Foreign direct investment as one of the international distribution mechanisms to achieve the competitive advantage – case of Algeria 2002-2017–

الاستثمار الأجنبي المباشر كآلية من آليات التوزيع الدولي لتحقيق الميزة التنافسية– حالة الجزائر 2002-2017–

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Abstract:

This study aims at discuss an important subjects of today, the FDI and the competitive advantage, where great importance is given to them, most companies are urged to take partnership with foreign companies to be protected from dangers or threats of competition,a set of conclusions and recommendations are presented that FDI can help companies to support their competitive advantages.
keyword:f.d.i; competitive advantage; international distribution
JEL classification code : F21, M30, M31

ملخص:

تهدف هذه الدراسة الى تناول موضوع الاستثمار الأجنبي المباشر والميزة التنافسية، فقد تنامى الاهتمام بهما مع اشتداد المنافسة بين مختلف القطاعات, الامر الذي جعل معظم الشركات تدخل في شراكة مع شركات أجنبية لتكون محمية من تهديدات المنافسة, وكحوصلة لهذه الدراسة تم تقديم مجموعة من النتائج والتوصيات التي تمكن الشركات من دعم ميزتها التنافسية عن طريق الاستثمار الاجنبي المباشر.
الكلمات المفتاحية: الاستثمار الأجنبي المباشر؛ الميزة التنافسية؛ التوزيع الدولي.
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1. Introduction :

The role of the foreign direct investment has been internationally increased, and all their economies have taken this investment very seriously and made sure to use it in all its domains. Most of these countries have earned great incomes from it. It is a means of importing technologies and new technics to build competitive projects. It helps increasing the means of production and improving economies through inventions and creativities, also, it can help to create competition between the foreign investor and local companies in a way that leads to reduce monopoly and motivate companies to improve the quality of their products and services if they are willing to protect the continuity and the maintain lasting.

The foreign investment increases the human resources capacities from the training of the local resources and reinforcement of the skills in production fields and managerial experience of the foreign invested companies, however, this can achieve competitive advantages to the local companies in the production, marketing and distribution fields. From what have been mentioned up above, the following question can take place:

How can the foreign direct investment play a good role in supporting the competitive advantage of the company?

1.1The objectives of this study as followed:

- Trying to make the necessary efforts to give general idea to the different concepts are linked to the foreign direct investment and competitive advantage.

- Trying to show how the foreign direct investment is important as an activity that supports to achieve competitive advantage to the local companies.

- Show the important role to the foreign direct investment that because of it the company can achieve a better competitive advantage compared to other competitors.

To reach some results and make recommendations that can contribute and attract foreign competitors to increase the competitive advantage.

1.2 The importance of the study:

- The importance of the foreign direct investment considered as one of the most important external sources that brings change, and positive effects on the host country.
- This study gets its importance through the status and vital role played by the foreign direct investment in supporting the competitive advantage of the local company.
- Show the necessity to pay good attention to the foreign direct investment for its role to achieve and support the competitive advantage to the company.
- Show the great importance of the foreign direct investment which is well represented in transferring the technology and the managerial skills to the host country.

2. Main principles of the foreign direct investmentand the international distribution:

2.1 foreign direct investment definition and its advantages

The foreign direct investment is a major subject that interests many researchers and specialists either in its theory or practical phase. We are going to take this subject focusing on the definitions and advantages the foreign direct investment, its types and the most of its important determinants.

2.1.1 Definition of the foreign direct investment:

The foreign direct investment has so many definitions that differ from one researcher to another, to have a general definition, the researchers have a lot of opinions about that, we do now mention some of these different opinions:

Foreign direct investment means buying or owning complete parts of foreign companies or taking only parts in it so the investor will have a relative effect and an ability to control these companies and their politics in a way that can connects the investor to the amount and percentage of the investment (Abdul Rahim &Firas , 2013, p. 19)**.**

The foreign direct investment is a means of transferring the technology, new products, new skills (for example, innovative, product designs and managerial skills)(Rafat, 2018, p. 164) .

After what we have mentioned, we can say that the foreign direct investment is the process of owning or taking parts from the project (tangible and intangible assets) in foreign countries, in order to give the foreign investor a managing ability in the investment.

