

## Foreign Direct Investment and Doing Business in Algeria during the Period 2000-2015

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### ABSTRACT

*Foreign Direct Investment is considered as one of the most evident aspects of the intertwined economies. It is also a strategy by which the technology and the know-how techniques are transferred between the different economies of the world. However, the beliefs in FDI to boost the host economy are not always rosy as it depends on the economic development of the hosts and their susceptibility level to absorb and deal with the technology afforded by this investment. This paper highlights the state of foreign direct investment and the status of doing business in this country during the period 2000-2015.*

### 1. Introduction

Foreign Direct Investment becomes nowadays a strong pillar of the international economy. It is by then a strategy to achieve the pure-economic purposes (economic development, growth, prosperity) and managerial ones (know-how and high organizational talents and abilities). This investment is a two edged-sword according to the perception of the host economy toward this kind of transferring technology and capitals. For the proponents of FDI, this investment is pivotal for achieving the economic targets of the country. However the antagonists suppose that FDI is no more than an economic strategy to exploit the resources of other countries in favor of the mother ones (the origin countries of FDI). This paper highlights the state of the art of FDI in Algeria during the period 2000-2015 and to portray the susceptibility of Algeria to benefit from this kind of investment.

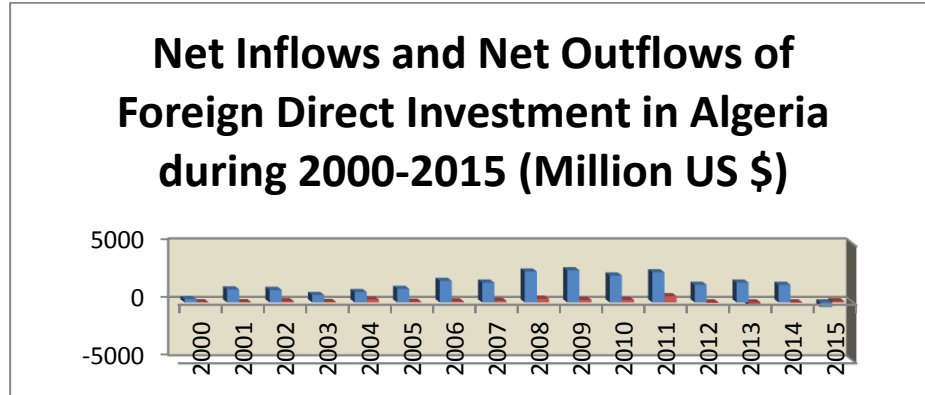
### 2. Foreign Direct Investment

In this section we endeavor to analyze the flows of foreign direct investment in Algeria and performance of this country to be an attractive destination for this kind of investment. This issue is as significant as it lays out a clear-cut image about capacity of Algeria to absorb and benefit more from FDI. At first, the investigation of the FDI flows in Algeria is presented. This is followed by an evaluation of the country capacity to attract and take benefits from this kind of investment through the examination of some indices used in this field.

#### 2.1. Flows of Foreign Direct Investment in Algeria:

The study of foreign direct investment refers fundamentally to the track the evolution of its amounts over time and to make comparison between these flows and some key indices. This approach paves the way for getting a good picture of well this kind of investment is positioned inside the economy. The following picture is a representation of the inflows and outflows of the foreign direct investment based on the data displayed by the World Bank during the period 2000-2015.

Figure 1: Net Inflows and Net Outflows of Foreign Direct Investment in Algeria during 2000-2015



Source: The researcher based on data provided by the World Bank

The exhibit above shows obviously that the value of the FDI inflows is much bigger than that of outflows. This confirms the assumption that Algeria records a weak participation in terms of foreign direct investment and the absence of a good strategy to make benefits from this kind of investment is also maintained. The issue is also affirmed by the share of the foreign projects relatively with the national ones as the former represents only 1 % of the total project recorded. This suggests the inefficacy of the business environment in Algeria to attract foreign investment as a contributing factor to expand the productive capacity. The following table shows the share of foreign investment among the total projects registered as well as the their distribution between the different economic sectors

Table 2: Share and distribution of Foreign Direct Investment between economic sectors for the period 2002-2015

