FDI in the Algerian telecommunication sector. An analysis of motivations, constraints and effects

Mohamed ImadEddine Guenane

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DECLARATION

I certify that this work has not been accepted in substance for any degree, and is not concurrently being submitted for any degree other than that of Mphil Business being studied at the University of Greenwich. I also declare that this work is the result of my own investigations except where otherwise identified by references and that I have not plagiarised the work of others".

Signed by

The student

Guenane Mohamed Imad Eddine

The supervisor:

Dr Bruce Cronin

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ABSTRACT

The Algerian government pursues liberalisation and economic reforms to boost growth and diversify the economy from dependence on oil. It solicits foreign investment in infrastructure in sectors including telecommunications, roads, power and water supply. Still, the oil sector remains the main driver of GDP growth, leaving the Algerian economy exposed to fluctuations in the world oil market.

This research assesses the attempt to develop one of these sectors, telecommunications, by encouraging foreign direct investment. This is a technologically advanced sector with the potential to increase productivity across the economy On the basis of an extensive literature review, I develop a model to assess the effects of FDI on the telecom sector. This model starts with the classical position that government policy is a key determinant of the extent and nature of FDI inflows, principally through incentives, specific regulations, specific benefits and subsidies, or general policies such as liberalisation, but also through second-round effects on the competitive structure of the market. The model differs from classical accounts of FDI in the attention it gives to rents and rent capture, which I argue strongly mediate the effects of FDI, particularly in developing economies where markets tend to be inefficient, and in sectors such as telecommunications arising from the natural monopolies present.

I apply this model to data collected from official sources and from multiple case studies from the Algerian telecommunications sector, involving 90 field interviews. The results suggest that the country has strongly benefited from the increase of FDI in the telecommunications sector, where this has been accompanied by new technology, finance, know-how and resources. Key reasons for this are government intervention on the market through liberalisation, specific regulation and specific benefits increasing the competitive rivalry and the rent capture via lobbying. The spillovers from FDI are also influenced by the mode of entry and management style, which is associated with country risk analysis. These benefits may be available for other sectors where the same conditions can be put in place.

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Chapter I Section 1: FDI presentation and Research motivation

I.1 Introduction:

Foreign Direct Investment has been one of the most important driving forces for centuries in the exploration of natural resources and the improvement of economic conditions in both developed and developing countries. Recently, the scope of FDI has not only widened rapidly, but has also covered a wide spectrum of industries around the world. The role of foreign investment is increasingly significant in the world's economy, as FDI could spur economic growth and create a better standard of living in the host countries. From an economic perspective, FDI mutually benefits both sides of the home and host economies; yet, there is still not an international FDI regime or thorough international agreement that fairly addresses both sides. Although many empirical studies confirm the positive impact of foreign investments in improving economic conditions in host countries as it yields capital, advanced technology and knowledge, many developing countries fear that by opening up their economies to foreign investors without any restriction, they will be forfeiting economic guiding power and will lose control of strategic industries.

Among FDI, telecommunications is one of the most strategic industries of national economic control. Even though FDI in the telecommunication sector is assumed to be a major source for the transfer of advanced technology, knowledge and capital, as well as market competition and will benefit national telecommunications growth.

However, telecommunication has a substantial and important influence on national security. Many developing economies' governments either restrict or control foreign investment in telecommunications for national economic sovereignty purposes and to correspond to their economic and developmental strategies.

The deregulation of the telecommunication sectors in developing economies should produce significant benefits not only within the country's telecommunication sector, but also for other industries, such as information technology and computing, education, e-business and tourism.

The development of these industries has been constrained in many countries because of the lack of an adequate telecommunication infrastructure and high service charges. Inadequate telecommunications would also decrease efficiency throughout the economy, reduce the effectiveness of investments and development programmes, cause a comparative disadvantage in attracting foreign investment, and lower the quality of living standards as well as personal access to communication, which could isolate countries from the globalised world.

Knowing the important role of FDI in boosting their economic transformation, many developing countries seek such investment to accelerate their development efforts. Consequently, developing countries are competing to attract foreign capital by deregulating and liberalising their restrictive investment laws, improving their business environment and upgrading their economic infrastructure. Unfortunately, many African countries continue to make unrealistic investment policies. Although there are numerous factors that determine why Africa receives the least FDI worldwide, the three main issues facing FDI promotion on the continent stem from restrictive foreign investment policies, the high degree of government involvement in political life and the misconception that excessive incentives would be most attractive to foreign direct investors. For instance, in Algeria, the country’s political and legal systems limit the country’s attractiveness to foreign investors. Privatisation of state assets is inconsistent; the banking sector suffers from weak infrastructure, poor management and bad loans to loss-making state firms, leaving limited credit for private investment.

Recently, the Algerian government has embarked on ambitious economic reforms to improve growth and diversify from dependence on oil, seeking foreign investment in infrastructure, especially in telecommunications, roads, power and water. However, the lucrative hydrocarbon sector remains the backbone of the economy, accounting for more than 90% of the country’s exports, leaving the Algerian economy vulnerable to fluctuations in the world oil market (IMF, 2011).

I.1.2 Aims and objectives of the research

The objective of this research is to investigate the contributions of FDI to the performance of the telecommunication sector of the Algerian economy, from both theoretical and empirical perspectives. FDI has customarily been treated in the macroeconomics framework as one form of international capital flow and fails to account for firm-specific assets that comprise a critical part of FDI. Aggregate figures have, therefore, generally been employed for conventional empirical investigations of FDI. But since FDI represents both the flow of monetary assets (ie: capital in a simple sense) and technological/managerial assets possessed by individual firms (ie: "firm-specific"), conventional investigations into FDI remain limited.

The aim of this research is to identify the contributions of FDI to the Algerian telecommunication sector. My research draws on Dunning's (1977, 1980) "eclectic framework" as a useful categorisation of FDI determinants, according to the source of competitive advantages contributing to the choice of FDI. More specifically, ownership-specific advantages, location advantages and internalisation advantages are considered pertinent to a firm's FDI decision**.** The objective of the research is to investigate and analyse critically the participation of FDI within the Algerian economy, with reference to the telecommunication sector, by examining the literature on FDI effects, constraints and reviewing evidence from the sector. In light of this, I formulate my research question: FDI in the Algerian telecommunication sector. An analysis of motivations, constraints and effects

In order to answer my research question I have formulated the following research sub-questions:
What are the potential FDI effects on emerging economies? Why are developing countries lagging behind in attracting foreign capitals? What is the possible relation between the mode of entry and effects by industries and markets? What is the potential contribution of FDI in the transfer of: technology, knowledge, capital and productivity spillovers in the Algerian telecommunication market? How could rent capture, political risk and institutional stability, economic determinants and the cultural distance effect or constraints FDI inflow to the Algeria in general, and the telecommunication sector in particular?

I.1.3 Research outline

The dissertation is divided into five chapters; the first chapter is divided into two sections. The first section is a brief introduction to the research, explaining the rationale, the statement of the problem and the research questions presenting my research topic and its significance. In the next section, I will examine the major trend in the Algerian economy, and the effect of the new investment policy in driving or restraining FDI, with particular attention paid to the telecommunication sector

Chapter two is divided into two sections; in the first I present a comprehensive review of the literature surrounding foreign direct investment analysing the theoretical arguments on the economic determinants of foreign direct investment, the choice of mode of entries in FDI, the potential FDI effects on emerging economies and its determinants. In the second section, I analyse the effect of constraints factors: economic, political, legal and cultural environments of the host country as important factors in the location choice decision of foreign investors. In this chapter, I introduce my hypothesis according to my research question and sub-questions. Based on the literature review, I will create my research model. The third chapter describes the research methods, including how cases are selected, the forms of data collection, how data are analysed, the research philosophy and process, potential ethical issues and the research limitations and future scope. The fourth chapter focuses on the empirical study, and is divided into two sections; in the first, I present my case studies, and in the second I examine critically the results of the case-by-case analysis. In this section, each case is described in great detail along with the main findings.

In the fifth chapter, I discuss my findings and make comparisons with my research model, hypothesis and literature review, highlighting the strengths and limitations of my research as well as the future direction for my research. I conclude with recommendations along with the references used in all the chapters of this dissertation. There are also several appendices that include my interview Participant Information Sheet, interview consent form, questionnaires in both English and French, and the questionnaire response sheet.

I.1.4. FDI trends in the world

As a result of globalisation, emerging markets have become among the major FDI recipients over the last decades. Multinationals expend their businesses aiming to maximise their profit in less saturated markets, driven by the emerging countries market sizes, fast growth, access to cheap resources (raw materials and cheap labour compared with the developed world).

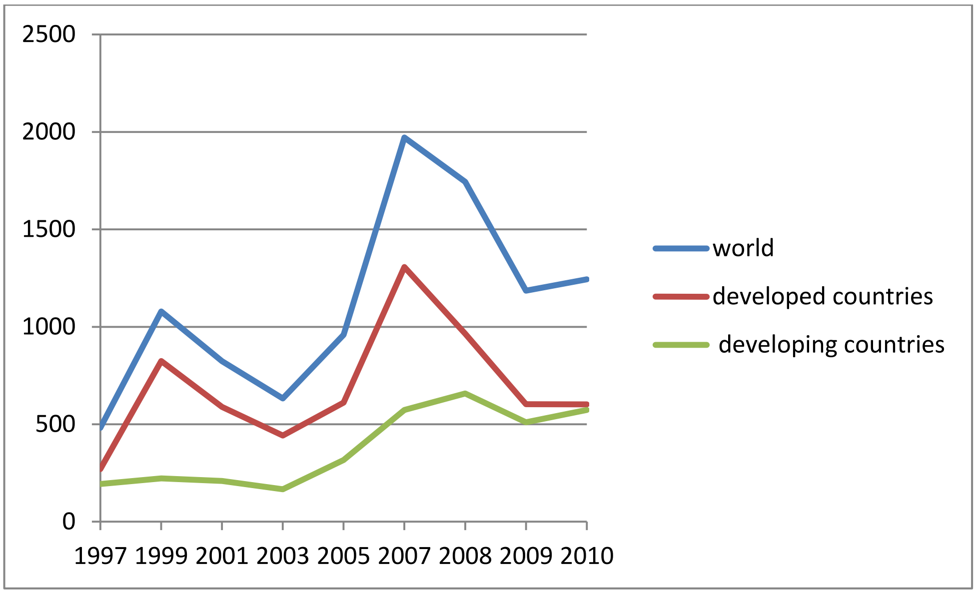
United Nations Conference on Trade and Development (2008) reports suggest that the global FDI flow grew strongly from the 1990s up to 2008 at rates well above those of global economic growth or trade. In fact, the table (1.1) indicates that the total FDI has grown from US$481.91 million in 1997 to almost US$ 958.69 billion in 2005. After more than 4 years of strong growth, reaching $1.9 trillion in 2007, FDI flow starts its decline from 2008 (-16%). The decline was more pronounced in 2009 (-37%) due to the global economic crisis, multinationals had to review their investment plan due to the recession in major economies, the stock-market crash, which led to tighter credit conditions, the decrease of asset value and the fall in corporate profit (UNCTAD, 2011).

In 2009, the total inflows had declined sharply in all groups: developed, developing and transition economies (Figure 1.1). This is due mainly to the climate of uncertainty following the world financial and economic crisis. Moreover, in 2010, the global (FDI) flow rose slightly to reach $1.24 trillion, but remains 15% below the pre-economic downturn average (Figure 1.1).

Table 1.1 FDI global flow in the world between 1997-2010 (Millions of dollars)

Year	world	developed countries	developing countries	share of developing countries by %
1997	481.91	269.65	193.22	40.09
1999	1079.08	824.64	222.29	21.25
2001	823.83	589.38	209.43	25.42
2003	632.59	442.16	166.34	26.29
2005	958.69	611.28	316.44	33.07
2007	1970.94	1306.818	573.032	33.69
2008	1744.101	965.113	658.002	37.72
2009	1185.030	602.835	510.578	43.08
2010	1243.671	601.906	573.568	46.12

Source: UNCTAD, 2011



Source: UNCTAD, 2011

Figure 1.1 the FDI growth in the world from 1997-2010 (Millions of dollars)

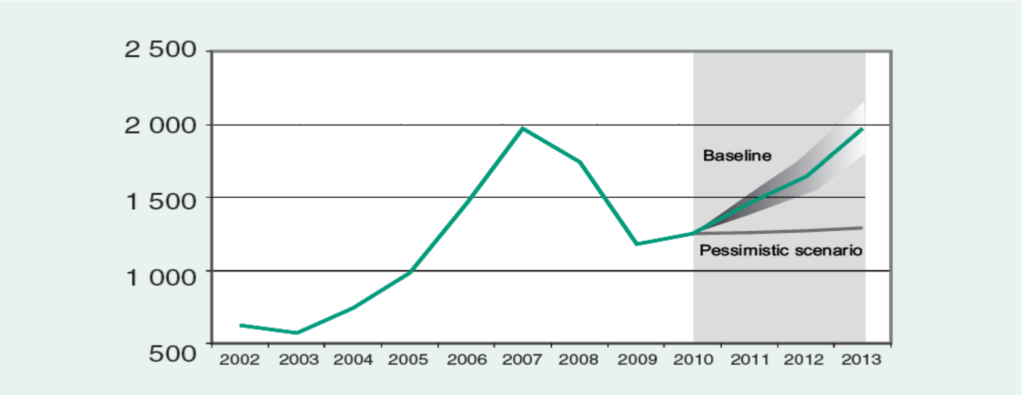
Furthermore, FDI in developed countries shrank by 40% in 2009, while developing countries demonstrated more resistance to the economic downturn with a decline of 22%. UNCTAD (2010) suggests that "the falling profits resulted in lower reinvested earning and intra-company loans weighting on FDI flows to developed countries. At the same time a drop in leverage buyout transactions continued to dampen cross border M&As" UNCTAD (2010: 03).

According to the global investment reports (2009) and (2010), the shift of global FDI flow towards developing and transition economies will accelerate from 2011 onwards. This change was already apparent from 2007-2009 (Figure 1.1), due mainly to political and economic reforms engaged by these countries to attract foreign capitals.

Likewise, total FDI flow will continue to increase in 2012 and is expected to peak in 2013. This corroborates the UNCTAD survey (2010-2012), which predicted a modest recovery of 3% in 2011 and 2012, and predicts reaching $1.9 trillion in 2013, with 60% of the total inflow estimated to go to developing countries (Figure 1.2).

This positive prediction does consider other global economic shocks arising from risk factors still in play, such as the financial crisis in the Eurozone that could jeopardise the future FDI in the EU and could benefit more the Asian and other emerging economies.

However, The UNCTAD survey (2009-2011) suggests that MNEs have expressed high concern regarding the consequences of the economic downturn, further economic shock and its repercussions in both the short and long-term. In addition to the raise of state protectionism and nationalisation in many developed and emerging market, many companies that took part in the survey stated that they have already shifted their FDI investment strategy from Greenfield and merger and acquisition to non-equity modes, such as franchising, licensing or outsourcing.



Source: UNCTAD, 2011

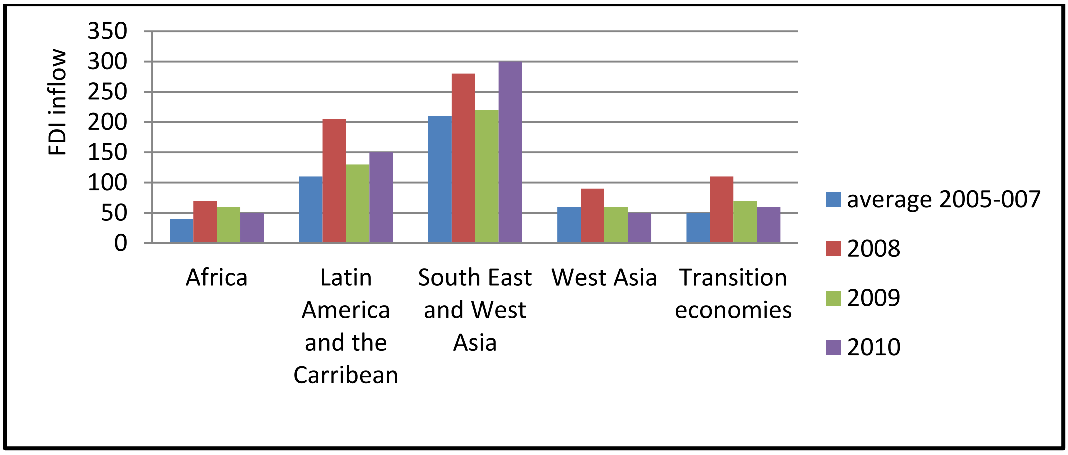
Figure 1.2 the global FDI inflows and outflows between 2002 and 2010 and projection for 2011-2013 (Billions of dollars)

I.1.4.1 FDI trends by region

When examining the FDI outflows in 2010, the global outflow is recovering from a high fall in 2009 (43%), rising to about 10% in the first quarter of 2010. With a large contribution of the developed countries, where outflows mainly surpass the inflows, outflows have risen in the first quarter of 2010 by 25%, compared with a drop of 23% in 2009. The main reasons are the new wave of developing countries' investment, the increase of the number and sizes of MNEs from developing and transition economies, increasing competition in their local market along with other regional factors (UNCTAD, 2010). In 2010, three emerging countries are listed in the top 20 FDI investors (China, Hong Kong and the Russian Federation, with India and Brazil very close to the top 20). Nevertheless, the gap between the FDI inflows and outflows in developing economies is quite high, as they are recipients rather than providers (UNCTAD, 2011).

In terms of FDI recipients, the UNCTAD survey (2010-2012) and reports (2011) suggest that Asia, European Union and North America will remain the most attractive locations for investment. Moreover, three of the developing and transition economies are ranked among the 10 most popular FDI destinations, with the BRIC region forecasted to continue its remarkable growth due to the abundance of natural resources as well as the liberalisation of the economy and the natural resources.

The Asian region is predicted to sustain its FDI growth, with seven countries among the top 20. In contrast, Africa languishes at the bottom of the league, with only South Africa present in the top 20, whereas some of the poorest regions continue to experience a large fall in FDI flows. In fact, flows to Africa, South Asia and other least-developed countries all declined with the distribution of FDI flow among the LDCs less developed countries remains uneven, as more than 80% of this flow goes to resource-rich countries in Africa, mainly in form of greenfield investment (Figure 1.3).



Source: UNCTAD, 2011

Figure 1.3 global FDI inflows by developing and transition economies by region, average 2005-2007 and 2008-2010 (Billions of dollars)

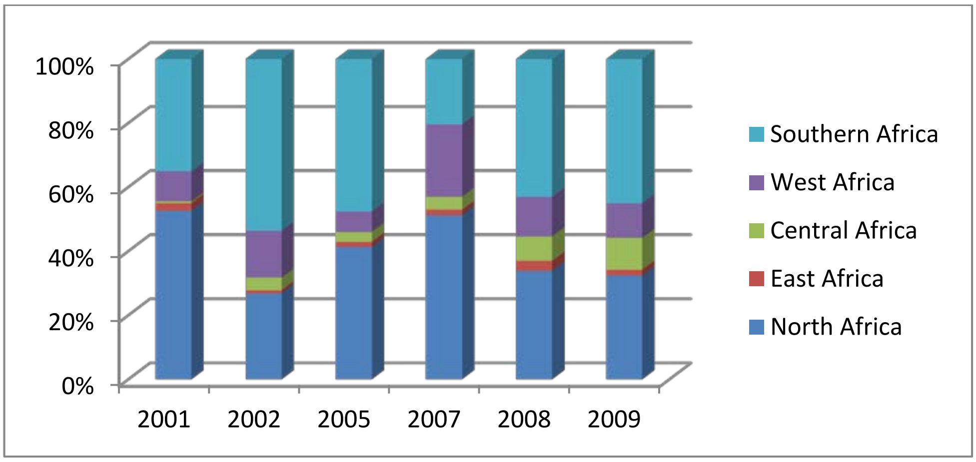
Many African governments have implemented ambitious frameworks to attract more foreign investment. Nevertheless, most foreign investment in Africa goes to natural resources in a relatively restrained group of countries that do not necessarily generate a positive impact on the local economy. While attracting investment into diversified and higher value-added sectors remains a challenge for Africa, constraints on investment, such as weak infrastructure and fragmented markets, also adversely affect FDI flows to Africa.

Prior to the financial crisis, FDI to Africa had been rising strongly, driven by the high demand in price for raw materials, particularly oil, from emerging countries like China, India and Brazil, which produced a boom in commodity-related investment. The global turmoil led to a considerable slowdown, and the data for 2009 shows that investment fell by around 20% (UNCTAD, 2010). According to the UNCTAD (2010) report, the decline on FDI inflow to African countries is due to the decrease of global demand and prices of African export commodities. Although the decline was relatively low, it had a major impact for a region where FDI flows account for about one-fifth of gross capital formation and is a vital source of job creation and technology dissemination. While FDI flow to North Africa also declined, despite the fact that the sub-region's more diversified sectors received FDI and sustained privatisation programmes. Southern Africa also saw its inflows decrease dramatically, even though it remained the largest recipient sub-region (Figure 1.3).

Looking at the major African FDI recipients, Angola continued to be the largest, followed by Egypt and Nigeria. In terms of investment, South Africa was the largest investor from the region in 2009, after recording negative outflows in 2008 (Table 1.4).

In 2009, Algeria ranked among the top 10 FDI in Africa. This is due probably to the authorities' efforts to foster more FDI by offering investment incentives, restructuring local companies and increasing Algeria's productive capacities, technology and knowledge transfer. As a result, FDI has raised dramatically in Algeria from $671 million in 1999 to $2.646 billion in 2008, of which $200 million was in non-hydrocarbon industries, mainly the telecommunication sector (UNCTAD FDI /TNC database, November 2008).

According to UNCTAD (2010), FDI inflow declined after 2008, falling by more than 60% to $1.2billion in 2009, due to the deep recession in most of the Maghreb countries (-20% for the region) and the likely deterrent effects of new protectionist policies imposed by the Algerian government[1].



Source: UNCTAD, 2010

Figure 1.4 the evolution of FDI inflow in Africa 2000-2009 (by percentage)

[1]Chapter one section two analyses the Algerian economy and examines the impact of the new FDI policy in constraining FDI).

Table 1.2 Distribution of FDI flow among African economies by range 2009

Range	Inflows	Outflows
Above $3.0 billion	Angola, Egypt , Nigeria, South Africa and Sudan	
$2.0 to $2.9 billion	Algeria, Libya and Congo	
$1.0 to 1.9 billion	Tunisia, Ghana, Equatorial Guinea and Morocco	South Africa and Libya
$0.5 to $0.9 billion	Zambia, Democratic Republic of The Congo, Mozambique, Uganda, Niger, Tanzania, Madagascar and Namibia	Egypt
$0.2 to 0.4 billion	Chad, Cote D'ivoire, Liberia, Cameroon, Mauritius, Seychelles, Botswana and Senegal	Morocco, Liberia and Algeria
below $0.1 billion	the rest of the continent	Nigeria, Gabon, Tunisia Kenya and Sudan

Source: UNCTAD, 2010

In order to attract more FDI, some countries introduced a new investment policy; lowering corporate taxes and providing more incentives (Gambia and Morocco). Others embarked on drastic economic reforms to improve their countries' business environment (Rwanda and Libyan Arab Jamahiriya). In divergence, some countries, like Algeria and Nigeria, wanted to control MNE operations by tightening the regulatory framework and adding local content requirements (Nigeria), or by introducing new foreign ownership limitations (Algeria).

Besides, African countries are developing economic zones to attract FDI. Foreign capitals, notably from China, are promoting the creation of such zones, which provide employment, technology and knowledge spillovers to domestic economies and allow firms to benefit from better infrastructure and easier regulations. By investing in Africa, emerging countries also benefit from the preferential trade agreements of African countries with Europe and the United States.

Although many African countries have embarked on major economic reforms, Africa is still lagging behind in terms of attracting foreign investment. Empirical evidence does show clearly that the rate of return on investment in developing countries is higher than some of the developed countries. Why then are developing economies not attracting FDI commensurate to this economic fundamental? There are a couple of studies that attempt to answer this question (UNCTAD, 2008).

The first set of explanations addresses the risk of investment in developing countries; for instance, the perception of Africa as a continent riddled with disease, civil unrest, war, poverty, disease and mounting problems.

Rogoff and Reinhart's (2003) study claims that war and civil unrest occur more frequently in Africa than other regions. These events could have adverse effects on the investment climate because they often bring along devastating effects like high inflation and higher levels of other distortions, such as capital controls and illegal currency markets that thrive and deter investments. Among the reasons for the low inflow of FDI to Africa is that the structural adjustment in many of the African countries has not been efficient compared with other global regions (Asiedu, 2004).

Another factor is the FDI environment in developing economies which is still inadequate to attract high quality, efficiency seeking, "globalising" FDI. According to UNCTAD (2011), the general policy framework of FDI in the developing world has improved greatly in recent years, a trend that is continuing in many countries. However, the incentive framework continues to suffer from a number of deficiencies, such as the high barriers to entry; moreover, in some countries, some primary sectors are still reserved for local firms only. Almost everywhere, registration requirements for foreign investors are burdensome, thus raising transaction costs.

The inefficiency of the domestic business environment is present in many developing countries, with a high degree of government intervention within the market as well as the rigidity of government policies towards trade liberalisation; the lack of privatisation programmes and the outdating investment codes, the non-adoption of international FDI agreements and the lack of effective regional trade integration efforts make developing economies lose out in terms of FDI.

The deficient incentives for investment are also an important factor. Developing countries governments are making considerable efforts to streamline incentives and harmonise them through the ratification of regional agreements or Common Investment Charters. However, many developing economies retain generous investment incentives, and the authorities maintain considerable discretionary powers on the allocation of incentives.

Developing nations are also lagging behind in the development of their competitive factors of production. Economic, rather than policy factors are likely to be bigger constraints to FDI in many developing regions (UNCTAD, 2011).

During the last 10 years, education, health and infrastructure indicators have worsened in many developing economies. Improving the competitiveness of developing economies' investment climate is a major challenge in light of deteriorating education and health systems (at least in some countries), poor physical infrastructure and lack of support services for enterprises.

Thanks to the G8 debt relief deal in June 2005, many developing countries could focus more on raising social indicators and physical infrastructure, and on rebuilding institutional capacity (UNCTAD, 2011).

I.1.4.2 FDI trends by mode of entry

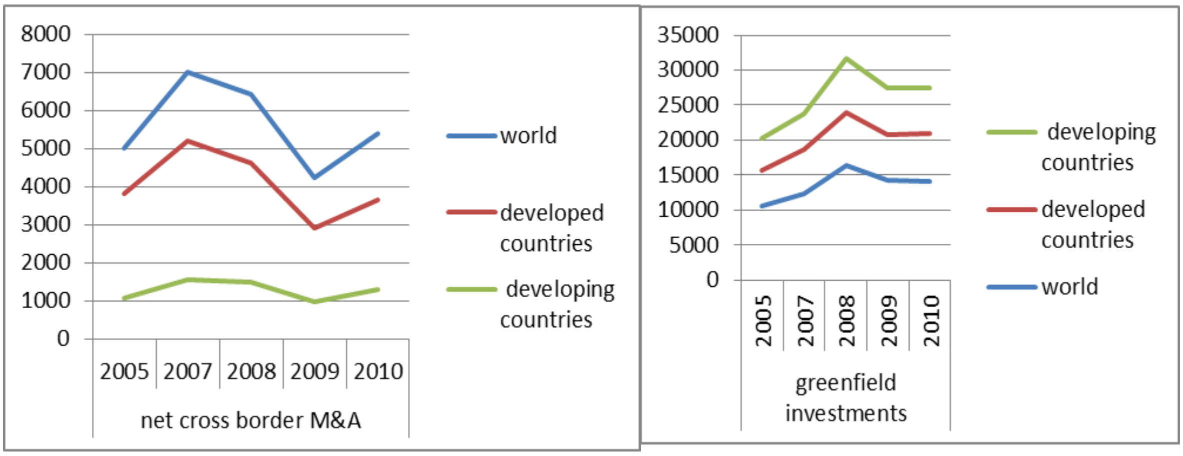
According to the UNCTAD survey (2010-2012), greenfield investment was the major trend in FDI inflow to developing and transition economies, while merger and acquisition and other non-equity modes of entry were more significant in developed countries. Moreover, the interest to invest in developed economies has declined over the last few years and it seems to be continuing over the next few years. The main argument for MNEs is the consequence of the global economic crisis as well as the saturation of developed markets. The value of cross-border merger and acquisitions deals increased by 36 per cent in 2010 to $339 billion, although it was still far from the 2007 peak. Meanwhile, the number of greenfield projects fell marginally in 2010 (Figure 1.5).

The world investment report (2011:10) suggests that "Developing and transition economies tend to host greenfield investment rather than cross- border M&As. More than two-thirds of the total value of greenfield investment is directed to these economies, while only 25 per cent of cross-border M&As are undertaken there. At the same time, investors from these economies are becoming increasingly important players in cross-border M&A markets, which previously were dominated by developed country players".

Table 1.3 the global net cross border M&A (by deals) vs the net Greenfield projects

	net cross border M&A					greenfield investments				
	2005	2007	2008	2009	2010	2005	2007	2008	2009	2010
world	5004	7018	6425	4239	5405	10560	12245	16422	14192	14142
developed countries	3805	5187	4603	2920	3638	5145	6355	7526	6618	6766
developing countries	1062	1552	1501	975	1290	4509	5110	7728	6731	6470

Source: UNCTAD, 2011



Source: UNCTAD, 2011

Figure 1.5 the evolution of Greenfield, M&As Projects between 2005 and 2010

For the prospect of FDI by mode of entry, market analysts suggest that the economic recovery would allow more capital abundance (that could be in favour of M&As). Moreover, the rise of developing and transition economies as a preferred destination for foreign investment would balance the choice between Greenfield and M&As. The growth of developing economies' companies would increase the chance of M&As, while the increase of the rent capture within the market could increase Greenfield investment.

The data collected from 2010 shows more dynamic growth for M&As than Greenfield. This tendency is estimated to be more significant in the next few years, and is expected to remain for the short to middle-term due to the high uncertainty in the world investment climate (UNCTAD survey, 2011-2013).

I.1.4.3 FDI trends by sector

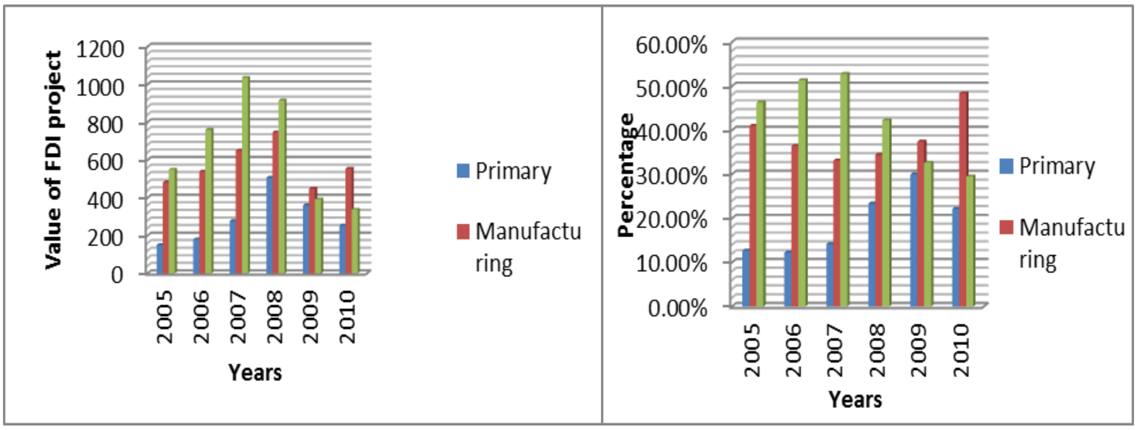
After a strong period of growth between 2005 and 2008, FDI inflows and outflows slumped in all three sectors (primary, manufacturing and services) in 2009. The global economic and financial turmoil continued to dampen FDI flows not only in sectors sensitive to business cycles, such as chemicals and the automobile industry, but also in those that were relatively healthy in 2008, such as pharmaceutical and food and beverage industries.

However, the total value of FDI projects in manufacturing increased by 23% in 2010, compared with 2009, reaching $554 billion. The economic downturn had a negative impact on a range of manufacturing industries (Figure 1.6), but the shock could eventually demonstrate the benefit to the sector, as many MNEs were forced to restructure into more productive and profitable activities with attendant effects on FDI (UNCTAD, 2011).

FDI in the primary sector decreased in 2010 in spite of rising demand for raw materials and energy resources, and high commodity prices (particularly from BRIC countries). FDI projects (including cross-border M&A and greenfield investments) amounted to $254 billion in 2010, increasing the share of the primary sector to 22% - an increase of 14% compared with the pre-crisis period. Large natural resource-based MNEs, mainly from emerging economies, made some important acquisitions in the primary sector. For instance, Repsol (Brazil) was taken over by China's Sinopec Group for $7 billion, and the purchase of the Carabobo block in the Bolivarian Republic of Venezuela by a group of investors from India for $4.8 billion (UNCTAD, 2011).

In 2010, the service sector continued to decline sharply, in relation to both 2009 and the pre-crisis level of activity. Major Service industries (business services, finance, transport and telecommunications and utilities) fell, albeit at different speeds. Business services declined by 8% compared with the pre-crisis level, as MNEs are increasingly seeking to reduce their production costs by outsourcing a major share of their non-core businesses to external providers.

FDI in the financial industry was at the heart of the current economic crisis, and the sector is experiencing a severe decline. According to the UNCTAD survey (2011-2013), there is no obvious sign of sector recovery in the medium-term. Over the past decade, its expansion was instrumental in escorting emerging economies into the global financial system by providing emerging economies with a stable and efficient financial system. Conversely, it also produced a bubble of unsustainable lending, which had to burst. When erupting, this had a major effect on the current financial crisis.



Source: UNCTAD, 2011

Figure 1.6 sectorial distribution of FDI project (Billion dollars and percentage)

Looking at foreign investment by sector in Africa, manufacturing was under severe strain. FDI inflows to the primary sector were at a low level due to the fall in commodity prices and the lack of international financial resources; several mining exploration and exploitation activities were postponed or cancelled. The services sector, led by the telecommunication industry, became the dominant FDI recipient, attracting the largest share of cross-border M&As in Africa. While the distribution of FDI by industry shows a concentration in the mining industry in terms of value, the manufacturing sector accounted for more than 40 % of the total number of greenfield investment projects in 2009 (UNCTAD,2011).

I.1.4.4 FDI in the telecommunication sector

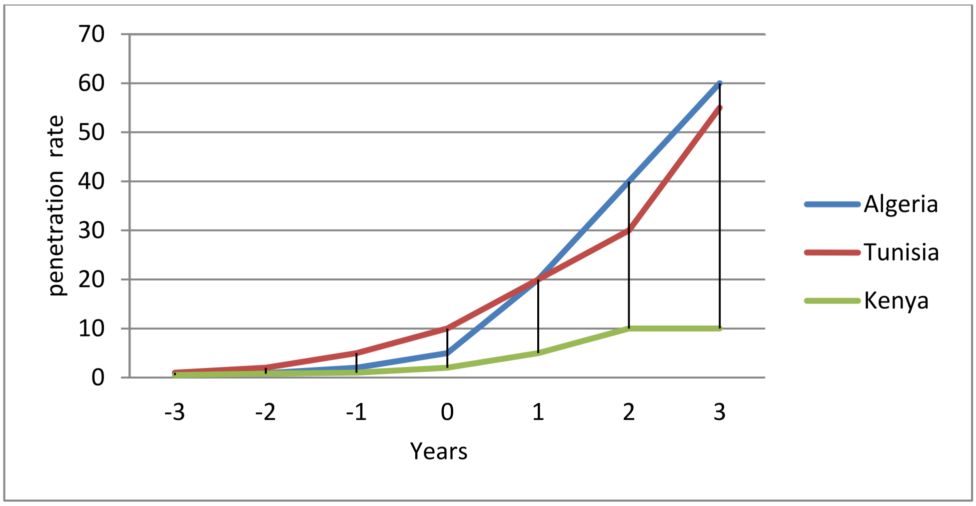
Foreign investment is increasingly playing a more important role in either the domestic or international telecommunication market. By increasing the amount of FDI in telecommunication sectors, foreign capital is raised either through a share offering or the sale of a minority share of the stated-owned operators to foreign partners. Under the process of deregulation and the privatisation of telecommunication industries, there are increasing numbers of opportunities for foreign investors to establish foreign subsidiaries or to combine with others in joint ventures.

On the other hand, because telecommunications has tight links with major economic sectors, such as manufacturing, service and financial sectors, it has a dual role as both a traded product and service, and as a facilitator of trade in other products and services.

Knowing the FDI positive effect, developing countries began privatising their public telecommunication market from the 1990s. By deregulating domestic telecommunication regimes, governments aim to make the telecommunication markets more efficient and attractive to foreign investors. This could increase competition and promote innovation, lowering prices for most businesses and consumers, providing wide choice services, improving the standard of living by the increase of technology and the stimulation of other sectors such as education, health etc. These positive effects would promote the capacity of telecommunication in developing countries and benefit the formation of a “world village.”

Another reason is the willingness to be an integrated part of the global economy, by having access to high-speed data networks, cellular radio, mobile satellite services and expending Internet usage to households and schools.

As an example, the figure below (1.7) demonstrates the impact of privatisation on mobile sector in some developing countries. In the three countries selected, the deregulation of the telecommunication sector has led to a significant increase of the penetration rate.



Source: International Telecommunication Union, 2009.

Note that year 0 represents the year of the liberalization of the sector

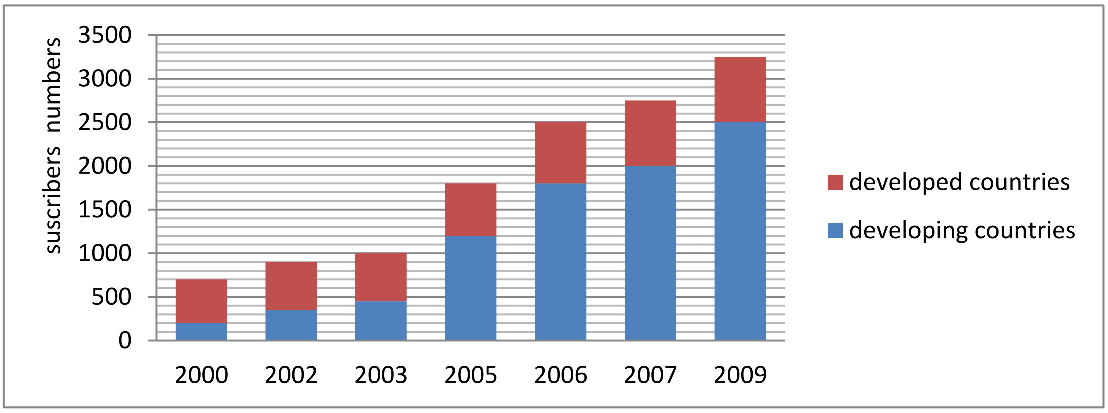
Figure 1.7 the impact of privatisation on mobile in some developing countries

As a result of liberalisation, the telecommunication sector in developing economies, once comprised of monopolistic domestic providers, has become a multiplayer global sector.

According to the World Telecommunications Report (2009), since the 1990s many developing economies began deregulating the sector either by opening the sector to local and foreign investors or through joint venture with local operators or by selling assets of state companies to foreign investors as a way to expand networks, develop new services, and generate revenue through license fees. FDI also brought stronger, longer commitments than other types of foreign investment, as well as capital, technological boost, new skills and management approaches. For instance, between 1990 and 2008, around 125 of 154 developing countries received foreign investment in telecommunications. The regulatory improvements required to achieve the deregulation goal often include opening markets to new players, rebalancing retail tariffs, establishing an effective cost-based interconnection regime and securing reasonable access to existing infrastructures.

Consequently, international telephone traffic and revenue grew rapidly since the late 1990s. This growth, along with the explosion of mobile phones and internet usage, encouraged large telecommunication corporations to expand from their highly competitive home markets, which were characterised by relatively slow growth, into emerging markets with increasing growth and prospects. The figure below (1.8) highlights the evolution of the mobile subscribers in both developing and developed countries, while the growth of mobile subscribers in developed countries has stagnated. Due to the increase of FDI investment, the number of subscribers in developing countries has rocketed in recent years.

This tendency is predicted to remain in the middle-term, as analysts suggest that the telecommunication sector is not suffering as a result of from the economic crisis. Consumers are still attracted by mobile technology; 3G, smart phones and improved infrastructures have only fuelled the continuing uptake of mobility around the world. The number of Internet subscribers continues to increase as the penetration of both fixed and mobile broadband becomes more accessible around the world. Large MNEs like Deutsche Telecom, Vodafone and France Telecom-Orange continue their expansion plans, especially in emerging markets. Furthermore, the growth of large telecommunication groups from the BRIC group (Brazil, China and Russia) for instance: VimpelCom (Russia), Zte and Huawei (China) are investing in both developing and developed countries. For example, VimpelCom has taken over Orascom, while Zte and Huawei are both investing in developing the network in Africa and Europe. The prediction for the coming years looks brighter for the telecommunication sector with investment more likely in M&As than greenfield operations (UNCTAD survey 2010-2012).



Source: International Telecommunication Union, 2009.

Figure 1.8 the evolution of mobile subscribers in both developing and developed countries

Strong telecommunication foreign direct investments, especially when accompanied by market reforms that introduce competition, have been shown to drive the build-out of national networks, enhance their quality and drive down their costs. These developments are subject to sound and reliable legal, political and regulatory frameworks, economic stability and a generally healthy business environment.

I.1.4.4.1 the Impact of FDI in mobile sector and economic growth in developing countries

Over the last five years, FDI in mobile sector has seen a sustainable growth and has a major impact on both the economy and society, particularly in the developing world. Apart from the anecdotal evidence about how mobile phones have created business opportunities particularly in developing economies, there is an emerging literature examining the link between the use of mobile phones and economic growth in developing countries.

In fact, mobiles have spawned new content and equipment industries to serve the booming mobile sector and its users. Since in developing countries mobiles are substitutes for fixed lines while in developed countries they are usually complements, the latter group experiences a much higher growth dividend.

The world Telecom/ICT report (2010) suggests that the impact of mobile sector on economic growth could be twice as high in developing countries compared to developed countries since mobiles are not just a different or additional way of communication but have opened up entirely new communication means. The reports emphasis the role of mobiles in developing and low-income economies, as it can do for underserved areas what fixed telephone lines did in many other regions and countries years ago: widen markets, create better information flow, lower transaction costs, and substitute for costly physical transport.

Besides, the spread of telecommunications should improve growth and consumer well-being in emerging countries. Hardy (1980) found that the impact of telecoms investment was highest in the least developed economies and lower in advanced economies due to the wide availability of fixed-line telephony and other complementary technologies in the developed economies. UNCTAD (2008) suggests that wireless technologies are much lower cost to roll out over large areas than fixed line systems and state that internal rate of return generated by FDI investments in developing countries telecoms of around 20% as a result, mobile can hypothetically play a vital role in economic development of these economies.

FDI in mobile telecommunications in Africa and the developing world is a remarkable story. There have been large infrastructure investments, which have enabled millions of people to communicate better. While many researches tend to focus on low absolute rates of mobile penetration, this underestimates the real impact that FDI is having through the innovative and entrepreneurial ways in which the technology, knowledge and know-how have been extended beyond the model of individual ownership. Millions of jobs have been created and some very successful joint venture companies and local SMEs have emerged. Some examples of success stories of the impact of FDI in mobile sector come from: Bangladesh, South Africa, Nigeria and Algeria.

One of the most popularly cited mobile business success stories is that of GrameenPhone, taking place in Bangladesh. Based on the concept that ‘good development is good business’, the mobile operator, which first launched its services in Bangladesh in 1997, has done a fair job at combining social and economic development.

Through its low pricing strategy, According to the World Telecommunication/ICT report (2006:51) “the company was able to increase competition, quickly bring down prices in the telecommunication sector and help increase mobile penetration from 0.3 percent in 1997 to over six percent by the end of 2005. Besides connecting previously remote and unconnected areas, the company’s Village Phone (VP) Program has allowed mainly low-income women in rural areas to borrow enough money to buy a handset, a subscription and cover incidental expenses so as to start their own pay phone service…..telecom services and enhancing the social status of women, GrameenPhone has had a major macroeconomic impact and created new employment opportunities. In addition to employing over 1’000 people, the company has created more than 100’000 jobs, including for dealers, agents, contractors, suppliers, and Village Phone operators. GrameenPhone is also one of Bangladesh’s largest private sector investors, as well as one of largest taxpayers in the country”.

In South Africa, Vodafone’s subsidiary Vodacom, supplies community phones in phone shops run by local businesses under franchise. “Vodacom offers business training and support to franchisees to help them make their business a success. Around 5’000 community phone shops have been established, either housed in customised shipping containers or, for example, as part of spaza shops (small grocery stores in the country). Apart from providing access to telecommunications for people who cannot afford their own phone, phone shops are also bringing additional benefits. More than 20’000 jobs have been created and the shops help attract many other businesses, boosting local economies. In addition, the franchise system adopted by Vodacom is helping to empower women, with around 40 percent of franchises held by women” (World Telecommunication/ICT report, 2006:51).

In Nigeria, since the deregulation of the telecommunications industry, the number of telephone lines has grown from about 400,000 to approximately 30 million users. In addition to increasing the teledensity ratio in the country, telecom industry have created employment and spurred growth in ancillary industry. The telecommunication regulator (NCC) estimated that in March 2004 alone, the telecom sector created 5’000 new jobs directly and primarily due to the growth in the mobile sector (World Telecommunication/ICT report, 2006).

