

FOREIGN DIRECT INVESTMENT: ALBANIAN CASE

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Abstract

In this paper, FDI is to be examined in general and specifically in Albania. In the first part the definition of FDI is given, its history, its positive effects or costs that cause to the host country, effects to the economic growth and GDP, is the main theme which will receive particular attention in this paper. In the second part is being studied the areas that the country provides for FDI and the areas where the foreign businesses invest more in Albania and the Albanian's government policies to attract foreign direct investments. Finally, through regression analysis will be tested the connection of FDI to GDP in the post-communist Albania through the years 1995-2010.

Keywords: *FDI, economic growth, Albania.*

Introduction

Foreign direct investment (FDI) has a very important and growing role in global investments. It gives the chance to a business for a new market and market connections, cheaper production facilities, provides new technology, products, skills and financing. Such investments, regardless of whether the investor whether the host country, are useful in developing technology, development management committee, production and economic growth in terms of macro and micro. FDI have effect in different types of countries but the most profound effect has been seen in developing countries, where yearly foreign direct investment flows have increased from an average of less than \$10 billion in the 1970's to a yearly average of less than \$20 billion in the 1980's, to explode in the 1990s from \$26.7 billion in 1990 to \$179 billion in 1998 and \$208 billion in 1999 and now comprise a large portion of global FDI. Driven by mergers and acquisitions and internationalization of production in a range of industries, FDI into developed countries last year rose to \$636 billion, from \$481 billion in 1998.²⁰³

The most influential countries on FDI are China, India, Brazil, and USA etc... These are big countries with a big market. China remains the top-ranked destination by foreign investors, a title it has held since 2002. The United States retakes second place from India, which had surpassed it in 2005. India, Brazil and Germany

203 Graham, Jeffrey P. and Spaulding R. Barry, "Understanding Foreign Direct Investment", Going Global, http://www.going-global.com/articles/understanding_foreign_direct_investment.htm, accessed (09.07.2011).

complete the top five favored investment destinations. Overall, developed economies rose in the Index as investors looked for safety. The most striking exception is the United Kingdom, whose reliance on financial services left it exposed in the current crisis. At the same time, the placement of China, India and Brazil in the top five shows a strong vote of confidence for the strength of these economies. Investors also expressed the most optimism about the future outlook for China, India and Brazil. For the first time, the three major emerging markets—China, India and Brazil—all ranked among the top four investment destinations as investors expect these countries to continue to deliver growth despite the economic crisis²⁰⁴.

Literature Review

Foreign direct investment, in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property²⁰⁵. There exist different opinions on the start of FDI in the world. History of FDI is thought to have begun with American companies, the reasons behind that is that their characteristics are similar to the characteristics of American companies. It has been suggested that foreign investment have started in 1600's in England with the Indian traders, who for diversifying their trade in different countries of the world felt the need of people working for them in host countries to shape their trade market thus forming their foreign branches²⁰⁶.

Wilkins describes the Virginia Company, founded by King James in 1606 as the first company that brought FDI in America, which later in 1624 it was bankrupt. According to Wilkins the years 1875-1914 were years of increased foreign investments in private sector²⁰⁷.

204 <http://www.atkearney.com/index.php/Publications/foreign-direct-investment-confidenceindex.html?q=confidence+index>, accessed (02.08.2011).

205 Graham, Jeffrey P. and R. Barry Spaulding, http://www.going-global.com/articles/understanding_foreign_direct_investment.htm, accessed (09.07.2011).

206 Wilkins Mira, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914*, Cambridge, MA, Harvard University Press, 1970. <http://www.nber.org/papers/w8665.pdf>, p.17, accessed (09.07.2011).

207 Wilkins, Mira, *The History of Foreign Investments in United States to 1914*, Harvard University Press, 1989, <http://www.nber.org/papers/w8665.pdf>, p.17, accessed (09.07.2011).

According to Godley (1999) first investments began in Great Britain as early as 1890 and were mainly directed to consumer goods, but after the failure of this type they were focused more on the production of goods. A typical example of first MNC is given by Singer Manufacturing Company in 1900 where thanks to the commitment to FDI soon became one of the biggest companies in the world²⁰⁸.

There are two different kinds of benefiting from FDI as a host country. Firstly, the incoming fund of investments benefits the capital account of the home country's balance of payment. The data from 1980 to 2004 revealed that the FDI flows have account for 2% to 4% of global fixed capital formation. In US and Europe, there are 14% and 20% of manufacturing jobs accounted by FDI which are the key sources of world outward FDI though the FDI has shifted to build up the economics since 1980s. Economic growth and inward FDI show a positive relationship in developing nations in spite of some arguments regarding the financial development of the country²⁰⁹.

Secondly, benefits arise when the home country MNE enhances its skills and know-how in the foreign markets which could be transferred back to the home country. Through the exposure to other countries, the MNE could learn about better organizational methods and superior process technology.

The most important fear is about the balance of payments and the employment effects of outward FDI. The balance of payments of the home country may suffer in three ways.

First, FDI to foreign countries takes initial capital loss which creates a burden to the capital account of the balance of payment. Since the form of FDI is indefinite, it is possible that the outflow of FDI means damage to the home country's economy. The benefits that a home country can have are the incoming capital earned from the possible future return of these FDI projects. This effect though, is often canceled out by the following inflow of foreign earnings.

Second, if the aim of the foreign investment is to help the home country from a low cost production location, then the balance of payments' current account suffers. Third, the balance of payments' current account suffers if the FDI is a substitute for direct exports.

