The issues of FDI -s in Albania during transition

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Abstract

The topic selected was oriented from the current issues in the field of investment and the impact they have on economic growth. An old saying implies that "Invest in real estate in places where everything or at least much of the resource is sold much cheaper compared to other countries ". This June of 2017 we accomplished for 27 years that Albania is open to foreign investors. But after 27 years there is no question that we are better compared to what we were in foreign investments (FDI), but what is being discussed is that Albania continues to be at the lowest level of IHD in Region. Research shows that FDI has been a very important factor in economic production in CEE and SEE countries during the transition years. The strong link between FDI and GDP is evidenced by two facts: FDI inflows -that have a positive impact on the country's economic strength and high levels of GDP are a major motivator for higher FDI flows. The final conclusion also explains one of the reasons for the different model that has followed the development of FDI in SEE and CEE countries.This research conducts an empirical study, contributes to the analysis of FDI and economic growth issues currently faced by our country. In the study, an econometric method was used to reveal efficient and credible empirical findings on the *cause-and-effect relationship of FDI -growth in the last two decades. For the economic growth series (g) there are data for 17 years, where the last year is 2016. The empirical findings suggest that the absorption of FDI is positive and statistically significant for the country's economic growth. For each unit of FDI increase the impact on the country's economic growth will result in 3.88 unit. The most important recommendation suggests that trade policy makers in Albania should apply FDI-absorbing policy, based on multilateral agreements, to achieve lasting long-term growth. This can be achieved by removing barriers related to FDI in the context of improving the investment climate in Albania.*

Key words: *FDI, economic growth, investment climate, absorbing policy, agreements.*

Entry

Researchers show that FDIs has been a very important factor in economic production in CEE and SEE countries during the transition years. The strong link between FDI and GDP is evidenced by two facts: growing FDI inflows have a positive impact on the country's economic strength, and high levels of GDP are a major motivator for higher FDI flows. The final conclusion explains one of the reasons for the different model that has followed FDI development in SEE and CEE countries.

Both groups of countries have moved ahead since the 1990s when they came from isolation. However, SEE macroeconomic indicators are still weak and the institutional structure is still not very efficient. CEE countries have made progress towards their integration into the European Union, they have attracted higher FDI inflows, and are now returning to the FDI source abroad. On the other hand, in Southeast Europe, investors have reacted to instability and lack of development by not favoring these countries as opportunities investment.

The evidence shows that during the years 1992-2004, South-east European countries have benefited from foreign capital flows and the expertise in this field is only sporadic and very limited. The main FDI flows in these countries are related mostly to privatizations. The foreign capital is invested mainly in the processing industry, financial services, telecommunications and commerce, and is largely originating from EU countries. The whole region offers rich sources of tourism, although in this area FDI remains very limited (with the exception of Croatia).

About Albania we can say that, the 15 years of transition have been characterized by a number of crises that have had a major impact on the country's economy. However, despite this fact, in recent years, Albania has witnessed a significant GDP growth, low inflation and exchange rate stability.

Research issue

Albania enjoys great opportunities for attracting FDI in different sectors (both in the processing industry, agro-processing, agriculture, tourism and other services).

Nevertheless, it ranks among the countries with the lowest holdings of foreign capital within the region, recording lower levels of FDI than its real opportunities.

Foreign investments during these years have come mainly as a result of the privatization of small, medium and large enterprises, with a greater concentration in the industries. In Albania, the private sector accounts for 80% of GDP. Foreign investments have been low in terms of the above-mentioned regional standards but rising. The countries with the largest investments in Albania are Greece and Italy.

The low level of FDI inflows and FDI stocks evidences the fact that there are still large barriers to investments. The small domestic market size compared to some of the countries in the region and the problems inherited from the past can be considered as a barrier, yet they are not the main problem facing foreign investors.

As analyzed in the last part, the main obstacles to FDIs in Albania are related to the overall political and security developments in the country; with the unsustainability and inadequate progress during the transition process and structural reforms; corruption and unfair practices; poor physical infrastructure conditions; frequent changes in the regulatory framework; administrative obstacle; as well as the massive existence of an informal economy.

So the specific objectives of this study related to the research issue are:

- To empirically investigate the relationship between the FDI and growth rate in Developing Countries.
- To establish whether FDIs has any significant effect on economic growth in Albania.
- To suggest policy measures in FDI inflows management in line with the findings of the study.

