The impact of the Algeria-European Union Association Agreement on Foreign Direct Investment in Algeria

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Abstract:

This study examines the impact of the Algeria-European Union Association Agreement on Foreign Direct Investment (FDI) in Algeria. It aims to assess the agreement's influence on FDI trends in Algeria using a statistical analysis of data relating to annual FDI inflows to Algeria from 2000 to 2020, sourced from the United Nations Conference on Trade and Development (UNCTAD) database. The findings reveal a relatively positive effect of the association agreement on the entry of FDI flows to Algeria, particularly, during the first years of its signing, however, analysis also emphasizes the significance of other factors influencing FDI in Algeria, and necessitating further exploration in future studies.

Keywords: Foreign Direct Investment, Association Agreement, Algeria, European Union, Economic integration.

Jel Classification Codes:F15, F21.

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1. Introduction :

Globalization implies the elimination of national borders and the minimization of geographical distances, resulting in a significantly complex interdependence between countries around the world. It 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 foreign direct investment (FDI) flows are the main elements of this global movement as well as international cooperation which may simply be described as the global teamwork of countries towards joint action in areas of mutual interest.

An example of such cooperation is the Association Agreement that unites Algeria with the European Union (EU). Considering the importance and volume of trade exchanges between the two parties, it is only logical that such agreement should be put into place. However, and since its first entry into force in 2005, the Association Agreement still faces many obstacles regarding its full implementation and the realization of its pre-established objectives.

One of these most prominent objectives is the promotion of investment opportunities and more precisely the encouragement of Foreign Direct Investment inflows to Algeria, which brings us to ask the following question:

What is the impact of the Association Agreement on the entry of foreign direct investment flows into Algeria؟

In order to answer this question, we have opted for a theoretical research backed with a statistical analysis of data compiled from the United Nations Conference on Trade and Development (UNCTAD) database allowing us to extract statistical information on inward FDI flows into Algeria for the last two decades.

2. Foreign Direct Investment:

Foreign direct investment (FDI) is one of the major issues of globalization and raises a lively debate regarding the supposed beneficial effects they generate in host countries. The aim is to improve the economic performance of host countries by enhancing their international competitiveness and thereby stimulating growth in these countries.

2.1. Definitions:

The concept of foreign direct investment (FDI) has evolved over time, transitioning from a traditional definition that described FDI as the transfer of capital from one country to another, to a more modern definition that takes into consideration several parameters that differentiate it from other forms of investment.

There are several definitions of FDI, with the most widely accepted ones provided by international institutions such as the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD).

The definition of direct investment in the fourth edition of the OECD Benchmark Definition of Foreign Direct Investment is as follows: "Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise." (OECD, 2008, p. 17)

The same edition defines a foreign direct investor as: "an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following:

- an individual;
- a group of related individuals;
- an incorporated or unincorporated enterprise;
- a public or private enterprise;
- a group of related enterprises;
- a government body;
- an estate, trust or other societal organisation; or
- any combination of the above." (OECD, 2008, p. 49)

While the IMF (IMF, 2009, p. 101) provides the following definition for a foreign direct investment: "Direct investment (FDI) arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy."

2.2. The role of Foreign Direct Investment (FDI):

FDI aims to enhance the host country's capacity to seize opportunities offered by global economic integration, which is increasingly recognized as one of the key objectives of any development and growth strategy. It also allows the host economy to create new relationships within international trade networks and gives it a stronger and more resilient position in the global market.

Regardless of the definition or objectives of FDI, it distinguishes itself from other international flows by the diffusion of production techniques and social relationships it brings, as well as the influence it allows the home countries to exert on the economies of host countries.

According to the OECD (OECD, 1995, p. 17), foreign direct investment can play important roles related to the fact that it contributes to the transition of host countries to a market economy. These roles can be summarized as follows:

- **Attracting more investment capital:**Local capital markets are often underdeveloped and may not meet the capital needs of large investment projects. Moreover, accessing the necessary foreign funds for the purchase of non-locally available equipments can be challenging. FDI addresses both of these problems by providing a direct source of external capital funds.

- **Accessing cutting-edge technologies:**Many companies in developing countries rely on outdated production techniques and equipment, which can reduce productivity and quality, hindering their ability to compete on an international level. FDI aims to solve this problem by introducing advanced production techniques and providing modern equipment as well as the necessary expertise and know-how.

