COMPETITIVENESS IN THE LABOR MARKET AS A FACTOR OF FOREIGN DIRECT INVESTMENTS' (FDI) ATTRACTION: CASE OF ALBANIA

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Abstract

Foreign Direct Investment (FDI) is seen as a catalytic of economic growth, especially, in developing countries and the ones in transition. In these countries, the inflow of FDI is suggested to have improved management of technical change, sourcing, marketing and training, and capability enhancement.

But, to take the best spillovers from FDIs, it depends, too, on the strategy of Local Government, which can contribute on the improvement of the competitiveness of the market. The competitiveness of the market, such as: the formation and training of the workforce; exploitation of knowledge and techniques of returnees etc, helps to attract foreign investors.

This paper is a literature review and has on focus to identify the role of FDIs and the role of market competitiveness (focusing in human resources development) on attracting foreign investors: case of Albania. It will serve on understanding the importance of FDIs and the work that have to be done on the improvement of the market competitiveness. It serves same as for academics, as well as for local governments units in our country.

Keywords: Foreign Direct Investment, human resources, competitiveness, Albania

1. INTRODUCTION

One of the most important features of globalization over the past decade is the rapid growth of Foreign Direct Investments (FDI) flows. FDI brings not only increased access to foreign markets, an increase in the level of trade and employment, but also bring new products and new information technology.

According to various publications during the past two decades, many developing countries show an increase in FDI and the impact on their economies. Thus, the countries aim to create an attractive climate for FDIs, but to create such a climate depends on a number of factors. One of these factors, even more important, is human capital. Often times (based on various publications have shown the link between human resources (HR) and FDI) growth of these foreign investments is driven by the level of human capital. A high level of human capital is based on level of education and vocational training.

1.1 Purpose

The purpose of this paper is the identification of factors that influence in attracting FDIs or the creation of an appropriate climate to attract investments, focusing here on the factor: human capital.

1.2 Objectives

- Understanding the main forms of FDIs and how they appear.
- Overview of the role of FDIs in developing countries and the factors attractive to FDIs in developing countries.
- Provision of evidence from the literature on the connection between human resources and the role played by FDIs
- Brief overview on FDIs in Albania and on the competitiveness of the domestic market, as incentives for attracting FDIs.

2. FOREIGN DIRECT INVESTMENTS (FDI) AND THEIR FORMS

Direct investment is the category of international investment in which a resident entity in one economy (direct investor) obtaining a lasting interest in an enterprise resident in another economy (direct investment enterprise). They express the amount of capital a company has in another country which provides a significant degree of direction.

Investments from the beginning (Greenfield investment); represent a net increase in capital stock in the host country by achieving investments from the beginning and providing new tools. These can be direct investments in new equipment, or expansion of existing equipment. "Investments from the beginning", are the primary targets for the development of the host country for creating new production capacities and jobs, transfer technology and technical skills, and are able to link with global markets.

Acquisitions and Mergers in contrast to Greenfield investment represent a change in ownership of the existing production capacity in the host economy. *Acquisitions* occur when there is transfer of assets to a local firm in a foreign country, and this is the primary type of FDI. This method is used in transition countries because of the need for privatization of large enterprises and medium enterprises in these

countries. *Mergers* occur when assets and the operating mode of firms from different countries is combined in such a way as to create a new legal existence
FDIs oriented to sources: these types of investments try to exploit the comparative advantage of the country in which the investment is made. Such companies invest in countries rich in mineral resources and in countries where there is a low labor cost or a high level of specialization of it. In general, companies that undertake such types of investment are based on production for export.

FDIs oriented to the market: These types of investments are made to enter into new markets, usually in neighboring countries. Companies that take these types of investments aim at expanding their markets in response to increased demand for their products. FDIs market-based strategies are used by companies to protect against import barriers.

FDIs oriented to efficiency: these types of investments are made when companies want to consolidate operations on a product or process based. They are held in open markets and well developed. They are typical for Europe and North America.

