



THE ROLE OF FOREIGN DIRECT INVESTMENTS IN EDUCATION IN ALBANIA: IMPLICATIONS FOR ECONOMIC GROWTH

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Abstract

By supplying capital, developing human capital, and fostering innovation, foreign direct investment (FDI) is becoming one of the key determinants to the economies growing in developing countries. However, attempts to enhance the educational system of Albania through such initiatives as the partnership with international universities, scholarships, vocational training, etc. make this even more solid. This article considers the contribution of FDI to accessibility and quality in education and how it affects the growth of the Albanian economy. This thesis aims to explore how FDI supports jobs, technology, and labor. It is based on examination of critical literature, national statistics from INSTAT and the Bank of Albania, and the existence of other foreign-financed educational projects through several case studies. Efforts to strengthen this with international university partnerships, subsidies, and vocational education and training programs aim to bring even more improvement to Albania's education system. Through FDI, Albania can improve not only education quality but also educational access and outcomes. This paper also looks at how FDI might help Albania's economic growth. Foreign direct investment (FDI) is gradually becoming recognized as an important factor in developing countries' economic development. The provision of capital, the development of

human capital and the encouragement for innovation mean that foreign direct investment (FDI) has never been closer to our attention. Efforts to transform Albania's educational system thanks to the joint efforts of international universities, scholarships, and job opportunities are taking this one step further.

Keywords: Foreign Direct Investment, Education, Albania, Economic Growth, Human Capital, Policy

INTRODUCTION

Direct foreign investment (FDI) is known to be a key driver of economic growth, particularly for emerging and transition countries. In the classical economic theory initial studies, FDI was assumed as a material stimulant of domestic savings and capital accumulation (Solow, 1956). More contemporary endogenous growth forecasts, however, stress that the impact of FDI is not felt only in the long-run on physical capital but also in technology transfer, innovation and the formation of human capital (Romer, 1990; Lucas, 1988). The extensive empirical studies are clear on the point that FDI is beneficial to economic development if destination countries can afford absorptive capacity (education and skills, in particular), to absorb the benefits (Borensztein et al., 1998). They argue that this is critical in transforming the tide of foreign investments into growth of productivity and require a robust human capital.

Furthermore, Aghion and Howitt (1998) argue that knowledge diffusion and FDI-induced learning effects are stronger in educationally advanced economies. Education is at the heart of the creation of human capital, and is now seen as a strategic project, instead of a social cost. Education investment raises the individual productivity levels and aggregate economic output for Becker (1964). Specifically in this milieu, FDI and education are particularly pertinent, because foreign investors also tend to search for a competent labour supply ready for adopting novel technologies and new international business practices. There have been several studies assessing FDI and growth, and education and development too, but very limited research has focused on the FDI as an education sector. Current literature tends to focus on manufacturing and industry, while education is regarded not as a medium of employment to build long-term growth effects through FDI (Talukdar, Sudhir & Ainslie, 2002). But many research reports suggest that foreign investments in education—through foreign universities, academic alliances across borders, and job-related skills training programs—can enhance the quality of schooling, institutional capacity; increase labour market competitiveness. FDI in education is quite important in transition economies. Global challenges such as skills mismatch, youth unemployment and brain drain are characteristic of structural transformation in countries.

According to the views of Barro (2001), to ensure sustainable growth and competitiveness in the global economy, education must be improved.

This study aims to explore how a country can employ FDI for education as an instrument to align national education reform with global standards and labour market requirements. Albania is an important case study on FDI in education. For, once Albania has transitioned to a market-oriented economy along with these reforms, they have started to attract foreign investment and became more open to European and international markets. Although FDI inflows have historically been based on other industries including energy, banking and telecommunications, the education sector increasingly attracts foreign investment in the past few years. International higher education institutions with foreign sponsorship, foreign-funded vocational training schemes, and scholarship schemes are gradually shaping the country's education. Nevertheless, empirical evidence for the effect of FDI on the education value-added in Albania is rather scarce. Knowledge of the role that FDI has on quality education, human capital formation, and economic growth is crucial for the plan of development.

This article seeks to narrow the gap discussed above by analyzing the impacts of FDI on education in Albania and its subsequent effects on economic growth. With an interconnection of empirical and case studies, this study contributes to the broader body of literature studying the aspects of FDI in education and development by aggregating conceptual frameworks and salient policy issues that provide insight into how best to leverage an education-oriented foreign investment (FDI) to realize best outcomes.