- **Developing management methods:**When establishing their presence in a country, foreign companies bring modern management techniques, providing local staff with the opportunity to acquire new skills. This transfer of knowledge becomes particularly significant when existing companies are acquired and restructured by foreign investors.

- **Facilitating access to foreign markets:**Foreign companies bring valuable knowledge about distribution networks and international markets. This expands the opportunity to gain significant benefits from trade in a relatively accessible manner, contributing to the objective of promoting exports and increasing the inflow of foreign capital funds.

- **Facilitating privatization and restructuring:**Certain types of privatization require substantial capital consolidation and extensive analysis of the economic potential of companies. Foreign firms can contribute to both areas, enabling better access to external capital sources. The participation of these foreign companies can also make the process more efficient by increasing the chances of newly privatized companies fully realizing their potential.

2.3. The effects of Foreign Direct Investments:

Foreign direct investment (FDI) has a significant impact both on the host and the home country, in general, foreign companies can influence the productivity and growth of domestic firms, change the nature and trajectory of these firms, and modify practices related to financing, technology, marketing, and management (Sergi, 2003, p. 91).

2.3.1 The impact of FDI on the host country:

FDI has both direct and indirect effects on the host country. The effects of FDI can be positive or negative, depending on how they are handled by the local government and industry. These effects can be observed in the short or long term and differ in terms of maturity conditions. For example, the unemployment rate may increase in the short term due to acquisitions by multinational corporations, but it may decrease in the long term if the acquired company increases its production.

Blomström and Kokko (Blomström & Kokko, 1995, p. 461) concluded that FDI plays an important role in enhancing productivity and exports in host countries. However, the exact nature of FDI's impact varies across sectors and countries, depending on the characteristics of the country and the political and economic environment.

Theoretical and empirical studies on the effects of FDI on the host country classify them into four categories (Bitzenis, Vasileios, & Pyrros, 2012, p. 69):

- Those associated with technology transfers,
- Those related to employment,
- Those linked to economic growth,
- Those concerning the balance of payments.

– **Effects on technology transfer:**

According to Kokko (Kokko, 1994, p. 281), FDI plays a key role in transferring new technologies to developing countries. Technology can stimulate economic development, growth, and industrialization. It can be incorporated into production processes, research and development (R&D), improvement of workforce skills, as well as enhancing management and entrepreneurship skills. Technology transfer can also lead to increased efficiency of local firms.

In some cases, host countries may not be able to absorb the technology provided by foreign partners and may not be able to use or develop the new technology locally without relying on the foreign company. The lack of absorptive capacity may result in short-term benefits only. Consequently, it is not guaranteed that foreign investment will positively affect the efficiency of local firms.

Technology transfer can also occur through training programs for employees and managers, who become familiar with new technologies and management techniques. Through these training programs, local companies can learn from the management techniques of foreign companies, thereby improving their own organizational structures.

Foreign companies appear to also have a positive influence on larger local firms in terms of growth rates and productivity. Weaker firms in a sector that cannot absorb the transferred technology may struggle to keep up with large multinational corporations and may not survive the high level of competition. Therefore, technology transfer is only valuable when local firms are strong enough to absorb it properly (Kokko, 1994, p. 282)

– **Effects on employment:**

Bitzenis, Vasileios, &Pyrros (Bitzenis, Vasileios, & Pyrros, 2012, p. 70) concluded that the effects on employment can be positive or negative, depending on various circumstances. Although FDI can create new jobs in the host country, it can have a negative effect on the employment rate when it participates in a privatization program, for example. In such cases, the foreign company may restructure and reduce jobs to increase efficiency.

Furthermore, the entry of major multinational companies with strong financial positions in a host country can lead to a sudden increase in competition, forcing weaker local competitors to exit the market.

However, the effect on the employment rate can be positive if, for example, the multinational corporation aims to leverage the low cost of labor in the host country and thereby create a labor-intensive industry. FDI can also increase wage levels, especially in developing or less developed countries. Additionally, there can be an indirect positive effect on employment when the establishment of a multinational corporation in a specific industry leads to the emergence of related industries.

- **Effects on economic growth:**

FDI can have a positive effect on GDP only when production increases, either through an increase in factors of production (such as employment, capital, etc.) or through their more efficient utilization. The entry of multinational corporations also brings about higher competition in the local market, pushing local companies to seek better and more efficient operational methods.

