



FISCAL POLICY IN THE FIELD OF FOREIGN INVESTMENT BETWEEN ECONOMIC ATTRACTION AND THE PROTECTION OF THE PUBLIC TREASURY

Asma ATIG*

Chérif Bouchoucha University Cente, Aflou- Algeria

a.atig@cu-aflou.edu.dz

Send Article Date: 05-05-2026

Date of acceptance of the article: 19-08-2026

Abstract:

This study examines how fiscal policy can balance the attraction of foreign direct investment with the sustainability of public financial resources. It argues that excessive reliance on tax incentives may weaken the tax base and create budgetary pressures if not linked to measurable economic outcomes. Using an analytical-comparative approach, the study assesses the effectiveness of tax incentives in attracting high-quality investment while preserving tax justice and economic efficiency. It concludes that fiscal incentives should be selective, transparent, and performance-based, focusing on value-added creation, technology transfer, and job creation, within a stable legislative and institutional framework.

key words: fiscal policy; foreign direct investment; tax incentives; financial equilibrium.

Introduction:

Fiscal policy is one of the most important instruments adopted by states to direct economic activity and achieve development. Its role is no longer confined to financing public expenditure; rather, it has expanded to include stimulating investment and directing it towards priority sectors. In light of economic globalisation and the increasing competition among states to attract foreign capital, tax incentives have emerged as an effective means of attracting foreign direct investment, through reducing the tax burden and providing a favourable investment environment.

However, this approach raises a fundamental problem, namely the balance between the requirements of investment attraction and the

* Asma ATIG

preservation of the state's financial resources, particularly since excessive granting of tax privileges may lead to the erosion of the tax base and cause harm to the public treasury.

The study of fiscal policy in the field of foreign investment is of great importance, given its direct connection with the achievement of economic development and the enhancement of states' competitiveness, especially in developing countries that rely heavily on foreign investment as a source for financing their development projects. The importance of the subject also lies in the fact that it addresses the interaction between the financial dimension, represented by the protection of public revenues, and the economic dimension, represented by the stimulation of investment. This places the topic at the heart of modern public policies. In addition, this study contributes to highlighting the limits and effects of tax incentives, while presenting a scientific perspective on how they may be directed in a manner that achieves economic effectiveness without undermining the principle of tax justice or the sustainability of financial resources.

In light of the foregoing, the main research problem may be formulated as follows:

To what extent can fiscal policy achieve a balance between attracting foreign investment and protecting the public treasury?

This main problem gives rise to a number of subsidiary questions:

- To what extent are tax incentives effective in attracting foreign investment?
- What risks may these incentives pose to public finance?
- How can fiscal policy be directed in order to achieve a balance between attraction and protection?

In order to address this problem, the descriptive and analytical method will be adopted, with a view to providing an in-depth analysis of fiscal policy in relation to foreign investment. This will be done by highlighting the mechanisms for achieving a balance between economic attraction and the protection of the public treasury, in a manner that contributes to building a sustainable and effective fiscal model.

Accordingly, the study has been divided into two sections. The first section will address the role of fiscal policy in attracting foreign



investment, while the second section will be devoted to examining the effects of tax incentives on the public treasury and the mechanisms for achieving balance.

1- The Role of Fiscal Policy in Attracting Foreign Investment

Fiscal policy is considered one of the most important instruments relied upon by states to influence economic activity and direct investments towards specific sectors, particularly strategic ones. It is an orientation based on the use of taxes and other levies as instruments for influencing economic activity in order to achieve objectives that may be economic, such as influencing or directing investment, or social, such as creating employment opportunities, in addition to the original objective of taxation, which is financial and consists in supplying the treasury with financial revenues. Several types of fiscal policies may be identified, the most important of which is known as active fiscal policy (Al-Hartasi, 2012).

Tax policy involves the study of tax phenomena and the analysis of aspects of financial activity. It aims to determine and adapt the volume of revenues sufficient to cover the needs of the national economy, to adjust these sources in order to define economic plans, and to achieve economic equilibrium as far as possible through available means and methods for distributing burdens according to capacity and ensuring equal benefit from all services (Khalassi, 2012).

