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Specialty : International Economics

**The Relationship Between Foreign Direct
Investment and Economic Development in Algeria**

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Dedication

To my incredible Mom,

Today, as I stand on the threshold of my graduation, I am overwhelmed with gratitude for all that you have done for me. Your unwavering love, support, and sacrifices have been the driving force behind my success. This momentous achievement is as much yours as it is mine, and I want to dedicate this note to express my deepest appreciation for your role in shaping the person I have become.

Mom, you have been my strength throughout this incredible journey. From the early mornings spent helping me with homework to the late nights listening to my dreams and fears, you have always been there for me. Your encouragement, guidance, and belief in my abilities have fueled my determination and kept me going, even when I doubted myself. Your unwavering faith in me has been a constant source of inspiration.

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Abstract

Foreign firms have played a major role in enhancing economic development in most sectors, Over a long period of time, foreign direct investment (FDI) has been found to create many externalities in economy in the form of benefits available through transfers of general knowledge, specific technologies in production and distribution, industrial upgrading, work experience for the labor force and the establishment of finance-related and trading networks, and the upgrading of telecommunications services. The purpose of this study was to address the role of foreign direct investment on achieving economic Growth (EG) .

This study focused on FDI flows in the period from 2010-2022 and the reasons for the lack of FDI in Algeria compared to its high potential, and firm performance, This paper worked on identifying weaknesses and policies that have a negative impact on attracting foreign investments, and also to guide policy makers to devise policies that would create an enabling environment for attracting FDI in order to achieving economic development .

Keywords: *FDI, EG, Algeria, Economic Development*

Abstract in Arabic

عبت الشركات الأجنبية دورًا رئيسيًا في تعزيز النمو الاقتصادي (EG) في معظم القطاعات ، وعلى مدى فترة طويلة من الزمن وجد أن الاستثمار الأجنبي المباشر (FDI) يخلق العديد من العوامل الخارجية في الاقتصاد في شكل منافع متاحة من خلال التحويلات العامة ، المعرفة والتقنيات الخاصة في الإنتاج ، التوزيع والارتقاء الصناعي والخبرة العملية للقوى العاملة ، إنشاء الشبكات المالية والتجارية وتطوير خدمات الاتصالات.

الهدف من هذه الدراسة هو معالجة دور الاستثمار الأجنبي المباشر في تحقيق التنمية الاقتصادية. ركزت هذه الدراسة على تدفقات الاستثمار الأجنبي المباشر إلى الجزائر في الفترة من 2010-2022 وأسباب نقص الاستثمار الأجنبي المباشر في الجزائر مقارنة بإمكانياتها العالية وأداء الشركات ، وقد عملت هذه الورقة على تحديد نقاط الضعف والسياسات التي لها تأثير سلبي على جذب الاستثمارات الأجنبية، وأيضاً توجيه صانعي السياسات و وضع سياسات من شأنها أن تخلق بيئة مواتية لجذب الاستثمارات الأجنبية المباشرة من أجل تحقيق التنمية الاقتصادية .

الكلمات المفتاحية : الإستثمارات الاجنبية المباشرة، التنمية الاقتصادية، الجزائر، النمو الاقتصادي

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List of Acronyms

UN	◆ United Nations
UK	◆ United Kingdom
EU	◆ European Union
EG	◆ Economic Growth
FDI	◆ Foreign Direct Investment
WTO	◆ World Trade Organization
IMF	◆ International Monetary Fund
UNCTAD	◆ United Nations Conference on Trade and Development
OECD	◆ Organisation for Economic Co-operation and Development
MNCs	◆ Multinational corporation
IB	◆ International Baccalaureate
BOP	◆ Balance of payments
GDP	◆ Gross domestic product
R&D	◆ Research and development
PPPs	◆ Public–private partnership
ANDI	◆ The national agency of development investment
CSCEC	◆ China State Construction Engineering Corporation
ICT	◆ Information and Communications Technology
GSM	◆ The Global System for Mobile
ALNAFT	◆ The National Agency for the Valorization of Hydrocarbons

Chapter One

General Introduction

1.1. Introduction :

Foreign investment is still debatable until people gain a firm understanding of how Foreign investment affects human welfare. Since economic development has become measurement of country welfare from international point of view, people must get a better handle on foreign investment effects on economic growth (EG).

Foreign investment covers a wide array of economic activities, including international investment, international trade and international migration. An accurate assessment of whether foreign investment is good for economic growth requires that we examine the growth effects of all of the components of foreign investment. Not all these components have been studied thoroughly, and empirical evidence suggests that each of the activities that make up economic development may have very different growth effects. Studies indicate that the economy of any country is interdependent on the outside world to varying degrees especially developing countries due to lack of capital and technology and because of that developing countries need outside sources, and this is through international investment .

Many policy makers and academics contend that foreign direct investment known as (FDI) can have important positive effects on a host country's development effort, Investments are the engine of economic growth and human development, due to that it is an effective means to increase wealth in national economy, and human community. foreign direct investment has a vital influence on the economic growth (EG) of a nation, as a condition to attract investors to develop and improve the economy and the quality of human resources.

The World Trade Organization (WTO) gave the definition of FDI that occurs when an investor based in a country acquires an asset in another country with the intent to manage that asset. The FDI contains many management dimensions, such as bonds, portfolio investment in foreign stocks. Since FDI can bring much-needed additional foreign capital, and advanced technology and improved managerial skills, it is considered as an essential part of economic growth and the financial globalisation process. Specially, FDI can also represent a decisive factor for EG at macroeconomic and microeconomic levels in some certain areas . In general, (EG) could be measured by the increase of gross domestic product and the quality of life and living standards .

1.2. Research Objectives :

The objective of this research is studying the relationship between direct foreign investment (FDI) and economic development which is an important area of scientific research that can add significant insights to our understanding of economic growth and development. Here are some specific ways in which this research can contribute:

- Understanding the effects of FDI on economic growth:

This Research can help to determine whether FDI contributes to economic growth and development in host countries. It can also identify the channels through which FDI impacts the economy, such as technology transfer, job creation, and increased exports.

- Identifying the factors that influence FDI inflows:

This Research can help to identify the factors that attract FDI to a particular country or region, such as the quality of infrastructure, political stability, and access to a skilled workforce. This information can be used to develop policies that encourage FDI and promote economic development.

- Evaluating the impact of FDI on different sectors of the economy:

This Research can help to identify which sectors of the economy benefit most from FDI and which sectors may be negatively impacted. This information can be used to guide policy decisions and ensure that the benefits of FDI are distributed fairly across the economy.

- Informing policy decisions:

The findings of this research on FDI can be used to inform policy decisions related to investment promotion, trade policies, and economic development strategies. Policymakers can use this information to make informed decisions about how to attract and manage FDI inflows.

Overall, this research on the impact of FDI on economic development can provide valuable insights into how foreign investment affects host economies and can help policymakers to design effective policies that promote economic growth and development.

1.3. The importance of study :

The international investment is still debatable until people gain a firm understanding of how foreign investment affects GDP and economic on general, not all these components have been studied thoroughly. also, it will help this research to understand the necessity of removing restrictions on trade and investment.

Overall, studying the relationship between DFI and economic development can help to identify the benefits and challenges associated with such investments, and inform policies and strategies aimed at promoting sustainable economic development.

1.4. Methodology of the research :

This study is based on analytical descriptive approach in addressing the problem of research and it's based on the comparison of the results. which is based on examination and analysis focused on accurate information. And is based on the observation and analysis of data to identify patterns, trends, and relationships among variables.

This method is used to describe and summarize data in a meaningful way, such as through statistics, graphs, and charts.

1.5. Statement of the research :

there are several research and comparisons about how many foreign companies that invest in Algeria and other neighbouring countries such Tunisia and Morocco, and what we noticed is that there is a huge turnout on neighbour countries. Knowing that Algeria has more natural resources and density consumed and eligible labour than its neighbouring countries. To illustrate the research problem, we will compare Algeria flows of (FDI) with two neighbours' countries according to

According to the World Bank, net foreign direct investment in Algeria reached \$1.2 billion in 2020, which represents a significant decrease from the previous year, when it reached \$2.6 billion in 2019, and is still declining. and According to the Forum for Economic Cooperation and Development's 2020 report, foreign direct investments in Morocco amounted to about \$3.7 billion in 2019, which is a 32% decrease from the previous year. and it is important to note that in light of the COVID-19 pandemic and its repercussions on the global economy. the last comparison is Tunisia, which in 2021 has registered more than 3,700 foreign enterprises operating in several sectors, especially the industrial sector. They employ about 416 thousand Tunisian workers, and their investments amount to 29.4 billion dinars, or 10.5 billion dollars.

So, from what we mentioned, the problem of the research is to answer the following questions:

- ♦ *To what extent do foreign direct investments contribute to economic development?*
- ♦ *How foreign direct investment increase Economic Development?*
- ♦ *What is the extent of foreign direct investment that Algeria attracts compared to neighbouring countries that have less potential?*
- ♦ *What is the amount of foreign direct investment that Algeria attracts?*

1.6. Hypothesis

There are several assumptions about foreign direct investment (FDI) including:

FDI leads to economic growth in the host country. This is because FDI can bring in new technologies, management practices, and capital that can boost productivity and efficiency.

FDI can have negative impacts, such as the exploitation of local resources, the displacement of local businesses, and the transfer of profits back to the home country of the foreign investor.

Chapter Two

Literature Review

2.1. Introduction to foreign direct investment :

Foreign Direct Investment (FDI) acquired an important role in the international economy after the Second World War. Theoretical studies on FDI have led to a better understanding of the economic mechanism and the behavior of economic agents, both at micro and macro level allowing the opening of new areas of study in economic theory (Denisia Vintila 2010).

To understand foreign direct investment must first understand the basic motivations that cause a firm to invest abroad rather than export or outsource production to national firms. The purpose of this study is to identify the main trends in FDI theory and highlight how these theories were developed, the motivations that led to the need for new approaches to enrich economic theory of FDI. Although several researchers have tried to explain the phenomenon of FDI, there is a widely accepted definition of foreign direct investment (FDI). FDI refers to an investment made by a company or individual in one country into a business located in another country.

This investment can take various forms, including the acquisition of a foreign company, the establishment of a joint venture with a foreign partner, or the creation of a new subsidiary or branch in a foreign country.

Robert Mundell has tried to explain the FDI through a model of international trade, involving two countries, two goods, two production factors and two identical production functions in both countries, where production of a good requires a higher proportion of a factor than the other. Neither Mundell's model could explain international production through FDI, because foreign investment incorporated were portfolio investment or short-term investment (Mundell, 1957).

Japanese researchers Kojima and Ozawa have tried to create a model to explain both international trade and foreign direct investment. They started from the model developed by Mundell and tried to develop it and improve it. Thus, in the model developed by the two Japanese FDI takes place if a country has comparative disadvantage in producing a product, while international trade is based on comparative advantage. (Kojima and Ozawa, 1984) .

Foreign Direct Investment (FDI) is a type of investment made by a company or individual in one country into a business located in another country. FDI is typically characterized by a direct and lasting interest in the management of the foreign business, and can take many forms, including the establishment of a subsidiary or branch office, the acquisition of an existing company, or the creation of a joint venture with a local partner.

2.1.1. Definition of FDI by some international organizations include :

According to the International Monetary Fund (IMF), FDI is "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)."

The United Nations Conference on Trade and Development (UNCTAD) defines FDI as "an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor."

The Organisation for Economic Co-operation and Development (OECD) defines FDI as "a category of international investment that reflects the objective of a resident entity in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise)."

2.1.2. Types of foreign direct investment (FDI) :

When a company invests in another company in a foreign land, the investment is said to be a foreign direct investment (FDI). The FDIs are further categorised into four types.

The investment market is an enormous space. Individual investors and large companies can invest in companies within their countries as well as overseas. When one company invests in a business in another company in a foreign land, the investment is deemed as foreign direct investment or FDI. There are four different types of foreign direct investments. They are as under :

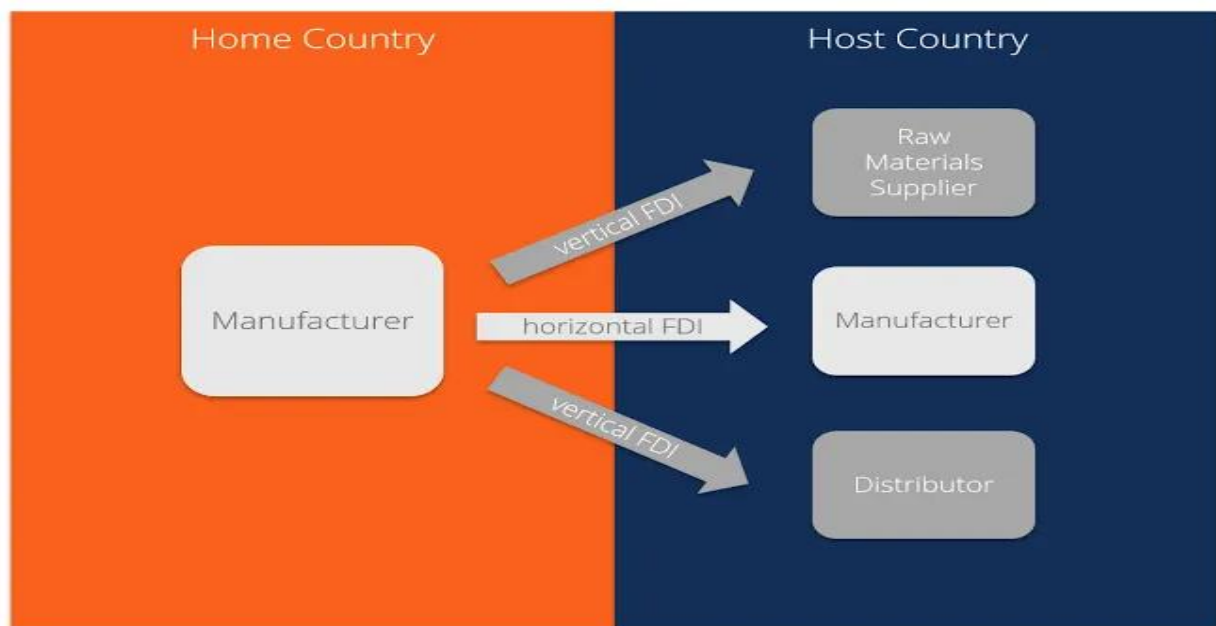
2.1.2.1. Horizontal:

The most common type of FDI is Horizontal FDI, which primarily revolves around investing funds in a foreign company belonging to the same industry as that owned or operated by the FDI investor. Here, a company invests in another company located in a different country, wherein both the companies are producing similar goods. For example, the Spain-based company Zara may invest in or purchase the Indian company Fab India, which also produces similar products as Zara does. Since both the companies belong to the same industry of merchandise and apparel, the FDI is classified as horizontal FDI (Investyadaya,in 2019).

