



The role of direct foreign investment in the Algerian economy during the period between (2000 and 2021)

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Abstract ;

This study attempts to highlight the role of direct foreign investment on the Algerian economy by highlighting its impact on the growth rates of gross domestic product, in the period between(2000-2021).

Therefore, we tried to shed light on the importance of direct foreign investment in the Algerian economy, and Algeria is making considerable efforts to benefit of the advantages of direct foreign investment, by following appropriate economic policies. However, the results indicate that Algeria has not reached the required level in order to achieve the goal of increasing in significant economic growth rates. This is due to the weak inflows of direct foreign investment to Algeria.

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1.an introduction:

The position of foreign direct investment in pushing the economies of some countries has become vastly increasing, as foreign investment is considered one of the basic economic activities in achieving economic growth, and it has emerged in the global economy significantly after the occurrence of important economic changes, including the phenomenon of globalization, and this resulted in the expansion of the phenomenon of investment. The direct foreign directorate has become one of the preferred funding outlets for the advancement of its economies, avoiding other means of financing, such as loans and international aid. Algeria is among these countries as it seeks to attract foreign direct investment due to the advantages it achieves at the economic level, as it provides jobs on the one hand and transfers technological and administrative knowledge on the other hand.

Therefore, in this study, we will try to highlight the role of direct foreign investment in the Algerian economy by analyzing its impact on the gross domestic product (GDP), in addition to addressing the obstacles and prospects of the latter in Algeria, and then the following problem can be raised:

What is the role of direct foreign investment on the Algerian economy during The period between (2000 and 2021) ?, and what are its obstacles and prospects in Algeria?

From it, the following hypotheses can be put forward:

direct foreign investment has a role in the Algerian economy through its impact on the gross domestic product.

Algeria has not reached the desired level in achieving a required level of direct foreign investment inflows, despite having the qualifications to attract the largest volume of inflows.

The importance of the research: The importance of the research lies in knowing the basic concepts of direct foreign investment and its reality in Algeria and its role in advancing development as an important financing tool favored by the majority of countries in light of the scarcity of resources. in the current economic conditions. As well as highlighting the most important obstacles to attracting the latter and identifying its prospects in Algeria.

to answer these questions, and confirm these hypotheses we divided the research into:

The first topic: What is direct foreign investment (definitions, motives.

First: definitions of direct foreign investment

Second: the motives of direct foreign investment

The second topic: the forms and determinants of direct foreign investment.

First: forms of direct foreign investment

Second: determinants of direct foreign investment

The third topic: Analysis of the reality of direct foreign investment in Algeria, its obstacles and prospects

First: the reality of direct foreign investment in Algeria

Second: obstacles to direct foreign investment and its prospects in Algeria.

2.The first topic: What is direct foreign investment

The interest of countries in direct foreign investment has increased in recent years, as it enjoys the interest of many companies and countries due to the advantages and capabilities it provides to these countries, so most economic policies have encouraged it in various fields, and in the following we will discuss what direct foreign investment is by introducing it and defining all Of its motives, forms and determinants.

First :definitions about direct foreign investment

Studies and references contain many different scientific definitions of the concept of direct foreign investment, as we will list some of them as follows:

1- Definitions of some Arab economists:

Economic researcher Abdul Salam Abu Kahaf believes that direct foreign investment is one that: “It involves the foreign investor owning part or all of the investments in this particular project in addition to his participation in the management of the project with the national investor in the case of joint-venture investment or his complete control over management. And the organization in the

event of its absolute ownership of the investment project, in addition to the foreign investor's transfer of a quantity of financial and technological resources and technical expertise in all fields to the host countries (Abu Kahaf, 2001,13) By this definition, direct foreign investment is represented by:

Legal ownership of part or all of the investor's capital.

The investor capital takes certain forms: joint investment, 100% owned investment.

A contract between two parties

In another definition, it is: "The group of cash or in-kind resources (subject to evaluation) that an institution brings through a foreign private saver who participates directly in the activity of this institution and the goal is to achieve stable profits (kamel, 1999,02) From this definition, then, it becomes clear that direct foreign investment is materialized in the field when a local institution in a host country attracts a foreign investor, whatever his characteristic - natural or moral, whether he is affiliated with the private or public sector

2- Definitions of some other economists:

Among these economists, we find, for example, Raymond-Bertrand, who says: "direct foreign investment is a means of transferring real resources and capital from one country to another, especially in the initial case when establishing the institution (bertrand, 1971, 49)

3-The definition of direct foreign investment for some international bodies.