About the employment, the most serious problem arises whenever FDI is meant to be a substitute for domestic production. A clear consequence of such FDI is the decrease in employment in the home country. If the home country's labor market is already firm, with not much unemployment, and then this problem is not serious. Nonetheless, unemployment is a problem that the home country faces, the anxiety about jobs export may rise. The US labor leaders raised an opposition frequently to

208 Godley, Andrew C., *Pioneering Foreign Direct Investment in British Manufacturing*, Business History Review, p.394. <http://www.nber.org/papers/w8665.pdf>, p.18, accessed (10.07.2011).

209 Chang Ch. Ying, *Can a home country benefit from FDI? A theoretical analysis*, Victoria University of Wellington <http://www.victoria.ac.nz/home/research/publications/research-publications-2009.pdf>, accessed (12.07.2011).

the free trade pact between Canada, US and Mexico is that the US is going to lose thousands of jobs since US firms invest in Mexico in order to take advantage of low-priced labor and then export back to the United States²¹⁰.

An extra popular effect of FDI is being as a helpful way for the host country when dealing with high unemployment. There are two ways that FDI effects on employment, direct and indirect. Whenever a MNE goes to a country to establish a center or a production line, a huge number of workers are hired to work for the firm, this is known as the direct effect of FDI on employment. Nonetheless, it is argued that when FDI purchases local firms rather than investments starting a business from scratch, there is no rise in employment. Employment is sometimes probable to fall if the foreign owner re-organizes the firms. The indirect effects are seen when jobs are created in other fields of industry supplying material for the investment field. In addition, the increasing expenditure of the MNE's Employees it also increases jobs for particular local firms that are near the MNE. For instance, when Toyota made a decision to establish a new auto plant in France in 1997, estimation indicates that the plant would create 2,000 direct jobs and possibly another 2,000 jobs in support industries²¹¹. However, not all the new jobs created by FDI are to be taken as net additions in employment. This situation often happens when a MNE enters to run a business in the host country, it creates many jobs but on the other hand, due to huge advantages in technology and management skills the firm may take over the market share thus bringing host country firms' business down, which by the way leads to significant decrease in employment. At the end the number of job opportunities created by FDI will not be as the company had promised at the entering stage.

In other cases, when a firm decides to acquire an operator in the host country, like in the case of BKT or Altelecom, the first task is to restructure the firm in order to improve its operating efficiency. As a result, many employees will lose their jobs by being replaced due to inappropriate ability and skills to the firm standards. However, this is just the beginning of the whole process of reforming. Once when the adjustment period has passed, as MNE foreign company grows it will employ more workers than it fired and perhaps even more than the local operators do.

One of the important benefits that FDI brings to the host country is to rise up the level of competition between firms in the same industry. As the market share decreases because of more firms enter to the sector, the companies are forced to improve product quality, appearance as well as decrease the price. For example, FDI by large Western discount stores, consisting of Tesco, Wal-Mart, Carrefour and

210 Hill Charles W.L., "The benefits of FDI to host countries", Global Business Today, 5th edition 2008, McGraw-Hill/Irwin, USA, p.359, <http://beautybywind.blogspot.com/2011/04/literature-review-foreign-direct.html>, accessed (12.07.2011).

211 Jenkins Rhys, Globalization, FDI and employment in Vietnam, United Kingdom, 2003, <http://beautybywind.blogspot.com/2011/04/literature-review-foreign-direct.html>, accessed (12.07.2011).

Costco appears to have encouraged local Korean discounters like E-Mart to advance the efficiency of their own operations²¹².

Advanced technology often comes with FDI that enhance the quality of product with lower prices due to higher competition. The long-term effect may include increased productivity, product process innovations, and greater economic growth.

Foreign Direct Investment in Albania

By changing the totalitarian regime, Albania opened the doors to the world in all areas and therefore changes in all areas of life such as economic policy, etc were noticed. With the liberalization of the economy in Albania the competition in the market began to work. But since domestic business was very weak the main role would be played by foreign direct investment. Analysis regarding foreign investment in Albania will be a broad analysis and above all will discuss the period from 2000 until today. That is because even if foreign investment in Albania began with the overthrow of the communist regime, circa 1993, the figures were not substantial enough to influence Albanian economics. Between the years 1993 to 2000 FDI in Albania were not stable because of the political and economical system in Albania.

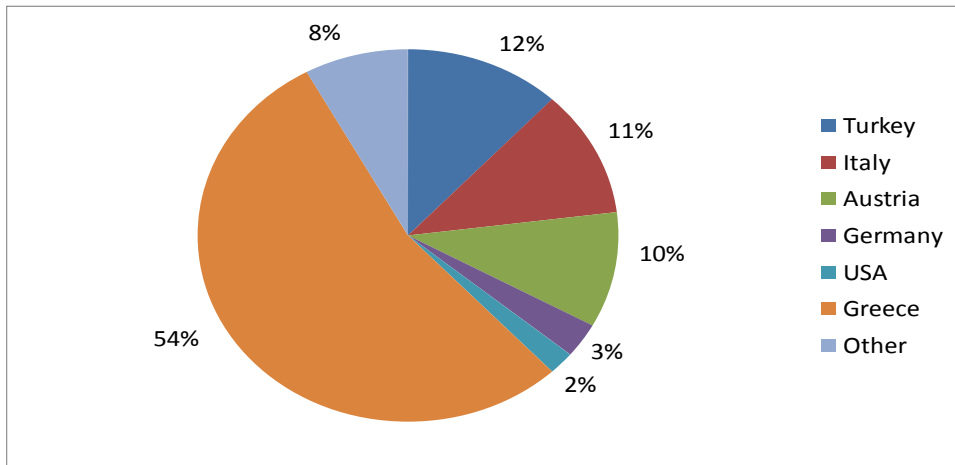
The free working cost in Albania made possible the attraction of some small enterprises such as tailoring, shoe production and leather. With the transition taking place in years 1996 - 1998 those few small enterprises left the country. Only after 2000 with the stabilization of political and economic system the foreign investors began invest again in Albania. Countries that have invested more in Albania are EU countries with Italy and Greece having the majority of these investments.

