An Overview of Foreign Direct Investment in Albania

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ABSTRACT

The aim of this study is to provide a clear picture of the value and country of origin for foreign direct investment to understand more clearly the current situation and the trend of foreign direct investment in Albania. The data published by the Bank of Albania show that FDI has a significant upward trend in Albania and an extension to more and more sectors of the economy. For empirical analysis, we used regression with primary data obtained from the World Bank for a period of 27 years analyzed with the statistical program SPSS 20. Based on the results of empirical analysis we came to the conclusion that foreign direct investment has had a positive effect on growth in Albania. In addition to the direct positive effect observed on economic growth, it is worth mentioning that foreign direct investment is very important for the country as it plays an important role in infrastructure, employment and consumption.

Keywords: Albania, Economic Development, FDI, GDP.

I. INTRODUCTION

Large corporations are spreading to numerous nations as a result of globalization, which is driving up foreign direct investment. As in every country, Albania's economy has benefited greatly from foreign direct investments, which have significantly contributed to the growth of the nation. To better comprehend their performance and economic impact, in this article we have presented an overview of Albania's foreign direct investment.

We first presented the literature in order to better understand the evaluated indicators. The foreign direct investments into Albania for each of the years are shown in next section, together with the corresponding values for each country of origin. We conducted an empirical analysis in the third section using data from the World Bank to better understand how foreign direct investment affects economic growth in Albania.

II. LITERATURE REVIEW

Using theoretical and empirical investigations, several economists have looked into the connection between FDI, productivity, and economic growth. In the summary that follows, several academics discuss various determinants from their papers. According to Chakrabati (2001), one of the key factors influencing FDI is market size. Foreign investors have more opportunities to utilize natural resources or essential manufacturing components, like labor forces, the larger the host nation's market. In addition, Chakrabati (2001) lists the level of wage as another important factor that influences FDI. Investors would be interested in the wage level if the company's operations were predominantly centered on manufacturing (thus directly contributing to the reduction of production costs).

On the other hand, Merledeve and Schoors (2004) identified the key FDI driving factors as being the size of the host country's market and its level of market openness.

For instance, Lipsey and Kravis (1982) found that openness and FDIs had a strong positive association.

If the host countries exhibit these characteristics, there will be a disproportionately higher number of international investors willing to invest there than in nations with smaller or less open markets.

Historically, foreign investors were urged to engage in underdeveloped economies so they could benefit from the low-cost labor force present there. Today, human capital is seen as a crucial FDI indicator.

Matev (2008) classifies the main elements in the countries of Central and Eastern Europe into two broad categories. In the first factor group, he adds other factors like market size, and in the second factor group, he includes infrastructure and human capital. Matev contends that these nations need to liberalize trade, modernize their foreign exchange systems, and expand their overall infrastructure. Furthermore, Matev (2008) emphasizes that reducing bureaucracy and corruption will directly result in a rise in FDI. In his study, Cho (2003) points to the host countries’ economic conditions and policies as important factors in luring FDI. Natural resources, market size, and competitiveness are three crucial economic factors, according to Cho.

FDI-promoting policies in host nation policies, the private sector, and macroeconomic policies are all covered by Cho (2003).

Particularly for small and emerging countries, attracting FDI is essential for a nation's economic development. The review of the macro empirical literature by Alfaro (2004) indicates that FDI has a negligible exogenous beneficial impact on economic growth. According to the literature, local elements including the level of financial market development, education, absorptive capacity, and other factors limit a country's ability to have advantages in attracting FDI.

The geographic position of Albania and the conducive atmosphere are advantages that the investors may leverage.

The main ports of the nation and its proximity to other Western Balkan countries lower transportation costs. The
country’s market is now more competitive because to the modernization of marine ports. Another factor that attracts FDI in Albania is the pay scale.