2.1.2.2. Vertical FDI:

Vertical FDI is another type of foreign investment. A vertical FDI occurs when an investment is made within a typical supply chain in a company, which may or may not necessarily belong to the same industry. As such, when vertical FDI happens, a business invests in an overseas firm which may supply or sell products. Vertical FDIs are further categorised as backward vertical integrations and forward vertical integrations. For instance, the Swiss Coffee producer Nescafe may invest in coffee plantations in countries such as Brazil, Columbia, Vietnam, etc. Since the investing firm purchases, a supplier in the supply chain, this type of FDI is known as backward vertical integration. Conversely, forward vertical integration is said to occur when a company invests in another foreign company which is ranked higher in the supply chain, for instance, a coffee company in India may wish to invest in a French grocery brand (Investyadaya,in 2019).

Figure 2.1. Vertical and Horizontal FDI



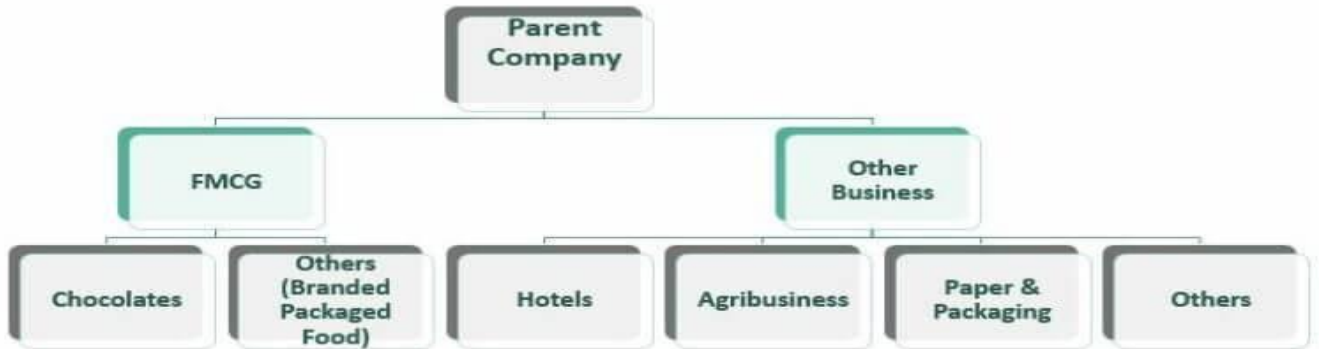
Source : CFI Team

2.1.2.3. Conglomerate FDI :

When investments are made in two completely different companies of entirely different industries, the transaction is known as conglomerate FDI. As such, the FDI is not linked directly to the investors business. For instance, the US retailer Walmart may invest in TATA Motors, the Indian automobile manufacturer (Wallstreetmojo team).

Figure 2.2. Conglomerate

Conglomerate



Source : Wallstreetmojo Team

2.1.2.4. Platform FDI :

The last types of foreign direct investment is platform FDI. In the case of platform FDI, a business expands into a foreign country, but the products manufactured are exported to another, third country. For instance, the French perfume brand Chanel set up a manufacturing plant in the USA and export products to other countries in America, Asia, and other parts of Europe.

Figure 2.3. Platform FDI



Source: Yadnya Investment Academy

2.1.3. Factors affecting foreign direct investment :

In the last five decades, foreign direct investment (FDI) and multinational corporations (MNCs) attracted many scholars' attention, becoming the most researched topic in international business (IB). Nevertheless, most of the FDI literature typically emphasizes a specific FDI field, such as entry mode strategies, location choice or investment determinants (Tejvan Pettinger 2019).

More specifically, some authors have paid attention to foreign investments in emerging countries from the point of view of the market entry strategies or the relationships of cultural distance with entry mode choice. Others focused on the international diversification and speed of entering international markets and the MNC performance.

FDI by MNCs plays an important key role in emerging economies' economic development and facilitates the entry of new and advanced technologies. Also, emerging economies benefit from inward FDI through capital accumulation, which affects positively the host economy's Balance of Payments (BoP). Thus, inward FDI to emerging economies will enhance the flow of capital and increase production and exports.

Moreover, FDI by MNCs boosts international trade by developing new international networks between host and home economies. Hence, developed and emerging economies have a common interest in encouraging FDI flows, even if their goals differ. Host economies attract FDI to improve their economic standards and to develop both an economy of scope, which focuses on the average total cost of production of a variety of goods and service and economy of scale, which focuses on the cost advantage.

On the other hand, corporate growth, access to natural resources, low labor costs and maximizing revenues are typical targets for MNCs. Moreover, although FDI in emerging economies has been the subject of numerous business research, it is still unclear why investors prefer to take advantage of emerging economies' opportunities. Emerging economies are considered to be slow in adopting new reforms and suffer from corruption (Adam Hayes 2022) . However, some emerging economies will be the new world's developed economies.

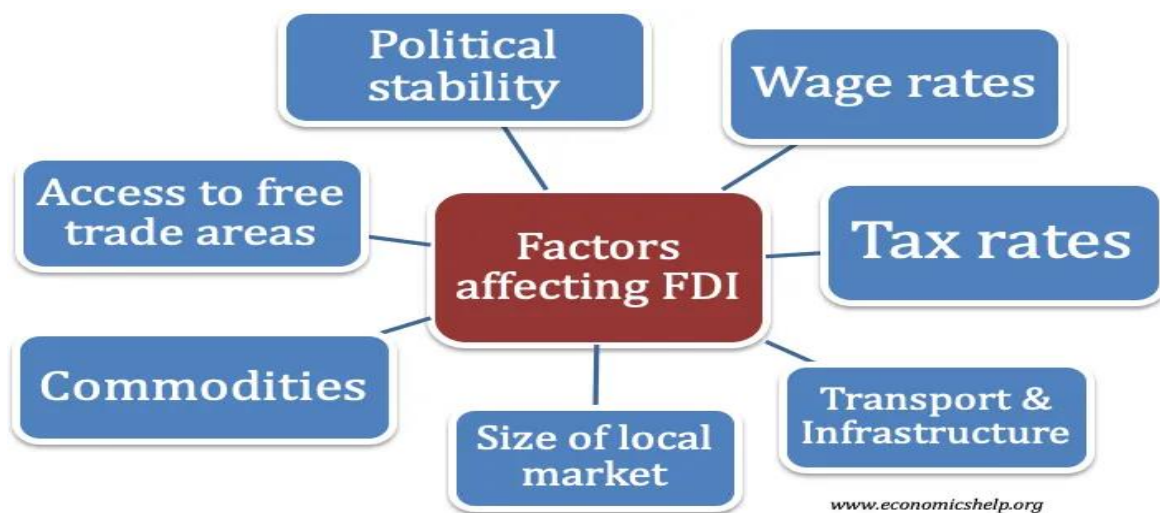
Because not even the largest MNC can afford to invest in every country, an important phase of the FDI cycle is the process by which a country chooses where to establish its foreign subsidiaries. The heterogeneity of business strategies and objectives means that no single guideline exists for manufacturing and services companies when selecting appropriate overseas sites.

Foreign direct investment (FDI) means companies purchase capital and invest in a foreign country. For example, if a US multinational, such as Nike built a factory for making T-shirts in Pakistan; this would count as foreign direct investment.

In summary, the main factors that affect foreign direct investment are :

- *Infrastructure and access to raw materials.*
- *Communication and transport links.*
- *Skills and wage costs of labour.*

Figure 2.4. Factors Affecting Foreign direct Investment



Source : *Yadnya Investment Academy*

2.1.3.1. Wage rates :

A major incentive for a multinational to invest abroad is to outsource labour-intensive production to countries with lower wages. If average wages in the US are \$15 an hour, but \$1 an hour in the Indian sub-continent, costs can be reduced by outsourcing production. This is why many Western firms have invested in clothing factories in the Indian sub-continent (Tejvan Pettinger 2019).

However, wage rates alone do not determine FDI, countries with high wage rates can still attract higher tech investment. A firm may be reluctant to invest in Sub-Saharan Africa because low wages are outweighed by other drawbacks, such as lack of infrastructure and transport links.

2.1.3.2. Labour skills :

Some industries require higher skilled labour, for example pharmaceuticals and electronics. Therefore, multinationals will invest in those countries with a combination of low wages, but high labour productivity and skills. For example, India has attracted significant investment in call centres, because a high percentage of the population speak English, but wages are low. This makes it an attractive place for outsourcing and therefore attracts investment.

2.1.3.3. Tax rates :

Order to finance state provision of essential public services. At the same time, enlightened by advances in public sector economics, current taxation policies are designed to strike the difficult balance between achieving minimal disincentives to undertake productive activities and maximum social fairness.

In this context, corporate taxation is a key part of the taxation system that directly affects current and future business decisions of the private sector. Corporate taxes impact capital and labour costs and, hence, not just current production and hiring decisions, but also the net present value of future production, which motivates corporate investment. Corporate taxation policy has been used as an instrument to both fine-tune investment and output fluctuations over the business cycle, and spur long-term economic growth and national welfare. In the last few decades, the importance of optimally designed, growth-friendly taxation policies has been further emphasised by the enhanced international mobility of capital in search of a lower tax burden and modest production costs to ensure competitiveness.

Large multinationals, such as Apple, Google and Microsoft have sought to invest in countries with lower corporation tax rates. For example, Ireland has been successful in attracting investment from Google and Microsoft. In fact, it has been controversial because Google has tried to funnel all profits through Ireland, despite having operations in all European countries, To this extent it is important to adjust taxes.

2.1.3.4. Transport and infrastructure :

A key factor in the desirability of investment are the transport costs and levels of infrastructure. A country may have low labour costs, but if there is then high transport costs to get the goods onto the world market, this is a drawback. Countries with access to the sea are at an advantage to landlocked countries, who will have higher costs to ship goods.

2.1.3.5. Size of economy / potential for growth :

Foreign direct investment is often targeted to selling goods directly to the country involved in attracting the investment. Therefore, the size of the population and scope for economic growth will be important for attracting investment. For example, Eastern European countries, with a large population, e.g. Poland offers scope for new markets. This may attract foreign car firms, e.g. Volkswagen, Fiat to invest and build factories in Poland to sell to the growing consumer class. Small countries may be at a disadvantage because it is not worth investing for a small population (Tejvan Pettinger 2019). China will be a target for foreign investment as the newly emerging Chinese middle class could have a very strong demand for the goods and services of multinationals.

2.1.3.6. Political stability / property rights :

Foreign direct investment has an element of risk. Countries with an uncertain political situation, will be a major disincentive. Also, economic crisis can discourage investment. For example, the recent Russian economic crisis, combined with economic sanctions, will be a major factor to discourage foreign investment. This is one reason why former Communist countries in the East are keen to join the European Union. The EU is seen as a signal of political and economic stability, which encourages foreign investment. Related to political stability is the level of corruption and trust in institutions, especially judiciary and the extent of law and order.

2.1.3.7. Commodities :

One reason for foreign investment is the existence of commodities. This has been a major reason for the growth in FDI within Africa – often by Chinese firms looking for a secure supply of commodities.

2.1.3.8. Exchange rate :

A weak exchange rate in the host country can attract more FDI because it will be cheaper for the multinational to purchase assets. However, exchange rate volatility could discourage investment.

2.1.3.9. Access to free trade areas :

for example a significant factor for firms investing in Europe is access to EU Single Market, which is a free trade area but also has very low non-tariff barriers because of harmonisation of rules, regulations and free movement of people. For example, UK post-Brexit is likely to be less attractive to FDI, if it is outside the Single Market.

Overall, there are many different factors that determine foreign direct investment (FDI) and it is hard to isolate individual factors, given there are many different variables. It also depends on the type of industry. For example, with manufacturing FDI, low wage costs tend to be the most important, as they are a labour-intensive industry. For the service sector, FDI, macro-economic stability and political openness tend to be more important.

Also, it depends on the source of FDI, American firms may value political openness more than Chinese firms. Or American firms may have a preference for countries where English is spoken more.

2.2. Introduction to economic development :

The study of economic development is one of the newest , most exciting , and most challenging branches of the broader disciplines of economics and political economy . Adam Smith was the first " development economist " with his book "Wealth of Nations" , published in 1776 , was the first treatise on economic development .

There were several major phases of development theory from the 1940's to the 1960's. In the postwar period of reconstruction initiated by the United States. In 1949, President Harry Truman made developing undeveloped areas a priority for the West, when more than half of the world's population lived in conditions bordering on misery. Their food is insufficient, their economic life is primitive and stagnant. Their poverty is a hindrance and a threat to them and to the more prosperous regions.

For the first time in history, humanity has the knowledge and skill to alleviate the suffering of these people by achieving economic development for these affected countries. Increasing production is the key to prosperity and peace, and the key to increasing production is the broadest and most powerful application of modern scientific and technical knowledge.

In economics, the study of economic development resulted from an extension of the traditional economy that focused entirely on the national product, or the total output of goods and services Economic development was concerned with expanding people's capabilities to achieve food security, literacy, education, and other social and economic indicators. It stems from the background of Keynesian economics (the call for government intervention). Economic development is the sustained and coordinated actions of policy makers and participating groups that contribute to enhancing the standard of living, economic and health of a given area. Also, economic development can refer to the quantitative and qualitative changes in an economy.

These measures can cover multiple areas, including human capital, basic infrastructure, regional competition, environmental sustainability, social inclusiveness, health and security, literacy, among others.

