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Abstract

Since its independence in 1962, Algeria, as an oil producing country, undertook the construction of a socialist economy supported by heavy industrialisation and substantial investment in human capital. This strategy of development was based on state-led industrialization, after it nationalized almost the whole economy in 1966. However, this policy focused on establishing large state enterprises and investing heavily in the public sector while not allowing any significant role for the private sector. This rapid industrialization resulted in severe inefficiencies in the productive capacity of various industries and generated fiscal imbalances in the mid-1970s, which constrained Algeria's ability to continue its expansionary industrial policy. The reversal of oil and gas prices in 1986 made the situation even worse and the state-owned industrial sector remained a heavy burden for the government because of its low productivity and lack of competitiveness. Under these troublesome and shaky political and economic atmospheres, economic reforms was introduced in the 1990s in order to change the Algerian business context from one of state-centered, control orientation, to a free, open market orientation. Furthermore, privatization was imposed on the country by the international monetary fund (IMF) supported adjustment program, as one of the main pillars of these economic reforms, and the right tool to rescue the ill functioning economy and make local industries more efficient and globally competitive. Despite a number of years of economic reform and adjustment, the privatization process in Algeria never really took off, and the country's industrial efficiency is still relatively weak. Rapid decline and deindustrialization characterize the period from 1980 to the present. However, attempts at industrial reforms have not yet started to show any signs of improvement in its performance. Nonhydrocarbon exports account for a small share of total exports (less than 5 percent) and the oil sector remains a dominant feature of Algeria's economy, making it vulnerable to changes in world oil markets.

Keywords: Socialism- Industrial Policies-Reforms-Algeria-Privatization -industrial Performance – Globalization.

JEL Classification: O25, P21, P31

[1] Opinions expressed and conclusions derived in this article, are those of the authors and not necessarily to be attributed to their universities. All remaining errors are ours.

Introduction

The choice of socialism adopted by Algeria after its independence has an important effect on the design of its development strategy, with its focus on heavy industries based on hydrocarbons (i.e.cultivate oil and reap industry). However in the 1970s Algeria invested in about a half of its gross domestic product in the building of national public industrial base.

The catastrophic situation of industrial public corporations at the end of the seventies pushed the government to redress it by launching early reforms in the eighties. The organic restructuring policy promoted between 1980 and 1985 split up the so-called 'big' corporations, dividing them according to the various activities they were conducting. This specialization concerned mainly the separation of activities into the engineering, production, and trading sectors. The fundamental reason for public corporation restructuring was to increase their efficiency and then increase their production, thus diminishing Algeria's enormous depandency on foreign markets.

In 1986, Algeria's economy experienced a reverse oil shock, and the government responded to the dramatic erosion of export revenue by borrowing abroad and intensifying import restrictions. This reversal of oil and gas prices made the situation even worse. The state-owned industrial sector remained a heavy burden for the government because of its low productivity and lack of competitiveness. However, the economic reforms that were introduced in the 1990s aimed to change the Algerian business context from one of state-centered, control orientation, to a free, open market orientation. The government also concluded agreements with the International Monetary Fund (IMF) in the late 1980s and 1990s to secure international credit for its envisioned Structural Adjustment Program implemented from 1994-98. The privatization of companies was imposed on the country by the IMF and the World Bank as one of the main pillars of these economic reforms, and the right tool to rescue the ill functioning economy and making local industries more efficient and globally competitive in the context of an economy in the process of gradual liberalization.

Despite a few successes, the privatization process of enterprises in Algeria failed because these last ones have not benefited from prior strategic restructuring, nor has the privatization been supervised by effective institutions in the context of strong industrial policy. The Algerian industrial sector, especially the manufacturing industries, which constitute the backbone of modern economies, performed poorly and have been particularly affected by the 2008 global recession. As their production dropped, nonhydrocarbon exports have remained a small share of total exports (less than 5 percent), while the country remains extremely dependent on its hydrocarbon wealth.

In this paper, we examine the political economy and consequences of industrial policy in Algeria, by answering the following sets of questions:

- ✓ What have been the major industrial reforms steps in Algeria?
- ✓ What has been the performance of the industrial sector since the initiation of reforms?
- ✓ Why did economic reforms not have a significant impact on Algerian industry by making it more efficient and globally competitive?

To address these issues, the article is divided into three sections: the first section reviews the previous pre-reform socialistic industrial policies adopted by Algeria and examines how effectively they worked. The second section deals with Algeria's attempts to make industrial reforms. The third section discusses briefly the impact of economic reforms on current

Algerian industrial performance, and draws possibilities for industrial recovery in the neer future imposed by the reality of the new global economic architecture.

