


FOREIGN DIRECT INVESTMENTS IN ALBANIA WHICH ARE THE PRIORITY SECTORS FOR FDI'S PROMOTION?

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Abstract

The aim of this article is to explore different sectors which will take priority in the future for attracting Foreign Direct Investments in Albania. The article begins with a short definition of FDI-s and their global overview. FDI-s is very important for the economic development of a country in a time when natural resources are exploited with more efficiency. If we make a comparison with other area countries, the low FDI-s level is dedicated to: the low privatization process of the strategic sectors (energy, water and transport), the weak financial sector, the high level of corruption, the undeveloped infrastructure, informal economy etc. We can say that FDI-s is a key element for Albania growth and development in sectors like agriculture, textile industry, manufacturing, tourism, mineral industry etc. What shall we do? It is important the collaboration with inhibitors and government structures for FDI-s obstacles eliminations.

Keywords: Foreign Direct Investments, Albania, Priority Sectors, Promotion, Development, Privatization Process, Competitive Advantages

INTRODUCTION

“The stock has no country; it is invested where it is gained”

Belonging to a specified definition of IMF, FDI can be determined as: An investment done to profit a specified interest for a long period of time in an enterprise, which operates into an economic environment. FDI-s are introduced in different forms and manners i.e. assets purchasing and assets transfer in another country, reinvestment of profits in another country; all the methods mentioned herein are cases of Direct Investment. In the case of purchasing the assets, you have the rights of control and the ability to take part in a firm management. A loan for a branch firm should be considered as a direct investment.

Forms of Foreign Direct Investment

The merging of an enterprise into another country; Setting up a new enterprise; Additional investment or reinvestment in an existing project, licensed technologies, subcontractor, operators etc

A Global Overview about FDI

Up to the year 2000, the global inflows of FDI-s, are calculated in \$ 1.3 milliard, an increase of 18 % compared with that of some years ago. Considering the figures of the year 2000, the FDI-s' value is increased with 250 % since 1996, 500 % since 1990 and 2000 % since 1982. They held 14 % of private capital and 22 % of the whole investment in production. Whereas the year 2002 was the second year in which the global incomes from FDI-s were reduced with one/fifth, with \$651 milliard.

The year 2008 market the end of a growth cycle in global FDI-s, with worldwide flows down by more than 20 %.(to an estimated \$1.4 trillion). Due to the global financial crisis, the capacity of companies to invest has been weakened by reduce access to financial resources, both internally and externally, and their propensity to invest has been severely affected by collapsed growth prospects and heightened risks. Being at the epicentre of the crisis, developed countries suffered from a one-third contraction in Total FDI-s inflows in 2008; the decline has been particularly significant in countries like: Finland, Germany, Hungary, Italy and the United Kingdom.

In developing and transition economies, preliminary estimates suggest that FDI-s inflows were comparably more resilient in 2008. For them, the growth of FDI-s inflows might still have remained positive. The estimated growth rate value for 2008 stands to 4 per cent. For the short-to-medium term (2010-2015), UNCTAD proposes three scenarios, the probability of which

deepens on a range of factors, including in particular the evolution of the financial crisis itself, the severity and duration of the global recession, and the efficiency of policy responses.

The main factors, which influenced in FDI-s' decrease, are:

- The low economic growth in many countries.
- The falling values of stock exchange
- The cooperation with low profits
- The decrease in the rhythm of the corporate reconstruction and that of privatization in some countries.

These countries are USA (\$113.9 milliard), Great Britain (\$ 37m), and Netherlands (\$22.1) whereas the countries which have attracted most of the FDI-s are Luxembourg (\$126 milliard), China (\$ 53 milliard) and France (\$ 52 milliard).

Foreign Direct Investments in Albania

Officially, there already exists a legal framework to encourage investments. The Law no.7764, dated 2 November 1994, "On foreign investments" was designed to create a favourable climate for investments by the foreign investors in the country. The law offers considerable guarantees to all the foreigners who want to invest in Albania. The Albanian legislation about FDI-s is opened to the right to set up new associations or enterprises. It is based on the principle of national treatment according to which:

- The foreign companies are object to the same procedures with those applied for native companies.
- There are no limitations for entrance in sensible sectors like transport and finance.

The FDI-s in Albania has been in a satisfied level by considering:

- Its economic development level.
- The absence of attracting activities for privatization.
- The social turmoil of '97-'99; this situation played a great role for Albania, as an appealing country. The total cost of the turmoil upon FDI-s resulted to \$136 million for a 3- year's period or 14% of the total incomes.

