

Czech University of Life Sciences Prague
Faculty of Economics and Management
Department of Economics



Diploma Thesis

**The impact of liberalization on trade - Case study of
Algeria**

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Ph.D.**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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DIPLOMA THESIS ASSIGNMENT

Bc. Karim Fituri

Economics and Management

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The impact of liberalization on trade – Case study of Algeria

Objectives of thesis

The Aim of this study is to analyze the effects of economic reforms, which includes the trade sector in Algeria.

Also to provide an appropriate theoretical framework that illustrates the concept of liberalizing foreign trade, as well as the concept of balance of trade. Highlighting the relationship between the liberalization of foreign trade will help to discuss the process, objectives of Algeria's policy for the liberalization of foreign trade.

Methodology

In this study, I will use both descriptive and analytical methodology. Descriptive methodology to address the basic concepts related to foreign trade and trade policy. Analytical methodology to discuss the analysis of tables and trade statistics and then implement them on the economics.

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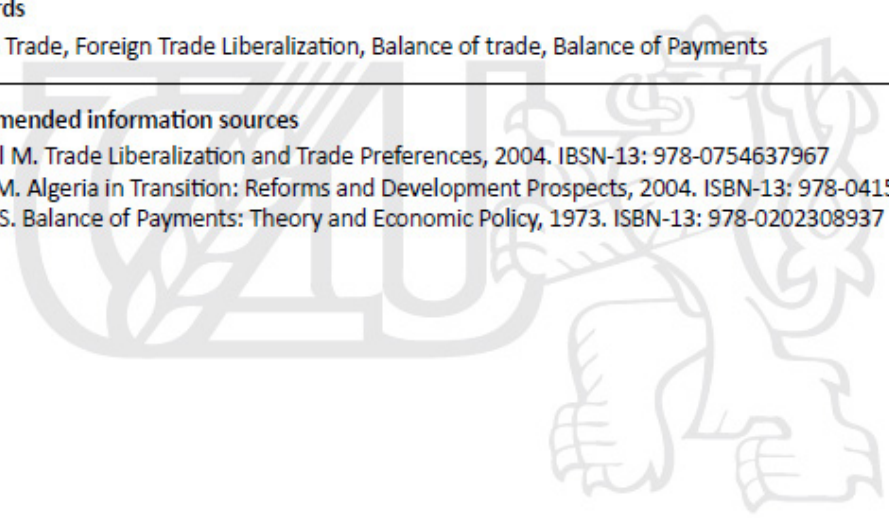
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Michael M. Trade Liberalization and Trade Preferences, 2004. ISBN-13: 978-0754637967

Redha M. Algeria in Transition: Reforms and Development Prospects, 2004. ISBN-13: 978-0415348485

Robert S. Balance of Payments: Theory and Economic Policy, 1973. ISBN-13: 978-0202308937



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Declaration

I declare that I have worked on my diploma thesis titled "The impact of liberalization on trade - Case study of Algeria" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 28th of March 2018

Karim Fituri

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The impact of liberalization on trade - Case study of Algeria

Abstract

This diploma thesis is focused on the impact of foreign trade liberalization on Algerian economy, using data range from 1985 to 2017. The main aim of this thesis is to analyze the effect of the strategical change of the Algerian government to integrate with the world economy. The diploma thesis is divided into two main parts, theoretical and practical part. The theoretical part defines foreign trade, its concept, and importance. Also, it describes the objectives of the foreign trade followed by the phases to liberalize trade and its effects and the balance of trade.

The practical part initially deals with the current status of the accession to the world trade organisation followed by the phases Algerian government took to liberalize its economy and analysing the trade balance, exports, and imports for the period 1985-2017 where the pace of liberalization of the foreign trade sector increased, especially after the establishment of the World Trade Organization, which undertook the task of organizing and framing international trade relations. This organization has special provisions for developing countries to provide advice and assistance to overcome the imbalances that may affect its economy. Finally, an economic outlook is explained for the period 2018-2022, the estimations are backed up with current Algerian foreign trade policies the government is practicing with the monitoring of international monetary fund.

Keywords: Foreign Trade, Foreign Trade Liberalization, Balance of trade, Balance of Payments

Vliv liberalizace na obchod - Případová studie Alžírsko

Abstrakt

Tato diplomová práce se zabývá dopadem liberalizace zahraničního obchodu na alžírskou ekonomiku s využitím dat z let 1985 až 2017. Hlavním cílem práce je analyzovat vliv strategické změny alžírské vlády na integraci se světovou ekonomikou. Diplomová práce je rozdělena do dvou hlavních částí, teoretické a praktické. Teoretická část definuje zahraniční obchod, jeho koncept a význam. Rovněž popisuje cíle zahraničního obchodu, po nichž následují fáze liberalizace obchodu a jeho účinky (např. na obchodní bilanci).

Praktická část se nejprve zabývá současným stavem Alžírsko, který je důležitý pro plánovaný vstup do světové obchodní organizace. Poté následují fáze alžírské vlády, které vedly k liberalizaci hospodářství, a analýza obchodní bilance. Dále jsou analyzovány vývozy a dovozy z let 1985-2017. V tomto období se tempo liberalizace sektoru zahraničního obchodu zvýšilo, zejména po zřízení Světové obchodní organizace, která se zabývá organizací a vytvářením mezinárodních obchodních vztahů. Tato organizace má zvláštní ustanovení pro rozvojové země v oblasti poradenství a pomoci při překonávání nerovnováh, které mohou ovlivnit jejich ekonomiky. Na závěr se vysvětluje ekonomický výhled na období 2018-2022. Odhady jsou podpořeny současnými alžírskými politikami zahraničního obchodu, které vláda vykonává pod dohledem mezinárodního měnového fondu.

Klíčová slova: zahraniční obchod, liberalizace zahraničního obchodu, obchodní bilance, platební bilance

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1. Introduction

Foreign trade plays an important role in most international economies by providing the economy with the goods and services that are not available domestically, through import activity, while at the same time enabling it to dispose of surplus goods and services through export activity.

Transactions, which is characterized by foreign trade is aimed to satisfy people needs and their desires.

The foreign trade as a driving force for economic development and the tool which reflects the current reality of the economy and its productivity of developing countries the degree of their independence or subordination to developed countries, It can also be provided as the main artery which connects countries as well to balance their trading, but what is visible in this area that, it is impossible and difficult to achieve a balance between exports and imports.

The agreements on the liberalization of foreign and regional trade have contributed over the last five decades in increasing the degree of interdependence among the countries of the world which increased the impact of trade on the different economic aspects of most countries of the world, perhaps the most important characteristics of foreign trade is to enable all states to seek relief from foreign trade by achieving prosperity and economic efficiency through trading goods and services which brings financial resources to the exporting countries.

The liberalization of foreign trade and the expansion of trade volumes have led to the development of trade at the global level, these developments led to the development of trading for many countries and one of them is Algeria, where the economic reforms included trading, financial and banking, this is for the purpose of developing the national economy and promoting international trade.¹

¹ Our World in Data [online]: "International Trade." 2011 [Cited: 27.02.2018]. Available at: <https://ourworldindata.org/international-trade>

2. Objectives and Methodology

2.1. Objectives

The Aim of this study is to analyze the effects of economic reforms, which includes the trade sector in Algeria during the period 1985-2017.

Also to provide an appropriate theoretical framework that illustrates the concept of liberalizing foreign trade, as well as the concept of balance of trade. Highlighting the relationship between the liberalization of foreign trade will help to discuss the process, objectives of Algeria's policy for the liberalization of foreign trade.

2.2. Methodology

This thesis will be divided into the theoretical and practical part. Literature and the theoretical part will provide information about foreign trade, its concept, importance, theories, and policies. In this study, I will use both descriptive and analytical methodology. Descriptive methodology to address the basic concepts related to foreign trade and trade policy.

Analytical methodology to discuss the analysis of tables, trade statistics and then implement them on the economics.

Data and statistics are collected from the Algerian National office of statistics, the range 1985-2017 were chosen to demonstrate the changes in the Algerian economy before and As for the economic outlook the estimations were collected from the International Monetary Fund. Estimations available are from 2018-2022.

3. Literature Review

3.1. What is Foreign Trade

Foreign trade is one of the most important pillars of any country's economy, where the country's economy is interacting with other sectors. It also interacts with the economies of the countries dealing with them through import and export operations, due to the importance of foreign trade in this research; this topic is devoted to dealing with different concepts of foreign trade, its importance, and its theories.²

3.1.1. The concept of foreign trade

There are several definitions of foreign trade, some of which are addressed as follows:

- As a branch of the economy that deals with the study of current economic transactions across national borders.
- Is a tool for countries to manage their surplus of products to other countries while at the same time obtaining the products and services they need, which they cannot produce domestically, from other countries. In return, the other countries also manage their surplus of its products and services.
- One of the economics branches that deal with the study of international economic transactions, represented in the movement of goods, services, and capital between different countries.
- The movement of goods and services between different countries of the world under internationally recognized agreements and laws.³

² Your Article Library [online]: "Foreign Trade." 2012 [Cited: 27.02.2018]. Available at: <http://www.yourarticlelibrary.com/foreign-trade/the-meaning-and-definition-of-foreign-trade-or-international-trade-explained/5972>

³ Latitude Group [online]: "Fundamentals of Foreign Trade." 2015 [Cited: 28.02.2018]. Available at: <http://latitudegroup.in/wp-content/uploads/2014/09/Foreign-Trade-SLM.pdf>

3.1.2. Importance of foreign trade

Historically, the rise and growth of foreign trade came with the increase of specialization of labour, the emergence of the Industrial Revolution in England, the expansion of geographical discoveries, the increase of transport routes, the progress and development of means of delivery and the increase of needs for greater satisfaction with Individuals in different countries have led to the emergence and increase of importance of foreign trade.⁴

In addition, the importance of trade can be highlighted in the following points:

1. Many analysts point out that without the existence of foreign trade, the industrial revolution in Europe would have been limited and would not handle the population growth. Western Europe, which is very populated, needs a large proportion of food, raw materials, and other items that should be imported from the rest of the world.
2. Increase in the rate of economic growth through specialization in goods that the state has a comparative advantage and competitiveness which increase national income and increase welfare.
3. Foreign trade is defined as the surplus of production over domestic market demand, where domestic production is greater than the local market can absorb.
4. The ability to finance many projects through direct investment and the importation of foreign capital, especially for developing countries.
5. The ability to employ foreign workers and expertise because achieving high economic growth rates requires skilled technical labor, which may not be available in the country.
6. The ability to convert domestic savings into investments, especially in developing countries that need to import equipment, machinery, and goods that are not produced by the local economy.
7. The ability to obtain technical and modern technology that leads to increased productivity.
8. Developing countries rely on foreign trade, which is considered a fundamental dependence. The progress of these countries requires a lot of importing capital, expertise and technical progress from abroad. These countries are important to the process of development of these countries.

