Foreign Direct Investment: The Growth Engine to Algeria

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Abstract

Over the last two decades an increase in globalization has led to the remarkable growth of global business activity including foreign direct investment (FDI). Despite research undertaken by academic and international organizations that analyzes the positive impacts of FDI on economic growth in developing countries, Algeria represents a country with a lower share of foreign ownership whose FDI experience has been forgotten in terms of a comprehensive economic analysis.

As Algeria has received a low amount of FDI so far, it still competes for more. The National Agency for Investment Development (ANDI) is actively promoting Algeria as a location for FDI, claiming that foreign investment has been a major contribution to Algeria’s economic growth. Looking at this closer, two key issues immediately arise. Firstly, assuming that FDI has positive effects on developing host countries, to what extent do FDI inflows to Algeria play the role of growth engine? What are the trends and the determinants of FDI in Algeria? Secondly, given the recent trend of FDI activity in Algeria, what are its strategies in Algeria and its consequences on the attractiveness of Algeria as a place for FDI?

In order to analyze those questions, new and previous data on FDI inflows in Algeria were explored. The time period chosen ranges from 2000 to 2006. A further contribution of this study is the search for new FDI data, bringing together and analyzing data sets provided by the United Nations Conference on Trade and Development (UNCTAD), the National Agency for Investment Development (ANDI), the Euro-Mediterranean Network of Investment Promotion Agencies (ANIMA), the Bank of Algeria, etc. A detailed description of Algerian FDI data has been provided to gain a better understanding of the impacts of FDI on Algerian economic growth and because no such comprehensive summary was previously available.

The study emphasizes that FDI played a positive role in boosting the economic growth of Algeria, even though when compared to other countries in the region this role was lower. Taking into consideration the critical security dimensions related to the turmoil and political unrest of the 1990s, it must be said that the role of FDI was, not just

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relative, but beneficial for the country, as well as that Algeria has over the last decade been relatively successful in attracting FDI inflows, even if its performance has been low.

Keywords: Foreign Direct Investment (FDI), Economic Growth, Algeria

I. Introduction

Over the past few decades, several interesting studies on the positive impacts of FDI in motivating economic growth have been published. Generally, the empirical evidence suggests that FDI has a positive impact on economic growth in developing countries. The contribution of FDI to economic growth has been tackled quite comprehensively in literature. In fact, the position, according to which foreign investment, especially FDI, plays a positive role in the growth process, is shared by a large part of the academic world and by many of the most important international organizations. The main message to take from most literature concerning FDI is that there seems to be a strong relationship between FDI and growth. Although the relationship differs from one country to another, FDI has a largely positive impact on growth.

Algeria, as one of many developing countries, has increasingly come to see FDI not only as a source of economic development, but also a tool for modernization, growth of income, employment, etc. This is reflected by the current economic reforms and policies to improve the conditions to attract more FDI and maximize its benefits in the domestic economy. Since this new initiative, Algeria has become much more liberal in its economic policies, aiming to attract more FDI and increase its economic growth, aiding to alleviate poverty.

In fact, Algeria is one of many competitors in this arena and offers its investors a range of attractive assets. This explains why the country has been successful over the last few years in attracting FDI inflows, especially in the energy and extractive sectors, as compared to the other potential sectors that encompass the entire country. The foreign-invested sector is now an important element of corporate Algeria, therefore becoming an important engine for economic growth in the country.

According to UNCTAD’s World Investment Report 2007, Algeria’s FDI increased to US$ 1,795 billion in 2006 (compared to US$ 1,081 billion realized in 2005). However, the achievements of Algeria in attracting FDI are still low compared to its potentiality and its performance among other countries in the region. It must be said that this is related to the period of significant crisis that faced the country (and still is facing it), in the 1990s, as well as some other barriers.

For Algeria, FDI has shown marginal impact on Algerian economic growth, in the areas of finance, employment, transfer of technology and export structure (UNCTAD, 2004). The marginality was mainly due to the persistent effects of political unrest, being late on the scene with a real and true openness, as well as an investment framework with a weak investment policy. However, it seems that FDI can play a positive role in facilitating the transition process of Algeria to an open economy. In this sense, Meliani et al. (2001) conclude that “FDI promises to be extremely decisive in
smoothing Algeria’s transitional process.\textsuperscript{1}

However, literature on FDI and growth in Algeria remains very scarce. Therefore, research within this area deserves more attention and critical analysis, which will ultimately encourage further investigation and, in turn policy implications. Nevertheless, the available evidence suggests that FDI generally has a positive impact on economic growth in developing countries. As a result, such an impact seems to be specific to Algeria’s context, depending on its economic and political factors, including security dimension, especially combined with an adequate investment framework and an aggressive investment policy.

II. Overview of Foreign Direct Investment in Algeria

1. Definition of Foreign Direct Investment

The term “foreign direct investment” has been defined in many ways. Each country has its own definition, although they do not differ much from each other either in content or in purpose. However, FDI remains distinct from other major types of external private capital flow, for example, portfolio investments or bank loans.

