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Analysis of International trade and foreign direct investments- The Case of Albania

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Table of contents

List of Figures, Graphs, and Tables

Introduction

Globalization has been described by the increasing interdependence of economic actors across countries, as well as by the reduction of trade barriers to spur FDI, which now account for 10% of global gross fixed capital creation. FDI has traditionally been considered the most stable and prevalent portion of foreign capital inflows to developed and developing economies. The overwhelming majority of research indicates that FDI promotes technological spillovers, builds intellectual resources, and fosters a more sustainable market climate.

Prior to 1989, Albania was under a communist regime in which the entire economy was under the state's control. After the fall of communism, Albania started attracting foreign direct investments as it was no longer a closed and centrally planned economy. The amount of FDIs that Albania was attracting was very limited at the beginning of these years but continued to rise considerably over time. Small countries frequently struggle to draw big TNCs and industries that produce on a large scale for export markets. Although this limits Albania's ability to compete with larger host countries for export-oriented FDI from a variety of sources, Albania has excellent potential to become a manufacturing and services center for exports to Italy and Greece, thanks to its relatively cheap and qualified workforce.

Since the 1990s, Albania has been undergoing economic transformation. Its administration has successfully promoted FDI and free trade through a variety of programs, including low tariffs, generous incentives, and supportive legislation. According to the World Bank, Albania has managed to accumulate a large FDI share of approximately over 40 percent of GDP (World Bank, 2017). Albania also offers tremendous opportunities for investment, with major seaports located on both the Adriatic and Ionian Coasts. Albania has also seen rapid GDP growth in comparison to other CEE economies, but its trade balance remains negative.

This study contributes to the corpus of knowledge on foreign direct investment and is structured as follows. Section 1 summarizes the prior literature. Next, the study analyzes Albania's exports and imports from 2000 to 2020. Section 3 covers a thorough analysis regarding trade for the period 2000-2020. Section 4 is focused on the COVID-19 situation, its impact on trade and last, section 5 analyzes foreign direct investment in Albania during the past few years.

Objective of the study

The aim of this paper is to examine Albania's trade balance over time and to identify the major factors that have influenced it, as well as to identify ways to improve the current trade balance. It will also observe and analyze the trend of foreign direct investments in Albania over the last few years, including policies that encourage FDI and future FDI prospects in Albania.

1. Theoretical background and literature review

Many countries and people have reaped tremendous benefits as a result of trade. It has increased efficiency, aided the spread of new knowledge and innovations, and broadened the variety of customer options (Khan, 2011). Due to these potential benefits that trade brings, countries have been prompted to not only strengthen established trade links, but also to seek out new trading opportunities. Exports rose 2.7 percentage points quicker than real GDP between 1950 and 2007 (WTO, 2008) and it is still uncertain, and it remains disputed how trade has grown so much over the years (Krugman, 1995).

Trade liberalization, income convergence of economies, declining transportation costs and outsourcing, especially in countries that offer cheap labor force such as China or India, are some of the potential factors found in the related literature that may have led to the growth of world trade. Baier and Bergstrand (2001 as cited by Khan, 2011) were two of the many that tried to answer this question by attempting to provide an empirical framework for this topic. In their research, they analyzed 16 OECD countries (spanning the late 1950s to the late 1980s) and they discovered that real GDP growth accounts for 67-69 percent of real bilateral trade growth, tariff rate cuts and preferential trade agreements account for 23-26 percent, transportation cost reductions account for 8-9 percent, and real GDP convergence accounts for zero.

When theoretical assumptions are compared to observed trends, despite the rapid expansion of global trade over the last decades, countries tend to trade much less than would be anticipated considering the possible benefits of trade. (Khan, 2011). Numerous economists have shown that the real amount of trade is considerably less than the potential hypothetical level of frictionless trade, Eaton and Kortum (2002) and Deardorff (2004). Trade impediments play a significant role in deciding international trade movements and it is prudent to incorporate them into every model of trade that attempts to clarify data, says Helpman (2011).

Higher trade costs have been classified as one of the most significant factors that can potentially limit the number of countries participating in foreign trade and the amount of trade transactions (WTO, 2017). As a result, it's unsurprising that trade facilitation has been the focal point of many national and foreign initiatives. However, as Wilson, Mann, and Otsuki (2004) recall, there is no agreement in public policy debate about the concept of trade facilitation. Therefore, the meaning

of trade facilitation ranges from a narrow sense of limited focus on facilitating the clearance of products to a wider scope that encompasses attempts to change the environment in which trade transactions occur (Khan, 2011). It was July 2004 when the WTO (2008) started the discussions around trade facilitation. The goal of these ongoing talks is not only to speed up goods flow across borders, but also to provide technological support and capacity building support for the Member States to facilitate trade.

Due to the current prominence of trade facilitation, empirical research on the topic and its implications for trade have resurged in recent years. Recent developments in trade theory and in methodological methods and analytical techniques are the cause of this resurgence in interest and has inspired scholars to reconsider some of their earlier empirical findings. However, as Wilson, Mann, and Otsuki (2004) note, empirical research on trade facilitation has encountered three major obstacles: identifying trade costs, selecting an appropriate theoretical framework for estimations, and conducting accurate counterfactual study. The need to focus on providing a theoretical framework for quantitative analysis is what has pushed the research in this area. According to Piermartini (2005), the two most widely found quantitative analysis methods in the field of trade are the gravity models of trade and computable general equilibrium (CGE). Global exchange flow prediction using gravity (or gravity-like) equations has a long history. However, thanks to several recent theoretical developments, there is renewed interest in its application for empirical research. Prominent recent and older, among other, studies on these topics include Helpman et al. (2008), Melitz (2003), Baier and Bergstrand (2009) andAnderson and Wincoop (2003),

According to Helpman (2011, as noted by Khan, (2011) trade theory has developed through three distinct stages. During the nineteenth and twentieth century, the first phase of classical trade theory was mainly focused on foreign trade. The second period began in the early 1980s. Its focal point was the new trade theory, which also brought economies of scale and monopolistic competitiveness in trade models. The new-new trade theory dominated in the third phase and is the subject of recent study and research. This phase started in the early 2000’s and it draws on the new theory of trade, but it delves into the characteristics of particular companies and how they participate in international trade. It is based on new trade theories but relies on the features of individual companies and their foreign trade activities. It draws attention to the presence of trade margins and their significance in nations' trading relationships.

1.1 Classical theory

Classical economists typically focused on the principles of growth economics and concerned themselves primarily with explaining how the nation’s wealth rose. Special attention was given to increased output, where specialization, and division of labor were singled out as key factors in explaining it (Anand, n.d.)

Adam Smith's (1776) explanation of how a large quantity of pins could be manufactured using skilled labor rather than handicraft methods was commonly cited and generalized. The degree of specialization and division of labor was determined by the market's size; a larger market favored greater specialization and division of labor. There have been several concerns and questions about the importance of foreign trade to "the wealth of nations.". Foreign trading appeared to have expanded the economy and enabled greater benefits from specialization and division of labor. It was also important to explicitly define the products that would be exported and imported, as well as the benefits of trade.

First and foremost, economists interpret international trade as a means to benefit their countries, and the theory of international trade serves as guidance when addressing economic policy issues. Although it provided considerable descriptive study of economic processes, the trends to be studied and questions to be examined were almost always chosen in light of actual public policy concerns (Anand, n.d.).

Classical economics was mostly concerned with two issues in the realm of international trade. To begin, as far as it concerns production, it is important to identifywhich product should a country specialize in or which products will it export and which will it import? Second, what would be the ratio of exchange between products once different countries produce distinct goods? Classical theory provides the following answer to the first issue.

Most nations specialize in producing those goods for which they are most suited according to their climate, natural resources, labor capacities, tangible and intangible assets inherited from previous generations, such as buildings, plants, means of transport and equipment.

Adam Smith's (1776) study of international trade at a particular point in time is dependent on absolute cost disparities. International disparities in the costs of processing traded commodities between countries can be clarified by variations in natural advantages (such as land, temperature, and location) and acquired advantages (such as education and skills).

Each country would focus on the production of those products, producing more than it requires for its own use and sharing the excess with other countries in exchange for goods it is less suitable to manufacture or cannot produce at all (Ricardo, 1817).

Labor cost theory underpins the classical theory of trade. In essence, this principle holds that commodities are traded according to the amount of labor that has been used for their production. Equally priced goods imply equivalent rates of labor. Adam Smith (1776) provides the well-known example below. If one can kill one beaver or two deer with the same labor expenditure, one beaver will always be traded for two deer on the market. Thus, exchange rates and prices are solely dictated by relative labor costs and their effect on supply and demand.

In general, the labor cost principle of value holds true where the following predictions are made:

(i) The sole element is labor.

(ii) All labor is of equal quality or is homogeneous in nature.

(iii) Labor mobility.

(iv) Any profession is available to everyone.

(v) There is unrestricted competition among employees.

(vi) Labor's marginal productivity is always equal to its income.

Although a few of these findings may be true in theory, in fact all of these observations may be implausible in practice. Despite its flaws, classical economics used this theory to justify the exchange ratio or commodity prices.

1.2 Foreign direct investments, technology, and trade

The 1960s trade theory literature stressed the critical role of foreign direct investment (FDI). In combination with technological flows, this is still a conditional factor in trade flows and their patterns. Many economists focused on the trade flows fueled and encouraged by technology and the "product-life-cycle" (PLC) (Vernon 1970; Posner 1961; Hufbauer 1966).

Innovations that resulted in the introduction of modern technologies in the leading advanced nations were deemed to bring "new" goods that were manufactured, used, and exported to the rest of the world, according to this principle. Through the "maturing" of product innovation, technologies and resources are expected to migrate to the rest of industrialized countries and be used to manufacture almost the same products that are then shipped back to the leading advanced countries (Sunanda, 2010). During the first two stages of production the goods are exported from advanced countries and then exported to less-developed countries which start the production process, then later “standardize” the product, thus completing the life cycle of the product. Technology and money have already spread from the most advanced to other advanced nations, and eventually to these least industrialized economies, which are now exporting the commodity to advanced countries (Sunanda, 2010). With modern, maturing, and streamlined product requirements and advanced countries' initial influence over the industry, the PLC principle of technology-driven trading combines both product differentiation and market flaws. Similar focus was put on technology-driven trade flows in models which analyzed the "technological gap" between nations in terms of "demand-lag" on the part of buyers and "reaction-lag" on the part of producers as well as "imitation-lag" on the part of foreign producers (Posner 1961). While the fundamental premise of PLCs and similar other neo-technology models is that technology is transmitted via countries, the process is vague in the absence of a link between MNC operations of parent first and subsidiaries. (Sunanda, 2010).

Aspects such as the ones mentioned above, and which deviate from the facts have remained a focus of study in the branch of economics and it is known as industrial organization theory. The flying geese hypothesis (Ozawa 1995) is a more practical solution to the FDI-trade nexus. It was developed to understand the redistribution of production and changing export platforms in Asia after the 1980s. The PLC literature brand seems to have become a catalyst for an integrated

approach to trade, technology, and FDI, thus incorporating both product distinction and business imperfection.

1.3 Role of demand in trade theory

The Ricardian doctrine ignored the importance of demand as an interpretation of terms and conditions of trade in exchange, for the Benthamite utilitarians, who were influential in the first two decades of the 20th century. J. S. Mill (1806–73) was assigned with the balancing act by adding the concept of "Reciprocal Demand." A few years later, Alfred Marshall (1879, as cited by Sunanda, 2010) advanced the position of demand by introducing the concept of the "offer curve," which he calimed defined the "terms of trade" in the Ricardian trade theory. Marshall measured these costs in terms of individual disutility or labor contributions to the work.

Marshall contended that the two trade partners would never trade just two goods. In fact, a country's trade partner trades baskets of its exportable goods for baskets of importable goods. The value of a basket of exportable goods may be greater or less than the value of a basket of importable goods. However, each basket of importable goods must be priced equally, as must each basket of exportable goods. Marshall (1879) coined the word "representative bale" to refer to this modern definition since it reflects the amount of labor and capital involved in manufacturing it. Hence, a bale of goods and services represents the amount of value associated with a specified volume of labor and capital.

1.4 The Heckscher-Ohlin (Factor Proportions) Model

The factor proportions model was found in the 1920s. The people that developed this model were Eli Heckscher and his student Bertil Ohlin, both from Sweden. Paul Samuelson provided a couple of interpretations since the 1930s, and the Heckscher-Ohlin-Samuelson (HOS) model has since been often referred to as the model. Jaroslav Vanek made several of notable extensions to the standard model in the 1950s and 1960s, so the model is sometimes referred to as the Heckscher-Ohlin-Vanek model. In this paper, we will refer to all the models as the "factor proportions model" or as the Heckscher-Ohlin (H-O) model.

