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WHAT IS THE IMPACT OF FDI IN ALBANIAN ECONOMY?

A dissertation submitted in partial fulfilment of the requirements of the Royal Docks Business School, University of East London for the degree of **Master of International Accounting and Finance**

MAY 2014

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WHAT IS THE IMPACT OF FDI IN ALBANIAN ECONOMY?

ABSTRACT

In the last 10 years foreign investments have increased in Albania and have played a significant role in increasing the economic performance of the country. Foreign investments has seen an increase especially after the agreement with the EU in 2006 that open the doors for Albania to attract more FDI as more regulations were put in place to protect foreign investors and their investment. Despite the Global Crisis of 2009-2010 Albania received higher investment from foreign companies on those years.

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CHAPTER1: INTRODUCTION

1.1 THE ORIGIN OF THE RESEARCH QUESTION

FDI is an investment that a multinational corporate / firm makes outside their country. This investment is widely researched in literature and is found to be a very important instrument in developing the economies all around the world. FDI is defined as a major factor in developing countries in continues increased GDP, starting and pushing successfully toward a privatization process as well as a key factor in transition from "controlled economies "to "open market and free trade economies, as are countries that have escaped the communism and have embraced "free open market". The transition has not been easy in Central and Eastern Europe region. The Western Balkans countries have been in a long process of privatization and transition. The privatization is a necessary process to overcome the state planned economy and embrace the "open free market and free trade" across the borders of these communist economies for more than 50 years. The WB counties were in "worse position" (Kersan-Skabic, Orlic, 2007) compared to Central and Eastern European countries after the ethnic wars and conflict that these countries have to deal with in a process of transition.

As an "investment made to acquire lasting interest in enterprises operating in an economy other than that of the investor" (Kornecki, L., Rhodes, D., 2007 pg.116), FDI has made a very important push in increasing the productivity, stimulating economic growth, increase on employment and innovation of CEE countries. Those improvements are attributed to an essential factor such as FDI. Recent literature reveals that CEE counties have has e massive flow on FDI compared to the SEE and WB counties when Albania is included.

1.2 BACKGROUND OF THE STUDY

Albania is a country that has developed massively since 1990 when the country escaped from communism as a regime with the economy totally controlled by the state. Following the motto" everything with our own strength", meaning" with no help from the outside world ", Albania had no foreign investment in any form until the regime was dismissed in 1990. Even with the late and no inherited infrastructure for attracting FDI, Albania started the privatization process late those other countries in the region. As a necessary process to overcome the state planned economy and adapt to "free trade and open market", privatization was a difficult process for Central and Eastern European countries that had no knowledge of how an open market operates, where the word "private" was taboo and private property and the owner's rights had no real meaning.

Privatization process has benefited the most from FDI and is specified from the Albanian Government as the process with the “largest source of FDI”. (Fullani, 2012) This process is seen as not reliable to finance Albanian economy in the long run

Kersan-Skabic and Orlic (2007) concluded that “The Western Balkan countries were in the worst position” compared with the other countries in the region because of ethnic conflict and wars that those countries had to face during the transition and privatization process. Major transition after 1990 made Albania a very desirable country to invest and foreign investment has seen generally increasing figures each year with fluctuation in some years and still economic growth is seen not to be at his full potential. Remittance from Albanians living abroad has influenced in improving the way of living, mostly has been channelled to non-productive investment such as houses and a considerable part in starting small, family owned businesses. Even with the foreign investment and help from its own people living abroad, Albania is still a poor country ranked 115th in the world. (IMF 2010) With the massive potential the Albania has the attract FDI and with the growing figures of FDI every years still “the absorption of FDI in Albania is much lower that it’s real potential”. (Sokoli, Y., Zaho, L., Sokoli, I., 2011).

The empirical data shows that FDI has stimulated growth in GDP in the beginning year of transition and has had fluctuation in some years. Foreign investment in Albania has seen an increase every year for the last 20 years.

Albania offers many opportunities to invest in many parts of economy such as tourism, agriculture and managing of natural resources. The market irregularities has made more difficult for productive activities to thrive as more of land is changing its purpose to construction. The economy has experiences growth every year but not to his full potential. In 2010 Albania was ranked as 82nd country for “Doing Business” (1= the most business friendly regulations) and remained in that position till 2012. Albania changed the position and fell on 90th place on 2013 because of what is defined as a main problem in doing business in Albania, “its dysfunctional politics”. Analytica (2011)

Italy and Greece are the major investors in Albania mainly because of geographic connections. Italy is concentrated more on the western part near Adriatic Sea and Greece has more investments in the south-east where the borders are. Since Albania signed the Stabilization and Association Agreement with EU in 2006, other countries have been investing in Albania In 2004 the majority of FDI “almost 82% of this stock was hold by EU nations, with Greece as main investor with 48% of FDI” (Sevrani, Gorica, 2012).

The literature defines the impact that foreign investments have had on improving the economic indicators of growth and globalization of economies. To define if foreign investments have given Albania an increase in economic performance the empirical data is implemented in a regression analysis to predict a direction of performance indicators: GDP, Exports and Tourism in a correlation with foreign investments. The regression analysis was used to predict if money transferred from Albanians living abroad to their families have had any impact on those indicators.

1.3 RESEARCH OBJECTIVES AND QUESTIONS

This research objective was to analyze the empirical data available from World Bank, UNCTAD and Albanians institution to find how FDI has given a boost to Albanian economy, what has been done and how. This research will give a fair view of Albanians economy and recommendation what is needed to do next to make sure the FDI is at the best of countries ability and it is given the best use where the country need it most .

This research gives a better view of where and how the investment has been distributed amongst tourism, infrastructure and new businesses and has resulted in a growth in economy presented with the GDP figures of the last 10 years. The comparison with other countries of WB that still to this day is in a category of Transition Economies" (UNCTAD, 2011): Croatia, Macedonia, Serbia, Bosnia and Herzegovina, Montenegro.

This research has as the main objective to assess the impact that foreign investment had on performance of Albanian economy. This main objective is realised by analysing some of the indicators of the economic performance: GDP, Exports and Tourism.

- The objective is to understand the relationship between foreign investment from outside and Gross Domestic Product as the most common used indicator of economic growth.
- The push that investment from foreign enterprises operating in Albania has given production and Exports as one of the indicators of developing and improving economic performance of a country.
- Albania is part of Western Balkan countries and as such is important to present where Albania stands in the region. A comparison of the indicators GDP and FDI amongst countries is set to make clear Albania's position in the Western Balkan.

The questions that this research answers are prepared to give the rationales behind the objectives.

- What direction have FDI inflows been in Albania in years 2002-2012? If they have experienced an increase what are the reasons for this? Is any of this part of Albania`s transition still not finished?
- Does the data collected on GDP and FDI reveals any link between foreign investment and economic improvement. The literature suggests that FDI is a major force in economic growth presented by GDP but does Albania proves this to be the right conclusion?
- Tourism and Exports are other indicators that measure the performance of a country. Are these indicators influenced by foreign investment and if yes what is the relationship between FDI and Exports and Tourism?
- Western Balkan countries have joined the "open market" late and have had many obstacles in developing their economies. Where does Albania stand in the region? Is there a "preferable country" receiver of foreign investment amongst those countries?

1.4 LIMITATION OF THE RESEARCH

In this research the FDI impact on economy was tested on some of the indicators on economic performance that were concluded to present the core of economic performance. This paper could not test for all the economic indicators and this is a limitation of the research. The data collected was not available in full from Albanian institutions so the data is secondary data from UNCTAD and WORLD BANK. The time and financial resources to travel and collect the data in Albania was another limitation.

1.5 STRUCTURE OF THE DISSERTATION

The research will follow in 4 chapters:

Chapter 2: Critical review of literature, presenting theoretical framework of foreign investments impact on performance of developing and transition countries.

Chapter 3: Methodology of research, an account of empirical data selected, the selection and analysing process and reliability of the data.

Chapter4: Analysing of data through describing the comparison results, presenting the results of regression analysis for foreign investment/FDI and performance indicators and remittance and those indicators.

Chapter 5: Conclusions presenting concluding remarks of empirical data analysis and recommendation for further researches about FDI in Albania and ways to attract more foreign investments recommended in the research.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

FDI is an investment from an individual or company in a foreign country. This investment like any other has the purpose to acquire a better interest than what the investor can achieve in its own country. The literature puts FDI in a privileged position in developing countries, increasing their economic growth through GDP, exports, lowering the unemployment etc.

2.2 DEFINITION OF FDI AND ITS IMPORTANCE

Borensztein, De Gregorio and Lee (1995) point out the massive contribution of FDI in growth of the host economy. The increase in domestic investment is “between1.5-2.3 times the increase in the flow of FDI”. The importance of FDI is made clear as it appears that FDI is “ an important vehicle “ that contributes more to economic performance of the country and growth in particular than domestic investment by the investors residing on their own country. Foreign investment provides more jobs in the host countries as a product of new enterprises, new technologies are implemented and innovations are embraced to secure the lasting interest that the foreign investor acquires in their investment. In effect of FDI in technological progress it appears that FDI contributes to economic growth by increasing total accumulation in the host economy” Borensztein, De Gregorio and Lee (1995). Foreign investment creates new and innovative businesses that make the host country able to compete in the global market and in the region.