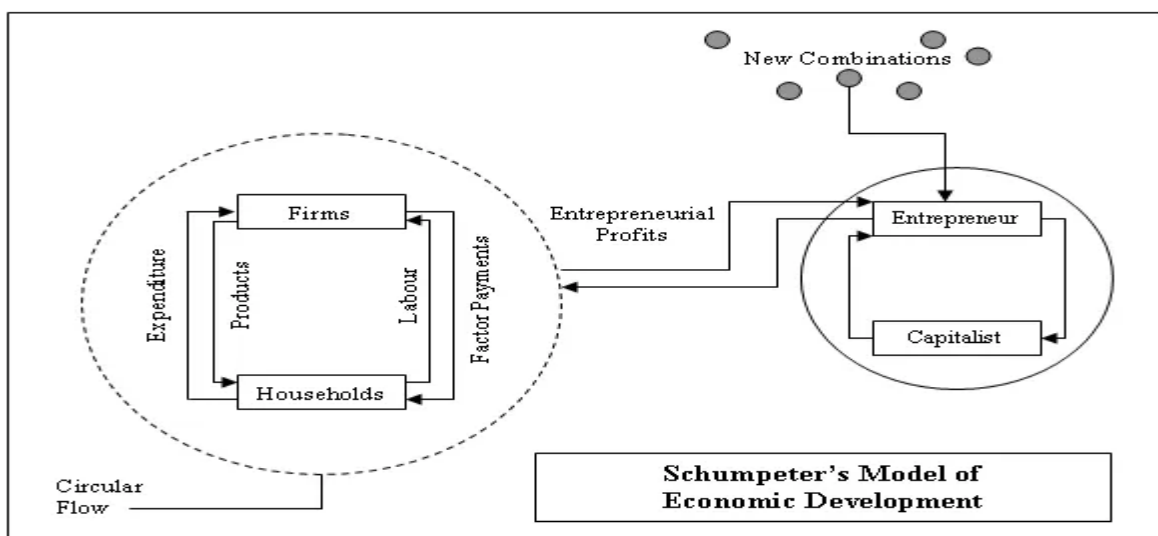
The concept of economic development differs from economic growth. While economic development refers to efforts to intervene in policies with the aim of ensuring the economic and social well-being of people, economic growth refers to the phenomenon of market productivity and the rise in the gross domestic product (GDP) rate. Accordingly, economist Amartya Sen points out: “Economic growth is one aspect of the process of economic development.”

2.2.1. Schumpeter’s Perspective on Economic Development :

Joseph Schumpeter was an Austrian economist who is known for his innovative views on economic development. Schumpeter believed that economic growth and development were driven by innovation, specifically by the process of creative destruction (This process involves the continual creation of new products, services, and production methods) . which in turn displaces old products, services, and methods. This leads to the destruction of existing firms and industries, but it also creates new opportunities for innovation and growth.

Overall, Schumpeter's perspective on economic development emphasizes the importance of innovation and entrepreneurship in driving economic growth. He believed that economic development is not a linear process, but rather a dynamic one that involves the continual creation and destruction of firms and industries.

Figure 2.5. Schumpeter’s Model of Economic development

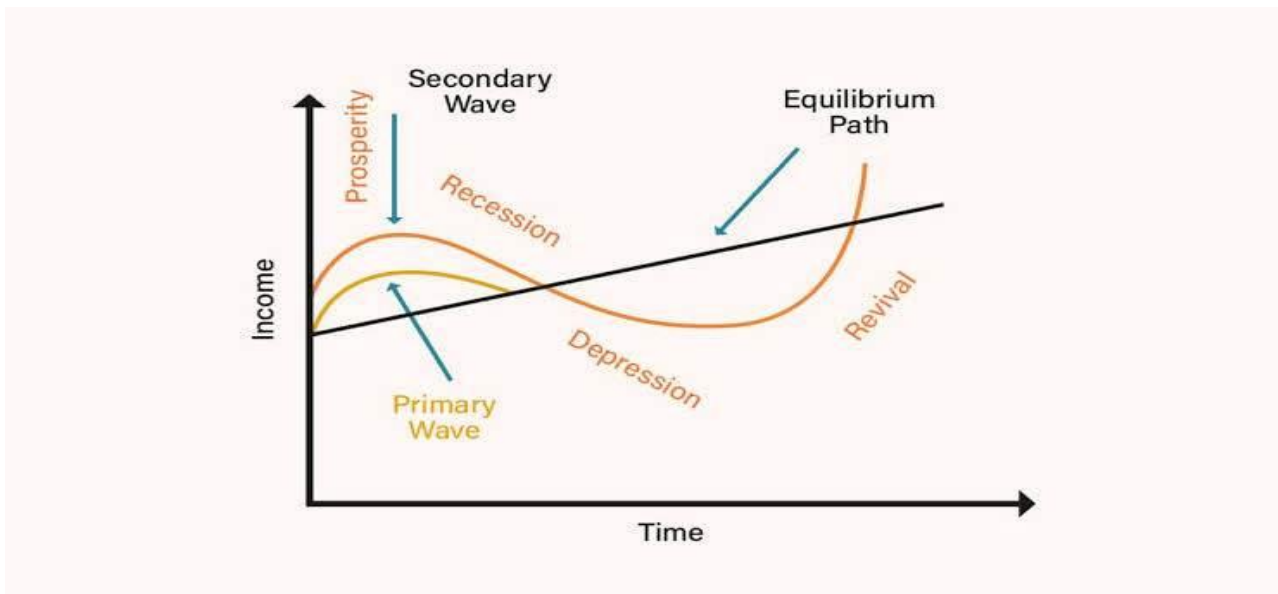


Source :
Joseph Schumpeter

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No doubt, Schumpeter holds that the process of economic development is synonymous with discontinuous technical change, i.e., innovations. The agent which brings about innovations is called by Schumpeter as entrepreneur. Thus, entrepreneur becomes the pivot of Schumpeter's model. As the figure above shows (Joseph Schumpeter 1942).

Chart 2.1. diagram illustrated Schumpeter's cyclical process of economic development



Source : *Joseph Schumpeter*

Schumpeter's cyclical process of economic development has been illustrated in the above diagram where the secondary wave is superimposed on the primary wave of innovation. In the prosperity period, as the above figure reveals, the economic development proceeds more rapidly due to over optimism and speculation.

- The business cycle continues to fall below the level of equilibrium with the beginning of the recession and ultimately reaches the point of depression. In the end, the retake of economic activities leads to revival of the economy (Joseph Schumpeter 1942).

- In the Schumpeterian analysis of development entrepreneurs have to play the central role in business cycles. They initiate the economic development in the spontaneous and discontinuous manner. The cyclical swings are the cost of economic development under capitalism.

2.3. The role of foreign direct investment in achieving economic development :

Foreign Direct Investment (FDI) refers to the investment made by a company or individual from one country into a business or entity in another country. FDI is an important source of capital, technology, and expertise for developing countries, and can help stimulate economic growth and job creation. However, the relationship between foreign investors and host countries can be complex, with issues such as sovereignty, competition, and economic development often coming into play.

Host countries have an important role to play in regulating and managing foreign direct investment. Many countries have policies and regulations in place to attract foreign investment, such as tax breaks, streamlined bureaucracy, and investment protection measures. However, host countries also need to ensure that foreign investment does not harm their national interests, such as by causing environmental degradation or displacing local workers.

On the other hand, foreign investors need to be mindful of the legal and regulatory environment of the host country, as well as the local cultural and business practices. They need to understand and respect the laws and customs of the host country, and build relationships with local stakeholders to ensure the success of their investment.

In summary, the relationship between foreign investors and host countries is a critical one that requires careful management and mutual respect. Both parties need to work together to ensure that FDI benefits both the investor and the host country, while also respecting national sovereignty, social and environmental values, and local economic development needs.

Over decades and generations, seemingly small differences of a few percentage points in the annual rate of economic growth make an enormous difference in GDP per capita. In this module, we discuss some of the components of economic growth which is affected by foreign direct investment in one way or another. including physical capital, human capital, technological improvement, job creation, access to new markets and Improved infrastructure .

2.3.1. Physical capital :

Physical capital, which refers to the machinery, equipment, buildings, and other tangible assets used in production, can have a significant impact on productivity in various industries. Studies have shown that investment in physical capital can lead to increased efficiency, output, and quality, ultimately improving the overall productivity of a firm or economy.

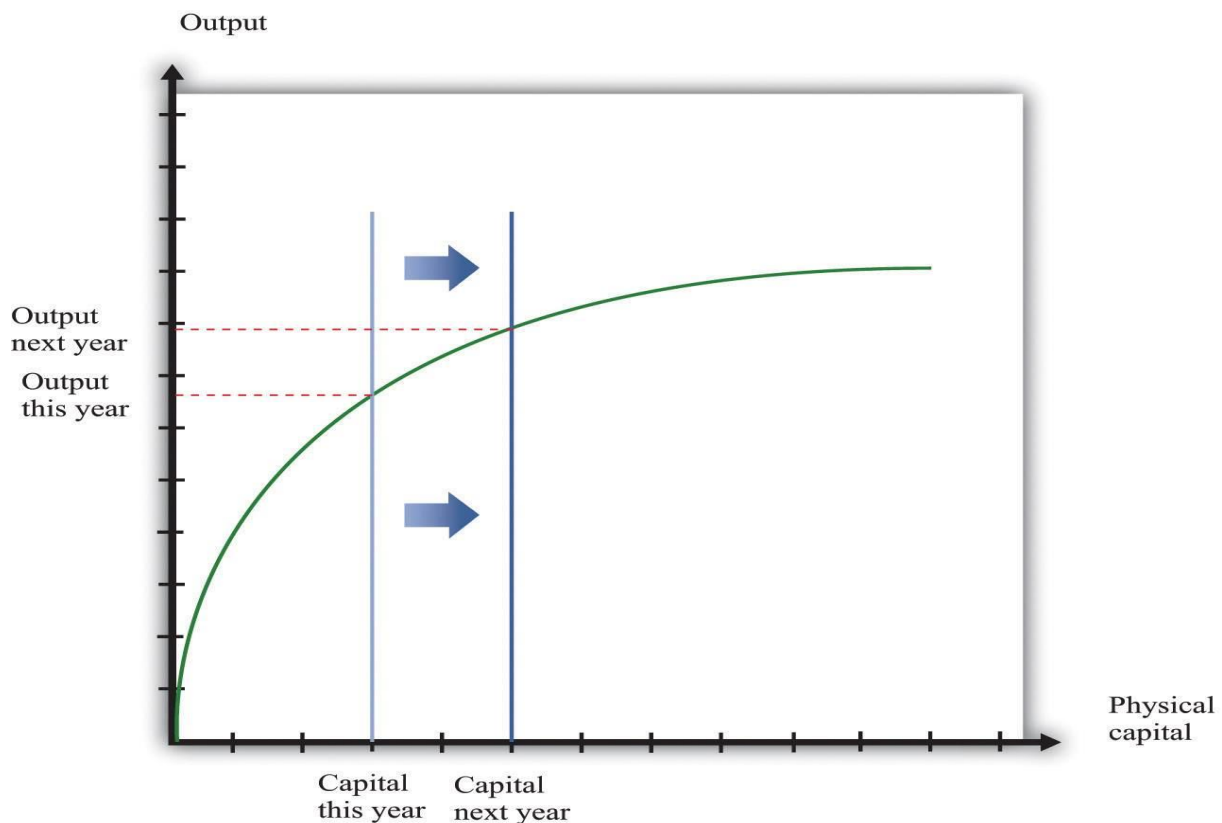
The category of physical capital includes the plant and equipment used by firms and also things like roads (also called infrastructure). Again, greater physical capital implies more output. Physical capital can affect productivity in two ways:

(1) an increase in the quantity of physical capital (for example, more trucks of the same quality, which leads to facilitating the movement of goods and products and reviving the transportation and shipping sector)

(2) an increase in the quality of physical capital (same number of trucks but the trucks are faster, more comfort, and with a larger carrying capacity, and so on). Human capital and physical capital accumulation are similar: In both cases, investment now pays off in longer-term productivity in the future .

Increases in the capital stock lead to increases in output. If the capital stock increases between this year and next year, output also increases. Increases in the capital stock are one source of growth (Russell Cooper 2013).

Chart 2.2. diagram illustrated the relationship between physical capital and productivity



Source : *Russell cooper, Economics: Theory Through Applications V1.0*

For example, a study by the Organisation for Economic Co-operation and Development (OECD) found that investment in machinery and equipment was positively associated with productivity growth in manufacturing industries in several countries, including the United States, Japan, and France. The study also found that investment in research and development (R&D) and organizational capital, such as management practices and training, also contributed to productivity growth.

Similarly, a study by the Federal Reserve Bank of San Francisco found that investment in physical capital was a key driver of productivity growth in the United States in the post-World War II period. The study found that the adoption of new technologies, such as computers and telecommunications equipment, contributed significantly to productivity gains in the manufacturing and service sectors.

Overall, while the relationship between physical capital and productivity and economic development can vary depending on the industry and country, there is strong evidence to suggest that investment in physical capital can have a positive impact on productivity which leads to achieve economic development.

The OECD report found that investment in machinery and equipment was positively associated with productivity growth in several countries, while investment in R&D and organizational capital also contributed to productivity growth.

The Jorgenson and Stiroh paper identified the adoption of new technologies, such as computers and telecommunications equipment, as a key driver of productivity gains in the U.S. economy. Finally, the Federal Reserve Bank of San Francisco study found that investment in physical capital was a key driver of productivity growth in the post-World War II period in the United States.

2.3.2. Human capital and improving workforce :

The size and composition of the labor force can have significant economic implications for a country. A growing labor force can drive economic growth and increase productivity, while a shrinking or stagnant labor force can lead to labor shortages and slower economic growth. Governments and economists often track labor force participation rates as a key economic indicator.

The labor force refers to the group of people who are either employed or actively seeking employment. It includes all individuals who are of working age, typically between 16 and 65 years old, and are either currently employed, unemployed but actively looking for work, or who are not currently employed but are available and willing to work.

Foreign direct investments also have an indirect impact with human capital in terms of labor productivity, which is defined as real output per labor hour, and growth in labor productivity is measured as the change in this ratio over time. Labor productivity growth is what enables workers to produce more goods and services than they otherwise could for a given number of work hours. Which leads to obtaining more goods and services, As an example, suppose workers in a factory can make 20 cars an hour.

