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# **The contribution of the service sector to enhancing added value and reducing unemployment in Algeria: A developmental analytical approach**

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**Abstract**---This study aims to analyze the contribution of the service sector in Algeria to the creation of added value and the reduction of unemployment rates, with a particular focus on its role in supporting the process of economic development. It also seeks to propose a set of policies to enhance the effectiveness of this sector by improving the business climate, adopting modern technologies, and expanding international cooperation to facilitate trade in services. The study emphasizes the importance of investing in human capital and skills development, in order to strengthen the service sector's ability to meet the demands of a knowledge-based economy and achieve comprehensive and sustainable development.

**Keywords**---Service Sector, Economic Development, Added Value, Unemployment, Algeria.

## **1. Introduction**

The service sector has become the main driver of economic activity in most countries around the world, accounting for more than two-thirds of global GDP

and providing half of the world's jobs—particularly for women and youth. It also plays a vital role in stimulating economic growth by supplying essential inputs to other sectors such as manufacturing and agriculture. In recent years, the sector has witnessed significant growth in its exports, especially in digital services such as telecommunications, information technology, and financial services, which enhances the ability of developing economies to diversify their exports and increase their global competitiveness.

Strengthening the role of the service sector in economic and social development is therefore of critical importance, particularly in light of the challenges facing many countries, such as high unemployment rates and economic instability. Achieving this goal requires a focus on improving domestic policies and fostering international cooperation to facilitate trade in services, in addition to embracing modern technology and innovation to enhance the sector's productivity. Investment in human capital and skills development is also a key factor in ensuring that the service sector is well-equipped to meet the demands of today's knowledge-based economy. Based on the above, the core problematic of this study can be summarized as follows:

**What role does the service sector play in Algeria in enhancing added value and reducing unemployment rates, and what policies are necessary to strengthen this role in the future?**

From this central question, the study derives several sub-questions around which the research is structured both in form and content:

- What is the nature and scale of the service sector's contribution to Algeria's GDP in recent years?
- What public policies are required to strengthen the service sector's role in alleviating unemployment?

### **Research Hypotheses:**

This study is based on the following hypotheses:

- The service sector in Algeria contributes significantly to GDP, but its potential remains underutilized.
- The service sector can play an effective role in creating added value and reducing unemployment if it is properly developed and regulated.

### **Significance of the Study:**

The importance of this study lies in the following:

- It offers practical insights that could support efforts to achieve economic and social development in Algeria.
- It serves as a practical tool that can help policymakers and researchers gain a better understanding of the service sector's role in the Algerian economy, particularly through an analysis of its contribution to added value creation and unemployment reduction.

## Methodology:

The study adopts an inductive approach to present key concepts related to the service sector, and a descriptive-analytical method to describe and analyze indicators reflecting the development of this sector and its contribution to added value creation and unemployment reduction in Algeria.

## Structure of the Study:

This paper aims to examine the concept, importance, and characteristics of the service sector, followed by an analysis of the reality of this sector in Algeria and its contribution to enhancing added value and reducing unemployment. It will then address the challenges and constraints facing the service sector, along with strategies to reinforce its role in Algeria. Accordingly, the study is organized into the following main sections:

- Theoretical and Conceptual Framework of the Service Sector
- The Current State of the Service Sector in Algeria
- The Contribution of the Service Sector to Value Creation and Unemployment Reduction
- Challenges Facing the Service Sector and Strategies to Strengthen Its Role in Algeria

## 2. Theoretical and Conceptual Framework of the Service Sector

### 2.1 Definition of the Service Sector

The definition of the service sector varies due to the diversity and interconnection of its activities across multiple other sectors. Below are several definitions that help clarify the meaning of this sector:

The service sector is defined as:

“Various productive activities that generate intangible outputs aimed at meeting the needs of consumer units.” It is also defined by Alfred Marshall as comprising services not classified under agriculture or industry (Bahmed 2024)

The service sector, also known as the tertiary sector, is described as: “Economic activities that provide intangible benefits, such as education, healthcare, tourism, and financial services.” (CFI 2024). According to the classification prepared by the Negotiating Group, the service sector includes 12 major sectors and 155 sub-activities, as detailed below: (Imara 2007, 145-146):

- **Business Services:** Includes various professional services, real estate, and computer services.
- **Communication Services:** Encompasses postal, telecommunication, and other communication-related services.
- **Construction Services:** Covers engineering services related to construction and building works.
- **Distribution Services:** Includes wholesale, retail, and agency-related sales services.
- **Educational Services:** Comprises services at the primary, secondary, and higher education levels.

- **Environmental Services:** Relates to sanitation and waste management services.
- **Financial Services:** Encompasses insurance, banking, and other financial operations.
- **Health and Social Services:** Covers healthcare and various types of social support services.
- **Tourism Services:** Includes travel-related services such as hotels, restaurants, and travel agencies.
- **Recreational, Cultural, and Sporting Services:** Encompasses entertainment, cultural activities, and various sports-related services.
- **Transport Services:** Covers land, sea, air, and other modes of transportation.
- **Other Services:** Includes all other services not falling under the previously mentioned categories.

