

FOREIGN DIRECT INVESTMENT AND SUSTAINBLE DEVELOPMENT IN ALGERIA

الإستثمار الأجنبي المباشر والتنمية المستدامة في الجزائر

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Abstract: The study aim to highlight the performance of Foreign Direct Investment (FDI) in Algeria in accordance with the dimensions of sustainable development. In other words, finding a balance between economic and social indicators and the environmental needs towards achieving sustainability. The study shows the flow of FDI is limited in the area because of many factors. Furthermore, the nature of the Algerian economy necessitate direct foreign investments to concentrate only in some strategic sectors. These sectors, however, are known for lacking in answering to the standards of sustainable development.

Key words: sustainable development; Foreign Direct Investment (FDI); Investment environment.

JEL Classification: E2, F62, I25.

ملخص : تهدف الدراسة إلى تسليط الضوء على أداء الإستثمار الأجنبي المباشر في الجزائر وفقاً لأبعاد التنمية المستدامة. وبعبارة أخرى، تسعى الدراسة إلى إيجاد توازن بين المؤشرات الاقتصادية والاجتماعية والاحتياجات البيئية نحو تحقيق الاستدامة. توصلت الدراسة إلى أن تدفق الإستثمار الأجنبي المباشر محدود في المنطقة بسبب عوامل عديدة. إضافة إلى ذلك، فإن طبيعة الاقتصاد الجزائري يجعل هذه الإستثمارات تتركز فقط في بعض القطاعات دون غيرها وفي الغالب فإن الإستثمارات الموجهة لهذه القطاعات تفتقر إلى الاستجابة لمعايير التنمية المستدامة.

الكلمات المفتاح: التنمية المستدامة ؛ الإستثمار الأجنبي المباشر؛ بيئة الإستثمار.

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Introduction:

Foreign direct investment has become one of the most desirable tools for countries to push their economies, especially developing countries. This is because of its comparative advantage. One of the indicators of the success of economic policy is how attractive the country is to foreign direct investment. This reflects the improvement in the business environment. Perhaps the most important characteristic of its stability compared to other investments (financial portfolios, for example), which makes it to ensure a sustainable interest to some extent.

Even today, FDI distribution remains largely unequal, where investments are concentrated in developed countries such as Japan, the European Union and the United States. Recently, however, this situation has tended to shift to the benefit of developing countries, which have become major players in foreign direct investment, especially after the huge amount of concessions granted by these countries. Algeria, like other countries, has sought to attract more foreign investment by removing restrictions and offering financial incentives and privileges without a good trade-off between the investments that enable it to reach its objectives. In addition to choosing those best performing investments on their economies, which can achieve a positive performance on the economic, social and environmental level, to some extent.

In light of the above, the present study aims to answer the following question: What is the relationship between foreign direct investment and sustainable development in Algeria?

To investigate the relationship, some hypotheses were suggested:

- Foreign direct investment has a positive impact on economic development.
- Foreign direct investment in Algeria is known to be frail due to institutional factors that need to be treated.
- Foreign direct investment has no impact on sustainable development in Algeria because of the nature of each, public and private.

The importance of the research lies in the fact that attracting and developing foreign direct investment to Algeria has become an issue that cannot be ignored by economic policy makers, especially since the Algerian economy has always and still suffers from the problem of non-diversification of income sources and lacks solutions that can come from foreign direct investment. In the case of a good trade-off, however, this

problem can be alleviated. In addition, the study of FDI in Algeria will shed light on the investment climate and thus identify its shortcomings, consequently contributing to a true reality of the business environment in Algeria.

Research aims:

Our purpose is to try to achieve the following objectives:

- Assessment of the investment climate in Algeria.
- Attempting to highlight the performance of FDI in Algeria compared to the criteria of sustainable development and thus test the validity of the hypotheses suggested for this study.

1. Literature Review:

The concern of Foreign Direct Investment (FDI), should focus on the sustainable development criteria that were established by the World Commission on Environment and Development in their 1987 report “Our Common future”. Furthermore, since the environment is prioritized on top of these criteria, it encourages first green investment and renewable energies investment then comes the social and economic aspects. The social impact, in accordance, is greatly related to economic growth which generates a dynamic economic system that can allocate funds for social sustainable projects such as, increasing employment to answer a need in work force; enhancing life expectancy thanks to a better medical assistance and working on eradicating poverty. Hence, FDI is considered a crucial element that helps immensely towards achieving the objectives of sustainable development because private initiatives can replace public efforts (Marian & al., 2015).

