



The Role of Foreign Investment in Achieving Economic Development

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Abstract:

Foreign investment is widely recognised as a key driver of economic development. In Algeria, it has become a central objective of the state, with various programmes, plans and policies aimed at promoting the economy and achieving development that benefits both the state and society. Like other countries worldwide, Algeria seeks to attract foreign investment because of its positive impact on various fields, such as mobilising financial capital, reducing unemployment, restructuring national enterprises and transferring technology, thereby strengthening the national economy.

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Introduction

Foreign investment is one of the most important economic activities in any country. It is also a key source of financing and plays a vital role in economic growth. Furthermore, it enhances productive capacities, modernises operating equipment, creates new employment opportunities and introduces advanced technologies. For this reason, Algeria, like other countries, continues to work on improving its investment climate, given the importance of foreign investment as a source of external financing. In light of Algeria's efforts to attract foreign investment, which has become an economic necessity, the following research question arises: what is the reality of foreign investment in Algeria, and to what extent has the Algerian legislator regulated investment to achieve economic development?

In order to address this issue, it is first necessary to discuss Algeria's economic situation, then examine foreign direct investment in Algeria and finally present the advantages of foreign investment under Law No. 22/18.

First: The reality of Algeria's economy

The Algerian economy is based on an extractive, rent-based strategy centred on oil and gas wealth. This approach fails to consider the size of the reserves or the need to find alternatives in the event of their depletion. It also fails to ensure the rational exploitation of the revenues generated. Consequently, Algeria is a rentier state, dependent on revenues earned in international markets.

Algeria has experienced many problems as a result of the decline in oil prices. At the same time, however, the early 1990s saw an improvement in the investment climate and notable economic development. This improvement was reflected in several key indicators of economic balance:

1) Economic growth rate

Since the Algerian economy is rentier in nature, it is necessary to control economic performance rates. This can be achieved by increasing income, improving living standards, creating employment opportunities, reducing unemployment and expanding production across economic sectors — an expansion that contributes to reducing unemployment.

2) Inflation

Given Algeria's ongoing transition to a new economic system, there is a long-standing link between changes in inflation rates and economic stability. Following the administrative liberalisation of prices and reductions in the exchange rate of the national currency, large fluctuations in inflation rates led to an increase in inflation to an annual rate of 38% in 1991. It reached 39% in 1994. Following the government's adoption of strict fiscal and monetary policies from 1992 to 1996, inflation declined to 15% in 1996 and 6% in 1997, subsequently decreasing by 2%. By 2005, inflation had reached 2.5%. Therefore, price stability is a positive factor that confirms economic stability¹.

3) External balance

External economic balance is one of the essential conditions for achieving development. 'External balance' refers to equilibrium in a country's external transactions, meaning that its obligations to the rest of the world are equal to its rights over a given period. This is reflected in the balance of payments, which records all receipts and payments in transactions with the rest of the world².

Indicators of external economic balance include the balance of payments and the exchange rate. The balance of payments is a structured accounting record of all economic exchanges carried out between residents of a country and non-residents over a specified time period, usually one year. From an economic perspective, the balance of payments is achieved when the debit total in the current and capital accounts equals the credit total³.

As for the exchange rate, it is possible to distinguish between two concepts:

- Foreign exchange rate: the price (or value) of one unit of foreign currency expressed in units of the national currency.
- National exchange rate: the price (or value) of one unit of the national currency expressed in units of foreign currency⁴.

The exchange rate performs three functions: the standard (regulatory) function, the developmental (dynamic) function, and the allocative/distributive function⁵.

4) Transport and communication network

Algeria has the largest road network in Africa, estimated at approximately 111,000 km. However, a lack of continuous maintenance and renewal is a negative factor. This results in heavy traffic congestion in major

¹- Houssein Ben Nadji, 'An Analytical Study of the Investment Climate in Algeria', Journal of Economics and Society, no. issue, University of Constantine, 2005, p. 7.

²- Ahmed el-Ayach, 'The Impact of the General Agreement on Economic Balance in Algeria during the Period 1990 to 2017', PhD thesis in Economic and Commercial Sciences, Qasdi Merbah University, Ouargla, Algeria, 2020, p. 33.

³- Houria Ben Tarba, 'An Analytical Study of the Balance of Payments in Algeria during the Period 1970 to 2014', Master's thesis, Faculty of Economic Sciences, Ouargla, Algeria, 2017, p. 3.

⁴- Mahmoud Younes Mohammad, Alaouhab Al-Najjar et al., Money, Banks and International Trade, Dar Al-'Ilm Al-Jami'i for Publishing and Distribution, Alexandria, 2018, p. 333.

