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Gli Investimenti Diretti Esteri in Albania
Foreign Direct Investments in Albania

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List of Abbreviations

- *FDI* *Foreign direct investment*

- *MNCs* *Multinational Corporation or Company*

- *LDC's* *Less Developed Countries (LDC's)*

-*DC's* *Developed Countries DC's*

-*TFP* *Total Factor Productivity*

-*OLI* *Ownership advantages (O),Country's location advantages (L), and internalization*

- *MNE* *Multinational Enterprises*

- *PAG* *Pima Association of Governments*

- *GDP* *General Development Production*

- *HDI* *Human Development Index*

-*NATO* *North Atlantic Treaty Organization*

-UNESCO	*United Nations Educational, Scientific and Cultural organization*
-OSCE	*The Organization for Security and Co-operation in Europe*
- EU	*European Union*
- UN	*United Nations*
-WB	*World Bank*
- WTO	*World Trade Organization*
- OSCE	*The Organization for Security and Co-operation in Europe*
- ALL	*Albanian money (Leke)*
- BOA	*Bank of Albania*
- GNI	*Gross National Income*
- HDI	*The Human Development Index*
- SEE	*South Eastern Europe*
- SMEs	*Small and Medium enterprises*
- UNCTAD	*United Nation Conference on Trade and Development*
- ICT	*Communication & Technology*
- NAIS	*The National Agency for Information Society*
-MOF	*The Ministry of Finance*
-FIAS	*Foreign Investment Advisory Service*
-IMF	*International Monetary Fund*
- %	*Percentage*
- €	*European money (Euro)*
- INSTAT	*Institute of Statistics*
- VAT	*The Value added Tax*
- TAP	*Trans Adriatic Pipeline*

- OST	*The transmission system operator*
- NASA	*National Aeronautics and Space Administration*
- CI	*Community Investment*
- BE	*European Union*
- BPAL	*Bankers Petroleum Albania*
- WP&B	*Work Program and Budget*
- bopd	*Bareli Oil per Day*
- WIR	*World Investment Report*
- CEFTA	*Central European Free Trade Agreement*
- EFTA	*European Free Trade Association*
- PCP	*Progressive Cavity Pump*
-UNDP	*United Nations Development Program*
- CEE	*Central and Eastern Europe*
- KOF	*Globalization Index*

Abstract

Abstract Foreign direct investments are very important for the implementation of strategic reforms, transfer of advanced technologies and managerial methods, there by stimulating economic growth in developing countries and in particular, transition economies such as Albania is. During the last years, Albania experienced an increase in foreign investors' interest in a wide range of sectors, with energy generation, telecommunication, cement production, mining, oil and industrial parks heading the list. However, the major obstacle factors for FDI inflows seem to remain the same: pervasive corruption, weak law enforcement, poor rule of law, lack of developed infrastructure, lack of a reliable energy supply and insufficiently defined property rights. Determining the factors that attract FDI, and furthermore identify the main characteristics of the host country's economy, are essential to understand the reason of FDI inflows to a country or region.

Introduction

The foreign direct investments (FDIs) have taken a very great impact in the last decades in both developing and developed countries, having a positive impact on economic growth. This is mainly due to trade liberalization, as well as other advantages such as higher returns on investments, potential resource seeking, new market seeking, or cheap labor force. In developing countries investors face many risks that go beyond market risks such as corruption, lack of proper definition of property rights, or high bureaucratic rules for businesses. The first chapter of the thesis presents the definition of foreign direct investments in the host country, and have also been treated the positive and negative effects of FDI. This chapter also contains some theories of economists that analyze foreign direct investment like Hymer model.

The core of Hymer's theory derives from the empirical observation that companies, despite the presence of costs and risks, also make direct investments in other countries. Kindleberger analyzes another theory about foreign direct investment .This author stated that the existence of FDI is justified from the monopoly advantages of the companies that make them deepening and systematizing the theses of Hymer (Kindleberger, 1969). He tried to find the reasons why the production of some goods came carried out by multinational companies through FDI rather than companies premises close to the market of products (Ranieri, 2004).

The others authors like Buckley and Casson see Multinational Enterprises as one "Internal market", that is a system of allocation of resources between units decentralized internationally which allows to eliminate imperfections and obstacles of an economic nature and of a social and international context. One of the most important theories in this chapter is Dunning's theory. The central element of Dunning's theory lies in the assertion that "One company will make FDI if it presents a contemporary of three types of advantages like : Ownership advantages, that is exclusive advantages connected to the company same, location advantages, i.e. advantages exclusively linked to the state abroad in which the company carries out FDI and Internalization advantages. These priorities are outlined in this chapter. This thesis in the end of chapter 1 will analyze the relationship of total flow FDI in GDP level. The data represent a time series of 1996-2013 with a period of 3-month for Albania. So, the econometric analysis will have as an object the short-term and long-term analysis of these connections. The second chapter of the thesis provides information on Albania's history, its political systems. This chapter contains some basic data of Albania in recent years such as the number of population, the number of unemployment, the minimum wage, government budget value, government spending. This chapter also addresses the role of Albania's Government incentives in attracting FDI. In this chapter are treated some attractive factors and reasons to foreign direct investments in Albania. Also in second chapter is addressed which are the Incentives and Barriers of FDI in Albania. In this context is treated an analysis of the problematic factors in Albania. Foreign direct investments (FDI) inflows are a very important factor for the Albanian economic growth, especially for underdevelopment economies. This thesis aims to make a deep analysis of determinants of Foreign Investments in Albania.

The third chapter of the thesis presents the performance of FDI in Albania. The FDI attracted by the Albanian economy has been increasing through the years, particularly after 1998. There are potentials for FDI growth in Albania due to countries main competitive advantages such as favorable natural conditions, proximity to key EU markets, relatively low cost but skilled force and progress in the privatization process. In 2000, FDI activity increased not only in terms of volume but also in terms of number of foreign companies investing in Albania. The number of registered joint ventures and foreign wholly owned firms increased by about one-third, between 1999 -2000. For the year 2002 the FDI estimated has been USD 150.0 million.

FDI inflows to Albania for 2010 developed independently to the global and regional trends showing a continuous increase by 23 percent compared to 2009 reaching for USD 1,097 million in 2010, and more than double the level in 2006. Again, this development has been the result of various successful privatizations in sectors of banking, energy and telecommunications. For the years to come, the FDI level will continue to depend on the privatization process due to the fact that the statistical data demonstrate that privatization is the major source of foreign investments in Albania. When the privatization process will finish, major efforts will be dedicated in attracting FDI with 100% foreign capital and in promoting form of cooperation consisting in foreign capital as well as domestic one. In the third chapter treated foreign direct investment in Albania in two different areas in the country of origin and economic sector. Albania receives the main part of FDI (87%) from the European Union, which is even the major trade partner for the country. Albanian wages are ten times lower than those in Italy. Moreover, Italian investors take advantage of the Italian Government grants and subsidies designed to promote Italian investments in Albania. According to the statistical data provided by the Bank of Albania (2002), there are approximately 500 Italian companies operating in Albania. The private Italian investments are estimated to have a value of above USD 400 million. The most important Italian companies are: DARFO in the area of chrome industry: ENEL, ESSEGEJ. More than 60 % of Greek foreign investors benefit from grants offered by the Greek governments to the Greek companies operating in the Albanian market. Actually, according to the Bank of Albania, there are around 213 Greek companies, making 34.2% of the foreign investments in Albania. Turkey is the second in importance as source country for FDI inflows with 14% of the stock in 2008. There were 40 Turkish investors with FDI concentrated in non-financial activities. The third largest source country for 2008 is the United States with 12% of the FDI stock. In 2005, the United States accounted only for 2.4% of the inward FDI stock. Investors from United States are not the ones among the top foreign investors in Albania.

These main four source countries account together for 84% of the FDI stock and 80% of the foreign subsidiaries in Albania for 2008. Greece, Turkey and the United States are the major FDI player. The most important FDI target has been financial intermediation with one third of the stock in 2008. The privatization of the banking sector from foreign banks and investors has resulted in large inflow of capital through which banks have been restructured and credit activities expanded. There are two types of FDI, otherwise known as portfolio investments. They are investments that are carried out through existing financial channels between the investment country and the receiving country, while the other type are the investment that is "directly" carried out in machinery equipment , buildings, and not only during the flows of capital. FDI in Albania are regulated by law No. 7764, dated 02.11.1993 “Law on Foreign

Investment.” The law reads: "Foreigners have the right to engage in economic activities without the need of a possible authorization or license.

This chapter contains data on foreign trade. The largest investment sector is that of energy and gas, which mainly refers to investments from the TAP pipeline, which began in 2016 and culminated in 2017. Energy investments and gas have increased by 183% to 369 million euros, or nearly 40% of the total. Also, the third chapter of the thesis presents how the foreign direct investments in Albania have evolved in the last 3 years from 2015 to 2018. Also this chapter comprising a hypothesis how the investments will go in 2019 in Albania and which are the most important foreign investors in country. Foreign investments in Albania, as much as 30% of the total In 2016, foreign investments in Albania were $ 1 billion and $ 124 million. This means that one in every 3 leks investing in the Albanian economy is already coming from abroad. Two of the most important foreign investors in Albania are Italy and Greece. Over the years, companies with Greek capital have invested 1.2 billion euros, with the main weight being occupied by telecommunications. Italy has invested about 22 million euros in Albania. The majority of the Italian investments are small and medium enterprises (SMEs), engaged mainly in construction (35%), textile and shoes production (21 %), trade and services (16%), and agricultural food processing industry (8%), Italian companies take advantage and make profits from the Albania' comparative advantage in low cost quality force. The last chapter contains a case study about one of the most important foreign company in Albania. This company is one of the biggest investor in the years, which uses the largest oil field patron land concession in Europe. This case presents the investments made by the Canadian Bankers Petroleum Albania Ltd and the results obtained from these investments, technological upgrades for the exploitation of oil at the Patos-Marinza site, environmental improvement operations, community assistance etc. It is worth pointing out that for the realization of this study material, a series of data from different sources of technical, economic and financial nature have been used, which increase it with more scientific and scientific values. A part of this company was purchased by Geo Jade Petroleum. Bankers Petroleum today is a Chinese-Canadian company. Geo Jade Petroleum bought the rights to control two Albanian oilfields worth 422 million dollars, as well as have won the concession of Mother Teresa Airport in Tirana Capital City. At the end of this thesis are given important conclusions and recommendations for further enhancement of the effectiveness of foreign direct investments in Albania.

CHAPTER 1

Literature Review On Foreign Direct Investment

1.1 Defining FDI

Foreign Direct Investment (FDI) in the economic term is own and investment made by foreign parties in a country and can be an important factor in improving the existing technical processes. Advances in technology and process it improves the competitiveness of countries the domestic economy. FDI improve the quality of products and processes in a particular sector, increased attempts to better human resources, can create jobs in order to increase productivity, skilled and semi-skilled workers needed. Foreign investment in one country reduce unemployment and thus reduce social problems.

Foreign investors have an important role in economic development. If a country operates with FDI-s, it has a lot of profits like contribution in the capital expansion, they expand and diversify the exports' portfolio and improve management systems in the country. Foreign direct investment has components like, new equity from the parent company to its branch in the host country, reinvested profits of the foreign company branch to the host country , short term and long term loans from the parent company to its subsidiary. Foreign direct investment is an investment done in a country by an investor who buys a property, asset in another country to manage it. Foreign investment includes two categories: direct investment and portfolio investment. In direct investment, investors invest capital into a firm for a return on the investment and has the right to participate in the management of the firm. In portfolio investment, investors purchase securities (such as stocks and bonds) for a return on their investment. FDI inflows may lead to an increase in total productivity through dissemination of knowledge, technology transfer and promoting linkages with local firms. Significant increase in foreign direct investments (FDI) in the last 30 years continues to cause conflicting reactions, both in industrialized countries and in developing countries. According to the analysis of Alfaro (2006) macro empirical literature shows aweak exogenous positive effect of FDI on economic growth. Findings from the literature show that the capacity of a country to have advantages in attracting FDI is limited by local conditions of the country such as the development of financial market, level of education, absorptive capacity etc. Borensztein, De Gregorio & Lee (1998) and Xu (2000) show that FDI bring technology that translate into higher growth only when the host country of FDI has a minimum of human capital. Alfaro, Canda , Kalemli-Ozcan and Sayek (2004), provide evidence that only countries with well-developed financial markets benefit significantly from FDI in terms of economic growth.

According to Alfaro (2006) constant presence of FDI in economies with well-developed financial markets, experience growth rates that are almost two times higher than those of economies with poor financial markets. Increased FDI or the relative productivity of the foreign firm leads to higher additional growth in economies with developed financial markets compared with those economies where financial markets are underdeveloped. It was also found that local conditions as market structure and human capital generate positive effects of FDI on economic growth. According to WIR , developing countries, to attract foreign investors have to reduce product cost and increase competitiveness in exports. Country markets oriented by FDI, reducing demand and slow growth lead to reduction or delay in FDI in the country. Foreign Direct Investments (FDI) are an important element for the socio-economic development of any country. FDI provide risk capital instead of interest-bearing loans, and is a good indicator of the confidence of international investors in the economy. Attracting FDI is largely supported by the political framework, legal and administrative framework for doing business in a particular country. While attracting foreign capital remains essential to the economic growth prospects of the Western Balkan countries, it can also lead to increased dependence on imports because foreign investors tend to rely more on their purchases from their countries. For the Western Balkan region remains a challenge to achieve a balance between attracting FDI, especially those with knowledge and technology of high quality and development of the domestic economy with an export-oriented perspective.

Under the perfect markets theory the main assumptions relate to:

a)the differentiated rate of return assuming risk neutrality. The first effort to explain FDI belongs to the theory of Ricardo, based on comparative advantage. However, this theory cannot explain fully FDI because it takes into consideration two countries, two products and a perfect mobility of factors and exclude the risk factor or barrier to capital movement;

b) the portfolio diversification assuming that risk exists and

c) market size that explains that size matters. Many empirical studies have proven that in reality it is impossible to comply with this hypothesis, because the ex-ante data do not fit to the actual ones.

Under the imperfect markets theory, when a firm invests in another country, it has the disadvantage of competing with local firms in many ways and this is explained by the location hypothesis developed by Dunning in 1973, 1980 and 1988. This hypothesis is based on the argument that a firm decides to indulge in FDIs due to economic, political and social advantages. Economic benefits relate to those of factors of production such as cheap labor, natural resources, market size etc. Political benefits include specific government policies that affect FDIs, while social advantages include cultural diversity, attitude toward strangers etc. But the main assumption for the decision to expand by investing in FDI is based on the complementary advantages deriving from: imperfect competition in product differentiation, imperfect competition in access to patent, managerial and operational skills, and imperfect competition in economies of scale and government intervention (Nonenberg et al. 2004, 2-4).

The theory of internalization was developed by Buckley and Casson (1976), then by Hennart (1982) and Casson (1983). Hymer (1976) identified 2 major determinants of FDI. Hymer demonstrates that FDI takes place only if the benefits of exploiting firm specific advantages outweigh the relative costs of the operations abroad. Another theory relates to the effect of the exchange rate on the FDI decision. According to this theory a country with strong currency will tend to invest in other countries, while countries with weak currency tend to be host countries, or recipient of FDIs. Theories based on other variables explain the relationship between political risk, country risk, tax policies, trade barriers, government regulation and FDIs. Also devaluation of currency cause political risk and have negative effects on FDIs decisions.

The study conducted by Campos and Kinoshita (2008, 3-13) finds a strong empirical relationship from reforms to FDI in particular from financial liberalization and privatizations using a panel data for 19 Latin America countries and 25 transition economies from 1989 to 2004. In many countries financial markets were liberalized, state-owned enterprises were privatized and trade barriers were gradually been removed. From the point of view of foreign investors, investment decisions in emerging markets are influenced by economic and political risks. According to this study, it was concluded that financial reforms are more important to FDIs than privatizations and trade liberalization. According to Prasad et al. (2007, 3-25), it is concluded that foreign capital inflows, including FDIs, can boost growth only when the recipient countries' financial systems are developed enough to channel foreign capital efficiently to finance productive investment.

According to Bevan and Estrin (2000, 20-27), it is argued that greater macroeconomic and political stability of the host country could attract more foreign investments. According to Caves (1992) and Singh and Jun (1996, 67-105), FDI and trade openness can be positively related as FDI flows can be considered complementary to trade flows. According to Gelos and Wei (2005, 29-87), institutions matter on FDI decisions. The study finds out that when the indicator on “autonomy from political pressure, quality of bureaucracy” is rated high, it shows that there is a low noneconomic cost for investors to invest, because there is less likely that the government will get corrupted. All the above mentioned theories and empirical studies help us conclude the determinant factors that explain the existence of FDIs. For developed countries, the theory that explains FDIs is efficiency seeking and size of the market, while for developing countries, theories are based on the ground of new market seeking, such as cheap cost of labor etc. The reasons of FDI flows to Albania could be explained by imperfect market theory on the ground of economic benefits related to cheap labor, potential new market seeking and natural resources, which is being considered a determining factor in the last years.

1.1.1 Positive Effects of FDI

The reason why we explain the effects of FDIs is because we consider it important to analyze the positive and negative effects from the home country and host country perspectives, the differences between countries addressing culture, language, legal system, economic development, or geographical position. The positive effects of FDIs are as follow (Moosa 2002, 68-77): The capital provision is more stable and there is a long term commitment because of the access the home country firms have in international capital markets. Therefore, the host country has more capital opportunities from FDIs, offers advanced and modernized technology (know-how) transferred from the country of origin to the host country, which helps in the transformation of scientific knowledge into a market. Access to raw materials is easier because FDI firms control the whole process from production to the final delivery of the product and therefore have a large network with many suppliers. Macroeconomic growth is commonly considered as the most potent source of poverty relief, particularly in the poorest countries. Beyond the initial macroeconomic stimulus from the actual investment, FDI may influence growth by raising total factor productivity in the recipient economy. This works through two channels, namely (i) the spillovers and other externalities visa-visa the host country's business sector, and (ii) the direct impact on structural factors in the host economy. (www.cuts.org,p. 3)

Foreign Investors offer high managerial and operational skills, which are transferred in the host country. Employment increase, FDIs contribute directly to employment opportunities either through new plant facilities or distribution. Foreign direct investment in the economy of a country helps to make it more competitive. Multinational corporations while setting up offices bring in cutting edge technologies that help to boost the business and provide employment to a large number of people. A nation cannot generate huge investments on its own to upgrade the infrastructure in construction and power industries . It should be sourced from other countries that have huge foreign exchange reserves. By inviting FDI, the government can eliminate monopoly of the local companies and benefit the customers because they can avail quality products. Moreover, it will force the companies to chart out the business strategy and deliver customer-centric services.

The foreign company trains the local human resources to enhance their skill sets, thereby bridging the gap between education and employability. It plays an important role in enhancing the productivity of the employees. The nation receiving FDI benefits from the technology transfer of the foreign company. Moreover, it also pays taxes to the host country and sources raw material from the local suppliers to manufacture the finished goods. It is a wonderful option for the developing nations to improve the economy apart from becoming major exports destinations. Organization with FDI uses the local employees because they are cost effective and provide quality output. Therefore, it improves the balance sheet by eliminating the production overheads in the form of high wages. FDI is a more expensive way to obtain technology when compared to direct purchasing and licensing, if technology is obtained through FDI, then in reality there is no cost to the host country and in many cases FDI is the only way for a host country to obtain technology. FDI brings with it the skills and knowledge necessary to make technology useful through the transfer of technical knowledge, FDI enhances human capital.

1.1.2 Negative Effects of FDIs

Home country firms that involve in FDIs have net positive effects of FDIs in their balance of payment, while host countries (ex. developing countries) have negative effects in the balance of payment. The negative effects of FDIs are as follow: Crowding out of local firms. FDI firm, due to the advantages it brings to host country, may damage the activities of local firms, causing a worsening on their performance. Environmental damage. Host country governments, in an effort to attract FDIs, compromise with host country firms that are not environmentally business friendly. This is especially true in developing countries where standards and rules in environment are not strong. Wage inequality. FDIs offer more attractive wages to the staff and this affects local firms through using their skilled labor. Lax labor laws combined with unemployment in the developing countries leads to exploitation of workers by multinational corporations. They shift the manufacturing base from higher income nations to lower ones in order to save money ,the working conditions at the new places are anything but good.

In spite of foreign direct investment coming into the country by the company is basically deployed to earn profits from the native customers. Therefore, the net amount earned is transferred to the parent nation. In addition, the human resources are forced to work for long hours with the absence of health insurance. In countries where the comparative advantage is cheap labor, there is the potential for MNCs (a multinational corporation or company) whether directly or indirectly, to commit human rights abuses. This is seen quite often in underdeveloped countries and in countries where there exists either inequalities between men and women or a large discrepancy between the income levels of the poor and the rich. Examples of human rights abuses are violent security measures, discrimination, gender inequality, the failure to provide safe and healthy work environments, especially in the clothing industry, where manual workers are employed at very low wages for long hours and under poor conditions and child labor, although this is less typical. When analyzing the effects of FDI on society, there is distinction between core labor standards and other labor standards. Core labor standards are 1) freedom from forced labor, 2) equal opportunity for employment, 3) the abolition of exploitive forms of labor, and 4) the right to collectively bargain and freedom of association. Other labor standards relate to the conditions in the working environment and the labor market, such as health and safety standards, annual leave with pay, and minimum wages; these standards are usually referred to as "acceptable working conditions." While core labor standards are commonly, but not always, accepted. The controversy concerning these labor standards, centers on the lack of them in many developing countries (Busse, 2002). In the age of information technology, the increase in information and access to information has dramatically changed the way businesses operate. This increase in information reveals those corporations that commit human rights abuses. As a result, MNCs whose strategy is reliant on quality and prestige of brand name, have increased their compliance with regulations that are in place to protect core human rights. This does not, however, obligate MNCs to provide the same benefits and protections that are provided to U.S citizens and citizens of more developed countries (Spar, 1999).

Regarding the way that FDI contributes to gender inequality, discrimination and human rights abuses, the case of Hungary provides an example. Hungary emerged into the global economy during the 1980's as "the happiest barrack" of the Soviet Block. The Hungarian economic and social structure during this period was characterized by "relative flexibility and a higher standard of living." (Kiss, 2003, p. 3) After a series of political regime changes during the

1990's, the economic and social situation took a turn for the worse and Hungary suffered a period of recession that peaked in 1994 when the government deficit grew to 7.5 percent of GDP and public-sector debt ratios grew to 85 percent of GDP. Following the decline in economic growth, the socialist-liberal governing coalition introduced a "comprehensive financial adjustment package" (Kiss, 2003, p. 3) aimed at reforming government finances by reducing personnel in the public sector, freezing revenue increases, and cutting back social welfare provisions and publicly subsidized services. During this period of "Hungarian transformation", economic growth was facilitated by dramatic increases in FDI, exports, and privatization that helped reduce foreign debt and the balance of payments. The economic turnaround was deemed one of the most successful in Europe (Kiss, 2003). By the late 1990's, foreign-owned companies dominated the Hungarian economy; Hungary had the highest ratio of cumulative FDI inflows to nominal GDP in Eastern Europe at 17.8 percent. Yet, this economic growth spurred a drastic decline in social welfare marked by increases in poverty, inequality, and social exclusion.

The increase in FDI also caused a major loss in employment as most of the growth was classified as "jobless growth." As FDI by foreign firms began to dominate the economic environment in Hungary, it became difficult for smaller, less efficient, domestic firms to gain strategic advantages, and many were eventually driven out of production and manufacturing industries. The economic recovery of the period did not have trickle-down effects, and at the same time the government deconstructed the social welfare system. Even after FDI inflows increased, the government did little to restore social welfare programs (Kiss, 2003). The economic recovery was accompanied by increased unemployment and inactivity for women. Females in many industries were crowded out of the work force by males seeking employment. The losses in employment opportunities forced many women to drop out of the labor force, and they are now finding it difficult to re-enter the labor market. Now considered a "secondary workforce," women often suffer discrimination at the workplace. Those that are unemployed face poverty, a loss of social benefits, and a decline in political representation (Kiss, 2003). A major concern for many has been the effect of FDI on women's health. In the border region between Mexico and the US, there has been an increase in production facilities for textiles, electronics and garments; these facilities are called Maquiladoras. In these factories, women are typically hired for low-paying, labor intensive positions and are often exploited because they are easier to control and because working in Maquiladoras is their only option for earning wages.

