows;
- Promote the creation of industries oriented towards foreign markets;
- Promote technology transfer.

Therefore, it will be interesting to study and analyze the behavior of companies established in the free zone and to identify the objectives raised, and to study the effectiveness of the means put in place for its success, and finally to detect the inadequacies recorded, and therefore make the necessary corrections.

3-3-2 Creation of an industrial export processing zone in Algeria: Status report

The creation of an industrial export processing zone requires a conducive environment to attract investors, and also comparative advantages in the industrial field, which is not the case for the Algerian economy in its current state. We can therefore conclude that the free zone in Algeria can only be a second-rate solution. It must be accompanied by other strategic measures allowing overall economic development, with the aim of having industrial potential and a favorable environment to apply the industrial export processing zone.

To succeed in building an industrial export processing zone, Algeria needs to prepare for this step. The free zone requires a detailed analysis of the stimulating factors and those that block this achievement. We offer the SWOT matrix, which expresses strengths, weaknesses, opportunities and threats. To do this, we drew inspiration from the Moroccan experience and the foundations of the Tangier free zone.

The objective of this matrix is to determine the strengths and opportunities of the country to improve them and above all promote them, while trying to find solutions to weaknesses and threats or at least try to mitigate them.

Table 2: SWOT matrix in Algeria

Strengths	Weaknesses
<ul style="list-style-type: none"> -The idea on the choice of the area; -Stability of macroeconomic balances; -Low energy cost; -Market size; 	<ul style="list-style-type: none"> -Significant delay in financial and banking reforms; -Significant informal sector; -Judicial delays; -Problem of industrial land;

<ul style="list-style-type: none"> -Geographic proximity to potential markets: Europe and Africa; -Progressive regional (UMA/EU) and global (WTO) economic integration; -Abundant human resources; -Young workforce fluent in several languages; -Availability of natural resources and proactive policies to develop them; 	<ul style="list-style-type: none"> -Significant image and communication deficit; -Lack of qualitative information on FDI by country of origin and by sector of activity; -Lack of expertise in terms of FDI and sector targeting.
<p>Opportunities</p> <ul style="list-style-type: none"> - Hydrocarbons and energy; Mining; - Electronic; - Fishing ; - Agri-food; - Tourism ; - Future accession to the WTO. 	<p>Threat</p> <ul style="list-style-type: none"> - Delay in deregulation; -Bureaucratic burden of public administration; -Delay in upgrading public administration officials; -Low ICT penetration rate which limits the development of the sector as a whole Lack of coordination between national policies; -Overlapping functions of institutions responsible for investment; -Non-competitive operation of certain markets;

Source: Developed by ourselves through opinions from different authors.

The country's strengths relate to macroeconomic stability, an association agreement with the European Union to facilitate the marketing of products, a privileged geographical location and geographical proximity to Europe and Africa, a dynamic, motivated and brilliant youth. who masters several languages to easily contact foreigners, the low costs of enteric inputs (gas, fuel and electricity).

The country's opportunities are the country's resources which are not yet well exploited to carry out large projects such as hydrocarbons and energy, mining, electronics, agro-food. Future accession to the WTO, which will allow other tariff barriers to be reduced.

The weaknesses relate to the slowness and delay of its business environment, in fiscal, judicial and institutional terms. A very weak industrial sector, lack of qualitative information on FDI, lack of expertise in terms of FDI and sector targeting.

The threats lie in delays in deregulation, bureaucratic cumbersomeness, overlapping functions of the institutions responsible for investment, and a delay in upgrading public administration officials.

3-3-3- Improvement measures

Taking into account the Moroccan experience in the development of an industrial and export free zone and also the SWOT matrix that we applied to the Algerian case, we tried to propose certain support and improvement measures. for the construction of an industrial free zone in Algeria.

A conducive business environment: Algeria must first start by improving its business environment to attract the attention of foreign investors. Long-term legislation to give investors confidence, and economic and scientific studies to improve the business climate. Tax and administrative facilitations to provide a favorable investment climate within the area

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco

Transmission of information: Algeria must fill the information gap abroad through different means of information (participation in international conferences and scientific events as well as diplomatic and commercial representations) to make the circles of foreign investors informed of Algeria's various assets as well as the new investment climate, and therefore succeed in attracting them to settle in Algerian free zones.

Respect for time: Failure to respect the notion of time in the realization of investment projects, in general and that of free zones in particular, constitutes a significant obstacle to the achievement of the set objectives, because it is clear that Each time the Algerian legislator promulgates a regulation, the execution takes a long time to see the light of day.

The selection criteria for the sectors to promote: knowing how to make a good selection of the sectors to promote:

- Sectors that contribute significantly to employment and socio-economic development,
- Sectors that have or can acquire a significant competitive advantage;
- Sectors that generate high added value,
- Sectors that attract or have the potential to attract domestic or foreign investment.