Areas which were coveted by foreign investors were the areas of telecommunications, banking services, energy, construction sector, agriculture, wholesale and retail sales, etc...

In 2008, FDI in services were the dominant share of the whole FDI-s for that year in Albania are There are two main groups of services that carry a great importance in attracting FDI, and these are telecommunications and financial intermediation.

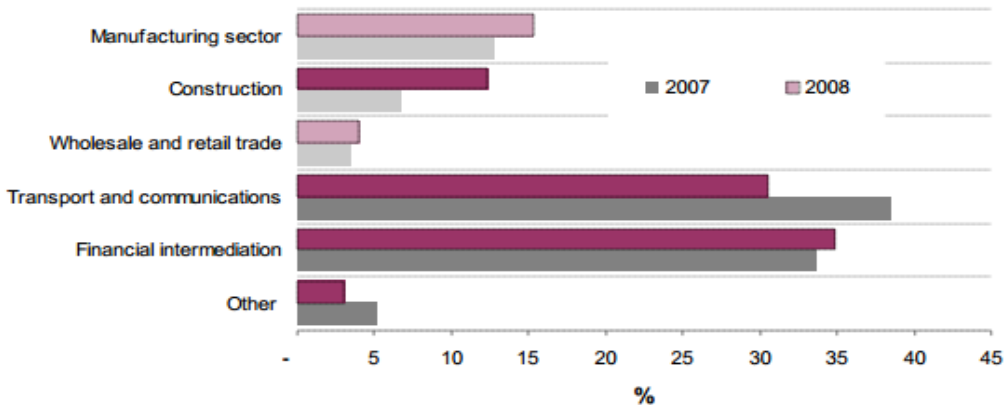
212 Hill, p.360, <http://beautybywind.blogspot.com/2011/04/literature-review-foreign-direct.html>, accessed (12.07.2011).

Figure 1: Total foreign capital by countries of origin, 2007



Source: investimet_e_huaja_direkte_ne_shqiperi_per_vitin_2007_2341_1, p 113 (foreign direct investment in Albania for year 2007) , <http://ebookbrowse.com/5investimet-e-huaja-direkte-ne-shqiperi-per-vitin-2007-2341-1-pdf-d31106813>, accessed on 19.11.2011.

Figure 2: Inward FDI stock by economic activity in Albania, 2007-2008

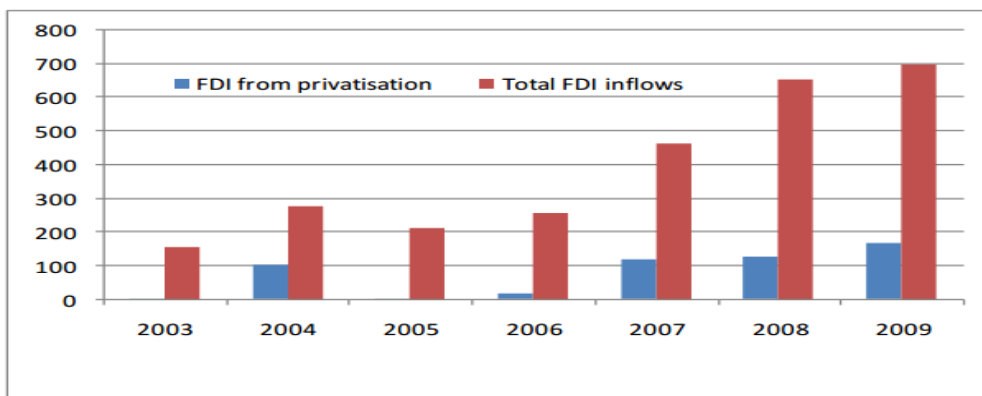


Source: http://www.mete.gov.al/upload/fdi_raport_2010.pdf, p. 26, accessed on 12.12.2011.

Since 2006 it has been seen an increase in rates of foreign investment reaching peaks in 2008 and 2009 which were made possible by the privatization of most of the stocks of companies like Albtelecom, CEZ etc²¹³.

²¹³ METE, Report On Foreign Direct Investment In Albania, 2010, p. 13.

Figure 3: Contribution of privatization to FDI inflows in Albania, 2003-2009 (millions of dollars)



Source: Based on data of BoA for FDI inflows, METE and MF for FDI inflows from privatization, http://www.mete.gov.al/upload/fdi_raport_2010.pdf, accessed on 06.11.2011.

Thanks to the growth and progress in economy, Albania became a very good potential for foreign investment. During this period, Albania reached an average annual increase of GDP by 6%²¹⁴. The majority of flows of FDI in Albania are in the form of equity, which constitutes approximately 70% of the total. Reinvested earnings represent a smaller percentage, though they are growing, while the other capitals (that are loans mainly within companies) are almost negligible²¹⁵.

