Foreign Direct Investments in Albanian Market as part of Global Market and Globalization.

Kodhelaj, Mimoza and Molla, Jonida

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Co-Authors

Jonida Molla
Bachelor of Finance
Jonimolla2@yahoo.com

Mimoza Kodhelaj
Msc in European Economics Studies
Mimozakodhelaj@gmail.com

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Abstract

"People are worried about the unknown. They are worried about things that they are unwilling to invest some time in and learn about. I don't think most of these people are going to be automated out of existence[1]."

Michael Bloomberg

Mayor of New York City

Taking inspiration from the above quotation, through this paper we will present the changes occurring in Albania's transitive economy which aims to become more prominent in the regional and even global economy. As two young researchers, we are aware of our limited abilities to change the actual economic situation in Albania.
However, our research is an indicator not only of our motivation towards understanding and promoting economic development in our country, but also of the overall potential Albania has to realize in order to fully integrate in the global markets.

This paper will attempt to provide answers to the following issues:

- Effects of globalization on Albanian economy
- Foreign investments in an emerging market such as that of Albania and reasons why foreign investors should invest in Albania
- Constraints with a negative impact on investment in Albania
- Macroeconomic factors determining FDI in Albania
- Benchmarks of Albanian economy and FDI on a regional level
- Competitive approaches of Albanian Market

The methodology that we will use in the content of this paper will include qualitative economic analyses, comparative analyses and quantitative data. We will attempt to build up an econometric model identifying the main macroeconomic factors that determine FDI in Albania. At the end, we will present our main findings, conclusions, and recommendations.

1 http://www.afterquotes.com/great/quotes/investing.htm

I. Albania's Economy facing Globalization

In order to present a clear picture of what is meant by *globalization*, we provide the following definitions of globalization as understood by a number of the most experienced and intellectual minds in today's world some of the world most renowned experts in economics and development. These definitions will help clarify Albania's position in today's global markets and it will allow us to highlight the strengths and weaknesses that must be dealt with in order to reach the desired results.

"Globalization is the growing interdependence of the world's people… a process integrating not just the economy but culture, technology, and governance. People everywhere are becoming connected-affected by events in far corners of the world."[2]

"Present day globalization is a unique convergence of technological, economic and political forces of daunting power and influence, having a massive impact on all aspects of public and private life in economic, social, political, and cultural affairs as global, national and local levels. As it influences states and their partner actors, it is also exploited and shaped both positively and negatively by those with the foresight and resources to appreciate its power. Yet, so diverse and overwhelming is globalization's manifold influences that no one group or sector can control or stop it. As such, it has been responded to and manipulated by a range of actors in the public, private and civil society actors, is instigated in good and bad motives, and has benefited some social and economic groups, but has hurt others who have become more vulnerable and disempowered due to its influence."[3]

"Communism abolished the market mechanism and imposed collective control over all economic activities. Market Fundamentalism seeks to abolish collective decision-making and to impose the supremacy of market values over all political and social

2 United Nations Development Program (1999:1)

3 United Nations (2000:10)

values. Both extremes are wrong. What we need is a correct balance between politics and market, between rule making and playing by the rules.

We cannot live as isolated individuals. As market participants, we serve our self-interest, but it does not serve our self interest to be nothing but market participants. We shall need to be concerned with the society in which we live, and when it comes to collective decisions we ought to be guided by society as a whole rather than our narrow self-interest. The aggregation of narrow self interest through the market mechanism brings unintended adverse contingencies. Perhaps the most severe, at the present moment in history is the instability of financial markets."[4]

"(Globalization) it is the inexorable integration of markets, nation-states and technologies to a degree never witnessed before – in a way that is enabling individuals, corporations and nation-states to reach around the world father, faster, deeper and cheaper than ever before, and in a way that is enabling the world to reach into individuals, corporations and nation-states farther, deeper, cheaper than ever before."[5]

The first definition presents UNDP's overview of globalization as an emphasis on the reality of interdependence of people and collaboration of all facets of a society with the economy and the governing bodies so that the integration process is smooth. In fact, UNDP's points out to the interconnected nature of today's global economy.

Based on the second definition which is that presented by the UN it is understood that the UN sees technology, economy, and politics as the main players in today's globalization which has an impact on private activities as well as public sectors worldwide. Being part of the race means utilizing all resources and available power that affects and is affected by all actors within each society. According to the UN, globalization can be a driving force towards success, but it can also be a burden on the weakest actors.

The third definition is given by George Soros who compares the limitations of communism and market fundamentalism in order to highlight the need for balanced

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4 George Soros (1998:xxvvii-xxviii, 96-97)

5 Thomas L. Friedman (2000:9)

action between politics and economics so that progress becomes reality. Soros says that isolation provides no solutions especially in today's reality. However, sole dependency on the financial markets may prove disastrous as it was clearly shown in the few last years.

Finally, in his definition of globalization, Thomas L. Friedman highlights mostly the positive aspects of globalization which can provide an array of opportunities for markets, nation-states and technologies. The only problem that derives from this definition of globalization is that in the race to getting cheaper, deeper, farther not all can be winners and a large number of people will be left behind while a minority will reap the benefits. Approached from this angle, globalization seems to turn into a cut-throat race if all assets are not available or are not put to use to one's advantage.

Knowing how rapid change has affected Albania in the nineties, it becomes clear how its global economic position is weak for a number of reasons where its isolated past certainly plays a major role in undermining its potential. After War World II, Albania entered a long period of political dictatorship causing waves of repression and overall impoverishment of its people and this period of Albanian history is claimed to be as one of the harshest authoritarian regimes in Europe.[6]

During the isolation of communist years, the Albanian population was denied a number of political, social, economical freedoms. Adapting to a new political and economic system proved to be a hard task for Albania which was caught off guard and with serious deficiencies while facing the fast pace, unforgiving nature of global markets. On the other hand, despite negative effects of a one party political system, while being cut off from the rest world, the Albanian people worked hard and achieved significant improvements in education, healthcare, and infrastructure in comparison to what the country inherited after World War II.[7]

These achievements could be used as a springboard to reach new levels of development in all facets of society affecting economic activities and inviting new

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6 A succinct review of Albania's history can be found at the following:

https://www.cia.gov/library/publications/the-world-factbook/geos/al.html#Intro

7 Historical of Poverty and Inequality in Albania: 1990 before and after. INSTAT 2004

partnerships with global actors interested in Albania and the region. So, Albania's economy could only profit by the opportunities of globalization if all its strengths were utilized effectively and if all its weaknesses were diagnosed according to the needs of the day.

Since 1990, Albania has undergone considerable socio-political changes. The notion of good governance has applied to concentration on reforms affecting the economic life of the country and which have taken place at considerable speed. Priority measures include liberalization of prices and trade, privatization of firms which were previously state owned, privatization of strategic sectors, development of the private sector, and important reforms in the social services, healthcare, education, etc. And the final goal achieved by the aforementioned reforms should be a positive direct effect on the lives of the Albanian people. If there is a large number of the population participating in the economic life of the country, the results will be more than perfect and the agility of the overall economy will competitive enough for the global markets.