In the field of foreign investment, tax incentives play an important role in improving the attractiveness of the national economy and strengthening the competitiveness of the state. They represent one of the most important methods of fiscal policy through which the state seeks to achieve economic development by granting advantages and facilities capable of encouraging investors, regardless of the size of the investment.

1.1- The Concept of Tax Incentives in the Field of Investment

Tax incentives refer to a set of tax facilities or privileges granted by the state to investors with the aim of encouraging them to direct their capital towards the national economy. These incentives take several forms, including tax exemptions, reductions, and customs advantages.

1.1.1- Definition of Tax Incentives

Tax incentives may be defined as a system designed within the framework of the state's fiscal policy with the aim of encouraging saving and investment in a manner that leads to the growth of national productivity, the increase of the economy's taxable capacity, and the rise of national income as a result of the establishment of new enterprises or the expansion of existing ones (Al-Maghribi, 2001).

They are also defined as advantages granted by law to attract investors, whether national or foreign, to invest in the country and in different regions. These incentives include reductions in tax rates or fiscal obligations, which are granted to the beneficiary in return for compliance with certain conditions (Ghabi, 2003–2004).

1.1.2- Types of Tax Incentives

There are several types of tax incentives that different tax systems seek to embody in order to deal more flexibly with economic activities, particularly vital ones, while at the same time taking into account the public treasury. Some incentives relate to employment, others to export, while the incentives of concern here are those related to investment, which may be summarised as follows:

First: Temporary Tax Exemptions

A tax exemption means the waiver by the public treasury of its right to collect the tax due from certain taxpayers, in return for their commitment to carrying out a specific activity under certain conditions, usually related to the type of activity, the size of the enterprise, or the geographical area. It also means the non-imposition of tax on amounts that would otherwise be payable, either permanently or temporarily (Al-Hajj, 2009).

In the field of investment, tax exemptions are usually temporary, ranging from three to five years during the implementation phase and from five to ten years during the operating phase, depending on the system of sectors and regions, particularly the High Plateaux, the South, and the Great South. This is the approach adopted by the Algerian legislator in Law No. 22-18 on investment (Law No. 22-18 on Investment, 2022, Arts. 27–29).

It should be noted that the use of tax exemption as an incentive to attract investment, particularly foreign investment, entails a loss of revenue for the state's public treasury if it is not used in a well-



considered manner. Such a loss must be offset by a real and effective benefit that returns to the state treasury profits several times greater than what it has lost through the use of this mechanism, namely tax exemptions. Otherwise, these incentives become merely a waste of public money. In order for a tax exemption to achieve its objective, the tax burden must be heavy enough for the amount of exemption to correspond to the importance of the investment activity and the expected benefit from it.

Second: Reductions in Tax Rates

These refer to reductions in the costs borne by the taxpayer; they are therefore a technique for alleviating the tax burden (Al-Jahishi, 2008), and consequently for attracting investors. A tax reduction consists of a decrease affecting the value of the tax due in return for compliance with certain conditions specified in the legal text, such as the reinvestment of profits (Al-Talibi, 2009).

Tax reduction may take two forms. The first is a reduction in the tax rate, meaning a decrease in the percentage of tax collected. The second is a reduction in the tax base, that is, the taxable matter, by restricting it to specific and determined areas. It may therefore be argued that tax reduction is more effective than tax exemption, since the latter constitutes a good and easy means of tax evasion. Enterprises may be created under new names in order to benefit from new tax exemptions. Multinational companies may also engage in tax evasion by transferring their profits to areas known as tax havens or fiscal paradises, where permanent tax exemptions exist.

Third: Carrying Losses Forward to Subsequent Years

Tax deferral is a technique or instrument used to absorb the effects resulting from losses incurred during a given year by charging them to previous or subsequent years, so that they are absorbed by the profits realised during those years and do not lead to the erosion of the enterprise's capital. This is done by excluding certain amounts from the calculation of the taxable base for a specific period, although they are later included in the taxable base after subsequent periods.