In Algeria, FDI is defined as an “equity investment made by a non-resident entity with a minimum threshold level of foreign equity share relative to the total value of the investment. For investment of value less than or equal to two million Algerian Dinars, the threshold is fifteen percent; for investment valued at between two million and ten million Algerian Dinars, the threshold is twenty percent; and thirty percent for investments greater than or equal to ten million Algerian Dinars.”\textsuperscript{2}

2. Foreign Direct Investment Trends in Algeria

The increase in FDI flows to Algeria has been largely due to a rapid-paced shift to liberalization, notably privatization, reforms and new measures to attract more FDI inflows with the aim of developing the country. In fact, this could also be explained by the growing investment in extractive industries, particularly mining and energy resources. Overall, three main factors were attributed to this phenomenal increase in FDI flows, namely strong and stable economic growth, global oil demand and reforms for an improved investment environment.

The development level of a country is indicated by the index of FDI; important in developing countries, as well as developed ones. Today, foreign direct investment is considered as a key factor towards progress in Algeria. Table five indicates some data regarding FDI in Algeria over a 7-year period (2000-2006), in millions of US dollars.

\textsuperscript{1} Meliani et al., “Economic reforms and FDI,” in; \textit{Algeria in Transition: Reforms and Development Prospects}, edited by Redha M. Bougerira, New York: Routledge Curzon studies in Middle Eastern Policy, 2001: 87-100.
\textsuperscript{2} www.unctad.org/Sections/dite_fdistat/docs/wid_cp_dz_en.pdf.
The data indicates that over the course of these seven years the magnitude of FDI flows to Algeria continued hitting new records. Moreover, based on the data in the table above, FDI in Algeria has shown an increasing trend over time. For its part, Algeria, which relies seriously on foreign direct investment, was able to acquire approximately US$ 0.63 billion in 2003, US$ 0.88 billion in 2004, US$ 1.08 billion in 2005 and US$ 3 billion in 2006, (Aptheloz and De Saint-Laurent, 2004). In fact, since 2003, FDI has been increasingly growing, with the best years being 2001, with US$ 1.19 billion, 2005, when it reached US$ 1.08 billion, and 2002, at US$ 1.06 billion. The highest level in this period was 2006, with US$ 3 billion. This trend partly reflects the large-scale privatisation programmes that were implemented throughout Algeria in recent years. It is true that a substantial increase was recorded from 2003 to 2006, but it is still insufficient on a global scale. Overall, Algeria didn’t get huge foreign investments for hydrocarbons, telecommunications or pharmaceuticals. As a result, the country is trying to put in place an foolproof policy for attracting and diversifying FDI inflows.

Table 1: FDI Flows to Algeria Compared to Those of Four UMA Countries, from 2000-2006 (Millions US$)

<table>
<thead>
<tr>
<th>Years/Countries</th>
<th>2000</th>
<th>2001</th>
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<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>1235</td>
<td>510</td>
<td>647</td>
<td>237</td>
<td>2157</td>
<td>5376</td>
<td>5300</td>
</tr>
<tr>
<td>Tunisia</td>
<td>779</td>
<td>486</td>
<td>821</td>
<td>584</td>
<td>639</td>
<td>782</td>
<td>3312</td>
</tr>
<tr>
<td>Algeria</td>
<td>438</td>
<td>1196</td>
<td>1065</td>
<td>634</td>
<td>882</td>
<td>1081</td>
<td>3000</td>
</tr>
<tr>
<td>Morocco</td>
<td>423</td>
<td>2808</td>
<td>428</td>
<td>2429</td>
<td>1070</td>
<td>2933</td>
<td>2300</td>
</tr>
</tbody>
</table>

Source: Author collection from UNCTAD and ANIMA reports, 2007.

Figure 1: Trends of FDI Flows to Four Host Countries (2000-2006) (Millions US$)

Source: Drawn by the Author from ANIMA data in 2007.

According to a report issued by ANIMA in 2007, Morocco attained a high level of FDI in 2006, with projects during 2005 and 2006 numbering 450, taking first place in
the region, followed by Egypt with 284 projects, while Algeria positioned third with 279.

**Figure 2: Evolution of the Number of FDI Projects per Country of Destination**

(MIPO, 2003-2006)

![Bar chart showing the number of FDI projects per country from 2003 to 2006.](image)

*Source*: Drawn by the Author from ANIMA data in 2007.

Foreign direct investment in Algeria was marked by an increase, estimated at US$ 3 billion in 2006, against US$ 1.08 billion in 2005, i.e. a growth of approximately three times than of 2005. The report mentioned above explains that in 2005, Algeria ranked third place, after Egypt and Morocco, while in 2006, ranking the same, it followed Egypt and Tunisia, respectively obtaining US$ 5.30 billion and US$ 3.31 billion, with three billion US dollars for Algeria. This stresses that Algeria is still far from its real capacity with regards to foreign investment, especially as the figures include the energy sector, which gets the lion’s share of foreign investment in Algeria.