3. THE ROLE OF FDIS IN DEVELOPING COUNTRIES

Due to the globalization, the role of Foreign Direct Investments (FDIs) is increased. They play a significant role in developed and developing countries, contributing at the economic growth of countries, in the restructuring of enterprises, in the transfer of capital and know-how.

Foreign investments have a great importance for developing countries and the ones in transition. According to EBRD (1994), transition is the process through which it aims to establish and develop an open market. It includes the change and creation of new institutions.

FDIs play an important role in the specialization of the economies in transition and the growth of exports to these countries. This is mainly because, first of all in the process of attracting FDIs, economies aim to improve by creating and developing new fields with innovation compared to traditional areas/activities; secondly, FDIs are the main source of economic restructuring and modernization of production and thirdly, the increased flow of FDIs leads to increased production quantity.

Foreign direct investments are an important factor in the transition process that helps in restructuring businesses; in the transfer of knowledge and capital.[1] According to Koechlin (1992), the combination of wages with possession of abilities which is found in Central and Eastern Europe market (CEE) is believed to be an important factor in attracting investments in these foreign countries. In these countries, the inflow of FDIs is suggested to have improved management of technical change, sourcing, marketing and training, and capability enhancement.

[1] MF, WB, OECD, and EBRD. (1991), A Study of the Soviet economy. Paris.: International Monetary Fund

The impacts that foreign investment flows have in hosting countries vary. Some theories stress direct effects of FDIs, such as: in employment and in salary (compensation). While other theories stress indirect effects like: transfer of technology and knowledge, changes in the market structure and in the level of competiveness in the hosting countries. Although, the level of transfer of technology by foreign investors depends on the strategy of Local Government and foreign investors.

Multinational Companies (MNC) decide to transfer different technology to different markets, according to local characteristics. Foreign investment flows increase if local markets abilities/skills improve or if they create new abilities/skills attractive to foreign investments, otherwise the flow of foreign investments will remain fixed or will experience a decrease.

3.1 The main effects of FDIs

There are considered to be some positive effects of Foreign Direct Investments (FDIs), such as:

- More stable version of an investment. This is because they do not constitute an investment easily transferable within a short time.
- Influence on increasing employment. This is the direct impact of FDIs; therefore it is therefore a direct means of reducing unemployment in the country. Although this is a purely quantitative aspect it is particularly important because it increases the welfare of a country.
- Transfer of production technology. Introduction of a more advanced technology through a foreign firm has a transformative effect on the entire sector because this technology will start to be used by domestic firms to respond to increased competition in this sector. This is a real step in development because it creates the possibility of producing value-added products with higher than previous production.
- Transfer of the most efficient ways of industrial organization and management. Foreign investors have technological, financial and managerial advantages for a transformation deeper and faster than the domestic ones in the sector where they invest. This is most evident in economies that are in the process of transition to a market economy, where it still lacks the organizational ability of a capitalistic industry.
- Increased productivity. This happens not only at company level but also in the sector where it operates. Stimulating growth of productivity in all sectors is due to the competition that arises. So even domestic firms are beginning to imitate through an indirect process of learning. Of course here is important the ability to adapt and take new technology by domestic firms.

4. HUMAN RESOURCES (HR) AND FOREIGN DIRECT INVESTMENTS (FDIS): EVIDENCE FROM THE LITERATURE

Economists argue that by not developing and investing in human resources, competitiveness of countries to attract FDIs will be affected negatively.

Various literature show that a high level of human capital is undoubtedly one of the main factors for attracting FDI flows and an important factor for host countries to take maximum benefits from the activities that take place. According to literature on FDIs, according to Dunning (1988), Lucas (1990), Zhang & Markusen (1999), noted that human resources are among the main factors for attracting FDI.

According to Dunning (1998) it is argued that the level of skills and education of the workforce may influence, as the volume of FDI flows, as well as MNC undertake the activity in a host country.