The H-O model integrates a range of practical production features that are excluded from the basic Ricardian model (Sayler Academy, 2012). Keep in mind that the simplistic Ricardian model needs only one element for production, labor, to manufacture products and services. Labor productivity is assumed to differ from country to country, which indicates a technological gap among countries. In the model, it was the technological disparity that inspired beneficial foreign trade.

In the standard H-O model, the number of factors of output is increased from one to two. The model states that to successfully produce the two goods, labor and capital are needed. Capital is used here to refer to the actual machinery and facilities used in manufacturing. A few of the many items that are considered capital include: power machines, conveyers, vans, forklifts, servers, office houses, and office supplies.

Someone must possess and control the production capital. Individuals and companies control most of the physical capital in a capitalist economy, while in a socialist economy, the governments would control the productive resources. Today, the government controls a portion of economic resources, but private owners and corporations hold the majority. A shareholder in a firm that holds shares of common stock of the corporation has an equity interest in the business and is entitled to a portion of the profits, dividends or income.

The H-O paradigm presupposes private capital ownership. The capital employed in production generates money for the owner. This revenue would be referred to as capital "rents." Thus, the capital owner receives rentals whereas the worker receives "wages" for his labor.

The presumption of two productive variables, capital, and labor enables the addition of another practical aspect to production: variable factor proportions around and within industries. If one is to examine a country’s diverse industries in a country, it will be very evident that the ratio of capital to labor applied in manufacturing differs significantly. For instance, steel manufacturing typically requires a large amount of costly machinery and equipment spread over hundreds of acres of land, but it often employs a comparatively small number of employees. In the H-O model, we describe the capital-labor ratio as the ratio of the amount of capital utilized in a manufacturing process to the amount of labor used in it. We think, and therefore presume, that enterprises manufacturing distinct types of products have varying capital-labor ratios. The model's generic name is derived from this ratio of one factor to another: the factor proportions model.

In a model where each country produces two commodities, it is necessary to make an inference about which industry has a greater capital-labor ratio. If a product requires additional capital per unit of labor than the other product's production does, then we could state that the first product's production is capital intensive when compared with the second product's production.

Another true feature of the reality is that various nations have varying amounts — or endowments — of resources and labor available for use in the manufacturing sector. As a result many countries, such as the United States, have a high level of physical wealth relative to their labor force. In comparison, many under-developed nations have far less physical resources but a strong labor force. In order to describe a relative factor abundance between nations, we use the ratio of the aggregate endowment of capital to the aggregate endowment of labor. In other words, if the United States had a greater ratio of gross capital per unit of labor than France, we would conclude that the United States is capital rich compared to France. Additionally, in implication, France would have a greater proportion of aggregate labor on a per-unit-capital basis, meaning France would be labor-abundant compared to the United States.

The H-O model suggests that the only distinctions between countries are these discrepancies in the respective endowments of factors of production. Finally, it is shown that (1) trade will exist, (2) trade will be beneficial to the country, and (3) trade will have discernible impact on prices, incomes, and rentals when countries vary in their relative factor endowments and when various industries utilize varying shares of factors.

Although there is some overlap between the H-O model and the Ricardian model, it is important to make a clear differentiation between the two models. In contrast to the Ricardian model, which presumes that different technologies of production are used across countries, the H-O model presumes that the technology of production is identical across countries. The explanation for the H-O model's equivalent technology presumption is perhaps not so much because it is assumed that technologies are truly identical, although one might argue that they are (Sayler Academy, 2012). Other than that, the assumption is beneficial because it allows one to see exactly how disparities in resource endowments are necessary to cause trade and what consequences would result solely from these disparities.

1.5 New Trade Theory

According to the new trade theory (NTT), the two elements that can be crucial in deciding international trade trends are increasing return to scale and network effects that can arise in critical industries.

Economists of new trade relaxed the expectation of constant returns to scale, and some contend that using protectionist policies to create a massive industrial base in specific industries would ultimately enable those sectors to dominate the global market.

Trade critics also have been advancing less quantitative versions of a similar "infant industry" arguments against totally free trade since at least 1791. Many trade theorists since at least the 18th century have emphasized protecting the "infant industry". One of them is Alexander Hamilton (1791), which also suggested that this should be the basis for US trade policy.

The application of mathematical economies to the modeling of increasing return to scale was one of the new developments in the new theory trade. Also, the network effect was used to prove that industrial planning and judicious tariffs had a tremendous impact on the formation of important industries. The established models accurately estimated the industrial world's national specialization by industry. Additionally, the model demonstrated how path-dependent industrial concentrations can sometimes result in monopolistic rivalry or even oligopoly.

Many economists, one of them Ha-Joon Chang (2007), have claimed that what helped the Japanese auto industries in the 1950s flourish were the protectionist policies. Although Japanese firms were encouraged to import foreign manufacturing technologies, they were forced to manufacture 90% of components domestically within five years. Japanese customers initially suffered from being unable to purchase superior vehicles manufactured by the global market, but ultimately benefited from seeing a domestic industry capable of out-competing foreign rivals.

1.6 Factors affecting the cost of international trade

Trade costs come in different forms and include policy barriers such as tariffs and non-tariff ones, information costs, transportation costs, exchange rate costs, legal costs, and many other types. International trading costs have been projected to account for 74% of the ad valorem tax equivalent, while domestic distribution costs account for 55% (Anderson and van Wincoop, 2004). In this part, I will analyze the different costs that occur in international trade.

Tariffs

Tariffs have gradually decreased their share in overall trading costs. Reductions in tariffs have occurred with greater frequency over time since the creation of the General Agreement on Tariffs and Trade (GATT) in 1948. According to estimates based on a survey of developing countries, the average import tariff has decreased from nearly 14% in 1952 to 3.9% in 2005. According to WTO (20007c), the average tariff rate before the Geneva Round of negotiations was around 20 and 30 percent. Tariffs on developed and emerging countries were reduced. Most developed countries' tariff depletion can be attributed to the establishment of the European Union (EU) and the North American Free Trade Agreement (NAFTA).

A significant contribution has also been made by preferential tariff treatment for least-developed countries (LDCs), which has resulted in a duty-free entry for the majority of them to the developed world's major economies. It is worth noting that nominal tariff reductions in vertically fragmented processes may be accompanied by significant reductions in effectively implemented prices. The decline in net exchange costs associated with tariff barriers is more significant the more times a commodity crosses the border during its various manufacturing periods. Where the fragmentation of the manufacturing chain is considered, tariff reductions have a magnified and non-linear impact on global trade expansion. Yi (2003), for example, indicates that tariff reductions accounted for more than half of the US growth in world trade between 1962 and 1999, using statistics for the United States.

Non-tariff barriers

Another very important policy restriction is the non-tariff barriers (NTBs). Quantitative limits, discounts, anti-dumping and countervailing tariffs, customs valuations, and general and technical

legislation are all examples of non-tariff barriers (NTBs). Non-tariff barriers are difficult to quantify; however, a common approach is to design measurement of NTB prevalence, such as the percentage of NTB tariff lines. This metric, however, does not indicate the degree to which a particular form of NTB is restrictive. According to Kee (2006) and Maskus (2005), in order to predict the degree of restrictiveness, a well-specified economic model is needed. However, due to the insufficient amount of data, it is impossible to estimate the evolution of the degree of restrictiveness of NTBs. There is data on the life of NTBs, but it is somewhat limited in scope and is difficult to compare over time. The number of NTBs may appear to increase over time, but this is due to improvements in recording NTBS and not because of an actual increase. During the Uruguay Round (1986-93) the abolition of voluntary export restrictions (VERs) and that the fact that developed countries phased out of the quota scheme in textiles and agriculture, as well as increased openness in terms of notification of norms and technological regulation, are notable achievements that point to a decreased incidence of NTBs. A subfield of economics studies the so-called "border effect" to deduce the evolution of trade restriction. According to Mayer and Zignago (2005), countries tend to trade more within the country itself than with another country, specifically 89 times more. This average obscures a wide range of border impact coefficients for trade between developed and emerging countries. In the same span, when comparing the trading data, it was found that a developed country imported 61 times more than from another developed country and 281 more than from a developing country.

Additionally, Mayer and Zignago predict the progression of boundary effects coefficients from 1976 to 1999. They discovered that total restrictiveness was three times lower in the 1990s than at the end of the 1970s, and that entry to northern markets became 17 times easier for a southern nation over the same timeframe. The border impact approach does not provide for the determination of whether remaining market entry issues are the result of residual tariffs and non-tariff obstacles or other considerations, such as product cost disparities. However, Mayer and Zignago's estimates indicate that tariffs are not a significant factor in understanding the decline of the border effect, implying that the decline in nontariff barriers is.

Freight costs

Transportation prices are normally greater than tariffs, according to estimations. In 2004, net freight costs were three times those of gross tariff duties levied on overall imports in 2004. (Anderson and van Wincoop, 2004). According to a 2001 World Bank report, the majority of the United States' trade partners experience a higher incidence of transportation costs for exports than the incidence of tariff costs. This is five times the rate in Sub-Saharan African countries. Transport prices, much like tariffs, penalize products manufactured in various stages across multiple countries, as manufacturers must pay for the transportation of goods at any point of the manufacturing process. Transport cost reductions would also benefit trade in vertically specialized products in particular. Obtaining data about the evolution of transportation costs is a remarkably complicated process. The issue stems from a shortage of evidence on direct transportation costs and the impossibility of estimating indirect transportation costs. This is due to improvements in the items exchanged and the method of transport used to transport them over time.

Land transport

Roads, railways, and pipelines make up land transport. The majority of trade between countries sharing a border occurs on land. According to Hummels (2007), land, specifically, roads, is the primary mode of transport between the United States and its neighboring countries.

Additionally, European Union data indicate that the road is the primary mode of land transport. Around 72% of Europe's trade volume is transported by rail. It is almost impossible to find data regarding the evolution of land transport. According to available evidence, land is the least expensive form of transport and has been declining in price over time. Glaeser and Kohlhase (2003) have recorded a drop of the cost of transport by land for all land modes over the period 1947-99 with their emphasis on the United States. In terms of road transport, they calculate that, while fuel prices and legislation kept prices stable until 1985, after the Motor Carrier Act of 1980, trucking rates have been declining by 2% each year, allowing for the cost-cutting impact of technological advancements. Combes and Lafourcade (2005) recently published a paper in which they developed a time series indicator for road transport costs in France, taking into account infrastructure, automobile and energy use, as well as labor, insurance, excise, and other charges incurred by transportation carriers. They demonstrate that between 1978 and 1998, the cost of road transport

decreased significantly. The road transport industry's modernization (which included the elimination of mandatory road freight prices and license limits, as well as insurance tax reforms on freight transport allowances) and technical advancement were the primary factors in this decline. Infrastructure acquisitions, rather than the overall trend over time, are found to assess primarily which area benefited more from cost reductions.

Transportation by sea

Trade between countries without a shared border is primarily conducted through the sea. Bulk commodities such as oil and petroleum are mainly transported by sea or ocean. These commodities account for a sizable portion of trade in terms of weight, but a limited and declining portion of trade in terms of volume. Three significant technical and structural developments have resulted in the reduction of shipping costs: the introduction of open registry shipping (i.e., registering ships under convenient flags to avoid administrative burdens and, in particular, manning costs), scale results from expanded trade, and containerization. When using the standardized containers, there is no need for unpacking and repacking. The reason behind this is that the usage of standardized containers allows the use of a multi-modal transport scheme

However, there is no proof that ocean shipping prices have decreased. Hummels (2007) has shown the price index for tramp lines experiences a steady decline when deflated by the United States GDP deflator. Yet, when deflating the bulk commodities price, it does not exhibit a downward tendency. Hummels (2007) has stated that this underlines the fact that the shipping cost of a ton of iron ore or wheat has been steadily decreasing, while the price of shipping a dollar value of wheat or iron ore was not showing the same trend.

Similarly, liner prices (the cost of shipping general freight and other industrial products) do not seem to be declining. Prices rose between 1970 and 1985, according to the liner price index for German imports, and some data shows that this growth happened more widely than only in Germany. Containerization's cost-cutting impact in the 1970s was offset by rises in fuel and port prices. However, other unobserved efficiency increases have resulted in a decrease in the indirect costs of ocean transportation. There are two main reasons why the delivery times have declined. Firstly, the speed of ships has increased due to technological advancements. Secondly, containerization has significantly increased the efficiency at the port, which has decreased the time

needed to load and unload ships. Quality-adjusted freight costs have declined as this is taken into consideration.

