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Diversification of Algerian exports (Reality, reasons, approaches)

Nahed HEBBAZ*, Abbes laghrour University-Khenchela(Algeria), hebbaz.nahed@univ-khenchela.dz

Douniazed NESSRAOUI, Abbes laghrour University-Khenchela(Algeria), nessraoui.douniazed@univ-khenchela.dz

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Abstract :

The purpose of this study is to analyze Algeria's foreign trade, reasons for dependence on hydrocarbons, and methodologies for export diversification and growth.

The study found that increasing dependence on the private sector, expanding the production structure and strengthening infrastructure, increasing the size of the financial development market and opening up to trade and foreign direct investment, ensuring positive interest rates, competitive exchange rates, and low inflation. Key roles in promoting export diversification, and the most important market opportunity to boost exports is the increased interest in developing the agricultural and e-commerce sectors.

Keywords: Exports; Diversification; foreign trade; Algeria.

1. INTRODUCTION:

Foreign trade allows countries to make gains by subjecting domestic production to foreign competition and by providing access to a wider market for economies of scale.

At the national level, trade has allowed countries to specialize between industry and other sectors, between different branches of industry, and increasingly even between different stages in production (Rajapaitrana, 1987, p. 1). Export concentration is usually tested as a heavy dependence on exports of natural resources, as in the case of oil and gas exporting countries in the MENA region, and this leads to the resource curse and the Dutch disease by causing real appreciation of the local currency which reduces capacity competitiveness of tradable sectors. (Dogruel & Tekce, 2011, p. 2)

Export diversification is an objective in itself to reduce vulnerability to adverse terms of trade shocks and stabilize export revenues, as well as driving output diversification. Indeed, export diversification appears to be associated with less output volatility in low-income countries as well as faster sectoral reallocation (IMF, 2014). A country's size, its natural resources, the stability of its government and institutions and

*Corresponding author : Nahed HEBBAZ

their ability to promote change, the fiscal, monetary, and exchange rate policies that the government pursues all these and still more factors influence a country's ability to increase and diversify its exports. (worldbank, p. 1)

The benefits from trade liberalization can be increased if the world trading environment is free. Such an environment will also make it politically viable for Algeria to undertake trade reforms.

1.1Research' problem:

The dependence of Algerian exports on hydrocarbons, and the shrinkage of the basket of production structures is due to many and overlapping factors such as supply restriction and distortion of the relative prices of production, which leads to inefficiency and delays industrial growth, investment licensing systems in line with government priorities, and distortion of investment patterns. Concentration in primary product exports leads to deteriorating terms of trade, income volatility and lower growth rates.

The combination of trade and domestic market reforms and other components of industrialization and growth - physical infrastructure, education, legal and institutional factors - can make Algeria move from inward-oriented trade strategies to outward-oriented trade strategies and diversify its exports and get out of its hydrocarbon dependency, but the benefits cannot be increased of trade reforms unless the international trade environment is freer than it is now and protection is low and depends more on price measures than quantitative restrictions. Through this proposition, the main research question of this study is: ***What are the most important approaches to diversifying Algerian exports in light of the current economic conditions?***

To answer the core question, the following sub-questions were developed:

-What is the current general situation of the Algerian economy as a country rich in resources compared to other similar economies?

-What are the general assumptions of the dependency of exports on natural resources, and do they apply to Algeria?

-What are the policies to be followed to achieve diversification in exports?

1.2. Hypotheses :

As a preliminary answer to the main question and sub-questions, the following hypotheses were formulated:

H1. The Algerian economy still suffers from a chronic dependence on hydrocarbons compared to other resource-rich countries.

H2. Possible economic explanations for the lack of export diversification in countries rich in natural resources do not apply to the Algerian case

H3. Diversification of exports in Algeria requires economic and regulatory policies and comprehensive short and long-term macro reforms.

1.3. Importance of the study:

-Structural transformation is a clear necessity for Algeria being overly specialized in oil due to its low wealth; its non-oil export basket is also underdeveloped and offers little growth potential.

