

Albania a Destination for Foreign Direct Investments, Comparison with Other Countries of the Region



Agriculture

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Abstract

The reason why we have chosen this topic is related to the fact that foreign investment has been the main engine of global economic growth in recent years. The developments of recent years in our country have been positive in this regard, but there is still much work to be done with FDI. Foreign direct investment have very positive impact on the economies of host countries, as is the case in Albania, because they provide investments needed to increase economic and technology development, at a time when domestic savings cannot provide them. In addition, capital flows serve as a signal that indicates that the economic conditions of the country have changed in relation to those outside.

Fighting the lack of capital from which have suffered closed markets, they favored the efficient use of these resources, and created a competitive environment that offers more high yield to investors. A long-term positive effect of FDI is the transfer from the countries of origin to their host countries, the production technology and the most efficient ways of industrial organizing. In this track, FDI also has a positive effect on the productivity of domestic firms. In general, mutual causal relationship between FDI and economic and political stability has been positive, i.e. economic and political stability has encouraged higher levels of FDI. On the other hand, high concentration of FDI in a country has a positive impact on the stability of the country. Another positive aspect is the fact that, despite the cyclicity trends, capital came in the form of FDI is not easily transferable within a short time, which presents less risk than other forms of financial capital for the country's monetary stability.

1. Theoretical studies on foreign direct investments

Foreign direct investment reflects the objective of ensuring a steady interest of a resident entity in one economy (direct investor) in an entity resident in **another** economy (direct investment enterprise).

The concept of "sustainable interest" implies the existence of a long-term relationship between the direct investor and the enterprise, as well as a significant influence by the investor on the management of enterprise decision-making process. Direct investment includes the initial transaction between the two entities and all subsequent transactions between them.

Fifth edition of the manual balance of payments statistics (FMN 1993), defines as direct investor the holder of 10 percent or more ordinary shares or voting power of a company in a country, being a resident in another economy . However, this definition does not make a clear distinction between Foreign Direct Investment Foreign Investment portfolio.

"One of the main causes of differing definitions of FDI comes from differences in the importance attributed to the characteristics of companies that operate in the international arena" (Hood and Young, 1979).

In this context, Moos (2002), argues that *"the common features of the definition of FDI is in terms such as 'control' and 'decisive force', which represent the main feature that distinguishes FDI from portfolio investment, as portfolio investor does not require control over the company"*. Generally, is considered a minimum of 10% of the stock holding to allow foreign shareholders to exercise a significant influence over the enterprise, if you choose to do.

1.1. Types of FDI and some of their characteristics

It is important to identify the differences between different types of FDI and investment companies, in order to be clearer the reasons for which a company decides to invest in a particular country. Various authors have classified FDI under different views. As part of the "OLI paradigm", Dunning (1993) identified four main categories of foreign investors, which are then used by many other researchers in their analysis: productivity researcher, market researcher, sources researcher and strategic assets researcher.

Productivity researcher is motivated on his investment by simple advantages of managing geographically dispersed activities (economies of scale and risk diversification). The goal is to benefit from the advantages that can provide the difference in the cost of factors of production, culture, institutional arrangements, economic and political systems and market structures.

Market researchers are motivated by a desire to enter in the markets of the host country or neighboring countries (regional markets).

Sources researcher undertakes foreign direct investment resources to take advantage of resources/specific assets that are available in the host country with a lower cost. These may be: physical resources with lower cost and security of the offer; work force of skilled or semi-skilled but cheap and motivated; technological opportunities and marketing management expertise or organizational skills.

Strategic assets researcher enters into a strategic asset foreign direct investment in order to obtain a significant asset, which improves its competitive position in the market.

Horizontal FDI is undertaken in order to produce the same or similar products to those produced in the country of origin. Therefore, it consists in the duplication of the entire production process in some countries, in addition to central office activity.

Vertical FDI, on the other hand, consists of dividing geographical different phases of the product's life cycle. So, encourage cross-border trade (within the company) and the growing tendency of branches to export.

Conglomerate FDI can be a mix of vertical and horizontal investments include investment in an industry of a different nature in the host country. From this point of view, Kojima (1978) classifies foreign investment in trade-oriented (that generate an increased demand for imports of a bid to increase exports) or oriented against the trade, which have a negative effect on trade. He notes that the comparative advantages of industries in the countries of origin and host countries, are crucial to determine whether FDI is trade-oriented or against it.

This theory is further processed by Narula (1996), which classifies FDI in trade substitutes - that go towards activities that replace imports in the supply of domestic markets; trade promotion that aimed at supplying other markets; additional trade - when are directed to rationalize production enhancements in export markets; and avoiding trade - if they intend to use the unused portion of the market, with preferential trade agreements. Finally Meyer (1998) makes a distinction between foreign investors as follows:

- driven by markets that aimed at local and regional markets;
- driven by the price of factors aimed interregional sales within the firm;
- foreign investors are a combination of the above two types, so driven by markets and price factors.

2. Albanian framework in support of foreign investments

2.1. An overview of FDI policies in the world and in our country

Among transition countries, Albania is considered as one of the most open trade. Import tariffs are among the lowest in the region, coupled with very limited non-tariff barriers and some regional free trade agreements (IMF, 2005). In this context, governments have realized:

- The establishment of a legal and regulatory framework with incentives for foreign investors. Some legal incentives include: equal treatment of foreign and domestic investors; return full profit and dividend (after tax); return funds originates in liquidation of a company.
- Minimize the risk of investment: Foreign investments in Albania are completely protected by law. They can not be nationalized, expropriated or subjected to other similar measures, except in special cases provided by law, such as the case of public interest etc.