FDI has a differing of impact on the economic growth of host countries. For despite the fact that its positive a positive impact on the USA (Asheghian, 2004) and many other developed countries, it does not necessarily effect developing countries the with the same degree and positivity. China, for instance, is considered as one of developing countries that attracts the biggest amount of foreign investment, which had a positive impact on the growth of its exports. Yet, FDI has no positive impact on the country’s development (Haishun,1999).

Wang and Wong had a different view after a study they conducted in the period of 1987 to 1997 on 12 Asian country. The aim of the study was to confirm a positive correlation between FDI and economic growth. As a result, they concluded that FDI, in fact, had a positive impact on economic

growth in the sample countries however, the latter was limited to the industrial sectors only (Wang & Wong, 2009). Sunde reached the same conclusion in 2017 when he conducted a study on South Africa for the period 1990 to 2014. He confirmed that FDI boosts exports, which had a positive impact on the growth of host countries because there exists a positive correlation between exporting and growth (Sunde & Tafirenyika, 2017).

Economic development reflects improved living standards accompanied with a long-term growth that would enhance income from low to high. Economic growth, contrastingly, reflects meeting the needs of the society in the present, following a reasonable pace to preserve wealth opportunities of the coming generations. Accordingly, FDI positively effects some of the sustainable development indicators however; this can take a toll on the achieved progress of the host countries. In other words, as opposed to developing countries, developed countries are the one who benefit more from FDI (Manuela & Toma, 2011).

In another study conducted between 1990 and 2013 on seven countries from South Asia including, Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. The study inferred that high FDI flows resulted in the establishment of social stratification and aggravating problems issuing from income inequality in this group of countries (Hyungsun & Miguel, 2017).

Furthermore, FDI can decrease unemployment rates in host countries although it remains conditional. In the year 2012, Sharari & al. conducted a study in Malaysia during the period of 1980 to 2010 where he investigated the correlation between FDI and unemployment. His results show that FDI helps reduce the rates of unemployment in the country in addition to increasing Gross Domestic Product (GDP). In the same context, another study investigated employment in Pakistan in a period of 1970 to 2011, which, resulted in a positive correlation between FDI and an increased employment rate. These studies concluded that there is positive correlation between FDI and decreasing unemployment in host countries (Habib & Sarwar, 2013).

In 2013, Mucuk & al targeted seven developing countries including Argentina, Chile, Columbia, Philippines, Thailand, Turkey and Uruguay. His objective was to know the impact of FDI on unemployment in developing countries from 1981 to 2009. The results were asymmetric when FDI reduced unemployment in some countries like Thailand but increased its rates in other countries like Argentina and Turkey. These results can be explained through the acquisitions and mergers executed by foreign

companies. Therefore, founding foreign investments are the ones that create job opportunities in host countries (Mucuk & Demirsil 2013).

2. Sustainable development and foreign direct investment:

The concept of sustainable development went through several development phases since it was introduced. Many institutions and organizations helped with the development of the concept since it garnered interest on an international level. GroHartlem Brundtland coined the term in the paper *Our Common Future* in 1987 (Pisani, 2007). He defined sustainable development as the, “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (Brundtland Report, WCED, 1987) the concept evolved throughout out its historical development to fit the contemporary changes attaining the economic world.

The aforementioned definition proposed by Brundtland might be the most cited definition. This definition stresses the importance of preserving resources for future generations while still improving the quality of life for present generation. In other words, it refers to the alignment of the world’s economic and ecological systems. (Gerber, 2016) A policy change will allow for attaining sustainable development aims (Duran & al., 2015) which include:

- Achieving an economic balanced growth.
- Preserving the ecological system.
- Improving quality of life for all human communities and guaranteeing an equal access to resources.

These three objectives form the three components of sustainable development, economic, environment and social (Duran & al., 2015).

2.1 Economic components: the main objective of sustainable development is to promote economic growth through the creation of new markets, implementing organizational structures and mechanisms that would improve the functioning of economic activities, maintain a balance between all sectors of the economic system, creation of value through cost reduction and increasing profits efficiently.

2.2 Ecological components: Wardle and Gillerdefine environment development as “the ability to hold whiles the three basic functions of the environment: the power function of resources, waste receptor function and the direct utility” (QtdDuran & al., 2015) In other words, ecological responsibility compromises between an economic growth and

environmental laws to achieve a balance of ecological nature. Therefore, this component comprises as its functions the need to reduce waste, lower the impact on human health, encourage the use of renewable energies and sources, and attempting to eliminate toxic waste.