-Export diversification can enhance growth through knowledge spillovers, by stimulating new industries and expanding existing industries (particularly if diversification occurs through new export products) and by reducing macroeconomic uncertainty by reducing export earnings volatility.

-Exports are not limited by the small size of the domestic market. They can hence grow much more significantly and become engines of growth.

-Exports tend to be the most productive activities in the country. An increase in their relative size thus raises overall productivity.

-The competitiveness of exports is based on the availability in the country of non tradable inputs, as tradable inputs can be imported. A strategy of export growth can thus indirectly promote the development of the non tradable sector.

1.4. Research methodology:

The study was based on a descriptive analytical research design. The data was collected through a set of articles, relevant reports and specialized websites for the purpose of coming up with a set of findings and recommendations.

1.5. Previous studies:

Export diversification has been an indispensable element in the discussion of the growth dynamics in developing countries since the 1950s, where the Prebisch-Singer thesis argued that concentration in the exports of primary products would lead to deteriorating terms of trade, income volatility and decreasing growth rates. Diversification of exports from fossil fuels and related products to other sectors has been a policy priority in the resource-rich MENA countries since the 1980s. This policy has been regarded as an integral part of wider economic policies in terms of liberalization of internal markets and external trade, and price and exchange rate reforms (Dogruel & Tekce, 2011). Developing countries as a whole have been remarkably successful in diversifying their economies and their export structures.

This process of diversification has taken many forms. Other countries have not moved as far towards “footloose” manufactures but have taken advantage of the potential for upgrading their resource-based sectors but in other countries oil reserves have hampered the development of new economic activities.

Many of the policy and institutional factors that enable countries to manage resource wealth well are equally important for their ability to diversify into other sectors. One important criterion is whether the country has the capacity to smooth out the high macroeconomic volatility that large export price swings can transmit to mono-exporters.

If not, it will be far more difficult to sustain investment in the non- resource traded sectors, which will be de-stabilized by large swings in the real exchange rate.

Diversified economies perform better over the long term. There is strong empirical support for this proposition; Hesse 2008, Leiderman and Maloney 2007 and others provide analysis and useful summary. One explanation for this relationship is that engaging in manufacturing enables dynamic learning-by-doing gains that raise productivity and income. (Gelb, 2010)

An examination of the history and future opportunities for export diversification in Algeria shows that Algeria's production structure is largely concentrated in the hydrocarbons sector. The lack of export diversification indicates an ineffective distortion, and reversing it should be a clear political priority.

Also, traditional explanations for the lack of export diversification in an oil-exporting country show that these explanations do not seem to apply to Algeria. It presents an alternative explanation, based not only on macroeconomic fluctuations or the appreciation of the real exchange rate but also on the specificity of the productive capacities in the oil sector and their replacement by other activities. This interpretation underlies the idea of a 'product space' in which structural transformation occurs.

Therefore a new methodology is required to diversify exports in Algeria, which has been proven to be specialized in part of the product space, even the activities that make up non-oil exports, is a very marginal basket in the product space, which helps explain the severe lack of diversification of exports. Producer clusters and the degree of similarity of skills and tasks in different export activities are also at the core of the analysis of (Hausmann, Klinger, and López-Cálix) in their assessment of export diversification in Algeria, in chapter 4. Drawing on a new methodological approach, the authors identify a list of products that could serve as targets for industrial development, based on the tradeoffs among several factors: whether the new product requires capabilities similar to those used to produce existing products, so that switching to the new product is relatively easy (“proximity”); whether the new product increases the level of technology of the export basket, a key determinant of growth (“sophistication”); and whether the new product facilitates the export of additional new products, because they require capabilities similar to those used to produce the new product (“strategic value”). This analysis generates a list of products that would be the most efficient targets of industrial policy.

Agro industry, aluminum smelting, and steel and metal works are found to have high potential and substantial strategic value. (López-Cálix, Walkenhorst, & Diop, 2010). As that the Algerian Government has launched some initiatives encouraging SMEs (Abdali, Kooli, & Otmani, 2020)

2. Export diversification: dimensions and determinants:

Typical economic growth is driven by countries diversifying their investments into new activities rather than by comparative advantage as in the traditional literature.

