

**Foreign Direct Investment
Case of Albania**

by

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Abstract

Albania faced a closed economy during the communist regime, which closed the doors towards development. After 1990, at the declaration of the democracy and the new era coming in the country, Direct Foreign Investment was one of the first pillars of economy given priority from the government. After 2000, FDI increased the level of investment in Albania due to many facilities in their legal framework as well as economic one implemented by our government. The business sectors of Fasons is also having development and the current reforms are supporting their investments. FDI give to Albania many advantages, especially for labor supply and specialization of workforce. Government is playing a key role in implementation of FDI in the country, due to its measures through provision of legal framework and economic facilities. One of the main ideas of the thesis is “How easy is to settle a new business in Albania?”

This thesis contains quarterly data from years 1991-2012 in percentage unit, which are enough to compose the regression equation for the econometric analysis and to have a real and exact result. The data are taken from a confident source such as Bank of Albania, and a regression analysis has been applied with a usage of a special test studies such as Johansen Co-Integration Test.

As a conclusion, as expected , it is found that GDP and FDI are perfectly correlated with each other and lay their effect even to otherwise.

Key words: Direct Foreign Investment, Gross Domestic product, Economic Growth, Regression Analysis, Johansen Co-Integration Test

Jel Classification: F12, F23, O19.

Abstrakt

Shqipëria gjatë komunizmit pati një ekonomi të mbyllur, e cila i mbylli dyert e zhvillimit. Pas viteve 1990, dhe deklarimit të demokracisë, një nga sektorët ekonomik që mori zhvillim të menjëhershëm ishte Investimet e Huaja Direkte në vend, dhënë edhe një mbështetje të madhe nga qeveria. Industria Fason është duke marrë një zhvillim të madh gjithashtu, duke qënë se reformat e fundit e mbështesin këtë lloj investimi. IHD-të i japin një shteti si Shqipëria shumë avantazhe, veçanërisht në fuqinë punëtore dhe specializimin e saj. Qeveria luan një rol kyç në implementimin e IHD-ve në vend, duke marrë masat e duhura në kuadrin e lehtësirave ligjore dhe ekonomike. Sa e lehtë është të krijosh një biznes në Shqipëri, kjo sipas klimës së biznesit në vend dhe implementimit të tij.

Kjo tezë ka për qëllim identifikimin e lidhjes ndërmjet IHD dhe PBB, duke u bazuar në të dhënat tre-mujore të viteve 1999-2012, të cilat janë të dhëna të mjaftueshme për të ndërtuar regresionin dhe për të pasur një rezultat të vërtetë dhe të saktë. Të dhënat janë marrë nga një burim i besueshëm, siç është Banka e Shqipërisë, dhe regresohen sipas Johansen Co-Integration test, i cili është i shtjelluar më shumë në detaje në kapitullin e metodologjisë.

Si përfundim, ashtu siç pritesh nga rezultati i regresionit, rezultoi që PBB dhe IHD-të janë të lidhura ngushtë me njëra-tjetrën duke patur edhe ndikim të anasjelltë.

Fjalë Kyçe: Investimet e Huaja Direkte, Prodhim i Brendshëm Bruto, Rritje Ekonomike, Analiza Regresionit, Johansen Co-Integration Test

Klasifikimi JEL: F12, F23, O19.

Dedication

To my Treasury, NAEL

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Declaration Statement

1. The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.
2. The program of advanced study of which this thesis is part has consisted of:
 - i) Research Methods course during the undergraduate study
 - ii) Examination of several thesis guides of particular universities both in Albania and abroad as well as a professional book on this subject.

Livia Hodo

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List of Abbreviations

AMC: Albanian Mobile Communication

FDI: Foreign Direct Investment

HPP: Hydro Power Plants

GDP: Gross Domestic Product

MNC: Multinational Corporations

QTU: Qendra Tregtare Univers

SME: Small and Medium Enterprise

TEG: Tirana East Gate

TNC: Transnational Corporations

UNCTAD: United Nations Conference on Trade and Development

USA: United States of America

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Appendix : Data collected quarterly from 199-2012, for the regression equation FDI and GDP

INTRODUCTION

Albania is a country located in the western part of Balkan and eastern part of Europe. It has a very good geographical position, which makes it have an advantage in trade with other countries: as an intermediate country, exporter or importer. Albania passed from communist regime to democracy, yet, it is still in transition period. Ever since the regime demise many changes have occurred. These reforming transformations have been duties mainly dictated by international community, as the main actor of the country's development.

According to chapter 1, the literature review section is included. Many known economists and many economic studies mainly for developing countries are organized, in order to support the topic and to give some qualified opinions for the relationship of GDP and FDI, and the effect of one another.

At chapter 2 of this thesis is introduced Albania and its economic structure. Its legal framework toward economic growth and the level of development. How is easy is to settle a new business in Albania, most favorable sectors of economic development and the economic growth.

At chapter 3, Foreign Direct Investment takes place. What is Foreign Direct Investment, advantages and disadvantages of FDI, their form of investment, FDI in Albania.

As a chapter 4, the methodology used to see the relationship of GDP and FDI is developed. Johansen Co-Integration Test is used to analyze this relationship, based on lag 0,4, which has given positive results for the regression analysis of the equation.

At chapter 5, conclusion takes part, by giving a final overview of the GDP and FDI relationship, and by briefly comprising all the actions and paragraphs explained above.

The main factors of growth in developing countries most of the time vary due to their conditions and integration in the developed societies. Albania has the same fate of development, depending on international organizations which help the government increase the reforms toward the economic growth and integration of society.

CHAPTER 1

Literature Review

To analyze the Direct Foreign Investment in a country, many factors have to be considered especially for developing countries as Albania. Beside domestic issues, there are also problems that occur from the neighboring countries that directly affect the ongoing of a certain action. FDI is widely accepted as an actor of economic growth. It is considerably true that FDI is one of the most effective ways by which developing economies are integrated with the rest of the world, as it provides not only capital but also technology and management know-how necessary for restructuring the firms in the host countries (Pradhan, 2006; Borensztein et al., 1998; Chao and Yu, 1994; Grossman and Helpman, 1991; Barro and Sala-I-Martin, 1995).

FDI usually fills up at least three developmental goals such as:

- (1) saving investment gap by contributing the much needed capital for domestic investment (Vadlamannati et al. 2009);
- (2) foreign exchange gap by generating foreign currency through initial investments and subsequent export earnings;
- (3) tax-revenue gap by accumulating tax revenues through additional socio- economic activities (Noorbakhsh et al., 2001; Smith, 1997).

The positive impact of FDI on economic growth is driven by transferring knowledge and other firm assets (Sethi et al., 2003; Hermes and Lensink, 2003) relating to productivity improvement or the spillover effects of FDI. Hence, the increasingly significant role of FDI in the growth dynamics of developing countries has created much research interest among economists of development (Quazi, 2007) and, it is debated quite extensively in the development literature.

In addition, according to ASEAN countries which are implementing new perspectives for FDI attraction, the services trade and investment between Japan, leads to complications in making investment policy decisions based on geographical considerations of Japanese countries. Nowadays, all countries seek the attention of FDI investors because of the expected positive effect on income derived from capital inflows, employment, advanced technology, management skills, and market know-how. The importance of different location-specific determinants is portrayed on at least three features of investment: investment motives (resources, market, efficiency or strategic asset-seeking), investment type (services or manufacturing), and the size

of investors (small and medium MNEs or large MNEs). To round off this analysis of the theoretical models we should explain the influence of political variables on FDI, from the institutional standpoint. “Institutional theory suggests that firms operate in a complex environment that is uncertain and sometimes confrontational, and so a company’s decisions will depend on the institutional forces that have an influence on it, on regulations and incentives” (Francis *et al.*, 2009).

FDI inflow affects also the exchange rate between the host country and home country, all with neighboring countries, especially when the most two used currencies are into a crisis. Until Froot and Stein, the common wisdom was that (expected) changes in the level of the exchange rate would not alter the decision by a firm to invest in a foreign country. Froot and Stein presents an imperfect capital markets story for why a currency appreciation may actually increase foreign investment by a firm. Imperfect capital markets means that the internal cost of capital is lower than borrowing from external sources. Therefore, an appreciation of the currency leads to increased firm wealth and provides the firm with greater low-cost funds to invest relative to the counterpart firms in the foreign country that experience the devaluation of their currency. Blonigen provides another way in which changes in the exchange rate level may affect inward FDI for a host country. If FDI by a firm is motivated by acquisition of assets that are transferable within a firm across many markets without a currency transaction (e.g., firm-specific assets, such as technology, managerial skills, etc.), then an exchange rate appreciation of the foreign currency will lower the price of the asset in that foreign currency, but will not necessarily lower the nominal returns.