Transportation by air

Between 1955 and 2004, the cost of air travel decreased by 92%. The greatest decline occurred between 1955 and 1972 (8.1 percent annually), at which time the use of jet engines became common. More recently, regulatory reforms have aided in the reduction of air travel prices. The introduction of Open Skies Agreements had a significant impact on air transportation costs and shares. Nominal air transport costs declined by 9% while the share of imports rose by 7%, Micco and Serebrisky (2006).

1.7 Main effects of FDI in the host country

Explaining the role that FDI plays in stimulating economic growth in host countries, both based on the theory of exogenous and endogenous growth, we realized that this impact is not direct, but is channeled through several factors of production and other mechanisms of an economy. Below we explain how FDI multidimensionally affects the growth and economic development of the host country through technology transfer, human capital formation, increased competition in host countries, stimulating effect on domestic investment, positive effect on employment growth, etc. (Moura and Forte, 2013).

1.7.1 Transfer of technologies to the host country

The role of technology in economic growth is already indisputable. Developing countries have at the center of their policies the continuous investment for the development of technology, as a necessary condition for their economic development. These economies, more and more, exhibit growth models based specifically on technological development, trying to narrow the technological difference with developed countries (Filippetti and Peyrache, 2016). Reducing the technological difference from developed countries means a faster growth rate for developing countries. (UNCTAD, 2017) But many developing countries do not have the resources and tools needed to develop technology internally in their own country. They rely on the absorption of technology from

abroad to promote the technological development of the country, mainly through the import of technologies and technology transfers from foreign investors directly.

New theories of economic growth emphasize the importance of FDI in the economic development of host countries through technology transfer (Sala and Trivin, 2014). FDI, compared to technology imports, represents an important channel to provide the country with advanced technology and is often preferred by host countries. This is because foreign direct investment, along with new technology, brings with it the necessary knowledge to use this technology. In this way, through the dissemination of developed knowledge, there is a possibility that the new technology becomes known to local firms, thus promoting technological development in the host country.

The spread of technology in the host country through foreign investors can occur in two ways; in the direct and indirect way (Blomstrom and Kokko, 2002). The direct way of technology transfer through FDI is in fact an internal technology transfer from multinational companies, from the parent company to the subsidiary in the host country. This way of transferring technology also explains why foreign direct investment is expected to perform better than domestic units.

This direct transfer of advanced technology gives life to another transfer, of an indirect nature. This is the transfer of knowledge on technologies from the daughter branch to businesses in the host country. This effect is known as the spillover effect, the diffusion effect. Much of the knowledge on intangible assets transferred to the daughter company in the host country can be disseminated to local companies (Skënderi, 2012) and thus promote the technological development of the host country, thus increasing productivity (Todo, 2006). The multinational enterprises themselves, especially when they provide the sources of production in the host country, become the cause of the effect of the spread of new technologies and the knowledge that accompanies the technologies. This is because foreign investors require production resources with the right technical conditions (UNCTAD, 2010).

The benefits for host countries, deriving from the transfer of technology through the foreign investor, already have a great deal of theoretical support, as the potential for the spread of technology by FDI is an effect that is generally expected to occur in the host country. The possibility of the spread of advanced technology is one of the main reasons that the governments of the host country try to attract FDI inflows. Foreign direct investment seems to be the most direct

and efficient way of acquiring new technologies developed for less technologically developed countries (Lebesmuehlbacher, 2014).

The impact of this technology transfer is generally expected to be positive. Foreign direct investment, through technology transfer, has the ability to technologically develop a country, making it more capable in the future to well absorb future technology transfers (Griffith et al, 2005). This fact is of particular importance, as the transfer of technology through FDI initiates an important and continuous process of technology development in the host country, thus helping the long-term economic growth of the host country.

The positive effect of technology brought by the foreign investor on the technological development of the host country occurs when this technology is necessary for the economy as a whole, and not just for a single firm or sector in the host country (OECD, 2002). Inadequacy of technological investments in relation to domestic firms existing can not have positive impacts on economic growth. Technology transfers, from multinational companies to the host country economy, will have a positive impact on the economic growth of host countries that have skilled human capital, which can use these developed technologies. (Moura and Forte, 2010).

In fact, the role of foreign investors in the technological development of host countries has recently been closely linked to the phenomenon of "internationalization" of the research and development process in the business sector (Dachs, 2017). Increasingly, foreign-owned firms carry out an important part of the research and development process in countries other than their parent country. Thus, with the internationalization of research and development, the possibility increases for different countries to attract foreign direct investors to them, who have developed research and development.

1.7.2 Human capital development in the host country

One of the positive effects, which theoretically creates in the host country foreign direct investment, is the enrichment and development of human capital. From this perspective, the foreign investor is a direct ally in the economic development strategies of the host country, as it helps to develop the most important source for economic growth (Afza and Nazir, 2007). Human capital has gained this important role among the factors of production through research by various authors, both of a theoretical and empirical character. In particular, the importance of human capital was emphasized

in the new theory of economic growth, which changed the study perspective on human capital, treating it as much more than physical capital.

This human capital, which carries and enriches through education, training, and investment in the health of the population, is the foundation of economic development. (Mincer, 1974; Romer, 1986; Lucas, 1988). Given this positive and continuous effect of foreign direct investment on human capital, which has strengthened over the years as a result of the phenomenon of globalization, the governments of the host countries should focus on attracting investors. foreigners (Borensztein, 1998; Li and Liu 2005; Moura and Forte, 2010; Solomon, 2011; Soltanpanah and Karimi 2011; Dorozynska and Dorozynski, 2015).

FDI develops human capital through the effects they create on the education system and the provision of formal and informal training. A business unit is a place of training for the individual in the same way as the education system (Blomstrom and Kokko, 2003) and FDI creates opportunities to enrich human capital through the training provided. With the movement of workers, they can transfer their experience to local firms (local firms can benefit if a worker moves from a multinational company to join a local firm). This employee brings skills and knowledge that the local firm would need years to acquire (Blomstrom and Kokko, 2003). Also, FDI causes an increase in the demand for qualified human capital, thus influencing the decision-making of individuals to be educated.

The negative theoretical effects on human capital are few, in terms of appropriate policies for monitoring the activity of these investors. We can mention the fact that multinational companies focus on developing technical skills and knowledge for their purposes. This means that the possibility of spreading knowledge and enriching human capital in the host country is not so high if FDI is oriented to markets with monopolistic positions and creates little connection with a local business.

1.7.3 Promoting employment in the host country

Increasing employment in the host country through foreign investors is the desired effect for all host countries. To understand how a multinational company can help generate new jobs in host countries, we need to understand that FDI affects employment in the host country in two ways, known as the direct and indirect effect of FDI on employment. FDI brings employment growth in the host country through direct employment in their units. While the indirect effect that FDI creates on the increase in employment level in the host country means the increase in employment in domestic firms.

These indirect effects occur as a result of the connections established by foreign investors with domestic businesses and the increase in demand for raw materials produced by domestic businesses (Dunning and Lundan, 2008). FDI is generally expected to stimulate economic growth and increase the employment level of a host country (Ëaldkirch, et al. 2009; Liu 2012; Çolak and Alakbarov, 2017). Domestic employees employed by a multinational company are often paid more than employees in local companies in the same sector and also have access to more training provided by the foreign company, creating opportunities to increase labor productivity in the host country. (Javorcik 2015).

Export-oriented FDIs seem to have a greater impact on employment growth in host countries (Waldkirch, et al 2009). Export-oriented FDI has a great impact on the employment of the host country because they often produce for both the domestic market and for export (Protensko, 2003). However, this positive effect is conditioned by the ability of the host country to take advantage of the positive effects of the dissemination of knowledge transferred to human capital. Although the entry of FDI has often been associated with lower unemployment in the labor market, the positive effects may be short-term (Balcerzak and Zurek, 2011).

The direct effect on employment growth in the host country seems to be simpler to observe (Prasanna, 2010), but can be dictated by the form of foreign investor entry. Foreign direct investment "Green" creates new jobs while foreign direct investment in the form of "Merger and Acquisition" may even lead to a reduction in employment. The reason is that foreign direct investment "green" brings the creation of new projects, thus creating new jobs.

2. Research methodology

This dissertation aims to explain the trend of imports and exports in Albania, including foreign direct investments and the reasons why the trade balance in Albania is always negative and what can the government do to improve it. The theoretical research approach is used to describe the concept of trade balance and FDI. Many international authors' hypotheses have been used to describe the importance and impacts of trade balance and FDI on the economy, as well as their trend over the last 20 years.

In this study, both primary and secondary data are used. The primary data is collected from official institutions such as the Bank of Albania, INSTAT, and while the secondary data is based on other documents, books, and web resources that have published information regarding this topic.

In this research, I have used the analytical methods of research. This method entails the use of analytical reasoning skills and the assessment of relevant evidence and data. In my case, I will collect data from official statistical sites such as INSTAT, for example, and from what other researchers have written before regarding trade balance, import and export level in Albania, and FDI trend and I will analyze and interpret all this data collected and find the reasons of the negative trade balance and also what can be done to improve the current situation and which are future perspectives of foreign direct investments in my country.

An analytical study of imports and exports, as well as foreign direct investment, aids in the formation of a good picture of the past and current state of the trade balance and FDI in the Albanian economy. Tables and graphs are used to analyze the situation and the data are gathered from the Bank of Albania, INSTAT, international organizations such as UNCTAD, WTO, World Bank, as well as many books, papers, and publications.

3. Analysis of trade in Albania from 2000-2020

Albania is a developing country with a modern open-market economy, but prior to 1991 it was a closed and centrally planned state. Albania weathered the initial waves of the global financial crisis, but the crisis's disruptive consequences resulted in a major economic recession. The government is concentrating its attention on simplifying licensing standards and tax codes, and it has entered into a new deal with the IMF for financial and technological assistance (Bank of Albania, 2020). Remittances, a critical driver of economic growth, fell from 12-15 percent of GDP prior to the 2008 financial crisis to 5.8 percent in 2015, mostly from Albanians in Greece and Italy (INSTAT, 2018). Agriculture, which employs over 40% of the workforce but accounts for less than a quarter of GDP, is largely confined to small family operations and subsistence farming due to a lack of modern facilities, ambiguous property rights, and the proliferation of small, inefficient plots of land (cia gov, 2020).

Complex tax codes and licensing conditions, a deficient justice framework, widespread corruption, lax regulation of contracts and property rights, and inadequate infrastructure all add to Albania's unfavorable economic climate, rendering attracting foreign investment challenges. Albania has been implementing an ambitious program to boost tax enforcement and attract more enterprises into the formal economy since 2015 (cia gov, 2020). Albania's power production is inequitably distributed, pending upgraded transmitting capacities with neighboring countries. The nation, on the other hand, has recently taken measures to mitigate non-technical losses and has begun upgrading the distribution system. Additionally, the government is working with foreign donors to upgrade the country's impoverished road and rail infrastructure, a long-standing impediment to sustainable economic development. The nation appears to have a high level of public debt, having exceeded the previous legislative cap of 60% of GDP in 2013 and hitting 67.83% in 2019 (Bank of Albania, 2020). Albania is vulnerable to the spillover impact of debt problems and slow growth in the eurozone due to its close trade, remittance, and banking sector links with Greece and Italy.

3.1 Factors affecting international trade in Albania

Given the tremendous impact that foreign trade can have on a country's economy, it is critical to identify and track the factors that drive it. The most important determinants are as follows:

- Inflation
- Trends in Exports and Imports
- Country Endowment
- Restrictions imposed by the state
- Exchange Rates
- National Income

The Effects of Inflation

When a country's inflation rate rises in comparison to its trading partners, its current account deficit should decline, ceteris paribus. Due to high inflation, consumers and businesses in this country are expected to purchase more products from abroad, although exports will likely decline. The trade balance is an important component of the current account because it represents factor income, transfer payments, and the difference between goods and services exported and imported (Sejdini and Kraja, 2019). A strong current account deficit means that the government is spending more money on goods and services or making purchases than it is collecting for the same activities.

Trends in Export and Import

Albania's import flows expanded significantly as it transitioned to an open market environment and opened up to products and services trade, owing to a shortage of goods on the market, increasing internal demand, and an inability to manufacture domestically. While exports have increased as well during this time, the trade deficit has been growing. Although Albania has developed over the years, it is still very far behind when compared to other European countries. Some of the problems are the significant negative trade balance, insufficient infrastructure, financial sectors that can not meet market needs as well as inexperienced private and public institutions (Sejdini, Kraja, 2019). The trade balance has been decreasing further with a turning pattern over 2011-2013.

Country Endowment

These trade trends present a challenge to established models of foreign trade. The comparative advantage theory of international trade suggests that countries can trade further with trading partners who are more dissimilar to themselves; the new trade theory based on increasing returns allows for trade between countries that are identical in terms of technologies, endowments, and preferences, but differ in terms of the standard development of it (Helpman and Krugman, 1985). As a consequence of their disparate technological levels, countries can become more advanced in their development even as their relative endowments become more similar. Increased specialization may result in increased trade volumes between more similar countries (Kwok Tong, 2009).