⁴ Kalyan City Blogspot [online]: "What is Foreign Trade." 2011 [Cited: 28.02.2018]. Available at: <http://kalyan-city.blogspot.com/2011/03/what-is-foreign-trade-types-and.html>

9. Foreign trade is based on the provision of goods that are not available and needed by others (capital production factor), commodities which can be purchased from abroad at lower prices than locally.
10. Foreign trade allows the society to make more goods and services at a lower cost than in its absence, the principle of international specialization on which foreign trade is based between countries should increase the national income of the country involved in this process and this is known as the gain from foreign or international trade.

3.1.3. The classical theory of foreign trade

1. Absolute Advantage Theory:

Adam Smith, in his book *The Wealth of Nations*, reviewed the benefits of free trade. He explained that free trade allows the country to benefit from the benefits of division of labor because it is expanding the market.⁵

Adam Smith believes that trade between two countries is based on the difference in absolute costs. A state which is specialized in producing a certain commodity at a lower cost and exchange it at a lower cost with other countries. This leads to specialization in the division of international labor to produce resources of each country in an efficient manner, increasing production, and expanding the market from a narrow domestic market to a large international market.

To illustrate the idea of Adam Smith, we assume that the countries of Algeria and Tunisia have differences in the absolute costs of dates and wheat production.

Table No. 1: Absolute advantage

Country \ Product	Algeria	Tunisia
Dates	100 kg/h	50 kg/h
Wheat	60 kg/h	80 kg/h

Source: own work (example).

⁵ Adam Smith: "The wealth of nations." 1776. p. 43. ISBN-13: 978-1420932065

It is clear from the above table that Algeria has an absolute advantage in date production, while Tunisia has an absolute advantage in wheat production. According to Adam Smith, Algeria should specialize in date production while Tunisia is in wheat production and then exchange production to benefit from foreign trade.

2. Theory of comparative advantage:

The theory of comparative advantage is based mainly on economic considerations and the benefits of applying the principle of specialization and division of labor at the international level.

David Ricardo came up with a phenomenon where a country does not have an absolute advantage in producing any of the two commodities exchanged, yet it can participate in the international exchange process.⁶

According to this theory, the country may be more efficient than another country in the production of two commodities and they can produce them at lower costs and export them at lower prices. However, it will find that its gain from international trade will be greater if it allocates the production and export of only one of the two commodities.

The theory of comparative advantage by David Ricardo is shown in the following table, where I will present Algeria and Tunisia producing dates and wheat, with differences in the relative costs of production.

Table No. 2: Comparative advantage

Country \ Product	Algeria	Tunisia
Dates	100 kg/h	50 kg/h
Wheat	80 kg/h	60 kg/h

Source: own work (example).

⁶ Investopedia [online]: "Comparative Advantage." 2018 [Cited: 28.02.2018]. Available at: <https://www.investopedia.com/terms/c/comparativeadvantage.asp>

3. Theory of International Values:

This theory is attributed to John Stuart Mill, completing the missing parts in Ricardo's theory.⁷ John Stewart Mill tried to examine the factors and forces governing the rate of international exchange, which was not addressed by Ricardo in the theory of comparative advantage. Mill pointed out that the international values of a commodity are not determined on the basis of the cost of production, but the so-called equilibrium level of mutual demand for goods by the two countries.

This means that the mutual benefit of foreign trade is realized when the two countries' demand for goods is equal. If one country's demand for the other's goods is greater, this reduces its benefit to foreign trade because of its increasing imports from its exports to that country. It is true that the equilibrium rate is achieved by the elasticity of the prices that are equal to the demand and offer of the two countries so as to achieve equal benefit.

To illustrate the theory of international values I will present this table.

Table No. 3: Theory of International Values

Labour needed	Country	Production of Dates/Wheat (tons)
10/ year	Algeria	20 / 20
10/ year	Tunisia	10 / 15

Source: own work (example).

It is noted from the table that with the same amount of work, Algeria and Tunisia produce different amounts of dates and wheat. Algeria has an absolute advantage in producing the two commodities, but Algeria has a comparative advantage in wheat production ($\frac{20}{10} = 2$ vs $\frac{20}{15} = 1,5$).

⁷ Economic Theories [online]: "Mill Theory of Value Stuart Mill Value." 2013 [Cited: 28.02.2018]. Available at: <http://www.economictheories.org/2008/07/mill-theory-of-value-stuart-mill-value.html>

As for Tunisia, they are less backward in wheat production; therefore it gives them a comparative advantage in the production of this item.

Before trading between Algeria and Tunisia, Tunisia sacrifices 15 tonnes of wheat to produce 10 tonnes of , while Algeria is sacrificing 10 tonnes of wheat to produce 10 tonnes of the dates, and this quantity costs 3 labor/year for its production.

According to the theory of international values, trading will occur between Algeria and Tunisia if Algeria can get more than 10 tons of wheat from Tunisia for exporting 10 tons of dates because in this case there is a benefit. As for Tunisia, it benefits from the trade only if they could get 10 tons of dates for exporting less than 15 tons of wheat.

3.2. Foreign trade policies

Trade policies are considered by developing countries today with intellectual originality of previous historical periods, But, due to the ideology of the economy that ruled in the historical ages resulted on business school ideas or foreign trade policy, which was designed to activate and increase commercial exchanges, which praised the establishment of the idea of the GATT in 1947 and the WTO in January 1993.⁸

Regardless of the type of international trade policy adopted and in the context of scientific abstraction, trade policy in any country can be defined as: "a set of rules, methods, tools, procedures and measures undertaken by the State in the field of international trade to maximize the return from dealing with the rest of the world and within the framework of achieving the goal of external balance within the system of achieving the other economic objectives of the society in a certain period of time."⁹

It's also defined as: The set of methods and procedures established by the government in the field of its international economic relations for the achievement of many purposes and objectives, which differ from one country to another but revolves around dealing with trade imbalances, payments or raising economic growth rates and stabilizing the value of its national currency.

⁸ Business Dictionary [online]: "Trade Policy." 2013 [Cited: 02.03.2018]. Available at: <http://www.businessdictionary.com/definition/trade-policy.html>

⁹ Fieo [online]: "Foreign Trade Policy." 2012 [Cited: 02.03.2018]. Available at: https://www.fieo.org/view_section.php?lang=0&id=0,30,155

3.2.1. Objectives of foreign trade

3.2.1.1. Economic objectives

1- Achieving public treasury resources:

Access to public treasury resources may be one of the objectives of trade policy. In many cases, the access is more efficient and more politically acceptable than some alternative ways of financing the public treasury. Treasury resources are usually obtained when goods pass across borders and thus a large part of the collection expenses are provided. The financial resources obtained from this route are at least in part driven by foreigners but should be set when this goal is achieved. If it were achieved by imposing customs duties on imported goods without discrimination, this could lead to injustice Social or economic development considerations or both. The objective is also to achieve the choice of the right kind of goods and services in international trade and specifically, the price elasticity of demand.

2- Protection of domestic production from foreign competition:

It is intended to isolate external influences that can have a detrimental effect on local production in some areas. The need for protection is greater when the real cost of domestic production is greater than abroad and when it is seen for many reasons, the protection of local production is essential, Protection of Western European countries for agricultural production, with full implementation of the GATT.

3- Protection from the danger of dumping policy:

Dumping is the application of the theory of price discrimination in international trade. In other words, selling goods at a price lower than the cost of production in foreign markets, and compensating for the loss of selling at a high price in the domestic market. Dumping policy is a twisted way to win the foreign market at the expense of local producers, especially from some foreign monopolies temporarily or permanently. Therefore Uruguay, GATT and the WTO have come up with certain measures to fight the dumping policy and have given States the right to protection against the State that practices dumping.

4- Investment promotion for export:

It aims to liberalize international trade, shift to a strategy of production for export, encourage the establishment of free zones, and provide the incentives and benefits necessary to increase and encourage investment for export, including facilitating procedures and providing an institutional framework and export structure conducive to The shift towards investment for export, whether domestic investment or foreign direct investment.

3.2.1.2. Social objectives

1- Protection of certain social interests:

Such as the interests of farmers or producers of a particular commodity, or workers employed in a particular industry. The interests of these groups are reversed according to a particular mechanism whose origin is found in the structure of the distribution of political forces in society to the interests of society in a group.

2- Redistribution of national income:

The state may aim to redistribute national income among different classes. Among the tools used by trade policy to achieve this goal usually are, for example, the imposition of customs duties or the application of quotas on certain imports with the persistence of other factors reduces the real income of consumers of this commodity and increases the real incomes of their producers in income. Rarely is the redistribution of national income as a trade policy objective, but this policy, combined with other economic policies, particularly fiscal policy, is an important policy to achieve this goal.

3.2.1.3. Strategic objectives

The strategic objectives of trade policy are all related to the security of society, whether in its economic, food or military dimension. Community security and strategic considerations may require minimal food through local production, no matter how expensive it may be. In this case, foreign policy may be dictated by the imposition of tariffs, quotas or total import ban. The same applies by providing a minimum level of military production so that the community achieves a degree of security that can be assured. The strategic considerations of economic activity may also require the provision of sufficient quantities of energy sources such as petroleum. For example, trade policy should follow the means to ensure this objective.