The domestic investment is very important in a developing economy especially if the country has very little or not at all education about trade and free markets. The foreign investment, according to De Gregorio (1992), is about 3 times more efficient than domestic investment. The ways that domestic investment and the economy profits from FDI are through new businesses, employment, infrastructure and technological progress. The new laws and agreements are put in place to ensure that FDI does not suffocate the investment from host investors .The general conclusion reached through research is that foreign investment encourages domestic investment but in the literature the case of China has proves this not always to be the case.

While some researchers accept that FDI has a positive impact on domestic investment, Kim and Seo (2003), Ang (2009) and are defining FDI as an important force in developing a country, Lipsey (2000) and Areskong (1976) have concluded in their research that FDI not only have a negative influence on investment of the host country but they prove that "FDI crowds out Domestic Investment". In He (2012) the impact of FDI in Domestic investment was argued as a dependence of financial regulations that exists between the host country and the investor's country.

Foreign investment shows in many ways and the "vast majority of FDI is done through mergers and acquisitions" Kenneth A. (1993). Based on that, to attract more investment from foreign companies, the host countries made adjustment on their laws about taxes and infrastructure. Those adjustments are meant to help the foreign investors to make their investment decisions easy and profitable and the economic growth of the host country expectably in rise.

2.3 PRIOR STUDIES ON FDI IN THE WORLD

Today in the world they operate Multinational Companies (MNC) that engages directly in promoting and giving a new dimension to the importance and use of foreign investments. Many theories have risen and studied to determining why FDI is so important and so sought after by developing and transition countries. The theory of "Universal Model" was claimed to be of no interest on Bitzenis (2003) where he argued that the opportunities that a country can offer change in time and it can be seen as a" universal model" when a time frame is picked and the conclusion is made based on that time frame. According to him their not e definite theory that can make a perfect decision on how to direct foreign investment.

The case of China is very complex in analysing the impact of FDI in economic growth of China some argue that the investment of Chinese enterprises is in some cases influenced negatively by investment of foreign companies. China in these days is the biggest export country in the world with Chinese products and Chinese firms found in every spot of the globe. Resent research by He (2012) has found that while FDI has had an important role in economic performance, in Chinas case the both "crowd in " and " crowd out" effects of FDI in DI has been revealed. The use of terms "extensive margin" and "intensive margin", make the argument that financial deregulations (process of removing or reducing the state regulations) in China have concluded in FDI to reduce or increase domestic investment for which China is widely recognised.

"Extensive Margin" shows when financial deregulations benefit more Chinese firms putting their investment a step ahead of the competition. He (2012) concludes that this margin "is more likely to strengthen the `crowding - in `force". In other hand the liberalization policies implemented by Chinese government to attract more FDI through preferential administrative and tax rules have been named "Intensive margin" that tends to benefit more the foreign firms and therefore makes the "crowding- out" force more plausible. Some countries depending on the performance of their economy can decide to loosen up their regulation or implement tougher rules to protect the investment of their own entrepreneurs. Depending on deregulation of a government foreign investment can have a positive impact on investment on the host country or a negative one but always foreign investment and economic growth have a positive relationship.

The research into the importance of FDI and how FDI is determined, shows that economic growth is one of the indicators that make foreign investors decision about the country they want to invest. The research conducted in Middle East and North African countries (MENA) have concluded that "both macroeconomic and institutional factors determine the foreign investment" (Wyk, Jay Van, Lal, Anil K, 2010).

Macroeconomic factors such as GDP have fund to have "significant impact on the amount of FDI stock" in the economies of MENA in the study conducted by Hisarciklilar, Kayam and Kayalica in 2007. Wyk, Jay Van, Lal, Anil K (2010) Exports and Trade of goods and services experienced a systematic growth as a direct result of a greater inflow of foreign investment. As well as macroeconomic factors – GDP, Exports, Trade openness etc. a institutional factor is yet again attributed a great role in attracting FDI and Wyk and Lal (2010) defined as "less restrictive business regulations". Less regulations and a bigger market correlated with economic growth were local drivers of FDI in Middle East and North African countries. These findings are compatible with other researchers conducted about FDI importance and its determinants on the developing countries (Sabi, 1998; Trevino, Daniels and Arbelaez, 2002; Tahir and Larimo, 2004).

2.4 PRIOR STUDIES ON FDI IN EUROPE

When foreign investors, mainly in the form of Multinational corporations, decide when to better place their investment two types of FDI are well documented: Vertical FDI and Horizontal FDI.

Vertical FDI arises when firms invest driven by cost of the production. They place their investment internationally on the country where their product can be produced at the lowest cost. Aizenman and Marion (2004) define the vertical FDI as “locating each stage of production in the country where it can be done at the least cost”.

Horizontal FDI arises when the reason behind the investment is demand. Murat and Pirotti (2010). The foreign investor or corporation produces the same product in different countries based on demand for that product. Aizenman and Marion (2004) define horizontal FDI as “horizontal pattern occurs when the multinational produces the same product or services in multiple countries”.

Foreign investors take into consideration many indicators of the host economy in making the decision to place their investment. Amongst all the indicators two more crucial they base their decisions according to Murat and Pirotti (2010) are “expected growth of GDP “of the host country and “the country`s openness to trade “. In general for firms investing abroad, a higher rate of economic growth of the country where investment is placed would be more attractive for investing. While for firms practising Horizontal FDI a greater rate would mean a more expanded market therefore more products to be introduced in the host country as a result of the higher demand for more practical and innovative products. As firms that practise Vertical FDI a higher GDP rate would mean increase in the efficiency, improvement on the infrastructure to help the corporations to get the maximum interest out of their investment. These benefits make the country more attractive to foreign investors in the decision making process.

The increasing of the growth rate presents another effect that contradicts the primary reason why firms decide on Vertical FDI - the cost of production, aiming at the lower cost. A greater growth rate leads to higher labour costs. As the country that profits from the Vertical FDI is selected because of the lower cost that the product is produced, this may give the foreign corporation a negative indication that the cost of production will not be the lowest in the coming years. Several papers reveal that the effects of higher growth rate are always positive on attracting foreign investment. Barba, Navareti and Venables (2004) concluded in their research that “the positive values of the countries` expected growth rate positively and significantly affect foreign firm investments”.

More and more countries nowadays are opening to trade especially the transition economies that have started to notice and benefit from the trade and realising that globalism and openness to trade are the way towards a solid economy. Murat and Pirotti (2010) consider countries openness to trade to present a positive effect in attracting foreign investors. They find that “complementary relations” between FDI and openness to trade of the countries is increased in the last decades as a result of “gradual reduction of trade barriers” Murat and Pirotti (2010). The countries that apply higher barrier to trade transform FDI and openness to trade substitutes to each other and FDI becomes the export to countries with higher barriers. As a result of lowering the barriers the “substitute” effect becomes not significant and openness to trade to relate positively to attract the future and greater foreign investment.

FDI has been a very important factor in developing Centre and East European countries CEE to include and present them to the economy of trade and free and open markets. Those countries embraced the open market economy in the hope of improving their post communist economies, to secure through foreign investors a better infrastructure for doing business in their countries. The lower labour costs and the fact that CEE and South and East European countries are still developing and training to become worthy markets to attract foreign investors makes Easter Europe the location to invest and get better return from the investment which is the main purpose of foreign investors. The research reveals that in the CEE countries, a very important role is attributed to FDI in privatization and educating those economies to compete with market challenges. Kersan-Skabic and Orlic (2007) define that “the accession of this countries to the EU” a significant and massive role in attracting foreign investors to place their businesses in those countries. Becoming full members of European Union gave those countries a better chance to start the privatization process straight away and the transition was made gradually with a lot of help from other countries already member of EU. Western Balkan countries are part of SEE countries. Those countries are on the way of becoming full member of EU and the process have agreements, negotiations and conditions that those countries need to fulfil before they become members. Those conditions are political and economical. For the WB countries the Stabilization and Association agreement with the EU “had a direct positive impact on FDI inflows” (Kersan-Skabic and Orlic 2007). This agreement was not arranged till late for WB countries and Albania as a part of it and by that time the CEE countries had already completed the main part of privatization.

FYROM and Croatia signed a Stabilisation and Association agreement in 2001 and Albania in 2006. This fact was presented by Kersan-Skabic and Orlic

(2007) as one important reason why the WB countries have seen a very low FDI inflow. The EU agreement was one of the "openness trade" factors that contributed in the low inflows of FDI. After those barriers went down on 2006 for Albania, Western Balkan countries including Albania have experienced higher levels of FDI. This agreement was promoted as "an essential framework for deepening the mutual relationships and for promoting better and qualitative co-operation" (Kersan-Skabic and Orlic 2007).

What these countries achieved with this agreement made FDI an "essential factor in stimulation economic growth. Kornecki and Rhoades (2007).