Restrictions imposed by the state

A country's government may prohibit or limit imports from other countries. Governments impose certain limitations and, as a consequence, the trade flow may be disrupted. Tariffs and quotas are two of the most often used trade restraints. Tariffs differ significantly between countries. Increased tariffs generally result in an increase in the country's current account balance, especially when other countries do not act in the same manner, as often occurs (Sejdini, Kraja, 2019). Along with tariffs, countries that wish to curb imports impose quotas or import thresholds on the volumes imported. The restrictions imposed on trade have an impact on employment as they protect jobs, but this comes at a cost. Additionally, trade restrictions benefit some industries at the expense of others, as countries compete with one another by imposing the aforementioned restrictions on trade within their borders.

Impact of exchange rates

Through the use of exchange rates, a country's currency is priced in relation to other currencies, allowing currencies to be traded and encouraging foreign transactions. If a country's currency begins to appreciate in value against other currencies, the country's current account balance must decrease, assuming all other variables remain constant. When a country's currency appreciates, its exports become more costly for importing countries. Therefore, a decline in the demand for these goods is expected. Currency can easily affect the trade balance. A weak currency can result in an

increase in trade balance, while a strong currency can bring a decline in the trade balance. Exchange rate fluctuations can have a detrimental effect on multinational companies which have subsidiaries abroad. Where a country's currency is strong, parent assets are repatriated in smaller amounts of local currency.

National Income's Impact

As a country's level of income (national income) grows more than the rate of growth of other economies, the current account is projected to shrink. Consumption of goods and services grows in lockstep with income growth. A portion of this rise in consumption would result in an increase in foreign product demand.

3.2 Free Trade Agreements of Albania

Regional free trade agreements (FTAs) significantly increase exports and stimulate economic growth. If regional free trade agreements eliminate tariffs within member countries, they also harmonize trade policies across regions and reduce regulatory uncertainty for exporters. They are especially critical for sustaining trade-in isolated countries such as Albania, a Western Balkans transition economy. This policy note examines the effect of Albania's accession to these agreements on export development. Albanian exports to other participants of these arrangements have risen at a far faster rate than exports to other nations.

Central European Free Trade Agreement (CEFTA)

The Central European Free Trade Agreement (CEFTA) is a free trade agreement between countries mostly in Southeast Europe. Although it was established by representatives from Poland, Hungary, and Czechoslovakia, as of 1 July 2013, the CEFTA agreement's members are Albania, Bosnia and Herzegovina, Moldova, Montenegro, North Macedonia, Serbia, and Kosovo.

The CEFTA Trade Portal contains details on the most significant trade laws governing trade with CEFTA 2006 signatories. It serves as a resource for everyone seeking to do business within the CEFTA Parties. The data is entered into the CEFTA Trade Portal in the form of a post that includes

many attributes that allow search functionality. The portal's primary categories of information are customs laws, licensing procedures, technical specifications, sanitary and phytosanitary (SPS) and veterinary rules, trade regimes, public procurement procedures, and the legislation governing border controls in all CEFTA signatory countries (E-Business, 2019).

Interim Agreement on Trade and Trade-related matters with EU countries

The Council formed a new European partnership with Albania on 18 February 2008. The country and the EU signed a Stabilization and Association Agreement (SAA) on 12 June 2006, which became effective on 1 April 2009.

The SAAs place a premium on democracy and the region's incorporation into the EU's single market (Kuko, 2004). This agreement has a very significant role as it has an impact on intellectual property, rights and duties in areas such as competition. Therefore, it allows non-EU countries to begin integrating with those of the EU (Kuko, 2004).

Albanian-made industrial goods sold to EU countries enjoy a 0% preferential tariff. Although agricultural products are exempt from preferential tariffs and tariff quotas, the parties have agreed to reciprocal preferential tariffs and quotas (Dogana, 2019).

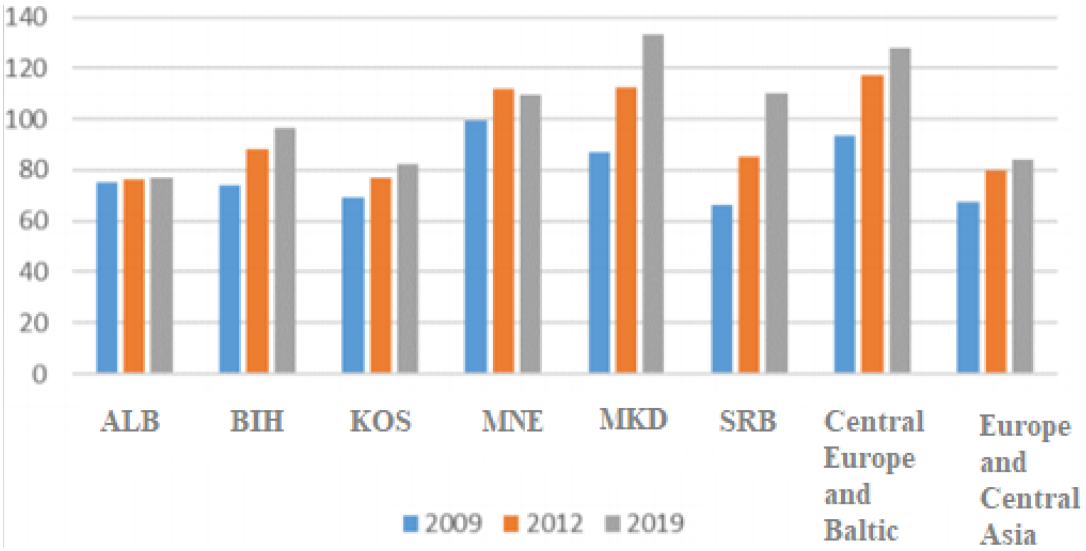
Free Trade Agreement with Turkey

The Albanian-Turkish Free Trade Agreement came into effect in May 2008. It was decided that the export of industrial products between these two parties would be liberalized. The parties have unanimously agreed to give each other preferential tariff and tariff quota treatment for agricultural goods (E-business, 2019). The Protocol's Annex I contains the list of agricultural products from Turkey, while Annex II contains the list of agricultural products from Albania (Dogana, 2019). Many other agricultural goods not included in these Annexes would be subject to applicable customs duty upon export and import.

3.3 Albania's foreign trade in comparison to the Western Balkan countries

The COVID-19 crisis is undermining the achievements of trade integration in the Western Balkans in recent years. Recently, trade has had the greatest contribution in all the economies of the Western Balkans, while these countries are more open to trade. As all countries in the region have expanded trade relations uniformly, their trade openness is higher than the regional average of Europe and Central Asia (EAQ), although lower than the average of the Baltic and Central Europe, although Northern Macedonia and Serbia meet this standard.

Figure 1 Trade opening index in Albania



Source: World Bank (2020)

The different sources of growth in trade in goods and services will determine the extent of the impact in different countries, where two groups emerge. In Albania, Montenegro, and Kosovo, the trade in services plays a much larger role, mostly due to the importance of tourism and related services in their economies (World Banka, 2020). Their trade integration is greater than would be expected given the size of their economies because trade in services is either larger than the trade in goods (Albania) or has contributed significantly more to overall openness to trade (Montenegro and Kosovo), but the pandemic is likely to be a serious negative factor for all three countries, as the consequences for tourism are also severe. The activity of other services, especially in food, entertainment, and retail trade, will also decrease. All of these negative consequences are

exacerbated by the timing of the crisis, which occurred just as tourist season preparations were beginning, implying that a significant amount of tourism-related investments will also be lost (World Bank, 2020).

In the other group are the economies of Bosnia and Herzegovina, Northern Macedonia, and Serbia, where the most prominent is the integration in trade in goods. The trade of these countries has become even more open through the expansion of trade in goods as these economies are further integrated into the global value chains. The main channels of transmission of consequences over these countries are supply chain barriers caused by slowing production in China, Europe, and the United States, as well as a global decline in aggregate demand caused by the economic downturn.

Of the six Western Balkan countries, given the structure of their economies, Bosnia and Herzegovina, North Macedonia, and Serbia are more integrated into global value chains than other countries (World Bank, 2020). For example, trade in industrial intermediate goods linked to global value chains in Northern Macedonia accounts for 50 percent of total trade in goods (over 25 percent of GDP) and in Serbia for 40 percent (about 14 percent). percent of GDP). In both cases, about two-thirds of this trade is with EU countries, especially Germany, Italy, and the United Kingdom, within regional European value chains. The EU is the region most affected by the pandemic and manufacturing facilities in these countries have closed.

Exports of manufacturing products linked to regional value chains are likely to be most affected. The deep slowdown projected for the EU will affect countries that have a significant share in Europe's regional value chains, especially Serbia, northern Macedonia, and Bosnia and Herzegovina, through the commodity trade channel. In particular, the manufacturing sector will suffer from:

1) barriers to production on the supply side;

2) effects on the supply chain, which will amplify direct shocks to supply for the least affected countries; AND

3) demand-side constraints due to falling aggregate demand (ie, recession), delays in "wait and see what will happen" purchases by consumers, and delays in investments by businesses.

In particular, the sectors that produce electrical machinery and equipment, machinery and mechanical equipment, automobiles, iron and steel, furniture and furnishings, and clothing-confectionery, which are the most integrated in the processing trade through global value chains with Europe. For example, in mid-March Volkswagen, Audi, Peugeot, Ford, and other major manufacturers stopped production in Europe, thus reducing the demand for vehicle parts and components manufactured in the Western Balkans. Also, exports of electronic circuits from Northern Macedonia, 89 percent of which go to Germany, exports of metals from Bosnia and Herzegovina (mostly used in the automotive sector) and furniture from the same country, and exports of machinery and machinery parts, of rubber-plastics and furniture from Serbia are already facing disruptions on the supply chain side and declining demand for products. All Western Balkan countries will also suffer because exports of finished products rely heavily on the Italian market, which has suffered the biggest blow in Europe.

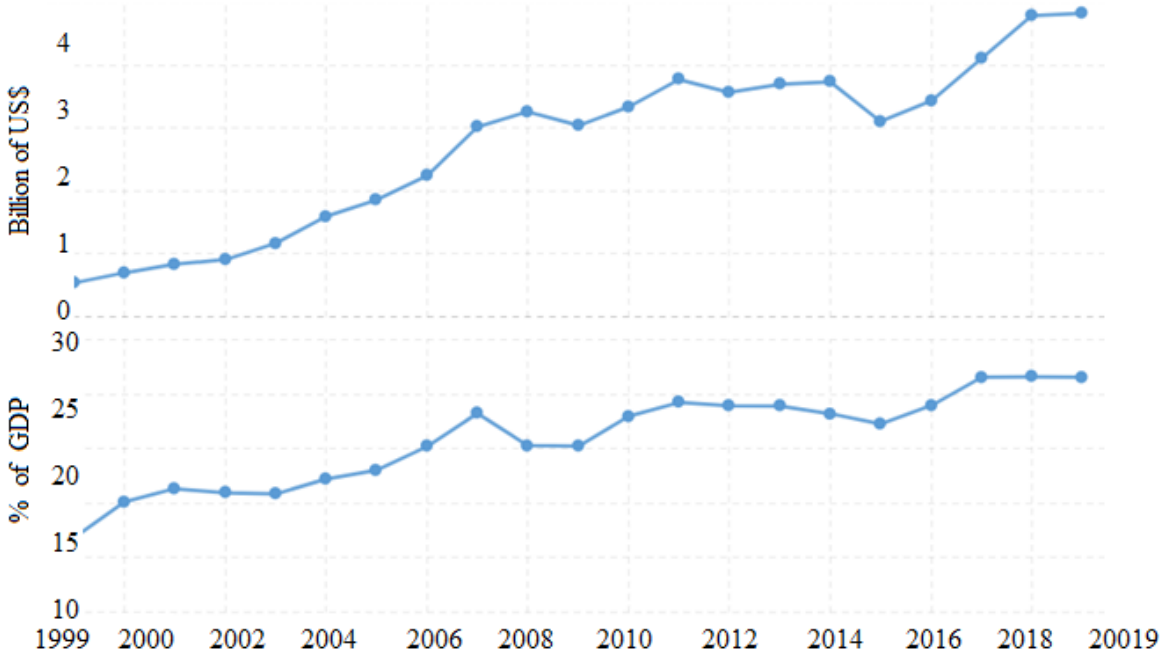
The sharp decline in the volume of goods exported from Bosnia and Herzegovina, Northern Macedonia, and Serbia is amortized by a similar decline in the volume of their imports, which reflects the relatively low value-added of the region's exports. Although these three economies will be hit hard by the crisis, the negative effect on their external position may be somewhat smaller than in the other three countries in the region, as imports will also fall, as they are countries that mainly import to export, so recovery should be easier once production has resumed and global value chains are back in operation, especially in the EU.