3.2.2. Foreign Trade Policy Tools

- Price tools

- 1- Customs fees:

A tax imposed by the country on goods when it crosses its borders, whether from exports or imports. Taxation is, therefore, a tax on the sale of goods to or from the country. It is apparent that the fee is divided into a fee on exports and a fee on imports. Export duties, in fact, involve the countries desire to either supply goods at home until the need for domestic consumption is satisfied or to obtain a financial resource. Export duties are rare, often in countries producing and exporting raw materials. But most likely it's to impose duties on imports; there are two types of customs duties:

- a- Value Charges: imposed by a certain percentage of the value of the commodity.

It is sufficient to inform the customs officer of the statements indicating the value of the commodity so the amount of the fee is determined.

- b- Specific Fees: It is imposed as a fixed amount on each unit of the item. It is sufficient to inform the customs officer of the type, size or weight of the item, regardless of its value, and then the amount of the fee is determined.

- 2- Dumping: It is one of the methods used by the country to distinguish between the prices prevailing at home and abroad, which are lower than the internal price of the commodity, plus expenses and other expenses associated with the movement of the

commodity from the national market to the foreign market. It is divided into three branches:

- a- Incidental dumping: is explained by exceptional emergency circumstances.
 - b- Short-term and temporary dumping: this ends with the purpose for which it is established.
 - c- Permanent dumping: linked to a permanent policy based on a monopoly in the protected national market.
 - d- Subsidies: The country provides monetary or in-kind benefits to exporters so that they can export certain goods. This system is an attempt to win markets abroad by enabling local producers or exporters to sell abroad at a price that does not benefit them; the country provides them with grants or subsidies to compensate them for this profit lost. In this way, the country tries to induce producers or exporters to abandon market profits and gain government profits in the form of subsidy.
 - e- Reduction of the exchange rate: The government reduces the value of its national currency to foreign currencies to achieve a number of objectives, including encouraging the country's exports and reducing imports. In doing so, the price of local goods is lower than the price of foreign goods, which gives them a competitive advantage. At the same time, the price of imported goods rises to the local goods.
- Quantitative tools
 - 1- Quotas: or quantitative restrictions mean that the international set a maximum quantity or value that can be imported from a particular commodity within a given period.
 - 2- Import licenses: are those licenses or permits granted to individuals and entities for the purpose of importing a particular commodity from abroad and are considered as a direct means of control over foreign trade.
 - Organizational tools
 - 1- Commercial Treaties: An agreement concluded between countries through its diplomatic agencies, for the purpose of regulating trade relations between them, which includes, in addition to commercial and economic matters, matters of a political or administrative nature.

- 2- Trade Agreements: A treaty, which regulates the external transactions of export, import and payment of debts and receivables in order to further develop the volume of their trade exchanges and achieve common economic or political interests.
- 3- Payment agreements: The method of payment agreements is between countries with a system of exchange control and restricting the transfer of their currency to foreign currencies is an agreement between two countries that regulate the settlement of trade and other payments on the basis of the terms agreed by both parties.
- 4- Economic blocs: economic blocs appear as a result of restrictions in international economic relations and an attempt to the partial liberalization of trade between a limited number of countries. Agglomerations take several forms that may differ in terms of integration between the organizing parties.
- 5- Administrative protection: It is a set of measures aimed at tightening the application of customs laws. These restrictions take a number of forms, such as the certificate of origin; the importer handles inspection expenses, imposing high costs on the storage or transport of the goods and strictness in preventing the entry of some goods on the pretext of maintaining public health.

3.3. Liberalization of foreign trade

Liberalization of foreign trade is one of the fundamental principles of the World Trade Organization (WTO). It seeks to fight all forms of restrictions. The World Trade Organization is assisting countries to liberalize its trade, to achieve various and varied objectives, including economic growth, poverty eradication, and other goals.

3.3.1. The concept and conditions of successful liberalization of foreign trade

1- Definition of Foreign Trade Liberalization:

The liberalization of foreign trade can be defined as: "It is a set of measures and measures aimed at transforming the foreign trade system towards neutrality, in the sense that the preferential country does not intervene in the direction of imports or

exports and is a process that takes a long time".¹⁰ Thus, the liberalization of foreign trade means the complete abandonment of restrictions on foreign trade and exchange rates through a set of measures and measures aimed at transforming the foreign trade system towards neutrality. This process may take a long time due to the circumstances of each country.

2- Reasons for Liberalizing Foreign Trade:

The liberalization is often part of an integrated program of structural reforms adopted by the countries, in order to drive the growth of the economy; this trend is due to interrelated reasons including:

- The deterioration of the terms of trade, especially with regard to the increase in oil prices and the trend of other commodity prices to decline over time.
- The pressure exerted by international institutions and some Western countries after the worsening debt crisis in developing countries in 1982.¹¹ Western countries and international institutions agreed that the liberalization of foreign trade is an essential element for the recovery of the global economy. The international organizations exerted pressure on Developing countries through their conditional loans (Conditional loans).
- The increasing number of trade resulting in the liberalization of foreign trade. Many studies have concluded that there is a strong correlation between liberalization of foreign trade and economic growth. Countries that focused on trade promotion and export promotion have achieved greater growth than countries that have adopted a policy of substitution Imports.

3- Advantages of Foreign Trade:

- Encouraging competition in local markets.
- Reduction of government commitments.
- Assistance to the economic integration process.
- Export development leads to import costs (balance of trade).

¹⁰ Investopedia [online]: "Trade Liberalization." 2018 [Cited: 03.03.2018]. Available at: <https://www.investopedia.com/terms/t/trade-liberalization.asp>

¹¹ Michael Michaely: "Trade Liberalization and Trade Preferences." 2004. p. 77. ISBN-13: 978-0754637967

- Increasing pressure on local institutions to innovate and achieve the most efficient production levels.
- Offers consumers a broader range of commodity choices.
- Allows companies to fully exploit their relative advantage and economies of scale.
- Trade openness increases the use of new technology.
- Trade liberalization is associated with lower commodity prices, as the removal of import restrictions allows buyers to buy goods at world prices.

4- Conditions for Liberalization of Foreign Trade:

The policy of liberalizing foreign trade depends on a range of tools, such as (price change, change in the pattern of state intervention in foreign trade, change in the exchange rate system ...), and based on past experiences of various countries in their policy of liberalizing their foreign trade, there are a number of requirements that must be met:

- Liberalization of foreign trade requires a macroeconomic policy and realistic exchange rates that reflect the economic reality.
- Other policies especially those related to investment and prices should work towards liberalization and support.
- Eliminating quotas and restrictions that can initially be replaced by a tariff, because the tariff gives some kind of transparency, so the users will be aware of the protection and the size of this benefit.
- Reductions in tariff levels are beneficial to export expansion measures, along with a reduction in the exchange rate to enable early gains from liberalization through increased exports, production and employment.
- The success and continuation of foreign trade liberalization programs will depend on the creation of a global environment that encourages further trade liberalization, and in which various countries stick to the rules of liberalization.

3.3.2. The phases of liberalization of foreign trade

Phase I: (1498-1763)

This phase emerged from the discoveries made during this period and the conquest of continents by European traders. ¹²It started with the discovery of the path of good hope by Bartholomew Diaz (1488) and the discovery of Christoph Columbus, The commercial route to India by Vasco de Gama in 1488, from which trade played the role of the engine in the deconstruction of intercontinental isolation.

Phase II: (1763-1883)

This stage is attributed to the capitalist production system in the second part of the 8th century, which was the center of England and was considered at the time the core of the global economy. Production at this stage is characterized by abundance, which led to the export of surplus produced to the colonies, that forced to purchase these products, which in turn were the European countries 'primary materials, and thus allowed the division of trade between the European countries and colonial countries, which allowed the emergence of the so-called "Standard oil trust" for John Rockefeller' " Multinational corporations, and the control of the capitalist world led by the United States of America. ¹³

Phase III: (1980-Present)

This phase is characterized by the appearance of transnational corporations characterized by their unique financial and technological capabilities beyond the borders of countries and the authority of countries. This stage is characterized by the restructuring of the developing countries and the International Monetary Fund, The policy of openness and the adoption of a market economy. ¹⁴ The globalization of the commodity markets and the factors of production emerged, in addition to the adverse effects on the environment, the increased exposure of countries to external shocks and the increase in the proportion of goods in a trade that is exported.

¹² United Nations [online]: "Key Issues in Multilateral Trade Liberalization of Economies in Transition." 2007 [Cited: 04.03.2018]. Available at:

http://www.un.org/en/development/desa/policy/publications/general_assembly/eitconference/rt3_report_todorovic.pdf

¹³ Foundation for Economic Education [online]: "John D. Rockefeller and the Oil Industry." 1988 [Cited: 06.03.2018]. Available at: <https://fee.org/articles/john-d-rockefeller-and-the-oil-industry/>

¹⁴ International Monetary Fund [online]: "International Monetary Fund." 2007 [Cited: 06.03.2018]. Available at: <https://www.imf.org/external/pubs/ft/imfhb/eng/handbook.pdf>

3.3.3. Effects of Foreign Trade Liberalization

Negative effects:

- Pressure on local projects and how to face foreign competition, especially in the national market.
- The liberalization of foreign trade provides an opportunity for foreign banks and financial institutions to establish branches in the countries of the world, especially developing ones, which affects the economic policy of the country.
- The dominance of the major industrial countries in the global economy.
- The elimination of many emerging industries in developing countries that are unable to cope with strong competition in the global markets, thereby increasing unemployment rates.
- The gradual reduction of customs duties leads to the budget deficit and tax increases, which increases production costs.
- Creates severe difficulties for developing countries in competing developed countries negatively affect their economies.
- A reason for the government to lose its customs revenues.
- Helping liberalize foreign trade in support of the position of monopolists and eliminate the small competitors in the market.

Positive effects:

- Improving the technical processes of production so that competition requires optimal use of the available products and resources at low cost.
- The search for new markets in order to ensure an increase in exports.
- Allows the establishment of a partnership with foreign parties in the field of research and development as a result of its high cost.
- Leads to increased access to goods produced by developing countries and exported by the markets of developed countries.
- Increasing productivity in developing countries as a result of liberalization of foreign trade through increased international competition.