A country's productivity and growth depend on the goods that are produced. Some traded goods (service products, manufactured goods) lead to higher levels of productivity than others (primary goods). Countries that produce high-yield goods are growing faster than countries with low-productivity goods (Dogruel & Tekce, 2011, p. 7). Countries whose geography implies a punishing lack of connectivity to regional or world markets are also at a distinct disadvantage in attempting to diversify their product and export mix. (OECD/World Trade Organization, 2019, p. 137)

Since economic and export diversification can bring visible benefits in terms of accelerated long-term growth, resource-dependent countries implement various policies to decrease their dependence on the extractive sector. A successful diversification plan requires firm political commitment, consistent public policies and substantial financial resources. (Esanov, 2012, p. 1)

Export diversification has different dimensions and can occur either horizontally or vertically. Horizontal diversification is simply an increase in the number of products exported and takes place within the same sector. Adding new products to existing export baskets within the same sector helps mitigate negative economic risks, so export-oriented growth gains greater independence from certain sectors and stabilizes export earnings. Horizontal diversification of exports may (also) generate positive externalities on the rest of the economy as export-oriented sectors benefit from dynamic learning activities due to contacts with foreign buyers and exposure to international competition.

If there is a shift in exports from primary products to secondary or tertiary sectors, vertical export diversification occurs. Through this shift in production, externalities are created on new knowledge and technologies. These externalities may benefit other economic activities, so that horizontal diversification can be generated and industries can be internationally competitive.

Among the main determinants of export diversification are the level of development, foreign direct investment and the country's trade policy. The level of development is usually captured by the per capita GDP of a country (Dogruel & Tekce, 2011, p. 7). Infrastructure and the quality of institutions are also important determinants of economic diversification. A country is in a better position to diversify its production base if it has a well-developed physical infrastructure and viable institutions. (Esanov, 2012, p. 1)

Both supply-side and demand-side growth theories suggest that as GDP per capita grows, the pattern of preferences guiding consumption changes. The change in the elasticities of demand influences sectoral productivities, and thus the structural composition of the economy, where production and exports diversify from primary commodities to the products secondary or tertiary sectors, with limited diversification opportunities at lower levels of development because of the scarcity of capital and indivisibility of investment projects.

Another potential determinant of export diversification is foreign direct investment that can lead to export diversification directly by entering the nontraditional export sector, or indirectly by increasing exports of traditional exports with the lowest share. On the other hand, if FDI is mainly directed to the exploitation of natural resources, export concentration on natural resources is likely to increase.

Trade policy of the country is also considered as a determinant of export diversification. Export activities carry a fixed cost, and under a protectionist trade regime, the export sector will be underdeveloped since only a limited number of firms will be able to afford the fixed costs of exporting, thus leading to an export concentration. Moreover, trade liberalization that leads to lower tariffs is expected to improve the access to foreign markets, which will eventually lead to export diversification as the country becomes capable of facing a more diverse demand from its partners. (Dogruel & Tekce, 2011, p. 7)

3. The Structure of the Algerian Economy:

Algeria remains weakly integrated into the global economy. Despite its massive hydrocarbon exports, Algeria’s trade openness, as measured by the ratio of non-oil exports and imports of goods and services to GDP (21 percent), is the lowest in the Maghreb region (the other Maghreb countries average more than 45 percent . Trade integration is weak. More than half of Algerian products are exported to the European Union, suggesting not only that proximity is the main determinant of competitiveness but also that Algeria is extremely vulnerable to shifts in European market access. Algeria and Libya are the only Maghreb countries that have not completed accession to the World Trade Organization (WTO). Financial integration is also weak. (López-Cálix, Walkenhorst, & Diop, 2010, p. 65)

The oil and gas sector constitutes 98% of exports, 70% of government revenue, and nearly 40% of the GDP, and employs only 2% of the labor force. Assuming no new discoveries, oil resources are expected to be depleted in 20 years, and gas in 55 years. (Lahreche, 2014, p. 23) The Algerian non-oil industrial sector is a mere 5% of GDP (compared to about 28% in emerging countries) (centre). Algeria has increased the share of oil in exports over the past 30 years, while other oil exporters have diversified away from hydrocarbons.