What makes an investment “direct” as opposed to other forms of foreign capital is the concept of managerial control over an enterprise in which foreign capital participants. Geographer Roger Hayter argues that FDI comprises activities that are controlled and organized by firms (or groups of firms) outside of the nation in which they are headquartered and where their principal decision makers are located. In the context of the manufacturing sector, FDI is conventionally thought of in terms of branch plant or subsidiary company operations that are controlled by parent companies based in another country.

As mentioned by Busse and Groizard (2005), the enormous increase in FDI flows across countries is one the clearest signs of the globalization of world economy over the past 20 years.

Neoclassical models of growth, as well as endogenous growth models, provide the basis for most of the empirical work on the FDI-growth relationship. The relationship has been studied by explaining four main channels: (i) determinants of growth, (ii) determinants of FDI, (iii) role of multinational firms in host countries, and (iv) direction of causality between the two variables (Chowdhury, 2011).

Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.

Jones categorizes FDI in a different way. He distinguishes three major types of FDI as follows:

1. Market seeking – the purpose of the investment is to ensure access to the market of the destination country.
2. Resource-seeking – the investment is made to ensure more reliable supplies of natural resources.
3. Platform-seeking – the purpose of the investment is to provide a “platform” for production and/or sales activities in a regional market.

Blomstrom, Lipsey and Zejan found that FDI can positively influence growth rates in higher-income developing countries and interpret this as a result of the technology absorption factor. Borenstein, De Gregorio and Lee found that the positive growth impact followed the level of human capital stock. They also found that FDI facilitates the expansion of domestic firms through complementarities in production thereby, increasing total investment.

Drabek and Payne (1999) analyzed that non-transparency leads to reduction in Foreign Direct Investment inflows. Bribery, corruption and unstable economic policies lead to non-transparency. The study took foreign direct investment, transparency, inflation, exchange rate, interest rate, openness of trade regime and economic growth as variables. The study used both ordinary least square method (OLS) and two-stage-least-squares method (TSLS). The results showed that the degree of non-transparency is an important factor in a country's attractiveness to foreign investors.

High levels of non-transparency can be harmful for foreign investment. The study concluded that a nation should increase its transparency level in order to attract higher levels of foreign direct investment and this increased level of foreign direct investment would add to welfare and prosperity.

Foreign investment can thus be regarded as a 'game' in which the players are the multinational firm and the government of the host country, or as a contest between governments to attract FDI (Faeth, 2009). Government policies that include tax breaks, subsidies and easy repatriation of capital (Faeth, 2009) can thus influence the choice between exporting, FDI and licensing. This issue has been examined by a number of authors, such as Bond and Samuelson (1986), Black and Hoyt (1989) and Hubert and Pain (2002), (in Faeth, 2009), who have concluded that financial and fiscal incentives, tariffs and lower corporate tax rates have positive effect on attracting FDI (Faeth, 2009).

Based on Kindleberger's theoretical models (1969) along with those of Hymer (1976) and Caves (1971) (cited in Faeth, 2009), an alternative analytical framework emerges - a "new theory of trade" - that combines the advantages of ownership (knowledge) and location (market size and low transaction costs) with technology and the intrinsic characteristics of a country (factor endowments).

Does foreign investment cause economic growth or is higher growth attracting foreign investment? Rodrik (2009) argues that much of the correlation between FDI and improved economic performance is a result of reverse causality, where transnational corporations locate to more productive, faster growing and profitable economies. However, a study of Blomstrom, Lipsey and Zejan looking at 78 developing countries, found that, this was not the case.

To conclude, as Albania is a part of these countries, growth rates in GDP per capita over five-year periods were associated with direct investment flows only in the preceding and current five-year periods and not with direct investment in the following period hence, demonstrating that it is FDI that contributes to economic growth.

CHAPTER 2

Overall Economic Structure and SME in Albania

Albania is a country still in the transition period since years 1990. It passed from communist regime to democratic one by respectively changing economic structure from centralized economy to open and free market economy.

Many changes have passed through years, and through many political and economic stages that Albania has undergone

There was no competition in centralized economy; production was equal to consumption, and there was no trade with other international markets. The price was decided by the state as everything was state owned.

With the change of political regime to democracy, capitalism took place and the laissez-faire economy was the primary development, which increased production, competition, investments, management skills of labor, etc. Albanian economy is increasing year by year, due to high foreign investment too. Albanian economy had advantages compared with other countries of Europe which are suffering the financial crisis. Due to a decrease in imports and a fluctuations of exchange rate, GDP per Capita in 2011 reached \$ 4,560, by increasing recent years.

Banking sector, - a sector developed mostly by the foreign direct investment,- resisted the financial crisis due to liquidity, and the rate of interest which provided investment to increase and bring increase in production and services quantity and quality.

Government has provided supportive economic and fiscal policies, to back up direct foreign investment; the latter is very important for Albania. Low tax, subsidies, and supportive legislation are part of policies to provide and attract foreign investors to Albania, or for instance one of the most important is the abatement of fees.

Albanian trade is concentrated in agricultural development, since it is more favorable to its climatic and geographical position. It was difficult for Albania at the beginning of 1990s to be integrated to free trade and commerce because many people left the country to migrate in other developed countries of Europe, so the economic reforms implemented by the government found a wild environment that did not let develop much.

However, most of the difficulties were passed by advantage of the small enterprises developed that time, and the new era of western educated people coming from Europe in Albania. Through years 2000 it would mark a great peak in the development of small and medium Albanian enterprises, by placing Albania as one of the most developed countries of the Balkans.

Recently, Albania has been developing many economic sectors such as mining, energy, banking, agriculture and tourism. From 1990 to the present, all sectors have an improving impact on Albanian economy which shows that development and potentials of Albania are increasing.

We also will introduce the SME operating in the Albanian market as a very important part of it, due to their widely spread in the domestic market. Business climate improvement is very important because it determines the facilities that a business has to have in order to operate easily in the market.

Government of Albania is implementing new economic policies whose long term run would increase Albanian production. The most important macroeconomic approaches of Albanian Government are focused on privatization, fiscal probity and trade liberalization.

Another sector of FDI's, is Fason Industry. They are industrial firms that bring goods half-prepared from their mother country, to later then, being finished in another manufacture in the host country. Albania is hosting such firms to operate, in order to increase the level of employment and to bring incomes to the state. Currently the fason industry forms a significant part of the private, non-agricultural sector and represents a major share of total exports. According to data received from the Albanian Fason Chamber, in 2010 the textile and footwear industry accounted for 36% of total exports and involved approx. 540 companies operating throughout the country. In addition, the textile and footwear sector is the only sector in Albania with a positive trade balance where the trade surplus has been increasing continuously over the years.

Beside all the positive inclination of economy, a wound of Albanian market is the informal economy though, the government is taking measures to reduce it year by year. Even though informal economy is still present in our economy, there is an increase in SME. SME (Small Medium Enterprise) are firms which according to European Commission must have less than 250 employees, a turnover less than 50 million Euros, and a balance sheet of less than 43 million Euros. SME are developing in Albania, as domestic or foreign investments. They are a very important part of the economy because they comprise innovations in production and services and

have high turnover. They play an important role in the increase of GDP and employment. Moreover, Albanian government is supported by European Union in the development of SME as a main source of economic growth.

Beside the mentions terms above, we have to say that also the organizational culture, human resource management are very important in order to set up a successful business or enterprise. These are consequences of a development in the economic sector as well as in the human resources management. The labor market has to offer more qualified work force, as well as prepared for the necessities of foreign business expected to give high economic contribution for GDP.

Certainly, more work has to be done, especially for specialization of the labor, in order to increase the values of Albanian market.