Section I: Algeria's Industrial Policies in Pre-Reform Decades

After its independence in 1962, Algeria adopted the path of planned economic development with a distinct predominance of socialist ideology to subserve economic and social objectives, specified as growth, self-reliance, self-sufficiency in foodgrains, balanced regional development, prevention of the concentration of economic power in private hands, promotion of employment, egalitarian distribution of income and wealth, and so on. These socialist policies had an important effect on the design of Algeria's development policies, which are characterized by inward-looking public sector-led development strategies. However, Algeria founded its first public company named "Sonatrach"[2], the 'National Company for the transportation and marketing of hydrocarbons', on December**,** 31**,** 1963**.**

Thereafter, the country's first President, Ahmed Ben Bella, defined the country's economic policy, implementing a self-management model (*Auto-gestion*) in agriculture and industry. The main objective of this policy was to remove the economic heritage of the French occupation and remove Algeria's reliance on its administration (Lahouel & Biygautane, 2011). But, the Ben Bella regime was overthrown by a military coup conducted by the next president, Houari Boumediene, in 1965. Since 1967 a new economic policy has been built around a total commitment to nationalization and industrialization policies.

1. The Nationalization Policy

Algeria's bloody colonial experience (1830-1962) makes the country's leadership wary of any significant foreign presence, which is perceived as a danger to the national economy and national political independence. Foreign capital was synonymous with neocolonialism particulary among the ruling party (Front de liberation National), and for the many people traumatized by Algeria's long history of colonial injustice, which was characterized by a deliberate 132-year policy of depossession (Boukaraoun, 1990). Thus, the nationalization policy was started in 1966 under Houari Boumediene's regime in order to nationalize almost the whole economy. However, the French oil companies were nationalized on February 24, 1971. This event marked a new era for the country's economic development. Indeed, Algeria succeeded, over less than a decade, in creating a strong industrial base, and attained the long dreamed of freedom of political decision without foreign interferences.

The abundance of oil income and the huge borrowing capacity during the seventies permitted Algeria to avoid any recourse to foreign capital. Stimulating foreign capital was identified as an open door to economic imperialism. The rare joint venture companies tolerated were those operating in the oil and gas industry. The lack of advanced technological knowledge forced it to set up several joint ventures in the 1960s, mainly with American companies for technology transfer purposes (Boukaraoun, 1991).

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[2] Today, Sonatrach is the largest African company, the 12th largest world oil company, and the second largest world exporter of liquefied natural gas.

2. The Industrialization Policy

After the nationalization of the whole economy, the Algerian authorities of that time believed that national prosperity was extremely difficult to achieve without industrial development. A strong industrial sector also generates employment and enhances the development of backward and forward linkages in the wider economy. Thus, economic development and industrialization have become so closely integrated with each other, that the progress of the economy is now assessed from the success it has achieved in transformation from an agricultural set up into an industrial set up. The abundance of oil income and the huge borrowing capacity during the seventies permitted Algeria to build an important industrial base (Benissad, 1979).

From the 1960s until the early 1990s, state-owned enterprises played a dominant role in the Algerian economy. The creation of a substantial state enterprise sector was an important component of the Algerian development strategy, and was considered the best way to deal with externalities and natural monopolies; to serve the public interest and advance social objectives (such as the provision of some services at low prices to the population at large), and to reduce the vulnerability of the economy to external shocks. In addition, the growth of the state sector was accompanied by the development of a comprehensive framework of regulations that hampered the freedom of action of the private sector (Alonso-Gamo, 1998).

Algeria's industrialization process went through a comprehensive three year development plan (1967-1970), four year development (1970-1973), and a subsequent four year development plan (1973-1977). These plans were financed by oil revenues and external borrowing. As Table 1 shows, the government, invested heavily in the creation of basic capital-intensive industries (hydrocarbon, steel, plastic and fertilizers) and in prioritized industries relevant to processing and import substitution, including construction materials, metal products, and consumer goods.

Table 1: The Structure of Investments (1967-1979)

	1967-69		1970-73		1974-77		1978-79	
	In Billions of Dinars	%	In Billions of Dinars	%	In Billions of Dinars	%	In Billions of Dinars	%
Total Industries	5.4	56	20.8	57	74.2	61	66	62
Of which: Hydrocarbon	2.7	28	9.8	27	36	30	--	--
Agriculture	1.6	16	4.6	13	5.8	5	3.2	3
Infrastructures	2.7	28	11.3	30	40.8	34	36.8	35
Total Investments	9.7	100	36.7	100	120.8	100	106	100

Source : A.Benachenhou, *l'expérience algérienne de planification et de développement* (1962-82), Algérie: OPU, 1982, p.49.

Thereafter, under the 1971 law of finance, public corporations had been obliged to be serviced exclusivley by a specified bank without the possibility of moving to another, and the banks must provide foreign exchange loans for imported capital goods needed for investment .Since both of the banking and industrial sectors were owned by the government, while the role of the banks increased their work became very passive. Their activities became almost purely accounting in nature, and their role in credit evaluation and allocation were almost absent (Hakim, 2003).

During the industrialization policy, banks played a passive role with respect to industry. They simply became the financing sector of the government's plan by automatically issuing credit and loans to approved expenditures. Monetary policy had only one main role: ensuring the fulfillment of the economic plans. These later defined how much of each good had to be produced and set its price. It served as the basis for the credit plan, which assigned earmarked credits to each producer. The credit plan flows thus served as a tool to monitor the economic plan's execution. Lending rates were administratively fixed, and investment funds were allocated by the branch ministries. Enterprises paid each other using bank transfers and could use cash only to pay wages and salaries. Their deposit balances could be used only for the purposes specified in the credit plan.