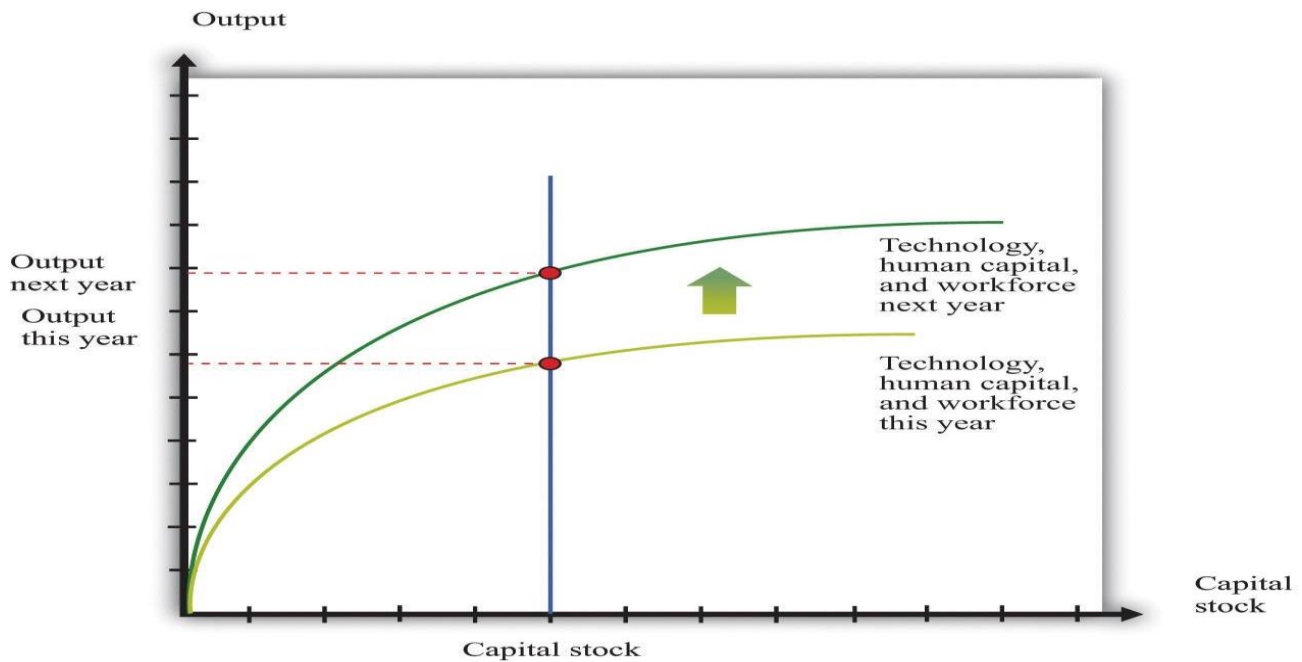
One month, the company modernizes machinery and the workers take training classes to help improve their performance. Using the new machinery and recently acquired knowledge, the same workers can now make 30 cars an hour—which is a productivity gain of 10 cars per hour, a 50 percent gain. As this example illustrates, there are multiple sources and factors of production that can lead to labor productivity growth.

So, why is it important for us to measure labor productivity? Because, over the long run, productivity growth is the economic factor that has the potential to lead to improved living standards for the participants of an economy—in the form of higher consumption of goods and services.

With growth in labor productivity, an economy is able to produce increasingly more goods and services for the same amount of work. And, because of this additional production, it is possible for a greater quantity of goods and services to ultimately be consumed for a given amount of work. This consumption is possible with gains in (a) labor income, (b) profits and capital gains of businesses, and (c) public sector revenue. As labor productivity grows, it may be possible for all of these to increase simultaneously, without gains in one coming at the cost of one of the others.

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Chart 2.3. Diagram illustrated the relationship between human capital and productivity

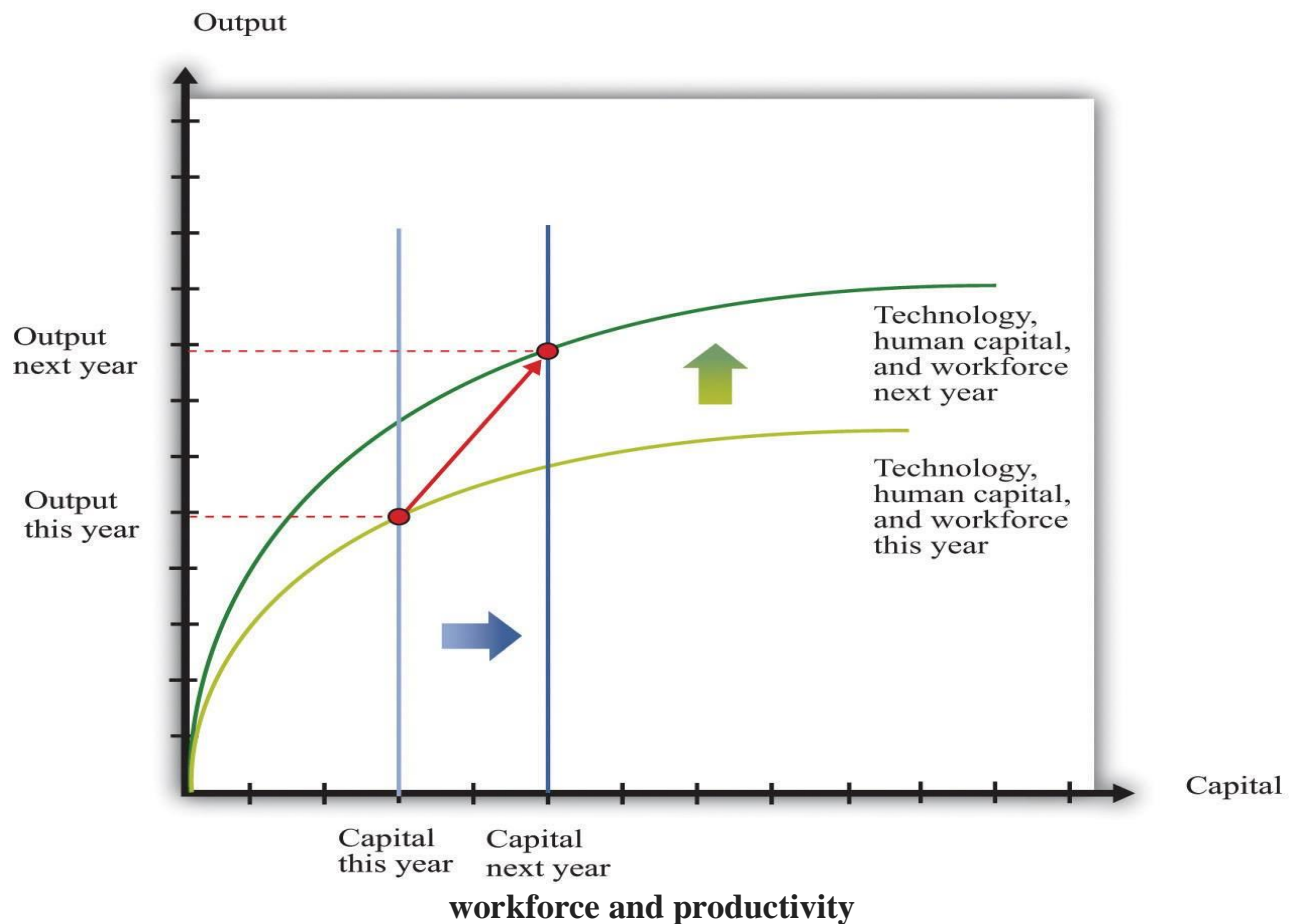


Source : *Russell cooper, Economics: Theory Through Applications V1.0*

Increases in the amount of human capital are one way in which an economy can grow, through increases in human capital and By increasing the quantity of goods and services produced and by optimal use of technology and available means of production. These shift the production function upward, as shown in Figure above .

Increases in human capital or technology lead to increases in output. Increases in technology, human capital (Russell Cooper 2013), and the workforce, and it consider as an increase in the capital stock and a source of output growth, through the accumulation of physical and human capital, and by improving the components of technology such as knowledge and social infrastructure, the output will grow over time. The combined effect of physical capital growth and improvements in technology is shown in Figure below.

Chart 2.4. diagram represent accumulating human capital, technology,



Source : *Russell cooper, Economics: Theory Through Applications V1.0*

Increases in capital, human capital, and technology all lead to increases in output. In general, economies grow because of increases in capital, technology, human capital, and the workforce by accumulating year after year (Russell Cooper 2013).

2.3.3. Infrastructure :

FDI's infrastructure can have positive impacts on the economy. For example, the construction of new infrastructure can create jobs, boost economic growth, and improve the standard of living for citizens. Infrastructure development can also attract further investment in other sectors of the economy.

FDI can improve infrastructure in two ways, either to improve infrastructure to attract FDI, such as building ports and airports or through the investment of foreign companies in the host country in the field of infrastructures, such as Sinohydro, which acts as a contractor

for hydropower projects in the infrastructure. In both ways, this leads to an improvement in the quality of life, well-being, and economic development.

FDI can be attracted through various policies and incentives such as tax holidays, subsidies, and favorable regulatory frameworks. The government can also engage in public-private partnerships (PPPs) to attract FDI and facilitate the development of infrastructure. PPPs involve between the government and private sector to finance, build, and operate collaborative infrastructure projects. The private sector can bring in financing, expertise, and efficiency, while the government can provide regulatory support, land acquisition, and environmental clearance.

Infrastructure plays a crucial role in achieving economic development. It refers to the basic physical and organizational structures and facilities needed for the operation of a society or enterprise, including transportation, communication, power, water, and sewage systems. The following are some ways in which infrastructure contributes to economic development :

Improved transportation: A well-developed transportation system is essential for economic development. It allows goods and people to move efficiently and reduces the cost of transportation. This, in turn, increases the competitiveness of businesses, attracts investment, and creates jobs.

Communication networks: Communication infrastructure, such as telephone lines, internet connectivity, and data centers, enhances connectivity and information exchange, which leads to better business and trade opportunities. It also facilitates e-commerce and online transactions, which have become increasingly important in today's digital age.

Energy systems: Energy infrastructure, including electricity and natural gas grids, is critical for industrial and commercial activities. Reliable and affordable energy supply is essential for powering factories, offices, and homes, and for providing lighting and heating.

Water and sanitation systems: Clean water and sanitation infrastructure are necessary for maintaining public health and hygiene. These are critical components for building a healthy and productive workforce and reducing healthcare costs. **Public works projects:** Infrastructure investments create jobs and stimulate economic activity, particularly during times of economic downturns. Governments can fund public works projects to create new infrastructure or to maintain and upgrade existing infrastructure. These projects provide employment opportunities for construction workers, engineers, and other professionals.

However, there are also potential risks and challenges associated with FDI in infrastructure. For example, FDI can lead to dependency on foreign technology and

expertise, which may not be sustainable in the long run. There can also be concerns about environmental and social impacts of infrastructure projects.

The government must ensure that FDI is channeled towards sustainable infrastructure development, which takes into account environmental and social considerations.

In conclusion, infrastructure is vital for economic development as it provides the necessary foundations for businesses to operate and grow, improves the quality of life for citizens, and attracts investment and trade opportunities.

2.3.4. Tax revenues :

The relationship between tax revenues from foreign direct investment (FDI) and economic development is complex and depends on a variety of factors. In general, FDI can bring significant benefits to the host country's economy, including job creation, technology transfer, and access to new markets.

When foreign companies invest in a host country, they are typically required to pay taxes on their profits. This can generate significant revenue for the host government, which can then be used to fund infrastructure projects, education, and other initiatives that promote economic development. However, the extent to which tax revenues from FDI contribute to economic development depends on a number of factors, including the level of FDI inflows, the tax policies of the host country, and the efficiency of government spending.

Internal resource mobilisation remains a big challenge for developing countries. While many studies have attempted to highlight several strategies to increase tax revenues, the contribution of FDI flows in this process has received little attention. When discussing the link between FDI and tax revenues, two opposing mechanisms may be at play:

(1) FDI inflows could boost tax revenues by broadening the corporate income tax base with a new entry (new investment).

(2) to attract FDI, many developing countries grant large tax exemptions to new investors who can sometimes lead to unfair competition, FDI inflows may not result in a significant increase in tax revenues.

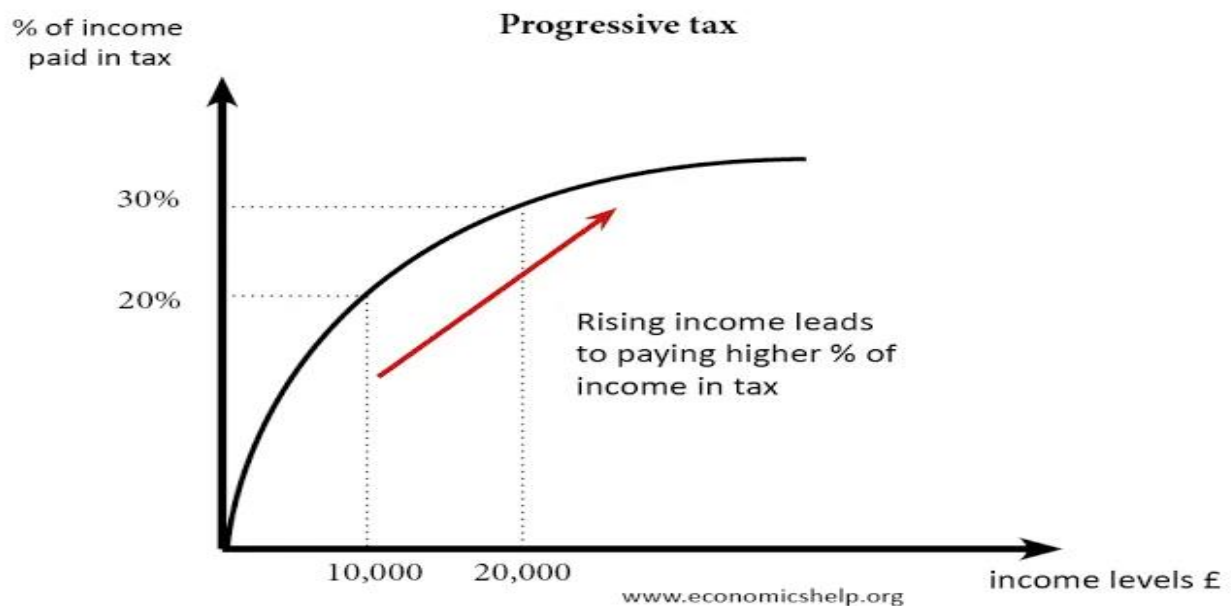
For example, if a host country offers tax incentives to foreign investors that reduce their tax burden, this may attract more FDI, but it may also reduce the amount of revenue that the government collects from these companies. Similarly, if the government is inefficient in its use of tax revenues, the economic benefits of FDI may not be fully realized.

Through an experimental study conducted by Abdirahman camara to prove an empirical answer to FDI inflows' crucial role in tax revenue mobilization. Using a System GMM system estimator for 90 developing countries over the period 1990-2017, our results strongly suggest that FDI inflows lead, to a significant tax revenue increase. Nevertheless, this effect is not observed in resource-exporting countries where tax revenues seem statistically insensitive to FDI inflows.

