

TERRITORIAL DEVELOPMENT IN ALGERIA: A CONTEXT THAT CALLS FOR A NEW APPROACH FROM PUBLIC AUTHORITIES

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Abstract:

This work highlights the fact that the Algerian economy does not have the institutional architecture and adequate governance (absence of integrative logic between the national and local levels) to make the territory a fully-fledged player in industrial development. Integration through industry is now at the center of any regional integration policy. In this context, the organization of the spatial redeployment of industry constitutes a major action because it can be a robust stimulant of the attractiveness of territories and the competitiveness of companies since it offers the latter a space, an environment and external economies favorable to the achievement of substantial productivity gains. In addition, industrialization, in the same way, moreover, as other sectoral strategies, is also a powerful instrument of regional planning to reduce territorial inequalities resulting from the exclusive concentration of people and activities on the Algerian coast.

Keywords : Territorial development, governance, industrial zones, economies of scale and externalities.

INTRODUCTION

The digital revolution¹ has meant that today, any territorial development policy is based on a logic of exchanges and opening up of these same territories both towards their hinterland and towards the outside world. Thus, far from being the product of traditional industrial activities and age-old social relations, the dynamics of the territories rather results from the synergy created by the quality of the relations between, not only, the economic actors registered in this space, but also those maintained by this subset with the different national and global economic spaces². These interactions are particularly based on the digital economy (UNCTAD, 2019)³.

The performance of territories today depends, in fact, on the quality of the population, its education, its training, its qualification, its ability to absorb innovation and its capacity to anticipate change and adapt to it. It also depends on the institutional organization and the mechanisms of participation and mobilization that are created through local governance (Rodríguez-Pose, 2014)⁴.

Algeria had 29 cities with more than 100,000 inhabitants in 1988; it has at least twice that number today, including four major cities: Algiers, Oran, Constantine, Annaba. These metropolises alone represent half of the country's economic potential, leading to a concentration of the population in the North, in terms of number and density. The rest of the cities play the role of regional centers throughout the territory but do not have sufficient economic bases to spread growth.

This situation is the result of the history of Algerian industry, which, marked by reorganization choices that did not take into account the transformation of

¹ Janet Hao , Vlad Manole and Bart van Ark, Intangible Capital and Growth – an International Comparison, 2008. Paper prepared for the 30th General Conference of the International Association for Research in Income and Wealth .

²Pénard T., Rallet , A. (2014), *From the network economy to network services: new paradigm, new directions* , Réseaux, 184-185, 71-93.

³UNCTAD, *Digital Economy Report 2019, Value Creation and Capture: Implications for Developing Countries* , in United Nations Conference on Trade and Development, United Nations, 2019.

⁴ Rodríguez-Pose A. 2010. Do institutions matter for regional development? Working Paper in Economics and Social Sciences No. 2, IMDEA Social Sciences, Madrid.

world markets, condemned part of these territories to isolation. The 80s and 90s were a special period, extremely costly and painful for the nation. The national economy was practically in a state of lethargy, if not in sharp decline, suffering a considerable delay linked to the costs of structural adjustments and the recovery of social cohesion at a time when the world was experiencing considerable developments and countries were positioning themselves on the main world markets.

In such a problematic, the question of the dynamic efficiency of industrial zones, in terms of the capacity of a productive space to adapt to structural changes in its environment, becomes central. The problem of location and its effects, not in relation to exogenous advantages, that is to say, to the physical conditions of supply or demand of factors but in relation to the advantages created is, more than ever, posed. The long-term viability of a localized industrial organization mode is now part of its capacity to create resources which closely depends on the ability of the system as a whole to generate positive externality effects, and no longer on the application of general public policies which, even if they are necessary, cannot by themselves induce the structural change of this industrial space.

In this context, industrial development is no longer understood exclusively by vertical logics, branches, productive sections, industrial sectors, or growth poles. Designed with a view to competitiveness, territorial development is now driven by the advantages built in the sharing of resources and critical skills between actors in a dynamic of development of companies agglomerated by clusters, where learning from the categories of the company, the market and technology occupy a central place which should lead, after maturity, to the advent of real dynamic comparative advantages (J. Stiglitz , 2014) ¹.

