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# Free trade zones and economic diversification in Algeria: A promising strategic direction toward African integration and sustainable development

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**Abstract**--Within the framework of the new economic model adopted by the "New Algeria," which is based on diversifying the national economy and sources of income while striving to increase the volume and value of non-hydrocarbon exports, Algeria has introduced numerous laws, regulations, and reforms. These include the new Investment Law, the Banking and Monetary Law, and the Public Procurement Law, among others, all aimed at facilitating the integration of economic operators into this new economic direction, which seeks to gradually reduce reliance on hydrocarbons. One of the most significant reforms and new economic orientations is the draft law on free zones, established by Law No. 15-22 of July 20, 2022, which sets the rules governing free zones. Through this study, we aim to highlight the opportunities and potential Algeria possesses, which could enable the formation of a diversified economic system. We advocate for a realistic and effective strategy to find viable solutions to break away from oil dependency and achieve sustainable development within the framework of a transit economy. The competent authorities seek to encourage and facilitate trade exchanges across border crossings, especially given Algeria's extensive borders with several African countries, such as Tunisia, Mali, Niger, and Mauritania. In conclusion, we found that free trade zones are among the most effective and urgent solutions proposed today to overcome the rentier economy and dependency on a single resource. Moreover, it is

essential to adopt an economic diversification strategy as an integrated approach that fully respects the principle of sustainability in its true and comprehensive sense, enabling the establishment of a balanced and integrated economic system.

**Keywords**---Free Trade Zones, Economic Diversification, Diversifying Income Sources, Sustainable Development, Algeria, Africa.

## **Introduction**

The establishment of free trade zones presents Algeria with an opportunity to boost foreign trade and penetrate African markets, which are expected to experience significant growth in the coming years. This mechanism would allow Algeria to secure its position within these markets and become a key transit area, benefiting from its geographical location and its diplomatic and political relations with various countries, especially within the BRICS group. Recently, Russia expressed its interest in entering the African market through Algeria. On the other hand, the economic significance of these free zones extends beyond simple trade exchange, offering several other advantages, such as the development of storage facilities, packaging and logistics services. These zones could drive development in border regions, create numerous job opportunities, and improve the infrastructure in these areas, including roads, railways, and dry ports. Additionally, the establishment of free trade zones would help curb smuggling by strengthening border control and enhancing commercial activity in these regions. The creation of free trade zones would also align with the African Continental Free Trade Area (AfCFTA) agreements, supporting Algeria's efforts to position itself as the gateway to the continent for Algerian goods and to promote its exports. These zones would also facilitate the transit of foreign goods to countries seeking entry into the continent via Algeria. Based on the above, the main question arises:

**What are the opportunities and possibilities for achieving sustainable economic diversification in Algeria through free trade zones?**

## **Study Importance**

The Algerian economy is often characterized as a rentier economy, primarily based on exporting extractive industries and raw materials to developed countries, only to import them back as finished products. However, the problem goes beyond this, as Algeria's economic growth heavily relies on oil revenues, which exhibit several key features:

- High volatility and fluctuations in prices, causing significant macroeconomic imbalances.
- The potential for depletion, where excessive exploitation may deprive future generations of this resource.
- The potential for investment in free trade zones, as they represent a suitable strategy for achieving African integration and sustainable economic diversification.

## **Study Objectives**

This study aims to highlight the opportunities and potential that Algeria possesses, which could enable the formation of a diversified economic system. It seeks to adopt a realistic and effective strategy to find viable solutions to break away from oil dependency and achieve sustainable development within the framework of a transit economy. The competent authorities aim to encourage and facilitate trade through border crossings, especially given Algeria's extensive borders with several African countries, such as Tunisia, Mali, Niger, and Mauritania.

## **Study Methodology**

This study employs a descriptive approach to present the theoretical framework and an analytical method to examine the available data on indicators of sustainable economic diversification within the context of African integration.

### **1. Free Zones as a Suitable Strategy for Achieving African Integration and Sustainable Economic Diversification**

The need to change policies and diversify the economy has become a necessity. Rapid changes in the economy require executive administrations to strike a balance between the need for change and diversification, and the speed of implementation to ensure the achievement of the desired goals. These goals involve restructuring the economy to support sustainable development efforts. It is clear that the Algerian government's reliance on free zones aligns with its commitment and determination to achieve economic diversification, promote non-hydrocarbon exports, and deepen its reach into the African continent. Moreover, free zones contribute to the development of border regions with neighboring countries such as Tunisia, Mali, Mauritania, Niger, Libya, and Western Sahara ([Economic Commission for Africa, 2019, p. 26](#)).

The geographical advantage of these free zones also attracts local, national, and even foreign investments. These areas become a hub for investment due to the benefits provided by the Free Zone Law, such as tax, financial, and customs exemptions, and the ease of banking transactions due to the proximity to border areas and the flexibility of implemented procedures. Additionally, reduced transportation and rental costs will have a positive impact on prices, leading to lower costs in the future ([Vanzette, 2019, p. 23](#)).

