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The Algerian investment climate between realism and the efficiency of attracting FDI: analytical study

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Abstract:

This scientific paper aims to devote scientific and practical interests in addressing foreign direct investment, by highlighting the extent to which changes in the investment climate affect the flows of this type of investment, while addressing the various appropriate measures related to improving the Algerian business climate, and by establishing the various conceptual and theoretical economic literature explaining the variables of the study, and studying and analyzing the various data and data extracted from (UNCTAD), and some other specialized international bodies, which reflect the reality of the Algerian investment climate, and analyze its attractiveness to foreign direct investment.

It has been concluded that the various amendments to the attractions adopted by Algerian governments to improve Algeria's investment climate have not yet lived up to the hoped-for levels of FDI inflows, remain insufficient, and require other bold and courageous improvements, such as embodying stability in laws (such as the new investment law), offering more incentives to investors, especially foreigners, freeing investment agencies from excessive administrative domination, and other encouraging factors.

Keywords: advantages of international competition; investment climate; institutional theory; economic environment; attractions.

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List of Abbreviations:

LDCs: least developed countries

GDP: gross domestic product

UAE: The United Arab Emirates

1. Introduction:

Algeria, like other developing countries around the world, is striving to attract more foreign direct investment flows to fill the effects of the financial gaps resulting from the oil crises represented by the sharp decline in oil prices during the years 1986, 2014 and 2019, in parallel with the weakness of its economy and its inability to achieve the desired development, which prompted it to adopt a number of reforms through the implementation of the proposals of the International Monetary Fund and the World Bank during the period (1986-1988), and the adoption of development reform programs for the period. (2001-2014), to reduce structural distortions, while achieving some balances in monetary and financial variables, and expanding the participation of domestic and foreign capital in the development process, by rehabilitating economic institutions, providing the basic requirements of the local market, encouraging the promotion of non-hydrocarbon exports, and liberalizing economic activity.

However, with the fierce competition of various countries of the world, and the great competition and greed of some countries to attract more of this type of foreign investment, Algeria has also devoted its efforts in this context, with a view to increasing its share of foreign capital, by creating and creating a suitable investment climate characterized by safety and stability, while adapting the various economic, political and social environments within the adoption of legislation and legal regulations, which reassure the foreign investor, by ensuring the protection of his capital, for long-term considerations of the period of foreign direct investment. With the introduction of an important set of incentives and advantages that will maximize the benefit of the major benefits of foreign investment, we will not talk about benefiting from modern technological uses that help achieve comprehensive and sustainable development. This raises the following main problem:
How effective is the Algerian investment climate in attracting foreign direct investment?
This problem can be divided into a set of sub-questions, which will be summarized as follows:

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To what extent can the domestic institutional environment help to adopt the factors and advantages of FDI competitiveness in the case of Algeria?

- What are the most important achievements made by Algeria in attracting foreign direct investment within the context of international competitiveness, financial, economic and technological sustainability?
- What are the most important solutions proposed to overcome difficulties and obstacles?

Study hypothesis: Improving the investment climate in Algeria plays a pivotal role in attracting more and more foreign direct investment; in statistical terms: there is a statistically significant relationship between improving the investment climate in Algeria and increasing levels of foreign direct investment during the period (2010-2020).

The importance of the study: The importance of FDI lies in the fact that it is the most prominent financial flow available to receiving developing countries, so it is a very important outlet when compared to external indebtedness. On the other hand, FDI flows constitute a major source of the transfer of practical and technical knowledge, and they are the main channel for benefiting from modern management techniques, management and contemporary marketing, through the acquisition of organizational knowledge, while identifying various means of accessing foreign markets.

Study Methodology: The importance of the study shows the importance of the international and regional context towards the sustainability of international and local financial systems as a strategic option to achieve the objectives of economic and development policies, improve financing efficiency, attract foreign direct investment, efficiency of foreign trade contracts, and mitigate financial crises, especially in developing countries in the context of adopting the concepts and practices of good governance and social responsibility, and therefore the study makes many contributions within the framework of the theoretical literature The application is as follows: (1) understanding the country factors affecting the investment climate and foreign direct investment; (2) assessing the success of institutional reforms in Algeria in attracting foreign direct investment, as Algeria's experience is relatively recent and is the subject of little research at the regional level; and (3) coming up with some conclusions and recommendations that contribute to improving the investment climate and foreign direct investment in Algeria, and perhaps clarifying what needs to be done in the future.

Previous studies: Many theoretical and applied studies dealt with the issue of foreign direct investment in general, and the difference between them was in the methods of analysis followed,

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according to the theoretical rooting on which they were based, and this was reflected in the results reached, and the most important of these studies are the following:

- **The study of Bouabid Miloud and Ben El Bar M'hamed (2021):** This study examined the role of the investment climate in attracting foreign direct investment in Singapore, based on exploring the reality of foreign direct investment in this country, while highlighting Singapore's position in international indicators to assess its investment climate. This study found that the favorable investment climate in Singapore reflected positively on the outcome of investment flows, as this country occupied very advanced positions globally, and this is clearly highlighted by the positive indicators related to its investment climate.

- **Study of Mahfouz, Dr. Ibtihal Awad Ahmed Mahfouz (2022):** The authors of this article discussed the analysis of tourism investment and its contribution to the total investment compared to other sectors in the city of Aden during the period (2001-2020), in addition to revealing the obstacles facing tourism investment. The researchers also proposed a list of the most important requirements to improve the tourism investment climate, and the study found that tourism investment in this city witnessed a clear decline during the period (2011-2020) compared to the period (2001-2010), due to many structural obstacles. Legal, economic, political, and others, and similarly, a number of recommendations have been developed, foremost of which is the development of a clear strategy for tourism investment, exerting all efforts to provide political, economic and financial stability, and working to structure the national economy to provide an appropriate investment climate.