If an investment project incurs losses during a given period, this means that it has not benefited from the exemption. Accordingly, carrying forward the losses incurred during the exemption period to

the year following the end of that period is in the interest of the investment project (Qaddi, 2011).

Fourth: Customs Advantages

Customs advantages also fall within the scope of tax incentives designed to attract investment. They are granted through full or partial exemption from various customs duties on equipment and goods imported in the context of implementing and realising the investment project (Azizi, 2012).

These incentives seek to achieve several economic and developmental objectives, the most important of which are:

- attracting foreign capital;
- transferring technology and technical expertise;
- creating new employment opportunities;
- supporting economic development;
- diversifying the national economy.
- These incentives have been adopted in order to encourage investment, particularly in regions that require economic development.

1.2- The Role of Fiscal Policy in Improving the Investment Climate

Fiscal policy plays an important role in influencing investors' decisions, as the tax system is one of the most important factors taken into consideration by investors when choosing the country in which they will invest. The most important manifestations of the influence of fiscal policy in the field of investment are as follows:

First: Reducing Investment Costs

Tax incentives reduce the financial costs of investment projects, which increases the return on investment (ROI) and makes the state more attractive to investors. Conversely, the higher the costs of the investment project, the more they constitute one of the factors obstructing investment and pushing the investor to withdraw.

It may be observed that the Algerian legislator has enshrined this incentive-oriented character within the framework of the legislation regulating investment, particularly the aforementioned Law No. 22-18, which aims to strengthen Algeria's attractiveness as an investment destination. Among the most prominent advantages provided by this law are:



- exemption from corporate profits tax for a specified period;
- exemption from value-added tax on imported equipment;
- exemption from customs duties relating to equipment and means of production.

Second: Strengthening Economic Stability

The existence of a clear and stable tax system contributes to strengthening investor confidence, as investors prefer countries characterised by a transparent and stable tax environment. Economic stability is reflected in the achievement of a set of balances at both macroeconomic and microeconomic levels, given its direct impact on investment projects, particularly foreign direct investment, and its role in providing the conditions necessary for their success.

These indicators are primarily represented by the inflation rate, which is one of the main causes weakening economic growth and one of the most important indicators used to measure a state's level of economic performance (Al-Sayyid, 2025). Failure to control imbalances in economic indicators has a negative impact on the confidence of economic actors, whether local or foreign, in the economic policy pursued. Inflation also affects investment orientations by pushing foreign investors, in particular, to focus on short-term activities in order to reduce risks.

2- The Effects of Tax Incentives on the Public Treasury and Mechanisms for Achieving Balance

Despite the importance of tax incentives in attracting foreign investment, excessive granting of such incentives may produce negative effects on the financial resources of the state. The “race to the bottom” is an economic phenomenon in which states compete by lowering corporate tax rates and granting exemptions in order to attract foreign direct investment. This leads to the erosion of tax revenues, the weakening of public services, and the transfer of profits to offshore centres. This situation requires the establishment of a balance between economic stimulation and the protection of the public treasury.

2.1- The Risks of Tax Incentives to the Financial Resources of the State

Fiscal policy plays a central role in directing economic activity and stimulating and attracting investment. However, its use,

particularly in the context of tax incentives, may involve a set of risks that directly affect the balance of the public treasury. Excessive tax privileges, or their poor design and granting, may lead to a decline in public revenues, disturb tax justice, and undermine financial sustainability. It is therefore necessary to analyse these risks in some detail.

2.1.1- Erosion of the Tax Base

The erosion of the tax base is one of the most significant negative effects of tax incentives. The tax base is the economic element subject to tax, whether it is an activity or a commodity (Khalassi, 2012). Some refer to it as the tax object, meaning the thing or subject upon which tax is imposed. It may be a person, property, or an activity.