The manufacturing sector represents a relatively small percentage of total output and is small in absolute terms, even for an oil-concentrated economy.

By itself, high specialization in oil might not be a bad thing, as long as the endowment is sufficiently large for the population to enjoy a high standard of living. This is clearly not the case in Algeria, whose hydrocarbon endowment is small.

In addition to its small size, Algeria’s non-oil export basket is very unsophisticated and unlikely to fuel future growth. This is shown by applying (Hausmann, Hwang, and Rodrik’s, 2006) measure of export sophistication (EXPY)rather than measure sophistication based on a product’s customs. (López-Cálix, Walkenhorst, & Diop, 2010, pp. 65-66). Non hydrocarbon exports are dominated by chemical products and agriculture. These flows are extremely small and scattered across a large number of product categories, reflecting a lack of strong industries or products on which to build export diversification. Services exports also appear underdeveloped, notably compared to non-oil-exporting countries, and are largely related to hydrocarbon exports. (Lahreche, 2014, p. 24)

Despite efforts to encourage private sector development, promote diversification and attract foreign direct investment in recent years, the state still plays a preponderant role, meaning that changes to government expenditure and investment continue to have a significant impact on overall economic performance. (Oxford, 2021, p. 6)

The depletion of the hydrocarbon resource will lead to a current account deficit and a rapid worsening of the external position if non-hydrocarbon exports and capital inflows fail to increase much from their current low levels.

4. The reasons for Algeria's heavy dependence on hydrocarbons:

Possible explanations for Algeria’s lack of diversification include Dutch disease, real exchange rate volatility, constraints on private sector development, and rent seeking

4.1. Dutch disease:

Potential problem in concentration on the exports of certain products, especially of natural resources is that, a resource boom could divert resources away from the manufacturing sector and lead to an appreciation in the real exchange rate. This would lead to a decline in the competitiveness of traded products in international markets, which is known as the Dutch disease (Dogruel & Tekce, 2011, p. 3)

Dutch disease is not a plausible explanation for Algeria’s high concentration in oil. Algeria’s real exchange rate depreciated massively following the collapse of the price of oil in the mid-1980s, and there was no resulting export diversification away from hydrocarbons. Moreover, it is not the case that the Dutch disease phenomenon operated over the longer term or that its initial impact was prevented by the civil war, as the exchange rate continued to depreciate slightly after 2000, with no export diversification. This is not to say that the current level of the real exchange rate is or is not optimal to spur diversification. But it is clearly not the case that appreciation of the real exchange rate over the past two decades has created a Dutch disease effect in Algeria.

4.2. The volatility of the real exchange rate:

Highly volatile export revenues lead to high volatility in the real exchange rate, which increases the riskiness of the non-oil tradable sector. This reduces investments in that sector, keeping it small. Although this channel has been important in other countries, Algeria has enjoyed relative stability in the real exchange rate since 1990, with no corresponding diversification out of the hydrocarbons sector. The volatility of its real exchange rate is a fraction of that exhibited by Ecuador, Iran, Kazakhstan, Russia, or Venezuela, all of which have lower levels of oil export concentration.

4.3. Business constraints on the private sector:

The economy is dominated by state-owned enterprises, with the purchasing opportunities provided by these enterprises account for 20% of GDP. These SOEs are often governed by political or personal interests, rather than value creation and efficiency (commerce & trade, 2020, p. 4)

Investment climate assessments reveal a host of regulatory and administrative obstacles. The top six constraints identified by Algerian private entrepreneurs in the 2007 investment climate assessment include corruption, anticompetitive “informal” practices, lack of access to land, lack of access to finance, electricity shortcomings (frequent cuts in services), and high taxes .

Although they may be reducing productivity, inefficiencies in the business environment are not alone a convincing explanation for the observed lack of export diversification. Algeria’s ease of doing business rank is higher than that of Egypt, Iran, and Morocco, all of which have been much more successful in discovering new export activities.