- The impact of the recovery of the advanced industrial economies on developing countries is reflected in the increase in the volume of international exchange.
- Increases the demand for an optimal utilization of economic resources, allowing the real national income to be raised for these countries.
- The process of liberalizing foreign trade allows for the elimination of trade barriers, facilitating trade between countries and opening doors to the flow of transactions between countries.
- The establishment of a multilateral trading system and thus provides investors and users with an environment conducive to trade and investment.
- The process of liberalization of foreign trade is linked to the promotion of economic development and reform and thus benefits countries.
- Opens up the opportunity for consumers to obtain many goods and services, and at a variety of prices are often cheaper than their counterparts in the domestic market.

3.4. Fundamentals of Balance of payments

It is known that each country has transactions, both residents, and individuals, who will export and import to and from other countries; moreover, they provide foreigners with different services such as shipping, insurance, etc.

These rights and obligations are in fact cash and must be performed on a given date, so it is important for each creditor country or city that specifically defines its rights and obligations.

This balance is a so-called balance of payments. It gives a clear picture of the authorities responsible not only for the strengths or weaknesses of the external market of the national economy and the level operating indoors.

3.4.1. The concept and importance of the balance of payments

The balance of payments is a statement of account that records the values of all goods, services, donations, foreign aid, all capital transactions and all amounts of cash in and out of that country within a period of time usually one year¹⁵.

The balance of payments importance includes:

- It reflects the degree to which the national economy is integrated into the international economy.
- It reflects the numerical data contained in the strength or weakness of the economy, its position on international competition and its degree of responsiveness to international economic changes.
- Is a tool for policymakers to plan and manage their external economic relations, such as foreign trade planning in terms of goods and foreign affairs, etc.
- It is used by some international financial institutions, including the International Monetary Fund, to study and analyze the economic conditions of a country.
- A statement of the presentation of the national currency and its demand for foreign currencies, which helps to determine the actual value of the country's currency in foreign exchange markets. The exchange rate can be used to adjust international economic transactions and to determine the ability to make changes in some elements of international relations.

¹⁵ UW Faculty Web Server [online]: "Balance of Payments: Fundamental Concepts." 2006 [Cited: 08.03.2018]. Available at: <http://faculty.washington.edu/danby/bls324/macro/together.html>

3.4.2. The balance of Payments Elements

➤ Account of current operations:

These include international transactions that can directly affect the size of the national income, either by increasing or decreasing it. This is sometimes called the income account. This account is divided into two sub-accounts: the commercial account and the transfer account.¹⁶

The trade account is divided into two sub-accounts:

- The advanced trade account, which includes all the items related to the exports and imports of the physical goods that pass through the borders of the customs state. The non-developed trade account includes all the mutual services between the country and the world, such as transport, insurance, tourism and government services.
- The account of remittances refers to exchanges between the country and the world during the balance period. This account includes one item: donations and compensation; donations and assistance provided by individuals and the government to foreigners; the assistance received by the country or foreign individuals are recorded on the creditor side.

➤ Capital account:

This account records capital movements between the country and the rest of the world that results in a change in the country's debt position, as well as changes in the official reserve assets of the country during the period indicated by the balance of payments and the items found in this account. It's divided into long-term and short-term capital.

Long-term capital movements include capital transferred to and from the country for long-term investment for more than a year.

¹⁶ Yale University [online]: "The Balance of Payments." 2011 [Cited: 08.03.2018]. Available at: <http://www.econ.yale.edu/~ka265/teaching/UndergradFinance/Spr11/Slides/Lecture1-2%20Balance%20of%20Payments.pdf>

Short-term capital movements are those transactions that are dealt with within a shorter period of time than foreign currencies, bank deposits, and short-term securities.

These investments are usually characterized by their superior liquidity and ease of transmission among countries. These forms of capital transfers are, in fact, the result of a real or external debt, or vice versa, that may add or subtract those rights or debts of the country in its various economic units to the outside world.

➤ The calculation of the official settlement processes:

Movements (Inflow and outflow) are recorded for the account of others in liquid and illiquid liabilities of foreign holders and changes in the reserve assets of the country within one year. The official reserve of the country indicates that it is in possession of gold, convertible currencies and SDRs (Special Drawing Rights), and its own gold center at the International Monetary Fund.

➤ Account of errors:

Depending on the method of double entry, each operation carried out by the country recorded twice in the balance of payments, once on the debtor side and the other side of the creditor or vice versa.

In this way, there will be an accounting equalization of the balance of payments. In other words, there is a tie between the total credit elements and the total balance of payments. This balance is rarely achieved in practice. The calculation of omissions and error is used to create an arithmetic balance between the total value for both the creditor and the debtor. This account appears on the smaller side of the balance of payments. The imbalance between the two constraints is due to one of the two reasons, namely, the error in valuing the goods and services exchanged as a result of the exchange rate differences, because of the imbalance caused by the change in the value of the currency.

3.4.3. The balance of trade and its divisions

The trade balance is the balance of operations; that is purchases and sales of goods and services. This is the broad sense of the current trade balance.

The trade balance is the difference between the values of exports and imports of goods and services over a given period of time (usually 10 months). ¹⁷Thus, the relationship between the country's exports and imports is evaluated and expressed as follows:

Balance of trade = Total country exports - (x) Total imports of the country (y)

The trade balance is the most important part of a country's balance of payments, it can be called the "international trade balance".

The trade balance means the country's exports of goods and services more than its imports, so we say "surplus balance" or so-called "trade surplus".

The negative trade balance means that the country is not exporting enough. This is called the "trade deficit." This concept should not necessarily be viewed negatively; rather, as a cyclical event related to the economic cycle, countries with a growing economy such as the United States, Hong Kong, and Australia, these countries have the capacity to meet huge domestic demand during periods of economic expansion.

The negative trade balance is more difficult in poor countries, whose growth and economy are dependent on foreign investment.

The trade balance is divided into two parts:

- Commodity trade balance: This includes all goods and services that take a tangible physical form (exports and imports of material goods that cross the customs border).
- Trade Service Balance: which includes all inter-state services (transport, tourism, insurance, labor entry, capital returns).

¹⁷ **Robert Stern:** "Balance of Payments: Theory and Economic Policy." 1973. p. 68. ISBN-13: 978-0202308937

3.4.4. Deficit and surplus in trade balance

The trade balance is one of the important figures in the economy because of the importance of foreign trade and the recent importance and concentration of investors. The importance of this figure comes from the fact that the country that has surplus trade balance will export more than it imports. The volume of production will be high and its competitive price will be present in the domestic market, in the external market and the accompanying increase in domestic production, increase in the proportion of jobs and increase the level of salaries.¹⁸ This will eventually lead to an increase in total market spending which will move the economy towards growth and Shares.

However, there are certain periods of growth accompanied by the strength of the country's currency as a result of the strength of its economy, which makes it harder to export because of its currency in comparison to other currencies. The trade balance deficit may be at least understandable and easily interpreted by economists.

The effect is considered to be correlated with both the currency and the surplus stock indices in the trade balance, which is good for the economy in general because it shows that the output and cash flows of the country are more than the outflow of cash due to the increase in exports from imports. This means another source of income for the economy. As people buy up high-yielding stocks, and until the importer buys goods and exports from one country, he needs to buy that country's currency. This increases the demand for it, and the currency rises.

The deficit in the trade balance reflects exports compared to imports, which leads to a cash outflow less than the country enters. If the deficit continues and increases, this indicates a decline in productivity and a rise in unemployment rates, which are generally negative for the economy.

In contrast to the surplus in the trade balance, the value of the currency in the trade deficit will decline as supply forces overcome demand versus foreign currency demand to cover imports.

¹⁸ Bizfluent [online]: "Trade Surplus & Trade Deficit." 2017 [Cited: 09.03.2018]. Available at: <https://bizfluent.com/info-8764406-difference-trade-surplus-trade-deficit.html>

The result of the trade balance affects the value of the currency and the stock market. The effect of the surplus is more positive than the deficit, but if there is a deficit in the economy, it does not mean that the economy is not good in the case of improvement. This leads to more production, jobs, and investments, which eventually leads to a currency appreciation, as well as the higher value of shares due to higher corporate returns, which leads to more buying of shares.

4. Practical part



The Algerian economy has undergone several stages since independence. After its independence, Algeria adopted a socialist economic policy.

The state dominates all economic fields by using public institutions as a tool to implement its policy. As Algerian society was an agricultural society, the Algerian state established huge farms after nationalization. In order to do so, the Algerian state relied on revenues from the hydrocarbons sector, which was characterized by an increase except for 1989/86, which was characterized by low oil prices. The Algerian authorities endeavored to improve the standard of living of the nation and to achieve a significant position for the Algerian state in the world.

4.1. Algeria overview

4.1.1. Geographical overview

Figure No. 1: Geography of Algeria



Source: All Algeria [online]: "Geography of Algeria" 2017. WWW:< <http://allalgeria.com/articles/geography-of-algeria/>>

Algeria has more than 1,200 km of coastline, bordered by the north of the Mediterranean Sea. Algeria has borders with several countries: Tunisia, Libya to the east, Mali and Niger to the south, Mauritania and Western Sahara to the south-west and the Kingdom of Morocco to the west.¹⁹

Algeria is the largest African country in terms of area and is located on four different types of terrain in terms of the extension, which follows from north to south.

In the north, along with the Mediterranean coast, the Algerian tributary plains range from 80 to 190 km, containing most of the agricultural land.

It is followed by a mountain belt containing several mountain ranges (the Atlas, the Desert Atlas, and the Auras heights), which in turn surrounds a large area known as the high plateaus containing semi-arid lands and salt lakes that combine surface water.