## 2.2. Characteristics of the Service Sector:

The service sector is considered one of the fundamental pillars of the modern economy, encompassing a wide range of activities that generate added value without producing tangible goods. The key characteristics of this sector include:

- **Intangibility:**  
Services are intangible, meaning they cannot be touched or stored like physical goods. Examples include banking services or legal consultations. (Kotler 2016, 414)
- **Perishability:**  
Services cannot be stored for long periods. For instance, an unsold seat on a flight loses its value once the plane departs. (Zeithaml, Bitner and Gremler 2018, 24)
- **Simultaneity (Inseparability):**  
Services are produced and consumed simultaneously. Examples include a haircut or a classroom lecture. (Lovelock 2016, 23)
- **Heterogeneity (Variability):**  
Service quality may vary depending on the interaction between the provider and the customer. For example, a customer's experience at a restaurant may differ based on the server's behavior. (Parasuraman 1985, 50-51)
- **Labor-Intensiveness:**  
The service sector relies heavily on human labor compared to the industrial sector, which depends more on machinery. (Fitzsimmons 2013, 27)
- **Customer Relationship Management (CRM):**  
Managing relationships with customers is a critical aspect of the service sector, as customer loyalty is strongly influenced by their prior experiences with the service provider. (Payne 2005, 167-176)
- **High Diversity:**  
The sector includes a vast array of activities such as healthcare, education, tourism, transportation, financial services, and more.
- **Technological Dependency:**  
The growth of the service sector is strongly linked to advances and innovations in telecommunications and information technology.
- **Interconnection with Other Sectors:**

The service sector plays a vital role as a support system for agriculture and industry by offering essential facilitative services.

- **Broad Impact on Employment:**

The service sector provides high-quality jobs and contributes to the empowerment of marginalized groups, including youth and women, by facilitating their entry into the labor market.

- **Potential for Digital Trade:**

There is increasing capacity to export services through the internet and digital platforms. (World Trade Organization (WTO) 2023, 12-20)

### **3.2 The Importance of the Service Sector**

The service sector is a vital component of the global economic structure. It plays a key role in driving economic growth and generating employment opportunities, making it an essential pillar in achieving sustainable development and enhancing competitiveness. Its importance is evident in several dimensions, including the following: (World Trade Organization (WTO), World Bank Group 2023, 11)

- The service sector accounts for the largest share of global GDP (67% in 2021).
- It provides half of the world's jobs, positioning it as a fundamental source of employment and improved living standards.
- It plays a crucial role in empowering women and youth, with 59% of women working in this sector.
- It acts as a major catalyst for economic growth by supplying essential services to other industries.
- It supports economic stability through diversification and enhances resilience to crises.

### **2.4. The Service Sector in Developed Countries**

In traditional development economics literature, there was a near-consensus that industrialization was the primary path to economic development. Success in development was often viewed as synonymous with large-scale and comprehensive industrialization. However, this perspective has shifted in recent decades, especially with advanced economies transitioning toward service sector dominance, which now represents more than two-thirds of GDP in those countries. This significant share positions the service sector as a powerful contributor to economic growth.

Although developing countries still rely heavily on manufacturing, the share of the service sector in their economies is steadily increasing. This shift has led some researchers to argue that service industries such as software, business processing, financial services, and tourism can play a leading role in the development process. This suggests a relative decline in the primacy of manufacturing as the engine of economic growth in these regions. India's experience since the 1990s is often cited as a prominent example of this emerging trend.

On the other hand, some researchers argue that the true significance does not lie in industrialization as a whole, but rather in specific high-value subsectors within manufacturing—such as Information and Communication Technologies (ICT)—

which are considered crucial drivers of productivity and economic growth. (Attiah 2019, 113)

To assess the importance of the service sector in developed countries, it is essential to examine its contribution to GDP and the evolution of services in these economies. The following table illustrates the percentage contribution of the service sector compared to other sectors in the GDP of selected developed countries **(2009–2023)**:

Table 01: Contribution of the Service Sector Compared to Other Sectors in the GDP of Selected Developed Countries (2009–2023)

Country	GDP (Trillion \$)		Agriculture forestry and fishing Contribution %		Industry Contribution %		Services Contribution %	
	2009	2023	2009	2023	2009	2023	2009	2023
United States	14.48	27.72	1	0.9 (2021)	19.3	17.6 (2021)	76.5	76.4 (2021)
China	5.1	17.79	9.6	7.1	46	38.3	44.4	54.6
Germany	3.48	4.53	0.7	0.8	23.9	26.8	64.6	63.7
United Kingdom	2.41	3.38	0.7	0.6	18.6	17.5	71.8	72.5
France	2.7	3.05	1.2	1.7	18	18.5	70.8	69.7

Source: Prepared by the authors based on World Bank database: (World Bank Group 2023)

The table above illustrates the evolution of GDP and the contribution of the three main economic sectors (agriculture, industry, and services) in the United States, China, Germany, the United Kingdom, and France during the period from 2009 to 2023. The data clearly show that the service sector dominates the economies of advanced countries such as the United States, the United Kingdom, and France, where services account for approximately 70% or more of GDP, with relatively stable contributions throughout the study period. In contrast, China's economy shows a clear shift toward services, with the sector's contribution rising from 44.4% in 2009 to 54.6% in 2023, at the expense of industry, which declined from 46% to 38.3%. Nevertheless, industry continues to play a major role in China's economy compared to other advanced nations. Germany, the largest industrial economy in Europe, has maintained a relatively high industrial contribution (26.8% in 2023), reflecting its sustained industrial strength despite the global shift toward services. Notably, the French case shows a slight increase in the contributions of both agriculture and industry, possibly indicating policy efforts to support productive sectors. Overall, the table reveals a global trend toward strengthening the role of the service sector as a key engine of economic growth, accompanied by a general decline in agricultural contributions and varying importance of industry depending on each country's economic structure.

