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The Relationship Between Investment Climate and Economic Growth in Algeria

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Abstract:

This article revolves around studying the investment climate in Algeria and its relationship with its economic growth, which is considered one of the overall indicators of the economy. The study relied on the descriptive approach to describe the data on foreign direct investment flows in addition to some indicators of the investment climate in Algeria and the economic growth. Then, we analyze the previous data with the aim of determining the type of relationship between foreign direct investment flows, the investment climate, and the economic growth in Algeria. After analyzing the graphs, the study concluded that economic growth in Algeria may lead to an increase in foreign direct investment flows.

The study did not find a direct correlation between the flow of foreign direct investment and the economic growth rate during the study period, nor between investment climate indicators and growth rates.

Keywords: foreign direct investment; investment climate indicators; economic growth; Netflows; Algeria.

Introduction:

Classical growth models such as Solow-Swan and internal growth models emphasize the vital role of FDI in transferring modern technologies, enhancing human capital, and contributing to capital accumulation.

Developing nations significantly rely on advanced countries' resources to elevate their development levels and economic growth rates. This reliance has taken various forms, influenced by the evolution of international relations. It reflects the substantial progress in these nations' local financing sources to support their developmental projects. The increasing dependence of developing nations on external funding sources, including grants, aid, diverse foreign loans, and foreign investments, underscores the urgent need to elevate their development levels.

Algeria is among the countries striving to attract FDI and leverage its advantages. This is achieved through appropriate economic policies, numerous financial incentives, and privileges to enhance its investment climate.

Study Objective:

This article aims to analyze the relationship between the foreign direct investment climate in Algeria and economic growth. This relationship varies from case to case and study to study. Economists differ in their analysis of the connection between FDI and economic growth. Some argue that economic growth leads to more FDI inflows, whereas others contend that higher growth rates encourage more significant FDI inflows, potentially leading to a high growth rate.

Research Problem:

To achieve the study's objective, the following question needs to be addressed:

What is the nature of the relationship between the investment climate and economic growth in Algeria?

Methodology:

This study adopts a descriptive methodology to depict the developments in foreign direct investment, growth rates, and the investment climate in Algeria. Additionally, an analytical approach is employed to analyze this data and explore the desired relationship

Study Axes:

Based on the presented problem, three main axes were adopted for the study as follows:

- First Axis: Foreign Direct Investment;
- Axis Two: Investment Climate in Algeria;
- The third axis: The relationship between foreign investment flows, growth rate, and the investment climate.

1. First axis. Foreign Direct Investment

1.1. Definition of Foreign Direct Investment:

- Investment is an act source derived from the yield. It involves utilizing money with the purpose of generating profit over time. It represents the capital used in the production or provision of services or goods. Investments can be fixed, such as preferred stocks and bonds, or variable, such as property ownership. Investment refers to assets acquired by individuals and entities to generate income either presently or in the future. (amirouch , 2012,p45)
- The United Nations Conference on Trade and Development (UNCTAD) defines foreign direct investment as a type of investment where a resident entity contributes to or owns an entity or project in another country.

  This type of investment entails a lasting benefit and continuous control for the foreign investor, represented by a share not less than 10% of the entity's or project's shares. (union of Arab Bank, 2019)

1.2. Forms of Foreign Direct Investment:

Foreign direct investment can be categorized into several fundamental types based on ownership and objectives:

1.2.1 .Joint Investment:

- "Kolde" views joint investment as a business venture owned or participated in by two or more parties (or legal personalities) or more from different countries permanently. Participation here is not limited to the share in capital but also extends to management, expertise, patents, or trademarks, etc.

- "Tirpistra" sees joint investment involving productive or marketing operations conducted in foreign countries. One of the investment parties in this case is an international company exercising sufficient control over project management or production operations without full control.
- "Livingston" considers joint investment as a situation where a foreign party or more than one local party (whether it's an existing national company or not) participate in producing a new or existing product, expanding the market, or any other productive activity, whether through capital or technology.

From these perspectives, joint investment can be defined as a long-term agreement between two investment parties, one local and one foreign, to engage in productive activity within the host country. The local party can be a legal entity belonging to the public or private sector. The investor, whether foreign or local, may not necessarily provide a share in the capital. Participation can be through providing expertise, technological work, or information and marketing knowledge. Both parties have the right to participate in project management, which is a crucial element distinguishing joint investment projects from management contracts and turnkey contracts.

1.2.2. Wholly-Owned Foreign Investments:

These involve multinational companies establishing branches for production, marketing, or any other type of productive or service-oriented activity in the host country. In this scenario, the companies have complete freedom in managing and controlling these activities. This type of investment is highly favored among multinational corporations.

1.2.3. Based on Objectives, Foreign Direct Investment Can Be Divided Into:

- Market-Seeking Investment: This investment emerged in the manufacturing sector where most foreign companies resorted to it as an alternative to exports and to evade trade restrictions. This investment might be a more feasible alternative to exports for countries with high transportation costs.
- Efficiency and Performance-Seeking Investment: Foreign investors aim to increase profitability by utilizing skilled and low-wage labor available in host countries. This is done by financing the parent company's labor-intensive production lines in these countries to manufacture certain parts of the product abroad due to high wages in the home country. However, this requires the host country to have an advanced industrial base.