In this study we will focus on Algeria case 2002-2017 where it has made so many partnerships with countries and foreign companies which are mentioned in the table below:

Table 1 : projects involving foreigners 2002-2017

Amount: million of DA

Region	Projects Number	Amount	Jobs Number
Europe	472	11 48208	78415
Of witch European union	332	666499	44646
Asia	114	169732	11761
America	18	68813	3737
Arab countries	262	1057257	34462
Africa	6	39686	609
Australia	1	2974	264
Multinationality	28	33160	4335
Total	901	2519831	133583

Source: Source:(Development, 2002-2017)http://www.andi.dz/index.php/en/declaration-d-investissement, visited 23/06/2019 at 19:30

From what have been mentioned before, we notice that the Algeria partnership share with foreigners was most benefited by Europe by 472 projects, secondly was European union and then Asia, and then the multi-nationalities with 28 projects, after that there will be America and Africa with very low percentages (18 projects to America and 6 projects to Africa).

And for the Arabic countries, the percentage were very good estimated with 262 projects which are a good results compared to the previous ones, and at last was Australia with one project.

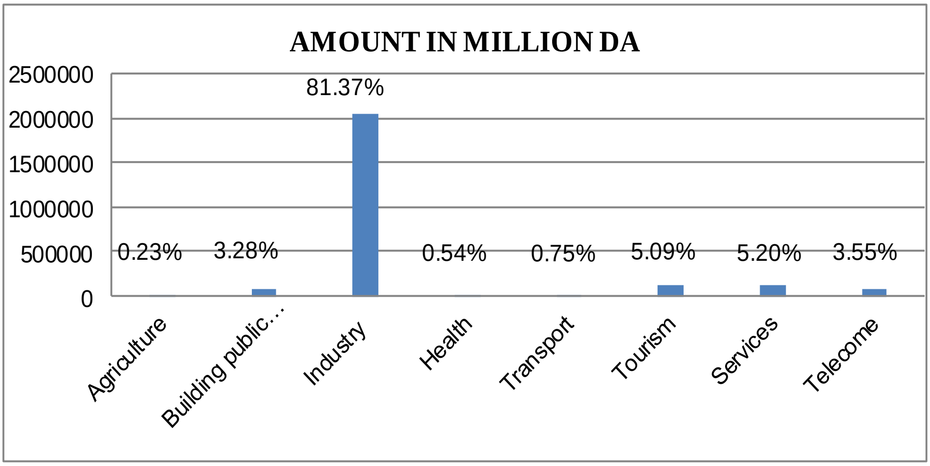
For the distribution of foreign investments declared in Algeria gathered by sector of activities as followed:

Table N°02: distribution of foreign declared investments projects gathered by sector of activities 2002-2017

Amount: million of DA						
Secteur of activities	**Projects Number**	**%**	**Amount**	**%**	**Jobs Number**	**%**
Agriculture	13	1.44%	5768	0.23%	641	0.48%
Building public works	142	15.76%	82593	3.28%	23928	17.91%
Industry	558	61.93%	2050277	81.37%	81413	60.95%
Health	6	0.67%	13572	0.54%	2196	1.64%
Transport	26	2.89%	18966	0.75%	2407	1.80%
Tourism	19	2.11%	128234	5.09%	7656	5.73%
Services	136	15.09%	130980	5.20%	13842	10.36%
Telecome	1	0.11%	89441	3.55%	1500	1.12%
Total	901	100%	2519831	100%	133583	100%

Source: (Development, 2002-2017) 21:05http://www.andi.dz/index.php/en/declaration-d-investissement, visited 23/06/2019 at

Figure N°01: distribution of foreign declared investments projects gathered by sector of activities 2002-2017



Source:(Development, 2002-2017)By the researcher based on http://www.andi.dz/index.php/en/declaration-d-investissement, visited 23/06/2019 at 21:05

From the above we take a notice that the industry sector percentage was the highest which estimated at 61.93% and 558 projects from total projects (901), its estimated value is 2050277 million of DA from total 2519831 million of DA, so this sector can provide many jobs number estimated at 81413 jobs number in Algeria.

But regarding to the other sectors (agriculture, building public works, health, transport; tourism, services, telecomm) the percentage were unstable and too low.