2.3 Social components: the human aspect of sustainable development dabs into social interactions and relationships. This component, according to Minica and France, has the following objectives: (Qtd in Duran & al., 2015)

- Guarantee the health and safety of the labour force.
- Maintaining equal opportunities for education, training and employment.
- Protecting health through access to medical facilities, preventing infectious diseases from spreading and reduce pollution risks.
- Controlling population growth that might threaten sustainable development.

3. Development of Foreign Direct Investment (FDI):

3.1. Development of FDI Income in Algeria:

**Table (1): Development of FDI Income in Algeria
2001-2018 (Million Dollar)**

Years	1992	1993	1994	1995	1996	1997	1998	1999	2000
FDI	30	0	0	0	270	260	607	292	280
Years	2001	2002	2003	2004	2005	2006	2007	2008	2009
FDI	1113	1065	638	882	1145	1888	1743	2632	2754
Years	2010	2011	2012	2013	2014	2015	2016	2017	2018
FDI	2301	2580	1499	1697	1507	-584	1637	1232	1506

Source: based on UNCTADstat

This figure depicts asymmetrical flows of FDI in general. The results, which are continuously fluctuating, can be divided into three sections:

- **Section 1(1992-2000):** This period displays an increased growth in the level of FDI due to some of the incentives offered during this period to foreign investors. These investments went mostly to the hydrocarbon sector. However, some investments went to others sectors like ENAD and HENKEL cleaning products manufacturers who became partners with

Algeria in 2000. As for the period before 1996, the FDI was almost non-existent in Algeria due to the difficult situation experienced by Algeria. The political turmoil witness by Algeria at the time in addition to increasing external debts, caused Algeria to seek the help of FMI in structural adjustment, which lead naturally to the absence of FDI in this stage. (ناجي بن حسين، 2007)

- **Section 2 (2000-2009):** In 2001, Algeria signed a partnership agreement with the European Union as a first step to join the OMC. Furthermore, there was the issuance of the law 01/03 in the same year that included tax incentives in addition to incentive measures for investors in the framework of export diversification programsto alleviate the Algerian economy's dependence on the hydrocarbons sector. The next year, Algeria ranked third in Africa in terms of attracting foreign direct investment. Most of the investments in the hydrocarbon sector were directed to American, French and British companies. FDI outside the hydrocarbons sector was estimated at 0.2% of GDP (1990-2001). This portion was due to the privatization of steel industries under the Indian company ESPAT, in addition to selling the second mobile license to Egypt's Orascome.

Furthermore, FDI rates decline in 2007 due to the global financial and economic crisis. The reason behind the decline is traced back to some countries such as the Gulf who abandoned some projects in the region. Such projects during the five years prior to 2007 created nearly 250,000 jobs. The increase observed in 2009 was estimated at 2754 million on account of the increase in investments in the energy sector, which represented 9 out of 10 projects during the same year (Hind Ouguenoune, 2014). National agencies have also been established to guide investors (both foreign and domestic) in the same period such as ANDI² (National Agency Investment Development), ANIREF³ (The National Agency for Real Estate Mediation and Control), and CNI⁴ (National Council for Investment).

² It was established within the framework of the first reforms initiated in Algeria during the 1990s and charged with investment aimed at adapting to changes in the economic and social situation of the country. This government institution, originally called the Investment Promotion, Support and Follow-up Agency, was granted from 1993 to 2000 and then became the National Investment Development Agency to facilitate, promote and accompany the investment.

³ The National Agency for Real Estate Mediation and Control was established by Executive Decree No. 07-119 of April 23, 2007, defining its functions Real Estate Mediation establish, Data Base, Real Estate Control, Real estate promotion.

⁴ The National Council for Investment Executive Decree No. 01-281 of September 24, 2001, a body established by the Minister responsible for the promotion of investment and placed under the authority of the Prime Minister, who is the President of CNI. It performs the function of suggestion and study and gives it effective authority in decision making.

- **Section 3 (2010-2018):** this period witnessed some fluctuations in the flows of FDI, where Algeria obtained according to UNCTAD in 2012 what amounted to only 1.5 billion dollars, while it was about 2.6 and 2.3 in 2011 and 2010 respectively. Most of the investments were in the field of energy. This shows that in spite of the unattractive image of investment in Algeria, it has no impact on the energy sector. The causes of these inflows include, the increase in North Africa's total share of the FDI, which, rose to \$ 14.47 billion; a growth of 11% and the improvement in oil production; foreign companies exploring gas reserves in the region.