The national minimum salary in Albania is low (compared to other countries of the region). Large businesses (clothing and textiles) take advantage of this advantage by employing the majority of workers in the industry. The young population of Albania, according to the Albanian Institute of Statistics (INSTAT), is encouraging to foreign investors.

### III. FDI in Albania

Foreign direct investments in Albania have started in the first years of democracy but in recent years have become very important playing a key role for the development of the country. Figure below present FDI stock in billions of EURO in Albania. In 2012 FDI stock was only 3.9 billion euro, each year there was a significant increase, reaching in 2020 8.82 billion euro.

![Figure 1. FDI stock in billions of EURO, 2012-2020. Source: Bank of Albania.](image)

Figure below present annual change in FDI stock in last 8 years. We see that in 2018 were the large increase in FDI stock (15% increase) after that year, this increase has been every year smaller. The large volume of foreign direct investment in 2017 and 2018 in Albania is related to the two largest investments in our country. The Devoll hydropower plant and the TAP gas pipeline both of these investments brought about an increase in direct and indirect employment, an increase in GDP, an improvement in infrastructure and other indirect benefits. The situation created by the pandemic in 2020 brought a significant decline in foreign direct investment in Albania, but in 2021 the situation has begun to improve significantly. The most important foreign direct investments are mainly in the field of infrastructure and energy. The situation in the coming years seems optimistic, Skavica Hydropower Plant, Vlora Airport and Durres Port are just some of the major investments that are expected to bring GDP growth, employment growth and local business development.

![Figure 2. Annual percentage change in FDI stock 2013-2020. Source: Bank of Albania.](image)

Some companies registered in these countries have made investments in Albania and in recent years are already transferring funds there again.

Greek investments in the country are mainly distributed in the banking sector, that of telecommunications, but also in some manufacturing sectors. Bulgaria from 2019 appears among the 10 countries with a high weight respectively 6.6% of the total or 535 million euros. The growth in recent years comes mainly from investments in power generation, electricity networks and telecommunications. Regarding the Virgin Islands, the Cayman Islands and Cyprus, we note that in recent years there has been a significant decline in inflows from these countries. This trend can be explained by the fact that these countries operate for many companies from Albania or other countries as tax havens.

| Country              | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|----------------------|-------|-------|-------|-------|-------|-------|-------|
| United Arab Emirates | 0.40% | 0.40% | 0.30% | 0.30% | 0.30% | 0.20% | 0.20% |
| Austria              | 7.90% | 7.80% | 6.30% | 6.90% | 6.90% | 6.70% | 6.80% |
| Bosnia and Herzegovina| 0.00% | 0.00% | 0.00% | 0.00% | 0.10% | 0.10% | 0.00% |
| Belgium              | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.10% | 0.10% |
| Bulgaria             | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 6.60% | 6.10% |
| Canada               | 15.90%| 13.90%| 13.00%| 13.70%| 13.40%| 13.70%| 12.80%|
| Switzerland          | 1.70% | 2.40% | 0.90% | 13.80%| 17.60%| 18.40%| 18.90%|
| China                | -0.10%| 0.10% | 0.10% | 0.10% | 0.10% | 0.00% | 0.10% |
| Cyprus               | 2.60% | 2.80% | 2.50% | 2.20% | 2.20% | 2.30% | 2.20% |
| Czech Republic       | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Germany              | 2.80% | 2.80% | 2.20% | 1.70% | 1.70% | 1.80% | 2.00% |
| Egypt                | 0.00% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% |
| Spain                | 0.01% | 0.02% | 0.01% | 0.01% | 0.01% | 0.02% | 0.02% |
| France               | 1.60% | 1.50% | 1.60% | 2.80% | 4.10% | 3.80% | 3.80% |
| United Kingdom       | 0.50% | 0.50% | 0.70% | 0.80% | 0.80% | 1.00% | 1.00% |
| Greece               | 25.80%| 24.20%| 21.70%| 18.80%| 14.40%| 6.10% | 6.00% |
| Croatia              | 0.30% | 0.30% | 0.20% | 0.20% | 0.20% | 0.20% | 0.20% |
| Hungary              | 0.00% | 0.00% | 0.01% | 0.01% | 0.00% | 0.00% | 0.00% |
| Italy                | 11.50%| 11.00%| 10.60%| 9.50% | 9.30% | 9.40% | 9.90% |
| Kosovo               | 0.60% | 0.60% | 0.70% | 0.70% | 1.00% | 1.10% | 1.10% |
| Kuwait               | -0.20%| 0.00% | -0.10%| -0.20%| -0.20%| -0.20%| -0.20%|
| Cayman Islands       | 0.60% | 0.50% | 0.40% | 0.00% | -0.40%| -0.30%| -0.30%|
| Lebanon              | 1.00% | 1.20% | 1.00% | 0.90% | 0.90% | 0.90% | 0.90% |
TABLE I: FDI STOCKS BY COUNTRY OF ORIGIN 2014-2020 (%) (CONT.)