In Algeria, The Algeria Telecommunications and Postal Reform Loan (a TA and investment loan), for instance, helped the Government to create an independent regulator and to introduce competition in the mobile and data sector. Two new mobile licenses were awarded to private operators in 2001 and 2004 through a transparent and competitive bidding process for a total cost of $737million and $421 million respectively. Algeria, previously a laggard in telecommunications reform, has jumped to the forefront in the region. The number of mobile subscribers increased from about 100,000 in 2001 to about 33 million by the end of 2011, improving the penetration from 5.6 percent to 65 percent. The country attracted a total of $7 billion foreign direct investment in the telecommunications sector over the life of the project from 2001 to 20012 and is effectively contributing to reduce the high unemployment rate of the country (Oxford Business Group, 2011).

I.1.5 Conclusion

During the last few decades, FDI has increased rapidly worldwide, and has improved economic growth in both developed and developing countries. It represents a major source of capital, technological and managerial capabilities, industrial upgrading labour force, as well as the introduction of modern management and accounting methods.

By bridging the gap between domestic savings and investment and by improving knowledge spillover, FDI could play a vital role in economic growth in the developing countries. Although, most of the developing countries governments have been taking drastic reforms to attract FDI by restructuring their economy, liberalizing their policy strategy and offering various incentive packages; such as tax concessions, trade liberalization, creation of special economic zones and access of credit lines for foreign investors only a few of them, mostly Asian countries with large domestic market are successful in attracting FDI.

The telecommunication sector plays a dual role in economic activities, not only a distinct circle in economic system, but also a supplying mean for other important sectors. FDI in telecommunication would allow technology transfer, more abundant capital and increased market competition, which would benefit the entire host country economy.

Chapter I Section 2: Algeria and the Telecommunications Industry

I.2.1 The Algerian economic background

In an effort to increase the competitiveness of the economy, the authorities launched in 2004 a US$200 billion public investment programme (PIP) to enhance or build new infrastructures. Moreover, a set of rules (such as trade liberalisation, public sector enterprise restructuring and privatisation, support to private investment or financial sector reforms) were adopted since the late 1990s to help promote the diversification of the economy based on a vibrant domestic private investment sector. So far, the adoption of these measures has yielded mixed results and has failed to boost significantly domestic private investment.

Rigorous economic management, plus significant revenues from the hydrocarbons exports, have allowed the country to enjoy a fiscal surplus and improve its external position in recent years. The Algerian government has accumulated its savings in an oil stabilisation fund (Fonds de Régulation des Recettes, FRR) that has, in part, financed a sizeable public infrastructure programme. Thanks to the increase of government expenditure, GDP continued to grow even during the global economic downturn. In fact, the non-hydrocarbons GDP grew by more than 9%, regardless of a considerable fall in hydrocarbons-related GDP, and overall GDP increased by 2.4% in 2009 (IMF, 2011). However, resulting from a decline in government revenues and an increase in expenditures, public finances suffered during 2009, when the economy has seen its first fiscal deficit in a decade. According to the IMF, in 2008 the fiscal surplus amounted to 8% of GDP, while the loss was around 7% in 2009 (IMF, 2011).

In 2010, as oil prices recovered, the deficit declined to 4% of GDP. This constant fiscal shortfall is at least partly due to the costs linked to the 2010-14 government to improve the country’s economic infrastructures and human capital (Public Programme for Economic and Social Development). The authorities have injected around €222 billion in the local economy to upgrade the country’s infrastructure; including the completion of major public works including infrastructure for public works, transport, and improving social development such as health and education, the construction of 2 million affordable houses by the end of 2014 (IMF, 2011).

Thanks to the growth of hydrocarbon revenue and the government's strategy to reduce imports, the country has been able to maintain a positive current account balance. However, when oil prices dropped in 2009, Algeria's current account went from a surplus of nearly 20% of GDP in 2008 to less than 1% in 2009. The country's balance of payment achieved a surplus of 8.5% of GDP for 2010 and projected a positive balance of 9.3% in 2011 (IMF, 2011). The country has also been able to amass significant foreign currency reserves, estimated at approximately €117billion at the end of 2010. Algeria has also been able to reduce dramatically its external debt.

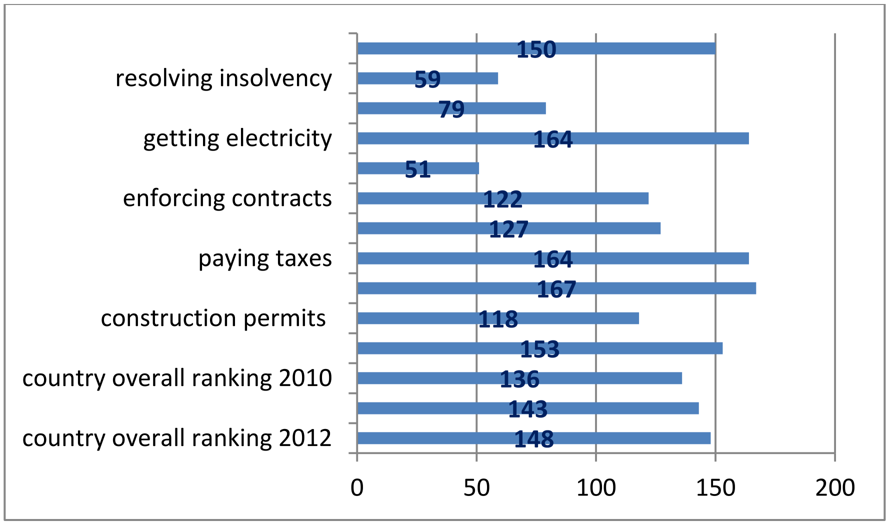
Regarding the debt repayment, the country has paid out more than $118billion; of which $85billion was in debt reimbursement and more than $35billion was paid out as interest. The aim of the Algerian government is to become debt-free by obtaining sovereign rating with international agencies, such as Standard & Poor's Fitch ratings. The challenge facing authorities is to allow the benchmark of sovereign that helps to maintain a healthy finance. This is a direct result of the government's attempt to achieve a debt-free country. Consequently, the external debt as a percentage of GDP averaged 34.1% between 2000 and 2005, but had fallen to 2.8% by the end of 2010 (IMF, 2011).

Apart from a high level of public spending and substantial oil revenues, Algeria's central bank has been effectively retaining low core inflation. However, in 2009, due to increasing food prices, consumer inflation reached 5.7%. In response, the government imposed price limits and subsidised prices for basic product consumption. In 2010, consumer inflation fell again to 5.5%, but continued price increases have affected the nation's purchasing power and caused a social unrest, prompting the government to temporarily eliminate taxes on certain consumer items in early 2011. The IMF predicts that price increases will continue to ease in 2012, projecting inflation around 5%.

Another key determinant of the economy is the unemployment rate. According to the IMF, unemployment remains the biggest challenge facing the Algerian authorities. In spite of the government's determination to diversify the economy, the hydrocarbon sector still dominates the economy, limiting job creation, especially in labour-intensive agribusiness and manufacturing. The unemployment rate has undeniably improved in recent years, stabilising at 10% during 2010. However, youth unemployment remains high, at 21% at the end of 2010, recovering from an average of 50% only a decade ago.

The visit of an IMF delegation at the end of May 2010 culminated in a positive report about the progression of the country, highlighting the government's efforts to reshape the economy. However, the commission warned that the country still relies heavily on the hydrocarbon sector, and called for Algeria to encourage internal and external investments in other sectors of the economy. In fact, according to the Minister of Energy and Mines, both the government and the IMF agreed that Algeria will inject $140billion over 10 years to build and upgrade its economic infrastructure, promote FDI and local investments. This will support the development of the local small and medium companies as well as the private sector in the country (IMF, 2010).

"Doing Business 2012", published by the World Bank, analyses the business environment and the degree of openness of the economy in 183 countries. As Figure 1.9 indicates, Algeria is ranked 148^{th,} down by 5 places from 2011 (143th), and ranked136th which indicates clearly that the business climate in the country is regressing. Compared with the Middle East and North African countries, it placed 15th out of 18 countries. The report blames the poor ranking on recurrent problems with taxes and customs procedures, and other obstacles linked to the Algerian regulatory environment.



Source: World Bank, 2012

Figure: 1.9 Algeria's business environment ranking

Despite the country's low rankings, the World Bank has praised the Algerian government for its efforts to improve the country's business and legal environment. The government agreed a new building code and reduced the costs involved in registering property. A tax on property-linked capital gains was also removed. In terms of judicial reforms, the country has modernised its infrastructure by computerising its courts and introducing a new code of civil procedure. IMF experts criticise Algeria for having a "stop and go" relationship with the liberalisation of its economy. Political decisions are often conditioned by the short-term outlook for oil revenue; thus, providing that the cash inflows are high, policies are allowed to shift towards liberalisation. When the outlook becomes more sensitive, protectionism becomes a bigger priority. Recently, the country has introduced two new measures that aim to improve the business climate, adding to remaining uncertainty over the legal framework.

I.2.2 The impact of the new investment legislation on FDI flow to Algeria

The 2009 additional budget law and the 2010 supplement to the money and credit law introduced a new FDI policy, which could have important economic implications for Algeria. Although the stated goal is to promote domestic private investment by supporting local SMEs, this new strategy could have negative repercussions and may hamper efforts to diversify the country's economy out of the hydrocarbon sector.

The new investment decree was approved in May 2009, imposing all trading companies registered with local authorities to open 30% of their capital to domestic partners. The measure was followed by the complementary finance act (LFC) 2009, published on July 26, 2009. According to this law, all foreign direct investment (FDI) projects are required to have an ownership structure of 49-51%, in which the domestic partners own the majority stake, removing, therefore, ownership by foreign investors. Furthermore, a new tax was introduced by the government on 01 January 2009. This consists of 15% tax transfers on capital abroad from MNEs operating in the country. This tax was not only applied to the energy sector, but also in other sectors, such as the pharmaceutical industry where a few international firms were granted four years of free taxation whereby laboratories could import without restrictions. However, after this grace period, the government obliged them either to invest in the production of drugs or to leave the country (The Economist Intelligence Unit, 2010).

The Algerian government justified this measure by arguing that MNEs tend to be profit-based and they tend to transfer their entire profit to their home countries rather than reinvesting it in the local economy. It could also bring a pool of domestic investors into key projects. Despite their minority stakes, MNEs can still control the management, but are expected to transfer the knowledge and skills to their local partners.

Although the main objective was to improve economic growth, the new FDI rules introduced tax concessions for local entrepreneurs, and new tax rules for the import of goods and services, a series of actions to encourage the contribution of domestic financial institutions in the economy, and a more restrictive FDI regime. The FDI rules also included some measures to reduce the imports bill, which had grown considerably in recent years and was considered a potential risk to economic stability. These restriction measures included more severe controls on external trade operations and a ban on consumer credit (excluding mortgages).

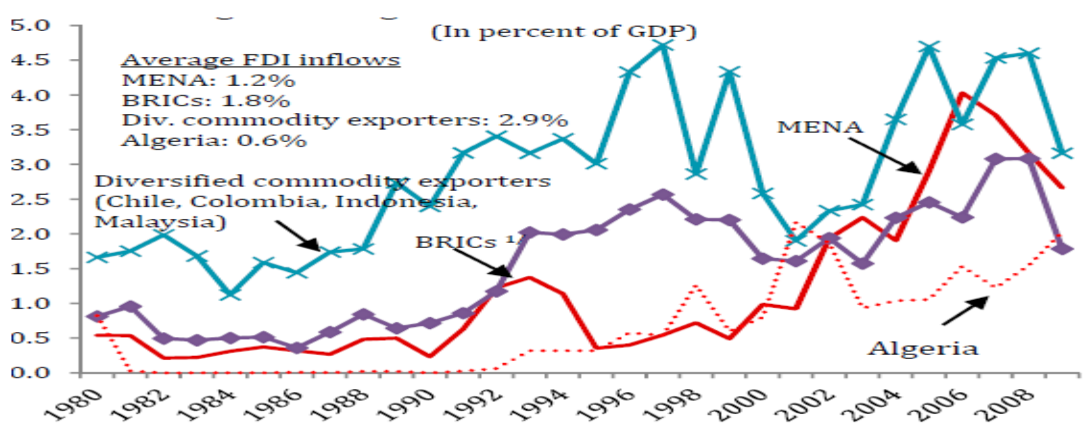
The government's new investment legislations were criticized by foreign investors, who accused the government of creating barriers to investment, intervening in the market and acting in favour of a few firms, and warn that this new shift towards investment would jeopardise the presence of multinationals in the country. The European Union, led by the French, British, Italian and Spanish ambassadors in Algeria, have urged the government to withdraw the new law regarding foreign investors, removing all barriers of entry to the local market as well as respecting the bilateral agreement between Algeria and the European Union (The Economist Intelligence Unit, 2010).

According to the ministry of investment figures, in 2010 nearly 200 foreign firms withdrew from the Algerian market (mainly in the energy sector) due essentially to the new energy law allowing the national companies Sonatrach and Sonalgaz to be associated with all foreign investment in the country's hydrocarbon sector. While the economic analysis suggests that the introduction of new investment policies shows a growing confidence by the Algerian government to manage its own business without a foreign hand, aiming to encourage local investment and continue to stimulate the foreign investment and partnership (The Economist Intelligence Unit, 2010).

Furthermore, the state also retains pre-emptive rights in the sale of assets and requires that the National Council of Investments approve all new projects. For all external trade operations, MNEs are now required to file a letter of credit (crédit documentaire; CREDOC). Tax identification numbers are also required for all external trade transactions.

A tax cut for leasing purchases, known as credit bail, was presented as proof that the authorities wanted to encourage private domestic investment. The government has injected €1.47billion in capital over to the National Investment Fund and transferred AD48m (€471,000) to a public investment fund that gives assistance to small and medium-sized enterprises (SMEs). Finally, the cap on government guarantees for SMEs loans was raised to AD250m (€2.45m), up from AD50m (€491,000) (IMF, 2011).

Unlike other middle-income economies, Algeria has failed to attract large amounts of FDI. Figure 2.3.2 shows the evolution of FDI flows to Algeria in comparison with countries from the Middle East and North Africa (MENA) region, middle-income countries, the BRICs (Brazil, Russia, India, and China) and a group of diversified commodity exporters from 1980 to 2009.

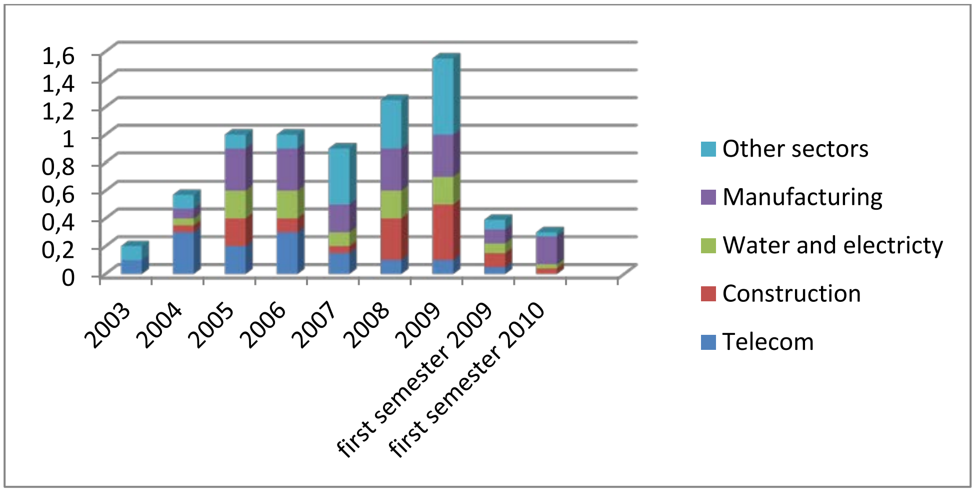


Source: IMF, 2011

Figure 1.10 FDI flows to Algeria in comparison to (MENA) region, middle-income countries, the BRICs and a group of diversified commodity exporters from 1980 to 2009

The figure shows that Algeria is not an attractive country for investment as it received little FDI. Most foreign investment (36 percent of total) is focused on the hydrocarbon sector, which is well below MENA and income level averages. Moreover, the group of diversified commodity exporters and the BRICs received large amounts of FDI flows, well above the middle-income category.

Another concern is the country's attractiveness to FDI lowering further after the enforcement of the FDI rules. Figure 1.11 highlights the evolution of FDI to Algeria from 2003 to the first semester of 2010 (excluding the hydrocarbon and financial sectors). The figure indicates a significant fall of FDI in 2009 with no significant recovery in 2010, whereas other emerging economies have experienced a visible FDI recovery.



Source: IMF, 2011

Figure 1.11 FDI net inflow to Algeria by sector, USD billion, 2003 -2010

In contrast, the lack of FDI flow could have a negative impact on the country's growth prospects, as both theoretical and empirical frameworks suggest a positive impact of FDI on economic growth (Dunning, 1980, 1988; Borezstein, de Gregorio and Lee, 1995; and Ram and Zhang, 2002).

Moreover, in a global economy where control of knowledge and technology are key factors for multinational enterprises success, ownership limits, such as those described in Algeria's new investment policies, could discourage MNEs. For multinational prospects, sole venture investments are indispensable for operating overseas in order to protect the firm's competitive advantage and safeguard its internal knowledge (Kogut and Zander, 1993)

An additional consequence of FDI restriction policy is the possible negative effect on export and economic diversification. Banga (2006) and Buckley et al (2002) argue that FDI can help stimulate export diversification and performance. These results suggest, in the case of Algeria, that the fall in FDI could hamper the government's efforts to diversify the economy and make it more dependent on the energy sector.

In terms of the possible impact of the world financial crisis and the crash of oil prices, the Algerian Prime Minster, Mr Ahmed Ouyahia, declared in October 2010 that Algeria is supposed to be safe and not likely to be hit by any financial shock as the Algerian stock market is pretty new and not fully integrated in the world financial stock markets.

This opinion was supported completely by the IMF commission experts who insisted that Algeria will not suffer from the financial crisis. The IMF expert warned that, due to the inflexibility of the Algerian economy and the lack of openness in the world market, the country's heavy dependency on hydrocarbon revenue could weaken the its financial position, especially in the event of an oil price drop. The IMF commission highlighted that, with a tradition of high savings, abundant of skills workers, diversity of natural resources, and an advantageous geographic location, the country has a huge potential for swift and sustainable growth in all economic sectors. A more favourable business environment is needed to support the development of the emerging private sector, as the vital pillar of sustainable growth and employment generation strategy, as well as reducing the country's dependence on the oil sector (IMF, 2011).

2012 is announced to be very promising with the accomplishment of major new investments in the country and the upgrade of the existing infrastructure, which will probably expose Algeria to new economic areas. Furthermore, joining the Arab Free Trade on 01 January 2009, and the new deal to join the world trade organisation by mid-2012, would create new prospects for the country while encouraging FDI flow and strengthening its position as one of the major players in the Mediterranean region. In addition, the country's wealthy reserves could help protect Algeria from the global financial crisis as the debt is kept down to $600m and foreign exchange reserves reached $150billion in October 2010, making Algeria the first African and Arabic country and the fourteenth in the world in terms of foreign exchange reserves (IMF, 2011).

After examining the Algerian economy, and in order to improve the economy and make it a more attractive destination for FDI, I suggest the following based on the World Bank (2009) report:

First, infrastructure development and macroeconomic stability are essential for export diversification. Algeria should continue upgrading its economic infrastructures, improving its business climate. In this respect, the country is lagging behind its North African neighbours due to inefficient structural reform measures. Reforms in key sectors, such as banking and finance as well as exploiting the country's potential in the service industry, are essential to promote the economic diversification and increase the country's attractiveness to foreign capitals.

Second, the policy towards FDI is also vital for the development of a private sector-led export industry. FDI to Algeria has been traditionally scarce and has been flowing mostly to the hydrocarbon sector. Third, the new FDI law is likely to discourage MNEs by putting restrictions on control ownership and tax profits. The government should review its FDI strategy to attract more foreign capital by creating a more FDI-friendly regime.

I.2.3 Overview of the Algerian telecommunication sector

Investment in telecommunications is essential for broad-based economic development. The dual role of telecommunications as both a traded service and a vehicle for trade in other service sectors means that price reductions, improvements in the level of investment and the development of infrastructure and services through liberalisation would provide the necessary platform for the growth of the other economic sectors.

In late 1999, the Algerian government decided to deregulate the telecommunication sector. Poor services provided by the sole player in the sector - the state-owned company (Algerie Telecom) led to shortages of supply, obsolete technology, limited and poor quality of services, unbalanced tariff structure, very high tariffs for long-distance communication and abnormally low rates for local communication, monthly subscription charges and inappropriate regulation (World Bank, 2003).

The government wanted to improve the sector's internal efficiency and strengthen its competitiveness through market liberalisation which allows the creation of a multi-operator market structure to mobilise private sector participation. The establishment of a sound regulatory framework, promotion of private investments by stimulating the participation of the local SMEs in the market, ensure a sound access to telecommunication services and information networks by the rural population and other disadvantaged groups. The government anticipated the impact that rural connectivity will have on achieving a balanced economic development, as well as its significant contribution in curbing the country's insecurity. By doing this, the Algerian authorities hope to build a reliable national network connected to the Internet and consider that telecommunication reform was the key driver to modernising the country's economic infrastructure and attractiveness to local foreign investment.
Since the deregulation of telecommunication, the sector has continued to grow gradually, from a turnover of AD51.6billion (€506.6m) in 2002 to AD361.2billion (€3.55bn) in 2008. Although its contribution to GDP declined from 6.3% in 2002 to 4.05% in 2008, this is due largely to an increase in international oil prices.

As a percentage of GDP, Telecommunication has actually improved from a low of 3.55% in 2007, a trend in-line with the fall in oil prices. With 8,700 people working in the mobile segment alone as of 2008, and an estimated 10,000 people by mid-2012, the sector represents a significant source of employment (ARPT, 2011).

From the MNE perspective, since the liberalisation and deregulation of the country’s telecommunication market, the sector has become a huge potential for investors. According to the regulatory authority for telecommunications report (2010), the motivation for MNEs to invest in the Algerian sector was driving the country’s market size with significant consumer base of almost 36 million people and its hydrocarbon wealth. The Algerian market was underexploited as it was monopolised by the state-owned Algerie Telecom (AT), which controlled both the fixed-line and mobile telephone services. Deregulating the telecommunication sector, the Algerian government decided to offer private licenses to investors from around the world. The government incentives and the overall stability of the tax regime, a relatively stable political environment after a decade of civil war and the political effort to improve the country’s image and openness to international trade through different agreements, represent important determinants for investment decisions.

But, according to the Oxford Business Group report (2011), there is another key dimension for multinationals to choose Algeria as a location for investment. This is the opportunity to capture monopoly rents that could be earned by taking advantage of government legislation and policies; for example, after negotiating with the Algerian government, Orascom Telecom Algerie, the first MNE to invest in telecommunication, agreed to invest and upgrade the outdated infrastructure. Conversely, the government agreed to allow the firm to be the sole MNE in the sector for four years. Because of the lack of competition in the market and the inefficiency of the state-owned company, the firm could set a price that is significantly higher than the marginal cost of producing the service, so, in this case, we revert to a monopolistic market.

For a general overview of the Algerian telecommunication sector, the mobile market exceeded all expectations in 2005 when it continued to grow by around 200% for the fourth consecutive year and soared past the 50% market penetration mark. Mobile subscriber numbers soared from just 86,000 in 2000 to over 30 million in December 2010; the latter represents a 91.68% penetration rate (ARPT, 2011). The dynamic growth of the mobile sector has come at the expense of the fixed-line market, which slowed as mobile subscriber numbers accelerated. The fixed-line penetration stood at 7.22% in 2009, down from 8.97% in 2008, and fixed-line provision remains the preserve of state-owned Algérie Télécom (AT), after private operator Lacom withdrew in November 2008. Although the volume of land-line subscribers is not insignificant, with Algeria ranking second in North Africa and fourth in the Arab world after Egypt, Saudi Arabia and Syria, it has hardly expanded beyond 3 million subscribers since 2006. There should be potential for growth in fixed-line subscriptions as there is a huge appetite and the availability of ADSL increases.

According to the ARPT figures, Internet usage grew gradually from 2004, with penetration rates increasing in 2008 and 2009. From just 50,000 users in 2000, the sector accounted for more than4.1m users in 2009, up from 3.5m in 2008, representing a penetration rate of 12% (ARPT, 2011). Although the sector regulatory body ARPT (Autorité de Régulation de la Poste et des Télécommunications; created in 2000 the ARPT is responsible for setting the regulatory framework of the sector, as well as for awarding licences and authorisations to operators and settling disputes the market is heading toward saturation.) has licensed more than 80 Internet service providers (ISPs) since the sector opened up in 1998, AT remains the main dominant with a market share of 95%. Although ARPT continued to licence many firms, the hegemony of AT remains a considerable obstacle facing local or foreign investments. Table 2.3.1 shows the evolution of Internet subscribers and the penetration rate before and after the liberalisation of the market.

Table 1.4 The evolution of Internet subscribers in the Algerian Telecommunication sector

Year	Subscribers	Population	Penetration rate
2000	50,000	31,795,500	0.2
2005	1,920,000	33,033,546	5.8
2007	2,460,000	33,506,567	7.3
2008	3,500,000	33,769,669	10.4
2009	4,100,000	34,178,188	12

Source: ARPT, 2010

Despite the government's continued efforts to modernise it, the Internet sector remains underdeveloped and lags behind the neighbourhood North African countries, particularly in terms of service provision. The growing population, large local market and strong state commitment all suggest that expansion lies ahead. If the regulatory environment is opened up, especially for ISPs, and investments in the necessary infrastructure continue apace, the potential for growth is high (Oxford Business Group, 2011). According to the ARPT, telecommunication development remains promising after a flattening of penetration rates at around 80% in 2007 and 2008. Subscriber numbers rose by a further 21% from end-2008 to end-2009, and overall sector growth stood at 13% in 2008.

Furthermore, the government is engaging in a very ambitious and challenging plan creating an electronic government. The project, called "e-Algérie 2013" is a wide-ranging and ambitious five-year plan to regenerate the ICT environment by developing a high-quality and high-speed telecommunication infrastructure As well as boosting the Internet penetration and the extension of Internet use in homes, schools and the public sector, the government is using financial and tax incentives to attract more MNE IT companies (Oxford Business Group, 2011).

I.2.4 Analysis of the mobile sector:

The mobile sector is considered as the backbone of the Algerian telecommunication market. Liberalised in 2002, Algeria's mobile market is experiencing a big boom by achieving more than 26 million subscribers in June 2009, and expects to reach 33 million by December 2011(ARPT, 2011). With a penetration rate close to 63.7 %, compared with 0.26% in 2000 to 91.68% in 2009, it represents remarkable growth over a nine-year period. Total subscriber numbers reached 32.73m in 2009, up from 27.03m in 2008, and a massive jump from 72,000 in 1999. The Algerian telecommunication market is becoming one of the fastest growing in the Middle East and Africa regions (Oxford Business Group, 2011). The sector is now served by three operators: AT, Orascom Telecom Algeria and Wataniya Telecom Algeria.

The market had a relatively slow start until it was first stimulated by the entry of the second mobile operator, Orascom Telecom Algeria, who paid US$737 million for its mobile license in February 2002. The sector growth accelerated considerably in 2003 after the state-owned company, AT, created a new mobile subsidiary and rebranded its mobile activities as Mobilis. In addition, Wataniya Télécom Algérie, 80% owned by Qatar’s Qtel, entered the market in August 2004 under the trademark Nedjma, aggressively marketing and promotion offers; the first operator to offer multimedia, Internet and social network services. Since the entry of the third operator, the mobile segment has grown exponentially since liberalisation. In terms of figures, in August 2010 the Algerian market accounted for around 33 million subscribers. Djezzy led the sector with 14.6m subscribers and a market share of 44.66%; Mobilis ranked second with 9.4m subscribers and a market share of 30%; while Nedjma accounted for 8.2m subscribers and a 27% share. Analysts suggest that, by November 2011, the Algerian market will reach 35 million with a penetration rate of nearly 95%. Table 2.3.2 analyses the evolution of the mobile subscribers and the penetration rate before and after the liberalisation of the market (ARPT, 2011).

Table 1.5 Mobile indicators, 1998-2010

Year	Subscribers	Penetration rate
1998	18,000	0.06
1999	72,000	0.24
2000	86,000	0.28
2001	100,000	0.32
2002	450,244	1.5
2003	1,446,927	4.67
2004	4,882,414	15.26
2005	13,661,355	41.52
2006	20,997,954	63.6
2007	27,562,721	81.5
2008	27,031,472	79.04
2009	32,730,000	91.68
2011 estimated	35,228,893	95.00

Source: ARPT, 2011

Growth across the mobile sector reached its highest point in 2008 as a result of the ARPT introducing an obligatory SIM registration scheme. The scheme aimed to tackle the country's security issues and control illicit practice in the sector. As a result, the number of subscribers fell to 27.03m in 2008, from 27.56m in 2007, but picked up in 2009, 2010 and 2011, due mainly to the price war and an aggressive marketing strategy engaged by the three players (Oxford Business Group, 2011).

According to marketing consulting firm "TeleGeography", expansion in Algeria's mobile sector has matched growth across Africa, reaching 31.3% in 2009, and coming close to the 2007 continental average of 31.8%. Among countries in the Arab world, Algeria has a high mobile penetration rate but is still far behind major markets such as the United Arab Emirates, where the penetration rate exceeds 190% and is expected to hit 250%, with Emirates Telecommunications Corporation (Etisalat) and Emirates Integrated Telecommunications Company (Du) aiming to launch 4G services by mid-2012 (Oxford Business Group, 2011).

Although ARPT was aiming to launch the 3G by winter 2006, an international call for tenders for 3G licensing suggested that customers may not be prepared for this cutting edge technology. Consequently, the ARPT decided to postpone the launch of the 3G licensing till the first quarter of 2011. But, because of the Djezzy crisis and the government’s negotiation to purchase the firm from its new Russian owner (Vimpelcom), the bid for the 3G licenced has been delayed again to mid-2012 (Oxford Business Group, 2011).

Conclusion

The implementation of a liberalised telecommunication sector in Algeria has significant benefits not only within the sector, but also for the national economy as a whole. The opening of Algerian telecommunication markets has facilitated the entry of domestic and foreign private capital, and technological skills that have, in turn, accelerated network build-out, the provision of new services and improvements in the quality of service. Market liberalisation also has a profound effect on promoting development in other sectors, such as information technology and computing, which depend heavily on good, reliable and low-cost telecommunication.

The telecommunication sector is expected to enter a new era as mobile operators turn away from the chase for subscriber numbers in an increasingly saturated market, and look to offer value-added services and improved customer service, network coverage and introduce new product and services. In particular, the provision of data services is likely to ensure increased consumer spending which could increasingly boost the average revenue per user (ARPU).

Furthermore, the important roles played by information and communications technology networks as a major determinant of the country’s degree of development pushed the Algerian government to introduce 3G to stimulate not only telecommunications, but all industries. The 3G technology could play a key role in achieving the government’s E-economy goal by increasing the efficiency and effectiveness of the education system, business and government.

Chapter Conclusion

Over the past few decades, foreign investment has increased significantly among countries and has enhanced global economic growth. Empirical evidence shows that there is a positive a correlation between economic development and foreign direct investment inflow. For the emerging countries, for which FDI is an important source of technology, finance and knowledge, a major challenge is how to improve the country's business environment in order to enhance their attractiveness for MNEs. Furthermore, Additional FDI in telecommunications would ease technology transfer and additional capital, and increase market competition, which should benefit national telecommunication development. Increasing foreign investment and deregulating telecommunication markets in developing economies would result in substantial progress in meeting developing countries' basic telecommunication requirements. Of equal importance, telecommunications also have a substantial and important influence in sustaining national security, social stability, economic growth and many industrial sectors.

Knowing the importance of FDI, Algeria welcome foreign investment as the country requires additional cash and access to credit to ensure sustained economic growth. Authorities will evaluate any foreign investment proposal for its long-term potential contribution to increase Algeria's productive capacity, non-hydrocarbon exports, and technology transfer. As a result, the Algerian government is continuously seeking to improve the business environment by improving its investment policies, giving more guaranties to MNE's as well as encouraging local entrepreneurs to contribute more effectively to the economic growth. However, the new investment code restricting full ownership of investment for MNE's is hardly criticized by foreign investors as they accuse the Algerian government of putting barriers to investment which could jeopardize the future of FDI to the country.

In the next chapter, I begin by analysing the motivation for FDI, looking at both theoretical and empirical studies. The second section examines the four main determinants to FDI effect to constraints: rent capture, political risk and institutional stability, economic determinants and the cultural distance between the home and host country, and I will formulate my research hypothesis throughout.

Chapter II: Literature review

Section1: FDI Motivations and Effects

Introduction

Nowadays, the issue of foreign direct investment (FDI) is being paid more attention, both at national and international level. There are many theoretical papers that examine FDI issues, and much research on the motivations underlying FDI importance as key element of economic development in all countries, especially the developing ones.

The boom of FDI flows to developing countries since the early 1990s show that multinationals have increasingly considered these host countries to be profitable investment locations. At the same time, researchers like Kokko (2002) argue that the determinants of and motivations for FDI in developing countries have changed in the process of globalisation. As a consequence, it would not be good enough for developing economies governments to offer promising markets in order to induce FDI inflows. Policymakers would rather face complex challenges in striving for location attractiveness to FDI.

Given the potential role played by FDI sustaining growth and improving economic transformation in developing countries by allowing the transfer of providing capital, foreign exchange, technology and by enhancing competition and access to foreign markets (Dunning, 1980; UNCTAD 2006; Crespo and Fontura 2007; Romer, 1993). As a result, there is an increase in competition between developing countries, where investment demand is higher compared with their domestic savings rate to attract FDI. This is done by embarking on drastic economic reforms, investing in the country business infrastructure, liberalising their policy regimes and offering various stimuli packages, such as tax royalties, trade liberalisation, establishment of special economic zones and incentive packages to the foreign investors (UNCTAD, 2011).

United Nations Conference on Trade and Development (1998: 111) suggests that “FDI are increasingly pursuing complex integration strategies as multinationals are increasingly seeking locations where they can combine their own mobile assets most efficiently with the immobile resources they need to produce goods and services for the markets they want to serve”. Therefore, the question arises of what determines the FDI flow to developing countries?

The relative importance of FDI location determinants has changed. Even though traditional determinants and the types of FDI associated with them have not disappeared with globalisation, their importance is said to be on the decline. More specifically, "one of the most important traditional FDI determinants, the size of national markets, has decreased in importance. At the same time, cost differences between locations, the quality of infrastructure, the ease of doing business and the availability of skills have become more important" (UNCTAD, 1996: 97).

Dunning (1990) argues that there are multidimensional factors influencing the FDI inflow; this is due to the different types of motives work behind the decision of investment in foreign countries by the MNEs. For instance, some MNEs seek large domestic market (market-seeking FDI) while others look for the supply of natural resources (resource-seeking FDI), or simply just to relocate their production facilities to reduce their production cost in order to be more competitive in their home market (efficiency seeking FDI). Later, the scholar demonstrates that FDI in developing countries has shifted from market-seeking and resource-seeking FDI to more (vertical) efficiency-seeking FDI (Dunning, 1999).Table 2.1 summarises the determinants of FDI in developing countries.

Table 2.1 Host country determinants of FDI

<table>
<tr><th>Host countries determinants</th><th>Type of FDI classified by motives of firms</th><th>Principal economic determinants in host countries</th></tr>
<tr><td>Policy framework for FDI
• Economic, political, and social stability
• Rules regarding entry and operations
• Standards of treatment of foreign affiliates
• Policies on functioning and structure of markets (especially competition and policies governing mergers and acquisitions)
• International agreements on FDI
• Privatisation policy
• Trade policy (tariffs and nontariff barriers) and coherence of FDI and trade policies
• Tax policy.</td><td rowspan="3">Market-seeking

Resource/asset-seeking

Efficiency seeking</td><td rowspan="3">• Market size and per capita income
• Market growth
• Access to regional and global markets
• Country-specific consumer preferences
• Structure of markets
• Raw materials
• Low-cost unskilled labour
• Skilled labour
• Technological, innovative, and other created assets (for example, brand names), including as embodied in individuals, firms, and clusters

• Physical infrastructure (ports, roads, power, Telecommunications)
• Cost of resources and assets listed above, adjusted for labour productivity

• Other input costs, such as transport and communication costs to/from and within host economy and other intermediate product

• Membership of a regional integration agreement conducive to the establishment of regional corporate networks</td></tr>
<tr><td>Economic determinants (see table on the right)</td></tr>
<tr><td>Business facilitation
• Investment promotion (including image-building and investment-generating activities and investment-
• facilitation services)
• Investment incentives
• Hassle costs (related to corruption and administrative efficiency)
• Social amenities (for example, bilingual schools, quality of life)
• After-investment services</td></tr>
</table>

Source: Compiled from different issues of UNCTAD, World Bank

Lucas' (1993), and Jun and Singh's (1996) research focuses on the effect of business environment indicators on motivating the flow of FDI. They identified three main determinants: macro-economic stability; and economic and political risk. For instance, the degree of market openness, growth, inflation, exchange-rate risk, institutional stability - such as policies towards FDI, tax regimes, the transparency of legal regulations, the scale of corruption, and political stability, ranging from indicators of political freedom to measures of surveillance and revolutions.

Other empirical studies suggest that there is an extensive range of indicators on what we refer to as the business environment. These indicators could be classified into four main groups: a) macroeconomic stabilisation; b) quality of governance including the performance of law and contract enforcement institutions; c) regulation of trade, industry, and factor markets; and d) quality of physical infrastructure, including power supply, postal and telecommunication, and transport (UNCTAD, 2008).

In the present research I will focus mainly on the Dunning (1977, 1980, 1988) OLI framework to explain the determinant of FDI.

II.1 Theoretical arguments on the economic determinants of FDI

From a macroeconomic point of view, FDI takes the form of capital flows across borders, from countries of origin to host countries, which are found in the balance of payments. The variables of interest one is: capital flows and stocks; returns obtained from investments.

The microeconomic perspective tends to determine and analyse the motivations for investment across borders from the point of view of the investor. It also investigates the consequences to MNEs and home and host countries, of the operations of the MNEs rather than investment flows and stock (Lipsey, 2001).

After the Second World War, international production was considered a small part of international affairs, while the attention was directed towards those components which had an important share (e.g. international trade). Since the 1960s, the phenomenon of transnational corporations and FDI has begun to gain importance.

Although, the term “FDI” is relatively new, the concept itself can be traced back to Ricardo’s theory of comparative advantage, which was considered as the first attempt to explain Trade. However, FDI cannot be explained by the comparative advantage theory as this theory is based solely on two countries, two products and a perfect mobility of factors at local level, and fails to explain the rising share of FDI. Other frameworks were also used to explain FDI, such as portfolio investment, which assumes, that under perfect market where there is no risk or barriers associated with free capital movement, the capital will go from countries with low interest rates to countries with high interest rates. But these claims have no basis in reality, and assumption that the capital can move freely in any direction erodes the reliability of the theory.

Hymer (1960) was the first to explain that there is a difference between FDI and portfolio investment, which is defined as an inter-country flow of capital acting in response to differential rates of return on capital; interest rates (Dunning and Rugman, 1985). He focused mainly on why MNEs finance their foreign assets in their domestic currencies and explains the choice of FDI in terms, “monopolistic advantages”, which means the ability of MNEs from countries with strong currencies to raise capital cheaper in foreign markets compared with competitors from countries with weaker currencies. He attributes the firm’s motivation of FDI to structural failure, or market imperfections, of international financial markets, allowing MNEs in a strong financial position to acquire of foreign assets.

Hymer illustrates that, when the interest differential theory was applied to FDI, a number of inconsistencies arise. For instance; firms that chose direct investment were also borrowing abroad. As Hymer observed, if FDI is encouraged by higher interest rates in a foreign country the practice of borrowing considerably abroad is seen as bizarre. Another paradox pointed out by Hymer was that investment flow has a constant industrial distribution and this distribution is identical in all countries where FDI in undertaken.

So, it is not apparent that capital movements encouraged by interest-rate differentials should have such an industrial distribution. On the contrary, observations of FDI flow over time have shown that foreign investment is limited between number of countries; mainly developed countries such as: USA, EUROPE and JAPAN. He also, identifies a correlation between market failure and FDI and MNEs. Hymer also suggested that the significant theoretical limitation of the interest differential theory was that it did not clearly explain the notion of "investment control".

Under Hymer's theory, FDI is considered an international operation; equity or non-equity ownership, licensing, franchising, strategic alliances, formal cartels or implicit collusions, in which firms of a home country can control the decision making of another (in the host country). Movements of capital associated with FDI were, therefore, not driven by higher interest rates in host countries but took place in order to finance international operations. In other words, Hymer recognised that FDI is a firm-level strategy decision rather than a capital-market financial decision.

Hymer (1960) developed the concept of firm-specific advantages He also demonstrated that FDI only takes place when the benefits of exploiting firm specific advantages across borders allow overcoming the additional costs of doing business abroad. He was concerned specifically with the international operations of national firms and focused mainly on why MNEs undertake FDI rather than explaining their growth. He distinguished the costs of international operations were of two sets: the first is fixed and non-recurring, language and cultural clashes, lack of familiarity with the customs, politics and economies of host countries; the second is frequent costs that involve political risk discrimination by national governments, the business climate, consumers and suppliers, and, exchange-rate risks (which, according to Hymer, represent the most important factor). In other words, Hymer recognised that FDI is a firm-level strategy decision rather than a capital-market financial decision.

Furthermore, Hymer (1968) offers a contemporary view of the determinants of FDI, pointing out that FDI involves the transfer of a set of resources of firm-specific assets, including managerial and technological skills, and not just the financial flow of capital. Moreover, he stated that, for firms to own and control foreign production facilities, they must possess "monopolistic" and unique advantages in their firm-specific assets, which is sufficient enough to offset the disadvantage they face in operating their facilities in foreign jurisdictions. Kindleberger (1969) distinguished between four types of advantages possessed by monopolistic firms: 1) production differentiation, marketing skills, pricing policy; 2) patented or secret technology, and easier access to capital; 3)

Economy of scale; 4) Government policies regarding imports and custom unions. This "monopolistic-competition approach" or so called "Hymer-Kindleberger theory" (1969), originally formulated by Hymer (1960) and expounded by Kindleberger (1969), states that consideration for firm-specific assets is essential in explaining economic determinants of FDI.

The Hymer-Kindleberger theory was deeply expounded by Kindleberger (1973). According to Kindleberger, oligopolistic firms pay great attention to what their rivals are doing and therefore, they feel that their export markets are severely threatened if a rival establishes a plant there. This motivation of FDI could be understood as "created" locational advantage and with this "dynamic" revision, the Hymer- Kindleberger theory is considered even more valid.

Although, as pointed out by Buckley and Casson (1976), while the Hymer-Kindleberger theory does not explain how the advantages are generated, it provides useful insight into economic determinants of FDI, stating that MNEs internalise their production activities abroad in order to exploit their firm-specific advantages. Such advantages are regarded as intra-firm public goods, in the sense they require relatively low additional cost to exploit internationally through establishing foreign production facilities.

Also, they arise partly from economies of scale with respect of intangible assets such as skilled managerial capacity (Buckley and Casson, 1976). However, they state that MNEs should be included in the analysis as they are cost-associated with the acquisition of foreign assets. If, after taking account these cost, it is still "worthwhile" or more economical for MNEs to undertake FDI.

However, while Hymer included in his concept the problem of information costs facing foreign firms' *vis-à-vis* host country competitors, discriminatory treatment by their home host countries governments, and foreign exchange risks, the responsibility of foreign concepts is more narrowly focused on institutional differences among nations.
The resulting hazards of unfamiliarity and discrimination, as well as relational hazards, could force MNEs to face additional adaptation costs when operating abroad (Eden and Miller, 2004).

Other models, like Vernon's (1966) production cycle theory, attempt to explain certain features of FDI made by American manufacturing companies in Western Europe after the Second World War. Vernon (1966) suggests a framework based on four stages of production cycle: innovation, growth, maturity and decline. According to Vernon, in the first stage, MNEs create new innovative products for domestic consumption and export the surplus in order to the foreign markets. According to this theory, producers have an advantage by possessing new technologies, as the product develops also the technology becomes known. Manufacturers will standardise the product cross border through exports. But due to the technology leakage other companies will start imitate the actual product so the original manufacturers lose their competitive advantage. Vernon (1966) took the example of the US firms exporting to Western Europe and how European firms starting imitating their products. As a consequence, US firms were pushed to open subsidies on Western Europe in order to maintain their market shares.

This theory succeeded in explaining some aspects of American firms' investments in Western Europe made between 1950 and 1970. But it fails to explain the areas where US companies have not possessed the technological advantage and FDI was made during that period.

One of the most important explanations of FDI is internalisation theory. This theory tries to explain the growth of MNEs and their motivations for achieving FDI, explaining which parameters would stimulate firms to expand across borders, and on entry mode choice.

Developed by Buckley and Casson (1976) and then by Hennart in 1982 and Casson in 1983, the theory was launched by Coase in 1937 in a national context and by Hymer in 1976 in an international context. The internalisation theory demonstrates that the MNE organise their internal activities so as to develop specific advantages, which then to be exploited as a form of firm-specific advantages (FSAs) in knowledge and other types of intermediary products. The exclusive ownership of the firm specific advantages serves to overcome the externality of knowledge being a public good.