Investment Projects	Number of Projects	%	Value (Million DZD)	%	Jobs created	%
Domestic Investment	59563	98.88%	9100521	78.64%	904762	87.50%
Foreign Investment	676	1.12%	2471691	21.36%	129254	12.50%
Distribution of Foreign Investment by Sector	Number of Projects	%	Value (Million DZD)	%	Jobs created	%
Agriculture	10	1.48%	3117	0.13%	528	0.41%
Construction and Public Works	121	17.90%	98996	4.01%	21533	16.66%
Industry	386	57.10%	1681400	68.03%	71936	55.65%
Health	6	0.89%	13573	0.55%	2196	1.70%
Transport	21	3.11%	13172	0.53%	1723	1.33%
Tourism	11	1.63%	420657	17.02%	13128	10.16%
Services	120	17.75%	151335	6.12%	16710	12.93%
Telecommunication	1	0.15%	89441	3.62%	1500	1.16%

Source: The National Agency for Investment Development

The table above is a clear recapitulation of the foreign direct investment position in Algeria during the period 2002-2015. It represents the derisory share of this kind of investment and as a consequence, its contribution to create jobs is obviously inadequate to decrease the unemployment rate. According to data of FDI distribution among sectors, it is revealed that the major share is held by industry by a percentage of 68.03%. This value is followed by the investment in tourism sector in which the foreign participation represents 17.02%. The lowest value of the foreign investment refers to the agricultural sector in which the value of the funds invested represent a stake of 0.13%. In terms of the number of projects realized, the major part refers to the industrial sector by a percent of 57.10%. This share is followed by the sector of construction and public works which holds the value of 17.90% as a percentage of total number of the investments recorded. The smallest part is for the telecommunication sector by a percentage of 0.15%. The reason behind the high shares occupied by the industrial sector is that it combines the oil and hydrocarbon segments. The latter is the interest mainstay of the foreigners' involvement in doing business in Algeria. However, the contribution of the foreign direct investment in the gross domestic investment is meager; this fact proves undeniably that the good strategy to benefit from the foreign investment is absent and its management lacks efficiency and performance. The picture below is an indication of how the foreign investment is positioned within the Algerian business framework and the table reveals the contribution of FDI to improve the level of GDP.

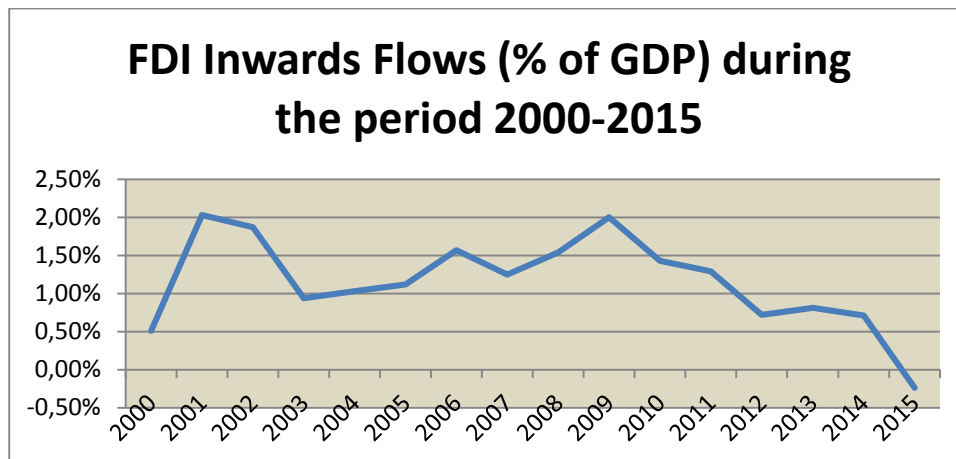
Figure 2: Share of foreign direct investment (2002-2015) and its contribution to GDP in Algeria during the period 2000-2015



Source: The researcher based on data provided by the National Agency for Investment Development

This picture indicates clearly that the portion of the foreign direct investment is weak. The causes behind this refer to the way of how this investment is perceived and treated in Algeria. In fact, the data displayed by the World Bank proves the situation that FDI has not a significant impact in increasing FDI both at its inward and outward levels:

Figure 3: The contribution of FDI to GDP in Algeria during the period 2000-2015



Source: The researcher based on the data provided by the World Bank

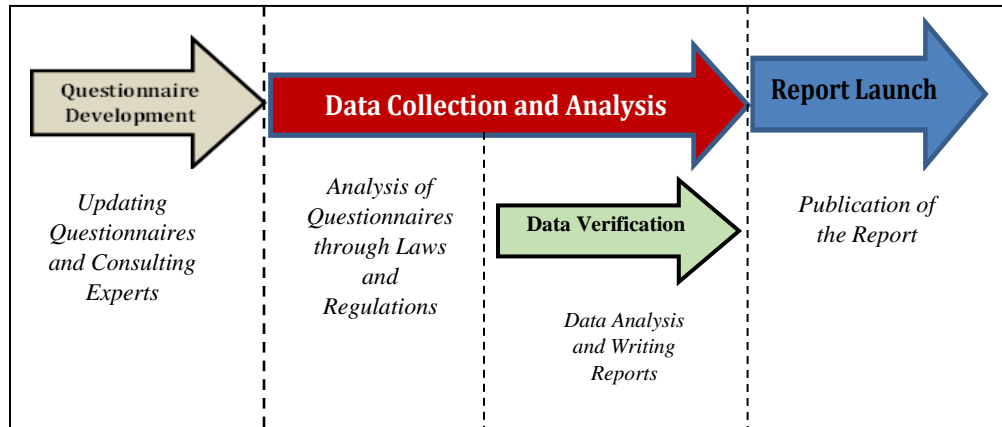
At first glance, it is obviously indicated by the above diagram that the contribution of FDI in improving the level of GDP during the period investigated is so marginal. In fact, the highest value stands at 2.03% in 2001. This value recorded a drop at 0.94% in 2003 followed a general increasing trend till 2009. After that the share of inwards FDI in the total GDP revealed a decreasing trend taking the lowest value of -0.24% in 2015. These values are a clear-cut picture of the meager and the scanty growth influence of FDI in Algeria. This issue refers principally to the business environment in Algeria and the capacity to absorb the advantages and spillovers of this kind of investment. In this context, the examination of the business environment and its capability to attract foreign direct investment is relied upon the analysis of doing business indices. These indices are arranged into classes known by the indices of easiness to do business, indices of performance and potential and indices of global competitiveness. These classes have the power to explain to a large extent the reasons behind the reasons behind the FDI flows as well as the absorption capacity of the country to benefit more from this kind of investment.

### 3. Doing Business in Algeria:

According to the Doing Business Report 2004, this index had been set since 2004 in order to investigate the business climate through the analysis of procedures and laws that conduct the economic activity. The aim of establishing this kind of indicators as an assessment of the economic activity is to present a clear image of the business environment and to set a useful benchmark for designing the needed reforms. The Doing Business Index includes a package of indicators covering the following topics: the business entry, employment regulation, contract

enforcement, creditor rights, credit information sharing and bankruptcy. The number of indicators included in this index is of number ten and each one of the indicator mentioned combines a set of sub indicators. These indicators are: Starting a business, Dealing with construction permits, Getting electricity, Registering property, Getting credits, Protecting minority investors, Paying taxes, Trading across borders, Enforcing contracts and, Resolving insolvency. These indicators are relied heavily upon the law and regulation and they are set and presented through the launching of reports and by respected a predetermined methodology as it is shown by the figure below:

Figure 4: Methodology of constructing the doing business index



Source: Doing Business 2017: Equal Opportunities for all, p. 19

### 3.1. Indices of Potential and Performance:

The indices of Inward FDI Performance and Inward FDI Potential are released by UNTACD in an attempt to take the size of the country and its institutional and infrastructural factor into account in evaluating the capacity of the country to attract FDI. These indices are perceived as benchmarks to see how far the economy is performing well with regard to its potential in order to attract FDI. The former index which is known by the Inward Performance Index represents the share of the country in global FDI flows to its share of global GDP. This ratio is an implicit representation of the other factors conducting the behavior of the foreign investors, such as: macroeconomic, political, industrial, natural and human factors. The reason behind this assumption is that these factors affect largely the realization of GDP and thus, the ability of the country to create a favorable climate for foreign investments. The relative consideration of FDI to GDP gives rise to three scenarios:

The Performance FDI Index equals to one (01) means that an absolute compatibility is existed between the size of the economy and its capacity to attract FDI. The performance FDI Index greater than one (01) means that the economy has a capacity to attract FDI more than expected with regard to its size. This situation refers to the combination of many factors as: the efficiency of the business climate, good regulatory frameworks and a good business macroeconomic. The last scenario occurs when the performance index is below one (01). This fact has the meaning of inability of the country to attract FDI as a consequence of the disturbance in setting up a favorable environment for doing business. At the other side, the Inward FDI Potential Index tends to combine the factors affecting the behavior of FDI flows and it sheds light on the issue under investigation for a three year-periods and not for only one single year. The data covered to construct the Inward FDI Potential Index are the following: The rate of growth of GDP; Per Capita GDP; Share of exports in GDP; Telephone lines per 1000 inhabitants; Commercial energy use per capita; Share of R&D expenditures in gross national income; Share of tertiary students in the population; and country risk. The following is a table representing the two indices (Inward FDI Potential and Inward FDI Potential) for Algeria during the period (1990-2010). It should be noted that the reason behind the restriction of the analysis period up to 2010 was due to lack of data.