2.1.2 Foreign investment advantages:

These are the most important advantages that Mansour al zein talked about (Zein, 2013, pp. 383, 384):

- Foreign direct investment is the main source of transferring the advanced technologies to the developing countries.
- Foreign direct investment leads to higher productivity in local companies especially in manufacturing.
- The amount and type of technology transferred through foreign direct investment is influenced by the different characteristics of the industry and the host country which creates competition that level up the local investment's fixed capital and education, the environment also imposes fewer restrictions on the branches of multiple companies that have different nationalities which can lead to further expansion of transferring technology.
- The foreign direct investment offers a great possibility of benefiting from the competitive advantage owned by the international company that invests in foreign markets in the field of marketing and production (Al-Turkistani, 2017, p. 162)
- FDI provides companies with the chances to take full advantage of the internationalisation benefits, like gaining access to new customers, also can expend business risk into a larger market base, obtaining access to valuable natural resources, and achieving lower costs or exploiting better-possessed resource (Małgorzata, 2015, p. 126).
- Controlling inflationary pressures: with the help of foreign capital investment and foreign aid, it can possible the speedy growth in production in various economic sectors. It increases the quantity of goods of consumption, which results in stability of price level that

controls the inflationary pressures (Dr. K. S. &Bhanuben N , 2013, p. 08).

2.1.3 Foreign direct investment forms

Foreign direct investment contains a lot of forms, we would like to select the most important ones:

- **The joint venture:**

The joint venture can be defined as a partnership of two or more companies that create a separate business entity, in the way that each participant contributions in the form of capital, technology, marketing expertise and staff, and in order to take certain economic activities. The venture is a long-term character, according to the principle :shared tax - shared risk (Nebojša , Oliver , & Adriana , 2015, p. 187).

- **Mergers and Acquisitions:**

The terms merger and acquisition are often interchangeably, which is wrong because there are differences between these terms. (merger) is a transaction in which two or more companies agree to merge into a new company, and existing companies cease to exist, On the other hand, taking (acquisitions) indicates the transaction when one company buys i.e. it is taken over by another company (Nebojša , Oliver , & Adriana , 2015, p. 192).

- **The investments fully owned by the foreign investor:**

These kinds of investments create branches of production, marketing and distribution or any other productive activities that are fully owned by the foreign investor in the host countries, despite the risk, this kind of investment is the most preferred by the largest companies in the world (Zarzar& Barak , 2016, p. 137).

- **Projects or aggregations:**

This type takes the form of an agreement between the foreign part and the national part, which the first part supplies the other one with the components of a particular product to be assembled and collected into a final product. In most developing countries, the foreign part provides the necessary experience and knowledge regardless the internal design of the factory, the process of operations, the methods of storage, maintenance and capital equipment. In return, there must be an agreement about the outcomes (Abdel-Al, 2012, p. 206)

2.2 Definition of the international distribution and its methods

2.2.1 Definition of the international distribution

The effective ways used by companies to increase their international sales and expand their global market share by delivering goods and services to different types of users whether they are final consumers or industrial buyers according to their geographical location (Zakaria& Ahmad , year of publication is unknown, p. 321).

2.2.2 The international distribution methods:

The companies that want to reach to the international markets have two methods (Al-Okah, 2010, pp. 168,169):

- ☒ **First: Directly**: the company that wants to design its distribution system without dealing with intermediaries for the disposal of its products in foreign markets through the direct association with its foreign markets.
- ☒ **Second: Indirectly:** the indirect method does not make the producers distribute their products directly to the consumer, in which intermediaries can be selected to distribute goods, The intermediary is responsible for transporting products to the foreign markets, this gives the company many advantages such as low export costs.

3. General principles of the competitive advantage :

During the changes the economic world is facing, many companies are encountering some challenges that are connected to competition and how it is paced in the international field, they have become aware that their remaining in the market is linked to their ability to compete, and for that, it is a goal to both have and develop the advantages of competition using different methods and strategies, these companies are working so hard to stay and get along with the changes and get an important position compared to the other competitors.

3.1Definition of competition and its types :

3.1.1Definition of competition

competition is defined as an activity of individuals who seek to achieve the benefits that others want to gain at the same time and in the same conditions, Its essence is based on the elimination of competitors operating in the same industry and taking over their customers (Zelga, 2017, p. 302).