2.3.4.1. Progressive tax:

progressive tax for economic institutions is a tax system in which the tax rate increases as the size and profitability of the institution increase. In other words, the larger and more successful an economic institution is, the more it would be taxed as a percentage of its income or profits, the idea behind a progressive tax for economic institutions is to reduce income inequality and ensure that the most successful and profitable companies pay a fair share of taxes to support the society and government that enables their success.

Chart 2.5. diagram represents the role of progressive taxation in increasing income



Source : *Economics help. Tejvan Pettinger*

A progressive tax takes a higher percentage of tax from people with higher incomes. It means that the more an enterprise earns, the higher his average rate of tax will be, which also means more profits entering the state treasury (Joseph Schumpeter 1943).

There are several ways in which a progressive tax for economic institutions could be implemented. One option would be to establish a tiered tax rate system, in which companies that generate higher profits are subject to a higher tax rate. Another option would be to set a tax rate that increases as a company's size or market share grows beyond a certain threshold.

2.3.5. removes Balance of Payments Constraint:

FDI provides inflow of foreign exchange resource and removes the constraints on balance of payment. It can be seen that a large number of developing countries suffer from balance of payments deficits for their demand for foreign exchange which is normally far in excess of their ability to earn. FDI inflows by providing foreign exchange resources remove the constraint of developing countries seeking higher growth rates.

FDI has a distinct advantage over the external borrowings considered from the balance of payments point of view. Loan creates fixed liability. The governments or corporations have to repay. The resulting international debt of the government and the corporation parts a fixed liability on balance of payments.

This means that they have to repay loans along with interest over a specific period. In the context of FDI this fixed liability is not there. The foreign investor is expected to generate adequate resources to finance outflows on account of the activity generated by the FDI. The foreign investor will also bear the risk.

2.3.6. brings Technology, Management and Marketing Skills:

FDI brings along with its assets which are crucially either missing or scarce in developing countries. These assets are technology and management and marketing skills without which development cannot take place. This is the most important advantage of FDI. This advantage is more important than bringing capital, which perhaps can be had from the international capital markets and the governments.

2.3.7. Stimulation of Economic Development:

FDI is a source of external capital and higher revenues for a country. When factories are constructed, at least some local labour, materials and equipment are utilized. Once the construction is complete, the factory will employ some local employees and further use local materials and services. The people who are employed by such factories thus have more money to spend. This creates more jobs. These factories will also create additional tax revenue for the Government, that can be infused into creating and improving physical and financial infrastructure.

2.3.8. Improved Capital Flow:

Inflow of capital is particularly beneficial for countries with limited domestic resources, as well as for nations with restricted opportunities to raise funds in global capital markets.

2.3.9. Creation of a Competitive Market:

By facilitating the entry of foreign organizations into the domestic marketplace, FDI helps create a competitive environment, as well as break domestic monopolies. A healthy competitive environment pushes firms to continuously enhance their processes and product offerings, thereby fostering innovation. Consumers also gain access to a wider range of competitively priced products.

2.3.10. Development of Backward Areas:

FDI enables the transformation of backward areas in a country into industrial centres. This in turn provides a boost to the social economy of the area. The Hyundai unit at Sriperumbudur, Tamil Nadu in India exemplifies this process

2.3.11. Provision of Finance & Technology:

Recipient businesses get access to latest financing tools, technologies and operational practices from across the world. Over time, the introduction of newer, enhanced technologies and processes results in their diffusion into the local economy, resulting in enhanced efficiency and effectiveness of the industry.

2.3.12. Increase in Exports:

The creation of 100% Export Oriented Units and Economic Zones have further assisted FDI investors in boosting their exports from other countries.

2.3.13. Exchange Rate Stability:

The constant flow of FDI into a country translates into a continuous flow of foreign exchange. This helps the country's Central Bank maintain a comfortable reserve of foreign exchange. This in turn ensures stable exchange rates.

Conclusion

Foreign direct investment (FDI) plays a crucial role in the economic development of countries, as it brings about several benefits and impacts various aspects of the economy. From an analytical perspective, FDI is considered an important driver of economic growth and development due to several reasons. Firstly, FDI facilitates the transfer of capital, technology, and managerial expertise from the investing countries to the recipient countries.

This transfer of resources and knowledge helps recipient countries improve their productive capacity, enhance technological capabilities, and upgrade their industrial sectors. Secondly, FDI often leads to the creation of jobs and employment opportunities in the recipient countries.

The establishment of foreign firms and the expansion of their operations generate new job openings, reducing unemployment rates and improving living standards. Thirdly, FDI stimulates domestic investment by creating linkages and backward-forward linkages with local firms. These linkages promote the development of local suppliers, service providers, and ancillary industries, fostering industrialization and diversification of the economy. Fourthly, FDI promotes exports by leveraging the international networks and marketing channels of multinational corporations. The access to global markets enables recipient countries to increase their export volumes, earn foreign exchange, and improve their balance of payments. Finally, FDI contributes to the development of human capital through skills and knowledge transfer.

Local employees working in foreign firms often acquire new skills and expertise, which can spill over to other sectors and contribute to the overall development of the workforce. Overall, the relationship between FDI and economic development is multifaceted, encompassing the transfer of resources, technology, job creation, industrial

development, export promotion, and human capital formation. By harnessing these benefits, countries can leverage FDI as a catalyst for sustainable economic development, improving the wealth of nation and standard of living of nations.

Chapter Three

Analytical Studies

3.1. Introduction:

Over decades and generations, seemingly small differences of a few percentage points in the annual rate of economic growth make an enormous difference in GDP per capita. In this module, we discuss some of the components of economic growth which is affected by foreign direct investment in one way or another. including physical capital, human capital, technological improvement, job creation, access to new markets and Improved infrastructure .

The FDI-EG research hasard been subject to extensive study, and refers to many dimensions and fields. After analysis, compare results and review literature, current research status has more focussed on FDI flows and the the reasons for the lack of FDI in Algeria compared to its high potential, and firm performance, research modelling, and theoretical inquiry. On the one hand, scholars have paid attention to how the relationship of FDI-EG changes with one another factor. For example, does increased democracy promote or jeopardise FDI inflows to less-developed countries? How about the impact of FDI on capital accumulation, and output and total factor productivity growth in the recipient economy? On the other hand, in term of the numbers of documents and citations, scholars in the USA, China, and England have made more contributions on the FDI-EG research. Considering the sources, several popular and influential journals have published more documents about the FDI-EG research, such as Journal of International Economics, Word Development, and American Economic Review. These sources provide the good reference for researchers to study the current status related to FDI-EG research, This is what we discussed in this research paper .

According to the thematic evolution and the most influential documents analysis, the study of the relationship of FDI-EG. In order to aid sound economic policy making for improving investment environmental quality and economic development, this studie have more focussed on the FDI-EG, Political decisions responsible for determining investments, the amount of incoming investments to Algeria . After all, these studie would be helpful for the well-being of this part of the developing world and foster an economic growth strategy in countries (Russell cooper 2013) .

3.2. FDI flows in the world and Algeria :

Foreign direct investments (FDIs) are substantial, lasting investments made by a company or government into a foreign concern.

FDI investors typically take controlling positions in domestic firms or joint ventures and are actively involved in their management.

The investment may involve acquiring a source of materials, expanding a company's footprint, or developing a multinational presence.

The top recipients of FDI over the past several years have been the United States and China.

The U.S. and other Organisation for Economic Co-operation and Development (OECD) countries have been the top contributors to FDI beyond their borders.

Companies or governments considering a foreign direct investment (FDI) generally consider target firms or projects in open economies that offer a skilled workforce and above-average growth prospects for the investor. Light government regulation also tends to be prized. FDI frequently goes beyond mere capital investment. It may include the provision of management, technology, and equipment as well. A key feature of foreign direct investment is that it establishes effective control of the foreign business or at least substantial influence over its decision making.

The net amounts of money involved with FDI are substantial, with more than \$1.8 trillion of foreign direct investments made in 2021. In that year, the United States was the top FDI destination worldwide, followed by China, Canada, Brazil, and India. In terms of FDI outflows, the U.S. was also the leader, followed by Germany, Japan, China, and the United Kingdom.

FDI inflows as a percentage of gross domestic product (GDP) is a good indicator of a nation's appeal as a long-term investment destination. The Chinese economy is currently smaller than the U.S. economy in nominal terms, but FDI as a percentage of GDP was 1.7% for China as of 2020, compared with 1.0% for the U.S. For smaller, dynamic economies, FDI as a percentage of GDP is often significantly higher: e.g., 110% for the Cayman Islands, 109% for Hungary, and 34% for Hong Kong (also for 2020).

In 2020, foreign direct investment tanked globally due to the COVID-19 pandemic, according to the United Nations Conference on Trade and Development. The total \$859 billion global investment that year compared with \$1.5 trillion the previous year.

And China dislodged the U.S. in 2020 as the top draw for total investment, attracting \$163 billion compared with investment in the U.S. of \$134 billion. In 2021, global FDI bounced back by 88%.

Foreign direct investments can be made in a variety of ways, including opening a subsidiary or associate company in a foreign country, acquiring a controlling interest in an existing foreign company, or by means of a merger or joint venture with a foreign company.

The threshold for an FDI that establishes a controlling interest, per guidelines established by the Organisation for Economic Co-operation and Development (OECD), is a minimum 10% ownership stake in a foreign-based company. That definition is flexible. There are instances in which effective controlling interest in a firm can be established by acquiring less than 10% of the company's voting shares.

Algeria has been working to attract foreign direct investment to diversify its economy and reduce its dependence on oil and gas revenues. The country offers several incentives and measures to encourage FDI, including tax breaks, customs duty exemptions, and simplified administrative procedures.

The investment climate in Algeria has historically been influenced by the government's involvement in the economy, bureaucratic hurdles, and complex regulatory frameworks. This is what we will discuss in our research later.

Algeria's key sectors for foreign investment include energy (oil and gas), manufacturing, infrastructure, agriculture, and tourism. The government has sought to develop these sectors through various investment programs and initiatives. Additionally, Algeria has taken steps to improve its business environment by implementing economic reforms and creating institutions to facilitate investment.

To attract foreign investors, Algeria has established investment promotion agencies, such as the National Agency for Investment Development (ANDI), which provides information, guidance, and support to potential investors.

The agency assists with investment procedures, project financing, and obtaining necessary licenses and permits. It's worth noting that Algeria has specific regulations regarding the ownership and control of foreign investment in certain sectors. In some cases, foreign investors may be required to enter into partnerships with Algerian companies or have a certain percentage of local ownership.

The golden era of foreign direct investment (FDI) to Algeria was between 2006 and 2011, which saw inflows average \$2.25bn annually, according to data from the UN Conference on Trade and Development World (UNCTAD) Investment Report 2020. In the subsequent nine years, however, investment dropped to about \$1.1bn a year. In short, Algeria did not recover well from the 2008 financial crisis.

There is more to it than that. Weak investment can also be linked to increased government restrictions on foreign investors, as part of a policy of economic nationalism that was pushed forward after 2008, according to IMF analysis. Algeria was ranked 157th out of 190 countries in the Doing Business 2020 report published by the World Bank.

To this day, Algerian law limits the stake that a foreign investor can hold in a local firm to 49%, and requires foreign bidders for state contracts to find local partners. Corruption, bureaucracy, a weak financial sector and legal insecurity in terms of intellectual property rights are also major barriers to investment, says an analysis by Santander Trade, a leading provider of international market information.

According to Investment Monitor analysis of UNCTAD data. Algeria is rich in resources and economically stable, but diversification of foreign investment remains an issue. In 2018, the vast majority of FDI to the country went to industry (largely in extractives, but also automotives), followed by tourism, construction and infrastructure, agriculture and services, as shown in the table below :

Table 3.1. Majority of FDI in Algeria

Main Invested Sectors	2018 (latest official data available), in %
Industry	62.0
Tourism	18.5
Construction and public works	7.2
Agriculture	4.9
Services	3.9

Source

e : National Agency for Investment Development - Latest available data.

According to data from the National Agency for Investment Development (NAID). Like all countries, Algeria's all-important tourism industry has been pummelled by Covid-19, as has overall FDI to the country.

The past ten years have also seen decreased European investment to Algeria, especially from France, the country's historic partner, according to NAID data. Meanwhile, there has been a surge of interest from investors in east Asia and the Middle East. In 2018, the top five sources of FDI to Algeria were China, Singapore, Spain, Turkey and Germany - in that order, as shown in the table below :

Table 3.2. The top five Sources of FDI to Algeria

Main Investing Countries	2018 (latest official data available), in %
China	24.8
Singapore	22.0
Spain	17.9
Turkey	16.2
Germany	2.7
South Africa	2.4
France	2.3

Source : *National Agency for Investment Development - Latest available data.*

As the Algerian government addresses an ongoing legitimacy crisis and carry out major economic reforms, including easing the costs of doing business in the country, China will remain a preferred partner in its diversification endeavours. Around 1,000 Chinese companies already operate in Algeria, and the waiving of the 51/49 ownership rule (for non-strategic sectors) along with evolving BRI-engagement will likely increase that number. Chinese investment has focused largely on projects relating to transportation, infrastructure and manufacturing.

Türkiye is among the biggest investors in Algeria, Algerian President Abdelmajid Tebboune said. "Algeria's strive for developing ties with Türkiye is normal given the long history between the two countries," Tebboune said in an interview with the state TV aired late Sunday. He noted that Turkish investments in Algeria are estimated at around \$4 billion.

"It's normal to work to develop and strengthen our relations for the interest of the two countries [...] we don't have any problems with it [Türkiye]," Tebboune stressed.

Last month, Turkish Vice-President Fuat Oktay said his country's investments in Algeria reached \$5 billion. He added during his visit to Algeria that there were over 1,400 Turkish companies working in Algeria, reiterating Türkiye's desire to sign a free trade agreement or a preferential trading agreement with the North African country.

There have been many Singaporean investments in Algeria, particularly in the areas of construction, engineering and infrastructure development. Singaporean construction and engineering firms have been involved in infrastructure projects such as roads, bridges and housing developments. It should be noted that the Singaporean Surbana Jurong Group has been involved in urban planning and infrastructure development projects in Algeria, and there is also oil and gas, as Singaporean companies have shown interest in the oil and gas sector in Algeria. They have been involved in joint ventures and partnerships with Algerian companies to explore and develop oil and gas fields.