Also, spatial redeployment is not considered to be a redistribution of industrial activities between spaces but rather the territorialization (Volberda , HW and AY Lewin. 2003) ²of an industrial development process

¹ Stiglitz , J. (2014), *Creating a Learning Society, A New Approach to Growth, Development, and Social Progress* Columbia University Press, New York, 680 pages

² Volberda, H.W. et A.Y. Lewin. 2003. "Co-evolutionary Dynamics Within and Between Firms: From Evolution to Co-evolution." *Journal of Management Studies*, 40 (8): 2111-2136.

based on the valorization of local resources of each region and having as its aim the development of the competitiveness of the nation for an efficient anchoring in the world market. Spatial deployment therefore does not obey the logic of territorial planning alone. It also responds to an economic logic based on the resources and industrial potential of each region.

Algeria's clear delay in this area prompts us to reflect economically and analyze policies for social optimization of public actions. How can we deploy a new industrialization program while ensuring an optimum balance between the constraints of efficiency and integration into global production networks, on the one hand, and the objectives of regional economic balance by spreading the gains from intensifying the industrialization process in all Algerian regions, on the other? Should we concentrate certain specialized industries in certain regions of the country or should we facilitate extensive development of industrial activities across the entire national territory? Does industrial redeployment by mixing the two options, depending on the contexts and resources, constitute an optimization path?

This short article does not claim to answer these fundamental questions, its ambition is to question on the one hand, the geographical realities of Algerian industrial spaces, the potential for externalities and knock-on effects that they contain and on the other hand, the institutional framework essential to the impetus of productive activities in a territory. These analyses can be of real importance in understanding the way in which the growth process is governed, stimulated and constrained in Algeria.

This reflection will be divided into three sections. A first section will be reserved for a review of the literature concerning the institutionalist approach and the orthodox approaches of geographical economy. The second section will take stock of spatial development in Algeria. A final part will be devoted to the organization and governance of territories, and will focus on the conditions under which genuine organizational reflexivity can be established in Algeria.

I – THE EXTERNALITIES OF AGGLOMERATIONS AND KNOWLEDGE AS SOURCES OF INCREASING RETURNS

The 1980s were marked by a major renewal of analysis in industrial and international economies. The processes of industrial specialization on an international scale are explained by the presence of increasing returns,

notably because of spillover effects of innovations (P. Krugman , 1985) ¹and no longer by means of traditional theories of international trade (comparative advantage).

I.1. Territory and economic development

The question posed by Paul Krugman ²in 1991, "why and how does industry concentrate in a few regions leaving others relatively underdeveloped?" is still unresolved. It still fuels most of the theoretical debates relating to the spatial organization of companies and industrial location. The realization of positive interactions is at the very heart of the phenomenon of the process of spatial concentration of companies because geographical proximity is necessary for their formation.

The schools of thought of endogenous growth (Romer , 1986, 1990; R. Lucas 1988) ³like those of the new geography (Krugman , 1991; Helpman , 1998) affirm, to this effect, that space is the determining element because the physical proximity between economic and institutional actors allows to a certain extent the development of reciprocal positive externalities.

However, the proponents of the new geographical economy have, in particular, promoted questions of spatial development (Krugman , 1991; 1992) ⁴through the hypothesis of increasing returns and positive externalities. The dynamic conception of space then found its foundations in the fact that physical and human capital is a factor that participates in the manufacture of the product, and its efficiency determines growth (Baumont

¹ Paul Krugman, "Scale Economies, Product Differentiation, and the Pattern; of Trade." A.E.R. 70: 950-59

² Paul Krugman, 1991, Increasing Returns and Economic Geography, in https://pr.princeton.edu/pictures/g-k/krugman/krugman-increasing_returns_1991. consulté le 21/3/2019.

³ Romer P. M., Increasing Returns and Long-run Growth, *Journal of Political Economy*, University of Chicago Press, vol. 94(5), October 1986, p. 1002-37 ; Endogenous technological change, *Journal of Political Economy*, University of Chicago Press, vol. 98(5), October 1990, p. S71-102.