The sharp decline of the FDI in 2015 is only a confirmation of the role of the energy sector, which is considered the most attractive sector for investment. Comparing Algeria with Morocco, for example, data shows that Morocco could attract 3.3 billion dollar in 2009 out of the energy sector. This could be explained by fact that the Algerian government employs the rule of 49/51. If this rule were to be removed, Algeria could benefit from \$ 5 billion to \$ 6 billion a year, which would raise growth rates to 5 percent. Moreover, another reason is the constant change in laws. Therefore, Algeria is bottom of the most FDI attracting countries in North Africa.

3.2. Evaluation of the Investment climate in Algeria according to some indicators for 2019:

Table (2): Algeria ranking by some indicators 2019

Indicator	GCR	Risk Index	Economic freedom	Transparency	Doing Business
Order	86	High level	171	105	157
Countries	137	200	180	180	190

Source: based on different sources⁵

⁵ Klaus Schwab, "The Global Competitiveness Reports", World Economic Forum, Switzerland, 2016-2017, pp 46-50 and 2017-2018, p 13. And Heritage Foundation and Wall Street Journal, index of economic freedom, 2010-2019, seen: 21-09-2019 at 22:03 link : https://www.heritage.org/index/pdf/2019/book/index_2019.pdf. And José Ugaz, "Corruption Perception Index 2016, Transparencity International", 2009-2018, seen 23-29-2019 at 09:01 link: https://www.transparency.org/files/content/pages/2018_CPI_Executive_Summary.pdf world bank group, "doing business", 2010-2019. Seen: 25-09-2019 at 16:24, link: https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

3.2.1. Global Competitiveness Index: Algeria ranked 86 out of 137 countries. This attests to the fact that it has been ranked among the last for most of its sub-indicators. As Algeria scores only 82 out of 137 even in the first set of the index that represents the basic requirements and reflects the competitiveness of the country in the first stage of development. This group of criteria represents the basic pillars of any economy without which it cannot function. Algeria ranked 93rd in the Infrastructure Index, Institutional Index 99th, Macroeconomic Index 63th, and Health and Basic Education ranked 73rd. It is worth mentioning that despite its progress in all these indicators, except for the macroeconomic index compared to the previous year 2016-2017, Algeria is still underperforming. As for the second group, which involves the efficiency enhancers in which groups of countries are characterized by quality products, Algeria ranks 110 scoring bottom rank in all sub-indicators, and this is indicative of the low level of Algerian institutions and the lack of quality in their products. The last group remaining includes, the factors of creative development and innovation in which Algeria ranked 119th (Klaus Schwab, 2018). This is explained by the interdependence of index groups with each other, these parts tend to strengthen each other and thus the weakness of the country in one area has a negative impact on other areas (Hamed Vares & al.,2011)

3.2.2. Composite Country Risk Index: Algeria came at a high level of risk with a score of 49.3 out of more than 200 countries after being ranked higher within the same index (a low degree of risk with a score of 70-79). This fluctuation is due to the political situation in Algeria arising after the peaceful manifestations demanding the change of the corrupt political system in the country.

3.2.3. Index of economic freedom: Algeria ranked 171st as shown in the table. In addition, it is worth mentioning that the ranking decreased from 105 to 171(out of 180 countries) between 2010 and 2019 respectively. This fall is because of several reasons including governance, corruption, freedom of investment, and intellectual property, etc. These distortions in the investment environment are among the reasons that alienate investors.

3.2.4. Transparency Index: As can be seen in the table, Algeria has a low ranking in the Transparency Index of 105th on the list. It is important to note that in most years Algeria has been ranked above 100. This indicates the prevalence of corruption, which was considered, according to the Global Competitiveness Report for 2011-2012, as the third factor limiting the attraction of the FDI after the issues of financing and bureaucracy respectively. Algeria came after Morocco, which ranked 80th, 88th, 90th, 81st, 73rd from 2014 to 2018. While Tunisia is doing well as its ranking increased