Study Structure:

- **Theoretical framework of the study:** the role of improving the investment climate in attracting foreign direct investment;

- **The applied framework of the study:** the reality of the investment climate in Algeria and its role in attracting foreign direct investment.

2. Intellectual and theoretical construction:

The role of improving the investment climate in attracting foreign direct investment

2.1. The concept of the investment climate and its relationship to the institutional environment:

An investment climate can be defined as: "the set of special factors that determine the shape of the disk and investment incentives that allow institutional investors in a productive manner, create jobs, and reduce the costs of doing business." (Bouniqab Walzhari, 2018, p. 92).

P-ISSN: 2204-1990; E-ISSN: 1323-6903
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It is also defined as: "It expresses the set of legal, economic, political and social conditions in which the environment in which the investment is made, and the components of this environment are variable and overlapping to a large extent, but it was possible to list several elements that can give the most important motivating elements to the investor, on which the investor bases his investment decision, as follows: (Arab Investment Guarantee Organization, 2003, pp. 5-11)

- The potential for a high return on investment;
- availability of a local partner from the host country;
- exemption from taxes and customs duties;
- Stability of the price of the national currency
- freedom of movement, freedom of export, and the availability of investment opportunities;
- Freedom to transfer profits and investment abroad;
- clarity and stability of investment laws;
- the host country enjoys political and economic stability";
- Ease of procedures for obtaining an investment license and dealing with the responsible official authorities.

Based on the previous definitions, a comprehensive concept of investment climate can be developed, as it can be considered as a set of different environmental and institutional conditions, which will differently affect the movement of capital for investors, which requires governments to prepare their business environment, in order to transform it into attractive and attractive environments for foreign direct investment. The most prominent of these institutional requirements are: abundance of resources; economic stability; appropriate legal and regulatory framework; and political and security stability.

2.2. The relationship of the elements of the institutional environment to attracting foreign direct investment:

The attractiveness of regions to foreign direct investment has become a new necessity for national economic policies, as the new race to attract businesses, capital and skills includes the implementation of economic policies focused on the attractiveness of the region, so it is necessary to distinguish between the various elements of the institutional environment, and their relationship to attracting foreign direct investment according to the following.

P-ISSN: 2204-1990; E-ISSN: 1323-6903
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2.2.1. The relationship of the economic environment to attracting foreign direct investment:

Economic security and political security cannot be separated, as together they form a platform for the development of long-term investments by foreign companies as well as domestic companies. In addition, structural policies have several directions, namely improving infrastructure, and paying attention to trade, social and industrial policies. The impact of globalization has made many of these actions focus on the same goal. Enhancing the attractiveness of national territories for corporate investment. This is why structural policy actions are recommended for LDCs, and the extent of action depends on two important factors: one is to pay more attention to the globalization movement, where structural reforms must be stronger when the economy is underdeveloped and partially integrated, and the second is that structural reforms must be a decisive element in competition with other economies. It is therefore linked to increasing the supply of competitive advantages to respond to competitive pressures. (Porter, M., 1993) Policy makers should therefore aim to ensure maximum macroeconomic stability and predictability of institutional harmonization and, more precisely, should do the following (OCDE, 2002).

- Promote medium-term budget control, socially equitable tax systems and prudent management of public sector debt;
- Strengthening internal financial systems, to enable domestic financial resources to complement foreign investment;
- Implement sound macroeconomic policies based on strong and sustainable economic growth, employment, price stability, and sustainable external accounts.

Economic valuation generally depends on a series of macroeconomic variables, such as budget balance, inflation rate, exchange rate stability, balance of payments, external debt ratio... Etcetera. All of this will provide appropriate information about economic stability, such as:

- **Unemployment rate:** its decrease can lead to wage increases and can be synonymous with an increase in the number of employees in local companies to be purchased under privatization programs;
- **Inflation rate:** its increase will further hinder the investor's economic expectations and calculations, which will require hedging operations;
- **Domestic investment:** a low rate of investment can indicate an unfavorable climate for investment or even for business;
- **Growth rate:** its indicator indicates a lack of dynamism in demand, and in the size of the host country's market in case of decline.

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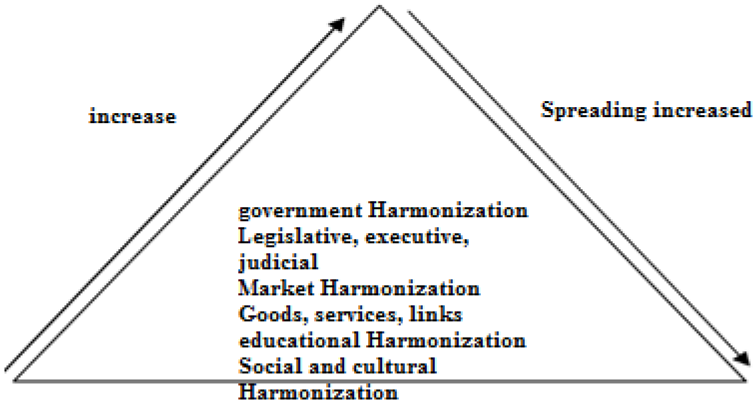
On the other hand, the low inflation rate coupled with a stable exchange rate which is one of the most important macroeconomic determinants for foreign investors, because this highlights the strength and stability of the economy, and the possibility of estimating its future growth as well.

2.2.2. Relationship of the legal and political environment to attracting foreign direct investment:

This theory was developed by economic thinkers Saskia K.S. & Wilhelms to express the complementarily of the various theories of foreign direct investment. Thus, it can be said that the most important purpose of the term harmonization of FDI is: "The extent to which a country is able to attract, absorb and maintain FDI, with reference to the state of vigilance and the ability to quickly bypass the risks, and to exploit the available opportunities, with a degree of flexibility sufficient to allow the country to withstand competitors" (Saskia K.S. & Morgan Stanley, July 1998, p.2) Investments. (Abdellatif, 2010, P.119)

According to this theory, the institutional harmonization of this type of investment is closely related to state institutions, and the latter is based on 4 institutions, which can be illustrated within the following institutional harmonization pyramid: (Suleiman Daho and Mohammed bin Masoud, 2017, p. 84)

Figure 01: FDI Institutional Harmonization Pyramid



Source: Saskia K.S. Wilhelms, Morgan Stanley Dean Witter, Foreign Direct Investment and its Determinants in Emerging Economies, African Economic Policy Paper Discussion Paper Number 9 July 1998, Funded by United States Agency for International Development Bureau for Africa Office of Sustainable Development Washington, D.C. 20523-4600. P 3.