Table 2: Inward FDI Performance and Inward FDI Potential for Algeria during the period 1990-2010

Year	1990	1995	2000	2005	2006	2007	2008	2009	2010
<b>Inward FDI Performance Index</b>	98	-	119	118	117	128	115	82	102
<b>Inward FDI Potential Index</b>	51	96	86	66	67	69	71	77	-

Source: FDI Index UNCTAD Database

From this table, the indices of performance and potential for Algeria show degrading values. This picture is an evident demonstration of the business environment in Algeria towards attracting foreign direct investment. A deep glance at the numbers of the table indicates that the values of Inward FDI Potential Index are lower than those of the Performance Index. This fact forwards the idea that Algeria enjoys a good potential to attract the foreign investment but it is badly exploited and managed. This is proved by the position of Algeria among the Arabian countries in both performance and potential indices for the periods 1988-1990; 1993-1995 and 2003-2005. The position is derived from the correlation matrix of the two indices mentioned:

Table 3: Position of Algeria in terms of Performance and Potential indices among the Arab countries according to the correlation matrix

	1988-1990		1993-1995		2003-2005	
	High Performance	Low Performance	High Performance	Low Performance	High Performance	Low Performance
<b>High Potential</b>	Bahrain Oman	<b>Algeria</b> Kuwait Libya Saudi-Arabia Emirates Qatar	Bahrain Qatar	Jordan Kuwait Libya Saudi-Arabia Oman Emirates	Emirates Bahrain Jordan Qatar	<b>Algeria</b> Kuwait Libya Saudi-Arabia Oman Tunisia
<b>Low Potential</b>	<b>Above capacity</b> Egypt Syria Tunisia	Jordan Lebanon Morocco Sudan Yemen	<b>Above capacity</b> Egypt Morocco Tunisia Yemen	Syria Sudan <b>Algeria</b> Lebanon	<b>Above capacity</b> Egypt Lebanon Morocco Sudan	Syria Yemen

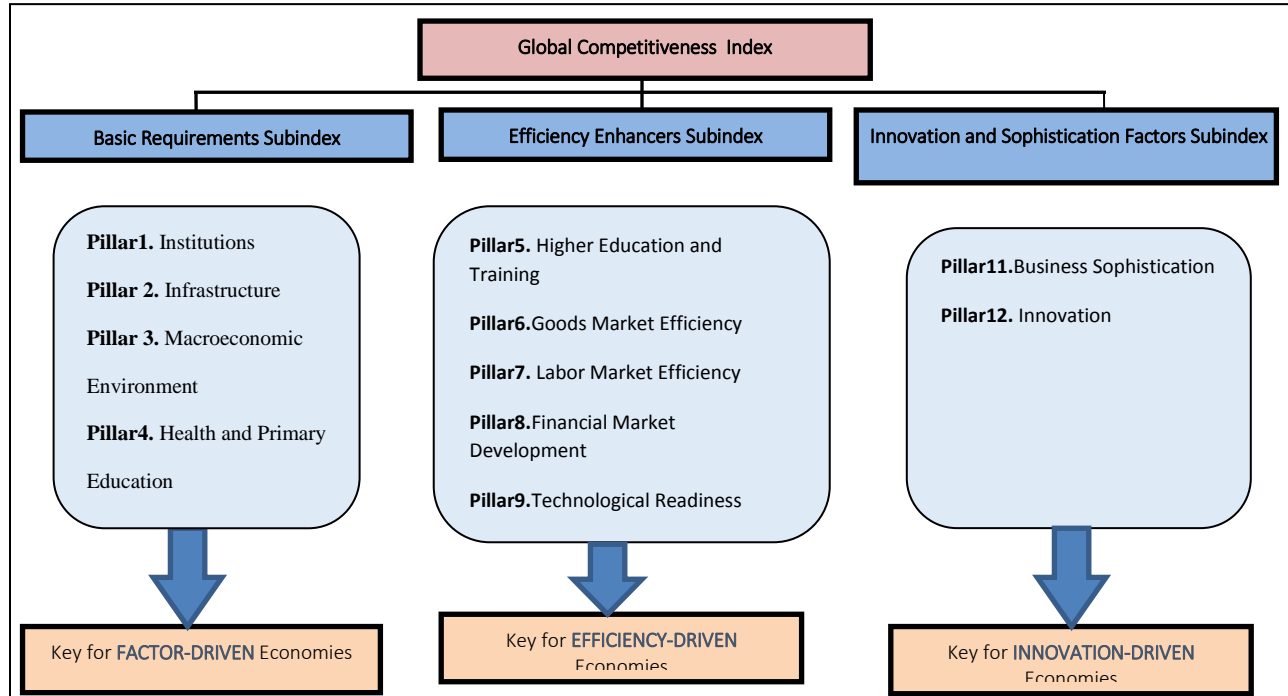
Source: Mouna Bsisou in The Impact of the Promotion Policies on the Foreign Investment Attraction in Arab Countries, p. 19 (Trans)