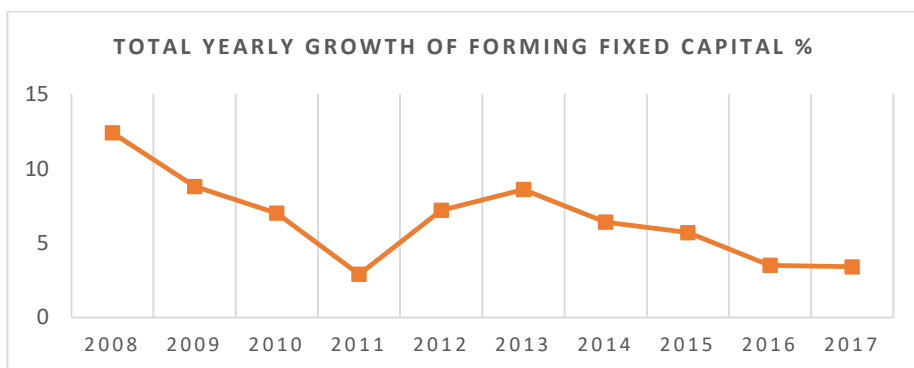
in the same period and is as follows: 79th, 76th, 75th, 74th, and 73rd. Although the Arabic countries generally are still late in this index. In order to improve Arab countries rankings, they must ensure that transparency and effective systems allow accountability. Governments must protect freedom of expression and stop prosecution of activists, anti-corruption and civil society organizations, and the independence of the judiciary must be respected to ensure that corrupt people are prosecuted, and the stolen assets returned. These objectives cannot be achieved without genuine and serious political will on the part of the governments in order to fulfill their obligations (José Ugaz, 2014-2018).

3.2.5. Ease of Doing Business Index: Algeria ranked 157th in the year 2019. This indicates the deterioration of the business environment in the country, and the low ranking of Algeria in this index is mainly due to the decline of sub-indicators of the latter where Algeria's rankings were as follow, 150th in the index of starting a business, 129th in dealing with construction permits. As for the Registering property sub-index, Algeria ranked 165th, while landed on 178th rank for the sub-index getting credit and, the same goes for the other sub-indicators (world bank,2019). These low rankings show the absence of serious reforms in Algeria, which made the business environment unattractive for foreign investors who prioritize efficiency and regulation for a good performance in ease of doing business.

4. How well the FDI achieved the standard of economic and social in sustainable development:

4.1. Effect the FDI in forming fixed capital:

Figure (1) Effect the FDI in forming fixed capital



Source: based on World Bank Data.

The above figure shows that FDI's effect on fixed capital formation remains weak in Algeria and therefore, FDI is not an important source. This is

mainly sue to the quality and focus of the latter does not allow the revitalization of the productive sector in Algeria, but most of the FDI is concentrated in the sectors of hydrocarbons or sectors that are cost-effective and do not need large capital such as the services sector.

4.2. The impact of FDI on the balance of payments:

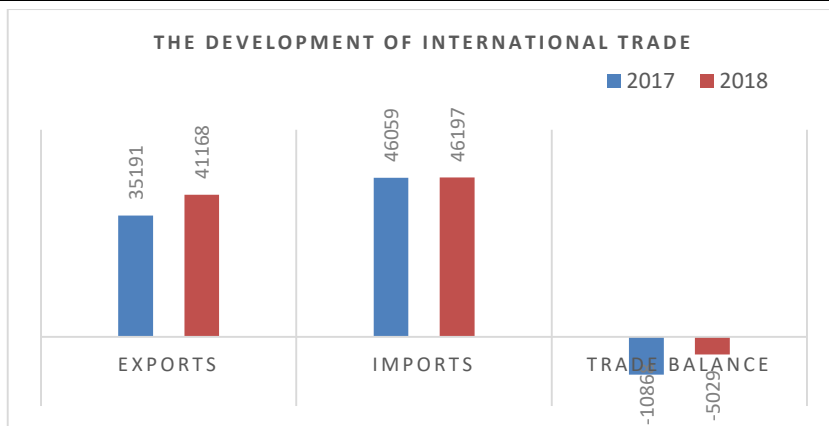
Table (3): The impact of FDI on the balance of payments

Years	2013	2014	2015	2016	2017
FDI	16997	1507	-584	1637	1232
BP	0.133	-5.881	-27.537	-26.031	-21.762