FDI can also bring about changes by supporting local industries. The quality requirements imposed by a multinational corporation on goods and services from local producers can encourage them to pursue better operations, such as improved delivery times, better inventory control, and supply networks.

Finally, FDI can provide consumers with more choices, improve the quality and variety of products, modernize infrastructure, and increase wages, production, GDP, GDP per capita, and overall living standards (Blomström, Kokko, & Zejan, 1994).

However, negative effects of FDI arise when multinational corporations acquire significant economic power, create private monopolies, and threaten the national sovereignty of the host country. Another negative effect is the competitive pressure exerted by highly developed and sophisticated multinational corporations, which can force smaller local businesses to exit the market.

- **Effects on the balance of payments:**

FDI provides valuable financial assistance to the host country. The resulting capital inflows can be used to cover the balance of payments deficit. Although foreign companies tend to export rather than solely serve the local market, they also tend to import a significant portion of their inputs. On average, this has a negative effect on the trade balance, which can be justified only if they aim to establish an export base from which the multinational corporation begins exporting to other countries.

The repatriation of profits by the multinational corporation to the parent company or any other foreign subsidiary also has a negative impact on the host country's balance of payments.

2.3.2 The impact of FDI on the home country:

FDI has several beneficial effects on the home country resulting from outward flows of FDI. Firstly, the home country's balance of payments benefits from the incoming remittances or repatriation of profits. It also benefits if the multinational corporation uses inputs exported from its home country such as capital goods, intermediate goods, complementary products, etc.

Secondly, the importation by the multinational corporation of these materials that are produced in the home market increases employment and GDP. Thirdly, the home country's multinational corporation gains valuable skills through its exposure to foreign markets, which can then be transferred back to the home country, such as better management techniques, advanced technologies, etc.

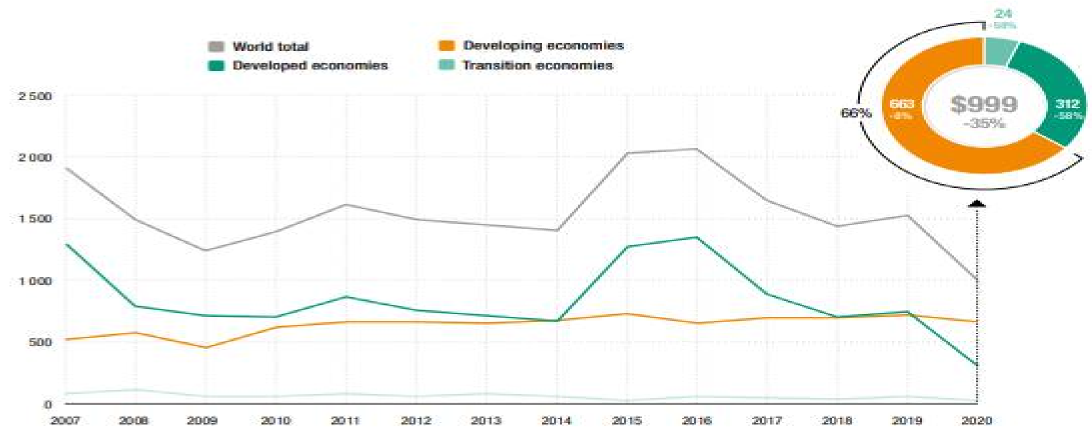
FDI can also have a negative effect on the home country's balance of payments. First of all, it endures the initial outflow of capital required to finance the FDI and secondly it loses a potential market if the multinational corporation creates an export base that serves the market where it is located.

Finally, it should be noted that although a growing majority suggests that FDI flows have positive effects on the host economy. Multinational corporations and their investments also suffer from a negative image of their role in the global economy. Criticisms primarily focus on the imbalance of bargaining power between the multinational corporations and developing countries. Another aspect of criticism that these corporations face is the process of "denationalization," where foreign capital absorbs local assets, foreign companies exploit lucrative opportunities in developing countries but repatriate profits to their home countries (Jensen, 2006, p. 33).

In summary, FDI has both positive and negative impacts on the home country, including benefits to the balance of payments, employment, and skills transfer. However, criticisms exist regarding the power dynamics between developing countries and multinational corporations.