#### **1.1 Free Trade Zones and Economic Diversification: An Overview of the Essence and Concepts**

##### **1.1.1 The Essence of Free Trade Zones**

Some describe a free trade zone as the gateway to economic integration, which in turn represents clear and immediate interests for all parties involved. It can be seen as the starting point for driving the productive entry into integration, which relies on a large market to capitalize on both the direct and indirect benefits of economic integration. Under free market mechanisms, an increase in trade ultimately leads to an increase in production. Typically, a specific timeframe is

established for implementing a free trade zone, during which obstacles are removed. This was the case with the European Free Trade Association, where the process took several years, and can extend up to 15 years, as seen in the NAFTA bloc (Sharaf & Diop, 2005, p. 204).

### **A. The Concept of Free Trade Zones**

There are several definitions of free trade zones, the most important of which are:

- **Free Trade Zone:** This refers to a type of trade bloc between two or more countries, wherein a specific group of nations agrees to eliminate tariffs, quotas, and preferences on most (if not all) goods and services traded between them. It can be considered the second stage of economic integration (Mahmoudi, 2002, p. 26).
- **Free Trade Zone:** This is the first stage of economic integration and involves the liberalization of trade between member countries by removing all customs and non-customs barriers, such as quantitative, monetary, and administrative restrictions. Each country within the free trade zone retains its own customs duties with non-member countries and maintains the freedom to determine its own trade policies (Al-Jadaoui, 2006, p. 19).
- **Free Trade Zone:** It is the initial stage of economic integration, involving the removal of all customs and non-customs barriers between member countries, including quantitative, monetary, and administrative restrictions. Member countries retain their own customs tariffs toward non-member states and have the freedom to set their individual trade policies (Al-Jadaoui, 2006, p. 31).

### **B. The Elements of Establishing Free Trade Zones**

The significant role that free trade zones have begun to play in achieving comprehensive national development, as one of the tools for promoting growth, has led to an increased interest in the philosophy behind their establishment. This includes studying the economic factors necessary for their success, maximizing their benefits, and minimizing their downsides. The main elements for establishing free trade zones are (Mahmoudi, 2002, p. 45):

- A strategic geographic location, the availability of raw materials, human resources, and energy sources.
- Political and economic stability.
- Local markets.
- Laws, regulations, and instructions.
- Infrastructure.
- Investment conditions, exemptions, and privileges granted to investors.

### **C. The Importance of Free Trade Zones**

The importance of free trade zones stems from their ability to respond to new regional and global changes that emphasize economic competition and globalization. It is now widely accepted that no country, regardless of its strength, can isolate itself from the rapid events and changes occurring globally. The significance of these zones increases in a world dominated by major economic blocs such as the EU, ASEAN, NAFTA, and APEC. Thus, a country that misses the opportunity to join economic integration, even at its most basic level—the free trade zone—risks becoming a marginal market.

Empirical studies have shown that these zones result in a noticeable increase in the productivity of production factors, investment volume, and intra-regional trade. They also contribute to economic diversification and higher national income growth rates. While some argue that free trade zones have a positive impact on trade volume, they believe they may negatively affect trade diversity. However, other studies have demonstrated that this form of integration has led to trade diversification, particularly in South and Central American countries and East Africa. Regarding their impact on global trade, no conclusive evidence exists, given the relatively small size of trade in these regions compared to global trade. In terms of their effect on welfare, studies have shown that the impact varies within the EU, ranging from 0.2% of GDP in Germany to 2.9% in Southern European countries in the long run.

In this context, the importance of free trade zones can be summarized in the following points (Osrer, 2003, p. 138):

- The ability of free trade zones to attract local and foreign investments through exemptions and incentives.
- The promotion of trade exchanges in general, particularly transit trade.
- The creation of job opportunities, training, and human resource development.
- Direct and indirect contributions to the development of the regions and areas where free zones are established.
- Industrial integration and the stimulation of service trade.
- The attraction of modern technology and advanced management practices.
- Maximizing the added value of natural resources.

#### **D. Characteristics of Free Trade Zones**

Free trade zones are characterized by the following features (Sharaf & Diop, 2005, p. 206):

- **Isolation:** The free trade zone is separated from the rest of the host country's territory. If necessary, it can be secured with barriers that are impenetrable. No natural person may reside in the zone, except for laborers.
- **Exclusion from the Customs Territory:** A free trade zone is considered outside the customs territory of the host country. This means that activities within the zone are not subject to the same customs regulations, legal frameworks, or restrictions that apply within the country's customs area.
- **Tax Exemption:** The primary advantage of free trade zones lies in their tax regime, which applies to operators and the various transactions conducted within the zone. A free trade zone cannot be defined as such unless it is granted special and encouraging legislative regimes, particularly in terms of taxation, compared to the surrounding economic environment.
- **Global Accessibility:** Free trade zones are open to all operators who wish to invest, without any discrimination based on the nationality of the capital being invested.
- **Equality:** All operators in the free trade zone are treated equally. The benefits granted in the zone apply to everyone, with no preferential treatment for any specific party.

- **Simplification of Administrative Procedures:** Free trade zones are marked by a noticeable withdrawal of administrative oversight. Procedures within the zone are characterized by speed, flexibility, and simplicity.

Based on the above, free trade zones can be understood as a legal framework established for entities with an economic nature (commercial, industrial, service-oriented) that operate within a system of economic freedom. These zones are considered foreign under the customs and tax laws of the host country, even though they remain under its sovereignty. Operations within these zones are distinguished by their speed, efficiency, and confidentiality (Mahmoudi, 2002, p. 43).