This table confirms the result concluded by the analysis of the performance and potential indices of Algeria. In fact, the business environment of Algeria is positioned among the countries with low performance throughout the period of investigation. In terms of potential index, Algeria is classified among the economies with high potential with a change in position during the period 1993-1995 in which it is within the low potential block. The consequence of this classification is that Algeria holds a good capacity to be a favorable business environment to attract foreign direct investment but it is irrationally exploited.

### 3.2. Global Competitiveness Index:

In parallel with the above indices, the Global Competitiveness Index comes out to assess and monitor the microeconomic and the macroeconomic of the economic competitiveness. By this sense, the Global Competitiveness Report determines the meaning of the competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. It is then a notion reflecting the true image of the economy because it embodies the factors that affect the economic growth. Under the terminology of the Competitiveness Report, these factors are known by the constructing competitiveness pillars and they are of number twelve as it is represented by the following figure:

Figure 5: Methodology of constructing the doing business index



Source: World Economic Forum, The Global Competitiveness Report 2016-2017, p.5

As the figure above shows, the Global Competitiveness Index is a multidimensional picture of the economic situation via the analysis of its different aspects. Therefore, it could be used as a strong proxy for evaluating the capacity of an economy to maintain growth progress and attract foreign investments. The following is a table representing the Global Competitiveness Index for Algeria during the period 2010-2017. (Table at the next page)

The rank represents the position of the economy among the countries under investigation. As an example, for the period 2014-2015, the rank is established on scale of 144 economies, the classification rank for the period 2016-2017 is set on scale of 138 economies. The score is the outcome of the edition and the aggregation of the responses package of the survey questions used in the competitiveness survey. It is arranged via a scale spanning over 1-7 interval in which the number 1 describes the worst situation or extremely weak as a feature of the issue under examination. At the other side, the number 7 denotes the best situation or extremely strong. For details about the computation technique of the score, see the Global Competitiveness Report 2014-2015, p. 94

According to the data displayed by the above table, it is clear that the Algerian economy rank is not at suitable and good levels to be attractive destination foreign investments. This picture is confirmed by both the efficiency enhancers and the innovation and sophistication scores. The basic requirement score at the other side shows an improved scale more than the other scores but they remain under the required level to create a favorable business environment able to attract foreign investment and to boost the real economic growth

Table 3: Global Competitiveness Index for Algeria during 2008-2017

Years	2008-2009		2009-2010		2010-2011		2011-2012		2012-2013		2013-2014		2014-2015		2015-2016		2016-2017	
Evaluation Criteria	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
<b>GCI</b>	99	3.7	83	3.9	86	4.0	87	4.0	110	3.7	100	3.8	79	4.1	87	4.0	87	4.0
<b>Basic Requirements</b>	61	4.5	61	4.4	80	4.3	75	4.4	89	4.2	92	4.3	65	4.6	82	4.4	88	4.3
<b>Efficiency Enhancers</b>	113	3.3	117	3.3	107	3.5	122	3.4	136	3.1	133	3.2	125	3.3	117	3.4	110	3.6
<b>Innovation and Sophistication Factors</b>	126	2.8	122	2.9	108	3.0	136	2.7	144	2.3	143	2.6	133	2.9	124	3.0	119	3.1

Source: Global Competitiveness Reports during the period 2000-2017

#### 4. Conclusion:

According to the analysis presented above, it is clearly to argue that both the level and the scope of foreign direct investment in Algeria are still weak. This image is persistent despite the diversity of the opportunities and the sectors that could be considered as backbones for fruitful investments. The reason behind this failure in attracting more foreign investment refers to the obstacles that face the investors as well as the high level of corruption and the quality of the institutions that inhibit harshly the development initiatives. This picture is demonstrated much more by the positions occupied by Algeria in terms of Global Competitiveness. As a result of this, for the economy to enjoy a high capacity of attraction, it must fulfill two conditions: a clear economic ideology and good infrastructure and institutions. The former condition means that the host country should demonstrate an acceptance to the international investment as a way to boost the economic growth. This is got only by how far the ideology adopted in the economy is compatible with the specificities of this kind of investment. The second condition is related to the institutions as good or bad incubators for the foreign investment. In this sense, improving the quality of these institutions to attract the investment becomes more than a duty.

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