What is more, at a time when the personal contacts predominate above laws and legal procedures, the investors who are responsible for their reputation, have the tendency to withdraw from investments.

The Profits of Foreign Direct Investments

If a country operates with FDI-s, it has a lot of profits:

- They play a great role in the development of the country, by supporting the employment of new generation and being a mean of technology's transfer.
- FDI contributes in the capital expansion.
- They expand and diversify the exports' portfolio.
- They increase competition.
- They improve management systems in the country.

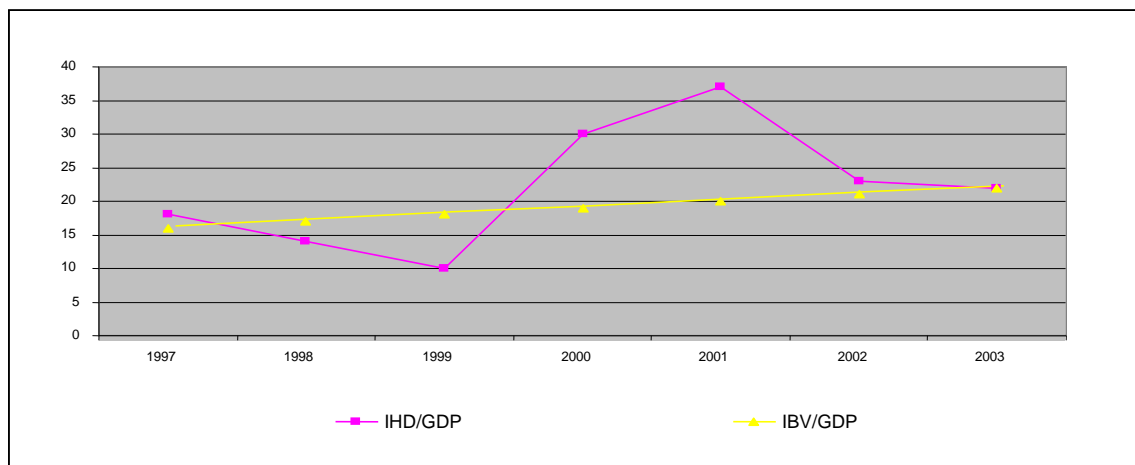
Foreign Direct Investments – main elements for growth in Albania

FDI is the main factor to the growth of the competitive ability of the Albanian products in the international markets, for the support of the economic growth, productivity and competition in its domestic markets.

FDI-s bring advanced technology, knowledge and modern management, contacts with foreign clients and make possible country's economy to profit from a large part of free labour market, which is evident in Albania.

If we compare the native investments with FDI-s in Albania, we can say that FDI-s exceed the native investments. We can come out to three conclusions from the chart:

Figure 1. Foreign investments towards native ones (in %)

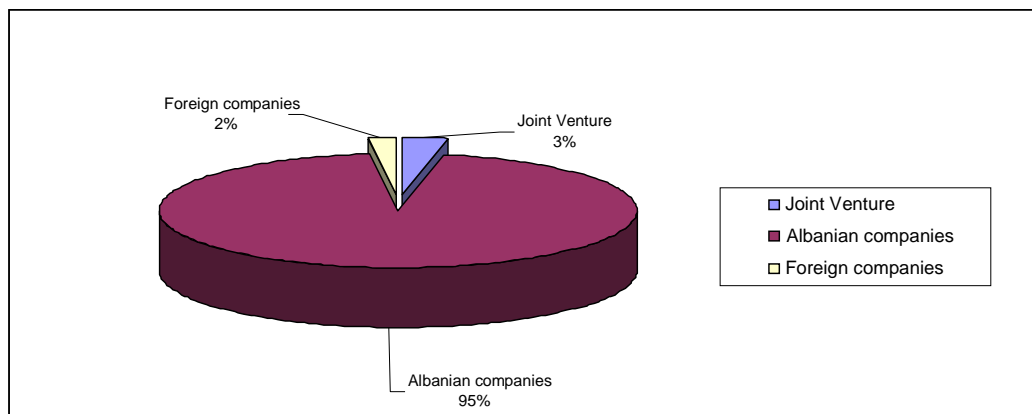


Source: ANIH-APFI

Firstly: FDI-s inflows, given in percentage towards GDP, tend to be in an average level in comparison with other economies in development. Secondly: At the same time, the general level of investments in Albania, given in percentage towards GDP, tends to be down in ratio of the new markets. Thirdly: FDI are increasing faster than native investments, except the year 2002 (just after 11.09.2001). The events in the international scheme influenced in the reduction

of the foreign investments in Albania. These conclusions make us think about the fact that our economy is characterized from a serious lack of native investments.

