

The unbalanced growth strategy in Algeria: Justifications and factors of success

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Abstract:

The Algerian economy has shown resilience and recovery post-COVID-19, with GDP growth rates of 3.8%, 3.6%, and 4.1% in 2021, 2022, and 2023, respectively. Key sectors like agriculture, construction, services, and extractive industries contributed variably to this growth, with hydrocarbons remaining a dominant driver despite declining global prices. The manufacturing sector, however, experienced a significant slowdown. The analysis highlights the importance of intersectoral linkages and advocates for an unbalanced growth strategy, prioritizing industrialization to foster economic diversification, reduce import dependency, and enhance export competitiveness. Agricultural development and strategic industrial policies are crucial for sustainable growth and food security.

Keywords: Economic Growth; Industrialization Strategies; Unbalanced Growth; Algerian Economy; Forward and Backward Linkages.

JEL Classification Codes: O14, O25, L52 , L16

1. INTRODUCTION

The Algerian economy has long relied on the hydrocarbon sector, which has played a key role in driving GDP growth and generating government revenues. However, this heavy dependence on hydrocarbons makes the economy vulnerable to external shocks, such as fluctuations in global

energy prices. Despite efforts to diversify, other sectors, such as manufacturing and agriculture, have not fully realized their potential in contributing to sustainable growth. Additionally, weak intersectoral linkages hinder economic integration and long-term development.

1.1 Problematic of the Study: Is there a rationale for adopting an unbalanced growth strategy in Algeria? What are the key factors for its success?

1.2 Significance of the Study:

Understanding sectoral linkages within the Algerian economy is essential for designing effective industrial policies and economic strategies. By identifying sectors with the strongest forward and backward linkages, policymakers can direct resources toward areas with the highest impact. The study's findings contribute to the broader discussion on industrialization, economic diversification, and development strategies in resource-rich economies. Moreover, analyzing the strengths and weaknesses of different industrial models can help Algeria transition from a hydrocarbon-dependent economy to a more diversified and sustainable one.

1.3 Objectives of the Study :

This study aims to analyze the structure of economic linkages in Algeria, assess the effectiveness of an unbalanced growth strategy, and identify the most efficient industrialization strategies to achieve sustainable economic diversification by:

1. Examining intersectoral linkages in the Algerian economy, focusing on forward and backward linkages.
2. Evaluating the effectiveness of an unbalanced growth strategy in promoting industrialization and economic diversification.
3. Analyzing the role of the manufacturing sector in fostering economic integration and growth.
4. Studying industrialization strategies from multiple perspectives, including ownership structure, industry type (heavy vs. light), and trade orientation (import substitution vs. Export promotion).

1.4 Methodology of the Study : This study adopts a descriptive-analytical approach to assess Algeria's economic structure and industrialization strategies. The methodology includes :

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- Literature Review : Examination of theoretical frameworks, including Hirschman's unbalanced growth strategy and linkage analysis, as well as studies on industrialization strategies.
- Sectoral Analysis : Evaluation of key economic sectors, including hydrocarbons, manufacturing, services, agriculture, and construction, using economic data from national and international sources.
- Linkage Analysis : Measurement of forward and backward linkages between economic sectors, based on previous studies and input-output models to determine sectoral interdependencies.

2. A Brief Overview of Algeria's Economic History

Algeria was subjected to settler colonialism, which led to the destruction of its traditional economy through brutal and direct force. As a result, a modern economy was established by the colonizers, while the underdeveloped traditional economy remained in the country's interior regions. These developments limited the possibility of the emergence of a strong national bourgeoisie. Algeria's liberation was ultimately achieved through a long revolutionary war fought by its farmers and working class.

The underdeveloped and distorted Algerian economy, characterized by fragmentation, internal contradictions, and imbalances whether within individual production sectors, between sectors, or across regions was reflected in an even more evident social backwardness, represented by the so-called trilogy of ignorance, poverty, and disease.