4.4. Highly domestic protected :

Market is dampening the incentives to search for new opportunities in external markets. Despite recent tariff reductions with respect to the European Union, Algeria’s economy continues to be highly protected.

The average nominal tariff was 18.7 percent in 2004, well below the more than 30 percent averages in Morocco and Tunisia. However, if one takes into account nontariff and behind-the-border barriers (as measured by the Trade Restrictiveness Index), Algeria’s level of protection is the fifth highest in the world. According to Ecotechnics (2004), protectionism offers high returns to selected Algerian firms in the domestic market, discouraging firms that would introduce new export products. This may dull incentives to search for new export activities, but it does not eliminate them, particularly for potential new entrants to the private sector, outsiders, or domestic-focused firms wishing to expand beyond the small domestic market. It is therefore not a convincing explanation for the lack of export diversification in Algeria.

A related explanation is that the availability of rents from the oil sector diverts entrepreneurs’ attention from other export activities. When a substantial share of a country’s wealth is allocated by the government, there is always a danger of diverting entrepreneurs from productive activities to competition for government resources state intervention in all sectors of the economy. The period featured nationalizations and investment in newly formed state-owned enterprises in priority sectors (often heavy industry but also in light manufacturing).

Figure N°01: Industry value added growth, 2015-18

Source: World Bank, 2021

4.5. Rent-seeking:

Rent-seeking not a convincing explanation of the lack of diversification of the Algerian economy, a great many countries have much larger endowments of oil—and therefore much higher rents to capture. Many of the countries, such as Kazakhstan and Russia, feature significant state intervention in the economy but nevertheless have much more diversified export baskets. In some cases, movement to these new sectors was even spurred by such dirigisme.

These more traditional explanations do not seem to capture the special situation of Algeria as a hyper specialized oil exporter without a commensurate endowment. This is not to say that an inefficient business environment, protectionism, state intervention in the economy, or real exchange rate volatility are good things; addressing these issues might very well improve economic performance. But to understand why Algeria has suffered such lagging export diversification, one must look elsewhere.

4.6. Import Penetration Index:

During the monopoly phase, the import penetration index averaged 23.4% that means imports satisfied 23.4% of aggregate demand in Algeria during this period, with the remaining 76.6% satisfied by domestic production.

During the period of 1970-1977, the economic development system adopted in Algeria was centered on strong industrialization, seen as the way that other sectors of Algeria's economy would be developed. Consequently, large investments had to be granted to this sector, which led to increase the domestic demand for semi-finished products and industrial equipment, which led in turn to increase in imports. In this period, the imports penetration index averaged 27.5% and it recorded the highest rate 34.7% in 1975, which means imports satisfies 34.7% of domestic demand in Algeria, while 65.3% satisfied by domestic production.

In the 1980s, the Index recorded successive declines where decreased from 28.3% in 1980 to 10.2 % in 1987, this decline was mainly due to the fall in the value of oil exports that pay for nearly 80% of imports of goods and service . Thus, the decrease in exports revenues led to a decrease in imports, where it increased from 20% in the 1990s to 25.8% in the 2000s and it reached the highest rate 30%in 2008. The improvement in the import penetration index is due to the increase in the domestic demand for imported goods to cover the needs of economic recovery program on one hand and due the rise of import to satisfy the increasing demands of the population on the other one. Note that the Algerian domestic demand for the foreign goods is mainly centered on the industrial equipment, semi-finished products and food.