### 1.1.2 The Essence of Economic Diversification

#### A. The Concept of Economic Diversification

There are various definitions of economic diversification. One definition describes it as a development policy aimed at reducing economic risks and increasing value-added (Masoudi, 2022, p. 06) while improving income levels. Economic diversification can also be defined as the process of diversifying the sources of gross domestic product (GDP), which leads to diversifying revenue sources in the public budget and expanding external markets (Al-Khater, 2015, p. 15). This process ultimately reduces dependency on a limited number of exported goods whose prices and volumes fluctuate or are subject to chronic decline (Al-Ayeb, 2017, p. 36).

Economic diversification is also seen as the desire to achieve a greater number of primary income sources, which contributes to enhancing the real capabilities of any economy (Ben Hussein, 2008, p. 21). This can be achieved by gradually increasing productive capacities in various sectors through efforts to develop a range of industries, especially in rentier states, where the goal is to find alternatives that can replace reliance on a single resource (Lazaar, 2016, p. 18). Additionally, economic diversification is understood as the process in which a country shifts from a mono-income economy, reliant on oil, to one characterized by multiple income sources due to increased contributions from other productive sectors to GDP (Qroof, 2016, p. 639).

From the above, it is clear that economic diversification involves a set of policies aimed at creating an economy that relies on various sectors for growth and income, in different proportions. This requires building a broad production base and diversifying productive sectors to achieve a relatively stable and long-term income stream (Qroof, 2016, p. 645).

#### 1.1.3 Types of Economic Diversification:

Economic diversification can be categorized into two main types (Al-Ayeb, 2017, p. 32):

##### A. Horizontal Diversification:

This type of diversification involves spreading investments across different instruments within the same category. It creates opportunities to produce new products within the same sector (Zada, 2003, p. 40).

## **B. Vertical Diversification:**

Vertical diversification refers to distributing investments across various sectors, such as agriculture, industry, and services. The goal is to increase value-added by enhancing both forward and backward linkages, where the outputs of one sector serve as inputs for another (Ben Hussein, 2008, p. 21).

### **1.1.4 Goals of Economic Diversification**

Economic diversification aims to achieve a range of objectives, including (Assaf & Awad, 2014, p. 104):

- **Increasing Economic Growth Rates:** By diversifying investments across a large number of sectors.
- **Reducing Economic Risks:** This mitigates the risks faced by the economy when growth relies on a single sector or product.
- **Decreasing Export Revenue Risks:** By reducing reliance on a single export product, diversification helps to avoid negative impacts on development funding caused by declines in export revenues (ESCWA, 2001, p. 07).
- **Boosting Trade Exchange:** By distributing the risks associated with falling export prices across a wide range of goods and services, rather than concentrating exports in one or a limited number of products.
- **Enhancing Sectoral Interlinkages:** Vertical diversification increases both forward and backward linkages in the economy, where the output of one sector serves as input for others, thereby increasing value-added.
- **Creating New Job Opportunities:** Diversification generates new jobs, leading to higher incomes for the factors of production and increasing the sectoral and local value-added (Hamadi & Al-Asawi, 2009, pp. 19-20).
- **Enabling the Private Sector:** Diversification allows the private sector to play a greater role in economic development, reducing the government's role in the economy.
- **Supporting Sustainable Development:** By stabilizing growth rates over time, diversification contributes to achieving sustainable development.

### **1.1.5 Indicators of Economic Diversification**

The degree of economic diversification in any country can be measured using several indicators, including (Ben Hussein, 2008, p. 65):

#### **A. Statistical Indicators - "Herfindahl-Hirschman Index of Economic Diversification"**

This is the most commonly used indicator, and it is a composite index that measures the concentration of a particular industry or sector. The index ranges from zero to one, with values closer to zero indicating a diversified economic structure, where the contributions of various sectors to the country's GDP are more balanced. Conversely, values closer to one indicate a higher degree of concentration, where one sector dominates the economy, and other sectors contribute minimally to the overall GDP. Other indicators include (Assaf & Awad, 2014, p. 35):

- **The Contribution of Various Sectors to GDP:** This reflects the structural diversity of the economy. A higher level of diversification is indicated when multiple sectors contribute more equally to GDP.

- **The Contribution of Different Sectors to Total Government Revenues:** A higher level of diversification is indicated when various sectors contribute more equally to government revenues, rather than relying on one dominant sector.
- **The Contribution of the Public and Private Sectors to GDP:** This serves as an indicator of the strength of the private sector and its contribution to GDP. The more diversified the economy, the greater the contribution of the private sector.
- **Fluctuations in GDP:** The degree of volatility in GDP serves as an indicator of economic stability, with lower fluctuations suggesting a more diversified and stable economy.

### **1.1.6 Determinants of Economic Diversification**

Economic diversification is influenced by several key factors that play a crucial role in the success or failure of the diversification process. These determinants include (Shelley, 2010, p. 70):

#### **Investment Volume**

A country's ability to diversify its economy is measured by the size of investments and the percentage of capital formation. A low diversification index incentivizes the country to increase investment volume, thereby boosting economic diversification. This requires countries to implement strategies aimed at improving infrastructure to attract investments in new sectors. Investment is essential for enhancing research and development, driving innovation, transferring technology and knowledge, and improving the productive capacities of the host country (Zada, 2003, p. 56).