Upon independence in 1962, Algeria inherited an economic system completely subordinated to French interests. Around 85% of Algerian exports were directed to France, while 80% of imports came from France.

These economic and social contradictions led the leaders of the liberation movement to a general conviction that the most appropriate and effective economic model for post-independence Algeria was socialism. The guiding philosophy behind this economic policy was outlined in the Tripoli Program (June 1962) the first political declaration of the National Liberation Front (FLN) before independence and further reinforced in the Algiers Charter (April 1964). The primary and fundamental choice that emerged from these

discussions was to establish a socialist economic system.

The necessity of this choice was further reinforced by the fact that Algeria emerged from colonial rule with weak individual capabilities. No strong national capitalist class had formed, except for a small bourgeoisie engaged in trade and minor industrial activities, which remained dependent on foreign capital. Additionally, a landowning or semi-feudal class in agriculture operated under rigid production relations.

Less than five years after independence, Algeria experienced economic stagnation. The foreign and local bourgeoisie did not aspire to lead the country's economy alone for various reasons, and the economic measures taken between 1963 and 1966 were inconsistent and undefined.

As a result, Algeria officially adopted economic planning in 1967, launching its first three-year plan (1967-1969). This plan marked direct state intervention in guiding and stimulating development. For economic planning to be effective, it had to be based on a publicly owned economic foundation. This allowed the government to implement policies aligned with the principles of a planned economy. Consequently, the state took decisive political measures to establish a significant economic sector under its direct control, focusing on four key areas:

- Agricultural sector: The nationalization of settler-owned lands in October 1963.
- Industrial sector:
 - Nationalization of foreign capital in mining (May 8, 1966).
 - Nationalization of the distribution, storage, and transportation network for hydrocarbons (August 1967 and May 1968).
 - Nationalization of mechanical, electrical, fertilizer, and construction materials industries, as well as the food industry (May and June 1968).
 - Nationalization of the hydrocarbons sector (February 24, 1971).
- Financial sector: Nationalization of foreign financial institutions, including insurance companies and banks, in June and December 1966, and October 1967.
- Foreign trade sector: The state took full control over all foreign trade operations starting in 1969.

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In the mid-1960s, as in many other developing countries, Algeria sought modernization and industrialization. At that time, the dominant economic model for development was structural economics, which advocated a big push strategy based on state-led resource allocation, an import substitution policy, and the development of capital-intensive modern industries.

During the early years of implementing this strategy, Algeria experienced rapid investment-driven growth and made progress in transforming its economy throughout the mid-1960s and 1970s. However, since the early 1980s, the growth rate began to slow down, followed by long periods of stagnation and recurring crises. (Haouas & Yifu Lin, 2024, p. 12)

In light of Algeria's planning experience, it has been proven that without a clear integration of political, social, and organizational dimensions into the planning process, it is difficult to transform a plan document into a lived social reality. The complexities of reality do not allow planning to be limited to technical calculations conducted in the offices of planners, no matter how precise and well-designed they may be. rephrasing Although most development plans aim to achieve transformations between sectors and from one level of national income to another, they often remain partial visions that fall short of a comprehensive and fundamental perspective encompassing the long-term societal outlook. As a result, the focus of each plan has varied from one period to another. Ultimately, despite planning not fully meeting the expectations placed upon it, it has nonetheless achieved a level of growth that would not have been possible without a structured planning framework, regardless of its shortcomings.

With the liberalization of trade and the adoption of structural adjustment programs in the late 1980s, Algeria underwent significant deindustrialization, shifting from a net food exporter to a net importer, primarily due to declining agricultural productivity. As a consequence, one in four Algerians now lives below the poverty line, while unemployment and underemployment remain persistently high. A large portion of the population relies on low-productivity informal sectors, particularly agriculture, as their main source of income. By the turn of the 21st century, Algeria had become even less industrialized than it was forty years earlier,

with an economy that remains strikingly similar to its post-independence structure. Moreover, reliance on oil and gas revenues has continued to grow, with hydrocarbons contributing around 60% of GDP and 97% of the country's foreign earnings. (Haouas & Yifu Lin, 2024, p. 12)