It is as follows

-Definition of the International Monetary Fund (IMF): "direct foreign investment is a type of international investment and it reflects the goal of an entity residing in one economy obtaining a permanent interest in an institution residing in another economy. And the institution in addition to the foreign investor enjoying a large degree of influence within the institution (abdlmajid, 2017, 251)

Definition of the United Nations Conference on Trade and Development UNCTD: ("direct foreign investment is the operation of capital across state borders, provided that the investor owns at least 10% of the shares with the right to vote in the project, whether the project is new or already operational." If the two conditions for direct foreign investment are:

The investor's ownership of: 10% at least of the project's shares (aljabouri, 2014, 30)

Through the previous definitions of various thinkers and economic researchers and some international organizations, institutions and bodies, we conclude a brief definition of direct foreign investment : it is a migration of international capital between different countries, by virtue of a person or institution from one country owning assets in another country, in order to participate or manage these assets (Ownership and Decision Making). With the achievement of benefits for the host countries represented in increasing their exports, reducing the deficit of their balance of payments, and raising their economic growth, which is the biggest goal that the host countries seek.

second : the motives of direct foreign investment

There are many motives for direct foreign investment , whether it is related to the capital-exporting country or on the part of the importing host country that works to bring in the largest amount of investment. Hence, these motives for which the direct foreign investment decision is issued can be summarized as follows:

1-The motives for exporting direct foreign investment

The most important motives of foreign investors can be presented through the following basic elements:

-Obtaining raw materials from the invested countries in order to use them in their manufacture.

Creating new markets for the products and goods of foreign companies, especially for marketing a large surplus of stagnant goods that this company cannot market in its home country.

-Benefiting from the advantage of low cost elements in the invested countries, for example the wages of the worker in those countries are usually less than the wages of the worker in the industrially developed countries.

-Taking advantage of investment promotion laws and tax exemptions granted by many investing countries in order to attract foreign investments to them.

-Taking advantage of profit-making opportunities in the invested countries, as foreign companies may achieve profits from their foreign investments that greatly exceed their profits from their operations inside their home countries.

-The ease of foreign companies competing with local companies and local industries in terms of quality, prices and type of service, due to their ownership of advanced technology and abundance of capital.

-Reducing the risks to which the investments of foreign companies are exposed, as the more spread and spread the investments to a greater number of countries, the lower the risks of these investments.

2- The motives of importing direct foreign investment

The host countries' motives behind their acceptance and encouragement of foreign investments can be summarized as follows:

-Taking advantage of advanced technology and administrative expertise in foreign countries, as the foreign companies invest their money in specific projects in a particular country includes the transfer of technology and the employment of scarce administrative expertise in a lot of funds.

-Contributing to solving the unemployment problem by employing a number of the unemployed in the projects that are established.

-Contributing to increasing exports, improving the balance of payments of the invested country and reducing imports, by increasing local production, as local production contributes to replacing imported goods with locally produced goods.

Foreign capital inflows.

-Exploiting and benefiting from the local financial and human resources available to these countries.

-Contribute to creating economic relations between the sectors of production and services within the concerned country, creating new markets for export.

Development of poor areas.

-Transfer of technological techniques in the fields of production and marketing (merras, 2015, 124)

The second topic: the forms and determinants of direct foreign investment

first: forms of direct foreign investment

direct foreign investment takes several forms, the most important of which are:

1-Joint venture or partnership: It is a business enterprise owned or in which two or more parties or legal persons from two different countries are permanently involved.

2-Fully Owned direct foreign investment : Multinational companies obtain full ownership of the project in the host country in one of the following ways: building a completely new project, purchasing an existing project, or purchasing a distribution company in the host country to acquire the distribution networks that this company already owns.

3-Investment in free zones: direct foreign investment associated with free zones, which are generally located near land or sea borders, that benefit from customs exemptions and activities.

4-Mergers and acquisitions: merger means a union of interests of two or more companies for the purpose of forming a new entity. As for the acquisition, it occurs when one company takes possession of another company.

5-Assembly projects or operations: that is, the establishment of units in the host country that install and assemble a product previously manufactured in the home country.

6-Strategic alliance: an alliance between a local investor and another foreign investor in order to exploit raw materials or control other markets (abdelkarim hajr, 2016, 208)

second: determinants of direct foreign investment

There are several different factors and situations that may affect the investment climate in the main. They can be considered as environments. These environments differ from one country to another, as they are classified into political, economic, legal, legislative and administrative environments.