1.3.Factors Encouraging Investment Attraction:

Factors encouraging and attracting foreign direct investment can be divided into political, economic, regulatory, and legislative factors. The most significant of these factors can be summarized as follows (hallil, 2016)

- Providing Security and Stability: Foreign direct investment is directed toward countries enjoying complete stability, providing legal protection for capital under economic policies and social conditions, in addition to establishing specialized institutions to conduct transactions and deal with foreign investors, offering guidance and care.

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- Size of the Local Market: These investments aim to find large markets, especially in some countries. Direct investment serves as an alternative to exports from the home country.
- Investment Opportunities in the Service Industry: After the privatization of many public institutions, numerous foreign companies invested in this sector in developing countries, including Arab countries, in various fields such as water, electricity, transportation, and banking.
- Availability of Cheap and Qualified Labor: Most multinational companies seek investment in countries with low-cost and high-efficiency labor.
- Availability of Primary Resources: This is what distinguishes the trends of most foreign direct investments, such as companies extracting minerals, fuels, and other resources.
- **High Growth Rates: Multinational companies target investments in countries with high growth rates to increase their market share in foreign markets, which has been confirmed by empirical studies in many countries, supporting the positive correlation between growth rates and foreign direct investments.**
- Availability of Infrastructure: Foreign direct investment requires suitable infrastructure in terms of quality and cost-effectiveness. This contributes to reducing investment costs.

Other Stimulating Factors Include:

- Freedom to Transfer Profits and Investments Abroad
- Stability of the Local Currency Exchange Rate
- Ease of Procedures for Obtaining Investment Licenses and Dealing with Official Authorities
- Possibility of Achieving High Returns on Investment
- Tax and Customs Duties Exemptions
- Clarity of Investment Regulations, Stability, and Availability of a Local Partner in the Host Country for Freedom of Movement, Export, Ownership, and Decision-Making.

1.4. Motives for Foreign Investment:

Here, we differentiate between incoming investments seeking the lowest costs to maximize profits and the motives of receiving countries aiming to accelerate their development and use it as a financing source for development. These motives can be summarized in the following table:

Table 1: Motives for Foreign Investment

Host Countries' Motives (Receiving Countries)	**Foreign Investor's Motives**
- Achieving economic progress	- Seeking investments with lower or no taxes
- Attracting foreign investments	- Getting rid of obsolete technology and stagnant inventory
- Obtaining advanced technology and modern management	- Overcoming unemployment in advanced countries
- Substituting local products for imports	- Searching for new markets
- Employing local production factors	- Growing, expanding, and penetrating foreign markets
- Establishing new industries	- Selecting new products

- Expanding in services, insurance, and banking sectors	- Benefiting from granted advantages and exemptions
- Developing foreign trade	- Seeking substantial profits
- Enhancing competitive advantage	- Benefiting from low wages of host country workers

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2. Axis Two: Investment Climate in Algeria:

The Arab Investment Guarantee Corporation defines the investment climate as the overall economic, legal, political, and social conditions that form the investment environment upon which investment decisions are made. The investment climate is also defined as the overall conditions and circumstances in the environment where the investment process takes place, and the impact of these conditions and circumstances, whether positively or negatively, on the success of investment projects and, consequently, on the movement and trends of investments. Therefore, the investment climate refers to a set of factors specific to a particular location, determining the opportunities and incentives that enable companies to invest in a manner that is productive, creates job opportunities, and expands their business. The investment climate is a complex concept because it relates to multiple aspects, some of which are related to the availability of basic infrastructure facilities, others to legal systems or political situations. This concept is complex and dynamic, continually evolving to cope with political, technological, and regulatory changes. In general, the concept of the appropriate investment climate can be encapsulated in two important issues: the first is the ability to make economic decisions and is related to everything related to the idea of uncertainty, and the second relates to anything that can affect costs and returns and is related to the idea of risks.

2.1 Components of the Investment Climate: The attractive investment climate for both national and foreign capital is based on several components, summarized below: (boukhari, 2012**)**

2.1.1 Political and Security Climate:

Several factors influence the suitability of the investment climate. The absence of political and security stability leads to a reduction in savings rates and, consequently, a decrease in investment rates. Therefore, political and security climate is influenced by several factors, summarized as follows:

- The political pattern in terms of being democratic or dictatorial.
- The position of political parties regarding foreign investments.
- The degree of political awareness concerning the willingness to allow foreign investments to participate in economic and social development.

Role of the Military Establishment in Managing Host Country Affairs and its Political Awareness of Economic Development Issues:

The role of the military establishment in managing the affairs of the host country varies depending on the specific political context and circumstances. In some countries, the military might have a significant influence on political decision-making and governance. The degree of political awareness and understanding of economic development issues within the military establishment can also vary widely.