**Figure 3: Main Sources of FDI Flows to Algeria during 2003-2006**

![Pie chart showing the distribution of FDI sources.](image)

*Source*: Author calculation from ANIMA report 2007.

Furthermore, in the service sector, with the entry into the country of large European banks, the report ranked Algeria third, in terms of FDI, after Egypt and Morocco. Even banks of neighboring countries are present in Algeria (so called South-South FDI).
The important reform in this sector was the commitment of the government for the privatization of public banks which still in hold such the one of the Algerian Popular Credit (CPA).

### Table 2: Matrix of FDI Flows to Algeria by Region, 2003-2006

(In Million of EUROS)

<table>
<thead>
<tr>
<th>Amounts</th>
<th>Region</th>
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<tbody>
<tr>
<td>7388</td>
<td>Europe</td>
</tr>
<tr>
<td>2079</td>
<td>America</td>
</tr>
<tr>
<td>2429</td>
<td>MEDA</td>
</tr>
<tr>
<td>1803</td>
<td>Gulf</td>
</tr>
<tr>
<td>788</td>
<td>Asia/Oceania</td>
</tr>
<tr>
<td>1</td>
<td>Others</td>
</tr>
<tr>
<td>14491</td>
<td>Total</td>
</tr>
</tbody>
</table>

*Source: Author calculation from ANIMA report 2007.*

However, the same source reported that for the year 2006 Algeria attracted fourteen investments from within MEDA countries, as well as the following: in energy it attracted sixteen projects, in electrical components one project, and in agro-foods six projects, including one still in construction, which concerns the production of artificial fertilizer, a partnership between the Egyptian ORASCOM and the Algerian SONATRACH companies. Moreover, between 2005 and 2006, the National Agency for Investment Development (ANDI) reported 9,230 "investment statements" with a total of 1,219 billion Algerian Dinars (AD), generating the creation of 202,534 jobs. Depending on the size of the amounts, it is the energy industry that comes in the lead with five hundred thirty three billion AD, followed by telecommunications with one hundred ninety five billion AD, transport with one hundred forty two billion AD and construction with one hundred thirty nine billion AD.

In fact, for the whole of the period from 2000 to 2006, ANDI reported that the total stock of FDI was 601 projects, including 263 in partnership with local companies, for a total of AD 785 billion and nearly 81,000 jobs. Of these projects, 369, for a total of AD 366 billion, are concentrated in the energy, four in telecommunications with AD 260 billion, and 112 projects in tourism and thirteen other service related sectors. As for the origins of these FDI flows, other Arab countries are in the lead with AD 531 billion for 140 projects, followed by EU countries with 254 projects, for more than AD 175 billion.

According to ANDI, still for 2007, there were twenty major projects with the

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3 The “MEDA” region accounts the following countries: Algeria, the Palestinian authority, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey, plus Cyprus and Malta (today members of the EU).
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amount of US$ 15 billion from the United Arab Emirates (South-South FDI), including US$ 5 billion for the construction of an aluminium complex, as well as eight other projects in the sectors of hotels, tourism and business centers with US$ 5.4 billion. These FDI projects also include projects for power stations and seawater desalination plants, which have been commissioned by the state. The main message to be taken from this trend of FDI inflows to developing countries, particularly to Algeria is that the prospects are optimistic. In this sense, findings suggest that developing countries should take profit and seize the opportunities carefully to the kind of FDI they need for their economic development i.e. the quality of FDI must be taken in consideration when drawing strategies in terms of FDI attractiveness. Forecasts for the future trends of global FDI flows predict that FDI will be strong in developing countries, as well as in developed ones. Moreover, the report argues that North African oil exporting countries, Algeria being one, will have greater FDI inflow potential in the future, notably due to the persistence of high petroleum and commodity prices.

Figure 4: Global Prospects for FDI, 2005-2006 and 2007-2008


3. Foreign Direct Investment Determinants in Algeria

Due to ongoing globalization, the importance of FDI determinants in developing countries seems to vary among different types of FDI, i.e. resource-seeking, market-seeking and efficiency-seeking, and may, in fact, change over time, (Nunnenkamp,

4 http://www.mppi.dz.
6 http://www.unctad.org/fdiprospects.
In this regard, Algeria possesses important advantages that have attracted relatively large quantities of FDI inflows. Thus, Algeria’s major assets and comparative advantages are as follows:

### 3.1 Geographical Proximity to Potential Markets
Among the strong points that Algeria can take advantage of is its geographical position in the center of the Maghreb countries, (Apheteloz and De Saint-Laurent, 2004). Contingent to Europe, Africa and the Arab countries, Algeria enjoys a strategic geographical position for the continuity and the enhancement of its investment potential, including FDI. Indeed, this remarkable position allows Algeria easy access to potential regional markets, and encourages export-oriented FDI policies, enabling Algeria to take advantage of the partnership agreement with the EU to create a free-trade zone, (UNCTAD, 2004).