#### **Economic Growth Rates**

Accelerating economic growth, expressed as per capita GDP, helps raise diversification rates by increasing purchasing power and thus creating more opportunities for product diversification.

#### **Foreign Trade Policies**

Free trade policies increase specialization in goods with comparative advantages. Over time, however, economic diversification tends to increase as a safeguard against external shocks (ESCWA, 2001, p. 23).

#### **Stability of Macroeconomic Policies:**

Stable economic policies contribute to higher levels of diversification. For example, lower inflation rates encourage diversification, fostering the growth of new productive sectors to meet domestic and foreign market demands. Exchange rate policies also influence the level of diversification.

#### **Good Governance**

Effective governance is a key condition for creating a favorable environment for economic diversification. This includes designing and implementing policies that aim to grow and develop emerging sectors so they can thrive and contribute more to the national economy. The government also plays a crucial role in establishing a supportive regulatory framework to encourage economic activity and create a



business-friendly environment, especially by streamlining foreign trade procedures to facilitate imports and exports (Vanzette, 2019, p. 33).

#### **A. Role of the Private Sector**

The private sector plays a pivotal role in economic diversification by fostering innovation in underutilized sectors and encouraging research and development in new activities and fields that contribute to diversification. This requires the government to improve industrial policies, remove bureaucratic barriers to business, and promote partnerships between the public and private sectors (Lazaar, 2016, p. 45).

#### **B. Exploitation of Natural Resources**

Utilizing the available natural resources in a country can increase production volume, contribute to economic diversification, and boost exports. For instance, oil-rich countries should leverage their oil wealth to develop manufacturing and service industries, thereby achieving economic diversification (Hamadi & Al-Asawi, 2009, p. 71).

#### **C. Economic Integration**

Economic integration agreements simplify and harmonize customs procedures across borders, helping to foster spatial development programs and stimulate cross-border economic activity, thereby promoting economic diversification.

#### **D. Availability of Essential and Supportive Services**

The availability of essential services such as education, training, and healthcare helps increase productivity and production rates. Additionally, providing a developed infrastructure for transportation, telecommunications, and public utilities is crucial for supporting economic diversification (Qroof, 2016, p. 23).

### **1.2 Free Trade Zones, Economic Diversification, and Balanced Economic Development: "A Sustainable Development Alternative"**

The ultimate goal of any economic development process is to bring about structural transformations in the national economy, contributing to the achievement of higher levels of development. Economic diversification is considered a means rather than an end in the process of economic development. As one of the key objectives of development, economic diversification is linked to the theories of balanced growth. This theory is based on the premise that achieving economic development requires large-scale investments across various sectors simultaneously. Such investments create strong demand for products, stimulate further investment, and increase forward and backward linkages, thereby enhancing value-added and contributing to balanced economic development both regionally and socially.

Achieving this requires the following (Vanzette, 2019, p. 85):

- A balance between the production of consumer goods and capital goods.
- A balance between the various sectors of the national economy.

In essence, the theory suggests that balanced and sustainable economic development hinges on coordinated investment efforts across multiple industries, ensuring that no single sector dominates while promoting synergy between

sectors. This approach leads to a more diversified and resilient economy, reducing reliance on limited resources or industries and fostering long-term, inclusive growth.

### **1.2.1 Interdependence Between Projects in Production and Marketing, and Leveraging the Comparative Advantages of Each Region or Area**

The establishment of free trade zones will align with the implementation of the African Continental Free Trade Area (AFCFTA) agreements, supporting Algeria's efforts to position itself as a gateway to the continent for Algerian goods and to enhance Algerian exports. These zones will also facilitate the transit of foreign goods to countries aiming to enter the African market via Algeria. Therefore, it is crucial to expedite the realization of the free trade zone project, which was mandated by the law issued in July 2022. During the recent government council meeting, the Minister of Commerce presented progress on this initiative, highlighting the direct work being done and efforts to address certain challenges. Economic experts have pointed out that the creation of free trade zones presents Algeria with an opportunity to boost its foreign trade and expand into African markets, which are expected to see substantial growth rates in the coming years. This mechanism will enable Algeria to secure its position in these emerging markets (Tony, 2022, p. 56).

### **1.2.2 Free Trade Zones: Promoting Exports and Investment in the African Hinterland**

The establishment of free trade zones between Algeria and several African countries is part of a larger vision conceived by the Algerian state to foster economic integration. This effort aligns with significant projects such as the Trans-Saharan Highway, the Nigeria-Algeria gas pipeline, and other large-scale ventures that the state is working to realize. One of the primary objectives of creating these zones is to secure economic shares in the African market, specifically to encourage trade exchanges and combat smuggling, crime, and other issues through economic development and job creation by fostering purposeful economic activity (Economic Commission for Africa, 2019, p. 85).

To implement this, the Ministry of Commerce and Export Promotion initiated the formation of a multi-sectoral working group to establish the legal framework for these free trade zones in southern Algeria. This led to the creation of Law No. 22-15 in 2022, which set the rules governing free zones, including defining the zones, mechanisms for their establishment, their geographical scope, incentives, and management systems. Particular attention has been given to the strategic importance of Tindouf Province, which will serve as a bridge between northern Algeria and North-Western Africa (Masoudi, 2022, p. 95).