3. Balanced or Unbalanced Growth Strategy

The study uses the theoretical foundations of modern economic growth as developed in the literature on balanced and unbalanced growth. To avoid confusion, it is necessary to review in brief the theoretical debate of the balanced and unbalanced controversy. In his early work, Fleming emphasized the role of "vertical" external economies on the supply side. He indicated that: Thus far we have considered industries as acting on each other "horizontally," through the interrelated markets which they serve or the interrelated factors which they buy. But industries also affect each other in greater or lesser degree in a more direct manner, i.e, "vertically," as suppliers or customers. We are concerned with the effects of this "vertical" connection on the "horizontal" one, to which the balanced growth doctrine, as expounded by Rosenstein-Rodan and Nurske, primarily refers. (Marcus, 1955, p. 249)

Hirschman critiqued the balanced growth approach to economic development, suggesting that it may have been influenced by a Keynesian perspective on economic downturns. He argued that the balanced growth doctrine is essentially an attempt to apply a solution designed for underemployment to the context of underdevelopment. (Hirschman, 1958, p. 54)

Hirschman expanded on Fleming's framework and introduced the unbalanced growth approach, emphasizing the role of disequilibrium in the growth process and the necessity of stimulating investment decisions. He argued that:

"The objective should be to sustain, rather than eliminate, economic disequilibria, as profits and losses serve as indicators of these imbalances in a competitive economy. For economic progress to continue, development policies must actively maintain tensions, disproportions, and disequilibria."

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(Hirschman, 1958, p. 66)

The unbalanced growth approach posits that development progresses through a series of interconnected disequilibria. Hirschman's perspective on the causal relationship between unbalanced growth and economic development is fundamentally tied to the persistence of structural imbalances within the economy. According to this framework, policy planners and decision-makers should strategically direct their economic policies toward mitigating or resolving emerging constraints and bottlenecks.

This approach prioritizes the expansion of sectors with the highest potential for inter-sectoral linkages, under the assumption that certain investments must grow at a faster rate in specific sectors than in others. Consequently, it introduces a linkage-based strategy, enabling the identification of key sectors with the most significant economic interdependencies and growth potential.

Hirschman contended that the industrialization process should commence with light industries (consumer-oriented sectors) rather than heavy industries (producer sectors), as the former are more directly aligned with meeting final consumer demand.

He categorized industries into two primary types:

1. Industries that convert domestic or imported primary resources into finished goods intended for final consumption.
2. Industries that refine imported semi-manufactured products into fully processed goods required for final demand.

Hirschman observed that in most less developed countries (LDCs), industrialization has predominantly followed the second pathway, relying on imported semi-manufactured goods instead of fully leveraging domestic raw materials. Furthermore, he emphasized that agricultural linkages tend to be weaker than manufacturing linkages, as the latter foster greater economic interdependencies and broader developmental impacts . (Lezzam, 1990, p. 151)

Expanding on Young's theoretical framework, Streeten examined the interconnected nature of industrial expansion, asserting:

"The growth rate of a given industry is influenced by the growth rates of other industries. However, due to variations in demand and supply elasticities across different sectors, certain industries will inevitably expand at a faster pace than others." (STREETEN, 1959, p. 168)

Lipton delineated three distinct interpretations of balanced growth, categorizing them as extreme, moderate, and sophisticated approaches.

- **Extreme View:** This perspective posits that net or gross investment and output should expand at uniform rates across all economic sectors.
- **Moderate View:** Advocates for the simultaneous expansion of all sectors, though not necessarily at identical growth rates. However, Lipton highlighted that this approach lacks practical applicability in both economic development theory and historical analysis.
- **Sophisticated View:** Rooted in Nurkse's theoretical framework, this interpretation underscores the role of external economies, emphasizing the dynamic interaction between supply and demand in generating positive economic spillovers.