3.4 Performance of the trade balance in the years 1999-2019

Decision-makers both in the public and private sectors rely heavily on the statistics of foreign trade when making decisions. The reason behind this is that these statistics assist in the evaluation of market economies and also help in the preparation of multilateral and bilateral discussions in the framework of trade policies. They also help companies with studying the market and defining their trading strategies. According to INSTAT, during the 20 years (2000-2020) it is noticed that the trend has been mainly increasing for exports, not considering the decrease during 2014-2015 while for imports it has been fluctuating (decreasing and increasing). There is an average annual increase in exports of 15.53% for the period 2010-2019. In the case of imports, we have a downward trend

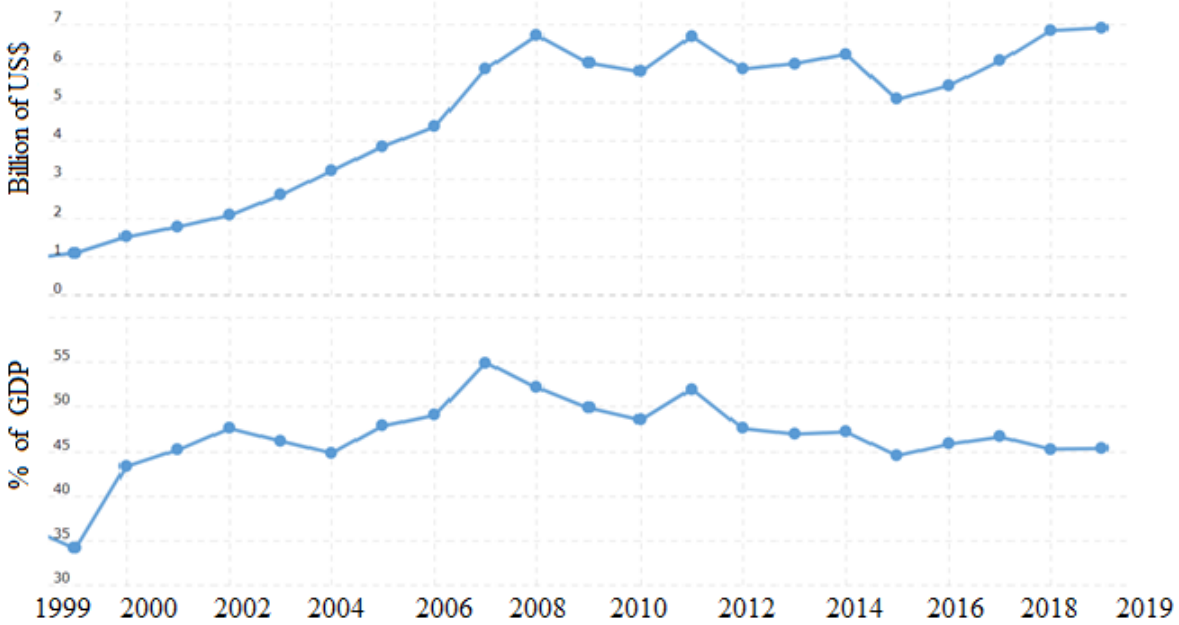
in 2009, 2012-2013 and an increase in other years. For the period 2000-2014, the average annual growth was 9.71%.

Graph 1 Performance of exports in Albania 1999-2019



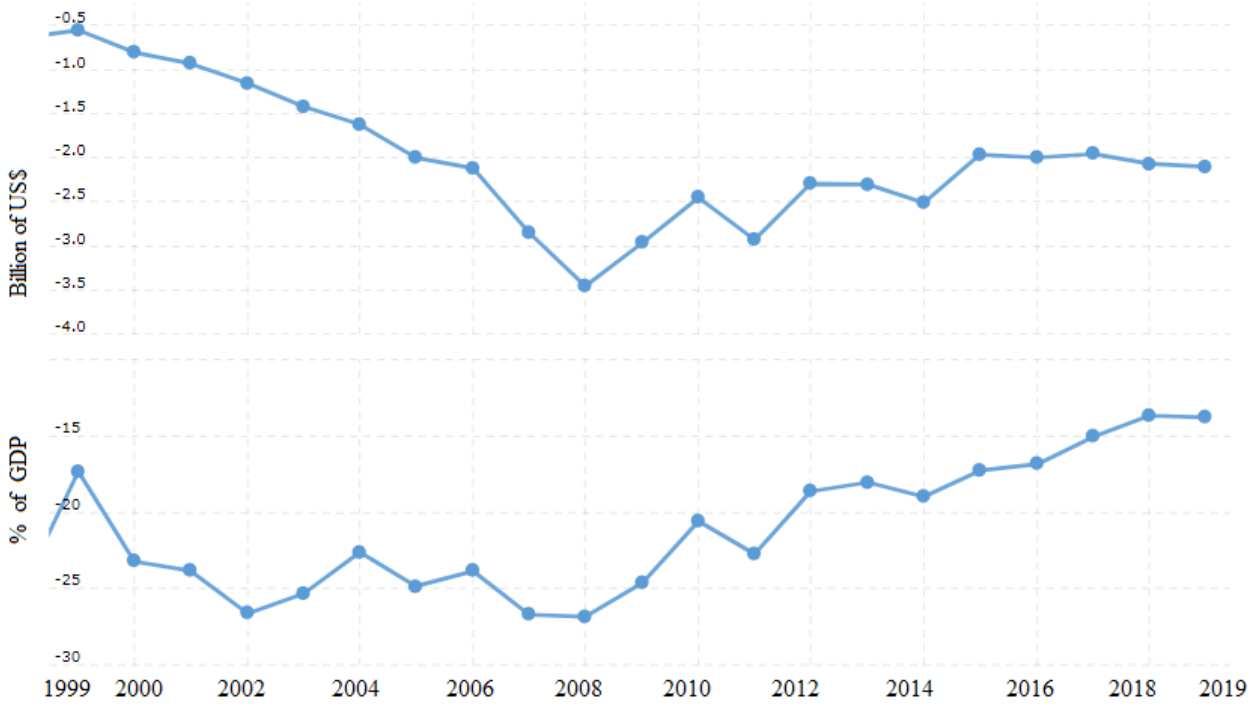
Source: World Bank (2020)

Graph 2 Performance of imports in Albania from 1999-2019



Source: World Bank (2020)

Graph 3 Trade balance in Albania from 1999-2019



Source: World Bank (2020)

In 2014, there was an annual increase of 3.8% in exports, 6.7% in imports, and the trade deficit increased by about 9.4%. From 2015 to 2019, there is an increase in exports, but it is relatively low and unstable growth. Only the years 2009, 2010, 2012, and 2013 contributed to the reduction of the trade deficit between 2000 and 2014. Exports covered for these periods were 25.24%, 27.8%, and 40.3%, while imports were 47.6%, allowing the trade deficit to shrink (Chart 3). It is worth noting that the trade deficit decreased by 14.1% in 2013 but increased by 9.4% in 2014.

Exports and imports have increased significantly over the last five years (2014-2018). Exports totaled 310 billion leks in 2018, an increase of 13.7 percent over 2017. Although imports total 641 billion lek, up 2.4 percent from the previous year. Exports to EU countries accounted for 76 percent of total exports in 2017, totaling 237 billion lek. Exports to EU countries increased 12.5% year on year.

Imports, as well as exports, have continued at a relatively volatile pace and at an increasing but slow pace. The trade balance remains negative because, despite economic policies or changes in the political system over the last two decades, our country has failed to meet the requirements to

export more than it imports. Though not represented in the graph in 2020, however, the situation is quite different, as exports have fallen precipitously as a result of the pandemic and border closures. Exports covered 46.3% of imports, while a year ago in 2019, this indicator was 47.6%.

This is because we have not managed to have such specialized trade or enterprises due to the underdeveloped economy, and consequently, the need has arisen to import a large part of food from abroad, clothing, or other goods and products.

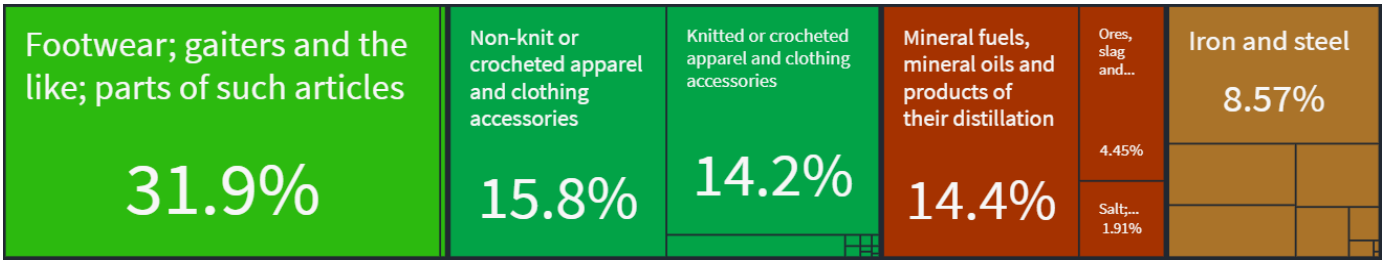
Political instability, slow economic development, and numerous other political and economic factors have positioned our country as unfavorable for exports and foreign investment, resulting in relatively low trade balance figures in recent years. The situation continues to be unfavorable due to the current situation with the pandemic.

3.4.1 Main export and import products of Albania

Albania exported a total of $2.67 billion in 2019, placing it as the world's number 135 exporter. Albania's exports have increased by $313 million in the last five years, from $2.36 billion in 2014 to $2.67 billion in 2019 (OEC, 2019).

Leather Footwear ($352 million), Footwear Parts ($230 million), Crude Petroleum ($189 million), Ferroalloys ($129 million), and Non-Knit Men's Suits ($116 million) are the most recent exports. Albania's top export destinations are Italy ($1.21 billion), Spain ($216 million), Germany ($161 million), Greece ($143 million), and France ($95.1 million).

Figure 2 Main export products of Albania

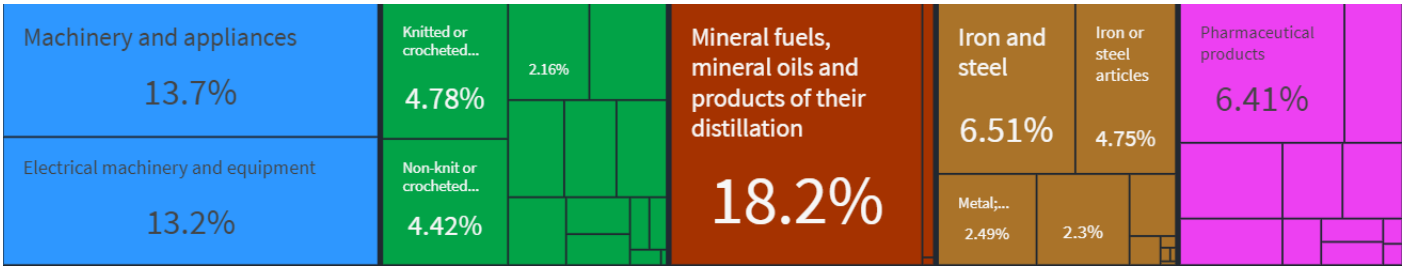


Source: The Observatory of Economic Complexity (OEC) (2019)

Albania imported $5.38 billion in 2019, ranking it as the world's 131st trading destination. Albania's imports increased by $802 million over the last five years, from $4.58 billion in 2014 to $5.38 billion in 2019 (OEC, 2019).

Albania's most recent imports include refined petroleum ($453 million), automobiles ($182 million), packaged medications ($158 million), tanned equine and bovine hides ($99.5 million), and footwear parts ($95 million). Albania's top import partners are Italy ($1.52 billion), Greece ($641 million), China ($597 million), Turkey ($487 million), and Germany ($287 million).

Figure 3 Main import products of Albania



Source: The Observatory of Economic Complexity (OEC) (2019)

3.4.2 Some considerations on export sectors of Albania

The website www.bmbpages.biz, which was created as part of the Project "BalkanMed e-Business Pages" and compiles data from Albanian companies, is used for a study of the key export areas and goods exported from Albania (E-Business 2019). The number of Albanian firms is 280, which is adequate to be considered a survey for determining the percent distribution of sectors according to the NACE Codes of Activities. As several businesses engage in several operations, the analysis is focused on a sample of 280 businesses engaged in 383 distinct NACE Code practices.

