The Impact of Foreign Direct Investments on the Economic Growth and Export Potential of Albania

PhD Alketa Vangjeli

Faculty of Economics
University of Elbasan, Albania
Email: *alketavangjeli@yahoo.com*

Abstract: *Foreign Direct Investments (FDI) has a positive impact upon the economic growth in the receiving countries. The countries in transition need FDI not just to produce more goods and a higher quality. Foreign capital investments are the most efficient and safe way to integrate into the world economy. FDI would allow the re-specialization of the economy to surpass the situation of maintaining on the world markets only with food products and raw materials. Indeed, the acquired experience shows that FDI plays a determinant role in respecialising the transition economies and in increasing the export potential. A transition country like Albania is assumed to benefit from FDI not only by supplementing domestic investment, but also in terms of employment creation, transfer of technology, increased domestic competition and other positive externalities. Albania offers attractive investment opportunities for foreign companies and has adopted a number of policies to attract FDI into the country and the country seems to offer perhaps one of the most liberal FDI regimes in region. Our analysis in this paper, based on economic evidence over recent years, indicates that FDI and trade contribute significantly towards advancing economic growth in Albania. Further, we shall examine some structural changes which occurred under the influence of FDI in the Albanian economy and in Balkan region, drawing also the attention upon the changes in the export potential of those countries.*

Keywords: *Foreign direct investments, economic growth, export potential, structural changes.*

1. Introduction

Foreign direct investment (FDI) and trade are often seen as important catalysts for economic growth in the developing and transition countries. FDI is an important vehicle of technology transfer from developed countries to developing countries. FDI also stimulates domestic investment and facilitates improvements in human capital and institutions in the host countries. International trade is also known to be an instrument of economic growth (Frankel and Romer, 1999). Trade facilitates more efficient production of goods and services by shifting production to countries that have comparative advantage in producing them.

Even though past studies show that FDI and trade have a positive impact on economic growth, the size of such impact may vary across countries depending on the level of human capital, domestic investment, infrastructure, macroeconomic stability, and trade policies. The literature continues to debate the role of FDI and trade in economic growth as well as the importance of economic and institutional developments in fostering FDI and exports.

In Albania, FDI inflows amounted to one fifth or more of the value of gross domestic capital formation in the recent years and financed nearly half of the country's current account deficit. Foreign affiliates play an important role in the Albanian economy in terms of investment activity, value added, production, and employment. High foreign participation indicates favorable conditions for FDI in several industries in the country, but is also a sign of weaknesses in the domestically-owned part of the economy, including an underdeveloped local SME sector.

This paper analyzes the role of foreign direct investment and trade in promoting economic growth in Albania and the interaction among FDI, exports and economic growth. We examine data in recent years. Our results suggest that FDI, trade, human capital, and domestic investment are important sources of economic growth for Albania. We find a strong positive interaction between FDI and exports in advancing economic growth. Our results also show that FDI stimulates domestic investment. The contribution of FDI to economic growth is enhanced by its positive interaction with human capital and sound macroeconomic policies.

2. The role of FDI on the economic growth and increasing the export potential: Literature review

Most of the FDI specialists think that FDI had a positive impact upon the economic growth in the receiving countries. They showed that it was a direct relation between the FDI flow and the growth of GDP per capita not just for the developed countries, but also for most of the developing countries. In this way, the countries that had attracted an important FDI volume had the highest economic growth rates.

Foreign direct investment is the most efficient and safe way to integrate into the world economy. Indeed, the accumulated experience shows that FDI substantially enhanced the national economies' re-specialization processes all over the world. FDI plays a determinant role *in respecialising the transition economies and increasing their export potential.* That happens, because, first, in the process of attracting FDI, the improvement of economies takes place *by ways of introducing and fast developing new fields and renovating the traditional ones*. Second, FDI is currently the main and real source for *economy restructuring and production modernization*; and, third, FDI growth leads to increase in the manufactured production quantity.