2.4.Current trends in FDI worldwide:

Fig N° 1: Inward foreign direct investment flows, worldwide and by group of economies, 2007-2020 (Billions of dollars and percentage)



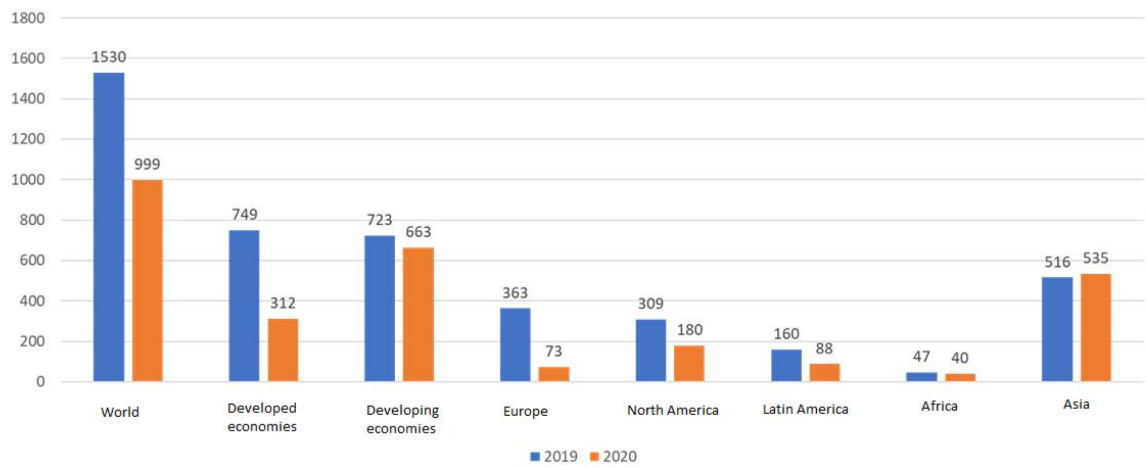
Source: UNCTAD, World Investment Report, 2021, p. 2

According to the World Investment Report 2021 by UNCTAD (UNCTAD, 2021, p. 2), global Foreign Direct Investment (FDI) flows are expected to reach their lowest level in 2021, with an increase of 10-15% compared to the previous year, Global FDI flows decreased by 35% in 2020, dropping from $1.5 trillion in 2019 to $1 trillion.

The global lockdowns imposed following the COVID-19 pandemic have slowed down existing investment projects. Additionally, the prospects of recession led multinational corporations to reassess their new projects.

The decline primarily affects developed economies, where FDI has decreased by 58%. FDI in developing economies has fared relatively better, with an 8% decline, mainly due to the strength of flows in Asia. As a result, developing economies accounted for two-thirds of global FDI.

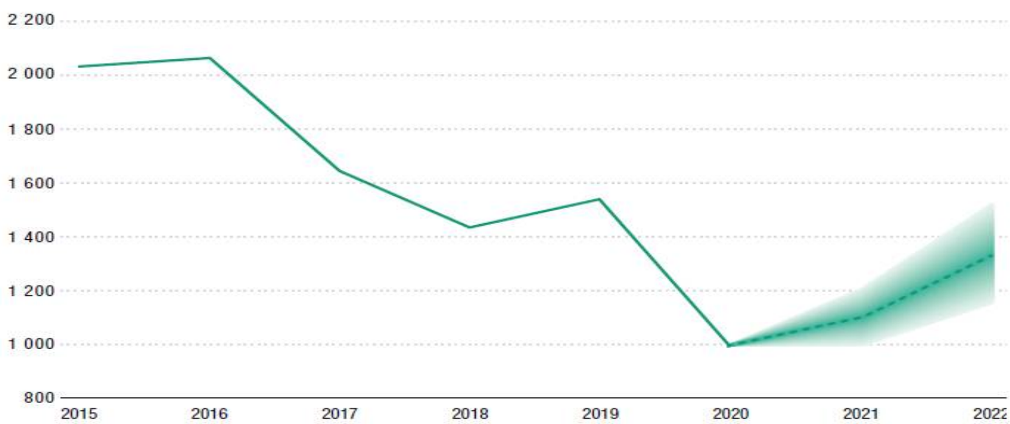
Fig N° 2: Inward foreign direct investment flows, by region, 2019-2020 (Billions of USD)



Source: based ondatacompiled from UNCTAD, World Investment Report, 2021, p. 4.