Lipton further correlated these interpretations with the "big push" theory, contending that both the extreme and moderate perspectives suffer from a critical limitation—their overemphasis on investment incentives while neglecting resource constraints and physical scarcities. (Lipton, 1962, pp. 641-42)

Arthur Lewis (Lewis, 1955) emphasized the importance of maintaining balanced growth across agriculture, manufacturing, and exports, considering this approach a variation of Nurkse's balanced growth strategy. On the other hand, Sutcliffe challenged the notion of absolute balance, arguing that a systematic framework is required to differentiate between balanced and unbalanced growth strategies. Developing such a framework would help refine the definitions of both approaches, making their distinctions clearer.

Sutcliffe further contended that balanced and unbalanced growth doctrines are fundamentally similar, yet the differences outlined by their proponents remain too vague to be of significant value as operational concepts in economic development or economic history.

It has been argued that both doctrines are integral to the "big push" theory,

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which suggests that substantial and coordinated investments are necessary to stimulate economic growth. However, Lipton identified a major flaw in both approaches, asserting that they place excessive focus on investment incentives while failing to address resource constraints and physical scarcities. (Sutcliffe, 1964)

4. An Analysis of Economic Growth Indicators in Algeria

Economic activity in Algeria, after experiencing a sharp recession in 2020 (-5%) amid the global COVID-19 pandemic, recorded significant growth rates in 2021, 2022, and 2023, at 3.8%, 3.6%, and 4.1%, respectively. These figures reflect the rapid recovery of the Algerian economy, especially since the real growth rate recorded in 2023 (4.1%) is the highest of the entire 2015-2023 period. (Bank of algeria, 2024, p. 20)

4.1 Agricultural Production

The growth of agricultural production declined, dropping from 5.3% in 2022 to 3.3% in 2023, contributing 8.4% to overall growth compared to 16.0% in 2022.

Nevertheless, the agricultural sector saw an increase in its share of GDP at current prices, reaching 12.9% in 2023 compared to 10.4% in 2022.

In terms of added value, the "Agriculture, Hunting, and Forestry" sector generated 4,204.5 billion dinars in 2023, compared to 3,323.1 billion dinars in 2022. (Bank of algeria, 2024, p. 21)

4.2 Construction

The growth of the construction sector recorded a slight decline in 2023, with a rate of 3.7% compared to 4.0% in the previous year. Nevertheless, this sector remains a major contributor to economic growth, ranking third with a contribution of 10.8% in 2023, down from 15.1% in 2022.

Furthermore, the share of this sector in the GDP at current prices increased to 12.9% in 2023, compared to 12% in 2022. (Bank of algeria, 2024, p. 22)

4.3 Market and Non-Market Services

The added value of the services sector reached 14,684.68 billion dinars in 2023, compared to 13,693.7 billion dinars in 2022. Consequently, its share

in GDP at current prices increased from 42.8% in 2022 to 45.1% in 2023. In real terms, all branches of activity within this sector recorded positive growth and nearly maintained their pace from the previous year, except for the "Hotels and Restaurants" sector. (Bank of Algeria, 2024, p. 22)

4.4 Extractive Industries

After a significant contraction in the extractive industries sector throughout 2022, these activities rebounded in 2023, becoming the main driver of economic growth for the year. The sector's growth increased from -5.1% in 2022 to 4.8% in 2023, contributing 22.9% to overall growth, compared to a negative contribution of -18.2% the previous year.

This growth was primarily driven by the oil sector. However, at current prices, the added value of extractive industries declined to 5,237.2 billion dinars in 2023, compared to 6,278.3 billion dinars in 2022, marking a 16.6% decrease. This decline reflects the drop in hydrocarbon prices, which dominate the extractive industry. Despite the decline in nominal added value, the sector remained the largest contributor to economic growth, representing 17.1% of total added value in 2023, up from 12.6% in 2022.