Figure 2. Direct investors belonging to nativity



Source: ANIH-APFI

Even though in very big numbers (95%), the Albanian enterprises are mainly small and medium ones; in 99% of the cases. This fact demonstrates the embryonic nature of enterprises in Albania and the need to stimulate even small and Medium Enterprises (SME) besides foreign investments. But it is fair the question: - where do we have to pay attention, to FDI-s or to native investments? What is more, are the stimulating policies the same or different in these two kinds of investments?

The developing countries already know the fact that foreign investors are very sensible towards taxes' changes. So, a tax reduction should be a good gun in a country's hands for their attraction.

But, even this policy addressed only to foreign investors has its hidden costs.

Foreign Direct Investments throughout the years and the Comparison with other countries in the region

FDI-s continues to be an important component in the development of the private sector and in the Albanian society in general.

The promotion or FDI-s' attraction has been one of the government's main objectives: - Efforts in creating an attracting environment for foreign investors in Albania. Some of the measurements taken are:

- The minimization of risk
- The improvement of Albanian image as a safe and credible destination on FDI.

- The creation of a safe institution, independent from taxes.
- The improvement of physical infrastructure (energy, transport, telecommunication) and social infrastructure (education, training, management)

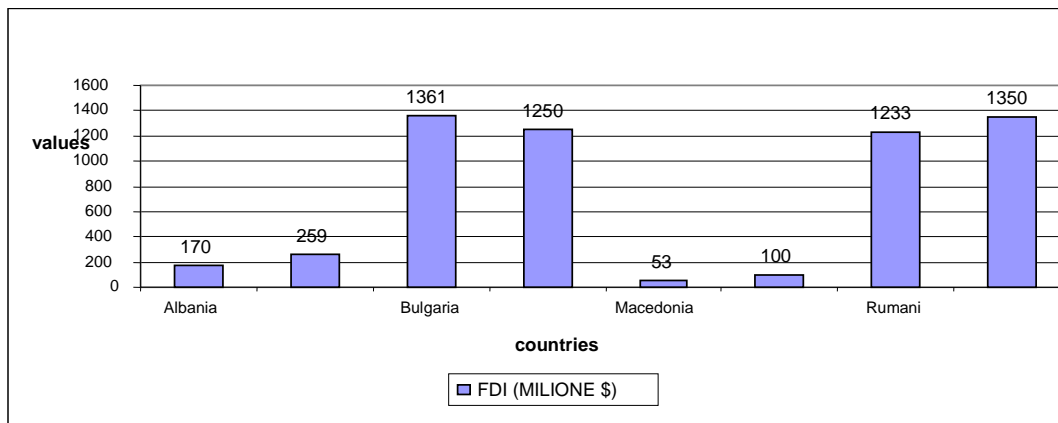
The FDI-s inflows have been in a low level during 1998-1999 and this was because of civil riots in Albania in 1997 and 1998 and unsustainability in the whole region characterized by Kosovo’s war. FDI-s was increased in 2000 in \$143 million and in 2001 they reached the amount of \$207.3 million. This increase in FDI-s came as a result of AMC and Vodafone successful privatization and the concession with DARFO in Alb telecom. In 2002, there was a reduction of FDI-s because of late privatization of KESH, Telecom, Savings Bank, INSIG, etc. In 2003 we see an increase in FDI-s, 16.3% in comparison with 2002.

In 2004, FDI-s reached the amount of \$341 million, due to a successful privatization of Saving Banks (\$126 million), in 2005 the total inflows of FDI-s were \$270 million, in 2006 they were \$325 million and at the end of the third quarter of 2007, FDI-s reached 370 million Euros (\$ 530 million). During 2007, the GOA received 120 million Euros from the privatization of the state –owned Telecom operator, Albtelekom. In 2008 FDI-s resulted to 60% more than one year before. FDI-s reached a record of 600 million Euros. In the up- coming years, FDI continued to have a slight increase.

The Comparison with the other Countries in the Region

From the chart we see that Albania is the second country with the lowest level of FDI-s in the region, after Macedonia. As we can see, Albania has shown weakness in increasing FDI-s. This is shown in the comparative figures on the years given in the chart below. Comparing FDI-s in years, we see that our country has the lowest performance.