⁵- Abd Al-Razzaq Ben Zawad, The Equilibrium Real Exchange Rate, Dar Al-Bazouri Scientific Publishing and Distribution, Amman, 2016, pp. 17-18.

cities and the deterioration of the bus fleet, requiring additional investment to improve service quality⁶.

The rail transport network is a legacy of the colonial period and covers only about 45,000 km. This puts pressure on the road network, resulting in higher costs, longer travel times and greater reliance on road transport, as well as increased pollution.

Therefore, Algeria needs to modernise the rail network quickly and link it to the most important industrial regions. Progress in the air and maritime transport sectors requires genuine political will to revitalise this vital area, which affects investors who face challenges in transporting and distributing their products. This is due to ageing fleets and limited activity by foreign firms.

We can therefore conclude that poor-quality services create an uncomfortable and unstable investment environment, which contributes to fluctuations in the level of foreign direct investment in Algeria. (Hussein Ben Najein, previous reference, p. 10).

5) Information and communication technology (ICT)

The availability of modern communication networks that meet global standards is one of the most important factors for foreign companies when making investment decisions.

In Algeria, ICT technology has developed considerably, largely thanks to government investment in infrastructure and the expansion of mobile phone and internet networks, as well as increased openness to digital services. Nevertheless, the country still faces a digital divide and lags behind neighbouring countries to some extent. This is largely due to challenges relating to inadequate infrastructure in certain regions and a shortage of skilled personnel⁷.

Second: the impact of foreign direct investment (FDI) in Algeria

The topic of foreign investment and its effects is one of the most important issues to be addressed, particularly since foreign investment aims to achieve economic objectives. FDI plays a significant role in accelerating economic development as it effectively drives further progress, including in the technological field, while generating social benefits such as job creation and numerous economic advantages. This will be addressed as follows:

1) Technology transfer

Technology, in general, is the art and science of a given craft:⁸ it encompasses the studies, skills and expertise necessary for production in that area or across related sectors. Regardless of its level of advancement, technology is a core element of technological progress and drives development⁹.

Foreign direct investment in industry and services, together with technology, is considered a key factor in closing the technological gap between industrialised and developing countries, particularly in advanced electronics. This is because there is a strong correlation between the level of industrial activity in a given sector and its productivity growth rate.

⁶- Samir Boukhtala, Mohammad Zargoun and Nawal Ben Aarrach, 'The reality and prospects of the transport sector in Algeria and its role in economic development', Algerian Journal of Economic Development, University of Ouargla, Issue 6, June 2017, p. 47.

⁷- Maazili, Nawal. 'Information and Communication Technology in Algeria: A Study of Indicators and Diagnosis of Data', Algerian Journal of Security and Development, 2018, Vol. 7, No. 1, p. 170.

⁸- Abd Al-Salam Ouqhaf, Economics of International Investment, Al-Maktab Al-'Arabi Al-Hadith, Second Edition, Alexandria, p. 165.

⁹- Roukia Qouraoui and Manal Bouaawaf, 'The Impact of Foreign Direct Investment on Economic Development in Algeria', Master's dissertation, University of Guelma, 2012, p. 105.

FDI can support this by enabling the following:¹⁰

- Introducing new technologies that have not previously been used in the domestic economy, leading to the production of new goods.

- It often requires direct investment that includes a technological component, which in turn introduces or develops the new skills needed to operate the technology.

Local innovation depends on the ideas available within the economy, so introducing new ideas increases the stock of ideas and stimulates local innovation.

In general, the transfer of technology varies depending on the form of investment — whether it is wholly owned by the foreign investor or carried out through a joint investment.

In the case of technology transfer through wholly foreign-owned investment, the parent company provides all the necessary equipment for setting up the new project. This includes everything the new company needs to start operating. By contrast, in the case of joint investment, the sharing process extends beyond capital participation to include management and expertise. Consequently, technology transfer leads to national elements acquiring real experience, facilitating a high level of technology transfer¹¹.

Foreign investment can also contribute to technology transfer by forming linkages with local suppliers or domestic firms.

Technology transfer may also occur through training, but this requires significant absorption capacity to achieve technological development. Technology transfer can take place using either:

Traditional contractual methods, which involve transferring devices, machines and equipment, as well as knowledge and production methods aimed at increasing output; or

- modern contractual methods, which involve two operational stages:

- Establishing a ready-to-operate facility.

- Local users achieving independent industrial control of the facility.

This ensures that the provided technology has been effectively acquired¹².

2) Employment (labour)

It is a well-established fact that operating investment projects brought about by foreign direct investment requires labour. Therefore, such investment creates new employment opportunities and helps to reduce the unemployment rate, particularly when the project relies heavily on local labour¹³.