Figure (01) highlights the pyramid of institutional harmonization of FDI, where the following can be illustrated:

P-ISSN: 2204-1990; E-ISSN: 1323-6903
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- Government Harmonization: The institution considers the government as the top of the pyramid of institutional harmonization of foreign direct investment, because of the important role of political capital in instigating the attraction of foreign capital, as the overlap of the government's functions with the rest of the other legislative, executive and judicial institutions, makes it of interest to the foreign investor, as it is the main source of decision-making and implementation, as it therefore adopts various policies related to foreign direct investment.

- **Market Harmonization:** It serves as the source of economic and financial indicators for the harmonization of foreign direct investment, as an explicit representative of all third institutional markets in the pyramid of institutional harmonization of foreign direct investment, and since education is an important indicator of human capital, the markets indicate physical and financial capital such as equipment, guarantee, credit... Etcetera. As for market harmonization, the proponents of this theory argue that countries with open competitive markets with legal and regulatory protection have a greater ability to attract FDI than those with targeted markets. Therefore, it can be said that the nature of markets has a pivotal role in investment decision-making, due to its direct impact on foreign direct investment projects, especially with regard to financial and economic transactions.

2.2.3. The relationship of the social environment to attracting foreign direct investment:

In this regard, emphasis is placed on the following critical elements:

- Educational harmonization: Education is ranked second in terms of the breadth of spread in the pyramid of institutional harmonization of foreign direct investment, as it is the flexible sociocultural basis used in various modes of thinking and action. Therefore, this harmonization is directly related to the building of human capital, especially when relied upon for global economic integration, which is described as rapidly diverging. According to the pioneers of this theory, institutional (educational) harmonization has a major role in establishing a business environment with great attractiveness to foreign investment. Direct, as it has a high capacity in processing information, encouraging creativity within research and development processes, with ease of dealing with new technology, which enables it to be an important source of skilled labor intensive, and it indirectly, affects the productivity and efficiency of FDI operations.

–**Social and cultural harmonization:** This harmonization forms the broad base of the pyramid of institutional harmonization, as it is more widespread than other harmonizations. This harmonization refers to the extent to which the citizens of the State concerned accept the social and cultural patterns of the foreign expatriate, as this can be attributed to several factors, including: the educational level of

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citizens; the level of their knowledge of foreign cultures; and the degree of openness and integration into the global economy. In this context, the proponents of this theory believe that this will enhance the state's ability to attract its investment hope. Foreign direct investors, in addition, the foreign investor often bases his investment decisions on cultural proximity to belief. Cultural and social factors can also be taken into account in business planning processes, and foresight of certain business processes.

In this context, it can be said that all these institutional alignments that make up the pyramid interact in different sizes with foreign direct investment, such as the interaction of governments with markets, the impact of education on the formation of human capital, and the formation of the base of social culture. Hence, the change in the alignment of any institution of the pyramid, during a certain circumstance, depends on the level of its influence on other institutions, which explains the order of these institutional alignments in descending order from top to bottom, according to the degree and speed of change. Therefore, government harmonization came at the top of the pyramid because of its rapid ability to influence the rest of the alignments, on the other hand, the harmonization of social culture occupied the base of the pyramid, due to the rootedness and rootedness of the social and cultural values of society, and changing values at this level cannot be assigned to decision-makers, and this change is usually slow and unplanned, in contrast, government policies and legislation usually change in a planned manner by Decision makers. Between aligning the top of the pyramid and aligning its base, the alignment of the institution of markets and the alignment of education, depending on the degree of influence, so that government policies can influence the change in the structure of markets after a period of time. A change in the education system usually takes place over decades before the change in human capital occurs. This highlights that according to the theory of institutional harmonization of FDI, any country can take the appropriate opportunity to increase its competitiveness in attracting and transferring FDI flows to it, and to enhance its share of these global investment flows.

3. Applied framework of the study:

The reality of the investment climate in Algeria and its role in attracting foreign direct investment

Despite the efforts of public authorities to enhance the attractiveness of the State, there are still many obstacles and obstacles to achieving its foreign investment hope, reducing the scope of incentive measures that seem more appropriate to create an enabling environment for attracting foreign capital, as improving the predictability and transparency of national investment legislation remains essential,

P-ISSN: 2204-1990; E-ISSN: 1323-6903
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to fill some of the legal gaps in investment law, and to enhance coordination between the various institutions responsible for investment. In this regard, the following can be addressed:

3.1. Investment qualifications in Algeria:

Algeria has an important set of qualifications that enable it to distinguish it from other developing countries, and make it the desired country to invest in, the most prominent of which can be summarized as follows:

- The labor market in Algeria is characterized by a relatively qualified labor force and its population is based on a broad base dominated by young people;
- As for the telephone network covering the entire national territory, it was estimated at 3.9 telephone lines per 1,000 inhabitants, 96% of which are automatic; (1994Media Bank),)
- The production of electrical energy covers all parts of the national territory, where its network is estimated to be 160,000 km long;
- Most cities and industrial poles have benefited from their delivery of natural gas energy;
- In addition, the presence of natural resources and local primary resources at competitive prices compared to international prices, the most prominent of these mineral resources are: iron, copper, lead, zinc and mercury... Iron is one of the most important and most productive minerals, especially in the mines of Ouenza, Boukhadra and Ghar Jbeilat, which have the largest reserves of iron in Algeria, in addition to the phosphate mineral extracted from the mines of Jebel Anak and El Koueif, from which fertilization fertilizer for agricultural soil is extracted;
- Repeated political attempts to open up to the outside world, for the purpose of luring foreign investment;
- Enactment of many legislations and laws that encourage more and more investment;
- Establishing bilateral or multilateral international relations at the economic and social levels.