This distribution is dependent on a random sample of firms and can be used to ascertain the distribution of various operations in Albania. About 16% of the sample consists of businesses engaged in agricultural manufacturing, meat processing and preservation, and the production of meat goods, seafood, fruits and vegetables, and oils. Other companies are involved in the dairy and cheese processing industries, as well as the production of bakery and farinaceous products. Agriculture is a significant sector in Albania, accounting for 9% of all businesses, encompassing silviculture and forest products, mostly forest products, medicinal plants, and herbs, ranging from

the crop, fruit, and vegetable cultivation to spice, aromatic, drug, and pharmaceutical crop cultivation, seed processing for propagation and essential oils, and plant propagation. Another significant textile industry in Albania is clothing, workwear, and other manufacturing of other wearable garments and accessories, the majority of which are exported. A significant sector in Albania, which has recently experienced a renaissance, is architecture, civil engineering, residential, manufacturing, and, most notably, road construction. This field contributes significantly to the Albanian economy.

3.5 Trade balance in Albania related to the nature of the products

In terms of product type, machinery, equipment, and spare parts are the most imported. This is because our economy is not advanced enough to manufacture advanced machines, and our economic opportunities can not afford the costs associated with producing these advanced machines. The second most imported group is beverages and food, as our country has very few factories dedicated to the processing and production of food products, and thus we are forced to import to meet the needs of the population, while the third most imported group is chemical and plastic products. When it comes to exports, the first category is textiles and footwear. This is because our country has a large number of tailors, which enables them to produce garments that are specifically designed for export. Minerals, fuels, and electricity are the second most exported group, but it is worth noting that this ratio has decreased in recent years in comparison to imports, which means that due to a lack of rain, we must import more than we export in this category. The results are presented in Table 1, which breaks down each item by the year starting from 2016 and the import-export division. The trade balance for the majority of items continues to be negative and is increasing year after year.

Table 1 Trade balance in Albania related to the nature of the products

Products	*2016*	*2017*	*2018*	*2019*	*2020*
Import	**544,616**	**579,248**	**626,186**	**641,466**	**649,111**
Food, drink, tobacco	96,897	100,365	106,738	106,508	110,365
Minerals, fuels, electricity	60,164	49,842	65,963	68,385	77,235
Chemical and plastic products	74,926	80,008	86,887	87,748	88,729
Leather and leather goods	15,916	17,378	18,983	18,896	17,327
Wood and paper products	21,736	23,357	23,692	25,156	25,817
Textiles and shoes	69,300	79,971	87,123	88,222	87,200
Building materials and metals	67,541	76,002	76,624	78,396	78,440
Machinery, equipment and spare parts	117,291	130,953	134,060	142,335	138,753
Others	20,846	21,372	26,117	25,819	25,244
Export	*243,183*	*243,497*	*272,988*	*310,436*	*298,792*
Food, drink, tobacco	21,066	25,347	30,081	32,334	35,374
Minerals, fuels, electricity	64,505	46,563	43,088	56,398	50,274
Chemical and plastic products	3,961	4,358	4,732	6,191	7,653
Leather and leather goods	2,897	2,596	2,966	2,727	2,444
Wood and paper products	8,336	7,764	8,309	9,627	9,592
Textiles and shoes	90,091	106,608	117,389	123,742	118,202
Building materials and metals	35,280	31,891	43,802	53,194	45,385
Machinery, equipment and spare parts	10,789	11,272	15,079	18,002	20,892
Others	6,257	7,098	7,543	8,222	8,976

Trade Balance (Exp-Imp.)	*-301,433*	*-335,751*	*-353,198*	*-331,030*	*-350,319*
Food, drink, tobacco	-75,830	-75,018	-76,657	-74,174	-74,991
Minerals, fuels, electricity	4,341	-3,279	-22,875	-11,987	-26,961
Chemical and plastic products	-70,965	-75,650	-82,156	-81,557	-81,076
Leather and leather goods	-13,018	-14,782	-16,017	-16,168	-14,883
Wood and paper products	-13,400	-15,592	-15,383	-15,529	-16,225
Textiles and shoes	20,791	26,637	30,266	35,519	31,002
Building materials and metals	-32,261	-44,111	-32,822	-25,202	-33,055
Machinery, equipment and spare parts	-106,502	-119,681	-118,981	-124,333	-117,861
Others	-14,589	-14,274	-18,573	-17,597	-16,268

Source: INSTAT (2019)

3.6 Reasons for negative trade balance

Albania's trade balance remains negative as a result of low exports. Domestic output exports account for a small percentage of overall exports and are dominated by agricultural products (Ceku, 2002). Industrial exports have declined in value as a result of the bankruptcy of state-owned companies. This is evident in the mining industry. The primary minerals historically extracted in Albania are chromium, copper, ferrochromium, iron-nickel, and a few other products from petroleum refineries, which accounted for the majority of foreign exchange revenues until the mid-1990s. Thus, during the consolidated economy, mostly from the late 1970s to 1990, Albania was the world's second-largest exporter of chromium (after South Africa) and third-largest producer (after South Africa and the Soviet Union) (Ceku, 2002).

Historically, Albania was an energy exporter due to its generation of electricity, natural gas, and gasoline, as well as its low fuel consumption. Albania's good name as an energy exporter has been tarnished by the reduction in electricity production as a result of several years of drought, the decline of oil production, and the rise of domestic energy needs (Bank of Albania, 2002). The precipitous decline in mineral exports is regarded as the primary factor influencing the decline in domestic output export rate, resulting in a shift in export structure at the same time.

3.6.1 Barriers and impediments to the export activity of Albania

These are the main difficulties and barriers to the export activity of Albania identified by E-Business (2009) that are still present to this day.

The sector's obstacles are associated with internal legislation, government funding, and the export markets' difficulties. It is an industry that hires people from rural communities, the most disadvantaged groups, and remote areas. The 150 percent growth in exports of these goods is due to government assistance through various subgrant programs.

- The primary impediments that the sector faces are the absence of a subsidized system for growers and cultivators, as well as the reduction of the farmers' V.A.T tax from 20% to 6%, which is inconvenient for merchants who export the items.
- Additionally, the devaluation of the Euro against the ALL by about 20% has a greater impact on the market. Additionally, the conditions around authorization for wild plant selection are another impediment to Albanian companies expanding their exports.
- Further business growth is constrained by the inability to market wild goods and high prices, which render the crop unprofessional. Albania is confronted with technological shortcomings that are impeding its ability to increase income from the sale of certain unusual plants that grow wild in our region.
- The population's aging is making it more difficult to collect plants emerging in difficult terrain. Additionally, burning mountains to convert them to pastures has limited their natural habitats.
- Apart from internal obstacles, the global demand for Albanian herbs is unsustainable in large markets, as Albanian collectors and export firms cannot supply the large quantities needed by contractors.

Export marketing analysts generally agree that a thorough knowledge of export obstacles and their effect on output is critical at both the micro and macroeconomic levels (Chung,2003; Leonidou,1995; Patterson and Cicic,1995). Understanding export obstacles and their national effects offer crucial guidance for government policymakers and their evaluation of preparations for national export policies (Julian and O'Cass 2004; Katsikeas 1994). Albania has shown progress in this aspect. However, there is still a lot to be done.

3.6.2 Reasons for the low level of exports

In this section, I have selected the problems that Albania has not succeeded in overcoming during the past 19 almost 20 years.

Domestic export levels are low, indicating that economic opportunity for export is not being fully utilized. Among the many factors is the preservation of the mining industries in anticipation of privatization, which has historically weighed heavily on Albanian exports. All the below-mentioned reasons have been present for Albania since 2002 and still contribute to the low degree of exports. Several of them identified by Ceku (2002) are the following:

- The dominance of very small agricultural processing units, many of which produce very little for the market.
- The dominance of small workshops, primarily with outdated and inadequate equipment, that serve only local or regional markets and are unable to meet the quality and hygienic standards of European markets.
- The absence of commodity standardization and labeling.
- Technology inadequacy in terms of raw material availability, commodity marketing, and subsequent pre-processing.
- The difficulties faced by small producers in arranging sufficient output to be processed for market and viable export.
- The abolition of the majority of current processes and manufacturing capability, with the exception of the garment, leather, and footwear industries.
- A shortage of resources and insufficient promotion for tourism growth.
- A shortage of money to spend on new machinery and a lack of knowledge about where to obtain appropriate technologies.
- Often, administrators lack a proper understanding of contemporary management techniques. They are solely focused on the production and lack expertise, especially in marketing.
- Since production levels are smaller than those in the target countries, the international competition for these easily automated phases of production is poor.
- A lack of communication between business and future clients on international markets, as well as the challenges managers, face while traveling to the countries in which they wish to trade.

As a result of the above causes, the consumption trends and growth of future targeted markets are uncertain. Meanwhile, several requirements must be met by any vendors wishing to gain ownership of a portion of these markets. Additionally, there is a lack of information about the service requirements applicable to tourism's general clients and others that may assist in attracting tourist groups.

Initiatives to be taken to increase exports

Following the upper-mentioned problems, Albania has tried to undertake many reforms and policies to lower or overcome these obstacles. Unfortunately, many of the reforms are still present to this day. In this section, I have mainly referred to the report of Bank of Albania (2002) and Ceku (2002). However, similar viewpoints can be found in more recent analysis such as that one (Paskali, 2013). Despite this, the fact that Albania was able to effectively export certain goods demonstrates that there is a general export opportunity and that a foundation may be built upon which to try to develop and expand the export base. Albania's economy has not made enough use of domestic resources. One of the causes was the energy shortage, which had a major effect on the viability of all economic sectors.

Based on the previous year's export performance, growth rates, success in some economic segments, agriculture and other economic sector equipment imports, public investments, and numerous reforms currently being implemented, such as regional market opening and expansion, particularly to North Macedonia, and intensification of trade relations with Kosovo, there is a favorable outlook for the competitive ability development (Bank of Albania, 2002). From a particular weight perspective, it has been anticipated that domestic demand will increase in response to rising worker wages, implying that successful manufacturing production will become less productive than it is now. These assessments are contentious, as this forecast will be influenced by additional considerations, such as extensive knowledge of exports and related factors from specialist organizations (Ceku, 2002). Naturally, the private sector would be the primary impetus for economic development, as was the case during the early years of transformation and during the economic rebound after the 1997 recession. However, due to the aforementioned issues, the private sector is unable to take advantage of Albania's comparative advantages, despite the prospect that state control structure liberalization offers in effect.

An improvement in the agriculture field would be quite beneficial for Albania. It is important to increase the quantity and quality of agricultural production. To do this, agricultural practices should be modernized, including the introduction of new organic farming techniques. Additionally, this will facilitate investments at the economic level of agriculture, with the goal of increasing land use and production, as well as farmers' expertise and skills for contracting with one another or forming groups for selling or raw material supply (Ceku, 2002). It is important to upgrade the connectivity networks and road networks.

Non-agricultural sectors may require investment promotion with the goal of modernizing production units. It is important to upgrade technological and marketing skills by developing a unique approach and establishing an infrastructure that enables service enhancement. One of the impediments to growth in all sectors is the relative exclusion of Albanian producers and managers from tragedy markets. That is why such efforts that facilitate the access of Albanian suppliers and managers to targeted countries should be bolstered, in order to keep them updated about market conditions and to promote Albania's reputation as a supplier or exporter in specific sectors (Ceku, 2002).

The fact that tourism sales exceeded the overall amount of Albanian exports by 47 percent in 2002 indicates that tourism growth should be a top priority in the country's development strategy. Despite the region's high competition (Greece, Montenegro, and Croatia), the tourism sector demonstrates its ability to be a strong driver of economic development (Bank of Albania, 2002).

From a broad viewpoint, and in light of many factors impacting the development of product exports directly or indirectly, its outlook appears to be positive. Several of these variables are listed below:

1. The region's broader industrial growth policies and commitments to a free trade agenda.
2. The presence of an export marketing policy and accompanying framework.
3. Improving the financial and banking systems, as well as increasing the economy's crediting capacity.
4. Increased public spending on roads, rail, water, and telecommunications networks.
5. The continued growth of foreign and domestic investment in the economy, especially in the food and mineral industries.

6. Government commitments to promote and remove regulatory obstacles that obstruct business growth.
7. Government contributions to resolving the ownership problem, which may result in a massive increase in economic spending.

4. Foreign trade and Covid-19

Albania's total foreign trade volume as reported by INSTAT (2020) decreased by almost a quarter during March 2020 as a result of the suspension of economic activity in the country caused by social distancing measures to stop the spread of the coronavirus.

According to INSTAT (2020), Albania's imports fell to ALL 42 billion or 25% less than in March a year ago. Exports fell to ALL 18 billion or 36% less. The decline in exports was caused primarily by the suspension of a large number of garment and shoe factories, which, although not banned from working by the government, were laid off or worked part-time because the demand for their products fell drastically (Erebara, 2020). The clothing and footwear industry, whose main customers are European countries, mainly Italy, is the main actor in our country's exports. During 2019, textiles and shoes exported were worth 118 billion ALL (approximately 950 million euros) or 40% of all exports.