The trends in FDI in 2020 varied considerably across regions. Developed regions were relatively more affected by the pandemic's impact. FDI flows to Europe decreased by 80%, while those to North America decreased less steeply (-40%). The decline in FDI flows in developing regions was uneven, a 45% drop in Latin America and the Caribbean and a 16% decrease in Africa. In contrast, flows to Asia increased by 4%, with East Asia being the primary host region. It accounted for half of global FDI in 2020.

Fig N° 3: Global FDI flows, 2015-2020 and forecasts 2021-2022 (Billions of USD)



Source: UNCTAD, World Investment Report, 2021, p. 16.

Global FDI flows are expected to improve in 2021 with a 10-15% increase, which still remains below the level reached in 2019 by about 25% and more than 40% below the recent peak in 2016 (UNCTAD, 2021, p. 16).

Current forecasts indicate a further increase in 2022, which, at the upper end of the projections, could bring FDI back to the 2019 level of $1.5 trillion.

The relatively modest recovery of global FDI flows projected for 2021 reflects the persistent uncertainty regarding access to vaccines, the emergence of new viral mutations, and delays in reopening economic sectors. Since FDI tends to follow other macroeconomic indicators, a full and widespread recovery of flows to pre-pandemic levels is expected to take more time.

Furthermore, the recovery of FDI will be uneven. Developed economies are expected to drive the growth in FDI, while FDI inflows to Asia will remain stable. The region has emerged as an attractive destination for international investment throughout the pandemic.

Global FDI flows experienced a significant decline in 2020 due to the COVID-19 pandemic, particularly affecting developed economies. Developing economies, led by Asia, showed more resilience. While a recovery is projected for 2021 and 2022, it will be gradual, and the full pre-pandemic levels of FDI may take time to be reached.

3. Presentation of the Algeria-EU Association Agreement:

The overall framework for relations and cooperation between Algeria and the European Union (EU) is established by the Association Agreement, signed in 2002, ratified by Presidential Decree No. 05/159 on April 25, 2005, and entered into force in September 2005. This comprehensive agreement covers political and security dimensions, economic cooperation, and partnership prospects in various other areas. It opens up opportunities to develop and deepen relations between Algeria and the EU and its member states. The agreement also encompasses all areas of cooperation between the two parties and includes the establishment of a free trade area with economic and financial aspects necessary for sustainable development, as well as political, social, and cultural dimensions.

3.1. Historical Background of the Association Agreement:

The first steps in building a model of relations between the North and South of the Mediterranean countries go back to 1957 with the signing of the Treaty of Rome. And yet it was only in the early 1963, that the Algerian authority expressed the desire to start negotiations with a view of concluding a comprehensive agreement with the European countries. These negotiations were postponed until 1972, and lead to the signing of a co-operation agreement in April 1976.

Having realized the limits of the 1976 agreements, the European Economic Community (CEE) proposed new ways of cooperation. And it is with this in mind that Algeria has expressed its wish to negotiate a new association agreement with the EU in October 1993.

The reinforcement of cooperation between the Mediterranean countries has been marked by a new form of partnership "the Euro-Mediterranean partnership". It was in June 1992, at the Lisbon European Council, that the EU decided to strengthen ties between the two regions. The said partnership started officially at the Euro-Mediterranean Ministerial Conference in Barcelona in November 1995.

This agreement is part of the Barcelona Process initiated in 1995, commonly known as the Euro-Mediterranean Partnership (EMP) or "Euromed", aiming to develop cooperative relations with Southern Mediterranean countries while striving to create a "zone of shared prosperity" in the long term.

The negotiations for its implementation began in March 1997 but were not actively undertaken until April 2000. After multiple rounds of negotiations, the Association Agreement was initialed on 19 December 2001 in Brussels, Belgium and signed on 22 April 2002 at the 5th Euro-Mediterranean Ministerial Conference in Valencia (Spain). The latter came into effect on September 1, 2005. (Ministry of Trade and Export Promotion, 2023)

The Agreement is concluded for an indefinite period. However, it contains clauses allowing both parties to periodically review the commitments. This being the case, each party may terminate the Agreement if it wishes, with respect to the formalities that will be subject to this operation (Article 107).