Telecommunications represent one of the most dynamic activities in service sector in Albania. They have been developed mainly through privatization and subsequent investments in the field by foreign investors and to some extent through domestic investment. Actually in Albania there are four mobile operators AMC, Vodafone, Eagle Mobile and PLUS, while for the fixed telephony there are: Albtelecom, Tring, ABCom operators and many other small actors.

The first operator that entered the Albanian market was AMC which was part of Albtelecom and consequently being state owned. In 2000 Telenor consortium Cosmote (Greece) bought 85% share paying 85.6 million euros. The rest of the

http://www.mete.gov.al/upload/fdi_report_2010.pdf, accessed (12.12.2011).

²¹⁴ Raporti i Investimeve te Huaja Direkte në Shqipëri, 2010, Foreign Direct Investment Report, p. 9.http://www.mete.gov.al/upload/fdi_raport_2010.pdf, accessed (06.11.2011)

²¹⁵ Ibid, p.19. accessed (06.11.2011)

shares were sold much later in the year 2009 with an estimated value of 48.2 million euros.

Investment figures of AMC in recent years amount to several hundred million euros in technology, maintenance, construction, etc... AMC provides network coverage to approximately 89.03% of the territory of Albania and approximately 99.8% of the population. AMC is one of the main contributors to the revenues of the government budget with an approximate value of 155 million euros in taxes and VAT. The company has over 500 specialized employees, which makes it one of the largest employers in the private market and state²¹⁶.

Vodafone launched its GSM services in Albania in August 2001 after winning the international tender with more \$ 38 million. Vodafone Europe B.V. owns 50% of the equity of Vodafone Albania, while Vodafone International Holdings BV Panafon owns 50% (the latter owned by Vodafone Group Plc). Vodafone GSM network covers 91.25% of the territory of the Republic of Albania and about 99.6% of population in urban and rural areas. In December 2010 the company won the tender for 3G services with price 31,400,000 Euro, a record for the Albanian market. It must also be included the investment in 3G service which amounts to 70,000,000 euros²¹⁷.

The third operator in the mobile market, part of Calik Holding present in Albania through three major companies, Albtelecom, National Commercial Bank and Eagle Mobile with a sum of 300 million euro investment, was founded on October 23, 2003 by the Albanian government, as an integral part of fixed telephony operator in Albania, Albtelecom. Privatization began in 2005 and was finished on September 28, 2007, when Calik Holding, acquired 76% of stock, with its Turkish partner Turk Telekom. While the other 24% of the shares is owned by the Albanian government and other stakeholders. Eagle Mobile, entered the market in October of 2008, employing 370 people, while 150 people were employed in sub-contracting companies. The company achieved 97.8% coverage in the country's population and 90% of the territory by making an investment of more than 50 million euros²¹⁸.

PLUS Communication sh.a. the only mobile operator which is composed of Albanian and Telecommunications of Kosovo capital was founded in June 2009, after taken by AKEP Individual Authorization (license) to provide GSM mobile phone services, after presenting the highest offer of 7.2 million euros in the international tender. The new operator in the market has managed to cover 95% of the population. The Company Plans to invest around 100 million euros during first two years. In order to achieve market expansion PLUS Communication sh.a. borrowed funds from the Albanian banks with figures more 35 million euros²¹⁹.

216 www.amc.al, accessed (19.10.2011).

217 www.vodafonemobile.al, accessed (19.10.2011).

218 www.eaglemobile.al, accessed (19.10.2011).

219 www.plus.al, accessed (19.10.2011).

Developments in informatics and call-center industry began evolving since 2008, being thus 3.3% of the whole value of FDI in Albania. This development was achieved thanks to geographical proximity to the Italian state and the ability of the Albanians to learn quickly foreign languages in particular Italian language. Two of the leading companies in this area are Italian companies Teleperformance and Answer Group²²⁰. Increased workforce training and better services of fix telephony are very important factors in the growth of business services and enhance the perspective of Albania in comparison with regional countries.

Since the overthrow of the communist system another area where the foreign companies could invest was banking service. After 90's there has been a restructure of the banking system not only in Albania but in the entire region, in Albanian market foreign banks were those who played this role. Largest investors in banks in Albania come from USA, Austria, France, Greece, Italy and Turkey.

At the end of 2010, 16 banks, nine non-bank financial institutions (three of which were licensed in 2009), and two savings and loans associations were operating in Albania. The financial market continued to be dominated by banks, and the banking system was characterised by a high degree of concentration. At the end of 2010, the three largest banks accounted for 56.2% of total banking assets, slightly up from their year-end share in 2009 (55.7%). By the end of the year, total banking assets stood at ALL 990.6 billion (euro 7.1 billion), representing an annual growth rate of 11.8%²²¹.

During 2008, statutory capital of banks in Albania held by foreign investors increased by ALL 12.5 billion (33%), while Albanian capital fell by ALL 266 million (5.6%). By the end of December 2008, foreign capital in Albanian banking is estimated to have increased to ALL 50.3 billion or 91.8% of the total (from 88.8% in end-2007), while domestic capital is estimated to have fallen to ALL 4.5 billion or 8.2% of the total²²². During the year 2008, ten insurance companies, including both foreign and domestic, were operating in Albania. Some examples of banks and insurance companies with largest foreign capital in Albania are:

Raiffeisen Bank Albania, which is the largest bank in the country. Its total assets are approximately 2 billion Euros. Raiffeisen International acquired the Albanian Savings Bank in 2004 paying to the state 126 million dollars. The loan portfolio has grown from zero in 2004 to 770 million euros at the end of 2010²²³.