1- the political environment:

The existing political system in the country is considered one of the most important factors problematic for the political environment, as the political stability in any

country has a great impact on attracting direct or direct foreign investments, so the foreign investor makes a decision to accept or reject the project, not on the basis of market size or return only, but on the basis of The degree of stability of the political system in the country. Investors prefer democratic systems because they are stable, while other systems are subject to change.

2- the economic environment:

The availability of exploitable natural resources and the possibility of their industrialization represent an important factor in investment, as the influx of foreign capital to exploit these resources justifies the possibility of obtaining large rates of return, but the exploitation of these resources is linked to the need for certain competencies and trained manpower with a low cost, as well as The availability of these factors is not sufficient to create a sound economic environment. These resources must be accompanied by the availability of incentives such as: the level of economic development expressed in the rate of growth in the gross national product, the rate of per capita income, inflation rates, market size and economic policies in terms of economic liberalization, privatization and the degree of competition in the market.

In addition to the availability of the economic infrastructure as an attractive feature for investment, such as roads, electricity services, and telecommunications, the countries in which these structures are available are considered attractive for investment.

3- the legal and legislative environment:

Investments depend mainly on the existence of laws and legislations that guarantee the investor incentives and exemptions

Customs and tax in addition to guarantees against non-economic risks such as: the risks of nationalization and confiscation in addition to the right of the investor to transfer his profits to any country at any moment, as the countries of the world compete to issue investment legislation that outweighs the incentives provided by other countries, provided that these incentives do not lead to the loss of national resources and take away from the sovereignty The host country and its place.

4- Administrative Environment:

"The administrative system prevailing in the country is considered one of the important factors for creating an attractive administrative environment for investment

and the most important manifestations of the administrative environment are the existence of government agencies based on the administrative process in a way that reduces the time required to obtain a license to establish an investment project. This also requires reducing or eliminating government bureaucracy and fighting corruption. Financial and administrative in government agencies (koudri, 2011, 10)

6.The third topic: Analysis of the reality of direct foreign investment in Algeria, its obstacles and prospects

first: the reality of direct foreign investment in Algeria

In this application, we will deal with the rates of direct foreign investment and analyze them in the period from 2000 to 2021 by analyzing its percentage of the gross domestic product, which represents for us economic growth, as follows:

- (FDI) direct foreign investment : represented by the inflows of direct foreign investment s in Algeria during the study period.
- Gross Domestic Product (GDP): a representative of economic growth.

The variables data have been retrieved from the World Bank website.

Table No (01): direct foreign investment percentages of GDP

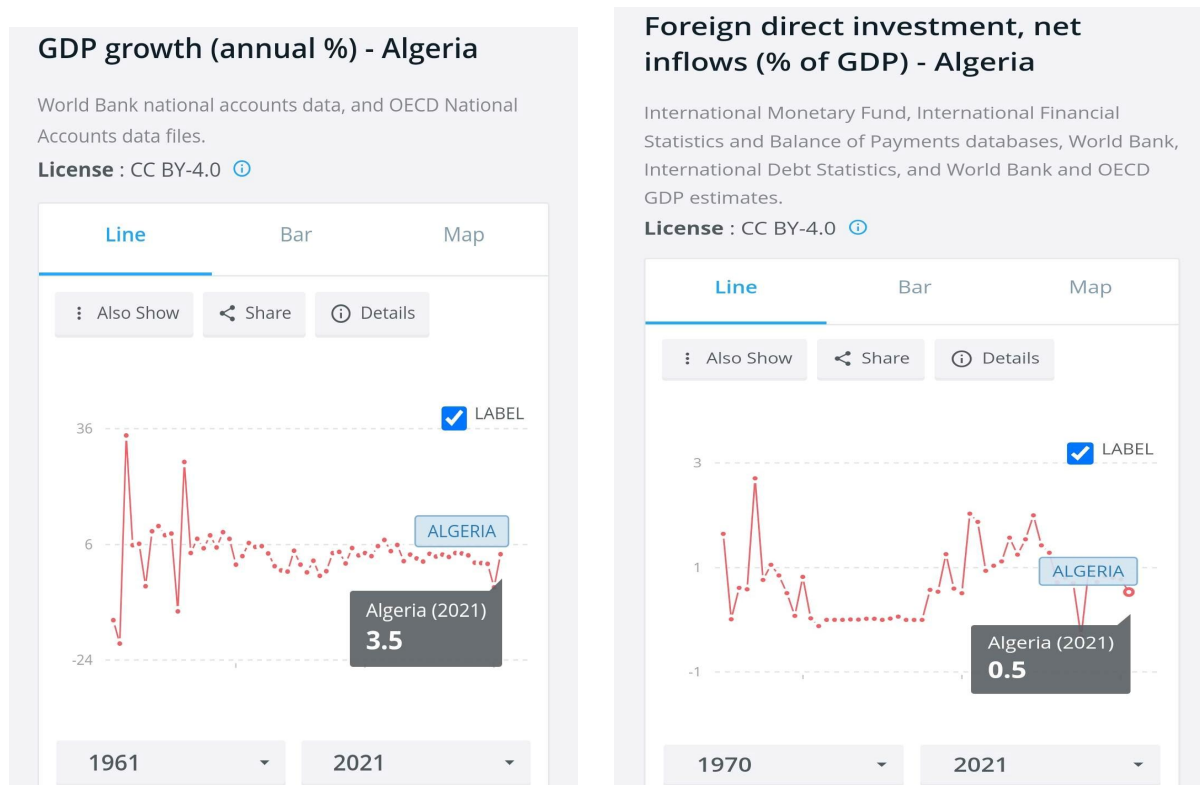
2005	2004	2003	2002	2001	2000	Years
1.12	1.03	0.94	1.88	2.03	0.51	%
2011	2010	2009	2008	2007	2006	Years
1.29	1.43	2	1.54	1.25	1.57	%
2017	2016	2015	2014	2013	2012	Years
0.72	1.02	-0.32	0.70	0.81	0.72	%
		2021	2020	2019	2018	Years
		0.50	0.80	0.80	0.80	%