In 2014, the import penetration index recorded the lowest rate 2.6%, which means imports satisfies just 2.6% of domestic demand in Algeria, while 97.4% satisfied by domestic production. This decline was mainly due to the fall in the value of imports from USD 55028 in 2013 to USD 5541 in 2014. (BRIKA & MEKARSSI, 2016, pp. 14-15)

5. Policies to Diversify export Away from Natural Resources:

There is no unified theoretical framework that can be relied upon when it comes to revealing the macroeconomic drivers of export diversification, but the literature has revealed some major trends in this area. Cross-countries experience suggests that successful diversification of exports hinges on a combination of policies. Those range from providing a stable macroeconomic environment that preserves the competitiveness of non-resource exports; offering an enabling business climate; and developing export-promotion strategies:

5.1. Benefit from “product space”:

The benefit from exporting depends on which products are exported. Certain products are close to each other in “product space” in the sense that the ability to export one can easily lead to a small jump in capability to produce and export the other. A country that can make toasters, for example, would have the capability to move speedily to a range of other white goods, then perhaps to microwaves and electronics. There may therefore be a greater externality from encouraging investments in such “dense” sectors in product space than in products which are on the periphery without clear knowledge, skills or market relationships with other sectors. It is also preferable if a country’s export bundle resembles those of countries with higher levels of productivity and income. Otherwise the country risks being locked in to low-wage competition with poorer countries (Gelb, 2010, p. 5)

5.2. Domestic competitive environment and reliance on the private sector:

In addition to reforming trade and macroeconomic policies, governments need to improve the supply response of the economy, especially by removing price controls, rationalizing investment regulations, and reforming labor market regulations. These policies will complement trade reforms and promote the adoption of cost-minimizing technology. (worldbank, p. 5)

The decision to diversify is taken by individual firms from the private sector (provided that the government does not have a decisive influence on export markets, as is the case in most countries).

In the first case, any company or individual can purchase low-cost financial assets to create a portfolio with better performance in risk and/or return. On the contrary, in the latter case, although the firm still has a belief about future international prices, exchange rates and other relevant parameters, the return to the new export enterprise will ultimately depend on the firm's own ability to profitably produce the good, which In turn it responds to micro and macroeconomic conditions. Likewise, risks are exacerbated by the irreversibility of some productive investments, a problem absent from more liquid financial markets (Bebczuk & Berrettoni, 2006, pp. 8-9)

5.3. production structure, natural resource endowments and infrastructure:

Industrialization has involved the interaction of technology, specialization, and trade. This interaction provokes structural change within economies (worldbank, p. 5). The production structure of an economy is an important determinant of export diversification in developing countries. In particular, a large share of manufacturing value added in GDP is positively associated with export diversification. This factor is by far the most important factor driving changes in the export structure. In contrast, natural resource endowments have a negative effect on export diversification.

A higher ratio of mineral rents in GDP induces more concentration in export products. These findings are particularly important for African countries and LDCs, which generally exhibit a higher export concentration. Thus, the results underscore the need for African countries and LDCs to build productive capacities and transform the structure of their economies to foster export diversification, as set out in the SDGs, the Istanbul Program of Action for LDCs and Agenda 2063 of the African Union.

Infrastructure is also an important driver of export diversification. Both energy consumption and telephone lines – a proxy for Information and Communication Technology (ICT) – have a positive impact on export diversification (Osakwe & Kilolo, 2018, p. 19)

In 2019, Algeria was ranked 157th for its ease of doing business, A mix of public and private sector action could support improved connectivity in Algeria as well as the country’s transition to online and mobile payment platforms (Sohnen, 2020, p. 17). Current financial regulations also create hurdles for the international transfer of funds. These obstacles can result in significant delays in payments and the repatriations of dividends that are particularly damaging to small- and medium-sized firms (commerce & trade, 2020, p. 4).

5.4. Financial development market size, openness to trade and FDI:

The bigger the domestic market size, the wider is the export diversity. In some estimation the results suggest there is a positive relationship between FDI inflows and export diversity while in others they suggest that the relationship is negative.

This could happen when external resources are channeled mostly to specific industries (for example, the minerals sector).

Diversifying the domestic production structure of developing countries is crucial for reducing their dependency on a few export goods. This implies that developing countries should transform their economies to produce high value-added and dynamic goods, such as manufacturing.

5.5. Supportive Macroeconomic Policies:

Sound macroeconomic management is critical to containing the effects of natural resource rents on the “Dutch disease” economy, and overvaluation must be avoided for diversification strategies to succeed. Pro-cyclical fiscal policies should also be avoided.