Lately, the Albanian market is experiencing growth levels, but with the characteristics of an emerging market.

But "Why Albania is still an emerging economy, despite 20 years of capitalist economy?" Some of the reasons answering this question are:

1. Albania has experienced a long transition period and it has not yet fully come out of it. This transition entails the process of moving from a closed economy to an open market economy expressed in economic, political, social and technological terms. Being part of the free world since 1990, Albania has shown positive trends towards progress but these trends continue to be fluctuating in nature. As a result it is difficult to have consolidated tendencies.

The general macroeconomic overview of the economy for the period of time 2000 – 2009, shown by the statistics in the table below explain this status of the economy[8]:

8 USAID & ACIT (2009) Albania 2009 Trade Report

Macro DATA / Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP Growth rate %	6.7	7.9	4.2	5.8	5.7	5.7	5.5	6	6.7	3
Nominal GDP Million ALL	523,043	583,369	622,711	694,098	750,785	814,797	891,000	982,737	1,085,700	1,143,000
Inflation %	4.3	3.5	3.3	3.4	6	3.5	2	3.2	3	2.3
Trade Flows Million ALL	1,911,351	234,811	254,689	279,867	296,892	326,023	375,720	474,602	551,622	534,546
Export Growth %	-2.40%	18.10%	5.60%	18%	14%	6%	17%	25.50%	15.80%	-8.10%
Import Growth%	-7.10%	23.80%	9.10%	8.10%	4.20%	10.80%	14.60%	26.50%	16.30%	-1.80%
Trade Flows growth %	-6.20%	22.70%	8.50%	9.90%	6.10%	9.80%	15.20%	26.30%	16.20%	-3.10%
Openness index %	36.60%	40.20%	40.90%	40.30%	39.50%	40%	42.20%	48.30%	50.80%	46.80%
Imports/GDP %	29.50%	32.70%	33.50%	32.50%	31.30%	31.90%	33.50%	38.40%	40.40%	37.71%
Exports/GDP %	7%	7.50%	7.40%	7.90%	8.30%	8%	8.70%	9.90%	10.40%	9.05%

Table 1

2. Albania must undergo further economic reforms leading to stronger and more responsible economic performance levels. As indicated by the data presented above, the real GDP rate has experienced changes from one year to the next, increasing and decreasing with visible changes from year to year. The goal is to maintain economic factors within predictable levels and to make it easier to predict accurate levels of growth or economic slowdown due to internal or external factors. In order to achieve this stability, the Albanian Government revises and decides on improvements during midterm reviews of the budget.

3. Albanian Governments are in constant communication and receive guidance as well as aid from international organizations such as The World Bank, The International Monetary Fund, The International Finance Cooperation, etc. These relationships add to the commitment of achieving successful implementation of reforms with a direct impact on the macroeconomic outlook of the country.

4. Albania understands and encourages foreign direct investment (FDI) which would revitalize its economy. FDI is seen as having a positive impact on achieving trade balance by increasing the levels of exports. While Albanian products become more competitive in the global markets, the Albanian economy profits from imports of the latest technologies applicable to a number of different production lines.
5. There are still “state-run” sectors or in the process of privatization.

The table below shows the Real GDP of different world economies from 2004 to 2009[9]. Albania in comparison with the developed economies has had higher levels of this macroeconomic indicator and in a growing trend, but in lower figures compared to the other emerging markets and developing economies. However, based on these statistics, it should be highlighted the positive real GDP during 2009. The economic growth of 3% lists Albania among the countries which were not greatly affected by the global crisis of the end of 2008. This can be explained by a variety of reasons but the small proportion of the Albanian economy in the global arena certainly played a role in such results. Albania has experienced expansion but in accordance with its country dimensions and performance could be pictured better in the canvas of the Balkan region. Another fact that deserves attention is the entrepreneurial spirit of the Albanians. The Albanian people undertake risks. Past struggles have not weakened them, quite the opposite, Albanians do not get discouraged easily by bankruptcy and they have strong initiatives to invest in new business fields.

Real GDP	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
World Output	4.9	4.5	5.1	5.2	3	-0.8
Advanced Economies	3.2	2.6	3	2.7	0.5	-3.2
USA	3.6	3.1	2.7	2.1	0.4	-2.5
Euro Area	2.2	1.7	2.9	2.7	0.6	-3.9
Emerging markets and developing economies	7.5	7.1	7.9	8.8	6.1	2.1
Central and eastern Europe	7.3	6	6.6	3.1	-4.3	-3.7
Commonwealth of Independent States	8.2	6.7	8.4	8.6	5.5	-7.5
Albania	5.7	5.7	5.4	6	6.7	3
Developing Asia	8.6	9	9.8	10.6	7.9	6.5
China	10.1	10.4	11.6	13	9.6	8.7
Middle East	5.9	5.5	5.8	6.2	5.3	2.2

Table 2

As we would like to invest in a better future of Albania, firstly we will present the advantages that our country offers to the foreign investors.

9 World economic Outlook Update, IMF, INSTAT

II. Why invest in Albania

"Open market and functional, in accordance with the European Standards", is one of the major priorities of the Albanian Government.[10]

Albania offers significant opportunities to international economic players; as a result it should attract a considerable level of foreign direct investments.

A foreign investor may choose between the following types of doing business in Albania:

- either to set up a locally incorporated company (sole proprietorship, general partnership, limited partnership, limited liability company, joint stock company and joint venture)
- either to establish a branch or representative office

We will list the advantages that Albania offers and why it is an excellent FDI opportunity that may provide substantial profitability for the foreign firms.

1. *Albania has the right legal framework and a liberal regime for foreign investments, which guarantees equal treatment of foreign and local investors.*

According to the Albanian Constitution, the economic system of Albania is based on a free market economy where economic enterprises have their own freedom.

Albania has adapted different laws on explaining, protecting, regulating and encouraging Foreign Investments in the country, such as: The Laws "On Foreign Investments, On entrepreneurs and companies, On concessions, On the National Registration Center" etc.

The Albanian legal framework is often drafted with the assistance of the EU and the US Government in order to reflect the same principles found in western democracies and free market economies. In the last two decades Albania has been undergoing several legislative reforms and this process will continue even in the future as Albania is preparing for becoming a full member of the EU.

Except the legal framework there are also different institutions and organizations that support the Foreign Investments in Albania, such as: the Agency for the Promotion of

10 Program of the European Integration Government 2009-2013

Foreign Investment (APFI), the Agency for Export Promotion (AEP), the Agency for SMEs, the Albanian Centre for Competitiveness and International Trade, the UNDP project, “Support for enhancing regional Trade and attracting new investment to Albania”, International Finance Cooperation (IFC) etc.