2.1 Most Favorable Sectors of Development

Albania, despite being an attractive place for FDI-s because of its favorable geographical position, is also attractive because of many sectors of Albanian economy which need to be developed. According to a report of UNITED NATIONS 2011, the most favorable sectors of economy in Albania are mining, infrastructure, agribusiness, agriculture, service sector, telecommunication, energy power, roads, Greenfield projects and gas sector.

All these reported sectors have a very important role in GDP growth; seen from the prospective economic view, if these sectors reach the required standards from EU, Albania would be the most developed country of the region. It is not only the sectors which will be developed, but also the workforce, the labor will specialize and educate in management skills.

Albania still does not provide a skilled workforce. According to labor, it is attractive for FDI-s because of the low wages, but they need a lot of work for the labor to specialize and get to know the latest technology that FDI-s provide.

Sectors such as mining, telecommunication or infrastructure have attracted many neighbor companies to invest in Albania. Greece has the highest number of FDI-s in Albania, starting from AMC (Albanian Mobile Communication), member of COSMOTE GREECE, to Vodafone

Albania, which even though it is English telecommunication company it was invested by Vodafone Greece. The largest investor, with the highest amount invested in Greenfield project is Titan Cement from Greece which announced its second factory in 2011.

Another big investor is Moncada Costruzioni & Energy Group from Italy. Or the Italian food-store cooperative Conad received a competitor in the retail sector, the French Carrefour. 29% of the Greenfield projects come from Italy, 7% from the United States, 6% from Greece, Turkey and Italy each. In the construction sector the largest project announced was from Croatia, Hidroelektra Niskogradnja. Mining sector effects 13% of Albanian FDI stock.

The sectors mentioned above are very important to the creation of a supportive environment for the constitution of a strong base for the increase of FDI-s in Albania.

2.2 Business and Investment Climate Improvement

As we mentioned before, Albania has an open economy and liberalized trade and a completely privatized banking sector. Some of the best known international banks are currently operating in the market. With their presence and strength, these banks have boosted financing in economy. The government of Albania has applied the set of liberalized fiscal policy during the last two years.

2.2.1 Business Registering Procedures

- In the framework of Regulatory Reform, businesses in Albania are only required to register once with the country's tax authorities.
- The National Registration Office (NRC)- "One Stop Shop" began operating in September 2007, providing several important benefits for Albanian Businesses as well as for Foreign Investors.
- All business activity can be registered in one day with a cost of 1 Euro at the One Stop Shop Office.
- The application for initial registration of new businesses may be done at the service window at the NRC's office in Tirana, or in any other NRC service window located in a municipality office. An application may be done at any NRC service window, regardless

of the applicant's seat or location of activity. The Online business application registrations are allowed.

2.2.2 Business Licensing

Based on law no. 10081, dated February 23, 2009, which reforms the business licensing process in Albania, the National Licensing Center (NLC) has started its activity as a central public institution, which is subordinate to the Ministry of Economy, Trade and Energy since June 2009. With its one-stop-shop services and shortened, transparent and quick procedures, the NLC reduces the administrative barriers to free enterprise, reduces the costs of business related to the licensing process and minimizes the level of informality, thus improving considerably the business climate in Albania.

The NLC offers the following services

Handles licensing and permitting procedures, compliant with law no. 10081.

Keeps and administers the National Registry of Licenses and Permits.

Provides free public access, as per provisions of the law.

Informs and advises applicants and the public at large on licensing and permitting criteria.

The One-stop-shop service for licensing is functioning based on an electronic system that conforms to that of the National Registration Center (NRC). The NLC will administer applications for licenses and permits, through simplified procedures that save time to the business.

Table 1. Key Macroeconomic Indicators 2005-2013

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP Growth Rate (%)	5.7	5.4	5.9	7.5	3.32	3.8	3.1	1.6	2.5
Inflation Rate (%)	2.0	2.5	3.1	3.4	2.3	3.6	3.5	2.0	2.1
Budget Deficit (%)	-4.3	-4.7	-5.0	-5.7	-7.0	-10.5	-11.5	-10.7	-11.3
Public Debt (as a % of GDP)	57.4	56.2	53.5	54.7	59.4	58.5	59.5	61.9	61.9
GDP (current account price in EUR billion)	5.8	6.3	6.9	8.9	8.7	8.9	9.2	9.7	9.75
Unemployment (as a % of Population)	14.1	13.8	13.2	12.7	13.5	13.5	13.3	13.4	13.2
Foreign Direct Investment (in EUR millions)	470	500	550	650	680	700	750	850	900

Source: Bank of Albania, Institute of Statistics, Date 22/03/2013

By the table above, the economic conditions of Albania are explained from 2005 – 2013: a 8 - year period when the GDP has been fluctuating in 2007, 2008, 2009, where in the last year it considered to be stable in the coming years. Certainly, this does not offer any prosperity for FDI-s, but in 2010 FDI-s have increased with \$50 million more than 2008, despite the decrease of GDP. Beside the fact that FDI-s and GDP are strongly related to one another, there are many factors such as, geographic position, or special sectors of economy which are very profitable and need to be developed. In 2012-2013 it appears to be more stable situation according to the political elections which stated stability and certainty for the future of economy as well.

Indicators of economic growth shown at the table above comprise a picture of Albania's development at the sector of economy and its impact in growth. GDP growth at the recent years shows a decrease which is accompanied with inflation decrease, even though in year 2005 as we can see inflation rate tends to be 2 % and GDP 5.7%, of course that financial crisis has had its effect. According to public debt, Albania has passed the border, and according to World Bank this is called *Officially* entered in financial crisis Despite publicity made to people that our economy is experiencing growth, we can say it shows a stable slow economic growth. As of unemployment as a big problem for our population and government, it is pretty much at the same level.

2.3 Foreign Investment

2.3.1 Trade Developments

- Trade volume in 2012 equal to EUR 5,330 million compared to EUR 5,333 million in 2011;
- Imports decreased by 2.87% and exports increased by 8,18%;
- Total imports amounted to EUR 3,801 million;
- EU provides for 64% of imports and receives 72.4 % of exports;
- Albania imports mainly from Italy, Greece, China, Germany and Turkey;
- Albania exports to Italy, Kosovo, Turkey, Greece, Spain and Germany;
- Italy and Greece represent respectively 30.5% and 10.6 % of imports, and 50.9% and 5.1% of exports;

Albania has a liberalized economic framework and conditions for doing business and attracting FDI are improving constantly. According to below indicators of economic growth and foreign investment attraction, Albania aims to increase the number of FDI, by engaging to find new sources that aim to secure the development of Albanian economy. The ongoing reforms aim to reduce corruption and increase the efficiency of tax administration. Increasing FDI is a top priority of recent years accompanied by a stable inflow of FDI. The average of during the last four years has been above 700 million Euros with a peak of 793 million Euros in 2010.

2.3.2 Some of the Incentives for Foreign Investments include:

- Fair taxes and incentives;
 - Fair taxation will be the fulcrum of the Albanian fiscal policy – Who earns more, will contribute more. (Actually a flat corporate tax rate of 10% is in use);
- Albania's tax system makes no distinction between foreign and domestic investors;
- Treaties for the Avoidance of Double Taxation with many countries.
- Dynamic, educated and cost competitive work force;
- Over 1,071,948 young well-educated professionals
- More than 57% of the population is under the age of 35
- 116,292 number of students in the High Education
- English and Italian widely spoken, including French and German and their education system

- The minimum wage in albania is ALL 21,000 (EUR 140), and the average wage is ALL 36,075 (EUR 260)
- Social insurance include 29.7% of the gross salary, where 16.7 % paid by the employer and 11.2 % by the employee

2.4 Legal Framework

According to the Constitution of Albania, the main supreme legislation a part of it regulates international relations, due to international agreements or international businesses. All these issues are regulated by constitution and later by a specific legislation for domestic or international trade. Contractors are very important due to our legislation and they are protected by law. According to foreign direct foreign investment which is treated as a very important part of the economic development of Albania, the Constitution of Albania provides facilitative legislation by lowering taxes and offering easy business fees and registration for the first years of their operation and settlement. Beside the support of FDI-s, legislation protects the respective parties and regulates their relations by laws which are binding for them, even though they are foreigners, albeit there is an international agreement in Constitution; these agreements are binding for it. Business legal framework is in compliance with the EU legislation.