### 3.2 Availability of Natural Resources
The availability of natural resources is a major asset for the national economy, which favors Algeria playing a significant role in its own geostrategic position in the region. Indeed, its natural wealth in oil, natural gas and other mineral resources, which remain greatly under-exploited, particularly phosphates and iron, are remarkable. The energy sector is an element of attraction for foreign investors; Algeria is the third largest supplier of natural gas in the world, and the fourth supplier of energy to the European Union (EU). In fact, Algeria has been a reliable supplier to the EU for more than thirty years. Prospectors have suggested that the Algerian gas supplies to the EU could increase by 23.5 billion cubic meters (bcm) per year by 2010.8

According to *Oil and Gas Journal* (2007), Algeria contained an estimated 12.3 billion barrels of proven oil reserves, the third largest in Africa (behind Libya and Nigeria). However, the report concludes that Algeria still remains under explored, with regards to potential future hydrocarbon discoveries. Important to mention here is that Algeria’s Saharan Blend oil, 45° API and 0.1% sulfur content, is considered among the highest quality in the world. Moreover, European countries rely on Algerian oil in order to help meet increasingly stringent EU regulations on the sulfur content of gasoline and diesel fuel. Meanwhile, for natural gas, Algeria had 161.7 trillion cubic feet (Tcf) of proven natural gas reserves (the eighth-largest in the world and second in Africa). 9 In 2004, Algeria produced 2.8 Tcf of natural gas, the eighth-largest in the world and the second largest among OPEC-member countries (behind Iran).

Finally to conclude about this very important determinant, it is important to mention that potential energy, including oil and gas, has been actively promoted by the Algerian government. This proactive policy towards energy development in Algeria could serve as an example for other industries in the future.

### 3.3 Openness, Liberalization and Economic Reforms
Particularly in Algeria, with regard to FDI inflows, the important results achieved

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confirm a significant improvement in the economic environment. Moreover, to improve its attractiveness and enjoy increased flows of FDI, the Algerian Government has committed itself recently to a series of structural reforms aimed at ensuring macroeconomic stabilization and the liberalization of foreign trade. Among the most important reforms were the Ordinance of 2001 and the creation of the National Agency for Investment Development (ANDI), both of which are considered as critical stages in the improvement of the economic environment, particularly for investments.

It is important to mention, that this large privatization programme may be the largest one in the Mediterranean Basin, as it includes about 1,200 public companies in different sectors being privatized, and the opening of the capital of two state owned Banks. Further structural transformation of the economic system is a key element of the growth strategy of Algeria, which is driven especially by these important economic reforms, including, with particular reference, the monetary system and the capital market, the market for business real estate and the market for goods and services.

3.4 Regional Economic Integration

In the 1990s, the number of developing countries that signed bilateral or multilateral agreements increased dramatically. Algeria has signed several bilateral and multilateral investment agreements, as well as treaties for double taxation avoidance, with a number of countries all over the world. In terms of regional integration, Algeria is a member of the Arab Maghreb Union, which includes Algeria, Libya, Morocco, Mauritania and Tunisia, significantly increasing export opportunities for Algerian products. Moreover, Algeria is a member of the New Partnership for Africa’s Development and the African Union.

In 2001, Algeria signed the Trade and Investment Framework Agreement (TIFA) with the United States, thus effectively founding a new economic relationship between the two countries. Algeria also initialed an accord, as part of the European Union’s drive to build stronger relationships with its neighbors in the Southern and Eastern Mediterranean region. Central to this agreement, is, in fact, a dismantling of trade barriers over twelve years. It is expected that this accord will lead Algeria to implement more investment reforms, especially in its banking and financial systems, ultimately boosting FDI inflows into the country.

Moreover, the approaching accession of Algeria into the World Trade Organization (WTO) remains crucial for the economy, and should lead to the gradual integration of the country into the global economy, therefore helping to create a more favorable climate for FDI. Indeed, within the new reforms, the national economy has created much more competition from foreign goods and services, which necessarily has led to a greater competitiveness in the private sector. Moreover, in the field of intellectual property rights, the regulations have started to be harmonized, respecting international standards prescribed by the TRIPS Agreements, thus creating new investment opportunities.

3.5 Abundance of Human Resources

A Algeria has a wealth of human resources; 69.5 percent of the population is be-

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10 See: http://www.mppi.dz.
etween the age of 15-64 years with 11,976,965 male and 11,777,618 female, which is open to learning and becoming professionally qualified. The proportion of educated people is seventy percent of the population, with fourteen universities, enrolling 40,000 students annually on a national level. In addition, several colleges specialized in professional training and the many vocational training centers ensure an availability of skilled personnel. However, even though the training of the workforce has significantly improved in recent years, it remains inadequate for the current needs of the labor market, whose flexibility has recently improved.