¹⁹ All Algeria [online]: "Geography of Algeria" 2017. WWW:< <http://allalgeria.com/articles/geography-of-algeria/>>

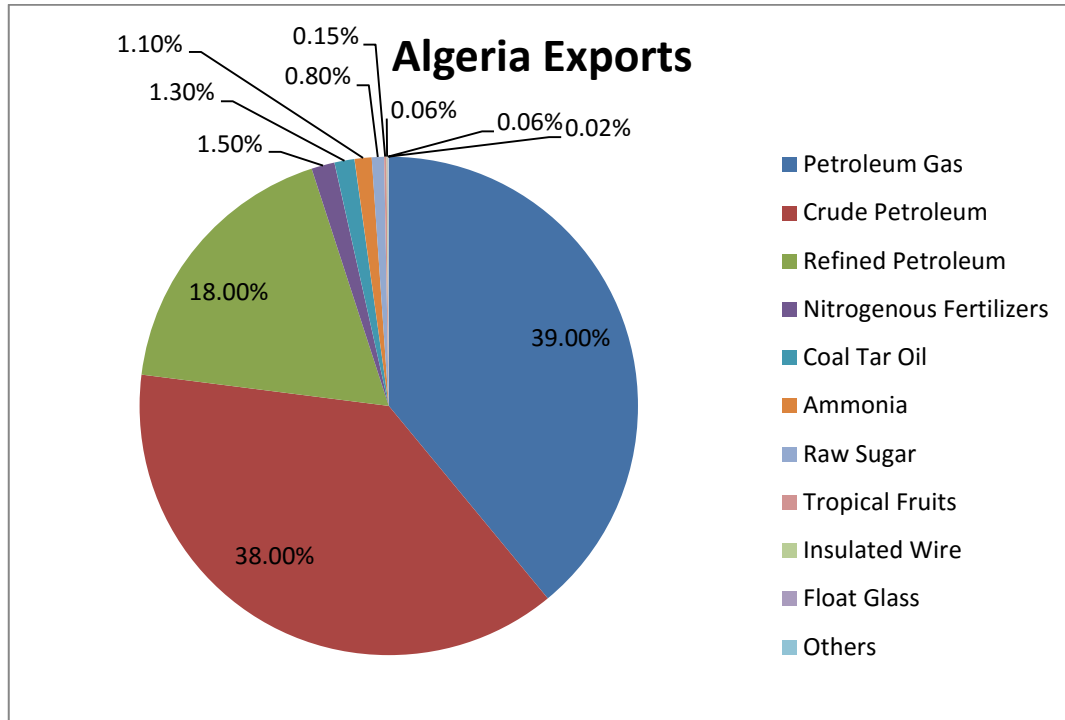
The Algerian desert alone represents more than 80% of the total area of Algeria. The dessert consists of several rocky hills and stone plains interspersed with two sand dunes (the Western Kair and the Great Eastern Desert), which represent vast areas of sandy plateaus.

4.1.2. Economy overview

Algeria has a diversified economy and is one of the developing that has signed several free trade agreements with several countries such as the United States, the European Union, Turkey, and Egypt.

The gross domestic product is estimated at 351.7 billion USD in 2017, an average of 17,500 USD per capita. The gross national product in 2017 is estimated at 527 billion USD, or 19,800 USD per capita. In late 2015, the number of unemployment was 8.9%, but the unemployment under the age of 25 was twice as high. The problems of emigration have made unemployment a chronic crisis and one of the obstacles for the government. Income currently exceeds 500 billion USD which exceeds spending 350 billion USD. Energy Resources is the most important resource with 78%, tax collection and services are 12.5%.Algeria is currently on the first list of European investors and foreign employers, in several fields such as telecommunications, transport, and industry. It increased From 31 foreign projects in 2003 to 391 in 2016.

Figure No. 2: Algeria Exports



Source: Own elaboration based on data from The Observatory of Economic Complexity.

Crude oil and liquefied natural gas (LNG) are the country's main and most dangerous asset to the country's future. Its foreign exchange earnings are the biggest challenge to be addressed, 97% of revenues.²⁰ Algerian crude oil is highly needed in the global market. The production of crude oil, centered in Hassi Messaoud, south of Constantine, in an area called Zarzaitin, near the Libyan border, has declined sharply and is now only 1% of world production.

Despite the presence of more than 50 oilfields, the peak of 1.2 million barrels in 1978 fell to 700,000 in 1990. The government reduced the production ceiling to extend the life of the fields, in line with the policy of the Organization of Petroleum Exporting Countries (OPEC). Algeria's capacity to replicate oil was 475,000 barrels per day.

In 2003, Algeria's imports were 13.3 billion USD. The most important commodities are food, semi-ready materials, and consumption materials. The main distributors were France 32.9%, Italy 10.2%, Spain, and Germany.

²⁰ The Observatory of Economic Complexity [online]: "Algeria Exports." 2018 [Cited: 10.03.2018]. Available at: <https://atlas.media.mit.edu/en/profile/country/dza/>

Algeria's exports in 2003 were estimated at 26 billion USD, double the imports, constituting 38% of the national income. Fuel has always represented 95% of exports. The main buyers Italy 18.9%, then America, which overtook France 17.9%

The most important exports are in the non-hydrocarbon categories: alcohol, iron and its products, phosphates, fruits, and vegetables (the worlds first in the production of peas) and raw iron.²¹

4.1.3. Accession to the WTO

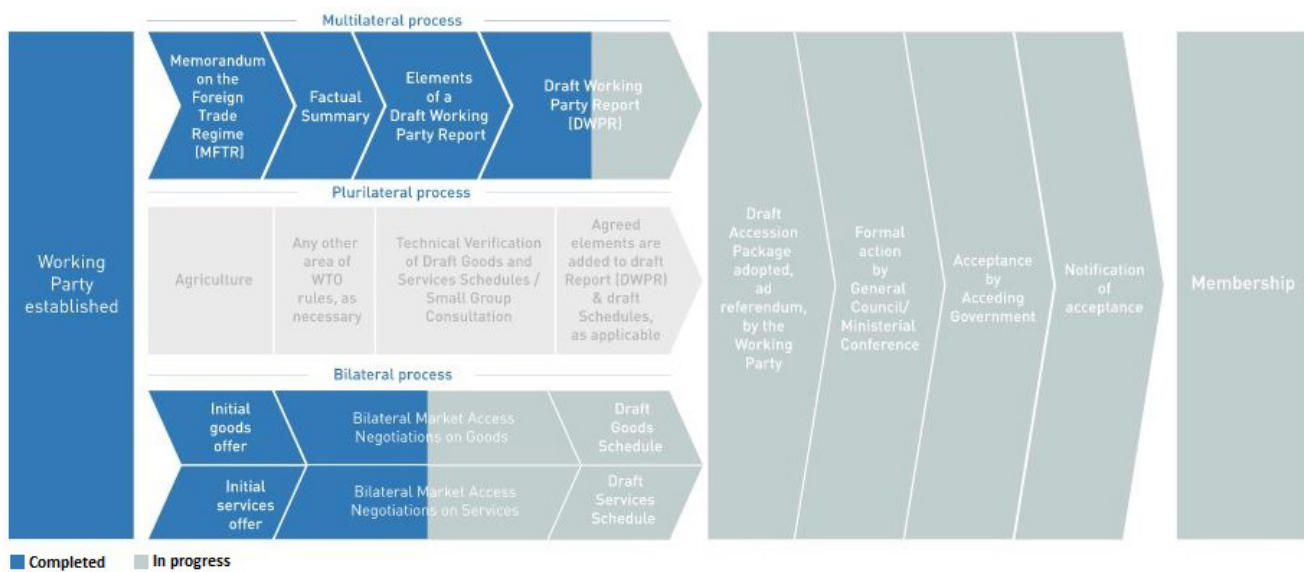
In 1987, Algeria indicated its intention to become involved in the multilateral trading system of the General Agreement on Trade and Tariff and from 1995 in the World Trade Organization. A working party was formed for the accession of Algeria to the General Agreement on Trade and Tariff on 17 June 1987.

The tasks assigned to the party are to report on its work, the accession protocol as well as the draft decision to join the decision-making body, which is the ministerial conference

Mr. Sanchez ARNAU, Ambassador of Argentina, was the Chairman of the Working Party during the period 1994-1998. He was then Ambassador of Uruguay, Mr. Carlos Perez DEL CASTILLO during 1998-2004 and Mr. Guillermo VALLES during the period 2004-2010. Since November 2011, François ROUX Kingdom of Belgium, currently the chairman is Ambassador Gustavo Miguel VANERIO BALBELA of Uruguay.

²¹ The World Bank [online]: "The World Bank in Algeria." 2018 [Cited: 11.03.2018]. Available at: <http://www.worldbank.org/en/country/algeria/overview>

Figure No. 3: Algerian current status in accession process



Source: World Trade Organisation [online]: "Accession status of Algeria" 2018. WWW: https://www.wto.org/english/thewto_e/acc_e/a1_algerie_e.htm

Since its establishment in 1995, the World Trade Organization Working Party held 10 official meetings and 20 other informal meetings on March 30, 2012. The eleventh meeting was held in early April 2013.

During these periods, the Algerian trading system has been analyzed. The first draft report was prepared in 2006 and revised in 2008. six bilateral agreements have been signed with Cuba, Venezuela, and Brazil, The technical barriers to trade, the introduction of sanitary and phytosanitary measures, the application of internal fees, public institutions and privatization, subsidies and some aspects of trade-related intellectual property rights. Substantial progress has been made in 2014.