⁴ Krugman , Paul .. "Increasing Returns and Economic Geographic ", journal of Political Economy n 99, 1991, 483-499. The model assumes the presence of increasing returns to scale and calls for competition. P. KRUGMAN, 1992, Geography and Trade, 2nd Printing, MIT Press, Cambridge, p. 1. monopolistic . Nevertheless, it shows how the external returns to scale identified by A. Marshall lead to the generation of spatial agglomerations when opening up to trade.

, 1997). The integration of growth dynamics into models of geographical economy is made possible by taking into account an R&D activity producing innovations and generating spillover effects (d' Engelman and Walz , 1995; Martin and Ottaviano , 1999).

Also, geographical externalities as well as “ *knowledge* ” *Spillover* ” are sources of increasing returns. They are called external when the returns to scale do not specifically benefit each company but rather sectors of activity taken as a whole. In this case, the unit cost of production depends on the size of the sector of activity but not on that of each company. Conversely, when the economies of scale are called internal, the cost per unit depends on the size of each company and not necessarily on that of the sector.

In this perspective, the role of institutions must be in line with the process of development of industries so that significant recovery effects can emerge that match the investments made. In other words, the industrialization process is, in fact, strongly conditioned by the development of the territory, a space in which innovation and change are then driven by the dynamics of the "space-territory" created which gives rise to dynamic economies of scale. Because any improvement in products or techniques by a company can be imitated by other companies, which will also allow them to reduce their production costs.

Thus, the capacity to absorb knowledge and possibly produce other knowledge based on this appropriation is based on the creation of organic interactions between the worlds where innovation takes place and those where production takes place, supported by spaces structured by an efficient institutional framework, which bring together not only all the physical factors of the company's productivity (business services, workforce training structures, etc.) but also the non-incorporated factors of competitiveness (universities and scientific and technological research centers, institutions for networking economic actors to internalize external economies, institutions for economic intelligence and technological monitoring and local and international markets, etc.). Thus, dynamic economies of scale can reinforce the initial advantage linked to the early start of an industrial activity.

I.2. Inclusive territorial development

The 2000s were marked by open innovation (Chesbrough , H., 2003) ¹and the development of the free world (Prahalad , CK and MS Krishnan (2008) ²leading to a new form of development: inclusive growth which helps to create opportunities for citizens, to share the benefits of development and to also participate in decision-making (UNDP Report, 2019) ³.

In this new context where economic growth (Sonn and Storper , 2008) ⁴, alone, does not reduce poverty, improve equality or create jobs if it is not sustainable and does not benefit everyone, the territory then occupies the very heart of the growth process. First, it constitutes the main supplier of knowledge due to spatial proximity (McCann P, 2008) ⁵. Then, thanks to the mobility of capital, resources and external markets are linked to the territories. This new context has allowed the emergence and development of global production networks ⁶in developed economies and the facilitation of access to knowledge and know-how for territories in developing countries via foreign direct investment (Pietrobelli and Rabellotti , 2009) ⁷.

Economic development is thus correlated with the increasing deployment of productive activities and services registered in a territory. (Sala-i-Martin X., 2006) ⁸. In this new paradigm of inclusive growth, localized forces are considered as the triggering factor of economic development and the integration of territories into global networks and flows as the very process of development. Local institutions therefore find themselves at the very heart

¹ Chesbrough, H. (2003). Open innovation. The new imperative for creating and profiting from technology. Boston : Harvard Business School Press.

² Prahalad, C.K. et M.S. Krishnan (2008). The new age of innovation. Driving co-created value through global networks. New York : McGraw-Hill.

³ Voir <http://hdr.undp.org/en/2019-MPI>

⁴ Sonn J. and Storper M., (2008). The increasing importance of geographical proximity in knowledge production: An analysis of US patent citations, 1975-1997. Environment and Planning A Vol 40, 1020-1039.

⁵ McCann P. 2008. Globalization and economic geography: The world is curved, not flat. Cambridge, Journal of Regions, Economy and Society, 1, 351-370.

⁶ Appelé également Global Production Networks

⁷ Pietrobelli and Rabellotti (2009) Innovation Systems and Global Value Chains, 6th International Conference GLOBELICS 2008, September 22-24, Mexico City, Mexico.