| Country                | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------|------|------|------|------|------|------|------|
| Luxembourg             | 0.30%| 0.30%| 0.00%| 0.10%| 0.20%| 0.20%| 0.20%|
| Montenegro             | 0.02%| 0.01%| 0.03%| 0.05%| 0.02%| 0.30%| 0.30%|
| North Macedonia        | 0.50%| 0.70%| 0.70%| 0.60%| 0.40%| 0.50%| 0.50%|
| Netherlands            | 11.10%| 14.10%| 12.60%| 12.80%| 13.60%| 15.30%| 16.10%|
| Norway                 | 0.00%| 0.10%| 0.00%| 0.10%| 0.20%| 0.30%| 0.20%|
| Panama                 | 0.00%| 0.00%| 0.00%| 0.10%| 0.20%| 0.30%| 0.20%|
| Poland                 | 0.00%| 0.00%| 0.00%| 0.00%| 0.10%| 0.10%| 0.10%|
| Romania                | 0.00%| 0.00%| 0.00%| 0.00%| 0.01%| 0.01%| 0.03%|
| Slovenia               | 0.40%| 0.50%| 0.30%| 0.40%| 0.30%| 0.30%| 0.30%|
| Turkey                 | 9.10%| 8.30%| 9.00%| 7.80%| 8.10%| 7.40%| 7.20%|
| USA                    | 1.90%| 1.90%| 1.40%| 1.20%| 0.90%| 1.00%| 1.40%|
| Virgin Islands (British)| 0.03%| 0.02%| 0.02%| 0.02%| 0.02%| 0.02%| 0.01%|
| Switzerland            | 0.10%| 0.10%| 0.30%| 0.30%| 0.30%| 0.30%| 0.30%|
| International Organization | 2.50%| 2.60%| 2.10%| 1.70%| 1.50%| 0.70%| 0.40%|
| Other (Confidentiality reasons) | 0.90%| 1.10%| 1.80%| 2.00%| 1.20%| 0.80%| 0.50%|
| **TOTAL**              | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Bank of Albania.