The choice of the tax base is an important matter, as the state may choose a single tax base and impose one tax upon it, known as the unity of taxation, or it may choose more than one tax base according to the different types of property, whether movable, intangible, or immovable (Berahmani, 2015). This is known as the plurality of taxation.

Broad exemptions and repeated reductions lead to the narrowing of the base upon which taxes are imposed. This risk increases in the absence of precise targeting of incentives, which may result in the granting of privileges without achieving real economic returns.

2.1.2- The Creation of Harmful Tax Competition

In the context of economic globalisation, states have come to compete with one another by reducing taxes in order to attract foreign investment. States increasingly reduce taxes, thereby weakening their financial capacity. This competition may lead to what is known as a race to the bottom.

Tax competition is a phenomenon resulting from the efforts made by states, through their tax policies, to attract more domestic and foreign investment. It is defined as the differences existing between the tax systems of states as a result of the growing phenomenon of tax competitiveness among them, with the aim of controlling an important factor resource represented by the flow of foreign capital to any given state. This creates disparities in the performance of these states from a tax perspective and in the tax competition taking place among them,



leading to a struggle for survival and threatening states that do not possess the qualifications and capacities to remain in the market, thereby forcing them to withdraw.

Tax competition is divided into legitimate or non-harmful competition and harmful competition, also known as illegitimate tax competition, because of the damage it causes both to host states and to states participating in the market. For the former, this damage appears in the sacrifice of part of their resources in order to attract foreign investment without paying attention to the risks that may result from these concessions, if the expression is appropriate. The second category of states suffers significant harm as a result of failing to attract foreign investment, including the loss of opportunities to benefit from the advanced technology accompanying foreign investments and the deprivation of financial flows in foreign currency (Oman, 2000).

2.1.3- Exploitation of Tax Privileges

Some investors may resort to exploiting tax incentives in order to obtain tax gains without achieving real economic value. This may occur through the transfer of profits abroad and the exploitation of legal loopholes by creating fictitious companies to benefit from exemptions.

According to a report by the United Nations Economic and Social Council, not every foreign investment has positive effects. Some investments may constitute a channel for illicit financial flows, including the use of capital in two-way speculation, tax evasion, and money laundering. This became evident when official statistics on the volume of investment did not appear in the productive assets used in recipient countries.

In addition, multinational companies resort to aggressive tax planning strategies by exploiting differences in tax treaties. They benefit from such treaties undeservedly in order to escape tax liability by transferring their profits away from the countries in which they carried out their activities and made profits, particularly in the era of digital transformation (Economic and Social Commission for Western Asia [ESCWA], 2024). According to ESCWA estimates, middle-income Arab countries incurred annual tax revenue losses amounting

to USD 8.6 billion due to abuses committed by companies in order to evade taxation.

2.2- Mechanisms for Achieving Balance between Attracting Investment and Protecting the Public Treasury

In order to achieve a balance between attracting foreign investment and protecting the financial resources of the state, it is necessary to adopt a set of effective legal mechanisms that ensure investment attractiveness without harming the financial sustainability of the state. This can be achieved by directing tax incentives. The granting of tax incentives is no longer carried out randomly or comprehensively, as was the case under traditional policies; rather, it has come to rely on the principle of targeting, which is one of the most important mechanisms for rationalising modern fiscal policy.

2.2.1- Directing Tax Incentives and Determining Their Duration

Directing tax incentives means allocating tax privileges to specific categories of investments according to precise economic, geographical, and functional criteria, and in accordance with clear developmental objectives, instead of granting them generally to all investors. This ensures the achievement of the greatest economic return at the lowest financial cost.

Tax privileges should be granted only to projects that create real added value for the national economy, such as projects that provide employment opportunities, transfer technology, or contribute to the diversification of the national economy. In addition, the duration of tax incentives must be determined. Tax exemptions should be limited in time so that they do not become permanent privileges affecting the tax revenues of the state. In other words, there should be a transition from a policy of generalisation to a policy of selectivity, by linking incentives to economic feasibility, added value, and social impact.