The remarkable development of services in advanced economies has made them a central component of their economic systems. This evolution is largely attributed to the transition toward a digital economy and the adoption of advanced technologies in delivering services, such as financial services, education, healthcare, and information and communication technologies. The following table shows the development of service trade in selected advanced economies during the year 2023:

Table 02: Evolution of Trade in Services – 2023

Country	Export - Billion \$	Export - Annual growth (%)	Import - Billion \$	Import - Annual growth (%)
<b>United States</b>	999	7,6	719	3,2
<b>United Kingdom</b>	584	15,3	394	22,5
<b>Germany</b>	440	2,2	508	8,5
<b>Ireland</b>	398	11,4	389	9,2
<b>France</b>	356	3,5	323	11,6
<b>Netherlands</b>	317	10,2	297	10
<b>Japan</b>	204	20,6	228	7,6
<b>Switzerland, Liechtenstein</b>	170	12,05	192	19,2

Source: Prepared by the authors based on World Bank database: (UNCTAD 2024, 6-7)

Table 02 data reveal significant disparities in the performance of advanced economies within the service sector in 2023. The United States maintained its leading position with service exports reaching \$999 billion (a 7.6% increase), supported by the dominance of technology and financial services. Meanwhile, the United Kingdom recorded the highest growth rate in both exports (15.3%) and imports (22.5%), reflecting a post-Brexit recovery of its status as a global financial center.

Despite its relatively small economy, Ireland stood out with strong service exports totaling \$398 billion (11.4% growth). In contrast, Germany showed modest growth in exports (2.2%) and a sharper increase in imports (8.5%), highlighting the challenges it faces in transitioning from an industrial to a service-oriented economy. Japan experienced a substantial surge in service exports (20.6%), largely driven by a rebound in tourism. Switzerland, however, faced pressure from rising imports (19.2%) due to increasing demand for luxury services.

These transformations are attributed to factors such as accelerated digitalization and the globalization of financial services. Nevertheless, they are increasingly threatened by geopolitical instability and inflationary pressures, which necessitate supportive policies to enhance competitive resilience.

In the third quarter of 2024, service exports rose by 16% in Asia, followed by 8% in Europe, while exports in North America, Latin America, the Caribbean, and Central America increased by 7%. A notable rise in imports was also recorded

across these regions, reflecting growing demand for a wide range of services. Services have become a key driver of global trade, with overall trade in services growing by 9% year-on-year during the first three quarters of 2024. (World trade organisation 2024)

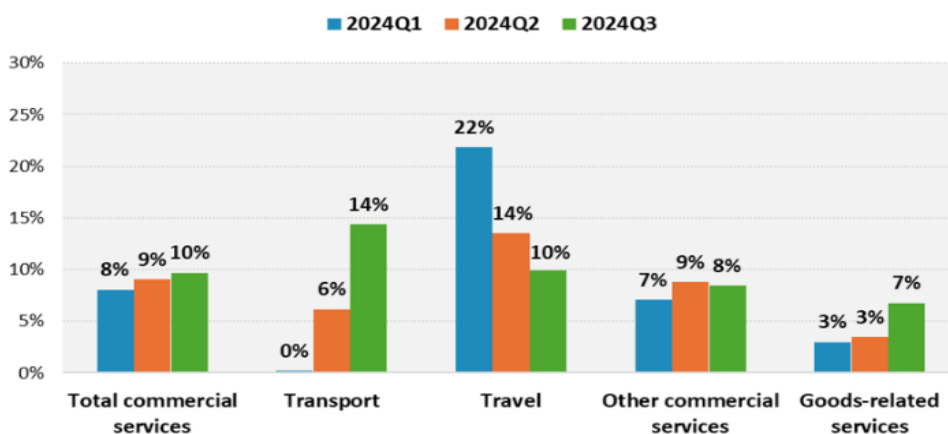


Figure 01: Growth in Trade in Services by Main Service Activities – Q1, Q2, and Q3 of 2024

Source: (World trade organisation, 2024)

Figure 01 illustrates the growth rate of commercial service trade across four main sectors during the first three quarters of 2024. The analysis points to an upward trend in overall commercial services trade, with growth increasing from 8% in Q1 to 10% in Q3. Among the sectors, transport services recorded the highest growth rate in Q3 (14%), up from 0% in Q1 and 6% in Q2, reflecting the impact of rising shipping costs. In contrast, travel services experienced a gradual slowdown, decreasing from 22% in Q1 to 10% in Q3—likely indicating the stabilization of recovery following the post-pandemic surge. Meanwhile, other commercial services remained relatively stable across the quarters. Goods-related services saw modest but steady growth, rising from 3% in the first half of the year to 7% in Q3, possibly reflecting increased demand for services that support goods trade. These trends underscore the dynamic shifts occurring in the commercial services market, driven by various economic factors, including supply chain disruptions and changes in international travel policies.