The FDI has an amplified effect on the local economy beyond the initial direct effect of affiliates' operations. The affiliates might have a variety of indirect, spillover effects on local firms, for example through the impact of competition that might spur local firms to improve their performance; or, conversely, they might induce failures because of affiliates' greater efficiency. Finally, potential increases in employment and income due to the entry of FDI projects might result in multiplier effects on the entire host economy while, at the same time, potential crowding out of that economy's domestic enterprises by FDI might have the opposite impact.

The extent and nature of these effects and the net outcome for a host economy depend, among other factors, on the scale of the initial FDI, the technology used, the number of people employed and the training and wages offered, the market orientation of foreign affiliates in the economy, the degree to which the affiliates procure goods and service inputs locally, and the proportion of profits reinvested, as well as on the conditions prevailing in the host economy.

Endogenous growth literature (Romer 1986, Lucas 1988, 1993) highlights the role of human capital in attracting foreign investment in developing countries. This literature suggests that foreign investment enhances economic growth through technology diffusion. Multinational corporations (MNCs) that are a vehicle of FDI can have a positive impact on human capital in host countries, for example through training courses offered to their subsidiaries' local workers. The training courses can be beneficial to all employees ranging from less skilled to highly skilled workers. Research and development activities undertaken by MNCs also contribute to human capital growth in host countries and thus enable their economies to grow in the long run (Balasubramanyam et al. 1996, Blomström and Kokko, 2001).

On the other hand, the eclectic theory of FDI, developed by Dunning (1988), provides an alternative tool to analyse the relationship between FDI and economic growth. Based on location advantages, many empirical studies have found that economic growth is an important determinant of FDI. Chakrabarti (2001), for example, argues that higher economic growth results in higher FDI inflow. Recent empirical studies have used endogenous growth models to investigate the impact of FDI on economic growth in host developing countries. Borensztein et al. (1998) examine the impact of FDI on economic growth in 69 developing countries for the periods 1970–1979 and 1980–1989. They have utilized a model where economic growth is determined by FDI, human capital, government expenditure, domestic investment, inflation rate and institutions. They found that: (i) FDI inflows positively influence economic growth, and (ii) FDI and domestic investment were complementary.

By making use of panel data for the period 1970–1990 involving OECD and non-OECD countries, De Mello (1997) examined the impact of FDI on capital accumulation, output and total factor productivity growth. De Mello suggests that FDI provides a boost for economic growth in the long run through technological progress and knowledge spillovers. However, de Mello emphasises that FDI-led growth depends on the degree of complementarity and substitution between FDI and domestic investment. By using panel data for 18 countries in Latin America during the period 1970–1999, Bengoa and Sanchez-Robles (2003) found that the impact of FDI on economic growth is positive only when host countries had adequate human capital, economic stability and liberalized markets. Alfaro et al. (2004), using cross-country data for the period 1975–1995, found that FDI plays an important role in contributing to economic growth. However, countries with well-developed financial markets tend to gain more from FDI. This means that countries with relatively well-developed financial systems can better exploit FDI. As a result, FDI can make a larger contribution to economic growth. This finding is supported by Hermes and Lensink (2003) and Aghion et al. (2006). Moreover, these studies also emphasise that less developed countries should reform their domestic financial system before liberalizing the capital account to allow for enlarged FDI inflows.

3. The role of FDI in Balkan countries

The past two decades have seen a strong increase in global FDI and trade flows. Since the Second World War the majority of FDI flows have had developed economies as both origin and destination, but during recent years the share of the flows going to developing and transition economies in Eastern Europe has increased. The general attitude towards FDI has changed from the suspicious, negative view that was prevalent until the 1990s to the current view where almost all economies allow foreign investment and most of them actively encourage inflows of FDI.

While the shift in attitude towards FDI was gradual for the developing economies, it was more dramatic for the transition economies. The transition economies rapidly changed their legal frameworks from a situation where FDI was extremely restricted to a situation where potential host countries now actively compete for inflows of FDI.