2. *Macroeconomic stability*

According to Mr. Ardian Fullani, the Governor of the Bank of Albania[11], Albania has sustained a macroeconomic stability despite the challenging external environment.

While 20 years ago, Albania was one of the most closed countries with a centrally-planned state, now it is one of Europe’s developing countries in transition to become a modern open-market economy. As shown from Table 1 GDP has averaged around 6% between 2004-08[12], but declined to 3% in 2009[13], among the fewest countries with this positive indicator despite the world financial crises. Inflation is low and stable, 2.2% (2009 est.) from 3.4% (2008 est[14].). The table below shows the statistics of these two macroeconomic indicators for 2010 and the predictions for 2011 for Albania and the other countries of the Balkan region.[15]

Country	**GDP % 2010**	**GDP % 2011**	**Inflation 2010**	**Inflation 2011**
Albania	2.6	3.2	3.4	2.9
Bosnia and Herzegovina	0.5	3.0	2.37	2.5
Bulgaria	0.0	2.0	2.2	2.86
Croatia	-1.46	1.64	1.91	2.75
Kosovo	4.55	5.9	1.7	3.2
FYR of Macedonia	1.2	3.0	1.8	3.0
Montenegro	-1.8	4.5	0.6	1.0
Romania	-1.94	1.53	5.8	5.2
Serbia	1.5	3	4.6	4.3

Table 3

11 Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the Seminar “Albania – sustaining macroeconomic stability in a challenging external environment”, Tirana, 4 March 2010

12 CIA data

13 *Ibid*

14 Ibid.

15 IMF – World Economic Outlook Database October 2010

Even in the future, Albania will continue to have positive economic growth and lower inflation. During the last decade, Albania is focused on making progress in increasing economic freedom.

According to a number of global indexes such as publications by the 2010 Economic Freedom, Albania's economic freedom score is 66.0 making its economy the 53rd freest in the 2010 Index out of 182 countries in comparison. It increased by 2.3 points during 2009 and this is due primarily to trade freedom, property rights, fighting corruption and labor freedom[16]. In 2010, Albania is ranked the 25th freest among the 43 countries in the Europe region, and its overall score is above the world average. Following are stated some data:

- Business Freedom 68.0
- Investment Freedom 49.0
- Trade Freedom 85.8
- Financial Freedom 48.5
- Fiscal Freedom 92.6
- Property Rights 48.5
- Government Spending 74.2
- Freedom from Corruption 40.5
- Monetary Freedom 70.6
- Labor Freedom 62.1

These positive indexes stress the belief for secure and profitable investments in Albania.

3. Membership in the international organizations WTO, NATO, EU

Albania has gained membership in prestigious international organizations such as the World Bank and NATO while it is working to gain full membership in the EU. These memberships indicate the level of commitment the Albanian government and people show towards becoming fully integrated in global partnerships of economic, military, and political fields. This is another sign of security with a positive impact on FDI levels in the

16 (The Heritage Foundation & Wall Street Journal)

country. Thus, Albania became the 138th member of the **World Trade Organization** on September 8, 2000. It has agreed to assume its WTO obligations upon accession.

NATO-Albania relations date back to 1992 when Albania joined the North Atlantic Cooperation Council (the Euro-Atlantic Partnership Council renamed in 1997). In April 2008, Albania was invited to start accession talks with members of the Alliance and on the 1st April 2009 Albania officially became a NATO member.

In June 2006, Albania signed **the Stabilization and Association Agreement with the European Union** as the first step toward EU membership.

In October 7th 2010 the European Parliament voted the approval of the liberalization of the visas regime of the Albanian people toward the Shengen zone of EU.

4. *Free Trade Agreements with EU and regional countries*

Additionally, Albania has signed a number of trade agreements with regional countries and alliances in order to increase economic activity and partnerships that may benefit all facets of its society. For example, The "Interim Agreement" with the European Union, which implies that Albania can benefit from a more liberal trade regime, has been in place since 1 December 1st, 2006. The Single Free Trade Agreement and the Central European Free Trade Agreement (CEFTA) of 2006, linking all the Western Balkans and Moldova, were implemented by all parties in November 2007. That was another sign that the orientation of the Albanian trade policy toward the global economy will help stimulating the country's economic growth, welfare and prosperity.

The Free Trade Agreement with Turkey, which is the third country from which Albania imports the most, was also established in May 2008.

5. A strategic geographic position

Albanian serves as connective route in a crucial region of Europe. This strategic geographic position should only add to the levels of interest, Albania receives from possible FDI linkages. The Republic of Albania, situated in the South Eastern Europe, South – West of the Balkan Peninsula, is bordered by Montenegro and Kosovo to the north and the northeast, by Macedonia (FYROM) to the East, by Greece to the south and southeast, and by the Adriatic and Ionian Seas to the west, where is situated Italy (The World Bank Group 2009).

Figure 1

6. *Access to the EU market*[17]

Exploiting the favorable geographic position of Albania, after long negotiations starting in 1994, with the basic vision "Roads bring wealth and welfare", in 2009 finally it has been signed the Memorandum of Understanding, establishing the construction of the Pan European Corridor VIII.

From the transportation point of view, Corridor VIII is a multimodal transport system along the East-West with its main route following Italy (Bari – Brindisi) – Albania (Durres – Tirana) – Macedonia (Skopje) – Bulgaria (Burgas – Varna) axis. There also are branches leading to Greece and, through Corridor IV, to Turkey.

7. *A market in growth*

Both export and imports have grown very rapidly during recent years. The EU is Albania's main trade partner. Trade with South Eastern European countries is now increasing following the introduction of bilateral free trade agreements.[18]

8. *Unexploited natural resources and tourism*

Albania has considerable natural resources as in petroleum, natural gas, coal, bauxite, chromium, copper, iron ore, nickel, limestone, salt, timber, and hydro-electric power.

- Albanian **oil reserves** are estimated at around 550 million tones, what has aroused the interest of some major international companies, including AGIP (Italy), Coparex (France), Naftaplin INA (Croatia), JKX and Premier Oil (Great Britain).

17 www.corridor8.org

18 Tonnuci & Partners, Law Firm (2010) : "Business guide Albania"

Foreign investments could help in regenerating the petroleum industry as well as improving the recovery rates and economic efficiency.

- Albania has considerable **mineral resources**, such as: chromium, copper, nickel and coal.

Before 1990, Albania was the third largest world producer of chromium and it is currently the only European country with substantial reserves of this mineral.
Albania has significant unexploited deposits of bauxite and phosphate, as well as significant reserves of marble and stone.
The growth of this sector is associated with an increase in investments in 2008, which reached the value of USD 54.2 million (32.6 million in 2007).