It can therefore be concluded that progress in the service sector has enabled advanced economies to enhance their international competitiveness and improve productivity and efficiency. This, in turn, has contributed to diversifying income sources and creating new job opportunities across a wide range of fields.

Table 03: Contribution of the Service Sector to Job Creation (% of Total Employment) in Selected Advanced Economies

	United States	China	Germany	United Kingdom	France
2009	79	34	70	79	74
2010	79	35	70	80	75
2011	79	36	70	80	75
2012	79	36	70	80	75
2013	79	38	71	80	76
2014	79	41	71	80	77
2015	79	42	71	80	77
2016	79	43	71	80	77
2017	79	43	71	81	77
2018	79	44	71	81	77
2019	79	44	72	81	77
2020	79	45	71	81	78
2021	79	45	71	81	78
2022	79	46	72	81	78
2023	79	46	72	81	78

**Source:** Prepared by the authors based on World Bank database (World Bank Group 2023)

An analysis of the data reveals that the United States maintains a consistently high share of service sector employment at around 79% throughout the study period, reflecting the dominant role of services in its economy. Similarly, the United Kingdom shows a stable and elevated share of 80–81%, underscoring the centrality of the service sector to the British economy. In Germany and France, the share ranges between 70% and 78%, indicating the significant contribution of the service sector to their economies—though not to the same extent as in the U.S. and the U.K. On the other hand, China demonstrates a clear upward trend in the share of services, rising from 34% in 2009 to 46% in 2023. This reflects an ongoing structural transformation of the Chinese economy from manufacturing to services, in alignment with economic policies aimed at strengthening domestic demand and improving service quality.

It can be affirmed that the service sector stands as one of the most important economic sectors in developed countries, characterized by its high level of advancement—particularly in finance, technology, healthcare, and education. In most advanced economies, it contributes between 70% and 80% of GDP. Among the most distinctive features of the service sector in developed countries are the following: (Banga 2005, 7)

**A. High income elasticity of demand for final services:**

Final services exhibit high income elasticity, meaning that as individuals' real incomes increase, their demand for services grows at a faster rate than for goods. This hypothesis was supported by several theoretical and empirical studies in the 1980s. However, some studies conducted in the 1990s using more robust data produced conflicting results, suggesting that the hypothesis may not apply uniformly across all types of services.

### **B. Dependence on specialized services:**

As economies grow and become more complex, structural shifts occur, leading firms to outsource services rather than produce them internally to increase added value. These shifts make services increasingly vital in the production process, especially in advanced economies where there is heavy reliance on specialized services such as finance, information technology, and tourism.

### **C. Greater use of services in manufacturing:**

Manufacturing processes in advanced economies have become more service-intensive, particularly in upstream activities like design and research and development, as well as in downstream functions like marketing and advertising. This trend is closely tied to technological advancement and increased production complexity, which drive demand for specialized services.

### **D. The shift toward modern services:**

The expansion of modern service sectors—such as software, financial services, telecommunications, and information technology—has accelerated rapidly, enhancing productivity and fostering innovation. (Gideon Ndubuisi 2023, 2-7)

### **E. International tradability of services:**

Many services previously considered non-tradable have now become exportable due to technological advancements and globalization—particularly in sectors such as financial services and digital entertainment. (Gideon Ndubuisi 2023, 7)

### **F. The role of services in supporting other sectors:**

Services play a complementary role across economic sectors (such as manufacturing), functioning as essential production services (e.g., logistics and financial services) or as supportive services (e.g., after-sales services). (Gideon Ndubuisi 2023, 2)

## **3. The Current State of the Service Sector in Algeria**

### **3.1 Development of the Service Sector in Algeria**

In recent years, Algeria's service sector has undergone partial transformations. These include the growth of telecommunications services—such as expanded internet access and electronic payment systems—the expansion of the banking sector, and government-led initiatives to support digital entrepreneurship. The following table outlines the development of the Algerian service sector during the period from 2009 to 2023:

Table 04: Development of the Service Sector in Algeria (2009–2023)

<b>Years</b>	<b>Services (Billion US\$)</b>
2009	69.35
2010	77.52
2011	97.49
2012	102.01
2013	107.49
2014	114.46
2015	97.7
2016	94.71
2017	97.26
2018	96.16
2019	97.66
2020	87.06

Years	Services (Billion US\$)
2021	90.3
2022	96.54
2023	112.96

Source: Prepared by the authors based on World Bank database (World Bank Group 2023)

The table above shows that the service sector in Algeria experienced continuous and notable growth from 2009, when its value stood at \$69.35 billion, reaching a peak of \$114.46 billion in 2014. This growth was driven by the expansion of various service activities such as transportation, telecommunications, financial services, and trade, supported by increased investments in these areas. However, a sharp decline occurred in 2015, with the sector's value dropping to \$97.7 billion. The downturn continued through 2016 and 2017, before stabilizing around \$97 billion in the subsequent years. This contraction can be attributed to the effects of global economic shocks and the decline in oil prices, which indirectly impacted the financing of service sector activities. The service sector was further impacted in 2020, when its value fell to \$87.06 billion—the lowest level recorded during the study period—coinciding with the consequences of the COVID-19 pandemic, which significantly disrupted economic activities, particularly in service-related fields such as tourism and transportation. With the onset of economic recovery, the sector began to rebound, rising to \$90.3 billion in 2021 and continuing to grow in 2022 and 2023, reaching \$96.54 billion and \$112.96 billion, respectively. This progression indicates a clear recovery and resurgence of service sector activity, particularly as the economic environment improved and investments in technology and digital services increased.

