Ecole des Hautes Etudes Commerciales d'Alger

EHEC

Thesis Submitted in Partial Fulfillment

Of the Requirements for a Master's Degree in Commercial Sciences

Major: International Affairs

The Impact of the Business Climate in Algeria on a Multinational Corporation

CASE STUDY: BATIMETAL GALVA

Submitted by:

Ms. Hayet BOUDJEMA

Ms. Sana MERAIMI

Supervised by:

Dr. Farah RAHAL

Senior Lecturer at HEC Alger

5th Promotion

June 2018

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Dedication:

This dissertation is dedicated to my parents, whom without their enormous personal sacrifice and unconditional love; I would have never become the individual that I am today. May God bless them.

To my brothers: Mohamed, Sidahmed, azzedine, Chemseddine and to my cousin Djidji for their support.

To my sisters: Asma, Cherifa and Manel who have shared with me everything in my life.

To my sisters in law: Wafia and Wassila.

To Adel for his great encouragements.

And special dedication to my friends: Ryma, Ahlem, Nourelhouda, Ilhem, Asma without forgetting my cousin Chahinez.

To Hayet, for her motivation and support.

To all those who contributed to the success of this work and all who know me.

Sana

Dedication:

I am dedicating this work to all the people who influenced me and made me the person I am today.

I would love to start with my parents for their endless sacrifices, encouragement, and love, without you I would have never been where I am now.

To my three beautiful little sisters Amel, Zahra, and Wafa, you are the sunshine of my life.

To Amina, you are the best aunt anyone can ask for. And to all the members of my family who have showed nothing but support during my whole life.

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Abstract

Globalization is a phenomenon of opening up national economies to a global market, leading to increasing interdependence of countries.

By becoming involved in globalization, several companies have decided to expand their investment by setting up in other foreign countries, targeting other international markets, and no longer be limited to local investment, hence the birth of multinationals. In seeking their destination, these companies always want to choose a country where working conditions are very easy and the business climate very attractive.

Speaking of our case study, Algeria is an attractive country on an international scale. Many opportunities and facilitations are provided by our government and not found elsewhere. However, the number of foreign companies is still modest and small compared to other countries.

The purpose of this research is to know the reasons behind and at the same time find solutions to fix and escape this situation. And so, increase the number of FDI in Algeria.

Keywords: Globalization, foreign direct investment, multinational firms, international relations, business climate in Algeria.

ملخص

العولمة ظاهرة لانفتاح الاقتصاديات الوطنية على السوق العالمية مما يؤدي إلى زيادة الاعتماد المتبادل بين البلدان. من خلال الانخراط في العولمة قررت العديد من الشركات توسيع استثماراتها من خلال إنشاء أسواق دولية وبالتالي ظهور مصطلح الشركات متعددة الجنسيات.

تسعى هذه الشركات دائمًا عند البحث عن وجهتها إلى اختيار بلد تكون فيه ظروف العمل سهلة ومناخ ملائم للأعمال. بالحديث عن قضيتنا الجزائر بلد جذاب للغاية على النطاق الدولي حيث يتم توفير العديد من الفرص والتسهيلات من قبل حكومتنا و التي هي غير موجودة في مكان آخر. ومع ذلك فإن عدد الشركات الأجنبية لا يزال متواضعا و محدودا مقارنة بالبلدان الأخرى.

الغرض من هذا البحث هو معرفة الأسباب واقتراح الحلول الممكنة لإصلاح هذه الوضعية وبالتالي زيادة عدد الاستثمارات الأجنبية في الجزائر.

الكلمات المفتاحية : العولمة، الاستثمار الأجنبي المباشر، الشركات متعددة الجنسيات، العلاقات الدولية، مناخ الأعمال في الجزائر.

Résumé

La mondialisation est un phénomène d'ouverture des économies nationales sur un marché mondial, entraînant une interdépendance croissante des pays.

En s'impliquant à la mondialisation, plusieurs entreprises ont décidé d'élargir leur champ d'investissement par l'implantation dans d'autres pays étrangers, cibler d'autres marchés internationaux, et de ne plus se limiter à l'investissement local. D'où la naissance des multinationales. En cherchant leur destination, ces entreprises veulent toujours choisir un pays où les conditions de travail sont très facilitées et le climat d'affaire très attractif.

Concernant de notre cas d'études, l'Algérie est un pays attractif à l'échelle internationale. Plusieurs opportunités et facilitations sont données par notre gouvernement et qu'on ne trouve pas ailleurs. Cependant, le nombre des entreprises étrangères reste toujours modeste et restreint contrairement à d'autres pays.

Le but de cette recherche est de connaitre les raisons qui se cachent derrière et en même temps d'essayer de trouver des solutions pour les fixer et échapper à cette situation. Et donc, augmenter le nombre des IDE en Algérie.

Mots Clés : Mondialisation, investissement direct étranger, firmes multinationales, relations internationales, climat d'affaire en Algérie.

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List of Abbreviations:

AMU: Arab Maghreb Union

ANDI: National Investment Development Agency

ANEM: National Employment Agency (Agence National de l'Emploi et de la Main d'œuvre)

ANIREF: National Agency for Intermediation and Land Regulation

BA: Bank of Algeria

BLEU: Belgium-Luxembourg Economic Union

CACI: Algerian Chamber of Commerce and Industry

CFL: Supplementary Finance Act (Loi de Finance Complémentaire)

CNI: National Investment Council

CSR: Corporate Social Responsibility

FCE: Forum of Entrepreneurs (Forum des Chefs d'Entreprises)

FDI: Foreign direct investments

FLN: National Liberation Front

GDP: Gross Domestic Product

ICTs: Information and Communication Technologies

ILO: International Labor Organization

IMF: International Monetary Fund

ITU: International Telecommunications Union

MENA: Middle East/North Africa

NEPAD: New Economic Partnership for Africa's Development

NGOs: Non- Governmental Organizations

OECD: Organization of Economic Cooperation and Development

OJ: Official Journal

ONS: National Office of Statistics

QMS: Quality Management Systems

SEAAL: Société des Eaux et de l'Assainissement d'Alger

SOE's: State-Owned Enterprises

TIFA: Trade and Investment Framework Agreement

UN: United Nations

UNDP: United Nations Development Organization

VAT: Value-Added Tax

WTO: World Trade Organization

Summary:

Introduction

After the industrial revolution, an incredible increase in production, technological developments, speed of transportation, and ease in communication helped capital, labor, information and technology movements to get more intense between countries besides goods and services. As a result, national economies connected to each other with movements which are gradually getting more complex and dense. This has laid the first foundations of globalization.

Globalization refers to the growing interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace. International trade and cross-border investment flows are the main elements of this global movement, as well as the political and social factors that are associated with the growing economic integration.

The growth in foreign direct investment and multinational companies has been effective in the world economy by creating competition between countries. In this context, the developing countries open their borders to global markets to avoid losing their competitive advantages, and they become promoters of globalization by creating a favorable investment climate

Foreign direct investment (FDI) has become even more important than trade. In the last decade, we assisted a third wave of globalization where the economic link between countries has been strengthened mainly by FDI flows. A strong expansion of international investment flows has led to faster exchanges between different areas, with a greater variety of forms and a quantitative evolution of its content.

For host countries, the use of foreign direct investment (FDI) is an important issue for local development, fixed capital formation, and technical progress due to the technology it incorporates. FDI allows the increase of trade, the transfer of technology, the upgrading of local firms, and the creation of jobs.

Regarding Algeria, the economy operates thanks to a single sector: hydrocarbons. Other sectors remain ignored by the Algerian government. In the absence of economic diversification, the hydrocarbon sector occupies a dominant position in attracting FDI.

The last few decades were marked by Algeria's commitment to a policy of economic reforms aimed at restoring macroeconomic equilibrium and liberalizing the national economy, thereby improving performance in terms of economic growth, private sector development, and increase inward FDI flows. However, when we look at the evolution of FDI in Algeria since 2009 and, we observe, in the non-hydrocarbon sector and excluding the financial sector, a decrease of about 60% in 2009 compared to 2008. While in many emerging countries, there is a fairly significant recovery of capital flows during the same period.[1]

In this research we tried to evaluate the impact of the business climate in Algeria on a multinational corporation, we opted for this topic for multiple reasons, among others; to evaluate the attractiveness of the Algerian business climate, mainly, in terms of foreign direct investment since it plays a major role in promoting economic growth, the transfer of new technologies, and the integration of economies in international trade.

In short, our main objective in this thesis is to know the reason behind the restricted number of foreign firms present in Algeria. In spite of the facilitations and opportunities given by the Algerian government to reinforce the attractiveness of its business climate, multinationals are still oriented towards other markets. Through our study we also wanted to determine whether the problem is in the attractiveness of the business climate or there are other constrains faced by foreign investors after their settlement in the country.

We took the example of Batimetal Galva from a list of different organizations; the choice of this company was after a very long quest to find an adequate enterprise. This decision, however, turned out to be very suitable considering that Batimetal Galva is a newly installed foreign company in Algeria and is in direct interaction with the current economic environment in the country.

That been said, the research is here to answer the following primary question: ***What are the different challenges faced by multinationals established in Algeria?***

From this central question arise the following specific questions:

1. Is the Algerian economy open to global markets?
2. Is Algeria attractive to foreign direct investments?

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[1] CNUCED, *rapport sur l'investissement dans le monde*, 2012, p 48

3. Does the business climate in Algeria have a positive or negative effect on the implementation of a multinational corporation?

As an attempt to answer these questions we issued the following hypotheses:

H1: Algeria has made a huge progress in integrating the world economy by signing many free trade agreements with other countries especially the EU (European Union).

H2: Multinational companies usually prefer to choose Morocco or Tunisia as a destination to their investments instead of Algeria.

H3: Despite the efforts made by the government, the number of multinational companies in Algeria is still insufficient.

In order to reach effective results that can either confirm or deny these assumptions we adopted a research methodology that is both descriptive and analytical, carried out through several interviews with the different department managers at Batimetal Galva.

The final work and the results were organized as follows:

The first chapter is divided into two sections; the first section brings into light globalization in the world from a wide angle defining it and exposing its most noticeable effects on the international trade system. The second section approaches the topic from a more specific perspective, talking about Algeria's integration in the global economy with an overview on its foreign trade and its trade relations with other countries.

The second chapter is fully oriented towards Algeria and its business climate, starting, in the first section, with a presentation of the country from different angles (economic, political, fiscal, and social) and also a presentation of its investment climate with several elements related to investment in Algeria. Moving on to the second section that treats the attractiveness of foreign direct investments in Algeria, stating different factors and opportunities provided by the Algerian government, and highlighting constraints and obstacles that foreign investors usually encounter in Algeria.

The third and last chapter concerns the practical case of our study; it starts with a presentation of the host company where we spent our internship and conducted our study, and in the second section we explain the methodology of our research and the interview process, and finally, after the discussion and analysis of the collected data, we present the results and findings of this study.

Chapter I: Globalization and its Impact on International Trade

Introduction of the chapter:

Globalization refers to the growing interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace. International trade and cross-border investment flows are the main elements of this global integration. Trade freedom can also be seen as the best economic strategy for all of the world's problems.

No single nation has the natural resources, infrastructure, and human capital in sufficient quantity and quality to realize the standard of living to which developed nations have become accustomed and to which developing nations aspire. Algeria is no exception; the country emerged from the turbulent 1990s with an eye towards economic expansion and openness toward the world economy. This trend continues to characterize Algeria's market reforms, demonstrated by ever-increasing market liberalization and international integration.

That is why, in this chapter, we will discuss first of all, the concept of globalization as a world-class phenomenon with undeniable effects on international trade exchanges, and in the second part we will turn toward Algeria's aspiration to integrate the global economy by looking at its most recent economic reforms and foreign trade relations.

Section one: Globalization in the World

« *Globalization is a journey. But it is not a journey toward an unreachable destination, a globalized economy could be defined as one in which neither distance nor national borders impede economic transactions. This would be a world where the costs of transport and communications were zero and the barriers created by differing national jurisdictions had vanished. Needless to say, we do not live in anything even close to such world. And since many of the things we transport including ourselves are physical, we never will* » (Wolf, 2001, p 179). These last twenty years it has become a common sense that globalization is going to give place to a world without borders. However, this popular vision seems in contradiction with the increased appearance of borders since some time now.[2]

In this first section we will talk primarily about globalization as a major phenomenon in today's world with a review on its most remarkable effects on the world's economy.

[2] AGUILAR BARAJAS Ismael, *La mondialisation et ses effets : nouveaux débats*, L'Harmattan, France, 2004, p 17

1. Globalization: Definitions and History:

Today's omnipresent phenomenon, globalization is most often seen from a strictly economic angle. However, globalization is a global social process that is at once historical, geographical, sociological, political and economic. It can be read as a change of scale towards the global level of social realities of all kinds, placed above national societies. In other words, it is a social construction of the world.

1.1. Definitions of Globalization:

The word « globalization » has appeared between the late 1950s and the early 1960s, in a very neutral sense: it refers only to « *becoming global, to spread throughout the world* » (definition of Robert, ed.1960). The very idea of globalization in its precise meaning has not been used until the 1980s, in the field of business right before experiencing a rapid spread during the 1990s in other academic disciplines to finally win over the media.[3]

Even though, economists are the first to define the meaning of the word « globalization », they do not agree on a common definition, these differences of interpretation of the phenomenon constitute the source of important debates within the economic discipline. However, we can distinguish two major categories of definition of globalization.

The first group deals specifically with the evolution of multinational firms and their consequences on the organization of the international relations system. In this sense, globalization is seen as the attempt of multinational enterprises to reorganize, for their benefit, the architecture of the international system previously defined by the States.[4]

A second category, much more general, seeks to translate the transition from an internationalized economy to a global economy. Globalization is thus defined as « *the emergence of a globalized economy in which national economies are decomposed and then re-articulated within a system of transactions and processes operating directly at the international level*[5] ». In this global economy, the borders of national economies are no longer relevant; the globalized economy « *obeys its own logic which is no longer that of economic relations between*

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[3] BAUDRAND Vincent & HENRY Gérard Marie, *La Mondialisation*, Groupe Studyrama, France, 2006, p 12
[4] BOYER R, *La Mondialisation au-delà des mythes*, La Découverte et Syros, Paris, 2000, p 15
[5] Ibid., p 16

independent national entities. Multinational firms would detach from their local roots, capital movements would escape national choices, and countries would lose control of their currency[6] ». According to this interpretation, globalization represents a process of evolution towards an integrated global economy and not a state; in the current reality, international and global logics coexist.

From another perspective, the definition of globalization proposed by the specialists of international relations seems the most precise and the most singular. Globalization is indeed seen as the rise to power, in the face of the world of governments and in close contact with it, of a multi-centered world made up of non-governmental or transnational relations. International relations refer to « *any relationship which, by will or purpose, is built in the global space beyond the state framework and is achieved by escaping at least partially the control or the mediating action of states. As such, these relations question, voluntarily or otherwise, the sovereignty of states and their claim to an exclusive right of act on the international stage*[7] ».

Geography also provides a very specific interpretation of globalization, as the process of forming a world-class space or the product of all diffusions, exchanges and communications between different parts of humanity.[8]

1.2. History of Globalization:

International trade is as old as humanity. It goes back to ancient Mesopotamia, then to the Silk Road, which connected the East to the Roman Empire for the exchange of silk, perfumes, and other goods, in 300 BC. After the fifteenth and sixteenth centuries, international trade exploded with the arrival of ships and conquest, which led to the creation of colonies and the trading system. The exchanges were based on the political and military influence exerted by the imperial powers on their colonies. Europe exchanged its finished goods for precious metals and raw materials produced by its colonies, and also dictated the law in commercial matters.[9]

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[6] SIROEN J M, *L'Economie Mondiale*, tome 2, Armand Colin, Paris, 1994, p 22
[7] BADIE B & SMOUTS M C, *Le Retournement du monde*, presses de la FNSP, Paris, 1993, p 70
[8] DOLLFUS O, *Trois ou quatre choses que la mondialisation dit à la géographie*, 1999, p 11
[9] SCHIFFRIN Anya, *La mondialisation en 20 leçons*, Editions Danger Public, Paris, 2004, p 34

In the 18th century, in Great Britain, the first industrial revolution created a large demand for raw materials produced in other parts of the world. This new manufacturing complex, combined with the transport revolution, has helped to further increase the volume of trade. Until the middle of the twentieth century, the latter focused mainly on basic products. Secondly, decolonization and the rise of former colonies and non-imperial powers led to the production of more complex goods, with higher added value, in a larger number of countries. The period after the war was, therefore, marked by the acceleration of international trade.

1.3. Types of Globalization:

- **Commercial Globalization :**

Trade openness refers to an intensification of international trade in goods; the growth of international trade is greater than that of the global product. In economic theory, free trade is the rule and protectionism the exception, whereas historically protectionism appears as the most common practice and free trade the rare exception.

Contemporary economic analysis highlights the positive effects of trade openness on economic growth, but some misunderstandings or ambiguities can be detected at the beginning. On one hand, trade openness generates a net gain in terms of overall well-being, but that does not exclude the fact that some economies may see their situation deteriorate at the individual and international levels.[10]

- **Financial Globalization :**

International financial integration is a process of increasing the communication of the various national financial markets leading to the emergence of a unified global market.

