

Will the New Foreign Direct Investment Regime Promote Export Diversification in Algeria? A perspective from Chile's and Malaysia's Successes ¹

By José G. Gijón-Spalla[♦]

I. INTRODUCTION

The first decade of the 21st century was very positive for the Algerian economy. During the past 10 years, the economy recovered from the deep socioeconomic crisis of the 1990s. GDP grew at an average of 3.6 percent, real GDP per head increased by 22 percent (2000-2008), and unemployment fell from 29.5 percent in 2000 to 11.3 percent in 2008. The reasons for this success were a favorable international macroeconomic environment marked by high oil prices, and prudent macroeconomic policies that resulted in large fiscal surpluses and a stable foreign exchange. Despite the progress made, the economy remains extremely dependent on the hydrocarbon sector (98 percent of exports), private investment is too small, and a weak business climate remains a major barrier for private investment-lead economic growth.

In an effort to increase the competitiveness of the economy, in 2004, the authorities launched a US\$ 200 billion public investment program (PIP) to enhance or build new infrastructure. Moreover, a set of rules have been adopted in recent years to help promote the diversification of the economy based on a vibrant domestic private investment sector. So far, the adoption of these new measures had mixed results and has failed to boost domestic private investment in a significant way.

The 2009 Supplementary Budget Law (SBL)² introduced new foreign direct investment (FDI) rules, which could have important economic consequences for Algeria. Although the reported goal is to promote domestic investment, it may have opposite consequences by

¹ I wish to thank Joël Toujas-Bernate for his useful comments and guidance in the preparation of this paper.

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² The new rules were adopted through the 2009 Supplementary Budget Law issued on July 26, 2009 (see http://www.joradp.dz/JO2000/2009/044/F_Pag.htm).

hampering efforts to diversify the economy out of hydrocarbons, Algeria's main export. The two main objectives of this paper are to explain the potential (likely negative) effects of the new FDI rules on export diversification and the importance of export diversification for commodity exporters.

To provide useful policy lessons to Algeria, we present two examples of commodity exporters that had successful export diversification strategies: Chile and Malaysia. Both countries followed distinct strategies to diversify their economies out of their main commodity exports and to become less vulnerable to negative terms of trade shocks. However, despite differences in export diversification policies, both Chile and Malaysia relied heavily on FDI to foster diversification.

Chile, Malaysia, and Algeria share certain features that make a compelling case for carrying out a comparative study of their economies. The three are middle-income countries with abundant natural resources, a relatively well trained labor force, and high urbanization levels. Moreover, they all suffered one or more socioeconomic crises in the past thirty years that required a process of national reconciliation, including proactive policies to reduce poverty and inequality.

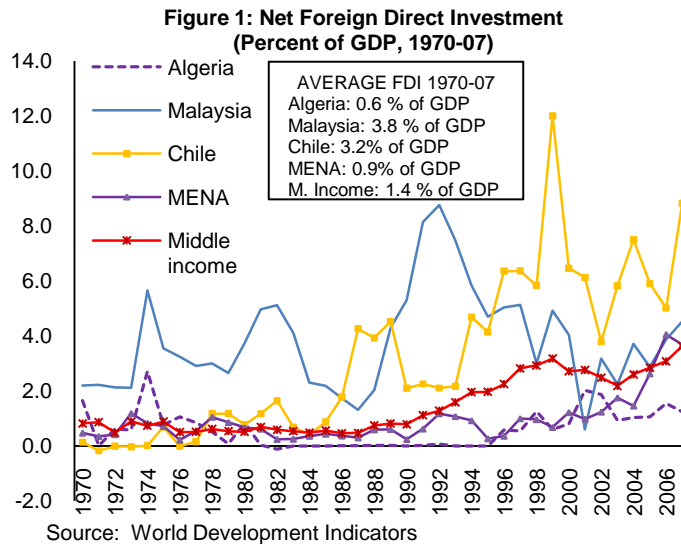
II. POSSIBLE CONSEQUENCES OF ALGERIA'S NEW FDI RULES

The July 2009 SBL introduced a set of measures aimed at promoting economic activity and job creation. To reach this objective, the SBL offered fiscal incentives to businesses for hiring permanent workers, financial incentives to small- and medium-sized enterprises, and targeted measures to develop the agricultural, tourism, and real estate sectors. Specific sector-support measures included fiscal exonerations for agricultural producers, tourism entrepreneurs and landlords; and subsidized mortgage rates for public sector employees. The SBL also included some actions to curb the growth of imports, which had grown significantly in recent years and were considered a potential threat to economic stability. These measures included more stringent controls on external trade operations and a ban on consumer credit (excluding mortgages).

Although the main objective was to support economic growth, the authorities devised the SBL to favor national production and domestic investment. The SBL introduced tax exonerations for businesses purchasing domestically produced goods, new tax rules for the import of goods and services, a series of actions to encourage the participation of domestic financial institutions in the economy, and a more restrictive FDI regime.