Unlike the previous year, and despite the recovery of the hydrocarbon sector in 2023, Algeria's liquid and gas hydrocarbon exports were affected by the drop in energy prices. Revenue from these exports fell to \$50.5 billion in 2023, down from \$59.7 billion in 2022, a 16.9% decrease. Amid ongoing geopolitical tensions and market uncertainties, hydrocarbon prices declined in 2023. On average, the price of exported crude oil dropped by 19.3%, from \$103.7 per barrel in 2022 to \$83.6 in 2023. Similarly, natural gas prices fell by 13%, from \$14.7 per million BTU in 2022 to \$12.7 in 2023.

On the other hand, the volume of hydrocarbon exports, measured in tonnes of oil equivalent (TOE), increased by 3.5% in 2023. This growth was mainly driven by a notable increase in gas hydrocarbon exports (+6.4%), along with a slight rise in liquid hydrocarbon exports (+0.5%).

The added value of the manufacturing industries sector stood at 2,533.8 billion dinars in 2023, compared to 3,283.8 billion dinars in 2022, marking a 22.8% decline in value. The sector's share in GDP at current prices was 7.8% in 2023.

The real growth rate of the manufacturing sector dropped significantly,

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reaching 1.6% in 2023, compared to 12.8% in 2022. As a result, the sector's contribution to real GDP growth was only 4.0% in 2023, down from 28.9% in 2022.

Regarding gas sales, they remained almost stable in 2023, with a 0.3% growth rate, compared to 8.3% in 2022. This trend is attributed to:

- A 5.1% increase in high-pressure consumption,
- Stable medium-pressure consumption with a 0.1% growth rate,
- A 1.6% decline in low-pressure consumption.

As a result, total gas sales amounted to 194.8 gigatherms in 2023, compared to 194.2 gigatherms in 2022. (Bank of Algeria, 2024, pp. 24-25)

5. The Linkage Analysis Of The Algerian Economy

The concept of Pioneer Sectors is rooted in Albert Hirschman's Unbalanced Growth Strategy, which advocates prioritizing a select number of strategic sectors with high dynamic potential and significant economic impact. These sectors are expected to drive : Value creation ; Capital accumulation ; Employment growth ; Export expansion ; Import reduction ; Strengthened intersectoral linkages across various branches of the economy.

Economic sectors are interconnected through two main types of linkages :

- Forward Linkages : These represent the extent to which a sector's output influences other sectors by serving as an input for their production. For example, an increase in steel production in the steel industry could lead to greater demand for transport services, as steel must be transported to different manufacturers. (Hirschman, 1958)
- Backward Linkages : These reflect the degree to which a sector relies on inputs from other sectors. For instance, a rise in truck production within the automobile industry could boost demand for rubber and metal, as these materials are essential for vehicle manufacturing. (Miller & Blaire, 2009)

A study conducted by Walid Kessoum Messaoui and Issa Hjab analyzed forward and backward linkages across nine economic sectors, ranking them based on their ability to enhance sectoral interconnectivity: (Kessoum

Messaoui & Hjab, 2019)

1. Manufacturing Sector (Strongest Linkages within its Branches)

This sector includes: Mining and quarrying ; Wood ; paper ; and cork industries ; Energy and water industries.

These industries sell their output evenly across multiple sectors while also sourcing inputs from a broad range of industries, demonstrating their strong capacity to deepen both forward linkages (selling outputs to various sectors) and backward linkages (purchasing inputs from multiple sources) simultaneously.

2. Other Manufacturing Industry Branches

This category includes:

- Iron, metal, mechanical, electrical, and electronic industries,
- Chemical, rubber, and plastic industries,
- Agricultural and food industries,
- Textile industries.

These industries tend to purchase inputs from a diverse set of sectors, yet their output is primarily directed toward a limited number of sectors rather than being widely distributed.

- Building materials and glass industry: This sector exhibits low linkage intensity, as it sources inputs from a few sectors but supplies its output to a wide range of industries.