Financial liberalization is believed to be causing increased currency instability and more frequent and contagious financial crises. The mobility of capital seems to be a phenomenon in line with the logic of capitalism; it would bring competition to national production sites, binding

[10] BLANCHETON Bertrand, *Histoire de la mondialisation*, Editions De Boeck Université, Bruxelles, 2009, p 21-25

for employees and favor the least tax and social programs. In southern countries it is accused of constituting a form of neocolonialism.[11]

- **Cultural Globalization :**

The consequences of globalization in cultural matters are very different. Thus, if we designate by culture all that concerns (beliefs, rites, music, art, cuisine...), globalization has an undeniable unifying effect, even if it meets resistance in some countries. On the other hand, if culture refers to the notion of identity, globalization results in an exacerbation of it. Finally, if we consider culture as the expression of a common vision of the rules of living together, in other words as a set of benchmarks and ways of giving meaning, then globalization seems to have little effect on reducing cultural differences.[12]

To sum up, the global availability of information and its use should not be confused with the existence of a common culture. Humanity is indeed "a machine for making difference", and from this point of view, globalization is accompanied, at least until now, by an increasing diversification of cultural practices.

1.4. Actors of Globalization:

An actor is a social entity (natural or legal person, private or public, individual or collective) with the capacity to elaborate, express and translate intentions into action. The actors of globalization are therefore those who have this capacity on an international scale. Indeed, the state an almost exclusive actor for a long time on the world stage sees its role being more and more reduced with the increasing appearance of new actors, governmental or not. Thus, it is possible to distinguish three main types of actors according to the nature and importance of their role at the global level: governments, multinational firms and non-governmental organizations.[13]

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[11] Ibid., p 82-83
[12] IRIBARNE P, *Le Management: une affaire de cultures politiques*, Sciences Humaines, n° 110, 2000, p 44-45
[13] MERLE M, *Bilan des relations internationales contemporaines*, Economica, Paris, 1995, p 12

- **Governments:**

Governments became, since the middle of the seventeenth century, privileged actors on the world stage. Equal in their legal status, they are, however, profoundly unequal in their capacity for action.

Three elements determine the existence of a state: a territory, a population and a political power. From the moment these three elements are united, a state is considered sovereign; it is this sovereignty that bases the power and the legitimacy of governments as actors. The world of governments is marked by a deep heterogeneity, especially by their level of international power, which differs either by the size of the territory, the volume of the population, the economic weight or the technological and military capacities.[14]

- **Multinational Corporations:**

Today, the most powerful multinational firms compete with the states in terms of economic power. They are unquestionably the most powerful non-state actors. A multinational can be defined as a company that controls productive assets in foreign countries. It consists of an original company and of other divisions usually located abroad.

Multinational companies are responsible for a large share of world trade in goods, services (including technology and know-how), capital, and people. As a result, they now account for more than half of global merchandise trade, world commodity trade is almost entirely under their control, and they also dominate many finished goods markets such as electronics, automobile or chemistry.[15]

As an actor of globalization, the key role of multinationals lies in the long-term formation of an integrated international trading and production system, in which national territories and states become secondary variables.[16]

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[14] BAUDRAND Vincent & HENRY Gérard Marie, op.cit. p 82
[15] SACHWALD F, *Réseaux contre nations*, Ifri, Paris, 2000, p 08
[16] ANDREFF W, *Le Règne des multinationales globales*, Sciences Humaines, hors-série n° 17, 1997, p 11

- **Non Governmental Organizations:**

Non-governmental organizations (NGOs) are groups, associations or movements, not for profit, created spontaneously and freely by individuals and expressing a transnational solidarity. They do not pretend to supplant the states, but rather to palliate or direct their action. NGOs are present in all areas of social activity: political, religious, sports, but also scientific, professional, cultural and especially ecological and humanitarian areas. It is in these two last sectors where the NGO activity is the oldest and most visible, with organizations such as the Red Cross, Doctors Without Borders, Amnesty International, Oxfam or Greenpeace.

Often critical of states, however, NGOs are not intended to gain power and manage public affairs. Most of their participation in globalization lies in their work as representatives of civil society and to forge a global public opinion.

2. Effects of Globalization on the World Economy

Globalization has been occurring for five hundred years, however, during the last decades of the twentieth century its emergence in the popular consciousness has been the most noticeable. The wave of globalization that has swept the world since World War II is as much a cycle as a trend that is best featured through the expansion and the global integration of larger and larger economic, political, military and information networks. With much more significant effects compared with the waves of international trade and foreign investment expansion that have occurred in earlier centuries[17].

2.1. Multinational Corporations :

Multinational corporations have dramatically increased the geographic scope of their operations, creating a global supply chain where each stage of production takes place in the most appropriate location in terms of cost, quality, and other factors. In his most important book The Competitive Advantage of Nations[18], the economist Michael Porter notes that multinationals bring to the countries in which they invest not only capital, but also world-class expertise in

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[17] SHEFFIELD Jim, KOROTAYEV Andrey & GRININ Leonid, *Globalization: Yesterday, Today, and Tomorrow*, Emergent Publications, USA, 2013, p 69-70

[18] PORTER Michael, *L'avantage concurrentiel des nations*, Ed Dunod, 1998

production, management and engineering. This expertise is spreading throughout the rest of the economy, improving competitiveness and promoting growth. In addition, changes to infrastructure, as well as the legal and regulatory environment to attract multinationals, increase the productivity of all businesses in the country. And they can improve the skills and wages of the local workforce, the multinationals train their employees, thus contributing to a better development of the work force. The presence of multinationals in the labor market also pushes local competitors to improve the conditions and wages of workers

The majority of economists believe that the rise of multinationals around the world is positive, but multinationals do not always offer benefits, they also bring risks. When multinationals exercise too much power, and hold a monopoly on a public good - such as water or electricity - they can trigger hostility from the population and lead to serious disorders. This phenomenon occurred in 2000 in Cochabamba, Bolivia. The public water utility came under the control of a multinational Bechtel Group company, which immediately doubled prices, precipitated a general strike and blocked transport. The Bolivian government was forced to cancel the privatization and Bechtel was forced to leave the country. The location of multinationals can also lead to a degradation of the environment and the working conditions, large groups are tempted to install polluting facilities where environmental controls and labor laws are weakest.[19]

2.2. Foreign Direct Investments :

Unlike financial investments, or portfolio investments, foreign direct investments (FDI) are aimed at the creation, development or takeover of companies operating outside the national territory. At one time, FDI were viewed with caution. They posed a threat to local businesses and many states had banned their takeovers by foreign companies, or imposed very heavy conditions for such operations. Today, on the contrary, FDI is in high demand around the world. Many countries have programs in place to attract foreign capital and they often compete directly with their neighbors for large-scale investments.[20]

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[19] SCHIFFRIN Anya, op.cit., p 64
[20] ADDA Jacques, *La mondialisation de l'économie*, Editions La Découverte, Paris, 2004, p 78

Foreign direct investments often contribute to the economic growth of the host country, as they are usually the product of multinational companies, who intend to make a profit from it. They are therefore well targeted in productive sectors, which generate money and create jobs. They are less volatile than other capital flows. They cannot flee the country in times of crisis as easily as investments in equities, because they usually concern physical assets. They also improve tax revenues and allow the transfer of technology and skills.

At the same time, if foreign direct investment becomes too large, profits repatriated abroad can put the country at risk. When foreign-controlled enterprises are well-established and profitable, they try to repatriate their income to their country of origin. FDI also creates harmful competition for local businesses because multinationals have more know-how, technology and capital. Companies in the country concerned can be very affected or even put out of service, leading to an increase in unemployment. Multinationals use FDI to dominate markets, when they manage to form monopolies; they are tempted to raise prices, thus eliminating the benefits of FDI.

2.3. Free Capital Circulation :

The rapid integration of financial markets over the last twenty years represents the most spectacular aspect of globalization. The Bretton Woods system created after the Second World War was based on closed capital accounts and fixed exchange rates. As the gradual liberalization of trade and FDI began immediately, financial globalization did not begin in the industrialized countries until the early 1980s, with a significant increase in capital flows between these countries.[21]

Financial liberalization has created an environment conducive to increased capital mobility. However, the increase in capital flows has also been strongly stimulated by the information and communications technology revolution, which has led to a better understanding of foreign markets and to more closely monitoring their evolution.

With regard to the effects of this liberalization of capital movements, there is growing recognition of the fragility of the benefits to be gained in terms of growth. Even if the economic and social ravages caused by the crises are set aside, the benefits of developing countries'

[21] DESERMARCLENS Pierre, *La Mondialisation : théories enjeux et débats*, édition Arnaud Collin, 2éme édition, 2001, p 112

participation in the current global financial system have been increasingly challenged. The potential benefits in terms of access to international financial markets have often been reduced or offset by instability. This problem is particularly intense in countries with poorly regulated financial systems.[22]

Financial openness has also, in some cases, resulted in a misallocation of resources and an increase in the real cost of capital. This misallocation of resources occurs when foreign donors finance risky investments for lack of information. The real cost of capital also increases when governments raise interest rates to maintain exchange rate stability. Other side effects of financial openness include the need to maintain a much higher level of foreign exchange reserves and greater vulnerability to the flight of domestic capital.[23]

2.4. Economic Growth :

To assess the impact of globalization, one must first look at the history of economic growth rates at the global level and in different countries. It is striking to note that global GDP growth has slowed since 1990, when globalization accelerated. This result contradicts the most optimistic predictions about the beneficial impact of globalization on growth. Growth has been unevenly distributed between countries, whether industrialized or developing. Between 1985 and 2000, per capita income growth exceeded 3% per year in only 16 developing countries. It was less than 2% a year in 55 developing countries and was even negative in 23 of them. During this same period, the income gap between the richest and the poorest countries has increased considerably. This uneven growth is shaping a new global economic geography.[24]

Industrialized countries, with a strong economic base at the start, capital-rich and technologically strong, were well placed to reap substantial benefits from the globalization of the economy.

The expansion of global markets for goods and services has opened up new markets for their exports, while the emergence of global production systems and the liberalization of investment rules have created new opportunities for their multinationals, increasing the scope of their action and their power in the market. Similarly, growth in global financial markets has

[22] LOROT Pascal, *Dictionnaire de la mondialisation*, Edition Ellipses, Paris, avril 2002, p 39
[23] PERRET Bernard, *L'évaluation des politiques publiques*, collection La découverte, France, 2008, p 98
[24] AIT MOKHTAR Omar, *La mondialisation : Caractéristiques et Impacts*, Revue académique des études sociales et humaines, Université Hassiba Benbouali, Chlef, Algérie, 2013, p 22

increased investment opportunities with strong returns in emerging markets. In addition, the technological superiority of industrial countries, combined with the strengthening of international rules governing intellectual property rights in the WTO, has increased their profits.[25]

Another group that has undeniably benefited from globalization is a small number of developing countries that have managed to increase their exports and attract FDI. At the top of this group are the first new industrial economies in East Asia, which now have similar incomes and economic structures to those of the industrialized countries. Other middle-income Asian countries, the European Union countries and Latin American countries like Mexico and Chile.[26]

2.5. Employment:

To evaluate the social impact of globalization, it is essential to look beyond economic performance and examine what has happened in terms of employment, income inequality and poverty over the last two decades.

The rise in unemployment can be explained in part by the financial crises of the late 1990s and 2007. For example, in some of the major crisis-affected countries, the unemployment rate fell once past the crisis, but often without falling back to its original level.[27]

It is not easy to obtain direct data on employment in the informal economy, but the share of self-employment, which for most developing regions is an indirect indicator of the size of the informal economy, has increased in all developing regions, with the exception of East and Southeast Asia. The observed increase is generally related to stagnation or slow growth in employment in the modern sector, leading the labor force to turn to the informal economy.[28]

In the industrialized world, the results have also been varied. Over the past decade, unemployment has risen steadily in Japan, but has declined significantly in some small European open economies as well as in the United Kingdom. In the United States too, despite significant job losses in some manufacturing industries, the unemployment rate has declined until the recent economic slowdown.[29]

[25] BECK Ulrich, *Pouvoir et contre-pouvoir à l'ère de la mondialisation*, Éditions Flammarion, Paris, 2003, p 34
[26] DUCOBU Yung Do, *Internationalisation des États et banques multinationales : acteurs, stratégies, régulations*, Academia, Belgique, 2005, p 67
[27] AIT MOKHTAR Omar, op.cit., p 23
[28] LEE Eddy & VIVARELLI Marco, *The Social Impact of Globalization in the Developing Countries*, IZA, Germany, 2006, p 12
[29] LALL S, *Understanding Globalization, Employment and Poverty Reduction*, Palgrave Macmillan, New York, 2004, p 73

The concentration of wealth in the hands of a small minority is likely to give the beneficiaries of the situation greater power, both politically and in the market, nationally and globally. Outside of the industrialized countries, income inequality has increased in the vast majority of countries, but the role of globalization in this phenomenon remains to be defined.

2.6. Migration :

International migration refers to the movement of individuals (migrants or refugees) from one state to another, with a change of place of residence and legal status. In the perspective of a study of globalization, one can include tourist migrations abroad insofar as, in spite of their temporary nature, they bring together different populations and societies.

In 2005, the world's migrant population (excluding tourists) was estimated at around 150 million people, as 2.5% of the world's population, including at least 10% of illegal immigrants. So by its extension to the whole planet, the migratory phenomenon participates directly in the dynamics of globalization.[30]

The global migration system therefore seems to function more and more autonomously. It frees itself from the strictly national logics of connection, based on the traditional colony / metropolis couple. However, the increasing global integration of the migration system does not mean that the global circulation space becomes perfectly fluid for all individuals. As Simon G reminds us, the increase of restrictive or closed regulations in rich countries and the complexity of administrative procedures are intended to dissuade candidates from leaving the South and to maintain them in their country of origin.[31]

However, this restriction of the freedom to circulate appears contradictory today, with the globalization of information flows, which allows the poor people of the world to know and envy life in developed countries. Such a contradiction can only give rise to immense frustrations and leads to the development of clandestine migrations and the sophistication of their circuits. Therefore, while the global opening of borders seems unrealistic in the short term, it is

[30] BAUDRAND Vincent & HENRY Gérard Marie, op.cit. p 67
[31] SIMON G, *La planétarisation des migrations internationales*, La planète nomade, Paris, 1998, p 68

nevertheless urgent that international migration be the subject of concerted and global agreements.

While the mobility of migrants and refugees is largely controlled, that of tourists is on the other hand very much favored. Today, tourism is a mass phenomenon involving populations and countries that are increasingly numerous and distant from each other. From this point of view, the tourism space appears more and more globalized.

2.7. Technology :

The most developed countries have been behind the technological revolution that has facilitated globalization, but this revolution has also affected the rest of the world economy. To a certain extent, new technologies have changed international comparative advantages by making knowledge a major factor of production. Industries requiring high levels of knowledge and using advanced technologies are the fastest growing sector, and to achieve economic development, countries must be able to penetrate this sector and be competitive. Assuming they are increasing their investments in education, training and the diffusion of knowledge. Not to mention that technology is still an important source of power for multinationals in global markets, which increases their weight in their negotiations with governments in developing countries.

The spread of these new technologies has also had more direct effects in developing countries, mainly through the activities of multinationals. However, as in the case of trade and FDI, there are serious imbalances in access to knowledge and technology. Practically all new technologies are emerging in the North, where most of research and development activities are concentrated.

The effects of new technologies have also been felt far beyond the economic sphere. These same technologies that have led to rapid economic globalization have also been exploited more generally by governments, civil society and individuals. As the use of the Internet, e-mail, international telephony services, mobile phones and e-conferencing spread, interconnections have multiplied around the world. A huge and rapidly growing stock of information, covering different topics, is now accessible from anywhere on the planet connected to the Internet. This information can be transmitted and discussed just as easily. At the same time, satellite television and the electronic press have created a veritable fourth world power.[32]

2.8. Culture and Identity :

One of the most common concerns is the impact of globalization on culture and identity. Some see it as a threat to traditional institutions such as the family and the school, or as a threat to the way of life of whole communities, while others see benefits in overturning traditional ways and developing modern attitudes.

Globalization can be frightening, stimulating, overwhelming, destructive or creative, depending on one’s point of view. There is indeed a widespread sense of instability and insecurity related to globalization, there is also a growing feeling that we live in a world highly vulnerable to changes we cannot control and a growing sense of fragility among ordinary people, countries and entire regions. But there is also hope for a better world filled with opportunities and new possibilities, as it has been said, if globalization is a river, then we must build dams.

[32] SHEFFIELD Jim, KOROTAYEV Andrey & GRININ Leonid, op.cit., p 237

Section two: Algeria's Integration to the Global Economy

Algeria's approach to market liberalization is characterized by a desire to open its economy to international investment while at the same time, ensuring that the Algerian economy and labor force grows in parallel to these investments. In order to achieve its goals, the government has applied several reforms and readjustments that would put it down the path of integrating the world economy. These readjustments are aimed at addressing the discrepancies between economic growth in certain sectors and continued stagnation in domestic job creation. If properly implemented, these reforms can create tremendous benefits for Algeria in the long run.

In this section, we will start with an economic overview of Algeria tracing its most visible actions during the last few decades, including an overview on its foreign trade sector. In the second half of the section, we will address Algeria's foreign relations with its neighbors and its closest partners such as China, the EU and the United States.