It is clear from the above that Algeria has sufficient conditions to attract investor confidence in its untapped tourism wealth, its capable human potential, its diverse energy resources, its promising industrial production reserves, and its industrial and structural fabric compared to its little or no in other developing countries, so it (i.e. Algeria) represents a promising market of about 43.4 million people in 2019, making it a giver of more investment opportunities. While waiting for the Euro-Maghreb free trade space to take place, Algeria is keen to occupy a decent position that translates its potential and qualifications within this space. (www.onc.com)

3.2. Investment opportunities in Algeria:

P-ISSN: 2204-1990; E-ISSN: 1323-6903
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The annual report on the investment climate in the Arab countries for the year 2019 revealed that Algeria was ranked among the ten most Arab countries with the most investment, as it acquired about 18 investment projects in 2018 out of 876 projects in which the lion's share was for each of the UAE with 378 projects, and Saudi Arabia with 103 projects, and these projects singled out the pharmaceutical sector, plastics and mechanics, and the report stated that the total cost of projects imported into Algeria was estimated at 9.259 million dollars, and the number of companies 17 foreign companies invested in Algeria, which contributed to the creation of about 10.349 thousand jobs, as the report showed through Figure (01), Algeria's benefit from foreign direct investment stocks and flows over the period from 2000 to 2019, as follows: (Annual Report on the Investment Climate in the Arab Countries for 2019)

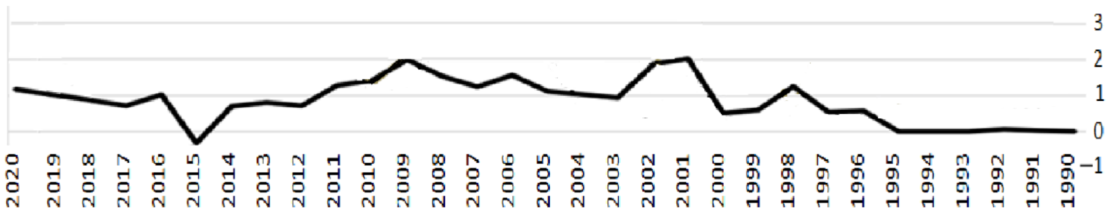
Table N°(01): FDI and External Financial Resources (2005-2019)

Financial Flows	**2005**	**2010**	**2015**	**2019**
FDI inflows	1 145.34	2 301.23	-584.53	1 381.89
FDI outflows	-20.19	220.49	103.22	82.75
Personal Capital Remittances (% of PIB)	2.00	1.27	1.20	1.03

Source: United Nations Conference on Trade and Development (UNCTAD)

This table reflects the developments in foreign direct investment flows during the period (2005-2019), as it is noted that the amount of inflows is stable despite the sudden fall of these flows during 2015, due to the oil price crisis and the great impact of the Algerian economy on this crisis. However, this stability is far from the important shares that the two Maghreb neighbors have received. As for outflows, the Algerian economy is still suffering from the breakdown of its production machine due to the lack of readiness in its business environment. However, some fuel flows have been recorded through Sonatrach's activity. The following figure reflects the trends of Algeria's financial flows during the period (1990-2020) as follows:

Figure N° (02): Trends in financial flows in Algeria during the period (1990-2020) (Million USD)



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Source: United Nations Conference on Trade and Development (UNCTAD)

Figure N° (02) shows that Algeria's stocks of inward foreign direct investment flows have witnessed slight changes from 1990 to 2000, jumping from less than $ 700 million in 2000 to the equivalent of $ 1.506 million in 2019, an increase of approximately $ 806 million, noting the significant decline in these flows in 2015, due to the crisis of low energy prices that hit the balances of all oil countries, and an external situation characterized by structural fragility, considering the economy Algeria is a rentier single-income economy. This is due to the sufficiency of some investments in the field of hydrocarbons, and there is also a kind of stability in Algeria's benefit from the inflows of inflows of funds (remittances of Algerians abroad) during the same period, but this stability remains far from what is hoped for by the Algerian economy, due to the lack of readiness of the investment climate to attract and attract foreign investors. (Zaidi Hassiba and Ben Samaeen Hayat, 2016, pp. 211-228)

Algeria has a diverse industrial fabric, which may constitute a fertile ground for many investments, and in various sectors, such as partnership in the ceramic sector, and the petrochemical sector, for example, with the possibility of developing and developing medium and small enterprises and improving their performance, and in this context it is possible to pay attention to various promising sectors, which are characterized by very important investment potentials and opportunities, including the following: (Investment Climate Report in the Arab States, 2011, pp. 169-170)

- The field of agricultural activities and livestock breeding, focusing on industrial crops (such as the manufacture of vegetable oils, the manufacture of canned vegetables and fruits, the manufacture of tobacco, cotton, etc. etc.), with mineral water exploration and attention to the fish farming sector;
- Paying more attention to the production of necessary fertilizers, reclamation and fertilization of agricultural lands, improvement of the drainage and disinfection network... etc;
- Base installations of rural processing structures related to agricultural production, such as improvement of the land area, upgrading of animal pens, control of the land zoning scheme, ... etc.;
- Paying more attention to the extractive industry, especially with regard to the hydrocarbon sector, research and exploration in the fields of energy and mines, electricity and natural gas production, and the expansion of their distribution network;
- The Base industry of iron and steel, and other metals, such as steel, lamination, plumbing, seamless pipes, dam channels... etc.;