2.5 PRIOR STUDIES IN FDI IN ALBANIA

Lawson and Saltmarshe (2000) described the regime in Albania as "the most extreme form of totalitarianism". Coming from a totally controlled economy the entrepreneurs in Albania went straight into the open market with no preparation, no market skills and no education or training to the free market terms and conditions. The research of the market they intended to perform on was not seen as important for the lack of information but mostly for not knowing the basics of doing business. The surveys conducted by Shahu and Liperi (2003) reported that Albanian entrepreneurs do not perform any market research before they decide to start a business. They do not see the importance of investigating the market because they do not have relevant education and lacking in management skills. In comparison the foreign companies operating in Albania study the market very carefully taking into consideration every risk and obstacle they may encounter in Albania's new and unpredictable market. Those risks were not taken properly in consideration by the institution that assisted Albania in the process of privatization. Fullani (2012) declares that these institutions should have created specific plans to pay more attention to the economic imbalances in Albania's fragile economy to "rebalance the economy via durable growth and employment". Albanian economy presented another obstacle in the process of developing the country referred as change of use of land. Agriculture land was not used for productive activities instead Albania was turned into a giant construction site with no rules or regulation as where and how to build. This had a big influence in the exports of goods as Albania was not producing for its own market and the basic products had to be imported.

Despite those imperfections Albania has managed to attract foreign investment in rising figures every year. In the literature Albania is portrayed as a country with higher levels of FDI compared to other countries especially those who had the same economic imperfections in the beginning of the privatization and transition process. Sokoli, Y.; Zaho and Sokoli, I. (2011)

presented that "Albania has been one of the most successful countries in attracting FDI", compared with other CEE but also the Western Balkan countries. The greater FDI was based mostly in privatization of companies own by the state. As the" majority of FDI is done through mergers and acquisitions " Kenneth A. ,(1993) Albania received the foreign investment from privatization of large state owned companies such as factories, mines, energetic companies, communication etc. Oxford Analytica (2011) presents that "foreign investment inflows in Albania rose above 1 billion for the first time". Analytica mention that this relative success may be surprising to some but "at 82nd, it is the top western Balkan country for 'Doing Business'".

The positive impact of FDI is measured by economic growth. Sevrani and Gorica (2012) studied the globalization process through foreign investment to economic growth. They concluded that foreign investment help economic growth through utilising high coefficient industries because of the low cost they present and directly impact positively on economical growth. Getting employed by these industries reduced the unemployment rate hence increased the growth. Along with helping the employment rate this research point out the importance of training of human recourses to work more efficiently on these industries .When foreign investor researches the market one of the indicators that attracts them is the efficiency of the work force so Albania has been working towards free trade following the instruction of World Bank.

Albania has natural resources such as copper, iron, chromium and some reserves of gold and oil. The aim is to turn Albania into "a regional green-energy superpower" Keeler (2011) and by building 220 hydropower stations this goal is achievable. The foreign investors that have practised those industries are working to achieve the best results and Albanian government is determined to develop mining and hydropower. According to UNCTAD Exports and Foreign investment increased by 300% in the years 2005-2010 while GDP growth between 3% and 4 %. The figures present a combination of low taxes, targeted incentives and more investment in the infrastructure, aims those that are made to lure foreign capital. In the years 2009 -2011 Albania spent around 10% of GDP on contraction of roads to improve business climate.

Foreign investors have had to consider many obstacles on their decision to invest in Albania. Bitzenis and Ersanja (2005) analyze the anecdotal evidence of "two sets of books" that exists in Albanian finance and bookkeeping: one set for tax purposes when the real income and profit are reduced in order to pay less tax and one set with the real income and profit that only the management/ owner can access. Foreign companies fear this practise as unfair competition.

A survey conducted by Muent et al. (2000) found that the unfair competition between the formal, properly registered companies and informal, unregistered, fraudulent ones was defined as "the most important problem" that foreign investors deal with in when doing business in Albania. Other problems that the foreign investors face in Albania are tax levels, bureaucracy, lack of political stability and low infrastructure levels. The "poor access to loans" was a significant problem that businesses face in Albania so they have to plan to rely completely on their sources to progress in the business. IDRA et al. (2001) in their research attributed all these to be "most decisive problems" that investors face in Albania.

In recent years the tourism in Albania has been developing significantly Sokoli, Y., Zaho and Sokoli, I (2011). Albania with 300 kilometres of coastline and picturesque mountains has developed many villages and transformed them into tourist attractions. Albania`s senior officials aim to attract more investment by bringing more visitors to the country. In the last 2 years the number of tourist to Albania has seen a 6 times increase even when most of hotels are seasonal, small and family run. Kaczmarski (2012) According to government resources "Albanian migrants are now well integrated in their host societies and they promote our country by the word of mouth". In 2011 4 million people visited Albania and 1.3 million of those were Albanian citizens living abroad. This awareness of what Albania has to offer has given a boost to the economy. Kaczmarski (2012)

Researches into the factors that affect foreign investment in Albania have divided them into:

- Political factor meaning stability of the political system will secure durable and greater foreign investment.
- Economic factor presented by GDP, National income per capita, infrastructure and inflation. Foreign investors prefer to concentrate their investments on countries with high level of income per capita and stable growth rate.
- Social factor presented by the attitude of host countries toward foreign investors.
- Technological factor obtainable by the technical assistance that the host country can offer or is partial to adopt to assist the foreign investors in achieving their objectives.

Remittance is a part of foreign investment as it is a transfer of money that citizens who live abroad send to their families in their country. Remittance has been important for Albanian economy not only because of improving the lives of citizens living in Albania but most importantly these money has partially increased the income per capita in Albania. Remittance was used in Albania to buy or build houses and start small businesses and employing themselves and their families. After 1990 value of remittance ranged between 10%-12% of Albania`s GDP and were higher than Exports, net foreign investment and official development aid. Gedeshi and De Zwager (2012) Remittance are primarily used to support families' essential needs for food, clothing, and furniture and build houses. Italy and Greece are the nearby countries to Albania and most of FDI comes from them with 48 % originate from Italy and 43% from Greece. Foreign investment in Albania has been higher despite the global crisis but according to Central Bank of Albania the remittance in 2008 fell to $ 833m, $119 m less than 2007 and in 2009 the remittance registered $782m. Remittance fell as a product of crisis and because in Greece and Italy reside more of the migrants. World Bank (2010 b) estimates than "10% decline in remittance would lead to a 3.6 % reduction in domestic demand". Albania`s FDI, GDP remained positive during the crisis. The inflow of remittance from emigrant Albanians in 1994 represented one third of Albania`s GDP and reached 350 - 400 million dollars.

2.6 EVALUATION OF PRIOR STUDIES

The literature presented and researched defines than foreign investment is a very important factor in developing the countries and their economies. Those investments have influences positively the economies of countries despite their economic history through increasing their economic growth rate, increasing their trade indicators and giving globalization a significant role in transition.

The Eastern European countries continue to attract foreign investment but the Western Balkan countries still have lower level of FDI inflows compare to other Central and Eastern European and South and Eastern European countries, based on economic and social situations. Albania as a past of Western Balkan countries has suffered from an ex- totally controlled economy but with the efforts of the people and governments foreign investors see Albania a country suitable to place their investments and generate interest.

There are pro and cons in attracting foreign investment but the general conclusion is that foreign investment have always had a positive impact on improving the economic performance of host countries through GDP , innovative technology, creating new businesses and decreasing the unemployment rate.

Remittance has played a small but influential role in improving the living condition and quality of life of Albanian citizens. Global crisis has resulted in a decline of Remittance in Albania as migrants living in Italy and Greece have returned home.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The main objective of this research in to assess the impact of foreign investments on the economy of a country in transition .The economic performance of Albania`s economy is presented by data collected for GDP, Trade / Exports and Tourism for years 2002- 2012. The data collected for foreign investment is presented by FDI inflows and Remittance for the years 2002-2012. Methodology used was analysis of the economic indicators identifying the impact on those indicators on year 2006 as the year that Albania signed an agreement of Association and Stabilization with EU and the Global Crisis years of 2009-2010. . A comparison of foreign investment and GDP data was conducted to present Albania in the region. The methodology used to test the impact of FDI on those indicators was through regression equations to assess the correlation of FDI variable with each of these economic performance indicators. Correlation was tested for Remittance as well as a type of foreign investment

3.2 BRIEF RESEARCH METHODOLOGY

The philosophy behind the research is as follows. In order to answer the question and achieve the objectives of the research is crucial to analyze and select the best indicators of economic performance of a country. Relevance and reliability were the dominant reasons in selecting those indicators. There are many indicators to present the performance of an economy: National income, Gross Domestic Product / GDP, Inflation, Competitiveness of Exports, Levels of unemployment, Terms of Trade of a country etc.

For best measure of economic performance and Albania`s characteristics the indicators analysed were: GDP, Exports, Tourism.

The most commonly used indicator to measure economic performance presented widely on economic researches was Gross Domestic Product /GDP. In this research we assessed the impact of foreign investment on economic performance so the first and most important indicator selected was GDP with the justification of most commonly used measure of economic performance.

Albania has joined the free trade market late after 1990. Before that Albania did not have trading experience with the world and was isolated. As a measure of economic performance and trading capacity of Albania the Exports were selected as another significant indicator of how Albanian economy has performed in the last 10 years 2002-2012.

Albania with the long coast and beautiful mountains has become a European tourist spot and is presented as "the last secret of Europe" by a travel guide. Based on the perception of Albania as a beautiful place to visit, Tourism was selected as the last indicator of economic performance on this research.

3.3 DATA COLLECTION PROCESS

The performance of an economy is assessed in terms of achievement of the goals and objectives that the country tents to accomplish. There exist a wide range of indicators to define if a country`s economic performance is improved or deteriorated. In the process of collecting the data the methods used were:

- Country : Western Balkan / Albania

Relevant data for FDI and GDP was collected for Western Balkan countries for the purpose of comparing the indicators and place Albania in the region. For the purpose of achieving the goals of our research, data of indicators of economic performance were collected only for Albania.