3. The failure of the industrialization process

As indicated earlier, Algeria's industrialization policy focused on the construction of a socialist economy supported by establishing large state enterprises and investing heavily in the public sector while not allowing for any significant role for the private sector. As long as oil income was large the industrialization policy proved correct. But, the reversal of oil and gas prices in 1986, with state resources dwindling, made the situation even worse (see Table 2).

Table 2: Algeria: Selected Economic Indicators (1986-1988)

	1985	1986	1987	1988
Real GDP Growth (%)	-5,6	-0,2	-0,7	+1,9
Real Hydrocarbon Growth (%)	+5,7	+1,2	-7,1	+1,9
Total External Debt (In Billions of U.S. Dollars)	18,40	22,90	25,02	26,74
Current Account Balance (In Billions of U.S. Dollars)	+1,03	-2,23	+0,14	-2,044
Inflation%	10,5	12,3	7,5	5,9
Unemployment %	9,7	-	21,4	-

Source : Bank of Algeria.

The state-owned industrial sector remained a heavy burden on public finance because of its low productivity and lack of competitiveness (Joffe, 2002). However by the 1980s, Algerian public enterprises were incurring major losses, most of them were operating with obsolete technologies and antiquated management under central planning, resulting in lack of competition. This coupled with a high degree of protection which distorted resource allocation and resulted in the provision of poor-quality products and services (Alonso-Gamo, 1998).

In addition, this strategy of development followed by Algeria in the 1960s was based on state-led industrialization through prolonged import-substitution, and tariff and quota barriers, rather than through export promotion. However, the reverse oil shock of 1986 and an overvalued exchange rate aggravated the public enterprise problems and led to mounting external debt.

Generally, the industrialization strategy neglected two factors, which would ultimately cause its failure (Boukaraoun, 1991):

-The first factor concerned the technology that was transferred by foreign corporations selling their factories and production processes. This technology was obsolete and thus did not allow Algeria to compete with the same corporations in the foreign market or even fulfill domestic market demand. This led to a total dependency on imports for public enterprise, raw materials, and the basic needs of the population.

-The second factor concerns the demographic pressure resulting from the yearly 3.2 percent birth rate, which is one of the highest in the world[3]. The needs induced by such a growing population eliminated all of its benefits in helping industrial growth, which was unable to satisfy domestic market demand without recourse to importing every product imaginable.

The Algerian economy thus suffered from misdirected public investments under the dominance of the public sector, especially in the 1970s when the country benefited from a sharp rise in oil revenues. These fragilities were exacerbated in the light of the authorities' inability to control corruption, which provided opportunities for rent seeking behaviors, and led rapidly to even greater losses and imposed an unsustainable burden on the financial system. Under these circumstances, the catastrophic situation of industrial public corporations at the end of the seventies obliged the government to launch early reforms started in the 1980s and accelerated in the 1990s through the IMF-supported structural adjustment program.

Section II: Algeria's attempts to industrial reforms: Major Steps

Algeria's rapid industrialization process has resulted in severe inefficiencies in the productive capacity of various industries and generated fiscal imbalances in the mid-1970s which constrained Algeria's ability to continue its expansionary industrial policy. However, major industrial reforms initiated since the 1980s can be divided into two categories: early and recent reforms.

1. Early Reforms: The Restructuring and Autonomy Policies

The colossal deficits registered by public industrial enterprises in the 1970s led the government to implement the restructuring policy of 1980-85. Since the restructuring policy failed to achieve their recovery, in 1987 the government underwent an economic reform calling for 'enterprise autonomy.'

1.1. The Restructuring Policy of 1980-85

The financial and organizational restructuring policy was launched by the government between 1980 and 1985 to redress the catastrophic situation of public corporations at the end of the seventies. This split up the so-called 'big' corporations, dividing them according to the various activities they were conducting. This specialization concerned mainly the separation

[3] It is worth noting that the Algerian population increased from 10 million in 1962 to 25 million in 1990. Thereafter, the population reached the level of 37 million in 2012, more than half under 25 years old.

of activities into the engineering, production, and trading sector. The public corporation restructuring aimed at the double objective of: (Boukaraoun, 1990)

-The separation of production functions from commercial functions.

-More specialization in production structure to enhance efficiency and then increase their production, thus diminishing Algeria's enormous dependency on foreign markets.

However, four years after its implementation, the restructuring policy began to show its limitations and inevitable dysfunctions, from the decrease in oil prices in 1985, oil rent was no longer available, the billions of dinars in public corporations subsidies were needed to reimburse the external debt and to finance the population's basic needs that the corporations were unable to supply. It became obvious that restructuring was not the ideal policy for dealing with public corporations' congenital inefficiency.

1.2. Enterprise Autonomy 1987

In the Algerian national charter of 1976 'socialism' was described as an 'irreversible' option. Thereafter, the adoption of a new national charter in 1986 gave a new philosophical basis to the economic system, which emphasized the improvement and development of management modes in public enterprises (Boukaraoun, 1991). In accordance with the new charter, in 1987 the government underwent an economic reform calling for 'enterprise autonomy. '

The autonomy policy stressed by the law of 88-01 of January 12, 1988 referred to the managerial and financial autonomy of state-owned corporations, and a departure from the traditional concept of tutelage. In other words, they would be responsible for their own management. Public enterprises were freed from former bureaucratic tutelage and were transformed into commercial entreprises, but it should be added that their equity is not transferable outside the public sector.