The relatively low cost of labor might contribute as a first step of increasing the country’s competitiveness and attractiveness to foreign investors. However, it must be said that Algerian salaries are fixed by a classification called “the Guaranteed National Minimum Wage” (SNMG), for a work week of forty hours (173.33 hours per month), providing for a AD 10,000 monthly salary, with an hourly rate of AD 46.15. This amount is actually increasing, though, through the recent changes the government has adopted. Moreover, new reforms concerning employment have been established; among them the principle of freedom of employment, which recognizes that employers may conclude salaries directly in employment contracts with workers, meaning that salaries are fixed by mutual agreement between the employer and the employee, but always taking into consideration the (SNMG).

3.6 Macroeconomic and Political Stability


Overall, after the degradation of the macroeconomic situation at the beginning of the 1990s, the marked stability of the economic parameters over the past several years (2000-2006) continues to exhibit good growth rates in Algeria’s gross domestic product. Thus, Algeria is nowadays in a favorable position to take decisive steps to determine its own economic future.

It must be said that Algeria, in terms of political stability, has attained a good and acceptable position, especially after the first offer of amnesty, which was approved by the referendum of 1999 and expired in 2001, and followed by the Charter for Peace and National Reconciliation, approved on September 29, 2005, effectively putting an end to over a decade of turmoil and unrest. This last referendum aimed at ending violence, which resulted in gross killing and great economic damage to the country. Today, as the OECD has proclaimed, Algeria is considered a low-risk country, and in a good position politically, both inside and outside the country.

Furthermore, dealing with Algeria from 1996 to 2006, the World Bank’s annual report for 2007 underscores a positive evaluation in political indexes for government
management which is owed to the aforementioned stability.\textsuperscript{12} However, the report does conclude that the worst point is essentially linked to corruption control, with forty percent.\textsuperscript{13}

**Figure 5: Country Risk Representation Compared to Other Countries in 2007**

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<td>Tunisia</td>
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### 3.7 Market Size

It has been argued that the market size for developing countries appears to be a significant determinant in attracting FDI. In this context, Algeria is a large market with a population of more than 33 million inhabitants, with high and growing incomes. Moreover, Algeria’s GDP witnessed on average an enthusiastic growth of five percent a year. In fact, GDP/Per capita rose from US$ 1,724.9 in 2000 to US$ 3,346.3 in 2006, with Purchasing Power Parity (PPP) estimated at US$ 7,600 in 2006. Moreover, Algeria imports many of the articles manufactured for consumption and processing. Thus, in 2006 the country imported US$ 21.45 billion and exported US$ 53.45 billion. Consequently the trade balance attained over US$ 32 billion.

### 3.8 Infrastructures

To serve and sustain the economy, Algeria has completed a sophisticated network of infrastructure, which continues to grow steadily; the most important elements of this infrastructure being the following:

- **A-Roads:** The total length is 100,000 kilometers, of which 78,000 are paved. In addition to this, there are 2,000 km of railway.
- **B-Ports:** Due to Algeria’s coastal location, a total of 1,000 km make up its coast along


\textsuperscript{13} There have been twenty four specialized international institutes that evaluated Algeria in that point.
the Mediterranean Sea, allowing for eleven commercially diversified ports, and two others, dedicated specifically to the export of petroleum products, not to mention 22 smaller ports used primarily for marine fishing and tourism.

- **C-Airports**: There are 51 listed airports, including thirty working with aeronautics and 12 currently operating international flights.
- **D-Universities**: The proportion of educated people is about seventy percent of the population, with fourteen universities enrolling 40,000 students annually on a national level. Other universities and training centers are actually under construction.
- **E-Industry**: Algeria has an important industrial base which has been developed over the course of several decades. However, nowadays this base has become out-of-date compared to new industries based on high technology. For this reason, within some sectors, Algeria needs to focus on developing the industry and increasing the production for the domestic market, as well as for export.

Moreover, during the period from 2005 to 2009, there has been a huge “Financing of Investments” through a public fund of US$ 145 billion for the construction of one million households; 1,002 km of an «East-West» highway; new roads; eight big dams; six high speed railway lines and the modernization of actual lines already in place; a subway system in Algiers, along with tramways in other principal towns; urban and regional development, especially in the northern and southern regions; ports, airports, hospitals, universities and student dormitories; power and gas connections for homes, and so forth.

### III. Importance of FDI to Algeria’s Economic Growth

The analysis of FDI flows to Algeria over the period from 2000-2006 gives only a partial view of the impacts of foreign investments, in particular FDI, on the economic growth of Algeria, including finance (capital), technology transfer, employment, balance of payment and production diversification, and export structure. Nevertheless, analysis of these trends gives some indication of the potential for future improvement in these sectors.