It is obvious that the inflow of foreign capital has been vital for the transition process in South East Europe. The region is replacing a system based on administrative control of the economy with a system based on market-economy principles and democracy. While developing economies historically needed inflows of capital in order to start building an industry, the transition economies were in a very different position. These economies were rather 'overindustrialised' when the transition process started. The economies were dominated by heavy industry, focusing on military and investment goods rather than consumer goods and services.

At the beginning of the transition process the problem for these economies was to replace an outdated capital stock and shift production toward goods demanded by the domestic market and goods that could be exported abroad. There still exists a great demand for inflows of capital to be used in the restructuring of enterprises in order to create competitive market economies.

Domestic savings in the transition economies have been too small to cover the large demand for investments. FDI inflows have therefore fulfilled an important role as a source of capital. However, FDI does not only provide scarce financial capital for the highly indebted transformation economies, but also leads to a cross border intra-organizational transfer of knowledge, managerial as well as marketing skills, technology, entrepreneurship, international market access. In addition, FDI and trade "promote the diffusion of new technologies through direct linkages or spillovers to domestic firms". FDI has strong influence on domestic employment through types of jobs created, regional distribution of new employment; wage levels, income distribution, and skill transfer. Hence, FDI can be seen as an essential support for transforming the political and economic systems of these countries into democracy and market economy (Lankes & Venables 1996, Bevan et al. 2001). In the meantime, these processes of transition have reached an advanced stage in many Central and East European Countries. Prices have been liberalized, the privatization of formerly state-owned enterprises has rapidly progressed, and the once closed economies have opened themselves to foreign trade and investment in many of these countries.

The relationship between FDI, exports and economic growth is twofold: FDI stimulates economic growth, but also reacts to economic growth and progress of transformation. Growth is generated by FDI through imported means of investment, new technologies and capabilities transferred by foreign multinational and international networking. On the other hand, foreign investors react positively to the consolidation of market-economy rules and the resumption of economic growth (Gabor Hunya, 2000).

As the European Union (EU) expands to the East and the South, promising new opportunities for FDI are arising and gaining broader recognition. The Western Balkan, a region comprising Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia, Montenegro and Kosovo, is considered by many current and prospective investors to offer opportunities as Europe's next high-growth business location. The characteristics driving investment in this region include the access it offers to a growing market of over 150 million consumers, right at the doorstep of the EU; a multilateral agreement for the region CEFTA; a cost-competitive overall operating environment, with labor costs 30-55% lower than of Czech and Hungary; the availability of skilled labor and a strong work ethic; availability of raw materials; and a rapidly improving investment climate.

In Western Balkan, FDI has been concentrated in a narrow range of sectors and distributed unevenly through time. This because the timing of inflows has been influenced from the political events as well as the privatization, efforts for the macroeconomic stabilization and the building of market institutions process differs between countries. In the Western Balkans the largest FDI inflows have been strongly linked to privatisation in sectors such as telecommunications, banking, and oil refining. The widespread foreign investment in the banking sector has integrated the region into global finance and capital markets, reducing interest rates, increasing the availability of loans, and providing a strong stimulus to economic growth. The EBRD has argued, on the basis of cross-country growth regressions, that financial integration contributed to economic growth in the region over the last decade, but that on the downside it also encouraged credit booms and over-borrowing, especially in foreign currency, which has increased the vulnerability of the region (EBRD, 2009).

FDI is mainly responsible for export structure reorientation of the Balkan countries to products that embody high qualified labor and top technology. The foreign companies had already contributed to the integration of the East-European producers in the suppliers' networks or in the transnational production and international commercial networks.

Neighboring on the EU and getting free access to its market for the industrial products made these countries attractive locations for replacing the cross-border production. The proof that these countries became parts of the new labor division results from the fact that they are participants in the world networks of production and distribution.

Referring to these factors we can find that there are two factors influencing FDI inflows to these countries. *One* is the process of transition itself. The progress in transition to a market economy should lead to FDI inflows that would be appropriate for a market economy (Josef C. Brada et al. 2003). *The second* is political instability, armed conflicts, inter-state or inter-ethnic, political and civil conflicts including riots etc. Also, the embargos and trade restrictions and other forms of political conflict that characterized the region, have discouraged FDI inflows. So, political instability is a significant barrier to FDI inflow in these countries.