3.2 Objectives of the Association Agreement: The Association Agreement aims to (Article 1):

- Provide an appropriate framework for political dialogue between the Parties, allowing the development of close relations and cooperation in all areas they consider relevant to such dialogue;
- Promote trade and the expansion of harmonious economic and social relations between the Parties and establish the conditions for the gradual liberalization of trade in goods, services and capital;
- Facilitate human exchanges, particularly in the context of administrative procedures;
- Encourage integration of the Maghreb countries by promoting trade and cooperation within the Maghreb group and between it and the Community and its Member States;
- Promote economic, social, cultural and financial cooperation.

3.3 Structure of the Association Agreement:

The Agreement consists of a preamble and 110 articles structured under nine titles. The nine titles cover the following areas:

- Title 1: Political dialogue (Articles 3-5).
- Title 2: Free movement of goods (Articles 6-29).
- Title 3: Trade in services (Articles 30-37).
- Title 4: Payments, capital, competition, and other economic provisions (Articles 38-46).
- Title 5: Economic cooperation (Articles 47-66).
- Title 6: Social and cultural cooperation (Articles 67-78).

- Title 7: Financial cooperation (Articles 79-81).
- Title 8: Cooperation in the fields of justice and home affairs (Articles 82-91).
- Title 9: Institutional, general, and final provisions (Articles 92-110).

Each of these titles is divided into different chapters. The agreement also includes six appendices and seven protocols. In addition, several declarations are attached to the final act: five joint declarations, five unilateral declarations by the European Community, and four unilateral declarations by Algeria.

3.4 Scope of the Association Agreement:

❖ **Exchange of customs benefits:**The Association Agreement is a preferential trade agreement that allows the exchange of customs benefits in terms of market access. The provisions of the agreement apply to:

- Industrial products originating from the EU imported into Algeria.
- Certain processed agricultural products originating from the EU imported into Algeria.
- Certain agricultural products originating from the EU imported into Algeria.
- Industrial products originating from Algeria exported to the EU.
- Certain agricultural and fishery products originating from Algeria exported to the EU.
- Certain processed agricultural products originating from Algeria exported to the EU.

❖ **Establishment of a free trade area:**The Agreement also provides for the establishment of a free trade area, according to Article 6 of the Agreement, Algeria and the Community (EU) gradually establish a free trade area during a maximum transition period of twelve (12) years starting from September 1, 2005, the date of entry into force of the agreement.

However, Algeria has introduced a request to revise the tariff dismantlement program for industrial products and the tariff concessions for agricultural and agri-food products during the 5th session of the Association Council held on June 15, 2010. As a result, it was agreed on the revision of the tariff dismantlement plan aimed at establishing the Algeria/European Union free trade area.

The objective of this request is to postpone the establishment of the free trade area to 2020 instead of 2017 and to reintroduce customs duties according to the provisions of the association agreement for a list of sensitive products.

It should be noted that the new tariff dismantlement scheme has been operational since September 1, 2012. Subsequently, "protectionist" measures in favor of the national economy were implemented.

❖ **Measures for protecting domestic production:**The agreement also provides provisions for protecting domestic production through:

- Anti-dumping measures (Article 22).
- Countervailing measures (Article 23).

- Safeguard measures (Article 24).
- Exceptional measures in favor of infant industries or certain sectors undergoing restructuration (Article 11).

Indeed, in order to strengthen the protection of the domestic productive sector, customs and non-customs protection measures have been implemented since 2016, initially through a licensing system, then through a list of import bans, and finally in the form of a provisional additional safeguard duty (Droit AdditionnelProvisoire de Sauvegarde DAPS), instituted under the Complementary Finance Law of 2018 (Art.2) and applicable to imported goods consumed in Algeria (currently, 992 tariff lines are subject to this duty, with rates ranging from 30% to 200%).

❖ **Investment opportunities:**The agreement offers opportunities for investment promotion and protection through its article 54, stipulating:

« The aim of cooperation shall be to create a favorable climate for investment flows, in particular by means of the following:

- The establishment of harmonized and simplified procedures, co-investment machinery (especially to link small and medium-sized enterprises) and methods of identifying and providing information on investment opportunities;
- A legal environment conducive to investment between the two Parties, where appropriate through the conclusion by the Member States and Algeria of investment protection agreements, and agreements to prevent double taxation;
- Technical assistance to schemes to promote and guarantee national and foreign investments. ».