Liberal Legal Framework for Foreign Investments:

- Law No. 7764, Nov. 2, 1994 “On Foreign Investment”;
 - No prior government authorization is needed and no sector is closed to foreign investment;
 - No limitation on the percentage share of foreign participation in companies – 100 percent foreign ownership is possible;
 - Foreign investment may not be expropriated or nationalized directly or indirectly;
 - Foreign investors have the right to expatriate all funds and contribution in kind investments;
 - No distinction is made between foreign and domestic investors;
 - State protection on legal disputes for investments over 10 million EUR.
- Law No. 9901, April 14, 2008 “On Entrepreneurs and Commercial Companies”;
- Law No. 9663, Dec. 18, 2006, “On Concessions”;

- Bilateral Investment Treaties with 44 countries.
- On November 2, 1993 Law No.7764 titled `` On Foreign Investment `` was designed in order to create and an attractive or favorable investment environment for the FDI. This is a law which offers guaranties to foreign investors with provisions like: no prior government authorization is needed and no sector is closed to FDI, also there is no limitation in companies of foreign participation's share, FDI may not be expropriated or nationalized directly or indirectly, foreign investors have the right to expatriate all funds and contribution in kind of investments. On November 13, 1993 Law 7643 "On Commercial Companies" was designed in order to regulate activities of different companies and to determine the legal structure of these companies. Foreign investors have the right of judicial protection for their investments and they also have the right to submit disputes to Albanian court. However, a serious problem that Albania is facing is corruption, which has caused delays and mostly losses to these foreign investors .

CHAPTER 3

Foreign Direct Investment

Foreign direct investment has been developed the last 2 decades of the 20th century as a very important factor of the world economy. Foreign direct investment besides contributions it brings to economy is becoming very attractive for the whole economy as a trend.

Globalization offered many changes to the world according to culture, traditions, language, economy, politics and trends. Inside these changes and relations, foreign direct investment took place as a very important factor of global economy. Big and strong countries help small and underdeveloped countries, even though with higher profits for them. Foreign direct investment is the direct investment of an entity which has foreign base and settles its manufacture in a host country.

Beside the link that exist between FDI, MNC and globalization, the main contributors of these trends are the developing countries that stand as major developers of this international investments.

Developing countries like Albania are countries which need the foreign direct foreign investment more than developed countries. The need for investments and the developing economy, decreases the savings of the country and flows it in a budget deficit, so as a result, developing countries cannot afford the investments without the help of foreign direct investments. Apart from economic issues, the world is becoming globalized even politically, and this for sure brings developing countries to be behind the speed of world development.

FDI operate all over the world because of profits. Beside their high revenues in developing countries, they also provide very important developing issues to the host country.

They increase the managerial skills of the labor, introduce new advanced technology, increase competition, increase production varieties and quantity. Furthermore, they increase the competitive advantage of the host country. Apart from these benefits for the host country, also export is increased because of huge production, and because FDI uses host countries, which are developing countries to operate, because of their low cost labor being an advantage for the FDI.

FDI has three components: equity capital, reinvested earnings and intra-company loans.

Equity capital provides to the foreign investor to purchase shares of an entity which is not operating in his country. This is an important component because in spite of the direct investment which can be totally foreign, there exists the possibility that an investor may contribute as a FDI, through the purchase of shares of an existing company in the host country.

Reinvested earnings comprise the earnings of the direct investors, which in order to be distributed as dividends, are reinvested.

Intra-company loans or intra-company debt transactions concerns with short-term debts borrowing and lending funds between direct investors and affiliate enterprises.

FDI is attracted by the host country between the business improvement facilities, tax policies, subsidies, exchange rate, low cost labor, and political stability.

These are the determinants for a FDI to settle and operate in a country. The governments help FDI's, and apply different policy facilities to attract more and more investors for the reasons mentioned above.

However, despite economic growth that FDI's bring to a country, the disadvantages always will exist. FDI's are huge and operate all over the world, their revenues may exceed country's GDP, and their taxes are low, so the country will not profit much from the FDI.

3.1 FDI Advantages and Disadvantages

Direct foreign investment is a very positive investment for a country. It brings prosperity, economic stability, employment, high standards of living, new technology, and all these benefits are accounted for a developing country as Albania.

Beside all the benefits, it also counts some disadvantages. In the list below advantages and disadvantages of FDI will be explained.

Table 2: Advantages and Disadvantages of FDI inflow

ADVANTAGES	DISADVANTAGES
<p>1 Raising the level of investment Local capital markets are often not well developed, so the government seeks for other ways filling the gap which is created.</p>	<p>1 When FDI is competitive with the domestic investment, it tends to decrease the domestic savings.</p>
<p>2 Up gradation of technology FDI inflows together with the last advanced technology which directly affects the host country.</p>	<p>2 The contribution of the FDI in the public revenue through corporate tax is comparatively less because of liberal tax concessions.</p>
<p>3 Improvement in export competitiveness As the production increases and satisfies the needs of the domestic market, then export is increased because production is higher than consumption in the domestic country.</p>	<p>3 Foreign firms create a dualistic socio-economic structure and increase income inequalities.</p>
<p>4 Employment generation FDI create new employment places for the citizens, despite their skills, training now is efficient.</p>	<p>4 FDI stimulate inappropriate consumption patterns through excessive advertising and monopolistic market power.</p>
<p>5 Benefits to consumer Consumers in developing countries stand to gain from FDI through new products, and improved quality of goods at competitive prices.</p>	<p>5 Foreign firms may be able to extract sizeable economic and political concessions from competing governments of developing countries.</p>
<p>6 Resilience factor FDI shown to be resilient during financial crisis, and this because of the long term investment in the host country.</p>	<p>6 Continual outflow of profits is too large in many cases, putting pressure on foreign exchange reserves.</p>
<p>7 Revenue to government Profits generated by FDI contribute to tax revenues in the host country.</p>	<p>7 Foreign firms, due to their large size and power, national sovereignty and control over economic policies may be jeopardized, so as a result this would cause an influence in political decisions of developing countries.</p>

Source: KPMG. (2011). *Investment in Albania*. TIRANA: KPMG ALBANIA. Mamica Nene, Elena, Date 22/03/2014

3.2 FDI-s in Albania

Albania, a south-east European country with 2.8 million inhabitants has a very good geographical position compared to its neighbor countries in the region. Huge changes have touched Albania since 1990. Passing from a communist regime affected many elements of politics, education, and economy. But all these barriers were passed by European and American help and economic aid. It is not easy to describe all the misleading paths of Albania, but it is nice to mention the prosperous future that it had touched through years and it expects to be member of.

The aim to be part of the European Union is an old dream for Albania now because the present is showing good steps toward the final line. Many factors have affected the way until today. Foreign direct investment, maybe comprises a new factor, however, it is very important for its contribution and effects in the Albanian economy and society.

Albania is ranked the 18th among 141 countries according to UNCTAD's Inward FDI Performance Index for 2010, up to the 68th place it occupied in 2005. UNCTAD estimates the contribution of Albania's development in the development of the economy and the approach of first 20 best places.

Many sectors of economy have been developed from 2000 and on, in the years when FDI would start to operate in our country, and select the most needed fields of economy. Industrial sector states to be very successful in years 2010 - 2011 by accounting 50% of inflow of FDI, together with mining and metal.

The current development of FDI-s is in agro-business where it has financed a potential contribution. The current trends show that agriculture, as one of the main factors of economic growth in Albania, needs investments in order to take another turn in its development. Many neighbor countries do not have the climatic conditions of Albania, to raise agricultural products. Moreover, by investing in this sector, Albania would be the first main exporter in the region of agricultural products.

In the tables and graphs below I will try to show the percentages of the countries of origin of these FDIs and also the percentage of FDIs in different sectors of the economy of the country:

Table 3: FDI by origin in 2007

Country	%
Macedonia and Turkey	2%
Italy	48%
Greece	43%
Others	7%

Source: Barolli B. (2007), FDI and its Impact on Economic Growth: Evidences from Albania, Date 23/02/2013

As we can see, most of investments comes from Greece and Italy because of the closeness, and the good relation the countries have between each other. Also, if we consider the development of each country. Since anciently, Albania has had trade relation and investment with these two countries. Different sectors are developed as a contribution of these countries in Albania, especially clothing and food industry.