4.2. Phases of trade liberalization of Algeria

➤ Restricted liberalization phase (1990):

It is noteworthy that through the adoption of a formal action represented in the issuance of the Law 90/10, which includes the liberalization of foreign investment in Algeria, followed in the same year the promulgation of Law 92/16 of 1990/08/07, which includes the supplementary finance law 1990, In Article 41, for the first time since the establishment and application of the State's monopoly on foreign trade, it is decided that the importation of goods for resale has become permissible for commercial traders.²²

➤ Full liberalization phase (1990-1991):

From the previous legislation and due to the many problems that foreign trade faced in the 1990s due to the unrestricted liberalization that does not advance, and to the extent that it increases the monopoly practice, the authorities made a step towards the small transformation of Algeria's foreign trade process by issuing Executive Decree No. 91/37 of 13 February 1991 , Which affirms the abolition of monopoly in the field of foreign trade and enshrines the principle of liberalization of foreign trade which Algeria has been in since 1990 As well as the complete liberalization of foreign trade transactions as well as the cancellation of import and export certificates.²³

²² Algerian Chamber of Commerce and Industry [online]: "Investment Code in Algeria." 2015 [Cited: 12.03.2018]. Available at: <http://www.caci.dz/fr/Nos%20Services/Information%20juridique/Documents/CodeInvestFevrier2015-Ang.pdf>

²³ Michigan State University [online]: "International Trade in Algeria." 2010 [Cited: 12.03.2018]. Available at: <https://digitalcommons.law.msu.edu/cgi/viewcontent.cgi?article=1024&context=ilr>

➤ The control phase (1992):

In view of the many problems that have emerged in this sector after the issuance of Decree No. 91/37 of 13 February 1991 to abolish the state monopoly of foreign trade, where the chaos of transactions and the supremacy of bureaucracy prevailed, the situation continued until August 18, 1992, when the government intervened to issue No. 625 To the prime minister, which is due to the management of its privileges in the field of foreign trade without retreating from the effort to liberate it.²⁴

➤ Full liberalization phase (1994):

This phase began in 1994, the year in which Algeria was preparing to enter into an agreement with the International Monetary Fund (IMF) as part of the reforms of the Agreement between the Stand-By Agreement of April 1994 and the rescheduling of debts.²⁵ Trade liberalization was one of the conditions in the agreement, As well as Algeria's bid to join the World Trade Organization (WTO), which is a catalyst for moving forward to remove obstacles and accelerate trade openness through Many of the reforms included liberalization of the foreign exchange system, rationalize and reduce import duties, in addition to the establishment of several national institutions in charge of foreign trade sector upgrade.²⁶

²⁴ World Trade Organization [online]: "ACCESSION OF ALGERIA

." 2001 [Cited: 13.03.2018]. Available at: https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=91061,41864,31104,59519,22030,56925,76839,75331&CurrentCatalogueIdIndex=4&FullTextHash=&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True

²⁵ **Redha. M Bougherira**: "Algeria in Transition: Reforms and Development Prospects." 2004. p. 87. ISBN-13: 978-0415348485

²⁶ International Monetary Fund [online]: "Stand-By Arrangement." 2017 [Cited: 14.03.2018]. Available at: <http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/33/Stand-By-Arrangement>

4.3. Analysis of Algerian trade balance during the period (1985 – 2017)

After studying some of the economic variables and changes, especially during the period (1985-2017), which had an impact on the trade balance, the objective of this study is to analyze the development of the balance of trade during this period.

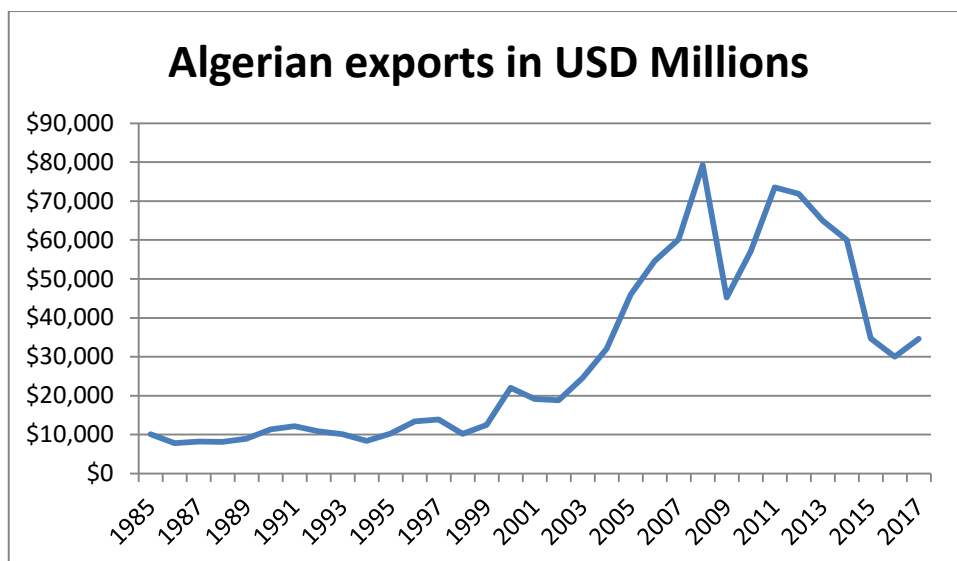
In addition, both imports and exports indicate the extent to which imports contribute to domestic demand and to what extent the discretionary industries are able to compete in foreign markets, and thus analyze the evolution of the balance of trade balance and determine whether it is in surplus or deficit.

4.3.1. Analysis of exports

The Algerian economy is characterized by the monopolistic nature of the export structure, relying mainly on the export of crude oil, which is estimated to be 95% of the total Algerian export revenues.

This has made the Algerian economy highly sensitive to changes in global oil prices on the one hand and the changes in the value of the currency of exchange (exchange rate) on the other hand, rather than the US dollar. In addition to the commodity concentration, exports are characterized by a large geographic concentration, where they are referred to certain countries, especially the European countries, the United States and Japan.

Figure No. 4: Algerian exports in USD millions



Source: Own elaboration based on data from National Statistics Office of Algeria.

It is clear that Algerian exports have developed continuously in most phases since 1985 with varying values from year to year. During 1986, the value of exports decreased due to the collapse of oil prices and started to rise again in 1990, which increased oil prices. Algerian exports increased again after 1995 as a result of the rise in oil prices. In 2000, it increased and reached 22,031 million USD after it was 12,522 million USD in 1999 and it was due to the increase in crude oil prices.²⁷

In 2006, exports grew by 54,613 million USD.

In 2008, the value of Algerian exports reached a record level of 79,298 million USD compared to 2007, which amounted to 60,163 million USD due to the record rise in oil prices which reached more than 120 USD per barrel.

This was followed by a decline in the volume of Algerian exports in 2009, which amounted to 45,194 million USD due to the decline in oil prices as a result of the mortgage crisis that hit the world.

During 2010 and 2011, Algeria's exports increased, from 57,053 million USD to 73,489 million USD, but it was declined again in 2013 as a result of the decline in oil prices.

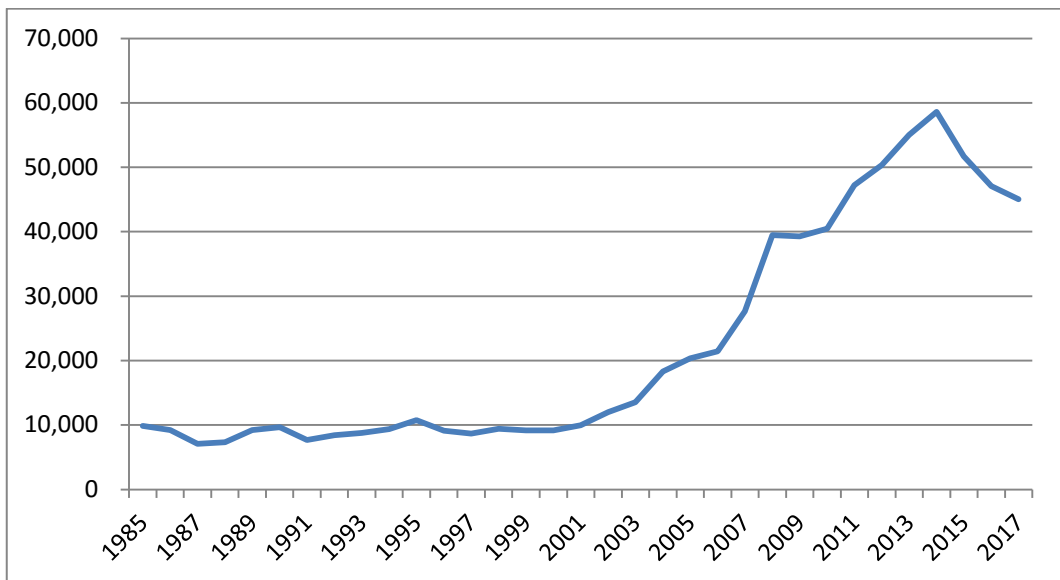
Exports decreased dramatically from 2015 to 34,668 million USD compared to 60,061 million USD back in 2014, and it continued to decrease to 2016 with a slight increase in 2017.

²⁷ National Statistics Office [online]: "Algerian Exports." 2018 [Cited: 18.03.2018]. Available at: <http://www.douane.gov.dz/>

4.3.2. Analysis of imports

Algerian imports are characterized by their diverse structure, their need to satisfy human needs and production machinery, which has increased the proportion of expenditure on imports. It also has a high spatial concentration. About two-thirds of Algerian imports originate from the European Union. In 2002, imports from Europe amounted to 5.64% indicating that Algeria's imports are mostly denominated in European currency (EURO).

Figure No. 5: Algerian imports in USD millions



Source: Own elaboration based on data from National Statistics Office of Algeria.

The table shows that Algerian imports have been 9,840 million USD in 1985, it declined in 1986 and 1987 due to crude oil price shock caused by an increase in the production which led to decrease in demand in the world market.

Algerian imports jumped after the economy recovered in 1995, mainly due to the measures were taken by Algeria in order to liberalize the foreign trade sector and enter the stage of full liberalization. Imports decreased in 1996 due to the decline in the volume of food imports such as cereals milk and its derivatives, also the stability of demand and the decline of border smugglers.²⁸

²⁸ National Statistics Office [online]: "Algerian Imports." 2018 [Cited: 18.03.2018]. Available at: <http://www.douane.gov.dz/>

In 2004 and 2005, Algerian faced a big increase in imports to 18,308 million USD and 20,357 million USD. In 2006, Algerian imports amounted to 21,456 million USD and it kept increasing. The rapid increase happened from 2008 with 39,479 USD.

The peak was back in 2014 with 58,580 million USD, since then the value of imports started to decline again and it reached 45,020 million USD in 2017.

It's clear from the table above that Algeria has trade deficit due to increase in imports.

4.3.3. Analysis of Algerian balance of trade

Algeria has gone through several changes and economic transformations during the period 1985-2017, including the progress of the implementation of the contract Algeria partnership with the European Union, the global financial crisis that began in 2007 and emerged in 2008 and showed its effects on the Algerian economy in 2009. The evolution of the balance of trade during this period will be analyzed. The following tables show the balance of trade balance from 1985 to 2017.

Table No. 4: Algerian balance of trade (1985-1995)

VALUES in USD MILLIONS											
Year	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
IMPORTS	9,840	9,213	7,056	7,323	9,208	9,684	7,681	8,406	8,788	9,365	10,761
EXPORTS	10,145	7,820	8,233	8,104	8,968	11,304	12,101	10,837	10,091	8,340	10,240
TRADE BALANCE	305	-1,393	1,177	781	-240	1,620	4,420	2,431	1,303	-1,025	-521
COVERAGE (%)	103	85	117	111	97	117	158	129	115	89	95

Source: Own elaboration based on data from National Statistics Office of Algeria.