#### 1. Capital and Investment

According to UNCTAD (2004), the rate of gross investment as a percentage of GDP has experienced since the opening of the Algerian economy to FDI, an impressive increase, reaching 44% in 2000. Meanwhile, in the same year, the contribution of FDI to the gross fixed capital formation (GFCF) was very low, with only 3.8 percent. Thus, in both 2001 and 2002, the rates attained modest, but encouraging increases of up to 8.6 percent and 8.1 percent respectively, (UNCTAD, 2004). It must be said here, that the high savings ratio in Algeria has so far been used to finance investments. Consequently, an analysis of the same source concludes that FDI is not an important source of funding for investments in Algeria.
The financial and banking sectors have undergone some changes, but it must be said that they remain archaic in their methods of management and are very behind in improving existing service and providing new products to their clients. Recently, however, and since the adoption of the “Law on Currency and Credit” in 1990, banks have been increasingly turning to private investors both to grant licenses to many private banks, local and foreign.

For further economic stability, financial and banking systems have to be reformed extensively and modernization needs to affect management, effectiveness, efficiency and marketing. In recent years, many projects were established to lead large financial reforms. Thus, this trend proves that the wish of the government is to create a modern and dynamic financial and banking sector via privatization, in particular a strong signal to foreign investors.

2. Technology Transfer

Particularly in Algeria, it is difficult to measure qualitatively the impact of foreign investment on the field of technology transfer. However, increasing local investment as well as foreign, including FDI, in sectors with high-level technology, such as electronics or telecommunications, appears to have a positive impact and play a significant role, although relative, in the national economy as a driving force for economic growth. In deed, when contracting with foreign investors, especially MNEs, the emphasis of the local private sector is usually on the transfer of technology. In this way, for example, the electronics sector has benefited from technology transfer through FDI, thanks to the development of local subcontracting companies such as: BYA Electronics, Philips, Samsung, LG and so on.

Moreover, foreign investors look generally for large, unexploited and uncompetitive markets. In this regard, Algeria is a very attractive market in terms of the telecommunications and ICT sectors with state monopolies on the fixed telephone network and other related services. However, in recent years, this sector has undergone significant changes. In fact, in 2000, an important reform was initiated with a law affecting the post and telecommunications, which transformed the traditional administration system into a commercial company with stocks.

The most apparent cases in technology transfer are those arising from privatization. In Algeria foreign firms have brought their skills and expertise to bear in transforming the former state-owned monopolies into competitive and privatized companies. Moreover, in terms of openness to foreign investors, the telecommunications sector has been open for competition in mobile telephony, and a license has even been granted to Orascom, a foreign private company from Egypt. This sector also has benefited from this penetration of foreign operators into the field of fixed lines, which before were very few, compared to a very high demand. Indeed, Algeria had only 2.6 million fixed lines in 2002 for thirty million inhabitants, representing a teledensity rate of six percent, while it attained a rate of 10.2 percent in 2003, a dramatic increase, (UNCTAD, 2004). In fact the liberalization trend started mainly in 2003, with the granting of the third mobile phone license to foreign investors, followed by the opening of the public telecom-
communications monopoly, Algeria Telecom's capital to private investment in 2004, and the opening up for competition of the fixed telephony sector, in 2005.

In terms of new information technologies (IT), Algeria is a very interesting market, especially when taking into consideration the impressive growth potential for computer and internet usage. Recently Algeria has even seen a remarkable increase in the number of private domestic and foreign internet access providers, although subscribers compared to other countries in the region remain very few (UNCTAD, 2004).

3. Employment

Economic evidence has suggested that FDI plays a positive and significant role in job creation, whether for qualified or unqualified workers, therefore helping to significantly reduce unemployment. Particularly in Algeria, despite recent progress, the rate of unemployment in 2006 was rather high, affecting almost 12.3 percent of the active population, although it had decreased as compared to preceding years. However, many jobs have already been created, thanks notably to the domestic private sector that plays an active and growing role in generating great opportunities for jobs in all branches of the economy.

Conversely, FDI has generated less job opportunities, because it is primarily present in the energy and extracting sectors, as well as banking, and evidence has argued that these sectors only generate less job opportunities, (UNCTAD, 2004). However, the telecommunications and manufacturing sectors have generated many more jobs over the course of the study period, even if the performance was low. Overall, according to the CEO of ANDI, FDI in Algeria was evaluated positively in 2006 in regards to job creation, generating 81,000 jobs with stock options, and 202,534 general jobs by FDI projects.

4. Production Diversification and Export Structure

The Algerian export structure has long been and still is dominated by the presence of hydrocarbons, which account for nearly 97% of total exports. Indeed, according to UNCTAD (2004), since 2002, non-oil exports grew by 11.6 percent, including, for example electronics with an increase of 195%, and textiles with an increase of ninety percent. However, it must be said of course, that the hydrocarbons sector is generating wealth, but provides less jobs. For this reason, it is recommended that the government should essentially conduct a proactive policy of export diversification independent from hydrocarbons.