⁸ Sala -i-Martin X., 2006. The world distribution of income: Falling poverty and convergence, period. Quarterly Journal of Economics 121, 351-397.

of the process of global economic development because they are more capable of efficiently exploiting the shifting potential of the forces that lie on the global market (Pike et al. 2010).

In this issue of "glocalization", that is, of linking the local to the international, development strategies take forms of intervention centered on inclusive territorial development. Governance based on the *Top Down approach* is then challenged to bring out a multi-scalar governance process based on a *Bottom-up approach* that starts from the bottom up (N. Chettab, 2014)¹.

II. INDUSTRIAL SPATIAL DEPLOYMENT AND LOCAL POLICIES: AN ESSENTIAL COMPONENT FOR TERRITORIAL REVITALIZATION

Algeria seems to want to lift the most severe constraints relating to factor markets² and to place greater emphasis on the economic and productive by decentralizing the investment decision (January 2011) to the local level. This is with the aim of not only creating new ways of creating resources through local strategies of actors but also of upgrading the national industry. Priority is then given to "horizontal" actions aimed at creating optimal conditions for producers and investors.

After a decade of direct policy measures for modernizing the company by launching a national program for upgrading companies and financing through the multiplication of financial instruments and the subsidization of bank loans; the State is taking a significant turn through three measures relating to investment. First, the 2011 supplementary finance law excludes public auctions and authorizes the concession by the sole method of over-the-counter. This operation has been carried out since that date by decree of the Wali on the proposal of the Committee for Assistance in the Location and Promotion of Investments and Land Regulation "CALPIREF" and

¹Nadia Chettab, Innovation, Institutions and Industries in Algeria, an exploratory study, national research program, CREAD, Algiers 2014.

²Credit, land, infrastructure, etc.

concerns land falling within the private domain of the State, the residual assets of public companies¹

Then, the unfavorable economic situation induced by the drop in oil revenues led the public authorities to adopt more incentive policies towards productive investment. The ²2015 LFC then removed the role of CALPIREF ³in the investment decision, which has since been the exclusive responsibility of the Wali. Finally, in 2015 a new investment code promoting productive investments was adopted and the facilitation and support mechanisms were concretized by the LF2016.

That being said, the Algerian authorities are aware that to improve the business climate and accelerate territorial development, it is necessary to diversify its sources of financing, hence the need to relaunch productive investment.

Indeed, a new law on investment was promulgated in July n°22-18 ⁴, it reflects the firm will of the Algerian authorities to achieve an economic recovery, through the restoration of order of a general investment climate which was until then incoherent and uncertain.

This new law has come to provide a sustainable and reasoned vision, it targets the generalization of the use of new technologies, the boosting of job creation, the promotion of the competence of human resources and the

¹The granting of abatements or concessions is done in symbolic dinar as part of the land tax, depending on the region. The Finance Act for 2012 provided for the exemption of registration fees, land publicity tax and land tax remuneration for acts granting concessions of real estate intended for investment projects benefiting from the convention regime.

²Supplementary Finance Act

³Committee for Assistance in the Location and Promotion of Investments and Land Regulation

⁴Law No. 22-18 of July 24, 2022 relating to investment, JO No. 50 of July 28, 2022

strengthening and improvement of the competitiveness and export capacity of the national economy.¹

The Algerian Agency for the Promotion of Investment (AAPI), which was previously called the National Agency for the Development of Investment (ANDI), is a public law institution with legal personality and financial autonomy, it is responsible for promoting foreign and national investment on the national territory.

It should be noted that the Algerian legislator, in the provisions of Article 2 of Executive Decree No. 22-298 establishing the organization and operation of the Algerian Investment Promotion Agency, emphasizes the independence of this Agency since it is placed under the supervision of the Prime Minister. And in the field of administrative institutions, supervision refers to a type of control exercised by the central power, or on its behalf, over legal persons².

It should be noted that the Algerian Agency for the Promotion of Investment (AAPI) carries out its missions under the control of the Prime Minister, this control particularly concerns the granting of advantages, monitoring and implementation of decisions taken by the National Investment Council.