P-ISSN: 2204-1990; E-ISSN: 1323-6903
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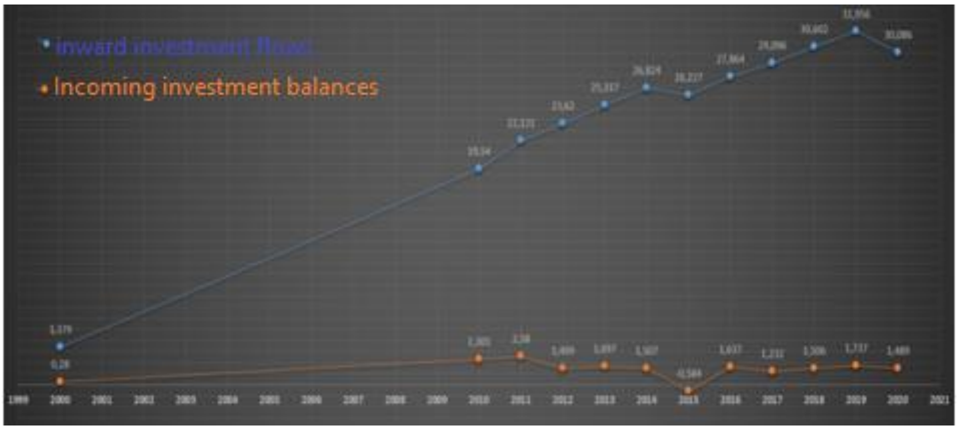
- The Petrochemical basic production, synthetic fibers, phosphate, nitrogen and organic fertilizers, and various other industries such as rubber frames, and glass industry of various types and forms;
- Manufacture of medical devices and instruments for the production of biological materials, veterinary products, ... etc.;
- Manufacture of processing materials for engines, actuators and power transformers;
- Production of industrial and private vehicles;
- Rail transport, maritime restoration and telecommunications;
- Industrial maintenance and refurbishment;
- The widespread construction sector, such as the construction of social housing, the restoration and protection of historical and archaeological sites, and the interest in sports real estate;
- Tourism (hotels and tourist vehicles);
- Traditional technical industries, and the manufacture of school and educational equipment (e.g. laboratory tools);
- Production of a scientific nature (printing children's books, schools and universities), cultural or artistic, and cinematographic production.

The movement of incoming capital to Algeria has also witnessed several changes, which can be observed through the outputs of the table of foreign investment inflows to Algeria during the period (2000-2020) following:

Figure N° (03): Foreign Investment Inflows to Algeria (2000-2020) Unit: Million USD



Source: Prepared by researchers based on the UNCTAD database available at: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

It is clear from Figure (03) that the general trend of the volume of foreign direct investment inflows to Algeria is constantly increasing, as these flows took an upward trend from the middle of the period (1990-1999) until they reached in 2010 a value of $ 2.301 million, to begin to decline in 2012 to $ 1.499 million, but they remained in fluctuation from the level achieved in 2011, until the year

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2015 witnessed negative flows with an estimated value of (-0.584) million dollars, and perhaps among the reasons that It can be relied upon to justify this, is that the seventies witnessed the opening of the hydrocarbon sector to foreign investments, this sector has not become the only sector revived, which justifies the rise in average flows during that period, as for the sharp decline in the average inflows during the eighties, it is due to the crises experienced by the Algerian economy during this period, in addition to the deterioration of the security situation, and the restructuring of the economy. This decline continued until 1995, and the hydrocarbon sector remained the only polarized despite the deterioration of security at this stage. After this period, foreign direct investment flows witnessed a remarkable recovery, which was reflected in the reforms initiated by Algeria, with the issuance of the Investment Law of 1993, the Law on the Privatization of Public Institutions in 1995, followed by the issuance of the Investment Law of 2011, which gave many privileges to investors, whether local or foreign, and through which investment-related bodies were created, such as the National Agency.Investment Development and the National Investment Council, these reforms contributed to stimulating results in 2009. However, what explains the decline recorded after this year can be attributed to the repercussions of the global financial crisis, which indirectly affected the national economy, as well as to the effects of some legislation and laws that affected foreign direct investment, such as the 49/51 rule, and the decline in fuel prices starting in mid-2014 directly affected investment in the hydrocarbon sector, which is the most important sector attracting foreign direct investment in Algeria.

3.3. Assessing the role and competitiveness of the Algerian investment climate in attracting foreign direct investment:

Assessing Algeria's performance in attracting foreign direct investment requires addressing three main elements: assessing the volume of inward foreign direct investment flows and their relative importance in the Algerian economy, as well as identifying the most important sectors attracting foreign investors, the relative importance of foreign direct investment in the Algerian economy, and the obstacles to foreign investment in Algeria according to the following:

3.3.1. Evolution of FDI inflows in Algeria:

One of the most important objectives of attracting foreign direct investment is its contribution to building and developing the productive capacities of the economy of host countries, which the World Investment Reports call the ratio of foreign direct investment flows to the total composition of fixed capital, as it is logical that the relative importance of a certain volume of foreign direct investment

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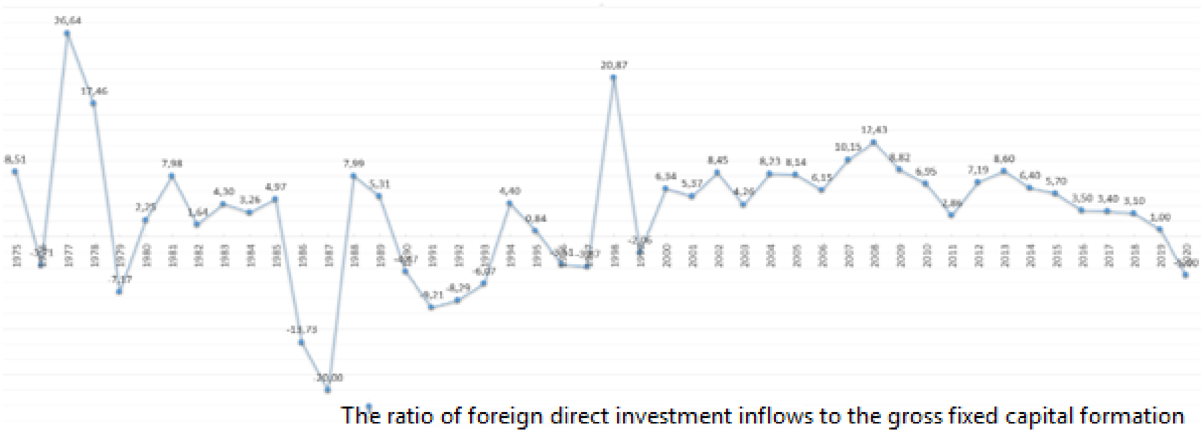
flows varies from one country to another according to the size of the economy, which makes comparing the absolute values of this investment flows between different countries give a wrong picture in most cases.