Table 4: FDI by sector in 2007

Sectors of economy	%
Industry	17%
Agriculture	13%
Services	6%
Trade	67%
Construction	5%
Transportation	4.70%

Source: Barolli B. (2007), FDI and its Impact on Economic Growth: Evidences from Albania, Date 23/02/2013

There are some measures that should be taken into consideration to increase the level of FDIs. They consist on: enterprises privatization, law implementation, efficient infrastructure for export oriented FDI and tourism, tax administration especially related to income – tax value added tax

and customs, development of financial sector, legal and administrative framework to record and protect property rights.

In 2009, \$17 million inflow from FDI were reported by Bank of Albania, and 2010 it increased to \$793 million reported by UNCTAD. Huge increase of FDI-s during one year, which signs a positive effect of these investments. In 2011 \$ 742 million inflow of FDI were reported due the fact that the region entered into crisis and contributions were decreased, but still remained high. FDI in Albania has stimulated economic growth, especially through projects in services and infrastructure, as two of the most favorable sectors of economy. As a result, the overall investment rate of Albania relative to GDP (33%) was much higher than the region's average (20%) in both 2010 and 2011. The net balance of FDI-s inflows financed half of the country's current account deficit over the period 2006 – 2009, and as much as 77% in 2010.

Government of Albania is issuing many policies which effect the ongoing and future of FDI-s. the main policies over the past few years have resulted to a liberalized economic framework and improved conditions for doing business and attracting. Law is helping the formation and the operation of FDI-s, by facilitating the bureaucracies to enter in business and by reducing taxes. Subsidies are another help for the FDI-s first formation, as they need to find terrain in market and create their financial base.

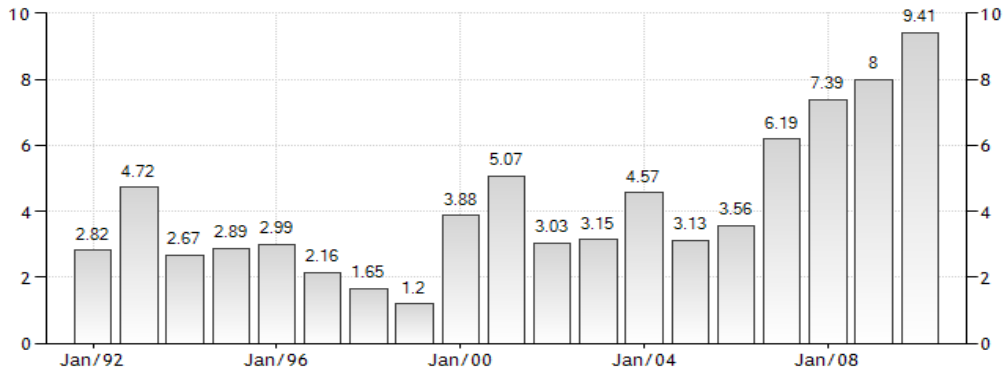
Increase in exports has indicated a positive economic growth, due to high production and quality.

The contribution of FDI-s is not only economical, it is also social. FDI-s, in developing countries as Albania, have their social responsibility. Many positive social results have occurred, due to the fact that the young people want to educate in the university, as the attendance in years 1990-2000 was lowering, now because of many possibilities and qualifications, we have more graduated students in universities of Albania. Among other sectors that FDI-s is operating and are successful since their formation, hospital care and foreign education are improving with big step and attracting more young people to get interested.

Effects of FDI-s for a country as Albania are always positive. They will make Albania to be the leader in the region and have an independent economy, and settle a certain economic model, which it needs so much.

By the tables below, certain features of FDI in GDP will be explained.

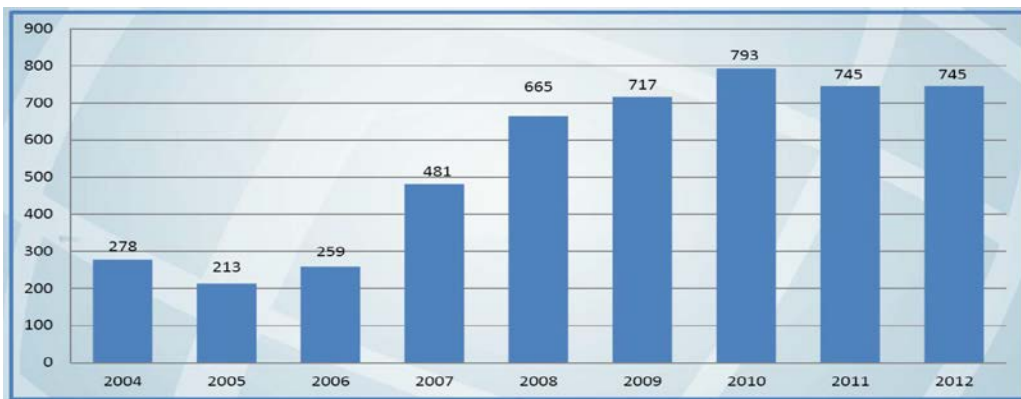
Figure1. FDI inflow



Source: Institute of Statistics of Albania, Date 23/02/2014

The figure above lists net inflows of FDI effect in GDP from 1992 – 2010, as it is obvious there are many fluctuations in %, according to year 2000 when FDI started to be important for GDP with a 1.2%, for a period of ten years it has increased 9 times, equal to 9.41%.

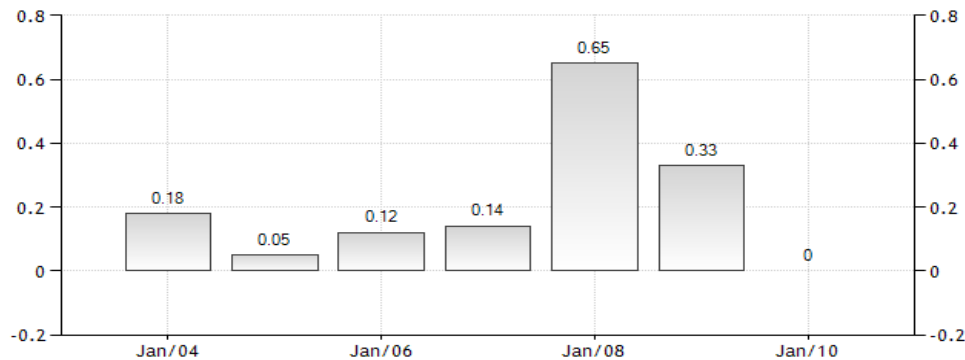
Figure 2: FDI Inflow in millions of EUR



Source: www.indexmundi.com, Date 22/03/2013

As noticed by figure 2004, the first year represented with EUR 278 million capital investment in Albania, meanwhile accompanied with a drop in 2005 and 2006, and with a slight increase in the coming years, mostly because of the financial crisis of 2008, and then a constant increase in 2011, 2012

Figure 3. FDI Outflow



Source: Institute of Statistics of Albania, Date 23/02/2014

These series show the net flows of FDI from the reporting economy, as we can see the net outflows in 2010 have been minimized because of the low power of Albanian businesses to operate abroad. The businesses that have invested operate in neighbor countries where the investment may be low.

3.3 FDI-s Form of Investment

There are different forms that a FDI can take depending on the type of the investment. FDI can take the form of an equity investment, reinvested earnings, and other capital covering loans from the parent company.

Albania is at the early stages of the FDI attraction and the most preferred form of investment is by equity, which covers almost 80% of the FDI-s, reported in 2010 - 2011. Reinvested earnings account 20% of the inflows of FDI, while the form of capital is less preferred, and results negative to the reports of 2009 and 2011.

Incomes from FDI in Albania amount to €1 million in 2011, lower than 2010 with €288 million, which may be as a result of business demand contraction, because of the financial crisis.

Still Albania remains the country with the highest percentage of FDI inflows in the region, with an income generated of 79% reinvested in 2011, and 65% in 2010.

Employment rate has increased in Albania due to increase of labor demand for the construction of FDI-s, and after their operation. The lead of the foreign sectors in terms of labor productivity is more pronounced in capital-intensive industrial activities like nonmetallic minerals, basic metals and general machinery.

Albania is attractive to many direct foreign investment, even though in the three last years it has declined, and this as a cause of global financial crisis.

3.4 Investment Opportunities in Albania

There are many sectors which are mentioned above where the foreign investment is prior in their development. Below their improvement is explained related to their success and future perspectives.