- Timeline

The timeline of 11 years, 2002-2012 was selected as the last 10 years including the year 2006 when Albania signed a Stabilisation and Association agreement defined in the literature as the agreement that gave massive FDI inflows in Albania .The timeline also includes the years 2009 and 2010 identified as "global economic crisis".

- Data resources

The data presented and analysed was secondary data evaluated and provided by UNCTAD and World Bank. As the research was based on Albania using Albanian institutions resources was considered as the best approach to give a better view of Albania`s position and performance. Finding data from Albanian resources was difficult and for some of the indicators not complete. Considering that UNCTAD and World Bank presented the data necessary those two organizations were selected as more reliable and trustworthy of providing the data needed for the research.

- Indicators / variables

The indicators / variables selected and for which the data was collected are:

Foreign Direct Investment /FDI

Foreign investment is an investment that a corporation makes outside their country of residence to acquire interest. This interest is calculated as 10 % or more of voting stock. The data collected from UNCTAD and the World Bank has this definition for the data: FDI

"Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors. Data are in current U.S. dollars". World Bank 2013

Data collected on FDI is presented in million US dollars.

Remittance

As a type of foreign investment remittance was selected to assess the impact on the Albanian economy and economic performance of a country. The data collected from UNCTAD and the World Bank has this definition for the data: Personal remittance

"Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus include all current transfers between resident and non-resident individuals. Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities. Data are the sum of two items defined in the sixth edition of the IMF's Balance of Payments Manual: personal transfers and compensation of employees". World Bank 2013

Data collected on Remittance is presented in million US dollars.

Gross Domestic Product /GDP

GDP is the most commonly used as an indicator of the performance of a country`s economy. GDP is the measure of all the value added by goods and services produces by a country. The data collected from UNCTAD and the World Bank has this definition for the data: GDP

"GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates. For a few countries where the official exchange rate does not reflect the rate effectively applied to actual foreign exchange transactions, an alternative conversion factor is used". World Bank 2013

Data collected on GDP is presented in million US dollars.

EXPORTS

Export of goods and services is another reliable indicator of growing economy and define the financial relations with other countries. Exports of energy, meat, fish and minerals are the major values completing the collected data for exports. The data collected from UNCTAD and the World Bank has this definition for the data: Exports of Goods and Services.

"Exports of goods and services comprise all transactions between residents of a country and the rest of the world involving a change of ownership from residents to nonresidents of general merchandise, net exports of goods under merchanting, nonmonetary gold, and services". World Bank 2013

Data collected on Exports of Goods and Services is presented in million US dollars.

Tourism

Tourism is the other indicator of performance since Albania has resources to attract tourist all year round. The increased number of tourist and improvement of infrastructure gave Albanian economy a great chance of improvement. The data collected from UNCTAD and the World Bank has this definition for the data: International tourism, receipts

"International tourism receipts are expenditures by international inbound visitors, including payments to national carriers for international transport. These receipts include any other prepayment made for goods or services received in the destination country. They also may include receipts from same-day visitors, except when these are important enough to justify separate classification. For some countries they do not include receipts for passenger transport items". World Bank 2013

Data collected on International Tourism is presented in million US dollars.

3.4 DATA ANALYSING PROCESS

The data analysis in the research was conducted in three parts.

3.4.1 DESCRIPTIVE ANALYSIS OF VARIABLES

First part was analysing the data collected for FDI for Western Balkan countries: Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and TFYR of Macedonia. Initially data was collected and for Greece and Bulgaria but it was seen as not good practise to compare the countries selected with those two countries that have full membership to the European Union. To present a fair comparison Greece and Bulgaria were removed from the countries selected.

The analysing of the tables and graph gave a better idea as to where Albania stands in the region. The analysis was concentrated more on years following 2006 and specifically how the Global Crisis of 2009-2010 affected Western Balkan countries and Albania.

Analysing the % change on FDI and GDP concludes on the impact of the essential agreement that Albania signed in 2006 with European Union and the effect on foreign investment and GDP of the global crisis on Albanian economy.

3.4.2 *REGRESSION METHODOLOGY FOR FDI*

The second part presents the regression method Ordinary Least Squares OLS to predict the impact of FDI on indicators selected to better present economic performance of Albania.

Regression analysis is used to create an equation for the purpose of predicting the dependent variable using an independent variable or more independent variables. The equation has the form:

$$Y = \boldsymbol{\alpha} + \boldsymbol{\beta}_1 X_1 + \boldsymbol{\beta}_2 X_2$$

Where Y is the dependent variable that we tried to predict the effect of

α presents the value of dependent variable Y if the value of independent variables X_1 and X_2 are equal to zero.

X_1 and X_2 are the independent variables that we are using to predict the dependent variable Y.

β_1 and β_2 are the coefficients that describe the size of effect that independent variables have on the dependent variable Y.

In this research the dependent variable Y had applied data for GDP, Exports and Tourism and the dependent variables X had taken data for FDI and Remittance. The purpose of running a regression equation is to establish whether the coefficients of the dependant variables are different from zero so the effect of dependent variable FDI on independent variable GDP is genuine and accountable. In the regression with the single independent variable as our regression is:

$$Y\ (GDP) = \boldsymbol{\alpha} + \boldsymbol{\beta}_1 X_1\ (FDI)$$

The coefficient $\boldsymbol{\beta}_1$ reveals how much the dependent variable GDP is expected to increase when coefficient is positive or decrease for negative coefficient when the independent variable FDI increases by one .In our case the impact of FDI in GDP which was the objective of the research.

The other analyses of the regression were concluded on the R Square and show the correlation between the independent and dependent variables. The higher the value of R Squared the more correlated our variables are. The closer to 1 the better the regression line fits the data.

In the regression equation when estimating the significance of the independent variables on the dependent variable the P-value is considered. The P value tells how confident we are that undependable variables have some correlation with the dependent variable. With a P value of 0.05 is only a 5% chance that our results are random so the probability of our results being correct and we have establish some effect of independent variables on the dependent ones is 95% .

The 95 % coefficient intervals give as the same information as the P value so analysing one or the other gave the information needed.

Another number to be considered is the T-test. If the T test for a coefficient is not significant that means that no significant dependence of Y from the X was detected.

The intercept α is the value of independent variable GDP, Exports and Tourism if the coefficient of dependable variable is zero. So the intercept reveals by how much the GDP with increase if the foreign investment were to stop altogether in Albania.

The regression equation analysed were:

$Y\ (EXPORTS) = \boldsymbol{\alpha} + \boldsymbol{\beta}_1 X_1\ (FDI)$

$Y\ (TOURISM) = \boldsymbol{\alpha} + \boldsymbol{\beta}_1 X_1\ (FDI)$

3.4.3 *REGRESSION METHODOLOGY FOR REMITTANCE*

The analysis of the impact of remittance on the economic performance indicators specified above presents the third past on analysis.

$Y\ (GDP) = \boldsymbol{\alpha} + \boldsymbol{\beta}_1 X_1\ (REMITTANCE)$

$Y\ (EXPORTS) = \boldsymbol{\alpha} + \boldsymbol{\beta}_1 X_1\ (REMITTANCE)$

$Y\ (TOURISM) = \boldsymbol{\alpha} + \boldsymbol{\beta}_1 X_1\ (REMITTANCE)$

Analysis was concentrated on the R Squares values, the coefficients of independent variables, P value and T-test and the intercept.

A regression with independent variables as FDI, Exports and Tourism was run to be able to get the impact of FDI in Albanian economy if the other independent variables in the equation are constant.

$Y\ (GDP) = \boldsymbol{\alpha} + \boldsymbol{\beta}1X1\ (FDI) + \boldsymbol{\beta}_2 X_2\ (EXPORTS) + \boldsymbol{\beta}_3 X_3\ (TOURISM)$

3.5 RELIABILITY OF RESEARCH METHODOLOGY

Foreign investments have had a very important role in improving the quality of life and increasing the performance of economies in the host countries. The data collected achieve our goal, to present the impact that foreign investment have had on Albanian economy was carefully selected from reliable sources such as UNCTAD , World Bank and were carefully analysed on Microsoft Excel 2007. The comparison of tables and graphs created on Excel was based on those data. The regression equation and the analysing of all the results were based on the statistics produced from running regression on Excel 2007. Those tables, graphs and statistics result are presented in their original form produced from Excel.

All the data and results were carefully selected as reliable and trustworthy for the purpose of the research and were presented as their true results of the research.

3.6 LIMITATION OF RESEARCH METHODOLOGY

The limitation of this research consisted in collection of the data for indicators analysed in the research. Albanian institutions were very evasive when asked for the data and offered very little in the matter of necessary data. Data that was possible to retrieve from some of the institutions was not seen as reliable as most of the indicators show different figures presented by those institutions. The data that was possible to collect did not present the mandatory timeline that was decided to follow. To be able to present reliable data the other alternatives were considered and decided to present the data from UNCTAD as the more reliable data. World Bank was considered for presenting the data but because the data reported by UNCTAD was more specific to the requirement of the research the UNCTAD data was selected. For the years that Word Bank presented data there was no noticeable difference from the UNCTAD data. The time and funds required to travel to Albania and collect the data directly from Albanian institution was another limitation of the research.