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2.1.2 Cultural and Social Climate:

The cultural and social climate encompasses a range of factors that influence the operations of a project and its potential for integration and required cooperation. This is justified through the following elements:

- The role of educational, training, and development policies.
- The degree of awareness of the elements and components of economic progress and the understanding and cooperation of community members with the activities of foreign companies.
- The role of associations and labor unions in organizing and improving the workforce.
- The level of health awareness and the extent of social security coverage.

2.1.3 Economic Climate:

The economic climate is influenced by several factors, including:

- The availability of natural resources within the country.
- The state of infrastructure and its suitability.
- The level of competition within the country and the ability to compete in international markets.
- The flexibility of fiscal and monetary policies, as well as incentives.
- The transparency and stability of investment laws and the extent of capital restrictions on investors.
- The efficiency of banks and their ability to provide information to investors, interest rates on credit facilities, and the efficiency of the domestic capital market.
- The stability of price policies and inflation rates.
- The level of protection provided, ensuring the rights of investors to transfer capital and profits.

2.2. Analysis of Investment Climate in Algeria (2010-2022)

Investigating the investment climate in a country is crucial for understanding its economic potential and attractiveness to domestic and foreign investors. This report analyzes various factors influencing the investment climate in Algeria from 2010 to 2022, examining economic, political and social aspects. The analysis focuses on key indicators such as economic freedom, competitiveness, corruption perceptions, ease of doing business, and their impact on Algeria's economic growth and investment inflows.

There are several international indicators that reflect the views of economic analysts and international businessmen on the conditions in a country as an investment destination from the perspective of foreign investors. Among the most important of these indicators, we will highlight the following specific indicators:

2.2.1.Freedom Index: Economic freedom is a significant factor affecting investment decisions. The Freedom Index is an annual index published by The Heritage Foundation and The Wall Street Journal. It measures the degree of economic freedom in countries worldwide. Each sub-index is calculated after collecting data for the last three years. The index focuses on four main aspects of the economic environment (rule of law, government size, regulatory efficiency, market openness). Each of these indicators is scored on a scale from 1 to 5. The scores for each country are then summed up to calculate the overall scores and determine the ranking of each country on the Freedom Index according to the following classification:

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table (2): freedom index classification

100-80	**79.9-70**	**69.9-60**	**59.9-50**	**49.5-0**
Totally Free	Mostly Free	Moderately Free	Mostly Unfree	Repressed or Suppressed

From 2010 to 2023, Algeria's economic freedom score declined steadily, indicating unfavorable conditions for investment. In 2023, Algeria's score reached 43.2, ranking 168th globally and illustrating the country's challenges in creating a business-friendly environment.

Table (3): Fluctuation of Freedom Index in Algeria for the Period 2010-2023

Years	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Score	43.2	45.8	49.7	46.9	46.2	44.7	46.5	50.1	48.9	50.8	49.6	51	52.4	56.9
Global Rank	168	167	162	169	171	171	172	154	157	146	145	140	132	105
Arab Rank	15	13		14	14	14	13	14	14	15	14	14	-	-

source: heritage foundation,2020 index of economic freedom methodology, online http://www.heritage.org/index/download.

The Freedom Index in Algeria, as per the provided source, has fluctuated over the years.

In 2010, the score was 56.9, and it has generally decreased since then, reaching 43.2 in 2023. The global rank also varied, with Algeria being ranked 105th in 2010 and 168th in 2023. In the Arab ranking, Algeria was 15th in 2010 and 13th in 2022, showing fluctuations in its regional standing as well.

From the table (3), we can observe that Algeria had weak economic freedom during the initial years from 2010 to 2016, scoring 56.9 out of 100. However, in recent years, its economic freedom decreased significantly, reaching a score as low as 44.7. Its rank remained consistently above 100, especially in the recent years, where it reached 171 out of 180 countries. This indicates a decline in the investment climate in Algeria and its lack of attractiveness to foreign investments.

According to the 2019 Economic Freedom Report, Algeria's economic freedom score was 46.2 out of 100, categorizing it as "Mostly Unfree" and placing it at 171st position in the 2019 index. Comparatively, Morocco ranked 75th with a score of 62.9, Tunisia was at 125th place with a score of 55.4, and Egypt and other African countries were at 144th place with a score of 52.5. Algeria was ranked 14th among 14 fully evaluated countries in the Middle East and North Africa region, and its overall score was significantly lower than regional and global averages.

In recent years, from 2020 to 2023, Algeria has been categorized as "Repressed or Suppressed," with freedom scores of 46.6, 49.7, 45.8, and 43.2 respectively. The index showed its lowest score in 2023, following a significant decline in the freedom score in 2022, which was in contrast to a slight improvement in 2021 due to financial health reasons.

These trends highlight Algeria's challenges in creating a favorable environment for investment and economic growth.