We can say that competition measured in the markets by its sold products or the number clients compared with the services by the company to have a better position compared to its competitors.

3.1.2 Types of competition:

The following types of competition are represented:

☒ **Perfect Competition**(Hanna, 2010, p. 336)**:**

It has the following characteristics

- The existence of so many buyers and sellers to the product.
- The similarity of the product between all producers.
- Producers have the free access to the production field.
- A none_existing agreement between producers to unify their policies.
- The smooth movement of production factors
- The costumer's rational behavior.

☒ **The monopolistic competition :**

Monopolistic competition refers to the market situation in which many producers produce goods which are close substitutes of one another. Two important distinguishing features of monopolistic competition are: Product differentiation, and existence of many firms supplying the market (George & M. , 2015, p. 1065).

Oligopolistic competition consists of several companies producing the same or partially differentiated product. This diversity can affect the level of quality, special features, style or service, The company, which manufactures the same product cannot determine the prices of their products at a higher level than the market, unless it wants to attract customers (Zelga, 2017, p. 302)

☒ **Oligopoly:**

Oligopoly is one of the imperfect competition forms, its characteristics as followed (Mahmoud &Rudaina , 2011, p. 232):

- Productors should own high fortine and high human ressources.
- The existence of a few number of producers, the same for sellers and buyers.
- A big rate of production provided by a few number of producers who have all data about the market and consumers.
- The difficulty of intering the market by new producers.

- The similarity of products but differences between the similar competing goods regarding the policy of the commodity discrimination.

3.2 Definition of the competitive advantage and its characteristics :

3.2.1 Definition of the competitive advantage:

These are some of the definitions given to the competitive advantage:

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices (Philip , Gary , & and , 1999, p. 434).

Competitive advantage is revealed, when activities of a given organization are more profitable than those of its market competitors or when it outperforms them as regards other significant results of activities, including, for example, the share in the market, product quality or technological advancement (Ceglński, 2016, p. 58).

The definition of the competitive advantage by Philip Kotler focused on the value that's given to the consumers through higher or lower prices.

Whereas, the second definition concentrated about the profitability of company and its share in the market compared to the other competitors in the quality of products or the technology advancement and other factories.

Through the two definitions, we conclude by saying that the competitive advantage is a company can overcomes other companies by creating a value to the consumer with many ways that can make the company even stronger, the price or the product quality are included.

3.2.2 Characteristics of the competitive advantage:

The main characteristics of competitive advantage (Saadoun& Hussein , 2015):

- **The selected resources**: the goods or resources such as the company reputation that enables companies to last longer in market.
- **The creative capacities of the companies:** These abilities can achieve valuable competitive advantages which are too difficult to be imitated or simulated by others.

- **The strength of continuity:** The continuity of the resources that can guarantee the lasting of the competitive advantage.

3.3 The strategies of competitive advantage:

There are three strategies of the competitive advantage represented as: differentiation Strategy, cost leadership strategy and focus strategy, these three strategies were defined by ' Porter', They are explained down below:

☒ **Differentiation Strategy:**

This strategy demands the development of goods or unique services from unmatched by counting on the loyalty of the costumer (positioning) to the brand. A company can be offered higher quality, performance or unique features that each of them can justify the higher prices (Hashem, , Hamid , & Samira , 2012, p. 15).

- Physical differentiation relates to the physical characteristics of products and services such as design, implementation method, channel distribution, weight, color, size, smell, etc.. (Pindelski, 2016, p. 09).
- Symbolic differentiation refers to feelings and emotions, and includes, for example, brand, image, perception, promotion, etc.. (Pindelski, 2016, p. 09).

☒ **Cost leadership strategy:**

Cost leadership strategy: according to Porter's Generic competitive strategies, cost leadership, creates a company to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. The goal of this strategy is to offer products or services with lower costs (Nyauncho M &Nyamweya , 2015, p. 02)

☒ **Focus strategy:**

The focus strategy based on a target segmentation of the buyer whose needs are less expensive than the rest of the market. On the other hand, the differentiation focus strategy relies on a buyer segment that requires unique product attributes (Akintokunbo, 2018, p. 259).

