

Foreign direct investment in Albania. A study on investors motivation

Mamica Nene, PhD

University "Fan S. Noli", Korca, Albania

Abstract

FDI are considered an important factor to the economic growth of Albania. Transition to market economy and the democratic changes in the Albanian society after the 90s paved the way to the establishment of a legal framework which encouraged the flow of foreign investment. This study shows the reasons for investor motivation in Albania, considering such factors as reasons related to the low labor cost, infrastructure quality, cost of services and stimulators packages. The study is trying to find out whether investments made from foreign investors have fulfilled their predictions and if they will continue to invest in the future.

Introduction

The long communistic era until 1991 was a barrier in the foreign capital flow in the Albanian economy. Changes occurred in our country after 1991 and 1992 brought the need of transition from centralized planned methods to adoption with the free market system. In order to create a competitive advantage in world markets and provide an entry ticket to European Union, financing through FDI is necessary. As result of these changes, there was an urgent need for politic and economic reforms. Considering the fact that the Albanian economy was open to the free market, it began the foreign investments flow. Until 1996 there was a tendency for increasing the FDI level. There was a decrease of the FDI flow in 1997 as result of political disorders after the pyramidal companies crashed following with the Kosovo crisis in 1999. Since 2002 onwards, the FDI

level has been increased reaching 658 million \$ in 2007. About 60% of the foreign investments came as result of privatization process in Albania. Foreign investments have been mostly concentrated in main towns such as Tirana and Durres, whereas the main investors originate mainly from the countries of the Region, where the Italian and Greek ones take the main place by 40% and 26% respectively.

Investor motivation. Practical study

In order to realize this study, secondary and primary data were taken into account. In this aspect, resources of secondary data were used, provided from national and international institutions, economic bulletins, surveys made from non-profit organizations and information from the Internet. The study is completed with collecting primary data which consisted on the personal interviews to 122 foreign businesses having their activity in Albania out of a total of 1347 businesses. The statistical analysis of the questionnaires was made through SPSS17 program, which calculates the frequency of answers.

With regard to the business sector, among selected sectors, the processing industry was represented by 44 companies or (36.1%), agriculture 4 companies (3.3%), the textile industry 50 enterprise (41%), construction with 20 companies (16.3 %), and other businesses with 4 enterprises (3.3%). There is a total of 122 businesses.

In this research, 26% of companies interviewed belonged to joint-venture form, 53% fully foreign owned 21% belonged to the form of contracting production. The completely foreign companies take the highest percentage, while two other forms were similar in percentage to each other.

In order to find out the reasons why investors invest in Albania, a questionnaire was compiled. It relied on the theory of *John Dunning (1988, eclectic theory OLI)*,³ and the universal model found at *Bitzenis (2003)*.⁴ The reasons have been classified through an evaluation scale.

³ Dunning J, H,(1988). 'The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions, Journal of International Business Studies. Vol 19, No 1, page 1-31.

⁴ Arstidis Bizenis "Did Financial Incentives affect Foreign Direct Investment Inflow in Bulgaria?" SEEJE 1(2003) page 65-84

So, concerning the low labor cost, as considered to be the reason of their investment, none of the investors or 0% chose to answer “none”, 3% of them chose to answer “very little”, 7% answered “a little”, 23% answered “on average”, 30% answered “very much” and 37% of them answered “extremely”. It seems like the low labor cost has been a strong reason for their investment decision.

Concerning the fact whether their investment reasons related to the low material cost, 28% of the investors chose to answer “none”, 8% answered “very little”, 15% chose to answer “little”, 16% answered “on average”, 31% answered “very much” and 2% answered “extremely”.

Asked if they decided to invest in Albania because of the infrastructure quality, 46% of the respondents answered “none”, 15% answered “very little”, 34% answered “little”, 5% answered “on average”, and none of them or 0% chose to answer “very much” and “extremely”. These results show that investment decisions have been influenced very little from the infrastructure quality. The fact is that only the last years the Albanian infrastructure has been improved considerably.