National Commercial Bank (NCB) was founded in January 1993, from the union of the Albanian Commercial Bank and National Bank of Albania. One of the

²²⁰ METE, Report on Foreign Direct Investment in Albania, 2010, p. 36.
http://www.mete.gov.al/upload/fdi_report_2010.pdf, accessed (19.10.2011).

²²¹ Annual Report 2010- Procredit Albania, p.10.
http://www.procreditbank.com.al/repository/docs/raport_vjetor2010.pdf, accessed (05.12.2012).

²²² METE, Report on Foreign Direct Investment in Albania, 2010, p.41.
http://www.mete.gov.al/upload/fdi_report_2010.pdf, accessed (13.01.2012).

²²³ www.raiffeisen.al, accessed (19.10.2011).

privatization processes undertaken by the government at that time was the privatization of this bank. NCB ended the process of privatization in 2000. The Albanian Parliament approved on 6 July 2000 the contract of sale between the Ministry of Finance on one hand and the Consortium of International Investors (60% of shares), International Finance Corporation (20%) and European Bank for Reconstruction and Development (20%) on the other hand. On 30 June 2009, Calik Financial Services acquired the stock from International Finance Corporation (IFC) and European Bank for Reconstruction and Development, thus becoming sole shareholder of the NCB with 100% of the shares. NCB has now a capital of about 110 million dollars, and employs about 800 employees throughout Albania²²⁴. National Bank of Greece (NBG) Albania opened its doors in November 1996. NBG Bank Albania is part of NBG Group, the largest financial group in the Balkans and South-Eastern Europe, with its net profit after tax amounting to approximately 1 billion euros in 2009 and a very good capitalization.

Initial capital was 2 million euro. Number of employees in 2011 was about 305. Initial capital was 2 million Euro. Number of employees in 2011 was circa 305²²⁵.

Intesa Sanpaolo Bank Albania was founded in 2008 by merging of two important banks in the country Italian-Albanian Bank (BIA) was founded in 1993 and American Bank of Albania (ABA) was founded in 1998, both were bought by the Intesa Sanpaolo Group. The number of employees in 2011 was about 531²²⁶.

Sigal was founded on 22 February 1999, starting from the year 2002 grew rapidly, ranking as the largest company in the insurance market in Albania.

Sigal sh.a. is the first company that attracted foreign capital in the Albanian insurance market. In March 2007 Sigal signed a cooperation agreement with one of the most powerful financial groups in Central and Eastern Europe, Uniqa Group Austria, which currently owns 68.7% shares of Sigal. Over 80% shares of Sigal Uniqa Group Austria are owned by foreign investors and the rest pertain to the domestic shareholders. Income from insurance premiums in the period from January to November 2011, reached nearly 7.689 millions ALL, or 5.27% more than the same period last year²²⁷.

SIGMA sh.a. is a part of Vienna Insurance Group, which holds 87% of the shares. It is among the largest companies in the Albanian market and is one of the main contributors to the liberalization of the insurance market. Income from premiums in 2008 reached over 14.4 millions of euros, from 12.5 millions euros in 2007, thus increasing 15.2%²²⁸.

224 www.bkt.al, accessed (19.10.2011).

225 www.nbgbank.al, accessed (19.10.2011).

226 www.intesasanpaolobank.al, accessed (19.10.2011).

227 www.sigal.com, accessed (27.10.2011).

228 www.sigma-al.com, accessed (27.10.2011).

In December 2005, the company Dukagjini-Al sh.a. not holding on to the competition in the market and failing to respond to the demands of time, sold its shares 100% and in March 2006 appeared in the market with a new name "Eurosig" sh.a., wholly owned by new domestic shareholders²²⁹.

The company's market position has strengthened and it has been constantly increasing. In the closing figures of the year 2010, the company's share in the market reached the level of 7.17% by assembling a net value of the total turnover of 460 million lek. The equity capital of the company amount to 508.88 million lek where 88% of this amount consists of money and 12% of capital contributions in the firm.

There are a number of sectors and industries in attracting foreign investment that could be mentioned. Such as: energy, mining, oil and gas. In these areas can there have not been serious investments by foreign firms in proportion to the opportunities that Albania offers. In the following 5 years there are expected to be built hydropower plants. The contracts for these powerplants have been signed between the Albanian state and concession companies with a value of more than 1.3 billion euros. The concession contracts stipulate the construction of 264 power plants with total installed capacity of approximately 1055 MW and average annual output of electricity of 4.5 billion kWh²³⁰.

One of the major investments is the construction of three hydropower plants in Devoll by Austrian firm EVN and Statkraft of Norway. There is also one hydropower plant in Ashta of Shkoder with an estimated 160 million euros by the Austrian firm Verbund.

Another successful project is the concession of oil terminal Petrolifera in Vlore, an Albanian-Italian investment worth 57 million euros, which was inaugurated in June 2009 in the southern city of Vlore.

One of the most successful concessions is Tirana's international airport, managed by a consortium of Hochtief Airport, Deutsche Investitions, Entwicklungsgesellschaft mbH and the Albanian-American Enterprise through a Build–Own–Operate–Transfer contract type (BOOT) for a period of 20 years. In 2009, the airport served 1.4 million passengers, 180% more than in 2005.