This autonomy was to submit public corporations to direct market mechanism rules, thus, profit-making was to be the sole consideration that directed their activities after the implementation of the reforms. The necessary condition to be eligible for autonomy was that a public corporation should have positive net assets. More than 400 public corporations were affected by this policy (Boukaraoun, 1991).

In line with the spirit of autonomy policy, and under oil income decreases after the reversal of oil and gas prices in 1986, the government was obliged to enforce broad offensive measures to permit banks to collect the large amounts of money hoarded. The law on banking and credit was promulgated in 1986; the reform movement later caused it to be amended again. The new proposals emphasized that banks had to act as profit-making businesses, as all other corporations did. In addition, the new approach allowed the banks to create new structures, to participate financially at various horizontal or vertical levels such as bank to bank, or bank to corporation (Boukaraoun, 1991). In 1990, the money and credit law 90/10 of April 1990 was adopted, and considered the most revolutionary finance law introduced in Algeria since its independence. In the light of this new law, corporations can be owned 100 percent by foreign capital, all profits can be repatriated, and foreign banks are allowed to open branches.

Despite these early reforms, the Algerian industrial sector performed poorly. However, this disappointing performance, in addition the shaky political and economic atmospheres, contributes to aggravate existing social tensions, particularly since 1988 when violent demonstrations took place and succeeded to break the tradition of the one party state, and several political parties were founded. However, political instability, the absence of rule of law would make the country the most scattered and fragmented in North Africa. Hence, Algeria had no choice but to commence implementing the seeds for economic liberalization. It is worth noting that Algeria's centrally planned approach to development left as its legacy a large public enterprise sector-about 1300 local public enterprises and around 400 national enterprises that accounted for about 80 percent of value added and 75 percent of employment in the manufacturing sector in 1993. The public sector employment at the end of 1991 stood at about 2.2 million workers (52 percent of the labor force), accounting for 70 percent of industry, more than half of construction and 30 percent of services, with agriculture dominated by small private farms. (Alonso-Gamo, 1998)

2. Recent Industrial Reforms

Beginning in the early 1990s, numerous economic reforms were undertaken due to constraints imposed by government agreements with the International Monetary Fund (IMF) and the World Bank (WB) in the late 1980s and early 1990s. As a result, the structural adjustment program (1994-1998) was coupled with austerity measures designed to reduce Algeria's external debt**,** which has proven difficult to control. The major reforms took the form of price liberalization, tighter budget constraints on State-owned enterprises, the lifting of monopolies on foreign trade, and autonomy for the central bank. The change in the institutional framework was supposed to increase Algeria's appeal for foreign direct investment (i.e. privatizations) and to implement a market economy able to compete in a globalized world. Furthermore, Algeria began liberalizing its manufacturing sector since the 1990's, with the objective of making Algerian Industries more efficient and globally competitive. Towards this end, the government has been pursuing three sets of reforms:

- One, the government approved a framework for the privatization and restructuring of public sector enterprises in 1995.

- Two, liberalizing foreign trade and currency transactions, through current account convertibility in 1997.

- Three, instituting several measures to facilitate foreign direct investment (FDI) inflows.

1.1. The Privatization Policy

Privatization as one of the main pillars of recent economic reforms was introduced, or rather, imposed on the country during the 1990s, as Werenfels (2002) rightly argues, by external institutions such as the IMF, the World Bank and the Clubs of Paris. Privatization was considered a policy that would rescue the country from its financial crisis and enhance the efficiency and accountability of the state owned companies, once they become privatized (Addi, 2006).

Developing countries caught up with the privatization for a variety of reasons. Firstly, they were persuaded that their economic inefficiency which was caused by the low operating state enterprises could be improved by enhancing competition and introducing new managerial methods. Second, privatization was considered a solution to reduce the persistent losses incurred from poorly performing state enterprises which cost governments heavy subsidies. Therefore, privatization was considered a means to generate revenues to alleviate fiscal burden and also to increase the share of the private sector involvement in the economy (Lahouel and Biygautane, 2011).

The privatization process for government-owned corporations in Algeria was officially launched in 1995[4]. The new reform strategy was geared toward the creation of an open, market-oriented, private sector-led economy, through reducing the share of the public sector in the economy to allow the emergence of a dynamic private sector. However, the loss-making and inefficient public enterprises had to be restructured or closed. The privatization of companies had therefore the main objective to reduce government expenditure in order to restore the balance of both state budget and external accounts in the context of an economy in the process of gradual liberalization. Indeed, only private sector-led growth in the non-hydrocarbon sector can generate the sufficient growth and to create jobs for a rapidly growing unemployment rate (around 28 percent). An acceleration of the privatization efforts would contribute to attracting foreign capital and transferring needed technology. It also sent the right signals to foreign investors and has been the driving force behind higher foreign investment inflows (Alonso-Gamo, 1998).