Based on the above, it can be concluded that the service sector constitutes a vital pillar of the Algerian national economy. However, it remains vulnerable to global and domestic economic crises. As such, the sector requires supportive policies aimed at achieving sustainable growth, increasing its contribution to GDP, and expanding its capacity to create new employment opportunities.

### 3.2 Distribution of Service Activities in Algeria

The service sector in Algeria encompasses a wide range of activities, including trade, transportation, telecommunications, education, healthcare, tourism, and others. These activities are distributed between commercial services, which are profit-oriented, and non-commercial services, which are primarily intended to meet societal needs. Figures 2 and 3 illustrate the growth of both the commercial and non-commercial service sectors in Algeria during the period from 2019 to 2023:

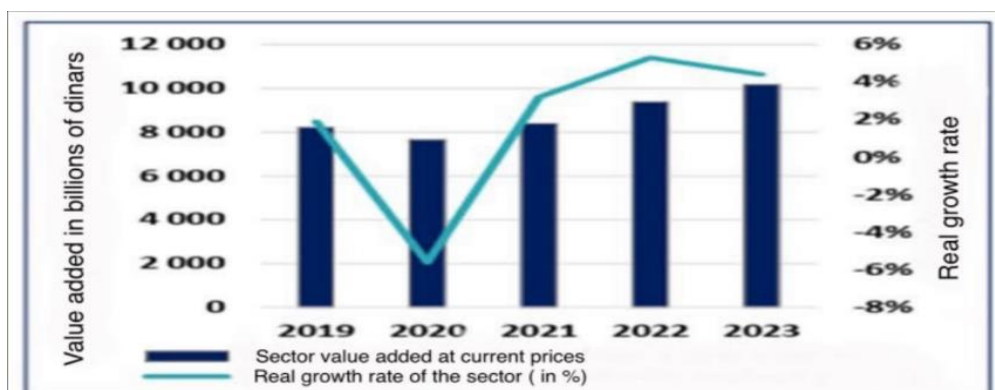


Figure 02: Growth of the Commercial Services Sector in Algeria (2019–2023)  
Source: (Bank of Algeria, 2024, p. 23)

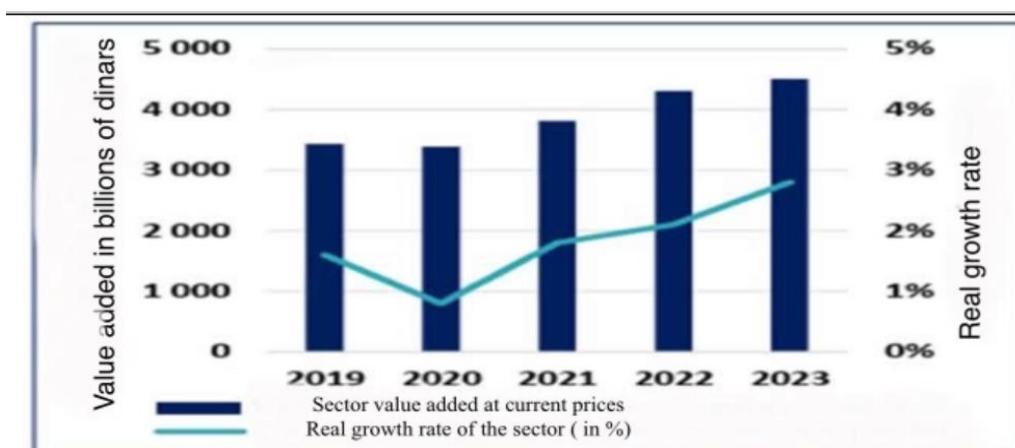


Figure 03: Growth of the Non-Commercial Services Sector in Algeria (2019–2023)  
Source: (Bank of Algeria, 2024, p. 23)

The service sector has witnessed significant growth in value added, rising from 13,693.7 billion dinars in 2022 to 14,684.68 billion dinars in 2023. Its share of gross domestic product (GDP) at current prices increased from 42.8% to 45.1%. Despite the positive growth in most sub-sectors, the growth rate of commercial services declined from 5.3% in 2022 to 4.4% in 2023. This slowdown is mainly attributed to the deceleration in the "hotels and restaurants" sector, which dropped from 55.7% during the post-pandemic recovery to 18.7% in 2023. The trade and vehicle repair sector emerged as a key driver of growth, recording a growth rate of 6.2% in 2023 (compared to 4.4% in 2022) and contributing approximately 14.9% to GDP, ranking second only to the extractive industries. Transport, communications, financial services, and real estate activities grew by 2.5%, 3.5%, and 2.5%, respectively—representing a slight improvement over 2022. As for non-commercial services (such as public administration and education), they contributed 9.1% to GDP, with growth in public administration services improving from 2.2% to 2.9%, and education services increasing from 1.9% to 2.7%. Overall, the value added from commercial services rose from

9,389.6 billion dinars (29.3% of GDP) in 2022 to 10,177.8 billion dinars (31.2% of GDP) in 2023, reflecting an enhanced role for the sector in the broader economy.