In most regions of Mexico, women are viewed as second-class citizens and are denied many of the basic human rights afforded to women in more developed cultures, it is women who bear the burden of poverty and human rights abuses. Many MNCs that have set up these production facilities, have been accused of exploiting these inequalities by failing to implement rules and regulations concerning basic human rights and for failing to provide the local population the same benefits that are provided to employees in the US. MNCs do not provide safe working environments, and these women are often exposed to dangerous chemicals and forced to work long hours with no breaks. They are also harassed by supervisors and are forced to submit to medical examinations prior to being hired to ensure that they are not pregnant. (Hippert, 2002)

1.2 Types of FDI

There are two types of foreign direct investment, horizontal and vertical FDI. Horizontal FDI occurs when the MNE enters a foreign country to produce the same product(s) produced at home (or offer the same service that it sells at home). It represents, therefore, a geographical diversification of the MNE's domestic product line. Most Japanese MNEs, for instance, begin their international expansion with horizontal investment because they believe that this approach enables them to share experience, resources, and knowledge already developed at home, thus reducing risk. If FDI abroad is to manufacture products not manufactured by the parent company at home, it is called conglomerate FDI. For example, Hong Kong MNEs often set up foreign subsidiaries or acquire local firms in Mainland China to manufacture goods that are unrelated to the parent company's portfolio of products. The main purpose is to seize emerging-market opportunities and capitalize on their established business and personal networks with the mainland that Western MNEs do not have. Vertical FDI occurs when the MNE enters a foreign country to produce intermediate goods that are intended for use as inputs in its home country (or in other subsidiaries') production process (this is called "backward vertical FDI"), to market its homemade products overseas, or to produce final outputs in a host country using its home-supplied intermediate goods or materials (this is called "forward vertical FDI"). An example of backward vertical FDI is offshore extractive investments in petroleum and minerals. An example of forward vertical integration is the establishment of an assembly plant or a sales outlet overseas. The liability of foreignness represents the costs of doing business abroad that result in a competitive disadvantage vis-à-vis indigenous firms. An example of this liability is the lack of adaptation to European customs, from transportation models to food, by the Walt Disney Company when establishing its first park in Europe, Euro Disney (renamed Disneyland Europe since then). Utilizing established competencies abroad in the same product or business as that at home helps the firm overcome the liability of foreignness and thus reduces the risks inherent in foreign production and operations. Horizontal FDI enables (the MNE Chapter 3: Foreign Direct Investment Theory and Application 61 03-Shenkar-45427.qxd 11/12/2007 3:06 PM Page 61)to quickly establish its competitive advantage in the host country because the company's key competencies, whether technological or organizational, are generally more transferable. Conglomerate FDI involves more difficulties in establishing market power and competitive position in the host country. These difficulties arise from the firm's inability to share distinctive competencies developed at home. Finally, vertical FDI, whether backward or forward, can create financial and operational benefits (e.g., transfer pricing, high profit margin, market power, and quality control) but requires global coordination by the headquarters.

1.3 The Relationship between Foreign Direct Investment and Economic Growth

The relationship between FDI and economic growth has motivated a voluminous empirical literature focusing on both developed and developing countries. Several studies find a clear positive link, while others do not. Research that focuses on data from only less developed countries (LDC's) has tended to find a clear positive relationship, while studies that have ignored this distinction, or have focused on data from only developed countries (DC's), have found no growth benefit for the recipient country. Neoclassical models of growth as well as endogenous growth models provide the basis for most of the empirical work on the FDI-growth relationship. The relationship has been studied by explaining four main channels: (i) determinants of growth, (ii) determinants of FDI, (iii) role of multinational firms in host countries, and (iv) direction of causality between the two variables (Chowdhury and Mavrotas, 2005).

According to the neoclassical growth theory, economic growth generally comes from two sources: factor accumulation and total factor productivity (TFP) growth (Felipe, 1997). Of these two sources, the empirical literature usually focuses more on studying the growth of factor inputs than the growth in TFP. This is due to the fact that factor growth is easier to quantify and analyze while difficulties abound in the measurement of TFP growth due to the lack of appropriate econometric modeling techniques as well as unavailability of appropriate data. As opposed to the limited contribution that the neoclassical growth theory accredits to FDI, the endogenous growth literature points out that, FDI can not only contribute to economic growth through capital formation and technology transfers (Blomstrom et al., 1996; Borensztein et al., 1995) but also do so through the augmentation of the level of knowledge through labor training and skill acquisition (de Mello 1997, 1999). In the framework of endogenous growth models, several channels are at work. More precisely, three main channels can be detected through which FDI affects growth. First, FDI increases capital accumulation in the receiving country by introducing new inputs and technologies (Dunning, 1993; Blomstrom et al., 1996; Borensztein et al. 1998). Second, it raises the level of knowledge and skills in the host country through labor and manager training (de Mello, 1996, 1999). Third, FDI increases competition in the host country industry by overcoming entry barriers and reducing the market power of existing firms. As mentioned by Chowdhury and Mavrotas (2005), a large number of empirical studies on the role of FDI in host countries suggest that FDI is an important source of capital, complements domestic private investment, is usually associated with new job opportunities and enhancement of technology transfer and spillover, human capital (knowledge and skill) enhancement, and boosts overall economic growth in host countries . On the other hand, a number of firm level studies do not lend support for the view that FDI promotes economic growth . Concerning developing countries, macro-empirical work on the FDI-growth relationship has shown that subject to a number of crucial factors, such as the trade regime, the human capital base in the host country, financial market regulations, banking system and the degree of openness in the economy FDI has a positive impact on overall economic growth .

More recently, a series of papers have been published that examined the linkages between the effectiveness and regulations of financial markets, FDI and growth. In essence, Hermes and Lensink (2003), Durham (2004) and Alfaro et al. (2004) all find that countries with better financial systems and financial market regulations can exploit FDI more efficiently and achieve a higher growth rate. These studies argue that countries need not only a sound banking system, but also a functioning financial market to allow entrepreneurs to obtain credit to start a new business or expand an existing one. FDI's positive impact on growth depends on local conditions and absorptive capacities. Essential among these capacities is financial development. These results imply that countries should reform their domestic financial system before working on attracting FDI. Vast literature on the determinants of FDI in developing countries clearly indicates the importance of infrastructure, skills, macroeconomic stability and sound institutions for attracting FDI flows. During the last decade, a number of interesting studies of the role of foreign direct investment in stimulating economic growth has appeared. In the survey of de Mello (1997), two main channels through which FDI may be growth enhancing are listed. First, FDI can encourage the adoption of new technology in the production process through capital spillovers.

Second, FDI may stimulate knowledge transfers, both in terms of labor training and skill acquisition and by introducing alternative management practices and better organizational arrangements. A survey by OECD (2002) underpins these observations and documents that 11 out of 14 studies have found FDI to contribute positively to income growth and factor productivity. According to de Mello (1997) and OECD (2002), FDI affects growth is likely to depend on the economic and technological conditions in the host country. In particular, it seems that developing countries have to reach a certain level of development, in education and infrastructure, before they are able to capture potential benefits associated with FDI. Therefore, FDI seems to have more limited growth impact in technologically less advanced countries. The main result of OECD survey (2002) is that there seems to be a strong relationship between FDI and growth. Although this relationship is highly heterogeneous across countries generally agree that FDI, on average, has an impact on growth in the Granger-causal sense. While the literature has heeded the importance of FDI to growth and development, it also realizes that economic growth could be an important factor in attracting FDI flows. The importance of economic growth to attracting FDI is closely linked to the fact that FDI tends to be an important component of investing firms' strategic decisions. As indicated in several empirical studies, according to the market size hypothesis, the markets with large population size and rapid economic growths (as measured by real GDP per capita or its growth) tend to give multinational firms more opportunities to generate greater sales and profits and thus become more attractive to their investments.

Wheeler and Mody (1992) have tried to determine the relative importance of these two explanatory variables and found that market size is more important for developed countries, while per capita GDP for developing countries. Next to the direct increase of capital formation of the recipient economy, FDI may also help increasing growth by introducing new technologies, such as new production processes and techniques, managerial skills, ideas, and new varieties of capital goods. In the new growth literature the importance of technological change for economic growth has been emphasized (Grossman and Helpman, 1991; Barro and Sala-i-Martin, 1995). The growth rate of less developed countries (LDCs) is perceived to be highly dependent on the extent to which these countries can adopt and implement new technologies available in developed countries (DCs). By adapting new technologies and ideas (i.e. technological diffusion) they may catch up to the levels of technology in DCs. One important channel through which adoption and implementation of new technologies and ideas by LDCs may take place is FDI.

The new technologies they introduce in these countries may spillover from subsidiaries of multinationals to domestic firms (Findlay, 1978). The use of new technologies may be important in contributing to higher productivity of capital and labor in the host country. The spillover may take place through demonstration or imitation (domestic firms imitate new technologies of foreign firms), competition (entrance of foreign firms leads to pressure on domestic firms to adjust their activities and to introduce new technologies), linkages (spillovers through transactions between multinationals and domestic firms), or training (domestic firms upgrade the skills of their employees to enable them to work with the new technologies) (Kinoshita, 1998; Sjöholm, 1999a). FDI can only contribute to economic growth through spillovers when there is a sufficient absorptive capacity in the host country. Several country studies have been carried out, providing diverging results on the role of FDI spillovers with respect to stimulating economic growth. These studies deal with the productivity effects of FDI spillovers on firms or plants using micro level data. Whereas positive effects from spillovers have been found for, e.g. Mexico (Blomström and Persson, 1983; Blomström and Wolff, 1994; Kokko, 1994), Uruguay (Kokko et al., 1996) and Indonesia (Sjöholm, 1999b), no spillovers were traced in studies for Morocco (Haddad and Harrison, 1993) and Venezuela (Aitken and Harrison, 1999).

These diverging results may underline the crucial role of certain host country characteristics necessary to let FDI contribute positively to economic growth through spillovers. They emphasize the difference in absorptive capacity between countries to adopt FDI. Some authors argue that the adoption of new technologies and management skills requires inputs from the labor force. High level capital goods need to be combined with labor that is able to understand and work with the new technology. Therefore, technological spillover is possible only when there is a certain minimum, or 'threshold' level of human capital available in the host country (Borensztein, et al., 1998). This suggests that FDI and human capital are complementary in the process of technological diffusion.

Other authors argue that the process of technological spillovers may be more efficient in the presence of well-functioning markets. Under these circumstances, the environment in which FDI operates ensures competition and reduces market distortions, enhancing the exchange of knowledge among firms (Bhagwati, 1978; Ozawa, 1992; Balasubramanyam, et al., 1996). Some authors stress that the establishment of property rights – in particular intellectual property rights – is crucial to attract high technology FDI (Smarzynska, 1999). If intellectual property rights are only weakly protected in a country, foreign firms will undertake low technology investments, which reduces the opportunities for spillover effects and improvements of productivity of domestic.

1.4 The Theories of the Imperfect Market

The main contributions in the work of Stephen Hymer and Charles Kindleberger

The Hymer Model

Hymer notes how le companies investing abroad must face higher management costs compared to local companies of foreign markets (Hymer, 1960). Hymer derives these costs additional from the objective difficulty of an enterprise in operating in a context different socio-economic costs (costs related to the only partial knowledge of the market, language and economic and legal system of the foreign country), either from any barriers to entry or from foreign governments in the form of protectionist measures or by consumers themselves (tastes and preferences for products local, boycott of foreign product. the Hymer model places the company at the center of attention, not the single product.

The core of Hymer's theory derives from the empirical observation that companies, despite the presence of these additional costs and risks, also make direct investments in other countries. Hymer justifies this behavior with the existence of market imperfections and oligopolistic advantages that companies would enjoy, which must be exploited to balance the higher costs and risks involved in investing abroad. In a first phase, the company grows at a national level through a process of concentration (increase in market shares, acquisitions and mergers) which allows it to obtain ever-increasing profits. At some point, however, the process of concentration at the local level can no longer be pushed further (because there are only a few large companies left) and the high profit derived the degree of monopoly achieved can be used for investments abroad, with the aim of extending the growth process even further border. Hymer lists a number of potential advantages of the company multinational (among which also includes the innovativeness of the product, reconnecting with the Vernon product life cycle theory) to explain the factors enabling the company to increase its market power; and those that allow it to overcome the natural disadvantages that characterize it the operation of a company abroad compared to national competitors. Others advantages can be the possession of a brand, of specialized skills, the ability to raise capital, economies of scale, economies of vertical integration, etc. According to Hymer, the presence of market imperfections justifies the manifestation of FDI which, linked to the presence of oligopolistic advantages, they balance the increase in costs that a company faces in investing abroad.

The author identifies the existence of generic barriers to entry market imperfections and the existence of exclusive knowledge, or an exclusive supply channel, the advantage conditions oligopolistic which companies would enjoy. Given the existence of these advantages, the company will choose the export route or that of on-site production depending on the conditions of the market in which it is operating. Market imperfections related to the existence of tariff and non-tariff barriers, high transport costs and tax treatment discriminating factors are all factors that tend to move the balance needle towards local production. Once the production on site has been chosen of exports, the Multinational Enterprise (MNE) will have to decide if intervene directly (through IDE) or by giving licenses to producers locals.

This choice will be conditioned above all by the nature of the specifics competitive advantages possessed by the company. In particular, the IDE will result favored the more the competitive advantages of the IMN are the possession of specialist know-how and other intangible assets, which they can hardly do be properly valued through the granting of licenses. Hymer's theory is partial because it does not analyze those behavior of the company based on its oligopolistic advantages, nor what are the reasons for the existence of market imperfections. however, he has the merit of dealing with many issues for the first time they would have been deepened in the next few decades.

1.4.1 The Kindleberger Analysis

Kindleberger focuses on the study of market imperfections that would be at the base of the monopoly advantages of the companies carrying out the IDE. This author also stated that the existence of FDI is justified from the monopoly advantages of the companies that make them deepening and systematizing the theses of Hymer (Kindleberger, 1969). He tried to find the reasons why the production of some goods came carried out by multinational companies through FDI rather than companies premises close to the market of products (Ranieri, 2004). "These imperfections are of four main categories:

a) not perfect competition of the market structure: the existence of products differentiated and oligopolistic industrial concentrations in which companies are price setters and not price takers (also thanks to different marketing skills) determines monopolistic advantages especially for companies supplying goods of consumption.

b) widespread disequilibrium of the world market structure: the existence of one strong segmentation of markets makes the rates of return of the various factors different productions from market to market, and this drives companies to exploit this situation in their favor doing IDE abroad depending on the characteristics of the receiving country's market and also the differential technology between the different countries.
c) imperfections due to the adequacy of the market to the correct allocation of resources: the existence of public goods produced by the company, of which the right production price and control can not be adequately guaranteed (for example information); economies of scale that lead the company to enlarge on the international market until it reaches a size of 60 to be able to get closer to the lowest total average cost of the product, and to positions of domination such as to enjoy the advantages of monopoly or oligopoly.
d) government interventions imposed distortions of free competition: companies already enjoying a dominating position on the internal market, to get around duties and quotas imposed by foreign governments, carry out FDI in order to not to see their outlet market limited "(Ranieri, 2004).

These four main categories of market imperfections, though they succeed in giving only a partial justification of the phenomenon of the IDE, would be the basis of the monopoly advantages of companies they would enjoy doing IDE. These imperfections are only some used to explain the phenomenon of FDI. In fact, other phenomena are left out which have gained increasing importance in recent decades: the strategic competition at the global level, the ever-increasing presence of financial economic giants that respond to the logic of global profit a group level and not just business, the emergence of new ones production systems that push the delocalization of individual phases to the maximum productive and then sell simultaneously to the entire world market. Despite these limitations, the Kindleberger theory (which was placed on it same as a deepening of that of Hymer) has highlighted the interaction between FDIs and market imperfections and was a contribution important for subsequent authors (Ranieri, 2004).

1.5 The Theory of Internalization

The concept of internationalization of the markets, to which have contributed above all these two Englishmen Buckley and Casson (1976), is inspired by the original contribution of Coase which had proposed a concept in the late 1930s of the company as an efficient organization under certain conditions advantageously replaces the market in organizing economic exchanges. Buckley and Casson see Multinational Enterprises as one "Internal market", that is a system of allocation of resources between units decentralized internationally which allows to eliminate imperfections and obstacles of an economic nature and of a social and international context. The Multinational companies play a positive role to the extent that they are able to increase the overall efficiency of the production system when their internal coordination costs are lower than the costs of use of the market.

This vision contrasts with the more problematic one of oligopolistic theories, especially by those authors (such as Hymer) which analyze the behavior of multinational companies eminently in terms of the exercise of market power "(Ranieri, 2004) Caves (1971) and Teece (1986), which traced the concept of internalization within the more general theory of transactional costs. This theory measures the efficiencies related to different governance structures of transactions (in in this case the IMN with respect to market relations between companies operating on the individual national markets) on the basis of production costs and costs of transaction (i.e. the costs related to the customer's research, to the management of the negotiations, under contractual conditions, to the monitoring function, to the execution of contracts, etc.). Factors contributing to the substance of transactional and weighing costs more if the action takes place in an international context (in which yes add, for example, linguistic, cultural, technological differences of social and socio-political structure) are uncertainty and complexity environment, asymmetries between the parties in the distribution of knowledge and information, the conditions of limited rationality and moral hazard in which decision makers' choices, opportunistic behaviors are accomplished.

These elements can rise up to make the market a government structure of inefficient transactions compared to non-market mechanisms that in the extreme situation lead to the complete hierarchical internalization of transactions, with the creation of an organization (the divisional multinational company) that is efficient thanks to its capacity for coordination, control, adaptation and monitoring of activities and relational behaviors. From the perspective of the transactional cost approach, the organization of international trade, from the market to FDI through the intermediate forms of internationalization, is the result of the comparison between advantages and disadvantages associated with the various government structures assessed assuming the transaction as the basic unit of the analysis. Applying the analytical categories of transactional analysis to the study of international exchanges, the choice between the different ways of internationalization of the company will be the result of the comparison between the advantages and disadvantages associated with the various governance structures of transactions and trade-offs with respect to production costs. In 1996, Caves has observed several positive effects of FDI that has brought about increasing efforts to attract more of it. Among these were productivity gains, technology transfers, the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks and access to markets.

1.6 The Eclectic Paradigm

1.6.1 The Conceptual Heritage of Previous Theories

The eclectic paradigm is one of the most dominant operational frameworks in international business economics. It is originally developed by Dunning (1958) as a further development on the internalization theory. The paradigm is based on the dynamic relationship between a firm's ownership advantages (O), a country's location advantages (L), and internalization advantages (I). The paradigm is therefore also known as the OLI paradigm. These advantages are three potential sources that may underlie a firm's decision to become a multinational and can also explain which country it chooses to invest in by using FDI (Dunning, 1980). A firm's ownership advantage is the competitive advantage which a firm possesses over other firms. This competitive advantage is based on the extent to which a firm possesses assets which its competitors do not possess (Dunning, 1980). It can explain which firms will engage in FDI. An asset should be seen as something that can generate value in the future. These assets can be applied to production at different locations without reducing their effectiveness. These assets can therefore be used to overcome the costs of operating in a foreign country (Amit & Schoemaker, 1993). Examples of assets are: product development, managerial structures, patents, and marketing skills. Locational advantages indicates to which extent it is more profitable for a MNE to use its assets in a foreign country instead of in its home country (Dunning, 1980). They are important to answer the question where a MNE chooses to locate (Dunning, 2001). Locational advantages are for example the labor costs in a country, the resource richness of a country, or technological development of a country. If for example a country has relatively low labor costs, this can be a locational advantage for foreign MNEs that use labor intensive manufacturing. These MNEs are therefore more likely to, ceteris paribus, engage in FDI in this country. The internalization advantages contains the competitive advantage of a MNE in organizing the generation and use of their assets within their jurisdiction and those they could access in different locations. It influences how a firm chooses to operate in a foreign country (Dunning, 2001). This will result in a trade-off between costs. For example between the holdup and monitoring costs of a new factory in a foreign country, against the advantages or disadvantages of other entry modes such as exports, licensing, or joint venture (Neary, 2008)

The central element of Dunning's theory lies in the assertion that "A company will make FDI if it occurs contemporary of three types of advantages:

a) Ownership advantages, that is exclusive advantages connected to the company same;

b) Location advantages, i.e. advantages exclusively linked to the state abroad in which the company carries out FDI;

c) Internalization advantages, i.e. connected to the fact that the company can make better use of the advantages a) and b) if it internalizes the costs of intermediary transactions rather than passing them on to the market**.**

If these advantages are not presented all, the company will choose to operate abroad through other operations other than IDE (import-export, joint ventures, license agreements, etc.). The classification of benefits as well as proposed by Dunning resumes the one traced by Buckley and Casson; Yes they can also relate the three categories of benefits to as many theories prior to the eclectic paradigm in particular:

a) the ownership advantages had already been addressed by Hymer e Kindleberger. However, the two authors had focused exclusively on the theoretical framework of assets owned by a company, through which it could exploit market imperfections to more than offset costs and additional risks in operating in a foreign market. Dunning extends this concept to the advantages deriving from the ability to coordinate the assets that the company possesses with other assets external to it.

b) location advantages were already present in the theories of Vernon. Dunning however it avoids the excessive mechanistic simplifications identified by the product life cycle theory, which linked the decision to carry out IDE in a given country exclusively at its level of development and at the cost of factors. The eclectic paradigm takes into consideration a wider range and also conceptually more extensive of advantages linked to the receiving country of IDE.

c) internalization advantages are taken from the theories of Buckley e Casson. Dunning recognizes the validity of such theories, but extends their scope. He criticized the fact that the two authors considering the firm specific advantages as data, unrelated to the companies, and that did not question the modalities through which the companies generated these advantages.

According to Dunning the two previous authors had focused only on the problem of the internalization of transaction costs, ignoring the fact that businesses could be driven by the search for new value-generating activities (Dunning, 1995) "(Ranieri, 2004).

The "eclectic" approach

In this section the eclectic theory proposed for the first will be presented by the economist John Dunning in 1976, replaced by the same author with the denomination "eclectic paradigm" (Dunning, 2000) after a series of changes that made it ever more comprehensive and to indicate the fact that the conceptual apparatus he proposed was not a true theory explained the process of internationalization of companies.

Dunning explains the choices of internationalization of businesses in operation of the existence of advantages from property (ownership advantages), deriving from the owner control of specific corporate assets transferable abroad a low cost; from internalization, deriving from integration into the company of different activities; and finally, location advantages, related to the characteristics of the host countries. Benefits from business ownership include all factors competitive towards competitors, such as technological innovation, the possession of specialized skills and skills, the managerial organization, the financial capabilities and economies of scale. This is the aspect on which the focus of the oligopolistic theories has been more concentrated; underlines the competitive advantages and / or the market power of the company. The specific advantages of the countries, which the companies located on their own use territory (domestic and foreign), will instead be determined by variables such as the presence of natural resources, availability, cost and degree of job qualification, infrastructures, national scientific-technological potential, market size, distance (geographical and cultural) compared to investor country, institutional factors and public policies. Dunning tried to dynamism the model, identifying a "development cycle" of the IDE "connected to the stage of economic growth of the countries.

The lower-income countries show a balance of FDI close to balance, because the incoming flows are very low and the outgoing ones do not exist; middle-income countries (including NICs, newly industrialized countries, or the countries of Southeast Asia) have the most pronounced negative balance for FDI, due to notable inflows, not offset by significant exits; in the third and fourth group, which include the medium-high and high individual income countries, the negative balance is reduced, and then becomes positive as the GDP grows, due to the relatively higher outgoing FDI flows. What the economist Dunning puts in place is a link between the propensities to the IDE (incoming and outgoing) and the growth stage of the countries; alongside income, he emphasizes that countries rich in natural resources (resource rich) will tend to be more attractive to FDI than other countries with similar GDP per capita.

However, this explanatory variable is still too little determined with respect to the wealth of specific "country" factors, which can help explain any differences in the internationalization processes between countries with similar levels economic development. For example, the "distance factor", the international differentials in labor costs, the lines of industrial economy and political conduct of individual countries (which also belong to the "static" eclectic scheme) are not considered in the dynamic model. Among the "country" explanatory factors, those relating to the countries of origin of the IDE are also undervalued: just think of the role of technological-scientific potential and the impact of policies and institutional factors.