Source: made by the student by using Algerian Bank Data and UNCTADstat

Table (3) illustrates how the FDI flows do not directly affect the balance of payments. Despite the inflows of capital since 2014, the balance of payments has remained negative. This is because the profits transferred abroad are often exceeded, especially for the hydrocarbons sector. For example, the volume of FDI imported to Algeria in 2011 amounted to \$ 2.6 billion, while profits transferred abroad in the hydrocarbons sector alone \$ 4.97 billion, which negatively affects the balance of payments due to weak control both at the level of banks Domestic or foreign. Furthermore, the balance of payments is mainly affected by the income of hydrocarbons. With the decline in oil prices in 2014, the balance of payments recorded a deficit of -5.881, and the transfer of hydrocarbon exports from \$ 27.92 billion in 2016 to \$ 33.20 billion in 2017, the balance of payments deficit shifted from -26.031 to -21.762.(Bank of Algeria, 2018) as for the trade balance:

Figure (2): Export and Import in 2017-2018



Source: ANDI

Figure (02) shows that the value of exports in 2017 amounted to \$35,191 million. A decrease of \$27,695 million compared to 2014, which recorded 62,886. This is due to the recovery of oil prices compared to 2016, which was estimated to decline \$ 34,003 million, as for exports outside the hydrocarbons Remains sub-par with marginal ratios of only \$ 1367 million for 2017 (Bank of Algeria, 2018). Imports amounted to \$ 46059 million in 2017, decreasing compared to 2016, 2015 and 2014, which recorded respectively by 46727, 51702 and 58580 million. However, the trade balance recorded a deficit as shown in the figure above, which is due to the rise in processing goods, which became the highest Proportion of imports hence, we conclude that imports in Algeria did not decline, but rose and this is due to those goods imported by multinational companies, especially at the beginning of its project.

4.3. The effect of FDI on the labor market:

Algeria has been providing incentives for foreign investments that created jobs to reduce unemployment, but the FDI job creation is still small compared to the local labor market.

Table (4): The number of jobs available by domestic and foreign investment (ANDI, 2018)

Projects	Number of Project	%	The value in millions of dinars	%	Jobs	%
Domestic investment	62 334	98.58%	11 780 833	82.38%	1 098 011	89.15%
Foreign investment	901	1.42%	2 519 831	17.62%	133 583	10.85%
Total	63 235	100%	14 300 664	100%	1 231 594	100%

Source: ANDI

The number of jobs created by foreign investment is estimated at 10.85% with the amount of 133583 jobs estimated through 901 projects during the period 2002-2017. As for the local investment during the same period, it allowed the creation of 1098011 jobs, or 89.15% through the number of projects estimated at 62334 projects, and this shows the modest contribution of FDI in the labor market.

4.4. The impact of FDI on technology transfer and human capital development:

As for Algeria, the impact of technology transfer in the hydrocarbons sector is evident in the field of prospect and exploration, where the number of explorations has been growing,

According to Sonatrach, the number of wells in 2013 reached 144 wells, 63 of which were drilled by foreign companies for the use of high-tech machines and technologies. This allowed Sonatrach to incorporate new exploration techniques in contact with these foreign companies, resulting in Sonatrach exploration of new oil fields. As for human capital, some foreign companies such as BP, Anadarko have worked to qualify the local workforce by sending them for training abroad, usually in Britain or the United States.

In 2002, the German company, Schneider Electric Algeria, opened a school to raise the efficiency of workers in such technologies as industrial control, electricity distribution, etc. The same training plans were followed by HENKEL and Orascom Telecom, which allowed their workers to gain experience and knowledge that led to the development of their performance.

Conclusion:

The study amounted to several results, the most important of which is the attempt to reveal the reason for the late classification of Algeria in the various international indicators that are designed to assess the business climate in the countries of the world. This is mainly due to the major deficiencies in the investment climate in Algeria, in addition to the many distortions associated with the procedures and legislation for investment. This indicates that foreign direct investment in Algeria is governed by institutional practices rather than economic ones.

Furthermore, investigating the nature and trends of FDI flows in Algeria and the factors affecting its attraction over different periods resulted in many findings. First, foreign direct investment is concentrated in the hydrocarbons sector or those sectors that are cost-effective and do not need a large capital, such as the services sector. It did not allow the revitalization of the productive sector in Algeria, thus it did not contribute to facing the problem of diversifying sources of income in the country. The industrial sector which represents a high potential in Algeria remained marginalized to foreign investors, despite the announcement of a new industrial strategies since 2007. As it has been above mentioned, foreign direct investments in the industrial sectors with constituent character that help to create new jobs and stimulating production in the country and developing its exports, this is what allows to achieve a positive and effective impact on economic growth in the host countries.

Finally, data investment climate and policies adopted to attract foreign direct investment in Algeria do not answer the requirements of sustainable development. Consequently, foreign direct investment has no significance at the present time on various economic and social levels in Algeria.

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