Through this strategy, the company aims to focus on a specific activity/activities, they might require a separate product or marketing mixes to a specific marketing sector or to special costumers (Hisham&Boushamal , 2014, p. 161).

4. The foreign investment and its role in supporting competitive advantage. :

In this part we will discuss the important role of the foreign direct investment in supporting the competitive advantage, this role of supporting will be represented as followed: technology and managerial skills transferring, competition reinforcement.

4.1 The impact of the foreign direct investment in supporting administration and unemployment:

4.1.1 The impact of the foreign direct investment in supporting administration:

By transferring knowledge, FDI will increase the existing stock of knowledge in the host country through labour training, transfer of skills, and the transfer of new managerial and organizational practice. Foreign management skills acquired through FDI may also produce important benefits for the host countries. Beneficial spin-off effect arise when local personnel who are trained to occupy managerial, financial and technical posts in the subsidiary of a foreign MNE leave the firm and help to establish local firms (kurtishi-kastrat, 2013, p. 28).

Similar benefits may arise if the superior management skills of a foreign MNE stimulate local suppliers, distributors and competitors to improve their own management skills .
Lall and Streeten (1977) emphasize three kinds of managerial benefits (kurtishi-kastrat, 2013, p. 28):

- Entrepreneurial capability in seeking out investment opportunities;
- Externalities arising from training received by employees (such as technical, executive, accounting and so on);
- Managerial efficiency in operations arising from better training and higher standards.

4.1.2The foreign direct investment and employment in Algeria:

The problem of unemployment appears in different cities in the world especially in the developing countries, and it differs from one country to another according to the strength of the internal national economy and the total investment activities to each country, the increased investments contribute in an effective way to decrease the unemployment.

The following table explains the jobs number provided by F.D.I declared in Algeria during 2002-2017 according to the national Agency of investment development

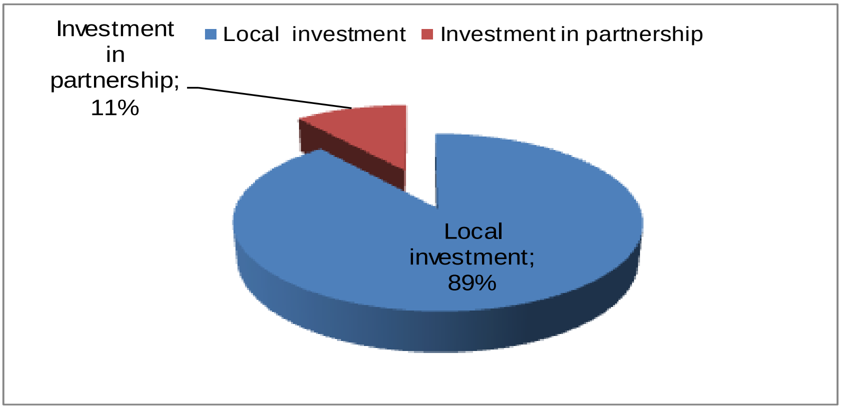
Table N°03:Jobs number declared in Algeria 2002-2017

Amount: million of DA						
Investment projects	**Projects Number**	**%**	**Amount**	**%**	**Jobs Number**	**%**
Local investment	62334	99%	11780833	82%	1098011	89%
Investment in partnership	901	1%	2519831	18%	133583	11%
Total	63235	100%	14300664	100%	1231594	100%

Source: Source:(Development, 2002-2017)

http://www.andi.dz/index.php/en/declaration-d-investissement, visited 25/06/2019 at 15:00.

Figure N°02:Jobs number declared in Algeria 2002-2017



Source:(Development, 2002-2017)

By the researcher based on the http://www.andi.dz/index.php/en/declaration-d-investissement, visited 25/06/2019 at 15:30

According to the statistics in the table above the F.D.I contribution stays limited and low at providing employments in Algeria, where the total number of employees as a part of the foreign investments declared in Algeria reached about 133583 employee during 2002-2017 of total 1231594 job number achieved at the same period at a rate of 10.85% of total, only that this percentage is reasonable compared to the foreign declared investment during this period which have not reached to 2% of the total declared projects.