In the oil industry, the government has reached agreements in the field of hydrocarbons for the existing wells and exploration with companies like Medoil United Kingdom, Rockall Island, DWM Petroleum (Switzerland), Bankers Petroleum (Canada), Albania Stream Petroleum Ltd (Canada) and Sherwood Company. Recently, the government has started negotiations for two new

²²⁹ www.eurosig.al, accessed (27.10.2011).

²³⁰ www.mete.gov.al, accessed (06.11.2011).

agreements with IEC Visoka Company and DWM Petroleum AG for blocks 2 and 3 for underground exploration²³¹.

Tourism is a sector that has taken very little foreign investments, because that the law of private properties is still problematic.

The transition from centrally planned economy to market economy many transformations have been part of the government's agenda of these years. These are changes to areas such as political, economic, social, legal, etc... Land reform, financial market reform, price liberalization and privatization are some of the most important reforms of the economy. These processes are still continuing and are about the regulation of business atmospheres and reduction as much as possible of legal and administrative procedures in the establishment of foreign business in Albania. Due to these reforms, according to the Index Performance of Foreign Direct Investment of UNCTAD's, Albania has moved from 80-th country that was in 2006, and was ranked 25- th in 2009²³².

Table 1: Albanian's ranking according the Inward FDI Performance Index and the Inward FDI Potential Index

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------------|------|------|------|------|------|------|------|------|
| Inword FDI Performance Index | 39 | 58 | 68 | 78 | 51 | 33 | 23 | 18 |
| Inword FDI Potential Index | 115 | 101 | 83 | 84 | 83 | 79 | 81 | |

Source: UNCTAD
http://www.unctad.org/Sections/dite_dir/docs/WIR11_web%20tab%2028.pdf, accessed on 19.01.2012.

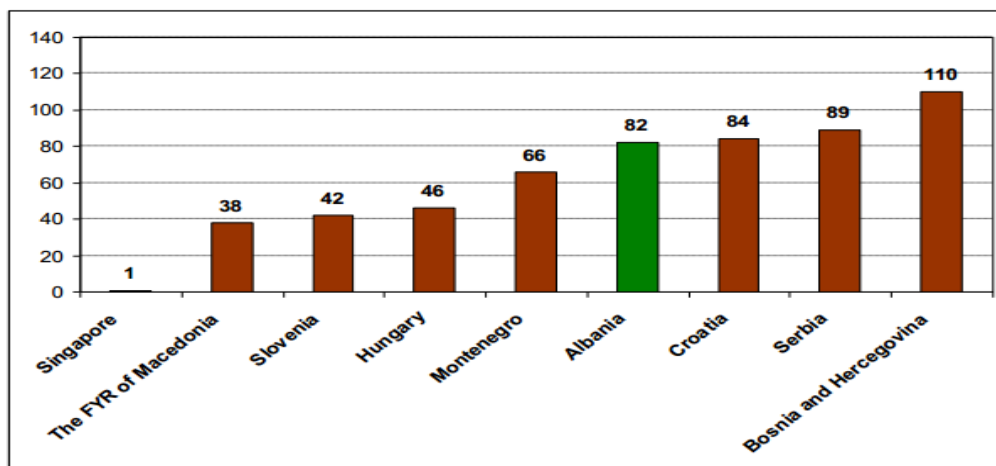
While at the World Bank report "doing business", in terms of ease of doing business, for 2011, ranked Albania in the 82-nd place out of 181 economies²³³.

231 METE, Report on Foreign Direct Investment in Albania, 2010, p.53.http://www.mete.gov.al/upload/fdi_report_2010.pdf, accessed (13.01.2012).

232 Ibid, p.12, http://www.mete.gov.al/upload/fdi_report_2010.pdf, accessed (13.01.2012).

233 <http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/annual-reports/english/db12-fullreport.pdf>, p.77.

Figure 4: The facility of doing business: global ranking of Albania and other countries



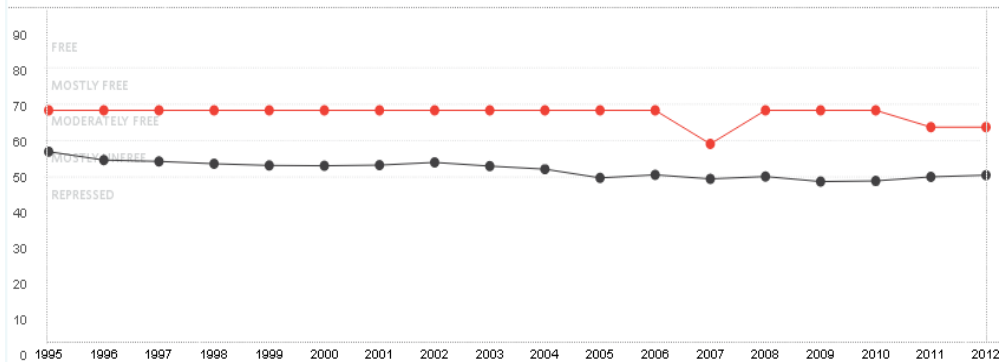
Source: World Bank, IFC, Doing Business, 2011: Changing Enterprises, Published by Palgrave MacMillan, IFC and World Bank in Washington D.C. available at: <http://www.doingbusiness.org/documents>, accessed on 12.12.2011.

As regards the ten most important areas of business doing indicators there is a huge gap between the performances of the country according to different indicators. According to the report, in beginning a business, Albania was ranked in 68-th place in 2009, ranked 46-th in 2010, and in 2011 moved to 45-th to place of global ranking. Most problematic factors that hinder competition in Albania, according to this report are: access to finance, corruption and tax regulations²³⁴.