- **Power/energy economy**

In Albania the production of electric energy is based on hydro power plants (HPP), based on three rivers located in the north of the country. The main priority of the government is to fulfill or meet its country energy needs. In 2008, 56 concessions were granted by the government for the construction and operation of small hydro power plants to local and foreign investors, and during 2010, twelve companies were licensed for the production of electricity. The government is starting the procedures for the privatization of four other HPPs. Other ways to encourage new means of power generations,- so encourage investments,- could be by using other resources like: wind or water because only 30 of water resources are being used right now.

- **Tourism**

The geographic location of Albania is characterized by many protected natural reserves, mountains, ancient villages, national parks and 450 kilometer-long coastline. Also there are many lakes with different origins considered as very important ecological objects. All of these characteristics make Albania a very favorable county to invest in the field of tourism. Statistics that were collected from the World Travel and Tourism Council indicate that the total contribution of travel and tourism to GDP is predicted to rise by 5.4% annually from 26% of GDP in 2011 to 29% in 2021. An important thing to be mentioned is that tourism is represented by small, locally owned operations therefore, it is a very profitable sector of the economy to

invest in, it is profitable also for the foreign investments. Recent years have shown the number of tourists visiting Albanian coast to be increased, due to the promotion of Albania from different tourism agencies, which work full seasons to attract foreign tourist from all over the world, also by collaborating with foreign tourism agencies.

- **Trade**

During 2010 the net position of current account represent a deficit that has a yearly increase of 15.%. The main factor that affects this increase, is the increase on exports. The increase in exports has a positive effect on the trade balance. Imports also have an increase of 5.7% annual as a result of higher prices in the international markets. The countries to which Albania exports to are: Italy, Kosovo, Turkey, China and others. The countries from which Albania imports from are: Italy, Greece, China , Turkey and others. Companies which cover the most of the trade sector are: “Albania Trading Company”, located in Durres, is an Albania-Italian joint venture company established in 1991, specialized in the collection, selection, cleaning, processing and import-export of aromatic-medicinal herbs, spices and their derivatives.

“Balfin”, is the largest privately-owned company in Albania, with its main activities in the Real Estate Development and Retail. Balfin Group Investment is the holding company whose activity is expanded inside and outside the country in Balkan region and further in Europe. It is specialized in creating economic and social values in markets where it operates. It is concentrated in two groups: Electronics and Clothing. It has the largest market in Albania and a leading position in Macedonia, Montenegro, and Kosovo. Balfin group is the main contributor and creator of several electronic and clothing shops, such as NEPTUN electronic shop, or biggest and most important trade centers in Albania, Qendra Tregtare Univers (QTU), Tirana East Gate (TEG), and in the real estate investment “Rrolling Hills Luxury Residents”, “Ambassador 2”, “Ambassador 3”, etc.

- **Agriculture**

Agriculture is a sector that offers many good opportunity investments because of the favorable climate and low-cost rural workforce market. This sector contributes annual 20% to GDP and employs more than half of the workforce according to the Institute of Statistics. The problems related with this sector are that it remains inefficient, labor intensive and is dominated by small

agricultural producers. The total production in 2009 was valued at € 632 million, while there were 353000 registered firms. The number of enterprises in agricultural business has not changed these last years. The reason why this sector may not look attractive to local or international investors is related with the road infrastructure problems so if the government deals with the road infrastructure problems things would change.

- **Telecommunication**

Albtelecom is the largest and the most important provider fixed-line telephony in the country. In the recent years, there have been established three other market players to share the telephony market with. They are: AMC, Vodafone Albania, Eagle Mobile and Plus Communication, which is a new entrant. Special focus has been placed from Albanian government to development of this sector and considerable progress has been made to the creation of online services, conducive to the business activities. Mobile telephony is becoming a very competitive market.

AMC, part of the Cosmote Group, first mobile telecommunication in Albania, in May 1996, joined the nigger family of Deutsche Telecom. Being a member of a leader group that operates in Western Europe, Southeast Europe and all the way to the United States, AMC holds as its core philipsophy the orientation of all developments toward maximal service to the subscribers. In the beginning of 2012, AMC launched its technologic developments in the European Union, and competitive prices, AMC has become an important generator of qualitative communication and innovation in Albania. “Our world, you!”, is our philosophy. This means that the philosophy of our work, our Corporate Responsibility, as well as our most basic operations aim to create a real impact and bring values for our subscribers and the entire society.

Vodafone Group Plc is the world’s leading mobile telecommunications company, with a significant presence in Europe, Africa, Asia Pacific and the United States through the Companie’s subsidiary undertakings, joint ventures, associated undertakings and investments. The group has approximately 252 million customers, and is listed in the London Stock Exchange. Following its merger with AirTouch Communications, Inc. (“AirTouch”), the company settled in Albania in 2000. It offers 3G, 4G Wi-fi, and other individual or business packages. It employs youth, and it has implemented Vodafone Foundation, which offers different aids to people in necessity.

ALBtelecom and Eagle Mobile, began in March 2011 after merging with each other, even though part of the same package they operated separately. In 2013 ALBtelecom company took possession of the mobile company, Eagle Mobile which turned into a brand with ALBtelecom. The merger process of Eagle Mobile and ALBtelecom as part of “Calik” Turkish company began in March 2011, assisting to the customers who want to have all the services and products of the telephony and the internet incorporated. Both companies have a number of 150 shops in Albania, and offer full roaming in 170 countries, with 373 operators. Today, the company marks 700,000 subscribers and it first brought the EDGE technology in Albania, and now it has the fastest internet 3.5G. The Dual-Carrier HSPA+ system used nu Eagle Mobile is planned to eliminate the decline in mobile internet capacity during the peak time.

- **Mining sector**

The geographical position of Albania has made the country rich in extractable mineral resources like: chromium, copper, coal and nickel. These years, the mining industry has been undergoing privatization. Nickel and coal mines are privatized, while three largest copper mines are operating through a 30 year concession contract. For the development of mining industry and the increase of the competitive advantages of this sector priority is given to the increase of production and to the process of mineral like: copper, chrome and nickel.

“Albanian Minerals Mining Company”, operating since 17 years in this market with different countries of the world such as; USA, Indonesia, Asia, Turkey, Russia, Brazil, etc., is the leader of Chrome Ore, Bauxite, Copper, Nickel, Quartz, Gold, Silver, Iron Ore, Magnesium and other Minerals.

CHAPTER 4

Methodology and Regression Analysis

The relation between FDI and GDP is very important for developing countries, especially when they are treated as one of the most important contributors in economic growth. It is very essential the way information is used to describe this relationship, where does it depend on, is it efficient?, is it worthy to contribute into it?

These questions cannot be answered only by a “yes” or “no”, it is very wide the explanation and the field it operates. FDI inflow in a country as Albania are vital to the first meaning of the word; they make the biggest part of our GDP, and the government is implementing new strategies in attracting them and publishing the best alternatives of business environment with its facilities.

But if any relationship cannot be proved, then it may not exist, meaning that in this case about the correlation of FDI and GDP, how much they affect each other. To get the right answer, several researches have been done by collecting data from Bank of Albania. It is not easy to prove a relationship, if there are no proofs about it, unless the regression analysis shows perfect correlation between the two variables. The data are quarterly from 1999 to 2012, in order for the results to be correct and show the real situation and correlation. These years show better the real situation, which was not only economic but also it is related to many social and political factors that indicated a low level of development and integrity.

After 2000, new era appeared and many people that immigrated in the neighbor countries brought their remittances to invest here and, so as a consequence they stimulated to learn the methods of contribution and also created new availability in the market. FDI-s by that time started to blow in Albania because they founded attractive, low wages and political stability. Then after many international laws and agreements have been signed, Albania is officially a part of the international trade. So, almost 19 data are for each, FDI inflows and GDP.

In order to reach the consequent results, it has been used a professional econometric and statistical program called E-views, which is very accurate and precise in the results which I will explain below, and will prove or disapprove the correlation of the two variables, FDI and GDP in Albania. Because of there is a time series data and simple regression analysis, Johansen Co-

Integration Test, best fits the analyzes of the correlation of the model applied, based on analysis of Hill (2011), that specifies the application of the test in simple regression analysis. According to long run relationship proved by Johansen Co-Integration Test model the relationship is constructed and analyzed.