MAIN HYPOTHESIS of this research project is:

"Any attempt to raise the FDI inflows , will result in a higher rate of economic growth "

Literature review

A strong reason to motivate a firm to create production facilities out of its country instead of exporting its own products or contracting a domestic interchange would be the prospect of big gains. The features that need to be the host country to generate higher earnings for the firm and determine its decision to invest abroad are many and varied, and have been thoroughly analyzed in literature.

An important theoretical contribution to this matter has been given by Porter (1990) "the theory of diamond" (diamant theory) based on four factors defined as the determinants of the country:

- Factor Conditions - Factors of production include natural reserves as well as those created as skilled worker or infrastructure.
- Natural-demand requirements of the country for good and services as well as the level of buyers;
- Affiliated and supporting industries, market existence of other suppliers or industries closely related to that investment:
- Strategy, structure and rivalry of the firm, competition of domestic firms and the conditions for the creation, organization and administration of the company.

These four "diamond" factors, together with the role of government in the economy and the role of occasional events, promote or prohibit the creation of competitive conditions for intercourse.

Generally speaking, the determining factors that influence the choice of place where multinational companies decide to invest can qualify in two categories: related to the country of origin and associated with the host country. The variables associated with the country of origin are factors that make the investment abroad more attractive than it is in the country due to the current conditions of the country. The factors associated with the host country make the investment in that country more attractive than the possibility of investing in any other country. In literature, the factors associated with the host country are those who have attracted more attention.

In the World Investiment Report 2002, UNCTAD presented an Inward FDI Performance Index (FDI) index to evaluate the success of FDI countries. According to this report, countries with high levels of this index may have exceptionally welcoming regulatory regimes, are well administered in the macroeconomic direction, or have a very efficient and cost-effective business environment. They can also offer other competitive incentives such as: a prosperous, growing economic prospect, natural resources, better research and development skills, advanced infrastructure, good financial support, and good organization of supply. They may be privileged for entry into countries favored for export to large markets. On the other hand, there may be a lack of convergence, weak policy structures and other weaknesses in their economies (UNCTAD, 2002).

Government policies have a significant impact on FDI. Indeed, rich and developed countries governments make significant efforts to encourage foreign investment from their companies in order to provide opportunities to use natural resources or increase exports machinery and equipment at the same time, generate capital inflows that improve the balance of payments. Meanwhile, governments of more developed or developing countries may work towards policies implementation that offer FDI inflow incentives, but it is even more important to focus on improving comparative comparisons of their countries by improving their macroeconomic position towards other competitors.

The determinants and factors influencing the FDI have changed over time. The FDI towards developing countries has shifted from market demand to resource-efficient (vertical) demand of FDIs. Developing countries should attract FDI through:

- Better labor market conditions, which do not only mean labor force at a low cost, but also productivity, flexibility and suitability of labor force in the host country. As a result, the country should provide relatively capable and educated workforce (meaning that the country should have an adequate education system)
- Institutional structures. In addition to favorable tax rates, public administrations should be flexible enough to encourage investors. The institutions themselves should be flexible and the necessary documentation and registration procedures are less complicated for foreign investors.
- Market size. The market place of a host country can not be measured by its population. There may be other significant factors, affinities and links with other related countries, existing competition in the host country and others.

Methodology - Analysis of the Empirical model for the evaluation of FDIs in Albania

Data on these variables are from the Bank of Albania. Used data are secondary data (time series data) to empirically study the effect of independent variables ,in the dependent variable economic growth, based on data for the period 1999 to 2016.

In assessing the impact on GDP in Albania it has been used the linear regression model. This link was statistically significant. Based on the tests carried out, we conclude that the tests do not change and are in the coagulant and co-integrated at the 5% level of importance. Based on the data obtained from the model, it results that the distribution of the common probability of these variables does not change when shifted in time. Also average and variance are also expected not to change over time. The F figure shows that the whole model is important. The result shows that all explanatory variables are statistically significant in explaining economic growth, thus FDIs having a positive impact on economic growth. Consequently, a change in the explanatory variable such as an increase in FDI leads to an economic growth. Tests carried out reinforce the idea that the model is good and entitles the appellant to interpret interpretations of parameters near variables according to the degree of reliability.

Relationship of the dependent variable with the independent variable results statistically significant because 86% of variance of the dependent variables is explained by the independent variable and the probability of the error is 0.008 many times less than 0.05. This connection turns out to be very strong and in full compliance with economic logic.