Based on the above, it is possible to identify the importance and appropriateness of the volume of inflows to Algeria from foreign direct investment, by the ratio of these flows to the total composition of fixed capital, and comparing this ratio with some countries by addressing the data of the following table:

Figure 02 Evolution of the ratio of FDI flows to gross fixed capital formation in Algeria during (1975-2020)



Source: Prepared by researchers based on: UNCTAD database available at: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

- Arab Investment and Export Credit Guarantee Organization, (2020), Investment Climate Report in the Arab States, Kuwait, p.39
- Arab Investment and Export Credit Guarantee Organization, (2021), Investment Climate Report in the Arab Countries, Kuwait, p.36

Figure (02) shows the ratio of FDI flows to the total composition of Algeria's fixed capital, as it is noted that it went through a period of great fluctuations and varied between negative and positive during the period (1975-2000), and due to the radically different periods within this time period, whether political, economic, security, social, demographic, etc., the analysis will focus on the period between 2010 and 2022, as during this period these became in a state of decline to Until 2011, it rose again to 2013, reaching its highest extent during the period (2010-2021), due to the rise in fuel prices, which encouraged attracting important shares of foreign investment, especially in the extractive industries sector. However, due to the remnants of the 2014 financial crisis, investment rates have

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declined significantly until 2020, reaching -5.00% this year, which can be attributed to the significant decline in FDI inflows during those years. And the remnants of the Corona pandemic at the global level in general, and at the local level in particular, and to the fragility of the Algerian economic structure, which has been dependent on financing its development on oil revenues, which are of a volatile nature, due to the variation in fuel prices in international markets. Investment ratios are therefore far removed from the world average of around 660% and the developing country average of around 6.75%.

3.3.2 A comparative study between Algeria and the southern Mediterranean countries:

After managing the Corona crisis and the recovery of the Arab economies in general and the southern Mediterranean countries in particular, most of these countries witnessed a decline in the ratio of investment to GDP, which can be illustrated by presenting the outputs of this table:

Table N°(02): Total investments as a percentage of GDP (%)

2021 Ranking	Country	2020	2021	Change2020-2021	Outlook 2022
1	**Libya**	412.6	105.3	(307.21)	101.9
2	**Algeria**	42.6	41.4	(1.16)	40.3
7	**Morocco**	28.4	28.1	(0.35)	28.2
13	**Egypt**	13.8	16.0	2.21	16.4
14	**Tunisia**	10.8	13.1	2.26	16.0

Source: Prepared by researchers based on: Arab Investment and Export Credit Guarantee Corporation, 2021, Investment Guarantee Bulletin: The Arab Economy in 2021 and Performance Expectations in 2022, From Managing the Corona Crisis to the Beginning of Recovery, page 27

It appears from the above table that Libya, Algeria and Morocco, like the rest of some other Arab countries, witnessed a decline in the ratio of investment to GDP, and the proportion of investments exceeded the barrier of 30% of GDP during the year 2021, led by Libya with 105.3% of GDP during the year 2021, and Algeria ranked second in the Arab world with 41.4% of GDP, and it is expected that the decline in the ratio of investment to GDP coincides with further recovery during 2022, and the reason for this is due to the continued dependence on the proceeds of the sale of hydrocarbons, similar to the increase in their prices in the international market, in return for the government's attempts to stimulate the attraction of foreign direct investment through some structural

P-ISSN: 2204-1990; E-ISSN: 1323-6903
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reforms in its investment climate, and this is related to the institutional aspect, especially organizational, political and social, in addition to various macroeconomic elements.

3.4. The role of foreign investment in achieving growth and economic development in Algeria:

The rapid changes in the trends of foreign direct investment flows at the global and regional levels have made the race rage between the various countries, especially the countries of the southern Mediterranean basin, in order to attract more of these investments as these economies recover from complex international crises, in this regard, the results of Table (3) below show the following:

Table N° (03): Foreign investment and GDP of some Southern Mediterranean countries (in billion dollars)

2021 Ranking	Country	2020		2021		Outlook 2022	
		FDI	GDP	FDI	GDP	FDI	GDP
3	**Algeria**	**62.9**	**147.6**	**67.9**	**163.8**	**67.8**	**168.2**
4	Egypt	50.0	363.2	63.4	396.3	71.9	438.3
6	Morocco	32.6	114.6	35.4	126.0	37.4	132.6
7	Libya	79.3	31.7	28.8	31.7	29.8	31.7
11	Tunisia	4.2	39.2	5.6	42.7	7.3	45.5

Source: Prepared by researchers based on: Arab Investment and Export Credit Guarantee Corporation, 2021, Investment Guarantee Bulletin: The Arab Economy in 2021 and Performance Expectations in 2022, From Managing the Corona Crisis to the Beginning of Recovery, pp. 12 and 26