TABLE II: FDI FLOW TO TI 2021 IN ALBANIA

| Country             | T1 2021 (Million EURO) |
|---------------------|------------------------|
| Switzerland         | 1,668.18               |
| Netherlands         | 1,468.81               |
| Canada              | 1,160.61               |
| Italy               | 905.52                 |
| Bulgaria            | 772.42                 |
| Turkey              | 677.84                 |
| Austria             | 595.47                 |
| France              | 374.11                 |
| Greece              | 305.1                  |
| Cyprus              | 191.96                 |
| Germany             | 183.13                 |
| United States of America | 135.81          |
| Kosovo              | 102.82                 |
| Hungary             | 99.51                  |
| United Kingdom      | 87.37                  |
| Lebanon             | 78.4                   |
| Other (Confidentiality reasons) | 60.34          |
| North Macedonia     | 54.07                  |
| International Organization | 30.16          |
| Slovenia            | 28.4                   |
| Serbia              | 25.75                  |
| United Arab Emirates| 20.41                  |
| Croatia             | 18.91                  |
| Luxembourg          | 17.7                   |
| Poland              | 7.99                   |
| Norway              | 6.96                   |
| Belgium             | 6.71                   |
| Egypt               | 5.19                   |
| China               | 4.52                   |
| Bosnia and Herzegovina | 3.97            |
| Panama              | 3.61                   |
| Romania             | 2.94                   |
| Montenegro          | 2.84                   |
| Spain               | 2.45                   |
| Israel              | 2.1                    |
| Czech Republic      | 1.1                    |
| Virgin Islands (British) | 0.6             |
| Japan               | 0.28                   |
| Kuwait              | -18.65                 |
| Cayman Islands      | -28.17                 |
| **TOTAL**           | 9,087.24               |

Source: Bank of Albania.

The most attractive sectors for FDI are Energy and Waste Management, Mining and Extractive Industries, Insurance and Real Estate.

Fig. 3 shows the 5 countries with the largest share of investments in Albania. We note that in recent years foreign direct investment from Greece and Canada has fallen significantly and there has been a significant increase in investment from Switzerland and the Netherlands, respectively. Switzerland with investments for the TAP pipeline project and the Netherlands which has financed the Devoll hydropower plant.

Table III presents the net foreign direct investment flows for the period 1992-2019 and the flows as a percentage of GDP. From the table we see that after 2007 foreign direct investment began to have a significant share of gross domestic product reaching the level of 6.1%, in the following years the trend has been increasing reaching in 2009 inflows to the level of 11.17% to GDP. In 2019 net foreign flows accounted for 7.86% of GDP.

TABLE III: FDI NET INFLOWS 1992-2020 (CURRENT US$ & % GDP)

| Year  | FDI net inflows (BoP, current US$) | FDI net inflows (% of GDP) |
|-------|-----------------------------------|---------------------------|
| 1992  | 200000000                          | 3.066661599               |
| 1993  | 58000000                           | 4.893212106               |
| 1994  | 53000000                           | 2.817722808               |
| 1995  | 70000000                           | 2.925485967               |
| 1996  | 90100000                           | 2.815939523               |
| 1997  | 47500000                           | 2.103151202               |
| 1998  | 45000000                           | 1.767893909               |
| 1999  | 41200000                           | 1.282642375               |
| 2000  | 14300000                           | 4.108776037               |
| 2001  | 20730000                           | 5.285434537               |
| 2002  | 13500000                           | 3.104825701               |
| 2003  | 1780364000                          | 2.815939523               |
| 2004  | 341285112.5                        | 4.750177407               |
| 2005  | 262479012.6                        | 3.259768342               |
| 2006  | 325138316.8                        | 3.654851781               |
| 2007  | 652275603.7                        | 6.108981586               |
| 2008  | 1247181714                          | 9.682069946               |
| 2009  | 1345415234                          | 11.17062673               |
IV. EMPIRICAL ANALYSIS

A. Methodology

The research looks at the impact of foreign direct investment on GDP. To see the impact that FDI has had on GDP we have used data from the World Bank for a period of 27 years from 1993-2019. GDP Annual change is dependent variable and FDI annual change is independent variable. For our analysis is used linear regression in SPSS 20.0 statistical program.

B. Results

\[ \text{GDP}_t = 9.942 + 0.151 \text{FDI}_t + \varepsilon \]

- The linear model is important: F = 6.9> 3, for 5% significance level.
- Individual connections result significant: [t1]=2.441>2
- [t2]=2.637>2.
- Explanation is good R² = 0.218.
- There is a lack of autocorrelation. (Statistics Durbin Watson d = 1.237).
- We are in the conditions of the lack of Multicollinearity, VIF = 1 < 5.
- \( \varepsilon \) present all the variables that have affected our model but we have not included in the model.