Dependent Variable: G
Method: Least Squares
Date: 06/21/17 Time: 10:39
Sample: 1999 2016
Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.673395	1.057990	7.167736	0.0010
FDI	3.878009	1.29E-09	-3.012365	0.0083

R-squared	0.661898	Mean dependent var	4.913889
Adjusted R-squared	0.522016	S.D. dependent var	2.977935
S.E. of regression	2.452025	Akaike info criterion	4.736144
Sum squared resid	96.19880	Schwarz criterion	4.835075
Log likelihood	40.62530	Hannan-Quinn criter.	4.749786
F-statistic	9.074345	Durbin-Watson stat	1.060558
Prob(F-statistic)	0.008264		

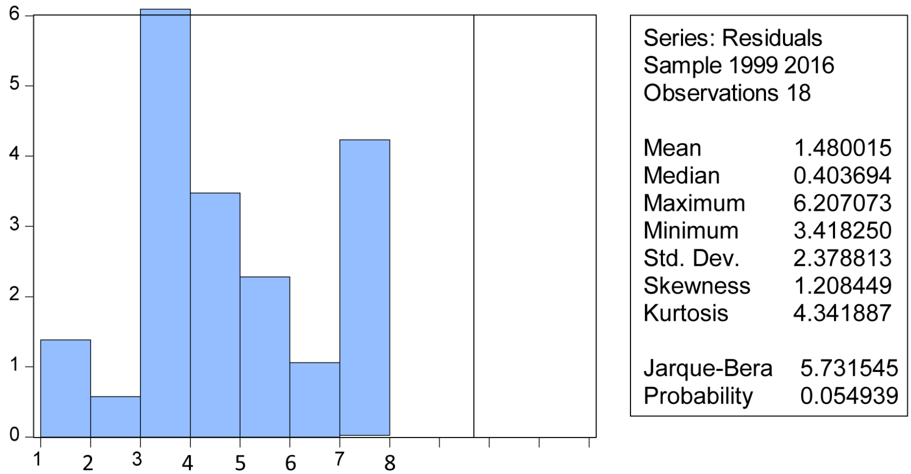
The autocorrelation test, Durbin-Watson, is 1.060558, so it does not have to worry about the problem of autocorrelation because it is an indication that autocorrelation is present. If some of the information in the table above, namely from the Coefficient and Prob. column, regression can be written with the respective parameters and the statistical probability of each of the following:

Akaic information criterion is positive but of little value indicating that the model is relatively convenient. The Schwarz criterion also has a small value.

$\Delta g_t = 0.67 + 3.88\Delta FDI + \varepsilon_t$

The following table gives an idea of the quantitative variables included in the conceptual analysis made above. Descriptive statistics summarize information about the mean, medium, maximum, minimum, asymmetric coefficient (skewness) and kurtosis, normal distribution statistic (statJarque-bera) associated with the probability of this statistic, number of data.

For the economic growth series (g) there are data for 18 years, where the last year is 2016. Its average is 1.48. The maximum value is 6.2%, whereas the minimum is 3.41%. From the figure above, we see that the term of the remainder has a non-systematic distribution. This makes us think that the term of the pattern remains normal distribution, thus reflecting one of the qualities of a good model. In fact, the relevant test reports that this term of waste is normally distributed, as long as the probability of the Jarque-Bera statistic is 5.73 greater than 3.41.



The chart below compares the actual values and those generated by the model for the series g. The close association between them reports on good model health and for a high explanation of the first variation of g by the independent factor. Such a term of the term of remnant creates the impression that it is normally distributed. This impression is confirmed by the normal distribution test.

Date: 06/21/17 Time: 10:41

Sample: 1999 2016

Included observations: 18

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob
. |**. |	. |**. |	1	0.269	0.269	1.5293	0.216
. |* . |	. |* . |	2	0.154	0.088	2.0647	0.356
. *| . |	.**| . |	3	-0.173	-0.255	2.7843	0.426
.**| . |	. *| . |	4	-0.213	-0.142	3.9550	0.412
.**| . |	.**| . |	5	-0.340	-0.224	7.1478	0.210
.**| . |	.**| . |	6	-0.341	-0.254	10.637	0.100
. *| . |	. | . |	7	-0.095	0.033	10.934	0.142
. | . |	. | . |	8	0.063	0.037	11.076	0.197
. |*** |	. |**. |	9	0.353	0.225	16.047	0.166
. |* . |	. *| . |	10	0.176	-0.084	17.434	0.165
. |* . |	. *| . |	11	0.139	-0.094	18.429	0.172
. |* . |	. |* . |	12	0.081	0.100	18.825	0.193
. *| . |	. | . |	13	-0.070	-0.051	19.180	0.118
.**| . |	. *| . |	14	-0.224	-0.101	23.689	0.150
. *| . |	. |* . |	15	-0.155	0.131	26.561	0.233
. *| . |	. | . |	16	-0.099	-0.028	28.310	0.229
. | . |	. | . |	17	-0.024	-0.058	28.522	0.239