Source: Prepared by the student, based on World Bank data.

Through the table, we notice that the percentage of direct foreign investment in Algeria's contribution to the formation of the GDP remains very weak, and this is due to the weak value of direct foreign investment in Algeria, despite its increase in 2001, when it reached 2.03% compared to the year 2000, which was 0.51% It decreased again in 2002 to reach 1.88%, then 0.94% in 2003, and it remains within the limits of the ratio during the following years, reaching its highest rate in 2009 by 2% to continue its fluctuation during the period 2010-2017, and remained within the limits this percentage in the following years from 2018 to 2020, when it did not witness a noticeable increase. as it reached 0.80%. which is considered a small percentage. and previous figures show that the role played by direct foreign investment The Algerian economy is still weak.

Second: Presentation and analysis of the curve of each of the direct foreign investment rates and economic growth:

Figure No (01). graphic representation of the two series FDI.net inflow(% of GDP) and GDP



Source: World Bank data.

Graphical and economic analysis of the curve:

1- FDI curve analysis

We notice the fluctuation of the trend of the development of direct foreign investment throughout the study period 2000-2021 and at weak levels, up and down. From the year 2000 to 2008, we notice that the general trend of the FDI curve is on the rise due to the improvement of financial conditions globally and nationally and the opening of wider areas for direct foreign investment in light of the economic openness to the world, "In the year 2001, Algeria was the third destination for foreign investment at the African level, and this is due to the incentive measures that came in the 2001 law, for the benefit of investors in order to create a favorable environment for attracting foreign capital, and this increase was also achieved as a result of the increase in oil prices in global markets (bahri, 2017, 159), This increased the direction of investment projects for Algeria, and the main reason for the increase in flows in this period was the telecommunications sector, as (the second mobile phone license was sold to the Egyptian Orascom Company for \$ 737 million, in addition to the iron industries company privatizing the stones to the Indian company ISPAT in 2001 and 2002, then The sale of the third license to the Kuwaiti Wataniya Telecom Company, and the increase continued until 2004 (sardouk belahoual, 2018, 148).

And "in 2009 and 2008 these investments focused primarily in the mining and energy sector, especially with the two French companies Total and Partax, whose investments were estimated at 1.436 billion euros, in addition to the Algerian government's imposition on banks and their branches to raise their capital from 2.5 billion dinars to 10 billion dinars. This led to an increase in the capital of foreign bank branches and an increase in the total volume of investment flows. "From the year 2009 to 2012, we notice the descent of the curve, and this is due to the global economic recession and the investment law 51-49 issued by the Algerian government, which stipulates the necessity of owning an Algerian partner. Public or private, about 51 percent of the investment assets to be established in Algeria by foreigners and the need for foreign companies to establish a partnership with local investors, then after that the FDI curve decreased due to the drop in oil prices in 2014 by virtue of the fact that most foreign invested companies invest in the hydrocarbon sector. To increase again in 2016 due to the Algerian government's policy of economic diversification, and then return to decline in 2017. Then the curve rises by a small percentage to reach 0.80% and remains within the limits of this percentage during the coming years until 2021, due to the lack of inflows of foreign investments due to the pandemic that affected the world as a whole, which is the Corona pandemic, and Algeria is similar to the countries whose economy was affected by this pandemic.