Table No. 5: Algerian balance of trade (1996-2006)

VALUES in USD MILLIONS											
Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
IMPORTS	9,098	8,687	9,403	9,164	9,173	9,940	12,009	13,534	18,308	20,357	21,456
EXPORTS	13,375	13,889	10,213	12,522	22,031	19,132	18,825	24,612	32,083	46,001	54,613
TRADE BALANCE	4,277	5,202	810	3,358	12,858	9,192	6,816	11,078	13,775	25,644	33,157
COVERAGE (%)	147	160	109	137	240	192	157	182	175	226	255

Source: Own elaboration based on data from National Statistics Office of Algeria.

Table No. 6: Algerian balance of trade (2007-2017)

VALUES in USD MILLIONS											
Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IMPORTS	27,631	39,479	39,294	40,473	47,247	50,376	55,028	58,580	51,702	47,089	45,020
EXPORTS	60,163	79,298	45,194	57,053	73,489	71,866	64,974	60,061	34,668	30,026	34,625
TRADE BALANCE	32,532	39,819	5,900	16,580	26,242	21,490	9,946	1,481	-17,034	-17,063	-10,395
COVERAGE (%)	218	201	115	141	156	143	118	103	67	64	77

Source: Own elaboration based on data from National Statistics Office of Algeria.

The balance of trade recorded a surplus in most years since 1985, except in 1994 and 1995, where the balance recorded a deficit of 1,025 million USD and 521 million USD, due to the large growth of imports in those years, as this growth in imports was much higher than the growth recorded in Algerian exports.

The Algerian balance of trade balance continues to achieve growth in surplus until 2006 amounted to about 33,157 million USD, which is a great value compared to what was achieved in previous years, mainly due to the estimated capacity of crude oil in Algeria, as the extraction was about 1 Million barrels per day, which is the stabilizing pillar of the balance of trade for Algerian economy.

The balance of trade continues to achieve the continuous surplus. However, the surplus witnessed a sharp decline during 2009, reaching 5,900 million USD. The surplus in 2011 and 2012 returned to increase. This is due to the rise in Algerian exports mainly in crude oil exports, which led Algeria to take action to modify it, which would reduce the value of the Algerian dinar, and cancel the consumer loans to be determined from the import bill.²⁹

A sharp decline started in 2015, recording 10,395 million USD in 2017, that is due to the increase in imports in those years

²⁹ National Statistics Office [online]: "Algerian Balance of Trade." 2018 [Cited: 18.03.2018]. Available at: <http://www.douane.gov.dz/>

4.4. Algeria economic outlook (2018-2022)

2018 would be the beginning of a positive era for Algerian economy. The significant increase in hydrocarbon output with the start of production in new crude oil wells will mitigate the negative impact of the expected decline in the price of crude oil and other sectors. The high unemployment rate is expected to affect household spending. The government will make some progress, specifically by applying fiscal controls. However, the deficit in public finances is expected to remain significant. The deficit is expected to be financed by issuing new debt bonds. The current account deficit is expected to shrink slightly to 10.4% in 2018.

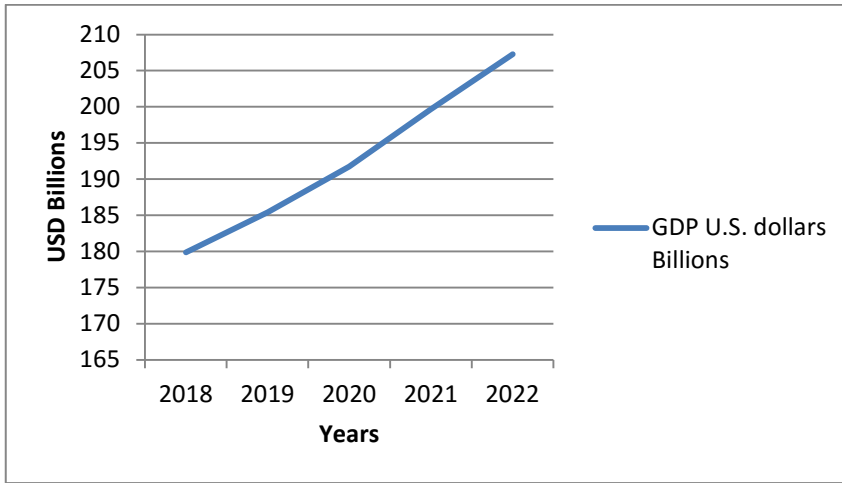
The government has begun to adjust fiscal conditions and initiated some reforms, but more remains to be done to adequately address the oil price shocks, sustain its sustainability and address long-standing weaknesses. Speaking in an e-newsletter, Jean-François Duvain, Head of Mission of the Fund for Algeria, said that the current situation, if managed well, represents an opportunity to reshape the Algerian growth model.³⁰

Algeria is seeking to rely mainly on its own resources to cope with the growing fiscal deficit. The parliament approved in October the amendment of the Monetary and Loan Law, which will allow the government to borrow from the central bank over the next five years, known as "overdrafts".

The following tables represent Algerian economic outlook according to IMF for the next 5 years.

³⁰ International Monetary Fund [online]: "Algerian Economy Outlook." 2018 [Cited: 22.03.2018]. Available at: <https://www.imf.org/external/arabic/pubs/ft/survey/so/2016/NEW052016Aa.pdf>

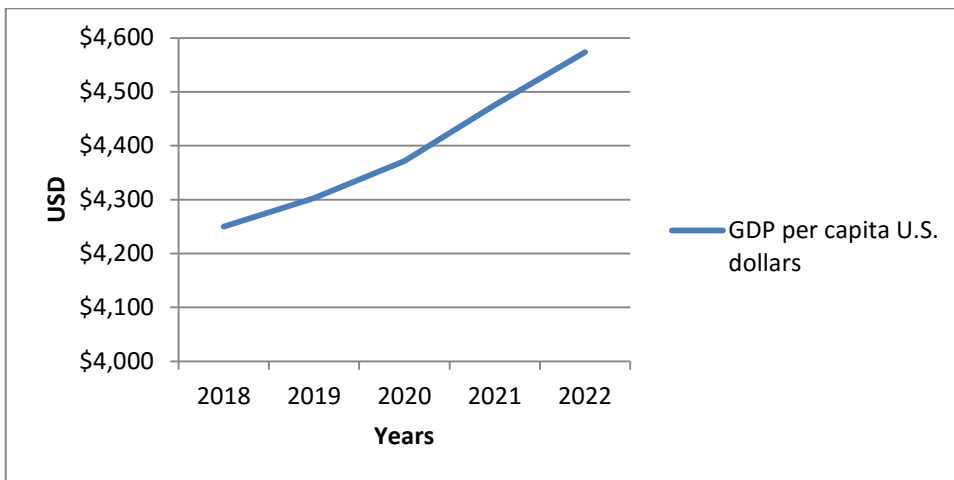
Figure No. 5: Algerian GDP estimation 2018-2022



Source: Own elaboration based on data from International Monetary Fund.

The sharp drop in energy revenues in the previous years has had a major impact on the economy so the governments have been forced to cut spending and freeze investment in infrastructure. However, according to IMF Algeria is making the correct steps to maintain a healthy economy. Therefore the estimations are positive.

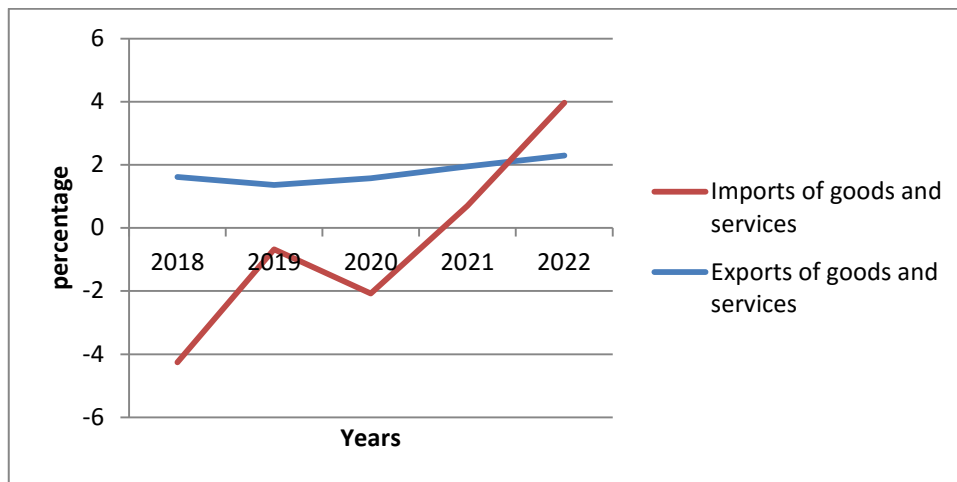
Figure No. 6: Algerian GDP per capita estimation 2018-2022



Source: Own elaboration based on data from International Monetary Fund.

Since the GDP is estimated to increase, the nation will benefit from that increase, therefore the GDP per capita will increase as well, and that will help to satisfy the needs of the nation.

Figure No. 7: Algerian imports/exports change estimation 2018-2022



Source: Own elaboration based on data from International Monetary Fund.

Despite the sharp decline in oil prices Algeria has managed to maintain an economic growth rate,. However, if the imports will continue to increase, it will also increase the trade balance deficit, the Algerian government is working on satisfying their own needs to avoid the increase in imports.

Results

Foreign trade is an economic activity practiced by countries since its inception. Therefore, many scholars have studied it on scientific grounds and have reached many theories explaining the reasons and conditions of its establishment.

However, these theories were characterized by differences according to the time frame of each thinker.

Developing countries can benefit from foreign trade by importing the means of production, factories and all the requirements for building economic projects. It can also benefit from export collections, which helps finance economic development projects and enrich the country's foreign currency.

The aim of liberalizing foreign trade is to take advantage of the integration into the international economy by specializing in commodities in which each country has an advantage, managing the surplus of production, obtaining foreign currency, and benefiting from market advantages to improve the well-being of the state and individuals and drive economic development.