Encouraging foreign direct investment has been a constant preoccupation of the Albanian government since the beginning of the transition. Foreign investors are treated in the same way as those providing domestic national treatment, a principle that runs in their entirety, including legislation, public procurement, company formation, licensing, etc. However, this "liberal" legislation also contains some restrictions to FDI. Restrictions belonging mainly broadcast and legal services,. Restrictions apply to the purchase of real estate that is treated with a special law.

Form of FDI in Albania

FDI can take the following forms: capital share form, profit of reinvestment and other forms of capital.

Foreign investors enter in our country in several ways:

- In the form of investments in new businesses
- Cross-border mergers and acquisitions

In our country most of them (80% in 2010 and even more in 2011) were in the form of share capital in new businesses as additional capital in the enterprise

- Reinvested represented approximately 20% of incoming investment

3. Foreign Direct Investment in Albania, their role in the economy

As Albania is in the early stages of absorption of foreign direct investment, most of them, so 80 percent in 2010 and even more in 2011 were in the form of equity in other businesses as well as capital additions in existing ventures with foreign investment. The rest refer to incoming investment, while FDI in other forms of capital (intra-company loans) are usually negligible.

Table 1. FDI flows according to the form in (million Euro)

COMPONENTS	2006	2007	2008	2009	2010	2011
Total FDI	259	481	665	717	793	742
Equity	199	487	420	516	600	755
Reinvested profit	0	0	182	229	186	64
Other capital	60	-6	63	-27	7	-77

Source: Bank of Albania

On the other hand in 2010, although the majority of Eastern European countries also fell significantly to foreign direct investment in Albania was the opposite. In 2010, Nigeria ranked second in terms of the quantity of FDI flows between the countries of Eastern Europe after Serbia, this actually represents very well the following table.

Table 2. FDI flows: World, Eastern Europe and Nigeria (in million Euro)

HOST ECONOMIES	2005	2006	2007	2008	2009	2010	2011
World	782673	1164682	1534682	1208931	802041	936640	1085242
Eastern Europe	3870	7885	9384	8663	5446	3109	4745
Albania	213	259	481	665	717	793	742

Source: UNCTAD, WIR 11 and Bank of Albania

Although the value of FDI inflows in Albania is modest due to the small size of its economy, their relative importance for the Albanian economy is pretty great, while foreign direct investment exit from Albania has as an objective neighboring economies, in particular Kosovo, and Macedonia. Income of foreign investors in Albania amounted to 81 million Euros in 2011, marking a decrease of 288 million Euros for 2010 figures. This sensitive contraction may reflect certain deterioration in the business environment, for example, the contraction of demand. Profits of foreign investors had corresponded over 10% of the stock of FDI in previous years and are likely to have fallen during 2011. In 2008 and 2009 investors in Albania enjoyed high levels of benefits, one of the highest among the countries of South East Europe. From the data provided by FDI, 79 percent of them were invested further in 2011, marking an increase of 65 per cent figure for 2010.

According to UNCTAD data feeds to Albania since 2000 are tenfold. However, the weight of Albania that the host country of FDI in the region of Southeast Europe has increased significantly,

in particular during the years 2007 and 2010, when the flow of FDI in Eastern Europe fell, while those to Albania continued to grow (Table 3). Decline in foreign investment in 2011 led to a decrease in the percentage of their global and regional perspective.

Table 3. FDI as a percentage of gross fixed capital formation (GFCF)

REGION / COUNTRY	2004	2005	2006	2007	2008	2009	2010
Eastern Europe	16	16	24	33	27	22	13
Albania	13	9	9	16	21	25	33
Bosnia and Herzegovina	27	20	25	46	17	6	2
Croatia	12	17	27	33	32	19	4
Montenegro	..	..	..	..	56	208	130
Serbia	..	..	..	..	23	20	15
Macedonia	34	10	37	43	28	11	17

Source: UNCTAD, WIR 11

Flow ratio of GFCF (gross fixed capital formation) grew from less than 10 percent in 2006 to 25 percent in 2009, made up 33 percent level in 2010. This great leap in 2010 was not only a result of higher Foreign Direct Investment, but also due to a significant decline in GFCF. In 2010, Montenegro has attracted more foreign direct investment versus GFCF. Foreign Direct Investment in Albania has driven economic growth, especially through projects in services and infrastructure. However, we can note some of the problems that face FDI in Albania. In our country foreign direct investments have been increasing, but despite this they encounter some problems, which are characteristic for a developing country such as our country. For foreign investors is important the economic climate of the country. If we summarize the main causes affecting the low level of FDI it can be mentioned; imaging problem; problems and conflicts related to land ownership, bureaucratic procedures for the registration of property rights, for approval and granting of building permits have always been barriers to foreign investment. Level of informal economy is also a direction that will aim to improve in the future, to ensure a fair competition in the market; slow privatization process, medium and large enterprises of the state in industrial sectors with high capital and strategic sectors such as energy, telecommunications.

4. Conclusions and recommendations

Investments foreign direct play an important role in employment, productivity growth, the introduction of technology in manufacturing, and as a good way to encourage local firms to learn by way of production or of doing business from multinational companies contributing in their production. From year to year the FDI in the country has increased significantly and the climate of doing business has been improved significantly, as is the initiative "Albania One Euro" or

privatization of large companies that were owned by the state. Important challenge for Albania and other countries in the region is the future of these privatizations in job growth and domestic performance. Impact of foreign direct investment is seen and to their contribution to cover the deficit of the balance of payments. Our balance of payments deficit is mainly on coherent account and this is covered by the capital account of foreign investment probably by financial foreign direct. Investments represent one of the two main channels of entry of foreign capital in the country.

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