- Part of the overall aims of the Government of Albania is to transform the country into an energy power, including the construction of the energy **nuclear power plant**.

As a result, on January 2010, National Nuclear Agency was established to set priorities and explore possibilities and limitations that must be addressed for success.

- To a foreign investment in **tourism** Albania offers great landscapes, unspoiled nature and great diversity of options within a small territory.

The Republic of Albania has a surface of 28,748 km2 of which over three quarters are mountains and hills, while the coastal area is flat and about 312 km. Albania has a typically Mediterranean climate, with cool, wet winters and warm, dry summers. Albania observes Central European Time (GMT +1) during the fall and winter months and Daylight Savings Time (GMT +2) from March through October. All these characteristics give Albania the potential to develop all kinds of tourism.
Albania also offers a great variety of cultural and historical attractions on a small territory. Not just an object or two, but entire towns (Berat, Gjirokastra, Butrinti) have been declared to be part of the cultural patrimony of the world, under UNESCO protection.
The investors could also profit from the affordable prices of accommodation, meals and travel in Albania, below the level of the same costs in Western Europe.

9. Procedural facilities

- The Albanian Government has pursued a policy of facilitating the licenses procedures and promoting the natural resources of the country. This initiative has attracted potential investors such Antea Cement, Cementos Aquila, Tirex Canada, the Austrian group DecoMetal (DCM), the Italian companies Fassa, Colacem and Seasif Group etc.

- Despite the high cost of starting a business (16.8 % of income per capita) in comparison with the average cost of other OECD countries, the average time in days for Starting a business in Albania is 5 days compared to 13 days for the OECD Average.19
- Doing progress in the areas of "Foreign firms obtaining credit" and "Protecting Investors" placed Albania in the top 10%, ranking 15th out of 183 countries in both these facets, for 2010.[20]
- The instituting and applying of a one-stop shop for registering a new business is another facility that offers Albania to foreign investors.

10. Numerous sectors in privatization and concession

Sectors of telecommunication, oil and gas, the state company of water supply and others offer profitable possibilities to be developed via privatization or concession.
The state-owned insurance company INSIG is also set for privatization.

11. Low labor cost with great availability of a skilled and productive work force

The costs of doing business in Albania are very competitive, both in terms of labor and general overhead costs. One of the Albanian's main strength is a low cost labor environment, but high in quality and motivation, with high levels of language skills and adaptability.
Albania has a population of 3.6 million inhabitants (July 2010) which consists mainly of ethic Albanians (98%). The population is relatively young. The average age is 30 years old (men 28.9 years and women 31.1 years old).[21]
The official language is Albanian Language, which is written in Latin script. Due to Albania's proximity to Italy, many Albanians speak Italian and English is a mandatory foreign language since the first grade of elementary school and is widespread spoken.
The average gross salary costs range from € 315 per month for customer service employees to just over € 415 for data entry/processing employees and € 500 for

19 The World Bank Group, 2009

20 Doing business 2011 report of IFC and World Bank

21 https://www.cia.gov/library/publications/the-world-factbook/

accountants and these savings on wage costs positioned Albania as highly competitive.[22]

12. Commercial Centers

A very important new trend lately developed very fast in Albania is the investment in constructing shopping malls. With the growth of economy and social development, commerce is moving from small shops and boutiques to big shopping malls, established in city centers or outside them.

III. Disincentives of investing in Albania

Economic history has shown that foreign direct investments have had a major impact on the economic growth of a country. Albania, as still in its developing phase, despite its strategic objective to attract foreign investments and its real progress done, has also many disincentives that make more difficult the attractiveness of the foreign investors. Albania, despite having made considerable progress in its strategic objective of attracting foreign investments, as a country that continues to be in a transitive phase, it still presents a number of disincentives that dissuade foreign investors from entering its market. We will point out some of these obstacles:

- The Albanian capital markets remain among the most embryonic within the whole of the central and Eastern Europe region.
- The stock market remains inactive. Tirana stock exchange was intended to begin operations as a department of the Albania's Central bank since 1996, but no shares are listed yet.
- The financial system is relatively underdeveloped by western standards. Even though 17 private banks have expanded their services, the use of cheques and credit cards is still not widespread. Although short-term credit is available, it is extremely expensive and difficult to obtain it without large collateral security.
- Land rights are not well defined. Also protection of intellectual rights is weak.

22 Business Guide – Albania 2010 Tonucci & Partners)

- Corruption in Albania is still widespread. Albania ranks 87th out of 178 countries in Transparency International's Corruption Perceptions Index for 2010. The tax evasion is part of the culture. This happens even because of weak anti-money laundering laws, but the major reason is the political interference into the judicial system.[23]

IV. Macroeconomic Factors determining FDI in the case of Albania

Through the analysis of our model we will attempt to explain the main macroeconomic factors determining FDI levels in Albania.
First of all we have divided the factors in two groups: structural factors and external factors.
The structural factors are as followed:

1. The size of the economy is a main determinant with an impact on increasing foreign inflows of capital in a country. We will measure the Market size by the Growth of GDP. Since Albania is a market in growth, we assume that the growth of GDP will be a significant factor in the model. This indicator is calculated by Ministry of Finances and the National Institute of Statistics INSTAT. (In our econometric model the variable will be labeled as G)
2. Unit Labor Cost is as well an important factor. In our case we will use the Minimum Wage registered at INSTAT as a proxy for the Labor Cost. (In the model the variable will be labeled as PAGA1)
3. Human Capital is another essential factor in the location of foreign firms; in our case we will measure this factor by the Ratio of Population able to work, an indicator as well also calculated by INSTAT. (In the model the variable will be labeled as POP)
4. The dynamic nature of the market, factor related to how much investments are made in a country, not only public investments made by the government but as well from foreign investors. In our case this factor will be measured by Rate of

23 http://www.euromonitor.com/

Investment/GDP calculated by Central Bank of Albania. (In the model the variable will be labeled as RINV)

5. Macroeconomic stability. The existence of a stable macroeconomic situation is favorable when an investment in a foreign country is made, so in our model this factor will be measured by Inflation, an indicator calculated by Central Bank of Albania. (In the model the variable will be labeled as INFL)
6. Level of Corruption in the country affects all the economy of that country so by default affect foreign investments as well. The effect of this factor will be measured by the Corruption Perception Index, an indicator calculated by Transparency International. (In the model the variable will be labeled as CPI)
7. The effectiveness of the Competition Policy and Competition Law. This factor will be measured by the Effectiveness Competition Index, calculated by the World Economic Forum.[24] (In the model the variable will be labeled as EIF)
8. Changes in Regulation or Policies may affect the flows of FDI. In our case we have taken into consideration two main changes happened. In 2006, two regional free trade agreements were assigned CEFTA and MTL with Turkey. (In the model the variable will be labeled as MTL_CEFTA)

External factors are as followed:

9. Trade performance on import, factor measured by Import/GDP. Imports are calculated by Albanian Custom Office. (In the model the variable will be labeled as M/GDP)
10. Trade performance on export, factor measured by Export/GDP. Exports as Imports are both calculated by Albanian Custom Office. (In the model the variable will be labeled as X/GDP)

Data and the econometric model

The econometric model that will be analyzed is log-linear as it is shown below: LnYit= ait + βLnXit + uit, where uit is the error. This model will aim to explain the dependency

23 The Index takes values from 1-7, where the value 1 shows that Anti-Monopoly Policy is not effective at all and does not encourage the competition in the market and the value 7 shows that this Policy is effective. This index is calculated through surveys by WEF.

between the explained variable FDI through the other explanatory's variables that are in the following two models:

The first case will show the dependency of the foreign direct investments with the structural and external variables, and the second case will define the best model (meaning including and excluding variables). We will add the dummy variable MTL_CEFTA that will test the importance of changes in regulation or policy in the foreign trade.