1. **Algeria: Economic Overview and Foreign Trade:**

1.1. Economic Overview:

After more than a century of rule by France, Algerians fought through much of the 1950s to achieve independence in 1962. Its location is in Northern Africa, bordering the Mediterranean Sea, between Morocco and Tunisia. According to an IMF report, in 2015, Algeria's real GDP grew by 3.9 percent and inflation increased to 4.8 percent. The fiscal deficit doubled to 16 percent of GDP as a result of the decrease in hydrocarbon revenues, and the fall in hydrocarbon exports by nearly half caused the current account deficit to widen sharply. Reserves, while still substantial, declined by $35 billion to $143 billion, down from a peak of $192 billion in 2013. External debt remains very low.[33]

Algeria's economy is facing a severe and likely long-lasting external shock, calling for a vigorous policy response built on fiscal consolidation and structural reforms. Thankfully Algeria still has a window of opportunity to smooth the adjustment to the shock and reshape its growth model. Restoring macroeconomic balances will require sustained fiscal consolidation over the medium term combined with a critical mass of structural reforms to diversify the economy, while exchange rate, monetary, and financial policies should play a supporting role. Communication to

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[33] International Monetary Fund, *IMF Executive Board Concludes 2016 Article IV Consultation with Algeria*, May 2016

build a consensus around the needed reforms will be important to ensure their timely implementation.

The GDP in Algeria expanded 3.9 percent in 2015, following a 3.8 percent growth in the previous year, boosted by the agricultural sector (up 7.6 percent from 2.5 percent in 2014). The Gross Domestic Product per capita in Algeria was last recorded at $4,152.77 in 2015. The Ease of Doing Business (2016) as per World Bank Rankings went down to 163 from 161 in the previous year. As per Heritage International Report, the country's 2016 Economic Freedom Score stands at 50.1 (mostly not free), with a world rank of 154, and a regional MENA rank of 13. It has had notable successes in Fiscal Freedom and Monetary Freedom, but concerns remain in regard to Regulatory Inefficiency, Rule of Law, and Investment Freedom. As per Euler Hermes latest Country Report, strengths include strong hydrocarbon resources and liquidity indicators coupled with improved external debt management. However, concerns include high unemployment and under-employment, lack of economic diversification and limited private sector opportunities.

Algeria's fundamentals have steadily worsened since mid-2014, in line with the slump in global oil prices, but the recent budget approved signal a turning point. In 2015, growth slowed to 2.9 percent from 3.8 percent in 2014, hit by a falling average oil price from $100 per barrel in 2014 to $59 per barrel in 2015, under initial expectations that the fall in oil prices would be short-lived. Lack of fiscal consolidation led the budget deficit to double to -15.9% of GDP in 2015. The current account deficit also tripled to -15.2% of GDP in 2015. Despite tight monetary policy, inflation rose to 4.8% as the partial result of pass-through effect from about a 20% nominal depreciation of the Dinar, aimed to correct the external imbalance. Unemployment rose to double digits and is acute among women and youth. In response, in December 2015, the government adopted an overdue set of austerity policies. The 2016 budget calls for a 9% cut in expenditure (mostly investment) and a 4% increase in tax revenue based on a 36% increase in gasoline prices and higher taxes on electricity and gasoline VAT rates and on car registrations. The budget empowers finance authorities to approve further cuts if oil prices fall lower than its average oil price assumption, and to engage in external borrowing if needed. The Government will also apply new import licenses and is considering raising electricity prices closer to their cost. Monetary authorities will allow the Dinar to further depreciate so as to prevent its misalignment.[34]

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[34] http://www.worldbank.org/en/country/algeria/overview, (09/04/2018, 11:21 am)

Policy makers continued facing difficult trade-offs in 2016 with oil prices projected at $35 per barrel in the budget 2016. Authorities have little choice but to restore fiscal and external balances. Growth, however, is projected to remain modest at 3.4 percent driven by modest dynamism in the hydrocarbon sector, with gas projects coming online and the non-hydrocarbon sectors. Growth would benefit from reduced, but still positive, public expenditure and stagnant hydrocarbon exports, especially if the oil prices remain weak or fall further and if the global recovery remains modest.[35]

During 2017-2019 the Algerian economy is expected to slow down in the medium term. Real GDP growth is expected to average 1.2%, the downward revision of growth projections compared to the fall 2016 projections is due to the announced fiscal consolidation and a moderation of hydrocarbon production growth. In 2017-19, a modest 2.5% increase in hydrocarbon production resulting from the start of production in new oil wells and a positive correction in oil prices will mitigate the negative effect of fiscal and current account consolidation on the real non-oil sectors. Continued lower levels of oil prices and sluggish household demand due to high levels of unemployment and/or inactivity will help keep a hand on inflation. The fiscal deficit is estimated to further decline to below 5% in 2017 and one percent by 2019, if the government maintains tight control over spending. This deficit is expected to be financed by the issuance of a new debt, given that fiscal saving has been used up, increasing the debt-to-GDP ratio to 14.6% in 2018 and over 20% in 2019. The current account deficit is projected to progressively decline to below 10% in 2019.[36]

The long term structural challenges facing the economy remain unchanged, namely reducing subsidies, improving the business environment, diversifying the economy and creating private sector jobs. While the government talks about the need for reforms, the steps it has taken have been modest.

A business climate marked by difficult access to credit, a complex regulatory environment, and time-consuming procedures to set up a business, holds back the private sector. Trade integration has also proceeded very slowly, and negotiations to join the WTO have not made much progress. To reinforce the economy, the government is seeking to further develop its hydrocarbon resources and has also explicitly embraced private sector development by opening

[35] Ibid.

[36] http://pubdocs.worldbank.org/en/199621492266008534/Algeria-MEM2017-ENG.pdf, (10/04/2018, 03:05 pm)

research centers and launching major transport and housing projects. Regarding the business climate, the government has established a committee to come up with an action plan to help reform it. Economic diversification and reduced reliance on the hydrocarbon sector are both key elements for a strong and balanced growth.

1.2. Algeria's Foreign Trade:

The beginning of the new century saw the implementation of many policies aimed at modernizing and liberalizing Algerian trade regulations. These measures include, for example, at the national level, the revision and streamlining of commercial codes aimed at easing business transactions and encouraging foreign investment.[37] Further developments include the creation of the National Investment Development Agency (ANDI) and the National Investment Council (CNI), two entities whose purpose is to facilitate and advice on investment as well as to provide foreign investors with a "one-stop" shop for entering the Algerian market. New investment laws were also implemented that reduced domestic-ownership requirements in a number of fields.[38]
On the international level, Algeria has ratified various international conventions and integrated those conventions into domestic law.

1.2.1. Algeria's Imports:

Imports in Algeria decreased to $331 million in June from $4245 million in May of 2017. Imports in Algeria averaged $4968.76 million from 1992 until 2017, reaching an all time high of $26250 million in June of 2007 and a record low of $2310 million in February of 2008.[39]

- **Algeria's Main Suppliers:**

This table represents the most important suppliers of Algeria for the year 2016:

[37] KPMG Algeria, *Guide to investment in Algeria*, 2009, p 27
[38] U.S. Foreign commercial service, *Doing business in Algeria: a country commercial guide for US companies*, 2007, p 20
[39] https://tradingeconomics.com/algeria/imports, (11/04/2018, 09:43 am)

Table n° I.01: Algeria's main suppliers in 2016

Countries	% of imports
China	17.9
France	10.1
Italy	9.9
Spain	7.6
Germany	6.4
Other countries	48.1

Source: https://import-export.societegenerale.fr/en/country/algeria, (09/03/2018, 04:24 pm)

Comment:

As we notice China is the second import partner of Algeria behind the EU, rather than treating EU as a bloc, China is the largest import partner, 17.95 % of our products are imported from China; due to its developed economy, coming ahead of France in second place at 10.1%; then Italy, Spain and Germany with 9.9%, 7.6 %, 6.4 % to each one.

- **Algeria's Main Imported Products and Services:**

These two tables represent the different products and services imported to Algeria from others countries in 2016 and 2014 with a value of almost $47.1 billion of products imported in 2016 and $35.1 billion of services imported in 2014

Table n° I.02: Imported products to Algeria in 2016

Products	% of imports
Wheat and Maslin	3.8
Medicaments	3.0
Motor cars and other motor vehicles	2.9
Petroleum oils and oils obtained from bituminous	2.8
Tubes, pipes and hollow profiles	2.6
Other Products	84.9

Source: Ibid.

Comment:

As we notice in this table, the most imported products are Wheat and Maslin with 3.8 % because Algeria has an under-developed agricultural sector compared to the hydrocarbon sector, the country should focus its efforts in this sector in order to diversify its economy.

Table n° I.03: Imported services to Algeria in 2014

Services	% of imports
Transportation	35.01
Other business services	30.68
Construction services	18.44
Travel	5.23
Government services	4.79
Insurance services	2.07
Computer and information services	1.77
Royalties and License fees	1.23
Cultural and recreational services	0.51
Financial services	0.26

Source: Ibid.

Comment:

As we notice, the most imported services to Algeria are those relative to transportation with 35.01%, this is due to the absence of infrastructures in the country. Algeria should develop this sector in order to decrease its imports.

1.2.2. Algeria's Exports:

Exports in Algeria decreased to $2098 million in June from $3025 million in May of 2017. Exports in Algeria averaged $7068.39 million from 1992 until 2017, reaching an all time high of $60 300 million in June of 2007 and a record low of $1831 million in February of 2016.[40]

The Algerian economy is highly dependent on petroleum and natural gas exports. Hydrocarbons account for over 95% of export earnings. Algeria's main exports partners are the United States, Italy, Spain, France and Canada.[41]

- **Algeria's Main Customers:**

This table represents the main customers of Algeria for the year 2016

Table n° I.04: Algeria's main customers in 2016

Countries	% of exports
Italy	17.4
Spain	12.9
United States	12.9
France	11.4
Brazil	5.4
Other Countries	40.0

Source: Ibid.

Comment:

As this table shows, Italy is the main customer of Algeria with 17.4% of exports is destined to Italy, since it is one of the EU countries coming ahead of Spain with 12.9%, the United States, France and Brazil are also main customers of Algeria with 12.9%, 11.4% and 5.4% for each.

40 https://tradingeconomics.com/algeria/exports, (11/04/2018, 10:05 am)
41 Ibid.

- **Main Products and Services Exported by Algeria:**

This table represents the different products exported from Algeria to others countries in 2016 which were evaluated at about 30 billion dollars.

Table n° I.05: Exported products from Algeria in 2016

Products	% of exports
Petroleum gas and other gaseous hydrocarbons	39.3
Petroleum oils and oils obtained from bituminous	37.8
Mineral or chemical nitrogenous fertilizers	1.5
Oils and other related products	1.3
More Products	3.2

Source: Ibid.

Comment:

As we can notice the majority of exported products from Algeria are those relative to hydrocarbons sector, this shows that Algeria's exports are heavily dependent on hydrocarbons, which is a huge problem facing the economy, and as a matter of fact Algeria's economic situation has steadily worsened since mid-2014, in line with the slump in global oil prices. This is why it is absolutely urgent for Algeria to diversify its economy in order to promote it.

Concerning the exported services, no data was available for the year 2016.

1.2.3. Balance of Trade:

Algeria recorded a trade deficit of $1217 million in June of 2017. The balance of trade in Algeria averaged $2099.90 million from 1992 until 2017, reaching an all time high of $34060 million in June of 2006 and a record low of $-2141 million in December of 2014.[42]

[42] https://tradingeconomics.com/algeria/balance-of-trade, (11/04/2018, 10:17 am)

2. Algeria's Foreign Relations:

2.1. North Africa:

Algeria is an active member of the Arab League and is also part of both the Arab Free Trade Zone and the Arab Maghreb Union (AMU). Despite this, Algerian trade relations with its immediate neighbors have historically been weak.

In effect, persistent diplomatic tensions have prevented the implementation of the AMU, which foresees a free trade zone in the region. As a result, regional trade levels are low, and Algerian exports to other Maghreb countries were worth just 4.5% of total exports in 2015, Tunisia represents the country's main export destination in the region, at 2.4% of total exports in 2015, followed by Morocco at 1.8%.[43]

2.2. Sub-Saharan Africa:

Economic relations with sub-Saharan Africa are currently limited, with only 0.2% of Algeria's exports going to the region in 2015, unchanged on the previous year. Meanwhile, 0.7% of imports hailed from sub-Saharan countries, down from 0.8% a year earlier and 1.5% in 2012. The largest export market in sub-Saharan Africa for Algeria was Senegal, with €7.1 million worth of exports. The figure was up from the insignificant levels seen the previous year, when Sudan was the country's main sub-Saharan export destination.[44]

Generally, trade flows to the region are highly random from year to year. However, the authorities are keen to foster more stable economic ties with sub-Saharan neighbors, viewing them as promising potential markets for various sectors, particularly agriculture and manufacturing. Improvements in infrastructure connections are likely to help with this, for example the Trans-Saharan Highway that connects Algiers to Lagos in Nigeria via Mali and Niger is due to enter into service in 2018, following the completion of a final 220-km stretch in Niger.

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[43] https://oxfordbusinessgroup.com/overview/New-foreign-trade-agreements-strengthen-Algeria-regional-and-international-relations, (15/04/2018, 09:47 pm)

[44] Ibid.

2.3. Europe:

The EU is Algeria’s main trading partner, accounting for 54.1% of the value of total Algerian foreign trade in 2016, representing 44.2% of Algerian imports and 67% of its exports, according to European Commission statistics. Algeria is an important energy partner for the bloc, ranking as its third-largest foreign provider of energy, which together with mining products accounted for 94% of EU imports from the country. However, it is worth noting that Algerian mining exports are small, so the overwhelming major part of this was oil and gas.[45]

The 2002 Association Agreement signed between Algeria and the EU came into effect in 2005, providing for the establishment of free trade of industrial goods within 12 years, meaning that in theory the zone should now be fully in effect. In practice, however, this is not yet the case. In fact, recent years have seen Algeria seeking to restrict industrial imports to help develop its own manufacturing base and reduce its trade and current account deficits, as these are increasingly placing pressure on foreign currency reserves. The country has taken both formal and informal measures to do so, including the introduction of import licenses for various categories of imported goods, additionally setting import quotas for some of these products.

The EU views some of these moves as imposing new trade barriers, which arguably counters the Association Agreement, the bloc does not appear interested in entering into a dispute or undertaking retaliatory measures over the issue for the time being, because Algeria is also important to the bloc in a number of domains, such as counter-terrorism, migration control and energy security.

From Algeria’s side, press reports in recent years have suggested that the government wants to suspend or renegotiate the agreement, but it has not yet made any formal request to the EU on the matter.

In other areas, the two parties have been making efforts to cement ties. In 2016 they conducted a joint evaluation of the Association Agreement, which resulted in the decision to conduct a series of follow-up actions, centrally aimed at providing Algeria with the technical expertise needed to pursue a variety of economic reforms. In addition, a new Partnership

[45] Ibid.

Priorities agreement was signed in March 2017, which is intended to establish a renewed framework for cooperation over the period to 2020.

- **Trade Relations with Europe:**

The European Union is Algeria's largest trading partner and absorbs the major part of Algerian international trade (54.1%). Total trade between the EU and Algeria amounted to €37.4 billion in 2016. Algeria is the EU's 22nd largest partner for imports and 20th largest partner for exports EU-Algeria trade has decreased by 13.3% between 2015 and 2016, in part due to lower oil prices, fuel and mining products made up 94% of EU imports from Algeria in 2016. Chemicals represented the second most important exported product, worth 3.6% of Algeria's exports to the EU, main exports of Algeria are machinery (21.5%), transport equipment (11.6%), agricultural products (14.3%), chemicals (14.9%) and iron and steel (8.4%).[46]

2.4. China:

An increasingly important economic and strategic partner is China. The country was Algeria's second-largest trade partner in 2016, behind the EU, accounting for 10.2% of total foreign trade. China represented 15.8% of Algerian imports, ranking it the second largest import partner behind the EU as a whole, and received 0.9% of Algeria's exports, ranking it 10th, according to European Commission figures. When such trade flows are broken down into figures for individual countries, rather than treating the EU as a single bloc, China is the largest exporter to Algeria, according to 2015 data from the National Statistics Office, accounting for 16% of the total, coming ahead of France in second place at 10.5%. Chinese companies have also played a fundamental role in the financing and construction of multiple infrastructure projects in recent years, leading to the development of a sizeable community of Chinese residents in the country. Key Chinese-backed projects currently under way include the new $3.3 billion deepwater port at El Hamdania, near the town of Cherchell, to the west of Algiers.[47]

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[46] http://ec.europa.eu/trade/policy/countries-and-regions/countries/algeria/, (15/04/2018, 04:38 pm)
[47] https://oxfordbusinessgroup.com/overview/New-foreign-trade-agreements-strengthen-Algeria-regional-and-international-relations, (15/04/2018, 09:58 pm)

2.5. USA:

The United States is one of Algeria’s top trading partners, and Algeria is one of the top US trading partners in the Middle East/North African region. Most US direct investment in Algeria has been in the hydrocarbon sector. The main US import from Algeria is crude oil. The two countries have signed a trade and investment framework agreement, establishing common principles on which the economic relationship is founded and forming a platform for negotiating other bilateral agreements. The United States encourages Algeria to make necessary changes to achieve economic diversification, accede to the World Trade Organization, move toward transparent economic policies, and liberalize its investment climate. The United States has funded a program supporting Algerian efforts to develop a more active government securities market.[48]

2.6. UAE:

The UAE has a significant relationship with Algeria underpinned by common values and interests. Algeria and UAE share a distinguished record of active cooperation ever since the establishment of diplomatic relations in 1974. Today, the bilateral relations between these two countries are multifaceted and growing rapidly; they are regular dialogue partners at the highest levels across government and are like-minded on pressing global issues, regional security and multilateral cooperation.