Given the presence of market failure, performing activities inside the MNE could act as a governance mechanism to develop and exploit firm specific advantage. The scholars suggest that any type of market imperfection across both products and factor markets could force the MNE to internalise.

In a related paper, Dunning (1977) also popularised the Hymer approach and contrasted this with the international economics factor-cost explanation of international trade. Dunning (1980) later combined this thinking into his eclectic paradigm, in which location advantages capture differences among countries and regions, while internalisation and ownership advantages reflect firm-level strategy decisions and the outcomes thereof.

Dunning (1977, 1980, 1988, 1993) explains the micro-level that a business firm will engage in FDI in three closely associated “advantage” conditions are satisfied, the ownership-specific advantages, the location specific advantages and internalisation advantages. He, therefore, suggested a theoretical paradigm known as the OLI framework. It is also referred to as the “eclectic paradigm” due to its “all-encompassing” orientation.

According to Dunning (1977), the extent to which a firm possesses its firm-specific assets (O-advantages) *vis-à-vis* firms of other nationalities in a particular market functions as a determinants of FDI. These O-advantages largely take the form of the privileged possession of intangible assets; these are, in some ways, exclusive possessors of the company and may be transferred within MNEs at low costs, leading either to higher incomes or reduced costs.

In addition, there are those that arise as a result of the common governance of cross-border value adding activities, assuming that the above conditions are satisfied (Dunning, 1977). But MNEs operating cross-borders could face additional costs. To effectively enter an international market, MNEs should possess certain advantages that could allow them to triumph over operating costs internationally. These advantages are the property competences or the specific benefits of the MNE. The firm has a monopoly over its own specific advantages and using them abroad generating a higher marginal profitability or lower marginal cost than its competitors (Dunning, 1977, 1980, 1988).

Furthermore, Dunning (1977, 1980, 1988) identified three main types of specific advantages: first, is the monopoly advantages that could take form of privileged access to markets through ownership of natural limited resources, patents and trademarks. The second concerns possible technology; knowledge broadly defined so as to contain all forms of research and development, enterprise and innovation activities. The last one would take advantage of large economies, such as those of scale and scope, learning or even better access to financial capital.

Assuming the first condition is satisfied, the extent to which the global interests of the firm are served by creating or utilising its O-advantages in a foreign location functions is the second determinant of FDI. These resources and capabilities, or O-advantage, are assumed to be uneven. Therefore, location-specific, L-advantage, is critical in determining the geography in which to utilise the O-advantage. Location advantages of different countries could be an important factor in determining who will become host countries for the MNE operation.

Dunning (1977, 1980, 1988) clusters the specific advantages of each country into three categories: The economic benefits involving the production factors, market size, transport costs, infrastructure availability, telecommunications and the country business environment. The second category is linked to the potential gain from the political advantages, common and specific government regulations, incentives offered to foreigners as well as government intervention and other factors that could affect FDI flows. The final category is related to the eventual social advantages including: distance between the home and home countries, cultural diversity, attitude towards foreigners etc.

Assuming the above three conditions are satisfied, it would be lucrative for the firm to use o these advantages, in association with other factors outside the home country (Dunning 1977, 1980, 1988).

Another component of FDI determination is the extent to which the firm perceives it to be in its best advantages to add value to its O-advantages rather than to sell them, or the right to use them to foreign firms. These advantages are named I-advantages since market mechanism are internalised by organisational regulation systems, and could be linked to Coase's (1937) transaction cost argument adapted to specific context of FDI determinants.

The, I-advantages offers a framework for understanding and assessing different ways in which the company will exploit its powers from the sale of products and services to various arrangements that might be signed between the firms. The higher the cross-border market internalisation benefit, the more the firm would be motivated to to engage in foreign production rather than going for other non-equity modes like: licensing or franchising (Dunning 1977, 1980, 1988).

The eclectic paradigm OLI shows that its factors are different from firm to another depending on different variables, such as the economic context and the political, social characteristics of the host country. Therefore, the motivation of the MNE to invest is subject to the firm's global strategy, the challenges, opportunities and incentives offered by the host countries.

One criticism of the OLI paradigm is that is eclectic in nature, with a little original insight into determinants of FDI in that derives from a variety of theoretical approaches (international trade theory, the theory of the firm, institutional theory and location theory). At the cost of being eclectic, though, it is comprehensive enough to incorporate the widely differing attributes of MNEs.

Another criticism came from Casson (1986, 1987), who states that these OLI components are not mutually exclusive. As a matter of fact, "O-advantages" could be viewed as a special type of "I-advantages". This critique supports the view that economic determinants of FDI can be divided into two sorts of advantages those external to the firms (L-advantages) and internal to them (O-and/ or I-advantages).

Buckley and Casson (1992) studied the internal advantages of FDI decisions. They suggest that internalisation of the production of intermediate goods can be advantageous, due to the technological "inseparability" of production process, or market failure in technology market which is related directly to the economic determination of FDI by MNEs. This could be linked to the more general transaction costs theory of Coase (1937) and Williamson (1975), explaining why it is more advantageous to engage in certain production activities within the firm, rather than choosing market transactions to

achieve the same objectives. In this sense, Buckley and Casson's argument constitutes one of Dunning's OLI components (the I or internalisation advantages).
Accordingly, the Hymer–Kindleberger theory, and it is emphasis on the economics of internalisation argued by Dunning, constitutes part of Dunning's OLI framework; specifically, the "O-component or ownership-specific advantage, due to its consideration for firm's monopolistic or ownership-specific advantage. This theory could be appropriate to the "I-component" or internalisation advantage of Dunning's framework, since it considers a firm's internal aspects as a personification of the monopolistic advantages. In this light, the OLI framework is somewhat "redundant". The OLI framework assumes market imperfection through the explicit introduction of both "O-advantages", just as the "revised" international trade theories attempt to do with the general equilibrium approach. Although less strict than the revised international trade theory the OLI framework, it merits an empirical application.

Another point is that Dunning's OLI paradigm argues that the act of internalisation is vital to dynamic innovation processes, a point already made by Buckley and Casson (1976). By removing the distinction between O and I, the concern arises that researchers would only focus on internalisation to protect existing firm-specific advantages. However, the decision of internalisation should take into consideration not only the MNE's level of firm-specific advantage, but more importantly the possible contribution of internalisation to future firm development, whether in the form of conventional, asset-based FSAs or transactional specific advantages. The latter would involve the potential gain resulting from the firm's internalization such as: the ability to effectively manage new subsidiaries or the aptitude to reconfigure operations in function of external or internal circumstances (Rugman, 1985).

Recognising the need to reshape the OLI paradigm, Dunning (1988a) analysed the new trends in international trade and suggests that MNEs should now be seen as "organisers and coordinators of clusters of cross-border producing and transacting activities; to which a latitudinal dimension, which embraces a series of cooperative inter firm relationships is added" (Dunning 1988a: 345). He concludes that there are three key drivers of the new style of multinationals: the increasing importance of information technologies; the role of non-market forces especially government policies for FDI; and the rise of international alliances.

In 1995, the scholar added the notion of "alliance capitalism" to his framework. He argues that MNEs "revert" back to a Hymer-type situation of creating alliances to protect and develop ownership advantages, rather than for market power. He highlights that hierarchical capitalism tends to replace the external market with the internal hierarchy, whereas alliance capitalism was similar to a "voice" strategy since firms adopt cooperative solutions within the market (Dunning, 1995).

Dunning (1999) dealt with the resource-based view in the context of globalisation of economic activity during the 1990s. He explains that the world was shifting from hierarchical to alliance capitalism, where factors such as knowledge, regional and global activities and intra- and inter-institutional alliances were getting increasingly important. The scholar argues that the resource-based view and evolutionary theories of the firm were highly correlated to the O in the OLI paradigm. However, the strategic management theories took as their focus the creation and upgrading of these advantages, whereas the eclectic paradigm focused on their utilisation.

Recognising that strategy is missing from the eclectic paradigm, Dunning's solution was to add it on at the end as a "dynamic add-on"; thus, creating OLIS. He recognises that OLI could induce strategy, but that strategy could also affect OLI. He argued that firms with different OLI configurations would adopt different S (where S includes 10 elements such as technology, sourcing, HRM, marketing). As a result, he decided that S should be added to OLI as a fourth component.

Other scholars, such as Loree and Guisinger (1995), revised the OLI paradigm to OLMA by looking into the micro level of the firm and replacing the " I" with "M" (mode of entry) and adding a new factor "A" (adaptation of businesses processes to the environment) to the end, where A is basically S (strategy formulation and implementation). Furthermore, Dunning adopted the same approach as Porter's diamond of competitive advantage, where he incorporated international dimensions (defined as multinational business activity) into each of the diamond factors (Dunning, 1992).

In contrast, Devinney, Midgley and Venaik (2000, 2005) provide an explanation of how strategy and the OLI paradigm can be integrated. They argue that the eclectic paradigm pays insufficient attention to activity inside the firm; that is, the role played by managers and the dynamic evolution of the MNE.

Looking at the interaction between the different OLIS factors they recognised that O, L and I affect S and that S also affects O, L and I, they develop a theory where OLI is both exogenous and endogenous. The initial environment (O, L and I) determines the set of all possible strategic orientations for the firm. The MNE’s existing structure acts as restraint, determining the technologically feasible set of strategic orientations open to the multinational corporation.

Another development of the post OLI theory is the Dunning (1993, 1999) framework; where he identified four types of foreign direct investment motivations: natural resource seekers (that could be linked to natural resource depletion and rent capture), market seekers, efficiency seekers and strategic asset or capability seekers and later added relational assets within the O variable, in which he splits firm-specific advantages into tangible and intangible assets; intangible assets into intellectual and relational assets; and relational assets into private and social assets. “Relational” assets were defined as facilitating assets that had to be used jointly with the relational assets of another actor.

After reconsidering the implications for the OLI paradigm, Dunning concluded that O needed to be modified to include: the creation, coordination and sustenance of relational assets; L, the presence/absence of networks of related activities; and I, a better focus on cooperative non-equity economic connection (especially networks). Finally, the scholar suggests that incorporation of asset-augmenting FDI into the eclectic paradigm requires reconfiguring the traditional OLI variables, but leaves the overall paradigm intact (Dunning, 2002).

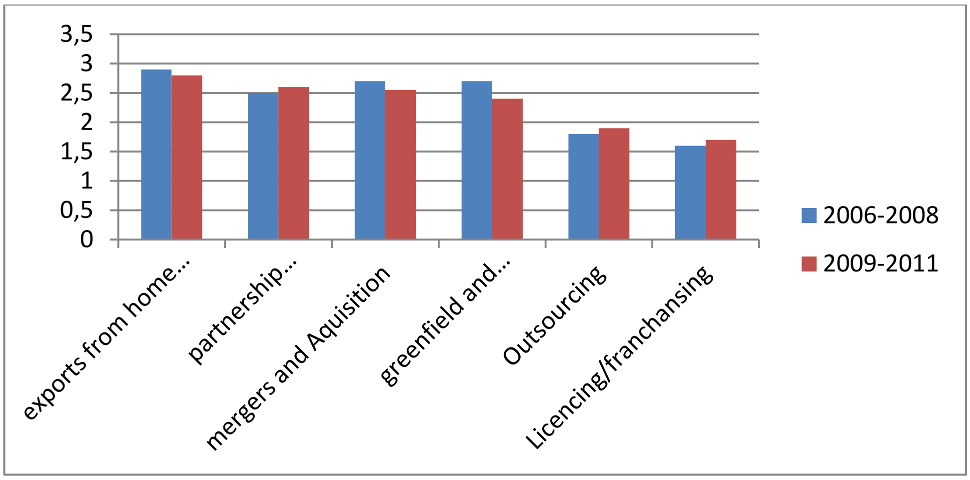
II.1.2 The choice of mode of entries in FDI

The choice of entry mode is an important part of a firm's foreign investment strategy. Firms are not only concerned about what foreign markets to enter and what activities to perform in those markets, but how to enter: whether by greenfield investment, acquisition or joint venture. Choosing one or another entry mode can have enormous strategic consequences for the firm. Not surprisingly, there has been considerable research into the patterns and determinants of foreign entry modes.

Greenfield investment is the most costly in terms of time and resource allocations, as MNEs have to build an entire new subsidiary transferring management, technology and know-how cross-countries, allowing the new affiliate to be integrated in the investing company as an independent entity with its own production facilities, sales force and market share.

According to the UNCTAD (2006), greenfield investment is becoming a dominant feature of the increase of FDI in emerging markets; a Greenfield project gives the investor a unique opportunity to build a new organisation specified to its own requirements. As an example, the total of greenfield investment accounted for more than 95% of the total investment in 2008in Algeria ($5,582 million in the energy sector and $4,950 million in the telecommunication sector). However, the new investment law adopted from the beginning of 2009 allows FDI to only perform under “partnership” in which local partners would represent more than 51% of the share capital.

The figure below examines the evolution of foreign investment by entry modes (Figure 2.1). From 2008, and due to the uncertainty which characterised the investment climate due to the global economic turmoil, a shift in MNE mode strategy was observed; merger and acquisition as well as the non-equity modes: exporting, licensing, outsourcing tend to be more dominant due to the low risk associated comparing to greenfield investment this trend is predicted to be more pronounced in the short-term (UNCTAD survey, 2009-2011).



Source: UNCTAD survey (2009-2011)

Figure 2.1 the different modes used by MNEs

The second mode of investment is merger and acquisition, which use primarily assets of a local business and combine them with the investors. Furthermore, the aim from an acquisition is to reduce costs, to benefit from the facilities and knowledge of local business and to get immediate access to local networks and business licence. However, in certain cases, especially in emerging markets, acquisitions tend to transform to greenfield investment as the required company, and may need a deep restructuring process to overcome the gap between companies. According to Meyer and Estrin (2001), the choice between greenfield and acquisition is foremost a decision over the origin of the resources for the new ventures which means that a start-up investment utilise the resource of a local firm and combine them with investors assets and capitals.

Furthermore, there are other determinants of the choice of entry: the strategic objectives of the project; the resources that are found; competition policy; taxation system; profit repartition rules; the degree of government intervention in the market; protection of the property rights; and the strategic intent to penetrate the market. In this case, we have to distinguish between the market-seeking and resource-seeking notions. According to Dunning (1993), market-seeking FDI could look into the local partner to provide market intelligence, or distribution networks (the use of brand name, the market share). In contrast, resources seeking might aim to utilise the local human capital to strengthen the global research and development of the investor. Previous research (Peng 2000; Meyer, 2001; Dunning, 1993) concludes that less-developed local institutions are associated with more Joint-Ventures, while weak local firms would lead investors in favour of a start-up entry.

Furthermore, literature on mergers and acquisitions, including Ethier and Markusen, (1996); Markusen (2001); Saggi (1996, 1999); and Yu and Tang (1992), discuss several potential motivations for international acquisition of firms. These include the following: cost reduction, risk sharing and competition reduction. Other research observes that when firms are symmetric, they will always prefer direct entry to acquisition when there is more than one target firm in the market (Salant et al., 1983; Kamien and Zang, 1990). Scholars like Head and Ries (1997) study incentives for national and supra-national merger regulations to authorise mergers in the presence of international trade, while Horn and Levinsohn (2001) focus on the substitutability between trade policy and competition policy.

The third major entry mode is Joint-Venture, which is defined as an investment with local partner providing an access to selected resources contributed by the partner without the responsibilities that arise from taking an existing organisation or sharing the control that multinationals prefer to avoid. The negative aspect of Joint-Venture is the shared control aspect of the investment that can lead to conflict between the partners, especially if their objectives are not compatible. Also, language and culture barriers could increase the conflict.

Anderson and Catignon (1986) suggest that Joint-Venture is only used if specific conditions apply. The investment depends on resource contribution for more than two partners; the non-feasibility to internalise the whole operation with one partner taking over the others. Moreover, the transaction costs are high and could not be handled by a single investor.

Another fact is that, in emerging markets, Joint-Venture could be seen as the only way of penetration due to legal requirements. For instance, Saudi Arabia, India till the late 1990s, Algeria since 2009 and other Gulf states have placed the upper limit on the maximum share of equity that foreigners were allowed to hold (I will go into more detail in the next section).

Recent literature suggests that new hybrid forms of investment emerge, such as “Brownfield” and partial acquisition. Meyer and Estrin (2001) defined Brownfield as a foreign acquisition undertaken as a part of the establishment of local operations. From the outset, its resources and capabilities are provided primarily by the investor, replacing most resources and capabilities of the acquired firms. Moreover, the initial organisational arrangement may be temporary, and from the beginning the investing company may arrange to setup resources, developing a Brownfield, or fully take over a Joint-Venture or partial acquisition.

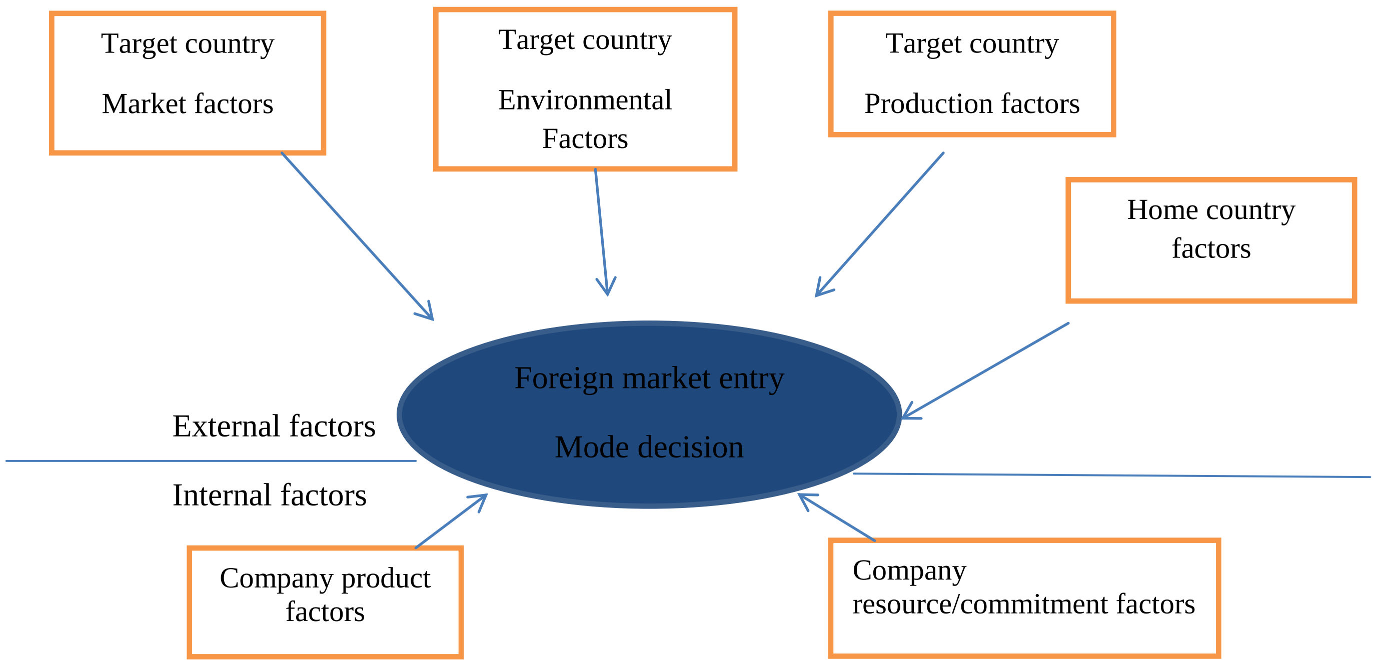
Scholars like Grönroos (1999) distinguish a new mode of entry, which is the Electronic mode. This illustrates the impact on the Internet in boosting company sales by offering world wild services as well collecting customer data, consumption habits and preferences for a better quality service, as well as arranging payment and shipment. For example, e-retailers could be dependent on other firms like (delivery and shipment services), which, in the case of a delivery problem, will alter the e-retailer brand image not the shipment company. Another issue is identity fraud. Hackers on the web could usurp other people’s identities and bank accounts and use them for their own benefit.

II.1.2.1 Factors influencing mode of entry

Previous research in the area of international business has identified some key factors influencing the mode of entry in target markets. For instance, Dunning (1977,1980, 1988) in his OLI framework examines the effect of the ownership advantage, location advantage and internalisation advantages of integration transaction within the firm. Inspired by the Dunning paradigm, scholars such as Caves (1982), Davidson and Mc Fetridge (1984, 1985), and Hennart (1982,1991) focused on explaining the choice between sole and joint ventures, and the ownership and control issues involved by the different mode of entries. Meanwhile, Cespedes’ (1988), Stopford and Wells’ (1972) research findings suggest that the choice of mode of entry could be also factor to resource availability.

Others studied the possible effect of cultural distance, country risk, and level of economic development on the mode of entry (Kogut and Singh, 1988; Anderson and Gatigon, 1986; Cho and Radmanabhan, 1995). Root (1994) assumes that the choice of investment depends on the managers' way of deciding, as MNEs have a choice either the follow a unplanned way, naïve mode which is more spontaneous, risky and therefore the firm take it just to save time looking for another entry mode or to opt for a more realistic mode taking into consideration internal and external factors, or just follow the company strategic objectives and policies when investing abroad.

Luo (2001) examined the MNE's choice of investment in emerging countries (the case of China) and proposed a model of four factors that determines the binary choice between the joint venture and wholly owned (country, industry, firm and project). Tse et al, (1997) examined how host and home country, and industry-specific factors and transaction costs could affect foreign firm's choices among the conceptual or investing mode of entry, and Root (1994) suggested a model of six critical factors influencing the entry mode and classified them in two major categories involving: target country market factors; target country environmental factors; target country production factors; home country factors; and internal including (company product factors, company resources/commitment factors). Both groups are summarised in Figure 2.2**.**



<u>Source</u>: Root (1994, p.9)

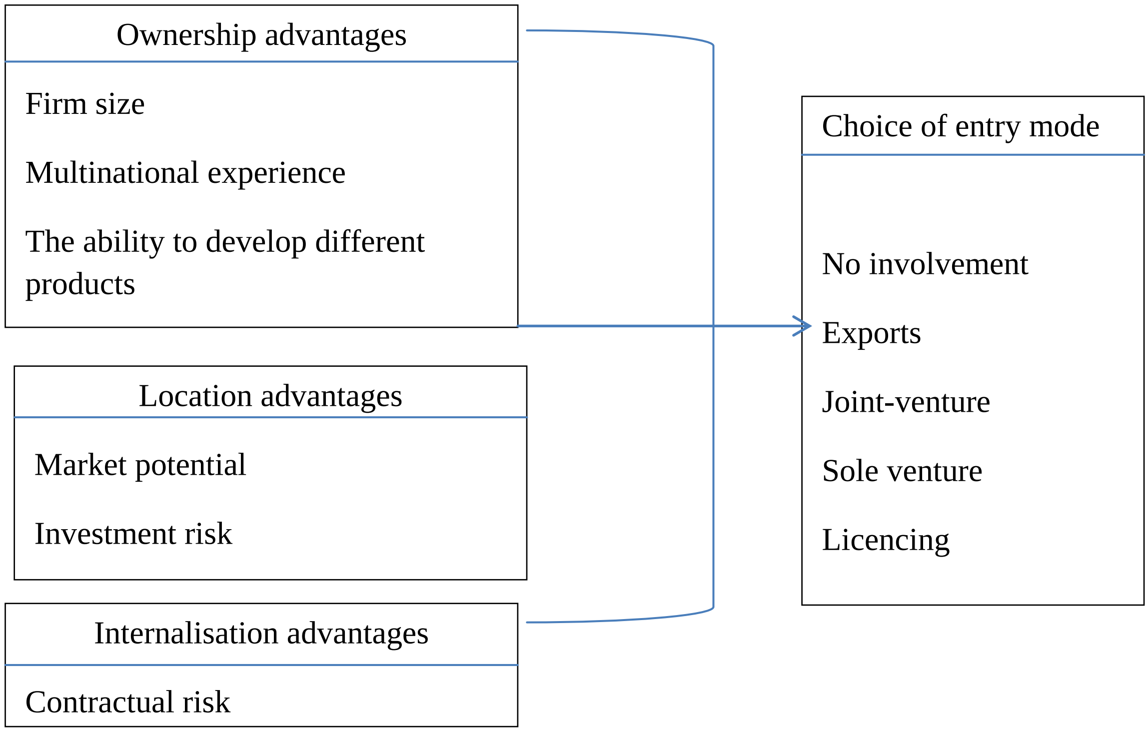
Figure 2.2 the factors influencing entry decision

The external factors could be recognised as those factors that commonly cannot be influenced by the managers decision as it is external to the firm and rely more on the market features, production factors and the business environment in both home and host economies. In general, the literature suggests three main external factors that could influence the entry decision: host country market factors; target country production factors host and countries business environment factors. Pan and Tse (2000) looked at the choice between equity and non-equity modes as the first level of hierarchy (equity-based on whole ownership and joint venture and while non-equity-based modes are contractual). These modes could bring more understanding to the MNE's choice of investment and could help the firm between the equity or non-equity modes.

Anderson and Gatignon (1986), and Chen and Hu (2002) examine the location-specific factors and suggest that they could be examined at different stages. At the national level, emerging economies are characterised generally by extensive state agreements and exports, high government intrusion in business decisions, shortage of reliable business information and, more significantly, lack of effective institutional arrangements to inflict contracts These location-specific features could result from the host country lack of experience in economic reforms, liberalisation and openness to the rest of the world (Khanna and Palepu, 1997). Another point is the institutional regime's weaknesses. Supporting business operations makes transactions in emerging market less efficient which, according to Isobe et al, (2000), could generate significant uncertainty from an investor's perspective. Tse et al. (1997) suggest that all the reforms made by emerging countries to attract MNEs may assist the adoption of more equity-based entry modes versus export or licensing. By gaining experience in working with foreign firms, the host market becomes skilled in creating an attractive and stable business environment (Zhan, 1993), which could result in the increase the level of confidence and the decrease the level of uncertainty according to the MNE's point of view .

Despite the importance of the external factors on the choice of the entry mode, there are other internal variables that play an important role in decision making. The literature identifies two main internal determinants: product factors, firm resources and objectives variables.

In this paper, I will focus on the OLI framework to explain the choice of mode of entry. The figure below (2.3), developed from the Dunning (1977, 1980, 1988), paradigm explains and summarises the factors influencing the entry modes.



Source: Dunning, 1977

Figure 2.3 factors influencing the entry modes

According to Dunning (1977, 1980, 1988), the relation between the ownership advantage and the choice of entry mode is very strong, he argues that the firm must possess high assets and skills to earn high economic rents to cover high cost of operating abroad and associate high control mode with high level of product differentiation. Other researchers, like Buckley and Casson (1976), suggest that the absorption of the costs of operating abroad require high level resources; therefore, the size of the market would reflect the ability of absorption of these costs. On the other hand, Dunning (1977, 1980, 1988) explains that the firm's international experience could be another factor influencing the entry mode as firms without international involvement would likely face managerial issues when operating cross national boundaries.

He also suggests that, when a firm has a competitive advantage developing differentiated product, there is a potential risk of losing revenue if it shares knowledge or technology with local firms, as the latter could acquire new technology and then decide to operate as a separate entity.

Linking the second component of the OLI paradigm to the choice of entry modes, literature suggests two determinants in the localisation advantages of the market potential (market size and market growth) and the investment risk. Empirical evidence found by Sang, Tschoegl and Yu (1986) suggest that, in high market potentials, equity entry modes are expected to generate high returns compared with the non-equity ones. This is due to the opportunity to lower costs through achieving economy of scale and scope. Other studies suggest that, in the short-term, the scale of economies is not significant, as MNEs could opt for equity modes of investment since they procure the possibility to establish long-term presence in the host market.

Another important factor is the investment risk, which is linked to the host country economic factor, political conditions, the degree of government intervention and policies towards FDI and could be critical of the MNE profitability in the host country.

Relating to the concept of internalisation advantages and the choice of entry modes, Williamson (1985) suggests that low control modes would be more beneficial as it allow the MNE to benefit from the market opportunities on one hand, and to avoid any form of discrimination such as bureaucracy, favouritism to local firms on the other. However, the low control modes could have a higher costs compared to assimilating the assets and skills within the company if managers are not capable to predict future eventualities. This was demonstrated by Williamson (1985) under the problem of bounded rationality versus external uncertainty and if the local market could not provide competing alternative; the scholar explains that transaction costs of collaboration may vary according to the degree that opportunism and bounded rationality impact transfers and they vary based on inherent inefficiencies in the transfer of knowledge. In other words, certain types of knowledge are more difficult to transfer and are more subject to the negative effects of bounded rationality and/or opportunism than others and, therefore, involve higher transaction costs if transferred to outside partners. In this case the most appropriate entry modes would be either exports or wholly venture as they allow better control due to a retaining of the skills and assets within the MNE.

II.1.2.2 Entry mode and effects

FDI has become an important source of private external finance for developing countries, as it represents investment in production facilities. Its significance for developing countries is much greater. Not only can FDI add to investible resources and capital formation, it also allows the transfer of production technology, skills, innovative capacity and organisational and managerial practices between locations, as well as of accessing international marketing networks. The first to benefit are enterprises that are part of transnational systems (consisting of parent firms and affiliates) or that are linked directly through non-equity investment, but these assets can also be transferred to domestic firms and the wider economies of host countries if the environment is conducive. The greater the supply and distribution links between foreign affiliates and domestic firms, and the stronger the capabilities of domestic firms to capture spillovers (that is, indirect effects) from the presence of and competition from foreign firms, the more likely it is that the attributes of FDI that enhance productivity and competitiveness will spread. The extent to which a host country can secure these benefits of FDI is likely to depend upon the mode of entry of foreign firms. The aim of this section is to shed light on the relationships between mode of entry and the degree of technology, capital and knowledge transfer.

According to UNCTAD (2006), the degree of technology transfer and the intensity of market competition depend upon the mode of entry chosen by the foreign firm. The competition improving effect of FDI is higher under greenfield investment. However, one mode does not unambiguously dominate the other in terms of the extent of technology transfer. On the one hand, the relatively larger market share that could the foreign firm benefit under acquisition increases its incentive for transferring costly technology (scale effect). While, on the other, strategic incentives to transfer technology in order to gain market share away from domestic rivals can be greater in more competitive environments (strategic effect).

The report also suggests that divergence between the foreign firm’s choice and the welfare interest of the host country would create a basis for policy intervention. More specifically, it shows that, for high costs of technology transfer, domestic welfare is generally higher under merger and acquisition relative to greenfield, whereas the foreign firm chooses greenfield investment. Thus, restricting direct entry in order to induce acquisition can improve welfare, even in highly concentrated markets. However, if the cost of technology transfer is low then domestic welfare is higher under greenfield relative to acquisition, whereas the MNE prefers acquisition to direct entry. As a result, a constraint on the acquisition of a domestic firm could help enhancing host country welfare by encouraging direct entry by MNEs. Finally, for intermediate costs of technology transfer, both the government and the foreign firm prefer acquisition to direct entry.

Additionally, Lee and Shy (1992) demonstrate that restrictions on foreign ownership could negatively affect the quality of technology transferred by the foreign firm. While Mutinelli and Piscitello (1998) argue that foreign firms could prefer to opt for joint ventures rather than full ownership under certain business environment conditions and provide evidence for Italian MNEs investing abroad.

As a result, restrictions on FDI in developing economies would not be to limit inflows of FDI, but rather to encourage foreign firms to adopt the socially preferred mode of entry in the host country. More specifically, it is shown that restrictions on the degree of foreign ownership, even when applied symmetrically to both modes of entry (merger and acquisition and greenfield), could push MNEs to adopt the host country's preferred mode of entry. MNE could earn rents from the different mode of entry; licensing, franchising, turnkey contracts or by creating a subsidiary or engaging in a joint venture in a foreign country through the ownership advantages that can take the form of a higher technology, knowledge and expertise or efficient managerial and marketing skills. Assessing the value of intangible assets is difficult as it is associated with information asymmetry.

The investor may not receive adequate payment since he may not be able disclose the full potential of future profits generated by a given technology to at the host country without giving away private information on the technology itself (Dunning, 1988). Thus, MNEs with advanced technology could face uncertainty in pricing and may select wholly-owned projects to joint venture or arm's length transactions.

Furthermore, the choice of the form of investment is often associated with the type of industry, for instance a greenfield investment might be preferred to shared ownership in order to guard against leakage of sensitive information, which is often happening in high technology industry, aviation industry, and other industries that requires high technology and heavy investment in R&D. MNE could also be concerned about the fail of venture or a dissolution, the local partner will remain in possession of the technology acquired from the MNE and could become a fierce competitor in third markets. Frequently, the joint venture contract do not offer a full protection against this possibility since it may be difficult to specify all possibilities in the contract. Moreover, the local partner may use copyrighted information obtained from the MNE in its own wholly owned operations, harming the partnership (Gomes-Casseres, 1989). The MNE could also fear that if the host country partner controls the employment policy. As a result of a non-efficient retention strategy, the employees could leave and diffuse their knowledge or reveal important information to competitors.

MNEs investing heavily in advertising also have reasons to opt for a greenfield investment. The local partner might have a strong incentive to free ride on the reputation of a foreign partner by debasing the quality of the product carrying the foreign trademark. In that case, the domestic partner acquires the full benefits of debasement at insignificant costs (Caves, 1982; Horstmann and Markusen, 1987).

Meyer (1998) analysed characteristics of British and German companies engaged in minority and majority of greenfield and strategic alliances projects in the region. For each of these clusters, he estimated a model with the dependent variable equal to one if the particular entry mode was chosen and zero otherwise. His results suggest a positive correlation between a firm’s R&D intensity and the probability of a greenfield subsidiary and a negative relationship with the likelihood of a joint venture. The latter result occurred in the case of minority, majority or all types of joined venture combined.

Gomes-Casseres (1990) investigates the choice between wholly and shared ownership in the framework of bargaining theory. Among other variables, his model involved industry-level R&D spending as well as its interaction with a dummy variable for countries controlling the extent of foreign ownership. A positive correlation between the interaction term and the probability of a greenfield subsidiary would indicate that investors in more R&D-intensive sectors can more easily negotiate full ownership. In fact, neither of the two variables turned out to be statistically significant.

To conclude, the literature suggests that firms with greater intangible assets should prefer full ownership to joint ventures or other strategic alliances. The preferences of a host country government regarding the extent of foreign ownership may differ from those of a MNE. Consequently, the entry mode used could be a result of a bargaining procedure between the two partners. Gomes-Casseres' (1990) study of the bargaining approach predicts that MNEs in R&D-intensive industries enjoy a greater bargaining power in negotiations with the host country's government (Gomes-Casseres, 1990, UNCTAD, 2008).

In light of this literature, I formulate the following hypothesis:

H1: Entry mode has an important impact on FDI spillovers in the Algerian telecommunication sector.

II.1.3 The potential FDI effects on emerging economies

Emerging economies are increasingly looking at FDI as a source of growth and development. Countries have liberalised their FDI regimes and pursued other policies to attract investment.

They have addressed the issue of how best to pursue domestic policies to maximise the benefits of FDI in the host economy. In general, the study of the FDI impact on developing economies focus on the overall effects of FDI on macroeconomic growth and other welfare increasing processes, and also on the channels through which these benefits take effect. Depending on the domestic country policies and a basic level of development, a majority of studies shows that FDI triggers technology spillovers, supports human capital formation, encourage international trade integration, helps create a more competitive business environment and enhances enterprise and innovation.

All of these could contribute to enhancing the economic growth, which is the most effective tool for alleviating poverty in developing countries. Furthermore, beyond the strictly economic benefits, FDI may help bettering environmental and social conditions in the host economies by, for example, transferring "more efficient and cleaner" technologies and leading to more socially responsible corporate policies.

II.1.3.1 Technology, knowledge, capital and productivity spillovers

In recent decades, FDI has played an important role in achieving economic growth and development, especially for developing countries. FDI brings capital and introduces new technology. Moreover, the new technology can also spill over to the local firms in the host country. For this reason, FDI is often considered as the most significant channel for technology knowledge and capabilities transfer.

In fact, FDI could not only bring in capital but also introduce advanced technology that can enhance the technological capability of the domestic firms. More significantly, the technological benefit is not restricted to MNEs subsidiaries but could also generate technological spillovers to the domestic firms and SMEs. Furthermore, the increase of FDI flow may boost competition in the host country economy. The competitive pressure may force domestic companies to operate more efficiently and introduce new technology to cope with the changes in the local market. Actually, literature suggests that external effect or spillovers from FDI is the most important channel for the dissemination of developed technology, rather than formal technology transfer arrangement (Romer, 1993; Blomström, 1989). Additionally, the increasing competition could improve local firm's productivity as it pushes them to use their existing resources more efficiently, spending more on R&D or to be more creative and search for new technologies (Blomström and Kokko, 1998).

UNCTAD (2008) suggests that aiming to gain from technology spillovers, many emerging countries offer different incentive packages to attract FDI. Consequently, the past two decades have observed a considerable growth in the f FDI flow to emerging markets; significantly faster than trade flows among the most developed countries, and became the largest source of external finance for developing countries (UNCTAD,2008).

Furthermore, FDI could have a direct or indirect effect on the host country economies. FDI could directly affect an economy by increasing employment, capital and technological transfer. Due to the high technological capabilities of MNEs, it is assumed that they show higher levels of productivity than local firms (Lipsey, 2002). As a result, the presence of foreign firms would enhance host country productivity. Indirectly, FDI can improve host economy productivity through a variety of technological spillovers to local firms. This could possibly be explained as the technology accompanied with MNEs has some public good qualities which cannot be fully internalised; thus, the localisation of the foreign firm could possibly create positive externality in terms of technological benefit to the domestic firm. These benefits could appear in the form of various types of externalities. A variety of externalities from FDI, so called “spillovers”, is considered as the most significant benefit from FDI. Blomström and Kokko (1998) used the term “technological spillovers” to characterise the externalities. Technology spillovers involved product, process and distribution technology, as well as knowledge, management and marketing skills.

Blomström and Kokko (1998) categorised the spillovers based on their effect on local firms’ performance. They classify them into two main types: productivity and market access. Productivity spillovers are linked to the positive effects of MNEs on the productivity and/or efficiency of the host country’s local firms, while market-access spillovers occur whenever domestic firms have access to international markets due to the presence foreign investments; mainly through non-equity mode of investment such as export-oriented MNEs. Technology spillovers might also take place within (intra-industry) as well as across (inter-industry) industries. Blomström (1991) identifies three possible channels of intra-industry spillovers: demonstration, competition and labour mobility. While the inter-industry spillovers come from the vertical linkages of MNEs with domestic firms who become their suppliers and customers. Consequently, there are four potential channels of spillovers: demonstration effects; labour turnover; vertical linkages; and competitive effects.

The demonstration-effect argument states that the exposure to the higher technology of MNEs could push domestic firms to update their own production procedures through imitation or reverse engineering (Das, 1987; Wang and Blomström, 1992). By adopting new production methods, managerial practices, local organisations could improve their level of technology, and therefore increase their productivity and efficiency.

Das (1987) presents a model to analyse the transfer of technology from the mother firm to its subsidiary in the domestic country. The model suggests that domestic firms learn from the MNEs and become more efficient. However, the increase in the productivity among in the local firm is assumed to be exogenous, and therefore costless to them.

The model also acknowledges that the MNE affiliates are aware of the technology leakage and determine their technology transfer behaviour based on this recognition.

Wang and Blomström (1992) developed a model in which they assume that technology spillovers result from the strategic interaction between foreign subsidiaries of MNEs and the local market firms. The model explicitly analyses the cost of transferring technology within MNEs and learning cost of the domestic companies, and treats technology transfers in a theoretic context where domestic firms and legal policies, as well as the host country business environment, directly affect their behaviour and play an important role in the technology transfer process. Another interesting point highlighted by Wang and Blomström model is that technology transfer through FDI is positively related to the level of domestic firm's learning capacity. Moreover, their model recognises that MNEs respond to domestic competition by introducing newer technologies faster. Labour turnover; adoption to new technology might could arise through labour turnover. Commonly, MNEs seek highly skilled labour in host economy. Consequently, the local affiliate will be investing in developing human capitals by developing training programmes. In that case, spillovers arise when the staff trained by MNEs shift or collaborate with domestic firms or even set up their own companies, transferring with them the technological, technical and managerial knowledge that they have learned. While this channel is probably the most significant channel for spillovers, it is hard to establish importance of labour turnover because it necessitate tracking employees who have worked for MNEs and then determining their impact on the productivity of the domestic workers.

Fosfuri, Motta, and Ronde (2001) presented a framework where spillovers are generated by labour mobility. Technological spillovers form when the trained person is hired by the domestic firm. They found that technology spillovers did not take place if the joint profit of the MNE and domestic firm is higher than when MNE can use the technology as a monopoly. The implication is that one should expect higher labour mobility and more spillovers when domestic firm could manufacture complimentary MNE's product. Another observation is that spillovers could occur in the case of a general job training rather than specific, and when the absorptive capacity of the domestic firm is high.

Another possible channel for a technology, capital and knowledge spillovers is the backward and forward linkages generated through market transactions. The transfer could take form of licensing or partnership agreement for particular technology, knowledge, management or marketing (Navaretti and Venables, 2004). Rodriguez-Clare (1996) presented an explicit model of linkages in which he demonstrates that MNEs improve welfare only if they produce linkages over and beyond those generated by the domestic firms they displace. Accordingly, the scholar pointed out the significance of vertical linkages as a channel for technology, capital and capabilities transfer from FDI.

According to Rugman (1981) and Dunning (1993), MNEs exist because they possess some firm specific advantages or ownership advantages outside their home countries, usually these advantages are knowledge-based**.** Blomstrom and Kokko (2002); Markusen (1998); Hymer (1976); and Caves (1974) developed the "knowledge capital model" as a basis for the analysis of the impact of FDI in technology and knowledge transfer linkage. This model, developed by Rugman (1981) and Dunning (1993), suggests that MNEs arise because they possess technological advantages. They are seen as firm-intensive in the use of knowledge capital and, therefore, are estimated to exploit this knowledge via their affiliates throughout the world. Consequently, MNEs are expected to be a major source of technology transfer between firms and from developed to developing countries. Under this theory, spillover from affiliates into the wider host economy is assumed to follow from that centrally-driven technological advantage.

The knowledge and skills transfer s are seen as the foundation for competitiveness in the host countries especially in the emerging markets that seek to create "technological capabilities" that are "skills, technical, managerial and institutional" (Lall, 1996). More often, managers in developing countries are not well prepared to face the economic environment changes due mainly to their unfamiliarity to the competitive market economy. Child (1993) recognises three levels of knowledge that help managers to develop their managerial and organisational capabilities:

- At the technical level, specific and advance techniques have to be obtained such as methods for quality measurement, scientific and engineering techniques and market research. At the systemic level, new practices have to be implemented, which could involve integrative learning emphasizing co-ordination and relationships. For instance, managing integrated production systems or production control and budgeting systems.

- At the systemic level, new systems and procedures have to be adopted, which requires integrative learning emphasising co-ordination and relationships. Examples include co-ordination of integrated production systems, or production control and budgeting systems.
- At the strategic level, senior managers have to develop cognitive frameworks for conducting the tasks of strategic management, including reassessment of criteria of business success and factors contributing to that success. This requires understanding of technological and managerial processes in such depth that managers can engage in innovation, select and adapt technology and take strategic decisions.

Further, FDI could be seen as a good source at both technical and systemic levels by allowing the transfer and generation of skills and know-how to host countries, thus the generation of embedded knowledge motivate the development of indigenous and locally-adapted capabilities. In fact, the prime objective of emerging market governments, when encouraging the flow of foreign investment, is to develop new capabilities when interacting with MNEs. However, the main strategies are to generate more profit from their investments and, therefore, they are not willing to transfer their knowledge capabilities without obtaining a suitable return for it which does not fit and contradict the positive spillovers definition; benefit obtained by others without paying the full price (Meyer and Estrin, 2003).

Another important point is that, in major cases, MNEs do not generate knowledge and skills at the high managerial level as they transmit the needed technology and knowledge for specific operations or productions, but not the deeper knowledge required for the independent technological innovations in host countries. Meyer and Estrin (2003) state that the knowledge spillovers start with the knowledge transfer within investing MNE, as this would lead to an increase in the productivity of the subsidiaries in the host market. This could have a positive impact on the balance of payment, tax revenue, national income and employment, and possibly create positive spillovers to the host economy.

However, recent literatures (UNCTAD, 2006, 2008) suggest that MNEs transfer knowledge that exclusively serves the subsidiaries to achieve their objectives. This depends on the affiliate role and the host economy competitive environment. Kokko and Blomstrom (2002) suggest that a subsidiary engaged in R&D or in application of latest technology in the production process would naturally receive more knowledge from the parent than subsidiary manufacturing products at later stages of the product cycle. Furthermore, subsidiaries facing competition from technologically advanced local firms may meet that challenge by upgrading technology with additional support from the parent MNE. Consequently, the technology transfer within an MNE can be expected to increase with the technological sophistication of the local environment.

Conversely, scholars such as Young et al. (1989) and Dunning (2003) suggest that there are other forms of international trade (licensing, franchising, strategic alliance etc) that could boost the knowledge and capabilities diffusion. However, firms prefer direct investment to avoid undesired knowledge diffusion specially products that involve high technology or product that the firm has a technological advantage over its rivals. In these cases, FDI could be seen as good mode internalisation as it might prevent undesired know-how diffusion.

From the host country’s perspective, the diffusion would represent a desirable positive externality. However, governments must acknowledge that, unless they offer the foreign transfer protection of his intellectual property, they may not gain access to the know-how at all. This leaves a mutual bargaining situation.