Figure 3. FDI (MILLION \$)



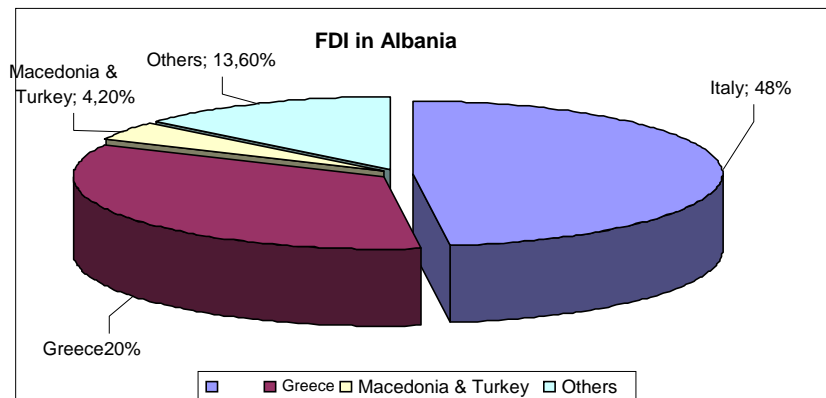
Source: Anih

Let us see now FDI-s belonging to the places of origin, sectors of economy and different districts in Albania. FDI-s in Albania mainly comes from the neighbour countries such as Greece and Italy. Italian investments are concentrated in the western part of the country, the biggest part of FDI-s are SME mainly included in construction (35 %), textile industry (21%), trade and service (16%), nutritive-agriculture industry (8%). Italian companies profit from the competitive advantage from the low cost of the labour market.

Greek investments are mainly concentrated in the south-east part of the country in such sectors as trade and only 2 % in other industries such as textile industry, leather and tobacco industry.

FDI-s according to the Places of Origin

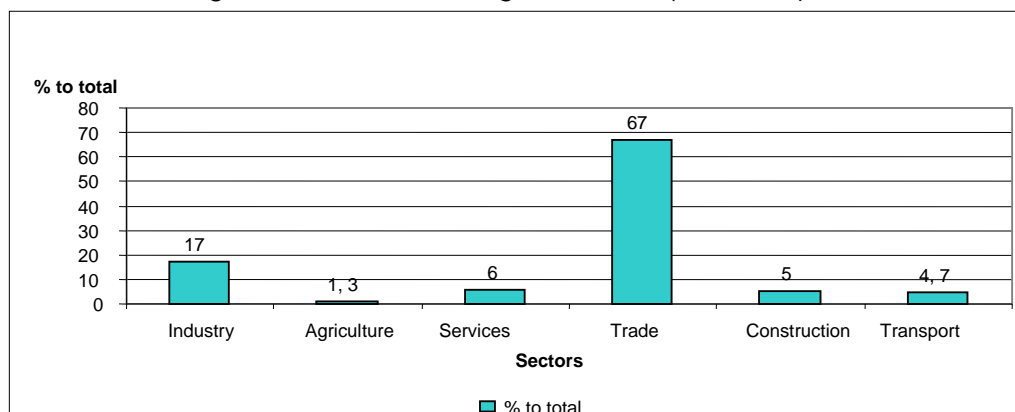
Figure 4. FDI in Albania



Source: Anih

FDI-s Belonging to Different Sectors of the Economy

Figure 5. FDI-s according to sectors, (% to total)

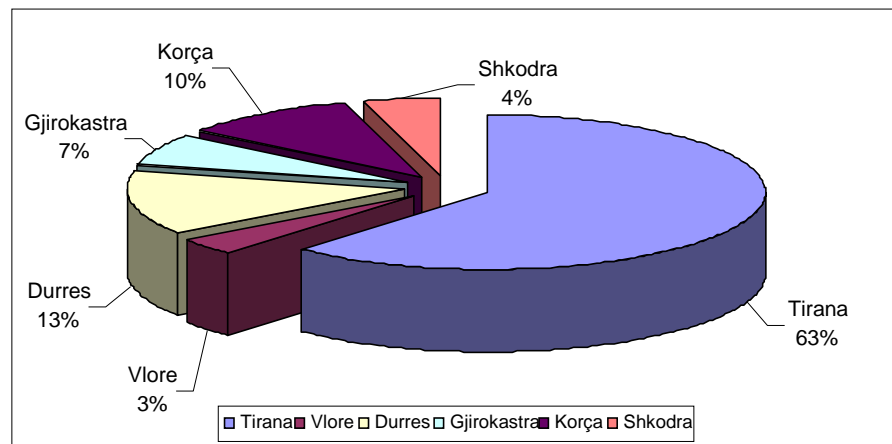


Source: Instat

FDI-s is mainly widespread in the trade sector. This is because of the low cost of the labour market used by foreign companies. But some other sectors of the Albanian economy are not exploited by the native companies and this is a good opportunity for FDI-s' promotion in these sectors. Further below, we will mention the different sectors in which foreigners should invest. We can mention here agriculture, transport, tourism, etc.