The two countries have signed more than 30 cooperation agreements since relations were established. Among the agreements signed were those relating to: economy, investment, tourism, prevention of double taxation, education, judiciary, agriculture and environment.

The two countries also signed an agreement to set up an aluminium smelter in Algeria, at a cost of $5 billion. Additionally, Gulf Pharmaceuticals Industries, Julphar, laid the foundation to set up a pharmaceutical production unit in Algeria. A number of infrastructure, development and service projects, covering irrigation, electricity and housing, are being financed by the Abu Dhabi Development Fund in Algeria at a cost of Dh256 million.[49]

[48] https://dz.usembassy.gov/u-s-algeria-relations/, (17/04/2018, 11:15 am)
[49] https://www.thenational.ae/uae/government/uae-and-algeria-strengthen-ties-1.285194, (17/04/2018, 01:19 pm)

Conclusion of the chapter:

It has been said that being against globalization is like being against the sun coming up every morning, this may or may not be true, but what is certain is that globalization creates losers as well as winners and entails risks as well as provides opportunities. Therefore, it is up to countries to learn the best way to face the double challenge posed by globalization.

On the one hand, it is vital for nations today to harness the positive forces of globalization for their own benefit. Many opportunities that were unavailable before have now come to the fore. This entails finding the right balance between openness and regulation, a balance often difficult to strike. On the other hand, it implies keeping an ever watchful eye over the dark side of globalization, that is, the very complicated international system that countries are facing today, and in which, not a single entity is safe whether it's a person, a company, a community or even a country.

On a more particular level, Algeria has made significant strides towards market liberalization and integration over the last decade. Not only has the country moved closer towards WTO ascension, it has in many ways streamlined its domestic laws and regulations in a way that benefit not just foreign investors, but domestic businesses as well. On the long term several measures will result in more positive relationships between Algeria and its outside partners including foreign investors. By integrating the latest reforms adopted by the Algerian government, the country can maximize its role within the international trading system.

Chapter II: Evaluation of the Business Climate in Algeria

Introduction of the chapter:

By the end of the 1990s, the Algerian public authorities established a set of procedures and perspectives dedicated to the Algerian economy, whose main purpose was to transform and develop it. The preliminary point was to make available to investors in general and foreign investors in particular all the necessary measures making a favorable climate for business in the country, and it is in this aspect that various provisions have been elaborated.

This chapter is divided into two sections, in the first one; we are going to describe the Algerian business climate and its different characteristics, in the second section we will analyze the attractiveness of Foreign Direct Investments in Algeria, by presenting the different opportunities and obstacles of the business environment.

Section One: The Business Climate in Algeria

Algeria's economy is mainly dominated by and depending on the hydrocarbon sector, and since it has the third-largest proven oil reserves on the continent, hydrocarbons are crucial contributors to the economy. Yet it is still facing significant challenges due to the sharp fall in the international price of oil during 2014 and 2015.[50]

While its international profile is in the midst of a gradual shift as it seeks to reduce imports and diversify its exports portfolio, Algeria has succeeded to maintain its political stability in contrast to many other countries in the region.

In this section we will be reviewing Algeria's country profile, starting with a presentation of Algeria in the first part and then moving on to a presentation of its investment climate on a more specific scale, highlighting all of its most recent changes and transitions.

[50] https://oxfordbusinessgroup.com/algeria-2017, (10/03/2018, 02:51 pm)

1. <u>Presentation of the country: Algeria</u>

People's Democratic Republic of Algeria or in short form Algeria, Africa's largest country, with an area of 2.38m sq km. located in the Maghreb region of North Africa, it is bordered by the Mediterranean from the north and has land borders with seven countries and territories – Libya, Mali, Mauritania, Morocco, Niger, Tunisia and the Western Sahara – the country is home to numerous mountain ranges located mostly in the north where the climate is characterized as Mediterranean, and a desert terrain to the south which accounts for most of the country's territory with a hot dry climate.[51]

1.1. **Society:**

- **Population:**

As of December 2017, Algeria's population was estimated at a total of 41.6 million people, according to UN estimates. The capital city of Algiers holds alone about 2.6 million people, along with other major cities such as Oran (803,329); Constantine (448,028); Annaba (342,703); Blida (331,779); Batna (289,504); Djelfa (265,833); and Setif (252,127). With most of these cities located on the upper side of the country, we notice that the biggest majority of the population is concentrated along the Mediterranean coast, which constitutes only 12% of the country's land area, making the overall density of 17 inhabitants per square kilometer deceptive.[52]

The population is growing at a rate of around 1.8% a year, according to 2016 World Bank figures. Annual growth fell in the 1980s and 1990s, from 3.2% in 1983 to 1.3% in 2002, before rising to 2% in 2012, though now it appears to be on a downward trajectory once again. The population is relatively young, having a median age of 27.8 years and 44.6% of citizens under the age of 25. However, it has been ageing in recent decades, with the proportion of the population under the age of 15 having fallen from 38.7% in 1996 to 29% in 2016. Life expectancy at birth currently stands at 76 years.[53]

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[51] Library of Congress – Federal Research Division, *Country Profile: Algeria*, May 2008, p 07-08
[52] https://import-export.societegenerale.fr/en/country/algeria, (09/03/2018, 04:15 pm)
[53] https://oxfordbusinessgroup.com/algeria-2017, (10/03/2018, 03:05 pm)

- **Language, Ethnicity & Religion:**

Arabic and Tamazight are the official languages in Algeria, Tamazight was recognized as an official language in February 2016 and it is the second national language after Arabic. Although most Algerians speak local dialectal Arabic for everyday speech in addition to French which is still considered a business language.

When it concerns the ethnic origins, the Algerian population is essentially of Amazigh (Berber) and Arab origins at a percentage of 99%, the remaining 1% is for Algeria's European population. Also around 99% of Algerians are Sunni Muslims, and the constitution declares Islam to be the state religion. While Jews and Christians represent less than 1% of the population.[54]

- **Health & Education:**

Over the past two decades, considerable progress has been made in the coverage and quality of health care services, with indicators improving steadily, alongside a decline in instances of communicable diseases. The opportunities for private sector growth and investment are strong, particularly in the pharmaceutical industry.

Access to education is free of charge and enrollment is obligatory for Algerians up to age 16. And recently a reasonable improvement in the standard of education provided to Algerian citizens has been noticed, plus the tertiary education is developing rapidly, following the government opening up the segment to private sector participation.

1.2. **Politics:**

Algeria's government is a republic, parliamentary democracy combined with strong presidential power, and a constitution that mandates a multi-party state, but the ministry of interior must approve all parties. The most influential political party is the National Liberation Front (FLN).

The current political leaders are the president: Abdelaziz Bouteflika (since April 1999, re-elected in April 2004, April 2009 and April 2014) and the prime minister: Ahmed Ouyahia (since 2017). The president does not officially belong to any political party, but he is honorary chairman

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[54] Library of Congress, op.cit, p 09-10

of the FLN. Presidential elections, which are held every five years, are next scheduled for April 2019. Legislative elections, also held every five years, are expected on 2022.[55]

1.3. **Economy:**

Algeria's GDP was worth $156bn in 2016, making it the largest economy in the Maghreb region and the second largest in North Africa, according to World Bank figures. With a per capita GDP of $3843, the country was the wealthiest in North Africa. The private sector's economic contribution has also expanded significantly; it grew to 70% of GDP by 2015, and economic output increased four-fold over the same timeframe.[56]

Despite these positive results, the economy is currently facing major challenges due to the recent collapse of oil, which has exhausted the country's oil reserve fund and strained public finances. The fall in the value of hydrocarbons has also led to rapid deterioration in the current account balances, which stood at a deficit of 16.5% of GDP in 2015 and a similar figure in 2016, according to IMF estimates. This deficit has put additional pressure on foreign currency reserves.[57]

To address such problems, the authorities are working to diversify the economy away from oil and gas dependency, by encouraging the development of the local private sector and compelling firms to manufacture goods locally, partly by raising the costs of importing finished goods. Improvement in these areas would both reduce the need for government-backed investment and bring down imports.

- **Banking & Finance:**

Algeria's banking sector has held up relatively well. Credit growth and profitability remained in positive territory through the first three quarters of 2017, particularly among private sector banks. Internet and mobile banking are still in the early stages of development, but market observers see these technologies as having great potential to improve financial inclusion if the relevant legal and logistical frameworks are put in place.

[55] https://import-export.societegenerale.fr/en/country/algeria/presentation-politics, (09/03/2018, 04:17 pm)
[56] https://data.worldbank.org/country/algeria, (08/03/2018, 09:34 am)
[57] International Monetary Fund, *IMF Executive Board Concludes 2017 Article IV Consultation with Algeria*, Report No. 17/141, June 2017, p 26

As bank borrowing becomes increasingly expensive, capital markets are emerging as a financing alternative for a range of domestic firms. The stock market will simultaneously provide non-inflationary financing means to economic agents and have better savings yields.

- **Taxation:**

Current Algerian tax law specifies three separate rates of corporate income tax: 19% for manufacturing activities; 23% for construction activities, and civil and hydraulics works, as well as for tourism and thermal activities, excluding travel agencies; and 26% for other activities. The « other activities » category relates predominantly to trading and services.[58]

In the current context – with fiscal resources having dropped significantly as a result of the substantial recent decline in hydrocarbons tax revenues – it seems that additional government income will not be raised at the expense of the profitability of companies via an increase in corporate income tax, after serious lobbying by the leaders of the Forum of enterprises and the construction sector. The solutions for enhancing tax revenues seem to be oriented on the consumption of goods, while corporate tax rates remain stable.

1.4. **Foreign Trade:**

Algeria has long had complicated foreign relations, having tense ties with neighboring Morocco, which has held back regional integration, while at the same time having strong trade relations with the EU, with which it signed a free trade accord in 2002. However, it is currently going through significant changes regarding its international presence, aiming to bring down industrial imports from traditional trading partners, such as the EU, and develop stronger trade, investment and strategic alliances with Africa and China.

According to ONS figures, the country's main export destination in 2015 was Spain, which accounted for 17.4% of the value of Algerian goods sold abroad, followed by Italy (16.3%), France (13%), and the UK (7.6%). Turkey and the US were the country's largest costumers outside of the EU; accounting for 5.5% and 5.2% of Algerian goods, respectively,

[58] Oxford Business Group, *THE REPORT Algeria 2016*, December 2016, p 186

China was the largest exporter to the country, accounting for 16% of imports, followed by France (10.5%), Italy (9.4%), and Spain (7.6%).[59]

1.5. **Infrastructure:**

- **Construction & Real Estate:**

Despite the impact of lower oil prices on government budgets, Algeria's construction sector is growing and developing thanks to investments in public and industrial infrastructure as well as housing. In late 2017 the government stressed that housing and infrastructure development are key priorities, and the 2018 budget will see an 8% rise from 2017 in funding allocated to social transfers, including social housing.

- **Transport:**

Algeria's transport infrastructure is in the midst of a major expansion program, thanks to the current five-year development plan that includes a major sector reconfiguration allocating around €6.9bn to the upgrade with extensions to the country's airports, seaports, and road and rail networks under way or in the pipeline. In addition, urban transport is undergoing an overhaul, as the state looks to address growing demand for public transport. Tram projects are continuing to roll out across major cities and work is being carried out to extend the Algiers metro in three different directions.[60]

1.6. **Industry and Energy:**

- **Industry & Mining:**

While the economic contribution of industry is still relatively small, many of the key elements for a successful industrial sector are already established, with abundant energy reserves, mineral raw materials and infrastructure. Activity in heavy industrial such as steel and cement production is rapidly expanding.

As the largest country in Africa, and home to a variety of topographies and geologies, Algeria has substantial mineral reserves. However, these are currently underutilized; the sector

[59] http://www.ons.dz/-Commerce-Exterieur-.html, (09/03/2018, 04:07 pm)
[60] Oxford Business Group, op.cit, p 112

has attracted relatively little investment in recent decades, and as much as 60% of the territory has yet to be adequately explored, according to local estimates.[61]

- **Energy:**

Production at maturing oil and gas fields is encouraging Algeria to consider new approaches with regards to its hydrocarbons potential. In line with rising demand for electricity, the country has invested significantly in the power sector over the past 10 years. With rising domestic consumption and growing environmental awareness, solar energy has come to occupy a more prominent role in the development of the energy mix.

2. Investment Climate Assessment:

Algeria remains a lucrative but challenging destination for many foreign investors. Economic growth has been driven primarily by oil and natural gas, accounting for 96% of exports, 40-45% of GDP and 60% of budget revenues. The drop in oil prices, however, while affecting Algeria’s main revenue stream, has spurred the Algerian Government to attempt to lower the country's sizable import bill and to target non-hydrocarbon sector investments, attracting greater foreign direct investment.[62]

2.1. Attitude Toward Foreign Direct Investment:

Algeria is the epitome of a high risk, high reward economy. While the authorities are enthusiastic towards FDI, a difficult business climate, an inconsistent regulatory environment, and a government that seems torn generationally between protecting the status quo and liberalizing the economy. There are business opportunities in nearly every sector, including but not limited to energy, power, water, health care, telecommunications, transportation, recycling, and agribusiness. The recent drop in oil prices has highlighted Algeria’s over-dependence on hydrocarbons and increased calls to open and diversify the economy.

The government is completely aware that things need to change but has been slow to make the necessary economic reforms. Instead, its short term reaction has been to restrict imports in an attempt to lower the import bill and encourage domestic production, which has only added to the uncertainty of the market.

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[61] https://oxfordbusinessgroup.com/algeria-2017, (10/03/2018, 03:23 pm)
[62] U.S. Department of State, *Investment Climate Statement Algeria*, May 2015, p 03

- **Laws/Regulations of Foreign Direct Investment:**

The 49/51 investment law requires a majority Algerian partner for any foreign investment, but otherwise there are few laws restricting foreign investment. However, the process of setting up a business is heavily bureaucratic and subject to political and protectionist influences.[63]

- **Industrial Promotion:**

The National Agency for Investment Development (ANDI) is the primary Algerian government agency tasked with seeking and recruiting foreign investment, as part of the ANDI missions, it is essential to unify the network of nationwide offices under one structure to provide more consistent information to those seeking to start businesses, and to pro-actively seek and recruit investment in Algeria, as opposed to passively answering questions of those who inquire. Officials said they are consulting with private companies on ANDI's new structure to ensure it meets the needs of the business community.

- **Limits on Foreign Control:**

The 49/51 investment law requires a majority of Algerian ownership of at least 51 percent in all projects involving foreign investments. This requirement was first adopted in 2006 within the oil sector and was expanded across all sectors by 2009. According to official authorities, the law seeks to diversify local economic production and profit while limiting deficits of the public trust and restrict capital flights and ensure additional local economic growth.

- **Investment Trends:**

The recent slump in oil prices has pushed the Algerian economy through a policy of diversification that involves more private sector participation and less investment orientation towards hydrocarbons. With its 2015-2019 $262bn investment plan, the government is focusing on several sectors including agriculture, tourism, information and communications technology, construction infrastructure, and health.[64]

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[63] Ibid., p 04
[64] Ibid., p 06

Algeria has also diversified its investment partners, looking more to the United States and Asia, and slowly moving from its traditional European partners given the continental economic recession. While favoring investors who are willing to transfer know-how, technology and train local human capacity.

- **Screening of FDI:**

In 2013, the Algerian government canceled the law that screened FDI and required foreign investors to obtain the approval of the National Investment Council (CNI) prior to beginning their projects, which removed a key barrier for potential foreign investors.

Prospective investors usually work with the relevant ministry to negotiate, register and set up their business. However, the early consultation process is often subject to political influence and companies that are not given an informal « green light » by the relevant ministry may not be able to establish their company in Algeria.

2.2. Conversion and Transfer Policies:

Statutory restrictions on foreign investors converting, transferring, or repatriating funds are not so many, however, monies cannot be expatriated to pay royalties or to pay for services provided by resident foreign companies. The difficultly with conversions and transfers has more to do with the procedures of the transfers rather than the statutory limitations, the process is heavily bureaucratic; requiring roughly 30 different steps from start to finish. The slightest infraction at any step can slow down or completely halt the process. In theory, it should take roughly one month, but in reality, it often takes three to six months to complete.