Chapter 4: DATA ANALYSIS

4.1 Descriptive analysis

4.1.1 Western Balkan countries and Albania.

FDI inflows in Western Balkan countries selected in this research are presented in the Table 1 for Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Macedonia.

	Albania	Bosnia & Herzegovina	Croatia	Montenegro	Serbia	Macedonia
2002	135	265	1071	_	_	106

2003	178	381	1989	_	_	113
2004	346	511	1179	_	_	324
2005	264	351	1825	_	_	96
2006	324	555	3468	_	_	433
2007	659	1818	5041	_	_	693
2008	974	1025	6220	960	3492	586
2009	996	149	3339	1527	2364	201
2010	1051	324	432	760	1813	212
2011	1036	380	1502	558	3258	468
2012	957	633	1251	610	650	135

Table 1 Inward FDI flow, annual, 2002-2012

Measure: US Dollars at current prices and current exchange rates in Millions.

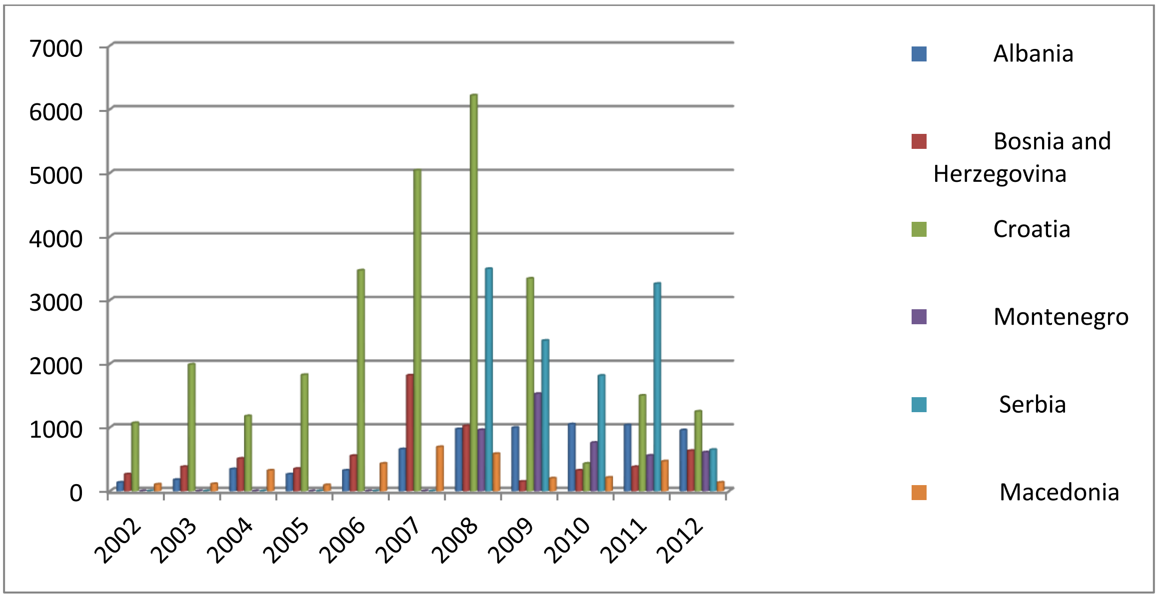

Figure 1 Inward FDI flow, annual, 2002-2012

Analysing the data we see that Balkan countries in general have attracted successfully foreign investment for years 2002-2012. Amongst these countries from 2002-2007 Croatia is the country with the most inflows of foreign investment with figures as high as $5 billion in 2007. Macedonia is the country with the least inflows for 2002- 2005 with the lowest figure reported on 2005 of $96 million. For years 2006-2007 is Albania the country that have reported the lowest inflows of foreign investment in the region. In previous years Albania has been the second lowest. A fact to point out is that Montenegro and Serbia did not report any figures of foreign investment inflows on 2002-2007 years and that is the reason that the analysis was divided in two blocks of data.

From 2008 -2012 Croatia is the country with the highest FDI inflows in three of these years 2008, 2009, 2012 reporting the highest figure on the table on 2008 with $6.2 billion, followed by Serbia that records the highest foreign investment figures in 2010 and 2011. The country with the least inflows is Macedonia for years 2008, 2010, 2012 followed for the first time by Bosnia and Herzegovina in 2009 with $149 million which is still higher than $96 million that Macedonia recorded in her lowest year 2005.Bosnia and Herzegovina recorded their lower figure in the region in 2011.

According to the graph, the analysis shows that Croatia has been the country that has attracted more foreign investment in the 11 years that this research has considered and Macedonia has been the country with the least foreign investment inflows during those years. The Global Crisis has played a negative role in Croatia`s inflow of foreign investments as the country not only losses the leading place but reported a massive loss on FDI inflows in 2010 as much as 87% decline. Bosnia and Herzegovina recorded the higher increase in FDI inflows to 117% (from $149 m in 2009 to $324m in 2010) on the years of Global Crisis. Serbia in the other hand has experienced a decline of 30% in foreign investment from 2009- 2010. The other countries have experienced increase and decline with Macedonia increase only 5% from 2009-2010, Albania 5.5%.

The Western Balkan countries in the years 2002-2012 have recorded fluctuation in the foreign investment inflows with no more than three consecutive years boost in the investment without recording a decline in the investment.

	Albania	Bosnia & Herzegovina	Croatia	Montenegro	Serbia	Macedonia
2002	4443	6711	26525	-	-	3791

2003	5696	8467	34144	-	-	4756
2004	7307	10123	41003	-	-	5514
2005	8159	10948	44821	-	-	5987
2006	8993	12400	49855	-	-	6558
2007	10701	15281	59336	-	-	8160
2008	12986	18543	69586	4520	53402	9834
2009	12119	17083	62202	4141	45685	9314
2010	11954	16647	59472	4111	42659	9339
2011	13000	18037	63493	4550	47588	10165
2012	12532	17278	57139	4339	41420	9407

Table 2 GDP, annual, 2002-2012

Measure: US Dollars at current prices and current exchange rates in Millions.

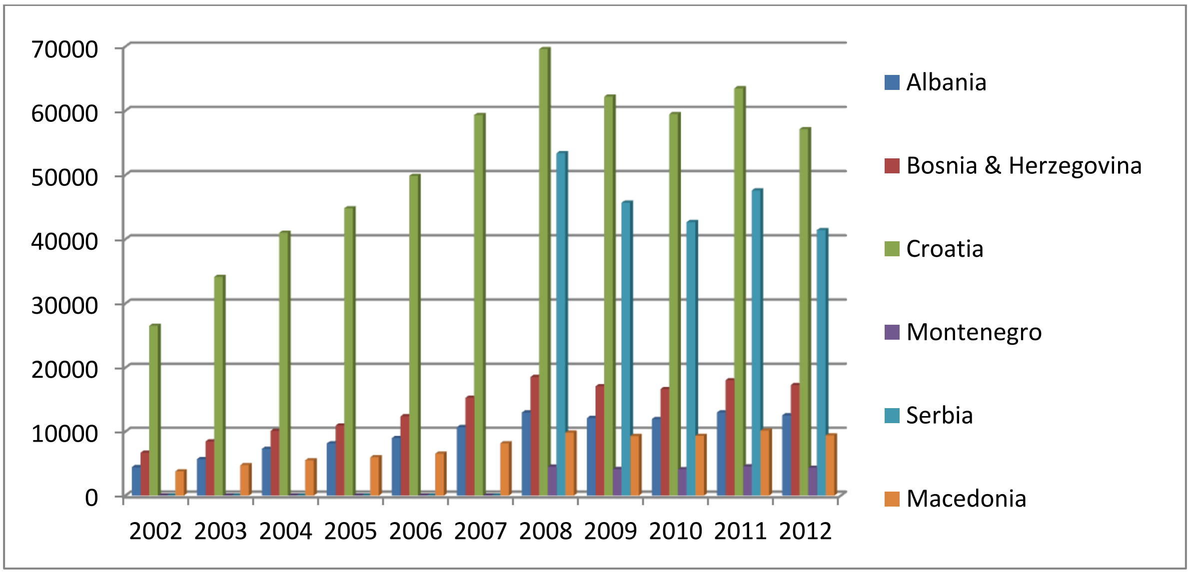

Figure 2 GDP, annual, 2002-2012

The Western Balkan countries are categorised in the UNCTAD statistics website under Transition countries. Their economies are still growing and changing continuously. The figures produced by UNCTAD for the Gross Domestic Product /GDP for the years 2002-2012 show that Western Balkan countries have increased their GDP over the years. As the GDP in the most common used indicator of the economies development and improvement, those figures show that the Western Balkan countries are developing and may be out of transition in years to come. Of the countries selected Croatia was the country performing better in the region reporting the highest GDP figures. Macedonia was the worst performing country according to reported GDP figures from 2002-2007 until 2008 when Montenegro started reporting GDP figures. From 2008- 2012 is Montenegro that performs poorly in the region. Albania is the second lowest country in the economic performance based on GDP.