The most important aspect of the new FDI legislation is a 49 percent ceiling on foreign investor stakeholding in any new FDI project. Although the new rules allow foreign investors to remain the largest shareholder in, and manage, new projects by partnering with two or more domestic investors, there are serious risks that the legislation may have a deterrent effect on FDI.

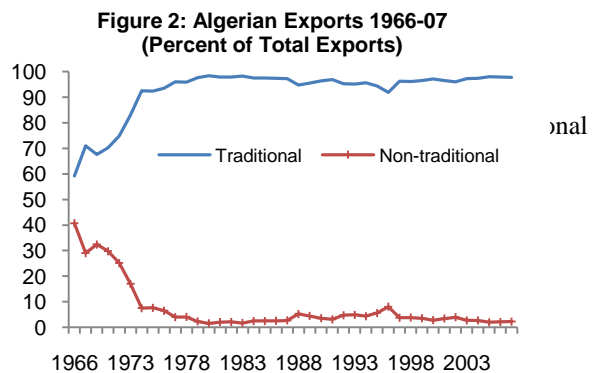
Unlike other middle-income economies, for many decades, Algeria has not been able to attract large amounts of FDI. Figure 1 presents the evolution of FDI flows to Algeria, the countries of the Middle East and North Africa (MENA) region, middle-income countries, and Chile and Malaysia from 1970 to 2007. It shows that Algeria has received little FDI, most of it believed to have been directed to the hydrocarbon sector, and well below MENA and income level averages. Conversely, Chile and Malaysia received large amounts of FDI flows, well above the middle-income category.



The lack of FDI could have negative effects on Algeria’s growth prospects as empirical research has proved extensively the positive impact of FDI on economic growth (Borezstein, de Gregorio and Lee, 1995, and Ram and Zhang, 2002). Moreover, in a world economy where control of knowledge and technology are essential assets for companies, ownership limits on foreign subsidiaries, such as those contained in Algeria’s new FDI rules, could deter foreign investors. Seminal research by Kogut and Zander (1993)³ points to that direction: for today’s multinational corporations, wholly-owned subsidiaries are essential for carrying out the majority of overseas projects to safeguard the internal knowledge of the firm.

An additional consequence of the new FDI rules is the negative impact on export and economic diversification. Recent research has shown that foreign investment can help promote export diversification and performance (Banga, 2006 and Buckley et al 2002). These results imply that a fall of FDI in Algeria may hamper the government’s efforts to diversify the economy away from hydrocarbons.

For Algeria, the negative effect of the heavy dependence on a limited basket of goods was evidenced during the current global crisis, when the fall in hydrocarbon prices eroded fiscal and external surpluses. Long periods of low oil prices in the 1980s had already dramatic consequences for Algeria, setting the ground for the socioeconomic crisis of the 1990s. Although Algeria has built up large reserves and financial buffers since 2002



³ Kogut and Zander (1993) was awarded 2003 Decade Business studies

thanks to prudent macroeconomic policies, its medium-term financial outlook remains highly dependent on oil price fluctuations, and a decline in energy prices over an extended period could jeopardize long-term growth prospects. Furthermore, Algeria needs competitive and diversified export activities to improve productivity and provide jobs for the relatively high number of unemployed youth (around 24 percent).

In terms of export diversification, Algeria has been moving toward a concentrated basket of goods during the past four decades. Figure 5 shows that in the late 1960s and early 1970s, Algeria non-traditional exports represented around 40 percent of total exports; today, they represent only around 2 percent. This decline is the result of the failure of certain policies, such as the post-independence agricultural reforms, and the lack of progress in structural reforms.

III. NEW FINDINGS IN EXPORT DIVERSIFICATION RESEARCH AND THE CASE FOR ECONOMIC DIVERSIFICATION

A. Key issues

Export diversification is a key aspect of economic development as it represents the structural shift from the production of low-income country goods (i.e. unprocessed commodities) to high-income country goods (i.e. high value added goods). Export diversification is particularly relevant for commodity dependent countries because it makes their economies less vulnerable to negative terms of trade shocks and promotes growth and job creation (Hesse, 2006, and Hammouda et. al., 2008).

Two major conclusions stand out from empirical research on export diversification: (i) it is important for economic development, and (ii) public policy has a positive role to play. Several studies⁴ have found a positive relationship between export diversification and growth thanks to, among other reasons, increases in total factor productivity (Hammouda et al., 2008) or increased export growth (Hasan and Toda, 2004). In a cross-country study covering more than 100 countries, Hesse (2006) also finds strong evidence of correlation between export diversification and per capita GDP growth. In individual country studies, Herzer and Nowak Lehmann (2006) find that export diversification was important for growth in Chile.

The role of proactive policies and adequate institutions make a difference for export diversification as they can create a favorable incentive structure for exporters, and lower costs of trade-related services (Klinger and Ledermann, 2005 and Nassif, 2009). Conversely, empirical research finds that clear constraints to diversification include limited access to finance, weak national innovation systems, trade policies that overtax exporters, and the lack

⁴ For a detailed list of empirical studies of the links between export diversification and growth, please refer to Newfarmer, Shaw and Walkenhorst (eds.), 2009, henceforth World Bank (2009).

of support for exporters to access new markets. Nassif (2009) provides a detailed analysis of the policy responses to overcome some market failures in the MENA region.