While the report of the World Bank and the Economic Freedom Index for 2010 Foundation Heritage Foundation, Albania is ranked as the 53-rd by 179 countries but in 2012, undergoes a decrease of 4 seats. Investment across borders Albania places it among the ten rapid countries of the region in terms of the initial process of foreign companies.

²³⁴World Bank Publications:World Bank Report 2011, <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>, accessed (12.12.2011).

Figure 5: Index of economic freedom/investment freedom, 2012



Source: The Heritage Foundation, Albania Ranking,

<http://www.heritage.org/index/visualize?countries=albania&type=6>, accessed on 30.11.2011.

- Albania's rank average
- World's rank average

In 1993, Albania adopted a legal framework in favor of FDI, which consequently improved where the economy would be open to all investors regardless of foreign or domestic. According to the law both of these two categories are equal, except some sectors such as: production of weapons, domestic maritime transportation, fishing and notary services and enforcement. Foreign investors allowed buying land through their companies without any restriction. Also, foreign companies can easily employ are foreign workers. The following are the stages taken during the period 2006-2010²³⁵.

Reform of business registration process is maximally simplified on a day, which is made online. As well as the steps were reduced from 10 to 5. Issuance of licenses is much simplified and the need for licenses for many activities has been removed. Fiscal reform has also changed in favor of gradually reducing the investor's income tax rate from 25% in 2000 to 10% in 2010, changing the income tax and reducing the tax burden on income from work. Trade policy is a policy in accordance with the Common European Trade (European Common Commercial Policy) and has fully liberalized regime of import-export goods. Meanwhile, in terms of special conditions of investment they benefit from exemption from customs duties on

235 Raporti i Investimeve te Huaja Direkte në Shqipëri, 2010, Foreign Direct Investements Report in Albania, p.55.

http://www.mete.gov.al/upload/fdi_raport_2010.pdf, accessed (30.11.2011).

imported machinery and equipment used for capital investment. Free spaces & Industrial Parks are projects that the Albanian government provides approximately 60 million euro investment and the creation of 30.000 new work places. Privatisation and Public Private Partnership (PPP) have been important parts of the country's reform process. Foreign investors are allowed 100% ownership of privatized enterprises²³⁶.

The government has given concessions in different sectors such as energy, mining, infrastructure and management of water supply and sewerage system in some cities of Albania. While the plans for privatization are: privatization of strategic state assets that have not yet been privatized, mainly oil company's assets of Albpetrol, the Albanian minority share in Albtelecom land telephone operator and the Insurance Institute (INSIG).

Challenges that the government of Albania faces, have always been informal economy which negatively affect tax revenues as well as the circulation of money in the banking system in the economy, which at the same time is perceived by foreign investors, corruption and general lack of transparency continued to democracy and multinational enterprises to invest in Albania, as well as poor infrastructure, including transport and communication which create barriers to business and the economy in general.

Albanian Application

In this research the FDI in Albania has considered only post-communist period where it can be stated precisely and after 2000 as these years and after investments are concrete and significant. As well as data related to this theme are more accessible and more detailed after this year.

The data are taken from various sources such as the BoA, UNCTAD, FDI Confidence Index, Regularly survey conducted by Kearney, the World Bank Database, EBSCO database of EPOKA University.

Discussing in terms of GDP, Albania is a rather average country compared to other countries in the region.

As it seen from the data when the neighboring countries the percentage of foreign investment decreased, in Albania is quite the opposite, it increased. During the years 2008-2009 the percentage of investment in Serbia shifted from 8.75% to the year 2007 down to 6.13% and 4.47%, while in Albania from 6.11 in 2007, which is growing at 7.23% and 8.14%. It also has a fluctuating discount in Bosnia Herzegovina and Macedonia.

²³⁶ Ibid, p.58, accessed (30.11.2011).

Table 2: Foreign direct investment in Albania compared to the region

| % FDI/GDP | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Albania | 3.88% | 5.07% | 3.03% | 3.15% | 4.57% | 3.13% | 3.56% | 6.11% | 7.23% | 8.14% |
| Bosnia and Herzegovina | 2.65% | 2.06% | 4.03% | 4.56% | 7.08% | 5.65% | 6.27% | 13.6% | 4.98% | 1.38% |
| Croatia | 5.21% | 6.92% | 4.16% | 6.05% | 2.65% | 4.02% | 7.05% | 8.53% | 8.65% | 4.61% |
| Macedonia | 6% | 13.01% | 2.78% | 2.54% | 6.02% | 1.67% | 6.66% | 8.83% | 6.17% | 2.69% |
| Serbia | 0.85% | 1.56% | 3.76% | 7.15% | 4.34% | 8.13% | 17% | 8.75% | 6.13% | 4.47% |

Source: <http://open.data.al/lajme/lajm/id/205/titull/Investimet-e-Huaja-Direkte-ne-Shqiperi-Krahasuar-me-Rajonin>, accessed on 30.11.2011.

What has been the link between investments and GDP during the years 1995 to 2010? Did it have a good effect or bad effect the FDI in Albanian GDP?