According to the literature is identified a group of factors that attracts FDIs. The first group, comprise Root and Ahmed (1979), Schneider and Frey (1985), Hanson (1996) and Narula (1996). From their analysis, covering the period between 1960-1970, it turns out that no one of the variables that measure the level of human capital formation is important for attracting FDIs. This is because foreign investors that period were more oriented toward finding new markets and natural resources with a lower cost. Therefore education and human capital formation was not a major factor in attracting FDI in developing countries.

According to Root & Ahmed study (1979), in 58 developing countries, none of the selected variables to measure the impact of human capital and the impact of a qualified labor force have resulted important for attracting FDI flows. The period in which the study is done 1966-1970, is the factor that explains the fact that human capital at that time was not an important local advantage. Foreign investors in developing countries, in that period were focused on finding resources, finding cheap labor (low Labor cost) and on finding natural resources (Deyo, 1989; Ritchie, 2002; Dunning 2002).

According to the study of Schneider & Frey (1985), in 54 developing countries, it shows that the variables that measure the impact of human capital in the course of FDI does not have any impact on their model.

And according to another study, it shows the same thing, according to Hanson (1996), in 105 developing countries, he found that political stability and protection of the right to property are the main factors of human capital in attracting FDI flows.

The second group, comprising Noorbakhsh et al., (2001), UNCTAD (2002a) and Nunnenkamp of Spatz (2002), support the analysis in the period between 1980-1990. From their analysis showed that human capital occupies a very important place in attracting FDIs.

Studies Noorbakhsh et al. (2001), show that human resources are a statistically significant variable and having a positive impact on FDI flows and that this effect increases over time.

While a study by UNCTAD (2002), in 140 countries, developed and developing, found a strong connection between human resources - the registration rate in the second level and rate studies for engineering and science students - and FDIs. Even Nunnenkamp & Spatz (2002) indicated that the average years of education (they were 15 years on average) and education are becoming increasingly important for attracting FDI flows.

Despite such results or findings from studies, many developing countries do not spend more on human capital formation. For this reason, it is often suggested by various scholars to undertake incentive policies for attracting MNC, so that they help in the formation and development of human resources in host countries. Consequently, the supply of human resources in the country will be adapted to market demands.

FDIs and human capital resources each, leads to economic growth, but both of these complement each other, meaning that human resources development creates a more appropriate climate for foreign investors. On the other hand FDIs affect human resource development because MNCs with their training policies, the transfer of technologies, etc. affect development of human resources in developing hosting countries.

The main way MNCs can influence human capital in host countries is that they increase the number of employees by opening new jobs in host countries, but MNCs also increase the quality of the workforce through formal training or those informal. The latter technique through "learn by doing", which works on the basis of different knowledge transfer to local employees. However, the transfer of technical knowledge through training or through technical assistance can be both positive and negative for the MNCs. This is because local competitors can benefit when a) MNCs demonstrate new techniques and technologies and the way how to use them; b) qualified and trained staff at these MNCs may transfer and exploit these knowledge received in the new job.

5. AN OVERVIW OF FOREIGN DIRECT INVESTMENTS (FDIS) IN ALBANIA

Since 1991, the number of companies with foreign capital investing in Albania has almost constantly been on the rise and thus attests the importance to study FDIs in Albania as an important economic driver.

After the fall of the communist system, the Government took measures in favor of foreign investment being canceled first a law in 1976 prohibiting any form of FDI in Albania. Albanian government allowed the establishment of joint ventures between Albanian and foreign companies.

Thus, Albania with its rich natural resources, tourist potential and untapped domestic markets where competition was very weak, began to get seen from foreign investors. In the early transition Albanian government created many incentives to foreign investors, trying to attract as many investments. The absence of laws in the field of investment experience and a real fiscal policy at that time served as favorable conditions for foreign investors.