The law on privatization enacted in 1995 offers sufficient flexibility to undertake privatization in many forms (a) sale of all or fraction of the shares in an enterprise through private deals or competitive bidding or through the stock exchange (b)subscription of shares by private investors in the context of a capital increase (c)sales of assets, or (d) concession.

In the current phase of the privatization agenda, enterprises have been classified into three categories: viable, potentially viable, and severely distressed. The government's strategy is to privatize first the viable enterprises, to solve the financial or property right problems, which undermine the viability of potentially viable enterprises, through an appropriate treatment of the debts and titles in the context of a privatization transaction; and to liquidate or restructure the others in a way that preserves the rights of workers and the integrity of the banking system (IMF, 2001).

The industrial public sector is the subject of a privatization program set up in the mid-1990s. The implementation of this program has really begun in the early 2000s, in a context where the improvement in the political situation made the Algerian market more attractive to foreign investors.

Since the privatization regulatory framework has been put in place, numerous public enterprises have been liquidated and assets have been sold to former employees, leading to the creation of man small private enterprises, notably in the construction sector. In addition, there has been the listing and sale on the stock exchange of 20 percent of the equity of three companies (Eriad-Setif, Saidal, & Aurasai) and the creation of joint venture in the detergent industry with a major foreign company.

The Structural Adjustment Program (SAP) measures including privatization are not integrated into an industrial policy. In 2001 an ordinance stipulates that all companies can be privatized. A turning point was however observed in 2007 because privatization is integrated into an industrial policy. Privatization must now help to stop the deindustrialization that began during

[4] Ordinance No. 95-22 of 26 August 1995, modified by Ordinance No. 01-04 of 20 August 2001.

the 1980s and was exacerbated by the SAP, and to improve the competitiveness of the Algerian economy (Saadoun, 2012).

1.2. Financial Restructuring of Public Enterprises (1997-1998)

After an initial organic (internal) restructuring that was implemented in 1988 with the creation of an Investment Fund, a second restructuring came in 1996 with the implementation of holding companies. They are about 950 national enterprises, regrouped into eight national holdings (see Table 3) responsible for exercising the authority of the owner on behalf of the state and 35 local enterprises covered by three regional holdings.

Table 3: Algeria: Holding Companies

Holdings	Number of Enterprises Regrouped into Holding
Agriculture	41
Water-Energy- Mining	41
Equipment Goods	31
Construction	84
Chemicals	24
Electronical/Computer/Communication	18
Other Industries	22
Services	82
Total	343

SOURCE:Nacer eddine Sadi, 2005. La *privatisation des entreprises publiques en Algerie-Objectifs, modalites et enjeux,* Algerie:OPU, P.52.

These holdings are supervised by the national council for the state's participations, the rules for the management of the holdings and for privatization are spelled out in two laws enacted in 1995: the law on privatization and the law on the government-owned capital portfolio (IMF, 2001).

Between 1997 and 1998, Algeria undertook a major financial restructuring of public enterprises, through a joint action of the public banks and the public enterprises. However, in exchange for their financial restructuring, public enterprises agree to multi-year performance contracts, with quantitative targets for securing their economic and financial viability (Nashashibi, Karim *et al.*, 1998).

The 2005 Budget Law stipulated that over leveraged, but otherwise viable public enterprises will be restructured financially with budgetary support, including through the buyback of bank debt. The Algerian Treasury concluded the financial analysis of public enterprises in 2006 and announced a program concerning 378 public enterprises. The total cost of the financial restructuring of the 378 enterprises was 4 percent of GDP, of which 3 percent was for buying back bank debt and 1 percent as cash injection (IMF, 2008).

Furthermore, the first decade of the 21st was very negative for the Algerian industry, which had suffered neglect. Taking advantage of the accumulation of large financial resources owing to favorable hydrocarbon market developments, Algeria launched since April 2001 an ambitious national investment program. The economic recovery plan sought to tackle pressing infrastructure and social needs and accelerate activity in services, construction, and public works. In 2004 the authorities announced a US$200 billion public investment program to enhance or build new infrastructure, in an effort to increase the competitiveness of the economy. In addition the government has allocated $286 billion for a five-year development plan 2009-2014 to boost the economy mainly through developing infrastructure. The plan will see $156 billion invested in new projects as well as $130 billion spent on existing programs, including the completion of railway, road, and water projects. The new projects will include infrastructure for public works, transport, health, and education services as well as two million new housing units.

Section III: The Impact of Economic Reforms on Algerian Industrial Performance

Now, the question arises is that had economic reforms had an impact on Algerian industry? In order to answer this question, we first, assess the performance of industrial sector, second we attempt to explain the main factors behind this disappointing performance, and finally we advocate a framework for industrial strategy design in order to strengthen the existing manufacturing industries, and identify industrial development priorities.