Expatriated funds can be converted to any world currency. The exchange rate is determined by the Bank of Algeria, with the value of the Algerian Dinar (DZD) pegged to a basket composed of 64 percent of the value of the USD dollar and 36 percent of the value of the Euro. The currency's value is not controlled by any market mechanism and is set solely by the Central Bank.[65]

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[65] Ibid, p 08

2.3. Efficient Capital Markets and Portfolio Investment:

Algiers' stock exchange is the smallest in the MENA region with a capitalization of 0.1% of GDP. Currently, there are four companies listed on the Algiers Stock Exchange, with a total market capitalization of $148.8 million. The market has doubled its size since its founding in 2009, and officials aim to reach a capitalization of $7.8bn in the next five years and enlist 50 new companies. The United Nations Development Program has estimated that, in order to fully develop its financial sector, Algeria should have a market capitalization of $40bn with 150 listed companies on the stock exchange.[66]

- **Money and Banking System**

The banking sector is 85% public and 15% private, and regulated by a central bank under the supervision of the Ministry of Finance. The banks are considered financially healthy, although the quality of service in public banks is generally considered low. The private sector banks hold about $15bn in assets, while public banks hold an estimated $85 billion.[67]

2.4. Competition from State-Owned Enterprises:

About two-thirds of the Algerian economy is comprised of State-Owned Enterprises (SOE's), led by the national oil-and-gas company SONATRACH, although they are present in all sectors of the economy. Legally, public and private companies compete under the same terms with respect to market share, products and services, and incentives.

Private enterprises have the same access to financing as SOEs, but they tend to work more with private banks as they are far less bureaucratic than their public counterparts. SOEs are subject to the same tax burden and tax rebate policies as their private sector competitors, but the government favors SOEs over private sector companies in terms of access to land.

[66] Ibid, p 12
[67] Ibid., p 13

2.5. Dispute Settlement:

- **Legal System, Specialized Courts, Judgments of Foreign Courts:**

Algeria does not have specialized courts, the courts handle all types of disputes, although certain cases may be assigned to judges with experience in that particular field of law. Foreign judgments are not recognized by the Algerian court system. However, decisions made under treaties or conventions to which Algeria is a signatory part are binding and enforceable under Algerian law.

- **Transparency of the Regulatory System:**

All regulatory processes are managed by the government. Accounting, legal, and regulatory procedures, as written, are considered consistent with international norms, although the decision making process can be unclear. And in some cases, authority over a matter may rest among multiple ministries, which imposes additional bureaucratic steps and the likelihood of errors or unusual circumstances.

- **Investment Disputes:**

Investment disputes are fairly common, especially on major projects. These disputes can be settled informally through negotiations between the parties or via the domestic court system. The Algerian Chamber of Commerce and Industry (CACI), the nationwide, state-supported chamber of commerce, has the authority to arbitrate investment disputes as an agent of the court. The resolution process can be very slow, it can take one to two years to resolve a case.

- **International Arbitration:**

The Algerian code of civil procedure allows both private and public-sector companies full recourse to international arbitration. Algeria permits the inclusion of international arbitration clauses in contracts. Local courts recognize and have the authority to enforce foreign arbitral awards.

- **Duration of Dispute Resolution:**

The bureaucratic nature of Algeria's economic and legal system, as well as its obscure decision making process, means that disputes can drag on for years before a resolution is reached. Litigation in the court system is slow and may be subject to political influence.

2.6. Labor:

There is a chronic shortage of skilled labor in Algeria, especially in the construction industry. Oil companies for example report they have difficultly retaining trained Algerian engineers and field workers because they often leave Algeria for higher wages in the Gulf.

Official unemployment figures are measured by the number of persons seeking work through the National Employment Agency (ANEM). According to the International Labor Organization (ILO), unemployment as of September 2014 was 10.6%: 9.2% for males and 17.1% for females. For youth aged 16-24, the figure was 25.2%. ILO estimates that 37% of all labor in Algeria is employed in the informal economy.[68]

2.7. Corporate Social Responsibility:

Multinational firms operating in Algeria are spreading the concept of Corporate Social Responsibility (CSR) practices, which have traditionally been less common among domestic firms. CSR activities are gaining acceptance as a way for companies to contribute to local communities while often addressing business needs. The national oil and gas company, SONATRACH, funds some social services for its employees and desert communities near production sites. Still, many Algerian companies view social programs as areas of government responsibility and do not consider such activities in their corporate decision-making process.

[68] Ibid, p 17

Section Two: Attractiveness of Foreign Direct Investments in Algeria

The process of transition from a centralized economic system to an economy of the market imposed on the Algerian government, a policy of structural reforms that made possible the restoration of a macroeconomic equilibrium and a liberalization of the economy. These reforms helped to improve performance in terms of GDP growth and developing a more dynamic private sector. However, these results remain modest compared to the investment potential of the country.

Which is why in this section, we will be reviewing a set of advantages that make Algeria a desirable destination for foreign investors, presented as factors of attractiveness and opportunities of investment. We will also take a look on the constraints or obstacles to foreign direct investment in Algeria that are at the same time holding off investors from taking a step forward.

1. Factors of Attractiveness and Opportunities of Investment:

1.1. Algeria: A Big Market, Close to Large Potential Markets:

In comparison to its Maghreb neighbors, Algeria has the advantage of the largest market in the region, because the size of the internal market and easiness of access to it are two essential factors in the decision making process for a company willing to invest in the area. Companies already settled in Algeria consider the expanse of the Algeria market even larger than they had thought it would be before their installation.

Geographically, Algeria occupies a strategic place and its proximity to European countries enables it to develop its potential in terms of foreign investment and to create a vast free trade area between the two shores of the Mediterranean and between Europe and African countries since it is considered as the front gate of Africa.

1.2. Natural Resources:

Algeria has a considerable and diversified natural wealth, particularly in hydrocarbons, where it ranks 15th in terms of oil reserves (45 billion tons of proven oil reserves), 18th in terms of production and 12th in exports; its refining capacity can reach 22 million tons per year. As for natural gas, Algeria ranks 7th in the world in terms of reserves, the 5th in production and the 3rd in exports. A real energy giant with 50% of reserves, 48% of total production and an impressive

94% of natural gas exports, Algeria has no rival in the Mediterranean, where it is ranked first producer and exporter of natural gas. Algeria is the third largest supplier of natural gas to the European Union and its fourth largest energy supplier.[69]

In addition to oil and gas, Algeria contains in its subsoil huge amounts of phosphate, zinc, iron, gold, uranium, tungsten and kaolin, making it a prime area of investment, especially as these are currently underexploited. Infrastructural challenges associated with the remote desert locations of some key reserves, as well as a historical lack of investment in the state-dominated mining sector are the main culprits, though the authorities are working to step up investment and production in the industry.

1.3. **Infrastructure and Transport Development:**

Opportunities of investment in Algeria allowed the government to move forward with infrastructure development, particularly in the transport sector, to diversify the oil-dependent economy.

Current low oil prices have underscored the government's commitment to intensify infrastructure investments to diversify its economy and stimulate economic growth. As a result, Algeria's infrastructure program will focus on the development of new infrastructure in the areas of transport, housing, energy and water to meet the growing needs of the densely populated northern coastal region, and expand development to other parts of the country. The development of infrastructure in Algeria also includes the construction of major roads and railways, the development of new industrial areas and new cities along these transport routes.

- **Ports:**

The construction of one of the largest infrastructure projects planned in Algeria began in 2016. The new port will be built between the provinces of Tipaza and Chlef and will cost about €1.8 billion; the funding comes from foreign entities interested in investing in Algeria. The project is developed in three stages over 10 years by local public and private companies in partnership with foreign companies.[70]

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[69] http://www.andi.dz/index.php/fr/connaitre-l-algerie/ressources, (26/03/2018, 07:36 pm)
[70] http://www.andi.dz/index.php/fr/secteur-de-transport, (26/03/2018, 07:39 pm)

- **Roads:**

Algeria has allocated approximately €39.6 billion for the development of road infrastructure, including more than 1,000 km of highways and 7,000 km of secondary roads. This includes the construction of the Hauts Plateaux freeway, worth €6.6 billion over 1,020 kilometers, which will be divided into ten sections, with work done by local contractors.[71]

- **Railways:**

Infrastructure investment in Algeria also includes the expansion of its rail network through the construction of new lines and the modernization of existing lines. A total budget of €32 billion has been budgeted under the current five-year plan to construct 5,000 km of new lines, including the doubling of the Nordic railway line and the electrification and rehabilitation of existing roads. Algeria aims to have 12,500 km of electrified double-track lines with state-of-the-art signaling by 2025.[72]

1.4. **ICT:**

Advances in the field of Information and Communication Technologies are becoming increasingly important for building an efficient economy based on knowledge and information.
The Algerian government has therefore favored the development of Information and Communication Technologies (ICTs), at the center of strategies and policies for economic and social development.

Thus, in terms of its achievements and use of new technologies, Algeria was ranked the third « most dynamic » country in the world by the International Telecommunications Union (ITU), and has been positioned among those who have achieved « substantial progress » in the development of information and communication technologies.

Indeed, important achievements are in the assets of this sector, the main ones concern:

[71] Ibid.
[72] Ibid.

- **The Optical Fiber Connection Algiers - Ain Guezzam:**

The Algiers - Ain Guezzam fiber optic link, as far as the Niger borders, is an integral part of the fiber optic link Algiers (Algeria) - Zinder (Niger) - Abuja (Nigeria).

This project launched within the framework of NEPAD, is intended to make this infrastructure available to the populations of these three countries and neighboring countries, and to ensure communication to Europe through relay points in Algeria via cables optical fiber submarines.

This link will be strengthened and secured through the implementation of two routes to ensure the continuity of services in case of malfunction.

- **The Oran - Valencia Underwater Fiber Optic Link:**

The completion of Oran's - Valencia optical fiber link, with a capacity of 100 Gbps and a length of 563 km, represents a strategic technological investment, which will strengthen access to high quality network services, like the two existing cables, namely SMW4 linking Annaba to Marseilles, and Alpal2 which links Algiers to Palma.[73]

- **Mobile Telephony:**

With regard to mobile telephony, this rapidly growing field is marked by the presence of three operators competing on the market, together totaling nearly 45 million subscribers with increasingly diversified competitive prices.

Mobile 3G technology, implemented since 2014, has been gradually deployed throughout the country; in 2016, it expanded to 4G, a very high-speed technology that facilitates the digital life of businesses and citizens.

- **Satellite Telecommunications:**

In addition to the terrestrial and submarine networks, several actions have been carried out and others are underway, in the field of satellite telecommunications, for the realization of a set of platforms offering users a multitude of solutions in terms of telecommunications and satellite service (VSAT, IP phone, videoconferencing, and Geo localization).

[73] http://www.andi.dz/index.php/fr/secteurs/tic-16042015, (26/03/2018, 07:41 pm)

In addition to the three satellites already operational, Algeria launched in 2017, the Alcomsat-1 satellite which allows Internet connection throughout the national territory including the most remote areas. This satellite will support, during the phases of disturbance on the optical fiber, the continuity of the connection at reduced costs.[74]

1.5. **Agriculture:**

The Algerian territory comprises two types of regions: a dominant Saharan zone (84% of the territory) and a coastal zone (16%). its agricultural potential is concentrated in the north of the country, with only 20% of usable area for agriculture, rangelands and forests.

Agriculture is a priority to the Algerian authorities, in order to reduce its food dependence, and diversify its economy from hydrocarbons. Thus, since the early 2000s, the government has launched a national program for agricultural development, in addition to the government's action plan for 2015-2019, which has a set of objectives for agriculture, such as; an increase in the irrigated area of an additional million hectares, support for water saving, a considerable increase in planted land in olive trees to reach a million hectares, the development of regulatory infrastructures (cold rooms, silos), the promotion of mechanization without forgetting cereals, milk and arboriculture.

Algeria's food dependence is high for certain products (milk, cereals, wheat…); however, its exports are increasing regularly and strongly: from €85 million in 2009, they went to €248 million in 2012 and €305 million in 2013. This is explained by the rapid development of production in; beverages (mainly soft drinks and sodas exported to Africa), sugar, dates and most recently potatoes. Algeria's main customers in the agri-food sector in 2013 were Italy, followed by Iraq, Syria, Sudan, Spain and France.[75]

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[74] Ibid.

[75] http://agriculture.gouv.fr/algerie/, (06/04/2018, 01:22 pm)

1.6. **Bilateral Investment Agreements:**

As of 2015, Algeria has signed bilateral investment treaties with Argentina, Austria, Bahrain, BLEU (Belgium-Luxembourg Economic Union), Bulgaria, China, Cuba, Denmark, Egypt, Ethiopia, Finland, France, Germany, Greece, Indonesia, Iran, Italy, Jordan, Kuwait, Libya, Malaysia, Mali, Mauritania, Mozambique, Netherlands, Niger, Nigeria, Oman, Portugal, Qatar, Romania, Russian Federation, Serbia, South Africa, South Korea, Spain, Sudan, Sweden, Switzerland, Syria, Tajikistan, Tunisia, Turkey, Ukraine, United Arab Emirates, Vietnam, and Yemen. And also has free trade agreements with the European Union and the Arab League, plus a Trade and Investment Framework Agreement (TIFA) with the United States.[76]

- **Bilateral Taxation Treaties:**

Algeria has also signed bilateral treaties to prevent double taxation with the following nations: United Kingdom, France, Tunisia, Morocco, Belgium, Italy, Romania, Turkey, Bulgaria, Canada, Mali, Vietnam, Bahrain, Oman, Poland, Ethiopia, Lebanon, Spain, Yemen, Austria, Bosnia and Herzegovina, China, Egypt, Germany, Indonesia, Iran, Korea, Portugal, Qatar, United Arab Emirates, Switzerland, and South Africa.

In 1990, Algeria signed both investment protection and double taxation agreements with the Arab Maghreb Union countries (Libya, Morocco, Mauritania, and Tunisia).

1.7. **Investment Incentives:**

Any incentive offered is available to any company in any sector. The government offers tax breaks and credits, as well as access to capital. For example, a typical loan from an Algerian public bank has no payments due during the first three years, and a 3% interest rate thereafter.

[76] U.S. Department of State, op.cit, p 16-17

2. Obstacles of Foreign Direct Investments in Algeria:

2.1. **Algeria's Macroeconomic Stability:**

The macroeconomic stability, so much praised for a decade, is probably experiencing moments of uncertainty and heartbreaking challenges, driven by the new financial situation of the country.

The last decline in foreign revenues, resulting from the export of hydrocarbons, meant that foreign exchange reserves, estimated at nearly $200 billion in 2014, would not exceed $100 billion in 2017. The country will have consumed $100 billion in three years, dedicated to paying for imports. The reduction efforts of the latter, through the introduction of import licenses since 2015, have been inconclusive. Imports continue to weigh heavily on external revenues, which account for 97% of hydrocarbon exports, the overwhelming majority of which is shipped in raw form. It is an almost exclusively extractive industry that has cost the country many mistakes and misfortunes, including the import of fuels at the rate of three billion dollars per year. Sign of a serious economic indolence that led the country to import processed products from non-oil countries (Turkey, for example). The reason is as simple as it is absurd: the country seems to have forgotten to invest in refining. The easy solution has imposed its rules, as well in this field as in other fields such as; pharmacy, agricultural production, tourism, etc.[77]

2.2. **Slowdown in The Implementation of The Privatization Program:**

Some segments of the economy remain under control of the government and the pace of the privatization program has slowed down due to the long legacy of the centralized economy whose public sector played a dominant role in the economy. Indeed, the essential market is owned by public banks. In contrast, private financial institutions play a marginal role in the economy.

The state, which is present today through a few hundred public enterprises that survive only through ruinous financial reorganizations, should have every interest in concentrating its efforts on the private sector which has, at least, the deserves to produce without recourse to the treasure money, unlike the public companies.

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[77] NAIT MESSAOUD Amar, "*Algeria: Macroeconomic stability and stability at all costs",* in Le Matin d'Algérie, Mai 2017

2.3. **The Algerian Administrative Bureaucracy:**

While it is true that the government have already taken a number of initiatives to facilitate the installation and work of companies, there are still many complicated administrative procedures that have unfortunately increased the hold of bureaucracy over these good initiatives.

Access to land, obtaining issuance for a building permit and subdivision, connections to electricity, gas and water, continue still to take a lot of time. The lifting of bank loans and other facilities essential for the survival of a newly created company for example internet connection, upgrades and missions abroad, continue to be part of the obstacle course, especially when the newly created company is located far from the capital.

Although there has been some progress over the years, the Algerian administration is far from being business friendly. About 20 percent of enterprises perceive public services as being either inefficient or totally inefficient. Foreign investors equally complain about the bureaucracy.[78]

2.4. **A Bad Image and a Communication Deficit:**

Algeria suffers from a lack of image and communication abroad, a deficit characterized by a lack of visibility of the national investment policy, largely related to the unavailability of quality information on the flows and trends of FDI by sector and by country of origin.

A lack of coordination between the different actors of the investment, and the under-recognition of the foreign business community, a weak communication on the reforms and the new regulations adopted with a view to liberalize the national economy, and finally, the poor application of the new rules and procedures, negatively and significantly, affects the image that reflects Algeria abroad, thus influencing the attractiveness of foreign investors.[79]

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[78] World Bank Group, *Doing Business Algeria*, 2018, p 05

[79] Invest in Med, *la carte des investissements en méditerranée*, étude n°7, 2010, p 38

2.5. **Difficulty of Access to Industrial Land:**

Land is the most important obstacle to the creation and development of a dynamic foreign private sector in Algeria. Access to industrial land is complicated because of the unavailability of land and speculative maneuvers. Moreover, the lack of knowledge on the part of the public administration on the availability and viability of land is perceived by potential investors as an obstacle to any investment.

Despite the government trying to remedy this by creating the National Agency for Intermediation and Land Regulation (ANIREF) in 2007, the issue of access to industrial real estate is constantly mentioned by entrepreneurs and investors as an overwhelming and increasingly severe constraint to business development.[80]

There is a large unsatisfied demand for industrial land. At the same time, around half of equipped land is unused, either because it belongs to bankrupt public enterprises or because private owners are holding on to them to speculate.