LITERATURE REVIEW

Foreign Direct Investment and Economic Growth

A body of economic literature has clearly identified the links between foreign direct investment and economic growth. The primary accounts concentrated nearly exclusively on the immediate effect of FDI via capital accumulation and employment creation (Solow, 1956). Nonetheless, as a subsequent study pointed out, some qualitative dimensions of FDI were included such as technology transfer, managerial knowledge transfer, and productivity spillovers (Aghion & Howitt, 1998). Borensztein, De Gregorio, and Lee (1998) also convincingly demonstrate here through the empirical evidence that FDI is far more effective at creating growth in the economy than domestic investment if the host country's human capital is superior. That may be where education might play a critical mediating role between a foreign investment and sustainable growth. Similarly, Alfaro et al. (2004) argue that the growth driving potentialities of FDI will be subject to financial development and institutional quality. In many developing and transition economies the implications of FDI are diffuse across sectors. While the capital inflow

could directly stimulate the traditional sector, knowledge-intensive fields such as education could have longer-term growth effects when it stimulates human capital and innovation capacity (Barro, 2001).

Education, Human Capital, and Labour Market Outcomes

Becker (1964) developed human capital theory, suggesting that education increases individual productivity and drives macroeconomic growth. Evidence from the literature shows that educational attainment is positively related to income growth, employment and innovation (Lucas, 1988; Barro, 2001). With the transition economy, education has a great bearing on easing structural unemployment and skills mismatch in the transition economies. Investments in education also have high social returns (Psacharopoulos and Patrinos, 2018) especially in countries restructuring economically. It is important for educational curricula to support demand with respect to labour market requirements in order to enhance economic success. If you're an FDI country, international standards, cutting-edge curriculum and hands-on training can help you get there by providing that same alignment. At this point, foreign funded vocational education and training (VET) programs have been found to increase employability and adaptation of talents to work environments (OECD, 2019).

Foreign Direct Investment in Education

Education is an emerging area of empirical research that remains underrepresented. In contrast to standard FDI, education investment focuses on knowledge creation, skills development and institution/facility creation. Cross-border higher education as well as international branch campuses are being used more regularly than ever before (Altbach and Knight, 2007) with the new trend of investment focusing especially on developing countries improving their education system. Research also shows that foreign education participation contributes to better quality of education and facilities as well as improves international recognition (Knight, 2011). Yet concerns about fairness, access and regulation persist. For those effective long-term outcomes to flourish, then, it's governments' responsibility to strike a balance between market-oriented reforms and robust quality assurance frameworks.

METHODOLOGY

Therefore, in this research a mixed-methods research process was used to determine the effect of FDI in education in Albania and economic growth of the country. The methodological approach consists of three correlated parts. Based on the qualitative literature review, this methodology lays the theory-based foundations of integration between FDI,

education and economic development. It draws upon peer-reviewed journal articles, policy documents and international organisation publications. Second, quantitative data is retrieved from secondary sources such as the Albanian Institute of Statistics (INSTAT) and the Bank of Albania. This data covers FDI by sector, education indicators and several macroeconomic variables for the 2015–2025 period. This period, covering 2015–2025 is considered appropriate for our study. It has provided us reliable, uniform data that documents more recent developments in foreign investment and education development, and we can consider projections into the near term (2024–2025) in assessing the effect of FDI in Albania's education sector and economic growth.

In consequence, the research then presents the trends and patterns through descriptive statistical analysis. Then, qualitative case studies of foreign-funded educational initiatives in Albania are presented. These include foreign partnerships on higher education, private foreign-owned institutions, and vocational training programmes funded through foreign donors or investors. Methods triangulation strengthens the rigour and validity of the findings.

ANALYSIS AND FINDINGS

Albania FDI Trends (2015–2025)

From 2015, Albania's FDI inflows have been increasing steadily, driven by, and the implementation of liberalization measures and a reformist drive to enhance the company and economic environment since the beginning of the 2000s. A progressive liberalisation of regulatory regimes, administrative procedure simplification and gradual integration into both regional and European markets have succeeded in developing Albania, making it a much more appealing country for foreign investors.

Traditionally, FDI investments in energy, construction, telecommunications, and financial services typically prioritized activities that could achieve rapid returns, benefiting from Albania's existing advantages. However, it is clear that in recent years, knowledge-intensive sectors have been on the rise of interest especially among expatriates, so now one of the most important areas is education where foreign investment has become more prominent and new industries are forming. The reason for the alignment is several correlated factors.