1.6.2 The Ownership Specific Benefits

"Dunning starts from the assumption, already noted by Buckley and Casson, that a company who decides to operate in a foreign market will have additional costs to face compared to a local company, mainly due to:

a) differences in language, culture, unknown institutional and legal conditions

b) less knowledge of local market conditions

c) costs deriving from operating remotely.

Dunning postulates, like his predecessors, that if companies operate abroad anyway they must enjoy some kind of exclusive advantage over local competitors that allows them to offset these additional costs. These advantages must therefore be the company's own and easily transferable to its production units abroad. Dunning classifies this type of benefits into two categories:

a) Asset advantages, i e those generated by exclusive enjoyment on the part of the company with specific conditions (tangible or intangible), including deriving from the exclusive property rights that the company has on certain information and technologies. More specifically, the advantages deriving from:

I. the intensity of the research and development activities carried out by the company, and therefore the possibility of introducing product and product innovations process;

II. the financial capacity of the company, measured through its own size and position on the market;

III. the international experience already previously accumulated by the company;

IV. the know how in a broad sense acquired by the company's human capital (in various fields, from management to marketing, etc.).

1.6.3 The Advantages Location Specific

"These advantages are offered by the country to all foreign investors and vary from country to country; they may be on the inputs side (low cost of production factors, technological capacity, etc.) or on the output side (particularly favorable market conditions, etc.). This category of advantages can be usefully divided into three sub-categories, i. e to include economic, sociocultural or political benefits.

a) Specifically, they can be counted among the only benefits of an economic nature

I. the quality and quantity of production factors and intermediate goods offered, as well as their cost; this is particularly true with regard to work factor .Although there are studies that only accidentally bind the decision by an enterprise to carry out of the FDI and the wage rate of the receiving country (Papanastassiou and Pearce, 1990).

II. the potential of the receiving market, both from the output side as outlet factor (potential measured by GDP per capita and by consumption propensity of citizens), both from the input side as supplier of productive factors. Studies confirm (Papanastassiou and Pearce, 1990) the positive relationship between this factor and the decision by companies to make FDI;

III. concessions - tax or other - offered by the receiving country in order to attract FDIs. The validity of such policies however is object of controversy, being considered by authoritative studies useless and even harmful (World Bank, 1995);

IV. cost and quality of transport and communication infrastructures (physical and virtual);

V. degree of development of the services sector related to the production and marketing of the product (commercial, legal and consulting structures, etc.);

VI. exchange rate stability: this point is particularly controversial because for companies that invest in countries with low labor costs and raw materials, as in the case of Albanian FDI, a real exchange rate that sees the depreciation of the country's currency receiving FDI is a benefit; on the other hand, however, if the companies in the receiving country need intermediate import goods to be paid with foreign currency, the real depreciation is an additional cost.

b) They must then be included in the socio-cultural advantages:

I. cultural proximity in a broad sense, that is linguistics and of uses e customs, as well as

II. attitude towards the market between the receiving country and that of the company that makes the IDEs

III. the positive (if) attitude of the receiving country towards foreign countries and IDEs (a contrary example is provided by the Federation Russian and its willingness not to attract excessive flows of FDI).

For investments in Peco, it has been highlighted (Mikalak, 1992) that excessive linguistic differences e cultures inhibit potential investors from countries that do not have historically had particular links with this area Europe Finally, there are advantages belonging to the sphere of politics:

i.the political stability (studies confirm that for a country in transition as Ukraine the flow of FDI has been particularly low since in the a climate of strong political uncertainty reigned) (Ishaq, 1999):

ii. the government's attitude towards FDI;

iii. the approach to NATO;

iv. the presence of lax laws against protection environmental protection and workers' rights.

The location-specific advantages are the only discriminating factor in the decision of the company to operate with foreign countries through the IDEs: if in fact there are specific ownership and internalization advantages, but not location-specific, the company will operate abroad through normal operations of import and export, without deciding to have direct control over the foreign production units.

1.6.4 The Advantages Internalization Specific

Dunning "places in this category those advantages deriving from the exploitation of market imperfections, imperfections that make it more convenient for the company to internalize transactions rather than pass them through the market. The eclectic paradigm therefore theorizes that acting through the company hierarchy to internalize transaction costs (possible because the multinational enterprise is a vertically and horizontally integrated economic unit internationally) is more convenient that act through the market, if the market is imperfect. For the sake of greater clarity and systematization it is possible to divide the market imperfections into two categories: those deriving from natural market imperfections and those deriving from the exploitation of oligopolistic advantages that a multinational company has by the very fact of operating through FDI in different markets simultaneously.

The natural imperfections of the market are those that emerge in the course of transactions naturally, because they are generated by the very nature of the exchange; they are due to

I. the incomplete knowledge of the purchaser of the value and the nature of the product and the technologies that it buys: the seller must explain to the buyer the characteristics of the product and technology that the latter will purchase without it nevertheless provide information that is so thorough and complete to make the own duplication possible of technology. Because this behavior exists, for avoid this risk the enterprise will have convenience to internalize the exchange of the intermediate good or technology, between production units belonging to its own group (and not through the importation for example);

II. the costs that normally arise in a transaction between companies not belonging to the same group: research by market, communication, negotiation costs, supervisory costs - also legal - on contracts and respect for property rights etc. These costs are greatly reduced if the companies that make them the exchange belong to the same group, i.e. they are been "created" (in a broad sense) by IDE;

III. risks related to uncertainty: if the exchange of goods, technologies and information takes place within the company structure, they will be less prone to unexpected price changes or quantity compared to the case in which such exchanges took place through the market outside the company. Internalization, that is, reveals itself to be one effective means of compensating for the absence of futures markets free of risks.

The second category of market imperfections that companies can exploit by internalizing the transactions is due to the very fact of acting simultaneously on markets belonging to different state orders through proprietary production units, which can therefore be coordinated to follow a logic of global profit. The following advantages belong to this category:

I. the multinational companies can discriminate prices on the various markets, so as to take full advantage of the "consumer surplus";

II. companies can exploit economies of scale (real and pecuniary) between interdependent activities to minimize the marginal cost of the product.

III. possibility of easing through transfer pricing techniques and other accounting practices (for example, underestimating imports for ad valorem rates) and financing the impact of taxation on profits, as well as circumventing through customs intra-firm any customs duties or state measures detrimental to competition .

Both these categories of imperfections can be profitably exploited by the company by internalizing those exchanges of raw materials, intermediate goods, technology and information which, if carried out through market mechanisms, would be more expensive, risky and less efficient.

The eclectic paradigm proposed by Dunning has been constantly corrected, expanded and deepened to include within the theoretical-methodological framework always new aspects and phenomena that have appeared on the world economy scene "(Ranieri, 2004).

1.7 Case of Albania

Solow Growth Model

The Solow model is an model related to long-run economic growth. This model takes into consideration capital accumulation, labor, population growth and technological progress in order to explain the economic growth in the long-run. According to the Solow model an increase in saving rate and technology progress affects positively the per capita income level.

(Solow, 1956) Solow assumes that economic growth is not depending from the size of the economy but on labor, capital and technology. These theories have been included in this study just for inspirational purposes because the implementation of these theories for the case of Albania could be very difficult for not saying impossible due to the lack of data needed. Anyway by mentioning in general the main theories of economic growth helps in order to deepen the understanding of the economic growth process of a country and of the potential factors that could be used in order to study their impact on the economic growth.

The methodology and data: In his opinion neoclassical Solow (1957) argued that economic growth is an "output" that positively influenced by "input" such as technology, capital, labor, or a vector of variables additional economy (such as imports, exports, institutional dummy variables, etc.). This connection is determined by the following equation:

$Y = A\varphi (K, L, \Omega)$ Where :

Y = the total output, or GDP (or growth),

K = capital investment,

L = work (labor force),

A = efficiency of production (the constant of model),

Ω = vector of additional variables.

Findlay (1978) developed more Solow model assuming that the growth rate of technological distribution is an increasing function of FDI, reclassifying the "input" with foreign capital and "input" with domestic capital. He argued that the growth of foreign capital increases internal capital. According to the internal growth models, technological changes in the production process, internal growth models "endogenous" are applied to see the effect of FDI on economic growth of a host country (Romer, 1986). Based on the Cobb-Douglas function, it follows that the Solow model has the form:

$$Y = A*K\alpha *L\beta *\Omega\gamma$$

By logarithmic transformation of the above equation, we get the form:

$$LnYt = LnA + \alpha LnKt + \beta LnLt + \gamma Ln\Omega t + \varepsilon t$$

Where α, β, γ are respectively elasticity of: Y (economic growth or GDP) related to capital (divided into two parts: in the capital of FDI and domestic investment DI), L (labor cost, so the average salary or the number of employees), auxiliary variables Ω (qualitative variables "dummy" indicator technology, foreign trade, no. of population, etc.) depending on the time "t". With εt stated term error model that incorporates all factors that are not included in the model. In this analysis it aims to explain the relation of capital (foreign direct investment and domestic investment) and labor (the average monthly wage) gross domestic product. The data represent a time series from 1996-2013 with 3-month period for Albania. To identify links explanatory variables and the importance and usefulness of their connection, this analysis consists in finding connections for use predictions for economic purposes. To identify links explanatory variables and the importance and usefulness of their connection, this analysis consists in finding connections for use predictions for economic purposes.

Economic variables and their description

Variables	***Description of the variable***
GDP	Gross Domestic Product (value in million ALL).
FDI	Foreign Direct Investment (values in million ALL), assesses the impact of foreign capital in the economy of the host country.
ID	Albanian capital investments (value in million ALL), assesses the impact of domestic capital in national production.
L	The average monthly wage (value at ALL).

Source: Review of literature by authors.

Tab1 source : INSTAT 2014, Bank of Albania

The statistical results of the model: doing testing program E Views 7 for Solow model, the case of Albania this table presents the statistical results.

Results of statistical significance of the dependent variable log (GDP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1. 297673	0. 642820	2. 018718	0. 0475
LOG(IHD)	0. 032184	0. 011606	2. 773042	0. 0072
LOG(ID)	0. 532712	0. 037289	14. 28607	0. 0000
LOG(PAG)	0. 469908	0. 053546	8. 775720	0. 0000

Source: Calculations on EViews 7, by the authors.

Tab 2

Even in the case of Albania, the Solow model shows a statistically significant relationship and positive dependent variable log (GDP) with independent variables: log(FDI), log(ID) and log(L). As you can see, this model assesses the relative degree of responsiveness of GDP or its elasticity with respect to the dependent variables:

$Log(GDPt) = 1.\ 297673 + 0.\ 032184*log(FDIt) + 0.\ 532712*log(IDt) + 0.\ 469908*log(Lt) + \varepsilon t$

So the model is statistically significant by Fisher test, with statistical significance level of 5% and the adjust coefficient of determination is 87. 73%. This coefficient shows a very high level of explanation links economic indicators as independent variables in the effect on the dependent variable, GDP. Referring to the model, the coefficients of independent variables in the model, show the effect of the change in percentage of GDP, when variables grow by 1% in the conditions "ceteris paribus". The constant of the model is statistically significant and expresses the average of the 3-month rate of growth of GDP from 1996 to 2013, on the basis of 3 months, which means the technological level of Albania. According to the model, if FDI will rise by 1%, it will have a positive effect on GDP growth only 0. 03%, while much larger is the effect they have IDs, where if IDs increased by 1%, they will have a positive effect on GDP growth of 0. 53%. The same conclusion we receive for the level of the average wage, if L will increase by 1%, will have a positive effect on GDP growth of 0. 47%. As we said above, the time period 1996-2005 was not clean FDI investment in new businesses, but as a result of privatization, and after 2005 they have dominated more inflows of FDI into new businesses. This explains why the direct effect is several times smaller by FDI than domestic investment. However, FDI has had a significant impact on employment, the number of employees (particularly fason industry), which increases "endogenous" employment and economic growth. In Albania, one of the markets more informal, accepted by the IMF and World Bank (2013) is the employment market, therefore variable labor (average salary) is an indication that there is a high margin of error in the official statistics and it makes measuring the effect impossible for "endogenous" FDI in average salary. But to use this model to obtain evaluation results with high statistical reliability, the effects of linking economic variables in the future, model is the subject of a set of econometric tests that prove the usefulness of using the model, according to the explanatory parameters derived from the data analyzed. This means that should satisfy all the basic assumptions of Theorem Gauss-Markov (Alexander Ludwig and Klaus Schmidt, 2010). Table 3 below reflects the type of test and the result for model:

Results of econometric tests, for an efficient model

Denomination Test	*The explanatory description*	*The result*
Functional forms, test-RESET	This test shows if the form of the model is appropriate (that is completely flexible or semi-flexible)	The right form is fully the elastic function for 5% significance level.
Multicollineritety, VIF-test	This test shows if there is a correlation between independent variables included in the model.	There is multicollinearity but it is not perfect (since the variables are statistically significant, we have not made the elimination of any variable).
Heteroskedasticity, White-test	This test shows the absence of connectivity residues constant variance model with population data.	No heteroskedasticity (logarithmic form eliminates it)
Autocorrelation, LM-test	This test shows the serial correlation of independent variables and ε model residues.	There is autocorrelation but it eliminated by adjusting the model with AR (1) and coefficient of about +0315.
Normal distribution of residues (ε_i), J-B test	The model is tested If residues are normally distributed or not.	ε_t residues have normal distribution.

Tab 3 Source: Calculations on EViews 7, by the authors.

Results of econometric tests from table 3, support the argument that our model estimated with its parameters above, it is right to explaining the dependent variable GDP changes of independent variables arising at the level of foreign direct investment, domestic investments and the average wage level.

Results of the Wald test for long-term connection to the model

Test Statistic	Value	df	Probability
F-statistic	170. 2908	(3, 68)	0. 0000
Chi-square	510. 8724	3	0. 0000

Null Hypothesis: C(2)=C(3)=C(4)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(2)	0. 032184	0. 011606
C(3)	0. 532712	0. 037289
C(4)	0. 469908	0. 053546

Tab 4 Source: Calculations on E Views 7, by the authors

By Wald test, the table 4 above, the model of multiple regression is statistically significant, with the level of importance $p<5\%$, this means that the model can also be used for long-run economic analysis. So, the impact of FDI on the growth of GDP is not only in the short-run but it is sustainable and in the long-run.

CHAPTER 2

SOME BASIC DATA AND MAIN ADVANTAGES FOR SUCCESSFUL BUSINESS IN ALBANIA

2.1 The Story of Albania

Albania is located in Southeastern Europe bordering the Adriatic Sea and Ionian Sea, between Montenegro and Kosovo in the north, Macedonia in the east and Greece in the south. Albania declared its independence from the Ottoman Empire in 1912 but till the end of the First World War, the country was attacked by neighboring countries. In 1925, the Constitutional Assembly declared Albania a Parliamentary Republic and Ahmet Zog was elected President of Albania. After three years Ahmet Zog was declared the King of Albania . After eleven years of monarchy the country was occupied by Mussolini's forces in 1939, and ending the monarchy. In 1943 the armies of Hitler occupied the country. The resistance against foreign invasion was known as the Anti – Fascist National Liberation front. The Communist party took power in November 1944, when the foreign armies were expelled. A totalitarian regime was established under the communist leader Enver Hoxha.

For about 50 years the regime practiced self-isolation, leaving the country in great economic poverty when it finally emerged from isolation in 1991. The principle of self-reliance applied by the Communist regime prohibited foreign loans, credits and investment. Throughout the transition period Albania has been faced with a number of extremely complex challenges in order to establish stable institutions guaranteeing democracy, the rule of law and human rights as well as to operate a functioning market economy and to cope with competition and market forces. However the country faces a number of challenges. Women's rights are marginalized and although their participation in the labor market, average salaries are 18% lower those of men. The wage gap in rural areas is double that of urban areas representing the generally marginalized situation of the rural population. Agriculture accounts for 20% of GDP and half of total employment. The low share of employment in other sectors is a concern for diversified growth and employment. Low levels of governmental resources are currently invested in early education, preventing disease and primary health care, social care and child protection services resulting in high degrees of child mortality and social exclusion extending into the spheres of the economy and governance and rule of law.

The country has made significant progress towards integration into the European Union especially in regards to meeting the political criteria and establishing stable institutions and thus guaranteeing democracy, rule of law, human rights, protection of minorities, regional cooperation and good relations with enlargement countries and EU Member States. Albania has enjoyed a high sustained rate of economic growth over the past several years, averaging about 5–6 % (per cent) per year placing Albania into the group of countries with a high Human Development Index (HDI). Albania represents a considerable market in the region due to several agreements on free trade with neighbor countries and European Union, as well as an attractive investment destination. Albania is a member of the United Nations, World Bank, UNESCO, NATO, WTO (World Trade Organization) , OSCE (the Organization for Security and Co-operation in Europe).

2.2 Basic Data

The current population of Albania is 2,931,536 based on the latest United Nations estimates. Albania population is equivalent to 0.04% of the total world population. The population density in Albania is 107 per Km^2 (277 people per m^2). The total land area is 27,400 Km^2 (10,579 sq. miles) 65.1 % of the population is urban (1,908,087 people in 2017). The median age in Albania is 36.6 years. The population natural increase on the second quarter of 2017 shows a decrease by 32.6 % compared to the second quarter of 2016.

During the first quarter of 2017, the employment rate for the population aged from 15 to 64 is 56.3 %. Over this quarter, in annual terms, employment has an increasing trend, compared to the same quarter of 2016, employment increased with 3.5 %. In quarterly terms, comparison made with the fourth quarter of 2016, employment increased with 0.2 %.

In the first quarter of 2017, the official unemployment rate in Albania, for the population aged 15 years and over is 14.2 %. Compared to the first quarter of 2016, the official unemployment rate decreased with 2.4 percentage points. Compared to the fourth quarter 2016, the official unemployment rate unchanged. In the first quarter of 2017, the labor force participation rate for the population aged from 15 to 64 is 65.9 %. Compared to the first quarter of 2016, the labor force participation rate remains at the same level. Compared with the previous quarter this indicator increased by 0.2 percentage points.

The female labor force participation rate is 56.6 %, whereas for males this indicator is 75.0 %. The male labor force participation rate is 18.4 percentage points higher than females. Over the first quarter 2017, the youth labor force participation rate (population aged from 15 to 29) is 44.9 %. For the population aged from 30 to 64, in the first quarter 2017, labor force participation rate is 76.0 %. The data generated from the Ministry of Finance shows a 3.4% growth in economy. The minimum wage in Albania is approximately EUR 185 (ALL 24,000) per month while the average monthly salary in the public sector is around EUR 410 (ALL 54,500) and around EUR 320 in the private sector (ALL 42,500)

GDP per capita in 2016 according to the World Bank was $4,712, GDP per capita growth (annual %) in Albania was 3,6 % (2016, World Bank), GDP (current US $ billion) was 11,9 (2016, World Bank). Inflation consumer prices (annual %) in Albania was 1.3. In its half-year report of 2017, the Ministry of Finance claims that public debt (% GDP) has fallen to 66.82% of the GDP, from 70.96% at the end of 2016. If we look at the actual development of Albanian foreign debt, the 4.14% drop from December 2016 to June 2017 does not fit into the trend. From 2014 to 2015, foreign debt increased with 2.58%, whereas it decreased from 2015 to 2016 with 1.69%. Lowering foreign debt is one of the requirements and recommendations of both the European Commission and the International Monetary Fund. Albania recorded a government budget surplus of 101 ALL Million in August of 2017 (Chart 1).

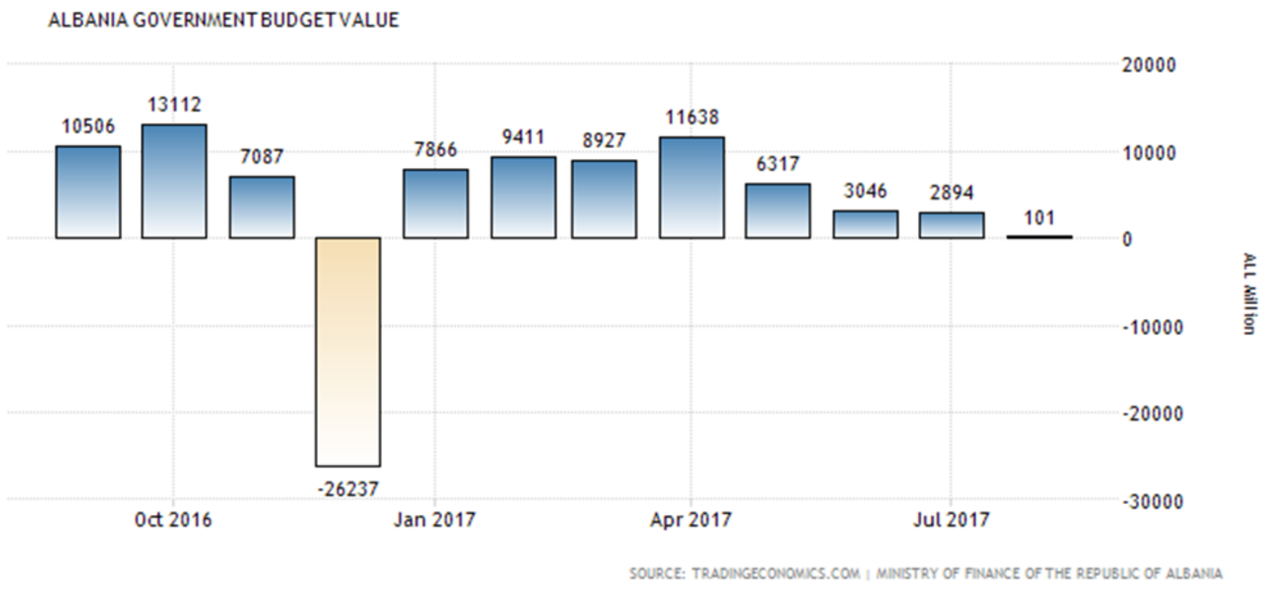


Chart 1

Government Spending decreased to ALL 38656.70 Million in the first quarter of 2017 from ALL 46352.30 Million in the fourth quarter of 2016. Government Spending in Albania averaged ALL 43957.93 Million from 1996 until 2017 (Chart 2).

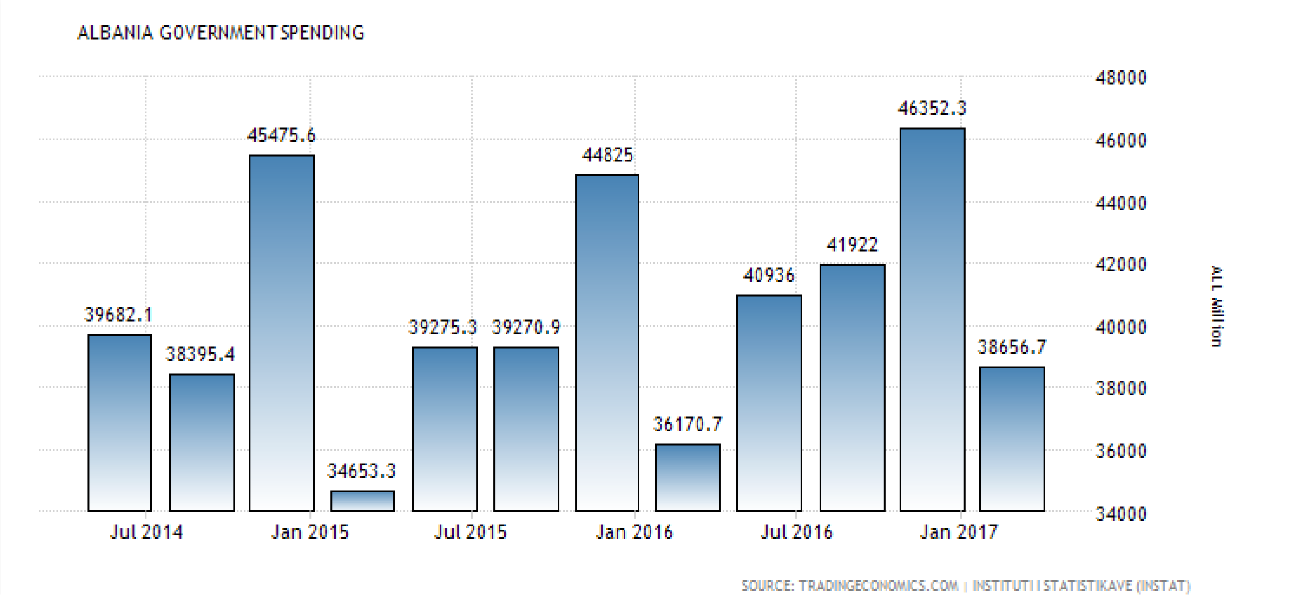


Chart 2

Natural resources in Albania are : oil, gas, coal, bauxite, chromite, copper, iron, ore, nickel, salt, timber, hydropower. Albania gained 10 spots in the 2016 human development index, ranking 75th out of 188 countries and outperforming some of its regional peers. The Human Development Index (HDI), a composite index measuring average achievement in three basic dimensions of human development including a long and healthy life, knowledge and a decent standard of living, shows Albania continues remaining among high human development countries and overtook Macedonia and Bosnia and Herzegovina among its regional EU aspirant competitors. Albania's Human Development Index value increased by 20 percent to 0.764 during the past 25 years of the country's transition to a market economy and democracy. Life expectancy since 1990 when the country's communist regime collapsed has also increased by an average of 6.2 years, the mean years of schooling has risen by 2.2 years and the GNI (Gross National Income) per capita by 143 percent.