This cooperation aims to benefit from Singapore's experience in oil and gas services and technologies, and finally there is water and environmental solutions, as Singaporean companies specialized in water and environmental solutions participated in Algeria. They have provided expertise and technologies related to water treatment, wastewater management, and environmental conservation.

3.3. Algeria FDI in figures :

Rich in natural resources and economically stable, Algeria has historically attracted decent FDI flows. However, inflows were negatively impacted by the social unrest and the COVID-19 pandemic these last few years. According to the data published by UNCTAD in the World Investment Report 2022, FDIs to Algeria decreased by 23.9% to USD 870 million in 2021 (down from USD 1.1 billion one year earlier) with inflows directed primarily to the natural resources sector. On the other hand, the stock of FDI increased, reaching USD 34 billion in 2021, around 20.6% of GDP. Over the last few years, it can be seen a reorientation of FDI towards the domestic market, thanks to the proliferation of development projects in transportation and infrastructure.

China and Turkey have been investing heavily in Algeria, taking over France's historical position as the largest investor in the country. European investments have recently decreased in favour of greater interest from Gulf investors. On a country level, China, Singapore, Spain and Turkey are the leading investors; whereas industry, tourism, construction and agriculture are the sectors that receive the most FDIs. The total number of investments registered with the National Agency for Investment Development (ANDI) during the first three quarters of 2021 amounted to 1,365 projects, for an estimated value of nearly DZD 360 billion.

Protectionist measures, as well as corruption, bureaucracy, a weak financial sector and legal insecurity in terms of intellectual property rights, are serious obstacles to investment. Until 2019, the participation of a foreign investor in an Algerian company was limited to 49% and foreign contractors are forced to find local partners for public tenders.

However, the government of President Abdelmadjid Tebboune eliminated the so-called "51/49" restriction that required Algerian majority ownership of all new companies. The requirement will be maintained for "strategic sectors", identified as hydrocarbons, mining, defence, the import of goods for resale in Algeria, and pharmaceutical production.

The government has also approved a new hydrocarbons law, improving fiscal conditions and contract flexibility in order to attract new international investors. As a result of the promulgation of this law, major international oil companies signed memoranda of understanding with the national hydrocarbon company Sonatrach. Algeria ranks 115th among the 132 economies in the Global Innovation Index 2022 and 167th out of 177 countries in the 2022 Index of Economic Freedom.

Table 3.3. FDI and greenfield in Algeria between 2019-2021

<i>Foreign Direct Investment</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
<i>FDI Inward flow Million USD</i>	<i>1.382</i>	<i>1.143</i>	<i>870</i>
<i>FDI Stock Million USD</i>	<i>31.965</i>	<i>33.107</i>	<i>33.977</i>
<i>Number of Greenfield I investments</i>	<i>24</i>	<i>06</i>	<i>10</i>
<i>Value of Greenfield Investments Million USD</i>	<i>2.316</i>	<i>77</i>	<i>858</i>

Source : National Agency for Investment Development - Latest available data.

Table 3.4. Country comparison for the protection of investors

<i>Contry Comparison for the Protection of Investors</i>	<i>Algeria</i>	<i>Middle East&North Africa</i>	<i>United States</i>	<i>Germany</i>
<i>Index of Transaction Transparency</i>	<i>4.0</i>	<i>6.4</i>	<i>7.0</i>	<i>5.0</i>
<i>Index of Manager's Responsibility</i>	<i>1.0</i>	<i>4.8</i>	<i>9.0</i>	<i>5.0</i>
<i>Index of Shareholdder's Rower</i>	<i>5.0</i>	<i>4.7</i>	<i>4.7</i>	<i>5.0</i>

Source : UNCTAD, Latest available data

3.4. Algeria's location with neighboring countries in terms of foreign direct investment :

In this section, we will compare Algeria with neighboring countries, which do not have resources and capabilities as much as Algeria, through the number of greenfield projects represented as a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up, and through number of greenfield FDI projects for humane capital. and this is to know the performance of the Algerian economy in terms of attracting foreign direct investment.

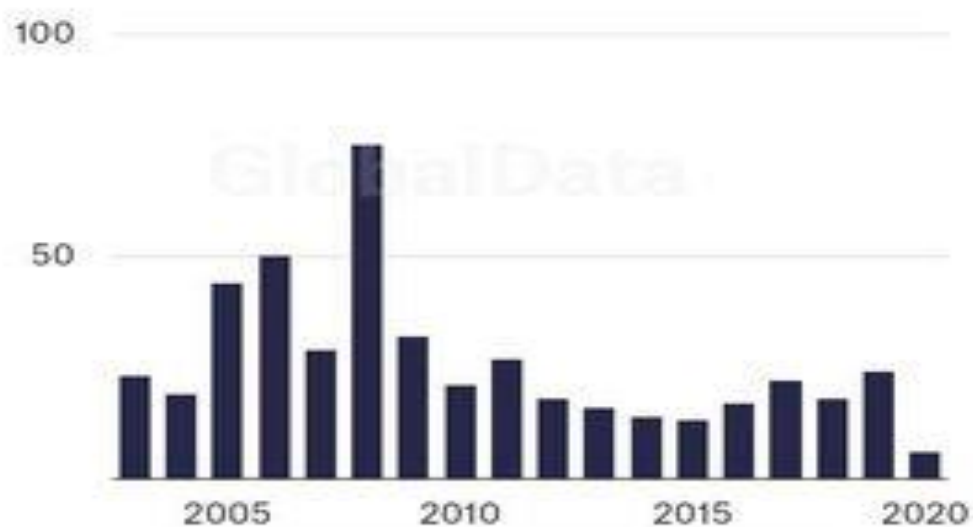
Through the curve below, we notice a sudden drop in the number of greenfield from 78 greenfield in 2008 to 20 greenfield in 2010 due to the economic crisis that Algeria faced in 2008, primarily due to its heavy reliance on oil and gas exports. The crisis was triggered by a sharp decline in global oil prices, which significantly impacted Algeria's revenue and exposed vulnerabilities in its economy. The crisis had several negative consequences for Algeria's economy.

The government had to cut down on public spending, including infrastructure projects, social welfare programs, and public sector employment. This led to a rise in unemployment and social unrest, as many Algerians depended on the government for jobs and subsidies. Additionally, the crisis exposed structural issues in Algeria's economy, such as a lack of diversification and overdependence on oil and gas.

The country had not sufficiently diversified its economy or invested in other sectors, such as manufacturing or agriculture, to reduce its reliance on hydrocarbon exports. As a result, Algeria was highly vulnerable to fluctuations in oil prices. This had a negative effect on attracting foreign direct investment.

In the year 2009, the number of greenfield was 24, after that it decreased to 6 greenfield in the year 2020, and this is most likely due to the decisions made by the new Prime Minister Abdel Majeed Tebboune Regarding reducing dependence on imports and relying more on local products, and also because of not removing the previous bureaucratic restrictions .

Chart 3.6. Number of Greenfield in Algeria

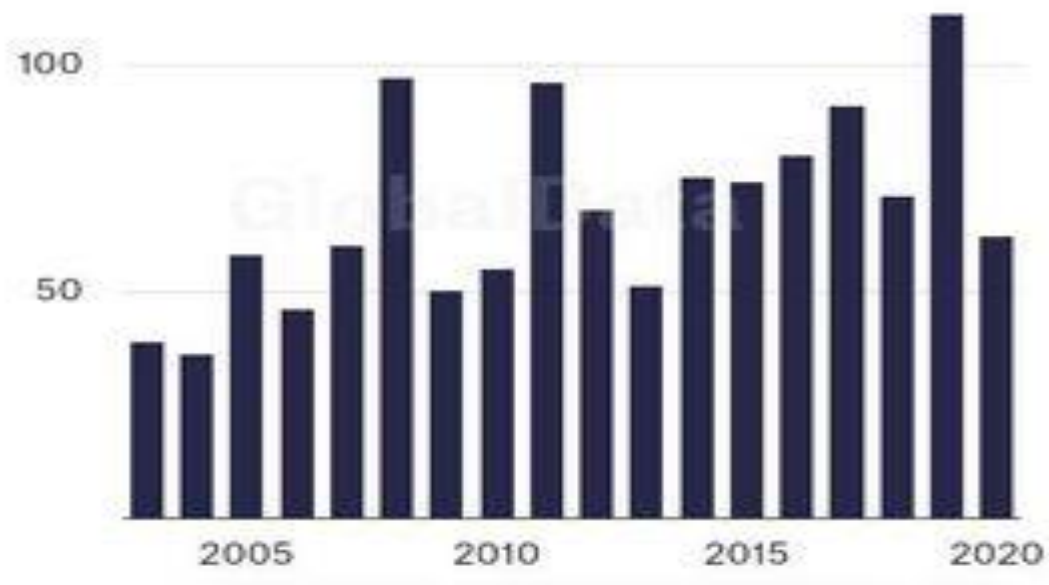


Source : UNCTAD/FT

Morocco's stable economy and low labour costs have encouraged manufacturers to set up in the country. Morocco ranks above Egypt when analysing FDI data per 100,000 of the population, with 0.17 projects created in Morocco per 100,000 people, compared with 0.05 projects in Egypt. The 2014–2020 Industrial Acceleration Plan in Morocco laid out plans for the creation of 500,000 jobs, half of which were to come from FDI and the other half from a renovated national industrial base.

During this period FDI increased, with a peak of 111 projects in 2019, helping to offset the blip in 2018 when the number of FDI projects fell to 71, the lowest level since 2013. Covid-19 will have impacted the final year of the plan, and further policies look likely to be introduced to help Morocco continue to attract FDI.

Chart 3.7. Number of Greenfield in Morocco

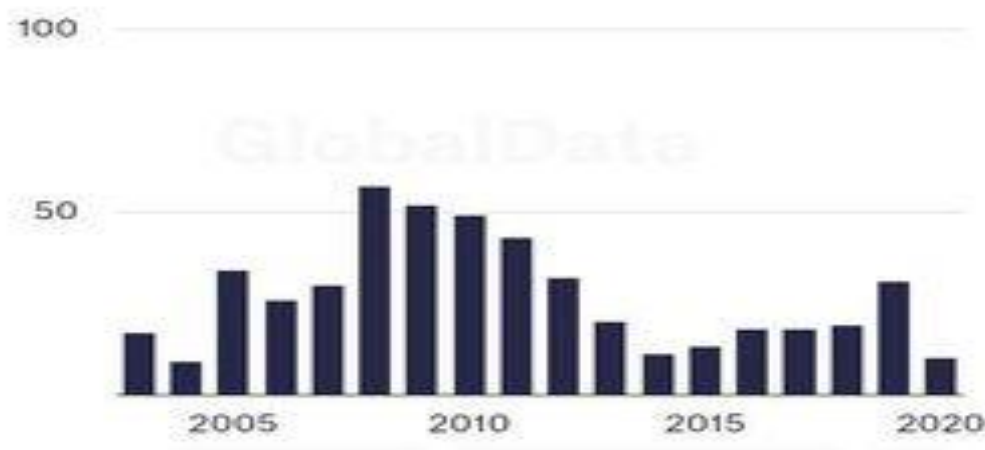


Source :

UNCTAD/FT

Tunisia, which has failed to reach pre-Arab Spring levels of FDI, attracted 31 FDI projects in 2019. While this falls short of the levels it reached between 2008 and 2010, it highlights growing business confidence following structural reforms since 2011 to improve the country’s business climate. In 2021, following the appointment of a new government, Tunisia provided international partners with draft reform programmes, but further steps and detailed strategies are still required if the government aims to continue attracting investors.

Chart 3.8. Number of Greenfield in Tunisia

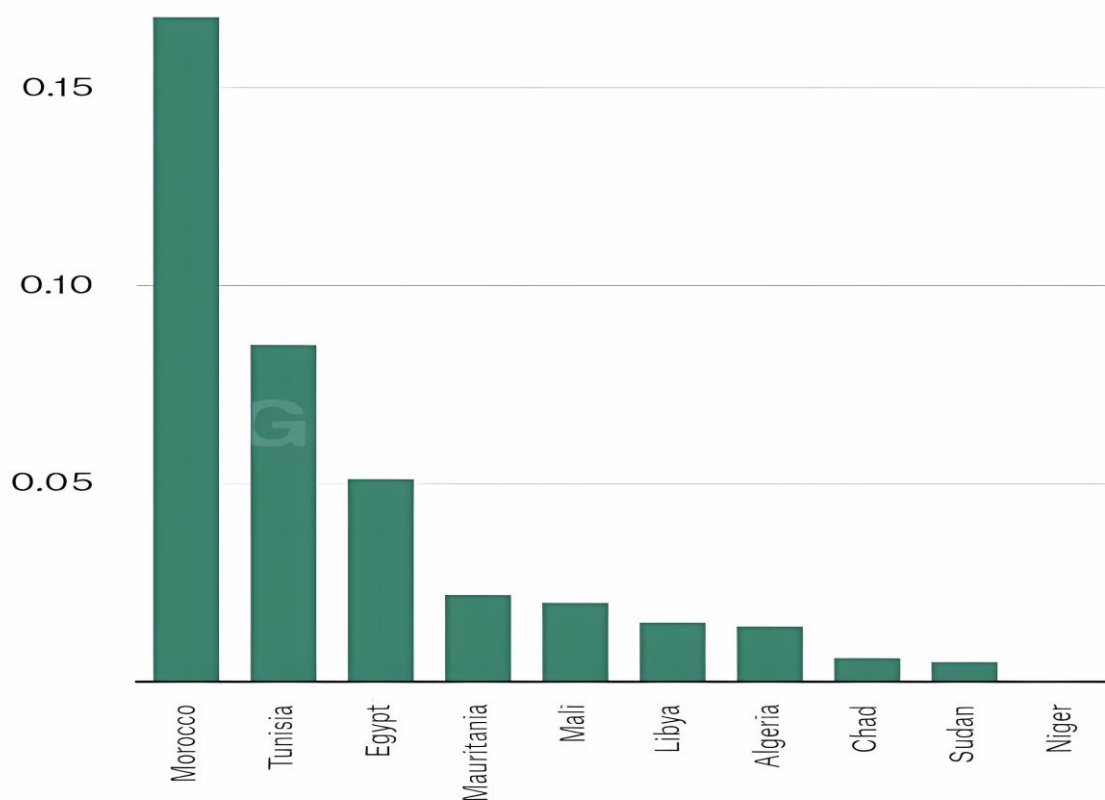


Source : UNCTAD/FT

While Egypt attracts the most FDI across the North African belt, Morocco and Tunisia have outperformed Algeria over the past decade in terms of capital received (because of their smaller population size except Egypt) as the figure below shows :