Transitioning from a predominantly capitalistic and production-oriented economy to a market-driven one, and in parallel making itself available to the international, European, and global value chain, has, amongst other aspects, elevated the demand for a skilled, technology-savvy workforce in Albania. Investment in education – specifically higher education and vocational training – have been discovered by many foreign investors and international institutions to build human capital to address the needs of the developing world economy and to

build capacity there. Second, the expansion of international partnerships between Albanian universities and foreign universities has been accompanied by new joint programmes, branch campuses, and scholarship initiatives that have led to foreign investments. Third, favorable government policies advocating the utilization of public-private partnerships to further aid in education sector and overseas-funded vocational training initiatives have become more popular, and so the incentives for FDI has increased. Although the total inflow of foreign direct investment in education remains lower than in other sectors, it is getting gradually larger indicating that education is considered an investment that should be long term investment in the strategy by investors. Not just enhancing the quality and availability of education, the field delivers broader economic returns ranging from the development of human capital, the creation and support of innovation and the labour market integration of the workforce.

Table 1. FDI Inflows in Albania by Sector (2015–2025)

Year	Total FDI (EUR mln)	Education FDI (EUR mln)	Share of Education FDI (%)
2015	954	32	3.4
2017	1,019	36	3.5
2019	1,212	41	3.4
2021	1,115	46	4.1
2023	1,387	64	4.6
2024*	1,420	69	4.9
2025*	1,465	74	5.1

Note: 2024–2025 figures are estimates based on trend analysis.

Source: Bank of Albania (2015–2023); author's projections.

The information contained in Table 1 confirms an upward pattern of foreign direct investment inflows to Albania during the span 2015–2025 with the education sector having seen a particularly significant increase. While education-oriented FDI is a relatively minor share of total inflows, the share has been growing steadily from 3.4 per cent in 2015 to an estimated 5.1 per cent by 2025. The trends of increasing investment in knowledge-intensive areas indicate a gradual movement in the direction of investment that is becoming relevant in the context of Albania in relation to its economic policy, reflecting the increased weight of development of human capital in Albania's economic strategy.

The rise in education-related FDI after 2019 could also partly justify the fact that demand for trained human capital, increasing integration with the European market and increasing international cooperation between universities are growing. Moreover, the fact that education-

related FDI grew faster than total FDI suggests that foreign investors increasingly perceive education as a strategic sector with long-term returns rather than immediate financial gains. Investments in this manner can be expected to yield some positive spillover gains in better workforce skills, technology transfer, and institutional capacity. The continuation of this trend for 2024–2025 indicates that under conditions of conducive policy support, FDI into education could become a major contributor to enriching Albania's human capital base and contributing to sustainable economic growth.

Education Indicators and Human Capital Outcomes

Table 2. Selected Education and Labour Market Indicators in Albania (2015–2025)

Indicator	2015	2019	2023	2025*
Tertiary enrolment rate (%)	44.2	52.8	61.4	65.0
Graduates in STEM (%)	18.5	22.1	26.7	29.5
Youth unemployment (%)	32.5	26.1	21.4	18.0
Participation in VET (%)	14.3	18.7	23.9	27.0

Note: 2025 values represent projected outcomes.

Source: INSTAT; World Bank; author's estimates.

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Impact on Educational Quality and Accessibility

The education industry in Albania is greatly aided by foreign direct investment in the area and by this, it has been very beneficial for improving the quality and accessibility of education. International universities invested in education, foreign-financed vocational training programs, scholarships, etc., have brought out contemporary education systems, outcome-based curriculum, and the institutional capacity to implement these into the educational setup. A central aspect is the standardisation of curricula as well as the application of international accreditation standards which help make Albanian degrees more comparable to foreign ones (Knight, 2011; Altbach & Knight, 2007).

This alignment enhances the employability of students and optimizes their mobility, within the European Higher Education Area, but also internationally. Scholarships, grants and partnership programmes focusing on underrepresented regions and socio-economic groups have also made accessibility better. Implementing these approaches ensures that educational equity and benefits for human capital growth will not be skewed towards a minority sector or socioeconomically disadvantaged group.

Collectively, the evidence indicates that FDI not just expands educational infrastructure, but it improves the quality of learning outcomes, the relevance of skills to labour market demand and the internationalisation of Albanian education. Together they all support sustained economic growth and competitiveness.

IMPLICATIONS FOR ECONOMIC GROWTH

The aforementioned enhancements in the quality of education, in human capital formation and in the alignment with labour markets have direct and indirect effects on economic growth. According to endogenous growth theory, investments in human capital are major facilitators of productivity, innovation and long-term development (Romer, 1990; Lucas, 1988). In Albania, a growing ratio of FDI in education leads to:

1. Human capital formation – Having a more educated workforce enhances labour productivity, entrepreneurial capabilities and the uptake of new technologies.
2. Technology and knowledge transfer – Through international partnerships and foreign institutions, foreign approaches to teaching, research and management practices are introduced that are new and innovative.

3. Labour market alignment — Vocational and STEM-themed programmes enhance employability as well as mitigate skills mismatches, as youth unemployment rates are falling.
4. Global competitiveness – Graduates with internationally recognised qualifications enhance Albania’s global integration into value chains, which attracts further investments.

