

FOREIGN DIRECT INVESTMENTS THE EFFECTS ON THE ALBANIAN ECONOMY

Oltjana Zoto

European University of Tirana – Department of Management-Business and Economics
Address: Bulevardi “Gjergj Fishta”, ish NPV 2, Tirana
Tel. Mob: +355 6922 15782
E-mail: oltjana.zoto@uet.edu.al – oltjanazoto@yahoo.com

Abstract

Foreign Direct Investments are a very important segment in the economic activity of a country, due to the effects they bring about. Foreign direct investments in Albania have often been considered as the country's locomotive, since they were focused on the most important sectors of the economy. In theory, in literature and also in practice, the effects brought about by foreign direct investments (FDI) are also known. FDI have brought significant positive effects in the economy, but this does not mean that this work shall only treat the positive effects of FDI, because the aim is also the analysis of disadvantages brought by the FDI's presence in a country.

The issue of Foreign Direct Investment is very broad, but in concrete terms, the main goal of this material is treatment of the theoretical side and the relations it suggests for the FDI in general and the effects that FDI's have brought to the Albanian economy.

Due to the importance of FDI's, almost all countries have encouraged their introduction to the economy. To attract the FDI's, different marketing policies are used, by means of the relevant institutions and organizations. FDI promotion techniques consist in providing the needed information to potential investors, creation of an attractive image of the country as an investment destination and in providing specific service to potential investors. Governments can also offer a series of facilities related to taxation, public properties, reduction of bureaucratic procedures, in order to attract more foreign investments in the country. Many analyses related to FDI promotion have emphasized the need to create and preserve national competing advantages, as a determining factor on input and output flows of FDI's. Competing advantages convince foreign investors that the country provides such possibilities they cannot find in another country.

Keywords: *Foreign Direct Investments, payment balance sheet, added value, circulation of foreign branches, employment.*

1. Introduction

Based on the figures of the intensity of the DFI-s during the years of the transition, it is obvious that from the beginning until 1996, there was an upward tendency of the foreign capital in Albania. It is important to emphasize the fact that during 1995-1996, the pyramidal schemes were at their peak and this factor seems to have influenced the foreign investments. In 1997, the country was involved in a period of extreme instability, because of the fall of the pyramidal schemes, which decreased by 50% compared to their best progress in 1995-1996. The image of Albania after the social and the institutional chaos was negative and the improvement seemed to be so far away. The crisis in Kosovo (1999) was another factor (even though it was regional, it caused the decline of the intensity of the DFI-s throughout the region), which had a considerable impact on the decrease the DFI-s. So, as a summary for the period 1999-2000, we may sum up that it was very inconstant, reaching unstable values as the consequence of the political and macroeconomic stability. In 2000, the DFI-s reached the value of 190 million dollars. This value increased even in 2001. The DFI-s increased particularly after the second license of the mobile telephony at Vodafone and the contract of “Albkrom” with the Italian company “Darfo”.

During 2002-2003 a decline of the level of the DFI-s was marked compared to the year 2001, reaching the value of 195 million dollars. In 2004 the DFI-s marked another increase, 340 million dollars, due to the sale of the Bank of Savings (200 million dollars) to Raiffeisen Bank Austria. Until the end of 2004, almost all the small and average state enterprises were privatized. The year 2005 was characterized by a decrease of the DFI-s up to the value of 275 million dollars. Meanwhile, the year 2006 and later 2007-2008 were distinguished for a prominent increase of the DFI-s, mainly via the process of the privatization of the strategic sectors and due to a series of other measures for the creation of the industrial zones and parks and the improvement in the field of legislation. In 2010, the FDI-s marked even the highest level of these years, while in 2011 a decrease was recorded again because of the global economic crisis.

This study has been structured in four parts. In the first part the progress of the FDI-s from 2004-2011 is analyzed graphically. In the second part a qualitative analysis of the factors which influence on the attraction of the FDI-s is made. More concretely this analysis has to do with the macroeconomic indicators, the agreements of the free commerce our country has signed, the registration and the licensing procedures of the business, the level of the taxes that is applied, the customs fees, the reforms that have been undertaken to guarantee the right for ownership, the developments in the infrastructure and in the sector of the services, the way how privatization has influenced on the attraction of the FDI-s and the approval of the legislation in their favour.

In the third part the assessment made about the business environment in Albania is analyzed and then the comparison of the indicators of the environment with the countries of the region is made. In the fourth part the effects of the FDI-s on the employment and on the added value and on the sales are studied, and the way how they have influenced on the financing of the commercial deficit. At the end of the study some conclusions are made. So the scope of this dissertation is to analyze the environment and the politics that have been undertaken in the country to attract the direct foreign investments and the concrete effects of the FDI-s on the Albanian economy.