4.1 Model Specification

The model specification used for approving the correlation is stated by an equation and by the state of the hypothesis. There are created two hypothesis, null hypothesis which is the original state of the equation, and alternative hypothesis which approves or disapproves the null hypothesis. In my case:

The model specification:

$$\gamma = \beta_0 + \beta_1 x_1 + u$$

Whereas:

$$\gamma = GDP$$

$$\beta_0 = Intercept$$

$$\beta_1 = Slope$$

$$x_1 = FDI$$

$$u = Stochastic Error$$

$$GDP = \beta_0 + \beta_1 FDI + u$$

Hypothesis:

$$H_0: FDI effects GDP.$$

$$H_1 = H_0 \text{ is not true}$$

4.2 Johansen Co-Integration Test

If two or more series are individually integrated (in the time series sense) but some linear combination of them has a lower order of integration, then the series are said to be co integrated.

Testing the normality distribution means testing if the distribution of the variable is symmetric and has a bell-shape and a tail thickness. To accept that a variable has a normal distribution Skewness must be near 0 and Kurtosis must be near 3.

Skewness measures the degree and direction of asymmetry while Kurtosis measures the heaviness of the tails of distribution.

Augmented Dickey-Fuller unit root test is applied on series to see if they have a unit root. Having a unit root or being non stationary means that the series do not fluctuate around a mean. If in Augmented Dickey-Fuller unit root test at 1%, 5% and 10 % level probability is greater than 0.05 it means that the series have a unit root. This series must be converted into stationary ones where at 1%, 5% and 10% level the probability is lower than 0.05.

Johansen Co-integration test is applied to see if variables are co - integrated with each other in the long run. If for Trace test, the Trace statistic is greater than 0.05 Critical value and if for Max-Eigen test, Max-Eigen statistic is greater than 0.05 it means that the variables move together in the long run.

Figure 4. GDP and FDI series

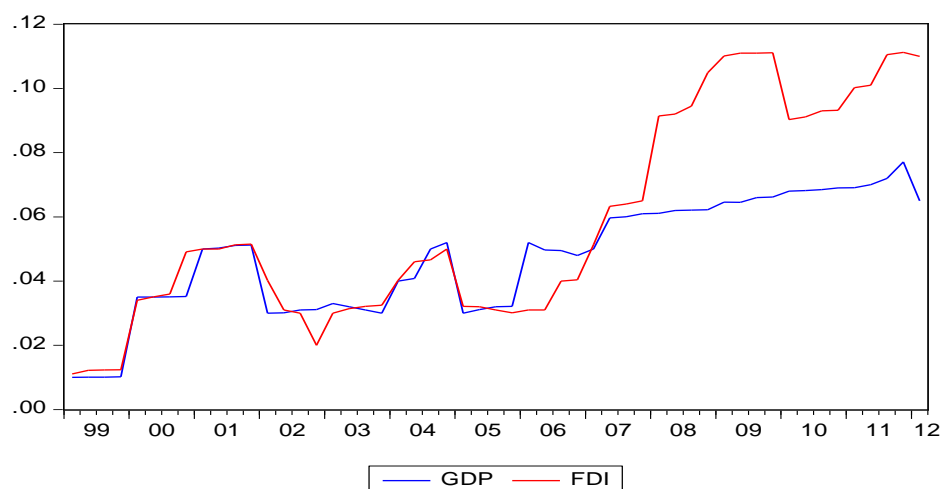


Figure 5. GDP and FDI series, Scatter diagram

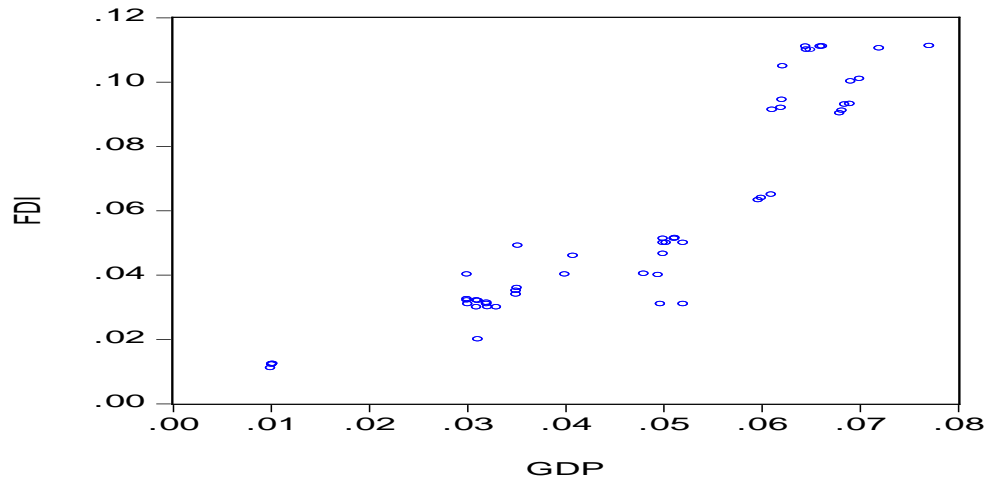


Figure 4 and figure 5 show that there exists a relationship between FDI and GDP. From what it can be seen, both these variables have increased through these last years. The highest points of FDI correspond with the highest points of GDP while the lowest points of FDI correspond with the lowest points of GDP. This means that FDI and GDP are positively related to each other by following each other direction of development.

Table 5. Histogram and statistics of GDP series

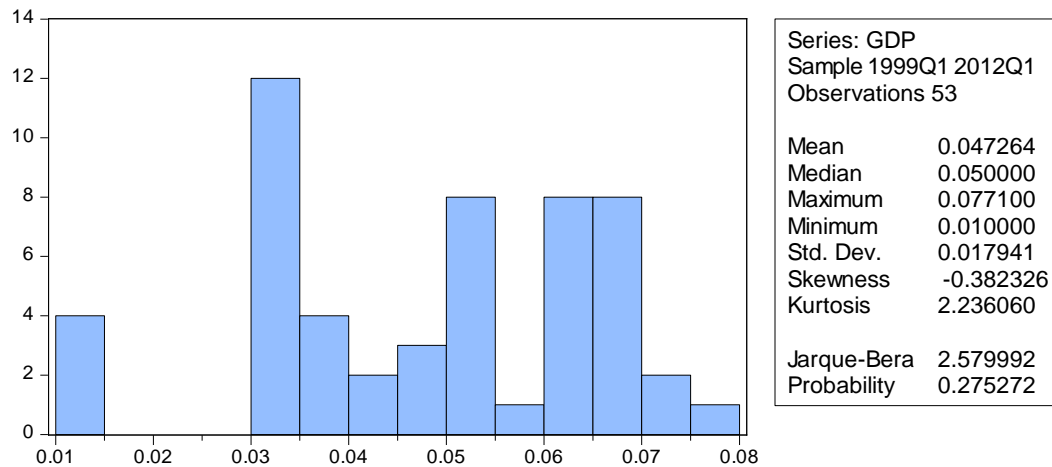
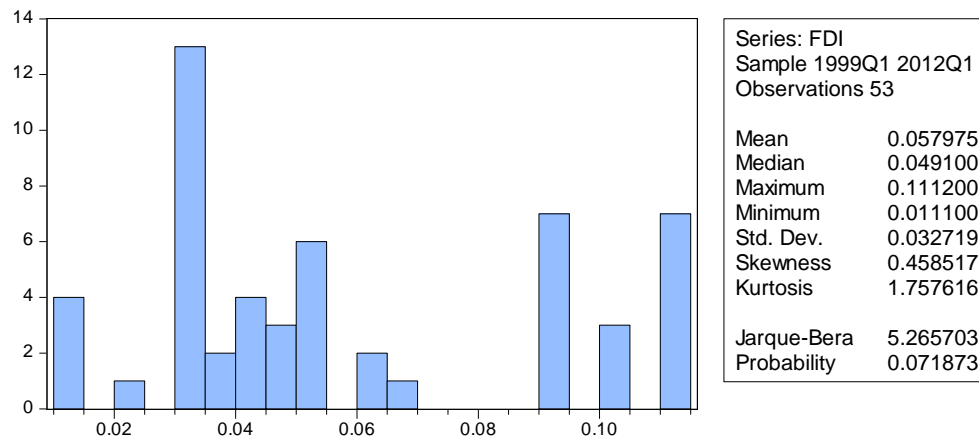


Table 5 shows that GDP has a normal distribution because the value of Skewness is near 0, which means that the level of asymmetry is almost 0, proving once again the positive relation

between GDP and FDI, while the value of Kurtosis is near 3, meaning that the tail distribution is again near the perfect collinear relation of the two variables.