Decreases in exports were also recorded in construction materials and metals, minerals, fuels, and electricity. Food exports were not affected. The drop in exports to Italy was 48%, making the crisis one of the worst hit by the coronavirus pandemic in the world. At the beginning of the pandemic, Italy was the country with the second-highest number of infections in relation to the population after Spain and was the first country in Europe to have ordered the entire population of the country to be locked up at home. Imports of goods also fell in March, but the decline was less drastic than exports. The most affected were imports of minerals and energy, mainly oil, because the new restrictions also led to a significant reduction in consumption (Erebara, 2020).

But a drastic decline in imports was also recorded in the group machinery, equipment, and Spare Parts. The Albanian economy is expected to contract by 5% during 2020 according to the International Monetary Fund (2020), followed by an increase of 8% next year.

The decline in imports in March seems to have been reflected in the decline in budget revenues by 17%. The smaller decline in budget revenues compared to the decline in economic activity seems to reflect a number of taxes and levies that are subject to fiscal references or are above the amount imported regardless of value. The simultaneous reduction of imports and exports has so far not led to an increase in the trade deficit while keeping the risks to the country's economic stability low.

4.1 Comparison between imports and exports of March 2019 with March 2020

Referring to INSTAT (2020) figures for March, it turns out that during the quarantine period, Albania has imported more fruits, while for some products, exports have increased. However, the comparison of the figures between March 2019 and March 2020 but also February shows that foreign trade did not escape the negative impact of the pandemic.

In total, in March 2020, exports of goods decreased by 36.2%, compared to the same period a year earlier. Imports of goods decreased by 25.4%, compared to a year earlier. Meanwhile, if we refer to specific items, we notice an increase in the import of some agricultural products.

Table 2 Comparison of fruit import-export (March 2019 and March 2020)

Fruits and nuts		**Net weight**			**Value**		
		03.2019	02.2020	03.2020	03.2019	02.2020	03.2020
	Imports	9533841	8988737	12458806	716245164	659274258	846603107
	Exports	1864439	1146682	996226	111554925	66618600	89784921

Source: INSTAT (March 2019/March 2020)

According to INSTAT (2020), for March, fruit imports have increased compared to March last year but also in February this year. This has come as a result of buyers' demand to consume as much fruit as possible, especially citrus fruits to get the right vitamins in this pandemic period, as recommended by doctors (Daci, 2020). Supermarket chains in Albania generally receive imported

agricultural products. In terms of fruit exports, they have decreased compared to March 2019 and February this year.

Table 3 Comparison of vegetable import-export (March 2019 and March 2020)

Vegetables		**Net weight**			**Value**		
		03.2019	02.2020	03.2020	03.2019	02.2020	03.2020
	Imports	6989740	4190500	5158801	421293827	278667851	308853738
	Exports	9398111	5328937	13777752	599518471	285128021	696556735

Source: INSTAT (March 2019/March 2020)

Imports of vegetables in Albania for March have decreased compared to March 2019 but have increased compared to February this year when COVID-19 had not yet been identified. If we look at exports, we notice that in March 2019 Albania has exported about 600 million ALL vegetables, while for March 2020 it is 696 (INSTAT, 2020). The increase in vegetable exports is related to the blocking of the agricultural workforce of some European countries due to coronavirus.

Table 4 Comparison of import-export of dairy products (March 2019 and March 2020)

Dairy products		**Net weight**			**Value**		
		03.2019	02.2020	03.2020	03.2019	02.2020	03.2020
	Imports	1597664	1302099	1910560	332217896	302587044	368840477
	Exports	247713	390165	603547	18309880	28376498	56872103

Source: INSTAT (March 2019/March 2020)

According to INSTAT data, imports of dairy products, eggs and honey have increased both in weight and in monetary value. There is also an increase compared to February. Meanwhile, exports of these products have increased.

Table 5 Comparison of import-export of meat products (March 2019 and March 2020)

Meat products		**Net weight**			**Value**		
		03.2019	02.2020	03.2020	03.2019	02.2020	03.2020
	Imports	3431625	3173934	2211786	461524812	501282971	332381562
	Exports	12928	0	0	16838748	0	0

Source: INSTAT (March 2019/March 2020)

In terms of the meat trade, imports fell in March compared to the same period of 2019, but also in February this year. Albanian meat exports have been zero since February and March. At the same time, exporters of meat and by-products said that the problem for this period has been the traveling restrictions as a result of the coronavirus (Daci, 2020).

Table 6 Comparison of import-export of cereal products (March 2019 and March 2020)

Cereal products		**Net weight**			**Value**		
		03.2019	02.2020	03.2020	03.2019	02.2020	03.2020
	Imports	21407857	18261150	43628536	862524381	590549767	1458847628
	Exports	79094	2006	368392	2348074	143437	12603796

Source: INSTAT (March 2019/March 2020)

According to official data, cereal imports doubled in March 2020. Cereal exports have also increased if we compare it to February and March last year. In conclusion, we can say that the increase in imports for March had fruits, vegetables (if we compare it with February), dairy and cereals.

To conclude, the coronavirus is pushing economies into recession, at a time when all parameters and trends were positive. Trying to prevent the spread of the COVID-19 pandemic, countries are inevitably headed towards economic recession (Rukiqi, 2020).

The consequences of the crisis in the Albanian economy appear severe: business bankruptcy, rising unemployment, declining purchasing power, domestic production and trade exchanges. Civici (2020) says the economy of Albania will have a Gross Domestic Product (GDP) this year of about 1-1.2 billion euros less than last year.

At the macro level, there may be an increase in public debt, an increase in unemployment, a contraction in domestic and foreign investment, an increase in the cost of many businesses, and so on. As previously stated, Covid-19 had a significant impact on Albania, resulting in a significant decrease in exports across all sectors. Also, the close trade and economic relations that Albania has with Italy contributed to the exacerbation of the economic situation that arose due to the pandemic.

5.FOREIGN DIRECT INVESTMENT -CASE OF ALBANIA

International capital flows correlated with investments in companies in which a foreign investor acquires the majority of stocks are categorized as direct investments, whereas those concerned with sales of securities such as stocks or bonds without acquiring a controlling stake are known as portfolio or commodity transactions. This influence may be exerted in a variety of forms and to differing degrees, complicates the macroeconomic calculation of foreign direct investment. The Organization for Economic Development (OECD), International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), and U.S. Department of Commerce, among others, classify a firm as “foreign-owned” if a non-national investor (the “parent”) holds at least 10 percent of the equity of a local firm (the “affiliate”).

The rather arbitrary 10% level is intended to represent the notion that large stockholders, even though they do not own a controlling interest in a firm, would have a significant influence on its decisions and management. Total FDI is a balance of payments account that totals the amount of

affiliate equity, reinvested dividends, and net inter-company loans due to international parents at the country stage. An FDI flow is a year-to-year shift in FDI.

Academics and developed country policymakers have placed a focus on the relationship between foreign direct investment (FDI) and economic development (Dinh et al, 2019). Since economic growth is one of their primary objectives, policies aimed at attracting FDI have been prioritized in these countries' economic growth and development processes (Vo et al. 2019a). It is well recognized that FDI helps to balance the saving-investment gap and offers technology for the manufacture of goods and services. Additionally, FDI contributes to increased tax income and human resources (Buckley et al. 2002). Alternatively, one might argue that FDI is a critical factor in the process of economic integration since it enhances long-term gains and relations between countries.

On the one hand, analysts have addressed the many benefits that FDI brings to the economy. Not only does FDI diversify the recipient's capital base, but it also generates beneficial externalities such as technology and information diffusion (Mansfield and Romeo 1980; Markusen and Venables 1999; Caves 1974; Blomström et al. 1994; Blomström and Kokko 2002). For instance, FDI stimulates spending, thus narrowing the chasm between saving and investment (Erhieyovwe and Jimoh, 2016, cited in Dinh et al, 2019). On the other hand, previous research indicates that while FDI has a negative short-run effect on economic development (Schoors and Tol 2002), it has a positive long-run effect (Bosworth et al. 1999).

The financial development of the FDI host country has a significant impact on the determination of FDI inflows. A developed financial system attracts investments in a host market in part due to the fact that it allows foreign investors to finance a significant part of their investments in the host country (Lipsey, 2002 cited in Dinh et al, 2019). With the development of the financial system, the possibility increases that domestic businesses can be financed to introduce the developed

technology, already known through the entry of foreign investors. ((al A. e., 2009); Shah, 2016; (al A. e., FDI, Productivity and Financial Development, 2017).) In this way, host countries could benefit from foreign investors directly (Alfaro et al, 2006).

Thus, the international concept for Foreign Investment according to the OECD (2007), "Foreign Direct Investment reflects the intention to ensure a stable interest of a residential unit in one economy (direct investor), in a resident unit of another economy (enterprise of direct investment). Lasting interest" implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the direct investment enterprise. The FDI index is important in developing as well as developed countries (OECD, 2004).

The importance of FDI for developing and transition countries is due to the fact that FDI represents more than capital flows. A broader definition includes the ability of FDI to transfer to the host country tangible and intangible assets, which include physical and human capital, research and development costs, management skills, knowledge of production and technology developed (De Mello 1997). In principle, four main motives influence the investment decisions of multinational companies: market research, efficiency research, resource research and strategic asset research (Dunning, Lundan 2008).

"FDI looking for markets" aims to invest in a market of the host country to serve directly in that market through production and distribution in the host country.

- *"Resource-seeking FDI"* sees investing in a host country with the aim of minimizing costs, through resources that are not found in the home country or that are more expensive.
- *"FDIs that require efficiency",* undertake the investment in a host country driven by the achievement of economies of scale, which will create opportunities to reduce production costs.
- *"FDI seeking to create assets"* aims at purchasing company assets in host countries in order to meet long-term strategic objectives.

This classification realized, according to Dunning, theoretically appears simple to understand. In fact, in practice, it may happen that a company falls into more than one category. Albania, like the

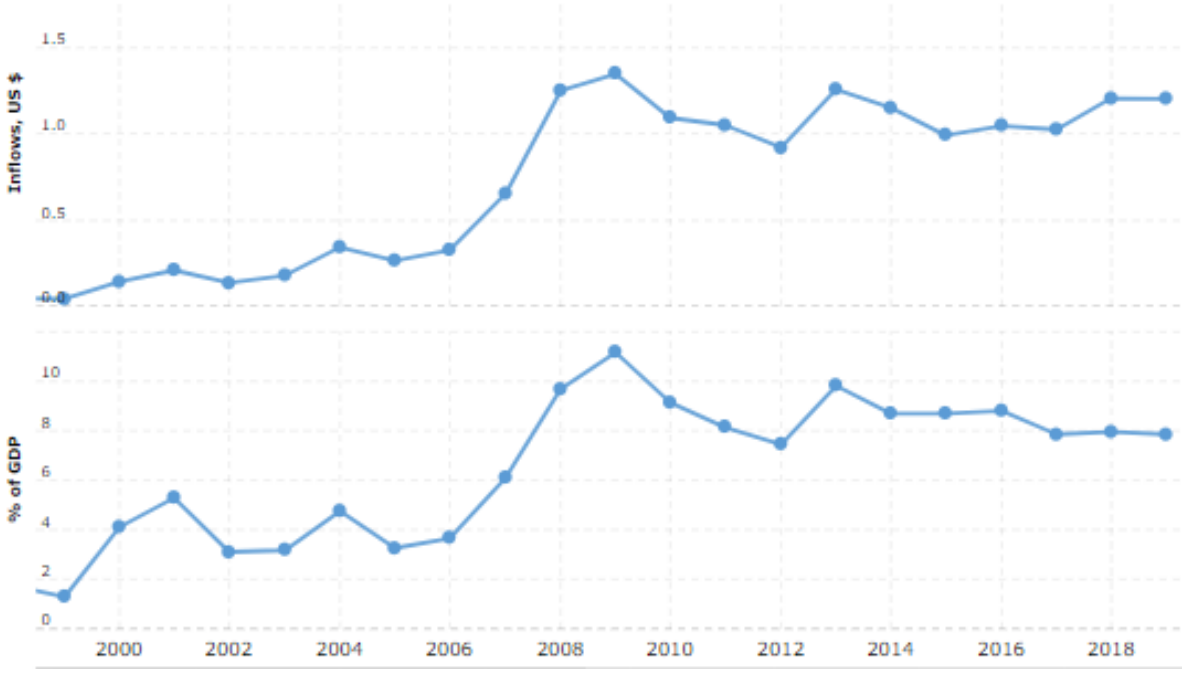
other Western Balkan countries, attracts foreign investment mostly for the purpose of expanding markets and increasing productivity. These countries provide prospects for creating a new service sector economy, fueled by significant privatization initiatives and a comparatively cheap labor force (Jirasavetakul and Rahman, 2018).