World Bank (2009) finds that building adequate institutions is essential for successful export diversification but it is a process that takes time. Moreover, there are other major factors that are necessary preconditions to make these institutions successful, including (i) an efficient infrastructure—especially in transportation and telecommunications—to reduce costs, improve product quality, and enhance the speed and the reliability of their delivery; (ii) well functioning tax and customs services to facilitate transactions and access to international conformity standards; (iii) stable and predictable macroeconomic policies, including an efficient financial sector, an appropriate exchange rate, and open trade policies to enable market access and improve exporters’ competitiveness; and (iv) adequate structural reforms to create a regulatory climate that stimulates private sector growth, including legislation supporting domestic private investment and FDI. Annex I presents the policy portfolio of measures suggested by the World Bank (2009) for implementing an export diversification strategy.

B. The growing importance of services and tourism

World Bank (2009) also concludes that two types of “new” exports, services and tourism, have a substantial effect in boosting developing countries’ exports. Export services have benefited from trade liberalization and advances in information technologies and contribute to growth and export diversification through different channels by expanding existing export activities, or creating new ones, or by lowering the transactions costs in the export industry, making them more competitive. Moreover, ongoing outsourcing of services in developing countries helps take advantage of a highly skilled labor force that may not encounter favorable employment opportunities in their home markets. The cases of Brazil and India are good examples of countries that have successfully expanded export services. In the Maghreb region, countries like Tunisia have been successful in developing an export service industry by promoting domestic competition in the service sector (World Bank (2009)).

Tourism behaves as a substitute for exports as it provides an alternate source of foreign exchange. In terms of export diversification, it offers a “low cost” alternative to face foreign demand, understand foreign preferences and quality standards by bringing foreign demand to the home country. Lejarraga and Walkenhorst (2009) present evidence on the relationship between export diversification and tourism and find that 1 percent of tourism “specialization” (the ratio of tourism receipts over GDP), leads to a 0.11 percent rise in export diversification, measured through an index of export diversification. The positive effects of tourism are evident in, among other countries, the Dominican Republic, Costa Rica, Hawaii or Spain during the 1960s and 1970s.

C. The role of Export Promotion Agencies and Export Processing Zones

Empirical research finds that efficient export promotion agencies have a positive effect on export diversification. Lederman, Olerraga, and Payton (2008) find that one dollar spent in export promotion agencies generates US\$40 in additional exports. Similarly, Nassif (2009) finds that an increase of one dollar in Tunisian export promotion raises export revenues by \$20. Alvarez (2004) finds that the role of the Chilean export promotion agency, PROCHILE, had a positive effect—both up-stream and down-stream—by pooling efforts of exporters through cooperation in research, marketing, and promotional activities.

Research also finds that export processing zones (EPZ) may have a positive impact on export diversification in certain cases, but are a less efficient policy tool than overall trade liberalization. Jayanthankumaran (2003) found that EZP generated considerable welfare gains in China, Indonesia, Korea, Malaysia, and Sri Lanka but not in the Philippines due to the excessive start-up expenses, mostly in infrastructure. Aggarwal, Hoppe, and Walkenhorst, (2008) conclude that positive effects of EPZ vary across sectors and are highly influenced by location and access to adequate infrastructures.

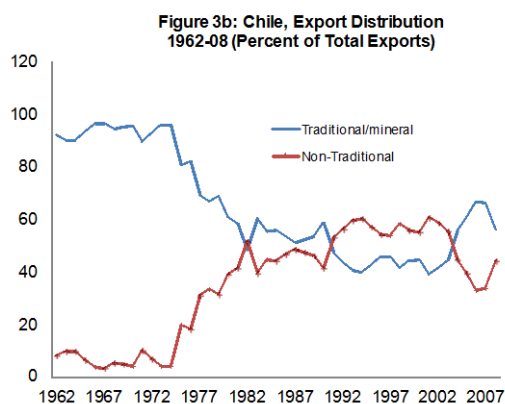
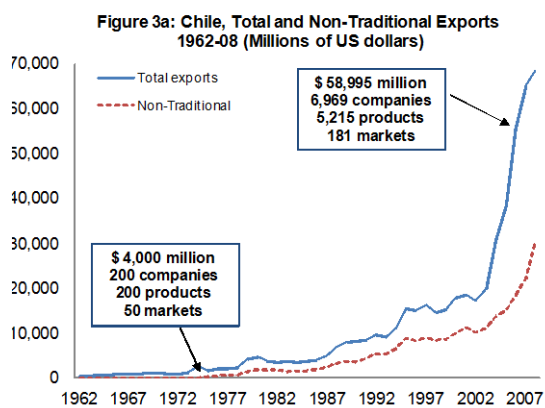
IV. CASE STUDIES: CHILE AND MALAYSIA

Empirical research has found a negative relationship between resource abundance and growth (Sachs and Vial, 2001 and Sachs and Warner, 2001), and a tendency to export concentration in resource-abundant countries (Lederman and Maloney, 2008). However, there are several examples of resource-rich developing countries that have been able to successfully diversify exports. Chile and Malaysia followed two different successful strategies to diversify their exports away from their traditional commodity exports—copper

for Chile, and tin and rubber for Malaysia. In both cases, the relatively good governance, friendly FDI regime, and strong cooperation between the private and the public sectors were essential.