1. Performance of Industrial Sector

The Algerian industrial sector (excluding oil) is made up of steel, chemicals and petrochemicals (fertilizers, plastics, pharmaceuticals), as well as a major food industry (wine, olive oil), textiles (tradition of manufacturing carpets) and mechanical (trucks, agricultural machinery). Using the latest available estimates of the Index of industrial production (IIP), we examine the main trends in Algeria’s industrial production for the period 1993-2010 (see Table 4):

Table 4: Algeria: Indices of Industrial Production in Public Enterprises, 1993–2010
(Annual percentage change) (1989 = 100)

	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
Water and Energy	7.4	2.6	-0.5	4.5	3.9	8.8	7	2.4	5	4.4	6.6	5.8	9.5	3.4	6	7.9	7.1	5.6
Hydrocarbons	0.6	-3.2	1.4	5.2	4.4	0.8	1.9	6.4	-0.5	4	7.4	1.1	3	-0.7	1.5	-2.4	-5.4	-2.1
Mining and Quarrying	-10.9	-2.6	-1.6	-4.2	-13.5	5.4	-3	15.8	-2.9	7.4	0.6	-1	10	15.2	15.4	9.8	3.4	-3.3
Mechanical and Electrical	-3.9	-16.8	9.2	-20.4	-21.1	13.5	6.4	2.2	11	7	8.9	2	-4.1	1.3	-22.4	4	9	-12.6
Construction Materials	-5.7	-11.3	4.2	4.6	-5.1	4.9	-2.4	7.3	1.6	6.2	-7.6	10.2	6.9	-3.7	7	-1.6	-1	-5
Chemicals	3.8	17.5	-8.5	-13	6.5	16.6	-1.7	6	-3.1	-5.8	-10.6	-2.2	5.5	-5.6	-13.3	2.5	2	-10.6
Food Processing	5.7	-4.1	-7.7	-4.4	-2.4	14.8	-1.6	-9	-12.5	-19.1	-20.6	-15.7	-14.6	-7.5	0.9	6.8	-9.3	-3.3
Textiles	6.5	-13.8	-11.4	-27.1	-8.8	0.6	-18.9	-15.7	-14.7	3.9	-2.4	-14.5	00	-13.8	-13.2	-1.1	1.2	-10.8
Leather and Hides	-15.1	2.1	-20.4	-31.1	-19.1	-5.5	-26.3	-2.5	-0.5	-15.7	-7.3	15.4	-19.3	-15.6	-19.6	00	-10.8	-6.7
Woods and Paper	10.7	-13.4	-10.4	-19.3	-2.5	-4.2	-14.3	-8.5	-13.1	0.9	-5.9	-0.7	-17.8	2.6	-2.1	-12.1	-21.3	14.8
Other Industries	/	/	/	/	/	/	/	38.6	1.9	1.1	-11.7	5	-25	-1.1	-30.9	-20.8	0.4	-21.3
General Index	-0.5	-6.5	-1	-7.4	-3.6	7.2	0.4	1.7	-0.3	1.4	0.9	0.9	1.6	-0.3	1.9	1.9	0.4	-2.5
General Index (Excluding Hydrocarbons)	-0.9	-7.5	-1.7	-11.1	-6.5	9.7	-0.3	-0.1	-0.3	0.3	-1.6	0.8	1.1	-0.5	-1.5	4.4	3.4	-2.7
General Index of Manufactured Commodities	-1.6	-9.1	-1.6	-13.4	-7.6	9.4	-1.4	-1.4	-0.9	-1.1	-3.9	-1.3	-2.4	-2.5	-11.5	1.9	1.5	-5.4

Source: International Monetary Fund, Algeria: Statistical Appendix.

The table above shows sharp deceleration in Algeria's industrial growth, however the index of industrial production fell between 1993 and 2010. The manufacturing industries were particularly affected by the 2008 Recession as their production was marked by a sharp drop. The most affected by the recession are those concerning leather and textile, probably because of the competition they have faced since economic liberalization. As for the food industries, they seem to have withstood the crisis, even if the decline is relatively large, as the index of production falls. Chemical industries have experienced a relatively similar trend, although their decline is more pronounced in recent years. The Mechanical and electrical industries which constitute the core of an industrial system are also strongly affected by the recession. Indeed, the industrial production collapsed particularly between 1994 and 1997, the period of implementing structural adjustment program (1994-1998), which has been largely successful in reestablishing macro-economic stability, with the government curbing inflation**,** cutting budget spending, and preserving foreign exchange reserves, but the industrial sector was dramatically affected by IMF adjustment program measures, however, most industries suffer from the recession.

In stark contrast, the only industries that experienced steady growth are the branches of energy and hydrocarbons, given that, the oil and gas industry is a strategic sector of the Algerian economy[5]. It represents 45% of GDP and 95% of exports, and employs 13.6 percent of the total labor force of 9.1 million workers.

In addition, the building materials industry also registered a growth in production but less regular than the energy and hydrocarbons branches. This growing trend was the result of the ambitious national investments programs launched by Algeria since 2001 to tackle pressing infrastructure and social needs and accelerating activity in services, construction, and public works.