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2.2.2. Competitiveness index:

This index is published by the World Economic Forum in collaboration with 122 international institutions. It is a crucial tool for guiding economic policies and investment decisions and understanding their impact on global competitiveness. It serves as a tool to examine the strengths and weaknesses in the business environment.

Algeria's ranking in this index declined by one position during the 2011-2012 period, where it ranked 87th globally out of 142 countries, with a score of 96.3. This decline explains that the investment climate in Algeria is not encouraging for the growth of both domestic and foreign private investments. According to the index, during the 2015-2016 period, Algeria recorded an eight-point drop in its global ranking, from 79th in 2014-2015 to 87th. The report by the World Economic Forum, which includes leading international economists and key global economic decision-makers, considered Algeria to be among the least competitive economies. The report relied on several indicators, such as the state of institutions, basic infrastructure, overall economic indicators, as well as the state of the healthcare and education sectors, market efficiency, technological capabilities, the ability to activate businesses and innovate, the independence and efficiency of the judiciary, and the protection and respect for property. Algeria was ranked 133rd globally in these indicators. Despite Algeria's improved rank, which was 99th in the previous year's report, most indicators of the overall economy were negative, except for its financial comfort. Its position in terms of tax pressure and the status of banks remained negative as well.

According to the International Monetary Fund's sixth edition of the Arab Economies' Competitiveness Report, Algeria's ranking improved in the general competitiveness index for Arab economies in 2022 compared to 2021. After ranking 14th among Arab countries between 2017-2020, it climbed to the 11th position in 2021. The report confirmed an upward trend and trajectory in Algeria's competitiveness (arab monetary fund , 2023)

Table No. (4): Evolution of Algeria's Competitiveness Index during the Period (2010-2022)

Years	2010 2011	2011 2012	2012 2013	2013 2014	2015 2016	2016 2017	2017 2018	2018 2019	2019 2020	2020 2021	2021 2022
Ranking	86	87	110	100	79	87	87	86	89	91	74
Number of countries	139	142	144	148	144	140	138	137	140	189	179
Score	3.96	3.96	3.72	3.8	4.1	4.0	4.0	4.1	-	-	-

Source: Compiled by the researcher based on data from:

- The World Economic Forum website: www.weforum.org/reports
- Global Competitiveness Report 2019

2.2.3. Corruption Perceptions index:

Table Nº (5): Illustrates the Evolution of the Corruption Perceptions Index in Algeria during the Period 2012-2022:

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Value	34	36	36	36	34	33	35	35	36	33	33
Ranking	105	94	100	88	108	112	105	106	104	117	-

Source: Compiled by the researcher based on available data:

- https://www.transparency.org
- ANND.org/ar/publication/details
- CPI-Report image-transparency dn.org.pdf

According to the table above, we find that the Transparency International Corruption Perceptions Index for Algeria ranged between 33 and 36 points out of 100, during the years 2012 to 2022. This indicates that Algeria is one of the countries with high corruption rates according to international organizations. Corruption is considered a significant obstacle in Algeria, hindering business practices. Algeria ranked above position 100 in most years during this period, placing it among the countries lagging behind, except for 2013 and 2015 when it ranked 94 and 88 respectively.

According to the 2018 index report, Algeria, along with Egypt, was ranked 105th out of 180 countries with the same score of 35 points. Morocco and Tunisia, with scores of 43 points, ranked 73rd, indicating that Morocco and Tunisia have lower corruption levels and greater transparency than Algeria and Egypt.

By examining Algeria's position concerning this index, it is evident that it has a less transparent economic environment in terms of business operations. This makes it less attractive for foreign direct investment compared to neighboring countries.

2.2.4. Ease of Doing Business:

The Ease of Doing Business Index is an indicator created by Simon Djankov of the World Bank Group in 2003. Obtaining lower ranks (which are low numerical values) indicates a better situation, usually meaning simpler administrative procedures for investors or companies and stronger protection of property rights.

Experimental research funded by the World Bank to create the index shows that the impact of economic growth on countries to improve their results in this index is strong.

Through the following table, we attempt to illustrate the evolution of this index in Algeria during the period 2015-2022:

Table (6): Evolution of the Ease of Doing Business Index in Algeria (2015-2022)

Years	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Value	50.69	45.72	47.76	46.71	49.65	48.6
Rank	154	163	156	166	157	156
Number of Countries	189	189	190	190	190	190

source:Compiled by the researcher based on: world bank data: https://www.doingbusiness.org/en/reports/global-reports

From the table (6), we can observe fluctuations in the Ease of Doing Business Index in Algeria. However, it decreased in recent years, dropping from 50.69 points in 2015 to a range between 45.72 and 49.65 out of 100. The recent decrease in 2020, with a score of 48.6 and a ranking of 156 out of 190 countries, indicates that Algeria is classified among countries with difficulty in conducting business during the study period.

Despite the improvement in the electricity access index due to reforms in 2017 and 2019, it was not sufficient to enhance the Ease of Doing Business Index. In 2020, the process of getting electricity in Algeria required 5 procedures, taking an average of 84 days, while in Morocco, it required 4 procedures and an average of 31 days. This situation is also similar in Tunisia and Egypt.