According to the data of Table 3, it is clear that Algeria has benefited from an increase in foreign direct investment with an estimated share of 11.3% of the total investments of 21 Arab countries, thus ranking third after Saudi Arabia and the UAE, and first compared to the southern Mediterranean countries. On the other hand, Algeria ranks sixth in the Arab world in terms of GDP by $ 163.8 billion in 2021, an increase of $ 16.2 billion. The increase in the GDP of this country is expected to continue during the year 2022, as it may reach $ 168.2 billion, and this can be attributed to the recovery of fuel prices at the international level, and their arrival at imaginary levels, which contributed significantly to the improvement of growth rates, and their reflection on economic development, which made decision-makers in this country try through their reliance on improving the business environment, and opening the way for foreign direct investment by adopting serious institutional reforms, especially those Following the promulgation of Law N°. 22-15 of July 20, 2022

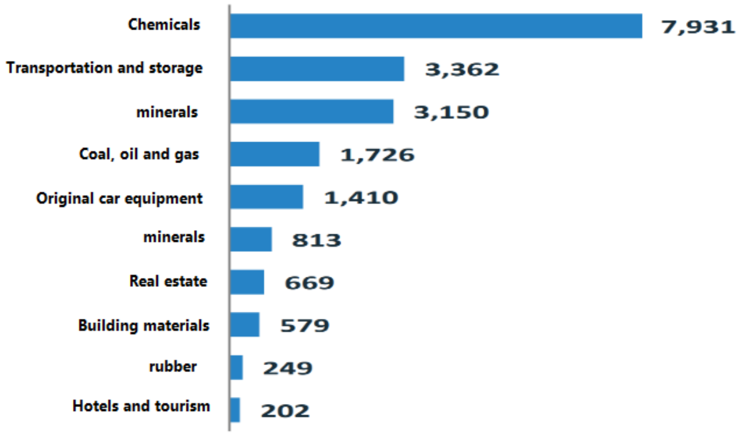
P-ISSN: 2204-1990; E-ISSN: 1323-6903
DOI: 10.47750/cibg.2023.29.01.016

defining the rules governing frees zones, and Law N°. 22-18 of July 24, 2022 on investment, including the search for a diversified economic model in line with the financial crisis that Algeria is experiencing these days.

3.5. Sectoral distribution of FDI in Algeria:

The development of the flow of investments in Algeria has witnessed a diversification in its distribution to some important sectors of the Algerian economy, and this can be shown according to the following figure (3):

Figure N° (03) Evolution of Investment Projects by Top 19 Sectors during the Period (2015-2019) (Million USD)



Source: The Arab Investment & Export Credit Guarantee Corporation, 2020, Country profile, Algeria: Economic indicators, Foreign direct investment, International trade, p.3. in:www.dhaman.org

By looking at the outputs of the above table, it is clear that the chemicals sector has witnessed an important development in the flow of investments to it, by $ 7,931 million, thus topping the list of the most important investment projects for the top 10 economic sectors affected by development during the period (2015-2019), due to Algeria's dependence on partnership in attracting investments to this sector, the high demand for chemicals in the Algerian market, and the abundance of qualified and cheap labor in this context. In terms of ranking, the transport, storage and minerals sectors with investments estimated respectively: 3,362 and 3,150 million dollars, then the fuel sectors (represented by coal, oil and gas) with 1,726 million dollars, the automotive original equipment sector with 1,410 million dollars, and then the rest of the sectors with varying but small amounts. Although some sectors in Algeria have managed to attract the interest of foreign investors, such as the investment of the Egyptian company (ORASCOM) in the telecommunications sector in 2001, the Kuwaiti National Corporation in the telecommunications sector in 2004, the French company (DANONE) in the food

P-ISSN: 2204-1990; E-ISSN: 1323-6903
DOI: 10.47750/cibg.2023.29.01.016

industry, the American company (PFISER) in the chemical and pharmaceutical sector, and (ISPAT) in the iron and steel sector, ... Etcetera. However, most FDI inflows to Algeria are still concentrated in the hydrocarbon sector. This can be illustrated by the following table: (https://www.iaigc.net)

Table 4: Sectoral distribution of new investment projects coming into Algeria by business activities Total Period (January 2015-December 2019)

The activity	Cost (million dollars)	Number of projects
industrialization	12,883	42
extraction	3,450	2
Logistics, distribution and transportation	3,305	2
construction work	867	3
business services	196	16
electricity	170	1
Sales, marketing and support	114	19
Education and training	42	4
fragmentation	19	3
Maintenance and services	4	1

Source: Prepared by researchers based on: Arab Investment and Export Credit Guarantee Organization, (2019), Bulletin of New Foreign Direct Investment Projects in the Arab Countries 2019, second Quarter 2020, in the Arab Countries, Kuwait, p.18

In addition to the hydrocarbon sector, it appears from Table (4) above, that FDI inflows to Algeria during the period (2015-2020) were distributed among certain limited sectors, where some sectors witnessed a significant recovery, such as the manufacturing sector, in which inflows were estimated at $ 12,883 million, with an estimated number of projects estimated at 42 projects, meaning that it accounted for 45.16% of the total incoming projects, and the same for the extraction sector, the logistics, distribution and transport sector, the inflows of these sectors were estimated. With $3,450 million and $3,305 million respectively, with two new projects each, in addition to the construction sector, which attracted $867 million of total inflows, while the rest of the sectors recorded weak percentages such as the business services sector, the electricity sector, the sales, marketing and support sector... etc., to which the total inflows were estimated at $ 545 million.

3.6. Prospective reform policies and their impact on attracting foreign direct investment in Algeria:

Talking about investment in Algeria leads to talking about the Investment Law No. 22-18 of July 24, 2022, this law will have a great impact on moving the wheel of the economy, by liberalizing

P-ISSN: 2204-1990; E-ISSN: 1323-6903
DOI: 10.47750/cibg.2023.29.01.016

investment, launching the initiative and instilling the spirit of entrepreneurship among Algerian youth, and not being satisfied with the state being the sole operator of the economic cycle, because the economy is everyone's task, whether they are economic partners or social partners. Algeria today faces the imperative of reaching self-sufficiency within a three-dimensional approach, which is represented in: Achieving food security, energy security, and health security. Economic sovereignty is manifested in food security, and this can only be achieved if a suitable investment climate is created for all. That is why Algeria is a destination for foreign capital, especially European capital. As for energy security, for the first time, it is clear that European energy security depends on energy investments in the Algerian Sahara, especially fossil energy and renewable energy, especially green hydrogen energy. This necessitates taking advantage of all these geopolitical conditions in order to create an attractive business climate by offering a number of Finance facilities, especially tax and customs ones, in contrast to the imperative of embodying banking and banking structural reforms.