FDI-s According to the District

Figure 6. FDI-s according to districts



Source: Instat

FDI-s are concentrated in Tirana and Durres. Only these two areas have attracted 67% of foreign direct investments. FDI-s is located in these two cities because Durres has got the biggest harbour in the country and Tirana is the capital city of Albania. This large concentration is justified from the economic point of view. This is an index for the movement of the population towards the big districts, as well.

Why Do Companies Invest In Foreign Countries?

FDI-s is not the same. Different companies have different reasons and interests to invest abroad. They also decide to invest into different ways and have different priorities when they decide the country where to invest. For doing this, the companies use different techniques, based on the kind of the activity they carry out and the profits they can obtain by investing abroad.

What does the Albanian Environment Offer?

The main advantages that Albanian environment offers are:

- A liberal regime for FDI-s, which guarantees the same treatment for Albanian and foreign investors.
- An increasing market.
- Ratifications of free trade agreements with other countries in the region.
- A strategic geographical position.
- Unexploited natural resources, mainly in the field of tourism.
- Low labour cost and a productive labour power.
- Different sectors which are under the privatization period or under concession.
- Macroeconomic stability. (GDP growth 6 %, low inflation 3.3%).

The Main FDI-s in Albania

AMC – sh.a

It is a telecommunication company which provides this kind of service since 1995. AMC was sold in an international auction supervised by EBRD, in which the biggest offer was introduced by consortium Cosmote (Greece) and Telenor (Norway). The consortium owns 85% of the stocks. Since its privatization, AMC is one of the main private enterprises not only in Albania, but even in the region. In the beginning, this company counted 20.000 clients. After launching a lot of new services in the market and being a monopoly in the country's industry, AMC today numbers 900.000 clients.

The investment done from AMC in maintenance, technology, network's expansion exceeded 200 million Euros. The company's network covers 85% of the territory and 90% of the population. Today AMC counters 500 employees.

Seament Albania Ltd

It is a member of the International Group Seament Holding, SAL, which is present in more than 20 states. Seament Albania has operated in Albanian trade since 1994, as an importing company in Durres harbour, where it has placed a terminal with a capacity of 1.000.000 ton/year. During the privatization process in March 1997, the company purchased 70% of Elbasan Cement Factory and 70 % of United Quarries. In November 1999, it raised the stocks of these companies respectively with 7 % and 16 %. In July 2000, ECF gained the right to privatize the Fushe – Kruja's cement factory, which operates as a supportive branch.

Vodafone Albania

This Company operates since 2001 in the Albanian market. Vodafone, the biggest mobile service in the world, gave the biggest offer of \$38 Million in the international tender for the second license of mobile communication in Albania. Vodafone International Holding owns 51 % of the Vodafone Albania capital and 49 % is owned by Panafon - Vodafone (Greece). Vodafone network covers 75% of the region and 85 % of the population. Vodafone Albania Investment has exceeded 65 million Euros.

Kurum International Ltd

It is a Turkish firm which operates in metallurgic industry. This company operates in Turkey and Kosovo. At the moment, Kurum International produces only for Albanian market, but the future projects involve exports possibility, which means production growth from this company.

Savings Bank

2003 was a successful year for FDI-s in Albania. The biggest achievement of this year was the privatization of the Saving Bank from an Austrian bank – Raiffeisen, with an offer of \$126 million. Its privatization from RZB means further development on banking system and credits based on technology, management and the experience of RZB as one of the most well-known banks in Europe. FDI-s should be considered as successful in 2005. The most important FDI for this year are:

Tirana Casino – Its international tender was won by Regency Hyatt Casino. This business began to exist in 1996. The total Greek assets are 51 % and 49 % are owned by Albanian partners. This investment has pros and cons arguments.

Pros Arguments Are:

1. Increase of Employment
2. Increase in Tax Revenues
3. Increase of Investments
4. Personal Profits

Cons Arguments Are:

1. Increase of Divorces
2. Debts
3. Increase of Crimes
4. Similar Business Bankruptcy

Albtelecom

Alb telecom is the only company of fixed telephony in Albania. It operates in monopole conditions in the country's market. Alb telecom was privatized from the Turkish company consortium "Calik Energy Telecommunication" and "Turkish Telecom" for 120 million Euros. The

third mobile licensed in Albania is “Eagle Mobile”. It was privatized for a single sale and it is part of the Alb telecom privatization’s packet.