4. Effects of FDI on exports and economic performance of Albania

Albania is ranked in the 25th place among 141 countries according to UNCTAD's FDI Performance Index for 2009, representing a rapid improvement from the country's position of 80th place in 2006. The improved position is partly the result of rapid increase of FDI flows to the country, much of it in response to improved business environment and opportunities opened up by privatization of state-owned enterprises.

The share of FDI inflows to Albania in the world total remains marginal, at 0.1% in 2009, even though it grew to ten times its share in 2000 (UNCTAD, 2011). The country's weight as a host to FDI in the South-East European region has, however, grown remarkably since 2006, especially since 2007, when inflows to the South-East Europe decreased while flows to Albania kept growing (Table 1).

Table 1: FDI inflows, by region and economy, 2005-2010 (Millions of dollars)

Region/economy	2005	2006	2007	2008	2009	2010
South-East Europe	4 877	9 875	12 837	12 601	7 824	4 125
Albania	264	325	656	988	979	1097
Bosnia and Herzegovina	613	766	2080	932	246	63
Croatia	1825	3473	5035	6179	2911	583
Montenegro	501	622	934	960	1527	760
Serbia	1577	4256	3439	2955	1959	1329
The FYR of Macedonia	96	433	693	586	201	293

***Source*: UNCTAD, *WIR11*.**

The FDI Performance Index ranking achieved by Albania is better than the country's rank by the Inward FDI Potential Index, according to which Albania ranked 79th in 2008, far behind other European countries (ranking by the FDI Performance Index for the same year is 35) (UNCTAD, WIR 2009). The discrepancy between performance and potential denotes that despite poor infrastructure, energy shortfalls and modest research and development activity, there have been investment opportunities encouraging FDI flows to Albania after the country opened up in full to foreign investments. But the country has needed improvements in its FDI potential before more FDI, especially Greenfield investments in the various production sectors could be attracted. There has been rapid development lately in Albania exactly in those fields of infrastructure, such as energy supply and roads which had been identified as bottlenecks in international comparisons. Foreign companies have acquired concessions to develop these areas and are improving the conditions for further investments in other sectors.

FDI outflows from major countries investing in Albania, like Italy and Greece have declined in recent years. Further sluggish outward investment activities from the most active investing countries may lead to less FDI in Albania in the future. The relative success of Albania in attracting FDI in 2007-2010, if observed in the context of declining outward investments from the main home countries of FDI, suggest that many investors were attracted by special and largely one-time opportunities. It was mainly the privatization of utility companies which attracted those investments. Such opportunities usually cause a peak in FDI in specific years and inflows usually subside in subsequent years if no new opportunities emerge.

FDI inflows have also been important for Albania's balance of payments. Outflows of FDI from Albania that is investments abroad by Albanian firms – almost all of them to neighbouring economies, especially Kosovo and the Former Yugoslav Republic of Macedonia - are modest, only about 6% of the FDI inflows in 2007-2010 (UNCTAD, WIR 2011).

The net balance of FDI inflows and outflows is thus positive. It has financed about half of the country's current account deficit in the years 2006-2009 (Table 2), significantly more than in previous years. This is all the more important as the current account deficit grew three times between 2006 and 2008. Although the current account deficit shrank modestly in 2009, it still reached 15% of GDP (Table 2) which is one of the highest in Europe.