A. Chile:

For four decades, the Chilean authorities have pursued a very active policy to support the diversification of the Chilean economy to reduce the excessive reliance on copper, Chile's major traditional export.⁵ During this period, Chile also went through a major economic transformation



Sources: Staff estimates based on COMTRADE, PROCHILE and Banco de Chile data

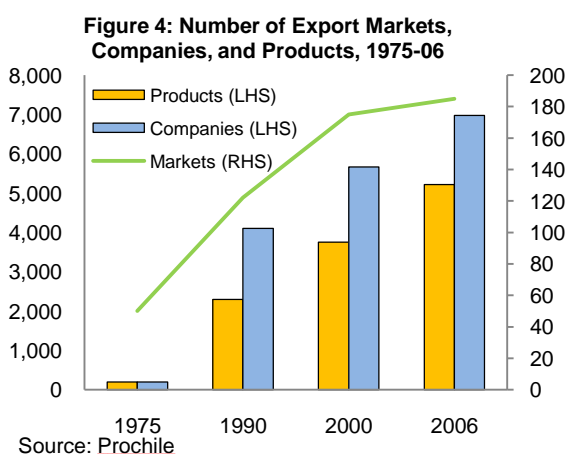
d account of Chile's export diversification strategy.

that resulted in a threefold increase in per capita GDP in real terms.⁶ Several studies show that export diversification benefited growth (Alvarez and Lopez, 2005 and Herzer and Nowak-Lehmann, 2006).

The growth of non-traditional (non-mineral) exports has been substantial during the past three decades. Figures 3a and 3b show that non-traditional exports grew from 7 percent of total exports in 1962 to 44 percent in 2008. Minerals still represent the largest share of Chilean exports, but the growth of non-traditional exports provides Chile a better hedge against the negative terms-of-trade shocks resulting from declines in mineral prices.

The strategy followed by Chile was based on: (i) making the tradable sector a key policy priority and encouraging public and private cooperation by developing an institutional network that links the production support institutions with the export promotion agency (see Annex II); (ii) ensuring a stable macroeconomic environment with predictable fiscal and monetary policies aided by an efficient financial sector and appropriate exchange rate; (iii) active trade openness policy through unilateral liberalization and free trade agreements: Chile has signed bilateral free trade agreements with more than 51 countries representing 81 percent of world GDP, and became a member of the World Trade Organization (WTO) in 1995; (iv) a proactive FDI policy, making Chile one of the largest FDI recipients in Latin America, with an average of 3.6 percent of GDP between 1970 and 2007; (v) creation of sound infrastructures to reduce costs; and (vi) supporting private sector development through sound business climate regulation, which resulted in Chile's relatively good position in international business climate rankings (49th out of 183 in the World Bank's 2010 *Doing Business*).⁷

Chile's strategy resulted in the internationalization of domestic enterprises and in a dramatic increase in access to world markets. Figure 4 shows the growth in the number of exporting companies and export products between 1975 and 2006—from 1,000 to more than 7,000. Another key factor in Chile's policy was to base the diversification strategy on the exploitation of the country's potential in the agricultural sector and the liberalization of less



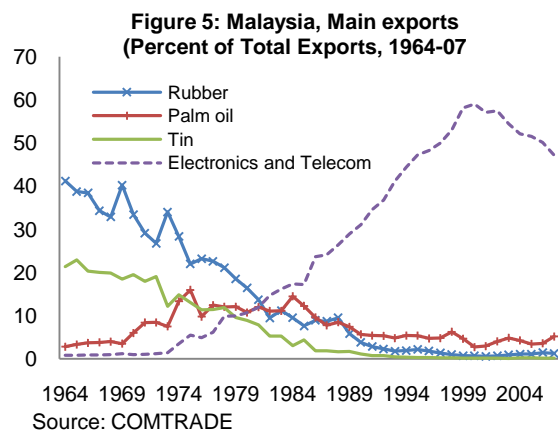
⁶ Panel A compares some economic stylized facts on Chile, Malaysia, and Algeria.

⁷ Chile is ranked above certain developed economies (Spain: 62th, Luxembourg: 64th, Italy: 78th, and Greece 108th), most of Latin America (4th out of 32 Latin American countries) and most countries in its income level group (11th out of 42 upper middle-income countries).

performing sectors, such as services, where FDI boosted competitiveness and efficiency.