As far as services cost is concerned, asked if this was one of the reasons of investing here, 8% of the respondents chose to answer “none”, 15% answered “very little”, 47% answered “a little”, 25% answered “on average”, 5% answered “very much”, and none of them or 0% answered “extremely”.

Another argument related to the interest how foreigners estimate the way of living in Albania. Asked about how they consider the living conditions, 14.7% of the respondents thought the living conditions were “very good”, 18% consider them “good”, 39.3% answered “on average”, 18% said they were “bad” and 9.8% answered “very bad”. The aim of involving this section in to create an idea, even about the way how foreigners perceive their stay in Albania. Besides their business activities, they of course live a part of their lives in Albania. Regardless the above answers, interpretation of results of this section are better completed with the answers provided from investors. In most of cases, the investors affirm that nevertheless the way Albanians live, they have been trying to live in better conditions than natives.

Another argument related to the stimulators packages. Asked if this was the reason they decided to invest in Albania, 18% of them answered “none”, 26% of them answered “very little”, 37% answered “a little”, 16% answered “on average”, 3% answered “very much”, and none of them or 0% answered “extremely”. From these answers, seems like stimulators packages are not considered important for the investment decisions in Albania.

Performance related to predictions

Another discussion topic is related to the fact in what level the investment has fulfilled their predictions or expectations. The performance related to expectations is a critical variable to investors for two important reasons. The first reason is related to the fact that this performance influences directly to the future investment plans. In the developed countries, a high level of investments in one year from the FDI sector is the result of expansion of existing investment basis. A vicious circle is created when success bring more success. This is relatively easier to the countries that implement successful FDI programs and try to increase the investment stock each year.

In Albania, the fact that the investment stock is lower makes it difficult to increase the stock of existing investments. After all, the low level of investment basis makes it more manageable to understand the satisfaction level of existing investors, to learn about their plans and evaluate the factors affecting their development.

The second reason why performance of investors related to expectations is important, comes from the fact that the existing investors serve as a reference point for those who plan new investments.

Asked about this problem, 7% of investors think that their investment has already fulfilled their expectations “very well” and “better than predicted” respectively, 60% think their investment was made according the prediction, 21% think their investment was “below prediction” and 5% said that the investment was “much more below than predicted”.

With the information provided above on investors' motivation and performance, the research tried to explain an insight on future plans of companies' investments and places where they would be settled. The objective in this case was to use the collected information to provide an evaluation of planned investment volume according the investors' population from three coming years. Such a prediction could help the Promotion Agency AlInvest in developing a more focused treatment on its investment promotion programs for the future. Asked if they would undertake new investments from three coming years, 90% or 74% of investors said "yes", and 32% or 26% said "no". Thus, a higher percentage of investors think to undertake new investments which mean expansion of their activity.

For those who think to invest in the coming years, asked about the level of investment to be taken into consideration, 15% think they would invest up to 50% of the investment, 7% think about investing the double and 1% think to invest the double of the previous investment. Based on these results, seems like 50% of the investors think to invest up to 50% of the investment they have made until now and this is a positive opinion because it shows there will be a business volume expansion.

Asked what would be their favorite places, 39% of the respondents thought about the area where they had previously invested, 8% thought about other places around Albania and 30% thought about both options.

Conclusion

In order to realize the reasons of undertaking investment activities in Albania from foreigners, some types of research were made related to labor costs, infrastructure, service costs and stimulators packages.

From the results of the study it was drawn the conclusion that one of the reasons for foreigners to invest was the one concerning the low cost of labor power. This is one of the above-mentioned reasons in other studies, which in turn came to be proved in the present study. Thus, foreign investors chose to invest in Albania because of the labor low cost. However, the low cost of materials too is a

factor estimated from the foreigners as “averagely important” and “very important” for their investment motivation.

The infrastructure quality and service cost do not seem to be considered from the foreign investors, as a reason to their motivation. Such result draws the conclusion that infrastructure quality needs improvements in order to be considered as a factor which helps business activities.