The GDP figures paint a very interesting picture of the impact of Global Crisis on the development of the Western Balkan countries. In 2009 defined as the years when the crisis started all the countries report a decline in their GDP figures with Serbia with the highest decline of -14% and Macedonia with the lowest decline of -5%. Albania had a decline of -7%. The decline continued in the 2010 and Serbia reported a decline of 7% as the higher decliner but Macedonia did not report any decline (0.27%) as such with only $25 million from 2009. Albania reported a decline recognized as only -1% of GDP.

In 2011 the western Balkan countries improved their economies and increased the GDP with Serbia the highest 12% and Croatia the lowest 5%. A decline in GDP figures is reported again in 2012 and Serbia as the higher decline of -13% with Albania and Bosnia and Herzegovina as the countries with the lowest decline of 4%.

The Western Balkan countries have improved the performance of their economies in the last 10 years reporting growing figures of GDP but the Global Crisis of 2009-2010 have had a negative effect on the developing of the economies of those countries. Those countries have registered a decline in GDP showing the negative impact of the crisis in the region.

4.1.2 Descriptive Analysis -Albania

Variables analysed for the research are presented on the Table 3.

YEAR	FDI	GDP	EXPORTS	TOURISM	REMITTANCE

2002	135	4443	330	492	734
2003	178	5696	447	537	889
2004	346	7307	603	756	1161
2005	264	8159	656	880	1290
2006	324	8993	793	1057	1359
2007	659	10701	1078	1479	1468
2008	974	12986	1355	1848	1495
2009	996	12119	1049	2014	1318
2010	1051	11954	1548	1780	1156
2011	1036	13000	1954	1833	1162
2012	957	12532	1960	1623	1035

Table 3 Economic Indicators for Albania, annual, 2002-2012

FDI: Albania reports fluctuation in figures for foreign investment for years 2002-2012. Right after Albania signed the Stabilisation and Association agreement with the EU in 2006, foreign investment inflows in the country report an increase of more than 100%. In global crisis years Albania has seen small increases in foreign investment with only 5.5 % in 2010 from 2009. The higher decline in FDI in Albania was registered in 2005 at more than -23% and after 2010 Albania has seen a decline in FDI with more than 7% in 2012.

GDP: Albania has reported the highest increase in GDP in 2004 as 28.3%. Right after the agreement with EU Albania reports increases in GDP in 2007 of 19% and 2008 more than 21%. In Crisis years Albania has a decline in GDP of nearly 7% on 2009 but in 2011 GDP figures report an increase of nearly 9%.

EXPORTS: The exports figures show that Albania has traded in higher figures in years 2002-2012 with only a decline of more than 22% in 2009 that corresponding with a years of Global Crisis. The higher increase in Exports in Albania is right after the decline in 2009, with more than 47%

increase in 2010. Albania increased the exports with 36 % in 2007 right after the agreement with the EU in 2006.

TOURISM: Tourism in Albania have increased in the majority of the years researched 2002-2012. The higher increase is recorded on 2004 with more than 40%, followed very closely with nearly 40 % in 2007. The higher decline is reported in Crisis year of 2010 as 11.6%.

REMITTANCE: Remittance figures show highest increase in 2004 with more than 30%, an increase in 2007 of 8% and a decline in Crisis years 2009 of nearly 12% and 2010 more than 12%. The year 2012 has also seen a decline of nearly 11% on remittance figures.

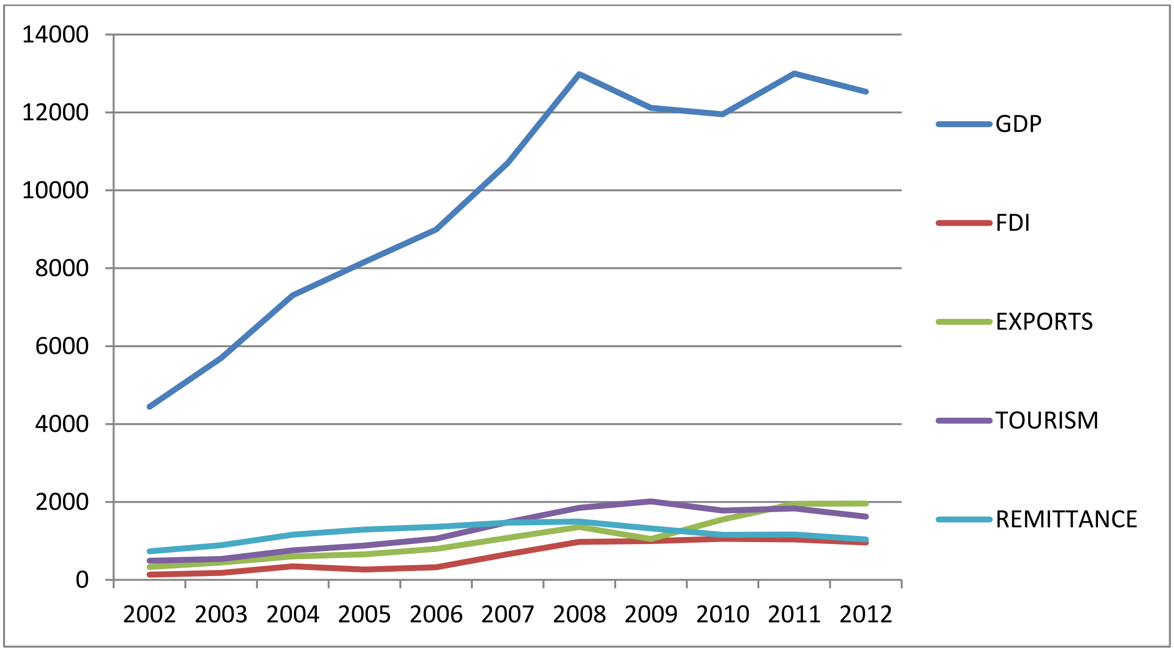

Figure 3 Economic Indicators for Albania, annual, 2002-2012

4.1.3 Correlation of variables

To control the impact of independent variables on the dependant variables is important to define the correlation that exists between the variables. The perfect correlation presented with the number 1. The closer the correlation figure between the variables the better correlated the variables are.

On a first glance all the variables have positive correlation. A strong and positive correlation exists between GDP and Tourism at 0.97. Between FDI and Tourism a strong and positive correlation is noted at 0.97. The GDP and FDI variables are highly positively correlated at 0.95. Good and positive correlations exist between GDP and Exports, FDI and Exports and Tourism and Exports. Positive correlations exist between GDP and Remittance and Tourism and Remittance but are not very good. The variables Export and Remittance are less correlated at 0.266 and the correlation is positive

Correlations between variables exist and are positive but the direction of the correlations between the variables is to be defined on the regression analysis.

	GDP	*FDI*	*EXPORTS*	*TOURISM*	*REMITTANCE*
GDP	1				
FDI	0.951	1			
EXPORTS	0.896	0.894	1		
TOURISM	0.970	0.970	0.828	1	
REMITTANCE	0.61	0.407	0.266	0.568	1

Table 4 Correlation table of variables.

4.2 Regression analysis

		GDP	EXPORTS	TOURISM
FDI	*Coefficients*	7.62	1.34	1.44
	t Stat	9.27	5.99	12.08
	P-value	6.66E-06	0.0002	7.26E-07
	R^2	0.90	0.80	0.94
	N	11	11	11
REMITTANCE	*Coefficients*	7.96	0.65	1.37
	t Stat	2.31	0.82	2.07
	P-value	0.046	0.42	0.068
	R^2	0.37	0.07	0.32

	N	11	11	11

Table 5 Results from regressions

4.2.1 Results of regression running for FDI and GDP

To assess the impact of FDI on GDP a regression of Independent variable FDI on the dependent variable GDP was run and provided the estimates for the regression equation:

$GDP = 5010 + 7.62\ FDI$

The results are presented in the Table 5. Those results show that if FDI is equal to zero the GDP in Albania will increase by 5010 units in this case dollars which is the meaning of intercept $\alpha = 5010$. The positive coefficient β shows that the impact of FDI on GDP has a positive direction. For every dollar increase in the FDI the GDP will increase 7.6 dollars presented by the coefficient $\beta=7.62$. The critical t value at the 0.05 level of significance is 1.79 for a one-tail test and 2.2 for a two-tail test. Following the rule of 2 that states that if the absolute value of *t* is greater than 2 the estimated coefficient is statistically significant at 0.05 level of significance , the critical value at t on the regression 9.27 is significantly greater than 2 which means that FDI has a truly impact on GDP . The P-value is smaller than 0.05 which tells us that the probabilities of the results drawn from the regression are random is very low. R^2 of 0.90 means that about 90 % variations in GDP values can be accounted for by the variation in FDI inflows.

Analysing those results answers the question about the impact of FDI in GDP with: Yes, FDI has a great impact on GDP on Albania as they are positively correlated and an increase in FDI in Albania by 1 dollar increases the GDP of Albania by 7.6 dollars and 90% of variations in GDP values are attributed to variation on FDI values. The t Stat proves that independent variable FDI is statistically significant towards the dependent variable GDP so foreign investments in Albania have a significant impact on GDP.