Table 6. Histogram and statistics of FDI series



As in the table above, the histogram shows that FDI also has a normal distribution because the value of Skewness is near 0 and the value of Kurtosis is near 3

Table 7. Descriptive statistics of GDP and FDI series

	GDP	FDI
Mean	0.047264	0.057975
Median	0.050000	0.049100
Maximum	0.077100	0.111200
Minimum	0.010000	0.011100
Std. Dev.	0.017941	0.032719
Skewness	-0.382326	0.458517
Kurtosis	2.236060	1.757616
Jarque-Bera	2.579992	5.265703
Probability	0.275272	0.071873
Sum	2.505000	3.072700
Sum Sq. Dev.	0.016738	0.055668
Observations	53	53

In Table 7 are shown again the results of the normal distribution of variables but in this case as group statistic. As we can see Skewness of GDP is lower than FDI, but both are near zero, meanwhile Kurtosis higher at GDP, and lower at FDI, but still near three, considering that the results are half of the expected value, the perfect result.

Table 8. Estimated equation output

Dependent Variable: GDP				
Method: Least Squares				
Date: 06/03/14 Time: 11:01				
Sample: 1999Q1 2012Q1				
Included observations: 53				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.018509	0.002175	8.511276	0.0000
FDI	0.495992	0.032741	15.14900	0.0000
R-squared	0.818177	Mean dependent var		0.047264
Adjusted R-squared	0.814612	S.D. dependent var		0.017941
S.E. of regression	0.007725	Akaike info criterion		-6.851732
Sum squared resid	0.003043	Schwarz criterion		-6.777381
Log likelihood	183.5709	Hannan-Quinn criter.		-6.823140
F-statistic	229.4921	Durbin-Watson stat		0.659157
Prob(F-statistic)	0.000000			

The results of Table 8 show that 1% increase of FDI increases GDP with 49, 6% meaning that changes in FDI affect the GDP level of the county and both these variables are positively related and perfectly correlated to each other.

$$GDP = 0.495992 * FDI + 0.018509$$

Table 9. Augmented Dickey-Fuller unit root statistic on GDP (Lag 1 Fixed)

		t-Statistics	Prob *
Augmented Dickey-Fuller unit root		-2.133278	0.2329
Test critical values:	1% level	-3.565430	
	5% level	-2.919952	
	10% level	-2.597905	

As it can be seen at 1%, 5% and 10% level, the value of the probability is 0.2329 a value that is greater than 0.05 meaning that GDP has a unit root. So, the null hypothesis is accepted because probability is greater than 0.05.

Table 10. Augmented Dickey-Fuller unit root test on FDI (Lag 1 Fixed)

		t-Statistics	Prob *
Augmented Dickey-Fuller unit root		-0.804393	0.8093
Test critical values:	1% level	-3.565430	
	5% level	-2.919952	
	10% level	-2.597905	

The results in Table 10 show that at 1%, 5% and 10% level probability is 0.8093 which is greater than 0.05 so FDI has a unit root. The null hypothesis is accepted.

Table 11. Johansen Co-Integration Test (Lag 1 to 3 in first differences)

Sample (adjusted): 2000Q1 2012Q1				
Included observations: 49 after adjustments				
Trend assumption: Linear deterministic trend				
Series: GDP FDI				
Lags interval (in first differences): 1 to 3				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesized Trace 0.05				
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.264035	16.79810	15.49471	0.0317
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

From Johansen co-integration test (lags intervals: 1 to 3) is concluded that for Trace test there exist one co-integration between GDP and FDI because Trace statistic is greater than 0.05 Critical value. Max-Eigen value test also shows that there exists one co-integration between GDP and FDI because Max-Eigen statistic is greater than 0.05 Critical value. This results show that in the long run GDP depends on

CHAPTER 5

Conclusion

As a conclusion, this thesis emphasized the fact of the perfect correlation that exists between FDI and GDP, which was proved by the Johansen Co-Integrated Test in the long-run: the latter, being the test of the long run correlation. This test was proved in lags 1 to 3, in order to compromise the real relation that exists between the variables. The effect of FDI in GDP is seen, and otherwise, by creating the situation of perfect integration correlated with each other, and contributing in economic growth. The detailed testing explained the theoretical hypothesis, which beside the numerical claims, that all factors held constant the relation of FDI and GDP affected one another.

In the case of Albania, this correlation works very well compared to other countries of the region that have approximately the same level of development as Albania.

The positive impact of FDI on economic growth is driven by transferring knowledge and other firm assets (Sethi et al., 2003; Hermes and Lensink, 2003) relating to productivity improvement or the spillover effects of FDI. Hence, the increasingly significant role of FDI in the growth dynamics of developing countries has created much research interest among economists of development (Quazi, 2007) and, it is debated quite extensively in the development literature.

Foreign Direct Investment in Albania is increasing its importance by occupying a considerable space of economy. The significance of FDI is very high and incomparable in terms of production, employment and investment activity because FDI is seen as an opportunity to increase the welfare and the living standards in the country.

Moreover, mining sector where many firms have used our mineral natural resources and have abused with the facilities of legislation, and have left the city of Bulqiza undeveloped with people in absolute poverty, risking their lives every day to find ways to earn their living.

The main strategic sector to be considered is agriculture, which comprises about 40% of our GDP. Hence, it has to be done more in this sector in order to increase the domestic production, supporting it with different subsidies.

The Candidate Status is successfully taken, and the government is getting ready to get its homework done soon. It has started to integrate the politics and economy into the new agenda of European Union, by increasing the importance of integration of many sectors which are crucial to our future.

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APPENDIX

Appendix : Data collected quarterly from 1999-2012, for the regression equation FDI and GDP

YEAR	GDP	FDI
1999Q1	1.00%	1.11%
1999Q2	1.01%	1.22%
1999Q3	1.01%	1.23%
1999Q4	1.02%	1.24%
2000Q1	4%	3.40%
2000Q2	3.50%	3.51%
2000Q3	3.51%	3.60%
2000Q4	3.52%	4.91%
2001Q1	5.00%	5.00%
2001Q2	5.03%	5.00%
2001Q3	5.11%	5.13%
2001Q4	5%	5.15%
2002Q1	3.00%	4.02%
2002Q2	3.01%	3.10%
2002Q3	3.10%	3.00%
2002Q4	3.11%	2.00%
2003Q1	3%	3%
2003Q2	3.20%	3.14%
2003Q3	3%	3.21%
2003Q4	3%	3.25%

2004Q1	4.00%	4.02%
2004Q2	4%	4.60%
2004Q3	5.00%	4.66%
2004Q4	5.20%	5.00%
2005Q1	3.00%	3.21%
2005Q2	3.11%	3.20%
2005Q3	3.20%	3.10%
2005Q4	3.21%	3.01%
2006Q1	5.20%	3.10%
2006Q2	4.97%	3.10%
2006Q3	4.95%	4.00%
2006Q4	4.80%	4.04%
2007Q1	5%	5.13%
2007Q2	5.97%	6.33%
2007Q3	6%	6.40%
2007Q4	6.10%	6.50%
2008Q1	6.11%	9.14%
2008Q2	6.20%	9.20%
2008Q3	6.21%	9.45%
2008Q4	6.22%	10.49%
2009Q1	6.46%	11.01%
2009Q2	6%	11.10%
2009Q3	6.60%	11.10%
2009Q4	7%	11.11%
2010Q1	6.80%	9.03%

2010Q2	6.82%	9.11%
2010Q3	6.85%	9.30%
2010Q4	6.90%	9.32%
2011Q1	6.91%	10.02%
2011Q2	7.00%	10.10%
2011Q3	7.20%	11.05%
2011Q4	7.71%	11.12%
2012Q1	6.50%	11.00%

Source: Bank of Albania, Date 22/03/2014