Certainly, the impact of FDI, including diversification cannot be apprehended quantitatively because of the excessive weight of hydrocarbons in the economy. However, the established joint ventures such as Henkel, ISPAT and so forth, generate a positive impact on the Algerian economic growth with prospects growing for the future. For example, the case of ISPAT, the Indian group, has created more jobs, doubled the volume of production and is nowadays exporting part of its production, as compared to the state-owned company in place before the privatization.
5. Balance of Payment

In Algeria, thanks to the attractiveness of the hydrocarbons sector and the reforms undertaken by the government recently, FDI inflows are increasing dramatically, but not so sufficiently, when compared to its existing potential. In particular, the stronger export performance brought to Algeria by export-oriented FDI involving the energy, mining and extractive industries has really helped the country develop its export structure, and generate positive impacts in terms of capital inflows, foreign exchange and tax revenues.14

IV. Foreign Direct Investment Strategies in Algeria

In order to attract foreign direct investment, governments apply many kinds of strategies that vary according to the development of a specific economy and the circumstances of each nation. Here, it must be recognized that these strategies are becoming increasingly necessary because of the rapid pace of globalization and technological development, which led to the liberalization of investment and trade policies in developing countries. Overall, and particularly for Algeria, the most important strategies adopted to attract foreign direct investment are mainly as follows:

1. Privatization

The promulgation of the privatization regulatory framework implemented in 1995, and followed by the new legislative framework (Ordinance No. 01-04, August 20, 2001) marked the Algerian transition to a market economy. In fact, the privatization of 1,200 public economic enterprises illustrates this transition clearly as a strategy towards FDI attractiveness, and is supported by the fact that currently all public economic enterprises15 are eligible for privatization.16

To understand this strategy, it is necessary to define the concept of privatization from an Algerian viewpoint. Under this new ordinance 2001, privatization means “any transaction resulting in a transfer, to physical or moral persons of private law other than public enterprises, ownership:

- All or part of the social capital of companies owned directly or indirectly by the State and / or legal persons under public law, transfer of social shares, or subscribe to increase the capital;
- Assets constituting an autonomous business of State-owned companies.”17

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15 The ordinance 01.04 of 20.08.2001, in its article 2 defines the public economic enterprises as “commercial companies in which the State or other public-law entity directly or indirectly holds a majority of the share capital. They are governed by common law.”

16 Article 15 of the Ordinance 01.04 of August 20, 2001 which provides that: “Shall be eligible for the privatization all of the public economic enterprises under all sectors of economic activity.”

17 http://www.mppl.dz.
Further, it should be stressed here that, in accordance with the second article of the same ordinance concerning the development of foreign investment including FDI, full or partial privatization is seen as an act of investment with a contribution to a local company’s capital in cash or in kind, as well as in a full or partial privatization. Moreover, the principle of freedom has been recognized by the ordinance, and therefore opens the field for investment in any sector with any percentage of the capital held by foreign investors (except in hydrocarbons, where foreign investors can own no more than seventy one percent of capital).

Additionally, the National Council for Investment has adopted several resolutions since 2004, in the accelerated pace of privatization, for greater dynamism in the research of new partnerships and for the opening up of holdings, so as to make it a player in the privatization process by motivating public enterprises to open up their capital to the private sector, both domestic and foreign, through the Economic Policy Review (EPR). This strategy also provides incentives for investors, domestic as well as foreign, and introduces new measures to promote investment. The supervision of foreign direct investment in Algeria is under the jurisdiction of the following organs: The National Council for Investment (CNI); the Ministry of Participation and Investment Promotion and the National Agency for Investment Development (ANDI).

Nowadays, Algeria is seen as the only country in the Maghreb, where the economy is changing, especially with a privatization policy that affects all sectors and reflects the degree of openness of the country, (Aptheloz and De Saint-Laurent, 2004). Since 2005, three hundred fifty public companies have opened their private capital and one hundred public companies will be privatized in the first half of 2008.18

2. Financial Incentives

The financial incentives are primarily related to taxes, treating foreign investments as domestic, meaning the granting of waivers on all or part of the taxes during a certain period or for a fixed term, which is what we call tax reductions or exemptions in the short-term or long-term, which vary depending on the sector of investment, and can take several forms. Particularly in Algeria, the ANDI provide some of the financial and tax incentives to attract foreign investors, which can be summarized by the General Regime: the zones to be developed and the Investment Agreement Regime.

Additional incentives are available to companies whose production and investments are export oriented. Moreover, there are also five free trade zones in Algeria where investments are exempt from all customs, taxes and other fees.19

3. Achieving Macroeconomic Stability

Algeria has actually achieved a successful macroeconomic stability during the period of this study (2000-2006). This determinant could also be considered as a strate-
gy of FDI attraction adopted by Algeria in the sense that it provides foreign companies with a favorable and adequate location for foreign investment in the region, including FDI. The performance of Algeria in 2006 in this context attained positive, but not great achievements, with the gross domestic product (GDP) at US$ 114 billion, the GDP/per capita with US$ 3,346.3, a GDP/PPP of US$ 7,600, an average inflation rate of 2.5 percent, an external debt of US$ 4.5 billion, exchange reserves of US$ 78 billion, exports of US$ 53 billion, imports of US$ 21 billion, a consequence of which was the trade balance attaining a positive US$ 32 billion, and finally an unemployment rate of 12.3 percent.