4.2.2 *Results of regression running for FDI and Exports*

To assess the impact that FDI has on Exports as an indicator of economic performance a regression with independent variable FDI and dependent variable Exports was run on Excel and the estimated are presented on the equation:

Exports= 226 +1.34 FDI

The positive intercept α = 226 presents the value in dollars that exports are predicted to increase if the value of FDI equals to zero. The positive coefficient β=1.34 shows the positive direction of the impact of FDI on Exports. For every dollar increase on FDI the increase on Exports is predicted to be 1.34 dollars. The t Stat is valued at 5.99 and following the rule of 2 proves that independent variable FDI is statistically significant on the dependent variable Exports at the 0.05 level of significance. Analysing the p value = 0.0002 lower than 0.05 shows that probability of random results drawn from the regression are very low. So there are no possibilities that those results are wrong and the results are reliable and truly present the data analysis results. R^2 resulted of 0.799 shows that nearly 80% of variations or changes in the dependable variable Exports are attributed to the variations on the independent variable FDI.

Results drawn from the regression formulated to test the impact of FDI on Exports on Albanian economy answer the question about this impact: FDI and Exports are positively correlated and for every dollars increase on FDI that Albania receives the Exports in Albania are predicted to increase with 1.34 dollars. The FDI in statistically significant on Exports in Albania as *t* Stat is greater than 2 and nearly 80 % of changes on Exports can be accounted by variations or changes on FDI.

4.2.3 *Results of regression running for FDI and Tourism*

Using the regression function in Excel with independent variable FDI and dependant Tourism we obtained those estimates for the Tourism regression equation:

Tourism= 392 +1.44 FDI

The positive intercept α=392 presents the value that Tourism will gain in dollars if the FDI was to record a value of zero. FDI and Tourism have a positive correlation. The positive coefficient β=1.44 shows that the impact of FDI on Tourism has a positive direction, and for every dollar increase on FDI the Tourism in Albania is expected to increase with 1.44 dollars. The t Stat record a value of 12.08 greater than 2 proving that independent variable FDI is statistically significant on the 0.05 level of significance to the dependant variable Tourism. The P value is smaller than 0.05 and that defines that the probability that the results from the regression are random is very low. So we are confident that all the results are reliable and convincing. The value of R Square at 0.94 defines that the independent variable FDI and the dependant Tourism are strong and positively correlated and 94% of variations on Tourism can be accounted by the changes on foreign investment.

The regression used to measure the impact of FDI in Albania on Tourism shows through all the results that foreign investment and Tourism are highly and positively correlated. FDI are highly significant in development of Tourism in Albania. For every dollar that Albania receives on foreign investment, the Tourism in Albania is predicted to report an increase of 1.44 dollars. Foreign investment and Tourism in Albania are highly correlated and 94% changes in Tourism are seen as coming from changes on FDI that Albania receives.

4.2.4 *Results of regression running for Remittance and GDP*

Remittance is transfers of money from Albanian citizens living outside Albania and counts as a type of foreign investment. The regression function on Excel gave those estimates for the equation of Remittance as independent variable and GDP as the dependant variable:

GDP= 351 +7.96 REM (REMITTANCE)

The value of intercept α=351 shows that GDP will increase with 351dollars if the value of REM will equal zero. The coefficient β has a positive value which shows that REM and GDP have a positive relation. For every 1 dollar increase on the REM the value of GDP is expected to increase by 7.96 dollars. The t Stat reports a value that is greater than 2 and following the rule of 2 for the t Stat we conclude that REM is statistically significant on GDP at the 0.05 level of significance. The p value at 0.04 is smaller than 0.05 and shows that is only a 4% chance that the results are random and we are 96% confident that our results are reliable for interpretation. The R Square at 0.37 shows a good and positive correlation between REM and GDP and defines that only 37% of alterations on GDP can be accounted by the alterations on REM.

Remittance as a type of foreign investment has a positive impact on GDP. For every 1 dollar that Albania receives from her citizens abroad the GDP increases by 7.96 dollars. Remittance is statistically significant investment on GDP in Albania and 37% of variations in GDP can be attributed to variations in Remittance.

4.2.5 *Results of regression running for REM and EXPORTS*

The regression on Excel to test the impact of REM on the EXP (EXPORTS) gave the estimations on the equation:

EXP=298+0.65REM

The intercept α=298 present the value in dollars that the EXP are predicted to increase if the value of REM was to be zero. The positive coefficient shows that REM has a positive impact on EXP and for every dollar increase on REM, the EXP are expected to increase by 0.65 dollars. The t Stat is smaller than 2 and based on the rule of 2 we can say that REM is not statistically significant on EXP at the 0.05 level. The P value as well is higher than 0.05 and shows that exists have a higher chance for mistakes to be made. The R Square shows that REM and EXP are not well correlated and only 7% of changes in the EXP can be accounted by the changes on REM.

Analysing the equation and results we conclude that REM in Albania have a positive impact on EXP but this impact in not significant and the EXP will increase in Albania with 0.64 dollars for every dollar that Albania as a country receives from the citizens living abroad. The question about the impact of Remittance on the exports in Albania is answered with: REM does not have a significant impact on EXP in Albania.

4.2.6 *Results of regression running for REM and Tourism*

The regression run on Excel to test the impact of REM on the Tourism in Albania gave the estimates presented on the equation:

TOURISM = - 335 + 1.37 REM

The negative intercept α=-335 shows that Tourism will decline with 335 dollars when the REM is valued at zero. The coefficient β= 1.37 shows the positive direction of impact of REM on Tourism. For every dollar increase on REM the Tourism is predicted to increase by 1.37 dollars. The t Stat is greater than 2 and shows that REM is statistically significant at 5% level of significance. The P value is higher than 0.05 and shows that at a level of 5% significance we are 95 % confident that the results are not random distributions. The R Square shows a positive correlation between REM and Tourism. The correlation is not very good and only 32% of variations on Tourism can be accounted by the variations in REM.

The analysis of the regression show that Remittance received in Albania has a positive impact on developing the Tourism and this impact in significant. For every 1 dollar that the Albanian citizens living abroad send to their families, Albanian Tourism is expected to increase with 1.37 dollars.

Remittance is a significant factor on Tourism in Albania and an increase in Remittance is expected to increase the value of income from Tourism in Albania.

4.2.7 *Results of regression running for FDI, Exports and Tourism on GDP*

After tested the impact of FDI and Remittance on each indicator of economic performance selected for this research and determined the impact that foreign investments have separately on each indicator now we control for the impact that FDI has on those indicators in context of the whole economy.

4.2.7.1 FDI, EXP and TOURISM impact on GDP

The first regression equation to assess the impact of FDI and other indicators of the performance on the most commonly used indicator GDP was created as:

$GDP = \alpha + \beta_1 FDI + \beta_2 EXP + \beta_3 TOURISM$

The regression function on Excel gave those estimates:

		GDP
FDI	*coefficient*	-4.23
	t Stat	-1.7
	P value	0.13
EXP	*coefficient*	2.38
	t Stat	3.35
	P value	0.012
TOURISM	*coefficient*	6
	t Stat	4.49
	P value	0.002
	R Square/ Adjusted	0.978/0.969
	N	11

Table 6 Results for the regression of FDI, EXP and TOURISM on GDP

GDP = 2117 – 4.23 FDI + 2.38 EXP + 6 TOURISM

The intercept α= 2117 shows the increase in value of GDP if the value of the independent variables FDI, EXP and TOURISM were equal to zero.

The coefficient of FDI has a negative sign which shows that if the FDI value is to change the GDP will change in the opposite direction .If EXP and TOURISM are fixed ,then for each change of 1 dollar in FDI , the GDP changes in opposite direction / decline by 4.23 dollars. The t Stat for FDI is negative and its absolute value 1.7 is not greater than 2 so at 5% level of significance .No statistically significance dependence of GDP on FDI was detected. Because the t Stat for the FDI is not statistically significant that the interpretation of the coefficient in not appropriate.

The coefficient for EXP has a positive sign which tells us that if the EXP and GDP are directly related to each other so higher values of exports are associated with greater value for GDP. If the FDI and TOURISM were fixed, for every increase of 1 dollar on EXP, the GDP changes by 2.38 dollars. The t Stat for EXP is greater than 2. Based on the rule of 2 for the t Stat, the t stat value of t=3.35 makes EXP statistically significant to GDP at the 5% level of significance. The P value is lower than 0.05 and at the value of 0.01 the probability of random results is very low at 1%.

The coefficient for the independent variable Tourism in the regression equation is positive and that shows that Tourism and GDP are directly related to each other so an increase in the value of TOURISM would relate to an increase on the GDP value. This relation presents itself on the coefficient of TOURISM. Id the FDI and EXP were fixed, for every dollar increase in the value of Tourism , the GDP increases by 6 dollars. The t Stat of TOURISM presented at 4.49 shows that TOURISM is significant variable to GDP. Based on the rule of 2 we conclude that at 5% level of significance, Tourism is statistically significant in this equation to the independent variable GDP. The P value is lower than 0.05 and the probability of a mistake in our results are not considerable and we are confident in our results.

R Square for the regression is R^2= 0.978 and this shows the percentage of the variation in the dependant variable GDP accounted for all the explanatory variables FDI, EXP and TOURISM in the equation . The R^2 is very high and very close to 1 which would mean that all the variations on GDP can be explained by all the independent variables. So this means that about 98 % of the variations in GDP can be accounted by the variations in foreign investments FDI, on level of Exports EXP and on TOURISM. Because the R^2 increases as more independent variables are added to make the comparison more fair the

Adjusted R^2 is used as a measure that makes the independent variables more fairly compared. The Adjusted R^2 for this equation is 0.969. The Adjusted R Square makes the variation on GDP about 97 % that can be accounted by the variations on FDI, EXP and TOURISM.