3. Hydrocarbon Sector (Oil & Gas)

- Weak Forward Linkages: While 32.06% of its production is utilized within the sector itself, the majority (64.57%) is directed toward intermediate demand, meaning it does not reach the final consumer directly. Additionally, the sector contributes 13.83% of its output to transport, communications, and trade, and 15.18% to oil-related services and infrastructure.
- Weak Backward Linkages: The sector generates limited demand for inputs from other industries, as 77.28% of its intermediate inputs come from within the sector itself, while 16.21% are sourced from petroleum-related services and construction.

4. Services Sector (Weakest Linkages)

The services sector ranks lowest in terms of both forward and backward

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linkages, indicating a minimal role in fostering intersectoral economic integration.

6. The choice of the unbalanced growth strategy

We have previously presented a historical overview of the Algerian economy since independence and introduced the concepts of balanced and unbalanced growth strategies. Then, in analyzing sectoral composition and intersectoral linkages, the importance of the industrial sector—particularly manufacturing—became evident. This reinforces the conclusion that the unbalanced growth strategy is an acceptable option with economic justifications.

It is important to note that establishing industrial enterprises does not, in itself, constitute industrialization. Industrialization is not merely about transforming raw materials into manufactured goods; rather, it is a cumulative process that involves using machines to manufacture other machines, leading to an increasing number of automated entities. This results in a reduction in actual labor costs and a greater liberation of human effort from nature, which is the ultimate goal of development.

In this sense, industrialization means deeply rooting industry within the national economy and integrating it with various other economic activities. This creates economic harmony between different sectors, enabling industry to develop its own momentum, where each industrial sector both feeds and is fed by others. This dynamic also allows other economic activities, including agriculture, to integrate with industry.

When discussing industrialization strategies, we examine them from several perspectives:

1. Ownership Perspective

This perspective considers whether industrial development should be driven by the state and the public sector or left to the private sector to initiate and finance the necessary industries, thereby reducing the government's role.

Both the public and private sectors have advantages and drawbacks in leading industrialization. The public sector is more efficient in mobilizing

large capital investments, securing local and foreign capital, and integrating industry into a national development plan. However, one of its shortcomings is inefficiency in resource allocation, as excessive employment can lead to near-zero productivity for some workers.

On the other hand, the private sector excels in clearly defined profit-oriented goals, rational resource utilization, performance-based rewards and promotions, and responsiveness to consumer demand in terms of quality. While the public sector may suffer from bureaucratic inefficiencies, the private sector benefits from dynamism and adaptability.

2. Type of Industry (Heavy vs. Light Industry)

According to the International Standard Industrial Classification (ISIC), heavy industry includes the production of capital goods and durable consumer goods, while light industry focuses on essential consumer goods.

The main branches of heavy industry include paper products, chemicals and petroleum products, non-metallic mineral products, basic metals, and fabricated metal products. Light industry consists mainly of food, beverages, tobacco, textiles, leather, rubber, wood, and furniture industries.

Heavy industry forms the foundation of a national industrial structure, supports import substitution—particularly in metallurgy and mineral products—and plays a crucial role in expanding exports by producing essential industrial materials.

Meanwhile, developing light industries yields several positive outcomes during industrial transformation. It curbs inflationary pressures, encourages agricultural production, absorbs a large labor force, supports urbanization, and expands the market for heavy industrial products. However, its limitations include weaker technological advancement and industrialization effects. Over-reliance on light industry can lead to excessive dependence on advanced industrial centers abroad, industrial decline, and a dependency on import substitution strategies.

Ultimately, neither heavy nor light industry can serve as substitutes for each other. The choice of an industrial model must be based on precise evaluations of economic growth levels, available national resources, and the country's industrial objectives.

3. Industrialization Goals (Import Substitution vs. Export Promotion)

A nation's economic independence and stable development depend on

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transforming its industrial structure from one dominated by raw material exports (enclave-export) to a diversified network of industries that serve domestic markets and enhance exports with increasing value-added content. In this sense, the industrial structure should shift from its passive state to an active and balanced economic system, increasing its contribution to international trade. This transformation supports both **import substitution** and export promotion, leading to more equitable international trade and enhanced exchange rates.