III.1 the national upgrading programme

The national upgrading program began in January 2010 under the auspices of MIPMEPI and the management of ANDPME. It concerns all sectors, with a preference for industry, tourism, construction and companies involved in information and communication technologies (ICT). The budget allocated to this program is more than five billion dollars and provides for the creation of 200,000 SMEs and the upgrading of 20,000 others. by 2014, at a rate of 4,000 SMEs per year, spread over the five-year period 2010-2014. This program is well behind schedule.

¹ Founas souhila : "The Algerian investment promotion agency: a promotional mechanism for investment in Algeria", review of comparative studies, University of Chlef, No. 1, year 2023, P3

²,RICHER Laurent, Administrative Contract Law, LGDJ, Paris, 2016, p 130.

As for the subsidy of bank loans for businesses, the Supplementary Finance Act of 2011 introduced new subsidies for interest rates on investment loans. These subsidies, supported by the Public Treasury, are charged to the special allocation account entitled "Subsidy of the interest rate on investments", currently governed by the executive decree of March 28, 2012 supplementing that of July 27, 1994 establishing the operating procedures for this account. For loans granted by banks and financial institutions to companies as part of the financing of their investment programs, the subsidy is 2% of the interest rate. The grace period determined by instruction of the Public Treasury is three (3) to five (5) years, depending on the due date of the credits and the interest rate set. As for investment credits, banks are now required to apply interest rates of 5.5% with a 2% subsidy covered by the Public Treasury. As part of the revival of industrial activities, the following have been created: (i) a SME Credit Guarantee Fund (FGAR); (ii) an Investment Credit Guarantee Fund (CGCI PME); (iii) a National Advisory Council for the Promotion of SMEs; (iv) a National Council for the Promotion of Subcontracting; (v) local know-how centers (incubators, nurseries, etc.).

The third part of this recovery program concerns the creation of industrial zones. To remove the constraint of industrial land, the national agency for intermediation and land regulation (ANIREF) launched a program to create more than 42 new industrial zones, particularly along the new motorway axes. However, after study, this project was revised downwards; it involved the creation of thirty-six industrial zones on a surface area totaling 31,423,159 m² divided into 4,119 lots allocated across the national territory (SME Information Bulletin, 2019)¹. The financing of this program to create industrial zones, the completion of which was scheduled for 2015, was provided by the national investment fund.

However, as ambitious as the revival of productive activity may seem through the decision to decentralize investment at the local level, backed by only short-term support policies which, by definition, have little capacity to influence the structure of the market and to induce a redefinition of the institutional framework, it has had little impact on the industrial fabric. The

¹ SME Newsletter, Ministry of Industry, p. 29; 2019).

existence of a double deep gap between, not only, the intrinsic potential of each wilaya to organize its local development and its structural capacity to undertake such a growth trajectory between these and the institutional forms in which it is supposed to take shape.

III.2 the constraints of industrial recovery

Two major shortcomings have hampered this industrial recovery programme through the creation of new industrial zones. The first concerns the design and management in the creation of these zones. Far from the approach supported by the new geographical economy where the creation of development zones is backed by a systemic public policy of promotion and development of technical progress in these spaces, the creation of industrial zones in Algeria was based on the principle of "laissez-faire, laissez-aller" and not on the construction of "integrated development zones" to promote the competitiveness of companies and encourage the emergence, in the more or less long term, of dynamic advantages for the country. Concretely, the design of these industrial zones was not part of a strategic problem of building growth engines to lead to regional specialization in one or more specific sectors. It focused on determining the number of zones to be created on a national scale, their distribution and their delimitation in terms of overall area allocated. In other words, the creation of these zones was not based on the development of an industrial master plan to diversify and optimize production on a national scale.

In other words, the creation of industrial zones was not posed in terms of integrated local productive spaces where several companies would come together to develop horizontal cooperation focused on exchanges and the pooling of experiences (best practices), knowledge (research, training, advice) and resources (material, human and infrastructural) on the basis of voluntary and concerted action by the three key players: regulators, entrepreneurs and experts. This situation has hindered the process of valorizing geographical proximity.