Table 3: Database for regression

| YEARS | FDI | GDP (million dollar) |
|-------|-----|----------------------|
| 1995 | 70 | 2,424 |
| 1996 | 90 | 3,013 |
| 1997 | 48 | 2,196 |
| 1998 | 45 | 2,728 |
| 1999 | 41 | 3,434 |
| 2000 | 143 | 3,687 |
| 2001 | 207 | 4,091 |
| 2002 | 135 | 4,449 |

| | | |
|------|-------|--------|
| 2003 | 178 | 5,652 |
| 2004 | 341 | 7,464 |
| 2005 | 262 | 8,376 |
| 2006 | 325 | 9,133 |
| 2007 | 662 | 10,705 |
| 2008 | 959 | 12,969 |
| 2009 | 964 | 12,045 |
| 2010 | 1,110 | 11,786 |

Source: World Bank, <http://databank.worldbank.org>, accessed on 03.12.2011.

The regression equation is;

$$Y = \alpha + \beta X + e$$

Where:

Y- is the depended variable, what is being predicted or explained, GDP.

α - is the expected intersept parameter, equals the value of Y when the value of X=0.

β - is the expected slope, how much Y changes for each one-unit change in X.

X- is the independend or epplanatory variable, FDI.

e - is the error term; the error in predicting the value of Y, given the value of X (it is not displayed in most regression equations).

After running the regression analysis the following results are:

Table 4: Summary Output/Anova

| SUMMARY OUTPUT | |
|-----------------------|-------------|
| Regression Statistics | |
| Multiple R | 0.927392621 |
| R Square | 0.860057074 |
| Adjusted R Square | 0.850061151 |
| Standard Error | 1480.072704 |
| Observations | 16 |

| ANOVA | | | | |
|--------------|--------------|----------------|----------|----------|
| | df | SS | MS | F |
| Regression | 1 | 1.88E+08 | 1.88E+08 | 86.04078 |
| Residual | 14 | 30668613 | 2190615 | |
| Total | 15 | 2.19E+08 | | |
| | Coefficients | Standard Error | t Stat | P-value |
| Intercept | 3119.27592 | 520.099 | 5.997466 | 3.27E-05 |
| X Variable 1 | 9.720647723 | 1.047956 | 9.275817 | 2.35E-07 |

The equation gained by running the regression analysis is:

$$Y = 3119 + 9,72X$$

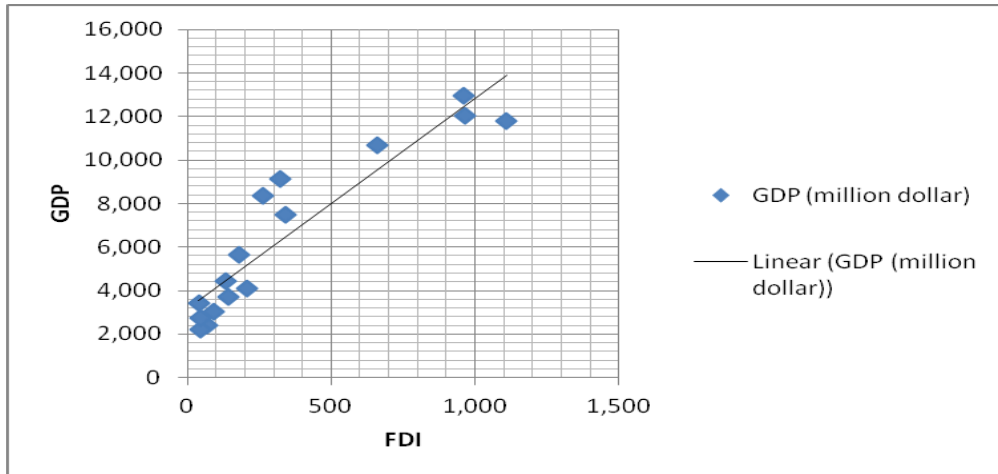
If $X = 0$, then $Y = 3119$.

t- statistics = 5,997, that is bigger than 5, it means that the b coefficient is statistically significant, so this means that the independent variable or X (foreign direct investment) should be kept in the regression equation, since it has a statistically significant relationship with the dependent variable or GDP.

R² - is a measure of association; it represents the percent of the variance in the values of Y that can be explained by knowing the value of X; from the summary output, R² = 0, 86 which is then 0.5. This means that there is a strong and significant relationship between Y and X. So there is a strong and significant relationship between GDP and FDI. Interpreting differently, 86 % of change in GDP is explained by FDI.

The regression equation can be interpreted as; any 1 million USD increase in FDI, would increase the value of GDP by 9,72 times. Or every 1 USD of GDP comes from 0.86 lek of FDI and 0.05 from other factors.

Table 5: Linear Regression



Conclusion

As a conclusion, as it could have been easily foreseen by the field specialists, the transition from a centralized economy to a market economy, where every factor would not be determined by the State Party but from the global economy, part of which Albania had decided to be, wasn't going to be easy and this transformation required time to adapt to the new politics in Albania and the Albanian people and vice-versa. And that is what happened, the transition took place gradually in a 10 year period of time, and the same amount of time was required for the serious foreign companies to come and invest in Albania.

Regarding the research done in this work and based on the data above it is shown that FDI in Albania during 1995 years were not in substantial numbers to affect the Albanian economy, this due to the political transition that Albania had in this period. It needed about five years that Albania could recover its political state, to stabilize, to improve its image toward the world and to win the confidence of foreign investors. After the year 2000 thanks to the improvement of Albanian politics and commitment of the Albania government in attracting FDI there was a considerable increase in FDI so as to affect the Albanian GDP. In our days the FDI have a considerable effect on GDP, if FDI increases GDP also increases. If FDI decreases, GDP also decreases. Despite a decline that had FDI during 2005-2006 there was a rise in the coming years. FDI have been developed despite global and regional trends in economic and financial crisis, indicating a steady rise until 2010.

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