Although foreign investors have considered specifically bank and insurance service quality seems like service cost has not been a strong reason in their decision-making.

Stimulators packages are considered as elements which attract foreign investors. However, indicators on stimulators packages should not be the main factor in their motivation. This finding remains inside the theoretical and empirical literature where stimulators as FDI determinants are considered as having small effects.

In this paper, it is shown that stimulators packages have been estimated as “less important” for investment decisions in Albania, whereas the economic conditions are considered as “averagely and very important” respectively for the investment decisions in Albania. These results give us the conclusion that stimulators packages should be studied carefully from policy markers not only in avoiding undeserved favors to foreign investors but also in the fact that these stimulating packages not always are dominating in investment decisions. Political and economic stability factors should be more important when an investment decision is made.

As far as investors' motivation is concerned, the survey tried to provide information on future plans for investment and their favorite places. This information helps in providing an evaluation of the investment volume that investors plan for three coming years. In the same time, the Promotion Agency should make a more focused treatment in its investment promotion programs for the future.

The investors' surveys are optimistic in nature as they generally were satisfied with the decision they had made and wished to increase their investment flows in the future. Most of the respondents prefer to re-invest in the existing place, whereas those situated in Tirana and Durres prefer to expand their investments in other areas of Albania.

These results could serve as information to the Government for evaluating the tendency of investment increase and helping the development policy formulation of the country. Also, they could help the Promotion Agency to focus on forms and most favorite sectors for future investments, providing them with the necessary assistance to fulfill their plans.

Taking chance of the individual chats with investors, seemed like they could plan to serve other markets in absence of trade tariffs and other barriers. Such an attitude is characteristic for EU countries and USA where firms often rationalize and concentrate the production in that area they perceive efficient within the marketplace. Meanwhile there is no concrete indicator from this survey that this attitude could be present even in the context of Albanian markets, a greater integration of Albania in EU probably could lead to such rationalism in the future.

Such attitudes are found within multinational corporations where competitive advantages are often re-evaluated and place decisions are subject of constant reviews. These issues, which are raised as consequence of economic integration will present challenged and new opportunities to the Investment Promotion Agency and the Government for the future in Albania.

References

- Aristidis Bitzenis -Did Financial Incentives Affect Foreign Direct Investment Inflows In Bulgaria? (SEE Journal of Economics 1 (pg 65-84) (2003)
- Bank of Albania – Foreign Direct Investments in Albania for 2007 Economic Bulletin volume 11 nr 4 pg 110 December (2008)
- Bitzenis, A., -The Determinants of FDI in Transition Countries; Incentives and Barriers Based on a Questionnaire Research; The case of Bulgaria, 1989-2000, Proceeding of international Conference, (2001)
- Dunning J, H,-The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions, Journal of International Business Studies. Vol 19, No 1, pg 1-31. (1988).
- Dunning, J. H -Multinational Enterprises and the Global Economy, Wokingham, England: Addison-Wesley(1993)
- Dunning, John H. - Explaining the International Direct Investment Position of Countries: Towards a Dynamics or Developmental Approach, Archive 117 no 1,pg 30-64 (1981)
- Dunning, John H. - Globalization and the Theory of MNE Activity. University of Reading, Discussion Papers in International Investment and Management 264. (1999).
- Dunning, John H. -Determinants of Foreign Direct Investment: Globalization Induced Changes and the Role of FDI Policies. Paper presented at the Annual Bank Conference on Development Economics in Europe, Oslo (2002)
- Endrita Xhaferaj –Bank of Albania “Analysis in Foreign Direct Investments in Albania” (2005).
- Endrita Xhaferaj –Foreign Direct Investment in the developing countries in Eastern Europe, Albania case, September (2005)
- Minimax Consulting -Guide for Doctorate Research (2008)
- UNIDO -Pilot Survey in Sub Saharan Africa Annex Pilot Survey questions. pg 41(2002)
- United Nations -Survey of Best Practices in Investment Promotion”. 50 questions for foreign investors pg 22(1997)
- <http://www.albinvest.gov>.