(1*) $LnFDI/GDP = \beta_0 + \beta_1 LnG + \beta_2\, Paga1 + \beta_3 LnPOP + \beta_4 LnRINV + \beta_5 LnInfl + \beta_6\, LnM/GDP + \beta_7 LnX/GDP + \beta_8\, LnCPI + \beta_9\, LnEFI + u_t$;

(1**) $LnFDI/GDP = \beta_0 + \beta_1 LnG + \beta_2\, Paga1 + \beta_3 LnPOP + \beta_4 LnRINV + \beta_5 LnInfl + \beta_6\, LnM/GDP + \beta_7 LnX/GDP + \beta_8\, LnCPI + \beta_9\, LnEFI + \beta_{10} MTL\_CEFTA + u_t$

Restrictions of the model and the sources of the data

- We have managed to find the data available for our model only from 1996 till 2009 so the sample of data is limited in n=13.
- Since we analyze in regression a model with multiple explanatory variables and our set of time series data is n=13, the results of this model might have been more relevant and more close to reality if we could find data's for a longer period of time.
- The time series of data are taken from various sources like, Ministry of Finances, Bank of Albania, World Bank, International Monetary Fund, National Institute of Statistics INSTAT, Ministry of Economy, Trade and Energy METE, CIA Fact book, Transition Report and so on.
- We cannot make a cross country analysis between Albania and other countries.
- We will introduce a dummy variable MTL_CEFTA that takes the value 1 from the year 2006 when the agreements are assigned and the values 0 before that year.
- The model does not conclude with forecast after the regression.

Regression and analyses

While processing the data with the OLS regression in the model we put the significance level 5% and we use the Enter method.

We have analyzed several models by including and excluding variables and below we will show the results made by the SPSS software. We have tested the multicolinearity, heteroschedasticity[25] and the autocorrelation[26] of the residuals through various tests and the results will be given in the table below:

(1)	**Ln FDI/GDP = -7.161 - 0.287 LnG +3.2 LnRinv + 0.609 LnInfl**	**R^2=91.3%**
(2)	**Ln FDI/GDP = -4.758 – 0.262 LnG + 2.426 LnRinv +0.521 LnInfl +0.107 LnPop**	**R^2=96.8%**
(3)	**Ln FDI/GDP = -3.254 – 0.201 LnG + 2.243 LnRinv + 0.603 LnInfl + 0.079 LnPop + 0.423 PAGA1**	**R^2=97.4%**
(4)	**Ln FDI/GDP = -2.873 – 0.113 LnG + 2.401 LnRinv + 0.582 LnInfl + 0.086 LnPop + 0.619 PAGA1 + 0.486 LnM/GDP – 1.071 LnX/GDP**	**R^2=97.5%**
(5)**	**Ln FDI/GDP = -3.796 – 0.175 LnG -1.525LnRinv + 0.287Ln Infl +2.557 LnM/GDP +2.839 LnEIF + 1.713 LnCPI**	**R^2=100%**
(6)[27]**	**Ln FDI/GDP = 1.751 – 0.34 LnG +0.55 Ln Infl +0.069 LnPOP + 1.215 LnEIF + 0.854 LnCPI + 0.315 MTL_CEFTA**	**R^2=100%**

Table 4

It is worth noting almost in all the models, there is a negative relationship of LnFDI/GDP with the intercept. As we may notice in different models the factors like Rate of investments, Inflation, Human capital, amount of wages, effectiveness of competition Law and index of corruption have a positive effect in FDI. There might look strange the negative/positive signs of relationship with growth of GDP, Imports and Export, but that have the explanation related with the fact that we took in regression the variable FDI/GDP and the other variables are divided by GDP as well so these variables might be correlated.

In the 5th model we have reached the model with high significance and R^2 near to 100%. We find a negative relation of LnFDI/GDP with the intercept, growth of GDP and rate of investment, and a positive relationship with inflation, imports, and effectiveness

25 White Test

26 Durbin –Watson test

27 The models with ** are the best models after the evaluation of R^2 and signification of variables

of competition law and index of corruption. While the variables like exports, number of population able to work and their wage are excluded from the 5th model.

In the 6th model, we have run the regression including the dummy variable of trade agreements and it resulted that this factor is very significant in a positive relationship with the explained variable. Thus, including this variable in the model changes the other main significant variables that determine FDI; it is understood that the most important variable points to the number of population able to work rather than imports or exports. This may be explained by the correlation coefficients between factors as shown in the annex of this paper.

To sum up we have tried to identify the importance and the factors that determine the FDI through different models, and according to different combination of the factors in models, we conclude that these factors that we have taken in consideration are important.

All the models we run in regression are significant but not all the variables included and excluded individually are significant.

V. Benchmark with the region

Year FDI Million$	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Albania	97	42	45	51	143	207	135	178	324	258	315	647	844	650
Bosnia and Herzegovina	0	0	100	90	146	119	266	382	708	608	718	2088	1003	600
Bulgaria	138	507	537	802	998	803	876	2070	2879	4005	7583	11433	8472	5775
FYR Macedonia	11	30	128	32	175	441	105	117	322	94	424	700	612	300
Montenegro						10	84	44	63	482	585	717	805	638
Romania	415	1267	2079	1025	1051	1154	1080	2156	6368	6587	10957	9629	13519	4900
Serbia	0	740	113	112	50	165	475	1365	966	1550	4264	2523	2717	1400
Total	661	2586	3002	2112	2563	2899	3021	6312	11630	13584	24846	27737	27972	14263

Table 5

The above table shows the FDI inflow for the Balkan region[28].

28 IMF, central banks and EBRD

Differently by Bosnia and Herzegovina, Montenegro, Serbia or even FYR Macedonia, for this period of time we have taken for evaluation (1996 - 2008), Albania shows a growing trend in attracting FDI. 2009 makes exception for every country with lower values. The global financial crises scared and stepped back the foreign investors.