The ambitious development plans that the government embarked on in the beginning of the third millennium, including one which has carried out an amount estimated at US$ 7.5 billion from 2001 to 2004, and another that has allocated US$ 120 billion, including twenty billion for the northern cities and another twenty billion going to southern ones, beginning in the year 2005 and ending in 2009, reflects the willingness of Algeria to support and develop further the investment environment in the country for the years to come.

Overall, taking into consideration the economic parameters achieved by Algeria during the preceding years, we can conclude that the economic and financial situation is growing successfully and that this performance indicates that the Algerian market is willing and ready to accept foreign investment, including FDI across most economically active sectors.

4. Institutional and Legislative Framework Development

Legislative Framework Development is a strategy looking to enhance efficiency, by reducing the multiplicity of legislation governing investment in order to achieve transparency and clarity for foreign investors. This has been illustrated through multiple reviews of all laws, decisions and procedures related to the investment sector since 2001. This trend reflects the concern of the government to strengthen and develop the investment environment by adopting new laws and by adding incentives for domestic and foreign investors. Thus, the development of both the legislative and the institutional frameworks is one of the most important policies adopted by Algeria in order to attract foreign direct investments, and it can even be considered as the platform from which other attraction policies are implemented.

Yet, one of the achievements of Algeria in this field is the National Agency for Investment Development (ANDI) which is a government body with an administrative nature, created to serve investors both domestic and foreign. This agency was created in 1993 under the Law of Investment Development in Algeria, and over the years has become the basic reference for all domestic and foreign investment carrying significant importance, thanks to the panoply of laws governing investment. On this basis, Algeria began recently trying to provide an appropriate investment climate with all the possibilities for assistance and incentives to attract foreign investment through the creation of legal and legislative means of facilitating the process of investment and the protection of investors.
5. Trade Policies to Promote Openness and Integration into the Regional and International Levels

One strategy of attracting foreign direct investment is to open up the economy to the outside world, where this openness must be accompanied with procedures that facilitate the task for foreign investors, and guaranteed their profits. With this approach, Algeria adopted its strategy of openness in accordance with the principle of a market economy, through economic liberalization and privatization. In light of international development and global change, all of the variables for cooperation and partnership, in terms of investment between Algeria and other countries in the region and the world have been established over the last few years, with signatures on many treaties and conventions involving several nations, in order, most notably, to provide a more favorable climate for foreign investment and partnership.

The adoption of a market economy in Algeria drives the country toward new economic reforms, which necessarily require the privatization of public institutions and the withdrawal of the state from economic activities. The opening up of the national economy becomes structural, with the implementation of association agreements, like the one with the European Union (EU) ratified by Algeria in 2005.

Finally, a trade policy to promote openness and integration at the regional and international levels adopted by Algeria recently, is one strategy among the economic mechanisms through which Algeria has been seeking to create a good investment climate and encourage domestic and foreign investments, including FDI in all active sectors of activity of the country.

V. Conclusion

This study emphasizes that FDI played a positive role in boosting the economic growth of Algeria, even though, when compared to other countries in the region, it was relatively lower. However taking into consideration the critical security dimensions related to the political unrest and turmoil of the 1990s, it must be said that the role of FDI was, if relative, beneficial for the country. It also emphasizes that Algeria has been relatively successful over the last decade in attracting FDI inflows, even if the performance has been low.

FDI inflow could bring important benefits to Algeria in the form of capital inflows, technology spillovers, human capital formation, international trade integration, job creation, the enhancement of enterprise development, and so forth. However, government policies are needed to enhance benefits and minimize negative effects on the local community. The role of political stability as a key factor in attracting and maintaining investors cannot be overemphasized, and maximizing a country’s potential for attracting FDI inflows need to include policies improving the legal framework, adequate infrastructure, good governance, an effective judicial system and respect for the rule of law among others.

In order to benefit more from FDI, the Algerian government has been trying to improve the investment climate by making necessary changes to laws and regulations,
as well as to incentives. In this sense, a bold and aggressive policy related to the investment framework is the best solution for the implementation of the strategies aimed at attracting FDI, hopefully achieving the expected goals. Policy recommendations for Algeria should focus on improving the investment climate for all kinds of capital, foreign as well as domestic.

Algeria still needs to create the conditions for a sound economic environment for foreign investments, including FDI. Attracting FDI, in sectors other than oil, is a difficult challenge for Algeria; the economic success now depends largely on the speed with which the reforms are carried out, the boldness of these reforms and the ability to attract more foreign investment. The most important thing is to ensure adequate economic growth outside the oil and gas sectors which will therefore encourage the diversification of FDI inflows to the country.

In summary, Algeria must expand its efforts to attract foreign investment by creating an attractive economic environment. In this sense, Algeria should, in partnership with its business community and government, define its vision for FDI in the next century to differentiate itself from its competitors in the region.

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