Table 2: External sector indicators (as a percentage of GDP)

Balance of Payment items	2005	2006	2007	2008	2009
Current account	-9	-7	-11	-16	-15
Exports of goods	8	9	10	10	9
Balance on goods	-23	-23	-27	-27	-27
Exports of services	15	16	18	19	20
Balance of services	2.1	0.4	0.2	0.8	1.4
FDI inflows	3	4	6	8	8
Balance on FDI (inflows-outflows) in % of the current account deficit	36	53	57	45	50

Source: **Bank of Albania, INSTAT and Ministry of Finance.**

The current account deficit of Albania has been produced mainly by a foreign trade deficit (table 2). Surging imports were a consequence of increasing private consumption and investments. Export capacities have remained very weak; the share of exports of goods in Albania's GDP, at around 10%, is one of the lowest in Europe. At the same time, the services balance has turned increasingly positive. On the whole, Albania exports by far more services than goods, a situation which is not a rarity with Mediterranean countries including Greece and Croatia, in which tourism has a higher share in GDP than manufacturing and the international competitiveness of the services sector is superior to that of the manufacturing sector. This situation is a result of historical developments and of natural conditions and cannot be directly linked to the effects of FDI, but it is in line with the distribution of FDI by economic activities in which, thus far, manufacturing has a relatively weak position and services a rather strong one. It also points, however, to the potential for FDI in manufacturing by foreign investors with competitive advantages in the sector.

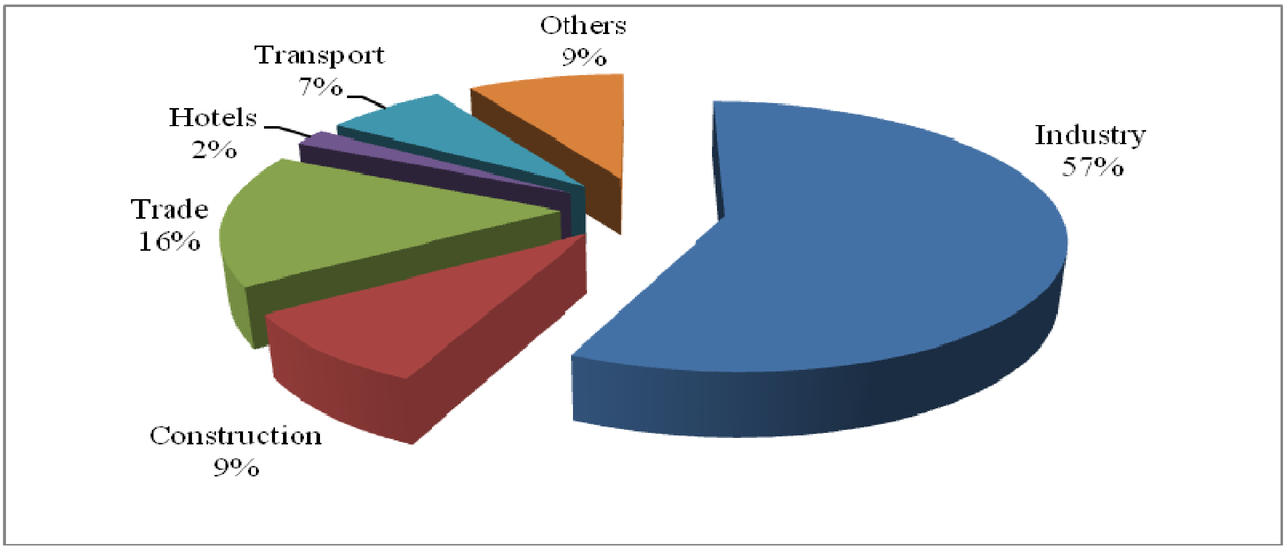
The type of FDI Albania has received so far, concentrated primarily in the production of services for the domestic market generating more imports than exports, which could contribute to a current account deficit in the absence of surpluses in other parts of that account. As FDI matures in a country, investors tend to earn more income which is recorded as an outflow on the current account and increases deficits. Other items like goods- and services-trade related surpluses have to counterbalance them. From a balance-of-payments perspective, it would be advantageous for Albania to attract more FDI which generates exports of goods and services in addition to that serving the domestic market.

The number of foreign affiliates is marginal relative to the total number of enterprises; only 1.2% of the total number of active enterprises in Albania is majority foreign owned (INSTAT, 2008). The foreign share is larger in manufacturing (4%), and very low in some services. However, in activities where the number of enterprises is small altogether, more than half of them are foreign affiliates: in extraction of petroleum, tobacco industry, electrical machinery and air transport. These are the activities with very high capital intensity where SMEs, usually domestically owned, are rare. In other activities like retail trade or hotels and restaurants local SMEs are numerous and dominate.

