



Stagnation or Growth? Algeria's development pathway to 2040

Foreign direct investment and remittances

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Last updated 28 June 2022 using IFs v7.53

Foreign direct investment and remittances

Algeria attracts significantly lower levels of FDI as a per cent of GDP compared to the averages for OLMICs and UMICs.[1] This gap has steadily widened. The stock of investment as a per cent of GDP in Algeria is nearly three times lower than the average for UMICs and only 42% of that in OLMICs.

Since the Arab Spring, FDI from Europe into Algeria and the region has dropped, although Gulf investors have shown greater interest. China has also increased its investments in Algeria over the past two decades, recently taking over France's historical position as the largest investor mainly in the construction and mining sectors. Algeria is a close ally of Beijing and the two countries have a strategic partnership.[1]

According to UNCTAD's World Investment Report 2019, FDI inflows fell from roughly €1.4 to €1 billion between 2016 and 2017 but improved to €1.3 billion in 2018. The stock of FDI was estimated at a meagre €27 billion in 2018.

The World Bank ranked Algeria 157th out of 190 countries in its *Doing Business 2020*, which measures aspects of business regulation and their implications for firm establishment and operations.[2]

Numerous regulatory and practical hurdles constrain FDI in Algeria. The World Economic Forum [3] lists impenetrable markets, protectionism, corruption, weak and overregulated digital and e-commerce economy, weak intellectual property laws and bureaucracy as obstacles to investment.

Algeria has also been protecting and promoting SOEs, which generally lack managerial independence, efficiency and accountability and place a burden on the national budget through contingent liabilities. A shakeup of SOEs and promotion of the private sector are key requirements if Algeria is to grow faster.

There are signs of progress: improved investment laws and plans for diversification are outlined in the Complementary Finance Law of 2020. This law removes the application of the 51/49 investment rule on domestic ownership of foreign business and cuts corporate taxes for investment in certain locations. It also provides for concession of land by mutual agreement and tax exemptions throughout the life of exporting projects.[4]

Algeria can also take advantage of information and communications technology (ICT) to promote efficiency and direct less effort at the speculative economy and more at the productive economy.[5]

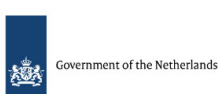
Finally, remittance flows to Algeria were valued at roughly €1.6 billion in 2018 (1% of GDP) and outflows in 2017 at €64 million. December 2019 estimates put inflows at US\$1.792 billion.[6]

Studies like that of David Margolis et al. investigating the impact of remittances generally agree that they reduce poverty and improve livelihoods. The study also found that in two regions of Algeria, remittances—especially foreign pensions—reduced not only poverty but also inequality, leading to a nearly 4% reduction in their respective regional Gini indices.[7]

Endnotes

1. L Ghanmi, [Algeria lags behind neighbors in attracting foreign direct investment](#), The Arab Weekly, 1 July 2018
2. Santander Trade Portal, [Algeria: Foreign investment](#), October 2019
3. R Arezki, [How Algeria can boost its economy](#), WEF, 11 April 2019
4. Ernst & Young, [Algeria enacts 2020 Complementary Finance Act including foreign direct investment incentives](#), 15 June 2020
5. H Ouguenoune, [The policy of promoting and attracting of foreign direct investment in Algeria](#), December 2014
6. World Bank, [Migration and remittances data](#), April 2019
7. D Margolis et al., [To have and have not: Migration, remittances, poverty and inequality in Algeria](#), Université Paris 1 Panthéon Sorbonne, November 2013

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Cite this research

Jakkie Cilliers and Stellah Kwasi (2025) Stagnation or Growth? Algeria's development pathway to 2040. Published online at futures.issafrica.org. Retrieved from <https://futures.issafrica.org/special-reports/country/algeria/> [Online Resource] Updated 28 June 2022.

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Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees, head of the African Futures and Innovation (AFI) programme at the Pretoria office of the Institute, and is an extraordinary professor at the University of Pretoria. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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