2.3 Review of FDI Policy in Albania

The factors driving investment decisions by multinational corporations are changing. When seeking business opportunities, companies are now more concerned about financial and political risks, with a focus on stable and predictable business environments. In response, governments everywhere recognize that their chances of attracting more foreign investment depend on making their investment climates more competitive (World Bank, 2010). Albania has improved policies that directly encourage FDI, in order to provide an encouraging environment for FDI. The regulation of Foreign Exchange granted freedom to both inward and outward FDI now. There are no restrictions on the legal status of foreign residents. The legal framework to encourage investment is already in place. Law 7764 "On Foreign Investment," dated November 2, 1993, was designed to create a favorable investment climate for foreign investors in the country.

Although Albania's governments recognized FDI be an important bridge to developing and opened an export oriented economy, there has been never developed a consistent policy framework to bring it about. Increasing FDI is a top priority for the Albanian government. The government decided to be more active in attractive FDI flows through: opening the privatization of state owned assets to strategic investors; providing competitive regime of corporate taxation including a 10 percent flat corporate and income tax; taking measures to improve the business climate by streamlining business procedures through e-government reforms; setting up an institution responsible for attracting FDI, with a clear mandate. These improvements along with NATO membership and progress toward EU integration have contributed to the increase in investor interest during the last couple of years. Policies to directly encourage FDI are a part of overall strategy to attract FDI.

Foreign investors are usually attracted by three principal factors: the expected profitability of individual projects; the easy with which subsidiaries can be integrated with global strategies, and the overall quality of the enabling environment that affect the risks and expected payoff to firm considering FDI. Because countries cannot influence local market size and geography its essential they focus on improving the quality of enabling environment. Key ingredient of a good enabling environment are (Blonigen, 2005; OECD, 2002): integration with foreign market and opening to trade and investment; sound macroeconomic policies and institutions to encourage strong growth while minimizing volatility, maintain fiscal discipline and contain inflationary pressures; transparent e efficient legal and political institutions to keep business environment stable; reduce information cost and reduce resources devoted to rent seeking and corruptions; an efficient and internationally competitive corporate tax regime; flexible labor market institutions; high quality educations institutions; well-functioning capital and intermediation markets; minimize the cost of setting up and doing business; competition policy and sector regulatory and supervisory bodies for domestic and foreign investors; corporate governance policies that encourage sound management and accountability in private and state owned enterprises; ownership policies that encourage the participation of private and foreign investors when anticipated efficiency gain from privatization are large. A perception survey of 80 foreign owned firm undertaken by UNDP (United Nations Development Program) found that the Albanian business environment had features that both attracted and deterred foreign investment.

On the positive side, a relatively stable political and macroeconomic environment, flat tax, social security system and low related costs for employers. On the negative side, incentives to doing business in Albania include the implementation of laws, tax collection, land property, skill labor force and bureaucracy in general. Albania still has to improve the general government debt, market size and financial market development. Easily accessible and reliable information, and efficient and predictable actions by public institutions help create a business environment conducive to investment. For instance, studies have shown that 70% of countries miss out on foreign investment due to deficiencies of investment promotion institutions in providing potential investors with accurate and up-to-date information (World Bank). A technically trained, educated, and disciplined labor force along with a country's labor laws are critical factors in attracting foreign investors. Albania has an acute shortage of technically trained and educated labor, especially in middle managerial positions and in engineering, which may have discouraged foreign investors. In particular, Albania is at a more serious, disadvantaged position in terms of education and health compared with other developing countries that have attracted FDI at much higher level. Access to Finance, Albania ranks below the average. Although there have been attempts to improve the access to financing means, Albania is among those countries in SEE where business access to external financing is very hard. In 2009, BEEP survey (World Bank) showed that 75% of companies use internal resources to finance new investments, compared to 56% of the region's average.

However, the same survey shows that in Albania, information on microcredit is particularly well developed. A large number of microcredit institutions are covering most of the territory. Bank of Albania (BOA) is the authority to license microcredit institutions and to supervise the deposit taking ones. In order to further facilitate access to financing, in 2008, BOA introduced the credit registry. Nevertheless, further improvements are needed in relation to agreements on loan guarantee, and collateral registry and real estate registry. Apart from donors programs, Albania does not have a scheme for credit guarantees. While there is a real estate registry which can be used for collecting information on collateral, the collateral on tangible assets is only partly covered by legislation. The role of parliaments in economic reform, here, again Albania ranks below the average. Important progress has been made in reforming our legislation framework in the recent years. The main objective has been to simplify our legislation and regulations. This strategy has been successful in regulations on business registration and licensing, but further work is needed to simplify other areas. In Taxing policy analysis, Albania ranks below average of the region with regards to tax policies. The country faces problems with taxes on investments and employment as well as taxes on SMEs and multinationals. In the last years Albania has improved considerably in developing and implementing an efficient tax system.

The Ministry of Finance (MOF) uses a model to forecast main revenues from taxes. The model takes into consideration not only the GDP growth and inflation but also the impact of new fiscal policies. The Ministry of Finance is also currently developing a macroeconomic model which will be used to forecast tax collection more efficiently. The MOF has implemented the Medium Term Budget Plan which is based on national priorities and objectives, in order to design public expenditures. Albania ranks second in the region with regards to road density. This is comparable with Germany. Albania is the first in the region to spend most on road construction per year.

Investment and promotion policy. Based on this indicators Albania ranks on the average. The legal framework to encourage investment is already in place. Law 7764 "On Foreign Investment," dated November 2, 1993, was designed to create a favorable investment climate for foreign investors in the country. Albania must focus on the improvement of the services for investors since the beginning of the activity. Easily accessible and reliable information, and efficient and predictable actions by public institutions help create a business environment conducive to investment. For instance, studies have shown that 70% of countries miss out on foreign investment due to deficiencies of investment promotion institutions in providing potential investors with accurate and up-to-date information (World Bank, 2010).

Human capital . A technically trained, educated, and disciplined labor force along with a country's labor laws are critical factors in attracting foreign investors. Here, Albania ranks below region average. Albania has an acute shortage of technically trained and educated labor, especially in middle managerial positions and in engineering, which may have discouraged foreign investors. In particular, Albania is at a more serious, disadvantaged position in terms of education and health compared with other developing countries that have attracted FDI at much higher level.

Trade policies and facilities. This is the only indicator where Albania ranks above the region's average. Since 2006, important progress has been made in the standards and conformity assessment. In 2008, Albania adopted the law on Standardization and Product Safety and of the Conformity Assessment, in full compliance with EU directives. In 2008, Albania adopted a new law on accreditation in order to bring its legislation in line with EU requirements on accreditation and market surveillance. Few steps are taken to apply European and international standards with regards to food safety, animal diseases and protection of plants. Albania should make sure to take public's opinion on issues of trade policies a permanent practice.

Access to Finance. Even here, Albania ranks below the average. Although there have been attempts to improve the access to financing means, Albania is among those countries in SEE where business access to external financing is very hard. In 2009, BEEP survey (World Bank) showed that 75% of companies use internal resources to finance new investments, compared to 56% of the region's average. However, the same survey shows that in Albania, information on microcredit is particularly well developed. A large number of microcredit institutions are covering most of the territory. Bank of Albania (BOA) is the authority to license microcredit institutions and to supervise the deposit taking ones. In order to further facilitate access to financing, in 2008, BOA introduced the credit registry. Nevertheless, further improvements are needed in relation to agreements on loan guarantee, and collateral registry and real estate registry. Apart from donors programs, Albania does not have a scheme for credit guarantees. While there is a real estate registry which can be used for collecting information on collateral, the collateral on tangible assets is only partly covered by legislation. The system of registering tangible assets is not fully functional. This situation is very unfavorable for SMEs which in their large part lack fixed assets collaterals.

The role of parliaments in economic reforms. Here, again Albania ranks below the average. The main weaknesses are in transparency and dialogue. Important progress has been made in reforming our legislation framework in the recent years. The main objective has been to simplify our legislation and regulations. This strategy has been successful in regulations on business registration and licensing, but further work is needed to simplify other areas. Since 2006, little progress has been made in the area of regulatory impact assessment, (RIA). The implementation of RIA in draft legislative instruments has not been formalized in the law. RIA can be a very effective instrument to optimize the efficiency and effectiveness of legislative instruments to ensure that the main objectives are achieved at minimum costs.

Taxing policy analysis Albania ranks below average of the region with regards to tax policies. The country faces problems with taxes on investments and employment as well as taxes on SMEs and multinationals. In the last years Albania has improved considerably in developing and implementing an efficient tax system. At present, the Ministry of Finance (MOF) uses a model to forecast main revenues from taxes. The model takes into consideration not only the GDP growth and inflation but also the impact of new fiscal policies. MOF is also currently developing a macroeconomic model which will be used to forecast tax collection more efficiently. The process of tax collection and public expenditures is reviewed periodically, while tax revenues are monitored on daily basis. The MOF has implemented the Medium Term Budget Plan which is based on national priorities and objectives, in order to design public expenditures.

2.3.1 The Role of Albania Government Incentives on Attracting FDI

FDI incentives have been defined as "any measurable advantages accorded to specific enterprises or categories of enterprises by (or at the direction of) a Government, in order to encourage them to behave in a certain manner" and include "measures…designed either to increase the rate of return of a particular FDI undertaking, or to reduce (or redistribute) its costs or risks". They are seen as distinct from "broader nondiscriminatory policies" such as "the general fiscal regime for business operations". The term "FDI incentives" covers fiscal and financial benefits. Fiscal incentives include full or partial holidays from tax; reductions in the standard rate of tax; tax reductions conditional on reinvestment of profits; investment allowances and investment tax credits; accelerated depreciation of assets; preferential treatment of profit on exports; tax deductions based on specific types of expenditure (e.g. R&D); and exemptions from import duties on capital goods or other inputs (list adapted Financial incentives include: cash grants related to the value of assets invested or numbers employed or training costs; provision of subsidized facilities such as factories or sites; provision of infrastructure related to new facilities, such as roads and links to utilities; and direct subsidies

Fiscal and financial policy incentives There is a growing body of work that examines the effectiveness of tax and incentive policies in attracting FDI . The development of the tax system is very important for attracting FDI inflows in transition economies. When transition began, taxes on companies represented a higher share of government revenue and of GDP than in the high income OECD countries, linked to a tradition of heavy taxation of enterprises. In the early years of transition, countries faced erosion of tax revenues and needed to create institutions for raising revenue in a market economy. Incentives could arguably insulate potential investors both from the initial high tax rates and from the uncertainties associated with tax reform. The Government of Albania has played an important role on improving the business climate in Albania. In order to increase FDI, the GOA has developed a set of fiscal and legislative policies: Reduction of the fiscal burden of social security contributions payable by employers from 20 percent to 15 percent (on May 2009). Introduction of a flat tax of 10% on personal income tax. Tax exemption of dividends designated for investments. Reduction of corporate tax from 20 to 10 percent (on January 2008). Importers of machinery and equipment are exempt from VAT if the machinery and equipment are used solely as part of their taxable economic activity. Investment Promotion Agencies Albinvest is the Albanian Promotion Agency for foreign investors. The Albanian Government has assigned Albinvest three strategic goals:

Assisting and accelerating the inflow of foreign investment into the Albanian economy Improving the competitiveness of Albanian exporters Providing professional services to assist the growth of Albanian SMEs. According to "Investment Reform Index" 2010, Albania needs to focus on improving services to investors in both pre and post establishment phase. Albania should explore the possibility of Albinvest having authority to approve some permits and licenses. Also a more sophisticated approach to client relationship management (CRM) is needed. Many activities in Albania required cumbersome licensing procedures and permits. According to The US State Department"s 2009 Investment Climate Statement, the GOA approved the Action Plan for Regulatory Reform, in 2007, which provided for a full review of Albania"s entire legal licensing system to harmonize the licensing legislation to EU standards and reduce administrative barriers for businesses operating in Albania.

2.4 Some Attractive Factors and Reasons to Foreign Direct Investments in Albania

Albania is considered as a strategic place to invest, located in the center of natural crossroads of major corridors in Europe. Albania is reach in natural resources. Investment in resources is an great chance for foreign Investors and even for Albanian Investors. Albania has a high percentage of unemployment and it is possible to find skilled workforce with low cost. It is easier for foreign firm to invest in Albania economy because the competition is not as strong, in meaning that the competition for resident firms is relatively low compared with foreign ones. This country stands at 46th in the ranking of 190 economies on the ease of starting a business. This index is one of the most important documents that provides foreign investors with indicators and objective measures about 190 economies.

The majority of investments are coming from the neighboring countries part of the European Union that is Greece, Italy, Germany and United States. Foreign investments have brought their generally positive effects that are: added value, employment, increase of productivity and economic development. FDI flows towards Albania have been rising steadily since the early 2000s. Today, FDI stock has reached nearly 50% of the country's GDP. These investments are essentially in the oil, metal ore, infrastructure, construction and telecommunications sectors. Annual FDI inflows in Albania have increased significantly in the last ten years or so, averaging close to USD 1 billion per year for the period 2008-2017. FDI inflows amounted to more than USD 1 billion in 2017, compared with USD 1.12 billion in 2016, and 9.45 billion in 2015. Its Foreign Portfolio Investment increased by USD 4.3 million in Dec 2017. Albania is working to implement reforms necessary to open EU accession negotiations. Primary trading partners are Italy, China, Germany, Greece, and Turkey. No prior government authorization is needed and no sector is closed to foreign investment. There is no limitation on the percentage share of foreign participation in companies and 100% foreign ownership is possible. Albania's tax system does not distinguish between foreign and domestic investors. Foreign investments may not be expropriated or nationalized directly or indirectly and will not be subject to any measure or similar action, except for public purposes determined by law.

Foreign investments will be treated in a non-discriminatory manner and paid immediately, in a fair and effective manner, in accordance with the law. All times investments will have an equal and unbiased treatment, and will have complete protection, there are no restrictions on the purchase of private residential property and are limited exceptions to this liberal investment regime, most of which apply to the purchase of real estate. Commercial property may be purchased, but only if the proposed investment is worth three times the price of the land. Investors in Albania are entitled to judicial protection of legal rights related to their investments. This country is considered as a strategic place to invest, located in the center of natural crossroads of major corridors in Europe. Albania is still a developing country which needs foreign investors to develop entire sections of its economy, a fact which provides interesting opportunities. Taxes have been reduced in order to facilitate economic activity in specific sectors. Albania offers a positive macroeconomics environment with one of the lowest inflation rates in the region and the stable currency, another important factor is the country's Favorable Geographical Position, which gives Albania the possibility to become crossroad between East-West & North-South international trade, as well as a potential gateway for the countries in the region. Albania has signed Double Tax Treaties with more than 30 countries.

Fig.1

This land is rich in natural resources including gas, oil, coal, iron, cooper, chrome , water and hydroelectric potential. Albania have a high and stable growth (average 7 % annually during last decade), low inflation (between 2-4 % annually), as well as low fiscal deficit and low public debt conform EU standards. Its population is young and active, one of the youngest populations in Europe and consists in a very competitive workforce in region just because 57 % of the population is under the age of 35. Young people are well educated and more than 85% of high school pupils go to university. English, Italian, Greek and Spanish languages are widely used, especially English and Italian languages are fields of study in high schools.

Investments in Albania means having to pay less to your employees compared to European countries because the country is always listed in the top of the list of countries with the lowest minimum wages in Europe. Considered as a developing country , wages in Albania start from $200 and country is considered to have one of the lowest minimum wages in the region 157 Euro.

Foreign Investors can easily invest in agriculture sector since the proportion of land in agricultural use is only 24% and with the Albanian government initiative "Albania one (1) euro". If you want to establish and register your own business, you have to know that you don't need prior government authorization, all sectors are open to foreign investors, there are no limitations for foreign companies, 100% foreign ownership is possible, no restrictions on profit and special state protection for your business. In recent years there has been a tendency to construct of business centers equipped with the latest technology, which offer complete services for tenants and purchasers of business environments. Demand for this type of facilities has been growing and construction industry has responded by providing high quality and technologically equipped buildings. Energy is one of the economic sectors that attracted more private investments during the recent years. Until the summer of 2017, most of the capital was invested in hydropower. Albania is one of the few countries in the worlds that relies 100 percent on renewable energy. Albanian economic situation shows interesting prospects for Italian economic operators. Albania continues to record improvements on an economic level (3.37% in 2016), with a forecast of 4.2% for 2018, up to a rate of 4.5% of 2021.

Over the past few years, the Albanian government has launched a comprehensive reform program focusing on macroeconomic and fiscal sustainability, stabilization of the financial sector, pensions and local government. Albania has seen transformational change in the past two decades, moving from a low income to an upper middle income country. Government is also encouraging more broad based FDIs to include sectors which can leverage the country's human capital and facilitate job creation. The Albanian government adopted a fiscal package that will be implemented for strategic investments in the tourism sector, which is booming. Official data confirm more than Euro 1.5 billion income during 2017. The new fiscal package says that as of January 1, 2018, all the new four and five-star hotels that will be constructed are going to benefit exemptions from the profit tax for ten years. Moreover, they will not pay infrastructure tax while the Value Added Tax (VAT) will be reduced to six percent. The free market reforms have opened the country to foreign investments, especially in the field of power, transport, infrastructure and tourism development. Albania is a member of the UNO, NATO, the Organization for Security and Cooperation in Europe, the Council of Europe, the World Trade Organization, and it is one of the founding members of the Union for the Mediterranean. In 2014, Albania received the candidate status for membership in the European Union. In any case and at any time, investments have equal and unbiased treatment, they enjoy full protection and security. Imports decreased by 2.87% and exports increased by 8,18%. Albania imports mainly from Italy, Greece, China, Germany and Turkey. Albania exports to Italy, Kosovo, Turkey, Greece, Spain and Germany. Two main investors like Italy and Greece represent respectively 30.5% and 10.6 % of imports, and 50.9% and 5.1% of exports. Albania has a liberalized economic framework and conditions for doing business and attracting FDI are improving constantly. The Government is engaged in finding and identifying new sources that will secure a sustainable development of the Albanian economy. The ongoing reforms aim to increase the efficiency of tax administration and reduce corruption. FDI is a top priority. Some of the incentives for foreign investments include: fair taxes and incentives; fair taxation will be the fulcrum of the Albanian fiscal policy. Who earns more, will contribute more. Actually a flat corporate tax rate of 10% is in use. Social insurance is 27.9% of the gross salary, with the employer paying 16.7% and the employee 11.2%. No limitation on the percentage share of foreign participation in companies 100 percent foreign ownership is possible. Foreign investors have the right to expatriate all funds and contribution in kind of investments. State protection on legal disputes for investments over EUR 10 million. The focus for the future development of the Albanian economy will remain on attracting FDIs with a focus on sectors where the Albanian economy has unexploited potential.. The ICT sector is growing rapidly, making it one of the country's most dynamic industries. In recent years government measures have been introduced through the Crosscutting Strategy of Information Society that aims to bring Albania up to speed in the digital age. Government legislation has liberalized the telecoms industry, bringing it into line with the EU regulatory framework for communications, which encourages competition. In 2007, the National Agency for Information Society (NAIS) was set up, aiming at accelerating the development of information society and e-government services. Almost 80% of the basic services at the central government level are currently accessible as e-services at first or second level of sophistication.

2.4.1 Some reasons to invest in Albania

Investors choosing Albania find that they benefit from 'the Albanian advantage' which comes from investing in a politically stable, fast-growing, low cost, European economy that is today's gateway for European manufacturers into Southern Europe. Some reasons to invest in

Albania, according to Albinvest are: Macroeconomic stability Economic developments after year 2000 indicate that the Albanian economy has entered an irreversible process of reform, which has consequently had a positive effect on the main macroeconomic indicators and macroeconomic policy. Albania is building a consistent track record of economic expansion built on export growth, a low and stable inflation rate, and increasing per capita income. Our GDP and export growth rates were the fastest growing in South East Europe from 1997 to 2008. Albania is an excellent FDI opportunity that may provide substantial profitability to foreign investors. Real GDP in Albania has averaged 6% in previous years due to a surge in public investment. A 2007 World Bank report highlighted Albania's high GDP growth and a dramatic decrease in poverty. Albania has received significant investment from international bodies such as International Bank for Reconstruction and Development. (Hirst, T, 2008). A country's balance of Payments accounts calculates its payments to and receipts from other countries. If the FDI in Albania is a substitute for goods and services, the effect can positively improve the current account of the host countries balance of payments. (Hill CW, 2009). According to a UN report, inward FDI by foreign multinationals has been a major driver of export led economic growth, which can be utilized by Albania. Low inflation rate Businesses prefer a predictable environment in which to operate. Consistent low annual inflation rates in recent years have shown that Albania provides the economic stability that gives investors the confidence to invest. Consumer price inflation is under the 4 per cent upper limit of the central bank's informal target.

The Albanian LEK will continue to be supported in 2009 by large foreign-currency remittances from Albanians living abroad as well as relatively high interest rates. Established trading with the EU Almost 90% of Albania's exports are designated for EU markets, and this export pattern is an important predictor of future growth. Exports should grow relatively strongly in 2009 and forecasted current account deficits averaging around 11% of GDP. Albania benefits from many Free Trade Area agreements with Balkan nations to the east of Albania. Western Balkan countries have liberalized their trade regimes significantly by concluding a network of bilateral free trade agreements that shall shortly be transformed in a multilateral one. Furthermore, substantial progress has been made in improving the investment climate, creating a common energy market and developing regional infrastructure strategies. The recent level of intra-regional integration can be illustrated by the level of intra-regional trade. The actual intra-regional trade in the Western Balkans is mainly characterized by the revitalization of traditional trade links. Investors can manufacture in Albania for export to the 50 million-strong Balkan market as well as throughout the European Union. Site availability from production facilities to high quality office space

Various sites are currently available under the Albania "One Euro" initiative. These range from basic production facilities throughout the country to high quality serviced office space in all of our main cities. Industrial sites are better priced in Albania than in Eastern European or other Balkan countries. Electricity and water costs are also at or below those of other countries. Factory units are available for refurbishment, which, in many cases, are government owned and are offered along with attractive leasing arrangements based upon the number of jobs created. Total labor costs are lower than comparable countries Gross wage costs are a fraction of our competitors' levels within the region, including Romania and Bulgaria, while social security 'on costs' in Albania amount to just 30.7% of gross wages. Competitive salaries are another favorable incentive. In the actual circumstances of an undeveloped economy, real salaries in Albania are low. Based on INSTAT data 2008, the minimum salary is 16 000 Lek per month (about EU130 per month). Adaptable and flexible skilled labor force Albania's working population of slightly fewer than two million has a median age that is young by European standards, just 29 years compared to 40 years in Italy.

A high proportion of under-40s speak two languages, many of them after returning from studying and/or working abroad. The current unemployment rate of approximately 15% shows that there is no complacency in the job market while the number of students in social sciences, business, and law accounts for more than one-third of all those in higher education. While some members of the labor force are highly skilled, many work in inefficient industries with outdated technology. Via foreign firms investing in Albania, the skill sets and technological capabilities of the Albania's young work force is enhanced. Extensive language skills Most Albanians learn either Italian or Greek from childhood, and are well able to perform customer-relation positions in these near-mother tongues. The younger generations learn English, which is rapidly becoming the primary foreign language taught in schools and universities. Administrative & business regulations are being simplified Albania is working hard to improve its administrative procedures. Starting a business, Albania ranks 68th in 2009 and set to move to 46th in 2010.