The process of liberalization of foreign trade should be carried out in a gradual manner or methodology to avoid shock to the economy. As the sectors of the economy are interdependent and influential, the process of trade liberalization must be accompanied by procedures to qualify institutions to compete with their foreign counterparts, so that there is competition among institutions within the market.

The balance of trade is one of the most important sections of the balance of payments. It highlights the commodities in which the country has a competitive edge and also demonstrates the ability of local commodities to penetrate international markets.

It also shows the robustness of the structure of the country's economy through the structure of commodity exports and imports.

The crisis of 1986 revealed the fragility of the Algerian economy and that the problems it suffers are structural. With the collapse of oil prices, Algeria's export revenues collapsed. Algeria turned to the IMF for assistance, which focused on the need to liberalize the economy and move towards a market economy.

The Algerian trade balance has become a continuous surplus in its balance in favor of Algeria, but this is due to the ability of Algerian goods to penetrate the international markets to the high oil prices and the high capacity of Algeria's extraction and export.

Liberalization of foreign trade in Algeria flooded the local market with foreign consumer products, especially food, and in the absence of national institutions to compete, making Algeria an open market for the disposal of foreign products, especially European ones, after the entry into force of the Association Agreement with the EU. Out of hydrocarbons is about 1%, indicating the failure of Algerian policy in exports outside the hydrocarbons sector.

There is considerable geographical bias in Algeria's trade transactions towards the EU countries, both in terms of exports and imports, especially after the company's agreement between the two parties comes into force. Algeria's exchange with the European Group accounts for about two-thirds of the total exchanges. The region, and also makes it at risk if the countries of the group are in crisis.

5. Conclusion and Recommendations

In the theoretical part of the study, we discussed the foundations of foreign trade between countries through the theories and policies of foreign trade, trade balance and its relation to liberalizing foreign trade.

In the practical part, we discussed the reality of liberalization of foreign trade in Algeria and its impact on the trade balance.

Algeria should increase the efficiency of economic institutions, especially small and medium enterprises, in order to increase their export capabilities. This can only be achieved through good training of individuals and coordination between all parties, whether employees of institutions or authorities.

Also to benefit from the results of the scientific research on the ground, because this is the most important bet for the development of the industrial and agricultural sector to reach a non-oil economy.

Algeria should focus on some sectors such as the agricultural sector, extractive industries, tourism and traditional industries in order to promote exports outside the hydrocarbons sector.

Algeria's financial wealth should be also invested in projects such as scientific research, industry, and agriculture to improve the production.

The need to renegotiate with the European party in order to facilitate the entry of Algerian goods into the EU region, especially since Algerian exports outside the hydrocarbons have not benefited from this agreement.

Developing a clear national strategy in the negotiations to join the World Trade Organization and try to make the most of the detailed benefits that the Organization gives to developing countries.

Algeria should try to capitalize on its experience in partnership negotiations with the EU and try to use its strengths to reduce the pressures of commitments that may be imposed on it during WTO accession negotiations.

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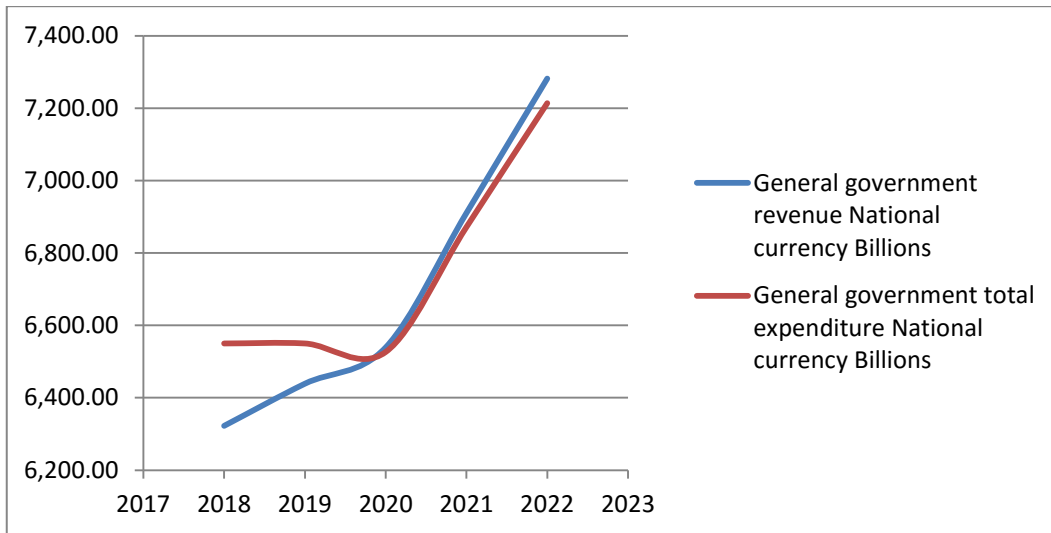
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7. Appendix

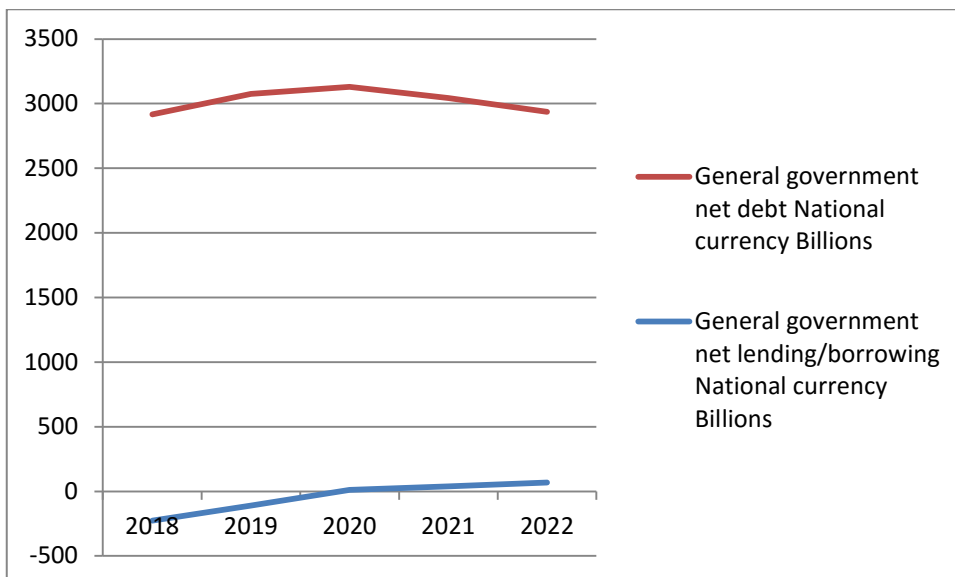
Appendix No. 1: Algerian Revenues/Expenditures

Comparison between Algerian revenues and expenditures



Appendix No. 2: Algerian Debt/Lending

Comparison between Algerian national net debt and lending the national currency



Appendix No. 3: Algerian exports 1985-2017

Data observed from the Algerian national statistical office used in Algerian exports graph

Years	Values in Millions		Weight/tons
	Dinars	Dollars	
1985	51,029	10,145	42,155,353
1986	36,832	7,820	54,485,263
1987	39,848	8,233	53,478,723
1988	48,057	8,105	63,677,260
1989	68,246	8,968	60,645,521
1990	101,284	11,304	65,256,880
1991	219,391	12,201	66,939,447
1992	232,237	10,837	68,197,881
1993	235,828	10,091	73,123,229
1994	302,909	8,340	128,306,280
1995	488,270	10,240	60,480,488
1996	732,103	13,375	62,613,904
1997	732,517	13,889	81,959,452
1998	577,755	10,213	72,497,557
1999	834,685	12,522	78,539,399
2000	1,658,525	22,031	87,224,055
2001	1,478,002	19,132	81,132,926
2002	1,500,429	18,825	87,135,819
2003	1,891,072	24,612	92,888,990
2004	2,311,895	32,083	94,434,584
2005	3,374,567	46,001	96,664,440
2006	3,967,005	54,613	93,542,021
2007	4,172,732	60,163	95,541,983
2008	5,142,651	79,298	97,970,786
2009	3,282,819	45,194	87,747,763
2010	4,244,747	57,053	81,426,688

2011	5,354,510	73,489	78,088,159
2012	5,572,786	71,866	69,976,517
2013	5,157,234	64,974	65,993,228
2014	4,838,129	60,061	69,659,864
2015	3,481,837	34,668	69,879,696
2016	3,286,589	30,026	74,133,998
2017	3,808,750	34,625	76,125,410

Appendix No. 4: Algerian imports 1985-2017

Data observed from the Algerian national statistical office used in Algerian imports graph

Years	Values in Millions		Weight/tons
	Dinars	Dollars	
1985	49,495	9,840	16,496,921
1986	43,393	9,213	15,200,156
1987	34,151	7,056	12,679,247
1988	43,425	7,323	13,209,429
1989	70,073	9,208	17,274,218
1990	86,769	9,684	13,493,666
1991	139,257	7,681	12,828,222
1992	180,141	8,406	13,272,029
1993	205,463	8,788	14,883,619
1994	340,137	9,365	16,237,248
1995	513,193	10,761	15,221,647
1996	498,130	9,098	10,940,464
1997	501,582	8,687	12,693,763
1998	552,358	9,438	13,437,801
1999	610,547	9,173	14,934,722
2000	689,599	9,162	16,597,261
2001	767,890	9,940	16,929,492

2002	957,039	12,009	21,279,827
2003	1,060,901	13,534	21,187,097
2004	1,319,159	18,308	20,962,089
2005	1,493,645	20,357	21,799,196
2006	1,558,542	21,456	21,854,454
2007	1,916,829	27,631	22,833,820
2008	2,572,033	39,479	28,290,146
2009	2,854,994	39,294	27,129,740
2010	3,011,808	40,473	29,514,505
2011	3,442,502	47,247	32,390,476
2012	3,907,072	50,376	39,233,611
2013	4,368,547	55,028	41,723,855
2014	4,719,708	58,580	45,463,974
2015	5,193,460	51,702	51,542,033
2016	5,154,777	47,089	46,124,340
2017	4,979,212	45,020	43,840,325