While the high FDI in Bulgaria and Romania was one of the factors that helped these two countries in their final goal to become members of EU in 2007, it also created a big gap with the other countries of region. Being part of a bigger family, has its difficulties, requiring adaptation and maintenance of standards in order to survive, higher competition etc, but it also offers too many advantages like more possibilities, more options to be chosen, which should be used in the right direction of profit.

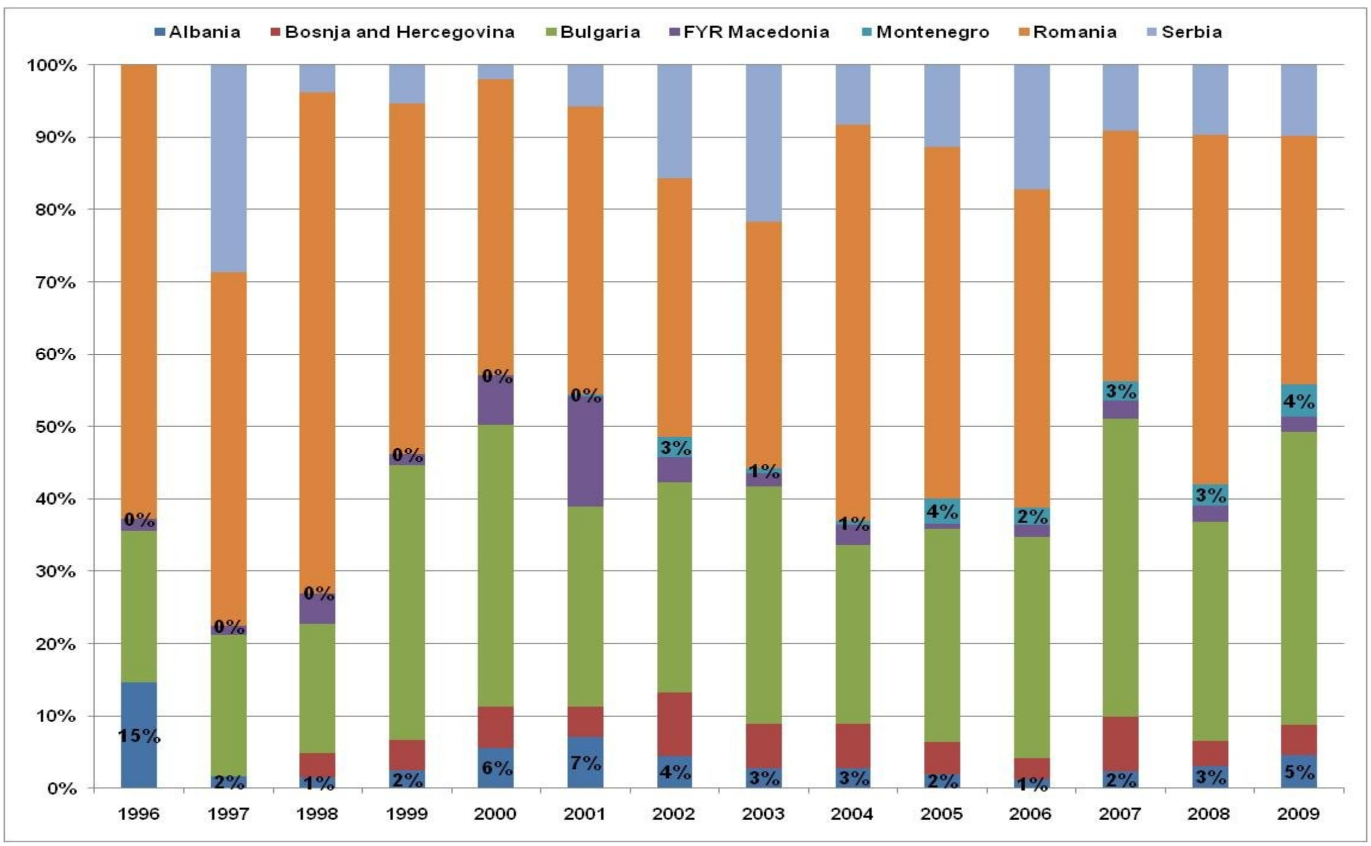

Figure 2

In the figure 2 we have shown in the percentage of FDI for each country to the total inflows in Balkan region. As noted, Albanian FDI is more comparable with the FDI of Montenegro, Bosnia and Herzegovina and FYR Macedonia.

Political instability, high levels of corruption, low intra-regional trade and the small size of national markets are some of the causes that have prevented the development of these countries same as Romania and Bulgaria.

Comparing the time needed to start a business, Albania has made excellent progress. Minimizing this administrative bureaucracy in only 5 days, making more useful the electronic way of registering or controlling a business application, are some comparative advantages of Albania in attracting the FDI.[29]

Country	2005	2006	2007	2008	2009
Albania	41	39	36	8	5
Bosnia and Herzegovina	54	54	54	60	60
Bulgaria	32	32	32	49	18
FYR Macedonia	48	18	15	9	4
Montenegro	24	24	24	21	13
Romania	11	11	14	10	10
Serbia	23	23	23	23	13

Table 6

But more reforms should be undertaken in order to lower the costs of starting a business.[30] The dysfunction of the free market and free competition and the other non economical reasons stated above have affected in the high levels of this percentage.

Cost to start a business

Country	Cost (% of income per capita)
Albania	16.8
Bosnia and Herzegovina	17.7
Bulgaria	1.6
FYR Macedonia	2.5
Montenegro	1.9
Romania	2.6
Serbia	7.9

Table 7

The economical perspective of the Balkan Peninsula is a regional economy, beyond the national economy. Albania has just begun being part of this difficult and long process by constructing the highways which will connect Albania with Kosovo but also with Serbia

29 The World Bank 2010

30 Doing Business 2010

and other parts of the region. Other joint projects are the creation of a common energy network in the region, or the common financial market is also another important step. However, the main goal is always stability, which should be reflected in financial terms in terms of inflation, or price stability. This is very important for all investors, domestic or foreign ones. Any kind of stability in every country is also important for the entire region. The favorable geographical position of Albania serves as a bridge to link east with west, and as the gate and image where the Balkans are going.

In a more global benchmark it is to be underlined the fact that the development of Albania is created over the years, achieved by its people, despite the purchased and fast development of some rich countries (the Arabic ones) because of their oil resources.

V. How will the Albanian Market be more competitive?

The Global Competitiveness Report 2009-2010 of the World Economic Forum ranks Albania at 96th position out of 133 countries/economies. In the previous year's Report Albania was ranked at the 108th position out of 134 countries/economies. It has climbed 12 scales but still it's not enough. The process of globalization is a reality now and Albania is totally affected by it in every field. As every other process, globalization has its own advantages and disadvantages. In order to have a more profitable integration Albania should:

- Maintain the macroeconomic stability and economic growth achieved for years

One of the highest ranked pillars according to the above report was the macroeconomic stability (4.24 points) in a range 1- 7.