Based on the above, it can be concluded that the service sector in Algeria demonstrates clear dynamism in driving economic growth. It has become a foundational pillar in diversifying the production structure and reducing dependence on traditional sectors such as oil and gas. The sector has steadily increased its contribution to GDP, driven by the performance of resilient sub-sectors like trade and vehicle repair, which have shown their capacity to lead growth despite global challenges. The relative improvement in non-commercial services such as education and public administration also reflects government efforts to enhance the quality of public services and their role in sustainable development. However, the slowdown in certain activities, such as hotels and restaurants, highlights the continued need for supportive policies for the tourism sector and its associated services, particularly in the context of post-pandemic transformations. Overall, the sector's balanced performance points to its potential to become a major engine of the Algerian economy—provided that investment in digital and logistical infrastructure is strengthened, and that policies encouraging innovation and competitiveness in both commercial and non-commercial services are adopted.

#### **4. The Contribution of the Service Sector to Value Creation and Unemployment Reduction in Algeria**

The service sector is one of the fundamental pillars of achieving economic and social development. It plays an active role in creating added value and diversifying the economy by offering high-quality services that enhance productivity and efficiency across various economic sectors.

##### **4.1 Contribution of the Service Sector to GDP**

The Algerian economy has long experienced fluctuations and instability due to its exposure to global transformations—chief among them the volatility in oil prices, which remain a primary source of revenue. The lack of adequate economic diversification has significantly impacted the performance of national sectors, including services, and consequently their contribution to GDP. The following Table 05 presents GDP values and the contribution of the service sector over the period 2009–2023:

Table 05: Evolution of GDP and the Contribution of the Service Sector in Algeria (2009–2023)

<b>Years</b>	<b>GDP (Billion \$)</b>	<b>Services Contribution %</b>
<b>2009</b>	150 .32	46.1
<b>2010</b>	177.79	43.6
<b>2011</b>	218 .33	44.7
<b>2012</b>	227.14	44.9
<b>2013</b>	229.7	46.8
<b>2014</b>	238 .94	47.9

Years	GDP (Billion \$)	Services Contribution %
2015	187.49	52.1
2016	180.76	52.4
2017	189.88	51.2
2018	194.55	49.4
2019	193.46	50.5
2020	164.87	52.8
2021	186.23	48.5
2022	225.64	42.8
2023	247.63	45.6

Source: Prepared by the authors based on World Bank database (World Bank Group 2023)

The table above reveals notable fluctuations in the contribution of the service sector, ranging from a minimum of 42.8% in 2022 to a peak of 52.8% in 2020. A gradual increase in the service sector's contribution is observed, rising from 46.1% in 2009 to 52.8% in 2020. This trend can be explained by the growing reliance on services during periods of stagnation in other sectors, largely due to global economic crises and the COVID-19 pandemic in 2020. However, the trend reversed in the following years, declining to 42.8% in 2022 before rebounding to 45.6% in 2023, potentially signaling a gradual return to economic balance. On the other hand, Algeria's GDP steadily increased from \$150.32 billion in 2009 to \$247.63 billion in 2023, with the exception of some notable declines between 2015 and 2020. These setbacks can be attributed to the effects of falling oil prices and related economic crises.

To compare the evolution of the service sector's contribution to GDP with that of other sectors over the period 2013–2023, the following figure provides a visual overview:

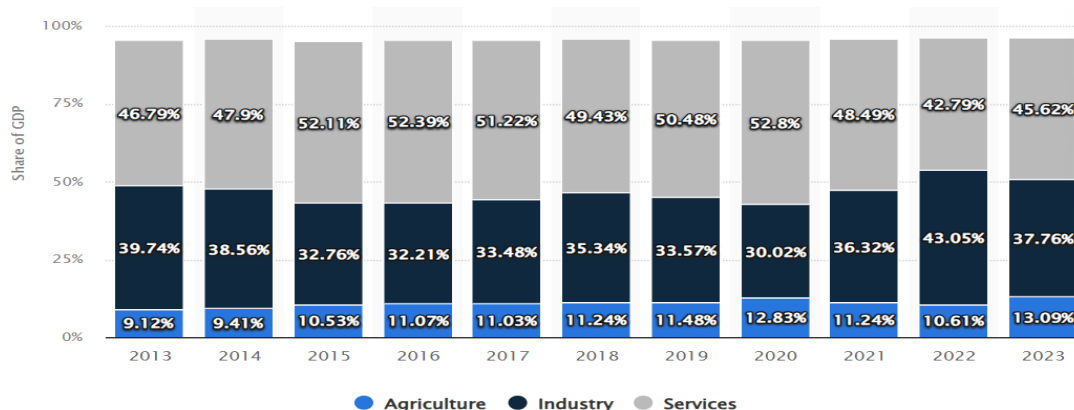


Figure 04: Contribution of the Three Main Economic Sectors to Algeria's GDP (2013–2023)

Source: (Statistica, 2024)

The figure illustrates the continued dominance of the service sector, with its contribution rising from 46.79% in 2013 to 52.8% in 2020, followed by a gradual decline to 45.62% in 2023. The industrial sector shows significant fluctuations, with its contribution falling from 39.74% in 2013 to 30.02% in 2020 due to the impact of the pandemic. It then rebounded to 43.05% in 2022 before declining again to 37.76% in 2023. The agricultural sector consistently had the lowest share, despite a modest increase from 9.12% in 2013 to 13.09% in 2023, reflecting limited improvement without substantial influence on overall GDP. This analysis highlights the importance of the service sector in Algeria's economy, as it constitutes a substantial portion of GDP. It also underscores the need to further develop and enhance the efficiency of this sector as part of a broader strategy to diversify the economy and mitigate the effects of recurring economic fluctuations.