B. Malaysia:

Malaysia is a different example of a resource-rich country that successfully diversified its exports. Malaysia moved away from its two main sources of export—rubber and tin—by promoting other commodities, mostly palm oil, and by moving to higher value-added products (Reinhardt, 2000 and Simeh and Ahmad, 2001). The result was a drastic transformation in Malaysian exports, with the share of tin and rubber in total exports falling from more than



60 percent in 1962 to less than 3 percent in 2008 (see Figure 4). Conversely, during the same period, electronics and telecom components increased from less than 1 percent to nearly 50 percent and became the largest Malaysian exports.⁸

Contrary to Chile, the Malaysian model was essentially state-driven (Yusof and Bhattasali 2008), and was based on (i) significant public investment in education to create a highly skilled labor force and in new economic sectors (e.g. heavy industry); (ii) close collaboration between the government and the private sector to define policies, develop market know-how, and make policy adjustments; (iii) gradual disengagement from the state in the economy through privatization of state-owned companies initiated in the 1980s to empower domestic private investors; (iv) policies to bolster the role of indigenous communities to reduce the economic gap and social tensions between the Malays, the largest ethnicity of the country, and the Chinese and Indian minorities; (v) an open FDI regime to develop nascent industries (e.g. telecommunications and the automotive sector) and the development of a good business climate⁹; (vi) excellent infrastructure development (e.g. roads, telecoms, free ports) to support export industries; and (vii) active trade openness policy by signing bilateral, regional (ASEAN), and multilateral (WTO) trade agreements.

⁸ Like Algeria, Malaysia is an oil exporter, but oil is not considered a traditional export. In the 1960s and 1970s, oil was much less important than rubber or tin—Malaysia’s traditional exports that accounted for 50 percent of total exports. Oil only became an important export in the late 1970s and early 1980s when it grew to around 25 percent of total exports. The share of oil has been declining since then, representing 6.7 percent of total exports in 2007.

⁹ In the World Bank’s 2010 *Doing Business* survey, Malaysia ranked 23rd out of 183 countries, 3rd out of 23 in the Asia Pacific region, and 3rd out of 42 in the upper middle-income category.

The Malaysian authorities developed a series of targeted tools to support the export sector.¹⁰ These tools included: (i) targeted export incentives that provided tax concessions and exceptions on inputs and export goods; (ii) creation of EPZ with good access to major export infrastructures, such as free ports for companies exporting 80 percent of their output; (iii) international procurement centers to provide services to producers for exporting manufactured goods and purchasing intermediary inputs, including raw materials, and semi-finished and finished goods; (iv) creation of instruments to provide export insurance and short-term financing to exporters and input importers; and (v) financial regulation with no exchange controls for exporters and access to long-term foreign currency financing.

The continuous adjustment of export policies through the cooperation between the private and public sectors and the creation of highly skilled labor force has also made the Malaysian export model relatively versatile. While priority was placed on the manufacturing sector during the past four decades, in the 1990s, the authorities created the Multimedia Super Corridor in an effort to make Malaysia a global and regional leader in information and communication technologies (ICT) development and applications, understanding that ICT-related export services could become a new source of growth (Yusof and Bhattasali 2008).

However, past successful export diversification policies have also shown some limitations, and Malaysia must implement more aggressive structural reforms to grow at its full potential. While the authorities have taken some steps to deregulate the economy and reform public and semi-public companies, additional measures to improve the business climate and to moderately strengthen the exchange rate are essential for rebalancing growth in the medium term (IMF Country Report No. 09/253).

V. LESSONS FOR ALGERIA

The Chilean and Malaysian examples of successful export diversification provide lessons for Algeria. World Bank (2009) shows that a broad array of targeted policies, such as the creation of a well adapted export incentive structure, a reduction in trade-related costs, and proactive public export promotion institutions can help promote export diversification. In the case of Algeria, progress in certain areas (e.g. sound macroeconomic policies) has not been accompanied by a more aggressive stance in others (e.g. structural reforms), which has hindered the export diversification efforts.

Panel B is an illustration of the relative decline of Algerian non-traditional exports. It compares the evolution of four Chilean and Algerian agricultural non-traditional exports, where Algeria was a larger exporter than Chile in the 1960s. It also shows the impressive growth of Chilean exports and the fall, or stagnation, of Algerian exports.

¹⁰ See Economic and Social Commission for Asia and the Pacific (2004) for a detailed account of Malaysia's policies to support the export sector.

More specifically, the cases of Chile and Malaysia, as well as World Bank (2009) provide the following lessons for Algeria:

- First, infrastructure development and macroeconomic stability are essential for export diversification. Algeria should be praised for its efforts to maintain macroeconomic stability and develop infrastructure. In this respect, prudent macroeconomic management and the implementation of the PIP are steps in the right direction. At the same time, it is crucial to ensure the good quality and efficiency of public expenditure, which plays a key role in the Algerian economy. It is of concern that, despite relatively large investment ratios, Algerian productivity gains appear to continue to lag behind most of its partners and competitors.
- Second, open FDI regimes are essential for the development of a private sector-led export sector. FDI to Algeria has been traditionally scarce (see figure 1) and has been mostly flowing to the hydrocarbon sector. The new FDI regulations adopted under the 2009 SBL are likely to deter—not attract—more FDI by putting a ceiling on foreign investors’ stake in new FDI projects. Algeria should consider a comprehensive review of FDI policies to attract more foreign capital by creating a more FDI-friendly regime.