2. The progress of the FDI-s over the years

As it can be noticed even in the graph, the value of the FDI-s in million dollars has been instable during the last 17 years. At the end of 2012, the value of the FDI-s reached 1.11 million USD which is the highest value achieved during the period of the analysis. The lowest value was marked in 1999, when the amount of the FDI-s was only 41 million USD. In 2011, the DFI-s reached the value of 742 million euro, because the countries of the origin, where most of the investments came from, were affected by the economic crisis (Greece, Italy).

3. Qualitative analysis of the environment for the attraction of the foreign investments in Albania.

3.1 The macroeconomic situation in the country

During the last years, despite the effects of the financial crisis, Albania has been characterized by a positive economic increase. The increase of the Gross Product per Inhabitant for the year 2010 was 3.8%, in 2011 it was 3.1%, in 2012 it was 1.5%. The predictions for the year 2013 go for an increasing level of 3.1%. The macroeconomic indicators for the year 2011 were characterized by a positive progress, a stability of the exchange rate, stimulating fiscal politics with an average annual inflation which focused on the objective defined by the Bank of Albania. The budget incomes marked a slow increase with a budget deficit of 3.5% of the GDP, the public debt was 59.5% of the GDP, the deficit of the current account marked the value of 12.4% of the GDP, the unemployment rate was 13.3%, the alleviating monetary politics was accompanied with a decrease of the interest rates and a good progress of the financial markets.

3.2 The agreements of the free commerce

In Albania, the foreign commerce was liberated in 1990 and it is backed off by the guidelines of the European Union and the World Organization of Commerce because our country has been a member of this organization since 2000. Albania has signed a series of agreements for the liberation of the commerce, such as: a) **Association-Stabilization Agreement (MSA)**, which provisioned the creation of a zone of free commerce between Albania and EU for a 10-year old period. b) **Central Europe Free Trading Agreement (CEFTA)** which includes 8 countries: Albania, Macedonia, Montenegro, Kosovo, Moldavia, Croatia, Serbia and Bosnia Herzegovina. c) **The Agreement with the Countries of the European Association of the Free Trading (EFTA)**, with countries that are members of EFTA, such as: Island, Switzerland, Norway, and Lichtenstein. d) **The Agreement of the Free Trading with Turkey.** e) **Albania and the Programme of the Generalized System of the Preferences (GSP) of the United States of America** (the export of the Albanian and Kosovo products without paying the customs fee to America).

3.3 The registration of the trading companies and the licensing of the business

The reform of the process of business registration. The registration of a business has been done within a day at the NRC, with less than a euro, since 2007. The number of the steps to open a business has been reduced from 10 to 5. The new businesses may get registered online within

one day to fulfill the requirements in connection with the taxes, the health insurance and the working force.

Issuing the licenses. The licensing procedures have been facilitated in several sectors of the economy. During the period 2007-2008, the undertaken reforms influenced on the reduction of the number of the requirements for licenses from 170, which used to be asked, to 104. In 2009, the National Centre of Licensing started to operate, with its headquarters in Tirana and with the branches in Korça, Shkodra and Vlora. The legislation in the field of business registration and licensing has been drafted in accordance with the EU standards. Its main goal is to reduce the administrative barriers for the businesses that operate in Albania.

3.4 Taxes

The Tax legislation has been part of different reforms. One of the main objectives has been the creation of fiscal facilities and the simplification of the tax procedures for the business, as they are a significant factor for the attraction of the DFI-s.

In Albania, the judicial and the physical persons are subject to the following taxations:

Tax	Tax scale
Taxation on benefits	10%
Taxation on personal incomes	10%
Taxation kept in the source	10%
Taxation on the added value	20%
Taxes on the immovable properties	The level of the tax, the buildings (trading-services) is between 5-200 ALL/m ² /year, it depends on the kind of the building and the location. The level of the tax for the agricultural land 700-5600 ALL/hectare/year, depending on the category of the land and of the district it is located.
Axis	For coffee, juice, water, beer, alcoholic drinks and soft drinks, cigarettes, oil, make-up products, perfumes, deodorants.

¹(Explanation: every subject that has got a business, via which the annual gross income is smaller or equal to 8 000 000 (million) leke during the fiscal year, has to pay the local tax on the small business (Law no. 9632, On the incomes from the property transfer on the immovable property).