The average time in days for starting a business is 5 days as compared to 13 days for the overall OECD Average. This demonstrates that the Albanian government is moving in a positive direction to attract foreign investment. (The World Bank Group, 2009). The Albanian state can expropriate an investment or asset for the purpose of public interest, but there are no legal provisions for compensation. (NEWEUROPE 2009) Investment opportunities through privatization the government is reviewing its privatization strategy, because the privatization will represent an important source of investment as well as an opportunity to transform some key strategic sectors of the Albanian economy. A new law on concessions has recently been passed with support from the World Bank and is designed to stimulate the development of key sections of the country's infrastructure and public services. The feasibility of the client company to enter the Albanian market is positive. The Albanian government encourages foreign investment, thus in an ongoing effort to privatize public enterprises, the government is seeking qualified foreign investors in key sectors, including telecommunications, energy, oil and gas, finance, and construction. (Foreign Investment Climate, 2008) Attractive investments in Albania The energy sector The business ventures that are attractive for FDI are focused on construction infrastructure and energy. Based on a recent EU report, it is acknowledged that Albania had undertaken some important steps to restructure and liberalize the energy sector and from international institutions it will be provided financing for new power generation.

Therefore, renewable energy is also an attractive foreign investment option. Here, it can be mentioned the Hydro Power Energy investment in Ashta (North Albania), an Austrian investment in energy sector. Through a lack of investment funds, only 35 per cent of potential capacity for development is currently being exploited. (GMB Publishing 2009) Tourism sector during the last two years, Albania had an impressive growth in tourism. According to the Ministry of Economy, there was a 42 percent increase in the number of tourists visiting the country. With new hotels, resorts, and restaurants, the Albanian private sector in tourism has been growing at an average rate of 30 percent during the last five years. The previous low level of foreign interest is largely due to the fact that Albania's international image is poor, but wrongly so. Albania's service sector, especially its restaurants and hotels, are traditional and attractive. It can be mentioned the hospitality as a characteristic of Albanians that attract foreigners. They are ready for an influx of tourists. Albania is also rich in natural resources, such as oil, gas, copper, chrome and hydroelectric potential. (Austin RC 2006) Foreign investments in textile sector in Albania Investments in the textile sector are increased considering the numerous advantages that Albania offers, starting from its location, its connection with other Balkan countries, as well as a high rate of unemployment. The origin of most foreign investors that operate in textile sector is from Italy and Greece. Investors who want to invest in Albania also benefit from cheap labor force which works with very low cost compared with other Balkan countries like Romania or Bulgaria.

The main factors that have positively influenced the activity of these investors are: A new workforce (in age) and a qualified workforce , geographical position , market openness, infrastructure improvements , free trade with the European Union for almost all goods (within the Stabilization and Association Process) initially, all businesses claim that the main factors that attracted these investors were the high rate of unemployment and the low level of wages. Today, the factors that attract these investors are professional competences and qualification of the labor force.

2.5 Market Opportunities

Despite its small size, Albania represents significant opportunities for exports and investments. Opportunities exist for U.S. exports of equipment and services, including energy efficient technologies, to the electricity generation, transmission, and distribution sectors. Oil and gas sector development creates potential for exports of equipment and services. Opportunities exist for exports of IT equipment sales and services to the ICT sector, including public e-services and modernization of equipment for government operations. Modernization of the health care sector, driven chiefly by private sector demand, has increased demand for advanced medical devices and equipment. Light manufacturing, especially in the clothing and shoe industry, continues to grow, creating potential demand for equipment and machinery.

Opportunities exist for exports of heavy construction machinery for infrastructure development, including ports and terminals, and services and technology for waste treatment and processing. The government has emphasized privatization of road, maritime, railway, and civil aviation services, all of which could spur export opportunities. A government plan to open at least one additional international airport in Albania may present opportunities for U.S. companies. Grain and meat, mostly for processing, represent export opportunities. Agro-processing also presents potential opportunities, given robust demand for packaging and distribution facilities, storage capacity, and quality control. The government plans to modernize and consolidate the agricultural sector, which spur demand for farm equipment and services.

Tourism has potential to play a leading role in Albania’s economic development. Given Albania’s long Adriatic coastline, Mediterranean climate, and abundant archeological, historical, and religious sites, tourism represents a promising sector for the Albanian economy. Opportunities exist for development of hotels, resorts, marinas, and other tourist infrastructure. Albania is making serious efforts so as to successfully attract foreign investors. Albania seeks to compete regionally on the basis of its two primary advantages: low labor costs and skilled labor force, and recently with an additional advantage as "potential candidate country" for EU membership since 2009. FDI promotion remains a strategic objective for the Albanian government. Moreover, with its literate and low cost labor as well as its proximity to European markets, Albania has good potentials for attracting FDI. Moreover, with its literate and low cost labor as well as its proximity to European markets, Albania have favorable natural conditions and under exploited natural resources, have proximity to EU markets for technology transfer, sub-contracting and access to Adriatic and Mediterranean Seas. The country is characterized with low cost but relatively educated and technically trained work force, with strong work culture and have political will for promoting FDI. Albania is characterized by advancing bi- and multilateral trade negotiations (e.g. WTO, EU, regional FTAs). Many advantages of country are like ; opportunities in the privatization and progress in banking sector reform.

2.6 Incentives and Barriers of FDI in Albania

This section will present Albania's main impediments comparative advantages to FDI. In a study "Albania Diagnostic Study" conducted by Foreign Investment Advisory Service (FIAS) in 2000 and 2002, the major impediments to the growth of private investment are: The slow process of privatization of state lands, buildings and enterprises, as well as of strategic sectors such as electricity, water and transportation. Another reason is low interest of foreign investors due to perception of Albania as high-risk country due to past violent social and political changes in Albania as well as instability in the Balkans. Albania have a lot of problems such as , weak governance capacity ,frequent changes of laws and decisions causing instability in the "rules of game" that is result of lack of accountability and institutional capacity and weak rule of law. This country is characterized by ineffective and enforcement of laws , as well as weak judiciary due to lack of information, poor education, political influence, illicit payments, inadequate physical infrastructure and low salaries. Poor infrastructure, lack of low cost and efficient infrastructure for export oriented FDI and tourism is another negative effects.

Weak and overburdening tax administration, especially income tax, VAT (Value Added Tax) and the customs; as well as unsupportive tax system for export oriented FDI are some of main barriers that can decrease the new investments in the country. Weak financial sector and insufficient availability of financial services to the private sector (high real interest rates, lack of long-term financing and leasing. poor payment and depository services, low quality services for international trade and weak banks supervision) are some of the elements that Albania is not very attractive for large investments. Weak legal and administrative framework to record and protect property rights and land use in urban areas for tourism, as well as for commercial and industrial uses. Problems in access to land and construction due to slow clearance of conflicting title rights and long bureaucratic procedures for property rights registration, and construction approvals, are also one of the most important problems. Rising labor costs, lack of managerial expertise, lack of workers applied with advanced degrees in business and management, as well as increasing competition from other low labor countries in the region.

Also delays, unpredictability, and high costs of acquiring licenses, permits, and other government approvals required starting and operating a business are some of the disadvantages. Street crime, organized crime and corruption. In the same line with the above, according to Xhepa and Agolli (2004) and Xhaferaj (2006) some of the most critical constraints to business development in Albania are the ones related to the legal and regulatory framework, as well as infrastructure. Corruption and a general lack of transparency are considered as the most persistent impediments to business in Albania and to MNEs that might invest there. Although corruption was more problematic in the previous years, it continues to impede economic and social development. Bribery is a common practice. For instance, it makes the process of obtaining licenses as very long and costly process. Based on public perception, the most corrupted institutions in Albania are considered the customs and tax authorities, the police and the public health system. Transparency is further inhibited by the fact that much industrial activity in Albania is not part of the formal economy.

Albania is ranked as one of the most corrupted countries in the region. In contrast to most other tradition countries, for which a number of studies have been focused and provided estimates of the size of their informal sectors, very little research has been done to approximate the magnitude and the composition of the black or informal economy in Albania. Hence, little is known too on the extent of fiscal evasion "contributed" by informal economy. The report prepared by the OECD (2004) and the study provided by Olters (2004) are notable exceptions. According to OECD (2004) the informal economy is an important contributor to employment and production in Albania but also is responsible for fiscal and regulatory evasion. The positive impact to employment and production comes with significant costs in terms of lost tax revenues, lack of employee protection and unfair competition among enterprises.

The estimation of the OECD in the report was that informal production over the last 5 years contributed between 24%-28% of total gross value-added. Besides this official estimation, there are optimistic anecdotal estimates from the Albanian media that suggest that one-third of total economic activity is informal, while other estimates range higher from 50-60 per cent of the total economy (for instance, this estimate was mentioned in the daily newspaper Dita in December 16,2002). At last, Olters (2004) based on the examination of several important macroeconomic indicators, concluded that Albania's informal sector represents a considerable share of economic activities, and could easily put in danger the realization of Albania's goals of socio-economic development and European integration. On one hand, budgetary revenues (relative to the performance of Albania's economy) is weak, and on the other hand private sector activities are discouraged by a number of factors: strained taxpayer relations and poor public services, inadequate tax enforcement, excessive permit and licensing requirements, existence of a competitive disadvantage relative to informal market participants, and a weak public infrastructure. Serious efforts are required by the Albanian government to move the country away from this situation, by adopting measures aimed at improving governance, and strengthening of public institutions, including customs and tax administrations. However, in practice little is done so far to face these problems.

A recent fact indicates that black economy still is an eminent issue in the Albanian economy is the difference in figures that Tax Office and INSTAT declared for 2010 regarding the number of companies operating in Albania, with 82.000 declared by the vice-director of the Tax Office and 103.000 declared by INSTAT. Moreover, preliminary result of CENSUS (2011) (research on demographics on Albania) indicated for possible falsification of balance-sheets by companies; a considerable number of companies operating in Albania show that they have either no employees at all, or 1-2 employees (in order to avoid employee's social security), as well as very low or zero profits (in order to avoid taxes). Poor physical infrastructure, including transportation and communication create a barrier to business and economic development. Despite the fact that recent steps have been taken to improve the transportation infrastructure, Albania has a limited network of roads, generally in poor conditions, very few railway lines, and no reliable public transportation.

Though there is no regular commercial air service between domestic destinations, it is possible to charter a small plane or helicopter. Finally, inefficient and weak institutions seem to be another important impediment to development in Albania. Even though, the appearance shows that institutional set up seems to be simple and straightforward, however in essence they lack capacities to carry out their functions. Some of the institutions in Albania are not well equipped to perform their duties and carry out their responsibilities. There are no clear lines of responsibilities and targets within the organization structures, which implies for an urgent need to strengthen responsibilities within the various units of the Ministry of Economy and other Agencies. Some problems within institutions are those with stuffing (lack of motivation) and financial resources.

Characteristics of Albania	Barriers for FDI	Competitive Advantages
- Isolated country	-Relatively insecure investment environment	-Favorable natural conditions and under exploited natural resources
-Small size	- Poor infrastructure, heavy administrative procedures, high level of taxes	- Proximity to EU markets
- Strategic location	- Ineffective and poor implementation of law	- Low cost of property and labour force
- Transition economy	- Weak institutions	- Progress in the privatization
- Labour-intensive economy	- Ineffective support agencies for FDI	
- Major investors originate from neighboring countries, Italy	- Corruption	

Tab.5

Some barriers for investors are: unfair competition, corruption and global crisis. There are some changes to be undertaken, proposed from existing investors in textile industry, so that other investors will be encouraged to invest in our country: Development of vocational education for the preparation of a qualified workforce. Implementation of laws and not their misinterpretation in bureaucratic guidelines.

2.7 Business Environment

Referring to the annual report of Bank of Albania, economic activity grew over. Such growth mainly reflected the expansion of consumption and private investments. Economic growth was largely driven by the expansion in services related to “Trade, hotels, restaurants, and transport” being the main contribution. With the growth of economic activity, labor market improved as well, mainly driven from the expansion of employment in services determining in this way the continuous reduction of unemployment over the year. Main reasons of high inflation in the second half of the year are external disinflationary pressures and higher pressure from domestic demand. Fiscal policy supported by the increase in revenues, while public expenditure maintained similar levels with the previous year. At the end of the period, the consolidated fiscal policy resulted into a considerable narrowing of the budget deficit for

2016. Budget was mainly financed by external funds, reducing the need of the government to borrow in the domestic market. The two main categories, construction and investments in machinery and equipment, provided positive contribution, supported by the eased financing standards, the improved capacity utilization rate, and the increase of enterprises' confidence, their improved financial situation and the increase of foreign direct investments.

Indicators	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*
Real GDP Growth	2.6	1.4	1.1	2.0	2.7	3.4
Unemployment rate	14.3	13.8	16.4	17.9	17.5	15.7
Labour force	68.5	63.4	58.1	63.6	65.3	65.7
Inflation	3.4	2.0	1.9	1.6	1.9	1.3
Import (FOB, % of GDP)	(40.0)	(36.9)	(35.7)	(31.6)	(29.9)	(30.8)
Export (FOB, % of GDP)	15.4	16	18	9.4	7.5	6.9
GDP per capita (EUR)	3,187	3,306	3,323	3,442	3,554	3,780
Public debt (as % of GDP)	59.4	62.1	70.4	72.1	72.7	71
FDI in mln EURO	746	746	923	878	881	N/A

Source: Bank of Albania & Ministry of Finance

Tab 6

2.8 Information, Communication & Technology Information

Communication & Technology (ICT) development in Albania is of high importance. In order to have positive results in this area a number of actions have been taken which will facilitate the integration of ICT within government agencies and institutions. The main objectives of this exercise will be to improve and promote digital services enabling e-services for citizens and business in order to increase transparency and improve public administration services in accordance with European principles of competition. Albania already has in place most of basic elements of a governing and regulatory framework which is responsible for the monitoring and stability of this sector. The Postal and Electronic Communications Authority, National Agency on Information Society, National Authority for Electronic Certification, the Commissioner for the Protection of Personal Data, the Minister for Innovation and ICT are all institutions with responsibilities for the development of ICT in Albania. The Albanian government launched the e-Albania portal as a unique gate where citizens, government agencies, private sector and investors can benefit of e-services. Based on interoperability with the government platform (approximately 30 institutions) the portal provides 150 services focusing on public procurement, local taxes, immovable properties, business registration, local government etc.

CHAPTER 3

FOREIGN DIRECT INVESTMENTS (FDI) IN ALBANIA

3.1 Development of FDI in Albania

The FDI attracted by the Albanian economy has been increasing through the years, particularly after 1998. However, FDI in Albania stays far below the volume experienced by other Central and Eastern European Countries. FDI in Albania remains limited mainly due to a relatively insecure investment environment, poor infrastructure, heavy administrative procedures, corruption in the public administration and the judiciary and relatively high taxes. There are potentials for FDI growth in Albania due to countries main competitive advantages such as favorable natural conditions, proximity to key EU markets, relatively low cost but skilled force and progress in the privatization process. In 1995 and 1996, FDI annual inflows to Albania were nearly twice as large as the period from 1997 to 1999. This decline in FDI was certainly the consequence of a series of crisis that affected the country, starting with the 1997 civil disturbances that followed the collapse of the pyramid schemes, the coup attempt in September 1998, and the Kosovo crisis in 1999.

The level of FDI during 1998-1999 amounted only 1% of GDP. However, its level has increased substantially since then; in 2000 the volume of FDI has been estimated to be around USD 143 million, which is three times higher than in 1999. In 2000, FDI activity increased not only in terms of volume but also in terms of number of foreign companies investing in Albania. The number of registered joint ventures and foreign wholly owned firms increased by about one-third, between 1999 -2000. Most of the increase in FDI activity came as a result of privatization programs undertaken in the telecommunication and banking sectors. The FDI level continued to increase for 2001 and can be estimated around USD 207.0 million. This progress was notably the result of successful privatizations, such as: AMC (Albanian Mobile Telecommunication), Vodafone and Albkrom (Chromium Albanian Industry). and Albcooper (Cooper 33 the information provided in this section is based on data published by INSTAT and Bank of Albania, Albanian Industry privatized by the Italian company DARFO). For the year 2002 the FDI estimated has been USD 150.0 million.

Compared to that of 2001, FDI has decreased as a result of the delays in privatization deals for strategic objects such as Albtelecom, Savings Bank, etc. For 2003, FDI amounted USD 178.2 million, where the privatization of the Savings Bank by the Austrian Raiffeisen Bank had the major contribution. Estimated FDI figures for 2004 and 2005 are USD 341.8 million and USD 264.5 million, respectively. There is a continuous significant increase of FDI inflows in the recent years, for the period 2006, 2007 and 2008 rising to USD 325 million, USD 656 million and 988 million, respectively. Inflows to South East Europe fell for 2009 and 2010, following the global trend. For 2009, in dollar terms FDI inflows to Albania declined slightly to USD 979 million, due to the appreciation of dollar with respect to the euro and the Albanian Lek.

FDI inflows to Albania for 2010 developed independently to the global and regional trends showing a continuous increase by 23 percent compared to 2009 reaching for USD 1,097 million in 2010, and more than double the level in 2006. Again, this development has been the result of various successful privatizations in sectors of banking, energy and telecommunications. More specifically, 24 percent of the FDI inflows during the period 2004-2008 were due to privatizations and rise to 26 percent in 2009. Important privatizations. concessions and investments that influenced the level of FDI inflows included among others: the sale of part of the shares in the second largest mobile company AMC to Cosmote; the sale of majority stake of the Albanian Power Company to CEZ; investments in the energy sector by Statkrat, EVN and Verbund, investments in the cement industry by Antea Cement, Colacem Shqiperia and Cementos Aguila (KPMG, 2011). Moreover, in the recent years, an important development targeting investors has been established on the Law on Concessions in order to create a favorable framework to promote and facilitate the implementation of privately financed concession projects in the development of infrastructure and public service areas in a number of sectors.

Albania's weight as a host to FDI in the South-East European region has grown remarkably since 2006, and especially since 2007 when the total inflows to the South-East Europe decreased whereas inflows to Albania kept growing .For the years to come, the FDI level will continue to depend on the privatization process due to the fact that the statistical data of the previous year demonstrate that privatization is the major source of foreign investments in Albania. When the privatization process will finish, major efforts will be dedicated in attracting FDI with 100% foreign capital and in promoting form of cooperation consisting in foreign capital as well as domestic one.

3.1.1 FDI in Albania. According to Country of Origin

In countries of CEE, predominant are global investors. Albania receives the' main part of FDI (87%) from the European Union, which is even the major trade partner for the country. The Italian investments are mostly located in West of Albania, close to the Adriatic Sea. The majority of the Italian investments are small and medium enterprises (SMEs), engaged mainly in construction (35%), textile and shoes production (21 %), trade and services (16%), and agricultural food processing industry (8%), Italian companies take advantage and make profits from the Albania' comparative advantage in low cost quality force. Albanian wages are ten times lower than those in Italy. Moreover, Italian investors take advantage of the Italian Government grants and subsidies designed to promote Italian investments in Albania. According to the statistical data provided by the Bank of Albania (2002), there are approximately 500 Italian companies operating in Albania. The private Italian investments are estimated to have a value of above USD 400 million. The most important Italian companies are: DARFO in the area of chrome industry: ENEL, ESSEGEJ, BEGHETTI in the area of Hydropower. Greek investments are mostly concentrated in Tirana and in the south and southeast of Albania, close to the Greek border. In general, Greek investors in Albania are concentrated on trade and recently on telecommunications, banking and construction, and only less than 2 % are involved in other branches of industry such as textiles, garments, manufacturing of leather products and tobacco processing. More than 60 % of Greek foreign investors benefit from grants offered by the Greek governments to the Greek companies operating in the Albanian market. Actually, according to the Bank of Albania, there are around 213 Greek companies, making 34.2% of the foreign investments in Albania. Foreign investments are mainly concentrated in the main districts of Albania, which are Tirana (55 %) and Durres (12%) (INSTAT). These are the two largest cities in the country and account for approximately 67 % of the total companies operating with foreign or joint capital. Albania continues to receive the largest part of its FDI from neighboring countries (usual for small countries), but Greece is already the major player and the most important home country. FDI inflows from Greece accounted for 41 % of the FDI stock in 2008, 15.1 percent more than in 2005. Yet, only 26% of the investors in Albania came from Greece which indicates a high concentration of Greek FDI and its focus on capital intensive activities.

Foreign investments in Albania from Greece remain mainly in telecommunications (61%) and financial intermediation (22%) (Bank of Albania, 2010). After Greece, Turkey is the second in importance as source country for FDI inflows with 14% of the stock in 2008. There were 40 Turkish investors with FDI concentrated in non-financial activities. The third largest source country for 2008 is the United States with 12% of the FDI stock. In 2005, the United States accounted only for 2.4% of the inward FDI stock. Investors from United States are not the ones among the top foreign investors in Albania except for the Albanian-American Enterprise Fund which invested in several projects including the American Bank of. Albania that merged with the Italian Intesa San Paolo Bank. The fourth place is taken by Austria with 9% of the FDI inflows stock for 2008. The largest part of the Austrian investment is in the banking sector, resulting mainly from the purchase of the Albania Savings Bank by Raiffeisen International, becoming the leading bank in Albania with 30% of banking assets in the country. In 2005 Italy was the leader source country in terms of FDI inflows, in 2008 it came fifth in importance, with only 8% of inward FDI stock.

Foreign investments from Italian investors concentrate mainly on manufacturing and construction. They are also present in the services sector and mainly in financial intermediation, however, not evidently in finance sector . However, a particular characteristics of Italian investments is that it is distributed among a large number of companies. To sum up, these main five source countries account together for 84% of the FDI stock and 80% of the foreign subsidiaries in Albania for 2008. Greece, Turkey and the United States are the major FDI player. Even though Germany represents an important source country for other South-East European countries, there is limited presence of German FDI in Albania, probably due to lack of investment opportunities in manufacturing sector.

3.1.2 FDI in Albania According to Economic Sectors

FDI in agriculture remains low due to small and fractured land plots, restrictions on foreign ownership, of rural land, and weak roads and transport links to major national and regional markets. Sectors that attract more foreign investments in agriculture and related industries include fisheries, fish processing and canning, food processing, olive oil refining, beverages production, and wood processing. Regarding services, FDJ is concentrated in banking, retail and construction. In the construction sector, FDI has grown in terms of the number of enterprises and volume of activity. The origin countries of most of the foreign investors in construction are from Turkey, Italy, and Greece. Based on the flow of resources from donor countries and in response of the significant rural to urban migration, there are prospects for FDI to expand in this area, as there is growth in investments in infrastructure and buildings.

Finally, the majority of foreign enterprises operating in manufacturing industry are involved in re-exporting finished and semi-finished goods, such as garments, small leather articles, and shoes. Re-exporting takes place when foreign affiliates in Albania import raw materials from abroad (usually the investor's home country), process them using intensive production methods that capitalize in Albania's low cost, and after that re-export the goods at various stages of processing. For 2008 there is a change in structure for FDI according to economic sectors. Only 16% of the FDI stock was concentrated in the manufacturing sector (Bank of Albania, 2010). Most of the FDI stock is accumulated in the basic heavy industries such as construction material and metals, whereas more sophisticated manufacturing is missing in the foreign sector as well as domestic sector. The construction sector accounts for 15% of the inward FDI stock indicating that it is almost as important as the manufacturing sector.

The boom in buildings, practically financed from remitted income, resulted in a general boom in construction for the period 2004- 2008. The greatest proportion of the FDI stock in Albania corresponds to services. Wholesale and retail trade activities continue to account for a low share of FDJ with only 7% of the total stock in 2008, given that foreign supermarket chains have not been established yet in a large scale. Following, transport, storage and communication accounted for 23% of the FDI stock in 2008, a result coming from foreign investments in fixed-line and mobile telephone services. The most important FDI target has been financial intermediation with one third of the stock in 2008. The privatization of the banking sector from foreign banks and investors has resulted in large inflow of capital through which banks have been restructured and credit activities expanded. The hotels and restaurants sector account only for 1 % of the FDI stock. This is surprising given that Albania has great potential for attracting tourism. Real estate sector and other business services are under developed and have a low presence in the FDI stock compared to developed countries. Investments in legal and consulting services remain at very low levels, even though their presence is important and necessary for foreign investors. FDI in these services is expected to expand with the increase of demand.