Generally speaking, Algeria's industrial efficiency is still relatively weak, and stagnation and decline in industrial production has marked the 1990s and 2000s. Thus, attempts to industrial reforms have not started yet to show any signs of improvement in its performance, Moreover, the manufacturing industries which constitute the backbone of modern economies still suffered under the recession. The economic restructuring under structural adjustment was characterized by deindustrialization in the textiles, clothing and footwear industry. Added to this unfavorable industrial performance, the non-hydrocarbon exports accounts for a small share of total exports (less than 5 percent) and the oil sector remained a dominant feature of Algeria's economy making it vulnerable to changes in world oil markets.

2. The Reasons for the Failure of Industrial Reforms in Algeria

As indicated earlier the Algerian industrial sector performed poorly, Hence, the lack of a culture that promotes entrepreneurialism and coherent national economic policies that guide the industrial development process may have a deterrent effect on the industrial sector. However, this disappointing performance stems from a variety of factors which include:

- **The failure of privatization process**: the Algerian authorities are committed to privatization and reducing state control over the economy. Progress so far has been uneven, with substantial success in the privatization and liquidation of the small local public enterprises, but little results so far regarding the actual sale and transfer of ownership of the large national-scale enterprises. As numerous studies rightly argue (Kichou, 2011; Saadoun, 2012; Werenfels, 2002) the privatization of enterprises failed because these last ones have not benefited from prior strategic restructuring, and privatization has not been supervised by effective institutions and industrial policy. However, since 2008, the "business climate" marked by legal instability, interventionism, and the global economic crisis does not seem conducive to a privatization that could help Algerian industry to escape its dependence on hydrocarbons (Saadoun, 2012). Furthermore, with no significant privatization of an Algerian state-owned firm since early 2008, the government has supported state-owned companies experiencing financial difficulties by cancelling their debts and providing investment credits and technical assistance.

-The inadequate institutional framework for private sector development
A report by the World Bank (2005) draws the stark conclusion that Algeria's institutional framework can be described as "underdeveloped" compared to neighboring countries. This

[5] Algeria is the second-largest natural gas exporter in the world, the fifth-largest reserves of gas worldwide, and the 14th-largest reserves of oil.

report notes that "…*studies of the relative development of the private sector [...] have highlighted that the legal framework is still characterized by partial inadequacies in standards and regulations applicable to business, notably those related to: a) the creation and operation of commercial firms; b) competition rules and transparency rules in commercial transactions; c) guarantees; d) property rights; and e) rules governing bankruptcy and liquidation*…"
On the basis of this framework, starting a business in Algeria remains a lengthy, bureaucratic, and often difficult process, unlike other neighbors and middle-income economies (see table 5).

Table 5.Doing Business 2012 (World Bank): Algeria vs Arab & Non-Arab Countries

	Algeria	Tunisia	Morocco	Jordan	Turkey	Chile
Overall Rank	148	46	94	96	71	39
Start Business:Days (Rank)	153	56	93	95	61	27
Dealing With Construction Permits	118	86	75	93	155	90
Getting Electricity	164	45	107	36	72	41
Registering Property (Rank)	167	65	144	101	44	53
Getting Credit	150	98	98	150	78	48
Protecting Investors (Rank)	79	46	97	122	65	29
Paying Taxes (Rank)	164	64	112	21	79	45
Trading Across Borders	127	32	43	58	80	62
Enforcing Contracts (Rank)	122	76	89	130	51	67
Resolving Insolvency (Rank)	59	38	67	104	120	110

Source: World Bank, Doing Business 2012.

It is clear that Algeria ranks poorly in the World Bank's 2012 *Doing Business* overall index (148th out of 183 countries) as well as across categories. The cost of creating a business is high, due to the large number of procedures and the length of time it takes to start a business. The time needed to process both exports and imports is long in Algeria, despite the establishment of green lines by the customs administration. The requirement to use trade credit to finance imports is costly for businesses. Access to finance is ranked as one of the main impediments to businesses, and seems particularly to affect very small enterprises with limited balance sheets. Hence, the attractiveness of the Algerian investment environment is reduced by commercial laws and measures that are imposed suddenly and without consultation with the business community. This contributes to a sense of unpredictability about doing business – specifically investing – in Algeria. In addition government bureaucracy is a major impediment to the conduct of business in Algeria.

- Weak business climate
The main reason for the deterioration of Algeria's business climate is corruption, which is a serious problem, as it is in many developing countries. Algeria's rank on a corruption index published annually by Transparency International (TI) in 2010 was (105th out of 178 countries). Thus, corruption in Algeria is also widespread at all levels of the public sector, largely as a result of low wages and difficult living conditions. In addition, the climate of foreign direct investments (FDI) in Algeria has worsened, particularly, since a restrictive investment policy was implemented in 2009 under complementary finance law (CFL)[6]. The new rules require an Algerian majority (51 percent) stake in any new FDI project, and at least

[6] The new rules were adopted through the 2009 Supplementary Budget Law issued on July 26, 2009 (See http://www.joradp.dz/JO2000/2009/044/F_Pag.htm).

a 30 percent Algerian stake in any foreign owned import operation. However, there are serious risks that the legislation may have a deterrent effect on FDI (José Gijon, 2011). It is worth noting that Algeria ‘s attractiveness to foreign direct investment (FDI) has remained very low compared to other countries in the Middle East and North Africa (MENA) region and is chiefly focused on the hydrocarbon industry.