Eagle Mobile celebrated its first anniversary while operating in the Albanian market. Its profits are still low compared to those of AMC and Vodafone Albania. This year, the privatization process of O.S.SH started (W.O.S) where a Czech company won the tender. Its total stocks reach the amount of 76% and the rest of 24% will be owned by Albanian partners.

Are we satisfied with FDI’s Level?

The year 2002, with \$137 million, ranked Albania as the country with the lowest FDI-s/ capita among the South – Eastern European countries. While in comparison with the Central European countries we have a satisfied increase of FDI-s. Although the statistics show an increase of FDI-s in 2001, in comparison with 2002, if we deduct the exclusive license sales of AMC and Vodafone, we would have approximately the same level of FDI-s.

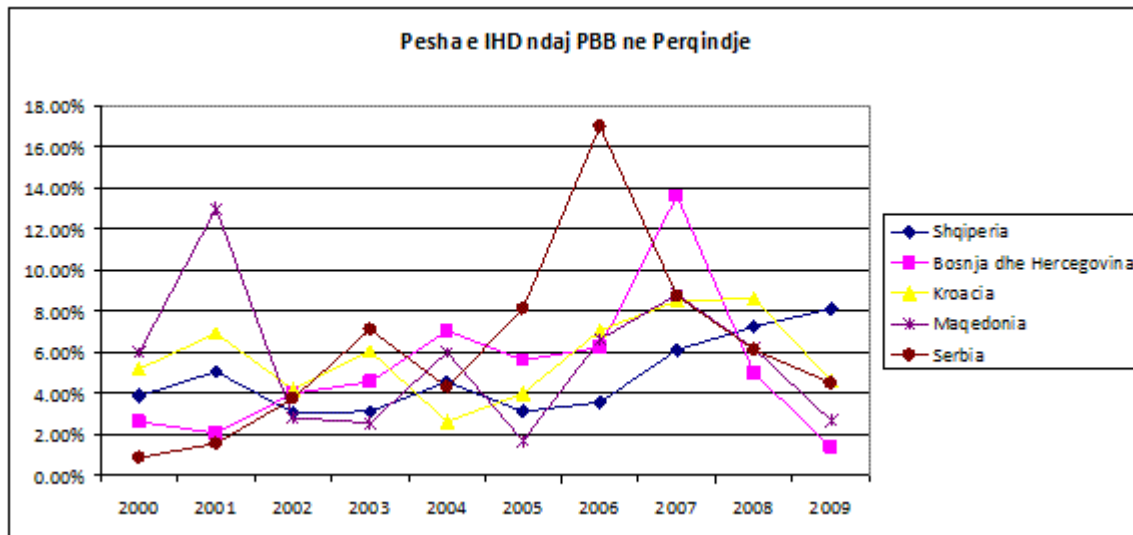
It is the same level in the year 2004 as well, with the figures of \$341 million, - that is too much – because of Savings Bank privatization. In 2008, FDI-s resulted 60% more than the previous year. FDI-s reached a record of 600 million Euros. Even though all these results are achieved, the basic task of the Albanian government is to revise the law on FDI-s and its effective implementation.

Foreign direct investments are an important source of capital flows and the development of an economy. Foreign direct investments include investments of foreign individuals and institutions in the local economy, for the purchase of at least 10% of the equity of an enterprise. Open Data Albania has conducted a research on the value of foreign direct investment (FDI) in Albania and the region, based on World Bank data.

In order to make this indicator comparable because of the different sizes of economies, foreign direct investment (FDI) is put in relation to gross domestic product (GDP) for each country. The data used for the report are based on data from FDI and GDP measured in US dollars (USD) by the end of 2009.

Graphically over the past decade, the value of foreign direct investment (FDI) in relation to gross domestic product (GDP) in percentage has changed according to the chart:

Figure 7. FDI Level



Source: World Bank

COMMENTS AND ANALYSIS: ODA

As can be seen from the chart at the end of 2009, the share of foreign direct investment (FDI) to the gross domestic product (GDP) in Albania has been the highest in the region (8.1%), followed by Croatia (4.6%), Serbia (4.5%), Macedonia (2.7%), and Bosnia and Herzegovina (1.4%). It is noted that the increase in FDI over the past three years in Albania, is associated with a decline in FDI to other countries in the region. Over the past decade, in the region of the maximum value of FDI to GDP has reached Serbia in 2006 (17%), and if this country has reached the minimum value of FDI to GDP in 2000 (0.85%).