There is no doubt that foreign investment plays an effective role in alleviating unemployment and creating new jobs. Hence, like other countries, Algeria seeks to attract foreign investment in order to eliminate or at least reduce unemployment. The existence of unemployment creates a complementary relationship: it encourages citizens to set up businesses providing services to foreign companies. This leads to an increase in the number of domestic enterprises. Furthermore, beyond job creation, foreign investment contributes

¹⁰- Hanan Channak, 'The Impact of the Foreign Investment Sector on the Pharmaceutical Sector', Master's dissertation, Finance specialisation, Faculty of Economic and Commercial Sciences, University of Algiers 03, 2010, p. 70.

¹¹- Machoun Saham, 'Technological Development and its Role in Activating Knowledge Management within the Organisation', Master's dissertation, Abdel Hamid Ibn Badis University, Mostaganem, 2017, p. 12.

¹²- Machloulf Saham, Previous Reference, p. 13.

¹³- Mohammad Ismail, Jamal Qasim Hassan and Karim Zaidi, 'Informational Pamphlet Series', No. 41, International Monetary Fund, 2022, p. 23.

to the development and training of human resources, raising productivity levels¹⁴.

Thirdly, the advantages of foreign investment under Investment Law No. 22/18.

The new law is an Algerian initiative designed to attract foreign investors to the country by offering them various incentives, including:

1) Land

The state provides investors with land belonging to the private domain of the state — that is, economic land. This is granted through a concession agreement signed between the investor and the Directorate of State Property, in accordance with the standard terms and conditions (i.e. a model 'specifications/obligations' document). The term of this concession is 33 years, renewable up to 99 years, and it does not convert into a land ownership contract.

This is provided for in Article 6 of Investment Law No. 22/18. Additionally, the authorities responsible for land administration make information concerning the availability of economic land for investors available through the investor's digital platform referred to in Article 23 of Law No. 22/18.

Notably, the Algerian Investment Promotion Agency launched the digital platform for economic land on 08/02/2024. This is consistent with a broader governmental trend towards modern digital administration, aimed at increasing transparency in the granting of land and facilitating project establishment and investor attraction. Accordingly, Algeria has sought to establish the legal framework governing the allocation of real-estate plots for investment, in line with current economic policies¹⁵.

2) Exemption from foreign trade and bank localisation procedures in the context of outward/inward transfer operations

This means that entities subject to foreign law which transfer part of their activities from outside Algeria to Algeria or vice versa are exempt from foreign trade and bank localisation procedures.

Additionally, the 'external contribution' that falls exclusively within the framework of these operations is exempt from these procedures. The same exemptions apply to new goods that enter as part of external in-kind contributions (as provided for in Article 7 of Law No. 22/18)¹⁶.

3) The right to transfer invested capital and returns

According to Executive Decree No. 28/300, which provides a list of ineligible activities, goods and services, and specifies the minimum financing thresholds required for the capital transfer guarantee (governed by Article 8 of Law No. 22/18), entities have the right to transfer invested capital and returns.

Article 8 establishes the minimum requirement for benefiting from the transfer guarantee, calculated on the basis of the amount of funding originating from abroad, which is the responsibility of investors in the total cost of the investment. The minimum threshold corresponds to 25% of the investment amount. However, failure to provide the minimum amount does not automatically prevent access to the advantages.

Conclusion

In conclusion, foreign direct investment in Algeria is affected by a number of challenges and constraints that hinder the ability to attract foreign investors. Foreign companies encounter difficulties relating to local legislation and laws. Although Law No. 22/18 on investment has been issued, restrictions on foreign

¹⁴- Zidan, M. (2004). 'Foreign direct investment in countries undergoing a transition phase'. *Journal of North African Economies*, 1(1), pp.136-137.

¹⁵- Amara, H. and Ben Salahia, S., 'Economic Real Estate Grants Dedicated to Investment under the New Law No. 23/17', *Journal of Legal and Economic Research*, Vol. 7, No. 3, 30/09/2024, p. 237.

¹⁶- Article 7 of Law No. 22/18 on Investment, dated 24 July 2022, *Official Gazette (J.R.)*, Issue No. 50.

ownership in certain sectors still prevent investors from obtaining full ownership.

In addition, complex legal procedures hinder the facilitation of foreign workers and their operations. Foreign companies often encounter bureaucratic complexities, such as difficulties obtaining authorisations and permits for trading and employment.

Furthermore, weaknesses in infrastructure, such as ports and logistics networks, affect transport and distribution efficiency and increase operational costs. Foreign investors also struggle to find qualified labour in some key sectors.

Nevertheless, the Algerian government is making considerable efforts to strengthen foreign investment by reviewing legislation, simplifying procedures and improving infrastructure. These efforts aim to attract foreign investment and promote economic development.

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18. Law No. 22/18 on Investment, dated 24 July 2022, Official Gazette (Journal Officiel), Issue No. 50.