Part of the health of a model is also control over the “diseases” of heteroschedasticity, serial correlation and autocorrelation. All three statistics that help investigate heteroschedasticity report its absence. So the model does not suffer from the “disease” of heterosis.

The LM test reports that for at least 95% security level, serial correlation is not present in the model. This proves that the model is good

The bottom end of the table is filled with the inferior model of autocorrelation. The fact that autocorrelation coefficients are within the intervals indicates that it is absent. Moreover, the probability of the -Q statistic is greater than 10%, indicating its absence in the model. All three tests reinforce the idea that the model is good and entitles the appellant to interpret interpretations of parameters near variables according to the degree of reliability.

Conclusions

The liberalization of Southeast European markets has stimulated and intensified cooperation between numerous European countries in various branches of industry. This development has attracted various well-known companies in Europe to relocate the production of domestic products especially to eastern european countries. We take the example of Germany, for example, as a powerful state, which has long since shifted the production of many products to countries such as Poland, Czech Republic, Croatia, Hungary, Greece, Russia, Portugal, Slovenia, Macedonia, Bulgaria , and finally Albania. The ever-increasing international competitiveness, political changes, as well as other disadvantages such as high salaries in the country, high electricity prices, very high environmental protection taxes force many firms in Europe to use the Contract Processing strategy, which is otherwise known as the passive mode, in the country where they operate, are known as active mode firms. Albania with its legislature creates good conditions for foreign investors.

In addition to this, Albania offers other advantages which are mentioned in this paper as:

- a suitable geographic position, which provides favorable links with European countries.
- free and skilled manpower
- quiet political situation in the country
- low production costs.

The active processing enables the processing of various non-domestic goods destined for re-exportation in the form of ready-made products in the country of origin. - Changes in the world markets many firms adapt by taking strategic and operational measures such as: - Providing production materials - Providing quality in the place where it will be operated with the active regime - Securing a viable market position - Ensuring stability of the price- Quality assurance of personnel. These measures are necessary in attracting foreign investors. The correct implementation of all procedures, customs, compliance with applicable law, local culture, political stability in the country give more security to foreign investments . Of course, the Albanian state benefits: Foreign investment enhances the prestige and the name of Albania in Europe, the creation of new jobs leads to the reduction of unemployment, the adaptation of new technologies to further developments in the field of research and science.

Recommendations

Albanian authorities should do their best to improve the business environment, with the aim of increasing FDI inflows. One of the most important measures that can be taken by the government to promote foreign investment is the removal of FDI related barriers in order to improve the investment climate in Albania and its perception by foreign investors.

A policy problem that affects not only FDI is corruption. In order to facilitate foreign investment, an important measure would be to eliminate unnecessary regulations (which create spaces for bribery and corruption). Other regulations should be more transparent and responsive.

The legal framework needs to be strengthened, not only in terms of legislation, but also in its implementation and transparency related to it, with regulations and procedures. Reducing the size of the informal economy would help not only improve the macroeconomic economy but also eliminate the biggest barrier to legitimate business that is unfair competition.

Infrastructure (including electricity and water) needs a solution, in order to stimulate foreign investment in Albania. Increasing public investment in infrastructure is not the only resort; there can be a tendency towards attracting foreign projects in this field through the provision of special incentives.

Regarding the legal framework on taxes, Albania has already signed bilateral agreements with more countries regarding taxes. However, in order to attract more foreign investment, these agreements should be extended to other countries that play an important role in international markets, such as Western European countries (such as United Kingdom) and the United States .

Finally, the Albanian Government can encourage the development of special geographic areas within the country, which represent areas with great investment opportunities in the country, trying to make the whole country more attractive. Such areas are industrial or tourist areas (such as coastal areas). The development of these areas may require large investments and resources, however pilot projects may initially be initiated which can be implemented in broader terms after their operation.

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