The share of foreign affiliates in the Albanian economy is much higher by all indicators other than the number of enterprises (INSTAT, 2008). This indicates that the foreign affiliates are much larger in size; they have much more employees and turnover per enterprise than the domestically-owned companies.

The distribution of the foreign affiliates by economic sectors (Figure 1) differs from the structure of Albanian enterprises. The main distinguishing feature is the high share of companies in the manufacturing sector (57%) despite a relatively small share in total FDI stock (16%), as well as trade (16%) (INSTAT, 2008).

Figure 1. Distribution of foreign affiliates in Albania by economic activity[1], 2008 (%)



***Source:* Based on INSTAT, structural business survey (SBS)**

One of the most important indicators of the role of the non-financial foreign sector is its share in the **value added** in the non-financial economic sectors of the country. With almost 39% of the total, the foreign sector makes a very important contribution to value added. In manufacturing, foreign affiliates contribute the main part, 52%. Both shares increased compared with 2007. In other words, there is a re-industrialization process going on in Albania based on foreign investment. In fact, the whole manufacturing sector is still very week and low-technology and factor-intensive activities dominate its structure.

Out of the 22 manufacturing activities, foreign affiliates have dominant position in producing the value added of eight industries (INSTAT, 2008). These include labour-intensive industries such as the production of wearing apparel and leather goods and capital-intensive industries like the production of non-metallic minerals (including construction material) and basic metal products. These four industries are the most important manufacturing activities of the foreign investors, with 80% of the manufacturing value added by foreign affiliates.

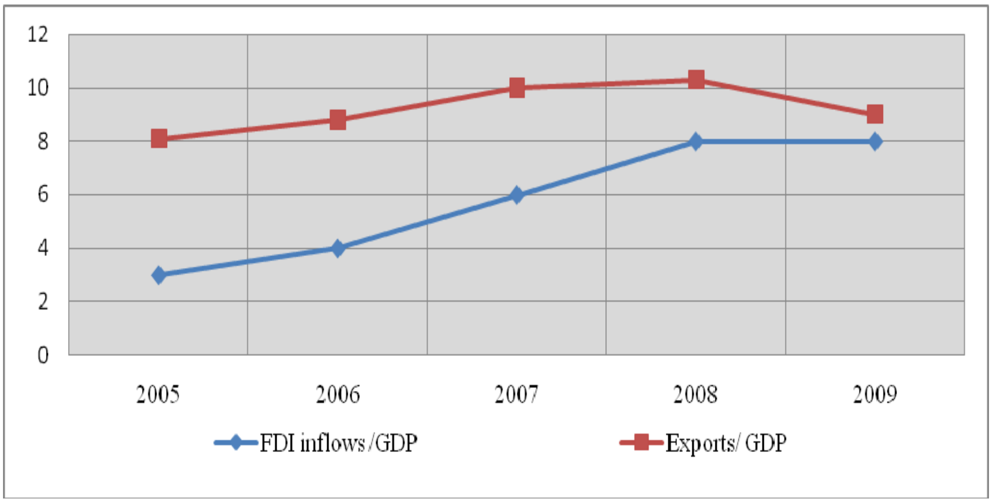
In the other industries, foreign affiliates dominate value added only in telecommunications. They also have a significant role with about 40% of value added in mining and construction. These are also the activities which have high shares in the FDI stock. As to the more sophisticated manufacturing industries, low foreign shares in value added and low share in FDI stock point to the same direction, a need to attract foreign investors. There are two such activities with important foreign presence already: the production of electrical machinery and of transport equipment other than cars. In these industries foreign affiliates have a large share but in a rather small industry.