To insulate the economy from the impact of large fluctuations in revenue from natural resources, one option is to invest abroad in part or all of the savings from the resource sector.

In Algeria, the Oil Savings Fund (Fonds de Régulation des Recettes-FRR) helps sterilize part of the excess liquidity generated by the hydrocarbon resource, but the possibility of nearly unrestricted government withdrawal limits the effectiveness of sterilization.

Large increases in current spending - particularly through increases in public sector wages - can have a detrimental effect on competitiveness. In Algeria, recent wage increases have not been matched by productivity improvements, and have led to higher unit labor costs. On the contrary, productivity-enhancing public spending is more likely to support competitiveness. (Lahreche, 2014, pp. 31-33)

5.6. E-Commerce:

The Algerian e-commerce market is growing, but it is far from reaching its potential. The market potential is estimated to be $5 billion. To boost e-commerce the government is seeking to increase the rate of Internet penetration and bandwidth.

In February 2018, the Algeria government adopted a law that defines the country's first e-commerce regulations, which stipulate that online markets must host their website in Algeria and be registered at the Algerian Commercial Registry. (commerce & trade, 2020, p. 21)

5.7. Agriculture :

Agriculture is one of Algeria's priorities, and through new policies, the government has encouraged the development, modernization and industrialization of the agricultural sector to achieve self-sufficiency, boost exports and diversify and revive the economy toward sustainable growth. The government also urges large-scale agricultural investments in the highlands and the "Sahara".

The development strategy promotes foreign direct investment and partnerships, with particular focus on cereals, oilseeds, sugar production, and crushing and refinery projects that support the processing industry. Such projects include supporting the development of increased storage capacity, improved cold chain infrastructure, and packaging projects (commerce & trade, 2020, pp. 5-9).

Trade expansion is central in agriculture to creating new, higher productivity, jobs that will facilitate growth through structural transformation in a range of mostly urban activities characterized by strong agglomeration economies, negotiable and value-added is imperative for sustained growth. (OECD/World Trade Organization, 2019, p. 139)

6. CONCLUSION:

The study dealt with an analysis of the production structure of Algeria, which is largely concentrated in the hydrocarbon sector. It appears that this type of specialization is not compatible with the state's carbon and carbon resources, and its reversal should be a clear political priority. Then, some traditional explanations were presented for the lack of diversification of exports with the exception of oil, but these explanations do not apply to the Algerian reality. It offers an alternative explanation, not based on macroeconomic fluctuations or the appreciation of the real exchange rate but on the specificity of productive capacities in the oil sector and their replacement by other activities. This interpretation underlies the idea of a 'product space' in which structural transformation occurs.

This paper discusses also export diversification patterns of trade liberalization in Algeria, which has been shown to specialize in a very marginal part of the product space. The same applies to the activities that make up the non-oil export basket, which contributes to explaining the chronic lack of diversification of exports. Through this study, a group of results was reached, one of the most important:

-Algeria considered diversifying its exports to non-oil products a priority of economic policy in order to reduce the risks of adverse shocks specific to a specific sector and fluctuations in oil prices. However, the results were counterproductive as exports became more concentrated;

-Enhancing export diversification or concentration requires facing the challenges posed by the domestic production structure and the lack of good infrastructure;

-A successful export diversification strategy entails economic policies geared towards supporting external competitiveness, avoiding exchange rate fluctuations, opening up the trade regime, and extensive structural reforms to improve the business environment, including comprehensive promotion of export strategies;

-External sustainability in Algeria depends on export diversification brought by a diversification of the productive structure through increased openness to international investment and trade;

-Ensuring positive real interest rates, competitive exchange rates, and low inflation will not only increase the supply of domestic financial resources, but also help to support trade reforms.

Based on the findings of the study, a set of recommendations were proposed:

- The country’s development and growth model rely on a more diversified productive basis;

-To develop export-promotion strategies measures need to be taken beyond traditional macroeconomic policies, and include, notably, labor market, financial sector, and education or innovation policies;

-Domestic liquidity should be insulated as much as possible from the effects of inflows from the natural resource sector.

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