The results show that foreign direct investment has had a positive impact on economic growth in Albania. Specifically, an increase of 1 percentage point in FDI has led to an increase of 0.151 percentage points in GDP.

To better understand the effect of each variable we used Granger Causality tests with the EViews statistical program.

### TABLE III: FDI Net Inflows 1992-2020 (Current US$ & % GDP)

| Year | FDI net inflows (BoP, current US$) | FDI net inflows (% of GDP) |
|------|----------------------------------|-----------------------------|
| 2010 | 1089898208                       | 9.138129797                 |
| 2011 | 1048706682                       | 8.135332974                 |
| 2012 | 917994575.8                      | 7.45135734                  |
| 2013 | 1254150556                       | 9.816290193                 |
| 2014 | 1149927986                       | 8.693041027                 |
| 2015 | 989578334.8                      | 8.690539128                 |
| 2016 | 1044389555                       | 8.80591261                  |
| 2017 | 1022757857                       | 7.855468033                 |
| 2018 | 1204383364                       | 7.951288907                 |
| 2019 | 1201022154                       | 8.135692572                 |
| 2020 | 1069744880                       | 7.069484097                 |

Source: World Bank.

### TABLE IV: Granger Causality Tests

| Model | R Square | Adj. R Square | Std. Error of the Estimate | R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|-------|----------|---------------|-----------------------------|----------------|----------|-----|-----|--------------|---------------|
| 1     | 0.466    | 0.218         | 0.186                       | 19.421         | 0.218    | 6.952 | 1   | 0.014       | 1.237         |

a. Predictors: (Constant), FDI annual changes.
b. Dependent Variable: GDP annual changes.

d | c | d | e | f

| Model                          | Unstandardized Coefficients | Standardized Coefficients | t | Sig. | 95.0% Confidence Interval for B | Collinearity Statistics |
|-------------------------------|-----------------------------|---------------------------|---|------|--------------------------------|-------------------------|
| (Constant)                    | 9.942                       | 4.074                     | 2.441 | 0.022 | 1.552 - 18.332 | Tolerance | VIF |
| FDI annual changes            | 0.151                       | 0.057                     | 0.466 | 2.637 | 0.014 - 0.269 | 1.000      | 1.000       |

a. Dependent Variable: GDP annual changes.

### TABLE VIII: ANOVA (SPSS RESULTS)

| Model | Sum of Squares | df | Mean Square | F | Sig |
|-------|---------------|----|-------------|---|-----|
| Regression | 2622.230 | 1 | 2622.230 | 6.952 | 0.014 |
| Residual | 9430.131 | 25 | 377.205 |
| Total | 12052.362 | 26 |

a. Dependent Variable: GDP annual changes.
b. Predictors: (Constant), FDI annual changes.

From results of Granger Causality Test we cannot reject the hypothesis that GDP does not Granger Cause FDI also we cannot reject the hypothesis that FDI does not Granger Cause GDP. Therefore, it appears that Granger causality runs bothway from FDI to GDP and from GDP to FDI.

The results confirm the conclusions of other authors on this issue. Kuliloli (2014) analyze the effect of FDI on GDP in Albania in the period 1992-2012. Through linear regression he found that there is a positive effect of foreign direct investment on GDP. Also, Skarra (2014) in her study on the impact of FDI on the Albanian economy found that FDI has a significant impact on GDP on Albania.

### APPENDIX

#### TABLE V: DESCRIPTIVE STATISTICS (SPSS RESULTS)

|              | Mean | Std. Deviation | N |
|--------------|------|----------------|---|
| GDP annual changes | 14.2133333 | 21.53026635 | 27 |
| FDI annual changes | 28.2407407 | 66.40035907 | 27 |
Fig. 4. Histogram (SPSS Results).

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