Access to land in Algeria is an extremely complex and politically charged issue, where many vested interests are at work to block any reforms. It is quite important the structural adjustment that Algeria will need to undergo to make further progress in moving from a centrally planned to a market-base economy.[81]

2.6. **The Delay in Infrastructures:**

Many delays in infrastructure are hindering investment especially in ports, international airports and railways, as well as in the distribution of electricity and gas and access to telecommunications. For example, the port chain which handles almost all goods imported to Algeria suffers from serious dysfunctions. Planning between the different actors, port authorities, freight forwarders, customs agents, importers and ship-owners, is ineffective. It is to be hoped that the formalization of customs and the use of new specialized equipment (such as the scanner) will alleviate clearance over customs' procedures at the port of Algiers, the country's main port.[82]

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[80] ANIREF, *au service de l'investissement*, 2007, p 10
[81] World Bank Group, *Algeria investment climate assessment*, Report NO 27605 AL, June 29 2003, p 14
[82] CNUCED, *Examen de la politique de l'investissement*, Algérie, 2004, p 66.

2.7. **An Inefficient Judicial System:**

According to a report conducted by the Organization of Economic Cooperation and Development (OECD), and published in the national journal Liberté, on the 11/06/2007. *« The justice and finance sectors are the essential impediments to improving the business climate in Algeria »* says the document. Referring to a World Bank study that ranked Algeria between the ninth and last amongst 14 other countries in the MENA region (Middle East, North Africa) in terms of six main criteria (accountability, political stability, governance, quality of regulation, role of law and corruption). The most criticized criteria in Algeria concerns the quality of regulation and the role of the law. *« It is the justice sector that is most concerned. The business community has limited confidence in the impartiality of the judicial system, which is also seen as slow and inefficient »* says the report.

The judicial reform initiated since 2001 has more or less allowed the adaptation of the Algerian judicial framework to the necessities of a market-based economy. However its application suffers from a lack of procedures, qualified judges in the field of commercial law and an administrative and technical capacity to assess and implement justice.

Despite the recent reforms of the judicial system, procedures remain slow and ineffective. In addition, bureaucracy and lack of confidence in the justice system, especially in the settlement of commercial disputes, are viewed by potential investors as obstacles to investment in Algeria.[83]

2.8. **The 51/49 Rule:**

The 51/49% rule is the law that governs foreign investment in Algeria. It has been approved under the Supplementary Finance Act (CFL) for 2009. This rule consists of the distribution of the capital held by a company between two partners, an Algerian and a foreigner. As its name indicates, this rule stipulates that 51% of the capital of the Algerian-foreign company must be owned by the Algerian side, whether public or private. The fact that most of the company's shares are held by the Algerian side, gives it greater decision-making power than its foreign partner. The latter cannot therefore hold more than 49% of the capital.[84]

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[83] https://www.djazairess.com/fr/liberte/78341, (09/04/2018, 11:12 am)
[84] BEDDA Mahdjoub, Docteur en économie: *« adapter la règle des 51/49% au contexte économique régional »*, 2012, p 01

The rule has been adopted by the Algerian Government with the aim of preserving and favoring domestic investors over their international counterparts, particularly in certain strategic sectors such as energy. However, it continues to haunt the European business community, very interested in exporting their business, especially to the Maghreb countries.

Despite the evolution of the value as well as the volume of foreign direct investment (FDI) in the Mediterranean, Algeria is still facing the backlash caused by the rule of 51/49% imposed on foreign investors wishing to settle in the country. This law is the main legal obstacle preventing the flow of FDI towards Algeria.

Despite the calls of the private sector which considers the law of 51/49% too general and challenging, like the Forum of Entrepreneurs (FCE), the Algerian authorities give little hope for improving the foreign investment framework. The value of non-hydrocarbon investments in Algeria is between 500 million and 1.2 billion dollars annually, taking into account statistics from the United Nations Development Organization (UNDP). This value is materialized in the field by some small FDI projects. But it should be noted that the realization of investment projects does not exceed 10% of intentions declared by investors.[85]

The rule itself is a disadvantage to investment as it is a benefit. But the government still maintains that it is not an impediment but rather a safeguard to ensure local private and public sector participation in the economic process, create employment for nationals, transfer technology and know-how, and develop local training initiatives. Additionally, the government argues, and some foreign investors agree, that a range of tailored measures can mitigate the effect of the 49/51 rule and allow for other means of control, in practice some foreign investors use multiple local partners in the same venture, effectively reducing ownership of each individual local partner to enable the foreign partner to own the majority share.

In the end, despite the scale of the problems faced by foreign investors in Algeria, the government continues to maintain the rule of 51/49%, a law almost useless in an economic world with strong globalization.

[85] Ibid., p 03

2.9. **Transfer of Capital:**

The Bank of Algeria (BA) has just published a new directive concerning investment regulations; this directive sets the conditions for the transfer of capital abroad by economic operators under Algerian law. Among the articles of this regulation published in the Official Journal (OJ) No. 63, the first article stresses that the transfer of capital by operators (under Algerian law) regarding investment must be complementary to their activities of production of goods and services.

The Algerian bank conditions investors to obtain a green light from the Currency and Credit Council in order to transfer capital, as stipulated in Article 3 of the BA note, *« Transfers of capital for investment abroad by economic operators under Algerian law, whatever the legal form it may take in the host country, are subject to the prior authorization of the Council of Money and Credit »*, while the investment concerned must be, moreover, *« in relation with the activity of the economic operator under Algerian law and must be aimed at consolidating and developing this activity and must not relate to investment transactions or real estate other than those corresponding to the operating needs of entities created abroad or forming part of their business »* (Article 4).

Among other conditions set by this note from the Bank of Algeria, there is this requirement that *« the economic operator under Algerian law and/or his legal representative, is (are) not registered in the national file of fraudsters and/or the file of violators with the legislation and the regulation »*, and must not also seek bank financing to make its investments abroad *« foreign exchange and capital movements to and from abroad, and financing for the implementation of the investment project abroad is ensured from the economic operator's own resources »*.

Moreover, the Bank of Algeria requires that *« the income generated by the investment made abroad must be repatriated to Algeria without delay and in case of disinvestment abroad; the economic operator concerned is obliged to repatriate, without delay, the proceeds of the* *operation »* (art.11). However, the BA note stipulates in Article 13 that *« the provisions of this regulation do not apply to public administrations and public administrative establishments »*.[86]

2.10. Performance Requirements:

The Algerian government does not have performance requirements and does not officially mandate local employment, but usually there is pressure from the government for foreign companies to limit the number of expatriate middle and senior managers, so that Algerians can be hired for these positions. This pressure can be applied via visa applications for expatriate workers where a company must provide justification to various levels of the government as to why the expatriate worker is needed.

2.11. Access to Finance:

Despite the entry of several small private and foreign banks, Algeria's financial sector is still largely dominated by the government. Access to credit or the opening of a bank account is a very long and difficult procedure. A lack of information and modern payment systems and a lack of qualified staff are also major problems for foreign investors.

Improving the financial system is currently a necessity for the Algerian government in order to attract more investors.

2.12. Human Resources:

The Algerian labor market suffers from a severe lack of good quality workers, such as skilled managers, supply chain engineers, office workers with requisite computer and business skills and even skilled plumbers or electricians. It is true that the cost of the Algerian work-force is very low comparing to others countries but the quality is still less than acceptable.

[86] https://www.financialafrik.com/2014/11/17/la-banque-dalgerie-fixe-les-conditions-de-transfert-de-capitaux-vers-letranger/, (06/04/2018, 09:14 am)

2.13. **Access to Information:**

The lack of information regarding laws, regulations, statistics and market information makes it difficult for entrepreneurs to manage their businesses and for bankers to assess loan requests. This problem is due in part to the weakness of communication networks between Algerian public administrations, chambers of commerce and industry and professional organizations. Furthermore, enterprises cannot access databases and other information centers that could facilitate market research and update their knowledge of current laws and regulations, new technologies, and foreign markets.

Conclusion of the chapter:

Algeria has changed its vision and strategy for foreign investors. Thus, since 1990, a gradual policy of openness and attractiveness of FDI was introduced, offering fiscal, customs and financial incentives. This policy has been intensified recently due to the fluctuation of oil prices. However, this change did not have a significant impact on incoming FDI flows. This is explained by the fact that Algeria presents an environment that is not conducive to investment. On the one hand, the economic fundamentals that are starting to improve recently are based on a fragile economy, which is standing on a single unstable pillar, that of hydrocarbons. On the other hand, the foreign investors are confronted with the bureaucracy, the lack of access to finance, information, the transfer of capital…etc. Investors also complain about the lack of qualification of the workforce and difficult access to industrial land. These are all elements that make the number of foreign companies present in Algeria remain modest.

Algeria must first of all diversify the structure of its economy, improve the investment climate and strengthen its infrastructure before granting incentives that only absorb capital that could have been used to enhance structural attractiveness.

Chapter III: Impact of the Business Climate in Algeria on Batimetal Galva

Introduction of the chapter:

In the previous chapter, we showed that Algeria is a very rich country with an important value at the international level; however, various obstacles and problems block the foreign investments in Algeria.

In order to find solution to improve our business climate, we decided to analyze and evaluate the different constraints faced by the foreign companies after their settlement on the Algerian territory; we have taken Batimetal Galva as a sample of study.

In this chapter we are going to present in the first section the host organization, and in the second section the methodology of our research plus the results of our case study followed by a set of recommendations we concluded from this work.

Section One: Presentation of the Host Company

In this section, we will give an overview of the company in which we spent our internship and conducted our research. This presentation is based on the internal information provided by the company.

BATIMETAL GALVA is a joint-venture between two large groups; the Portuguese group METALOGALVA and the Algerian group IMETAL; therefore in this section we will present both groups and their partnership.

1. Presentation of METALOGALVA:

1.1. History:

Founded in 1971, Metalogalva - IrmãosSilvas, SA is the oldest company of the Vigent Group. Situated in Portugal, This company has five industrial units « Poland, France, Spain, Italy and Algeria », occupying a total area of 60,440sqm, having employed more than 500 employees.

Metalogalva is active in the design and manufacture of metal structures, having the ability to perform tests of a prototype, the level of assembly and/or strength of the structure. The developed products have applications in various fields of activity, including energy, telecommunications, roads and railways, and are generally subject to corrosion protection of hot dip galvanizing, with the possibility of paint complement system (duplex). In addition to its range of products, the company provides a range of services to their customers, namely, plate cutting, bending, welding and hot-dip galvanizing.[87]

Requiring of its employees a culture of responsibility and competence, Metalogalva demonstrates the commitment of the organization to quality and customer satisfaction, which has a quality system according to the ISO 9001: 2000 standard.[88]

The development and innovation of its products is an asset for the customer, resulting in the trust and recognition of several projects and facilities located around the world.

Metalogalva's reputation exceeds its size, the result of sustained growth and dynamism in the possession of a custom in their human resources, a determining factor in a time of globalization, generating new challenges.

1.2. Missions:

The company’s mission is to study, develop and innovate in their products so that they claim as an added value to the customer, subject to the rules of sustainable growth. To refer to suppliers for business partners, based on the principles of quality, trust and loyalty. And to

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[87] http://www.metalogalva.pt/fr/, (28/04/2018, 04:16 pm)
[88] Ibid.

promote a strategy of excellence in customer service as a support process, integrating all components and transversally to the structure, aimed at total customer satisfaction and loyalty. Its vision is also to be a reference company in its sector at the international level.

1.3. Strategic Targets:

Metalogalva's strategy of sustainable growth based on the verticality of the Vigent Group companies is to integrate the field of the metallurgical industry and also through the participation of all employees in the process of continuous improvement and the commitment to contribute to integrated management.

Its short term goal is to consolidate the positions acquired by the company in existing markets for the stock. As for its medium term goal, it is to approach new markets through local partnerships. And finally the company's long term aim is to focus on internationalizing the business by investing in other countries around the world.

1.4. Products and Services:

1.4.1. Products:

- **Energy:**

Metalogalva has a high knowledge in the dimensioning and production of steel structures for transmission and distribution power lines. In its activities, it stands out as a major supplier of Portuguese operators as well as in its participation in various international projects.

- **Renewable:**

Structures developed by Metalogalva in the field of renewable energies are the culmination of 45 years of development of steel structures. Supported by a competent engineering department, each structure is developed according to customer requirements as well as according to standards applicable in the installation local. This way it guarantees the production of the best technical and commercial solution adjusted to the customer requirements.

- **Lighting Columns:**

Metalogalva has a range of columns for street lighting (roads, public gardens) and high masts (football stadiums, multi-purpose sports halls, airports, port facilities, car parks, bus and train stations). The company invests in standardization of projects, CE Marking, diversity of solutions and high quality standards.[89]

- **Telecommunications:**

Metalogalva has over two decades of experience in the design and manufacture of telecommunication towers. Over the years, it has directed its manufacturing methods to meet the needs of the market, both in terms of production capacity, and the development of new technical solutions.

- **Special Products:**

Metalogalva has always privileged market leadership, being one of its strategic goals the development and research of new products and processes in order to acquire competitive advantage nationally and internationally. It is a company dedicated to special projects and projects tailored to the needs of each client.

- **Roadways:**

The company offers a global solution for the supply of road equipment, ranging from road safety guardrails (single or double), rails for bridges and flyovers, safety rails for protection of motorcycles, safety barriers, to gantries and its accessories.

- **Railways:**

Metalogalva acts in this area as the main provider of railway infrastructure installers, providing poles for support of catenaries, highway structures for signaling equipment and/or CCTV masts, porticos and safety barriers for protection against access to the catenaries.

[89] Internal documentation of the company

1.4.2. Services:

- **Painting:**

Metalogalva has a fully automated electrostatic painting unit that can be used to uniformly coat metal parts with a thermosetting polymer. This highly advanced process provides a uniform, resistant coating. Several painting options are provided, according to specific requirements, suitable to several corrosive categories, with varying degrees of durability and varying thickness, in a wide range of colors.

- **Galvanizing:**

Metalogalva has a modern unit dedicated exclusively to Hot Dip Galvanizing, including galvanizing with centrifugation, to galvanizing its own products, but also offers its external customers the possibility to galvanize their products in steel or iron, allowing to process parts up to 12400x1750x2000 mm.[90]

- **Logistics:**

Thanks to its large network and the versatility of its many specialized partners, Metalogalva ensures the safe transportation of any load regardless of size or weight.

Metalogalva integrates all the necessary means of transport (road, rail, sea or air) into the movement of goods from origin to destination by ensuring, through its network of partners, the entire organization of logistics.

[90] Internal documentation of the company

2. Presentation of IMETAL:

2.1. History:

IMETAL is a public industrial group from the last restructuring public market sector activity in the steel industry. It is the link between the mining activity and metal construction which is its extension.

The strategy of IMETAL Group revolves around the following points:

- The coverage rate by the local production of the national steel industry products demand is below 15%, it is imperative to; develop the national production capacity by the modernization of existing facilities, initiate new investment projects in 1st and 2nd steel industry transformation (seamless pipes, hot profiling…), and to develop the necessary related industries in the steel industry.
- The improvement of the competitiveness of its companies through; technology partnerships as needed, the establishment of quality management systems (QMS), and the implementation of appropriate management policies, human resources and optimization of governance.[91]

The group's activity consists of three main pillars:

- Steel Industry production and basic industries which involves; flat products of first transformation (coil and steel plates), long products of first transformation (wire rod and rebar), processed scrap, and zinc ingot.
- The steel processing which contains; flat products of second transformation (pipes, various profiles and metal packaging), long products of second transformation (welded trellis, metal light beams, various wires, metal armatures).
- The achievement of a key turn in the steel frame and boiler making.[92]

[91] http://www.imetal.dz/imetal/en/, (30/04/2018, 12:50 pm)
[92] Ibid.

2.2. Activity Fields:

The following table represents the main activity fields and companies of IMETAL Group with each company's main activity.