It's worth noting that the main reason behind this deterioration is Algeria's low global ranking, especially in 2020, in the Minority Investor Protection Index, where it ranked 179th globally. Similarly, the Financing and Getting Credit Index ranked Algeria 181st globally with a score of 10 out of 100, while Egypt, Morocco, and Tunisia achieved much higher scores.

Additionally, the Paying Taxes Index significantly affected Algeria's ranking as one of the toughest business environments, where it ranked 158th in 2020, compared to 156th in 2019.

On the other hand, the Innovation Index has improved in recent years. Algeria ranked 99th in 2022, up from 106th in 2019. This index is crucial for understanding the country's political situation and its ability to provide services to individuals. It also assesses the business environment, measuring the ease of market entry, new project establishment, and regulatory compliance in the business sector.

3. The third axis: Foreign investment flows, growth rate, and the investment climate.

Economic growth is a complex process of economic, social, and political transformation. Economists in the late 1980s and early 1990s emphasized that economic growth is nothing but a correction of national policies, which lead to an increase in income and thus an increase in the average per capita share of output and consumption, leading to higher living standards. Economic growth is mainly expressed by the change that occurs in Gross Domestic Product (GDP). (zagua, 2006)

Foreign Direct Investment (FDI) plays a significant role in efficiently utilizing production factors as it represents a package of modern technology. Various modern studies have attempted to explain the mechanisms through which technological advancement contributes to stimulating economic growth.

3.1. Growth rate and foreign direct investment flows (2000-2022):

The rate of foreign direct investment (FDI) in Algeria is one of the indicators that has deteriorated significantly. FDI in Algeria decreased by about 19%, dropping from $1.382 billion in 2019 to $1.125 billion in 2020. The most significant investments continue to be in the hydrocarbon sector due to the absence of a comprehensive investment strategy that facilitates profitable partnerships with foreign investors. Additionally, the lack of stability and consistency in laws erodes investor confidence. Administrative bureaucracy also poses a significant barrier to the inflow of foreign investments.

Here is a summary of FDI data (in billion dollars) for the period 2000-2022:

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Table Nº(7) :FDI inflows, growth rate, and Net Flow(2000-2022)

Year	growth rate(%)	Net Flows (%)	FDI Inflow(billion dollars)
2000	3.8	0.5	0.2
2001	3.00	2.00	1.1
2002	5.6	1.9	1.0
2003	7.2	0.9	0.6
2004	4.3	1.00	0.8
2005	5.9	1.10	1.0
2006	1.7	1.60	1.7
2007	3.4	1.20	1.6
2008	2.4	1.50	2.5
2009	1.6	2.00	2.7
2010	3.6	1.40	2.3
2011	2.9	1.30	2.5
2012	3.4	0.70	1.5
2013	2.8	0.80	1.6
2014	3.8	0.70	0.7
2015	3.7	0.30	_0.5
2016	3.2	1.00	1.5
2017	1.3	0.70	1,2
2018	1.1	0.80	1.47
2019	1.0	0.80	1.38
2020	-5.1	0.50	1.13
2021	3.4	0.00	0.16
2022	3.2	-	0.09

Source: Prepared by the researcher based on various sources:

- National Agency for Investment Development – United Nations Conference on Trade and Development (UNCTAD) Report for 2017.
- Data from the World Bank on Foreign Direct Investment (2000-2022).
- United Nations Development Organization and UNCTAD data for 2022.

During the economic recovery period, Algeria relied on government spending through consecutive programs, allocating over $440 billion. The intention was to attract foreign direct investments (FDI). However, Algeria only managed to attract a limited amount of FDI, mostly concentrated in the hydrocarbon sector. For example, from 2000 to 2003, there were fluctuations in the volume of FDI, ranging from $0.2 billion in 2000 to $1.1 billion in 2001. This coincided with the implementation of investment development regulations, which opened up foreign direct investments beyond state entities. However, this volume decreased to $0.6 billion in 2003 due to cumbersome administrative procedures. Starting in 2006, there were clear increases in FDI, reaching a peak of $2.7 billion in 2009. This was due to an improved investment climate in Algeria resulting from political and security stability in the country. Additionally, the issuance of the new investment law in 2016 provided incentives for foreign investors. However, FDI witnessed a significant decline in 2010 due to the implementation of provisions in the supplementary finance