In addition, Kokko and Blomstrom (2002) argue that competitive advantages of firms are based on often organisationally embedded knowledge (tacit knowledge), which cannot be learned rather than adopted from blueprints but can only be transferred through personal interaction. Its transfer requires a complex learning-by-experience process that cannot be organised via markets. The transfer of tacit knowledge is, in fact, fairly expensive due mainly to the changing nature of technology that necessitates different acquisition strategies as more complex and tacit knowledge becomes, the less feasible is licensing. Thus, FDI becomes the most suitable mode for importing implicit managerial know-how.

However, Kokko and Blomstrom (2002) study the link between entry modes and FDI spillovers, and suggest a strong link between technology and knowledge spillovers and the MNEs mode of investment. The UNCTAD (2008, 2010 and 2011) reports argue that not only does greenfield investment have positive technological spillovers, but so does Joint-Venture. The UNCTAD (2009-2011) global survey found that more than half of the 41 respondents to the question on the mode of entry to foreign markets (33) had some form of joint ventures abroad. For almost a quarter of respondents, joint ventures accounted for more than 40% of their foreign affiliates. A relatively high share (30%) of joint ventures is focused on primary activities.

Given their limited experience, developing-country MNEs are more likely to involve a local partner who is familiar with host-country bureaucracy and the business environment in general. The advantage of forming a Joint-Venture from the perspective of technology diffusion within the host economy is that the local partners and the affiliate, which would be vested with a certain amount of technological and managerial expertise transferred from the parent firm, are likely to have close contacts and exchanges of personnel. Forming a Joint-Venture is, therefore, most evident, less risky and potentially the most effective means by which local firms can acquire knowledge from MNEs (UNCTAD, 2008).

In contrast, recent studies using panel data have found mostly non-significant or negative technological spillovers when the host region is industrializing. Blomstrom and Sjoholm (1999); Atiken and Harrison (1999); and Lipsey (2002) proposed the hypothesis that the absence of technology spillovers is due mainly to the local firms' inability to absorb the major technological know-how capabilities that FDI brings to their affiliates. Other studies, such as Konings (1999); Kinoshita (2000); Murali (2002); and Haskel, Pereira and Slaughter (2002), confirm this hypothesis but no empirical evidence has been found related to the importance of absorptive capabilities. Also, different researches used different measures of "absorptive capabilities", such as productivity levels or R&D expenditures. However, the results differ according the methodology and the specific country characteristics.

The notion of "absorptive capacity" was developed by Cohen and Levinthal (1990). They define the concept as the firm capability to recognise and assimilate valuable knowledge effectively. Boosting its resources and skills, and widening its knowledge capacities, could effectively lead to innovation. The scholars suggest that, at MNE level, divisions with a high level of absorptive capacity could benefit from other units knowledge and technology transfer that is generally subject to the firm potential learning capacities, technological abilities and the investment degree in R&D; that represents a vital factor in generating innovation. Consequently, host countries domestic firms can benefit from technology and knowledge when interacting with foreign corporations on condition that domestic organisations has the adequate level of human capital to be able to gain from the know-how transfer. They also need to organise and develop their own R&D and training programs to promote more innovation within the organisations (Kathuria, 2001).

Scholars such as Liu, Wang and Wei (2000) found that FDI has a positive impact in increasing domestic labor efficiency and effectiveness. They also suggest that the degree of local firms benefit from FDI spillovers depends heavily on their own technological capabilities; as an important element of the "absorptive capacity". Mowery, Oxley and Silverman (1996) explain that absorptive capacity is subject to two main determinants: regular knowledge gathering and the continual investment in technological-based capacities. Other scholars, such as Cohen and Levinthal (1990) and Tsai (2001), suggest that the notion of absorptive capacity goes beyond the external knowledge incorporation as it engages the capacity to apply the gained knowledge in business purpose for profit maximisation. They have also viewed it as an effective tool to reduce technical and managerial risks due to the engaged interaction within units in organisation. Huber (1991) described knowledge as a social creation that implies multifaceted social procedures, wherein different organisation elements interrelate together.

Zahra and George (2002:191) found that absorptive capacity has four facets; acquisition, assimilation, transformation and exploitation. They conclude that the first two can lead to a possible absorptive capacity, while transformation and exploitation have a more comprehensive impact on the absorptive capacity. The scholars state, "firms can acquire and assimilate knowledge but might not have the capability to transform and exploit the knowledge for profit generation".

The researchers conclude that more consideration should be paid to the firm's ability to control the knowledge that has been previously absorbed. In the same optic, Lane et al. (2001) state that firm's absorptive capacity imply its ability to identify, comprehend and incorporate external knowledge before applying it. The first three steps - identify, understand and assimilate - are interdependent and separate from the fourth (applying). Lyles and Salk (1996) have analysed the role of international joint ventures (IJV) in knowledge acquisition from an external partner. They conclude that the ability to learn mainly creativity and flexibility are gauging the knowledge transfer.

Other scholars, like Kokko's (1994) research in the case of Mexico, corroborate the importance of domestic absorptive capabilities for technological spillovers. In the same line, Koning (1999) for Polish and Bulgarian firms but working with R&D expenditures (as a measure of domestic absorptive capabilities) found that only domestic firms engaged in R&D experience positive spillovers. However, other studies, such as Kinoshita (2000) using the case of the Czech Republic, did not reach the same finding. He found that domestic firms R&D and FDI are substituting instead of complementary in explaining productivity growth of domestic firms.

Haskel et al. (2002) found the relationship between total factor productivity and foreign investment in developed country (the case of the UK) to be stronger for domestic plants that are smaller, less technologically advanced, and less skil- intensive. Accordingly, they conclude positive spillovers from FDI accrue predominantly to lagging domestic plants, not leading ones. Borensztein (1995) and UNCTAD (2004, 2006) suggest that the host country may not benefit from knowledge spillovers when the technology gap between foreign, and domestic firms are too wide. This is generally the case in poorer countries. The literature also found the effect of FDI on growth to be a factor in the presence of skills that facilitate absorption of new knowledge due to relatively low levels of skill accumulation, low-income countries are not able to experience more favourable effects of FDI. Furthermore, some papers have observed an insignificant or adverse effect of FDI on low-income countries and a more favourable effect on middle-income countries (Blomstrom et al., 1994; De Mello, 1999; Xu, 2000).

Therefore, not only inward FDI is concentrated in relatively richer countries, but also these countries are able to experience favourable spillovers than poor countries. Further research, such as that by Liu et al. (2000), analyse the non-linear relationships between the technological gap and productivity spillovers received by local firms. Blomström and Sjöholm (1999) demonstrate that the potential of know-how spillovers increase with the technology available in the FDI firm, which increases with the gap. However, spillovers decline as firms fall too far behind to be able to absorb the technology, which declines with the gap. Such non-linearity between strategic targets and prior knowledge has also been shown in firm level studies in transition economies as a result of, among other causes of cognitive gaps of managers (Newmann, 2000).

Another study by Markusen (2002) considers the potential for intra industry FDI flows to be a very important criterion in matching any model to the data, not just as a clever mechanism to generate two way flows. The research looked also at the question why countries with very low wages do not attract investment even for productions that require only unskilled labour.

He developed the knowledge capital model based on three assumptions relating to knowledge-based assets. First, the services of these assets used in foreign production facilities. Second, the production of knowledge-based assets is a factor in the skilled-labour intensity. The last one, knowledge-intensive assets, could reach their full productivity in multiple locations simultaneously. While the first two assumptions support vertical firms, the third favours horizontal multi-plant firms.

This model allows for vertical fragmentation of production within a single firm across two countries by assuming that production using unskilled labour requires some fixed input of technical and managerial know-how from skilled labour. He demonstrates that countries with skilled labour scarcity will attract almost no FDI. The scholar views the vertical feature of the micro-level literature's knowledge capital model as essential to generate relationship between trade and investment that have driven the growth of intra-firm trade. He also considers that MNEs are more engaged in industries that are intensive in R&D and skilled labour to be of central importance in his models. He discards the idea of FDI flows being a factor to endowments of physical capital as being unsupported by the data, focusing instead on skilled and unskilled labour.

Moreover, the knowledge-capital model suggests that foreign affiliate production and trade should be linked to the difference of sizes between firms, skilled and unskilled labour endowments and trade and investment (including bilateral relationship) cost barriers for two countries. Bergstrand and Egger (2007) added an extension involving physical capital as a third factor and a third country. Other factors including competition among host countries for inward investment along with integrating factors such as internalisation/outsourcing into the ownership/location models would be an add-on for the knowledge-capital model making knowledge easy to transfer and easy to absorb through agent opportunism.

II.1.3.2 Competitive effects

The early research, for instance Kindleberger (1969), states that FDI results from oligopolistic competition in home countries, and could not exist in a world of perfect competition pattern. Other scholars (Hymer, 1970; Vernon, 1970; and Newfarmer, 1979) developed this theory and suggested that FDI was a device for restraining the competition. Knickerbocker (1973) argued that oligopoly propels outgoing FDI and that inward FDI recreates the oligopolistic industrial structure in the host countries, as the same firms competitively invest abroad and compete in similar ways.

Consequently, the research agenda shifted towards exploring the impact of FDI on competition in host countries rather than explaining the motivation of outward FDI. Buckley, Casson (1992); Frischtak and Newfarmer (1994); and Nelson and Silvia (1985) explained the emergence of MNEs as an effort to internalise imperfect factor markets and then by Dunning who proposed the eclectic theory of FDI (the eclectic paradigm), which provides a real explanation of the impact of FDI in the host countries.

Besides, most empirical studies have shown a positive correlation between FDI and competition, indicating that FDI entry boosts competitiveness in the host country. Scholars (Goreski, 1976; Frischtak and Newfarmer, 1994) suggested that, in the presence of entry barriers; tariffs, quota, economies of scale, technology, MNE entry could actually lower concentration and increase competition.

In addition, the impact of FDI in competition could be factor of the MNEs modes of entry. UNCTAD (2008) reports explain that greenfield investment would increase competition and, therefore, benefit consumers through lower prices or higher quality. For tradable goods, openness of the international trade regime may be sufficient to generate competition. Also, greenfield entry would add one more firm to the industry, which reduces the market power of incumbent.

When acquisition entry does not increase the number of competitors on the market, it may change the pattern of interaction between the competitors. Caves (1971) argued that, in any market situation, “entry by a foreign subsidiary is likely to produce more active rivalries behavior and improvement in market performance than would a domestic entry at the same initial scale”. Wang and Blomstrom (1992; Glass and Saggi (1998) developed Caves’ research and suggested the entry of foreign firms in the host country market may increase competition and force inefficient local firms to upgrade their technology more efficiently, while the least efficient firms may be driven out of the market. The remaining domestic firms would understand that, to compete with FDI firms, they have to invest in advanced technology to increase their productivity.

Conversely, a positive contribution of an FDI project to a firm’s competitiveness is not the only condition for the investment to be of net benefit to the host economy overall. Due to the possible divergence of private and public interests, the MNE interests and objectives are usually not at the same level as the government expectations. This adds to the possibility of market or government failures. FDI could have an effect on the host economy through its direct effect on that country’s economic activity, as well as indirect effects through various ways by which MNEs might transfer to the host economy and hence improved the market competitiveness.

The FDI impact on competitiveness could also be subject to effect on the competitiveness of industries; in terms of efficiency and productivity and the consequent upgrading and restructuring of industries in the home economy industrial competitiveness. Kaplinsky and Morris (2001) suggest that the enhancement of industrial competitiveness in an economy involves four interrelated types of upgrading of industries in general: process upgrading, product upgrading, functional upgrading (expanding activities in the value chain) and chain upgrading (moving to a new value chain). Outward FDI can help promote competitiveness of all these types.

According to UNCTAD (2006) report, FDI is playing a key role in strengthening competitiveness of particular industries, especially the high-tech industry. For instance, IT services and software in India, telecommunication equipment manufacturing in China, PC peripherals and semiconductors in the Taiwan Province of China and biotech in Singapore, and other ranges of manufacturing and service industries in Hong Kong, China. The report, also suggests FDI could help developing the competitiveness of emerging markets. To the scope that MNEs are significant part of particular industries, those industries are directly affected.

More significantly, this enhancement can be transmitted to other economic players in home countries within the industries concerned as well as outside through various channels, resulting in a wider influence on the performance of various industries. The channels include; linkages with local firms, spillovers to local firms, competitive effects on local businesses, R&D and the technology innovation. Yeung (2009) explains that the impact of developing-country MNEs on industrial competitiveness in their home economies when interacting with other firms depends heavily on the internationalisation path that the firm follows.

Another major factor, is the gap in the in developing countries industries which possibly would result in an uneven internationalisation of firms from an economy, led by the more advanced sectors/industries. This might have serious repercussions for the development and competitiveness of less-advanced industries. This depends on the degree, nature and scope of connection that exist between the internationalised and primarily domestic industries and between firms in the more and the less-advanced clusters of industries.

Zander (1999); and De Propris and Driffield (2006) argue that those spillovers from the MNEs to other domestic firms are subject to the existence of industry clusters in the home economy. These clusters represent the effective spillovers from firms engaged in outward FDI in terms of competition effects. However, Aitken and Harrison (1999) demonstrate that FDI could have a negative competition spillover which may results from the “market stealing effect”; that is, foreign investment reduces plant productivity in the short run by forcing domestic firms to cut production.

If local firms are forced to exit (or are taken over), it can lead to oligopolistic market structures that may hinder endogenous technological development, reverse the downward pressure on prices, and even trigger adverse political economy effects. In a worst-case scenario, the foreign investor may attain monopolistic market power and thus extract rents in imperfectly competitive markets that are transferred out of the country. This, however, would only occur in very specific cases; notably if competition is constrained by high barriers to entry.

Likewise, FDI leads to efficiency enhancing or anti-competitive behaviours on the part of MNEs. The question of which of the two effects dominates depends on the structure of the domestic market (to what degree domestic firms are competitive), and on a possible policy intervention by competition authorities. In terms of relation to R&D and innovation, this depends largely on the extent of clustering of private and public agents of technological progress located in the home territory, including partnering between MNEs and other firms, and between MNEs and universities, public research institutions and other public entities (UNCTAD, 2006).

Conversely, Chen and Lin (2005) have considered the FDI impact on changing the structure of the home economy. They studied the “hollowing out” of the domestic production in a sample of Asian countries. Manufacturing hollowing-out in a wide sense implies a state of manufacturing decline demonstrated by the turn down in the domestic market caused by increased imports. Another way of describing this phenomenon is “changes in business structure” according to changes in the market structure. Manufacturing hollowing-out in the narrow sense involve lowering employment level in domestic industries caused by direct foreign investment.

Chen et al. (2005) also observed a substantial shift of labour-intensive industrial operations, during the 1980s, which effectively changed the nature of the home economy in numerous Asian countries (especially China). They examined the data of the Hong Kong Labour Department; from 1987 to 1992, almost 400,000 manufacturing jobs were lost in the territory, whereas 450,000 jobs in service sectors were created. The main issue was to help retrain the manufacturing workers in more vocational skills, with special emphasis on middle-aged workers. Retraining proved to be crucial as parent firms located in Hong Kong moved quickly towards high-value added activities, such as design, marketing, management and consumer-oriented production. The Thai experience in managing hollowing-out has been completely different to its neighbours, demonstrating the differences in the structure and size of the home economy, as it specialised more in electronics production, and its upgrading resulted in higher-value added manufacturing more than services (Schive and Chen, 2004).

To sum-up, competitive effects could be another important source for technology capital and knowledge spillovers. In the recent years, literature has focused on the competitive effects as another significant mechanism of spillover (Wang and Blomström, 1992; Glass and Saggi, 1998). Therefore, the increase of FDI flow to developing economies would improve competition in domestic markets. This could push domestic firms to either upgrade their technology or use existing technology more efficiently, yielding productivity gains. Additionally, the increase in competition in the local market could increase the speed of adoption of new technology or the speed with which it is imitated.

However, some scholars, for example Aitken and Harrison (1997), argue that the presence of MNEs could decrease productivity of domestic firms, especially in the short-term. If imperfectly competitive firms have to face fixed costs of production, a multinational with lower marginal costs will be more motivated to raise its production relative to its local competitors. In this case, MNE produced in the local market can attract demand from domestic firms, so the productivity of local firm would decline. If the productivity decrease from this demand effect is high enough, net domestic productivity can decrease even if the MNE transfer technology, technology or knowledge to local firm.

Table 2.2 summarises some empirical evidence on the effects of FDI on growth and productivity, examining mainly three types of evidence from both developed and developing countries. First, there are country-studies that examine the effects of FDI on the average level of productivity in a sector (e.g. Caves, 1974; Globerman. 1979) or on productivity in the local industry (e.g. Blomstrom and Persson, 1983). These researches test whether there are intra-industry spillovers from FDI.

Table 2.2 Some empirical studies on spillovers from FDI

Study	Country / Level of analysis	Effects of FDI on growth and productivity
Sectoral studies		
Caves (1974)	Australia, sectoral level, manufacturing, 1966	Positive correlation FDI presence and productivity in sector
Globerman (1979)	Canada, sectoral level, 1972	Positive correlation FDI presence and productivity in sector
Pain and Hubert (2000)	United Kingdom, sectoral level.	Inter and intra-industry spillovers from FDI on technical progress of domestic firms
Blomstrom and Persson (1983)	Mexico, manufacturing, 1970	Intra-industry spillovers from FDI on labour productivity progress of domestic firms
Macro studies		
Balasubramanyam et al. (1996)	46 developing countries, cross section over 1970-1995	Beneficial effect of FDI on real GDP is greater in export promotion (EP) countries than in import substitution (IS) countries
Barrell and Pain (1997)	UK and West Germany, 1972-1995	Positive effect of FDI on overall technical progress
Borensztein et al. (1998)	69 countries, national level	Weak positive correlation between FDI and per capita GDP growth
De Mello (1999)	Panel of 16 developed and 17 developing countries over 1970-1990	FDI has positive effect on real GDP growth, but on productivity growth only in developed countries.
Xu (2000)	40 countries, national level	Positive technology transfer in developed countries, but not in developing countries and depends on minimum level of human capital
Firm or plant level studies		
Blomstrom (1986)	Mexico, 70s	Positive correlation FDI presence and productivity in sector, but firms with large technology gaps do not learn.
Aitken, Harrison and Lipsey (1996)	Mexico, Venezuela and Unites Sates, manufacturing firms	Positive spillovers on wages in United States, but not in Mexico and Venezuela.
Blomstrom and Sjoholm (1999)	Indonesia, manufacturing firms, 1991	Positive effect on productivity of domestic firms, but only for ‘nonexporters’.
Haddad and Harrison (1993)	Morocco, manufacturing firms, 1985-1989	Positive spillovers on level of productivity in domestic firms in lowtech sectors, but negative spillover effects on growth of productivity in domestic firms.

Source: adapted from UNCTAD, 2000

In light of this literature, I formulate the following hypothesis:

H2: FDI has contributed positively to the transfer of: technology, knowledge, capital and productivity spillovers into the Algerian telecommunication market.

II.1.4 Conclusion

The literature on FDI began in 1960s and 1970s with Hymer (1960), Kindleberger (1969), and Caves (1971). Hymer (1960) explain that activities of MNEs do not involve only capital mobility while Caves (1971) considered that relative production costs, technology, trade and barriers as an important motivator for FDI. Other scholars looked at the economic factors, such as, market size, its growth rate, labour costs, labour skills and per capita income as important factors explaining Foreign Direct Investment.

Dunning (1981) with the eclectic theory of FDI, suggested that internalization could explain the movements of MNEs. The author introduced the eclectic paradigm in 1992. The OLI paradigm (ownership, Localisation and internalisation advantages) explains the motivations for investing abroad.

Regarding the FDI effects, it is widely recognised that FDI has a positive impact on the host country’s economy by providing capital, foreign exchange, technology, enhancing competition and transferring knowledge and managerial skills (World Bank, 2011; Crespo and Fontura, 2007; Romer, 1993). Hence, developing countries, where investment demand is estimated to be higher compared to their domestic savings rate, could be able to invest in their primary sectors and achieve faster economic growth by importing capital from abroad in the form of FDI. However, spillovers effects are not automatic and the presence of FDI is not sufficient to capture benefits for the local economy. Spillovers are also not free and depend on policy, such as the presence of policy-created local capabilities. In the next section, I will look at the four main FDI determinants /constraints: rent capture; political risk and institutional stability; economic determinants; and the cultural distance between the home and host country.

Chapter II Section 2: FDI determinants and constraints

Introduction

FDI is an entry modality used by foreign companies to maximise their profit by investing money, knowledge and technological capital. Firms invest in countries with favourable economic and political conditions, which allow them to minimise their transaction and production costs, and maximise their profit.

Determinants of FDI are the factors in the host country's investment environment that attract or constrain FDI inflows. Referring to Dunning's OLI paradigm, in general, the factors that determine FDI inflows are the characteristics of the host country that provide the investor with ownership, localisation and international advantage. Dunning (1988: 20) argues that "MNEs are companies which undertake productive, i.e. value adding, activities outside the country in which are incorporated. They are, by definition, also companies which are internationally involved. The extent to which they engage in foreign production will depend on their comparative advantage vis-à-vis host country firms and the comparative endowments of home and foreign countries".

In the present part of the research, I have identified four main of FDI determinants and constraints: rent capture, political risk and institutional stability, economic determinants and the cultural distance between the home and host country.

II.2.1. Rent seeking behaviour and effects

Rent capture, also known as rent "seeking", refers to the process of obtaining and maintaining wealth transfers. While the use of this term is quite new, the behaviour described by this terminology "has been with us always" (Buchanan, 1980:3). In economics, rent capture occurs when an individual, firm or institution seeks to generate income by capturing economic rent through taking advantages of the economic environment; in other words, using both legal and illegal ways of rent seeking, rather than earning income through production activity. Most research on rent capture focuses on the attempt to capture particular monopoly privileges (taking advantage of government regulations of market control); it also refers to an increase of added welfare by gaining ownership or control of assets without necessarily being productive.

Rent capture has been influenced largely by the business environment changes (especially in emerging countries) the role of globalisation, the increase of MNE power and the institutional changes, which have created opportunities that did not exist when there was general agreement that the state should play a more limited role. Many scholars used the term “Monopoly Privilege Rent Seeking” when one firm seeks to capture rent using local pressure groups, tariff protection, tax and royalty exemptions, government subsidies, getting states loans or credit lines. The terminology of rent capture was associated to the monopoly for the first time by Tullock (1967); however, the terms “rent capture/ rent seeking” was expressed later by Krueger (1974) as the behaviour of seeking extra value via the manipulation of the business environment rather than the usual meaning of “rent” as payment of a lease. Robbins (1981), Bhagwati (1982) pointed out that there is some misunderstanding between the concept of beneficial profit capture and detrimental rent capture.

Frequently, a further clarification is drawn between “rent” made legally through lobby pressure, government privilege, incentive or royalties, and the profits generated common-law crimes such as bribery, fraud, embezzlement, theft or any other illicit practise. This perspective sees "profit" as acquired, through a mutually-agreeable operation between two parties (buyer and seller), and the income of common-law crime non-consensually, using power, force or fraud imposed on one party by another. “Rent”, by contrast to “Profit”, is acquired when a third party expropriates one party’s transaction opportunities, gaining absolute control and advantage of a monopolistic market.

Rent capture is assumed to occur often in the form of lobby generated by the Government economic regulations, such as tariffs, taxes, quotas or other entry barriers. Regulatory capture is a notion linked to collusion between companies and the government regulatory bodies. That is perceived as enabling extensive rent capture behaviour, particularly when they must rely on the firm’s information about the market. Moreover, many researches associate the concept of rent capture with corruption and bribery.

Chowdhury (2006) explains that bribery is a form of rent-seeking by the government institutions. He defines the concept as a bureaucratic behaviour, which encourages the government organisations to use their power to achieve benefit (either legally or illegally).

Likewise, with the increase of globalisation FDI flow, rent capture behaviour has become more significant as institutional changes have created opportunities that did not exist when government intervention and control over the economy was limited. Olson (1982) argues that the pressure group's involvement in the state economy is a key factor in the deteriorating the economic growth. He also states that the increase of MNE activities (especially in the emerging market) has led to an increase in the "the rent capture phenomenon". He also observed that this phenomenon was generated by organised groups who have local political influence for their own benefit, rather than that of the state economy or local consumers.

Posner (1975) and Tullock (1967) analyse and measure the rent capture behaviour, discovering that the problem of identification is comparable to that of determining monopoly waste and other market inefficiencies. They added that the "rent capture" waste can only be recognised by substituting the observer's own paradigm of value. Similarly, if the state executes a legitimate activity, the action exercised by the pressure group to maintain this activity it is not necessarily wasteful. Subsequently, the government role in regulating economic activities, identifying a particular activity as wasteful, should be based on norms that fall outside economic theory.

Theoretically, rent capture could be seen as "buying" a favourable regulatory business environment that would probably be less costly than investing in R&D or improving the production facilities. In that case, the firm will have two options: firstly, to gather income from its own production using its own resources, while spending money on research and development, employee training, technology access, additional capital goods. The second option is unrelated entirely to any contribution to total wealth or well-being. This method is based on money spent on lobbying, to get easy access and some advantage in the market without necessarily improving the firm competitiveness. The term “rent capture” is often associated with government corruption, or the excessive influence of special interests.

Chowdhury (2006) suggests that the rent capture could be initiated by government representatives (mainly in emerging countries) such as political leaders and lobby representatives, seeking bribes or other favours from individuals or firms that stand to gain from having special economic privileges. This opens up the possibility of exploitation of the consumer. Eisenhans and Hartmut’s (1996) work illustrates that rent capture by bureaucracy could increase the production cost of public goods, as well as rent-seeking by tax officials which might engender a loss in revenue to the public exchequer. A significant distinction can be made between rent-seeking activities aimed at secure favourable legislation to create rent, and other activities devoted to allocating a share of such rent once it has been created. There are also important differences between rents that emerge from government restrictions on market output and government redistributive activity emerging directly from the tax-transfer process.

II.2.1.2 Rent capture and the telecommunication sector

In an open economy associated with deregulation or long transition periods towards free market competition (unregulated market competition), rent seeking is generated by firms pressure and rewarding politicians and bureaucrats to pursue favourable strategies in order to achieve higher market returns; higher than expected without the rent seeking. Therefore, the main question to ask is: how do firms develop particular political strategies to success in rent capture?

In the case of rent seeking, we can refer to the telecommunication sector as one of the fastest growing industries in the world (UNCTAD, 2010). I use the example below to explain how rent capture would occur in emerging countries. I therefore, propose the following contingencies: (A) all available rents are dissipated through rent seeking; (B) no rent dissipation and local government capture the rents; (C) no rent dissipation, MNEs would capture the rent.

Barzel (1974) suggests the telecommunication sector barriers to entry take the form of licenses to operate. Given that the license to operate has value, competition between MNEs to bid for the licence will result in real resources being used for lobbying costs, queuing costs and inefficiencies in the cost of the delivery that dissipate the eventual rents. When MNEs buy the country's capital and labours in order to acquire the license, the removal of the barriers would eliminate them from obtaining the license and remove the wasteful use of resources on rent-seeking behaviour. Consequently, there are real resource gains from the removal of barriers to MNEs when the country's labour and capital dedicated to acquisition of the license becomes available. No rent dissipation occurs if there is no influence on the decision of delivering the license. In this case, we need to look at who could eventually capture the rents. The government may capture the rents as payments from MNEs, or from eventual taxes imposed on MNEs. In either of these scenarios, the rents are not lost to the host economy. On the other hand, when an MNE obtains the license to import, it receives a windfall profit equal to the *ad valorem* equivalent of the quota; this tax is imposed typically at the time of a transaction, but it could also be imposed on an annual basis. Or, it could take the form of a stamp duty, which is imposed as an *ad valorem* tax in some countries (including Algeria). This discussion led to the following hypothesis:

H3: there is a strong correlation between rent seeking and FDI inflow.

II.2.2 Political stability:

The analysis of the rent capture effects drive us to look at the political dimension as one of the important determinants of the FDI inflow.

The concept of political stability has extensive indicators ranging from political freedom to the probability of revolutions and violent uprisings. The stability of political regimes could refer to the longevity of the ruling authority in a country either as a single party in a one-party governorship, a military regime or a multi-party political system. But the most important aspect of political stability is the durability of the regime without any major political disruption or turmoil. In economics, the notion of the "stability of political regimes" is perceived differently than in political science. It is defined as the probability of disruption of the operations of MNEs by political forces or events in both home and host countries. In host countries, political risk is determined mostly by the risk and uncertainty of the actions of political institutions and minority groups, such as separatists for fundamentalist movements. In home countries, political risk could stem from political actions aimed directly at investment destinations, such as sanctions, or from policies that restrict outward investment. From the foreign investors' perspective, political risk is more specifically defined as a breach of contract by governments, restrictions on currency transfer and convertibility, expropriation, non-honouring of government guarantees, adverse regulatory changes and restrictions on FDI outflows in home countries. Political violence is also a significant determinant as civil war; disturbance and terrorism could reduce the profitability of investing in the host country, because domestic sales and exports-imports are inefficient, production splits and the facility is damaged or destroyed.

Political risk in the host country is also viewed as a key factor for investment locations and deciding the investment amount. Political instability is regarded by economists as a serious malaise to economic performance, and is likely to reduce policymakers' horizons, thus leading to suboptimal short-term macroeconomic policies. It may also lead to a more frequent switch of policies, creating volatility and, therefore, negatively affecting macroeconomic performance.

Empirical evidence suggests a strong link between FDI flow and the host country's political stability. For instance, Schneider and Frey (1985) found that political instability had a negative effect on FDI flows. Barro (1999) found that political instability negatively affects economic growth and investment, and argued that property rights are not enforced in politically unstable environments. He established that measures of political instability, such as coups, revolutions and assassinations, are inversely correlated with the growth of GDP and investment share. He determined that political instability, through its adverse effect on property rights, reduces growth and investment in host economies.

Alesina & Perotti (1996) conclude that political instability had a negative effect on investment in a sample of 70 countries from 1960 to 1985. Furthermore, Woodward and Rolfe's (1993) cross-sectional analysis of FDI flows to 36 countries for 1977 and 1982 found a high correlation between political stability and economic growth in the host economies. Younis et al. (2008) found that political stability plays an important role in determining economic growth in Asian countries. They conclude that that there is both a direct and indirect relationship between political stability and economic growth as political stability influences economic growth not only indirectly by sources of capital accumulation, but also directly on growth rather than labour, human capital and economic freedom in Asia.

I.2.2.1 The relation between governance institutions and foreign direct investment

Institutions are the formal and informal rules and values of a country that encourage or constrain inward FDI by either increasing or decreasing the costs of doing business for the investors. Ali, Fiess and McDonald (2008:6) state that the institutional framework of a country "consists of all kinds of humanly devised constraints that shape the human interactions, including economic exchange. Institutions can be formal (e.g. constitution, laws, etc.), or informal (e.g. conventions and customs)". Dumludag, Saridogan and Kurt (2009) identify the three aspects of the institutional framework of a country: formal rules, informal rules and enforcement.

Formal rules are the written rules; for example, the different laws and legislations governing society. Informal rules are the unwritten rules that regulate social life; they relate mainly to moral, culture and traditional values, codes of conduct and behaviour, etc. The role of the institutions is to regulate human interactions and establish norms and rules in order to ease the uncertainty associated with these interactions. Therefore, institutions "provide societies with predictable framework for interaction" (Ali, Fiess & McDonald 2008: 6).

The third aspect of the institutional framework is enforcement, which evaluates the efficiency of the rules governing society. Quality or good institutions, including efficient enforcement, could reduce the costs of doing business and may improve profitability from the economic activity (Ali, Fiess & McDonald 2008). Related to the impact of institution in economic activities, institutions could affect foreign investors through transaction and production costs. Transaction costs are the costs of negotiating and enforcing an economic exchange in order to conduct business in the host country. For instance, poor property rights protection and unreliable enforcement of contracts could increase transaction and production costs, which may discourage foreign investors. Moreover, a weak business environment and inefficient institutions may delay setting up businesses in terms of bureaucracy or even bribery.

Rodrik and Subramanian (2002) argue that the quality of the governing and political institutions is the factor that could explain the cross country differences in attracting FDI. In fact, the quality of institutions and the country investment climate are important criteria for MNEs to decide about the localisation for investment. Wernick, Haar and Singh (2009) also supported the argument of political stability and good governance institutions reducing economic and political uncertainties, improving the country business environment by enhancing bureaucratic performances and predictability, and encouraging efficiency as governing institutions provide the necessary legal framework for economic growth and socio-economic development.

According to the World Bank report (2008), there is strong evidence that efficient ruling institutions play an important role in attracting FDI. The quality of government institutions would affect the level of economic, political and social stability, shape the degree of government intervention on and openness of the economy, effect the rent capture, reduce bureaucracy and corruption, allow reliable and transparent regulatory framework covering FDI policies and taxation system, effective property rights protection, enforcement of contracts, efficiency of justice and the lack of and the type of privatisation process. “Sound regulation corrects market failures that inhibit productive investment and reconciles the interests of firms with the interests of society. Strong tax systems are needed to finance public services that are needed to invest in a strong investment climate and public welfare …Although taxation and regulation are necessary, burdensome regulation and high taxes an inhibit growth, encourage informality and corruption, discourage investment and harm productivity. Inefficient administrative procedures at the central and municipal levels cost businesses time and money, reducing productivity and investment”(World Bank 2008: 119).

Therefore, political stability and efficient governing institutions would decrease the political risk for investors by providing predictability and transparency which could increase FDI flow to the country.

FDI faces variability of basic macroeconomic variables (inflation, budget deficit, balance of payments, etc.) across countries. Volatility of macroeconomic policy creates both problems and opportunities for international firms, requiring them to manage the risk inherent in volatile countries, but also presenting the opportunity of moving production to lower-cost facilities. A particular kind of macroeconomic instability is that of exchange-rate volatility. If exchange-rate changes merely offset price movements so that real purchasing power parity is maintained, the exchange-rate movements would have little real effects. Nevertheless, there is empirical evidence to indicate that purchasing power parity does not hold for all time periods and, thus, exchange-rate changes can affect the competitiveness of plants in different countries.

Therefore, I propose the following hypothesis:

H4: political stability is an important determinant to FDI inflow.

II.2.3 The overall country's economic stability

According to Trevino et al. (2002), the country's overall economic stability could help strengthen the fundamentals of the economy. There exists a vast literature that examines the possible effects of economic policies on FDI inflow. Drawing on these researches, I have focused on selected factors that could either improve or constrain inward FDI. According to UNCTC (1992) and UNCTAD (2010), factors like the quality of human capital, macroeconomic stability, financial health and infrastructure availability in the economy are expected to have a positive impact, while cost variables (labour cost, energy cost,…) are predicted to be related negatively to FDI inflows.

Table 2.3 summarises the different economic variables and their estimated effect on FDI inflow.

Table 2.3 different economic variables and their estimated effect on FDI inflow

Determinant	Variable used in the literature	Empirical Studies	Impact
Current Market Size and Potential Market Size	Log GDP Per Capita Income GDP Growth Rate Per Capita Growth rate	Root and Ahmed 1979, Bhattacharya et al 1996, Chen and Khan 1997	Positive
Cost of Labour	Real Wage Rate	Woodward and Rolfe 1993	Negative
Availability of Skilled Labour	Literacy Rates Secondary Enrolment rate	Schneider and Frey 1985	Positive
Cost of Capital	Local credit ratio Log annual average lending rates	Bende Nende, et al 2000	Positive
Availability of Infrastructure	Ratio of Commerce, transport and communication to GDP Energy production (equivalent tons of coal per 1000 population)	Bende-Nabende, et al 2000	Positive
Real exchange rate	Real exchange rate	Goldberg and Klein 1998, Trevino, et al 2002	Negative
Exchange Rate Stability	Percentage Change in Annual average. Exchange Rate between Local Currency and US $ Exchange Rate Volatility using Monthly Data	Froot and Stein 1991	Negative
Rate of Inflation	Percentage Change in Consumer prices	Schneider and Frey 1985	Negative
Financial Health	Current Account Deficit Ratio of External Debts to Exports	Schneider and Frey 1985	Negative
Overall Economic Stability that includes Political Stability	Credit Ratings Budget Deficit/GDP	Trevino, et al 2002	Negative

Source: adapted from different theoretical and empirical frameworks

In this study, I focus mainly on the influence of market size, cost factors, macroeconomic stability, real exchange rates and exchange-rate volatility, and national and international FDI policies on either driving or restraining FDI flow.

II.2.3.1 Market size

One of the most significant economic factors recognised by the literature is the market-related variables that could affect market-seeking FDI. These variables are the current market size and the potential market size. Bhattacharya et al, (1996), Chen and Khan (1997) and Mbekeani (1997) used a log and growth rate of GDP to capture the impact of this variable on FDI and found that it had a positive impact on FDI inflow. The scholars argue that a large market size could help achieve the economy of scale; a growing market improves the prospects of market potential and, thereby, could have a positive impact on inward FDI.

II.2.3.2.Cost factors

In economics, cost factors are defined as the factors that cause investment cost differentials and may influence considerably the choice of an investment location for the resource-seeking and efficiency-seeking FDI. These include labour, capital and infrastructure costs.

Bende-Nabende et al. (2000) found that higher lending rates may have a positive impact on FDI inflows. They suggest that the higher the cost of capital in the host economy, the more capital is brought in by MNEs firms. In contrast, it can be argued that the host country’s cost of capital affects directly domestic consumption. Consequently, the lower the interest rates, the higher the domestic consumption, which could attract more FDI to the host economy. In relation to infrastructure costs, Bende-Nabende et al. (2000) examined different variables, including land and property rents, fuel costs, index of infrastructure, transport costs and share of transport and communication to GDP. They found a positive correlation between the higher availability of infrastructure and FDI inflow, and suggest that high infrastructure availability would generate a low infrastructure, which could enhance the country’s attraction to FDI.

II.2.3.3 Macroeconomic stability

FDI inflow could be subject to many macroeconomic variables in host economies (inflation, budget deficit, balance of payments, etc.). The volatility of macroeconomic policy could create both threats and opportunities for MNEs, requiring them to manage the risk inherent in volatile countries, but could also generate some opportunities of shifting production to lower-cost facilities.

II.2.3.3.1 Real exchange rates and exchange-rate volatility

There is mixed evidence on the possible impact of depreciation of real exchange rate in the host country on FDI inflow. Trevino et al. (2002) explain that foreign investors could either gain or lose from a devalued exchange rate. MNEs may gain due to larger buying power in host countries. Also, they could benefit from the economy of scale so they can produce more cheaply and, therefore, export more easily. This could specifically attract resource-seeking and efficiency-seeking FDI. However, MNEs may not enter if they believe that depreciation may continue after they enter a host country (this would suggest costs to be too high to justify their investments). Trevino et al. (2002) suggests that, in general, a devalued exchange rate would encourage FDI inflow in the host economies, as this would possibly reduce the cost of investment to the MNEs.

Conversely, Froot and Stein (1991) studied the impact of exchange-rate volatility and suggest that it may affect negatively FDI inflows. They explained that high exchange-rate volatility of the host country's currency might discourage foreign investment as it could increase uncertainty regarding the future economic and business prospects of the host economy.

II.2.3.3.2 Inflation rate

Schneider and Frey (1985) argue that inflation rate is a key determinant of the country's economic stability. They suggest that a high rate of inflation indicates either the inability or capability of the government to balance its budget, and the failure of the central bank to apply the adequate monetary policy. They conclude that the increase of the rate of inflation has a negative impact on attracting foreign investment.

II.2.4 National and international FDI policies

II.2.4.1 National FDI policies

There is an increased interest towards the study of the effect of host countries' policies to attract FDI. However, empirically it is difficult to quantitatively examine the impact of FDI specific-policies, such as incentives offered and removal of restrictions on the operations of foreign firms, since they are hard to isolate from other factors (Globerman and Shapiro, 1999).

The literature recognises two main categories of FDI incentives offered by developing countries. First are the fiscal incentives, which are defined as the policies designed to reduce the tax burden of a firm. They include tax concessions in the form of a reduction of the standard corporate income-tax rate; tax holidays; accelerated depreciation allowances on capital taxes; exemption or concession from import duties and duty drawbacks on exports (Markusen, 1995). The second category of incentives is the financial incentives; they are defined as the government's support of the firm in the form of grants, subsidised loans and loan guarantees, and government insurance at discounted rates (Markusen, 1995).

The role of incentives in attracting FDI has been questioned on theoretical as well as empirical grounds. Kumar (2002), and Loree and Guisinger (1995) have empirically tested the impact particular policies over time and suggest that FDI may flow into a country not only because a particular country provides certain investment incentives, but also because these incentives, when compared with those provided by other competing host countries, seem to be more attractive. They also examined the impact of both individual incentives and the overall FDI policies and suggest that, when considered independently, different incentives offered by a host country may have a significant influence on FDI. However, when considered as a package or under a country general FDI policy these incentives may lose their significance.

In contrast, with the decline in trade barriers and increase in the importance of networks, foreign investors find barriers to entry and less competitive environments less appealing. Charkrabarti (2001) found that MNEs are discouraged by trade restrictions, such as high tariffs or non-tariff barriers on imported inputs, and are attracted to more open economies. In reviewing cross-country regressions on the contributing factors of FDI, the scholar suggests that, after market size, economic openness to trade has been the most reliable indicator of the attractiveness of a location for FDI.

In addition to the trade barriers, there are other government policies that might effect MNE decisions relating to investment. These policies are related to admission and establishment, ownership and control, and other operational measures.

Admission and establishment restrictions include the government decision to close certain industries to FDI or imposing high entry requirements or requiring authorisation and registration of investment and minimum capital. Ownership and control could take form of an imposing joint venture as a sole mode of entry by levying a fixed percentage of foreign owned assets (the case of Algeria, Saudi Arabia, Brazil, Mexico), or mandatory transfer of ownership to local private firms after a certain period of operation. Restriction on foreign labour MNEs could curb the amount of expatriate workers, or even the number of foreign senior managers in the company.

Empirical studies corroborate the argument that removal of restrictions has a significant positive impact on FDI inflows into developing countries. Djankov, Hart and Nenova (2002) study highlights that stricter regulation of entry is associated with more corruption and a larger informal economy and, therefore, restrictions on entry could have a negative impact on attracting FDI.

II.2.4.2 International FDI policies

The international FDI policies take the form of bilateral, multilateral or regional agreements, such as the world trade organisation (WTO), EU, NAFTA, ASEAN, MERCOSUR, the Arab free trade zone etc. The role of the agreements is to reduce, and ultimately remove, tariff and non-tariff barriers to the free flow of goods, services and factors of production between countries.

UNCTAD (1999) suggests that international agreements contain provisions for the settlement of disputes between both the treaty partners and between investors and the host state. They also cover a number of other areas, specifically in relation to non-discrimination in the treatment, and in some cases the entry of foreign-controlled enterprises and other related fields. A major aspect of international trade agreements is a considerable uniformity in the broad principles underlying the agreements coupled with other variations in the specific formulations employed. International agreements recognise the effect of national law on FDI and accept the right of governments to regulate the FDI entry. By providing protection to both host countries and MNEs, international agreements could improve the investment environment to make it more conducive to the free flow of FDI.

Empirical studies conducted by Binh and Haughton (2002) suggest that, although international agreements based on non-discriminatory treatment of FDI play an important role in attracting FDI inflows into developing countries, the impacts of international agreements are stronger and more significant between developed countries than between developed and developing countries.

This discussion drives us to the following hypothesis:
H5: the country's economic stability and a sound business environment are important determinants to FDI inflow.

II.2.5 Cultural determinants

Recently, a plethora of studies has investigated the reasons why certain countries are more attractive to foreign investors. They recognise that not only the economic, political, legal and cultural environments of the host country are important, but also cultural variables could be a significant factor in the location choice of foreign investors.

According to Dunning's (1977, 1980) eclectic paradigm, MNEs invest where they perceive the most advantages in terms of ownership, location, and internalisation. Moreover, cultural determinants could be linked strongly to the location advantages.

The cultural difference between two countries is often analysed as a source of increased transaction costs; entrepreneurs prefer to invest in countries with cultures similarities to their home nations. Scholars suggest that, by doing so, firms could reduce uncertainties and transaction costs (Davidson, 1980; Anderson and Gatignon, 1986; Benito and Gripsrud, 1992; Buckley and Casson, 1998; Tihanyi et al., 2005; Kogut and Singh, 1988; Bevan et al., 2004; Mudambi and Navarra, 2002). Empirically, the notion of cultural distance has been found to have a positive, negative or no effect on FDI location (Tihanyi et al., 2005). For instance, Grosse and Trevino (1996) used a gravity model to explain the determinants of FDI in the United States between 1980 and 1992. They found that the MNEs originating in a country that is different culturally from the US are less likely to be involved in foreign investment. However, Rauch (2001) analyses social networking between countries, and suggests that the presence of the social networks between two countries can reduce the barriers of capital exchange between them and encourage trade exchange.

Berlo (1960) recognised five cultural variables affecting FDI inflow: communication skills, (language), knowledge, culture, attitude and social system He suggests that these factors could enhance information-flow not only between individuals, but also in terms of FDI location choice, because good communication may help reduce uncertainties and transaction cost. Daniels et al. (2007), Luo and Shenkar (2006), and Tushman, (1978) confirm this argument and suggest that communication is more efficient when a shared language exists or when the actors have a strong similar background. Language is key ingredient that can shape information exchange, competitive activities and global coordination.

Hofstede (1980), who conducted a large scale research study in IBM subsidiaries across the world, argued that culture is collective programming that has a great impact on organisational behaviour. He (1980, 1994) identified four dimensions of culture (power distance, uncertainty avoidance, individualism/ collectivism and masculinity/ femininity).