- Third, a good business climate is essential for export diversification. Algeria must take concerted action to improve its business climate. In this respect, the country has been falling behind due to very timid structural reform measures. As Figure 6 indicates, Algeria ranks poorly in the World Bank’s 2010 *Doing Business* overall index (136th out of 183 countries) as well as across categories. Panel C, which compares Algeria, Chile and Malaysia, shows that it is also poorly ranked in its income group (39th out of 42 countries) and among regional partners (14th out of 19 countries). Reforms in key sectors, such as banking and finance are essential to make Algeria more attractive for private investment development.



- Fourth, trade openness is essential for opening new markets for export products. Chile and Malaysia followed aggressive trade openness strategies, joined the World Trade Organization (WTO), and signed numerous free trade agreements. Algeria should follow a more aggressive trade openness strategy by renewing efforts to join the WTO,

advancing into the next stages of the implementation of the Association Agreement with the European Union, and promoting regional integration.

- Fifth, the service and tourism sectors play a positive role in export diversification. The World Bank (2009) shows that export diversification can be achieved through very different paths that do not require the export of physical goods. Like other countries in the Maghreb region, Algeria should exploit its potential in export services and tourism to promote export diversification.
- Sixth, successful export diversification can be state-driven (e.g. Malaysia) or not (e.g. Chile): there is not a unique recipe for success. Algeria has traditionally promoted economic development based on strong public sector participation. It should be able to develop a successful export diversification strategy with strong state involvement.
- Seventh, export support institutions, like export promotion agencies and EPZ, are instrumental in advancing export diversification. Algeria should assess the quality of its export institutions and, if necessary, reinforce them to support export diversification efforts.
- Eighth, targeted and adjustable export support policies can help the development of the export sector. Algeria should attempt to put in place similar type of policies.

VI. CONCLUSION

During the past decade, Algeria has made important efforts to ensure long-term sustainable economic growth and improve living conditions of the population. The authorities are conscious of the challenges lying ahead and are determined to make good use of hydrocarbon revenues. So far, prudent macroeconomic management and implementation of the PIP programs have provided adequate—but not sufficient— steps for ensuring long-term prosperity.

The major challenge for the Algerian economy is to diversify out of the hydrocarbon sector and ensure sustained private investment led growth. This paper has argued that economic diversification has huge benefits for exporting economies. Moreover, the examples of Chile and Malaysia show that successful economic diversification for commodity exporters follow very different paths.

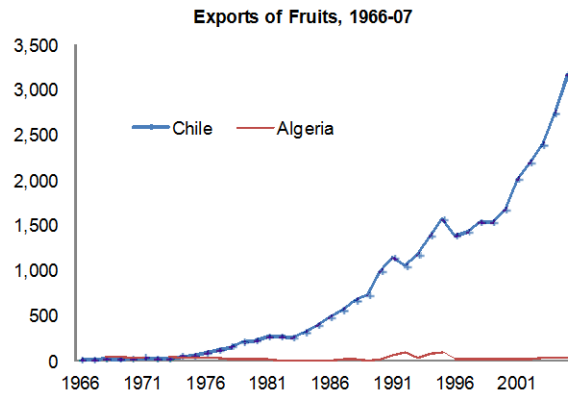
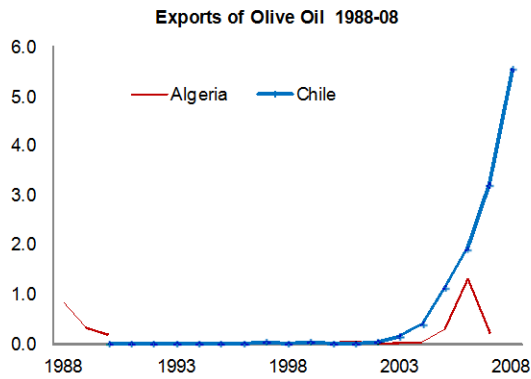
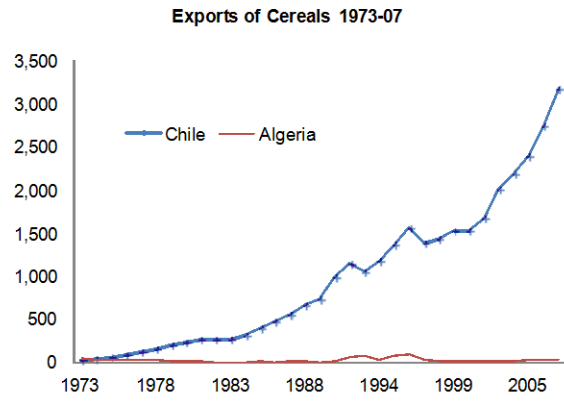
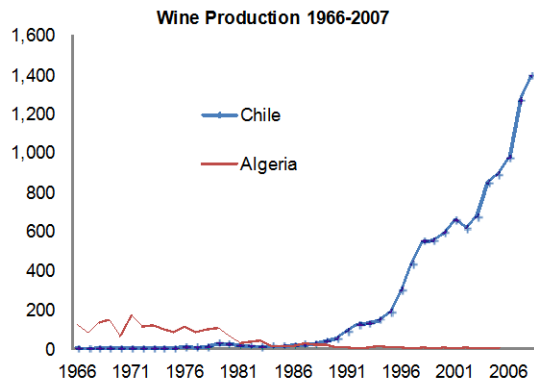
Whether economic diversification strategies rely more on the public or the private sector, key policies must be adopted. Among these is a friendly and open FDI regime. FDI provides private investment-scarce countries with the know-how and technology transfer required for creating and developing strong private domestic investment. This is particularly true in today's world economy where the service industry and technology transfer plays a fundamental role in the international competitiveness of firms and countries.