These free zones in Algeria will be structured as cities with complete logistics, economic, and recreational infrastructure, offering full mobility. They will include legal incentives, with a special legal framework aimed at attracting as much investment as possible. There will be designated areas for industrial activities, foreign investment, storage, commercial activities, and hotels (Masoudi, 2022, p. 91).

Regarding efforts to establish bilateral relations between economic and commercial actors from each African country to prepare market studies and assess export potentials, Draji emphasized the need for administrative studies by the sector, while market studies will be conducted by economic operators, who are more familiar with the field than the administration. The role of public authorities is to facilitate connections between economic operators. This is where economic diplomacy plays a crucial role in framing economic and cultural exchanges, preserving the reputation of nationally exportable products, and activating business councils and governmental meetings between nations (Al-Jadaoui, 2006, p. 45).

Moreover, a range of facilitations will be provided to economic operators to help them engage in free trade exchanges, including customs facilitations. Some countries will waive certain customs revenues to promote free trade, which Algeria is also implementing. Approximately 90% of products will have either immediate or gradual tariff reductions, depending on the economic strength of each country. Various exhibitions, both in Algeria and abroad, will be held to continuously promote Algerian products. Additionally, bank branches will be established in these zones, and a one-stop shop will be created to include all relevant government ministries (Qroof, 2016, p. 54).

From the above, it is clear that economic diversification through free trade zones and expansion into the African hinterland is one of the mechanisms for achieving balanced development. This strategy reduces the impact of external crises and shocks caused by the reliance of domestic economic growth on a single sector. Economic diversification also contributes to increasing value-added, strengthening linkages between various sectors, and consequently achieving high growth rates in GDP, raising national income, and employing a larger workforce. This, in turn, ensures long-term sustainable growth, yielding positive outcomes across various aspects of the economy (Sharaf & Diop, 2005, p. 47).

### **1.2.3 El Oued Province as an Agro-Industrial Hub: A Model for African Integration and Sustainable Economic Diversification**

The strategic position of El Oued Province as a leading border region in agricultural production positions it as a key player in national agro-processing industries. This specialization allows the region to capitalize on export opportunities to African markets, particularly following Algeria's recent accession to the African Continental Free Trade Agreement (AfCFTA). Given the geographic importance of the Taleb Larbi district and municipality, it is expected to transform into a specialized industrial and commercial economic hub. The region's proximity to Libya's capital, Tripoli, at just 600 km, offers a unique competitive advantage not found in other regions. Additionally, it is only 500 km from Tunis, the capital of Tunisia, 400 km from Sfax, Tunisia's economic capital, and 200 km from the city and port of Gabès (Economic Commission for Africa, 2019, p. 65).

This geographic advantage also makes the region attractive for local, national, and foreign investments, particularly with the benefits offered by the Free Zone Law, such as tax, fiscal, and customs exemptions. The ease of banking transactions, due to its proximity to border areas and the flexibility of procedures,

along with reduced transportation and rental costs, will have a positive effect on prices, leading to future reductions. The realization of this vital project on the ground would transform El Oued into a commercial capital and a land gateway to West Africa. It would also help overcome various obstacles hindering the investment process, especially administrative ones. Additionally, efforts to continue building infrastructure, such as packaging and processing units, large-scale storage and refrigeration facilities, and providing easy access to banking and financial services, as well as digitizing customs and tax processes, would significantly enhance the region's economic potential. Managing this project according to sound economic principles is essential (Osrer, 2003, p. 56).

Moreover, linking the region to the national railway network and leveraging the strong infrastructure of Guemar International Airport would turn it into a key platform for exporting goods to African and Middle Eastern markets. The area requires a forward-looking study to assess its potential and convert Taleb Larbi into a national industrial and commercial hub, given its significant capabilities and resources, according to the head of the same center (Sharaf & Diop, 2005, p. 42).

## **2. Algerian-African Economic Relations: "Opportunities, Potential, and Assessment"**

One of the key aspects of economic relations is the unification of the economic structures of countries, which is currently evident in the currency wars between China and the United States. China, as the holder of the largest foreign exchange reserves in USD globally, plays a pivotal role in this dynamic. In this context, it is vital to aim for a currency that is neither too strong nor too weak, but balanced, driven by genuine supply and demand. Moreover, it is essential to establish an African regional alliance due to the continent's vast potential. Evidence of Africa's immense economic capacity is that it is one of the largest sources of foreign direct investment (FDI). This alliance, with its distinct features, has significant prospects for success, as demonstrated by the following factors (United Nations , 2019, p. 25):

- **Population Size:** Africa has a large population of approximately 1.421 billion people, representing 17.8% of the global population.
- **Source of Investment:** Africa is the largest source of investment financing in the world, boasting one of the largest labor markets and being a significant source of tourism globally.
- **Land Area:** The continent's vast landmass covers approximately 11.73 million square miles.

These factors provide a solid foundation for strengthening economic ties between Algeria and African countries, offering numerous opportunities to foster mutual growth and development within the region.