The Hofstede Model of Cultural Dimensions can be of great use when it comes to analysing a country's culture. However, the criticism of this model are quite abundant, the main ones are:

First, the averages of a country do not reflect on all individuals of that country. Even though this model has proven to be quite often accurate when applied to the general population, not all individuals or even regions with subcultures fit into the pattern. Also, the scholar uses an educated and skilful panel: IBM employees. Therefore, their attitude and behaviour could differ from the ones far below the hierarchy or the society (McSweeney, 2002).

Second, the data accuracy is another issue. The scholar collected data through questionnaires, which have their own limitations. Additionally, in some cultures the context of the question asked is as important as its content. Especially in group-oriented cultures, individuals might tend to answer questions as if they were addressed to the group he/she belongs to. While on the other hand in the United States, which is an individualistic culture, the answers will most likely be answered and perceived through the eyes of that individual.

Finally, is this framework up to date? With the world increasingly globalising how much does the culture of a country change over time, either by internal or external factors?

So, Hofstede model could be used as a guide to understanding cross cultural differences, not as law set in stone. In the present research, I will focus on hierarchical distance, social collectivism and uncertainty avoidance as the main determinants or constraints of FDI inflow.

According to Hofstede (1991, 1994), hierarchical distance or power distance explain the perception of the degree of inequality of power between the governor and the governed. Shane (1992, 1994) argues that power distance reflects the degree of trust that characterises an organisation. He suggests that strong hierarchic distance is associated with weak interpersonal trust. Empirically, the effect of interpersonal trust on FDI was examined by several researches; for instance, Rousseau and al. (1998). Bottazzi and Hellmann (2008) acknowledge that the trust among nations has a significant impact on the likelihood of whether entrepreneurs are willing to take risks in investing in another country. Specifically, individual partners' experience and education could affect FDI inflow. Guiso, Sapienza and Zingales' (2009) work is based on a sample of European countries and confirms that a weak level of trust between two nations could lower level of exchange of goods and capitals.

Siegel and Schwartz (2009) argue that high power distance could lead to strong informational asymmetry, which maximizes the costs of transaction. They discourage lateral investments, particularly the operations of merger and acquisitions (Siegel and Larson, 2008). Liu et al's., (2007) empirical study of China during the period 1983-1994 confirms this argument.

Moreover, Sagiv and Schwartz (2007) argue that a large power distance affects indirectly the FDI in terms of managerial behaviour, as managers can take advantage of their power in order to make concessions during negotiations with their partners.

In regards to the potential impact of Hofstede's (1980) dimension of collectivism /individualism on FDI inflow, according to Triandis (1988), the determination of individualism and collectivism cultures are based on four general assumptions. First, in collectivist cultures, an individual is interdependent on others while in individualistic nations, an individual is independent of groups (Markus and Kitayama, 1991). Second, in collectivist cultures, there is strong emphasis on achieving group goals rather than individual goals but in individualistic cultures, personal achievement is more significant than group goals (Schwartz, 1992, 1994; Wagner and Moch, 1986). Third, in collectivist cultures, social behaviour is based on duties and obligations, and depends on sociocultural factors traditions, religions etc. However, in individualistic nations, people value their personal values, contracts, and perceived rights (Bontempo and Rivero, 1992; Miller, 1994). Fourth, collectivist nations encourage relationships and social interaction, even if they do not reap any benefits. In individualistic societies, people seek more rationality in networking, which means considering the costs and benefits of relationships (Kim et al., 1994).

Furthermore, Doney et al. (1998) and Hewett and Bearden (2001) state that, in more collectivist nations, trust plays a significant role in motivating supportive behaviours. While Knack and Keefer (1997) noticed that countries with ethnically homogeneous populations are characterised by a higher income, which could encourage FDI towards collectivist host countries, rather than individualist nations.

On the other hand, Bandelj's (2002) research found that the social relations are key to FDI inflow and suggested incrementing the social and behavioural theories. Furthermore, in a culture of fairness that values collectivism, the policy of social redistribution favours the weak, the unemployed and the elderly. Such a policy allows better social protection for workers and improves the standard of living of society. In the economic aspects, egalitarianism could limit the scale of corruption, a better transparency in the financial market and with more efficient anti-regulation of monopoly and execution (Siegel, Licht, and Schwartz 2009).

Analysing the possible impact of Hofstede's uncertainty avoidance dimension on FDI, risk perception determines risk preference. In fact, conducting business abroad always entails uncertainty and risk, which might rise when the potential partners are from different cultures.

Therefore, individuals from high uncertainty avoidance cultures may avoid business negotiations and contracts with foreigners. Conversely, people from low uncertainty avoidance, due to the positive attitude towards unknown, uncertain and risky situations, could be more willing to interact with foreign potential partners (Bhardwaj et al., 2007;

Weber and Milliman, 1997). Empirical evidence confirmed the differences among cultures in the perception of the risk, resulting in threats to an uncertain future (Kleinhesselink and Rosa 1994; Solvic et al., 1991). For instance, Bontempo et al. (1998) found that the Chinese are more willing to take risks than Americans and other Westerners.

Along with the findings on the traditional determinants (political, economic and legal), cultural variables are a significant determinant for attracting FDI. In particular, high levels of individualism, hierarchical distance and uncertainty avoidance represent an unfavourable environment for foreign investors. Therefore, developing economies should improve their social relationships to foster the FDI.

In light of this analysis, I propose the following hypothesis**:**

H6: cultural distance between countries could either encourage or restraints FDI.

II.2.6 Conclusion

The last two decades have witnessed an extensive growth in FDI flows to developing countries. This has been accompanied by an increase in competition amongst the developing countries to attract FDI, resulting in higher investment incentives offered by the host governments to foreign investors.

Along with the traditional findings on the traditional determinants of the FDI (political, economic, legal and cultural variables) this study take into consideration the potential effect of rent capture as an important determinant in either attracting or restricting FDI flow. Rent capture could have a positive effect as it could increase competition, as well as the transfer of: technology, know-how and managerial skills.

While the rent capture (via lobbying and pressure group) could be seen as potential negative FDI spillovers as MNEs often use their both rent and economic influence to pressure government policies in directions unfavourable to development. The local government (especially in developing countries) often grants economic and political concessions in the form of excessive protection, lower tax, subsidised inputs, cheap provision of factory sites. As a result, the private profits of MNEs may exceed social benefits and could generates rent waist in forms of encouraging bribery, bureaucracy and illicit practises as well as the potential negative impact on natural resources: natural resources depletion as well as the deterioration of environment (pollution and its impact on fauna and flora).

II.3 Chapter conclusion

FDI has become an important source of private external finance for developing countries as it represents investment in production facilities; its significance for developing countries is much greater. Not only can FDI add to investible resources and capital formation, it also enables the transfer of production technology, skills, innovative capacity, organisational and managerial practices between locations, as well as accessing international marketing networks.

In this chapter, I began the first section by examining the motivation for FDI: resource seeking motivations (targeting natural resources, energy and agricultural goods); market seeking motivations (aiming to get access to new markets); asset seeking motivations, in the case of acquisitions targeting in the first place technology and knowledge, brands and skills incorporated in a foreign company. I have also examined the major literature explaining the economic FDI effects, the different modes of entry in emerging markets and the potential effects on emerging economies: Technology, knowledge, capital, productivity spillovers and competitiveness. In the second section, I analysed the main FDI determinants and constraints: rent capture, political risk and institutional stability, economic FDI determinants and the cultural distance between the home and host country.

In the next chapter, I will explain my research methodology, clarifying my research questions, research design, ethics, research limitations and future scope of my study.

Derived from an extensive literature review, I developed my research model starting with the classical position that government policy is a key determinant of the extent and nature of FDI impact, principally through incentives, specific regulations, benefits and subsidies, or general policies such as liberalisation, but also through second-round effects on the competitive structure of the market.

Generally, specific government interventions can enhance specific spillovers (positive externalities) from FDI, while liberalisation and increased competitiveness can be expected to enhance spillovers. The FDI effects are also influenced classically by the mode of entry and management style, which is associated with country risk analysis.

The model differs from classical accounts of FDI in terms of the attention it pays to rents and rent capture, which I argue strongly, mediates the effects of FDI, particularly in developing economies where markets tend to be inefficient, and in sectors such as telecommunications arising from the natural monopolies present. Not only does rent seeking and rent capture influence the extent and types of effects and constraints arising from FDI, it also adds a secondary dynamic, providing incentives for FDI to be channelled towards influencing government policies and the market structure.

Rent capture via lobbying (pressure groups) could have a strong influence on government intervention in the market (by the incentive given or specific benefits and regulations). Furthermore, the rent captured could generate potential negative or positive spillovers of technology, know-how, managerial skills, efficiency and effectiveness, and generate negative spillovers, such as resource waste and depletion. Liberalisation also has an indirect effect on the competitive reactor pattern by impacting on the competitive structure (changes occurred on the competitive rivalry and the market structure), which, on the one hand, makes FDI easier but also increases rivalry and reduces the availability of monopoly rents. As a consequence, the increased competitive rivalry would reduce the opportunities for rents as it is a move away from a monopolistic or oligopolistic situation. Additionally, the existence of rents is likely to encourage new entrants and, thus, increase competitive rivalries in the market, which could have strong repercussions on the FDI performance in the telecommunication sector.

Chapter III: Research Methodology

Introduction

Methodology is frequently perceived as the place where epistemology, method and theory congregate. For instance, methodology enlightens how and why we decide to investigate in a specific area and our choice of methodology is conveyed into method. The selection of methodology also helps to shape the research process and enhance the knowledge expansion.

The main objective of this chapter is to present the way in which the research was conducted, and how it was undertaken and evaluated. It is also considered as the framework of my study as it gives a general vision of the work. This is comparable with the building of a house, if the frame is inconsistent or defective; the house may not stand for long.

The objective of my research is to analyse the potential contributions of foreign direct investment (FDI) to the performance of the telecommunication sector of the Algerian economy, critically examine and analyse the motivations, constraints and effects of FDI in the Algerian economy, with reference to the telecommunication sector using both literature and experimental approaches.

In order to answer my research question, I use two different reasoning approaches; the first is deduction, which is a form of assumption that supposed to be conclusive, as the conclusion must necessarily follow from the reasons given. This form of argument calls for a stronger link between reasons and conclusions than is found in induction. The second approach is the induction argument, which is completely different from the deduction type as it does not have the same strength of relationship between reasons and conclusion. To induce something is to draw a conclusion from one or more particular facts or valid premises. As in the induction, the reasoning approach is the conclusion that explains the facts and the facts support the conclusion.

III.1 Research design and instrument

In the present research, I use descriptive research. Descriptive research does not fit neatly into the definition of either quantitative or qualitative research methodologies, but instead it can utilise elements of both, often within the same study. The term “descriptive research” refers to the type of research question, design and data analysis that will be applied to a given topic. Descriptive statistics tell what it is, while inferential statistics try to determine causes and effects. Descriptive studies intend to find out "what is", so observational and survey methods are used frequently to collect descriptive data (Borg & Gall, 1989).

The main purpose of descriptive research is to describe, explain and validate findings. Description emerges following creative exploration, and serves to organise the findings in order to fit them with explanations, and then test or validate those explanations (Krathwohl, 1993).

Many researches tend to examine specific phenomena by analysing their form, structure, activity, changes over time and their relation to other phenomena.

Descriptive research involves collecting data that describe patterns and then organise, tabulate, depict and analyse the data collection (Glass and Hopkins, 1984). It often uses visual aids, such as graphs and charts to help the reader understand the data distribution. When in-depth, narrative descriptions of multiple cases are involved, the research uses description as a tool to organise data into patterns that emerge during analysis. Those patterns help to understand the study and its implications.

In my research, I use a mix between primary and secondary data, analysing all types of documents, such as external sources: published government statistics; World Bank and IMF reports; published case studies and literature reviews; published text books; theoretical work; academic journals, periodicals and archives; and secondary analyses by any academic or experts and reports, media: documentaries for example, as a source of information (newspapers, online newspapers). Internal sources: firm reports (investor reports, financial reports), memos, different surveys and studies conducted by the organisations, as well as collecting primary data from the in-depth interviews before carrying out my own fieldwork collecting data and comparing them with the secondary data already gathered.

The advantage of the secondary data is the fact that it represents excellent background information. Also, data from secondary sources help to decide what needs to be done and can be a rich source of hypotheses, as well as a good basis for a primary data. Secondary data avoid unnecessary costs, as the collection of secondary data is faster than primary sources, but the disadvantage is that it can be sometimes misleading or irrelevant to the study. Moreover, in terms of specificity, it provides a general overview, but not in-depth analysis. Furthermore, some internal sources, such as organisational surveys, were not valid as the analysis might be biased.

Another common problem with secondary sources is that, often, they do not contain the information required, or the information is available but not stored in one source. In my research, I found that many multinationals provide information about their activities within different countries, but without providing a clear picture about the business environment in the country. In the case of Orascom Telecom Holding (OTH), according the company reports, the Pakistan telecommunication market is the highest in terms of penetration rate, but it does not yield any information about the structure of the market, competition within the market or even the external environment.

To overcome this problem I have opted for three major actions: the first one is to merge multiple secondary data sources; the second is to adjust the research problem to the available data; and the third is to identify which research problem could be investigated using the available data.

Another qualitative method used in my research is the case study. The case study stands out from the need to understand and explain multifaceted phenomena. It allows scholars to retain a more holistic perspective than can be easily achieved through other approaches. Case studies were used to “follow up and to put flesh on the bones” (Bell, 1999, p.11) of the initial survey and to study “participants’ perceptions and judgements” (Simons, 1996, p.229).

Yin (1994) argues that the case-study approach could be used to explain complex causal links in real-life interventions, describe the real-life context in which the intervention has occurred, describe the intervention itself and explore those situations in which the intervention being evaluated has no clear set of outcomes.

Additionally, case studies provide a meaningful way of exploring different facets of research variables. In the present research, I am using multiple case studies in which I examine five cases in order to understand the similarities and differences between them by applying my research model and hypothesis. Yin (2003:47) describes how multiple case studies can be used to either, “(a) predicts similar results (a literal replication) or (b) predicts contrasting results but for predictable reasons (a theoretical replication)”. This type of a design has its advantages and disadvantages. Overall, the evidence created from this type of study is considered robust and reliable.

However, the case study approach has some limitations; the most important being the massive data for easy analysis. The case study data could be time-consuming to collect, and even more time-consuming to analyse. It could be also very expensive if conducted on a large scale.

When case studies are often effective in revealing some of the complexities of the pattern studies, there is often a problem of representation. It is often problematic to present accessible and realistic pictures of that complexity in writing. Another weakness of this approach is that, in a large scale study with multiple variables, this approach fails to answer a large number of relevant and appropriate research questions. Besides, some aspects of case study work can be fairly easily presented in numerical form, but much cannot. Although case study research has had its critics in the past, it is “now widely accepted as a form of research” (Simons, 1996, p.225) and fits my research objectives.

Regarding my fieldwork, I am using different types of interview techniques: face-to-face interview, mail questionnaire and telephone interviewing. Face to face interview: that my prime method for gathering data as it allows a freedom of speech and could generate an important flow of information, also, you have the opportunity to explain more in depth your study and the role of the interviewee in your research as well as explaining ambiguous questions and even debating about the topic which generates more information. However, personal interviewing could be time consuming and cost intensive adding to that face to face interview may also introduce bias, from either the interviewer or the interviewee. Another drawback is that respondents might feel uneasy about the anonymity of their responses when they interact face to face.

Mail questionnaire: is the best way to reach busy people or people who would not give personal interviews or whose responses might be biased or distorted by the interviewers. The inconvenience with mail interview is the insufficient quantity of data gathered; also misunderstanding of questions could mislead the interviewee.

Telephone interviewing: It represents the best methods for gathering information quickly, the interviewer is also able to clarify any misunderstanding and the good aspect of this method is that the response rate is higher than the mail questionnaire but the main drawback is that the interviewer has to be short, straightforward and not too personal.

For the sampling method, I use a quota method in which the sampling population for this study comprised people with knowledge of the topic as well being available for the interview. My selection criteria also involve a mixture of high, middle and low managers split equably into two main groups (Locals Vs Expatriates), making a total of 90 interviewees (20 in each firm except Worktel 10). Also, using my family's and friends' network (as they work in the telecommunication sector) helped me gain access to companies and allow me to effectively organise my interview schedule.

Piloting interviewees is an important step as it allows avoiding any inconsistencies resulting from misunderstanding questions. Based on comments and suggestions provided by interviewees (during piloting the interviews), some adjustments were made in which some questions were rephrased for better understanding. Also, the pilot interviews made me aware of potential technical problems that could occur; for instance, difficulties in organising my interview schedule.

Regarding the interview procedure, a schedule was drawn up and participants were interviewed at their convenient time. The majority of interviews took place at either the interviewee's offices or somewhere else. Beforehand, I sent a summary of my research aims and objectives[2] as well as a consent form[3].A French version of the questionnaire was made available to interviewees who are not confident about their English (most of the interviews were conducted in English)[4]. I also asked the participants if they required further clarification when necessary. An interview guide was created for the purposes of this research; it also helped me to stay within the scope of my questions' model when gathering information[5]. The interviews progressed from simple or general into more direct descriptive and complex questions. This strategy enabled the interviewees to become comfortable before taking the opportunity to be critical, to provide details on their own experiences and opinions within scope of the questions. At the end of the interviews, I summarised the answers for the participants to ensure that the information collected reflected the overall content of the interview before they were thanked and the interview brought to a close. Also, all the data collected were transcribed and copies were delivered to the interviewees for approval before starting the analysis. The length of the interviews varied from 30-45 minutes, with an average of 40 minutes (depending on the availability of the interviewee)[6].

After gathering the data, the next step is to analyse the data. I am using five major stages for the data analysis. The first stage is to become familiar with the data collected. In many ways, data collection means having good quality data. Sometimes we tend to collect insignificant data, therefore, the best strategy to adopt is to go through the data several times and select those that are more significant and appropriate to the research, according to the variables of my research model.

The second step is the emphasis on my analysis. In this step, I look back at my research questions and hypotheses to find out what I need to answer in my research. The best approach would be to write down questions and hypotheses. This is very helpful, as it provides a general framework on how to start analysing the data. Moreover, in light of the progression on my research, I can either modify some questions, or reject or adjust the hypothesis in my findings.

[2] participation information sheet (appendix 01).

[3] interview consent form (appendix 02).

[4] questionnaire in English and French (appendix03 and 04).

[5] answer sheet (appendix 05).

[6] summary of the main interview process is represented by the Gantt chart (appendix 06)

The next step is to classify the information. Some research opts to categorise information by coding or indexing data in numerical form, in which selected variables are labelled with specific codes or values (quantitative data). While, in qualitative data (the case of my research), I organise information by themes or model, in which we regroup ideas, notions, participants behaviour, interaction, and word or phrases used. Then, I put them into more logical categories or subcategories.

The fourth step is to identify models within and between categories. This approach allows the classification of data by questions, case, theme, time period, and start to find the link between these categories. Also, stressing the variation that may occur could be very important to the research findings. There are several ways to spot patterns and to link them either within or between categories; the first is to summarise the information specific to one topic, or find the differences and similarities in participants' responses within a group.

In order to do this, I need to answer the following questions. What are the main ideas uttered in one class? What are the similarities and differences in participant answers? The second way is to look at the data gathered and see which category appears more often, how many times a specific theme is mentioned by the sample interviewed. This method is not suitable for statistical analysis, but it could expose common patterns in the data gathered.

The final technique is to look at the patterns and see the possibility that two patterns occurred constantly together, analysing the relationship between patterns to explain the constant connection.

The last step of the analysis is the interpretation of data. At the beginning, I set up a list of key elements or significant findings resulting from regrouping and arranging data. At this stage, I need to reflect on what I have learned in my research by answering the following questions: What are the major lessons learned during the investigation? What are main outcomes? What we could improve in our research analysis? Are the hypotheses formulated at the beginning of the research suitable? Are there any new variables to take into consideration? How could I include graphs and charts to improve the communication of findings?

Another point is to list all the findings without combining them or investigating their real values. Draw an outline for presenting results to the audience, pilot the project, test the hypothesis and get the feedback generated from the audience. According to the comments received, I can reshape my research model. If I find that some areas are still not covered properly or unclear, I could suggest further investigations to emphasise these points.

In contrast, to develop my research capacities and test my findings, I have presented my research results in different research meetings at the university. As well as participating in conferences inside and outside the university, I have also participated in an international conference about the potential of investment in Algeria during September 2010 (in Algiers); I also got in touch with University of Algiers to publish some papers related to FDI in the country.

This study is structured sequentially from a deep literature review identifying theories and leading to a research model. To corroborate my assumptions, I am analysing and applying my research model variables to the main players in the Algerian telecommunication sector. Therefore, I have conducted five case studies: Djezzy, Algerie Telecom (AT), Nedjma and the two SMEs (Ericsson Algeria and Worktel). Regarding to the choice of case studies I have chosen the three main mobile operators in the country and the choice of SME's is mainly due to the availability of information and their expertise about the local market.

After carrying out the case studies, I will compare the results obtained in different firms. I will draw up a table to identify the main differences between different players in the Algerian telecommunication sector. I will also raise any discrepancies observed during the interviewees, try to link my hypothesis to my findings and will finish by outlining a general conclusion about the impact of FDI on the sector, and make some recommendations on how to improve it the telecom sector in the country.

Finally, I link my research model to my findings, recognising major similarities and differences, analysing each component in-depth and make partial conclusions and recommendations on each factor. Ultimately, I will reach a general conclusion and recommendation, where I will highlight my findings, comparing my results with my assumptions (my research model). I will examine FDI in the telecommunication sector in Algeria and then generalise it to other sectors, suggesting how it could improve the country's economic conditions and benefit more from foreign investment.

III. 2 Research ethics

The consideration of ethics in my research is very important, as research should exhibit ethical behaviour. Ethics should guide researcher to address the question of how to conduct research in a moral and responsible way. Thus, ethics not only address the question of how to use the methodology in a proper way, but also address the question of how the available methodology might be used in a right way. Conducting research, either quantitative or qualitative often requires the researcher to compromise on what methodology theories recommend and what is feasible from the practical point of view (Burges, 1989).

Likewise, there is no single approach to ethics; there are two dominant philosophical standpoints: deontology and teleology. In the deontological view, the ends never justify the use of the means that are questionable on ethical grounds. For instance, even we inform participants about the purpose and procedures of a study, it is likely to affect their behaviour in such a way that the information obtained is barely usable to answer the research question. Any deception of the respondents would be, in this case, unethical (Burges, 1989).

In my research, I will consider first how to protect the participant's rights. Whether the data is gathered in an experiment, interview, observation or survey, the respondent has many rights to be safeguarded. In general, I am taking preventive measures in order to protect the interviewee from any harm; physical, mental, embarrassment, peer problems, generating any conflict within the organisation or a loss of privacy. The main actions I am taking are to explain the benefit of the study, the participant's rights and their protection. In order to do so, I will take 11 steps[7]:

[7] my research was approved by the research degree committee at the University of Greenwich in March 2009.

The first step is to clearly explain the research aims and objectives. The overarching objective of the present research is to make a fresh enquiry into the contributions of FDI to the performance of the telecommunication sector of the Algerian economy, from both theoretical and empirical perspectives.

The second step is to identify the main research question; FDI in the Algerian telecommunication sector. This will involve an analysis of motivations, limitations and effects.

The third step is the data collection procedure; I use structured questionnaires, in which I will draw a table with four columns with different research variables in the first column and a question related to each variables in the second column. The third and fourth columns are dedicated to the possible answers.

The fourth step is related to the choice of the sampling methods; I will choose a quota sample in which I interview a prescribed number of people (20)(except Worktel 10), from different scales of the hierarchy (from worker to mid-management, senior managers and executives).

The fifth step is to get in touch with the participants; mainly using email, telephone, networking, family and friends.

The sixth stage is concerned with informing the participants; I sent emails with a brief summary of my research outlining my research aim and objectives (Appendix 1) as well as the questionnaires (Appendix 3 and 4). I also guarantee the confidentiality of the interviews as I am not presenting the participants names and answers[8] nor outlining the benefits of my research to the person (or firm), as the results could be used by their research and development department for multiple purposes (company further investments, ameliorating their work conditions and solving any issues or conflict at work by understanding the local culture, business environment).

[8]please refer to appendix 02 interview consent form.

Similarly, I have clarified my research aims and objectives, as my study concerns the foreign direct investment impact on the Algerian economy and the telecommunication sector in particular. Therefore, there is no involvement in a firm's internal politics and, under the Data Protection Act; no data will be published without the consent of the participants.

The seventh phase is obtaining permission to carry out the study; I contacted companies to obtain permission. I also sent letters with a summary of my research to target companies. I also made contact with their public relations department to make an appointment with executives to explain the purpose and objectives of my research.

The next step is to brief the participants about the topic prior to the interview. I have sent emails to participants with a summary of my research aims and objectives, as well as a copy of the questionnaire to see if they could answer my questions. Also, before starting the interviews, I orally explain to the participant my research model as well as my research aims and objectives.

The ninth stage is to share the research results with the participants. I provide the participants, as well as their companies, with information about my research findings as reward for their collaboration.

The tenth step is to assess the potential harms which may arise as a result of the work. I tailored my questions according to the research aims and objectives and made sure not to harm any person involved in my project. Moreover, the results of my investigation will be given to the companies if they request it, and there is no direct involvement in a company's internal politics or strategies.

Furthermore, we agreed that I will show all notes taken during the interview to the participant and take them through all the answers one by one to avoid any misunderstanding or incomprehension. Also, I clearly explain from the beginning that no names will be shown in my research to avoid any harm to the person. Furthermore, my research does not harm the university as it does not relate to any sensitive subject (politics, illness etc).

Moreover, I have adjusted my questionnaire to avoid any damage or conflict with any one (myself as researcher, participants, companies, the Algerian government and the University of Greenwich).

The final step focuses on the eventual constraints rising during my interviews, such as the language barrier. As I am fluent in English, French and Arabic, I will translate my questionnaire and a summary of my project in French to allow the participants a better understanding of my research.

Chapter Conclusion

A research methodology could be thought of as providing the overall direction of the research illustrating the process by which the research would be conducted. When deciding on methodology, research should take into consideration the nature of the study (theoretical or empirical). Besides the empirical-theoretical divide, there are many other ways of describing research approaches and methods. But within each of these, the detailed research strategy will determine the approaches which would be used to collect and analyse data.

In this chapter, I present a detailed description of my research design by focusing on the theoretical purpose and justification of the methodology chosen. I have presented and analysed my case studies' ethical considerations, informal and formal data gathering techniques and provided an explanation of the data analysis strategy used.

In the next chapters, I present my empirical work, starting with questionnaire analysis, discussing the data obtained and interpreting the findings in relation to the research model, research questions and hypothesis and literature review.

Section 1 Case studies analysis

IV.1.1 Case study: Djezzy Telecom

IV.1.1.1 Presentation of Orascom Telecom holding

The leading market player is the Djezzy, a branch of the Egyptian giant Orascom Telecom Holding S.A.E. (Orascom Telecom or OTH), which is one of the most important international telecommunication companies operating in more than ten emerging markets in the Middle East, Africa and South Asia headquartered in Cairo, Egypt. Established in 1998 and employs about 17,213 employees. OTH started off with 200,000 subscribers by 31 December 2010 the holding accounted more than 78 million subscribers and a total population under license of approximately 517 million with an average mobile telephony penetration of approximately 48% (according to OTH website figures). Orascom Telecom operates GSM networks in Algeria (Djezzy), Pakistan (Mobilink), Egypt (MobiNil), Tunisia (Tunisiana), Iraq (Iraqna) and Bangladesh (Banglalink). OTH has an indirect equity ownership in Globalive Wireless, which has been granted a license in Canada. Orascom Telecom Holding has been awarded the management contract of one of the two Lebanese mobile telecommunication operators (Alfa) from the government of the Republic of Lebanon through its branch, Telecel Globe (Orascom, 2011).

According to the company mission statement, OTH's vision is to always look for new opportunities to expand its activities not regionally, but around the globe become one of the world's leading telecommunication operators; therefore the company mission statement is to satisfy all communication needs in different markets. In April 2011, Wind Telecom, OTH's parents company and VimpelCom Ltd. Announced the venture between the two groups, thereby creating the world's sixth largest telecommunications company.

Table 4.1 presents Orascom holding at glance, Figure 4.1 highlight the financial health of the group while table 4.2 summarises the key concepts of Orascom strategy and table 4.3 highlights the company's key indicators.

Table 4.1 Orascom Telecom Holding at Glance

Future market growth opportunity	Population covered approximately 517 million with an average penetration of 47% (31 December 2010)
Leading position in global markets	Leaders all over the world (number one in Algeria, Egypt, Iraq, Pakistan, Tunisia) and strengthening position in Bangladesh (number 2).
High Historical Organic Growth	Overwhelmingly organic growth in revenue, EBITDA and total subscribers.
Industry leading profitability	EBITDA margin of 41.4% and net income of US$ 345mm for Q3 2010
Investing in Leadership	In December of 2005, OTH had succeeded to takover19.3% market share of leading global provider of telecommunication services (Hutchison Telecommunications International Limited) that operates in nine emerging markets. In April 2011, VimpelCom Ltd. closed the transaction with Wind Telecom S.p.A. to combine the two groups. As a result of the Transaction, VimpelCom owns, through Wind Telecom, 51.7% of Orascom Telecom Holding S.A.E. (“Orascom Telecom”) and 100% of WIND Telecomunicazioni S.p.A. (“Wind Italy”).
Management	Prudent and experienced management team with a successful track record of acquiring and operating GSM licenses.
Low Leverage	On December 2011 Orascom had a Net Debt/EBITDA ratio (LTM) of 1.8

Source: Orascom, 2011

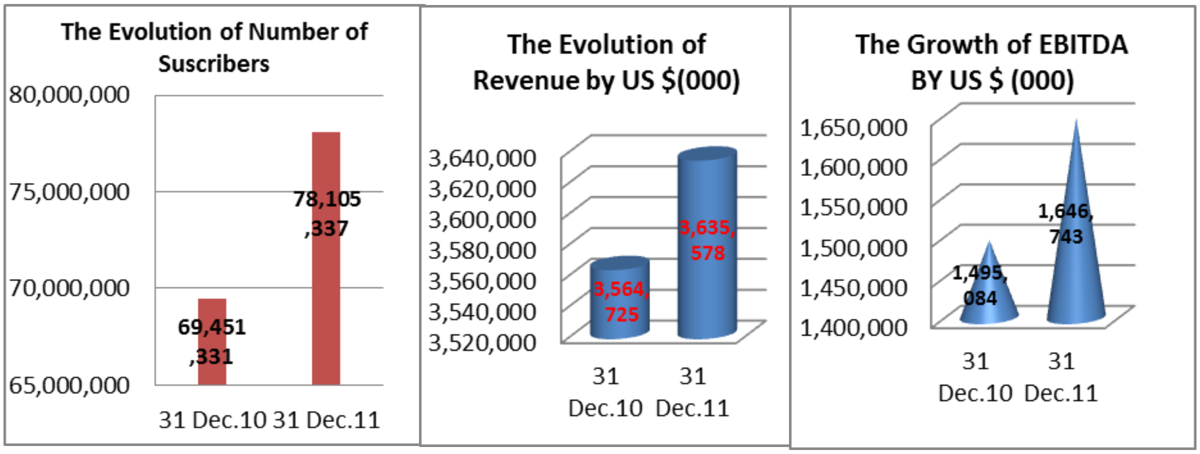


Figure 4.1 Orascom Holding financial highlights (December 2011)

Table 4.2: The key concepts of the Orascom Strategy

Exercise management	• Sole or joint control of GSM operation. • Focussed portfolio of assets over which day to day control is exercised.
Deliver value through Holding Company	• Centralised network infrastructure procurement through frame agreements. • Financial discipline and reporting at our subsidiaries. • Group-wide strategic initiatives, best practices and management expertise • Enhance the subsidiaries' access to various forms of capital
Maintain market Leadership	• Capitalise on superior network coverage, brand awareness and on net traffic to create substantial barriers to entry. • Invest in Network capacity to manage market growth in order to optimise competitive positioning.
Localised Branding and tariff strategies	• Strive to be a local brand in the markets in which we operate. • Localised marketing strategies.
Selectively explore investments Acquisitions	• Consolidate ownership through minority acquisitions in existing GSM operations at sensible valuations. • Opportunistically explore acquisitions of existing or Greenfield investment. • Reputation for successful development of GSM business opens opportunities.

Source: Orascom, 2011

Table 4.3: Orascom Key indicators

Country	Key indicators	Type of investment
Algeria	Population: 33 Million GDP growth: 3.4% GDP/Capita ($): 3,861 Population under 15 years: 26% Sovereign Risk: NR Mobile Penetration: 83% Network subscribers: 15 million (march, 31st, 2012) Market share: 56% Number of subscribers: 30 million (march, 31st, 2012)	Complete ownership (Djezzy)
Tunisia	Population: 10 Million GDP growth: 4.7% GDP/Capita ($): 3,798 Population under 15 years: 23% Sovereign Risk: BBB Mobile Penetration: 82% Number of subscribers: 5 million (march, 31st, 2009) Market share: 51.6% (march, 31st, 2009)	Present with joint venture (Tunisiana)
Bangladesh	Population: 140 Million GDP growth: 6.2% GDP/Capita ($): 427 Population under 15 years: 23% Sovereign Risk: NR Mobile Penetration: 23% Number of subscribers: 11million (march, 31st, 2009) Market share: 23.9% (march, 31st, 2009)	Complete ownership
Pakistan	Population: 160 Millions GDP growth: 6.0 GDP/Capita ($):890 Population under 15 years: 40% Sovereign Risk: CCC Mobile Penetration: 56% Number of subscribers: 28 million (march, 31st, 2009) Market share: 31% (march, 31st, 2009)	Complete ownership
North Korea	Population: 23 Million GDP growth: 1% GDP/Capita ($):1,800 Population under 15 years: 23% Sovereign Risk: NR Mobile Penetration: >1%	3G licence Joint venture OTH 75% North Korea post (KPTC) 25%
Zimbabwe	Population: 13,3 Million GDP growth: 6.0% GDP/Capita ($): 340 Population under 15 years: N/A Sovereign Risk: NR Mobile Penetration: 2%	Complete ownership
Egypt	Population: 74 Million GDP growth: 6.0% GDP/Capita ($):1.719	Present with joint venture (Mobinil)

	Population under 15 years: 32% Sovereign Risk: BB+ Mobile Penetration: 54% Number of subscribers: 21 million (march, 31st, 2009) Market share: 45.6% (march, 31st, 2009)	
Central African Republic	Population: 4.5Million GDP growth: 4.2 GDP/Capita ($):N/A Population under 15 years: 41% Sovereign Risk: NR Mobile Penetration: 6%	Operation acquired/owned by Telecel Globe
Burundi	Population: 9Million GDP growth: 3.6% GDP/Capita ($):N/A Population under 15 years: 46% Sovereign Risk: NR Mobile Penetration: 4%	Operation acquired/owned by Telecel Globe

Source: Orascom , 2011

IV.1.1.2 Presentation of Orascom Telecom Algerie

On 11 July 2001, Orascom Telecom Algeria acquired the country's second GSM bid for nearly $737 million and launched its service in February 2002 under the brand name "Djezzy". It managed to command 70% of the market after less than 10 months of operation (Orascom, 2011).

In August 2010, the company accounted for more than 15 million customers, representing more than 44% of the market share in the country, while the state-owned company, Mobilis had 30% and Nedjma 27% (Figure 4.2) (ONS,2011). Accounting in 2009 for nearly 50% of the company's earnings before interest, tax, depreciation and amortisation, the firm ranked the third largest operator in North Africa and Middle East, and is regarded as the most profitable subsidiary among the Orascom holding. The Cairo-based investment bank, Beltone Financial, values the unit at $6.7bn, representing 51% of its total operator valuation (Oxford Business Group, 2011).

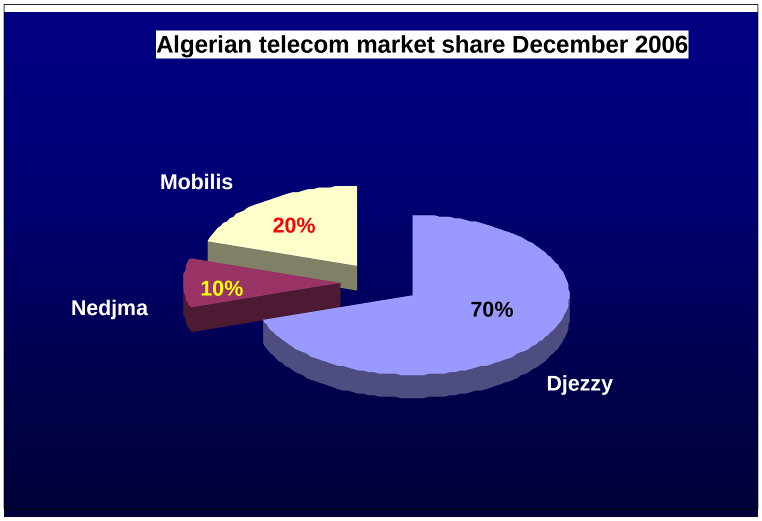
Due to the success of the services, the company has launched new services aiming to provide a set of products and services to suit all segments; for instance, in February 25, 2006 the company collaborated with Egypt telecom to create the "Consortium Algerian de Telecommunications", which has been awarded the second fixed-line licensing.

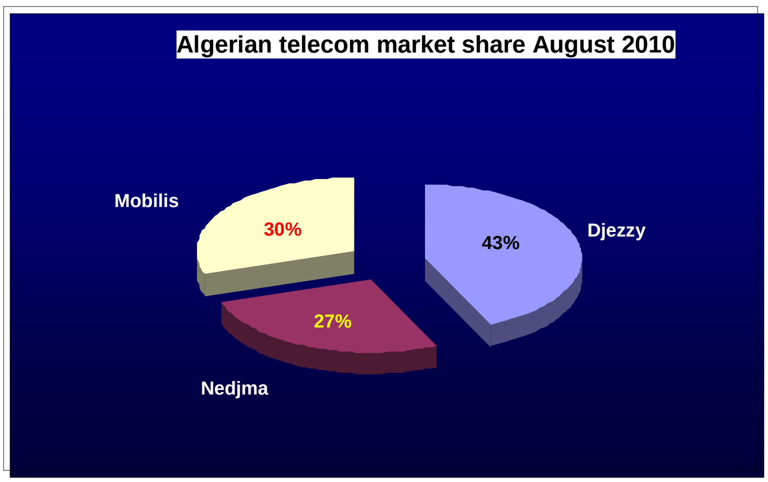
Another new investment is the launch, in 2006, of phone-box service Djezzy in eight of the biggest cities (OTH website). According to Orascom Holding, investor presentation, September 2009, the company investment exceeded $2.8 billion from 2001 to the last quarter of 2008, employing more than 3,000 employees and 14 million subscribers in March 2009, and reached 15.087 million in December 2010, as well as working as a support and solution provider for GSM and internet operations.

Djezzy Algeria is highly perceived as the favourite operator in the country, despite the arrival of a new competitor (Nedjma) and the restructure of the state company, Algerie Telecom. This is according to Djezzy data, based on an independent survey on customer satisfaction conducted in 2008 (Orascom Holding, September (2009)).

Furthermore, Djezzy's declining per-head revenue and market share, which fell from roughly 80% in late 2004 to 60% in March 2007, shows how competitive the Algerian telecommunication market is (Figure 4.3). Djezzy can no longer rely on its hegemony over the market, especially with the price-cutting strategy adopted by the two other competitors, as Algerie Telecom dropped charges twice in two years from $0.16 in June 2003 to $ 0.14 in April 2004 and $0.12 in 2006. This has pushed all operators to engage in an aggressive marketing war by offering extra credit with any top-up (up to double credit for the third operator Nedjma, free calls from 7h00pm to 7h00am in the same network or landlines for the Algerie telecom, or freeze the clock talk 60 minutes and pay for just 3 minutes). For Djezzy, additional promotions are currently running, particularly during special occasions (Eid, summer holidays, Ramadan) in order to attract more subscribers[9] (Orascom Holding, September 2009).

[9] The secret of Djezzy success (appendix 07).





Source: ARPT, 2011

Figure 4.2 and 4.3 the Algerian telecom market share August 2006 and 2010.

IV.1.1.3 The Firm's motivation to invest in the Algerian Telecom market

The first motivation for the firm to enter the lucrative Algerian market was the guarantee given by the Algerian government: a four-year free taxation offer, as well as access to credit lines by the state banks, access to land, helping the MNE multinational importing technological equipment and facilitating the work permit for its expatriates.

Furthermore, according to an emerging Algeria report (2007), the firm negotiated its entry more than a year and half before deciding to bid for the second GSM licence in 2001. The firm put certain pressure on the Algerian government to allow Djezzy to impose a monopoly on the Algerian market, by first postponing the third GSM bid which was originally scheduled for 2003. Another important point is that Djezzy has sealed deals with big firms and local institutions to provide a business network, thereby obstructing the doors to the national firm, Algerie Telecom (Oxford Business, 2007).

According to Najeeb Swariss(ex-chief executive of Djazzy) and the interviews conducted on the firm’s mode of entry, the firm had no option other than greenfield, as the Egyptian firm was the first multinational to invest in the country after the deregulation of the telecommunication market and the government intention to modernise the obsolete infrastructure. In addition to weak economic stability and state security ravaged by more than twelve years of terrorism, the country’s credit rating was relatively low during the beginning of the last decade (according to the Cofface credit rating). The government has encouraged the firm to invest by granting some privileges such as: access to land, tax royalties and access to credit and loans from state banks (Oxford Business, 2007).

In relation to the location of investment, according to Najeeb Swariss, the MNE has always opted to invest in relative high risk countries, like Algeria Pakistan, Bangladesh, Sudan, North Korea and Zimbabwe, knowing that risk could generate high profit due to the lack of competition and taking advantage of market inefficiency, rent and monopoly seeking. As a result, the three most profitable subsidiaries among the holding are high risk countries. He also described the MNE rent-seeking strategy as “normal”, especially in emerging markets characterised by high market imperfection as, rent capture would likely encourage new entrants, decrease bureaucracy, speed up the company setup, and increase competitive rivalry in the market, which could have strong repercussions on the FDI performance. This could benefit consumers, as the increase of market competition would lower prices and improve technology, R & D and market innovation. It could also create jobs and might help develop employees’ skills via the different training programmes offered to be more competitive in a fast growing market, and ease the transfer of knowledge, management, know-how and absorptive capabilities to the local market. Therefore, Djezzy contributed in funding different government projects, including education and training, sports and community support (Oxford Business, 2007).

One of the reasons that encouraged Djezzy in Algeria is the bilateral agreement between Algeria and Egypt, giving Egyptian investors a premium position and the cultural proximity as both countries share the same language and religion which would facilitate communication and interaction between the home and host country. This was beneficial at the beginning, but since the deterioration of relations between Algeria and Egypt and the football match incident, the image of the company was heavily affected. It raised anti-Egyptian interest and Egyptians were no longer welcomed in Algeria.[10]

According the Oxford Business Group (2007), Djezzy has used lobbies to put pressure the Algerian government to privilege the Egyptian firm in detriment of the national one, as many of government institutions switched from Mobilis to Djezzy. In late December 2003, a newspaper (El Khaber) published an article about Djezzy's rent seeking, or how the company managed to win the GSM second bid beforehand or how Orascom made a deal with the government before the bid. It described the bid as a theatre play as the winner was awarded more than a year before. The newspaper continued explaining how the $780 million (the bid) was given to OTH by Algerian banks under government consent (Mahmoud, 2003).

This revelation generated a big debate about how open is the Algerian economy and how lobbying groups are acting against the state firm interest. Many journalists denounce this fiasco and excuse the government of illicit practises. El Khaber asked a pertinent question on its editorial: what the government is gaining from giving up the telecom market to the Egyptians?? What is beyond the Egyptians entry to the Algerian market (Mahmoud, 2003).

Reviewing the article, the questions addressed are: why do we call the Djezzy's success a miracle?! How did Djezzy reach about a million in less than a year of activity? How would it be possible?? How did the Algerian authorities contribute to this success?

[10]Analysis on the conflict between Djezzy and The Algerian Government (appendix 08).

In his article Mahmoud (2003) argues that Djezzy took advantage of the bilateral agreement signed by the Algerian and Egyptian governments to promote investment between the two countries, giving the Egyptian firm a premium status in the Algeria (confirmed by the interviews). Another fact is that the privatisation of the Algerian Post and Telecommunication Company was postponed as it was meant to be completed by the end of 1999 (delayed till 2003). This created tension and anarchy within the firm, opening the doors to Djezzy to have a virgin market without solid competition. Also, it condemned the government and the regulatory body's (ARPT) position towards Djezzy hegemony.

According to the Oxford Business group report (2007), Djezzy breached the ARPT rules in terms of competition more than 25 times between 2002-2005, but no action has ever been taken, despite complaints being received from Mobilis and later Nedjma. Indeed, only verbal warnings were issued to Djezzy to ask the firm to stick to the policies.

After the successful set up of Orascom Telecom Algerie, the multinational began to expand its services and develop its business in Algeria by bringing its subsidiaries not only in telecommunication, but also in other high potential sectors, such as building technology and equipment: Ring mobile retailer, Orascom Building, Orascom technology, Orascom equipment and Orascom cement (Oxford Business group, 2008).