3.1.3 The Characteristics of Foreign Investors Actually Operating in Albania

Based on INSTAT data, it appears that in Albania 2.4% of the total number of enterprises registered with legal identity operate with entirely foreign capital while 3.4% operate with joint capital (most of them are small enterprises with one to five employees and only 8% have ten employees). Foreign investments in Albania have the following characteristics: The majority of foreign investments in Albania are in the form of joint ventures, constituting 20% of total enterprises. The reason is that foreign investors are not confident enough to invest their capital in 100% ventures of their own. So, to decrease investment risk, they invest in joint ventures. Foreign investments are generally made in the commerce sector (60%) and less in the most crucial sectors, i.e. industry (17.6%) and in agriculture (0.9%), because the amount of investment required is lower compared to industry and agriculture, and because the returns are rapid and the investment risk low. Foreign investors do not prefer to invest in industry and agriculture in order to minimize the risk related to the unconsolidated business environment. Backwardness in attracting foreign investment in agriculture is also related to the absence of a law on agricultural land and the many problems of management in this sector Compared to other countries of Central and Eastern Europe. Foreign enterprises in the production sector are engaged in re-exporting finished or part-finished products: generally they produce clothes, shoes and leather items. The volume of their exports is about 87%, and that of imports about 48%, of the total volumes of exports and imports in the country.

3.2 The Effect of Corporate Profit Tax on Attracting Foreign Direct Investment in Albania

The importance of foreign direct investment is always increasing, especially after the development of globalization that has occurred recently in the world. In the last two or three decades, a lot of authentic empirical studies of various researchers have been made. These researchers have proven major benefits as a host country of FDI, but the disadvantages or losses that host countries have, especially in small countries where foreign investors are favored by the respective governments for privatization or concession granting of some state companies versus a lower value than the market, is to have the benefit of the political campaign. Another reason is that economy experts believe that foreign direct investment negatively affect the balance of payments. This makes it unstable as a result of inflows from the beginning and then outflow until the repatriation of capital. However, comparing the cost of foreign direct investment with the benefits host countries have, these researchers confirmed and proved that these are very small.

For this reason, developing countries most especially are always in competition with each other to create a more favorable business climate for attracting foreign direct investment. The passage through transition in Albania is accompanied by liberalization and privatization. Here, an important role is also played by foreign capital. Foreign trade has been liberalized since 1990 and it follows the standards set by the European Union (EU) and the World Trade Organization. Due to its power, Albania has bilateral agreements on mutual protection and encouragement of investments. Some important agreements in which they adhere to are: Free Trade Agreements, Stabilization and Association Agreement (SAA), Central European Free Trade Agreement (CEFTA), European Free Trade Association (EFTA), Free trade agreement with Turkey and Generalized System of Preferences (GSP) of the United States Foreign capital in Albania was obtained through FDI.

They are a very important source of capital flows and they foster the development of an economy. FDI are often regarded as the locomotive of the country, since their focus has been on important sectors of its economy. In recent years, has occupied an average of 9-10% of gross domestic product. Basically, there are several definitions of FDI which varies based on their measurement and evaluation. According to the classic definition of Rugman and Hodgetts (1995), FDI is considered as a company of certain country which makes physical investment by building an industrial enterprise or firm for another random country. Thus, they are often considered as political issues in our country. There are two types of FDI, otherwise known as portfolio investments. They are investments that are carried out through existing financial channels between the investment country and the receiving country, while the other type are the investment that is "directly" carried out in machinery equipment , buildings, and not only during the flows of capital. FDI in Albania are regulated by law No. 7764, dated 02.11.1993 “Law on Foreign Investment.” The law reads: "Foreigners have the right to engage in economic activities without the need of a possible authorization or license. Foreign investors are treated no less favorably than Albanian citizens, except in cases involving the possession of land, a case which is handled by a separate law.

Albanian legislation provides that at any time or occasion, foreign investment will be treated equally and fair and will get full protection and security.” Also, according to this law, foreign direct investment includes investments of foreign individuals and institutions in the local economy. Consequently, this is used for the purchase of at least 10% of the equity of an enterprise. Foreign direct investments are an important indicator of the confidence of foreign investors in the country. Basically, they are downgraded in terms of economic and political crises. Also, they grow in terms of improving the economic and political environment. The value of foreign direct investment in our country, measured in USD, has been unstable over the past years as can be seen from chart 3.

FDI over the years

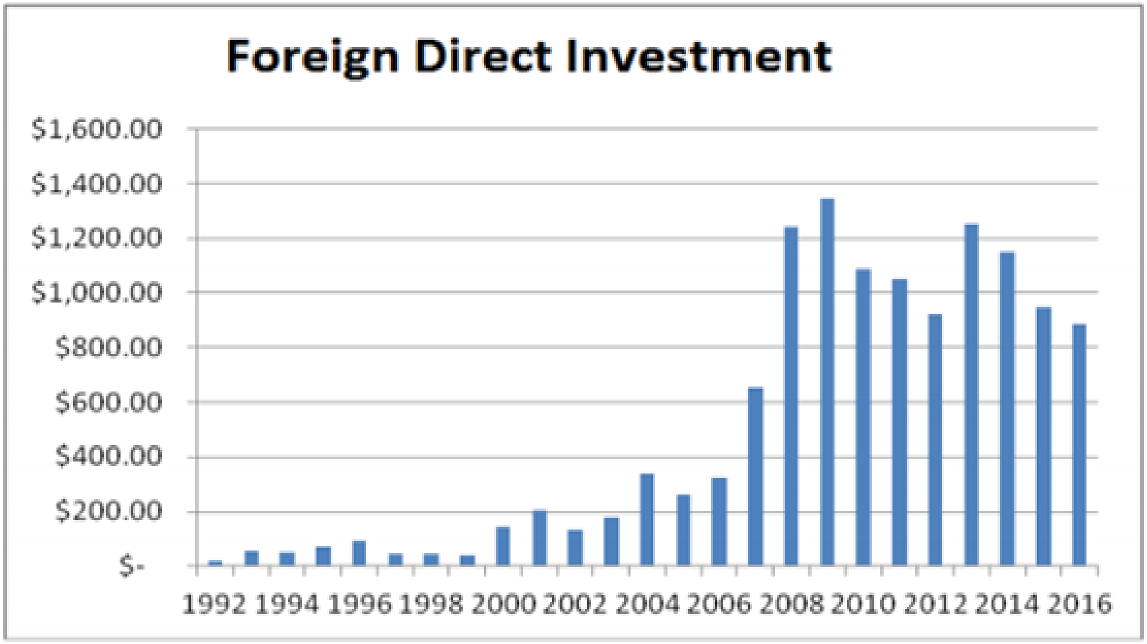


Chart 3

At the end of 2009 and at the beginning of 2010, the value of foreign direct investment reached 1.11 billion USD. This was the highest value achieved during the analysis period from 1992-2016. In this year, foreign direct investments grew by 249%. As a result, Albania was ranked second in the region after Serbia, being placed in a more favorable position with neighboring countries due to its tourism and textiles industries above all. A high level of investment is a supporting factor for growth. This increase occurred for two reasons in our view, primarily because: 1. Profit tax rate was lowered from 23% that it was in 2005 to 20% in 2007 and to 10% in 2010 .Furthermore, the highest decrease is noted during the crisis year of 1997, when foreign direct investment decreased by 47%.

Chart 4

The behavior of FDI in 2016 has highlighted their unstable structure as can be seen in chart 4. For several years, there is a lack of inflows of new investors in the country, unlike neighboring states, especially Macedonia and Serbia. This is very good news for the entrance of foreign companies which promises stable economic growth as they are mainly concentrated in automobile industry. According to the statistics of the balance of payments of the Bank of Albania, FDI recorded a strong decline of 42% in the first quarter of this year compared with the same period last year. Foreign investments were 152 million euro in the first quarter, from 261 million euro in January-March 2015, and 222 million euro in first quarter of 2014. According to the Bank of Albania, inflows in the form of direct investment continue to remain concentrated in the hydrocarbons sector (to the extent of 27 percent), energy (about 25 percent), construction (to the extent of 17 percent), and telecommunications sector (6 percent). Thus, the biggest decline of the flow of FDI is observed in the hydrocarbons sector. In recent years, the biggest investor in the country has been Bankers Petroleum which operates in the hydrocarbons sector. Investments in this sector during the first quarter of this year constituted 40% of total investments.

According to the statistics of the liabilities of system published by The Bank of Albania, the addition of banks capital, another element that encouraged investment in 2015, was 20% lower in the first quarter of 2016 compared with the same period last year.. Johnson Control, Lear Corporation, and Capco are three enterprises in the area of the car support industry, which have shown interest in Albania, have now invested in Macedonia. For now, the only hope are the two major strategic investments, gas pipeline TAP and the HPP of Devoll. Also during 2016, Albania has adopted a liberal legal framework designed to create a favorable investment climate for foreign investors by adopting a new law on strategic investments in

Albania. The law expressly provides as "strategic investments" private investments, public investments, and/or public-private investments in various sectors of the economy. So, through this law, the government intends to increase the FDI through concessions or public private partnership.

This they did by not reducing the profit tax rate for foreign investors. FDI in Albania will continue to be an important source of capital flows and economic development. Also, I am going to see the impact that this fiscal factor has on the level of FDI by raising the following hypothesis: In countries with weak legal infrastructures, profit tax has a strong negative correlation and impact, with FDI inflows. The study undertakes to confront and certify the raised hypothesis. According to the purpose of the study, it made a detailed analysis of FDI in our country based on statistical data. To realize this paper, we used several research methods such as analysis of documentation and comparative analysis which are referred to specific literature for FDI through reading. However, these methods allow us to analyze and compare the progress of the level of FDI in Albania and the tax rate on the profits of companies in the time extension. This is carried out for the period of years in which the study is expanded. It also involves spatial extension by comparing them with the region. The literature used is taken from the official websites of the World Bank. Also, a major role occupied the reports published by the Bank of Albania, Ministry of Finance, INSTAT, Open Data Albania, UNCTAD etc. Subsequently, the data collected for the study are secondary data for which we do not have evidences for their reliability because they are provided by official site. Although the data are official, our model has restrictions due to the quantitative analysis.

In addition, the series of observations is just too small and can affect the drawing of conclusions. Since the rate of errors in the results of the quantitative analysis is the order of the thousandth, they are considered as acceptable errors which cannot affect the outcome of the analysis. For this reason, the model results should be seen more qualitatively rather than quantitatively. We believe that these results, which are similar but not very accurate, highlight the strong negative correlation between FDI and Corporate Tax Rates. Through computer programs such as QuickBooks and financial programs such as Alpha or Excel, and the statistical program SPSS, data analysis was carried out using the method of simple statistical regression. Through this method, it was possible to clarify the probabilistic and structural impact of the Tax Rates indicator of Corporate (as independent variable) on the level of FDI (as dependent variable).

There are a group of factors that affect FDI inflow: Macroeconomic and Financial factors, Government and Infrastructure factors, and fiscal nature factors. Macroeconomic and Financial Factors: They are economic openness degree to foreign trade, trade exchanges and technology transfer, the industrial privatization degree, labor cost and employment level in the host country, interest rates for financing, exchange rate, and inflation rate. Government and Infrastructure Factors: This group includes political risk factor which is measured by other measurable variables such as: political stability, corruption level, implementation of laws, bureaucracies in the public administration, etc. which are statistically significant to incoming flows of FDI (Busse & Hefeker, 2005). The infrastructure development level such as road system, railways, ports, and airports are also important (Jordaan, 2004).

Others include Geo-social factors, etc. Factors of a Fiscal Nature: This factor include profit tax, tax on income from the company dividends, fiscal burden, the number of tax payments, and the time (in hours) that it takes for a business to finish the fiscal obligations. However, according to empirical studies made by Hotaman (1994) and Hines, Rice, and Cassou (1997), they are statistically significant to incoming flows of FDI. The study is focused on measuring the degree of the influence of fiscal factors, specifically the profit tax of investment companies to the size of FDI inflows for the entire post-communist period. We have to support or agree with the conclusions reached by Christian Bellak, Markus Leibrecht, and Jože P. Damijan (2009) at The United Nations Conference on Trade and Development (UNCTAD, 2012). However, they have confirmed that countries that have a strong legal infrastructure may have the opportunity to apply high tariffs for profit tax. Also, they do not adversely affect the inflows of FDI and the use these corporate taxes to finance the infrastructure. Therefore, they were able to prove that countries with weak or inferior legal infrastructure should apply a lower corporate tax rate to attract FDI within a short period of time. So, there is a negative correlation of profit tax degree with the inflows of FDI. To determine whether or not Albania is considered a country with weak legal infrastructure, we will refer to some specific indicators of 2015 which would help to determine it. Thus, they are measured and published by various international organizations. Some of these indicators are: Economic globalization factors with impact on FDI for 2015: KOF is the lowest for the Western Balkans, social globalization with the value 42.56, and political globalization with the value 55.75. This indicator is related with technology and communication, the migration of citizens, capital flows, and technology transfer. The legal system: The legal system is subject to frequent changes and not being applied strictly brings risk for foreign investors. Facility of doing business is another indicator that foreign investors refer to, before taking decisions for investment in the host country. For this indicator, Albania is ranked 68th in a list with the participation of 189 countries for year 2014-2015. However, Albania is in a very low position compared to Macedonia which ranked 30th and Montenegro which ranked 36th. Economic stability (inflation). This is a complex indicator that is measured by the changes of inflation in the economy. In recent years, it ranges from 0-4% and its trend shows stability compared with other countries in the region. Professional and training human capital level. This indicator measures the implementation of new technologies in developing countries. According to the UNDP's annual report for 2015 from 188 different countries of the world, the index of human capital development ranks Albania as the country with the lowest level in the Western Balkans.

Albania was ranked at the 85th place together with Bosnia and Herzegovina. Labor cost. It is not the lowest in the region which is 388 Euro / month, while Serbia is 367 Euro / month. The fiscal burden as a percentage of the profit of commercial companies. Albania and Serbia are the countries with the highest fiscal burden in the Western Balkans in the last years. Otherwise, Kosovo and Macedonia have a lower fiscal burden which makes them more competitive on the withdrawal of FDI. For Albania in 2015, it was 37% and it increased to 40% in 2016. Cost of financing with loan in Albania is very high compared with other countries in the region and the world. It is 8.7% for Albania, while in countries like Greece, Italy, Turkey, Cyprus, Switzerland, and the USA, this cost is 3.5% for foreign investors. Physical infrastructure. This indicator determines how km motorways are for every 100 inhabitants by comparing this with various countries of the region. As a result, we can say that Albania has road infrastructures in very low parameters compared to countries in the region. Corruption Perception Index: This is the most important indicator that directly affects the absorption of FDI, and provides business climate entirely in the host country. According to the publication of the annual report made by the World Bank with the "Transparency International" organization for 2015, by 178 countries ranks, Albania was seen as the country with the highest corruption in the public sector of the Western Balkans, leaving behind only Kosovo. Referring to the above indicators, we conclude that Albania is a country with weak legal and road infrastructure. Thus, this makes the correlation of profit tax degree with the inflows of FDI stronger.

3.3 Foreign Trade

The government of Albania understands that private sector development and increased levels of foreign investment are critical to increase opportunity and lower unemployment. Albanian legislation does not distinguish between domestic and foreign investments. The New Law on Strategic Investments, approved by Government aims the promotion and attraction of strategic investments, both domestic and foreign, in those sectors of the economy identified as strategic sectors by this law through special, facilitating or accelerating administrative procedures. This law foresees as strategic investments the private, the public or public- private investments, in the following sectors: Energy and mining; Transport, Telecommunications, Infrastructure and Urban waste ,Tourism, Agriculture and Fishery, Technical and Economic Development Areas, Priority Development Areas that have impact on the Albanian economy. China has increasingly become a strong partner. Foreign trade consists of 64% of the Albanian imports and 88% of the total exports. Albania imports from United Kingdom only 2% of its total imports.

Imports Value	$ 4.656 billion (2016)
Foreign Direct Investment	$ 122 billion (2016)
Number of Companies with Foreign Capital	13.389 (Source: NBC, May 2017)
Inflation Rate	1.3 %
Major Exports Markets	Italy 54.6%, Kosovo 15.7%, Greece 4.6%, Germany 3.4% Spain 3.3%, China 3.1% (2016)
Major Imports Sources	Italy 29.3%, Germany 9.5% China 8.8%, Greece 7.9%, Turkey 7.9%, (2016)
Trade Agreements	Stabilization and association agreement with the EU.

	Albania is also a member of the Central European Free Trade Agreement (CEFTA) Also benefits from EU autonomous trade preferences Albania is a member of the World Trade Organization (WTO) and has free trade agreements with a number of countries Free trade agreement with Turkey European Free Trade Association (EFTA)

Tab.7

According to the chart 5, Foreign Direct Investment annual inflows in Albania have maintained a positive trend over the years. Specifically, FDI inflows in 2016 reached an amount of EUR 983 million, while in 2015 foreign direct Investment inflows were EUR 890 million. Foreign companies have invested in the economy 10.5 percent more than the previous year.

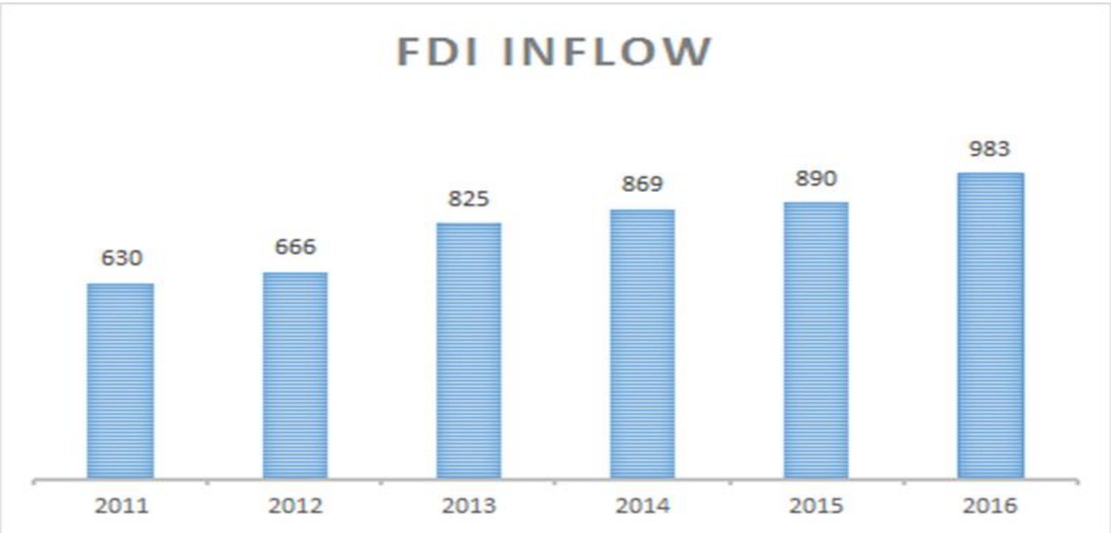


Chart 5

Investments for the TAP pipeline have brought about 40% of total FDI in 2016, amortizing the shrinking extractive industry. Foreign investments amounted to 983 million euros in 2016, reaching a record level, according to statistics published by the Bank of Albania. Compared to 2015, FDI inflows increased by 10%. The highest level was observed in the third quarter, with euro 303 million . The Bank of Albania has also published for the first time detailed quarterly data on the countries from which the main investments come and the type of economic activity they belong to. According to the data, the country of origin for the largest investor with 596 million euros, or 60%, is not given for confidentiality reasons (this includes mainly TAP, which is a consortium project of many countries). The second investor is the Netherlands, with EUR 97 million, third Turkey, EUR 66 million, and Greece's EUR 46 million. According to the economic activity, the sector that attracted more investment is that of energy and gas, which mainly refers to investments from the TAP pipeline, which began in 2016 and are culminated in 2017.

Investments in energy and gas have increased by 183%, reaching 369 million euros, or nearly 40% of the total. Investment growth in this area has completely depreciated the downturn in the extractive industry, with 71% on an annual basis in 2016. Investments in other sectors were minimal, with financial services (mainly in bank capital) of 76 million euros, 80 million euros a year earlier, and real estate with 50 million euros. Direct Foreign Investments in 2017 have reached a record high in Albania as a result of major projects, according to Standard & Poor's (S & P) rating agency. Foreign Direct Investment (FDI) have reached over 11% of GDP in 2017. Other inflows of foreign investments are related to the energy sector, especially projects in the construction of hydropower plants. Investment in GDP ratio in 2017 reached 11.2%, from 9.5% in 2016.This growth is coming as a result of major projects and that the country should make efforts to attract more investment. Improving the institutional environment would help by attracting a broader FDI base in the coming years. According to TAP sources, total investment in Albania alone of this investment is expected to reach 1.5 billion euros. Their biggest concentration was in 2017, when according to TAP sources have reached 400-450 million euros.

Foreign investments by quarter

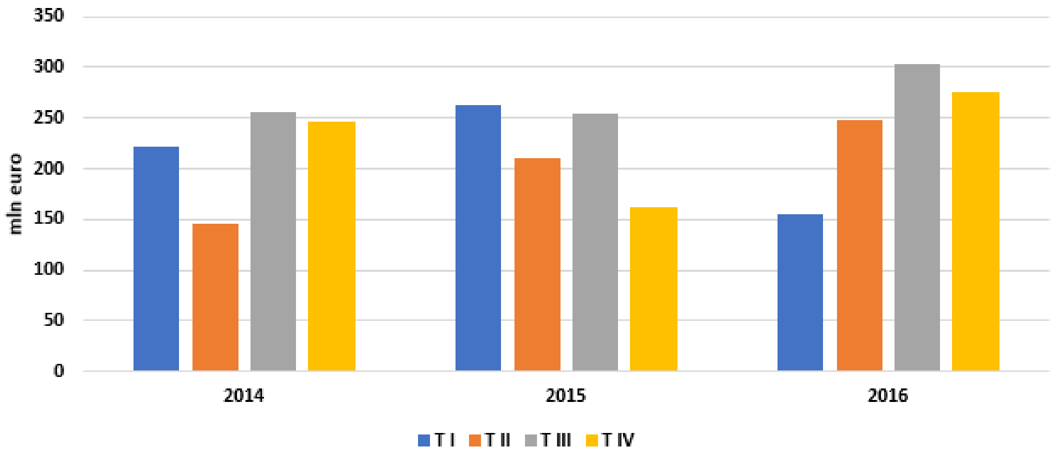


Chart 6

3.4 Foreign Direct Investments in Albania during of 2015-2017 Period

According to economic activity, the sectors that are attracting more investment are too limited. In the first three months of 2016 year, 70 million euros have come from the extractive industry, where the largest investor is Bankers Petroleum. These investments are mainly in the drilling of new wells. Because of the zero in the second and third quarters of the year, due to unfavorable oil price at the stock market, in the last six months, investment in oil resulted to have risen sharply, while in the fourth quarter 2016 there were € 5 million. Then Austria ranked 20 m euros and Italy 17 m euros. France and Kosovo have invested € 2 million each in the first three months of the year.

Foreign currency inflows in the form of direct investments are concentrated in the energy sector by about 41 per cent, hydrocarbons by 37 per cent, and financial intermediation by 6 per cent. Meanwhile, the largest increase in flux is observed in the energy sector. In annual terms, equity injection expanded significantly to 50 percent. In 2015, investments in hydrocarbons (which are mainly for drilling of new wells) fell sharply due to low oil prices. While in 2016 and the first quarter 2017 there has been a perpetuation of them due to more favorable stock price. Foreign investments in Albania, as much as 30% of the total. In 2016, foreign investments in Albania were $ 1 billion and $ 124 million. This means that one in every 3 leks investing in the Albanian economy is already coming from abroad.