Chart 3.9. Number of greenfield FDI project per 100000 people

Number of greenfield FDI projects per 100,000 people



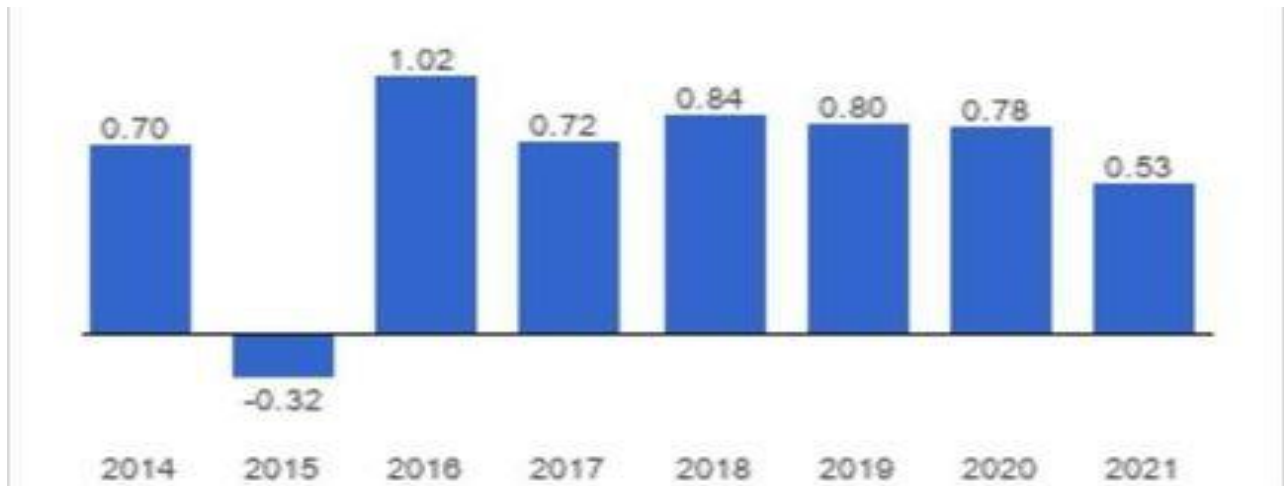
Source : *Investment Monitor Based on UNCTAD/FT*

Through the vertical graph, we notice that Morocco, Tunisia and Egypt are superior to Algeria regarding the number of green fields in relation to the population density. This means that individuals in Morocco, Tunisia and Egypt benefit most from the returns on these investments. This means that there is approximately one foreign investment for every 660,000 inhabitants in Morocco, and about 1,250,000 in Tunisia, compared to approximately 5,000,000 in Algeria.

3.5. Algeria FDI, percent of GDP :

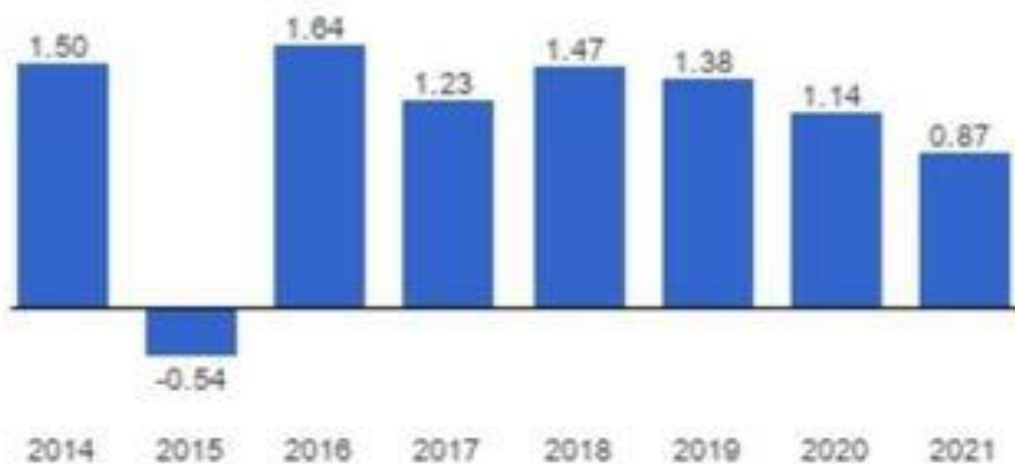
FDI is reported on an annual basis, i.e. how much new investment was received in the country during the current year. It typically runs at about 2-3 percent of the size of the economy measured by its gross domestic product. If a country routinely receives FDI that exceeds 5-6% of GDP each year, then this is a significant success.

For that indicator, we provide data for Algeria from 2014 to 2021. The average value for Algeria during that period was 0.69 percent with a minimum of -0.32 percent in 2015 and a maximum of 1.02 percent in 2016. The latest value from 2021 is 0.53 percent. For comparison, the world average in 2021 based on 180 countries is 3.64 percent.

Chart 3.10. Algeria FDI, percent of GDP

Source : *The World Bank*

For that indicator, we provide data for Algeria from 2014 to 2021. The average value for Algeria during that period was 0.65 billion U.S. dollars with a minimum of -0.54 billion U.S. dollars in 2015 and a maximum of 1.64 billion U.S. dollars in 2016. The latest value from 2021 is 0.87 billion U.S. dollars. For comparison, the world average in 2021 based on 185 countries is 11.30 billion U.S. dollars. As the figure below shows :

Chart 3.11. Algeria FDI value of GDP

Source : *The World Bank*,

3.6. China and the development of infrastructure in Algeria:

Chinese companies have become Algeria's preferred partners in civilian infrastructure projects. Between 2005-20 Chinese investments and contracts in Algeria were worth \$23.85 billion including two flagship projects: the East-West Highway and the Grand Mosque of Algiers. The \$7 billion contract for a little over half of the 1,216 km highway – connecting Algeria's borders with Morocco and Tunisia – was awarded to the Chinese consortium CITIC-CRCC.

The overall project has cut transaction costs and considerably improved connectivity in Algeria despite significant budget overruns, eventually costing approximately \$13 billion. The project was mired in allegations of corruption and, as part of tackling broader graft issues in the country, has prompted Tebboune's government to form an anti-corruption body.

Inaugurated in October 2020, the 120,000 capacity Grand Mosque (Djamaa El Djazair) was built by China State Construction Engineering Corporation (CSCEC), Algeria's largest contractor. The project was highly unpopular as the nearly \$2 billion it cost to build could have been spent on building badly needed hospitals, a shortage further exposed during the pandemic.

Chinese companies are also involved in the construction of the El Hamdania port, a major regional hub, and the new Algiers airport that was completed in 2019. They have also helped build tens of thousands of social housing units to help alleviate the country's perennial housing shortages and maintain an element of the government's social contract.

Despite the developmental contribution by Chinese companies, Algerians tend to criticise the lack of job creation for the local population as Chinese companies generally bring their own workers. The number of Chinese workers in Algeria peaked in 2016 at 91,596 – 40 per cent of all Chinese workers on the African continent. Today, the figure is closer to 50,000.

3.7. The largest sources of foreign direct investment in Algeria and economic development trends :

As the Algerian government addresses an ongoing legitimacy crisis and carry out major economic reforms, including easing the costs of doing business in the country, China will remain a preferred partner in its diversification endeavours. Around 1,000 Chinese companies already operate in Algeria, and the waiving of the 51/49 ownership rule (for non-strategic sectors) along with evolving BRI-engagement will likely increase that number.

The government has identified key areas where Algeria can leverage its competitive advantage, such as solar energy. There are also significant plans for the mining of phosphates as well as gold, uranium, zinc and iron ore – resources vital for the development of both Algeria and China.

In addition to weaving the maritime and health silk roads into its diversification efforts, the Algerian government aims to improve its digital and information infrastructure. Huawei, ZTE-corporation and Beidou, alongside other medium-sized players, have all entered the market and play a role in Algeria's broader digitalization and communications efforts. Forms required in the antiquated state-dominated banking sector will also likely benefit from Chinese technologies. Across strategic sectors, Algeria must support and protect local companies, while negotiating better deals with foreign partners on technology transfer, local content and development of local human capital.

Algerian policymakers and private sector bodies such as the Algerian Confederation of Citizen Employers (CAPC – formerly FCE) should aim to foster sector-specific cooperation via joint-business councils and working groups with Chinese counterparts as well as other major trading partners.

As Algeria continues on the path of protracted political and economic transition and resets aspects of its foreign policy, building stronger and more diverse partnerships should help it negotiate more favourable terms with investors that help support job creation and inclusive growth.

Future cooperation with multilateral partners, such as the AIIB and EBRD (which it only joined in 2020), along with a renegotiated – and more favourable – EU trade deal, could provide some strategic rebalancing and open new avenues to trade, financing and technical expertise. Such strategic developments would help Algeria hedge its bets and optimize relations with Beijing and beyond.

3.8. economic development and algeria's challenges :

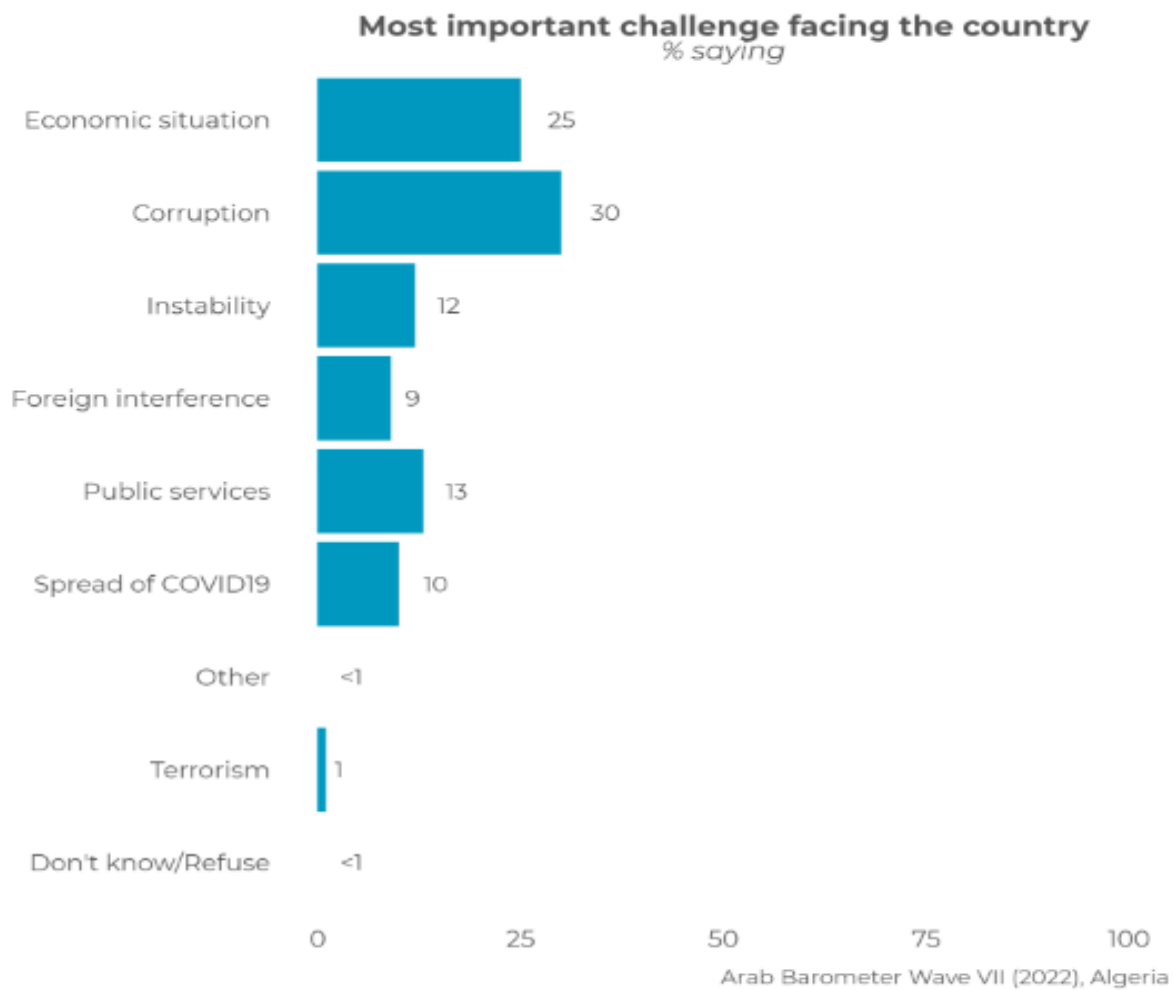
In 2021, Algeria began slowly recovering from the economic damage caused by the COVID-19 pandemic and the oil price shock of 2020. Algerians remain frustrated with economic conditions, with most describing economic conditions as bad, and a quarter saying it is the most important issue facing their country after corruption. Nevertheless, they are increasingly optimistic about the future, with their assessments of the current economic situation and expectations for the future having substantially improved since 2019. This optimism may help explain a plateau in Algerians considering emigration after a brief bump in 2019.

Few Algerians are satisfied with the country's political system as it is with nearly all believing it should be reformed, if not completely replaced. The quality of health, education, and waste collection services, as well as of roads and transportation infrastructure, fails to meet the majority of Algerians' expectations and many experience regular water and to a lesser extent electricity outages. While most Algerians prefer a democratic system, they remain skeptical of its ability to provide economic growth and stability and security.

These are among the key findings from a nationally representative public opinion survey conducted in Algeria by Arab Barometer from 26 May to 7 July 2022 .