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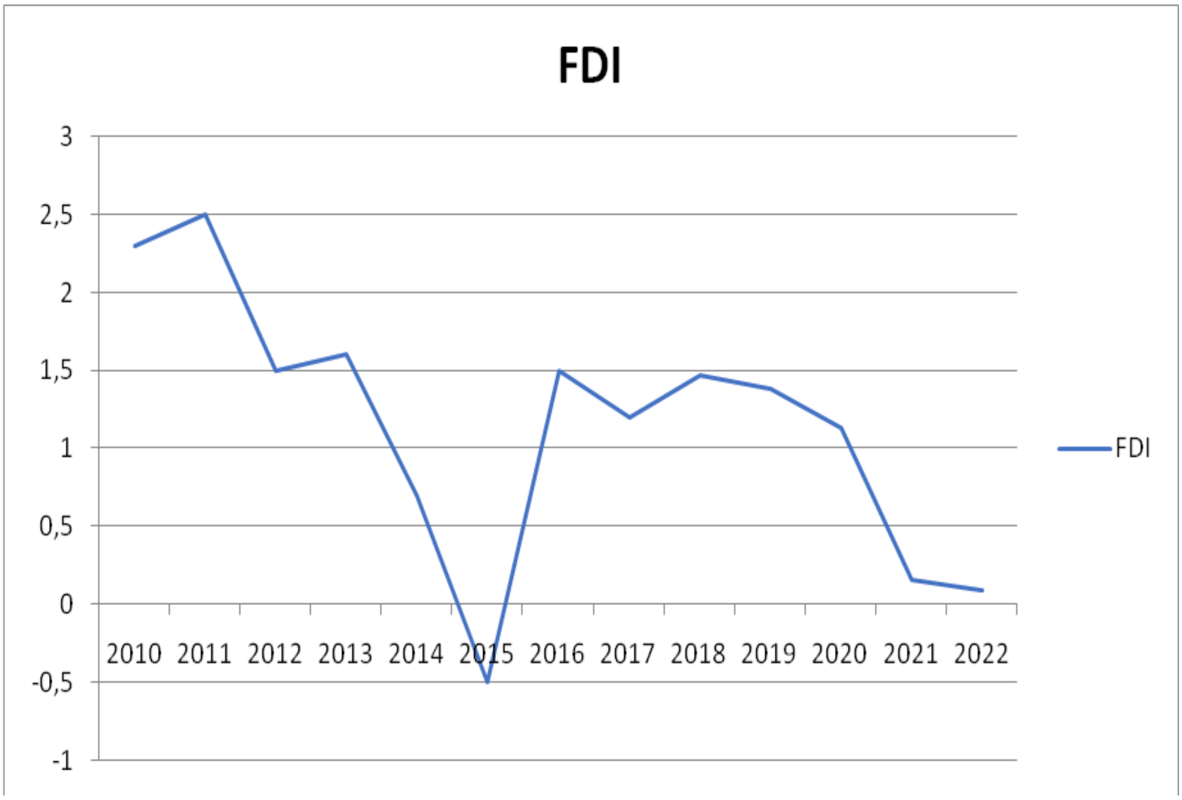
law of 2009. The 51-49% partnership rule imposed by this law on foreign direct investments led to a decrease in the inflow of investments into Algeria. Consequently, it was necessary to abandon this rule, which was explicitly stated in the finance law of 2020.

It is important to note that the key sectors that attracted FDI during this period included the telecommunications sector with investments from the Egyptian company Orascom in 2001, the Kuwaiti Telecommunications Company in 2004, and French investments outside the hydrocarbon sector. Additionally, there were investments from India in the iron sector and American investments in the chemical and pharmaceutical sectors through the company Danone. However, investments in the hydrocarbon sector still accounted for over 80% of total investments.

In the second half of 2014, there was a negative impact on Algeria's economic indicators due to the decline in FDI. Starting from 2016 and in conjunction with the implementation of the 2016/08/03 law related to investment promotion, FDI saw a slight increase, reaching $1.5 billion in 2016. This law provided more privileges, in addition to the security and political stability in Algeria during this period. However, in 2017, FDI decreased to $1.2 billion, indicating another decline. The 51-49% investment rule in Algeria may have been a factor for this decrease. There was a slight increase again in 2018, but it decreased in the following years (2019-2022), continuing the downward trend in FDI inflows despite all the efforts made. This decline was also accompanied by a continuous decrease in the net external inflows, despite the growth rate in 2021 and 2022.

as indicated in the table number 7 and table 8 and graphs below ,we will analyze the relationship between FDI flows and growth rate:

Fig 1: Evolution of Foreign Direct Investment (FDI) in Algeria (2010-2022)



Source: Compiled by the researcher based on data from Table number 7.

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fig 2:growth rate and FDI

Source: Compiled by the researcher based on data from Table number 8

In the context of comparing the GDP growth rate and foreign direct investment (FDI) inflows, it is observed from the comparative chart between the two indicators that the lowest GDP growth rate occurred in 2020, reaching -5.1%. Since that year, the government took steps to promote both foreign and local investment. These steps included issuing a new law for hydrocarbons, partially lifting restrictions on foreign ownership for local companies, adopting a new investment law, and working on new laws for finance and credit, as well as public-private partnerships. Despite these efforts, FDI inflows decreased to approximately $1.13 billion in 2020 compared to $1.38 billion in 2019, which had a growth rate of 1.0%. The highest growth rate during the studied period was 3.8% in 2021. The government's action plan in 2021 prioritized private sector-led growth and job creation, focusing on public spending rationalization, reducing imports, enhancing non-hydrocarbon exports, and making significant improvements in the business environment, including banking and state-owned institutions reforms.