3.5 Albanian customs system

Customs fees. The level of the customs fees varies according to the items and they are 0%, 2%, 5%, 6%, 10% and 15%. Based on the agreements of free trading with the countries of CEFTA, EFTA, EU and Turkey, Albania applies “**Preferential Import Fees**”. For the industrial products these fees are 0%, while for the agricultural products they are in accordance with the specifications in the respective agreements.

3.6 Property, land and the immovable properties

A very important element which guarantees the right for property is the registration of the properties in the Registers of Immovable Properties. In order to achieve this purpose the Local Offices of the Immovable Properties Registration were opened in every city. This way the trade of the properties in Albania becomes more attractive for the foreign investors. The state properties may be given to private businesses in these forms: Sold via privatization, Concessions, Renting. The rent agreement might have the value of 1 euro if industrial producing activities with a value of investment of over 10 million euro will be made, or when we have to do with the case to solve the economic and social problems in special areas. In 2010, the Albanian Government has approved 10 economic zones, nine of which have the status of industrial parks and one has got the status of the free zone. The selection of the investors of the economic zones is based on the law 9663, on 18 December 2006 "For the concessions". The concessions for the investors have been given for a period of 35 years, with the fee of 1 euro and have got the BOT structure (build - operate - transfer). Based on the law no. 7980, on 27.07.1995 "For the purchase and the sale of the properties" amended, and the law no. 8337, on 30.04.1998 "For transferring to ownership the agricultural land, the forests, the meadows and the pastures", there is a restriction in connection with the right of the foreigners to buy state immovable properties. The physical or judicial persons have the right to buy land after having made investments in accordance with the construction permission, and the value of the investment must not be smaller than the tripled value of the land. Agricultural lands, forests, meadows and the pastries cannot be bought by the foreign physical or judicial persons, but they have the right to rent them for a period up to 99 years.

3.7 The development of the infrastructure in the country and the services

Motorway, sea, railway, air transport. Albania has got a strategic position because it connects the western Mediterranean countries with the countries of the Balkan and Asia. So, it is considered as a connecting gate between the East and the West.

- a. **Motorway transport.** In Albania, the poor condition of the infrastructure has become a serious obstacle for the international trading, DFI-s, tourism, economic growth, the achievements of the social services and the opportunities for employment, particularly for the inhabitants who live in the rural areas. The general net of the streets is poorer compared to the other countries of the region, with about 39% of the streets that have been asphalted; so an interesting country for the foreign investments in the sector of the streets.
- b. **Sea transport.** Sea transport is an important component, not only in the development of the transport, but even in the development of the international trading and the economy of the country. In Albania, four ports operates: Durresi, Vlora, Saranda, Shengjini. The biggest port is the one of Durres. It covers 81.8 of the sea transport of the whole country.
- c. **Railway transport.** As investments have been made on the motorway transport, no investment has been made on the railway infrastructure since 2005. According to the latest report of the World Bank, the comparison with the EU countries is still far away.
- d. **Air transport.** The investment in the Airport "Mother Tereza" in Tirana is the most successful concession in the country with an agreement in the BOT form for 20 years.

Anyway, the problem is that the concessioner gets the monopoly power as an obstacle for the development of smaller airports in the country to offer international services.

3.7.a Services of energy, water, telecommunication and internet

- a. Electrical power.* The functioning of the Private Public Partnership is managed by the law no. 9663, on 18 December 2006 “For the concessions” intending to increase the efficiency of the concessionary agreements. The concessionary agreements have been applied in sectors such as: energy, mines, the management of the water-sanitation systems, airport infrastructure. In the sector of energy 114 concessionary agreements have been signed for the construction of 327 hydro powers with a value of 1.7 million euro. **b. Water** In 2010, 10 million lek was invested. The budget of the state offered 6.5 million lek and the rest came from the foreign investments. The average supply with water is 14 hours per day. **c. Technology and Information Infrastructure** is another important factor for the attraction of the DFI-s. In 2007 the National Agency for the Information Society (NAIS) was created. Its purpose was to develop the information society and the e-government services. About 80% of the governmental services are offered electronically. The use of the internet by the Albanian families is noticed to have an upward tendency, with 161.000 families in 2011. According to the report of the Global Technology of Information for 2011-2012 of the World Economic Forum, it was indicated that Albania had an increase with 19 units compared to the previous report. According to OECD (April 2010) the spread of the landline telephony remains in the lowest level for the Southeast Europe, while the mobile telephony has increased rapidly. The access in the mobile telephony in Albania is ranked among the best in the region.

3.8 Privatization

Privatization has been an important component for the attraction of the foreign investors. They are permitted to have 100% ownership of the privatized companies. The privatization process of the state companies is towards the end. Albpetrol, Insig have not been privatized yet 16% of the Albanian government shares at Albtelekom, the privatization of four hydro powers (Ulza, Shkopeti, Bistrica 1 and Bistrica 2), the privatization of 1300 former buildings of the army.