Table 3. Channels Linking FDI in Education to Economic Growth

Channel	Economic Impact
Human capital formation	Higher productivity, innovation, and adaptability
Technology transfer	Introduction of modern teaching, research, and management practices
Labour market alignment	Reduction of unemployment, improved employability
Competitiveness	Enhanced integration into international markets and value chains

Source: Author’s compilation based on empirical data and case studies

This can be observed to be true for targeted direct FDI in education as a strategy for sustainable economic growth (especially in transition economies, Albania).

POLICY IMPLICATIONS AND RECOMMENDATIONS

Foreign direct investment in education also provides Albania important strategic potential not only for the development of human capital but for promoting sustainable economic development as a whole. To ensure full benefit from FDI a number of policy options need to be examined. First and foremost, strong regulation and quality assurance frameworks are needed. This would entail mechanisms to ensure that foreign-funded programmes comply with high academic quality standards, preserve transparency, ensure they remain transparent and in line with national agendas, and keep track of standards for foreign programmes through the same national priorities and international standards (Knight, 2011; Altbach & Knight, 2007) are maintained in practice. This incorporates accreditation platforms, curriculum examination and curriculum review processes, and constant monitoring of the quality of instruction.

Second, the cultivation of partnerships between public institutions, local universities and foreign investors can help improve the design of the curriculum, new pedagogies for teaching and the use in innovative models of teaching and research, and capacity for building up the curriculum, and enhancing the research capability of local universities. Cooperative education could also contribute to transfer of technology, and modern equipment and exposure to

international pedagogy and that contribute to reinforce the national education ecosystem (OECD, 2019).

Third, specific programs, scholarships grant schemes and mobility schemes should be promoted to offer high education to students from underprivileged regions and/or the lower socioeconomic strata. Promoting inclusiveness will not only improve the level playing field of human capital development, but will also broaden the source of skilled graduates for the Albanian workforce, in turn providing the impetus for the nation's economic development (Barro, 2001; Psacharopoulos & Patrinos, 2018).

Continuous monitoring and regular evaluation of FDI are necessary. Policy-makers should develop data-driven mechanisms to support measures to measure the success of foreign investments in raising the quality of education, skills, workforce and economic development. This approach will enable adaptive policies and allow for best practices to be developed to help ensure that any FDI in education generates long-term positive returns.

Last but not least, a clear focus should be put on strategically matching overseas financed educational schemes with needs of the country on national level. That means focusing on STEM education, vocational and trade development and youth training and entrepreneurship, aimed at responding to supply-chain demands and to economic diversification policies that cater directly to labour market demands. Combining these interventions will enable FDI to extend educational infrastructure but also to make an ongoing difference, particularly in terms of human capital formation, institutional capacity, innovation and sustainability, and the competitiveness of Albania in the global market.

CONCLUSION

We argue that foreign direct investment in education significantly contributes to enriching Albania's human capital and fosters sustainable economic growth. Analysis of FDI trends, educational indicators, and case studies of FDI programmes supporting education show that education-oriented FDI leads to increased access, higher quality education, and skills in line with the labour market needs. The key outcomes are higher tertiary enrollment, a growing segment of STEM graduates, greater involvement in vocational education and training, and declining youth unemployment.

The above trends suggest FDI in education helps tackle the acute shortage of skills and is linked to long-term economic resilience, innovation, and workforce adaptability. If the trends are sustained with the proper policy frameworks and targeted interventions well embedded in the development of educational outputs, human capital formation, and labour market efficiency in Albania, the outlook is favourable for 2024 and 2025. Albanian graduates with internationally

recognised qualifications will strengthen Albania, foster its integration in regional and global economic value chains, drive more foreign direct investment, and aid in a more competitive economy.

In conclusion, FDI in education is indeed a strategic lever that can leverage and drive long-term economic development by integrating international investment with the development of human capacity, technological advancement, and institutional reinforcement. These implications highlight the need for continued investment, sound policy frameworks, and targeted programmes to ensure that education-focused FDI can optimise the potential impact on social and economic development in Albania. For Albania, however, by utilizing foreign investment wisely, education will eventually become at the heart of sustainable development, innovation, as an increasingly critical weapon of global competitiveness.

LIMITATIONS

This study has several limitations that perhaps will limit the generalizability of the findings. First, the analysis concentrates on 2015–2025, ignoring future policy changes or the spontaneous reallocations of the FDI flow. Second, this study mainly employs secondary data and selected case studies, which may not be appropriate for all overseas investment in education. Ultimately, these findings are based on Albania, and it is worth highlighting the need to be wary of extrapolating these findings to other countries or in other contexts.

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