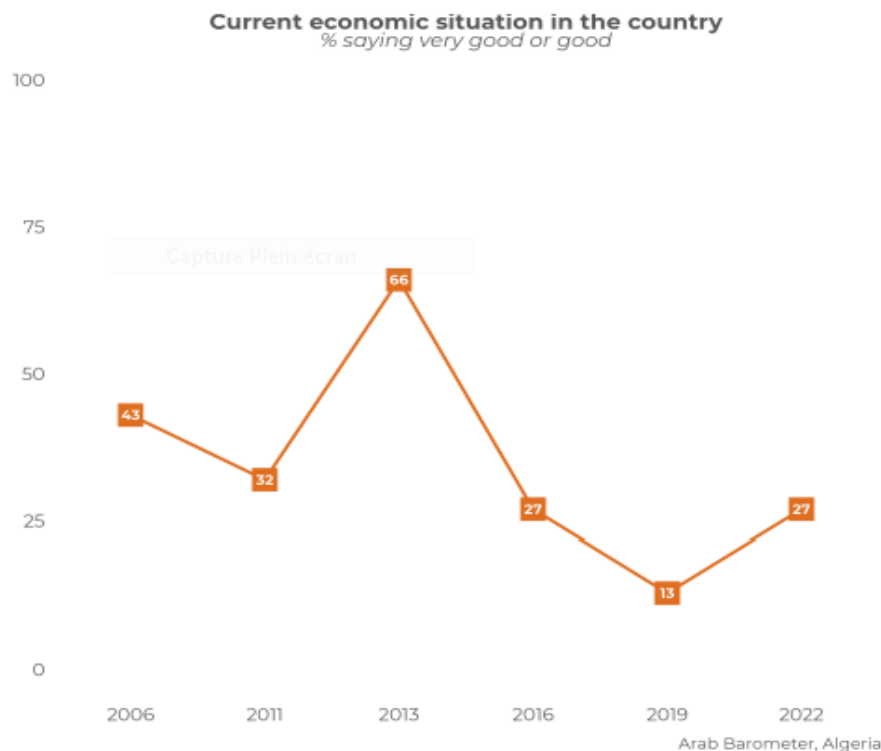
Algerians see corruption and the economic situation as the biggest problems in their country, with 30 percent naming corruption as the most important challenge facing the country and 25 percent naming the economic situation.

This prioritization is consistent across age, sex, urban-rural divide, and levels of wealth. In the Northwest, North Central, and Algiers regions experiencing the highest levels of multidimensional poverty according to the World Bank Algerians are at least 16 percentage points more likely to report the economic situation as the most important challenge. Following corruption and the economy. public services (13 percent), instability (12 percent), COVID-19 (10 percent). and foreign interference (9 percent) are most likely to be listed.

Chart 3.12. Most important Challenges Facing the Country

Source : Arab Barometer wave VII (2022), Algeria

The economy is an important concern for Algerians, with a quarter reporting it as the most important challenge facing the country. Only 27 percent of Algerians report the current economic situation as good or very good. There is little difference in this assessment between the young and old, men and women, rich and poor, urban, and rural, or those with tertiary education and those without. There is some geographic variation between the capital and the rest of the country, with 93 percent of those in Algiers reporting the current economic situation to be bad or very bad, compared to 78 percent in north central Algeria, 71 percent in the Northwest, 70 percent in the South, and 66 percent in the Northeast.

Chart 3.13. Current Economic Situation in the Country

Source : Arab Barometer, Algeria

Nevertheless, Algerians' perceptions of the economic situation are improving. The percentage of Algerians reporting the economic situation as good or very good is 14 percentage points higher than in 2019, and 38 percent say the economic situation will be better or much better in the coming three years, a 16-percentage-point increase from 2019. Those living in the Northeast which the World Bank reports has among the lowest poverty rates in the country² - are markedly more optimistic about the economy, with 51 percent saying it will be much better or somewhat better, while those living in Algiers and North Central are markedly less optimistic, with only 22 and 23 percent reporting the same respectively, compared to 41 percent in the South and 37 percent in the North-west .

The fact that the US economy is one of the dominant economies in the field of foreign direct investment, We will measure the extent of foreign direct investment openness to Algeria and this to know the challenges and obstacles faced by investors in Algeria, in the following areas :

Hydrocarbons – Oil and Gas: Algeria is one of the world's top ten producers of both oil and natural gas. Existing upstream and midstream infrastructure is aging and inadequate to meet Algeria's near-term production goals. We expect new investment in these areas,

particularly as new undersea gas pipelines to Europe are constructed as well as investment in offshore exploration. In addition to the existing traditional fuels, Algeria has the world's third largest reserves of recoverable shale gas resources (19.8 trillion m³) spread in 7 regions throughout the Sahara.

A new hydrocarbon law was enacted in March 2013 to encourage foreign investments in unconventional gas exploration and exploitation. To meet the increasing growth in domestic consumption, Algeria is planning to invest USD 120 billion by 2030 in renewable energies.

Information and Communications Technology: Algerians are increasingly tech-savvy and interested in technology and know-how transfer in the Information and Communications Technology (ICT) sector. Government ministries are also interested in process modernization and digitization of recordkeeping. Home Internet penetration rates remain below 10 percent, but business Internet usage is estimated at over 40 percent. Mobile phones (GSM) are common, and Algeria is looking toward third-generation technology.

Public Works, Infrastructure Development and Water Resources: The government has simultaneously focused on roadways, rail systems, airport upgrades, public housing, hospital construction, water treatment, transportation, and electrification as part of a USD286 billion infrastructure development program. U.S. firms have not capitalized on these opportunities, in part due to the Algerian government bureaucracy. The Algerian government has recently sought U.S. Embassy assistance in attracting more U.S. firms to the market. In response to the housing shortage, the Algerian government has allotted USD 47 billion in order to build 1 million homes by 2014.

Healthcare: Despite the ban on importation of pharmaceuticals that can be produced domestically, the healthcare sector continues to be a relatively attractive market. Demand for medical equipment and disposals is considerable and depends largely on imported goods. The population's standard of living is improving, albeit slowly. There has been an increased incidence in reporting of hypertension, diabetes, respiratory and cardiovascular diseases, and allergies. Contact your local U.S. Export Assistance Center for advice and support on exporting to Algeria.

3.9. Policies Towards Foreign Direct Investment :

The Algerian economy is both challenging and potentially highly rewarding. While the Algerian government publicly welcomes FDI, a difficult business climate, an inconsistent regulatory environment, and sometimes contradictory government policies complicate foreign investment. There are business opportunities in nearly every sector, including agribusiness, consumer goods, energy, healthcare, mining, pharmaceuticals, power, recycling, telecommunications, and transportation.

The urgency for Algeria to diversify its economy away from reliance on hydrocarbons has increased amid low and fluctuating oil prices since mid-2014, a youth population bulge, and increased domestic consumption of energy resources. The government reiterated its intention to diversify in its August 2020 plan to recover from the COVID-19 crisis. The government has sought to reduce the country's persistent trade deficit through import substitution policies, currency depreciation, and import tariffs as it attempts to preserve rapidly diminishing foreign exchange reserves.

On January 29, 2019, the government implemented tariffs between 30-200 percent on over one-thousand goods it assessed were destined for direct sale to consumers. Companies that set up local manufacturing operations can receive permission to import materials the government would not otherwise approve for import if the importer can show materials will be used in local production. Certain regulations explicitly favor local firms at the expense of foreign competitors, most prominently in the pharmaceutical sector, where an import ban the government implemented in 2009 remains in place on more than 360 medicines and medical devices. Frequent, unpredictable changes to business regulations have added to the uncertainty in the market.

Algeria eliminated state enterprises' "right of first refusal" on most transfers of foreign holdings to foreign shareholders, with the exception of identified "strategic" sectors. Though the 2020 Complementary Finance Law eliminated the 51/49 domestic ownership requirement with the exception of "strategic sectors," the 2021 Finance Law restored the requirement for importers of products for domestic resale, and regulations governing the auto industry released in September 2020 required automobile importers to be wholly domestically owned.

There are two main agencies responsible for attracting foreign investment, the National Agency of Investment Development (ANDI) and the National Agency for the Valorization of Hydrocarbons (ALNAFT).

ANDI is the primary Algerian government agency tasked with recruiting and retaining foreign investment. ANDI runs branches in Algeria's 58 states (wilayas) which are tasked with facilitating business registration, tax payments, and other administrative procedures for both domestic and foreign investors. U.S. companies report that the agency is understaffed and ineffective. Its "one-stop shops" only operate out of physical offices and do not maintain dialogue with investors after they have initiated an investment.

The agency's effectiveness is undercut by its lack of decision-making authority, particularly for industrial projects, which is exercised by the Ministry of Industry, the Minister of Industry himself, and in many cases the Prime Minister.

ALNAFT is charged with attracting foreign investment to Algeria's upstream oil and gas sector. In addition to organizing events marketing upstream opportunities to potential investors, the agency maintains a paid-access digital database with extensive technical information about Algeria's hydrocarbons resources.

3.10. Problems of FDI in Algeria :

Despite a thriving domestic market, Algeria's economy remains comparatively closed and struggles to attract foreign direct investment, a recently released report by the UN Conference on Trade and Development (UNCTAD) said.

A UNCTAD report said foreign direct investment (FDI) shrank 26% to \$1.2 billion year-on-year in 2017, although it was dispersed more evenly across various sectors.

"Despite its strong potential in terms of domestic market, natural resources and opportunities, Algeria remains less attractive in direct foreign investment," said Algerian economist Hassan Haddouche. "It has the weakest results in attracting foreign investment compared to other states in North Africa."

The trend, which analysts said was due to protectionist laws, extensive bureaucratic procedures and corruption, came after the country's foreign minister said business was booming in the North African country.

"Algeria is more stable and more attractive than (other countries in the region)," Foreign Minister Abdelkader Messahel said.

Algerian state media, responding to the UNCTAD report, said the country's slumping FDI was part of a general trend across the continent.

"The problem with the official media explanation is that the FDI in North Africa was down 4% to \$13 billion," said Haddouche. "The FDI in Tunisia rose in 2017 to [\$900 million] after a bad year in 2016 while in Morocco the FDI had jumped 23%.

"The low record in the continent was due to the bad performance of Algeria because it has the third most important economy in the continent."

While Algeria has significant natural resources and opportunity for growth, businesses have stayed away because of restrictive government policies.

In 2014, Doug Wallace, US commercial attache for North Africa, said that Algeria "has historically been one of the hardest places in the region to do business." He cited protectionist laws, including a 2009 measure requiring Algerian firms to own 51% of any joint venture.

Pierre Gattaz, chairman of French electronics manufacturer Radiall, said during a visit to Algiers this year that the "49-51 business ownership rule is a lock and obstacle for business. French investors are willing to come to Algeria but they are afraid that they could not own a majority stake in their businesses."

While Algeria received less foreign investment in 2017, it did see increased diversification.

"In 2017, the diversification of foreign direct investment (in Algeria) was supported by FDI made by Chinese telecoms group Huawei and South Korean Samsung, which opened its first smartphone assembly plant in the country," said the UNCTAD.

However, low overall investment figures point to lingering obstacles. Apart from protectionist measures, international firms operating in Algeria complain that regulations often change and are unevenly applied, raising the perception of commercial risk for foreign investors.

Other drawbacks include inadequate enforcement of protections for intellectual property rights, limited regional trade, arduous foreign currency exchange requirements and prohibitive bureaucratic customs, all of which impede the efficiency and reliability of supply chains.

International investors were especially put off by the treatment of Egyptian telecommunications firm Orascom Telecom, which took a stake in local mobile phone service network Djezzy in 2009.

As tension built up between Algiers and Cairo due to clashes during World Cup qualifying matches, Algeria presented Orascom with an unexpected \$600 million tax bill. The Algerian government blocked the sale of Djezzy to a South African investor and prevented Orascom from importing equipment or repatriating dividends.

The incident was resolved through a Russian buyer but Orascom declared a loss of more than \$2 billion in 2014.

Algeria-born Dalia Ghanem-Yazbeck, a resident scholar at the Carnegie Middle East Centre, cited corruption as another obstacle investors face in Algeria.

She said one project can require approval from several cabinet departments and that investors are often met with requests for bribes or “facilitation” payments. The judiciary system is “not very independent,” Ghanem-Yazbeck added. “Investors complain in Algeria that [laws and regulations] are inconsistent and applied unevenly,” she said.

The World Bank’s “Doing Business” index recently ranked Algeria 153rd out of 180 in investment environment — the worst in the region. A World Bank report stated that 14 separate procedures are needed to start a business in Algeria, compared to eight in the rest of the region.

The loss of investment, particularly in fields other than the oil sector, which creates relatively few jobs, has affected Algeria’s employment rate, which is upward of 10% and exceeds 25% for young people. Some 70% of jobs are in the public sector.

Abdelhak Lamiri, an economist at the Algiers-based International Management Institute, said there were 680,000 companies in the country of 41 million people when comparably sized countries have at least 1.5 million.

While Algeria has largely kept the public's needs met by providing jobs and handing out subsidised housing and food, it could be forced to look for alternative means of employment if no new oil finds emerge.

Conclusion

Through the theoretical part, we have reached the implication of (FDI) on economic development represented in the fact that direct foreign investments leads to the long term growth of the economy (MNC) brings technology to the domestic companies which leads to improving the quality of production also reduce the risks that occur in the business of companies. Employment too rises FDI strengthens the balance sheet as it raises the assets of the companies. Profits of the firms increase and labour productivity too increases. Per capita income increases and consumption improves Tax Revenues Increase and government spending rises GDP increase and there is also a lagged effect due to which subsequent years GDP to increases. FDI Also acts as a solid complement to domestic stock of investment which is low (about 32%) in low economies. This veint ses competitiveness among the businesses, breeds innovation and efficiency and increases standard of living through better products and services in the market. Exports and balance of payments get a fillip which saves input higher. foreign exchange reserves rises significantly, inflation rates go down, investment escalates further and growth rises In FDI there is technology transfer or the movement of technical know how to the domestic country due to which skill developer takes place and together with higher capital this raises proactivity analytical predictability in economic.

Evidence from the study showed a positive relationship between FDI and GDP during the period under review. Using international reports and comparison of statistics with North African countries, the statistical result of our study shows a unidirectional causal effect running from FDI to GDP. The study, however, still failed to confirm Growth-driven FDI, ie. GDP growth in Algeria has not been attracted FDI inflows. Though FDI exhibited a positive relationship, its contribution to economic growth in Algeria during the study period was insignificant. Understanding the direction of causality between the two variables is crucial for formulating policies that would encourage more private investors in Algeria.

The study also found that foreign direct investment contributed to most of the huge infrastructure like Like the east-west highway and The Great Mosque in the capital. The implication here is that policy makers should pay increased attention to the overall role and the quality of FDI as a vital determinant of Economic Growth in Algeria. This lends support to the validity of policy guidelines which emphasize the importance of FDI for Economic Growth and stability in developing countries under the assumption of FDI-led growth.

The paper recommends to diversifying investments and not relying on hydrocarbons, Facilitate administrative procedures and eliminate bureaucratic laws, Improving the banking system facilitating the movement of capital, Facilitate the acquisition of industrial property and Simplifying legislation especially the tax law. in order to enhance competitiveness and strengthen the bargaining position of the country in the emerging globalized economy.

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