#### 4.2 Contribution of the Service Sector to Employment Levels

The service sector represents a promising avenue for achieving sustainable economic growth, due to its capacity to absorb a large labor force. This makes it a vital tool for addressing the persistent issue of unemployment in the country. Studying the extent to which the service sector contributes to employment levels helps in assessing how significantly it supports job creation in Algeria. It also aids in evaluating the progress made toward diversifying the economy away from overreliance on sectors like industry and agriculture. The following table presents the evolution of the service sector's contribution to job creation in Algeria during the period 2009–2023:

Table 06: Percentage of Workers in the Service Sector as a Share of Total Labor Force in Algeria (2009–2023)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employment in services (% of total employment) (%)	57	58	58	59	59	59	60	60	59	59	60	59	59	60	60

Source: Prepared by the authors based on World Bank database (World Bank Group 2023)

The table above shows a relative stability in the share of employment absorbed by the service sector, with figures ranging between 57% and 60%. This share experienced gradual growth from 2009 to 2014, increasing from 57% to 59%, reflecting rising demand for labor driven by the expansion of both public and private services such as transportation, telecommunications, and financial services. Since 2015, the percentage has remained steady at around 60%, with minor declines to 59% in the years 2017, 2018, 2020, and 2021—largely due to the impact of the COVID-19 pandemic on non-essential services such as tourism and transportation, particularly during lockdowns. In 2022 and 2023, the employment share returned to 60%, signaling a gradual recovery in economic activity and improvement in essential services performance. This stability highlights the crucial role that the service sector plays in labor absorption in Algeria.

Despite being the largest contributor to employment in Algeria, the service sector's potential remains underutilized when compared to its counterparts in advanced economies. Moreover, the sector faces challenges related to the quality of jobs offered, as many of these positions are informal or low-quality in nature.

## **5. Challenges Facing the Service Sector in Algeria and Strategies for Enhancing Its Role**

### **5.1 Challenges and Barriers Facing the Algerian Service Sector:**

The service sector in Algeria faces a variety of challenges that hinder its development and limit its performance. Among the most prominent of these challenges are the following:

(Guas 2021)

- Lack of structure in the investment framework and weak financial incentives for investors, which discourage effective investment in the service sector.
- Insufficient technological infrastructure, particularly in telecommunications and information technology. This represents a major obstacle to digital transformation—an issue that became especially evident during the COVID-19 crisis, which highlighted the importance of investing in digital services and strengthening national resilience.
- The global health crisis tested the capacity of the service sector to respond to emergencies, particularly in areas such as healthcare, finance, and insurance.
- The Algerian service sector suffers from a lack of international competitiveness, due to the absence of innovation and technological modernization necessary to keep pace with global developments.
- Algeria's service exports remain weak and do not significantly improve the country's trade balance. This is tied to the economy's vulnerability to oil price fluctuations, which places the service sector in a fragile position due to its reliance on revenues from other volatile sectors.
- The service sector faces a shortage of specialized and trained human capital in emerging areas such as fintech, digital marketing, and service innovation. Developing this sector requires targeted investment in education and vocational training to upgrade skills and improve the quality of service delivery.
- **Weak coordination between the public and private sectors** remains a major constraint, limiting the potential for joint efforts to develop services. The lack of effective partnerships between government and private enterprises hinders the service sector's advancement both domestically and internationally.
- **Regulatory and legislative constraints:** The laws and policies governing the service sector in Algeria are often rigid, making it difficult to implement innovation or expand service-related activities. In addition, excessive bureaucratic procedures complicate the business environment and act as a barrier to investment in the sector.

Despite its importance in economic diversification, Algeria's heavy reliance on oil revenues poses a threat to the sustainability of growth in the service sector.

Addressing these challenges requires the adoption of supportive government policies, investment in digital infrastructure, incentives for innovation, and greater liberalization of services—all of which are crucial for the development of the sector and the enhancement of its contribution to GDP.

## **5.2 Government Policies and Their Role in Developing the Service Sector**

Achieving various aspects of sustainable development plans depends largely on the development of core service activities such as telecommunications, computer-related services, transportation, finance, research and development, and other business services. These services are often linked to physical goods or products, meaning that the service sector should be viewed as complementary—not as a substitute—to agriculture and manufacturing. Essential services are vital inputs that support agricultural and industrial production. Therefore, all countries need to strengthen their agricultural and industrial bases with value-adding services that enhance their economic activities.

To achieve sustainable economic growth, economies should adopt a balanced strategy that leverages the catalytic role of services, while focusing on the dissemination and adaptation of successful domestic and international experiences in economic diversification and sustainable development. Evidence drawn from various case studies suggests that maximizing the potential of service trade requires evidence-based policy frameworks and institutional structures tailored to local conditions. Service policies should also include essential components to address local supply constraints, reduce undesirable trade barriers, and ensure infrastructure services that are competitive, accessible, appropriate, and of high quality. The success of these frameworks relies on the integration of economic policies and effective coordination with trade liberalization strategies. In order to fully benefit from the service sector, it is necessary to adopt clear policies, effective regulations, and strengthen institutions capable of supporting a service-based economy. This also requires the development of data-driven policies based on accurate, categorized, and up-to-date information, as well as the enhancement of human and institutional capacities that enable developing countries to boost their service exports, improve the efficiency of service use, and develop advanced regulatory environments.