The large number of reforms, under which Albania has been during these last 20 years, has assisted in its present macroeconomic stability. But Albania still consists of a mosaic of elements part of different economic models. It is now time for the Albanian economy to decide its capitalist economic model.

The Albanian society should choose between: 1- the English model with absolute individual freedom, low taxes and major services offered by the private sector; 2- the German model applied most in the Scandinavian countries, according to which the public services are offered by the state, but with high taxes; 3- the French model where the state is the arbiter between the employer and the employee unions; or 4- a mixture of the aforementioned models.

It is understandable that the specific elements of every economic model should be applicable in the conditions and characteristics that Albania offers. But is very important to be decided the same major rules and practices through which to be continued.

- Continue with the improvements in infrastructure, with the technological innovation and the human capacity development

According Transparency International, Innovation has been ranked among the lowest pillars with 2.43 points, infrastructure with 2.84 points and market size with 2.84 points. Through innovation it is easier to penetrate the foreign markets, as a final result to have lower unemployment, better economic situation and better living standards.

- Ensure the rights of both foreign and local investors

The investors need to be secure for their money invested. Only the market and the free competition should decide which business investment should survive or not.

- Continue the cooperation between regional countries in particular and others in general. None can develop and go forward alone, without collaboration especially with neighbors that have the same main characteristics. There are many agreements signed, but the main duty is to practically implement them.

- Continue the war against corruption in every field

Albania has chosen its main direction of a democratic system of development. But according Transparency International's 2009 Corruption Perceptions Index Albania is ranked 87th among 178 countries in comparison. Corruption is still a real problem of the Albanian society, reflecting obstacles in the economic development.

VI. Conclusions and Recommendations

- In this paper we tried to provide an overview of the Albanian market, reasons why to invest in Albania, constraints facing foreign investors interested in extending their business in Albania, what are the main factors that determine FDI and how the actual situation is part of globalization and global markets?
- The previous low level of foreign interest was largely due to the fact that Albania's international image was poor, but during recent years the Albanian FDI has increased. This is connected with improvements made within the country related to the macroeconomic stability but also depending on other factors.
- FDI plays an important role in the developing of the Albanian economy. Attracting foreign investments permit the transfer of new technologies and assists in competition between producers within the local market. Gains in the economy include development of skills, and human capital resources. The creation of new jobs lead to incensing of the salaries of workers and this leads to lifestyle enhancement.
- There are various macroeconomic factors that determine the FDI in Albania, and we built some econometric models to estimate their importance. We found that structural factors related to market dynamism, stability, human capital, changes in regulation and so on are very important. On the other hand external variables regarding trade performance are as well important.
- We are conscious that might be other factors not taken in consideration in this paper that may have crucial influence in FDI, so we recommend other researchers to further our study with other papers related to this topics in order to give a wider view and monitor periodically the power of the Albanian market in worldwide markets.
- We suggest and ensure foreign investors that it is profitable to expand their investments in Albania.

- We want to advertize young researches like us so that we have opportunities to further economic research and present our results and analysis on international discussion settings that will be beneficial for all involved parties.

“Not so long ago, when the Balkans were considered an ‘only for the brave’ travel destination, only the bravest of the brave trickled into Albania”. Since backpackers started coming to elusive Albania in the 1990s, tales have been told in ‘keep it to yourself’ whispers of azure beaches, confronting good cuisine, heritage sites, nightlife, affordable adventures and the possibility of old-style unplanned journeys complete with open-armed locals for whom travelers are still a novelty. Sick to death of being dismissed with blinked-up crime-boss clichés, Albania has announced ‘A New Mediterranean Love’ via its tourist board. The jig is almost up – Albania won’t be off the beaten track for much longer.[31]”

This statement is extracted from the Lonely Planet website which ranks Albania as the number one place to be visit next year. Even if it is not sufficient as a long term strategy, tourism will definitely have a positive effect on Albania’s economy and its international image.

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31 Lonely Planet’s top 10 countries for 2011

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ANNEX

Correlations

		LNFDI	LNGDP	LNRINV	LNINFL	LNM	LNX	LNEIF	LNCPI	PAGA1
	Pearson Correlation	1	-.590*	.866**	-.598*	.882**	.845**	.765**	.922**	.853**
	Sig. (2-tailed)		.034	.000	.024	.000	.000	.001	.003	.000
LNFDI/GDP	N	14	13	14	14	14	14	14	7	14
	Pearson Correlation	-.590*	1	-.640*	.630*	-.718**	-.613*	-.421	-.332	-.668*
	Sig. (2-tailed)	.034		.019	.021	.006	.026	.152	.468	.012
LNG	N	13	13	13	13	13	13	13	7	13
	Pearson Correlation	.866**	-.640*	1	-.858**	.927**	.886**	.692**	.727	.878**
	Sig. (2-tailed)	.000	.019		.000	.000	.000	.006	.064	.000
LNRINV	N	14	13	14	14	14	14	14	7	14
	Pearson Correlation	-.598*	.630*	-.858**	1	-.791**	-.794**	-.513	-.402	-.832**
	Sig. (2-tailed)	.024	.021	.000		.001	.001	.060	.372	.000
LNINFL	N	14	13	14	14	14	14	14	7	14
	Pearson Correlation	.882**	-.718**	.927**	-.791**	1	.969**	.614*	.951**	.875**
	Sig. (2-tailed)	.000	.006	.000	.001		.000	.020	.001	.000
LNM	N	14	13	14	14	14	14	14	7	14
	Pearson Correlation	.845**	-.613*	.886**	-.794**	.969**	1	.675**	.877**	.895**
	Sig. (2-tailed)	.000	.026	.000	.001	.000		.008	.010	.000
LNX	N	14	13	14	14	14	14	14	7	14
	Pearson Correlation	.765**	-.421	.692**	-.513	.614*	.675**	1	.325	.827**
	Sig. (2-tailed)	.001	.152	.006	.060	.020	.008		.476	.000
LNEFI	N	14	13	14	14	14	14	14	7	14
	Pearson Correlation	.922**	-.332	.727	-.402	.951**	.877**	.325	1	.875*
	Sig. (2-tailed)	.003	.468	.064	.372	.001	.010	.476		.010
LNCPI	N	7	7	7	7	7	7	7	7	7
	Pearson Correlation	.853**	-.668*	.878**	-.832**	.875**	.895**	.827**	.875*	1
	Sig. (2-tailed)	.000	.012	.000	.000	.000	.000	.000	.010	
PAGA1	N	14	13	14	14	14	14	14	7	14

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Model (1) $\ln FDI/GDP = -7.161 - 0.287 \ln G + 3.2 \ln Rinv + 0.609 \ln Infl$ $R^2 = 91.3\%$