Foreign capital is essential for Algerian development prospects, but the country's new FDI rules, adopted in July 2009, may have a deterrent effect on foreign investors who prefer to hold majority stakes in their Algerian subsidiaries. While policymakers may be wary of the loss of control implied by a minority shareholding by nationals in various sectors of the economy, this can be mitigated by the creation of institutions charged with supervising foreign investment and improving the business climate. May be Algeria could borrow some of the experiences from the country cases presented in this paper.

Panel A: Stylized Facts on Chile, Malaysia and Algeria

	Chile		Malaysia		Algeria	
GDP per head (constant US\$2000)	1,891 (1975)	6,229 (2008) (+ 317%)	1,430 (1975)	5,009 (2008) (+350%)	1,632 (1975)	2,159 (2008) (+132%)
Export of G&S (percent GDP)	25.1 (1975)	47.1 (2007)	43.0 (1975)	110.1 (2007)	33.7 (1975)	47.1 (2007)
<i>Doing Business</i> (World Bank)	N.A.	Total: 49/183 (2010) Region: 4/32 (2010) Income: 11/42 (2010)	N.A.	Total: 23/183 (2010) Region: 4/24 (2010) Income: 2/42 (2010)	N.A.	Total: 136/183 (2010) Region: 14/19 (2010) Income: 39/42 (2010)
FTAs/Bilateral Trade Agreements	N.A.	51 countries, 86% World GDP (2008)	N.A.	34 countries, 80% World GDP (2008)	N.A.	Not a WTO member EU association agreement Joined AFTA(2009)
WTO Ranking (X+M)	N.A.	Merchandise: 46 (2008) Services: 49	N.A.	Merchandise: 24 (2008) Services: 30	N.A.	N.A.

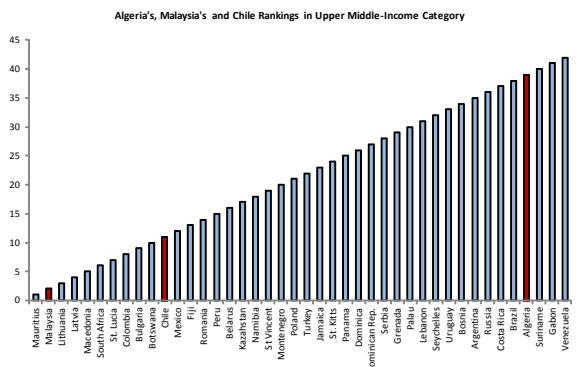
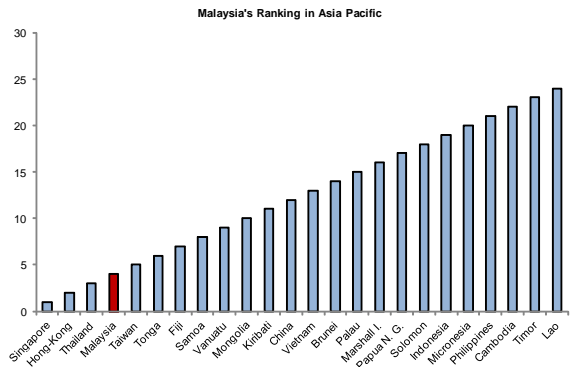
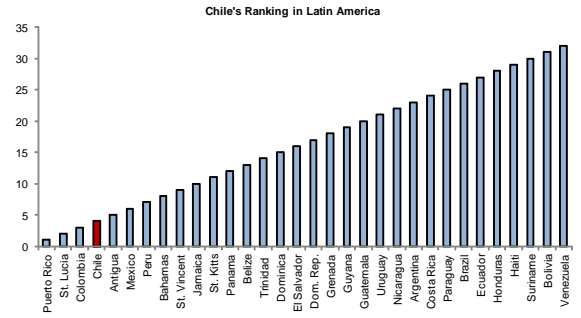
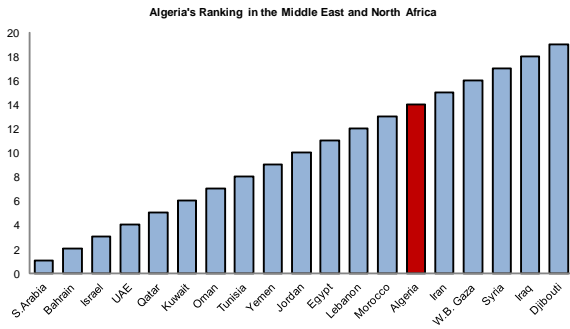
**Panel B: Wine, Cereals, Fruits and Olive Oil Exports for Chile and Algeria
(Millions of US dollars)**