3.9 Legislation for the Direct Foreign Investments in Albania. In 1993, Albania approved a legal framework in favor of the DFI-s, which has been amended and is not discriminating for the foreign investors.

.The assessment of the business environment and the comparison with the countries of the region

According to the report of the World Bank “Doing Business in 2011”, Albania is the 82nd among 181 countries (and the 81st even in 2012 with a better index than Bosnia Herzegovina and Serbia).

Figure no.1 Classification of Albania of the main indexes



Source: World Bank, "Doing Business in 2012"

According to the figure, we can notice that Albania has the best index in "The protection of the Investors" (16), "Receiving loans" (24), "Commencement of a Business" (61). Its lowest index is in "Treating the construction permissions" (183rd place among 183 countries), "Registration of the Property" (154), "Receiving the electrical power" (152), "Tax payment" (152).

According to the report of the global competition (2011-2012), the competition has improved in the recent years, in 2009 it was ranked the 96th, but in 2011 it was ranked the 78th among 142 countries of the world. The best indexes according to this report go for the efficiency of the trade of goods (43), for the work market and the institutions. The lowest performance goes for the innovation (123), the development of the financial markets, the macroeconomic indexes, the high education and the trainings.

4 The effects of the Direct Foreign Investments in Albania

4.1 a Added Value. With almost 39% of the total, the foreign sector gives a significant contribution in the added value. In production, the foreign branches contribute the main part, 52%. Both percentages have increased compared to 2007. So, Albania is going through a re-industrialization process based on the DFI-s. At the moment the whole production sector is still too weak and its structure is dominated by the activities of a low technology.

4.2 b Turnover. It represents 27% of the total while in the manufacture industry this figure is 50%. The main industries with the highest involvement of the foreign companies are the

same as the ones of the added value. The turnover of the foreign branches is provided by four main economic activities: industry (30%), transport and the telecommunication (26%), construction (22%) and trading (20%). Referring to 2008, the turnover of the foreign branches in 2009 was 50% higher in nominal prices (41% in real terms, with a deflation from the index of the producer's price). The increase was above the average in construction and manufacture. In production, the turnover of the foreign branches remained almost stable in the textile and clothes sector and for the leather items, but there was a boom in the production of the non-metal minerals. Even though the industrial development has been impressive generally, there have not been any orientations towards the industries with an orientation for export.

4.3 c. Employment

In 2010, the number of FIE (foreign branches with at least 10% foreign capital) constituted 2.1% of the general number. The manufacture sector got the highest percentage even though this sector has a small part in the total of the DFI-s. The foreign branches have a higher turnover compared to the local companies. They have also got more employees with 18% of the employment. The highest level of employment is in the manufacture sector. In connection with the turnover of the foreign branches it has got 29% of the total, where the manufacture sector plays again the biggest role with 51%. As a conclusion, we can say that the percentage of the turnover is higher than the percentage of the employment, which indicates a high productivity of the working force of the foreign branches. The FDI-s in Albania go up to 50% of the total of the investments that have been made. It can be noticed that in 2007 this value is smaller than 30%, while in 2010 it goes up to 50%. So, the increase of the foreign investments in the country is prominent. The foreign investments in production (the manufacture sector) have had an upward trend since 2007-2009, but in 2010 a decrease was noticed. This might be a danger for the economy in the circumstances when it is noticed an increase of the production costs and of the need for the encouragement of the technological developments.

5.2.d. Other effects

The Effects of the DFI-s in the financing of the current account deficit

Table no.2: Indicators of the outer sector (2006-2011) in million Euro and as % of GPI

Treguesit	2006	2007	2008	2009	2010	2011
Bilanci i llogarisë korrente	-471	-824	-1381	-1321	-1019	-1145
si përqindje e PBB	-6.6	-10.5	-15.6	-15.2	-11.5	-12.5
Eksporti i mallrave	631	786	917	751	1172	1406
Si përqindje e PBB	8.8	10.0	10.3	8.6	13.1	15.3
Bilanci i mallrave	-1659	-2104	-2431	-2304	-2083	-2242
si përqindje e PBB	-23.1	-26.9	-27.4	-26.4	-23.4	-24.4
Eksporti i shërbimeve	1157	1421	1688	1771	1702	1747
si përqindje e PBB	16.1	18.2	19.0	20.3	19.1	19.0
Bilanci i shërbimeve	-32	19	69	174	182	135
si përqindje e PBB	-0.4	0.2	0.8	2.0	2.0	1.5
IHD hyrëse	259	481	665	717	793	742
si % e PBB	3.6	6.1	7.5	8.1	9.0	8.1
IHD dalje	-8	-17	-55	-28	-5	-30
si % e PBB	-0.1	-0.2	-0.6	-0.3	-0.1	-0.3
Bilanci i IHD	250	464	610	689	784	712
si përqindje e deficitit të llogarisë korrente	-53.1	-56.3	-44.2	-51.8	-77.4	-62.2