The history of FDIs in Albania following the collapse of the centralized economic system can be divided into two periods: FDIs by 1996 and FDIs from 1997 until today. During the riots of '97 we had a significant drop in foreign investment and moreover, withdrawal of investors already established. Many of them found it difficult to resume previous activities or even to open new activity profiles.

The legal framework is designed to encourage investments in the private sector paying special attention to FDIs. The most important law related to FDI is the law on “foreign investments" (no. 7764, dt. 11.02.1993), whose purpose is to provide a positive environment for foreign investors in Albania. This law tries to achieve this goal through the treatment of foreign investors in the same way as the Albanian investors by providing guarantees as protection against expropriations or nationalizations and a more favorable treatment in accordance with international agreements (Mançellari, 2004).

5.1 Albania's competitiveness and the impact on FDIs

Institutions and policies related to the adoption of knowledge and skills acquisition, including the regulatory environment, access to finance and quality of infrastructure services, can be characterized collectively as the investment climate of a country. According to reports compiled by the World Bank, which aimed to assess the competitiveness of the Albanian market resulted the following information.

Successful adoption of knowledge, technology upgrading and skill level of the workforce are all positively correlated with the performance of firms in Albania. Regression analysis confirms that the variables, which are related to the adoption of technical knowledge (eg, conformity with quality standards recognized internationally and use of licensed technologies) and education of the workforce, are significantly and positively associated with productivity firm. Firms that are improved in a technological level are more likely to export and benefit from FDIs. At the same time, quality standards, the use of foreign technology and the introduction of new products and processes are associated with larger firm and as a result with employment generation

Albanian exports are dominated by simple processing activities and labor-intensive with limited added value. These activities are heavily reliant on low technology processes and unskilled labor. They offer limited opportunities to learn from more sophisticated clients or competitors in foreign markets.

While exporting sectors that require low skills and low technology is beneficial in the short term, for example by earning foreign exchange and creating employment, benefits and sustainability in the longer term are less clear. Composition of Albanian exports is neither diversified in terms of destination markets since most of them exported to Italy.

As regards imports, Albanian imports of products that require low capital intensity for those Albanian firms are not getting as much knowledge and new technology embodied in capital goods firms than in comparable countries.

Foreign Direct Investment (FDI) constitutes another strong channel for distributing communication technology in Albania underestimated. Like trade, FDIs can contribute significantly to the transfer of technology to developing countries by (a) enable the financing of new investments that otherwise could have been prevented as a result of insufficient capital market internal (b) facilitate the transfer technology and information to local firms. FDIs can have positive spiral technology attractive for local firms when, for example, workers receive training or accumulating work experience in multinational firms and then move on to domestic firms or start their own enterprises. However, the contribution of FDIs to technological upgrading in Albania has been relatively limited. FDI in Albania has targeted several sectors, notably manufacturing, finance, real estate, trade and transport.

Technological intensity of foreign investment in Albania and the level of technology transfer to local affiliates are also limited. Most foreign investment export-oriented, mainly in the low-tech apparel sector, do not seek to transfer knowledge and technology to local firms, but bringing equipment used and the specific knowledge for the production of some products.

Only in a few cases where there has been intensive transfer of knowledge and technologies, the impact on productivity has been substantial. Intensive knowledge transfer from foreign customers has been limited, and is enabled by the insistence and expense of the Albanian firm. In these cases, the manager has been working in the sector overseas and has been aware of the potential productivity benefits that come from improving the process and the renewal of equipment.

Concerns about the investment climate were cited by foreign investors as the most important reasons for their refusal to transfer knowledge and technology to local firms Albanian.

The external migration from Albania has been very high since the beginning of transition, reducing the quantity and quality of labor supply in the country. Since 1990, approximately 20 percent of the country's total population has migrated, where 90 percent of immigrants have left for employment reasons. Remittances temporary and permanent, especially in neighboring countries Greece and Italy rose considerably during 1990

Immigrants better educated and more successful in skilled occupations are less likely to return to Albania. Those who return are likely to start new businesses, but the latter tend to be family enterprises, small and low productivity.