3.4.1 During of 2015 Period

Foreign direct investment after 2013 in the Albanian economy declined by 11 percent during 2015, according to the Albanian government statistics processed by the International Monetary Fund (IMF). Investments fell for the second consecutive year in 2015, while their inflows dropped to 720 million euros from the 812 million euros that they accounted for in 2014. According to the International Monetary Fund, a slight increase of foreign investment flows for the years 2016 and 2017 was predicted due to the roof of works on two major works, the Trans Adriatic Pipeline and the Statkraft company's hydropower projects in Devoll. Hydrocarbons for 2015 have been the sector that has contributed more to the growth of foreign investments so far, accounting for more than 50% of their investments, their weight decreases as a result of the fall in oil prices made by entrepreneurs less interested in realizing capital investments. According to Bank of Albania's analysis in the third quarter of this year, investments are for the first time driven by energy, mainly hydropower plants, where Devolli Hydropower is estimated to have the greatest impact. The inflows in the form of direct investments during this period came from the energy sector by about 61% and that of hydrocarbons by 21% followed by the banking and telecommunication sectors, which respectively attracted 8% and 2% of the inflows Foreign Direct Investment.

The foreign direct investment stock in the Albanian economy surpassed for the first time the figure of 5 billion Euros at the end of 2015. The news was reported by the Bank of Albania, which explains that these are investments made over the years and represent the amount of assets they own currently foreign companies in the Albanian economy. But what is the origin of these investments? According to the central bank, more than half of foreign capital in Albania have been comes from only three countries. They are Greece, the Netherlands and Canada. According to data, about 25% of the total foreign investment in Albania came from Greek companies. In the second place, the Netherlands is ranked 14%, followed by Canada by 13%. Foreign capital in the Albanian economy has started expanding at rapid rates, especially in the last decade. According to the United Nations, after 2008, Albania has been one of the countries with the highest inflow of foreign direct investment in the Balkans, absorbing an average of $ 1 billion a year. But despite the strong performance in the last decade, the foreign investment stock in the Albanian economy remains lower than that of neighboring countries. This is because before 2008, foreign companies' investments in Albania were minimal.

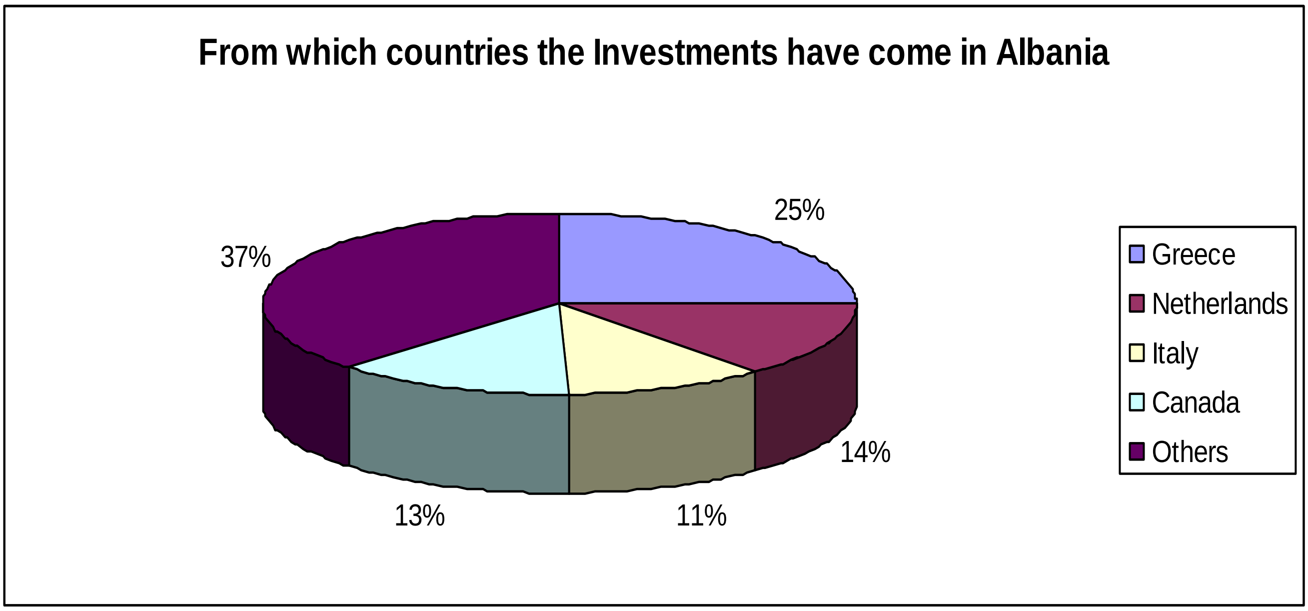


Chart 7

3.4.2 During of 2016 Period

According to the UN trade and development section, this is one of the highest rates in the countries of the region. In Bosnia, foreign capital finances only 10 percent of total investment in the economy; in Bulgaria 7.8 percent, while the average for Southeast Europe is 26.3 percent. The impact of foreign investments on the Albanian economy has increased especially in the last 5 years. According to INSTAT, in the years 2015-2016, investments, especially large foreign capital projects, such as Trans Adriatic Pipeline and Devoll Cascade, were the main source of economic growth. In 2016, foreign investment amounted to 983 million euros in 2016, reaching a record level, according to statistics published by the Bank of Albania. Compared with 2015, FDI inflows increased by 10%. In 2016 investment has recovered, as a result of the start of work from the TAP pipeline. The highest level was ascertained in the third quarter, with 303 million euros. According to data from Table 8, FDI flows in Albania increased from $ 416 million in 2005-2007 to $ 1266 million in 2013. But in the periods between 2014-2015 FDI flows fell and in 2016 those amounted to $ 1124 million. Gross fixed capital is growing over the years from $ 12.1 million in the periods between 2005-2007 to $ 34.1 million in 2014. In the next few years gross fixed capital had a significant decline from $ 34.1 million in 2014 to $ 30.9 million in 2016.

Foreign direct investment (FDI) overview, selected years

(Millions of dollars and per cent)

FDI flows	2005–2007 (Pre-crisis annual average)	2013	2014	2015	2016	as a percentage of gross fixed capital formation 2005–2007 (Pre-crisis annual average)	2014	2015	2016
Albania									
Inward	**416**	**1 266**	**1 110**	**945**	**1 124**	**12.1**	**34.1**	**31.5**	**30.9**
Outward	***13***	***40***	***33***	***38***	***64***	***0.4***	***1.0***	***1.3***	***1.8***
Memorandum									
Bosnia and Herzegovina									
Inward	1 066	276	529	270	285	34.8	16.0	10.5	10.6
Outward	*11*	*44*	*17*	*25*	*12*	*0.4*	*0.5*	*1.0*	*0.4*
Bulgaria									
Inward	8 038	1 837	1 540	2 822	776	81.3	12.9	26.8	7.8
Outward	*256*	*187*	*370*	*163*	*190*	*2.6*	*3.1*	*1.5*	*1.9*
Russian Federation									
Inward	35 579	53 397	29 152	11 858	37 668	18.1	6.7	4.2	13.9
Outward	*30 145*	*70 685*	*64 203*	*27 090*	*27 272*	*15.4*	*14.7*	*9.6*	*10.1*
South-East Europe									
Inward	6 357	4 733	4 605	4 844	4 579	37.9	25.9	31.2	26.3
Outward	*448*	*485*	*479*	*477*	*190*	*2.8*	*2.8*	*3.1*	*1.2*
Transition economies									
Inward	59 167	84 311	56 753	37 567	68 020	19.7	8.9	7.9	16.2
Outward	*32 562*	*75 797*	*72 778*	*32 183*	*25 149*	*11.1*	*12.3*	*7.7*	*6.5*
World *									
Inward	1 426 306	1 443 230	1 323 863	1 774 001	1 746 423	11.5	6.8	9.5	9.4
Outward	*1 459 237*	*1 399 483*	*1 253 159*	*1 594 317*	*1 452 463*	*11.7*	*6.5*	*8.6*	*7.9*

Tab.8

According to table data in other states as Bosnia and Herzegovina the foreign direct investment flows has fallen from $1066 to $285 million. . Gross fixed capital in Bosnia and Herzegovina dropped from $ 34.8 million (2005-2007) to $10.6 million in 2016. The same situation has occurred in Bulgaria and in Southeast Europe. During the period from 2005 to 2016, FDI flows and gross capital have fallen. In Bulgaria FDI flows has fallen from $ 8038 to $776 million. In the Russian federation the foreign direct flow investment has been rising from $ 35579 to $ 37668 millions of dollars. In Southeastern Europe, the foreign direct investment flow has dropped from $6357 to $4579 millions of dollars.

According to data from table 9, foreign direct investment stock in Albania have increased substantially from $ 211 million to $ 4987 million in 2016. Foreign direct investment has had an impact on the growth of gross domestic product from $ 7.3 million in 1995 to $ 41.1 million in 2016. In Bosnia and Herzegovina foreign direct investment stock have risen from $ 8187 to $ 6848 million. Foreign direct investment stocks in Bulgaria have experienced a significant increase from $445 million in 1995 to $50302 million in 2013. In the next few years, the stock of foreign direct investment dropped significantly and amounted to $ 42165 million in 2016. In the Russian Federation, the stock of foreign direct investment has risen from $ 5601 million in 1995 to $ 379035 million in 2016.

Gross Domestic Product has been growing in these countries during the period 1995 and 2016.

FDI stock	1995	2013	2014	2015	2016	as a percentage of gross domestic product 1995	2014	2015	2016
Albania									
Inward	**211**	**3 931**	**4 295**	**4 331**	**4 987**	**7.3**	**32.4**	**38.0**	**41.1**
Outward	**-**	***240***	***248***	***365***	***409***	**-**	***1.9***	***3.2***	***3.4***
Memorandum									
Bosnia and Herzegovina									
Inward	-	8 187	7 220	6 792	6 848	-	39.0	41.8	41.2
Outward	-	*357*	*329*	*319*	*321*	-	*1.8*	*2.0*	*1.9*
Bulgaria									
Inward	445	50 302	47 098	42 908	42 165	3.5	83.0	85.5	80.4
Outward	*105*	*3 516*	*2 040*	*1 972*	*2 114*	*0.8*	*3.6*	*3.9*	*4.0*
Russian Federation									
Inward	5 601	471 474	290 039	262 748	379 035	1.7	14.1	19.2	29.6
Outward	*3 346*	*385 321*	*329 817*	*282 651*	*335 791*	*1.0*	*16.0*	*20.7*	*26.2*
South-East Europe									
Inward	298	58 131	54 420	53 054	55 482	3.9	54.8	62.2	62.9
Outward	-	*4 256*	*4 186*	*4 296*	*4 337*	-	*4.2*	*5.0*	*4.9*
Transition economies									
Inward	10 972	809 445	627 253	591 182	733 350	2.5	22.2	29.8	40.1
Outward	*3 634*	*432 325*	*382 237*	*337 142*	*389 583*	*0.9*	*14.1*	*18.0*	*22.6*
World *									
Inward	3 565 332	24 602 934	25 107 863	25 190 641	26 728 256	11.1	31.5	33.5	35.0
Outward	*3 992 677*	*24 818 705*	*24 685 699*	*24 925 197*	*26 159 708*	*12.8*	*31.3*	*33.4*	*34.6*

Tab.9

3.4.3 During of 2017 Period

Albania is one of the main protagonists in the Balkans regarding the flow for Foreign Direct Investments (FDIs). This was confirmed by the United Nations Conference on Trade and Development (UNCTAD) in the World Investment Report 2017. According to the report, even though FDI in South-East Europe declined slightly to 4.6billion dollars, FDI increased in Albania and Macedonia. “Albania, another growing recipient of FDI, is attracting both traditional and new investors. Interest from Chinese investors is mounting, through both FDI and other forms of involvement. Chinese firms have shown interest in road construction projects, acquiring access to natural resources (Geo-Jade Petroleum bought controlling rights in two Albanian oil fields for $442 million), and obtaining the concession for Tirana International Airport,” the report says. Further on, the data from the report confirm that Albania ranks second in the region in terms of Foreign Direct Investments, as they decreased in Montenegro and Serbia.

The West countries are very closer to Albania for foreign investment. The detailed data of the Bank of Albania on Foreign Direct Investment by State that in the first six months of 2017, the largest investor was Switzerland, with a total of 87 million euros. In second place is the

Netherlands, with 77 million euros. According to the Bank of Albania, Statkraft, the company that is building a concession to Devoll's HEC, which has so far invested about 500 million euros, has a Dutch direct investor. The third is Austria, with 44 million euros. The Austrians are also big investors in the energy sector, through the Ashtas Hydropower Plant, which is being built by Verbund. Fourth place has been France for the first time, with 40 million euros, of which 35 million euros in the second quarter, as a result of the works being carried out by the French companies for the TAP pipeline. One of the French companies that has recently entered Albania is Spiecapag, founded in February 2016, one of the main subcontractors of the TAP pipeline, which is being built in Albania. Then rank Greece and Italy, respectively 29 and 22 million euros. Over the years, the stock of investment stocks continues to hold Greece, which for a few years seems unreachable. Over the years, companies with Greek capital have invested 1.2 billion euros, with the main weight being occupied by telecommunications. One of the biggest investor in the years is Canada, as a result of the activity of Bankers Petroleum, which uses the largest oil field patron land concession in Europe, Patos Marinza. Then Switzerland ranks with 647 million euros, mostly in energy. In the last two years, foreign investments have been significantly affected by the works for the TAP pipeline and the construction of hydropower plants on the Devoll River. But the concern is related to the fact that these two projects are short-term in time and require diversification in the medium term. On the other hand, investments in the hydrocarbon sector are also dependent on international scholarships.

In 2015, investments in hydrocarbons (which are mainly drilling of new wells) fell sharply due to low oil prices. While in 2016 and the first quarter 2017 there has been a perpetuation of them due to the most favorable stock prices. The growth of foreign investment in Albania is confirmed by the World Investment Report WIR 2017 produced by UNCTAD. According to this latest report, foreign investment in Southeast Europe has dropped slightly to $ 4.6 million. But foreign direct investments have risen in Albania, Macedonia, and have landed in Montenegro, and Serbia says the report. According to the Report, Albania is attracting foreign investment, attracting both traditional and young investors. Interest from Chinese investors is growing. There are 12 Chinese companies who have shown interest in road construction projects in the search for natural resources where Geo Jade Petroleum bought the rights to control two Albanian oil fields worth 422 million dollars, as well as have won the concession of Mother Teresa Airport.

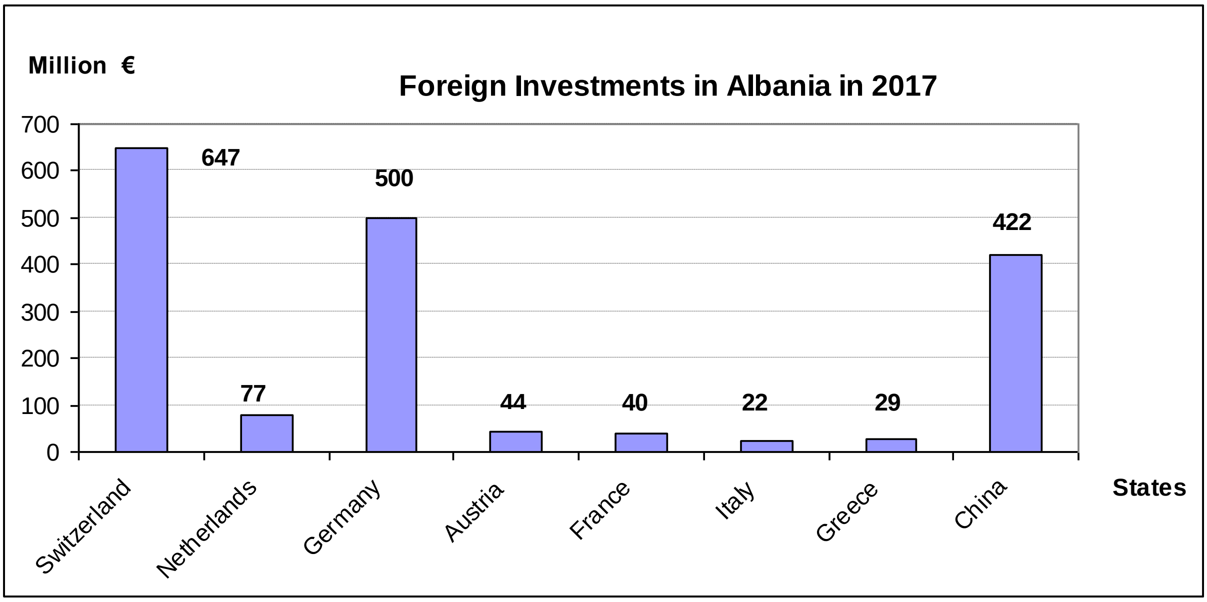


Chart 8

Foreign direct investments fell by about 4.2% in the first nine months of 2017, while in the last three months the investment is the same as in the previous year. During the period July-September in Albania, 299 million Euros in the energy and hydrocarbon sector. Investment decline is a risk to economic growth, while the International Monetary Fund (IMF) revised Albania's economic growth by 2018. The Bank of Albania data published in the balance of payments shows that compared to the same period of the previous year in the country, investments declined by 4.2%. Meanwhile during the last three months, the level of foreign investment has been the same as in the same period of the previous year. The inflow of foreign direct investment amounted to Euro 299 million, maintaining the level of the previous year in July-September. Forecasts for the contribution of foreign investments to the Albanian economy are not very positive, as large projects like TAP or investments for hydro power plants in the Drin River cascade are expected to be completed. The International Monetary Fund also revised the rate of economic growth by 0.4% next year. But the Albanian government argues that the project still has large investments that will replace the large investments that are under way.

The World Bank (WB) announces a significant reduction in foreign investment in our country in the coming years. In a recent projection for Albania, foreign direct investment will be included in a downward trajectory this year and to continue at least until 2019.The bank says that FDI will reach 8.3 percent of GDP this year from 8.7 percent last year. But next year they are not expected to be more than 7 percent (GDP) and in 2019 they will be 5.6 percent of GDP. In absolute terms, foreign investments are expected to fall by 22%. The bank says that in recent years, foreign direct investment has been the main engine of economic growth in Albania and their decline will generate a gap. Albania's economy grew 3.4 percent in 2016, and this growth was mostly driven by private investment in the two main projects, the TAP pipeline and the HPPs in the Devoll River. The bank says remittances and foreign investments finance the bulk of imports. According to the World Bank, now, more than ever, it emphasizes the urgency of structural reforms to reinforce the newly launched rebalancing from domestic sources of growth, to external ones with greater investment support. The benefits of economic growth with the creation of new jobs need to be consolidated and expanded in order to break the immigration chain, shallow reforms and sluggish economic growth. The World Bank predicts that Albania's economic growth for 2018 will fall to 3.6%, while for 2019 it will fall to 3.5%. This will be due to the completion of two main projects: the TAP project and the Hydropower Power Plant on the Devoll River, and the lack of planning of other major projects by the World Bank in the future. World Bank recommends eliminating discouraging factors and formal employment barriers to enable more rapid growth rates, job creation and poverty reduction. Improving the business and governance climate to enable companies to create more jobs, expand and increase productivity is another recommendation.

The performance of Foreign Direct Investment (€ million)

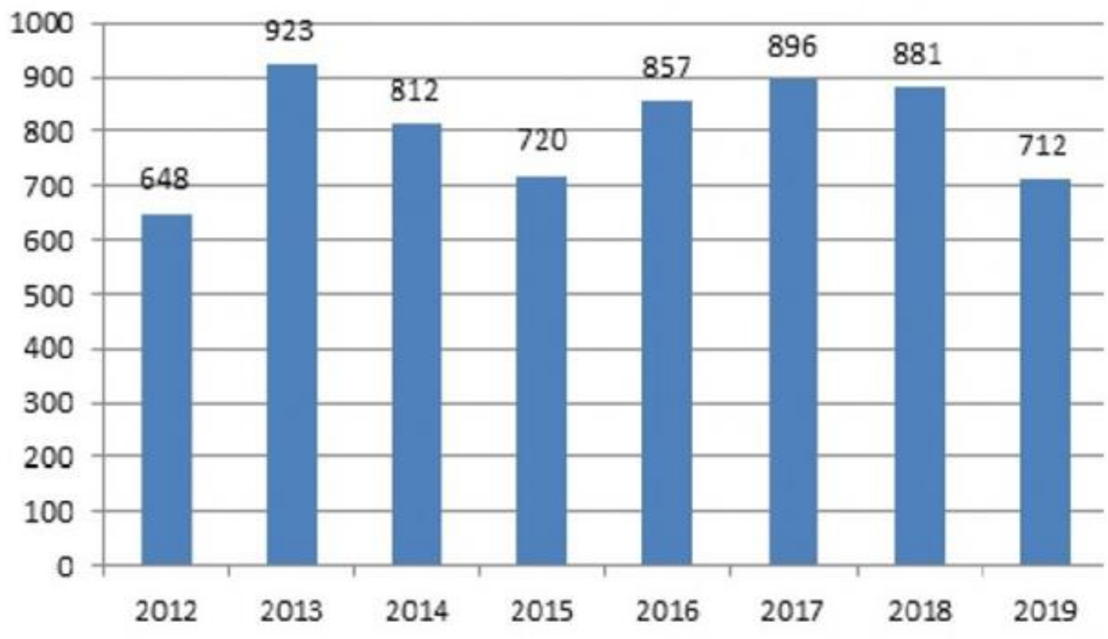


Chart 9 Ministry of Finance; The Bank of Albania; donors and IMF data and projections.

According to chart 9, the highest peak of direct investment in the country was in 2013 reaching EUR 932 million euros. From 2014 to 2015, investments fell from EUR 812 to 720 million. Investments increased in 2017 with a value of around EUR 896 million. It is foreseen that in 2018 will be about EUR 881 million investment in Albanin, and according to respective institutions these investments will decrease from EUR 896 million in EUR 712 million in 2019.

CHAPTER 4

CASE STUDY OF BANKERS PETROLEUM ALBANIA Ltd FIER

4.1 About the Hydrocarbon Activity of Bankers Petroleum Albania Ltd at Patos-Marinza oil field

Bankers Petroleum Ltd. was a Canadian oil company operating in Albania since 2004. In March 2016, Geo-Jade Petroleum made an all-cash offer of $2.20 per share to purchase the company in a deal worth $575 million. Bankers Petroleum Ltd. now is a Geo-Jade company, an international oil exploration and production company committed the responsible development of its world-class oil assets. The company is based in Fier, Albania and is an independent business unit operating its Albanian and eastern European assets. Bankers has built an experienced technical team over the past 12 years, that is applying world-class heavy-oil extraction techniques to develop Patos-Marinza, in Albania, the largest onshore oilfield in Europe. Bankers has been able to use its expertise to produce more today than in the over 85 year history of the field. Bankers has grown to be the largest foreign direct investor, the largest tax payer in Albania, and one of the largest employers.

The company have invested over $1.7 billion in Albania and grown production to a peak of over 20,000 bopd prior to the fall in oil prices. Number of national employees approximately 500 direct employees over 1200 indirect employees. Overall production is over 45 million barrels since 2004.

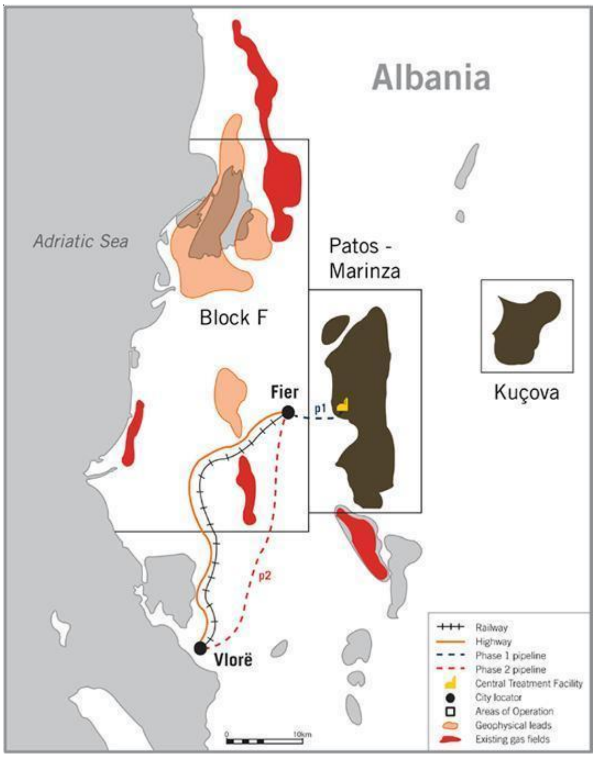


Fig.2

Fig.3

4.2 Improvements made by Bankers Petroleum Albania (BPAL).

The Patos-Marinza oi field has discovered over 20 layers of oil bearing in its composition, limestone and sands. To increase the oil production for this resource Bankers have carried out these technological improvements:

4.2.1 Existing exploitation technology with Piston Pumps of oil wells

The exploitation of oil wells with piston pumps has been around 100 years for use in Albania. It is a very old technology and as a result its efficiency is not high (Figure 4). For these reasons, there is a need to replace this technology with other better technologies. One of these technologies is exploitation of progressive cavity pumps (PCP).