Source: COMTRADE

Note: For Algeria, olive oil data is not available for the period 1991-97, and for fruits for the years 1967 and 1972.

Panel C: Rankings for Algeria, Chile, and Malaysia in the World Bank's 2010 *Doing Business*



Source: Doing Business 2010, World Bank

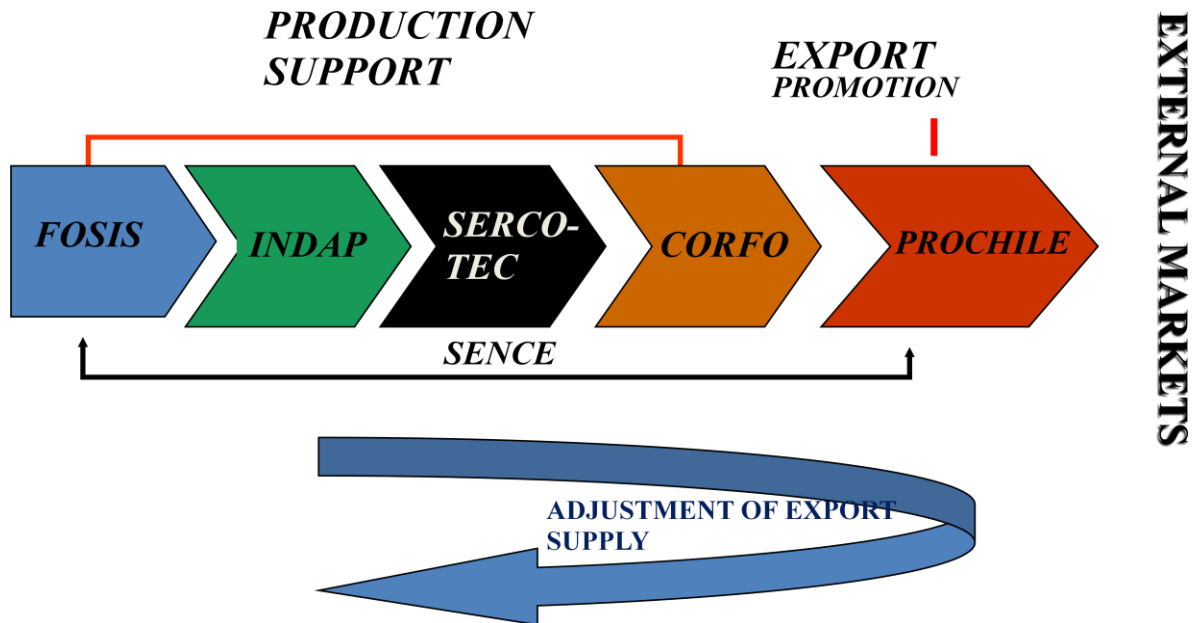
Annex I: Policy Portfolio for Effective Export Promotion Strategy

Policy Portfolio		
General framework: policies affecting all consumers and firms	Use of subsidies	Golden Rule
(1) Incentive regimes to private sector: ensuring adequate input allocation and output pricing policies	(1) Pre-conditions: (i) strategy and cooperation between government and private sector; (ii) identify bottlenecks and strategies to overcome; (iii) flexibility, learning from mistakes	One size does not fit all: Each case can have a different solution but good policies will help in all cases
(2) Export cost structured: Lower the cost of essential services and of doing business	(2) Steps of a dynamic process: (i) assessment on current policy framework; (ii) quantify investment support; (iii) result assessment; (iv) reconfiguration	
(3) Proactive policies to support trade: (i) comprehensive multisector strategy; (ii) create efficient institutions: promotion agencies, standard bodies, R&D agencies, EPZ; (iii) invest in infrastructure		

Source: World Bank (2009)

Annex II: Chile's Export Support and Promotion

The Chilean model is based on the coordination of production support and export promotion efforts. On the production support side, CORFO and SERCOTEC provide financial and technical support. INDAP provides specific support to the agricultural sector, FOSIS to the microenterprises, and SENCE to training. PROCHILE is the body in charge of export promotion activities. The system is based on strong public-private cooperation across institutions and a flexible process to foster new export products, while withdrawing support to unsuccessful ones.



Source: Forhmann (2006), Saez (2006)

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