The Algerian government welcomes this initiative as it will lower the increasing export bill, and promised Orascom to provide all necessary resources to allow a quick set up such as free tax royalties for five years and financial loans. However, on 11 December 2007, Orascom sealed a deal with the French firm Lafarge, one of the biggest construction groups in the world, for more than €8.8 million ($9.5 million) for a takeover, which was highly criticised by the Algerian government. It is clearly mentioned in the agreement that any change in the ownership should be subject to the government consent (Oxford Business, 2008).

IV.1.1.4 Conclusion of the Djezzy case study

According to Hassan Kabbani (Djezzy chief executive) in an interview with the Algerian newspaper (Echrouk), the secret of Orascom Telecom’s successful performance in Algeria is the trust factor (customer loyalty) with its 14 million customers. The company has contributed largely to the transfer of technology, knowledge and capital to the telecommunication market. “Djezzy is now a trademark in every Algerian home on the basis on constant commitment to keep all promises in transparency and seriousness, which makes Orascom Telecom Algerie, considers itself as the pride of telecommunication in Algeria. Djezzy is the first in terms of importance compared to the rest of the group’s branches in Asia, Africa and Europe. He added “In the current year, the investment reached 2 billion and 900 dollars….this amount reflects the reality of the branch extension which records around 14 million subscribers” **(**Yahia, 2009: 5-6).

On 4 October 2010, after secret negotiations, VimpelCom, the giant Russian Telecommunication firm, took control of Orascom Telecom as part of a $6.6 billion international acquisition. The Algerian government displayed firm opposition to the deal and declared its intentions to buy the company[11].

[11] The VimpelCom potential Takeover of Djezzy (appendix 09).

IV.1.2 Case study of Nedjma Telecom

IV.1.2.1 Presentation of Nedjma

Wataniya Telecom was launched in 1999 as the first privately-owned operator in Kuwait. Its entry led to a sharp increase in the mobile market penetration in Kuwait (over 80%). The company had enjoyed a rapid growth over the last ten years, especially through it acquisition and expansion strategy in MENA & ASIA (including Kuwait, Maldives, Saudi Arabia, Tunisia, Algeria and from 2007 in Palestine). In March 2007, Qatar Telecom (Qtel) acquired 51% of Wataniya Telecom shares. Qtel is now active in more than 16 countries, including Qatar, Oman, Iraq, Singapore and Indonesia. In November 2006, Qtel acquired a strategic 38% equity stake with AT&T in NavLink, a leading provider of Managed Data Services to businesses in the Middle East (Wataniya telecom, 2011).

The takeover of Wataniya by Qtel represents a major step for Qatar Telecom over the hegemony of the Middle-Eastern telecommunication market. Furthermore, Wataniya Telecom launched the first multimedia operator in Algeria via it local subsidiary, Wataniya Telecom Algerie (Nedjma), on 2 December 2003 after the second GSM licence bid by the ARPT, for a total value of $421 million (Wataniya Telecom, 2011).

The firm launched commercially its services on the 25 August 2004. The aim of the new operator is to provide new way of communication, new products adapted to all segments of the market using new and innovating technology (GPRS) and very high standards of services. According to the company mission statement, Nedjma is a customer-driven company that aims to provide product and service excellence. This is leading to a real customer value in order to compete against the two other well-established operators; Djezzy that held a market share in 2004 of over 85%, while the historic operator Algerie Telecom had 15% (Wataniya Telecom, 2011).

IV.1.2.2 Nedjma market analysis

Source: ARPT,2010

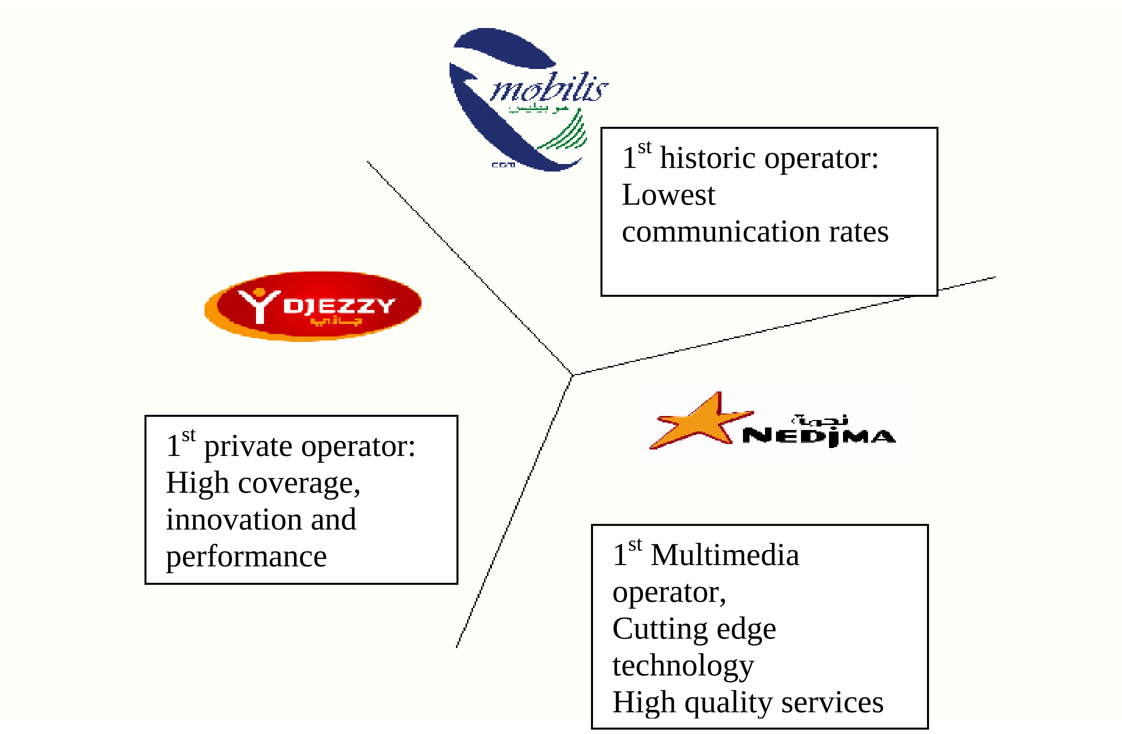


Figure 4.4 Nedjma market analysis

Before 2008, the telecommunication actors were trying to attract customer attention by focusing on a marketing and media campaign offering more services and tailored packages. Since the increase of the competition in the market, the main players turned to a new price war targeting the mass market segment, low and middle income (representing more than 95% of the Algerian population). Table 4.4 below provides a sample of the price and packages introduced from 2008 (Nedjma marketing report, 2009).

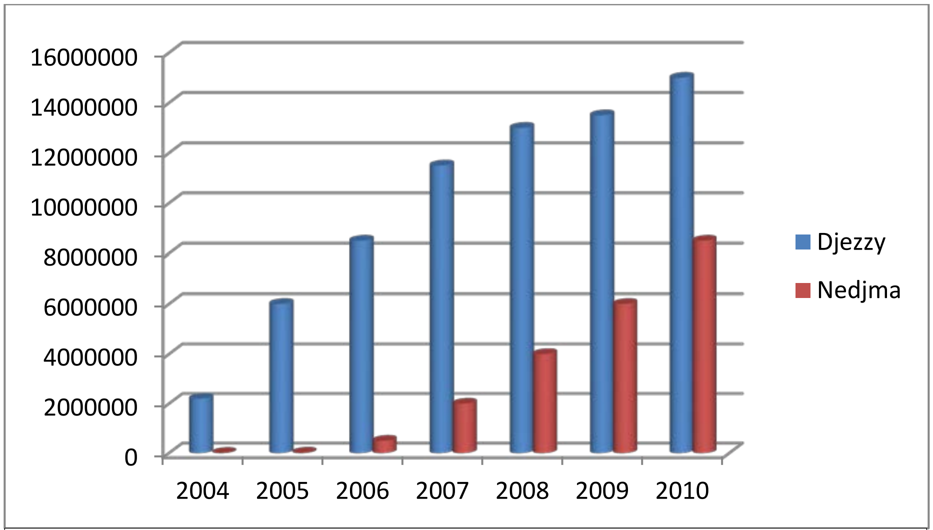
Table 4.4: different promotions /providers

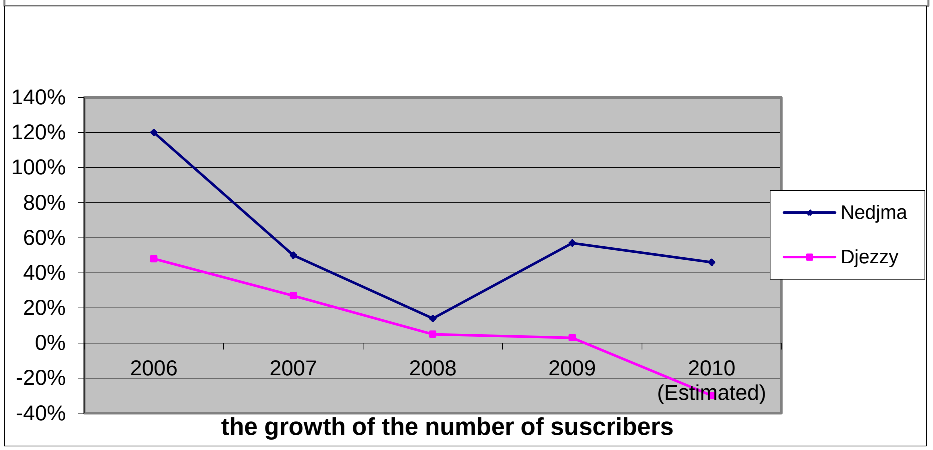
Operator	Period	Offers
Mobilis	From 2008	Mobilis card: get up to DZA500 every time you top up + free calls to Mobilis
Djezzy		Gratissimo: free calls to Djezzy from 00h to 18h00
Nedjma		Nedjma plus: top up DZA1000 and you will get free calls to Nedjma. Top up DZA 500 and get extra DZA 500 Top up DZA 2000 and you get an extra DZA 4000 worth of credit to all networks

Source: Wataniya Telecom Algerie, Marketing report 2009.

The two foreign operators, Djezzy and Nedjma, are adopting a very aggressive positioning strategy. When analysing Figures 4.5 and 4.6, we can notice that, from 2006, the number of Nedjma subscribers almost doubled every year to reach 8.245 million subscribers by the end of 2010. This net evolution is due to the introduction of the multimedia service by Nedjma, an aggressive marketing campaign targeting mainly youngsters and students. It is also due to a new phenomenon in the Algerian market, the rise of a new segment or what we call the “multi SIM cards possessors” (Nedjma marketing report, 2009).

According to the Nedjma marketing report (2009), this new group spends around DZA1000 each trimester on the function of the validity of the SIM card. According to our interviews, the interviewees define this new segment as a low spender group (mainly students and youngsters) that do not care about keeping the same number and swap between operators whenever there is a promotion.





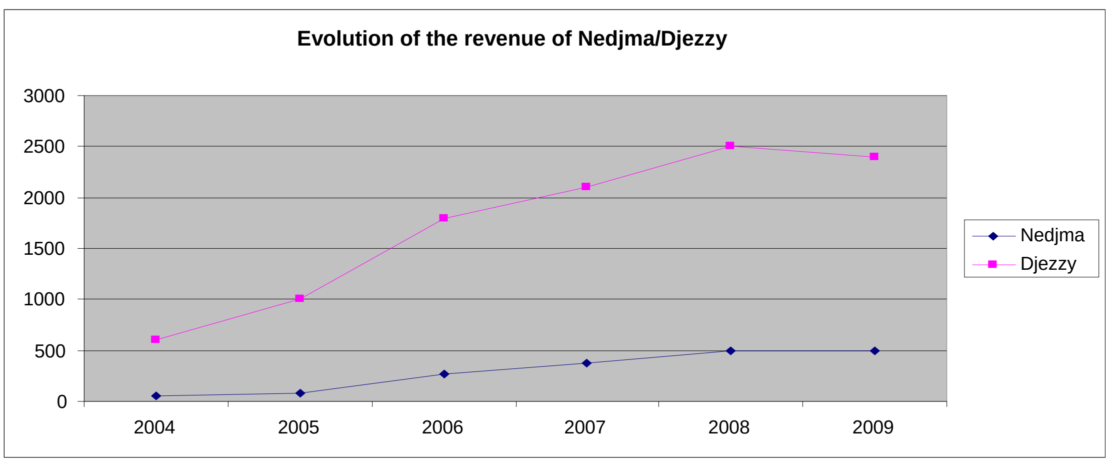
Source: ARPT, 2011

Figures 4.5 and 4.6 comparison between the evolutions and growth of the number of subscribers for Djezzy/Nedjma

We can observe from the graph above that the growth of Djezzy's customers has declined steadily from 2006 to 2007, then fell sharply from 2008 to 2010 (reached -30%). In terms of revenue, Orascom Telecom Algerie has seen its profit fall from $2000 million in 2008 to $1867million in 2009. On the other hand, Nedjma's growth declined dramatically from 2006-2008 and has been recovering ever since. Analysts justify this by the appointment of Joseph Jade as the new CEO in September 2007. His arrival has changed the strategic orientation of the company, being more competitive with the development of the network Nedjma reached 99% of territory in December 2008, upgrading it systems, introducing new services and tailored it offers to fit all the segments (ARPT annual report, 2009).

The involvement of Nedjma in sponsoring events and sports (mainly football clubs) has also helped the firm reinforce its brand image, and the recent conflict between Djezzy and the Algerian government[12] played in important role in driving Djezzy's customers towards Nedjma and Mobilis.

In fact, according to the ARPT annual report (2011), Nedjma benefited from more than 1.2 million extra subscribers from November 2009 to the end of 2010. While, in terms of revenue the Kuwaiti-based firm has seen its profit growth declining, that was explained by the Nedjma analyst as the low customer expenditure. According to the interviewees, the average customer expenditure fell from DZA1500/month in October 2009 to DZA1000/month in March 2010. Some of them described this as Nedjma taking over ineffective Djezzy customers (Wataniya Telecom Algerie, 2011). In terms of profitability, Djezzy's profit was above $15000 million for the last four years, while Nedjma barely reached the cap of $500 million. Figure 4.7 shows the evolution of the revenue between Nedjma and Djezzy.



Source: Wataniya Telecom Algerie, 2010

Figure 4.7 evolution of the revenue of Nedjma/Djezzy

[12] Analysis on the conflict between Djezzy and The Algerian Government (appendix07and 08).

IV.1.2.3 Nedjma internal and external diagnostics

The internal and external analyses are based on different sources: the firm annual reports, articles, news stories, announcements, conference proceedings, corporate web pages, consultants and expert's reports and empirical data collected.

IV.1.2.3.1 Internal analyses

Strengths:

- Continuous upgrade of its network.
- Constant launch of offers tailored to all segments.
- Low call rates, including free minutes and texts.
- Adopting an aggressive marketing strategy in order to be very competitive.
- Quick reaction to the competitors' offers (by keeping updated and acting in response).
- Investing internally by opening four training centres nationwide, providing staff with the essential training to cope with the latest technology in the market.
- Investing in developing human resources by setting up its proper training centres and collaborating with diverse universities and schools to train their staff. According to interviewees, Nedjma offers short courses and different training adapted to all scale of hierarchy as well as offering MBA courses through its schools partners.
- Very participative way of management involving all the stockholders in the decision making according to interviewees the company intercultural aspect allows the interaction between different styles of management and know-how which contribute to its development.
- Strong communication and marketing team, to enhance the brand image of the company.

- Selective and rational recruitment politic (recruiting when needed to avoid being over staffed).

Weaknesses:

- Profit in slow progression.

- Over-spending on sponsoring (without necessarily being effective).

- The complication of the offers and promotions. According to Nedjma internal reports, call centre receive massive amount of calls from people who can't understand the nature of the offers and how it works. According to marketing manager, the company has identified the problem (the language used, as well as too many information in a short message) and they are working hard to simplify the offers as much as they could (this problem was also pointed out by the ARPT, as they received many complaints from unhappy customers (Nedjma marketing report, 2009).

- Lobbying that caused internal conflicts, ARPT report (2009) claims that all the senior positions are occupied by Lebanese and states that more than 95% of the senior managers are Lebanese and also the CEO is Lebanese. All the senior managers are recruited from Lebanon, which does not give chance to locals to get promoted; ARPT has reported this issue to the mother company Qtel and to the Algerian government but nothing has been done so far.

- The degradation of the network, since the Djezzy conflict with the Algerian government. The migration of Djezzy's customers towards Nedjma, the later did not expend its network which generates a network saturation this problem was not resolved since December 2009.

  When asking senior managers, about this problem they states that since the takeover by Qtel in 2008, the mother firm, allocate a yearly budget to Nedjma. Since the qualification of Algeria to the World Cup, the company has spent much more than expected specially in sponsoring which led to a shortage of funds (that shows why Nedjma could not address this problem) but they assured that they are working with Algerie Telecom to use their network to absorb the increased number of new subscribers (adapted from the interviews).

IV.1.2.3.2 External Analysis:

- The continual conflict with the regulatory body regarding the promotions launched.
- The gain from the conflict between Djezzy and the Algerian government with the migration of customers from Djezzy to the other operators (some Djezzy's senior managers criticised Nedjma for poisoning the situation by using media supports such as blogs, newspapers article and TV and audio ads to show their total support to the Algerian government and Algerian people emphasising that Nedjma is an Algerian Entity unlike Djezzy (adapted from the interviews).

- Qtel's ambitious expansion plan in Algeria was reviewed due to the new investment law (according to the interviewees, the government gave Nedjma some warranties related to tax exemptions). Adding to that, the Djezzy conflict is making any further expansion hard to concretise.

- The new orientation of the company being more involved on the political scene, via sponsoring government projects, sponsoring lobbies for rent-seeking purposes and also to avoid any eventual conflict with the Algerian government.

- Corporate social responsibility awareness, Nedjma is working on multiple projects like organising youth camps (for children in need), donating books and computers to schools. According to the interviews, the company is intending to take over Djezzy's position by being more involved in social and cultural scenes.

- In terms of improving the brand image, the firm is sponsoring the Algerian football team and the Football League Association. Nedjma has not skimped on expenses, signing with $19.4m; "an unheard of sum" in Algerian football, according to Mourad Aït Aoudia, chief of the McCann Algérie agency which produces Nedjma's publicity campaigns. To that can be added the 80m dinars for the national league and about 20m dinars for each of the six clubs it sponsors. Adding to that, transporting hundreds of fans for the match against Egypt (held in Khartoum), providing free Peugeot 307 cars specially customised to football team members after they qualified for the 2010 South African World Cup. Moreover, the interviewees described the Djezzy's conflict as a big turn in Nedjma's positioning in the Algerian market.

- In terms of competition, the new strategic orientation of the company based on marketing and media has led to a net increase of the market share. If we compare Nedjma's market share from 2006 to August 2010 (as described in the graphs below) we can see the net development is due to the strategic reorientation of the company. While Nedjma and Mobilis were focusing more on marketing, Djezzy was just looking at its rivals without acting. In fact, since the mutation of its CEO Hassan Kabbani to Egyptian subsidy Mobinil, the politic change drastically, cutting on the marketing, media and sponsor budget and focusing more on retaining existing customers even with the controversial Egyptian Algerian football match. The firm did not address it properly, while Mobilis and Nedjma took advantage of the situation and doubled the effort to support the Algerian football fans. According to Mourad Aït Aoudia, things would have been done differently with Hassan Kabbani, who placed much more emphasis on marketing and was more knowledgeable of football issues in Algeria than the new CEO Tamer Al Mahdi. Nedjma knew how to seize the opportunities which led it to win the marketing battle so far (Faiza Ghozali, 2010).

- Strong corporation with local firms, particularly for maintenance, and upgrading the network and call-centres. According to Nedjma's interviewees, the company is working closely with many local SMEs in different parts of the country, allowing better performance and prompt intervention in the case of problems. Also, the firm is committed to support its partners by providing financial and technical support.

IV.1.2.4 The impact of rent capture on Nedjma's strategy

When analysing the company's strategy in Algeria, we can notice two different strategies: From 2005-2008, it is characterised by focusing on developing its network and brand image - developing its marketing as a market follower, while Djezzy was the market leader. From 2008-2010, the arrival of the new CEO Joseph Ged changed the orientation of the firm being more involved in the country politics via sponsoring major events, football clubs, lobbying, and other government projects, such as water desalination, social projects (funding schools) (Nedjma marketing report, 2009).

By being involved in the political life of the country, Nedjma has benefited from some tax exemptions, access to land, bank loans (with discounted interest) and, most importantly, a good relationship with the Algerian government (avoiding Djezzy's fortune). In fact, Nedjma seized the opportunity of the deterioration of relations between the Egyptian firm and the Algerian government (previously explained in the Djezzy section), to change its politic from market follower to market leader, trying to attract both public and state contentment by aggressive market campaign and sponsoring (Oxford Business group, 2008).

According to Nedjma senior managers, the importance of the rent capture in increasing company capabilities and competitiveness has pushed the MNE to reconsider its strategy in the country by considering the influence and the degree of the government involvement on the Algerian business environment.

The firm is now focusing on maintaining a close relationship to develop its market share in the market. Djezzy's case had made the Qatar-based firm think about reshaping its strategy to get more involved in both the political and social life of the country.

The interviews with the company's executives explained the choice of the Algerian market as strategic, as the liberalisation, and the Algerian government's efforts to develop the sectors have helped attract foreign direct investment (FDI) to the country. Moreover, the MNE justified the choice of investment by the rise of anti-Arab and Muslim feeling in the world following the 9/11 attacks. Many Arab investors decided to transfer their capital from western to Arab countries, thinking it would safer as they share the same language and culture. After trying an eventual takeover of the state owned firm, the company has opted to bid for the third GSM licence, the company used greenfield mode of investment as it had no other choices available an eventual merger with Djezzy (strategic alliances between the two firms in Tunisia) was not discarded by Orascom, as Djezzy was the cash cow of the Egyptian telecommunication group.

According to the Nedjma investment report (2009), the firm has switched from market follower to market leader strategy. The firm was observing the market and on one occasion it seized the opportunities offered. The firm has invested heavily in media and sponsoring to create a strong brand image and improve its competitiveness. The company is also investing continuously in its own human capital by developing skills and knowledge of its employees.

According to Nedjma CEO, Joseph Ged, after a period of adaptation to the local market, Nedjma has learned a lot from both its competitors and the host country. The increase in competition has led the company to increase its technological capacities as well as efficiency. He added “the liberalisation of Algerian telecoms has been one of the most successful openings of a sector in the region. As an international company, we are very happy with our investment and motivated about the future, which we see as being rather bullish. On the technology side, we have tried to focus on becoming a multimedia operator. Web media is becoming a major means of communication and is a key area to capitalise on. As for the network, a big part of our investment is being put toward increasing capacity, as well as upgrading and enhancing the existing infrastructure. The network is now 3G ready and we are looking forward to the issuing of the 3G licences as we believe there is a big market for mobile broadband in the country” (Oxford Business group, 2011: 157).

Also, regarding the new investment law and the tax on profit applied to all MNEs, Nedjma has been granted free tax on profit (until further notice). According to our case study, the company has negotiated five years tax-free with the Algerian government, after being refused the tax royalties as the government aims to stimulate this industry with fiscal incentives in the hope of gaining expertise and creating employment (Oxford Business group, 2011).

Furthermore, the favouritism of the Algerian government and the ARPT towards Djezzy seems to disappear. The recent complaints made by Nedjma to the regulatory body ARPT concerning illegal competition practises were reassessed and accepted, while Djezzy's complaint regarding the inappropriate exploitation of its parent (Egypt) by Nedjma in order to improve its brand image and deteriorate Djezzy's one, was rejected by the ARPT with a non-fundamental notion.

In relation to the role of the ARPT regulating the market, Joseph Ged declared, “I hope that we will see moves by the Post and Telecommunications Regulatory Authority (Autorité de Régulation de la Poste et des Télécommunications, ARPT) towards balancing the market, as the revenue shares are still very skewed. The ARPT could introduce measures that would make it easier for smaller players to be aggressive and gain a better position. We believe the strategic objectives of all operators should be aligned towards the Algerian objectives where everyone can work within an environment of constructive, fair competition” (Oxford Business group, 2011: 157). Despite being considered the youngest operator in the sector, Nedjma has rapidly built up a strong market share. The firm was quick to adopt an innovative positioning when it launched in August 2004, prioritising Internet and multimedia services and using aggressive marketing campaigns to help win customers. The firm has helped brought a new dimension to the sector by focusing on Internet and data connection and building strong customer service.

IV.3 Presentation of Algerie Telecom

Algerie Telecom group is the historic state-owned company. It consists of three main subsidiaries: Algerie Telecom (landline service); Mobilis (the mobile service); and Algerie Telecom satellite ATS (satellite operator).The mission statement of the company is to be very competitive in a constantly evolving market, with the necessity to implement mechanisms of adaptations to technological, competitive and knowledge mutations.

In fact, from 2004-2008 Algerie Telecom embarked on a very ambitious programme investing more than $2.5 billion dollars in upgrading and expanding its network by June 2010. The company accounted for more than 5 million landline subscribers, 9.46 million mobile subscribers and 1.5 million broadband internet subscribers (Algerie Telecom Annual report, 2009).

Algerie Telecom's main objectives are to invest relentlessly to reach more than 10 million mobile subscribers and 2 million internet users by the end of 2011 (Algerie Telecom Annual report, 2009). The second development programme taking place between2008-2011 earmarked a total of $1.5 billion. This will be divided between all subsidiaries of the group (Satellite telecommunication, Internet, Telecommunication logistics, Information Systems and Management).

Looking at the company's positioning in the Algerian market, interviewees state that Djezzy's take over of the hegemony of Algerie Telecom since its entry in the market is due to several factors, such as: outdated network, bad coverage, narrow range of services, low standard of customers service, high prices and the absence of clear marketing strategy, pressure group and lobbying role. In contrast, they admit that the presence of rent capture in the market has increased competition despite some illegal practises and bribery exerted by some competitors. The fast development of the telecommunication sector in Algeria has driven the company to undertake deep reforms internally and externally, investing in upgrading its facilities, collaborating with local and foreign partners to develop the firm's technology skills and know-how. According to the chief executive, the new investment programme is expected to produce convincing results thanks to the new technology implemented based on the wireless system. This could allow an increase on the landline teledensity, especially in rural areas within the first year of the programme. The teledensity has increased from 5.80% in 2000 to 10.2% at the end of 2008 and expects to reach 12% by the end 2011 (Algerie Telecom report, 2010).

Regarding the upgrade of the existing network, Algerie Telecom has increased its capacities by upgrading its communication backbone from 2.5 and 10 Gbps to 80 Gbps in addition to 10 Gbps toward Spain and 60 Gbps toward Marseille since November 2005. In addition, the ground cables link Algeria to Morocco, Tunisia, Libya and soon Nigeria (Algerie Telecom Annual report, 2009).

According to the ex-chief executive, Moussa Benhamadi, the deep transformation that the firm encountered allowed Algerie Telecom to efficiently transform itself from an administrative unit to a group of joint entities. He also highlighted that in order to expend it capabilities to integrate into the dynamics of the market economy, the firm has opted for the introduction of new technologies such as WIFI, WIMAX, VSAT, WAP, GPRS and UMTS (Algerie Telecom Annual report, 2009).

Moreover, through its Mobilis branch, AT launched additional projects, such as the multiservice (IP/MPLS) allowing the increase of the data and voice packet transfer, network resources designed for individual costumers or small businesses. Another step forward by the state-owned firm is the setup of two more subsides: Djaweb for Internet and ATS for satellite telecommunication through high performance VSAT and GMPCS services, the broadcasting of service and sound.

Yet, the real challenge for Algerie Telecom is how to cope with growth of the economy by contributing effectively to the other sectors; namely by electronic telecommunication; e-business, e-banking, e-learning, e-healthcare, e-tourism. The group aims to use the information, communication technology and knowledge to promote the local culture and family values. AT has launched a new service targeting families “Ousratic” allowing middle or low-income families to acquire computers and get access to the Internet at a low cost partly subsidised by AT and the Algerian government (Algerie Telecom Annual report, 2009).

The main objective of this ambitious project is to provide all Algerian households with one computer by 2012. This project was a wide success and, in the forum of the development of Africa (Nepad, 2009), Algerian President Bouteflika gave a talk about the importance of the project and its positive repercussion in the Algerian society and also offered to export the Algerian experience to other developing economies in Africa (Algerie Telecom Annual report, 2009).Seeking to be ahead in the development of the information technology sector, telecommunication in the country has generated interest from private and international firms to propose its service to the historical operator. The opening of the firm capital and the bond issue by the public offer has beaten all forecasts; in the second operation the money raised exceeded the $350 million dollars more than the $100 million dollars raised from the first operation (Algerie Telecom Annual report, 2009).

The opening of AT on the financial market shows the strong desire to raise significant cash-flow to support its various expansion plans making the group in a strong position in a very competitive local market. The partnership and alliances agreed with foreign investors (Ericsson, Huawei, ZTE, Alcatel).

The mobile unit, Mobilis, has finished its fibre optic expansion covering more than 25,000km and 1,900 km submarine. Adding to another $30 Million cable from Algeria to Marseille contracted to the French operator, Telecom. The 1,300 Km cable that connects Marseilles to both Algiers and the eastern cost city Annaba (near the Tunisian border); this project was designed for the Egyptian operator Orascom Telecom. Another ambitious investment is the new 20,000km undersea cable from Marseille to Singapore, with stops in 14 countries including Middle Eastern countries, India, Pakistan, Thailand and Malaysia (Algerie Telecom Annual report, 2009).

The current investment projects are partly financed by the group the rest comes from loans and revenue from operations. China’s export credit agency Sinosure lent Algerie telecom $40m to pay for optical network equipment from the chine’s manufacturer, ZTE, including transition gear, power supply and software. Huawei, the technology leader in the Chinese market, is currently building the country’s first 3G network.

The Chinese companies remain the preferred partners of AT. The interest of the Chinese firms to the lucrative North-African market has rapidly grown. This interest had seen the domination of the Swedish firm Ericsson and the German Siemens diluted. Huawei employs more than 2,000 people in North Africa, in which half of them are locals. Meanwhile, ZTE is working on the wireless expansion projects, and opened the first North-African training institute; a French language school to provide telecommunication training for the Maghreb countries.

Believing in the power of good human resource management, AT has established a very motivated strategy to upgrade the knowledge of its employees. The group has already established four regional schools in Algiers, Constantine, Tlemcen and Ouargla covering the countries. In addition to the training, its partners aim to become more effective and efficient in the development of information and communication technology with the ability of the group to improve is know-how and managerial performance (Algerie Telecom report, 2010).

IV.3.1 The effect of the entry of new players on Algerie Telecom

The increase in competition has led the national operator to engage in drastic restructuration reforms adding to the investment of $2.5 billion dollars in upgrading and expending it network from 2004 to 2008. Mobilis hopes to achieve 20% growth in 2011. In 2009, AT reportedly recorded turnover of AD47bn (€461.4m), an increase of 2% of 2008 (Oxford Business group, 2011).

Mobilis' chief executive, Azouaou Mehmel, declared, "This is a market that is characterised by extremely fierce competition, with a level of technological evolution that makes our sector very complex. We must integrate these elements into our strategy in order to guarantee a favourable economic performance. This is particularly important for Mobilis, since we are a public entity, and therefore subject to the obligations of public service, which can make our quest for profitability an even greater challenge. This is why we are investing in developing the quality of the network, as well as the knowhow of people in the sector. Looking forward, the key factor for success in this sector will be to ensure responsiveness and proximity to customers. In Algeria there is a blank slate, which gives us a special opportunity to move in whatever direction we decide, using the examples of other companies in foreign countries to decide what the best solutions will be for Algeria" (Oxford Business group, 2011: 157).

He also explained that the penetration rate reaches saturation rate. There is a need to look at potential other services outside voice calls. Looking at Value-added services, like the mobile data services, could provide Algerian consumers with fast and reliable access. The 3G network could give the telecommunication market a new breath by releasing the full potential of the Algerian market and creating a mobile telephony environment that goes far beyond voice services.

In conclusion, the liberalisation of the telecommunication market has influenced new entrants in the Algerian market, pushing the state firm to reshape its strategy, upgrade its facilities, collaborate with leading MNEs, as well as local SMEs. The company aims to return to its leading position (especially after the Djezzy conflict) by implementing an

ambitious positioning strategy, using the image of the national network and transforming its weaknesses into strengths. According to Algerie Telecom, the firm budget for marketing, sponsoring and communication has more than doubled in 2009 to cope with the increased expenditure by its competitors (Algerie Telecom report, 2010).

IV.4. Presentation of Ericsson

Ericsson was established as a representative office in 1974, and shortly after this date the first switching equipment and installation services contract was signed (crossbar technology) with PTT. Ericsson worked with an extensive transfer of competence also in co-operation with the Institute for Telecommunication in Algiers and Oran.

Ericsson took part in the transition to the new digital switching technology. The first AXE contract was signed with PTT 1987.1988 Ericsson signed a Joint Venture (JV) agreement with Algerian partners with 35 % ownership for Ericsson. This was the first JV of its kind in Algeria. AXE equipment was manufactured during more than 12 years. This allowed Ericsson to be present in the market also during the troublesome years 1993-2000 (Ericsson Algeria, Annual report, 2007).

The first GSM contract (100K) was delivered to PTT and installed by Ericsson 1999. As the political situation in Algeria improved, Ericsson strengthened its presence in the representative office from 2000 and worked in co-operation with the JV to serve the Algerian market. A company, Ericsson Algerie SARL, was established in 2004 for all Ericsson activities in the country with today more than 200 employees with high competence. The good knowledge of the market and our ambition to serve the Algerian telecom market in the best possible way has built the confidence between Ericsson and our business partners (Ericsson Algeria, Annual report, 2007).

In September 2002, Algerie Telecom selected Ericsson to install its second GSM network. The $162.3 million contract aimed to establish 700,000 lines, providing services to 12 of Algeria's 48 departments. The deal has a target date of completion set for August 2003. Ericsson has encountered a high competition from Siemens, Huawei Technologies, Zhongxing Technologies, Alcatel and Motorola (Ericsson Algeria, Annual report, 2007).

The Algerie Telecom’s fixed network has currently 2,900 AXE subscribers. Today, Ericsson has a close co-operation with AT for the evolution and modernisation of the fixed network. A major extension contract for the GSM network was awarded to Ericsson Dec 2003 by Algerie Telecom Mobile (ATM). That included core and radio network, services for implementation and support as well as the operation & maintenance. Ericsson has supplied GPRS/MMS and other applications and services. The extension of the network has continued 2005 and 2006 in partnership with ATM.

Furthermore, Ericsson was awarded a contract for radio network included services for the third mobile operator, Wataniya Algerie, in April 2004, and extensions were made during 2005 and 2006 including applications for the service layer, and since 2008, extending Nedjma’s network (Ericsson Algeria, Annual report,2009). Finally, Ericsson is supplying other governmental entities since many years. The firm is also engaged in different project through distributors and re-sellers, active within an enterprise market (SMEs)

IV.4.1 Analysing Ericsson strategy in the Algerian market

Ericsson is considered as the pioneer in the Algerian telecommunication market, well established since 1974, but the main client was the Algerian state-owned company, PTT (newly Algerie Telecom). Since the openness of the Algerian market, the firm has expended it list to cover the three major telecom players (Djezzy, Nedjma , Algerie Telecom) adding to other small and medium companies and subcontracting with other multinationals; Siemens, Motorola, Alactel (Ericsson Algeria, Annual report, 2009).

But, according to Ericsson Algeria’s annual report (2009), the company is facing fierce competition from the Chinese constructors Huawei, ZTE. The new government collaboration with the Chinese firms has stopped the expansion of the Swedish firm; it has also pushed the company to focus on the realisation of project in the neighbourhood countries: Morocco and Tunisia.

The lack of clarity on the government decision adding to the degree of involvement of the state in the market create an instable investment climate in the country, also, the transparency of call for tender is a big issue in Algeria as in many occasion is not best bid that wins but the company who has more power, or that exert more pressure via influent lobbies that has the final word. Ericsson has been in the Algerian market over 35 years and was very close collaborating with the state project but the sudden shift in the government policy and strategic orientations has badly affected the firm's position in the Algerian market (Ericsson Algeria, Annual report, 2009).

According to the interviews, Ericsson is suffering from Chinese rent seeking, denouncing the illicit competition by the Chinese MNEs, giving examples of many projects that were agreed between Algerie Telecom or the government and Ericsson and were finally given without prior notice to Chinese constructors. Also, according to the interviews, both expatriates and local Ericsson employees agree that the boom of the sector did not significantly improve Ericsson's turnover as the company is mainly working now in smaller projects or with other multinationals losing its position as the government preferred partner.

In conclusion, according to Ericsson interviewees, the Algerian market has benefited strongly from FDI, by increasing competitiveness, better services, developing employee's expertise and increasing innovation. As the company has been present over the last thirty years, they confirm that the company business has flourished since the deregulation of the market, allowing the company to focus on the Algerian market by investing more in both infrastructures and human resources. in relation to rent capture, the participants believe that it would help improve the market but it could also generate illegal practises, and could harm the business environment in the country, urging the government to play a role of market regulator rather than interfering in the market by offering special benefits to some competitors. Also, the lack of coordination between Multinationals and local firms and strategy adopted by the major players (preferring to collaborate with companies from the same country) which could affect the improvement of local SMEs.

The company aims to introduce 3G and the government's "e-government" plan will offer more opportunities for MNEs and could help strengthen their role in developing the Algerian economy.

IV.5 Presentation of Worktel

Worktel is small local company with around 200 permanent staff and 100 fixed contracted staff; the SME was created in March 2003, to supply the growing demand on the booming telecom and energy sectors. The company has benefited from the credit lines designed from the Algerian government to help local entrepreneurs “ENSEJ”. After more than seven years of activities, the telecommunication operations represents more than 80% of the company turn over and only 20% on the oil sector (due to high competitively of this sector specially from overseas MNEs). The main objective of the company is to extend it services on the hydrocarbon sector to reach around 40% of its total turnover (Worktel annual report, 2009).

The company provides different services in booth sectors: in the sector: call-centre operations, maintenance of the telecommunication equipment, the set up and the integration of BTS equipment, civil engineering studies related to the telecom operations, subcontracting services from the major players: Djezzy, Nedjma, Algerie Telecom, Huawei, Ericsson, Alcatel and Siemens, consulting and advising foreign or local investors about the opportunity of investment in the telecom sector.

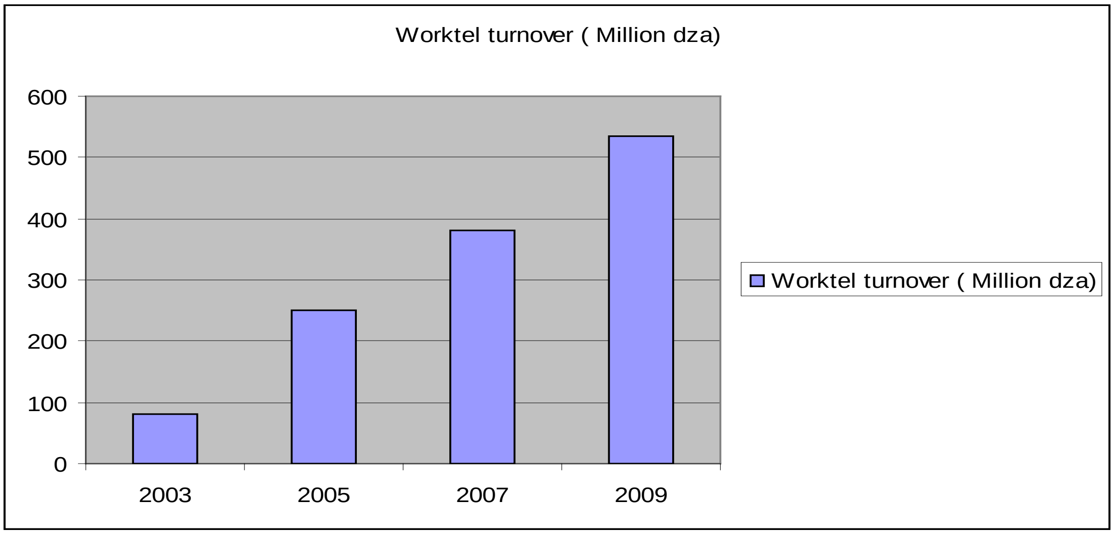
In the oil sector: the company offers a comprehensive range of services like: the study and setup of electric connection medium and high, realisation of the underground or over ground electric supply network distribution MT or BT, design and installation of rescue feeding system, analysing the reactive composition system, study of energy saving management (Worktel annual report, 2009).

Examples of different realisations:

- Ericsson account: radio, survey and transmissions, the preparation of installation documents, BTS mini-link installation (with alignment) for BTS sites, Antenna feeders and installation measurement, contracting for the account of Algerie telecom an installation and integration of BTS and HUB sites.
- Huawei account: a month contract including an installation of 06 BTS, GSM radio channels, feeders and Antenna, Radio measurement and start-up. Contract for INSYS for the account of Huawei including the setup of 30 BTS, 06 BSC WLL CDA in the east of the country.

- Djezzy Account: including the civil engineering study for GSM sites (10 sites/month), also the setup for BTS and HUB for more than 300 sites, as well as, the contract of connection in electric power of GSM sites more than 400 sites acquired.
- Nedjma account: subcontracting diver BTS and Hub installation in diverse sites in the east part of the country, contracting call centres services.

IV.5.1Worktel turnover evolution



Source: Worktel, 2009

Figure 4.8 evolution of Worktel in the Algerian Market

When analysing the graph above (4.8), we can notice the steady growth of the company turnover is mainly due to the expansion of the company, as its activities were mainly located on the east part of the country. Since 2006, Worktel has extended its activities to the centre of the country, including the capital and it suburbs, to be closer to the major telecom players, allowing the company to be more present in a high competitive market (Worktel annual report, 2009).

During this period, the firm has invested heavily on upgrading its technology and benefited from training from it contactors: training and certification of Worktel engineer by Huawei technology, training with Cisco system, Ericsson offered full staff training on project management as well as, interest free loans to help the firm improve its financial situation. According to the interviews (both senior managers and engineers questioned), the firm has largely benefited from the flow of foreign direct investment in the country in term of the transfer of technology and knowledge as well as the potential financial support offered.

Conversely, the increase of MNEs has led to an increase in the flow of SMEs from home to host countries; for instance, from 2002 to 2008 there is more than 1000 Egyptian SMEs operating in the telecom sector entered the Algerian market (ARPT, 2010). In most cases, MNEs prefer to deal with their home countries partners due either to a long-term relationship, the lack of expertise of the local companies or strategic alliances. So, there is a threat coming from foreign SMEs as they increasingly improve their market share in detriment of the local ones.

Another point is the lack of subvention and protection of the government that does not act necessarily to help local firms (according to Worktel interviews). They added that the new state strategy in favour of national companies seems inefficient, due to the pressure exerted by foreign firm that privilege rent seeking in order to get easy access to the market, avoiding government protection policies and taking advantage of the government monopoly privilege. This does not necessarily help local firms that have less resources and less competition than the foreign ones.

In summary, according to Worktel senior managers, the company was created to satisfy growing need of the Algerian telecommunication sector. They pointed out that the increase of multinationals has regenerated the market boosting competition and developing absorptive capacities, the existence of rent would help the market to some extent but it also generates waist like the raise of bureaucracy, bribery and other illicit practise. The lack of government protection and support for local small and medium firms would have damaging consequences, as local SMEs could not survive with the increasing entry of foreign SMEs.

Chapter IV: The Empirical Framework

Section 2: Questionnaire Analysis

Introduction:

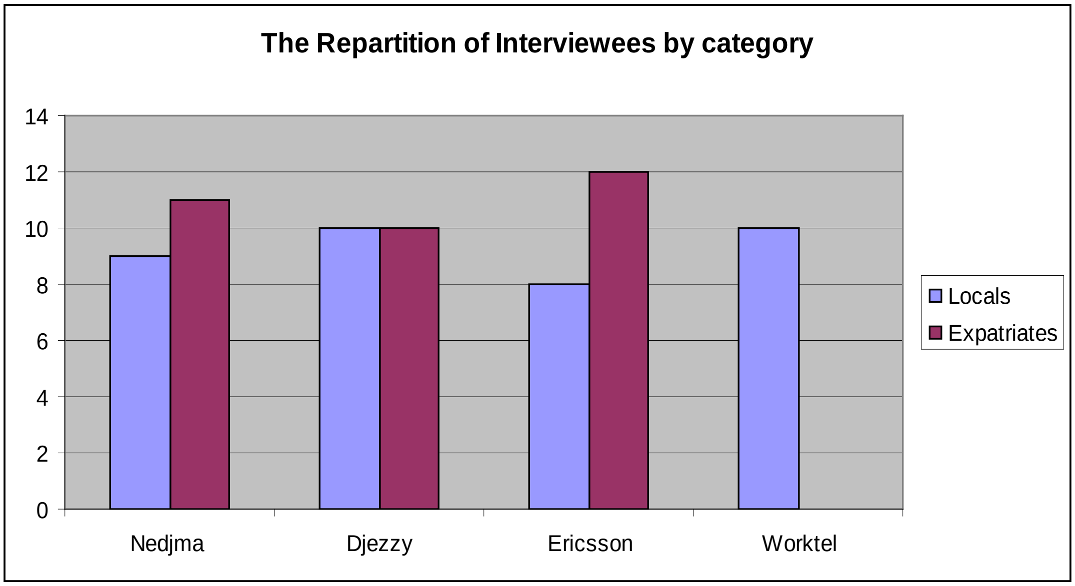
In order to corroborate my literature findings, I have drawn a questionnaire in relation to my research model and hypothesis. The first set analyses the business environment of Algeria, particularly the impact of liberalisation of the telecommunication and government investment policies on the foreign direct investment (FDI) flow. The second set focuses on the analysis of the rent capture influence on the FDI impact. The third set explores the relationship between FDI, mode entry, technology, capital spillovers and competitiveness, and the fourth set looks at the cultural distance and FDI inflow.