### **2.1 African Depth: The Strategic Choice of Algerian Economic Policy**

In addition to Algeria's active political role, shaped by its extensive international experience, President Tebboune has emphasized the importance of strengthening Algeria's economic presence in Africa. This strategic direction involves executing joint projects with African nations, such as the Trans-Saharan Gas Pipeline,

which will transport gas from Nigeria to Europe via Algeria and Niger, a project hailed as a "major African achievement." Algeria is betting on launching large-scale economic projects, such as providing electricity to Africa and establishing railway projects that connect landlocked African countries. Efforts are also underway to address delays in transportation infrastructure across African nations, as evidenced by the recent opening of a maritime route to Senegal.

Furthermore, many Algerian business leaders have chosen Africa as a destination to expand their investments. In line with this, Algeria has strengthened its relations with Mauritania, with partnerships in oil exploration led by Sonatrach, which has undertaken operations in northern Niger's Kafra field near the border between the two countries. Algerian companies have also exported products such as cement, iron, and food items to Africa, under the framework of the African Continental Free Trade Agreement (AFCFTA). These significant steps align with the declaration by the President that 2022 would be an "economic year par excellence," with a focus on strengthening Algeria's economy and enhancing its economic movement toward African countries. Algeria has the potential to succeed in this endeavor, especially with the cooperation of some of its partners who are keen on entering the African market ([United Nations , 2019, pp. 27-30](#)).

## **2.2 Opportunities in Algerian-African Links: Historical, Religious, Political, Security, Economic, and More**

The Sahel and Sahara countries share deep historical, economic, religious, political, and security ties with Algeria, in addition to cultural and religious connections. Many Muslim populations in the Sahel, particularly in the central Sahara, follow the Tijaniyyah and Qadiriyyah Sufi orders, both of which command great respect and trace their origins to Algeria through religious centers known as *zawiyas*. Notable *zawiyas* include the Qadiriyyah *zawiya* in Touat, the *zawiya* of Ain Madhi in Laghouat, and the Tijaniyyah *zawiyas* in Tlemcen and Tamacine, which attract students from Sahel countries to study and practice these Sufi traditions ([Economic Commission for Africa, 2019, p. 74](#)).

In the decades following Algeria's independence, the Sahel and Sahara regions were considered Algeria's political and economic sphere of influence. This is evident from the relatively large number of bilateral agreements Algeria signed with the Sahel and Sahara countries, totaling 37 agreements, 25 of which were economic. Despite the trade imbalance with these countries, Algeria continued to sign these agreements to maintain direct engagement with this part of Africa. However, the crisis years that Algeria endured led to its marginalization on the international stage and the contraction of its diplomatic reach in Africa, particularly in the Sahel and Sahara regions. To address this, President Tebboune appointed a special diplomatic envoy to the region to revive Algeria's regional role and restore the country's diplomatic legacy, especially by relying on mediation and peaceful diplomatic efforts to resolve the security issues plaguing the region and the African continent as a whole ([Economic Commission for Africa, 2019, p. 74](#)).

Thus, it can be said that the African Sahel region has become a key area of concern for Algeria's security priorities due to the shared security challenges and

threats faced by Algeria and the region. This has prompted Algeria to incorporate the region into the core areas of its foreign policy through the establishment of bilateral and multilateral relations aimed at addressing these threats. Achieving an African alliance would require several measures, including the completion of the African Continental Free Trade Area (AFCFTA), the elimination of intra-African customs tariffs, the exploration of a customs union phase, and the expansion of trade in services. Additionally, it would involve establishing more precise rules for competition and origin, arbitration mechanisms, phased liberalization to accommodate each country's specific conditions, and ensuring freedom of movement for individuals ([Muqallid, 2018, p. 418](#)).

### **2.3 Opportunities for Economic and Trade Investment in Africa and Algeria's Available Capacities**

For Algeria, economic relations with Africa hold a central place in its policy, a priority that has been emphasized particularly in recent years, as the country grapples with the economic crisis caused by falling oil prices. The Maghreb and African regions offer numerous opportunities for the Algerian economy to break free from its chronic dependency on hydrocarbons. The commercial sector could serve as a path for developing Algeria's nascent and existing industries, given that Africa consists of 54 countries, each representing a distinct market for industrial products. Africa's underdeveloped processing sector offers an opening for Algeria to export even emerging products, making investment opportunities particularly promising in several sectors.

In agriculture, much of Africa's farming is primitive, lacking modern tools and technical expertise, which results in low productivity. Here, Algeria can make agricultural investments in Africa at lower costs and higher returns compared to similar endeavors within its own borders ([United Nations , 2019, p. 54](#)).

The same potential exists in the industrial sector, where Algerian investments are equally promising. Africa provides access to raw materials—whether mineral, energy-related, or agricultural—at a lower cost. These materials are often exported to industrialized countries at low prices. Acquiring them for Algerian or joint Algerian-African industrial projects on the continent would be advantageous. However, it is important to note that industrial projects vary in cost and expertise. Some industries require massive investments and advanced technical know-how, which are available through national companies like Sonatrach in the petroleum and petrochemical industries, Sonelgaz for hydropower projects, and the National Company of Industrial Vehicles (SNVI) in mechanical industries. As a result, heavy industries are a prime area for investment by Algeria's major companies in Africa.