The table pinned above shows us the big possibility to provide large and wanted job opportunities in Algeria, So the rate 1% of total investment projects provided 11% of total job numbers.

logically Algeria has to increase the efforts to bring a large number of foreign investments.

4.2Foreign direct investment outward stock- percentage of gross domestic product in Algeria 2002-2017

F.D.I contributes in increasing the internal production to the host countries through the industrial, production and service companies, which helps the host countries to reduce the imports.

The following to table shows the contribution of the F.D.I in the total internal outward in Algeria 2002-2017:

Table N°04:FDIoutward stock- percentage of gross domestic product in Algeria 2002-2017

years	%
2002	9.78
2003	9.12
2004	8.29
2005	7.96
2006	8.63
2007	8.78
2008	8.47
2009	12.56
2010	12.12
2011	11.05
2012	11.29
2013	12.06
2014	12.54
2015	15.81
2016	17.52
2017	16.35

Source: (Corporation, 2002-2017)
by the researcher based on the http://dhaman.net/ar/research-studies/data-tools/data-fdi/ visited: 25/06/2019 at 19.00

Through the previous table we notice that the percentage of the F.D.I contribution in Algeria in forming the local outward-stock remains too low and this is due to the weak value of F.D.I in Algeria

In spite of the increase in 2009, where it reached to 12.56% compared to the previous years, it did not exceed 10%.

And it started to rise again to reach to 17.52%, its highest percentage in 2016.

From the previous percentage, the role played by F.D.I is still weak in Algeria, although there is enormous untapped potential for investment in Algeria.

4.3 The foreign direct investment, transferring technology and reinforcement of the competition:

4.3.1 Transferring technology:

Technology refers to all manufactured materials and capital goods of machinery and equipment, with a necessary design and implementation. Regarding the experiences and skills related to the production arts, designs and documents, operating programs, maintenance, training and education (Boudjemaa, 2012-2013, p. 26).

foreign direct investment is one of the most important tools for technology transferring, multinational companies are now the main source of the world's research and development , because their total expenditure is equivalent to about 80% of the total expenditure from all over the world, developing countries started to encourage the multinational companies to invest in their countries making sure not to bring along the indirect effects of technology transferring with them (Jabbar, 2014-2015, p. 134).

The cost of the researches and development by the invested companies is not wasted as it seems to be, because the importance of its technology transferring, technology does not include only technical operations, but also managerial and marketing skills, therefore, the host countries can gain secondary represented as: technological spill-over effect, which is called Technological multiplier, it works on technology diffusion and modern management techniques both largely and widely (Boudjemaa, 2012-2013, p. 27).

4.3.2 Reinforcement of the competition:

Foreign direct investment (FDI) has a strong and direct effect on the competition. Foreign companies bring new technology to motivate local companies those who are wishing to maintain their market share to stand against the foreign companies with their strong competitive abilities, however, local companies have to develop their producing technics to reach their goals (Jabbar, 2014-2015, p. 136).

Accordingly, from one hand, this can improve the current products and produce new products, on the other hand, increase the production factors which leads to accomplish higher growth rates (Jabbar, 2014-2015, p. 137) .

4.4 Adverse effects on competition:

Host governments sometimes worry that the foreign MNEs may have greater economic power than local competitors. If it is a part of large international organization, the foreign MNEs may be able to draw on funds generated elsewhere to support its costs in the host market, which could drive local companies out of business and allow the firm to monopolize the market (kurtishi-kastrat, 2013, p. 32).

5. Study Methodology :

To address the subject of this study and to know the aspects of the subject, this study used the analytical descriptive method, the researcher talked about the theatrical background which the study is based, and this is by addressing the various literatures and previous scientific studies in the research field.

6. Conclusion :

Through the previous study, we concluded that foreign direct investment is a major means for transferring the new technology and technics. It can have too many effects in different fields, production, administration and marketing as well, it has great effect on investment opportunities that were not available or could not be provided by local companies, because of the lack of experience and possibilities.

6.1 Recommendations:

After what we concluded in the last results, we finish with these following recommendations:

1. Create special organs that is interested to attract the foreign direct investments.

2. Simplify all the procedures especially the legal ones to the foreign investors to motivate them to invest.
3. Alliances are highly needed for local companies to face the competition in the international market.
4. Controlling the foreign investments in the host countries(indirect effects).

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