As to **employment**, the share of foreign affiliates is 16% for the economy as a whole, but much more, 42% for manufacturing. The employment share is relatively small compared with turnover or value added which is a sign of the higher labour productivity of the foreign sector as compared with the domestic sector. The productivity gap is much smaller in manufacturing than in other activities. Among individual industries, a comparison between the employment and the turnover shares indicates where the labour productivity of foreign affiliates is higher (higher share of turnover than of employment) than the average of the economy (INSTAT, 2008). In the light industries and the production of electrical machinery foreign affiliates have similar or even lower labour productivity compared to the average. In these activities both foreign and domestic companies rely on similar labour-intensive technologies. The lead of the foreign sector in terms of labour productivity is more pronounced in capital-intensive industrial activities like non-metallic minerals, basic metals and general machinery.

In Albania, FDI becomes a key factor for increasing of exports. The simple evidence of indicators on exports flows and FDI inflows (as percent/GDP) confirm the positive relationship between FDI and exports in Albania (Figure 2).

[1] Excluding financial intermediation, education, health and cultural activities.

Figure 2: FDI inflows and exports (as %/GDP)



Source: Ministry of Finance, INSTAT, METE, Bank of Albania, and ACIT database.

Imports have a vital and essential role for the economy: welfare effects, production effects, technology transfer. In Albania, imports have been almost an exclusivity of private business, one of the fields of free private initiative freedom. The increasing demand for imported goods has served as a positive signal for the domestic production. In some sectors, the substitution of imports with domestic production has been noted. Although their direct negative effect in economic growth, imports have exercised a positive influence on restructuring tendencies of the economy.

Most of economists' suggests that the import substitution policy can be favorable in the initial stage of economic development in the transition countries. But, in the next stage of development it is imperative export orientation and promotion policy. There is consensus among economists that opening up the economies for export-led-growth through trade liberalization is a crucial factor among others, which significantly influenced the growth performance of China and other East Asian countries[2].

The need for Albanian`s export orientation and promotion policy is made imperative to cope with new challenges of trade liberalization and integration processes into European Union. The effective structural reforms and policies are needed to support and boost the country's competitiveness. The Albanian economy needs to broaden the sources of growth and strengthen competitiveness. This means further and more rapid improvements of the business environment and investor protection to increase domestic and foreign investment, to raise productivity and to help Albania's exports to climb up the value-added ladder. An important role in the increase of productivity would play the investments in the human capital, governance, the attraction of more advanced technologies, in infrastructure and in the increase of managing skills of private business.

5. Conclusions

In conclusion:

- Foreign affiliates have high significance in the Albanian economy in terms of value added, production, employment and investment activity.
- The degree of foreign participation in the economy is similar to that in the Central European countries which have the highest indicators of FDI participation in Europe.
- High foreign participation in certain sectors is also a sign of weaknesses in the domestically- owned part of the economy, including an underdeveloped local SME sector.
- Foreign affiliates in Albania have an uneven distribution across the economy. Although they drive some reindustrialization in the country, their involvement in activities with higher technologies is limited.

[2] Important econometric studies of the linkage between trade reform and the rate of economic growth include Sachs and Warner (1995), and Frankel and Romer (1999).

- The labour productivity gap between foreign affiliates and domestic companies in the country is relatively small in the manufacturing industries pointing to a relatively similar level of technology used by foreign affiliates.

In Albania, FDI becomes a key factor for increasing of exports. According to the multilaterals, Albania's goals of becoming an advanced economy require meeting a number of challenges. They include:

- Further improvements in the business environment and investor protection by securing property rights and strengthening law enforcement.
- Increasing the private sector access to credit, especially for micro, small and medium-sized enterprises (MSMEs) – the engine of job creation.
- Export diversification by climbing up the 'value-added' production chains.
- Nurturing a skilled labour force to compete in regional and global markets – with emphasis on science and technology, particularly ICT in higher education, coupled with a strong focus on skills and vocational training schemes.

References

Aghion, P., Comin, D., and Howitt, P., (2006). When does domestic saving matter for economic growth? NBER working paper no. 12275, Cambridge.

Albanian Centre for International Trade, ACIT (2008), *Albania 2007 Trade Report*, (Last retrieved, 15 May. 2011 at http://www.acit-al.org).