On the other hand, medium and light industries, such as electronics, household appliances, food production, and leather industries, offer fertile ground for private Algerian enterprises to invest in Africa. The state can provide support in the form of financing and political protection from non-economic risks that may arise in the vast and unfamiliar African market for these medium and small enterprises. The African market is hungry for such projects, particularly in essential goods like food and medicine, which are vital to African consumers. Providing food is a

strategic challenge in Africa, making Algerian investment in the food industry a promising future endeavor. The same applies to pharmaceuticals, as Africa is a region plagued by armed conflicts and the resulting large numbers of wounded individuals. It is also highly vulnerable to epidemics and widespread diseases, making pharmaceutical investments a lucrative opportunity for Algeria.

Regarding marketing concerns, Africa offers Algeria a vast consumer market, providing a great sense of security to both Algerian investors and exporters. Moreover, Algeria has a significant diplomatic presence worldwide, with 83 diplomatic missions. The main role of the newly appointed special envoy is likely to coordinate and engage with these diplomatic missions, particularly in Africa, to identify potential opportunities for marketing Algerian products in each country, promote investment opportunities in Algeria to foreign businesspeople, and encourage investments in various sectors (Masoudi, 2022, p. 34).

In summary, Algeria has the potential to achieve the following (Bank, 2020, p. 45):

- **Increase Export Capacity:** Algeria has significant potential to boost its non-hydrocarbon exports, provided that the government implements plans to improve overall export conditions.
- **Achieve \$30 Billion in Non-Hydrocarbon Exports:** In the coming years, Algeria could potentially reach over \$30 billion in non-hydrocarbon exports. This would require the mobilization of production capacities, packaging, storage, and the logistical infrastructure necessary for marketing products via sea, air, or land, particularly with Africa.
- **Attract Foreign Investment:** Algeria can attract foreign investments and bring in specialized foreign exporters and marketers in key global markets. This could be facilitated by offering incentives to gain the necessary knowledge to improve Algeria's export operations.
- **Reassure Foreign Partners:** Algeria has the ability to reassure foreign business partners about the importance of entering its national market. Working with Algerian counterparts would help expand and diversify Algeria's exportable products to meet global demand. This includes improving product quality, packaging, and all other export-related conditions, allowing Algeria to continuously expand its exports without setbacks. This is an achievable goal.

#### **2.4 Assessment of Algeria's Economic Policy in Africa: "Observations and Questions"**

Is what has been accomplished so far enough for Algeria to become a political, economic, cultural, and media player in Africa? Or does launching a limited number of permanent flights, establishing just two banks, and opening one permanent exhibition of national products in a continent that has 54 countries—covering an area of 30.37 million square kilometers (11.7 million square miles) and housing approximately 1.421 billion people (17.8% of the world's population)—really constitute a historical and exceptional achievement? (UN Women, 2019, p. 45).

Algerian authorities view these initiatives as part of their broader policy to deepen economic ties with Africa, a vision repeatedly emphasized by President Tebboune.

He has consistently stated that his core goal in Africa is to make Algiers airport a Mediterranean transit hub. According to Algerian authorities, implementing this strategy is seen as an aerial expansion in line with what they call "economic diplomacy." However, the launch of only 11 air routes is insufficient to cover a continent of 54 countries, and the mere 23 weekly flights are far from enough to make Algeria a global gateway linking Africa with Western Europe and North Africa, at the very least ([UN Women, 2019, p. 47](#)).

It is worth noting that on September 21, 2023, the Algerian Ministers of Finance and Commerce, alongside the Algerian Ambassador to Senegal and the Senegalese government spokesperson, inaugurated the Algerian-Senegalese Bank, with a capital of \$100 million. Prior to this, the "Union Bank of Algeria" opened in Mauritania with a capital of \$50 million. A permanent exhibition of Algerian products was also established there ([Economic Commission for Africa, 2019, p. 24](#)).

Experts on Algerian-African relations argue that what has been achieved so far on the African level does not reflect Algeria's full economic and cultural potential, nor does it align with its historical ties with African countries. The steps taken thus far are seen as selective and limited, failing to meet Algeria's full potential. For example, opening a bank in Senegal with a capital of \$100 million will not significantly contribute to Senegal's economic and social development, as this amount is considered minimal ([Economic Commission for Africa, 2019, p. 25](#)).

Algeria needs a fundamentally different project if it truly wishes to connect the country with the African continent. But the key question is: Who in Algeria is capable of crafting the vision and institutions for this vital project? Where is the grand idea that could serve as the foundation for such a project? Algeria's civil society lacks the financial resources and possibly the scientific knowledge needed to grasp the complex African reality. Moreover, it is prohibited from receiving foreign financial support to undertake such initiatives.

Recent changes in the presidency, where political decisions are formulated and delegated to the government for implementation, have yet to see the appointment of an influential figure with strong political, cultural, and intellectual ties to Africa. Such a figure should also possess deep knowledge of African societies, including their cultural, social, political, and ethnic issues—similar to the role played by Franz Fanon during Algeria's liberation struggle, when he was appointed ambassador for the revolution in Africa ([AFCFTA Secretariat, 2021, p. 65](#)).

In reality, Algeria's top decision-makers have not formed a dedicated team to explore how to leverage Algeria's soft power and use it to build bridges with African nations. Algeria lacks African studies centers, and its educational curricula at all levels are devoid of any African focus. Furthermore, there is no national newspaper, magazine, or television channel dedicated to African cultural, artistic, social, economic, or political affairs ([AFCFTA Secretariat, 2021, p. 65](#)).