Source: Bank of Albania, INSTAT, GPI for 2011 is 9192,6 million euro

One of the ways to finance the deficit of the current account is the presence of the foreign capital. In the supporting rate of this deficit, the structure of the presence of the capital plays a significant role. Generally, the short-term incomes and the loans are more dangerous to afford the deficit of the current account than the long-term incomes (FDI-s) and the property investments. Even the measures of the incomes of the foreign capital have an importance to support the deficit of the current account. The incomes of the foreign capital in sizes that go beyond the deficit of the current account, despite the positive contributions in short-term periods, over the time might be accompanied with negative consequences in the competitive skills of the economy, due to the influence on the price of the local currency. Despite the stabilizing measures (because if not the monetary offer increases), the inflation influences on the real price of the local currency.

If yes, the preserving of the high norms of interest increases the continuation of foreign capital incomes, influencing on the nominal over-price of the local currency). Generally, the deficit of the current account might be less affordable in the conditions of a real over-price of the local currency, despite the causes of this over-price, as it influences negatively on the competing capabilities of the economy (A.Mancellari, S.Xhepa). Albania has been characterized by a deficit of the current account, which has been financed by three main sources: remittances, FDI and the exports. The deficit of the current account during 2011 was 826.4 million euro or 23.4% higher than the previous year. Compared to the nominal GDP for the year 2011, it was 12.5%. During 2011, the exports were increased by 20% and the constitute 1% of the GDP. The imports during

2011 have had an increasing tendency compared to the previous year, with an increase by 12.4% constituting 42.2% of the GDP. The commerce exchanges during 2011 were increased by 14.3% and about 66.3% of them were done with the countries of the European Union. During 2011, the net FDI-s were 430 million, achieving a decrease of 25.6%, compared to 2010. So the DFI-s for the year 2011 have given a smaller contribution in the financing of the deficit of the current account compared to the previous year. According to the table, we can notice that from 2006-2009, the FDI-s invested half of the deficit of the deficit of the current account, and in 2010 the FDI-s financed 77.4% of the commerce deficit, in 2011 the FDI-s financed 62%, however there was an increase of the commerce deficit.

5 Conclusions and Recommendations

- The FDI-s have important effects on the economy of the country such as in production, employment and the added value.
- A high participation of the foreign companies in some sectors is noticed. This indicates a weakness of the local companies in these sectors.
- The FDI-s have increased the productivity of the working force which can guarantee even a comparing advantage for the Albanian economy.
- Even though the FDI-s are concentrated in particular sectors of the economy, they do not use a very advanced level of technology. Such thing is proved in the sector of the manufacture, where the productivity of the working force between the foreign companies the local ones is very low.
- The FDI-s have given an essential contribution in the financing of the deficit of the current account.
- Encouraging politics should be used for those FDI-s that have the opportunities to offer a high added value.

References

1. Alfaro (2003) FDI and Economic Growth: The Role of Local Financial Markets <http://www.people.hbs.edu/lalfaro/JIEfinal1.pdf> data of access 03.10.2010
2. Bank of Albania (2010) Annual report of 2009 http://www.bankofalbania.org/web/Raporti_Vjetor_new_2611_1.php data of access 06.06.2011
3. Bank of Albania (2009), Business and Investment development Strategy: http://www.dsdc.gov.al/.../business_and_investment_development_strategy_151_1.pdf data of access 25.01.2010
4. OECD (2007) Trends and recent developments in foreign direct investment <http://www.oecd.org/dataoecd/62/43/38818788.pdf> date of access 19.05.2011
5. Grossman G. M. and Helpman E. (1992), Innovation and Growth: Technological Competition in the Global Economy. Boston, MA: MIT Press
6. UNCTAD (2009) "Assessing the impact of the current financial and economic crisis on global FDI flows", January 19, pp 3-5, UN Geneva
7. United Nations Development Programme (2010) "Foreign Direct Investment Report- Albania 2010"

8. United Nations Development Programme (2010) “Foreign Direct Investment Report- Albania 2011”
9. <http://www.instat.gov.al>
10. <http://www.aida.gov.al>