The Algerian legislator has explicitly adopted this approach in Investment Law No. 22-18, which framed the granting of incentives according to a selective logic by dividing incentive systems into three categories.

The first is an incentive system for priority sectors. According to this law, these are investments carried out in activities targeting productive sectors that constitute the essential foundation for supporting and strengthening the economy, such as mining, quarries,



fisheries, various industries including pharmaceutical and petrochemical industries, in addition to tourism and new and renewable energies (Law No. 22-18, 2022, Art. 26). However, the legislator has defined a set of activities, goods, and services that may not benefit from tax incentives (Executive Decree No. 22-[number omitted], 2022).

The second is an incentive system for regions, which gives priority to investments of all kinds in specific areas across the national territory (Law No. 22-18, 2022, Art. 24). This aims to direct investments towards these areas, referred to as shadow areas, and also to create developmental balance among the different regions of the national territory.

The third incentive system concerns structuring investments. These are investment projects with a high capacity to create wealth and employment opportunities, thereby strengthening the attractiveness of the territory and stimulating economic activity in pursuit of sustainable development at the economic, social, and regional levels (Executive Decree No. 22-302, 2022, Art. 15). This is achieved through the acquisition of technology, the support of local products, and the reduction of dependence on imported products, with the aim of strengthening the state's public revenues away from the hydrocarbons sector.

2.2.2- Strengthening Tax Control

Tax control is one of the most important mechanisms relied upon by the state to ensure the effectiveness of tax policy. It is not sufficient to enact laws and grant incentives to attract investment; rather, there must be an effective control apparatus that guarantees the proper application of these incentives and prevents their misuse. In this context, tax control emerges as a central instrument for achieving a balance between encouraging investment and protecting the public treasury from erosion.

First: Definition of Tax Control

Tax control, in its general form and broad scope, is considered an effective means of addressing tax deviations. According to Fayol's definition, control consists in verifying whether everything is proceeding in accordance with the plan drawn up, the strict instructions, and the established rules. Its purpose is to reveal areas of weakness or error in order to correct them.

It may also be defined as the basic function of measuring performance in order to ensure that objectives have been achieved and that plans have been implemented correctly. True control is that which is capable of preceding events by warning of deviations before they occur (Kardoudi, 2011).

Second: Objectives of Tax Control

Tax control seeks to achieve a set of objectives, which may be presented as follows:

A- Financial and Economic Objectives

Control aims to ensure the proper use of tax incentives by investors by verifying that tax privileges are used to achieve their developmental objectives and not merely for formal purposes. It also ensures investors' compliance with tax laws, thereby protecting public funds. This, in turn, leads to an increase in the funds available for expenditure, which contributes to the economic welfare of the state.

B- Legal Objectives

The legal objectives of control consist in achieving tax justice. Tax justice is one of the fundamental principles upon which the tax system is based, as it seeks to achieve a balance between the rights of the state to collect revenues and the rights of taxpayers to fair treatment. In the field of investment, its objective is to guarantee equality among taxpayers through the application of the law to all investors without discrimination. This was affirmed by the Algerian legislator in the Investment Law (Executive Decree No. 22-18, 2022, Art. 3).

Conclusion

It is clear from the study of fiscal policy in the field of foreign investment, between economic attraction and the protection of the public treasury, that this policy constitutes a strategic instrument with a dual dimension. On the one hand, it seeks to enhance the state's attractiveness to investment; on the other hand, it aims to preserve its financial resources and ensure their sustainability. Accordingly, achieving a balance between economic attraction and the protection of the public treasury requires the adoption of a rational fiscal policy based on directing incentives towards projects with added value, strengthening tax control, and periodically assessing the effectiveness of tax privileges. It also requires the development of the legal and



institutional framework governing investment, in a manner that ensures maximum benefit from foreign investments while safeguarding the financial interests of the state.