4. Results and discussion:

4.1. Evolution of Inward FDI Flows into Algeria:

The following table and graph represent the volume of FDI inward flows into Algeria by millions of USD, during the period from 2000 to 2020, it precedes the signing of the Association Agreement in 2002 and the date of its entry into force in 2005, which allows us to observe the progress and variation of FDI inflows pre and post-implementation of the Association Agreement in order to evaluate its impact on them.

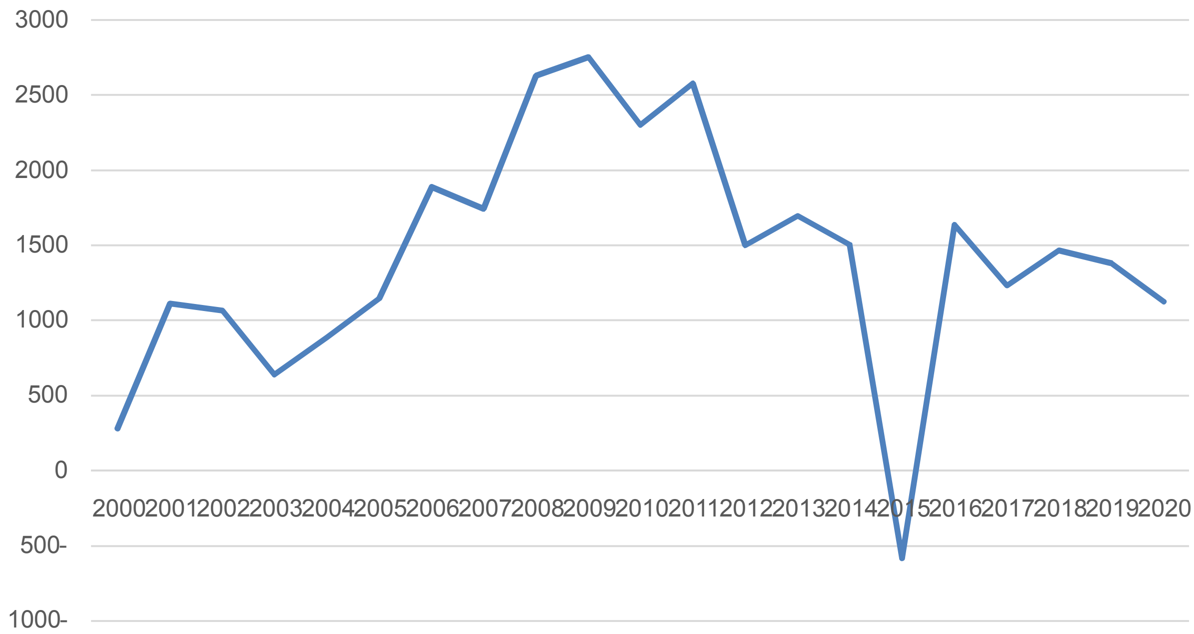
Table N°1:Inward FDI Flows in Algeria (millions USD)

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FDI inflows	280	1113	1065	638	885	1146	1888	1744	2632	2754	2301

Years	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
FDI inflows	2580	1499	1696	1506	-585	1636	1232	1466	1382	1125

Source: based on datacompiled from UNCTAD database (UNCTAD, 2023)

Fig N° 4: Evolution of Inward FDI Flows in Algeria (USD millions)



Source: based on datacompiled from UNCTAD database (UNCTAD, 2023)

Following the signing of the Association Agreement and multiple macroeconomic reforms and privatization programs implemented by the government to liberalize the national economy and ensure the emergence of an independent private sector, inward FDI flows in Algeria have experienced positive growth since 2001. This can be attributed to multiple factors among which is the political stability, a more suitable institutional and legal framework, an updated Investment law, and an ambitious program to support economic recovery launched in 2001.

During the period 2000-2005, before the entry into effect of the Association Agreement, FDI inflows registered a slight increase going from $280 million to $1146 million; however, it is following the year 2005 that we notice a relatively remarkable evolution with a steady progress reaching its highest level of $2754 million in 2009.

After this peak, FDI inflows gradually decreased due mainly to the new restrictions on foreign investment that were introduced by the Complementary Finance Law of 2009 (especially the 51/49 rule).

In 2015, inward FDI flows in Algeria collapsed, shifting from a net foreign investment of $1,506 million in 2014 to a disinvestment of $585 million in 2015. This decline can be attributed to the collapse in oil prices on the international level, and domestically to the Algerian government's majority stake acquisition of Djezzy shares held by VimpelCom in January 2015 for a sum of $2.6 billion. (Kouitini & Djouadi, 2021) Without this exceptional event, inward FDI flows in Algeria would have followed a slightly upward trend compared to the previous two years.