Despite concerns about the education of the workforce, the share of firms that offer formal training opportunities in Albania is low by regional standards. Workers can be trained through public programs or by the firms. Firms that express concern about the education of employees are more likely to invest in formal training. Enterprises that consider education of workers as a major obstacle to their operations are more likely to provide training than other firms.

Global experience shows that training within the firm resulting in significant gains for workers and firms. The Albanian government has currently two mechanisms of financial support intended to support training at the firm but these are used by very fee companies. First the government sponsors a training scheme in the workplace for job seekers who are unemployed and employers who provide training and hire a coach for at least a year are offered financial support in the form of salaries for the trainer and his contributions to social security for nine months of training. Secondly, there is a scheme "institutional training" providing training for employees of companies that (i) demonstrate that the training will be useful for participants and (ii) to guarantee employment to the participants after the training.

So, there should be taken promotional measures to improve the competitiveness of the market, in order to be a more attractive market for foreign investors, too.

CONCLUSIONS

Foreign Direct Investments (FDIs) play a significant role in developed and developing countries, contributing at the economic growth of countries, in the restructuring of enterprises, in the transfer of capital and know-how. FDIs play an important role in the specialization of the economies in transition and the growth of exports to these countries because in the process of attracting FDIs, economies aim to improve by creating and developing new fields with innovation compared to traditional activities; secondly, FDIs are the main source of economic restructuring and modernization of production and thirdly, the increased flow of FDIs leads to increased production quantity. Foreign investment flow increase if local markets abilities/skills improve or if they create new abilities/skills attractive to foreign investments. Economists argue that by not developing and investing in human resources, competitiveness of countries to attract FDIs will be affected negatively.
Various literature show that a high level of human capital is undoubtedly one of the main factors for attracting FDI flows and an important factor for host countries to take maximum benefits from the activities that take place. According to literature on FDIs, according to Dunning (1988), Lucas (1990), Zhang & Markusen (1999), noted that human resources are among the main factors for attracting FDI. FDIs and human capital resources each, leads to economic growth, but both of these complement each other, meaning that human resources development creates a more appropriate climate for foreign investors. On the other hand FDIs affect human resource development because MNCs with their training policies, the transfer of technologies, etc. affect development of human resources in developing hosting countries. Despite such results or findings from studies, many developing countries do not spend more on human capital formation.

Since 1991, the number of companies with foreign capital investing in Albania has almost constantly been on the rise and thus attests the importance to study FDIs in Albania as an important economic driver. Albania with its rich natural resources, tourist potential and untapped domestic markets where competition was very weak, began to get seen from foreign investors. Also, the legal framework is designed to encourage investments in the private sector paying special attention to FDIs.

Foreign Direct Investment (FDI) constitutes a strong channel for distributing communication technology in Albania underestimated. However, the contribution of FDIs to technological upgrading in Albania has been relatively limited. FDI in Albania has targeted several sectors, notably manufacturing, finance, real estate, trade and transport.

Technological intensity of foreign investment in Albania and the level of technology transfer to local affiliates are also limited. Most foreign investment export-oriented, mainly in the low-tech apparel sector, do not seek to transfer knowledge and technology to local firms.

The external migration from Albania has been very high since the beginning of transition, reducing the quantity and quality of labor supply in the country. Immigrants better educated and more successful in skilled occupations are less likely to return to Albania. Despite concerns about the education of the workforce, the share of firms that offer formal training opportunities in Albania is low by regional standards. Workers can be trained through public programs or by the firms. Enterprises that consider education of workers as a major obstacle to their operations are more likely to provide training than other firms.

So, understanding the importance of FDIs and human capital could help Local Government on developing policies and strategies that improve market's competitiveness.

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