5.1 Dynamics of FDI development in Albania

Improving the economic situation in the country, political and macroeconomic stability, improving the business climate and legislation with a direct focus on foreign investors, contributed to the increase in FDI inflows over the years. FDI in Albania began to appear in Albania after 1992 (Kule and Haderi, 2001). At the beginning of the 90s, the number and volume of FDI were relatively small, but over time the presence of foreign investors in the country increased.

Albania's early engagement in the adoption of laws necessary to regulate the activity of foreign investors in Albanian markets had a significant impact on increasing FDI inflows. As shown in Graph 1, FDI inflows have generally increased over the years, reaching a peak in 1996. Albania’s direct foreign investment reached a historic low of EUR 28.01 million for the first quarter of 2004 from the year 2004 to 2020, hitting an all-time peak of EUR 337,40 Million in the second quarter of 2009. Albania Foreign Direct Investment data, historical data, predictions, graphs, estimates, economic calendar, and news are provided on this website. The prices, historical records, and graphs for Albania's Capital Flows were last revised in March of 2021.

Graph 4 FDI inflows in Albania, 1999-2019 (U.S. dollars)



Source: World Bank (2020)

In Albania, starting from 2000, FDI inflows (Chart No.5 have been on an upward trend. The privatization initiatives undertaken by the Albanian state have provided great help in absorbing FDI. Privatization of ARMO, INSIG, Albtelecom, privatization of the National Commercial Bank, licensing of mobile phone companies, and other various privatizations have led to a significant increase in foreign direct investment (OECD, 2010). In the years of the global financial crisis 2007-2008, FDI in Albania continued to increase, not immediately reflecting the negative effect expected from the crisis. Also, in 2009 and 2010, FDIs appeared to be motivated primarily by privatization and maintained the previous year's upward trajectory.

Although several countries were suffering from the economic and financial crises between 2008 and 2011, FDI in Albania continued to rise. As shown in the chart below, this gradual growth trend (2008-2011) has slowed in comparison to the 2006-2008 economic cycle.

Foreign investment increased considerably between 2014 and 2017 as a result of substantial developments in the energy sector. The investment in the Trans Adriatic Pipeline is a critical component of this increase (about 40 percent). From 2008 to 2017, FDI inflows ranged up to $1 billion each year. FDI inflows reached more than $1 billion in 2017, compared to $1.12 billion in

2016 and $9.45 billion in 2015. In the period January-March 2018, FDI has increased compared to the first quarter of 2017. (UNCTAD, 2018)

Despite the fluctuations of FDI inflows, they have marked a generally upward trend, thus creating the premises for increasing the stock of foreign direct investment in Albania. The stock of FDI in Albania is constantly growing. Indeed, the rise of foreign direct investment stocks over time is one factor that defines foreign investment's beneficial effect on economic development. According to Johnson (2006), the FDI stock reflects the long-term impact of foreign direct investment in host countries. Albania's measure has been steadily rising in recent years.

The inflow of foreign direct investments (FDI) in Albania increased by 5.7% year-on-year to 1.08 billion euros ($1.2 billion) in 2019, the Albanian Investment Development Agency (AIDA) said on Monday, citing central bank data. Albania's FDI inflows have been increasing steadily since 2014, reaching a record high last year. Last year, the Netherlands invested the most in Albania, followed by Switzerland and Italy.

Non-residents invested the most in power, coal, and water supplies in 2019, accounting for 31% of total FDI, followed by mining and quarrying at 20%. Albania received 1.02 billion euros in FDI in 2018, up from 899.9 million euros in 2017.

5.2 Policies that favor FDI in Albania

Albania enacted legislation on foreign investment in 1994, allowing international investors to enter freely, freely move foreign currency, and enjoy legal protection (Kule and Hadëri, 2001). In 1995, the Concessions Law was adopted, establishing various investment opportunities in the domains of physical infrastructure, mining, and tourism, among others, using the "Build, Operate, and Transfer" model. Albania has signed agreements with 35 countries on the protection and promotion of Foreign Direct Investment (FDI) and 17 countries on the avoidance of double taxation. Belgian and French accords have been signed but have not yet come into effect. Between 1992 and 1999, Albania received around 458 million USD in FDI. According to the Bank of Albania, foreign direct investment surged dramatically between 1998 and 2003, owing mostly to privatizations. Economic development, on the other hand, was not accompanied by institutional change. State institutions remained undeveloped, as did the financial system. However, all of these shocks to important macroeconomic indicators, which shook the market economy's and political stability's

underpinnings, did not represent evidence of the benefits of foreign direct investment, notwithstanding some minor investments.

By examining the numbers for FDI inflows during the transition years, it is obvious that from its foundation until 1996, Albania had a growing trend of foreign capital. It is worth mentioning that during 1995 and 1996, pyramid schemes were experiencing a boom, and this element seems to have had a significant impact on foreign investment (Kule and Hadëri, 2001). In 1997, the nation experienced a period of acute insecurity after the demise of pyramid schemes.

Foreign investment plummeted by 50% immediately during the 1997 crisis, compared to its peak in 1995 and 1996. Albania's image after the institutional and social upheaval left a lot to be desired, and rehabilitation seemed a long way off. The Kosovo crisis of 1999 was another significant factor (though regional, since it resulted in a fall in FDI inflows across the area), contributing significantly to the drop in foreign investment. Economic and political turmoil resulted in a 7% decline in GDP, a 45 percent increase in inflation, and a deterioration of the current account and budgetary deficits.

Following a downturn in 2002, economic growth resumed at roughly 6%, while inflation decreased to an annual rate that has been below the Bank of Albania's target range of 2-4%. Between 1993 and 2000, FDI fluctuated constantly, owing to the political environment stated above.

Reinvested profits contribute significantly to Albania's year-on-year rise in FDI. They were valued at 222 million euros in 2009, a 50 million euro increase over 2008. The upward trend reflects the productivity of foreign direct investment in the country and investors' determination to profit from their operations in the country. Foreign investors earned 186 million euros in 2008, accounting for 9% of total FDI.

In 2008, the ratio of GFCF to GDP was 41%, far greater than any other nation in the area. Such a high level of investment benefits economic development, since the majority of these investments, have been made in the infrastructure sector. The high amount of FDI in Albania between 2007 and 2009 as a result of privatization.

Privatization provides the largest amount of FDI during the time this process occurs, but FDI flows to decline in later years in the absence of fresh possibilities. According to the Bank of Albania (2011), privatization revenues climbed by about 66.4 percent in 2010 when omitting FDI inflows.

This shift is attributable to the increased level of privatization revenues and their significant contribution to FDI growth in 2009.

5.3 Future perspectives of FDI

As a result of severe damage to the business climate due to significant administrative barriers, widespread corruption in the country, chronic regulatory weaknesses of the government as well as the perceived political risk of the country, attracting foreign direct investment is crucial for ensuring high rates of development and integration of the country (Morina, 2013). Some of the main goals on which the directions of government work will be based are:

- **Free and fair competition**

Restoring a free market and fair competition system in line with European norms and standards will form the basis of the economic policy approach of the government change project. For this purpose, institutional and legal reforms will be undertaken, and specialized institutions will be established and/or strengthened that guarantee such a functioning market.

1. Drafting the innovation and technology transfer strategy
2. Development and implementation of training programs to increase competitiveness
3. Improving the infrastructure of export support institutions
4. Creation of industrial zones

- **Improving infrastructure**

Extremely poor road infrastructure, cramped and narrow roads, low capacity bridges, numerous bends, and a railway network that does not extend throughout the country continue to be significant barriers to the movement of goods, which are associated with increased transport costs, which also affect the attraction of FDI.

- **Fighting corruption and improving the judicial system**

Achieving the objectives of democracy and the rule of law and the fight against corruption and trafficking are the basic conditions for creating the premises for attracting foreign investment. The

government is making continuous efforts to create legal and administrative acts, to create special bodies and instruments to narrow the space for corruption.

- **Anti-monopoly**

Legal and institutional improvements will be undertaken to ensure free competition, especially in markets with a natural monopoly tendency. In particular, a responsible and effective activity of regulatory entities will be required, which will also be reformed and the increase in the number of operators operating in these markets will be encouraged (Morina, 2013).

- **Improving the image of Albania**

Albania's image abroad is not so good. This image has improved somewhat in recent years but has yet to change in this regard. Providing facilities in the form of industrial parks, fiscal facilities, facilitating partnerships with local businesses, as well as enriching information on business opportunities in Albania will be among the specific programs to encourage foreign direct investment.

- **Information in the service of the free market**

Making large public investments in information systems as well as encouraging and/or involving the private sector in the information service helps and facilitates the functioning of markets and their connection in real-time (Morina, 2013). The functioning of the markets and the rational behavior of the operators will be supported by the large-scale dissemination and consultations that will be conducted on public policies in each field.

5.3.1 Guarantees provided by Albanian legislation to foreign investors

In Albania, since 1993, there has been a law on the promotion and protection of foreign investments. However, it cannot be said that foreign investors always find the full support of the Albanian state. They even have difficulty finding it even about their state, which in many cases does not guarantee them the possibility of compensation in case of unwanted bankruptcy and conditioned by other factors in the foreign state (Romina, 2013).

Nevertheless, the Albanian legislation on foreign investments offers a series of guarantees to investors which are:

- Investors seeking to invest in Albania do not need authorization or permission. Foreign investment and co-ownership are allowed in all sectors.
- There are no restrictions on the percentage of shares to be held by foreign investors in a company, and it is even possible for 100% of the co-ownership to be in the hands of foreign investors.
- Foreign investments may not be expropriated, nationalized, or subject to the same measure except in cases of public interest and shall not be compensated.
- Foreign investors have the right to give up the income and any item related to the investment and transfer it outside Albania.
- Each investor can register his business within a day and for 1 euro.

5.3.2 Legal Framework for Foreign Direct Investment in Albania

Albania introduced a regulatory structure for foreign direct investment in 1993, but it has since morphed. Referring to the report of Albania Investment Council (2018) the new investment regime is characterized by the following characteristics:

-Our economy is open to all investors. Investments do not require prior permission. Foreign investment is generally welcome in all industries. The law ensures fairness and justice with equal terms and conditions for both foreign and domestic investors.

-The Foreign Investment law stipulates that foreign investments should not be nationalized or expropriated, except under limited circumstances specified by law and where the public interest requires it. In all instances, operations should be performed impartially and with incentives commensurate with actual market value.

-Investors in Albania have a right to have their investment interests secured by the court. Parties to a debate may agree to refer their disputes to an arbitration institution for resolution.

-Foreign investment enterprises registered as legal entities in Albania are permitted to own any kind of property.

-Businesses investing in Albania are permitted to recruit foreign nationals.

-Investment funds may be exchanged overseas in a freely convertible currency at the exchange rate determined on the date of the transfer based on real transactions. However, the movement of these funds can be restricted due to non-payment of taxes or inability to meet commitments, as well as through court rulings.

Conclusion

Our country's economy has already become an integral part of initiatives to liberalize and facilitate trade at the regional level and beyond. Participating actively in these initiatives increases our economy's potential for specialization and at the same time requires commitments towards increasing competitiveness. Foreign trade indicators for each country indicate the degree of indicate a country's economic progress and mutual benefit, therefore the analysis and evaluation of trade exchange indicators takes on special importance.

The unfavorable partnership between exports and imports has significant implications for the economy's overall growth. Additionally, the selling of economic assets has a cap, contributions are transient, and immigrant wages are declining. Thus, we can conclude that the trade gap would continue to rise and will eventually become an impediment to the economy's overall growth.
Promoting Albanian goods output for domestic and European markets is without a doubt a highly effective method of systemic reform, with a direct impact on the balance of payments. Albania's economic policy considers export growth to be a critical factor in improving macroeconomic indicators, especially in terms of improving the trade balance and generating employment. We can say that the trade deficit if it continues to deepen, will become an obstacle for the further development of the economy as a whole.

The entry of foreign investors in Albania has brought the development of domestic business and thus helped the economic progress of the country. The effect on economic growth in the host country driven by FDI is conditioned by the existence of various other factors, which determine the ability to benefit from the entry of foreign investors. Various studies show that capacity is a function of a developed human capital, of the technological difference between the host country and the technological development of developed countries, of trade opening, and the development of the financial system. Albania, although it has recently started the path of a free market economy, has managed to attract increasing flows of foreign investors. Although the inflow of FDI has been constantly increasing during these years they remain very low in comparison to other countries in the region.

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