Table n° III.01: Activity fields and companies of IMETAL Group

Activity Fields	Companies	Main Activity
Steel and Metal working industry	EPE AL ZINC Spa, Algerian Zinc Company	manufacturing of electrolytic zinc, alloy Zinc and Pastilles joinery and Aluminum resale units
	EPE REFRACTAL SPA, Economic Public Company	Manufacturing and marketing of refractory product
	EPE ENR Spa, Company of recovery	Recovery of the metallic waste non-ferrous, Treatment of metallic waste, Demolition
Steel Transformations	EPE FONDAL SPA, Algerian foundry	Production and marketing of foundry products (molded pieces in cast iron, steel and non-ferrous metals)
	EPE ALFAPIPE Spa, Algerian manufacturing pipes	Manufacturing of steel tubes welded in spiral
	EPE ANABIB Spa, National company for tubes and flat products processing	Insure the national needs in flat Steel-making products of the second transformation
	EPE ENTPL Spa, State-owned company of long products transformation	Steel-making products of long type
	EPE EMB Spa, Metal	Flexible tubes and aerosols, Espresso machines,

	packaging company	Household items
Boiler Making and Metal Constructions	EPE ENCC Spa, State-owned company of Structure and Boiler making Industry	The realization and management of industrial projects in E.P (Engineering, Procurement, Construction). The studies execution in all trades (Civil Engineering, Carpentry, Mechanics, Electricity, Automation...) the production of structural steel, boiler and various industrial equipment Installation of industrial plants (in all trades) of equipment, piping and instrumentation Industrial maintenance
	EPE BATIMETAL Spa, construction Boiler making Industry	Engineering and the manufacture of metallic structure and Boiler making, the realization of buildings (housing and other) turnkey; The assembly work of building of all kinds, Civil Engineering and B.T.P work, the study engineering and turnkey, Transit and transportation.
Services	EPE ISG Annaba Spa, Higher Institute of Management	Training and consulting in: Business, Management, Scientific and Technical
	EPE SIDEM Spa, Engineering SIDEM	Housings, offices, educational buildings, remote sites, transport and distribution, transport infrastructure, maintenance, facilities, light planes runways, airports, industrial buildings, maintenance workshops, warehouses, control Rooms, hydraulic: supply and water transfer, industrial installations, oil and gas treatment (mainly engineering of detail in road disciplines) environment of industrial sites, metallurgic process mechanical equipment, water

		supply, sewage, treatment and industrial waste
	EPE C.T.M.C Spa, Technical centre Metal-construction	Diagnosis and advice: Identification of training needs, training program development, customized training : improvement, Reconversion, retraining course, animation of seminars, ASNT training certification (American Society for no destructive testing), welders approval, development of welding procedures and qualification of welding procedures, welding control in industry environment.
	EPE BATIMETAL P.I Spa, BATIMETAL Real-estate development	Land purchase, Building Permit, Real-estate program realizations, housing sales, sale reservation, registration of purchases, on-plan sale.

Source: adapted from internal documentation of the company

2.3. Partnerships:

IMETAL Group settles as its main strategic objectives the substantial improvement of the cover rate for the national demand in steel-making and non-ferrous products and the conquest of market shares in the export.

To reach these goals, the action plan of the group holds two main axes:

- The in-house development by: the improvement of the productivity and profitability of the existing industrial assets; the development of new industrial capacities in connection with the opportunities of the market; and the exploitation of all synergies, intra-groups.
- The appeal to partnership by: the creation of mixed companies to invest new strategic field of activity requiring the contribution of know-how and the association, with national and foreign partners to make new products and realize turnkey projects.

3. BATIMETAL GALVA:

The IMETAL group has important infrastructures and market shares in Algeria. To further develop its know-how and to increase its production capacity, the group has decided to appeal to the Portuguese company IrmãosSilvas (Metalogalva), which, being a first class company in this industry, is eager to bring its knowledge, its experience and the latest techniques for making and producing equipment specific to this industry. This is the reason why the parties have decided to create in Algeria a joint company specializing in the design, manufacturing of metallic products and galvanizing for the energy and telecommunications sectors.

Pursuant to the resolution of the board of participations of the State number 01-139 of 03.11.2013, a partnership was concluded to give birth to a joint company named EPE BATIMITAL GALVA Spa with a registered capital of 100.000.000 DA, 51% of it are distributed for the Algerian part and 49% for the Portuguese part. The investment program consists of a plant with a capacity of 50,000 tons/year, using the latest technologies in the field of metal processing.[93]

[93] Internal documentation of the company

Section Two: Presentation and Results of the Study

The purpose of this second section is to outline the methodology used in the research process, the research that aims to determine whether the business climate in Algeria has a positive or a negative effect on the implementation of a new foreign company. In order to arrive to a conclusive result, we have conducted the following study.

This section will explain how the study was conducted by putting forward the sample and the research method that we have chosen, and in the second part we will present the results derived from this study and discuss the findings.

1. Methodology of the Study and Interview Process:

In this part we are going to talk first about the qualitative study that we have chosen for our research then we will detail the process of the interview that we have conducted in order to conclude the research study.

1.1. Qualitative Research:

This method strategy emphasizes more on analysis based on words rather than quantifying data numerically. Its focus is on descriptive, analytics methods. This is the reason why qualitative research is flexible in terms of structure and procedure for the data collection, which provides the flexibility to adapt based on the findings of the observation and interviews.

In the qualitative research strategy, for empirical data collection, there are several methods that can be used, such as, interviews, observation and documentary analysis.

The data collection method that was followed for this research is the interview. The qualitative data analysis process can be followed only after sorting the data into manageable and interpretable way. To do this we should:

- **Categorize data:** it is sorted into significant categories from the data.
- **Unitize data:** where data is reduced, arranged or rearranged and labeled based on the research objective.

- **Recognize relationships and developing categories:** in this process of analysis, the reorganized data is to find a significant relationship.

- **Develop testable propositions:** this is the final step of process where the relationship of categories is identified, which will help to test the hypothesis leading to conclusion.

1.1.1. Interview Guide:

The interview guide is reviewed and approved to answer the research questions. The Open questions provide the flexibility to the interviewee in order to provide in depth details. Literature review mentioned that semi-structured and in-depth, or no standardized method of interviews are used for qualitative research, which helps to gather information by answering not just the "what" and the "how" questions, but also the important aspects on "why".

The information required was in-depth and about the unloading processes thus, the exploratory research is used to have better understanding of the problem in the area where there are few studies available. As in this study, extensive interviews were done to comprehend the process.

1.1.2. Interview Status:

According to Nicolas LEFEVRE, we mainly notice three statuses of the interview: [94]

- **Exploratory:**

We try to identify themes, and points of approach on the object, we learn to locate in the environment investigated, we take marks and benchmarks.

These interviews are also used to launch test balls; that is to see the most relevant questions, the recurring themes of the respondent and what interests him the most. A number of data related to the reusable land are also collected later.

Finally, it allows to make contacts and to enlarge its network of relation for the continuation of the investigation. These interviews are therefore often used in parallel with the first readings to reveal the problem and define more precisely the object under study.

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[94] LEFEVRE Nicolas, *Méthodes et techniques d'enquête*, Master 1 SLEC, 2006, p 22-23

- **Principal:**

The questioning here is more refined, the interview themes used speak more to the respondents because they refer to their experience. This type of interview in general is longer, more dense, because it is more thoughtful and more mature. These interviews are used to test the hypotheses and give proof of what is being said. We try as much as possible to dig the information that is given, and to make the most of what the interlocutor says, it is the main material of analysis. This type of interview also serves to deepen the problem or to reshape it.

- **Control:**

At the end of the survey, these are “systematic” verification interviews of the hypotheses, and initial analyzes of the field and the various interviewees.

1.1.3. Interview Types:

According to the same Nicolas LEFEVRE, there are also three types of interviews: [95]

- **Directive:**

Oral questionnaire advantage: very reassuring for the researcher. The interview guide is ready, each question is asked in a pre-established order, and the researcher confines himself to read his questions and tick boxes. An advantage on the questionnaire sent is that the investigator can re-specify his questions or rephrase them according to the individuals.

For the limits: we limit the initiative of speech, the expression for the interviewees, since the respondent will just be content to answer the question, without going further. It can be interesting to test a questionnaire to be sent later (do a pre-test).

- **Semi-directive:**

It is not fully open and not fully closed. In general, the researcher has a certain number of topics or guiding questions, relatively open, on which he wants the interviewee to answer. But he

[95] Ibid., p 31

does not necessarily ask all the questions in the order in which he wrote them down and in their exact wording. There is more freedom for the researcher, but also for the investigation.

- **Free:**

Often used for life stories; when we want to trace life trajectories to understand a position or a situation. We try not to limit the interview to some dimensions of the life of the individual, but to try to understand how his trajectory, through different aspects of his life (family, school, professional etc.) have led him to this or that position. This type of interview is often longer but also more difficult for the researcher. It requires a greater experience, since it is necessary to know how to make the person speak about his experience, and to know how to constantly bounce on what the individual tells so as not to create too much emptiness and break the rhythm of the interview. This kind of maintenance is very rich when properly conducted and operated.

1.1.4. Objective of the Qualitative Research:

The aim of qualitative research is to study as precisely as possible the behaviors, motivations, needs or constraints of a small group of consumers. It will not try to extrapolate the results obtained to the whole population, so there is no notion of representativeness, but to understand attitudes and feelings.

1.2. Interview Process:

1.2.1. Objective of the Interview:

To discuss the research proposals, and taken in consideration the qualitative nature of our theme, we are called to conduct several interviews with the various directors of Batimetal Galva, in order to evaluate the hypotheses proposed during our research which will be either confirmed or denied.

For this purpose, a series of open questions will be established and intended for our interviewees, to analyze their answers based on their opinions, judgments as well as their expectations on the subject.

1.2.2. The Sample Choice:

In order to analyze and evaluate the conductive hypotheses of our research, we are called to carry out a study in the field, this study is interested in any new foreign company installed in Algeria, it is for this reason that we have chosen Batimetal Galva as our study sample.

And since it is a new company that has just moved to Algeria, the number of our interviewees was quite limited, made up of 7 people, presented by the various directors of departments and the general director of the company.

Table n° III.02: List of people interviewed for the study

Last name	First name	Function
SILVAS	Karlos	General director
FARSI	Mustapha	Commercial director
BELMOKHTAR	Zakaria	Construction director
ATBA BEN ATBA	Sofiane	Financial director
DAOUDI	Ibrahim	Human resource director
DJELOULI	Mehdi	Production director
BEIAD	Kouider	HSE director

Source: Elaborated by us

1.2.3. Elaboration of the Interview Guide:

Our interview guide[96] has been established in a very structured way, with a set of questions, some of which are related to the different problems encountered by the foreign companies and others relate to the attractiveness of the business climate in Algeria.

The interview guide was not adapted to each interlocutor, our goal is to make an inventory of all opinions, judgments, opinions, expectations on the subject in question, and the interview guide was redacted in coherence with proposals and questions that were related.

Finally, we used open-ended questions to encourage the initiative of our interviewees and to give them time to reflect. In addition, our interview dealt with two different topics, namely:

[96] Appendix n°III.1 : The interview guide that was conducted for the study.

- The attractiveness of the business climate in Algeria;

- The different obstacles of the business climate in Algeria.

1.2.4. The Conduct of the Interview:

The totality of the interviews were administered by the face to face method on the same day, their duration varies between 30min and 1h30min, to ensure and verify our interviewees' good comprehension of the questions and technical terms …etc.

It was also necessary to ensure that:

- The interviewees do not deviate from the subject;

- The questions guide the course of the interview;

- The interviewees analyze in detail and with precision the facts that were approached.

Table n° III.03: List of interviews conducted for the study

Interview	Function of the interviewee	Duration of the interview
1	General director	1h22min
2	Commercial director	48min
3	Construction director	45min
4	Production director	32min
5	Human resource director	1h 30 min
6	Financial director	40min
7	HSE director	30min

Source: Elaborated by us

2. <u>Presentation and Analysis of the Study Results:</u>

2.1. Attractiveness of the Business Climate in Algeria:

In order to assess the attractiveness of the business climate in Algeria, we asked the following question:

- **In your opinion, does Algeria have significant potential to attract FDI?**

All of our respondents said that the business climate is a very attractive climate that has a great potential to attract FDI.

For the General Director, Algeria is a very rich country with all the means needed to succeed at the global level. While for the commercial director « *Algeria is a new market, which attracted several industrialists since the seventies, but since the nineties, we had to rebuild and reinitiate all the market and at the moment it is a market that attracts a lot of FDI and a lot of people* ».

The construction manager also agrees that the land is pristine compared to our neighbors Morocco and Tunisia where the market is very saturated.

The head of administration and human resources said « *on paper, yes Algeria has a great potential but concretely nothing is achieved* ».
The rest of our other interviewees also agreed that Algeria has great potential to attract FDI.

2.2. Factors of Attractiveness of Foreign Direct Investment:

The results of the first question led us to ask the following question:

- **In your opinion, what are the determining factors of attractiveness of FDI that Algeria has?**

By this question we wanted to specify the different factors that determine the attractiveness of the Algerian business climate in terms of FDI.

The general manager gave us a list of the factors that he believes are the most important in the attractiveness of FDI « the geographical area, the importance of the market, cost of labor, and the tax policy » he added that Algeria is a country that offers a lot of facilities for foreign companies.

The commercial director on his side added that energy is a very important factor attracting multinational companies, according to him Algeria is a country rich in natural resources but, instead of investing in refining, we prefer to concentrate on extracting these resources and selling them as raw material, in his own words: « *energy is a very attractive factor, but the problem is that we attract bad flies, multinationals like TOTAL for example, they come and they pump energies, and these contracts are against the benefit of Algeria, because finally we will take this energy like oil for example, we sell it outside as raw product and is then imported as a finished product. And it's true that it generates a lot of money for Algeria but it can generate more if we know how to exploit it better* ».

The director of human resources also mentioned agriculture as a determining factor of the attractiveness of FDI in Algeria as well as the geographical position of the country being the gateway to Africa and since Africa holds enormous potential, whoever wants to invest Africa he has only to invest Algeria.

The production manager sees that the problem of Algeria is not in the absence of FDI attractiveness factors but in the way in which foreign investors are treated after their arrival.

2.3. The 51/49 Rule:

Introduced by the 2009 supplementary finance law, the so-called 51/49 rule sets the shareholding of a foreign investor in a company governed by Algerian law at 49%; some investors consider this rule as a brake to the development of foreign investment in Algeria. To confirm or deny this proposition we asked the following question:

- **According to your opinion, is the 51/49 law a brake to foreign investment? And why?**

The general director said that this rule is very limiting to foreign investors, because for an investor who is willing to bring his money and work in favor of the Algerian economy, taking the advantage of having the majority in his own company away from him is a bit unfair and inconvenient.

The commercial director on his part said « *this rule was established in order to control the management of joint-ventures in Algeria and to always have the final decision, and for me when a company is interested in the Algerian market, it's this company that has the expertise and the know-how, and so there is always a conflict between the one who holds the money and the one who has the knowledge, and at the end the law that is imposed is of the part that doesn't have the know-how* ». So finally it is still a restraint to foreign investors.

The construction director thought that « *since in Algeria we still don't have the necessary knowledge to be able to dictate our own decisions, we need the upper hand in another area, which is why, for the time being this rule is necessary in order to guarantee the transfer of the know-how and to keep an eye on actions that are being taken. And when the time comes where the Algerian part can stand on its own, we will be able to afford removing this rule* ».

The human resource director said that maybe at some point politically it is justified to want to keep that supremacy, because « *in case of conflicts or disagreements, it's still our property and we can replace the other part with another* ».

The financial director thought that instead of holding back the foreign investors through this rule, we can take other measures to supervise and control his actions, the transfer of capital being an example.

The two other interviewees have also agreed that this rule is a handicap to foreign investment because it is holding back several companies from choosing Algeria as a destination to invest.

2.4. Administrative Bureaucracy in Algeria:

In order to analyze the problem of bureaucracy in Algeria we asked the following question:

- **What is your opinion on the administrative bureaucracy in Algeria?**

The purpose of this question is to know how the administrative bureaucracy affects the work progress of the company in Algeria.

Indeed, in our second chapter we found that businesses still face excessive bureaucratic behavior, paperwork issues, tedious regulations and long delays in obtaining permits and licenses. These barriers are present in all sectors of activity.

This problem eventually discourages investors that prefer to turn to other countries whose procedures are lightened and facilitated.

This was proved by our different interviewees as it follows:

According to the commercial director, 90% of the problems that scare investors in Algeria are related to bureaucracy, instead of facilitating the work of foreign investors they are blocked at all administrative levels, for example, to extract a single document it takes ten more documents, and for each document you have to go through several administrations. The bureaucracy is a real handicap in Algeria, because instead of letting work progress, we prefer the control of documents over the job.

The general director has also described the administrative environment of Algeria as « *an administrative terrorism, unless you know the right person at the right place* ».

Another opinion on the matter is that of the construction director, who said that they suffered only to get the construction permit, even though the company is in favor of everyone in the Algerian society. He also stated the example of Batimetal Galva which is still facing complicated challenges as a result of bureaucracy, compared to same company's division in Ukraine which was created at the same time as the Algerian division and is now at a far more advanced stage.

Indeed, according to the report "Doing Business of 2018" Algeria has the highest number of procedures and the longest delays compared to its neighbors. These procedures concern all the activities related to the creation of a business, taking the example of getting water connection:

<u>Table n° III.04:</u> Getting Water Connection in Algeria

Procedures	Time to Complete	Associated Costs
Register the building at the Cadastre Agency : Municipal Authority (Autorité Municipale) Before the building can be used as collateral, banks require the property title and the construction license. This case study assumes that BuildCo already possesses a construction license.	1 day	no charge
Apply for water and sewage connection Agency : Société des Eaux et de l'Assainissement d'Alger	1 day	no charge
Notify municipal authority of connection to sewer mains Agency : Municipal/communal authority When the application for a building permit is submitted, there is a set of plans for utilities which are sent to utility companies for verification. If the utility companies do not approve these plans, the building permit will be delayed until all plans are corrected.	1 day	15,000 DZD
Obtain inspection for water connection cost estimate Agency : Société des Eaux et de l'Assainissement d'Alger The Customer Service department will send a team to do a technical and financial study of the work to be done. The cost estimate is given to the client and payment must be made before the work is done.	1 day	no charge
Obtain sewage connection Agency : Société des Eaux et de l'Assainissement d'Alger A site visit is sometimes required to prepare the estimate.	21 days	13,000 DZD
Obtain water connection Agency : Société des Eaux et de l'Assainissement d'Alger (SEAAL)	18 days	25,000 DZD

<u>Source:</u> World Bank Group, Doing Business Algeria, 2018, p 16

Comment:

This table presents the road to follow in order to get water connection in Algeria, and even if this is a trivial matter in the business world, it is a perfect example about the number and complexity of procedures required by Algerian administration.