(Before)

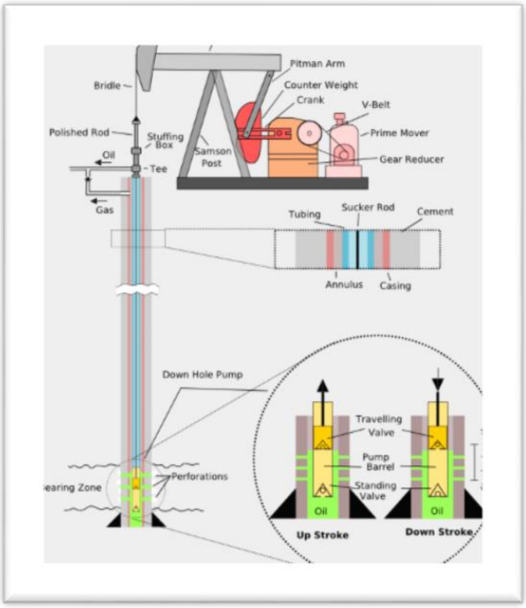


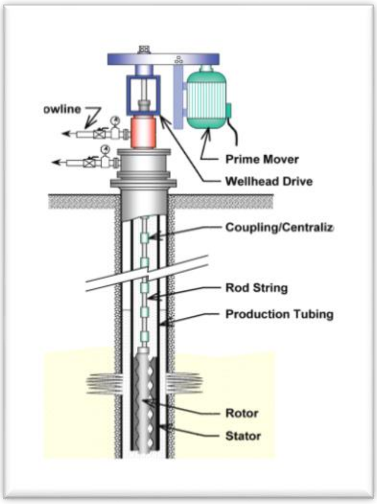
Fig.4

4.2.2 Exploitation of oil wells with Burma Pump (PCP)

There has been a change in the technology of exploitation of wells from the existing one with the piston pump in the use of the technology for the use of wells with (PCP) (Figure 5) These pumps have increase the production of wells from 1-2 tones of crude oil / day, which have been with piston pumps, to 15-20 tones of crude oil per day using (PCP).

(After)

Fig.5



4.2.3 Drilling of vertical wells

(Before)

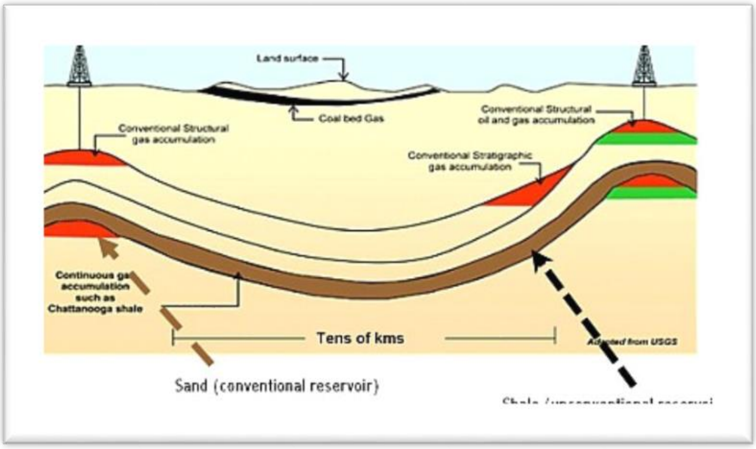


Fig.6

4.2.4 Drilling of horizontal wells

Used for the first time in Albania the horizontal well drilling technology, where only the horizontal section was 70 -1000 m long. For the maximum utilization of oil in the stratum, it has drilled a horizontal well for each oil formation. The average production from using this technology by utilizing the horizontal wells with PCP has increased on average 16 -17 tons/ day for the well, while maximum production has reached up to 60 tons/day for the well (Figure 7).

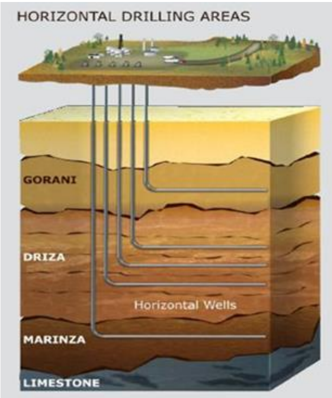


Fig.7

4.2.5 Use of polymers to reduce viscosity of the crude oil

The Patos-Marinza oilfield has generally high viscosity oil. This makes it difficult to move oil from oil formations to the surface. To reduce the viscosity of the oil so that it can flow smoothly, Bankers has used pumping technology in wells of water-soluble polymers to drive oil straight to other production wells. The average oil production in the exploitation wells has increased 5-6 times or wells (Figure 8).

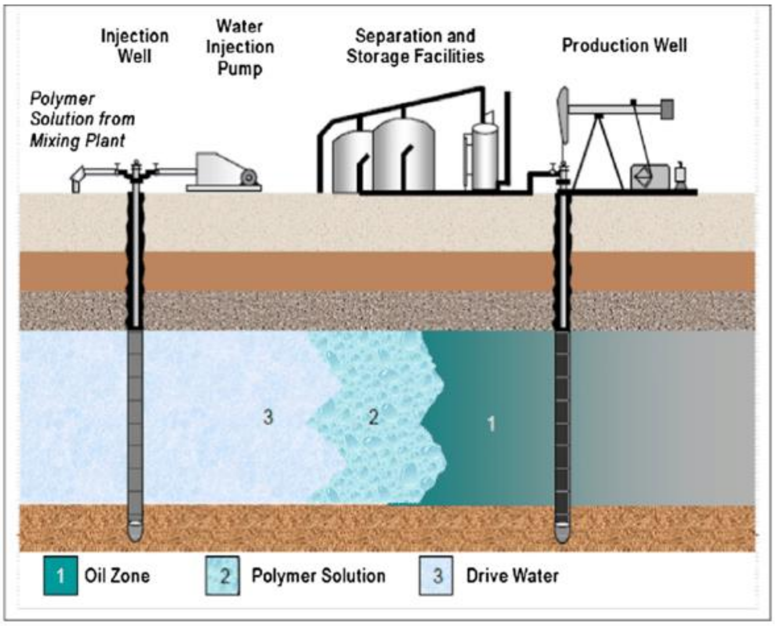


Fig.8

Over 10 years Bankers has invested $ 1,2 billion for the development of Patos-Marinza oil field .We emphasize that the above technologies justify the investments made because oil production in the initial period of Banker activity at the Patos-Marinza oil field was low (256 tones / day of gross crude oil), while in 2014 oil production reached 3500 ton / day. In addition to investments to improve technology, Bankers has invested tens of millions of dollars on environmental improvements to help local government, community, building roads, water supply, irrigation canals for agriculture, tree planting, job placement, free course opening vocational training, English language courses, garden repair, equipment of various schools with computers etc.

4.3 Philosophy

Bankers want to continue to be a partner of choice for the country of Albania. The company work hard to be considerate neighbor's and invest in local communities by working closely with the people living and working in the same areas that it operate. Its focus has been on building strong relationships within communities based on respect, trust, and honest dialogue.

Bankers has made it a priority to bring international standards for environmental management, and safety performance. The company is committed to the responsible development of the petroleum resources and will invest over $3 million in future.

4.4 Community Programs

Its Community Relations Team in Albania engages regularly in consultations and development of partnerships with host communities, their representatives and their residents. Community input helps the company plan its operations and investments in a way that maximizes benefits for the people. By employing local workers, utilizing local suppliers and services where possible, the company is able to grow economic benefit for the country. Bankers is implementing its Community Investment (CI) Programme based on needs of the local communities. It focuses on Economic Development, Job Creation and Community Quality of Life Improvements. Bankers' CI Programme will continue for years to come with the goal of sustained long-term positive results. Bankers have invested $6.2 Million cumulative investment in community relations.

4.5 Health, Safety and Environment

Bankers have developed a culture of ethical standards, including the highest regard for the health, safety, welfare of employees and respect for the individual. The company is focused on implementing international standards for environmental, health and safety practices in all operations, improving conditions to protect its people and the local community. Bankers promotes a continuous clean-up philosophy to reduce environmental risks and improve the conditions of its assets. One of its main goals is to minimize its footprint and reduce impacts on the land. In Albania, Bankers have invested over $70 million USD into environmental initiatives since we have started operating in the Patos-Marinza field, which has helped improve local environmental conditions and health and safety standards.

Bankers is not liable for oil and surface contamination caused by legacy operations in the field, the company have made its responsibility to continuously remediate surface contamination and waste generated from previous operators as well as its own to maintain international operating standards across its field. Environmental spending includes lease clean-ups and abandonment costs which are a part of its regular operations but which directly benefit the environment. Bankers often go beyond the boundaries of its own leases to help local farmers by cleaning their drainage channels and extending the reconstruction or repair of roads. The company work closely with local communities to find optimal solutions for handling produced sand and rehabilitated soil. Bankers also exploring the feasibility of further treating the oil residue and soil to potentially utilize the treated materials as road pavement material. By focusing on remediation, monitoring, and assessment they are able to promote a continuous clean-up philosophy to improve conditions in the areas the company operate.

4.6 Investments made during the period 2012 – 2017

Bankers Petroleum Ltd is presenting the 2018 Patos-Marinza Work Program and Budget (WP&B) as an estimate of the expected activity for the coming year. The 2018 WP&B comes in the end of a year of integration between Bankers Petroleum Ltd and the new owners Geo-Jade. Bankers has always understood that the potential development opportunity for Patos-Marinza is tremendous. Geo-Jade brings a shared enthusiasm and commitment to the development of Patos-Marinza. They provide increased investment that will allow the acceleration of this development and increase innovation in the field. The people, government, companies and agencies of Albania will see increased activity and production directly resulting in an increased fiscal windfall.

The Patos-Marinza oilfiled will see additional infrastructure, streamlining operations and increasing output. The additional investment in Patos will have far reaching positive impacts for the communities, people, and agencies that share in the Patos-Marinza development. All of these activities are extremely positive for all the stakeholders of Patos-Marinza even though the lasting depressed market driven by low Brent prices. Bankers is focused on delivering a balance budget funded by cash flow. The 2018 WP&B intends to have a drilling rig program for the most of the year that supports Bankers production to remain at current levels with a slight increase of barrels in the last quarter of the year. Bankers is excited to have found a partner like a Geo-Jade to continue to the Patos-Marinza potential.

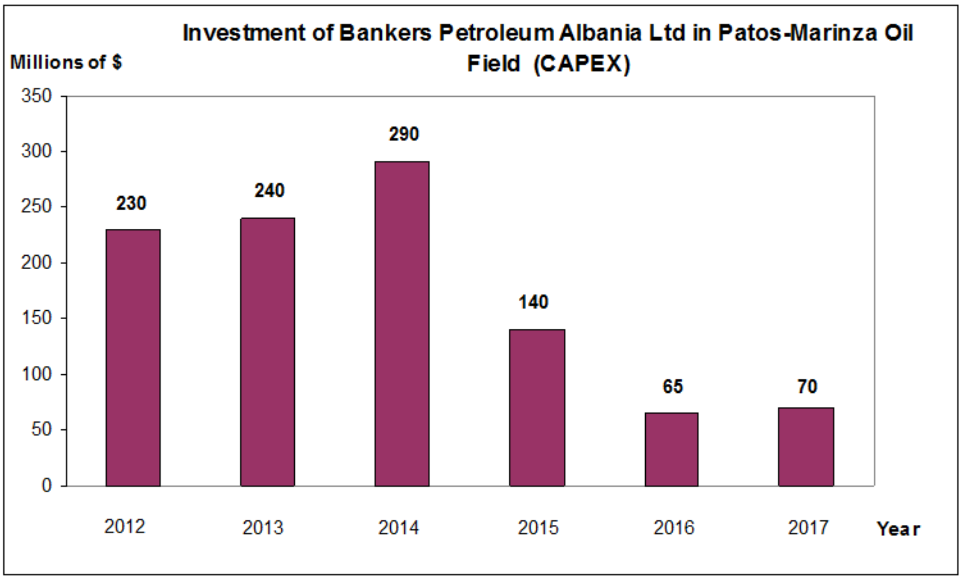


Chart 10

According to chart 10 the highest investments of the Bankers Petroleum company have been in 2014, reaching the value of about 290 million dollars. From 2015 to 2017, the company's investments have fallen sharply due to the fall in oil prices.

4.7 Oil production during the period 2012 – 2017

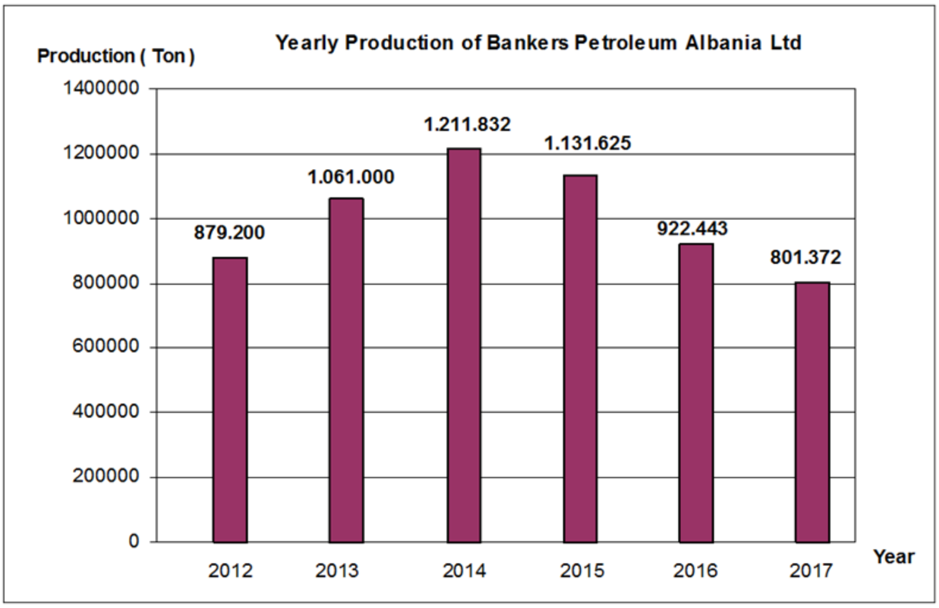


Chart 11

Also, according to chart 11 oil production has reached the maximum value in the same years (2014) worth about 1.211.832 tons. The same situation appears for oil production, from 2015 to 2017 oil production has dropped from 1.131.625 to 801.372 ton.

In 2004, when Bankers Petroleum Albania Ltd started its work, Patos-Marinza oil field produced 256 Ton/day crude oil, while in 2014, as results of foreign investments, it reached about 3500 ton/day crude oil.

Countries where Bankers Petroleum Albania Fier, sells crude oil produced in Patos – Marinza region.

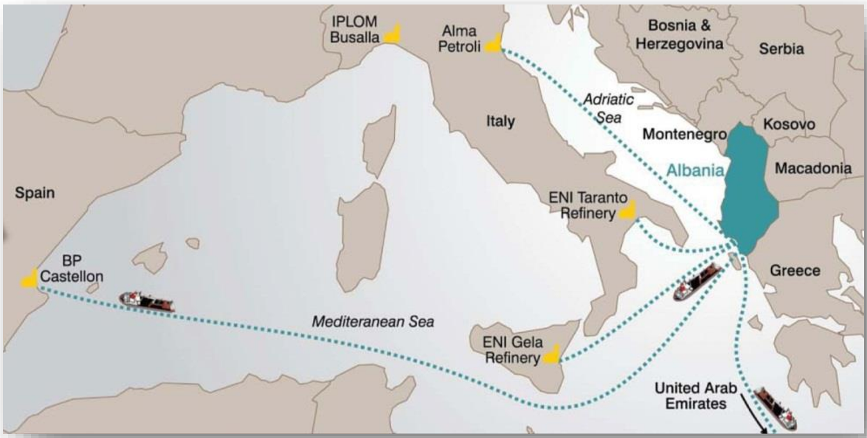


Fig.9,

Patos-Marinza (Before)

Fig.10

Patos-Marinza (After)

Fig.11

4.8 Main projections for the work program and investments during 2018.

Bankers Petroleum prides itself on its capital management strategy and ability to develop economically viable projects despite a challenging economic climate. The majority of the 2018 Work Program will continue in the Patos-Marinza Main development. The addition of the Thermal pilot in the south of the field will require capital spend in the Thermal cost recovery pool. Total forecasted investment by BPAL in 2018 is $77MM including a P&R allocation of $16.5MM. Total oil production from Patos – Marinza is expected to average 14,181bbl/d in 2018 (inclusive of Thermal average of 106 bbl/d). Total production for 2018 is estimated at 5,176 Mbbls. The forecasted average sales price is $39.9/bbl. This assumption includes a 50% domestic sales forecast that is contingent on the success of the domestic sales market. Projected revenue with these assumptions is US $204.8M. These projects also reflect the additional capital required to maintain production from the Patos-Marinza field. This capital includes major projects, general projects and pipelines. Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil are impacted by not only the relationship between the Canadian and US dollar but also world economic events that dictate the levels of supply and demand. It is the Company's policy to economically hedge some oil sales through the use of various financial derivative forward sale contracts.

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company considers its capital structure to include shareholders' equity, long-term debt and working capital. In order to maintain or adjust the capital .Company may issue shares and adjust its capital spending to manage.

4.9 Equal employment opportunity

In order to provide equal employment and advancement opportunities to all individuals, employment decisions at Bankers Petroleum will be based on merit, qualifications, and abilities. Bankers Petroleum does not discriminate employment opportunities or practices based on race, color, religion, gender, national origin, age, or any other characteristic protected by law. This policy governs all aspects of employment, including selection, job assignment, compensation, discipline, termination, and access to benefits and training.

4.10 Statement of Profit or Loss and Total Income for the Years 2015-2016

	2016	**2015**
Income	20,477,411	36,025,178
Mining Rights Fee	2,723,124	5,044,101
Net Income	17,754,287	30,981,077
Operating Expenses	8,854,580	10,579,159
Sales and transportation costs	3,092,480	4,885,162

General and administrative expenses	2,351,640	1,442,430
Amortization and expense	11,959,222	14,992,927
Share-based payment	51,769	212,966
Other costs	1,447,605	2,153,809
Total expenditure	27,757,296	34,266,453
Operational loss	10,003,009	3,285,376
Net financial expense	777,057	1,426,160
Loss before tax	10,780,066	4,711,536
Profit tax profit	5,032,020	2,723,507
Loss for the year	5,748,046	1,988,029
Other comprehensive income		-
Translation difference	846,004	4,595,836
(Loss) / Comprehensive Income of the Year	6,594,050	2,607,807

Tab.10

This table shows the profit or loss statement and the total income between period of 2015-2016. Company revenue has been higher in 2015 compared to 2016. But some data show that costs such as: operating costs of the company, sales and transportation costs, total costs per year, other expenses, were more lower in 2016 compared with 2015. (Loss) / Comprehensive Year Revenue has been higher in 2016.

CONCLUSIONS & RECOMMENDATIONS

The change of the government system in Albania from the monist system to the pluralist system, everywhere in the countries of South-East Europe, creates the opportunity for introducing foreign investments for the economic and social development of each country to prepare and join the European Union. In order to favor the arrival of foreign investments in Albania, the Albanian Government decided to strengthen the public order and political stability of the country, to improve the legal framework for the protection of these investments, to improve the infrastructure in general (road network, water and sanitation system, communication system, airport building, banking system etc.) to create an environment suitable for the development of any business. The stock of FDI in Albania is focused on activities such as: financial intermediation, transport and telecommunications and mining industries. Even the origin of foreign investors is concentrated in a few countries of origin, led by Greece, Canada, Austria, the Netherlands, Turkey and Italy. So, government authorities should mitigate this concentration trend of FDI by promoting also other sectors of the economy, even by putting together a package of additional facilities with regulatory nature (legal), contractual and fiscal. According to econometric analysis of the model in this paper, it resulted in a statistically significant relation of GDP to FDI, domestic investment and average salary. Indicating that (ceteris paribus conditions), when:

FDI increased by 1%, GDP will grow by 0. 03%, investments in domestic capital will increase by 1%, GDP will grow 0. 53%, aggregate average wage will increase by 1%, GDP will grow 0. 47%. By using Wald test, with a statistical significance level of $p < 5\%$ turns out that the model parameters are stable and have simultaneous effect in the long run. The elasticity level of the GDP to the explanatory variables is different, but according to the model, the greatest impact on GDP comes from domestic capital investments, then from the average wage. While FDI have an impact several times smaller than the Albanian capital investments. This happened for several reasons:

First, the level of investments from Albanian capital (private and public) from 1996 to 2005 had an average weight of 11. 5 times higher than FDI, and from 2006 to 2013 had average weight about 5 times larger than FDI. Over the recent years it is observed that the reduction of the share of investment with domestic capital has come as a result of their declining rate that was higher than the declining rate of FDI.

Secondly, FDI in Albania have had a positive impact on the employment rate, in the number of employees (especially with the Fason products), affecting in an "endogenous" way in the employment growth and the latter in economic growth itself. But due to high informality levels in the labor market and the absence of official data, it is impossible to measure the effect of "endogenous" FDI in average salary.

Thirdly, FDI are absorbed from privatizations and concessions during their contracted duration, or a natural resource, adding a low value in the economy. This in return indicates that the Albanian institutions have shown weakness in the achievement of their objectives. Succumbing to secret corrupted agreements, or showing inefficiency of infrastructure for evaluation and control of investments in the country. In these conditions, it would be better to orient the investment focus on domestic capital initiatives. Also a significant problem in Albania is the lack of detailed official statistics, because of missing time series for various study purposes, especially in the real economy. This led to the limitation of model's variables. In this context, it's important that the Institute of Statistics and various other institutions in Albania, to create a database for all researchers, policy and project makers, expert evaluators, etc.

Foreign Direct Investments bring different impacts to a country's economy, in the case "Albania has had positive advantages, especially in terms of increasing production and employment. Foreign investment has had a positive impact on Albania's economic and social development, especially in the improvement of technologies for the growth of different products, the employment of employees, the opening of new activities, and the increase of the level and standard of living.

In 2016, foreign investments in Albania were $ 1 billion and $ 124 million. This means that one in every 3 Leke investing in the Albanian economy is already coming from abroad. That is to say : Foreign investments in Albania, has been as much as 30% of the total. Italy is presented as a trusted partner of Albania in the field of investments and trade exchanges. Over the last few years, there have been over 400 Italian companies in Albania to take advantage of the many advantages it offers. The two main areas in Albania of strongest Italian economy is represented are the fascinating industry and call centers that hold the share of employment in a high percentage of Albanian employees.

Foreign investments in Albania have different origins, with the main part of their flow from the European Union (EU) countries as well as the neighboring countries, Italy, Greece, Switzerland and so on. The main part of these investments are oriented towards energy, the oil industry, the processing industry, trade, construction, transportation etc. Over the last 20 years, the level of foreign investment has fluctuated, but overall there is an upward trend in these investments due to the improvement of Albania's business climate and policies that have favored investors foreign.

Foreign investment opportunities in Albania are many, with the main ones being the following:

Albania has considerable resources for the development of agriculture due to favorable climate conditions and free labor force in rural areas. It is known as a producer and exporter of organic products, due to the traditional methods of cultivating fruit and vegetables and those used in livestock . Foreign investment in tourism will help develop the industry and infrastructure in tourist areas. Hydrocarbons account for 62% of the Albanian energy balance. This sector is undergoing privatization, which is thought to provide greater efficiency in production, refinery and sales. New opportunities can still be offered through new concession agreements with foreign companies in search of new oil and gas resources as well as in the development of existing ones.

FDI in the energy sector can has positive effect in the economy growth and society as whole. Also, investing in the Albanian electricity market contains on several risks such as exchange risk, interest rate risk, and so foreign investors should be able to manage these risks. If investors are able to do this, the opportunity to invest in the hydropower sector in Albania is highly recommendable. However, compared with other developing countries, it can be said that Albanian hydro- power resources development is still low and utilization level of water is not very high. Therefore, the potential for development of Albania hydropower resources it can be enormous profitable.

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