Albanian Centre for Competitiveness and International Trade, ACIT (2011). *Foreign Trade Report, 2010* (Last retrieved, April. 2011 at http://www.acit-al.org).

Alfaro, L., A. Chanda, S.Kalemli-Ozcan, and S. Sayek (2004), "FDI and Economic Growth: the Role of Local Financial Markets," *Journal of International Economics*, vol. 64(1), pages 89-112.

Bank of Albania (2009, b), External Sector Developments in the Albanian Economy for 2008. (http://www.bankofalbania.org).

Balasubramanyam, V. N., M. A. Salisu, and D. Sapsford. (1996) "Foreign Direct Investment and Growth in EP and IS Countries." *Economic Journal* 106:92-105.

Bengoa, M. and Sanchez-Robles, B., (2003). Foreign direct investment, economic freedom and growth: new evidence from Latin America. European journal of political economy, 19 (3), 529–545.

Bevan, A. and Estrin, S. (2001), The determinants of foreign direct investment in transition economies, CEPR Discussion Paper No. 2638, Centre for Economic Policy Research, London.

Blomström, Magnus and Ari Kokko, (2001), Foreign direct investment and spillovers of technology. International journal of technology management, 22 (5/6), 435–454.

Borensztein, E., J. De Gregorio, and J. Lee. (1998): "How Does Foreign Direct Investment Affect Economic Growth." *Journal of International Economics,* 45115-135.

Chakrabarti, A., (2001). The determinants of foreign direct investment: sensitivity analyses of cross-country regressions. Kyklos, 54, 89–113.

De Mello, L. R. (1997): "Foreign Direct Investments in Developing Countries and Growth: A Selective Survey." *The Journal of Development Studies,* 34115-135.

Dunning J, H, (1988), The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions, *Journal of International Business Studies*. Vol 19, no. 1.

EBRD, (2009) *Transition Reports*, London

Frankel, Jeffrey A. and David Romer (1999), «Does Trade Cause Growth? » American Economic Review, June, pp 379-399.

Hermes, N. and Lensink, R., (2003), Foreign direct investment, financial development and economic growth. *Journal of development studies* 40 (1), 142–163.

Hunya, Gabor (2000), "Recent FDI trends, policies and challenges in SEE countries in comparison with other regions in transition", The Vienna Institute for International Economic Studies ▪ WIIW, Paper to be presented at the Conference on "Foreign Direct Investment in South East Europe: Implementing Best Policy Practices", Vienna, Austria, 8-9November 2000.

INSTAT (2010). Publications. (URL http://www.instat.gov.al/).

INSTAT (2008), Structural Business Survey (SBS). (URL http://www.instat.gov.al/).

Josef C. Brada, Ali M. Kutan, Taner M. Yigit 2003, "The Effects of Transition and Political Instability on Foreign Direct Investment: Central Europe and the Balkans".

Lankes, H-P, and Venables, A.J. (1996), FDI in economic transition: the changing pattern of investments, *Economics of Transition*, 4(2), 331-347.

Lucas, R., (1988). On the mechanics of economic development. Journal of monetary economics, 22, 3–42.

Lucas, R., (1993). On the determinants of US direct investment in the EEC: further evidence. *European economic review*, 13, 93–101.

Ministry of Economy, Trade and Energy, METE (2010). Trade database. (URL http://www.mete.gov.al).

Ministry of Finance of Albania (2009). Macroeconomic and Fiscal Framework 2010-2012. (URL http://www.minfin.gov.al/).
Romer, P. M., (1986), "Increasing returns and long-run growth", *Journal of Political Economy*, 94(5): 1002–1037.
Sachs, J. and A. Warner (1995). Economic Reform and the Process of Global Integration, *Brookings Papers on Economic Activity* 1: 1-95.
UNCTAD (2011) World Investment Report 2011, New York and Geneva: United Nations Conference on Trade and Development (URL http://www.unctad.org).
UNCTAD (2009) World Investment Report 2009, New York and Geneva: United Nations. (URL http://www.unctad.org).