The other four directors have also agreed that bureaucracy is a huge problem that needs to be fixed by higher authorities and if not dealt with in the short term, the consequences can be catastrophic.

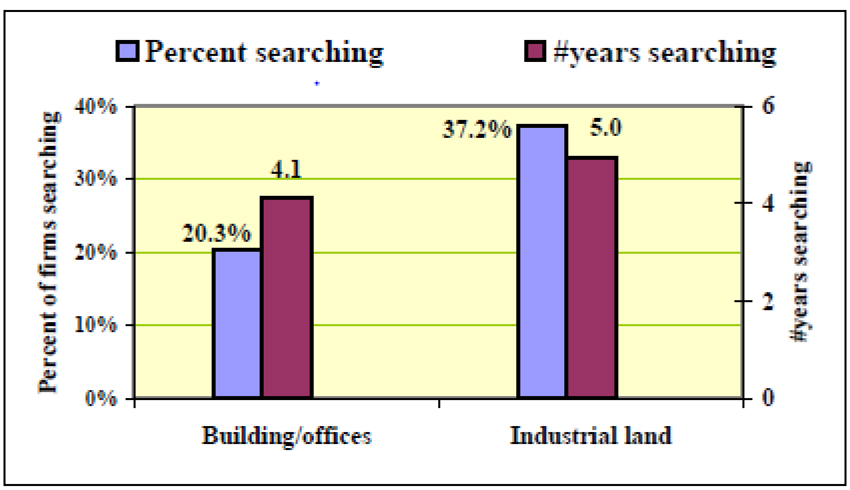
2.5. Access to Industrial Land:

Another issue related to foreign investment in Algeria is access to land; it is for this reason that we asked the following question:

- **How did you acquire the land on which you have your production site? Was it difficult to get it? Explain**

According to our previous research, access to land was one the hardest and most complicated procedures in Algeria, the whole process of acquiring industrial land is extremely lengthy, costly and uncertain. Because of the dominant role of administrative allocation, this can be proved by the following survey of Doing Business Report which was conducted on a sample of 562 firms.

Figure n° III.01: Looking for Land or Offices in Algeria



Source: World Bank Group, Algeria investment climate assessment, Report NO 27605 AL, June 29 2003, p 14

Comment:

37.2 percent of the companies surveyed, are searching for an industrial land plot to invest in a new venture or to expand their business. On average, they have been searching for 5 years. And 20.3 percent of them have been searching for buildings and offices for 4 years.

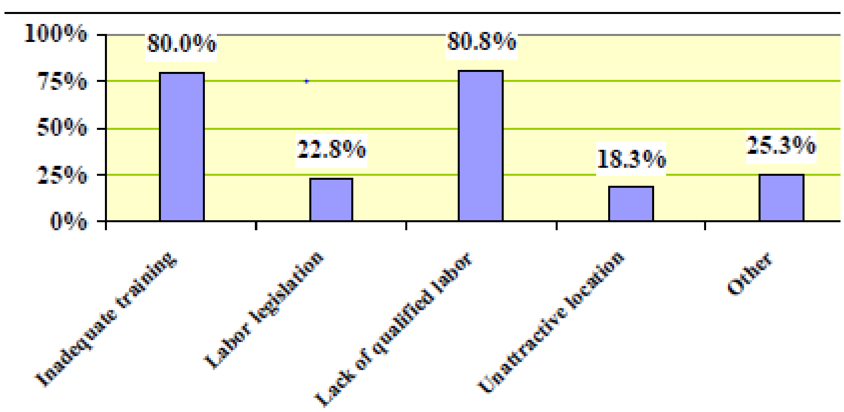
However, our case study has showed otherwise. All of our interviewees have agreed that access to land was not an issue for Batimetal Galva.

The general director mentioned that the land that they are currently using was owned by the Algerian company Batimetal wish was already dissolved by the Algerian government and the land with its buildings was rented to Batimetal Galva. So they did not have to go through any of the complicated procedures that new foreign companies usually face.

2.6. Human Resources:

Another one of the frequently mentioned restraints to foreign direct investment is the lack of qualified work-force in the Algerian market; a survey that was conducted by the World Bank on 562 companies about recruiting issues has had the following results.

Figure n° III.02: Recruiting Issues in Algeria



Source: ibid. p 25

Comment:

Fifty five percent of the firms surveyed mention constraints in recruiting. More than 80 percent of these are due to either the lack of qualified labor or, alternatively, to the fact that training does not respond to their needs. Despite these constraints in finding qualified staff, less than 32 percent provide formal training to their employees. Only large firms, most of them are State-owned, provide training to a large extent.

In order to confirm the existence of this problem in Batimetal Galva; we asked the following question during our interviews:

- **How do you qualify the work done by Algerian employees in terms of quality, cost and time?**

The results were, however, contradictory; the majority of our interviewees have confirmed that the problem is not in the quality of the workers but in the absence of an adequate work environment.

The commercial director thinks that « *the Algerian workers give a 100% of their capacity in the current environment, and we don't need to call for foreign work force to do the same job that can be done by Algerian workers and at a cost that it is almost three times lower* ». And he evaluated the Algerian worker as being under-paid, compared to a foreign worker even if it is for the same job with the same output. But according to him, « *the real reason behind this issue is in the management system, because when the management system is good, the work environment is better, and the quality of the output is best* ».

The human resource director, on the other hand, sees that it is the absence of motivation that's behind the lack of quality in the Algerian work. For example a worker who is on a one year contract, with the possibility of renewal, won't give a hundred percent of his capacities because at the same time he is on the look for another job elsewhere. The rest of our interviewees share the same opinions as the commercial and human resources directors.

However, the opinion of the general director was a little different; he said that even though the Algerian workers have the skills, they don't put the totality of their capabilities into the job.

2.7. Other Obstacles to Foreign Direct Investment:

At the end we asked our interviewees if they had encountered other obstacles that we had not mentioned; their answers were as follows:

The general director sees that one of the things that are blocking investment in Algeria is the non visibility of the evolution of the Algerian market. And the government has also stopped investment two years ago, and since then the market has been stagnant for most of the industrial sectors.

According to the commercial director, another one of the restraints to foreign investment besides the previously mentioned obstacles is a certain political side to the matter, because in every sector that generates money, there is a certain dominant company that aspires to gain an exclusive monopoly over the market. And if this company is well placed politically, it will exert all its power to control the other competitors. And since the main industrial and economic sectors are in the hands of particular people, they dictate their own policies and others are bound either to follow them or to withdraw from the scene. It is true that this exists in almost every country but in Algeria there is an exceptional supremacy.

The construction director, has also mentioned the absence of coordination and cooperation between the different actors in a certain sector, as one of the most important issues blocking the advancement of companies in Algeria, because according to him « *any small participation in the process can make the difference between moving forward and staying put* ».

The financial director said that there is no continuity in the decision making process, when a certain political leader comes to power, he doesn't continue on what the previous one started, but starts a new policy and so on, so there is an issue of political stability in the country.

For the human resource director, another obstacle to FDI in Algeria is the absence of the follow-up by the Algerian part, when a project is launched; there is no supervision on the advancement of the work and no control over it.

2.8. Synthesis of the Results:

From what we have gathered as information from the interviews carried out, we have arrived at the conclusion of the following points:

- According to our interviewees' answers, the business climate in Algeria is very attractive to foreign investors and holds great potential due to its uncultivated territory and the dimension of its market, in addition to the facilitations given by the Algerian government to foreign investors;
- One of the most attractive factors about the business climate in Algeria is the geographical position of the country and its closeness to European markets;
- Another factor of attractiveness is the natural resources that the country has and the abundance of energy sources that is also at low costs, plus the agricultural sector that holds several opportunities;
- The cost of labor is also a very low compared to other countries in the region;
- The 51/49 rule is considered as a restraint to foreign investors and a guarantee to the Algerian part at the same time;
- Administrative bureaucracy is one of the most repelling aspects of the economic environment in Algeria, for its huge negative effect on businesses and individuals in general;
- Access to industrial land was not considered an issue for Batimetal Galva because of its availability in the region of Ain Defla;
- The human factor in Algeria is not lacking quality or training but it is affected by the absence of motivation in the Algerian work environment;
- Another obstacle to foreign investment in Algeria is the political influence on the business climate and the lack of cooperation between the different actors in the market.
- The political stability and the market's stagnation are both considered as disadvantages to foreign investment in Algeria;

- The lack of supervision and the absence of control on the industrial projects are also negatively affecting businesses in Algeria.

To conclude, our research and the case study have had coherent results except for a few discrepancies of opinions between our interviewees.

2.9. Recommendations:

Our study has showed that the reason behind the restricted number of foreign investors in Algeria is not related to the attractiveness of the business climate, but to the problems they face after their settlement in Algeria, which is the case of Batimetal Galva and many other companies.

In order to avoid these problems and increase the number of FDI in Algeria we have constructed a list of recommendations based on the observations we made during our research.

- The administrative bureaucracy is the biggest obstacle to foreign investors in Algeria, the government needs to reduce the number of administrative procedures in order to facilitate the work of companies;
- The government can also establish a special committee to investigate and control corruption in the Algerian administrations;
- Establish a plan to eliminate the 51/49 rule on the medium and long term, to open more possibilities of investment in the country and make the business climate even more attractive on the international level;
- Create a national agency which is dedicated to collect and diffuse information about industrial land availability and viability, and to guarantee an equal distribution of lands between foreign and domestic investors;
- In order to improve the quality of labor in Algeria companies need to take in consideration the human factor and work to develop a motivational environment which includes correct wages in exchange for the work they performed. And ensure the top management’s active involvement in the work environment;
- Energy is one of the most attractive aspects of the business climate, however, Algeria has not taken advantage of this factor, instead of exporting it as a raw material, it should be investing more in refineries and produce its own finished goods;

- Algeria needs to diversify its economy outside of the hydrocarbon sector, by investing in other sectors such as agriculture and tourism; this can reduce the risk of falling into an economic crisis in case oil prices continue to drop;
- Privatizing the economy should also be on top of the government's agenda, private sector companies should have the same incentives as their public opponents in terms of access to finance as well as land and other services;
- The government should also require all administrations and institutions to use new information and communication technologies in order to facilitate data access for investors so that they stay updated about the market's evolution.

These were some of the most urgent solutions that the government should take into consideration to promote and improve its image on the international scale.

Conclusion of the chapter:

The results of our case study have showed that there is cohesion between what we found in our research and what we discovered in the field. In one part, Algeria is a very attractive country in terms of foreign investments; several factors determine its attractiveness: economic, geographic, social…etc.

In another part, there are several important obstacles that block the advancement of foreign companies such as the administrative bureaucracy, the 51/49 law, access to land…etc.

In order to avoid and to fix this situation, a set of recommendations have been taken in consideration by the Algerian government to insure the continuity and the progress of foreign investments in Algeria.

Conclusion

Since the end of the 1980s, FDI has grown in importance and is considered a stable source of funding and, above all, an important vector for the transfer of new technologies, innovation capacities and organizational methods. This growth is the result of several privatization programs, of several economic reforms aiming at the liberalization of the economic practices of the countries.

However, the choice of multinational firms for their implementation is based on their strategies and the advantages offered by the host countries. This choice is made through the evaluation of several criteria that the host countries must present.

In the face of the constant fall in international oil prices, the Algerian government has to work to diversify the economy away from oil and gas dependency. In order to substitute the hydrocarbon-dependent economic model with a new model substantially less dependent on the oil and gas revenues, the Algerian authorities are supposed to make significant efforts to improve the business and investment climate in the country.

Since the results of our study were previously presented and synthesized at the end of the third chapter, and since recommendations for possible reforms were then given, we are here to reformulate those results in a trial to answer the sub questions from our general introduction and also verify the veracity of the made hypotheses. Needless to say, the three hypotheses were primary answers for the three sub questions respectively.

So the first hypothesis stipulating that Algeria has made a huge progress in integrating the world economy by signing many free trade agreements with other countries especially the EU (European Union), According to the research we did in the first chapter, this hypothesis is confirmed and could very well be the answer to the first sub question. Algeria has several agreements with different countries around the globe, and its position is very valued especially in the Arab world.

Our second hypothesis states that multinational companies usually prefer to choose Morocco or Tunisia as a destination to their investments instead of Algeria due to the lack of attractiveness of its business climate. According to our theoretical research in the second chapter and the case study, this hypothesis can't be confirmed. The findings indicate that several opportunities are given to foreign investors by the Algeria government and there are various factors that determine the attractiveness of the business climate that are only available in Algeria and not in other countries. And if these foreign investors chose Algeria as a destination to their investments, it's because of the attractive factors of the business climate in Algeria.

Our Third hypothesis proposed that despite the efforts made by the government, the number of multinational companies in Algeria is still insufficient. According to the research we conducted and the answers of our interviewees, this hypothesis is confirmed, the number of multinationals and FDI in Algeria is still quite limited considering the great potential that the Algerian market holds. This is due to the many constraints and obstacles that foreign investors face after their arrival, Algeria puts a large effort in attracting these investors through different facilitations and offered opportunities, however, once they are settled in, they find themselves in front of another reality marked by extreme bureaucracy in the Algerian administrations, difficulty to access information, industrial land and to find a qualified work-force, without mentioning the limitations caused by the 51/49 Rule.

This unfortunate situation is depriving the Algerian economy from several opportunities to prosper and grow into a strong and open economy built on solid foundations. However, this can only be fixed if there is a political willingness combined with the support and cooperation of the Algerian society, which would have to be ready to change things and move forward.

Finally, we would like to point out that the subject we have dealt with is in a very large and constantly evolving field, and as such it requires a great deal of time to be able to address and deal with all its aspects and draw relevant conclusions. With regard to the time allotted to us, we have tried in our capacities to identify the maximum of major points related to this topic, despite the difficulty of obtaining clear and precise information from foreign companies, which obliged us to work with a reduced sample.

To conclude, it should be said that our research work remains our first experience, a work that allowed us to deepen our theoretical knowledge in the field of international affairs and its involvement in the Algerian case and to discover the difficulties of scientific research.

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Annexes

Appendix n° III.1:

Guide d'Entretien :

Q1 : selon votre avis, l'Algérie a-t-elle un important potentiel pouvant attirer des IDE ?

Q2 : à votre avis, quels sont les facteurs déterminants d'attractivité des IDE que dispose l'Algérie ?

Q3 : selon votre avis, la loi 51/49 est-elle un frein à l'investissement étranger? Et pourquoi ?

Q4 : quel est votre opinion sur la bureaucratie en Algérie ?

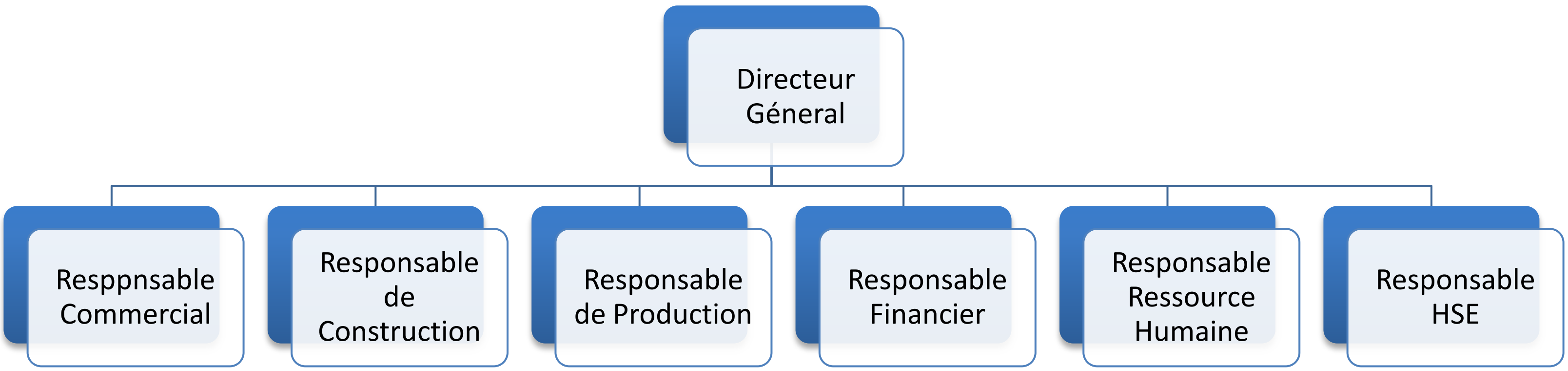
Q5 : de quelle manière avez-vous acquis le terrain sur le quel vous avez votre site de production ? Etait-il difficile de l'obtenir ? Expliquez

Q6 : comment qualifier-vous le travail effectué par les employés algériens en termes de qualité, cout et délais ?

Q7 : selon vous, quels sont les autres freins à l'accueil des investissements étrangers en Algérie ? Détaillez

Q8 : quelles seraient vos recommandations pour améliorez le climat d'investissement en Algérie et rendre le territoire national plus attractif aux IDE ?

<u>Appendix n° III.2:</u> L'organigramme de Batimetal Galva



<u>Appendix n° III.3:</u> Map of Metalogalva's divisions around the world

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