According to the UNCTAD investment report (UNCTAD, 2021, p. 46), "After recording negative flows in 2015, Algeria attracted $1.5 billion in FDI in 2016, partly due to improvements in investment policies and a recent recovery in oil production." Algeria implemented the new law No.16-09 of August 3, 2016, related to investment promotion, offering various tax incentives to investors, which may be one of the key factors behind this rebound.

In 2018, FDI flows to Algeria increased by 22% to $1.5 billion compared to $1.2 billion in 2017, although, this was mostly supported by investments in the oil, gas, and automotive sectors. The automotive sector contributed to this growth with the establishment of the assembly plant by the Chinese manufacturer Beijing Automotive International Corporation (BAIC), which exceeded $100 million in investment. South Korean automaker Hyundai and American automaker Ford also received approval from the National Investment Council to set up assembly plants in Algeria (Algeria Press Service, 2019).

In 2020, FDI flows to Algeria experienced a 19% decline, with only $1.1 billion captured in 2020 compared to $1.382 billion in 2019. The main cause of this decline was the COVID-19 pandemic.

With the removal of the 49/51 rule governing investment, except for strategic sectors, FDI flows to Algeria are expected to diversify in favor of other sectors. However, the impact can only be observed after a broader recovery in foreign investments (UNCTAD, 2021, p. 41).

From the above graph, we notice that the Association Agreement had a positive impact on the entry of FDI into Algeria following the first years of its signing and entry into force, however, other factors significantly more important came into play soon after and affected FDI inflows in a more noticeable manner. This leads us to conclude that the variation seen in the trends of FDI flows entering Algeria is due to several factors with different degrees of impact and that the Association Agreement is only one of these factors.

4.2. Impact of the Association Agreement on the economy of Algeria:

The implementation of the Association Agreement has taken place within the framework of an economic and social development dynamic initiated by significant national programs to support growth and economic diversification during the period from 2000 to 2014.

By shedding light on the positive impact of the Association Agreement on the Algerian economy, we notice that the European Union remains Algeria's main trading partner, with a market share of over 52%.

In terms of trade, the official website of the Ministry of Trade and Export Promotion (Ministry of Trade and Export Promotion, 2023) provides the following information:

Imports from the European Union to Algeria increased from an average of $8.2 billion US dollars annually before the implementation of the Association Agreement (2002-2004) to $24.21 billion US dollars in 2011, representing an increase of nearly 200%.

Exports to the European Union increased from an average of $15 billion US dollars annually between 2002 and 2004 to $36.3 billion US dollars in 2011, representing a 140% increase. However, these exports are predominantly hydrocarbons, accounting for 97%.

Exports of manufactured products and agricultural and food products increased from $552 million US dollars in 2005 to $1 billion US dollars in 2010, representing an 81% increase.

However, these advantages are tempered by certain weaknesses observed during the implementation of the agreement. The main shortcomings relate to:

- An important loss of tax resources caused by the tariff dismantling program stipulated in the association agreement;
- The persistence of the mono-exportation of hydrocarbons;
- Low level of Algerian exports outside of hydrocarbons;
- Imbalance in the non-hydrocarbon trade balance.

Thus, the implementation of the Association Agreement has not had an impact on the level and diversification of non-hydrocarbon exports from Algeria to EU countries. It is worth noting that Algeria aimed, mainly, through the implementation of this agreement, to achieve diversification of the national economy and to facilitate the development of non-hydrocarbon exports.

5. Conclusion:

The aim of this study was to examine the impact of the Algeria-European Union Association Agreement on Foreign Direct Investment (FDI) in Algeria. The findings suggest that the Association Agreement has had a relatively positive impact on FDI inflows to Algeria, especially during the first years following its implementation, contributing to a more stable and predictable investment climate for foreign investors and fostering a stronger economic cooperation and integration between Algeria and its northern neighbors.

However, it is important to note that there are other factors that significantly influence FDI flows in Algeria. These factors may include domestic economic policies, political stability, regulatory environment, infrastructure development, and the attractiveness of certain sectors. Therefore, we suggest that future studies should take a deeper look into these critical factors to gain a full understanding of the conditions surrounding Algeria's FDI environment.

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