A collaborative approach between the public and private sectors is crucial for ensuring policy coherence and regulatory reform. On the international level, efforts must be intensified to make progress on a global services trade agenda within a multilateral trading system that supports the objectives of sustainable development. This calls for the provision of preferential treatment and flexibility for developing countries, support for institutional capacity-building, and complementary measures such as strengthening international regulatory cooperation in services to create a more enabling environment for expanding trade in services. (Touat 2021, 18)

## **5.3 Prospects for Developing the Service Sector in Algeria**

The service sector is a key pillar of economic growth in Algeria, showing continuous progress driven by digital transformations and increased demand for

specialized services. This development reflects the role of services in supporting various productive sectors and enhancing economic integration.

### **5.3.1 Policy Proposals for Improving the Business Environment in the Service Sector**

To enhance the role of the service sector in Algeria's economic diversification, the following measures are recommended: (Touat 2021, 19)

- Adopting and implementing national policies, as well as establishing institutions that promote the development of infrastructure, telecommunications, financial, and commercial services, including professional services and research and development (R&D) services.
- Providing essential government support, including financial assistance, to help small and medium-sized enterprises (SMEs) enhance their productive capacity through the utilization of information and communication technology (ICT) services.
- Considering the establishment of production hubs by developing transportation services, including the creation of handling ports, which can serve as enabling tools for other industries.
- Improving transport infrastructure to stimulate tourism development, for instance, through the creation of a dedicated tourism development fund.
- Importing services through mechanisms such as foreign direct investment (FDI)—an approach that can compensate for the local unavailability of critically important services. Furthermore, international cooperation and partnerships, including South-South cooperation, can contribute significantly to enhancing the productive capacity of developing countries through the development of service sectors.

### **5.3.2. The Role of Technology in the Development of the Service Sector:**

Technology has become a critical factor in the development of the service sector, playing a fundamental role in enhancing productivity, improving service quality, and providing competitive advantages for firms. As products and services grow increasingly complex, the integration between technology and services has become indispensable. This integration has transformed services into an essential component of the production and manufacturing process. Furthermore, labor is no longer considered merely a cost factor; rather, it has evolved into a strategic resource grounded in knowledge and innovation. Modern jobs require advanced technical skills and the ability for continuous learning. In addition, knowledge management and the effective deployment of networks and strategic relationships have become decisive factors that enable firms to expand their service offerings globally, thereby enhancing their competitiveness in international markets. (Junaid Anwer, et al. 2024, 427-428)

In light of these changes, success in the service sector is no longer contingent solely on the provision of a distinctive product or service. Rather, it also necessitates adaptability to technological developments, the employment of innovation, and the fostering of collaboration within integrated work networks to ensure sustainability and future growth.

## 6. Conclusion

The service sector in Algeria plays a fundamental role in generating added value and reducing unemployment rates. It has emerged as a key driver of economic growth amid global transformations toward a knowledge-based economy. The findings of this research indicate that strengthening the service sector in Algeria constitutes a cornerstone for achieving sustainable economic development. It contributes to improving living standards and propelling development through innovation and integration with the digital economy. Despite the sector's positive contributions, it still faces several challenges that hinder its full development and the optimal exploitation of its potential. These challenges include weak infrastructure, a shortage of specialized skills, and limited access to modern technologies.

Moreover, the sector suffers from weak coordination between the public and private sectors, as well as legislative and regulatory challenges that negatively impact the flexibility of the business environment. However, if these obstacles are addressed through the implementation of comprehensive reform policies—such as improving infrastructure, supporting education and training, and simplifying business procedures—the service sector could experience significant growth. This would lead to an increased contribution to the Gross Domestic Product (GDP), as services are among the primary sources of economic growth in many countries. Furthermore, the development of this sector would generate numerous employment opportunities, thereby reducing unemployment rates and providing higher-quality jobs. Consequently, addressing these challenges would positively and sustainably enhance the role of the service sector in the Algerian economy.

### Findings:

Through the conduct of this research, several key findings have emerged, which are summarized as follows:

- Data confirm that services constitute an increasing share of the Algerian economy, reflecting their critical importance in achieving sustainable growth.
- The study demonstrates that the service sector provides substantial employment opportunities, particularly for youth and university graduates.
- Modern technologies—such as digitalization and artificial intelligence—have contributed to increased productivity and the expansion of available services.
- The service sector continues to face regulatory and logistical barriers that hinder the full exploitation of its potential to support the economy.

### Recommendations:

- The government should support the digitalization of the service sector and encourage technological innovation to accelerate economic growth and enhance service quality.
- Administrative procedures must be streamlined, and investments should be incentivized in high-value service sectors, such as financial technology and logistics.
- Emphasis should be placed on vocational training and lifelong education to ensure that workforce skills align with the demands of the modern labor market.

- Support for service-sector startups should be strengthened through access to financing, training, and tax incentives.
- Expanding collaborative networks with both local and international private sectors is essential for fostering innovation and integration into the global service economy.

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