IV.2.1 key statistics

Table 4.5: The breakdown of interviewees by category

	Locals	Expatriates
Nedjma	9	11
Djezzy	10	10
Ericsson	8	12
Worktel	10	00

Source: adapted from my case studies



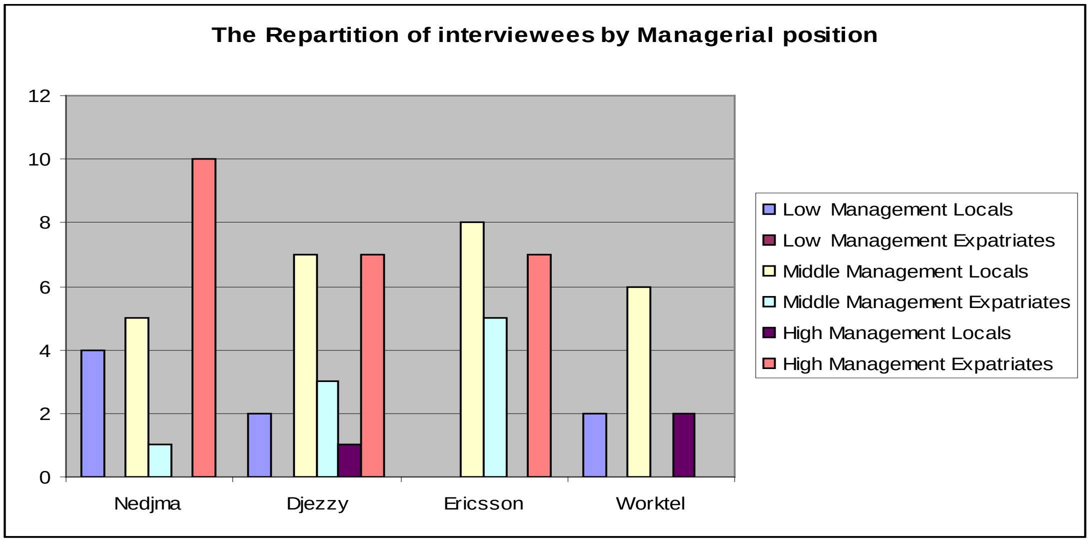
Source: adapted from my case studies

Figure 4.9 the repartition of interviewees by category

Table 4.6: The repartition of interviewees by managerial position

	Low Management		Middle Management		High Management	
	Locals	Expatriates	Locals	Expatriates	Locals	Expatriates
Nedjma	4	0	5	1	0	10
Djezzy	2	0	7	3	1	7
Ericsson	0	0	8	5	0	7
Worktel	2	0	6	0	2	0

Source: adapted from my case studies



Source: adapted from my case studies

Figure 4.10 the repartition of interviewees by managerial position

IV.2.2 Analysing the first set of questions

The first set of questions looks at the business environment in Algeria's effect on FDI inflow by analysing the country risk analysis (mainly the political and economic risks), the degree of openness of the market and the liberalisation of the telecommunication sector.

Broadly, the interviewees agreed that the liberalisation of the economy in general and the telecom sector in particular has a positive effect on the flow of FDI in the country. They point out that due to the black decade of violence and political instability, the Algerian economy has suffered a lot in terms of assets, the flow of capitals and foreign investors outside the country and technology.

For small and medium firms (SMEs), all interviewees agreed that since the liberalisation of the telecom, this segment has flourished as new opportunities emerged, in the other hand this segment used to be monopolised by handful hands. According to Worktel's managing director, the number of SMEs operating in the sector acceded the 1000, with more than 60% being foreign (mainly Egyptian and Lebanese). While the local ones operate generally in call-centres and network installation.

From the expatriates' point of view, the nature of political regime before the 1990s (socialist) has largely contributed to the reticence of the Algerian market toward foreign investors. Also, the switch on the economy from Agricultural based on the begging of the 1960s to a mono product (hydrocarbon based) played an important role isolating the country from the stream of capitals. Some expatriates managers declare that "After the black decade and even with the effort to restructure the economy, many MNE's still see Algeria as dangerous destination, also many country warn its investors to go to Algeria due to the bad image due mainly to the security situation" (adapted from the interviews).

Besides the rigidity of the market, the hegemony of the state-owned firms on the market as well as the lack of competition in the economy in general and telecom in particular did not push the state own company into innovation or promoting their products and services. As an example given by one of the interviewees, before the entry of Djezzy, the hegemony of Mobilis (previously PTT) in the Algerian market, has led to a low penetration in the market, bad services, high charges, lack of promotion, discounts or any promotional deals, stating that before the entrance of the Djezzy in the Algerian market, Mobilis accounted for less than 40,000 subscribers in 2001, but even with the entry of Djezzy Mobilis Reached 1 million subscribers in 2003 which means competition had an encouraging outcome on the state owned firm, as Mobilis was obliged to cope with the new competitive environment, restructuring it facilities and adopting a more aggressive strategy to battle against the new entrants. Djezzy senior marketing manager stated "the entry of Djezzy has improved the Algerian telecom market in terms of quality as the network coverage has improved reaching the entire country by December 2004 while competition has significantly dropped prices in favour of customers" (adapted from the interviews).

In relation to the decision for investment in the country, the interviewees generally agreed that, the country has unexploited resources and as the proof of the good decision for investment is the rank of Djezzy in Algeria with more than 15 million subscribers and an EBITDA exceeding 65%, or Nedjma with an EBITDA exceeding 60% (Djezzy's figure). Also, the entry of new players has driven other foreign firms, mainly SMS, to operate in different areas of the sector offering complimentary services.

In addition, the interviewees confirmed the decision for investment was not taken like that but it was after years of studying and carefully observation and analysing the evolution the Algerian market and forecasting the potential return that could be gained from the investment some executives from Nedjma stated “we have looked at the evolution of the Algerian telecom market, business and political environment before deciding to invest, also the success of Djezzy’s investment has motivated the Kuwaiti firm to invest” (adapted from the interviews).

For the potential impact of barriers of entry in attracting foreign capitals, the majority of answers collected suggests that despite all the effort to deregulate the market, investors still suffer from many difficulties that push many of them to exit the market including, bureaucracy, the difficulty to buy a suitable land; specially that the Algerian law does not allow ownership of for foreigners. It is an obsolete banking system, as it takes more than 40 days to transfer money. Also, the banking system is not linked to the global market, which means lack of loans or small credits or even financial guidance as well as the rigidity of the investment regulations; rather than having one stop shop for all administration paperwork you have to go through several stages top open your business.

Some expatriate executives from Nedjma, Djezzy and Ericsson state that, “doing business in Algeria is much harder than the other north African neighbours as it takes more than two months to be a registered as company comparing to two hours in neighbour Tunisia and half day in Morocco”. One of the interviewees added that, “even the high potential of the Algerian market MNEs still prefer to flee the country to setup in Tunisia or Morocco for instance, Renault the car manufacturer after encountering problems to establish a plant in the country decided to opt for Tangier in Morocco” (adapted from the interviews).

The new investment law could harm investors and could create an instable business climate in the country, according to the interviewees. Furthermore, the entry of the new investment law does not allow full ownership of MNEs in the Algerian market as well as the new 15% tax transfers on capital abroad from foreign capitals operating in the country was controversial and could slow down the flow of investment into the country.

Some senior managers questioned affirmed that, “the Algerian government gave guarantees to Djezzy, Nedjma and Ericsson that they will not be concerned with the new legislation as they invested in the country before the new law” adding that, “the changes in governments and the relative fragility of the Algerian political system as every new government bring its own rules which could negatively affect FDI flow to Algeria” (adapted from the interviews).

Most interviewees did not denigrate the government efforts to improve the business environment in the country. Still, the country low macroeconomic stability and the lack of business infrastructure would alter its attractiveness to FDI. Both locals and expatriates interviewees declared, “the country dependence on the energy sector is a bad strategy as the economy relies on the hydrocarbon revenue, as the oil price is very volatile this would harm the economy, the government needs to diversify the revenue by deregulating other sectors and make them more attractive for investment” (adapted from the interviews).

In relation to the government bias towards any competitor, some of the interviewees suggest that the Algerian government or the regulation body (ARPT) act sometimes in favor of the historic provider, Mobilis, as it is still in control of many structures of the telecom, like the international connection, interchange and VoIP and impose the charge an arbitrary charge. The interviewees also urged the authority to take off the tights imposed by the ARPT, providing a better market conditions to allow a fair play between competitors. One of the interviews state that, “in order to have a liberalized telecommunications sector the government should privatize the state company so all the players would have equal opportunities this would allow high technology, knowledge and capital spillovers and would benefit the telecom but the Algerian economy a whole” (adapted from interviews).

Table 4.7 Summary of the first set of questions

Set 01: analysis the business environment of Algeria; the impact of liberalisation on the FDI inflow.				
Djezzy	AT	Nedjma	Ericsson	Worktel
The liberalisation of the economy in general and the telecom sector in particular has a positive effect on the FDI inflow. The proof of successful investment is the company's rank in Algeria with more than 15 million subscribers and an EBITDA exceeding 60%, also the operations of the company has extended to other emerging sectors like the construction with Orascom construction Algerie and in future Tourism industry. For the barriers of entry, the majority of the people questioned states that despite all the efforts to deregulate the market investors still suffers from oodles difficulties that could push many of them to exit the market including, bureaucracy and the land accessibility.	The liberalisation of the economy has pushed the company to upgrade its network and improve its services. AT is the historic operator (this question does not apply) According to Algerie Telecom some barriers of entry are justified by the government intention to protect the national firm against MNEs. But most of them recognised that bureaucracy, obsolete banking system and law rigidity could represent a real problem for investors.	The deregulation of the telecom sector has positively effect the Algerian economy. Interviewees totally agree that, Algeria is a large country with diverse unexploited resources. And the decision for investment came after deep analysis of the telecom sector fluctuations The new investment law could be refraining for foreign investors although the government gave some guarantees to Nedjma. Adding to that the bureaucracy, rent capture, outdated banking system and the inefficiency legal system.	The deregulation of the telecom market has led to an increase of foreign investment and therefore, increased competition. When the company decided to invest the market was still virgin. most of the interviewees think that the Algerian government is tightening up the investment procedures without necessarily helping the local economy, adding to that the juridical system is viewed as obsolete and need to cope with the new changes.	The liberalisation of the market has benefited not only foreign investors but also SMEs. For the SME point of view the telecom market offers many opportunities for investment The new investment law aims to give the government more control over the market making MNEs contributing to the development of the local economy as well as allowing fairer competition in favour of the home companies

Source: Adapted from my interview answers

IV.2.3 Analysing the second set of questions

The second set of questions analysed to what extent the rent capture influences the effects arising from FDI. How could rent capture via lobbying (pressure groups) have a strong influence on government intervention on the market (by the incentive given or specific benefits and regulations) Does the rent capture generates potential negative or positive effects of technology, know-how, managerial skills and efficiency and effectiveness.

When asked about the rent capture influence, many of the interviewees were hesitant due to the sensitivity of the topic. The local panel suggested that the rent capture is vital for any investment as it is a very common practise in Africa in general and Algeria in particular, although, the panel associated the rent capture to the increase of bribery, non-respect of market competition, it also seen as a way of maximising profit by getting “exclusive tax royalties” and, in some cases, not even paying back credits and loans which could engender waste resources which means less capital invested in production, less innovation, raising transaction costs and uncertainty. Adding to that, it could lead to inefficient economic outcomes, barrier to a long-term foreign and domestic investment and misallocating talent to unproductive activities.

On the other hand, some expatriates argue that the rent capture could be more positive than negative. Suggesting that “bribery associated to rent seeking might have positive effects through enhancing efficiency by avoiding all bureaucratic paperwork, reducing processing time, allowing the acquisition of assets, credit loans; as bribery might be the original cause of slowing down processing time in the first place” (adapted from the Ericsson interviews).

Related to how rent capture via lobbying (pressure groups) could have a strong influence on government intervention in the market by the incentive given or specific benefits and regulations, some of the Algerie Telecom (AT) interviewees stated that the case of Djezzy is a good example suggesting that, “unlike the other players, Djezzy has largely benefited from incentives like tax royalties for five years, access to land and credit lines from the Algerian banks in fact according to the panel more than 50% of Djezzy investment comes from Algerian banks credits, adding to that Egyptian firm has negotiated it entry on the market before hand as the firm via lobbying pressure and network to exert a pressure on the

Algerian government not postpone the bid for tender for the 3rd GSM licence by another two years allowing the company to impose its hegemony over the Algerian Market"(adapted from the interviews).

The link to pressure groups has led the firm to get access to the Algerian institutions as government administrations switch their mobile contract from the national provider, Mobilis, to Djezzy, which was described by AT executives as "pure conspiracy". In addition, the interviewees described how AT has experienced some internal conflicts that led to a migration of its skilled worker to Djezzy, as well as the decline of the network efficiency and the loss of subscribers.

Vis-à-vis the rent captures effect on technology, know-how, managerial skills and efficiency and effectiveness, all interviewees agreed that the existence of rents is likely to encourage new entrants and thus increase competitive rivalry in the market which could have a strong repercussion on the FDI performance. That would be positive when it benefits the consumer; under perfect competition suggesting that, "the increase of market competition would possibly boost technological innovation as an example, firms tend to provide extra services like internet navigation, social network service (facebook, twitter, link to news around the world as well as downloading games and apps for mobiles). So the increase of market competition could create job opportunities and might help developing employees skills via the different training programs offered to be more competitive in a fast growing market" (adapted from the interviews). Moreover, many expatriates view the rent capture influence as more positive than negative so, through rent capture, the investment process could be easier, making the business environment of the country more favourable for investment adding to that the rent could increase the participation of the firm in local economy. "Djezzy for instance has helped building desalination station in five cities where Nedjma developed helping school kids developing their sports talents and AT sponsored major events in the country" (adapted from the interviews).

To sum up, the interviewees suggest that rent capture is an important factor mediating FDI impact as it has the potential for positive impact on the transfer and knowledge and technology. However, in contrast, it generates a waste of resources for the government; tax waste, waste of resources, the actual cost of the rent could be relatively high adding to the extent of the involvement in the political life which could jeopardise the state legitimacy.

Table 4.8 Summary of the analysis of the second set of questions

Set 02: Analysis of the rent capture influence on the FDI effect				
Djezzy	AT	Nedjma	Ericsson	WorkTel
Through rent capture the investment process could be easier making business environment of the country more favourable for investment. The existence of rents might increase the transfer of technology, innovation and skills.	AT did not benefit from rent capture as much as the other competitors especially Djezzy. The link with pressure groups has allowed certain competitors to get access to the Algerian institutions, which led to a serious loss for Mobilis Rent seeking could be positive in the case of the shift of technology and knowledge and negative in terms of profit loss generated by an unfair competition.	The existence of rents is likely to encourage new entrants and thus increase competitive rivalry in the market. The rent capture through the profit generated could be beneficial for all players, company, government, the market and even consumers.	The rent capture could be more positive than negative in some cases. The rent capture is an important mediating factor in the FDI spillovers as it has potential positive impact on the transfer of capital, knowledge and technology.	The presence of rent could stimulate the competitive rivalry which could have a strong repercussion on the FDI performance. The rent capture could generate more positive than negative slipovers especially through the transfer of technology, knowledge, know-how and efficiency. In the other hand the waste generated by rent seeking could have a negative impact on the economy.

Source: Adapted from my interview answers

IV.2.5 Analysing the third set of questions

This section examines the relation between mode of entry and FDI spillovers, the potential effect of FDI on technology, capital, knowledge and competitiveness spillovers and the potential impact of culture in constraining FDI.

When questioned about the choice of mode of entry, most participants declared that they "had no choice rather than proper setup as the telecom sector in Algeria was very underdeveloped (archaic infrastructures), and monopolised by the state owned company which did not open its capital for investors" (adapted from interviews). So, Djezzy, Nedjma and Ericsson were in a way forced to go for the most expensive mode of entry "greenfield", the most risky but could generates higher return. Some participants stated "that because of the hegemony of the historic provider as well as the high potential of the market as mobile penetration before 2001 was less than 3% in the country, so Djezzy knew that Algerie Telecom (Mobilis) could not compete against them, while Nedjma was first interested to take over the national operator AT before the government decision to retract their intention to sell the operator constraining the MNEs to bid for the third GSM licence" (adapted from interviews).

Another point is that MNEs conducted some market research prior to their investments; they observed that the Algerian customers is eager for change and like trying something new, adding to the bad perception of the state-owned company (describing it as old, bad reception, bad service quality, very expensive and unsatisfactory customers services). These reasons pushed Djezzy and Nedjma to opt for a greenfield mode of entry, unlike in Tunisia where they opt for a joint venture with the competitor, Wataniya (Nedjma), in Algeria.

All interviewees agreed that the type of investment has a strong link with the FDI effects. They asserted that, "the greenfield mode has the highest return and could benefit more the host country by creating more jobs, technology knowledge transfer while strategic alliances does not necessarily work" (adapted from interviews).

In terms of the transfer of technology and capitals, the interviewees from different firms, were unanimous that "the telecom sector has seen a substantial revolution in all aspects (qualitatively and quantitatively), the new players have helped to upgrade the telecom sector via the transfer of capitals, technology spillovers as a proof the quality of service has deeply improved, the prices have seen a plummet in favour of the Algerian consumer who now enjoy high quality product at a reasonable price"(adapted from interviews).

In relation to knowledge and skills, the five firms have a very ambitious training and formation strategy, offering continual training in all aspects technical, managerial or marketing. Also, all firms are investing in human resources by providing English lessons to their employees, as Algerians are mainly Francophone. On the other hand, in order to measure the efficiency and effectiveness of the employee, AT, Nedjma, Ericsson, Worktel, OTA work with objectives, set the objective beforehand to every department before the start of the year and there is a continual review of the objectives every three to six months during meeting where objective and performance indicators are analysed in function of external and internal factors.

Analysing the competitiveness in the telecommunication market, all the interviewees declared that since the openness of the market and the entry of new players, the market in Algeria has seen a renaissance, and since 2004 (the entry of Nedjma Telecom) "the market is getting very competitive, as all the players implement aggressive strategies to increase their shares of the market, even for the promotion there is some similarities for instance when Djezzy launched its new promotion 100DA/day and you get free calls from 12am-6am Nedjma replied by introducing Nedjma free when you top up with 1000da/month you still get your 1000DA plus you get free calls between 6am to 18h00pm and Mobilis launch 4h of free credit to two of your favourite number just to show how competitive is the market"(adapted from the interviews).

One of the executives added that, "for most of the cases, we get to know the offer just 30 minutes before the launch as we get a quick briefing to avoid any sort of leakage" (adapted from the interviews). As a reaction to the decrease of Djezzy's market share, the panel stated that the decrease is a "normal consequence" as Djezzy still has a large hegemony

with more than 60% of the total market share, stating that this increase could be associated with the increase of Nedjma share; as the firm is getting more experienced and also, the efforts of the historic provider Mobilis to reduce the gap (Djezzy and Nedjma interviews).
For the SMEs' perspective, Worktel and Ericsson suggest that since the deregulation of the sector the telecommunication market has seen a huge flow of SMEs around the world. This has come mainly from the market, profit and efficiency seeking Chinese, Egyptian and Lebanese firms as well as the local ones who try to be more competitive and gain technology, knowledge spillovers and absorptive capacities.

For the stimulation of the local market employment, some interviewees explained how Djezzy played an important role in regenerating the local market. One senior manager added, "Djezzy is the biggest employer in Algeria, as the firm employ directly more than 3,000 workers and 5.000 indirectly, while Nedjma employs more than 5.000 with 3.000 indirectly through third parties, Algerian Telecom employs around 21400 with more than 7.000 for its Mobilis subsidiary. Erickson has around 120 employees and Worktel around 70 employees" (adapted from interviews).

One of the executives added that, "the President Mr Bouteflika praised during the Algerian international Fair FIA in 2007 Nedjma and Djezzy for being among the MNEs that recruit locally criticising some MNEs (especially the ones operating in the south) to import foreign work force. Adding that Algerian government has changed the labours right to work policy, obliging foreign investors to use local human resource to fill the positions, which would be more beneficial to Algeria as it allow to reduce the unemployment rate and improve standard of living of the Algerian citizen" (adapted from Nedjma and Djezzy interviews).

When questioned about the company policy in terms of the workforce, all Nedjma interviewees declared "that the company privilege the Algerian competence as more than 90% of the employees are Algerian and the company aim to reach 100% by the end of 2011, while Djezzy accounts more than 80% of Algerian and aim to reach 90% by the end of 2010 and Ericsson report more than 70% of Algerian" (adapted from interviews).

Some local interviewees criticised the fact that, even though the number of expatriates is in decline, the Egyptian and Lebanese hold the most interesting and highest position in detriments of local and accused the company to practise favouritism in advantage of the Egyptian lobby.

When asked about the link between cultural distance and investment decision, most of the expatriate interviewees agreed that cultural proximity was an important factor for Djezzy and Nedjma investment. One of the expatriates suggested that, “geographic and cultural rapprochement sharing the same cultural and religious values was an important factor for the FDI investment” (adapted from interviews). Interviewees also suggested that, since the president Bouteflika reached power, in 1999 he favoured Arab investors. While others linked the decision of investment to the 09/11 World Trade Centre terrorist attack, the raise of anti-Muslim sentiment and the fear for the Arab investors to lose their capitals due to the increase of global insecurity. Some added “that the adhesion of Algeria to the Arab free trade region taking effect from the 1st January 2009, would have a good repercussion in term of generating more capitals to the country, driving more Arab investment and reducing the entry barriers to the Algerian market” (adapted from interviews).

Nedjma interviewees added that another important investment determinant was to gain some international experience, as the firm has little international experience by setting up linkages with foreign firms and institutions to explore evaluate and utilise resources. Ericsson expatriates suggest that the only motivation for the company to invest in Algeria was the opportunities resulting from the liberalisation of the sector.

Table 4.9 Summary of the third set of questions

Set 03: This section looks at the relation between mode of entry and FDI spillovers, the potential effect of FDI on technology, capital, knowledge and competitiveness spillovers and the potential impact of culture in constraining FDI.				
Djezzy	AT	Nedjma	Ericsson	Worktel
The choice of greenfield mode of entry is assumed to have higher return comparing to other mode in terms of technology knowledge transfers as well as enhance managerial skills. The market is getting very competitive, as all players use belligerent strategies to increase their shares of the market. Djezzy recognised the importance of Foreign investment in transforming the telecom sector by boosting capital, Technology, knowhow transfer. More than 80% of the employees are Algerians suggest that they are the biggest employer in the Algerian Market.	The state owned company recently opened its capital to public. Since the entry of foreign firms there is a stiff competition within the telecom market, this competition is regulated by the ARPT who acts in favour of fair competition. AT claims that the foreign players helped improving the sector by transferring technology, management style, knowledge and capitals also the increase of competition in favour of the local customers.` AT group has already established four regional schools in Algiers, Constantine, Tlemcen and Ouargla covering the countries. Adding to the ones offered by it	The choice of greenfield mode of entry is the most convenient and most profitable for the host country. The increase of competition has led to some unethical practises, also, some concern raised about the ARPT interventions in the market which do not necessarily serve the telecom sector. Interviewees gave some evidence to show the contribution of FDI in the telecom sector for instance the sector growth of 500% on average between 2002-2009. More than 90% of the employees are Algerians and the firm is continuing to improve the employment market. Knowing the importance of human capitals, the firm opened its first	The choice of greenfield mode of entry, interviewees assumed that they had no other choices. The increase of foreign investment has increased competition and enhances research and development in the sector as firms tend to innovate to be more competitive. Ericsson does believe that MNEs contribute to the transfer of technology, knowhow and efficiency to the local market. More than 90% of the employees are Algerians.	Worktel is a local firm. In the point of view of SMEs the increase of competition could generate more projects which could develop the SMEs activities. Worktel recognised the positive FDI spillovers in term of transfer of knowledge and technology. The SME has signed partnership with schools to provide a comprehensive training to its employees.

all interviewees suggest that there is no cultural clash or the management The firm strategy is to focus on the human resources as a valuable asset therefore the firm has opened a training centre in Algiers adding to the ones in Egypt and Dubai so employees could benefit from different trainings and short courses offered. Djezzy executives declare that since the president Bouteflika came to power he privileged Arab investors by providing incentive and guaranties.	international partners.	training centre after just one year of establishment, the centre know deliver short course as well management classes, English while other courses are available with a partnership colleges. The cultural cluster was an important determinant in the firm investment decision. Expatriates interviewed state that the government new strategy is in favour of Arab investment as they share the same culture, principals and interests. So they could benefit more the Algerian economy.	Ericsson has its own training centre (located in Tunisia for north Africa), adding to the central one located in the home country Finland. The firm has been a local Algerian partner for many years and could not face any cross cultural issues. Also the investment decision was not linked to cultural distance. In the other side, the panel states that minor management style issues emerged at the beginning but both training and briefing were given to avoid any major clashes.	The choice to turn to Arab investors is justified and could be bring a good asset to the local economy, as being a part of the Arab union zone this could help the Algerian economy to perform as well as the leading Arab countries.

Source: Adapted from my interview answers

IV.2.4 Analysing the fourth set of questions

The fourth set of questions examines the impact of FDI on local SMEs and other sectors of the economy, and explores how Algeria could benefit further from FDI.

For the relation between the new investors and local companies, the interviewees pointed out that “Nedjma and Djezzy are working hard to build a strong relationship with the local companies with more than 90% of the distributers are locals as well as more than 50.000 other retailers accredited” (adapted from Djezzy and Nedjma interviews).

AT and Worktel interviewees stated that, “multinationals prefer to work with SMEs from their home countries or neighbourhood countries, declaring that since the arrival of Djezzy in the Algerian market channelled more than 500 small foreign firm have entered the Algerian market (with most of them Egyptian and Lebanese) which is discriminatory against local ones (adapted from Worktel interviews). However, other interviewees (from Nedjma and Djezzy) justified their choice to work in home countries SMEs due to “the lack of expertise of the local ones in one hand, in the other is the long term relationship with the home ones which facilitate operations” (adapted from Nedjma and Djezzy interviews).

Another factor is the repercussion of the growth of telecommunications on the other sectors of the economy; for instance, the marketing and communication sector is experiencing a big boom, the development in the media sector is mainly due to the amount of investment allocated by MNEs to elaborate their marketing campaigns.

In fact, according to one of the Worktel’s executive “the improvement of the telecom has helped developing other sectors such as the marketing and communication and media” also the increasing role of internet and data access could help lowering transaction costs and leading to more efficient communication and ease business”. One of the Djezzy’s interviewees gave the example of fishermen in south of India, stating that, “communicating through mobiles, sardines fishermen were able to sell their fish on the market where the demand was high, as a result, less fish wastage, high benefits and lower prices for consumers” (adapted from Djezzy interviews).

When asked about how Algeria could benefit more from FDI, the interviewees suggested that foreign capital is essential for Algerian development prospects, but the FDI rules may have a deterrent effect on foreign investors who prefer to hold majority stakes in their Algerian subsidiaries. According to MNEs, the government should ease the policies to attract more FDI the new investment rules could demotivate FDI especially during the global turmoil where the FDI trends are decreasing and developing countries are competing to attract foreign capitals. One of the Nedjma executives stated, “We do understand that the government may be wary of the loss of control implied by a minority shareholding by local companies, but this can be mitigated by the creation of institutions charged with supervising FDI and improving the country’s business climate” (adapted from the interviews). Moreover, AT interviewees explained that although FDI is important, engaging MNEs with local partners would be more beneficial to the Algerian economy.

All interviewees urged the government to liberalise other sectors of the economy to benefit fully from FDI and enhance the country’s welfare. One of the interviews explained, “After the success of the liberalization of the telecom other sector needs to follow this would help the country gaining a world class economy” (adapted from the interviews).

Table: 4.10 Summary of the fourth set of questions

Set 04: The fourth set of questions examines the impact of FDI on local SMEs and other sectors of the economy and explores how Algeria could benefit more from Foreign Direct Investment.				
Djezzy	AT	Nedjma	Ericsson	WorkTel
The company strategy privilege working with local firms as more than 90% of distributers are locals and tend to work with foreign firms when expertise is not available. For the barrier of entry, the majority of the people questioned states that despite all the effort to deregulate the market, investors still suffers from a oodles difficulties that push many of them to exit the market including: bureaucracy, the obsolete banking system and land accessibility	AT via Mobilis has strong tight with home companies and its politic is in favour of local firms. In the other hand AT denounce the other competitors practise to bring their home collaborating firms to work in Algeria in detriment of the local ones. The Algerian government needs to review its FDI policies to attract more FDI.	Nedjma Interviewees insist that the firm is proud to be considered as local and it strategy is focused on the development of local SMEs and upgrade them to internationals standards. FDI is vital to upgrade the Algerian economy but the government need to protect the country interest as MNEs are profit based they usually take more than they give.	Most of Ericsson partners are locals. Sound economic reforms are needed to foster more FDI.	As a local SME Worktel interviewees claim that they are underprivileged as foreign firms tend to work with their home based associates. The success of FDI in the telecom sector should be generalised to other sectors of the economy.

Source: Adapted from my interview answers

IV.2.5 Interviewees' comments about my research model

When commenting on my model, the first general observations made by all interviewees (locales and expatriates) is that government policy is an important determinant of the extent and nature of FDI inflows; principally through incentives, specific regulations, specific benefits and subsidies, or general policies such as liberalisation, the latest play a major role increasing competitiveness that could enhance spillovers generally. The spillovers from FDI are also associated with the mode of entry. In the cases of Nedjma and Djezzy, the MNEs were pushed to choose a greenfield investment. The latter is no longer available as the new government policy requires MNEs to find local partners. In contrast, the choice of the type of entry could be related to country risk analysis; if we take the example of Djezzy, the firm choose greenfield investment in high risk country like (Pakistan, Iraq, Bangladesh, Algeria) due mainly to the political instability, the degree of government intervention on the market, market inefficiency. In the case of Algeria, the telecommunication market was outdated and underdeveloped, due mainly to the hegemony of the state-owned company, AT. The final factor related to the FDI spillovers is the type of management.

In relation to the effect of rent capture on FDI inflow, I noticed two distinct opinions. On one hand, the expatriates believe that rent capture via lobbying (pressure groups) could have a strong influence on government intervention on the market (by the incentive given or specific benefits and regulations). They also argued that, "in some emerging country were market tend to be inefficient, the presence of rent could play an important role lowering the barriers of entry avoiding bureaucracy problems allowing better access to the market, increasing rivalry and reduces the availability of monopoly rents, as a consequence, the increased competitive rivalry would probably reduce the opportunities for rents as it is a move away from a monopolistic or oligopolistic situation. Additionally, the existence of rents is likely to encourage new entrants and thus increase competitive rivalry in the market that could boost the FDI performance in the telecom sectors by raising the spillovers of technology, know-how, managerial skills and efficiency and effectiveness"(adapted from interviews).

IV.2.6 Interviews summary and conclusion

According to the interviews conducted and the information gathered from my case studies, I reach the following findings:

- Regarding the impact of the government subsidising local companies to the detriment of the foreign investors, most of the information gathered confirmed that foreign firms were plenty of times penalised by the ARPT for illicit practises and non-respect of the competition rule. Also, Djezzy and Nedjma claim that Mobilis (previously PTT) is still controlling foreign calls, and imposing its own charges on other networks. Therefore, according to some interviewees, "Djezzy has raised this problem to the local authorities and they are still waiting for the government to show a sign of good will. In the other hand, Djezzy executives assured that the relation with the government are excellent (despite the deterioration of the relations between Algeria and Egypt) as both parties meet regularly to discuss any issues raised as well as, talking about the future investment planned by the company" (adapted from interviews).

- For the business environment, some interviewees expressed concern about the non-stability of the political and economic environments, despite government efforts to restructure the economy; the banking sector and the land accessibility remain huge barriers for foreign investors.

- Related to how the rent capture via lobbying (pressure groups) could have a strong influence on government intervention on the market (by the incentive given or specific benefits and regulations, interviewees agreed that the existence of rents is likely to encourage new entrants and, thus, increase competitive rivalry in the market, which could have a strong repercussion on the FDI performance. This could be positive in a way as it would benefit the consumer (under perfect market competition pattern), increase of market competition would possibly boost technologic innovation as an example now firms tend to provide extra service internet navigation, social network service (Facebook, Twitter, link to news around the world as well as downloading games and apps for mobiles) it also generates job opportunities, and might help developing employees skills via the different training programs offered to be more competitive in a fast growing market.

- The rent capture influence might have more positive than negative aspects as, through rent capture, the investment process could be easier, making business environment of the country more favourable for investment adding to that the rent could increase the participation of the firm in local economy. Djezzy, for instance, has helped building desalination station in five cities, while Nedjma helped school children develop their sporting talents and AT sponsored major events in the country.

- According to the interviewees, the rent capture is an important mediating factor affecting the FDI impact as it has potential positive impact on the transfer and knowledge and technology. But, on the other hand, it generates a waste of resources for the government (tax waste, resources waste, the actual cost of the rent could be relatively high), adding to the extent of the involvement in the political life, which could jeopardise the state legitimacy.

- For the FDI effect on increasing competitiveness in the telecom, when Djezzy entered the Algerian market competition, it was dominated by the Algerian firm (Mobilis). After less than a year, Djezzy achieved amazing results, taking over more than 70% of the market share. However, with the arrival of a new player, Nedjma, and the restructure of the Algerian Telecom Company (Mobilis), the shares falls under 60 % August 2010 (according to the ARPT figure). Respondents stated that the fall in Djezzy market share shows how competitive the Algerian market is, insisting that all players have to battle to get additional shares, using aggressive marketing and media campaigns, promotions, special discounts, giving away freebies, service quality and customer service. They suggested that “the Algerian GSM market will reach saturation between 2012 and 2015, which the necessity to introduce the 3G that meant to be launched more than a year ago but the regulatory body (ARPT) did not call for tenders, aiming that the 3G operation will give the Algerian market a new breath" (adapted from interviews).

- According to the new investment law calling for foreign investors to look for a local partnership in order to invest in the country, Djezzy, Nedjma and Ericsson respondents confirmed that this law is effective as of 01 January 2009. Moreover, the MNEs entered before 2009; for instance, Djezzy joined the Algerian market in late 2001. Also, for the future investment, OTA has obtained guarantees from the Algerian government to continue its ambitious plan without any constraint, while Nedjma and Ericsson agreed to boost their investment in the country to avoid any conflict with the Algerian government.

- According to the choice of investment implemented by the selected panel, the participants stated that greenfield was the only option available in Algeria at that time, as the market was deregulated just before the first MNE decision to invest. At that point, the Algerian market was risky, as it was monopolised by the state company (PTT). Also, the capital of the PTT was not opened, which did not leave many options to OTH. But after one year of exercise the Algerian subsidiary Djezzy was ranked the most profitable among the other OTH branches, while Nedjma an eventual takeover of AT, taking advantage of the booming of the sector the firm opted for Greenfield as the most profitable and suitable to its expansion strategy. Worktel and Ericsson believe that Greenfield investment is the most appropriate to the actual business environment of the country, as it could generates more capitals, jobs and easy transfer of technology and know-how.

- Regarding the transfer of technology, know-how and managerial skills, the interviewees were unanimous that the sector has seen a substantial revolution in all aspects (qualitatively and quantitatively), as the service quality has deeply improved, and the prices have seen a plummet in favour of the Algerian consumer who now enjoy height quality product at a reasonable price. While customer satisfaction is in constant progress (according to companies marketing surveys and interviews), the improvement of telecommunication is having a positive effect on other sectors, such as marketing, communication and media. While talking about the relation between

MNEs and SMEs, the panel interviewees confirmed that the increase of competition has led to an increase of the number of SMEs operating in different area of the telecom sector such as setup, logistic, call centres, consulting. Worktel and Ericsson interviewees suggested that the number of local SMEs is in constant progression which shows the good health of the sector also the collaboration between MNEs and SMEs is very important according to all players MNEs offer training and support to SMEs to ensure the good collaboration and long run relationship, some Ericsson expatriates explained the new relation between SMEs stating the examples of Ericsson that tend to subcontract some project with local SMEs (this collaboration was made possible thanks to the MNEs effort to improve local SMEs providing them technical and managerial training).

- Regarding the cultural distance effect on investment decision, the Ericsson panel suggested it was not related as they believe that the deregulation of the telecommunication sector is the most important determinant, while other MNEs suggest that the government new strategy to promote Arab investment also the cultural proximity between home and host countries are key determinants. They argued that Arab MNEs prefer to invest in Arab country, mainly due to the international climate of uncertainty with the rise of terrorism and anti-Muslim campaigns.

Finally, both expatriates and locals consider "the liberalisation of the telecom as a success story and urge the government to spread out this success to other sectors that show high potential but still suffer from the lack of productivity" (adapted from interviews).

IV2.7 Chapter Conclusion

This chapter presents my empirical work. I began by analysing the case five case studies, looking at the companies in depth.

In the second section, I analysed the interviews. I designed a questionnaire in relation to my research model variables and categorised my questions into four main sets. The first set of questions looked at the impact of liberalisation on the FDI inflow. The second set examined to what extent the rent capture influences the types of effects arising from FDI. The third section looked at the effect of mode of entry on the FDI spillovers, the potential effect of FDI on technology and capital, knowledge and competitiveness spillovers and the impact of culture in constraining FDI. Finally, the fourth set of questions examined the impact of FDI on local SMEs and other sectors of the economy and explores how Algeria could benefit more from FDI.

In the next chapter I will discuss how my case-study results corroborate my research model, hypotheses and literature review, suggesting future direction and development of my research as well as my research limitations.

Chapter V: Discussion and Reflection

V.1 Research objectives and research model

The objective of this research is to investigate and analyse the contributions of foreign direct investment (FDI) to the performance of the telecommunication sector of the Algerian economy by examining the literature on FDI impact and reviewing evidence from the Algerian telecommunications sector. In light of this, I formulate six main hypotheses:

1. Entry mode has an important impact on FDI spillovers in the Algerian telecommunication sector.
2. FDI has contributed positively to the transfer of: technology, knowledge, capital and productivity spillovers into the Algerian telecom market.
3. There is a strong correlation between rent-seeking and FDI inflow.
4. Political stability is an important determinant to FDI inflow.
5. The country's economic stability and a sound business environment are important determinants to FDI inflow.
6. Cultural distance between countries could either encourage or restrain FDI.

My research model starts with the classical position that government policy is an important factor influencing the FDI inflows, mainly through incentives, specific regulations, specific benefits and subsidies, or general policies such as liberalisation, but also through second-round effects on the competitive structure of the market. Generally, government interventions could increase specific "positive externalities" from FDI, while liberalisation and increased competitiveness might improve spillovers. The spillovers from FDI are also influenced naturally by other factors, such as: the mode of entry and management style, which is associated with country risk analysis.

The model differs from classical accounts of FDI in terms of the attention it pays to rents and rent capture. I argue that this strongly mediates the effects of FDI, particularly in developing economies where markets tend to be inefficient, and in sectors such as telecommunications arising from the presence of natural monopolies. Not only does rent seeking and rent capture influence the extent and types of effects arising from FDI, it also adds a secondary dynamic, providing incentives for FDI to be channelled towards influencing government policies and the market structure.

Rent capture via lobbying or pressure groups could have a strong influence on government intervention in the market by the incentive given or specific benefits and regulations. Furthermore, the rent captured could generate potential negative or positive impact of technology, know-how, managerial skills and efficiency and effectiveness and generate some constraints such as bribery, illicit practise and resource depletion.

Liberalisation also has an indirect effect on the competitive pattern by having an impact on the competitive structure changes occurred on the competitive rivalry and the market structure. On the one hand, this makes FDI easier, but it also increases rivalry and reduces the availability of monopoly rents. Consequently, the increased competitive rivalry would reduce the opportunities for rents as it is a move away from a monopolistic or oligopolistic situation.

Additionally, the existence of rents is likely to encourage new entrants and thus increase competitive rivalry in the market which could have a strong repercussion on the FDI performance in the telecommunication sector.

V.2 Presentation of the case-studies results

In terms of the business environment of the country, some interviewees expressed their concern about the non-stability of the economic environment. Despite government efforts to restructure the economy, the change in government strategy towards investment and the high government intervention in the market adding to the obsolete banking sector and the land unavailability remain huge barriers to foreign investors.

In relation to the potential effect of political and economic risk analysis in Algeria in driving investment, both multinationals questioned assume that Djezzy and Nedjma have negotiated their entry into the Algerian market. Djezzy’s executives explained that one of the company strategies is investing in “high risk countries” giving the example of Bangladesh and Pakistan, where the company has done very well in a quite short term. They stated that countries with high risk, have high potential too and could generate high profit due to market virginity, unlike countries with “low risk” where the market is highly saturated and the penetration rate is relatively slow. To the question why choosing Algeria, executives from both multinationals explained that the bilateral agreement between home and host countries was a significant factor in the investment decision.

In terms of the influence of rent capture via lobbying “pressure groups” on government intervention in the market by the incentive given or specific benefits and regulations, Interviewees agreed that existence of rents is likely to encourage new entrants and thus increase competitive rivalry in the market which could have a strong repercussion on the FDI performance.

That could be positive in a way as it would benefit consumer under perfect market competition pattern, while the increase of market competition effect the market structure and would improve technologic innovation. Moreover, the rent capture could influence the investment process (by accelerating the investment procedures, making business environment of the country more favourable for investment and, therefore, encouraging new entrants). Adding to that, the rent would increase the participation of the firm in the social and cultural life through charity or sponsorship.

Moreover, the rent capture is an important mediating factor in the FDI impact as it has potential positive impact on the transfer and knowledge and technology but in the other hand it also generates waste of resources for the government; tax waste, resources waste, the actual cost of the rent could be relatively high adding to the extent of the MNEs involvement in the political life, which could jeopardise the state legitimacy.

Analysing the possible effect of FDI in transferring technology, know-how and managerial skills, the interviewees argued that the sector has seen a significant revolution in all aspects qualitatively and quantitatively. As the quality of services has deeply improved, the prices have plummeted in favour of the Algerian consumers, who now enjoy high-quality products at a reasonable price while customer satisfaction is in constant progress (according to companies marketing surveys and the interviews conducted). Also, the development of the telecommunication sector is having a positive effect on other sectors, such as marketing, communication and media.

Looking at the potential link between the mode of entry and FDI effect, interviewees concluded that the greenfield mode was the most suitable option available at the time of investment. As the sector was underdeveloped and needed capital, technology and knowledge, recognising that greenfield mode would be profitable for both sides for the country as it generates, technology, R&D, absorptive capacities, job opportunities while it is assumed to generate high return for the firm. Executives explained that risk-taking was justified as the greenfield could be “very risky” when the market is saturated. However, in the case of Algeria, the market was unexploited before 2001, with less 10,000 mobile subscribers for 33 million people (adapted from the interviews).

Regarding the impact of the government protectionism policy on FDI, my case-study results demonstrate that foreign firms urge the government to consider a comprehensive review of FDI policies to attract more foreign capital by creating a more FDI-friendly regime.

On the other hand, interviewees argued that they were discriminated against and penalised by the regulation body (ARPT) for illicit practices and non-respect of the competition rules. Djezzy and Nedjma also claim that Mobilis (previously PTT) “is still controlling foreign calls and imposes excessive charges to other networks, while Algerian Telecom accuse lobbying groups to work against the national company by helping multinationals to acquire big telecom projects and denunciates the excessive use of rent to “sabotaging” the state firm” (adapted from the interviews). SMEs like Worktel and Ericsson denounce the government policy to allow MNEs to bring their home countries partners and penalising the local ones.

Looking at the influence of management style and cultures on FDI impact, my findings indicate that, in general, MNEs did not face major cultural or managerial clashes. According to the interviewees, expatriates stated that they receive a full training before coming to Algeria about culture, traditions, habits and the Algerian personality to facilitate adaptation to local culture.

Analysing the relation between MNEs and SMEs, the case-study results suggest that the increase of competition has led to an increase of the number of SMEs operating in different area of the telecom sector such as: setup, logistic, call-centres and consulting.

Finally, according to the interviews conducted, the major challenge facing the Algerian authorities is to diversify away from the energy sector and ensure sustained private investment led growth. Whether economic diversification strategies depend more on the public or the private sector, key policies must be adopted. Among these is a friendly and open FDI regime. Foreign capital is essential for Algerian development prospects as FDI provides private investment-scarce countries with the capital, know-how and technology transfer required for creating and developing strong private domestic investment. This is particularly true in today's global economy where the service industry and technology transfer plays a significant role in the international competitiveness of firms and countries.

V.3 Discussion:

My research findings suggest a strong link between government policies and the FDI inflow through incentives, specific regulations, benefits and subsidies or by general policies such as liberalisation could increase competitive rivalry in the market. Also, a robust political system added to a transparent economic environment would attract more foreign investment. This supports hypotheses four and five

Furthermore, the literature argues that FDI is also influenced by the mode of entry as it would facilitate the flow of technology, capitals and knowledge and management style. My empirical results suggest that greenfield investment generates more benefit for the host country which corroborates hypothesis one, However, because all MNEs operating in the sector have chosen greenfield as mode of entry, I could not compare the impact of greenfield against strategic alliances in terms of FDI spillovers.

Also according to my research findings, rent capture via lobbying has a strong influence on government intervention on the market by the incentive given or specific benefits and regulations. Additionally, my results show that the rent capture generates positive impact of technology, know-how, managerial skills and efficiency and effectiveness in the case of the telecommunication sector in Algeria and could produce negative spillovers in the form of waste, such as resource depletion, bribery and illicit practices.