The regression equation run for controlling of the impact of FDI , Exports and Tourism in Albania have on GDP shows that FDI is not a significant factor when it comes to the most common indicator of the performance of economy in Albania. This makes the indicator of performance more significant to the development of the country compared to the foreign investment. The estimates show that Tourism in Albania is more significant in the regression.

4.2.7.2 FDI, GDP and Tourism impact on Exports

The equation gave those estimates

EXP= -357 + 1.98FDI + 0.25 GDP – 1.8 TOURISM

		EXP
FDI	*coefficient*	1.98
	t Stat	3.22
	P value	0.014
GDP	*coefficient*	0.25
	t Stat	3.35
	P value	0.012
TOURISM	*coefficient*	-1.8
	t Stat	-3.41
	P value	0.011
	R Square/ Adjusted	0.93 /0.90
	N	11

Table 7 Results for the regression of FDI, GDP and TOURISM on EXP

In context of controlling for the impact of FDI, GDP and TOURISM in Exports the estimates show that FDI has a positive impact on Exports. If the GDP and Tourism are fixed, the increase of 1 dollar on foreign investment will increase the Exports by 1.98 dollars. The t Stat of 3.22 with is bigger than 2 define FDI as statistically significant at 5 % level in the equation and the impact of FDI is significant on Exports on the 11 years that the regression considered. The p value of 0.01 is lower than 0.05 concludes that the probability of random results is too low so the estimates are reliable. The R square of the regression proves e strong correlation between explanatory variables and EXP as the dependent variable. The Adjusted R square means that 90 % of variation in the EXP can be accounted for by the variation in all three explanatory variables.

In the equation GDP has a positive coefficient and that makes GDP and EXP directly related to each other. If FDI and Tourism were fixed, 1 dollar increase in GDP would increase EXP by 0.25 dollars. The t Stat defines GDP and statistically significant on the EXP and the p value makes the random results not probable and the results reliable.

TOURISM has a negative coefficient and that means that the change in TOURISM will change the Exp in the opposite direction. The increase of 1 dollar in Tourism would decrease the value of EXP by 1.8 dollars if FDI and GDP were fixed. The negative t Stat of Tourism means that the direction of significance is negative. Because the absolute value of T stat is greater than 2 at the 5% level of significance it shows that Tourism is statistically significant on EXP but the direction is negative.

When concluding the estimates of the regression equation we define that FDI inflows in Albania have a positive impact on EXP and those inflows are statistically significant on the value of Exports from Albania. GDP has positive impact and is positively significant on EXP while Tourism has a negative impact and is negatively significant on Exports while controlling for the impact of FDI,GDP and Tourism In Albania `s Exports.

Chapter 5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Albania is a part of Western Balkan countries and the empirical evidence shows Albania to be one of the poorest countries in the region compared to Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Macedonia. The country that has received the most foreign investment in the region is

Croatia that is seen as "preferable country" on receiving foreign investment. The Global Crisis hit Western Balkan countries as all reported a decline on their GDP in 2009-2010. The empirical data reveals that foreign investors placed more investments in Albania, Montenegro and Bosnia and Herzegovina on 2009-2010 compared to what until then were the preferable countries Croatia and Serbia. The privatization process, openness to trade and opportunities of new and innovative business were seen as the main factors for attracting the FDI in Albania in the last 10 years that this paper studied.

The relations and agreement with the EU have proven to be efficient and helped Albania as a transition country in attracting more foreign investments. With respect to that it was shown that after the agreement with the EU in 2006 foreign investment inflows in Albania increased by more than 100 % on 2007 and continued to increase. The relations with the EU helped Albania in developing as a country and improving the economic performance presented in the improvement of indicators such as GDP, Exports and Tourism that this paper presents to have reported an increase in 2007.

The empirical evidence shows that foreign investments that Albania received in the last 10 years have had an impact on the economic performance of Albania. The relationship between GDP and foreign investment is strong and positive and foreign investments are highly significant tool in increasing GDP in Albania which in relation to foreign investments is increased 8 times the increase of foreign investments. Exports have seen an increase in 10 years and part of this increase is attributed to investments that foreign companies have places in Albania in creating new businesses that produce to export. The effort of Albania`s governments to secure an economy that is "open to trade" and has a free market has made Albanian exports desirable in the world and more and more investors invest in Albania. For every dollar that is invested from outside in Albania, the Exports increase by 1.3 dollars. Foreign investment has had a positive impact on Tourism as well in Albania. The empirical data defines foreign investors to have played e very significant role in developing Tourism spots in Albania in creating new villages and improving the infrastructure to create new and improve the existing tourist locations in Albania.

Remittance plays a very important role in Albanian culture as the help that families receive in tough and difficult times from members of their families. The paper finds that Remittance is not only helping Albania in the social aspect but as a part of foreign investments Remittance has had a positive impact on the Albanian economy in the last 10 years economy as well. Albanian citizens living abroad have increased their transfers of money to their families every year and even in the Global Crisis years the remittance reported a decline as many Albanians living in Greece returned permanently in Albania. Remittance positively impacts GDP and this impact is found to be significant in the last 10 years. A positive impact Remittance had on Tourism and the impact is significant which tells us that the money send from abroad was not only used to improve the quality of life of Albanian citizens but use put in improving the infrastructure of the villages in tourism locations. Although Remittance have a positive impact on Exports in Albania this impact is not significant. The paper proves that Remittance is more family orientated help and does not have a major impact in the economy in the whole but impacts the economy through improving social indicators of economy performance.

Empirical data finds that foreign investments are not significant in the GDP in Albania compared to other indicators of the economy. Exports and Tourism are more significant which in Albania`s case shows that the development and improvement of Albania would not come from foreign investments but from the hard work of Albania`s people and the effort of the governments to improve the infrastructure of doing business in Albania. That is why the Tourism is more significant to GDP than Exports. Foreign investments are significant on the exports of Albania their impact is positive compared to GDP and Tourism. Foreign investments and Exports are more related to each other as both of them represent a relationship with the outside world .So is fair to say that the FDI widen the possibilities of new businesses ventures in Albania and makes Albania desirable for investments that create more products to export.

The findings of this paper are compatible with prior literature that finds FDI significant in the economic growth. In the last 10 years foreign investments have increased in Albania and have played a significant role in increasing the economic performance of the country. Foreign investments has seen an increase especially after the agreement with the EU in 2006 that open the doors for Albania to attract more FDI as more regulations were put in place to protect foreign investors and their investment. Despite the Global Crisis of 2009-2010 Albania received higher investment from foreign companies on those years.

5.2 Recommendations

Foreign investors have chosen to bring their investments in Albania despite all the obstacles and irregularities they had to face. As this paper finds foreign investments have had a very important role in improving Albania`s economy in developing the markets, opening new ventures, creating new businesses and lowering the unemployment rate is vital that foreign investors continue to invest in Albania . To secure stable and growing foreign investments is recommended:

1. Albanian government has to take specific measures to attract and encourage foreign investors to come to Albania. A practical to use and understand legal framework should put in place that the foreign investors can protect themselves in uncertain situation be them economic or political one.

2. Albanian government have to improve the infrastructure needed for Albania to improve the ranking of "Doing Business". Improving the roads and making location and cities more connected with each other will spread the foreign investments on the more cities where the unemployment is high and the quality of life is poor.

3. As nowadays foreign investors do not necessary have to be in Albania to check their investments more should be done to improve the IT technology. The internet will give the foreign investors the possibility to check and be in control of their investment at any time. For the investors to have electronic data interchange would improve the efficiency of the investment and reduce the costs.

4. Improvement on the IT and communication technology will make foreign investors decision to invest more favourable to Albania. The investors would prefer to have their business promoted not only in Albania but worldwide which would secure the stable investment and even more foreign investments from other competitors.

5. This paper has recognized the positive impact that the Agreement with EU in 2006 had on attracting the foreign investment in Albania. As Albania is not a full member of EU yet this paper recommends that Albanian people and their government completes fully the political and economic conditions put upon European countries in order to become a full member of the EU so Albania can get the full benefits of membership and interact fully with Europe and the World.

6. Foreign investors pointed out as one of the obstacles that they face when making their decision to invest in Albania, the unfair competition in doing business. It is recommended that Albanian government toughen the rules for opening a new businesses and reducing the administrative barriers for foreign investors in order to improve the perception of foreign investors and the investment climate in Albania.

7. Albania is rich in resources and some of them are not fully exploited. Creating a program that would promote Albania and investment opportunities that Albania offers to investors would effectively make the best exploitation of those investments. Especially in Tourism Albania has potential to secure a lasting interest in investment in promoting tourist villages.

8. This paper tested the impact of foreign investment in Albanian economy and used some of the indicators of economic performance. Further research would be recommended to discuss other areas and indicators of economic performance such as social factors that impact the Albanian economy. Political stability plays an important role in decision making process in Albania. Further research may be conducted to analyse the impact that political instability in Albania for the last 20 years have had on the decision of foreign investors to choose Albania as a safe country to invest.

9. Albania is making progress in becoming a full member of European Union. If and when Albania becomes a member of EU, this paper recommends a further research into the impact that the full membership might have on Albanian economy especially in relations to doing business with other countries of the EU without economic and politic barriers that exist now.

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