The localization of companies carried out by local authorities did not target the positive effects of proximity; which prevented the effect of sharing the benefits built as well as the contagion effect (dissemination of good

practices) thereby annihilating the formation of a continuous source of connectivities (business links, strategic alliances, synergy of research, training and consulting, institutional communication and facilitation, etc.) and competitiveness for companies. The interactions favourable to the creation of a genuine microclimate of business and competitiveness clearly oriented towards the development of economies of scale and networks could not result from the absence of a critical mass of companies, R&D structures and services in the same space, whereas geographical proximity, as defined by the new geographical economy, is doubly profitable for companies: it allows them, internally, to develop synergies by valuing the effects of agglomerations and, externally, to find positioning niches in the international modular economy by relying on the advantages available or mobilizable.

Global economic realities have given rise to a multitude of new industries in many countries, particularly thanks to their Integrated Industrial Zones¹ which have evolved from simple spaces to integrated industrial spaces where companies (often competitors), R&D and public authorities have interacted to create synergy in the service of collective performance in order to benefit from the returns to scale offered by the market.

The second shortcoming concerns the implementation of these ZIs. The programs for the implementation and development of these ZIs have been so delayed that they were the financial crisis. Indeed, with the fall in the price of oil in 2014, the crisis began to take hold in Algeria and calls for budgetary restraint are flying in all directions. All the programs for the creation of ZIs have not been completed while the number of investors established in these zones amounts to 1193 out of a total of 2510 lots allocated.

The development of VRD and the connection to the various utilities in order to carry out an industrial activity have not seen the light of day in a very large number of industrial zones and their prohibitive cost of implementation constitutes an additional burden that project leaders cannot bear.

The delay in the development of these zones has been a major obstacle in the launch of new industrial projects that could lead to a revival of industrial

¹We can cite the competitiveness clusters in France, the clusters in the United States, the industrial district in Italy, the special integrated industrial development zone in China, etc.

activity. This situation is reflected in the gap between the number of lots granted in new industrial zones and that of projects that have entered into operation (Figure 5). Out of a total of 2,510 lots registered in 18 coastal industrial zones, only 306 projects were launched but could not enter into operation due to the delay in the development of these industrial zones. More than 5 years after the launch of the project to create these new zones, the north of the country has only seven projects in operation: four in Relizane , two in Ain Timouchent and one project in Sidi Bel Abbas.

The low result obtained clearly shows that the public authorities can no longer confine themselves to a simple role of supplier of industrial land. The construction of a supportive institutional framework that would improve the business climate and the general environment in order to intensify the effect of the stock of public capital on the quality of services and the growth of the industrial sector constitutes, today, one of the priority missions of the State. If economic recovery through infrastructure is now a choice, the fundamental issue of building an integrated development industrial zone is at the heart of the growth process in Algeria: it now depends on aspects of planning and organization of the territory in order to create innovative environments that go beyond the individual decision-making of producers of wealth and knowledge, because, if the economic history of Algeria has allowed certain regions of the country to experience a significant concentration of industrial activities and the recovery plan has favored the development of infrastructure around certain coastal cities, these areas are not yet experiencing integrated development. Industries have no contacts or mutual action relationships ; they have limited relationships with their market and do not have the necessary externalities that would allow them to find the means of development. Even when these relationships exist, companies need a deep upgrade to know how to seize them. It is precisely on the correlation between sectoral development and spatial development which, let us clarify, requires a new perspective from the public authorities that the revival of the industrial sector and territorial development and ultimately, economic growth in Algeria will depend.

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⁹Romer P. M., Increasing Returns and Long-run Growth, *Journal of Political Economy*, University of Chicago Press, vol. 94(5), October 1986, p. 1002-37 ; Endogenous technological change, *Journal of*

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¹⁰ Krugman, Paul. "Increasing Returns and Economic Geographic", *Journal of Political Economy* n 99, 1991, 483-499. The model assumes the presence of increasing returns to scale and calls for competition. P. KRUGMAN, 1992, *Geography and Trade*, 2nd Printing, MIT Press, Cambridge, p. 1. monopolistic. Nevertheless, it shows how the external returns to scale identified by A. Marshall lead to the generation of spatial agglomerations when opening up to trade.

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¹³ Voir <http://hdr.undp.org/en/2019-MPI>

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²² SME Newsletter, Ministry of Industry, p. 29; 2019).