While Algeria offers some scholarships to African students for studies in its educational institutions, these opportunities are often reserved for select elites



from influential African families. According to available information, the Algerian government has scheduled some cultural activities in conjunction with the International Book Fair, held from October 25 to November 4, but these activities were limited, and African representation at the event was minimal ([Economic Commission for Africa, 2019, p. 54](#)).

In summary, despite the efforts made, Algeria's current approach to Africa appears insufficient, especially when compared to the continent's vast potential and Algeria's historical connections. A more comprehensive, visionary, and strategic project is needed to fully integrate Algeria into the African political, economic, and cultural landscape.

## **Conclusion**

Algeria's economic policy has undergone significant shifts, aligning itself with the demands of globalization and changes in the international system. This strategy leverages Algeria's influential political role within the African Union, where it has successfully secured diplomatic achievements across the continent. These efforts resonate with Algeria's long-standing principle of supporting anti-colonial movements. Africa has become a strategic focus for Algeria, particularly in economic and political spheres, as it seeks to achieve its security and economic goals. However, this ambition necessitates increased use of soft power to further integrate into African markets and strengthen the economic dimension of Algerian-African relations, especially amidst growing competition from other global powers.

## **Findings**

- **Economic Diversification** is essential and a safe path to reduce dependency on a single resource. It plays a crucial role in avoiding the resource curse and achieving sustainable growth while preserving resources.
- **Algeria's Natural Resources** position it as a gateway for African exports. Despite this, trade between Algeria and African countries has remained modest, representing only 7% of Algeria's total foreign trade, even in the best conditions.
- **Raw Resources in Africa** continue to be the primary source of income for many African countries, although the degree of economic diversification varies across the continent.
- **Achieving Economic Sustainability in Africa** requires strengthening policies aimed at diversifying economies by effectively managing resources and exploring new funding sources.
- **African Free Trade Areas** are the largest in the world in terms of participating countries, aiming to serve mutual interests, foster economic and trade exchanges, create promising business opportunities, boost trade flows, and increase investments.
- **Economic Diplomacy** is crucial in international relations as it promotes globalization and connectivity among nations, driving global and regional interactions.

- **Economic Diplomacy** is a branch of public diplomacy focused on economic matters. It involves all international economic transactions between various international legal entities, such as organizations, states, and multinational companies.
- **The Goals of Economic Diplomacy** include encouraging investment, securing property rights, stabilizing economic relations, influencing foreign policies in favor of multinational companies, and expanding economic relationships between countries and international institutions.
- **Economic Diplomacy Tools** include a variety of methods used by states to achieve economic interests or influence other nations, aligning them with the state's political will.

### Recommendations

- **Encouraging Business Engagement:** Facilitate Algerian business ventures in African countries by establishing a special fund managed by the Ministry of Commerce to promote exports. This could include financial and customs incentives, easing movement, or promoting investment environments in countries such as South Africa, Nigeria, Rwanda, Ethiopia, and Ghana.
- **Diplomatic Activation:** Enhance the role of Algerian diplomats in Africa by organizing Algerian trade fairs across the continent to showcase and attract demand for Algerian products, and encourage collaboration with African communities.
- **Strengthening Soft Power:** Invest in soft power tools to expand Algeria's influence and capacity to attract, persuade, and impact African markets.
- **Focused Economic Engagement:** Adopt an outward economic approach, emphasizing economic gains by accompanying Algerian entrepreneurs, particularly those from startups and small to medium-sized businesses, on official visits to African countries. Focus on nations with historical ties such as Angola and South Africa, as well as West and East African markets.
- **Specialized Economic Sectors:** Establish specialized economic sectors within African ministries of foreign affairs to distinguish economic activities from political and diplomatic engagements.
- **Enhancing Cooperation:** Strengthen and formalize relations among economic entities involved in diplomatic and economic activities within African states. This includes aligning legislation, sharing expertise, and creating a unified database to support these entities.
- **Collaboration Between Government Agencies:** Encourage collaboration between various government economic agencies and the foreign ministry's economic sector to integrate technical and diplomatic expertise.
- **Commercial Representation:** Focus on the role of commercial representation offices and attachés within Algerian embassies, utilizing their accumulated expertise and permanent contacts with economic sectors to facilitate smoother coordination between these offices and the economic sector in Algeria's foreign ministry.
- **African Economic Integration:** Advocate for African economic integration through a larger African free trade zone and a common African market. Such initiatives would underscore the need for cooperation between

economic bodies and African economic diplomacy to coordinate efforts and share expertise.

- **Coordinated African Positions:** Coordinate African positions during international financial institution meetings such as those of the World Bank and IMF. This is essential to ensure African nations receive a fair share of these institutions' financial activities and proper representation on their boards, considering African countries' contributions to these organizations' capital.
- **Creating an African Economic Forum:** Support coordinated positions at global economic summits like the World Economic Forum and propose a semi-annual African economic forum under the African Foreign Ministers' Council and other economic entities.
- **Coordinated Stance at the WTO:** Push for a coordinated African position in the WTO, demanding special and preferential treatment for developing and least-developed African nations. Advocate for a portion of the WTO's resources to assist African countries in integrating into the global trade system
- **African Arbitration Center:** Establish an African center for arbitration to resolve economic disputes between African countries. This center would focus on mediation and arbitration for commercial and financial disputes across the continent.

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