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.913[a]	.833	.778	.32309	.744

a. Predictors: (Constant), LNINFL, LNG, LNRINV b. Dependent Variable: LNFDI/GDP

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.701	3	1.567	15.012	.001[a]
	Residual	.939	9	.104		
	Total	5.641	12			

a. Predictors: (Constant), LNINFL, LNG, LNRINV

b. Dependent Variable: LNFDI/GDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-7.161	2.478		-2.890	.018
	LNG	-.287	.265	-.197	-1.084	.307
	LNRINV	3.200	.649	1.253	4.928	.001
	LNINFL	.609	.236	.648	2.575	.030

a. Dependent Variable: LNFDI/GDP

Model (2)

Ln FDI/GDP = -4.758 – 0.262LnG + 2.426 LnRinv +0.521 Ln Infl +0.107 Ln Pop

R^2 = 96.8%

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.968[a]	.938	.907	.20934	2.692

a. Predictors: (Constant), LNPOP, LNG, LNINFL, LNRINV

b. Dependent Variable: LNFDI/GDP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.290	4	1.322	30.177	.000[a]
	Residual	.351	8	.044		
	Total	5.641	12			

a. Predictors: (Constant), NPOP, LNGDP, LNINFL, LNRINV

b. Dependent Variable: LNFDI/GDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4.758	1.734		-2.743	.025
	LNG	-.262	.172	-.180	-1.525	.166
	LNRINV	2.432	.470	.952	5.174	.001
	LNINFL	.521	.155	.555	3.360	.010
	LNPOP	.107	.029	.402	3.666	.006

a. Dependent Variable: LNFDI/GDP

Model (3)

Ln FDI/GDP = -3.254 – 0.201LnG + 2.243 LnRinv + 0.603Ln Infl +0.079 Ln Pop + 0.423 PAGA1

R^2 = 97.4%

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.974[a]	.948	.911	.20439	2.551

a. Predictors: (Constant), PAGA1, LNG, LNPOP, LNINFL, LNRINV

b. Dependent Variable: LNFDI/GDP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.348	5	1.070	25.604	.000[a]
	Residual	.292	7	.042		
	Total	5.641	12			

a. Predictors: (Constant), PAGA1, LNGDP, NPOP, LNINFL, LNRINV

b. Dependent Variable: LNFDI/GDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.254	2.120		-1.535	.169
	LNG	-.201	.176	-.138	-1.147	.289
	LNRINV	2.243	.486	.878	4.612	.002
	LNINFL	.603	.167	.642	3.620	.009
	LNPOP	.079	.037	.298	2.154	.068
	PAGA1	.423	.359	.274	1.180	.277

a. Dependent Variable: LNFDI/GDP

Model (4)

$$Ln\ FDI/GDP = -2.873 – 0.113LnG + 2.401\ LnRinv + 0.582Ln\ Infl +0.086\ Ln\ Pop + 0.619\ PAGA1 + 0.486LnM/GDP – 1.071LnX/GDP$$

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.975[a]	.951	.882	.23565

a. Predictors: (Constant), LNX, LNG, LNPOP, LNINFL, PAGA1, LNM, LNRINV

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.363	7	.766	13.796	.005[a]
	Residual	.278	5	.056		
	Total	5.641	12			

a. Predictors: (Constant), LNX, LNG, LNPOP, LNINFL, PAGA1, LnM/GDP, LNRINV

b. Dependent Variable: LnFDI/GDP

R^2=97.5%

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.873	2.964		-.969	.377
	LNG	-.113	.282	-.077	-.400	.705
	LNRINV	2.401	1.624	.940	1.479	.199
	LNINFL	.582	.209	.620	2.782	.039
	PAGA1	.619	.590	.401	1.050	.342
	LNPOP	.086	.050	.325	1.718	.146
	LnM/GDP	.486	1.509	.184	.322	.761
	LnX/GDP	-1.071	2.254	-.359	-.475	.655

a. Dependent Variable: LNFDI

Model (5)

Ln FDI/GDP = -3.796 – 0.175 LnG -1.525LnRinv + 0.287Ln Infl +2.557 LnM/GDP +2.839 LnEIF + 1.713LnCPI

$R^2 = 100\%$

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
1.000[a]	1.000	.	.

a. Predictors: (Constant), MTL_AL, LNG, LNEIF, NPOP, LNINFL, LNCPI

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.347	6	.224	.	.[a]
	Residual	.000	0	.		
	Total	1.347	6			

a. Predictors: (Constant), LNCPI, LNEIF, LNGDP, LNINFL, LNRINV, LnM/GDP

b. Dependent Variable: LNFDI/GDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.796	.000		.	.
	LnG	-.175	.000	-.137	.	.
	LnRINV	-1.525	.000	-.259	.	.
	LnINFL	.287	.000	.213	.	.
	LnM/GDP	2.557	.000	.554	.	.
	LnEIF	2.839	.000	.408	.	.
	LnCPI	1.713	.000	.491	.	.

a. Dependent Variable: LNFDI/GDP

Excluded Variables[b]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	PAGA1	.[a]	.	.	.	.000
	LnX/GDP	.[a]	.	.	.	.000
	LnPOP	.[a]	.	.	.	.000

a. Predictors in the Model: (Constant), LNCPI, LNEIF, LNG, LNINFL, LNRINV, LNM

b. Dependent Variable: LNFDI/GDP

(6)

Ln FDI/GDP = 1.751 – 0.34 LnG +0.55Ln Infl +0.069LNPOP + 1.215 LNEIF + 0.854LnCPI +0.315 MTL_CEFTA

R^2 = 100%

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	1.000	.	.

a. Predictors: (Constant), MTL_CEFTA, LNG, LNCP, LNPOP, LNINFL, LNCPI

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.347	6	.224	.	.[a]
	Residual	.000	0	.		
	Total	1.347	6			

a. Predictors: (Constant), MTL_CEFTA, LNG, LNCP, LNPOP, LNINFL, LNCPI

b. Dependent Variable: LNFDI/DGP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.751	.000		.	.
	LNG	-.340	.000	-.267	.	.
	LNINFL	.550	.000	.408	.	.
	LNPOP	.069	.000	.437	.	.
	LNEIF	1.215	.000	.175	.	.
	LNCPI	.854	.000	.245	.	.
	MTL_CEFTA	.315	.000	.355	.	.

a. Dependent Variable: LNFDI/FDI

Excluded Variables[b]

Model		Beta In	T	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	LNRINV	.[a]	.	.	.	.000
	PAGA1	.[a]	.	.	.	.000
	LnM/GDP	.[a]	.	.	.	.000
	LnX/GDP	.[a]	.	.	.	.000

a. Predictors in the Model: (Constant), MTL_CEFTA, LNG, LNEIF, LNPOP, LNINFL, LNCPI

b. Dependent Variable: LNFDI/GDP