Despite the subsequent increase in the growth rate and reaching higher values, FDI continued to decline, reaching $0.09 billion in 2022.

The conclusion drawn is that despite the government's efforts to attract foreign direct investment, there was a downward trend in FDI from its peak in 2019 to its lowest point in 2022. However, the GDP growth rate experienced a significant decline in 2020 but returned to an upward trajectory in 2021 and 2022.

Additionally, according to the report monitoring the economic situation, the pace of economic activity in non-hydrocarbon industries accelerated in 2022, supported by agricultural production recovery and continuous growth in private consumption. Some indicators also suggested ongoing

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growth across the country in the first quarter of 2023. The rise in natural gas export prices compensated for the decrease in oil prices, leading to increased export levels and rapid accumulation of foreign exchange reserves, along with a decrease in the budget deficit.

The report highlighted that Algeria's gross domestic product (GDP) growth reached 3.2% in 2022. Non-hydrocarbon sectors experienced rapid growth at 4.3% compared to 2.3% in 2021. The current account surplus reached 9.5% of the GDP in 2022, leading to foreign exchange reserves reaching $61.7 billion by the end of 2022, equivalent to 15.8 months' worth of imports. (world bank group,IBRD, 2023)

3.2. Investment Climate and Economic Growth in Algeria :

To analyze the relationship between growth and the investment climate, several global indicators reflecting Algeria's status were considered.

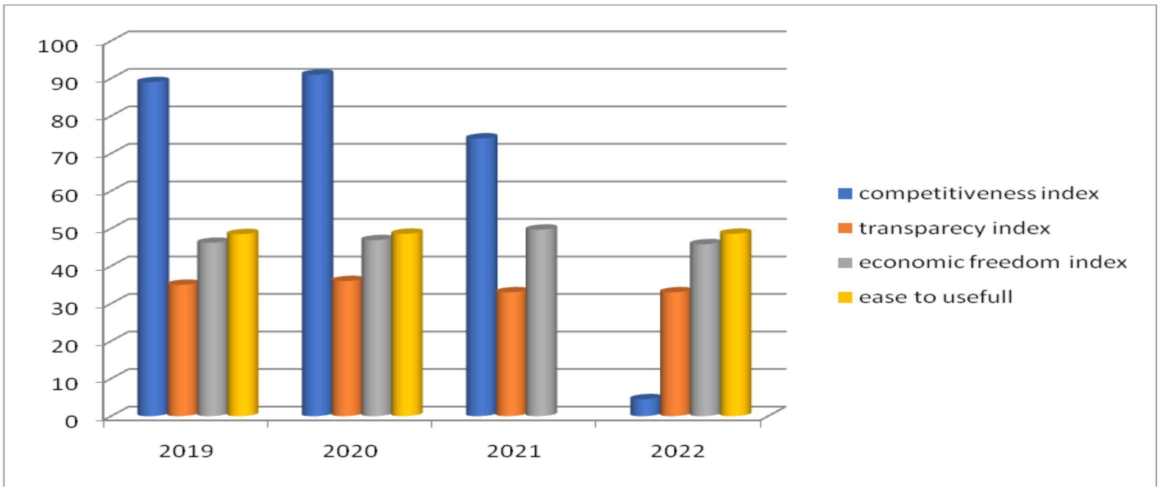
This is done by correlating the improvement or deterioration of these indicators with changes in the growth rate during the period (2019-2020), which was marked by several crises, most notably the COVID-19 pandemic. Although it affected the entire world, there are countries that were not prevented from improving their indicators, especially the freedom and competitiveness indices.

Table nº8: Investment Climate and Economic Growth in Algeria (2019-2022)

Indicator	Ease of Doing Business	Freedom	Competitiveness	Transparency	Growth Rate (%)	FDI Inflows (Billion $)
2019	49.65	46.2	89	35	1.0	1.38
2020	48.6	46.9	91	36	5.1-	1.13
2021	-	49.7	74	33	3.4	0.16
2022	48.6	45.8	-	33	3.2	0.09