The recent foreign investment movement in Algeria is mainly due to global economic trends, which suggest that Algeria is moving towards what foreign experts describe as a trend towards dispensing with the returns of mineral wealth in its exports, with the accompanying new legislative amendments, and political and security stability. Through the study of the Algerian market by foreigners, the results in the last two years have given a good impression of the new trend, which carries good financial and economic indicators, whether in terms of cost, especially with regard to the attractive price of energy, cheap labor, ... etc., or by other important factors, such as the installation of diplomatic committees through the various Algerian embassies abroad, which have played and will play a major role in promoting the new trends in the Algerian economy, in order to integrate into global value chains, taking into account the important aspect of this, which is the creation of the appropriate environment for the free movement of people and capital.

The idea of a single window brought by the new investment law, and the digital transformation that aims to dematerialize investment transactions, through easy access to digital platforms, and tracking the processing of investment files in record terms, in addition to various tax incentives, which may reach a tax exemption for a period of 20 years for projects that will be established in the south of the country, for example, and the abolition of the 51/49 rule, except in the country's major strategic industries, with the formation of the Algerian Agency for Investment Promotion, and attaching it directly to the presidency of the government, in exchange for The formation of some other agencies such as the Industrial Real Estate Agency, which would apply the principle of decentralization in the

P-ISSN: 2204-1990; E-ISSN: 1323-6903
DOI: 10.47750/cibg.2023.29.01.016

treatment of industrial real estate, and make the decision to grant industrial real estate to investors wishing to create wealth and bring added value to local development. All of this will contribute significantly and effectively to spreading the spirit of entrepreneurship among Algerian youth in order to stimulate the promotion of start-ups, accompany the owners of small and medium enterprises and help them integrate into the Algerian industrial fabric, especially with regard to the sectors that the government is betting on, such as the mining sector, the agricultural sector, and other. All this will be in the form of trying to create a diversified and productive economy, in order to replace some of the products that Algeria is betting on producing locally, to reduce the burden of the import bill.

4. Analysis of results:

This study tried to shed light on the effectiveness of the Algerian investment climate, as a business environment to attract foreign direct investment, and its impact on the decisions of foreign investors to transfer their capital to the Algerian market, or to find out the reasons for their reluctance and failure to do so. Emphasis was therefore placed on highlighting the real reasons why host countries attract foreign investors.

Based on this, Algeria changed each time its laws regulating investment, to make them more appropriate and more compatible with the current circumstances, whether economic, political or social, in this regard, an agency was created to promote, strengthen and follow up investments, which later turned into the National Agency for Investment Development, and then to the Algerian Agency for Investment Promotion, which was granted the role of promoter and companion of investments through the creation of a single window with national competence for major projects and foreign investments, as well as the creation of single windows, other than Centralized for local investment, and strengthening its powers. The Algerian Agency for Investment Promotion will also have a role in "fighting bureaucracy by digitizing procedures related to the investment process through the creation of the investor's digital platform", as well as the "immediate" delivery of the investment project registration certificate. The latter will contribute significantly to pushing the investment wheel forward, through the use of the newly issued legal arsenal, led by the Investment Law No. 22-18 of July 24, 2022, which carries several bets in order to achieve economic take-off and go to comprehensive development...

P-ISSN: 2204-1990; E-ISSN: 1323-6903
DOI: 10.47750/cibg.2023.29.01.016

5. Conclusion:

In this context, and against the background of studying the investment climate in Algeria and its impact on FDI flows, and the results drawn, a summary of the very important recommendations can be presented and summarized in the following essential points:

- Recommendations on reforming the institutional environment:

- ✓ Updating the banking sector in line with qualitative changes in investment promotion for the purpose of adopting a productive and diversified economic model;
- ✓ the establishment of other financing banks (public or private) to eliminate the monopoly on financing agricultural investment projects by the sole Bank of Agriculture and Rural Development;
- ✓ Dematerialization of investment transactions by activating and making digital platforms effective;
- ✓ Linking industrial investment and agricultural investment, to create harmony between them, and to reflect positively on manufacturing industries with a competitive advantage.

- Recommendations on the reform of the legal and fiscal system:

- ✓ Updating the tax sector by activating the relevant digital platforms and improving the organization of these platforms;
- ✓ Adjusting regulatory laws to the spirit of the new investment law;
- ✓ Ensuring that the lived reality is in conformity with the legal objectives related to the regulation of investment, in particular the new investment law;
- ✓ Ensuring the specialized legal training of the officials responsible for the regulation of investment in the country;
- ✓ Spreading legal awareness and litigation culture among different investors;
- ✓ Developing and regulate investment-friendly digital platforms in accordance with the relevant laws.

- Recommendations on international, regional and Arab cooperation in the field of supporting foreign direct investment:

- ✓ Involving foreign investors in export operations, for the purpose of acquiring the necessary expertise, and eliminating all technical trade barriers;
- ✓ Encourage investment in high-tech agricultural equipment destined for the vast agricultural regions of southern Algeria, in line with the country's strategic agricultural development directions;

P-ISSN: 2204-1990; E-ISSN: 1323-6903
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- ✓ The need to diversify foreign partners in order to create competitiveness among them;
- ✓ Establishing what is known as industrial real estate gardens and using a foreign partner with great experience in this, as is the case in Italy and Turkey, for example;
- ✓ Activate the free movement of people and capital to and from Algeria.

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