2-GDP curve analysis:

Regarding the growth curve of the GDP during the study period 2000-2017, we notice that its general trend is positive and at a weak and fluctuating rise. From 2000 to 2006 we noticed an increase in the curve to a record level after the implementation of the National Program for Economic Recovery (PNRE), and also due to restoring balances. Foreign Ministry through exchange reserves, which amounted to 170 billion dollars in 2010, as well as the repayment of debts owed by Algeria in 2006, in addition to the establishment of a revenue control fund for the purpose of reducing its public financial vulnerability to external shocks, and the general budget continued to achieve fiscal surpluses until 2009. And 2010 - was slightly affected by the general financial crisis because the Algerian economy was not linked to the global economy, and as a result of the decrease in oil revenues and an increase in public expenditures in the five-year program (kara ibrahim, 2017, 409) In 2010, the curve began to rise, and Algeria ranked 50 in the world in the ranking of countries in terms of the value of GDP.

“ As for the period between 2011-2017, the curve rose, despite the low international oil prices, as Algeria’s economic growth recorded a strong start. It is estimated that the growth rates of the GDP reached 3.7% in the first quarter of 2016, and this was the main factor for this. Growth is the strong production of the hydrocarbons sector, which reached a growth rate of 7.1%, and a decline in growth in other non-fuel sectors to 2.8% from 4% during the same quarter of 2016.

It stood at 5.1% in 2017. It remains at the same level in subsequent years until 2019, then we notice a decline in the curve to negative levels in 2020, when the percentage reached

-5.10%, due to the repercussions of the pandemic as well. After that, we notice an increase in the curve to reach 3.5% in 2021, which explains the economic recovery in this year, due to the rise in fuel prices, and this is due to the recovery of the global economy after the pandemic

second: obstacles and prospects for direct foreign investment in Algeria

1- Obstacles to direct foreign investment

There is no doubt that there are several obstacles that limit the attraction of direct foreign investment to Algeria, including:

-Lack of necessary financing, high production costs and marketing obstacles, as well as banking problems.

-The spread of bureaucracy and the overlapping of powers with the complexity of the administrative system.

-The problem of industrial real estate, and the problems lie in the length of time for the process of granting the decision to exploit the property.

Ambiguity in some legal and legislative texts.-

-Maher spread corruption, bribery, favoritism and intolerance, despite the efforts made to combat them.

-Weak infrastructures, as well as great delay in completing some of them.

-Slowdown in the completion of some economic reforms, such as privatization, for example.

2- the prospects for direct foreign investment in Algeria

Algeria is rich in many qualifications and competitive elements that enable it to become a pioneer in the field of attracting direct foreign investment to it, and we mention among them:

-Distinguished geographical location: Algeria is located in North Africa, in the middle of the Maghreb countries, close to European countries, and has an important coastal strip as well as a vast area.

-Diversity of climatic regions: diversity of crops and plant wealth.

-Availability of various natural resources: the second global reserve of natural gas, in addition to petroleum, iron, phosphates, gold, minerals, ... and others.

-It has a tremendous human wealth: about 40 million people, more than 70 percent of which are young people, which contributes to saving labor.

-It has the necessary infrastructure: ports, airports, roads, industrial zones, and modern means of communication, among others.

All these qualifications place Algeria at the forefront of the countries available on the basics of direct foreign investment and its attraction, but these factors alone are not

sufficient unless accompanied by some economic qualifications, which Algeria seeks to provide, namely:

Political, security and legislative stability.-

The Euro-Mediterranean Partnership-

Joining the World Trade Organization.-

Reforming both the justice sector and the banking sector.-

Tax and tax incentives.-

Conclusion

In conclusion, it can be said that the relationship between direct foreign investment and economic growth is a double relationship, not a one-way relationship. direct foreign investment does not affect economic growth only, but is also affected by it, because countries with high growth rates have succeeded in attracting direct foreign investments more than countries with weak rates of economic growth. so although Algeria enjoys investment opportunities and the existence of incentive economic and fiscal advantages, it has not reached the desired level in attracting foreign investors to it, and this necessitates it to provide a more attractive environment and climate, especially in light of the intense competition in attracting it from the countries of the world, whether advanced or Backward, because this type of financing is the most favorable for it.

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