Foreign direct investments are an important indicator of the confidence of foreign investors in the country, and they fall down in terms of economic and political crises, and grow in terms of improving the economic and political environment.

RECOMMENDATIONS AND CONCLUSIONS ON FDI

FDIs' Attraction in Sectors which Create an International Competitive Advantage for Albania

It is normal the question: In what products and services should Albania be specialized to attract FDI-s?

The great potential for Albania's economy development is the development of industry, such as food and agricultural industry, timber industry, mineral extracting industry, construction industry, tourism, etc. Hence, Albania offers a lot of alternatives to foreign investors to invest in our country. The sectors of economy where they can invest are too many, but the most strategic

sectors that offer the greatest possibilities and prosperity for investments are: Mines, tourism, textile industry, leather-shoes, agriculture, oil and natural gas

Let us analyse them one by one to make clear their importance and to come to the necessary conclusions.

Mineral Industry

Albania has got considerable mineral resources such as chromium, coal, copper, nickel, etc. The chromium quantity and quality is of a high level. Before the 1990s, Albania was the third world producer of the chromium. Albania has also considerable resources of bauxites and phosphate rocks, which are still not exploited. The production of the mineral industry collapsed in the period of civil riots '91, '92, '97. The main barriers in the development of the mineral industry in Albania are:

- The old technology and supplies
- The lack of experience in modern management.

The Albanian government is encouraging investments in this sector of economy to search new resources.

After 1990s, in many countries in transition (South-East Europe), FDI-s was concentrated in cement production and construction materials. Albania has considerable resources in raw materials; this quantity exceeds 220 million tons. Albania also should attract investors in chromium extraction and in phero chromium production. A traditional power is its mineral sector. As a conclusion, we can say, that national mines and cement factory privatization is a possible strategy for FDI-s promotion in Albanian mineral sector.

Petrol and Natural Gas

Petrol resources in Albania are calculated in 440 million tons and gas resources 1.56 milliard m³, from which 75 millions are natural gas. The privatization law of oil and gas sectors was approved in 2002. The law promotes FDI-s in this sector. As a result of an investment of \$247 million from Premier Oil (UK) and Preussay (Germany) in joint-venture with Alb petrol, oil production is foreseen to increase from 350.000 ton in '97 up to 2.5 million ton in 2016.

FDI-s can support in increasing the capacity of oil production, bringing modern processing equipments and materials and launching modern ways and methods and also advanced technology to reduce environment pollution.

As a conclusion, we can say that the promotion of foreign investments in this sector consists in the exploitation of petrol resources in Kucove and Delvine, in petrol tubes'

improvement, in the modernization of oil production by having an oil of a high quality and the improvement and modernization of Ballsh refinery.

Agriculture

Albania has a lot of possibilities in fostering the growth of the agricultural sectors due to a favourable climate and low cost of labour market in its rural areas.

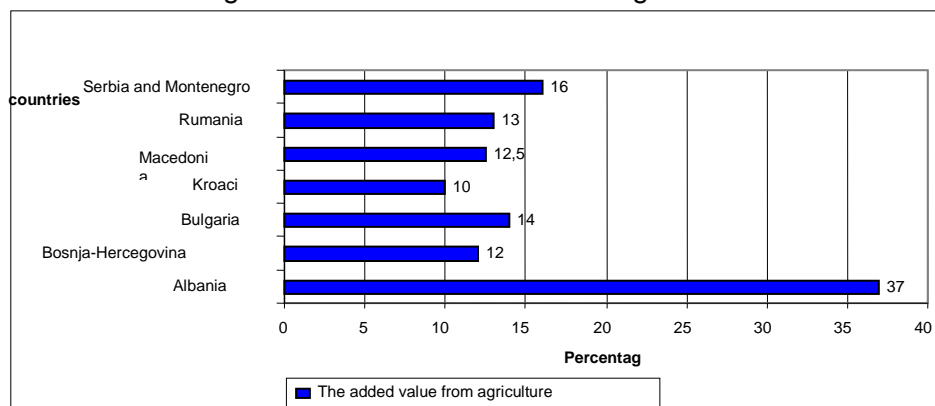
The use of traditional methods in producing fruits, vegetables, meat and other food products, rank Albania as one of the greatest producers and exporters of organic food, which is so wanted in the European and Northern American markets. Today, Albanian agriculture is inactive and is characterized by:

- an old technology
- low mechanism
- bad transport network
- weakness in production, packeting, labelling process
- lack of marketing and of know-how knowledge
- lack of crediting and financial facilities.