The analysis has shown that tax incentives, despite their role in attracting capital and stimulating economic activity, may become a burden on the public treasury in the absence of proper targeting, control, and evaluation. In this context, Investment Law No. 22-18 has established a more balanced approach based on selectivity in the granting of incentives and their linkage to economic objectives. The study has reached a number of findings:

- Tax incentives are not, by themselves, a decisive factor in attracting investment. Their effectiveness depends on their integration with other factors, mainly political stability, the quality of infrastructure, legislative stability, and, most importantly, the quality of the banking system.
- Excessive granting of tax privileges inevitably leads to the erosion of the tax base, and consequently to a decline in public revenues, resulting in the disruption of the state's financial balances.
- The sectoral and geographical targeting of tax incentives is important, as it contributes to maximising economic returns and reducing financial waste.
- The Algerian legislator has adopted a modern approach based on determining the duration of incentives, linking them to the different stages of the project, and subjecting them to control and sanctions. This reflects a tendency towards the rationalisation of fiscal policy.

On the basis of the findings reached, a number of recommendations may be proposed:

- Strengthening the targeting of tax incentives by limiting them to sectors with high added value and giving priority to productive and export-oriented projects.
- Linking tax incentives to the economic performance of the investment project in order to ensure the achievement of real profitability.
- Adopting a periodic evaluation system for incentives in order to measure cost against return and abolish ineffective incentives.

- Strengthening tax control by monitoring beneficiary projects and applying sanctions in cases of non-compliance with the required conditions and procedures.
- Reducing reliance on tax incentives and working instead to improve the investment climate by developing infrastructure and reforming the banking system.
- Enhancing tax transparency by publishing data on incentives and clarifying the conditions for benefiting from them.

List of Sources and References

Books

- Al-Hajj, T. (2009). *Public finance*. Dar Safaa for Publishing and Distribution.
- Al-Hartasi, A. H. (2012). *Applications of tax techniques in the fiscal system*. Dar Zahran for Publishing and Distribution.
- Al-Jahishi, A. B. A. J. (2008). *Exemptions from income tax: A comparative study*. Dar Al-Hamed.
- Al-Maghribi, H. I. (2001). *The role of investment incentives in accelerating economic growth*. Dar Al-Fikr Al-Jami'i.
- Berahmani, M. (2015). *Public finance in Algerian legislation*. Dar Al-Jami'a Al-Jadida.
- Kardoudi, S. (2011). *Tax control between theory and practice*. Dar Al-Mufid for Publishing and Distribution.
- Khalassi, R. (2012). *The Algerian tax system: Taxation of natural and legal persons* (Vol. 1, 3rd ed.). Dar Houma.
- Qaddi, A. M. (2011). *Studies in tax science*. Dar Jarir for Publishing and Distribution.

Journal Articles

- Al-Sayyid, H. M. A. (2025). The impact of the rising inflation rate on net foreign direct investment inflows in Egypt during the period 1991–2022. *Scientific Journal of the Faculty of Economic Studies and Political Science*, 10(20).
- Al-Talibi, M. (2009). The impact of tax incentives and ways to activate them in attracting foreign direct investment in Algeria. *Journal of North African Economies*, (6).
- Oman, C. (2000). Concurrence fiscale et investissement directs à l'étranger. *Problèmes économiques*, (2680), 23–24.

Theses and Dissertations

- Ghabi, G. (2004). *Determinants of attracting investment in Algeria in light of economic reforms* [thesis, École Supérieure de Commerce, Algeria].
- Jalal, A. (2012). *The impact of tax incentives on encouraging direct investment in Algeria* [thesis, University of Jijel, Algeria].

Reports and Electronic References

- Economic and Social Commission for Western Asia. (2024). *Illicit financial flows: Another kind of pandemic*. United Nations ESCWA. <https://www.unescwa.org/sites/default/files/event/materials>

Legal Texts

- Algerian Democratic and People's Republic. (2022). Executive Decree No. 22-300. *Official Gazette*, (60).
- Algerian Democratic and People's Republic. (2022). Law No. 22-18 relating to investment. *Official Gazette*, (50).