Import substitution does not imply complete self-sufficiency or absolute reduction in imports. Instead, it refers to reducing the share of foreign goods and equipment in total production inputs. As import substitution progresses, import volumes may still grow but at a slower rate than domestic production.

4. Agricultural Development

Agricultural policy refers to a set of effective agricultural reform measures aimed at improving the agricultural sector, increasing production in terms of quantity and quality, and enhancing the living standards of agricultural workers. It also involves structural changes that foster real growth in agricultural output and rural income over a defined period.

Agriculture is a fundamental pillar of Algeria's economic framework due to its vast arable land, available water resources, and human capital. However, agricultural policies in Algeria face significant challenges that hinder production growth in both crop and livestock sectors and jeopardize food security.

These challenges stem from constraints on available economic resources and inefficiencies in resource utilization at both technical and pricing levels, negatively impacting agricultural output and costs.

Rather than waiting for a miracle, the solution lies in utilizing existing land resources, cultivating them with locally available means, and continuously improving agricultural techniques. This gradual approach helps meet essential needs, break the cycle of poverty and underdevelopment, and overcome food insecurity.

Therefore, agriculture must receive due attention in economic and social

development projects. It should be prioritized in government investment programs, along with efforts to develop the agricultural processing industry.

7. CONCLUSION

The analysis of Algeria's economic growth indicators and sectoral performance from 2020 to 2023 reveals a resilient economy recovering from the shocks of the COVID-19 pandemic. Despite the sharp recession in 2020 (-5%), the Algerian economy rebounded with growth rates of 3.8%, 3.6%, and 4.1% in 2021, 2022, and 2023, respectively. This recovery was driven by a combination of factors, including the rebound of the hydrocarbon sector, growth in manufacturing, and the steady performance of the services and construction sectors. However, challenges remain, particularly in diversifying the economy away from its heavy reliance on hydrocarbons and addressing structural inefficiencies in key sectors such as agriculture and manufacturing.

The agricultural sector, while showing an increase in its share of GDP (12.9% in 2023), experienced a decline in growth from 5.3% in 2022 to 3.3% in 2023. This highlights the need for targeted reforms to improve productivity, resource utilization, and food security. Similarly, the construction sector, though a significant contributor to GDP, saw a slight decline in growth, emphasizing the importance of sustained investment in infrastructure to maintain its role in economic development.

The services sector continued to expand, contributing 45.1% to GDP in 2023, driven by strong performance in market and non-market services. However, the extractive industries, particularly hydrocarbons, remain the backbone of the economy, contributing 22.9% to overall growth in 2023 despite a decline in export revenues due to falling global energy prices. This underscores the vulnerability of Algeria's economy to external shocks and the urgent need for economic diversification.

The manufacturing sector, while showing potential, experienced a significant decline in growth, from 12.8% in 2022 to 1.6% in 2023. This highlights the challenges of deepening industrialization and enhancing value-added production. The sector's weak linkages with other parts of the economy further emphasize the need for policies that strengthen

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intersectoral integration and promote forward and backward linkages.

The analysis of sectoral composition and intersectoral linkages reinforces the argument for an unbalanced growth strategy, as proposed by Albert Hirschman. This strategy prioritizes the development of key sectors with high dynamic potential, such as manufacturing and heavy industries, to create ripple effects across the economy. By focusing on sectors with strong forward and backward linkages, Algeria can stimulate economic integration, enhance value creation, and reduce dependency on hydrocarbon exports.

The manufacturing sector, with its strong intersectoral linkages, emerges as a critical driver of economic transformation. However, its current underperformance highlights the need for targeted investments, technological upgrading, and policy reforms to unlock its full potential. Similarly, the hydrocarbon sector, despite its weak linkages, remains a vital source of revenue and must be leveraged to finance diversification efforts.

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