Conversely, the increased competitive rivalry reduces the opportunities for rents as it moves away from a monopolistic situation. Furthermore, the existence of rents is likely to encourage new entrants and therefore, increase competitive rivalry in the market which generates a positive impact in the telecom sector by increasing R&D and innovation. This would confirm hypothesis two.

Finally, my findings corroborate well my model and hypothesis when explaining the link between the importance of cultural approaches between home and host countries. According to my interviewees, increasingly Arab capitals are moving from western countries to the Ar ab world as a safe place due to the cultural similarities and the increase of Islamophobia in the rest of world. This finding confirms hypothesis six.

V.4 Reflection of the empirical findings using the literature review

Both my literature and empirical work suggest that FDI plays a significant developing the Algerian telecommunication sector due to benefits related to: the transfer of innovation, technology, capitals, increasing competitiveness, developing managerial skills, creation of job opportunities, helping improving the overall economic conditions by affecting other sectors and promote the growth of the private sector and SMEs. This supports the literature (Caves, 1974; Haddad and Harrison, 1993; Perez, 1997; and Markusen and Venables, 1999).

In relation to the ownership advantage (Dunning, 1977, 1980), the case of Djezzy illustrates that the firm has a monopoly over its specific advantages and can utilise them abroad, resulting in a higher marginal return or lower marginal cost than its competitors, which would result in high profit. As the company was the first multinational to enter the Algerian telecommunication market, the company used its core competencies - mainly technology and knowledge - to create a monopolistic advantage in the form of privileged access to output and input markets through ownership of scarce natural resources (the right to access the land, use the state-owned company network), as well as patent rights, and credit and loans from stated-owned banks.

This has helped the Egyptian firm to achieve the economy of large size (advantages of common governance), such as economies of learning, economy of scale and scope, broader access to financial capital throughout the multinational enterprise organisation and advantages acquired from international diversification of assets and risks.

As in the case of Nedjma, the dominance of Djezzy has pushed the company to be more innovative and focus on its core competencies, mainly technology and human know-how, in order to be more competitive in the market. However, according to the case studies, there is little evidence of the existence of costs generated by failure of knowledge about local market conditions, legal, institutional, cultural and language diversities. However, there is significant evidence of the presence of high costs of communicating and operating in Algeria, especially from 2008 as companies annual reports figures show that marketing and media expenditure are increasing. This is due to the intensification of competition in the market and represents one of highest budget allocation in both Djezzy and Nedjma, compared with the stated-own company which is investing more in R&D and upgrading its network (Algerie Telecom case study).

From my case studies, rent capture has a strong link with both ownership advantage and the location advantage as the firm must use some foreign factors in connexion with its native firm specific advantages in order to earn full rents on these firm specific advantages. Consequently, there is evidence that the locational advantages of different countries are key elements in determining which country will become a host country for multinational enterprises for instance Orascom Telecom chooses Algeria for few reasons, market size, low competition (as the sector rose from monopoly), bilateral trade agreements between the Algerian and Egyptian governments, the potential rent capture that could be earned through lobbying or specific benefit and privileges according to Egyptian investors, geographical and cultural approaches. However, according to my fieldwork, because of the poor structure of the Algerian sector and the lack of skilled labour, Djezzy had to import skilled labour mainly from Egypt, France and Lebanon. In this case, the investment was affected positively by the market size but negatively by the labour cost, which corroborates my literature review (Dunning, 1977.1980; Markusen and Helpman, 1984; Helpman and Krugman, 1985).

When assessing the decision of investment of Wataniya Telecom (Nedjma), the MNE has chosen Algeria for multiple reasons. The main ones are to gain some international experience by setting up linkages with foreign firms and institutions, to explore, evaluate and utilise resources, skills and expertise available on a global scale, combined with their own assets (adapted from the interviews). Also, to benefit from the increase of competition in the market, the growth of the economy and potential knowledge and absorptive capacities that could be gained from the market as result Wataniya teamed up with its rival Orascom to invest in the neighbourhood country Tunisia in 2008 by creating a Joint venture (Tunisiana). Those confirm the literature as it suggests that MNEs with relatively weak technology, human capital, suppliers and distributors will be willing to cluster "agglomeration effect" to gain technological and pecuniary externalities in order to be more competitive in the market (Shaver and Flyer, 2000).

Therefore, the market-entry decision and MNE investment decision is quite distinct to the two MNEs. Orascom was motivated only by market size, political recovery, market potential, rent capture (which could be raised from the market imperfection), geographical and culture proximity, specific benefits and government incentives and was driven by the company experience in other countries with the same business environment conditions. Wataniya, meanwhile, entered the Algerian market for other reasons; first the company had little international experience so according to the interviews the company aimed to gain technology, skills and knowledge benefiting from the "agglomeration effect" as well as experiencing different business environment and this has helped the company to invest in other countries like Tunisia and in some south Asian countries.

Furthermore, in relation to the potential impact of political and economic stability in attracting foreign capitals to the Algerian economy and telecom sector in particular, the majority of answers collected suggest that, despite all the government efforts to improve the business environment in the country, the country's low macroeconomic stability and the lack of business infrastructure would alter its attractiveness to FDI. Moreover, the new investment law in restricting full ownership control for MNEs could reduce the flow of investment to the country. This corroborates both the hypotheses and literatures review (Schneider and Frey, 1985; Barro, 1995), and confirms Globerman and Shapiro (1999) in relation to the significance of host countries policies in attracting FDI.

Analysing the key factors influencing the choice of mode of entry, the literature focuses on explaining the choice between sole and joint ventures and the ownership and control issues involved in the different mode of entries (Dunning 1977,1980,1988,1995;Caves (1982); Davidson and Mc Fetridge,1984,1985; Henart ,1982,1991; Kogut and singh, 1988; Anderson and Gatigon,1986 ;Cho and Radmanabhan, 1995).

My empirical findings could not confirm the literature, particularly in the case of a developing market where markets tend to be imperfect. Due to the lack of adequate infrastructure or government legislation, MNEs would have no choice of mode of entry. In the case of the Algerian telecommunication market, MNEs were in away “forced” to opt for greenfield mode of investment due to the poor state of the market, and the high return that could be achieved through greenfield compared with other modes. Meanwhile, Nedjma tried first to take over the national state firm, Algerie Telecom, before deciding to choose full ownership mode, justifying this by the high potential of the Algerian market and driven by the success of multinationals.

However, my case studies confirm the first hypothesis regarding the potential impact of mode of entry on FDI spillovers as they state that greenfield investment plays an important in developing and upgrading the country’s telecoms sector as well as improving the economy by creates more jobs and allowing better technology and knowledge transfer. This corroborates the literature and hypothesis one.

In relation to the impact of the rent capture on the FDI effect, the case-study results show that the rent capture via lobbying (pressure groups) could have a strong influence on government intervention on the market by specific incentive or specific benefits and regulations. Interviewees agreed that the existence of rents is likely to encourage new entrants and thus increase competitive rivalry in the market which could have a strong repercussion on the FDI performance. This could be positive in a way as it would benefit the consumer, increase market competition, increase the transfer of knowledge and know-how, as well as increasing technological innovation. It also improves employment opportunities and might help develop employee skills via the different training programmes offered, to be more competitive in a fast growing market. This corroborates the theories of Posner (1975), Tullock (1967) and Olson (1982) and confirms my third hypothesis.

Conversely, my interviewee panel suggested that the rent capture via pressure groups could generate some waste in form of the raise of bureaucracy, bribery, illicit practises, loss of government taxes and the natural resources depletion.

Finally, when studying the linkage between the choice of investment and cultural distances, the literature argues that larger national cultural differences on average would result in larger differences in terms of organisational and management practices, making post-acquisition integration more difficult and less attractive in culturally distant countries (Kogut and Singh, 1988; Larimo, 2002).

My case studies support the literature, as both Djezzy's and Nedjma's interviewees explain that that the cultural proximity is an important factor as there is no cultural differences between the home and host countries. While the Ericsson panel stated that the choice of mode of entry "greenfield" has helped reduce cultural and managerial clashes, most of the employees were locals accounting for more than 80% of the MNEs total employees, adding that expatriates have received appropriate managerial and cultural training. Furthermore, the interviewees argued that this "melting pot" has achieved good results in terms of marketing, R&D and innovation (adapted from the interviews). In addition, the company adopted a hybrid model of participative management, integrating both firms and local management styles.

To summarise, my model developed well and my empirical findings results corroborate the literature and my hypothesis formulated on the literature review section. In order to improve my research there is a need to investigate other important factors, such as: potential rent waste generated, the possible impact of global investment climate in attracting or constraining FDI, and the impact of "economic agglomeration" on the investment decision.

Chapter VI: Conclusion and Recommendations

VI.1 Conclusion

Many researches have dealt with the issue of FDI and their potential benefits for developing countries in terms of technology, knowledge and capital transfers, job creation opportunities, and growth and development. There have also been several studies on the determinants of FDI in both developed and developing countries. However, there are very few studies that concentrate on foreign direct investment (FDI) in North Africa, and Algeria in particular.

To close this gap in existing literature, my aim was to analyse critically the contribution to FDI to the Algerian economy with reference to the telecommunication sector. My research question is: FDI in the Algerian telecommunication sector: An analysis of motivations, constraints and effects. In order to answer this question, I have presented a model based on the following sub questions: What are the potential FDI effects on emerging economies? Why are developing countries lagging behind in attracting foreign capital? What is the possible relation between the mode of entry and effects by industry and market? What is the potential contribution of FDI in the transfer of technology, knowledge, capital and productivity spillovers in the Algerian telecom market? How could rent capture, political risk and institutional stability, economic determinants and the cultural distance effect or constraints FDI inflow to the Algeria in general, and the telecommunication sector in particular?

My research model starts with the classical position that government policy is a key determinant of the extent and nature of FDI impact, principally through incentives, specific regulations, specific benefits and subsidies, or general policies such as liberalisation, but also through second-round effects on the competitive structure of the market.

Generally, specific government interventions can enhance specific spillovers (positive externalities) from FDI, while liberalisation and increased competitiveness can be expected to enhance spillovers. The FDI effects are also influenced classically by the mode of entry and management style, which is associated with country risk analysis.

The model differs from classical accounts of FDI in the attention it pays to rents and rent capture, which I argue strongly mediates the effects of FDI, particularly in developing economies where markets tend to be inefficient, and in sectors such as telecommunications arising from the natural monopolies present. Not only does rent seeking and rent capture influence the extent and types of effects and constraints arising from FDI, but it also adds a secondary dynamic, providing incentives for FDI to be channelled towards influencing government policies and the market structure.

Rent capture via lobbying (pressure groups) could have a strong influence on government intervention on the market (by the incentive given or specific benefits and regulations). Furthermore, the rent captured could generate potential negative or positive spillovers of technology, know-how, managerial skills and efficiency and effectiveness and generate negative spillovers, such as resource wastes.

After conducting an in-depth literature review, I have formulated the following hypotheses:

1. Entry mode has an important impact on FDI spillovers in the Algerian telecommunication sector.
2. FDI has contributed positively to the transfer of: technology, knowledge, capital and productivity spillovers into the Algerian telecommunication market.
3. There is a strong correlation between rent seeking and FDI inflow.
4. Political stability is an important determinant to FDI inflow.
5. The country's economic stability and a sound business environment are important determinants to FDI inflow.
6. Cultural distance between countries could either encourage or restrain FDI.

To test my research model and my hypotheses, I analysed five case studies and reached the following conclusions:

Analysing the potential contribution FDI to the performance of the telecommunications sector of the Algerian economy, my empirical findings confirm the literature regarding the transfer of technology (absorptive capacity), knowledge (know-how) and capitals. According to my findings, the telecommunication sector in Algeria has benefited largely from the entry of foreign players in upgrading, extending the services, developing new

services and creating a competitive market to the benefit of customers who can enjoy wide range of services at lower prices. The creation of local job opportunities (direct or non-direct) also helped support local SMEs (with the case of Worktel).
As a repercussion of the increase of foreign direct investment into the telecommunication sector, Algeria's mobile market is experiencing a big boom. It has achieved more than 33 million subscribers in December 2010, compared with fewer than 10,000 subscribers in 2002 (according to the regulatory body (ARPT) figures). With a penetration rate close to 90 % compared with 0.26% in 2000, and the market is expected to maintain the pace with the introduction of the 3G service (expected by mid-2012) (ARPT, 2011).

Also, unlike the non-equity mode of investment, adopting a greenfield investment appear to help the growth of the telecommunication sector (as the sector was outdated with a poor infrastructure), as it increases competition. This enables a better service at a lower price; however, in many emerging markets (specifically Algeria), the profits generated from the investment do not feedback into the host economy. Instead, MNEs tend to transfer the profit to their home country which the necessity of the government to protect the local market.

Regarding the impact of rent seeking, my research findings suggest that rent capture is a significant determinant on the effects of FDI, particularly in developing economies where markets tend to be inefficient, and in sectors such as telecommunications arising from the natural monopolies present. Not only does rent seeking and rent capture influence the extent and types of spillovers arising from FDI, it also adds a secondary dynamic, providing incentives for FDI to be channelled towards influencing government policies and the market structure. Rent capture via lobbying (pressure groups) might have a strong influence on government intervention on the market (by the incentive given or specific benefits and regulations). Furthermore, the rent captured could generate potential negative or positive spillovers of technology, know-how, managerial skills and efficiency and effectiveness and generate negative spillovers, such as resource depletion.

Liberalisation also has an indirect effect on the competitive reactor pattern by having an impact on the competitive structure (changes occurred on the competitive rivalry and the market structure). On the one hand, this makes FDI easier, but it also increases rivalry and reduces the availability of monopoly rents. Consequently, the increased competitive rivalry would reduce the opportunities for rents as it is a move away from a monopolistic or oligopolistic situation. Additionally, the existence of rents is likely to encourage new entrants and thus increase competitive rivalry in the market which could have a strong repercussion on the FDI performance in the telecommunication sector. In addition, FDI effects could be constrained by the economic, political, legal and cultural environments of the host country.

Finally, my research findings confirm that the deregulation of the telecommunication market, associated with the increase of foreign investment and privatisation, allows technology transfer, more abundant capital, and increased market competition, which should benefit national telecommunication development. Of equal importance, telecommunications also have an important influence on national security, social stability, economic development and many industrial sectors. The new challenge facing the government is the "e-Algerie" plan by 2013, which aims to boost investment in the sector, taking the country to a new dimension of world-class digital communication.

VI.2 Recommendations

Another major challenge facing the government is to diversify the economy, more specifically to stimulate exports that involve improving the business climate, making it more attractive to foreign and local investors while dipping the government's involvement in the provision of goods and services. With a tradition of high savings, abundance of skilled workers, diversity of natural resources and an advantageous geographic location, the country has huge potential for swift and sustainable growth in the all economy sectors. Moreover, a more favourable business environment is needed to support the development of the emerging private sector, as a vital pillar of a sustainable growth and employment generation strategy, as well as reducing the country's high dependence on the oil sector.

After reviewing the literature and conducting my fieldwork, and in order to improve the Algerian economy, I would suggest reforming both the judicial and economic systems by implementing a more flexible judicial system in order to regain market confidence. This is a key factor in any investment by respecting international, bilateral agreements clauses and conventions that encourage an economic democracy, the application of international norms to guarantee the rights of the investors as well as the country.

In contrast, the government needs to review FDI ownership limits on foreign subsidies as this could constrain foreign capitals flow to the country. The literature and my empirical results suggest that fully-owned subsidiaries are essential for carrying out the majority of overseas projects to safeguard the internal knowledge of the MNE. Another major problem identified by case studies is facing the bureaucracy facing foreign and local investors. Therefore, I highly recommend the suppression of all administrative constraints and a replacement by a more flexible and adapted system to motivate investment.

Furthermore, it is essential for the country to develop more transparent contractual relations and adhere to all the international structures in favour of free trade such as: World Trade Organisation, the Maghreb Union, Arab Trade Free Zone and the Euro-Mediterranean, whose objective is the free circulation of people, goods, capitals and services.

Another important point is the liberation of domestic and foreign trade, according to the international or bilateral trade conventions and agreements, by removing all judicial barriers and ending of all forms of monopoly. This would reduce the degree of government intervention in the market, allowing the government to act as a regulatory body by controlling the respect of the rules and procedures.

Finally, this would enable local and foreign partners to have a direct contact without any intermediaries, facilitate the investment procedures by encouraging private investment and encourage the small and medium companies to build a long-term partnership with foreign firms. This would be achieved by the creation of joint entrepreneurship to benefit from the efficient transfer of technology, knowledge, managerial skills and “absorptive capacities” required to regenerate sectors, such as industry, banking, tourism, agriculture and transport.

VI.3 Research Limitations and shortcomings

For the limitation of my study, the reliability of the data gathered is a key factor as the value of any research findings depend critically on the accuracy of the data collected. Data quality can be compromised via a number of potential routes, e.g., leading questions, unrepresentative samples, biased interviewers etc. Efforts to ensure that data is accurate, samples are representative and interviewers are objective.

Due to the complexity of the topic and its political implications it was hard to find collaboration from the government institutions and regulatory body as a result, I relied more on secondary data to fill this gap. Consequently the main limitations of my study comes from the design and the scope of my survey as the study tend to examine MNEs, state firm and SMEs perceptions of the effect of FDI on telecom sector but omit to look at the government, the regulatory body and consumers positions and view of the contribution of FDI to the Algerian telecom sector.

Hence, the government and the regulatory body positions as well as consumers perceptions are important variables that were not taking into consideration in my empirical. Another limitation is

The questionnaire design, the questions tend to be more general and descriptive with a little of critical analysis and do not reflect the research objectives which are the investigation and the critical analysis of the participation of FDI within the Algerian economy, with reference to the telecommunication sector.

Adding to that, due to the small sample size, the conducted analysis could not use statistical techniques. For that reason, the research results do not provide grounds for full generalisation of conclusions.

Another important limitation is that the study is about perceptions as there are not real attempts to estimate the spillovers: the degree of technological and knowledge transfer and the level of competition both quantitatively and qualitatively. As a result, my research recommendations are constrained by these limitations.

Besides, the effect of rent capture is vaguely determined as most and the empirical work is based on perceptions and most of the analyses come from secondary data. The government and pressure groups roles are not clearly defined as a result there are little evidences that rent capture has an effect on either motivating or constraining FDI inflow to the Algerian telecom sector.

Other factors like the lack of resources availability in English, as my work take place in Algeria, most of the documents available are in French in some cases in Arabic, therefore, translating information is a time consuming task, also, as the economic environment is in constant change (as the government is embarking a deep economic restructuring), it is very hard to find accurate or valid information. Budgetary and time constraints could affect my research scope as gathering and processing data can be time consuming and very expensive.

Additionally, analysing the rent capture as a key variable of my research was hard due to the lack of academic publications as little researches were conducted about the impact of the rent capture in the telecom sector in general and the Algerian telecom sector in particular.

To overcome all these limitations and add more credibility to my research, I propose to redesign the survey questionnaires to cover all the research variables. To extend the scope of the survey to cover a larger panel of all the telecom stockholders: government, the regulatory body, MNEs, SMEs and consumers.

I will also look at other benchmarking tools to estimate the FDI performance for instance: FDI performance index which measures performance by standardising a country's inflows to the size of its economy, and measures potential by using a set of economic and policy variables of importance to foreign investors. Taken together, these indices show how countries are performing relative to their potential. Furthermore, I will use an econometric estimation using the performance of factor inputs distance approach proposed by Farel (1957) using a Cobb–Douglas function form involving one output and three inputs. The inputs are labour (L), domestic (K) and foreign (FDI) capital stocks. Assuming that there is one-way causality from FDI to output, the implied relationship is that GDP is a function of labour, and domestic and foreign capital stocks.

VI.4 Area of Further Research

For the future scope of the research, I will draw a comparative study between the telecommunication and oil sectors (as the backbone of the Algerian economy), illustrating how the country could benefit more from FDI and suggest how the government should act in order to improve the local economy.

I plan to follow the same steps for the oil industry as the telecommunication sector. I will add the natural depletion theory as a key determinant on driving or restraining FDI using the Patrick Bond (2006) concept of natural resource depletion theory, which suggests that any assessment of FDI, especially in oil and resource rich countries, must henceforth take into account its contribution to the net negative impact on national wealth, including the depletion and degradation of the resource base. I will also look at the effect of the surplus and resource extraction through FDI and the possible rent waste generated, some of which include tax fraud, corruption and lobbying, as suggested by Patrick Bond in his article “looting Africa”, as well as the World Bank reports (2007, 2008).

In addition, future research must demonstrate how the contribution of FDI in the oil sector differs from telecommunications in terms of the impact of the rent capture on government intervention on the market, the impact of rent capture on: resources depletion, mode of entry, competition, technology, managerial and absorptive capacities; knowledge acquisition, assimilation, transformation and exploitation capabilities.

Another important point is the evaluation of the influence of the government policy and incentives on the FDI inflow by looking at the impact of the economic deregulation on the oil market structure. Additionally, it looks at the impact of the new investment law regarding the restriction on full ownership for foreign investors on constraining FDI flow to the both oil and telecommunication sectors. I will therefore extend the scope of my survey to include all the major stockholders such as: MNEs; local firms; SMEs; government; workforce and managers in related industries.

Finally, after conducting an empirical study, I would advise comparing the two sectors, in terms of the extended model variables, and draw a conclusion on the contribution of FDI in both sectors of the Algerian economy.

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Appendix 01

Participant Information Sheet

You are being invited to take part in a student research study. Before you decide it is imperative for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Please ask if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part.

The aim of this research is to identify the impact of Foreign Direct Investment on the Oil and Telecom sectors of the Algerian economy. I am examining the evolution of the Algerian economy from the 1980's up to now, focusing on the major economic reforms and investment incentives offered to foreign corporations and identifying the changing structure of competition in oil and telecom sectors as foreign investment has grown in these sectors. Through a comparison of six contrasting case studies, I will examine in detail the effects of foreign investment on businesses in these sectors, particularly the effects on firm strategies, technology and know-how, differentiation and cost structure, management efficiency and effectiveness. By locating the micro-level case research within the more broadly established macro-level trends, I aim to gain new insights into the specific dynamics of FDI in a developing country context that will have implications for managers negotiating such investments in the future and for policy makers.

Your involvement in the study would be to complete a questionnaire examining the impact of foreign direct investment in the Oil and Telecom Sectors in Algeria. You are welcome to express freely your opinion on the topic, without any pressure, and should take no more than 30 minutes to complete.

If you are willing, it would also be greatly valuable to have your participation in an interview, at a time and location that suits you. This would take up to 1½ hours, depending on how much time you have available, and what you are willing to discuss.

I would record the interviews, with your permission. The recordings would be written up and you will be offered a copy of the transcript, encrypted and sent via email, to keep.
All data collected will be recorded and reported confidentially. All data collection, storage and processing will comply with the principles of the Data Protection Act 1998 and the EU Directive 95/46 on Data Protection. Under no circumstances will identifiable responses be provided to any other third party outside these provisions.

It is up to you to decide whether or not to take part in this research. If you decide to take part, you will be asked to sign the attached consent form but you are still free to withdraw from the study at any time and without a given reason.

Your participation is very important for this research, as it will provide detailed insight into the impact of foreign direct investment in Algeria that is not currently available by any other means. It will allow me to assess the contribution of Foreign Direct Investment to technology and know-how transfer, market competition and change in the Oil and Telecom sectors and the impact on related local small and medium sized enterprises. The study will help improve managerial efficiency and effectiveness in working with foreign investors and will have implications for government policy towards foreign investment to the benefit of the country as a whole.

Appendix02: INTERVIEW CONSENT FORM

University of Greenwich Business School

Project Title: ***What are the contributions of Foreign Direct Investment to the performance of the oil and telecommunications sectors in the Algerian economy?***

INTERVIEW CONSENT FORM

Agree to take part in the above research; I have had the details project explained to me at my satisfaction. I have read the Explanatory Statement, and I understand that this research is undertaken solely as an Honours research project and that any data and information gathered by whatever means will not be used for any purpose other than this research project and associated research publications.

I understand that agreeing to take part means that I am willing to allow:

- be interviewed by the researcher
- allow the interviewer to use recording materials such as: videotape/audiotape
- participate in a sole or group interview
- to complete questionnaires
- make myself available for a further interview should that be required

I understand I have the right to:

- decline to participate;
- refuse to answer any particular questions;
- participate in this research anonymously;
- provide information on the understanding that my name or the name of my organisation will not be publicised without my express approval;
- I will be given access to a summary of the findings of the study when it is concluded but have no editorial control over any aspect of the study.
- I understand that I will be given a copy of data concerning my interview for my approval prior the publication the research

- I understand that my participation is voluntary, that I can choose not to contribute in part or all of the project, and that I can withdraw at any step of the project without being penalised or disadvantaged in any way.

Agreements

I agree to participate in this study on the understandings outlined above.

I agree/do not agree to the interview being audio taped. In the event of my agreeing to the interview being audio taped I understand that I have the right to ask for the audio tape to be turned off at any time during the interview.

I agree/do not agree to my name or the name of my organisation being identifiable to the researcher in association with the information I provide.

I agree/do not agree to my name or the name of my organisation being publicly identifiable in association with the information I provide.

Signed:

Name:

Appendix03

Questionnaire:

1. In which way do you think the liberalisation of the telecom sector in 2000 has helped you to invest in the Algerian market?
2. What do you think about the degree of openness of the market?
3. What are the advantage and disadvantage of this liberation on your investment?
4. Do you think that telecom sector needs further restructuration?
5. How could you contribute to this restructuration?
6. Did you look at the Algeria country risk analysis prior your investment?
7. Have you seek any professional service for financial and risk advisories? What was the impact of these in your investment decision? Does the analysis converge or diverge with the reality? Are you continually monitoring the investment risk in Algeria?
8. Have you studied the business environment in Algeria?
9. What do you think about the clearness of legal and economic policies?
10. What do you think about the macro-economic stability in the country? How does it affect your company?
11. In your opinion, what is needed to be done to ameliorate the macro-economic stability in the country?
12. What influence had market regulations and benefits on your investment?
13. In your opinion were the market regulations a motivating or restraining forces to your investment?
14. Have you ever had a problem with the market regulations? If yes, how did dealt with that?
15. According to you, what could the government do to improve the business environment in the country?
16. How do you think could rent capture influence the extent and types of spillovers arising from FDI?
17. How could the Rent capture via lobbying (pressure groups) have a strong influence on government intervention on the market (by the incentive given or specific benefits and regulations?
18. In your opinion does the rent capture generate potential negative or positive spillovers of technology, know-how, managerial skills and efficiency and effectiveness?

19. Knowing that corruption and bribes are common money in emerging markets Have you ever faced any corruption or bribes problems when deciding to invest in the Algerian market? If yes, could you describe it? How did it affect your company? How could you describe the degree of corruption in Algeria?
20. In your opinion how could the authorities combat this harmful phenomenon?
21. Did you get any grant, royalties or any kind of incentive to invest in Algeria? If yes, was it the main reason for your company to set up in the country?
22. Do you think that more incentives could bring more investment flow in the country?
23. Is the government subsidising any local firms in telecom market? If yes, how could it affect your business and any future investment? In your opinion is government subsidy driver or restrainers of the FDI flow?
24. What do you think about the degree of competition in your market?
25. Did you analyse the market structure and competitive rivalry before entering the market?
26. In your opinion, what do you need to do to be more competitive? Are you planning to expend your investment in the country?
27. What's you type of investment?
28. Do you think that the type of investment is strongly related to the FDI spillovers?
29. In which way your investment could benefit the Algerian economy in terms of technology, capital and competitiveness?
30. In your opinion, which mode of entry could be the most profitable to the Algerian economy and why?
31. Which kind of management is your firm operating? Is it compatible with the Algerian style of management?
32. Have you ever faced any cultural clash or managerial issues? If yes how did you cope with that?
33. Have you trained your managers before they come to Algeria?
34. Did you train the Algerian staff to cope with your way of management? If no, how do they cope with the company style of management?
35. In your opinion what you firm has brought to Algerian market in term of know-how and Managerial skills and efficiency & effectiveness?

36. Do you collaborate with local SMEs? if yes, how could you describe this relation ? What do you think about the role of SMEs in the Algerian market?
37. How could you see, the impact of your market entry on SMEs?
38. In your opinion, does the increase of FDI flow have a positive or negative effect on SMEs?
39. Do you employ more local or foreign work force? How could you describe your politic towards employment?
40. How is your company contributing in stimulating the local market employment?
41. Is your company's home country an agreed partner with Algeria? If yes, could you describe the advantages that you could benefit from the agreement?
42. In your opinion, is your investment due to the partnership between your home country and Algeria?
43. Do you think that the adhesion of Algeria to regional and global cartels could help attracting FDI?

Appendix 05

Answer sheet:

Impact of liberalisation On FDI flow	In which way do you think the liberalisation of the telecom sector has helped you to invest in the Algerian market? What do you think about the degree of openness of the market? What are the advantages and disadvantages of this liberation on your investment? Do you think that telecom sector needs further restructuration? How could you contribute to this restructuration?	After the liberalisation of the market we decided to enter the lucrative telecom market from 2001 because of all benefit we could get from a virgin market.	We are present in the country before 2001.
Impact of Country Risk Analysis on the investment decision	Did you look at the Algeria country risk analysis prior your investment? Have you seek any professional service for financial and risk advisories? What was the impact of these in your investment decision? Does the analysis converge or diverge with the reality? Are you continually monitorings investment risk in Algeria?	We planned our investment strategy in alignment with the country risk analysis.	We did not take into consideration this factor.
The relation between FDI and macro-economic stability	Have you studied the business environment in Algeria? What do you think about the clearness of legal and economic policies? What do you think about the macro-economic stability in the country? How Does it affect your company? In your opinion, what is needed to be done in order to improve the macro-economic stability in the country?	We looked at the transparency of legal and economic policies before entering the market.	did not take into consideration this factor.
Impact of the Algerian business environment on FDI	What influence had market regulations and benefits on your investment decision? In your opinion were the market regulations a motivating or restraining forces to your investment? Have you ever had a problem with the market	The regulations and benefits had great influence on the investment decision.	These factors were insignificant towards the investment decision.

	regulations? if yes, how did you deal with that? According to you, what could the government do to ameliorate the business environment in the country?		
The impact of corruption in the FDI spillovers	Knowing that corruption and bribes are common money in emerging markets Have you ever faced any corruption or bribes problems when deciding to invest in the Algerian market? If yes, could you describe it? How did it affect your company? Could you describe the degree of corruption in Algeria? In your opinion how could the authorities combat this harmful phenomenon?	As bribery is common money to get access to emerging market.	We did not face this problem.
The effect of political instability on international investment	When investing in Algeria what concerns did you have about the political instability? Did you take any particular safeguards to secure your investment? Do you still have these concerns today? Does this affect your investment?	We received full guarantees from the government to protect our investment; we have Also taken measures to protect our asset in the country.	Because of the political instability we minimised our investment to lower risks.
FDI flows and government interventions	Have you ever heard about the government interventions in the market? If yes, how did it affect your company? How do you perceive government interventions? could it be harmful for both multinationals and the host economy?	We are operating in a very competitive market in which there is no government involvement.	We faced this problem at multiple occasions as we found that the government intervene in favour of local competitors.
The effect of the rent capture on the FDI spillovers	How do you think could rent capture influence the extent and types of spillovers arising from FDI? How could rent capture via lobbying (pressure groups) have an influence on government intervention on the market (by the incentive given or specific benefits and regulations?	The rent capture could strongly mediate the effects of FDI, particularly in developing economies like Algeria where markets tend to be inefficient. Rent capture could provide incentives	The rent capture has no mediating effect on FDI spillovers. The rent capture via lobbying has no influence on government intervention on the market.

	In your opinion does the rent capture generates potential negative or positive spillovers of technology,know-how, managerial skills and efficiency and effectiveness? Could you please illustrate with examples.	for FDI to be channelled towards influencing government policies and the market structure. The rent capture could generate positive spillovers of technology, know-how, managerial skills and efficiency and effectiveness.	The rent capture could generate negative spillovers of technology, know-how, managerial skills and efficiency and effectiveness.
the relation between investment incentives and FDI flow	Did you get any grant, royalties or any kind of incentive to invest in Algeria? If yes, was it the main reason for your company to set up in the country? do you think that more incentives could bring more investment flow in the country.	The advantages granted to investors has pushed investment in the Algerian telecom sector.	the investment incentives are very low or inconsequential to the investment strategy.
The effect of government subsidy in FDI growth	Is the government subsidising any local firms in telecom market? If yes, how could it affect your business and any future investment in the country? In your opinion is government subsidy FDI driver or restrainer?	The government subsidy could benefit locals in detriment of MNEs.	By subsidising. the authority is trying to stabilize the market "win-win situation".
The rapport between number of competitors, competitive rivalry and market structure	What do you think about the degree of competition in your market? Did you analyse the market structure and competitive rivalry before entering the market? In your opinion, what do you need to do to be more competitive? Are you planning to expend your investment in the country?	Is the decision of investment related to the market structure and competitive rivalry.	The investment strategy does not take into consideration the market structure.
The connection between the mode of entry and FDI spillovers	What's you type of investment? Do you think that the type of investment is strongly related to the FDI spillovers? In which way your investment could benefit the Algerian economy? In your	Joint venture or any partnership forms offer more benefits for host countries.	Joint venture could have more beneficial impact specially in case of technological

	opinion, which mode of entry could be the most profitable to the Algeria telecom sector and why?		gap between host and home countries.
The link between the mode of entry and FDI spillovers	What did your company bring to the local market in terms of the shift of: Technology, know-how managerial skills efficiency & effectiveness What could you bring in the future for the local market?	Depending of the mode entry emerging countries like Algeria could benefit from the transfer of knowledge, managerial skills and productivity.	In general, SMEs prefer to keep their know –how and managerial skills in order to exercise a certain hegemony in the market.
The rapport between Multinationals and change management in FDI recipient countries	Which kind of management is your firm operating? Is it compatible with the Algerian style of management? Have you ever faced any cultural clash or managerial issues? If yes how did you cope with that? Have you trained your managers before they come to Algeria? Did you train the Algerian staff to cope with your way of management? If no, how do they cope with the company style of management?	The interaction between different cultures and styles could generates a positive spillovers.	Cultural clashes might cause crisis within organisations.
FDI impact on SMEs	Do you collaborate with local SMEs? if yes, how could you describe this relation ? What do you think about the role of SMEs in the Algerian market? How could you see, the impact of your market entry on SMEs? in your opinion, does the increase of FDI flow have a positive or negative effect on SMEs?	We do believe that the increase of FDI would probably increase of local SMEs that could benefit the Algerian economy.	We do not have direct links to local SMEs.

FDI effect on stimulating the employment market	Do you employ more local or foreign work force? How Could you describe your politic towards employment? How is your company contributing in stimulating the local market employment?	Indeed, knowing that more than 60% of the staff are locally recruited.	Our staff is 100% foreign.
The relation between FDI flows with Algeria agreed partnership	Is your company's home country an agreed partner with Algeria? If yes, could you describe the advantages that you could benefit from bilateral agreements between home and host country? Is your investment linked to the partnership with Algeria? Do you think that the adhesion of Algeria to regional and global cartels could help attracting more FDI to the country?	We are developing our activities thanks to the incentives offered by the mutual agreement between Algeria and our home country.	There is no agreement between Algeria and our home country.

Appendix 06: The Gantt chart

tools	purpose	2009			2010	
		January-February-march	May-June	December	January	may
Sampling	To select the participants who could effectively contribute to the study (looking into their profiles and selection criteria already stated on the sampling method)	--				
Pilot interview	Refine and evaluating questions, overcoming all potential problems that could arise during the interview process (miscommunication issues, misunderstanding...)	--				
Individual interview	Prior the interview I have send an email with all the details about the my research aims and objective, short overview of my research (provided on the appendix 07,08) According to the length of the questions the interview process took an average 35-40 minutes.		---	--		
Review of the questionnaires	Data collection using triangulation summarising the mean findings (the full tables are provided on the questionnaires analysis chapter IV section 2).				---	-----------------------------

Source: Adapted from my interview strategy

Appendix 07: The secret of Djezzy success

According to Hassan Kabbani Djezzy chief executives to an interview to the Algerian newspaper (Echrouk) , the secret of Orascom Telecom successful performance in Algeria is the trust factor (customer loyalty) with its 14 million customers." Djezzy is now a trademark in every Algerian home on the basis on constant commitment to keep all promises in transparency and seriousness," he said That makes Orascom Telecom Algerie considers itself as the pride of telecommunication in Algeria." Regarding the relation between the company and its customers Hassan Kabbani confirmed that it's getting better. "That makes Orascom Telecom Algerie considers itself as the pride of telecommunication in Algeria." (Yahia, 2009:5-6).

Hassan Kabbani said Djezzy is the first in terms of importance compared to the rest of the group's branches in Asia, Africa and Europe. "In the current year, the investment reached 2 billion and 900 dollars." "This amount reflects the reality of the branch extension which records around 14 million subscribers," he added. (Yahia, 2009:5-6).

Furthermore, he emphasis the prominent role of Djezzy in the success of the Orascom Telecom Holding stating "Najib Sawiris considers himself now as a part of Algeria because of djezzy large investment in the country, which generate mutual benefits," he added .According to him, the success of Orascom's branch in Algeria is owing to efforts especially in investment. "That pushed Najib Sawiris, chairman of the board of directors of the Egyptian communications company to consider himself Algerian." (Yahia, 2009:5-6).

Regarding the company management Kabbani value the role of Algerian know-how which represents the company's backbone including technicians, engineers, marketing, sales and administration staff. "The 3,500 employees at the company are all Algerians except 19 only" he also added "It is wrong to think that Djezzy is a foreign company or belongs to a foreign investors. "In this regard, he was sorry for the mentality which valorises foreign competences and underestimates local ones. "Djezzy has proved that Algerians can do the best." (Yahia, 2009:5-6)

Since, entering the Algerian market in 2001, Mr Nadjib Sawiris affirmed in different occasions that the Algerian Market is the backbone of Orascom Telecom Holding, with an investment reaching 2 billion and 900 dollars.

According to the company report 2008, the total mobile subscriber in Algeria will dramatically increase from 30.02 million in 2008 to 35.8 million in 2010.
This report also predicted that Djezzy will continue to receive a superior Average return per unit (ARPU) comparing to its competitors. In fact, in 2007 Djezzy ARPU was estimated at $12.32 far from the new entrant Nedjma $7.58 and more than 3 times higher than the national operator Mobilis $ 3.00.

Djezzy investor report also forecasted that the company ARPU will increase slightly from 2008 to 2010 while predicted a sharp decrease on Nedjma ARPU -11.3% (mainly explained by Nedjma politic of price reduction and promotional discounts offered to customers), whereas Mobilis ARPU will remain stable at $3.00 at the same period.
Regarding the Earning before taxation, Orascom Algerie will experience the highest EBITDA margin in Algeria with 61% from 2007 to 2010. Comparing to other OTH branches, Djezzy is currently experiencing one of the highest Earning before taxation (EBITDA) margins.

Appendix 08

The conflict between Orascom group and the Algerian Government:

The conflict starts when Orascom decided to sell its construction subsidiary in Algeria (AAC) to Lafarge, the government was surprised by this decision as it has contributed to this investment by granting credit, so in a way Orascom used the government money to setup its business and after 5 years sold the business for approximately 12 times the original investment, at the beginning Orascom did it react to the government announcement but when polemic started, the CEO Najeeb Swaress expressed his understanding regarding the Algerian authority concern and explained that Orascom, did not want to delude the government and acted in booth interest as Lafarge has more resources and could serve better the growing demand of the local and international market, also, he promised the Algerian government to reimburse the credit granted by the government and emphasise on the excellent relations between the firm and the Algerian people and the continuous commitment to provide the best service possible insisting that the Algerian market is most important and promising market for the Orascom group.

This declaration did not calm the tensions between the two parties, in July 2009, the French written magazine Jeune Africain revealed a secrete negotiation between the Orascom group and the giant French telecommunication firm France Telecom, the actual firm is already with joint venture with Orascom on Mobinil (the Orascom's Egyptian subsidiary), since Orascom group was badly hit by the global economic down turn it needed some cash flow to revitalise its financial situation specially after the fall of its market share in Cairo stock market by more than 15.8% between May to July (according to Oxford business group article), this revelation sustained a large political debate in the country since the Algerian and French political relations where under a string tensions following president Sarcozy declaration regarding the positive effect of colonisation and the protest by the Algerian foreign minister and opposition by politics to this declaration considered as an insult to Algerian people who scarified more than 1 million and half to liberate the country. In August 2009 the Algerian authority formally invited Djezzy to show it real intention (either continue or withdrawn from the market), in late august a communication from the government expressed that in the case of the Djezzy intention to withdrawn from the market, the government is ready to take over the investment. Also the minister of the investment Abdelhamid Tamar for the first time criticise officially Djezzy in September 2009 for illicit practise saying that the government is aware about the firm practise in other countries such as Iraq and Pakistan while they setup their investment by the help of local authorities for 3 or 5 years and resold there investment for a much higher prices and precise that if this happened the Algerian authorities will strongly interfere to protect its economy.

This declaration was followed by massive indignation but both politics and other competitors such as Mobilis and Nedjma who started a very aggressive Campaign to show their total commitment to the Algerian market.
While Djezzy did not want to feed this polemic, the only reaction was made by Nadjeeb Swaress who stressed on long term relationship and good intention of the firm towards the host country.

<u>A football game poisoned the relations between the Algeria and Egypt:</u>

the decline of the relations reached the summit after the Algerian team bus was attacked by Egyptian fans in Cairo before the decisive match between the two nations on the 14^{th} of November 2010 accounting for the world cup 2010 qualifiers, as political tensions started between the two nations, and Orascom was one of the official sponsor of the Egyptian football league, Algerian people start to boycott everything that was Egyptian starting by mobile phones, the worst is that Djezzy kept the silence and did not want to dissociate with its mother firm OTH so, this silence was interpreted as a conspiracy against Algerian people who welcomed the Egyptian, the situation got worst while Egypt denied the incident and claimed that the Algerian team played a theatre play, and refuse to make a public apology, so, the Algerian population start a big anti-Egyptian campaign putting pressure on government to ban all Egyptian products and people where demonstrating in the capital Algeria asking the government to recall the Algerian Ambassador in Cairo, after few days while the media in both countries where playing an important role on persuading the public that the other side is the enemy, few incidents occurred while some Algerian students and residents were attacked in Cairo, in the other hand the Djezzy headquarter and few shops were subject to vandalism act overnight that was estimated (according to Djezzy report around 2 million $), also a media and social networking starting building up anti-Algerian and anti –Egyptian groups in facebook, twitter, blogs, video on you tube, the situation went beyond control when Egypt decided to recall its ambassador shortly after Algeria followed, the Arab league tried to organise a reconciliation summit but both parties refused, in the meantime, while the situation went impossible Djezzy and the Egyptian government send an open request to the Algerian authority to protect the Egyptian workers and investment and also asking to recompense the damage cost, but the local authorities insisted that all damage caused should be covered by the insurance.

Appendix 09: The VimpelCom potential Takeover of Djezzy

In March 2010, the south African Telecom firm MTN was on negotiation for an eventual takeover of the Orascom's telecom four sub-Saharan assets, grouped under the Telecel Globe firm. Therefore, MTN is most likely to end up paying around $8 billion for the assets. with five billion dollars allocated just for the purchase of "Djezzy" the Algerian subsidiary, as the firm is subject to a disputed tax bill and tension between the Algerian and Egyptian government but still attracting MNEs intention due to high prospect of the Algerian telecom market, Djezzy has around 50% of a market share 60% penetration and average EBITDA margin of 55-60 percent (Djezzy investor report available from the company website). According to telecom Analysts (Reuters source), the value of OTA could be estimated between $6 billion to $7 billion, but government pressure and the Algerian economic environment could lower down the price

According to Reuters the negotiations by MTN and Orascom started after the fail of the negotiations between France Telecom and Orascom Telecom Holding, led in shadow by Nadjib Sawris and South African company MTN, with the support of Italian and U.S. governments, the discussions have resulted in the sale of shares of Djezzy for five 5 Billion dollars, which is considered as a big amount as Djezzy benefited through its rent seeking from great advantages and privileges for more than 8 years of investment in the country .

In the 4 October 2010, after secret negotiation rounds, VimpelCom the giant Russian Telecommunication firm took control Orascom Telecom as part of a $6.6 billion international acquisition. VimpelCom's acquisition of Weather Investments the owner of Orascom Telecom was considered as the most significant deal of the year in the telecom sector, creating the world's fifth-largest mobile operator group with a network spreading all over the five continents. VimpelCom has announced that its preference would be to take control of Djezzy, one of the most profitable assets in the Orascom portfolio. However, the Algerian government responded to the deal by saying that it the government will oppose to any deal without its consent, and confirm its intention to buy Djezzy. VimpelCom declared that if the Algerian has the intention to nationalise Djezzy, they have no objection to sell it so at a price of US$7.8 billion, which was highly criticised by the Algerian government being unrealistic price as Djezzy suffer from a tax bill of $230 million for 2008 and 2009 adding to the already disputed tax bill US$597 million tax to cover the tax years 2005, 2006 and 2007. The Algerian government is offering between $2.5 to $3 billion.

To an interview to the Financial Times, The VimpelCom CEO Alexander Izosimov told the he could resort to legal action should Algiers offer an unfavourable price for Djezzy. He added that “If the government makes moves or extracts the asset nationalises and so on we will try and defend our rights,” (The Financial Times, 2010).