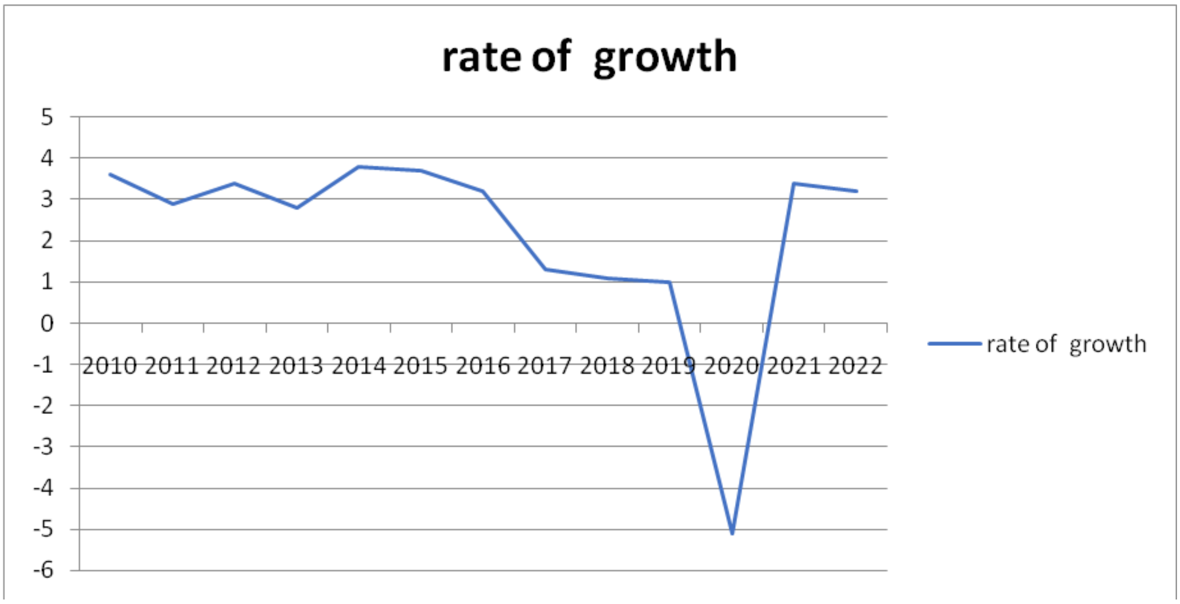
Source: Prepared by the researcher based on previous tables

Fig 3: Investment Climate Indicators in Algeria (2019-2022)



Source: Compiled by the researcher based on data from Table number 8

Fig 4: Growth Rate Trends in Algeria (2010-2022)



Source: Compiled by the researcher based on data from Table number7

From the above charts, an attempt is made to extract the relationship between Algeria's investment climate and growth rates during 2019-2022. Notably, in Figure 3, it is observed that the Freedom Index was negligible during 2019-2022, indicating complete restrictions in Algeria, with its best global ranking in 2021 at 162nd place and 13th in the Arab world. This ranking was the only time it approached a 50% score. The country’s worst ranking was in 2019. The growth rate increased significantly in the same year but decreased again in 2022, indicating a declining trend.

It can be said that:

✓ the **Freedom Index** showed a downward trend until 2022, reaching 45.8, reflecting the worst ratio during 2019-2022. The growth rate, on the other hand, showed a declining trend since 2019 and only increased in 2021, reaching 3.8%.

✓Regarding the **Competitiveness Index**, it exhibited an upward trend. It improved since 2020, with Algeria ranking 74th globally in 2021-2022, representing an improvement compared to 2019-2020. During this period, Algeria surpassed some Arab countries in this index. Interestingly, despite the improvement in the Competitiveness Index, it did not significantly impact the contribution of FDI to the gross domestic product, which reached 0.05% concerning the local economy. Despite the increase in competitiveness, it did not notably affect FDI inflow or the net flows as a percentage of the GDP, which reached 0.00% in 2022;

✓Transparency Index:

Algeria has a less transparent business environment, making it less attractive. The Corruption Perceptions Index averaged 33 points from 2019 to 2022. The highest inflow of investment was in 2019, corresponding to a transparency index of 35 points out of 100, indicating higher corruption levels. The ranking increased in 2020, accompanied by a decrease in foreign direct investment, reaching 33 points in 2021, where the highest growth rate was achieved;

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✓**Ease of Doing Business Index:**

The Ease of Doing Business Index fluctuated from 2019 to 2022. Algeria scored 49.65 in 2019, indicating the least favorable conditions. Despite similar performance, the country's ranking stabilized at 48.6 in 2020 and 2022, signifying a consistent classification among nations known for business complexities. In contrast, the curve of foreign direct investment flows exhibited a declining trend, paralleling the growth curve for the most part during the period from 2019 to 2022.

Conclusion:

Through our study of Foreign Direct Investment (FDI) flows and the investment climate in Algeria, and comparing them with the economic growth rate, which is considered a determinant of foreign investment, we were able to formulate the following results:

- Economic growth can be considered an external variable concerning foreign investment. Higher growth rates can attract more foreign investment to a country;
- Despite the declining trend in FDI from its peak in 2019 to its lowest in 2022, the growth rate significantly dropped in 2020 but returned to an upward trajectory in 2021 and 2022;
- Despite the improvement in the Competitiveness Index, it did not significantly impact the contribution of FDI to the gross domestic product, which reached 0.05% concerning the local economy;
- Algeria has a less transparent business environment, making it less attractive. The Corruption Perceptions Index averaged 33 points from 2019 to 2022. However, the contribution of FDI to the gross domestic product during the same period was very low;

In essence, the relationship between FDI and economic growth is complex and influenced by various factors such as transparency, ease of doing business, and competitiveness. While improvements in these areas are essential for attracting foreign investment, they might not guarantee a substantial increase in FDI unless accompanied by consistent economic growth and stability.

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