Agriculture gives the greatest contribution in country's GDP (37%). GDP from agriculture in 1999 was 3.7\$ whereas in 2004 was reduced in 3%. It is worth mentioning once again the big potential that Albania has in agricultural development, mainly favourite by its climate and position.

As a conclusion, we can say that the promotion of FDI-s in this sector should consist in short-term and medium-term collaboration with different companies to further elaborate and properly pack and label the products produced by the native farmers. In the future, this should influence in the increase of the Albanian exports.

Figure 8. The added value from agriculture



Source: INSTAT

Tourism

During the last 10 years, Europe is the place that has welcomed a lot of tourists. Their flows show that in 2020, Europe will lead the top list of the most tourist countries in the world, with 717 million tourists, followed by Eastern Asia and Pacific with 397 million tourists and USA with 282 millions.

Albania Placed at the Heart of Europe – the Last Secret of the Touristic Europe

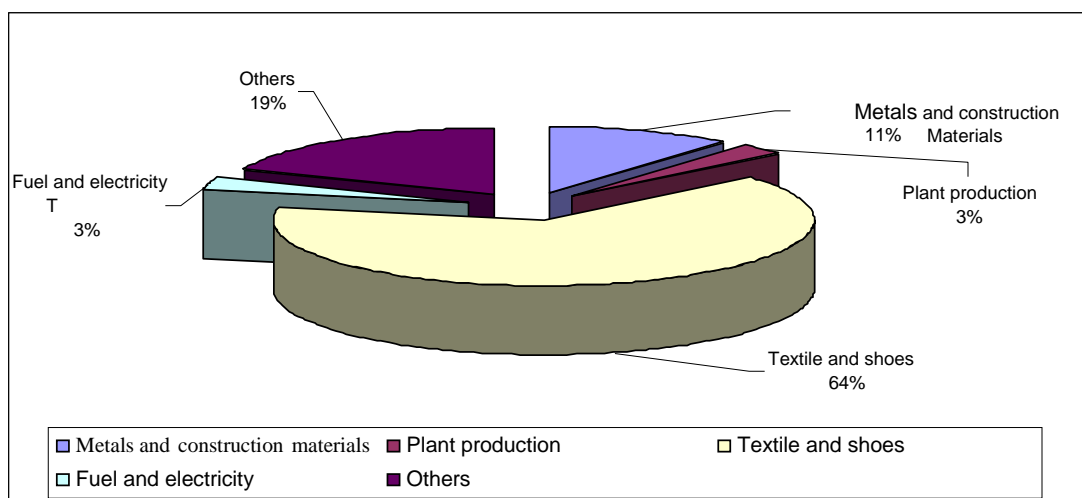
Albania is a rich touristic country, where the changes of relief are dominant: its traditional villages, ancient castles and marvellous seashores. In 2002, the number of tourists that visited Albania was 140.897. The statistics show an increase in 1.25 million tourists in 2012 and the revenues out of this business are calculated to amount at 464 million.

Albanian government has prepared a priority project for tourism development. Albania has too many hotels and touristic places where the people should invest. In these areas, the facilitation for investments is already there.

The long-term vision for tourism development in Albania consists in the properly use of the touristic assets. We can say that in Albania, it is already the possibility to manage and advertise the small hotels and offer touristic packets with low cost. FDI-s will be promoted in medium-term perspectives, when the investment climate will be easier and of course, this requires political stability, reduction of crime and development of infrastructure.

Manufacture

Figure 9. Exports according to product groups



Source: INSTAT

In 1991, chromium was the most exported product. Since then the mine exports are reduced as a result of the old technology and lack of equipments and funds. The last years, Albanian exports consist of small manufactured products like: shoes, textile, food production, construction materials. Exports' destinations are Italy (74%), Greece (12.9%), Germany (3.4%) etc. A large part of the products (textile and shoes) are produced by Albanian companies subcontracted by Greek and Italian SME. A lot of industrial sectors produce goods only for the domestic food market (96%), minerals (55%).

The only exports were textiles and leather – shoes (80%). FDI-s can play a great role in the development of Albania's economy and its products to be competitive in the world's markets. FDI-s can help in filling out the gap of the industrial capacity in Albania.

As a conclusion, we can say that FDI-s in Albania is very important for the country's economic development. Besides the collaboration with inhibitors and government structures, we have to create a favourable climate for technology sector.

- It is necessary the privatization of national companies in strategic sectors like: mine, agriculture etc.
- It is necessary foreign investor's promotion, through common projects in infrastructure development.
- It is of a great importance the attraction of investors from the area, in the trade field.

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