2. What Policy Implications for Industrial Recovery in Algeria?

The first decade of the 21st century was very positive for the Algerian economy. During the past 10 years, the economy recovered from the deep socioeconomic crisis of the 1990s. Algeria’s recent vigorous growth has been driven by higher hydrocarbon production and accelerating activity in services, construction, and public works. Between 2000 and 2010, real GDP and non-hydrocarbon GDP grew respectively at an annual average of 3.7 and 5.6 percent, whereas real GDP per head increased by 22 percent, and unemployment fell from 29.5 percent to 10.2 percent. The reasons for this success were record-high oil prices since 2000, which have translated into huge current account surpluses, soaring foreign reserves (103 percent of GDP in 2010), a significant drop in foreign debt and large fiscal surpluses.
Despite this macroeconomic performance, the economy remains extremely dependent on the hydrocarbon sector (98 percent of exports), private investment is too small, and a weak business climate remains a major barrier for private investment-led economic growth.
Furthermore, Algeria will also need to compete in the global economy and meet the productivity requirements and challenges of an association agreement with the European Union executed in 2005. The agreement provides for the gradual removal of import duties on EU industrial products over 12 years and removed duties immediately on 2,000 other products. In December 2010, Algeria requested a three-year extension (to 2020) of the deadline for completing the tariff dismantling process with the EU under the EU-Algeria Association Agreement. In addition, the government says it is working towards accession into the World Trade Organization (WTO), but the country has not joined the WTO, despite several years of negotiations.
Under this new economic atmosphere, there is a growing consensus that Algeria has to diversify its production and export patterns to reduce vulnerability to shocks, to boost growth, and to enhance its integration into the global economy. However, Algeria needs a strategic approach to industrial policymaking in order to induce a relatively successful industrialization project, contrary to the general trend of deindustrialization and retraction of state involvement since the 1990s. The existence of strong industrial sector can also generate employment and enhances the development of backward and forward linkages in the wider economy. Thus, to make such industrial recovery possible, for a successful industrial policy that has laid the basis for industrial growth, important measures in the near term have to be considered in order to promote recovery. These include:

- First, the mutuality of state and market in Algerian industrialization process. This implies that authorities should reduce the concurrent decline of the interventionist state and rapid deindustrialization since the 1990s. The policy makers also need the implementation of an alternative strategy, in which the state and the market can work together, contrary to the neoliberal strategy, to ensure industrial development.

- Second, Algeria should take concerted action to improve its weak business climate, which is an impediment to industrial private-sector development. On that front, a number of measures can be identified that would bring improvements, such as:

- Lowering the cost of creating a business, and all the necessary administrative services should be simplified.
- Improving tax administration and revisiting the tax system, especially for non-hydrocarbon revenues in order to preserve it. Also, fiscal incentives are needed to support economic activity.
- Facilitating the payment systems by developing wire transfer and online payment systems.
- Facilitating trade through faster customs procedures.
- Improving access to finance, for small-scale industries by giving them the priority sector lending.

- Third, the government must strengthen its efforts to fight corruption at all levels, because this phenomenon raises the costs and risks of doing business in the country, and has a corrosive impact on both market opportunities and the broader business climate, it also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

- Fourth, developing the national pharmaceutical industry: the healthcare sector continues to be a relatively growing market, and the demand for medical equipment and disposals is considerable and depends largely on imported goods. However, the government's recent ban on importation of pharmaceuticals that can be produced domestically is a welcome step.

- Fifth, the country also should take the necessary measures to improve the efficiency and quality of agriculture-based industries, through the designing of a strategy that places special emphasis on improving food production and quality in order to reduce Algeria's import bill.

- Sixth, the service and tourism sectors can play a positive role in export diversification. Like other countries in the Maghreb region (Tunisia-Morocco), Algeria should exploit its potential in export services and tourism to promote export diversification.

- Seventh, the major challenge for the Algerian economy is to diversify out of the hydrocarbon sector and ensure sustained private investment led growth. However, a friendly and open FDI regime is essential for Algerian development prospects because it is a source of new technologies and new discoveries. Entry of multinational companies enhanced the competitive environment for Algerian companies, thus, forcing them to benchmark themselves against global standards.

Conclusion

Algeria is engaged in a transition from a planned economy dominated by the public sector to a market economy relying on private initiative. The economic reforms were intended to change the Algerian business context from one of state-centered, control orientation, to a free, open market orientation. In this respect, the industrial public corporations were subject to many structural reform measures, in order to make them more efficient and profitable, and to allow them to start competing effectively on a global scale. Unfortunately, these reforms were carried out too late, and, once promoted, the political situation made them already obsolete before any result could be reached. Furthermore, our analysis shows that Algeria's industrial efficiency was relatively weak, and industrial recovery remains so far. However, all attempts to industrial reforms have not yet started to show any signs of improvement in their performance, thus there no evidence that these reforms seems to be working, by making Algerian Industries more efficient and globally competitive. The non-hydrocarbon exports have remained a small share of total exports (less than 5 percent), and the oil sector still a dominant feature of the country's economy for decades, making it vulnerable to changes in world oil markets.

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