

Foreign direct investment in Algeria: A theoretical and applied study

Daoudi Mohammed^{1,*}

¹ Prof at the Center University of Maghnia, Faculty of Economics, Maghnia, Algeria

Article History

Received: 3 December 2022 Revised: 20 March 2023 Accepted: 22 March 2023 Available Online: 1 April 2023

Keywords: foreign direct investment; attraction; market size; causality test; investment climate

JEL classification: F210, E270, F32

Citation: Mohammed, D. (2023). Foreign direct investment in Algeria: A theoretical and applied study, *Review of Socio-Economic Perspectives*, 8(1), 77-92.

Abstract

This paper studies the most important determinants of foreign direct investment in Algeria in a theoretical and practical framework (using the co-integration test and the causality test). Foreign direct investment has become very important, because it has become the object of competition between countries, whether developed or underdeveloped. Algeria, like the countries of the world, tries to take advantage of it as well, but this comes up against obstacles that this study has tried to identify, the most important of which are inflation (-0.0203) and administrative corruption (-1.2821), with the weakness of other determinants to attract it, such as market size (0.0113) or public spending (0.0527). Thus, according to the results of the study, Algeria still remains unattractive for foreign direct investment.

1. Introduction

The importance of foreign direct investment is no different, but it is okay to mention some of its aspects, which are: Increasing economic growth rates, according to the classical growth theories, economic growth requires an increase in the volume of invested capital, which may not be possible, especially in developing countries that suffer from declining national savings and low per capita GDP; Hence, FDI inflows can improve the rate of economic growth. Transfer and localization of technology in the host country; This leads to an increase in the competitiveness of the economy infrastructure development and human capital development through training local labor and providing them with advanced technological skills and modern management methods; Which ultimately leads to the transfer of these experiences to national companies. Reducing unemployment rates and creating job opportunities directly or indirectly through the creation of forward and backward links in the form of complementary industries or services. Improving the balance of payments and the exchange rate of the national currency by increasing the foreign exchange earnings of the host country and increasing exports. As a result, countries have striven to remove all investment obstacles, provide financial and non-financial guarantees and incentives, and implement economic policies to simplify procedures, improve the business environment, and create an attractive climate for investment.

The most important feature of the relationship between the investment climate and environment and foreign direct investment is the change in its characteristics and content in Algeria since its independence until today. Where there have been transformations in three important stages, each stage has been characterized by distinctive features, both in economic, political and legal terms. It was the first stage, which began immediately after Algeria's independence. Where he pursued a development policy based on the rules of the planned economy, and this type of economic system clearly affected the inflow of foreign direct investment in Algeria. Where there was a kind of reserve of this type of investment, which undoubtedly affected negatively. Algeria was clear at the time that this type of investment creates dependency and political interference, and the possibility of weakening public companies.

* E-mail: daoudim975@yahoo.com & ORCID: <https://orcid.org/0000-1111-2222-3333>