Training and skills: Technology transfer and skills development by experts, advanced training courses, etc.

Improving the banking system: Reforming the Algerian banking system, currently of a dominant administrative nature, far from banking practices known throughout the world

Acquisition of knowledge: Benefit from global experiences by taking into consideration the opinions and advice of experts in the field.

The application decision: Rapid decision-making and above all rapid application and avoiding official speeches with no outcome.

Conclusion

The main purpose of this work was to study the possibility of creating a free zone in Algeria. This analysis was made by making a comparison with Morocco which has already started an experiment in this area and which is experiencing progress. The choice of this country is not trivial. On the one hand, Morocco is a country with which Algeria shares points in common, such as a common history, the same identity, the same culture, the same religion and the same language and which nevertheless manages to attract more of FDI than Algeria. On the other hand, through this experience, Algeria can adopt and apply the same procedures to build its own industrial export processing zone.

The Algerian economy is heavily dependent on the hydrocarbon sector. Non-hydrocarbon exports remain marginal (barely 6% of overall exports) and economic performance is almost linked to the evolution of demand and prices of hydrocarbons. The energy sector offers, without a doubt, the most interesting investment opportunities for foreign investors in Algeria. Nevertheless, the development of the non-hydrocarbon sector should represent a major priority for public authorities.

Following the different spheres of progressive fall in oil prices which risks generating a major economic crisis for Algeria, economic diversification remains, today, a fundamental factor favoring the competitiveness of national economic systems. Specialization in new export

products is generally seen as a positive development. Algeria must opt for diversification strategies to help the country emerge from this crisis. To succeed in such an approach, it is necessary to draw inspiration from the experiences of other countries.

The industrial export processing zone is a crucial step that Algeria must take to try to develop its industrial sector. This zone has the particularity of providing a conducive and adequate business environment in tax, customs and foreign exchange terms. Consequently, this will allow the country to attract more investors and benefit from a solid and diversified export-oriented economy.

Following the Moroccan experience, the industrial export processing zone contributes to developing industry, attracting many investors, and above all to developing exports. Algeria will need this approach, but to succeed, the country must begin its real application on the ground to deal with the crisis as quickly as possible.

Références bibliographiques

Ammouche, L (2013), « Les pays émergents investissent la méditerranée : bilan 2012 de l'attractivité des pays MED en matière d'investissement étranger », *Etude n°65, ANIMA, France*

Ayadi W (2009), « les zones franches en Afrique du Nord dans le secteur du textile : impacts commerciaux et juridiques, » université du Québec à montréal

Berthélemy J-C (2005), « Commerce international et diversification économique », *revue d'économie politique, vol 115, pp59-611*

Boudra. B. Gamouh.A. (2001), « La notion de zone franche industrielle en droit algérien », *revue des sciences humaines, n°16, pp 67-79, Dalloz*

Brainard,S.L (1993). "A simple theory of multinational corporations and trade with a trade-Off between proximity and concentration," NBER Working Papers 4269, National Bureau of Economic Research, Inc.

CNUCED (2004), « Examen de la politique de l'investissement en Algérie », conférence des nations unis sur le commerce et le développement » *New York et Genève*

Douah B (2009), « Les zones franches en Algérie : Conclusion d'une expérience », *revue des économies nord Africaines N°6, pp69-82*

Fortin P (2005), « La pratique du commerce international », *Québec, Publication CHH Itée, 2005, pp. 234-247.*

Goldstein. A (2004), « Intégration régionale, IDE et compétitivité en Afrique australe », *Centre de développement de l'OCDE, Edition de l'OCDE*

Hausmann,R, kling B (2007), « The structure of product space and the evolution of comparative advantage », CID working papers n 146. Center for international development harvard university

Krugman P.R, Obstfeld M (2006), « Economie internationale », 7^{me} édition, paris

Romer, P. (1990), « Endogenous Technological Change. » *Journal of Political Economy, PP 71-102.*

ROUGIER E, Alaya M, CHENAF D-N (2009), « Une lecture macro économique des politiques d'attractivité », GRETHA-Université Bordeaux 4

Rozert Y. (2001), « Les grandes questions de l'économie internationale », Nathan, 118

Diversification of Exports, Attractiveness of Foreign Direct Investment, and Free Zone in Algeria: State of Affairs and Comparative Analysis with Morocco

Yeats A, (1998), “What can be expected from african regional trade arrangements? some empirical evidence”. World Bank Policy Research Working Paper No. 2004.

Site officiel de tanger free <http://41.77.115.106/~tfz/presentation/qui-sommes-nous>

Direction Générale des Douanes d’Algérie : <http://www.douane.gov.dz>

Site du FMI : <http://www.imf.org/>

Site de la CNUCED : <http://www.unctad.org/>