CHALLENGES OF FDI BEARIND R&D IN ALBANIA

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Abstract

MultiNational Coparations (MNC) are playing a major role in research and development, not through their activity in origin countries but also in host countries through theirinvestments, therefore FDI's. Globalization of R&D is not a new phenomenon what is new is their accelerated rhythm now days. However, the geografic display of R&D realised by MNC affiliates is not homogeneus and only few economic comunities have received the major part of those R&D.

It is clear that the ability of the countries to attract and exploit the economic potential and the benefitial technological know-how depend on political, economical, legal, fisical and human infrastructure national culture along with the economical objectives and political economy pursued by the host country. A growing number of states have adobted friendly policies toward FDI bearing R&D, considering this as a way to improuve their inner reseouces and know-how competitivity. Even though, the ability to attract FDI's and their help in "blossoming"of such FDI's corelates on how the national policies of the host country cooresponds with the determing factors of R&D activities of MNC's, the last being the major players in this globalized economy.

The total flux of Foreing Direct Investment in Albania has significantlly risen from 258 mil euro in 2006 tomore than a bilion in 2012. Foreing Direct Investment notebly are in a positive trajectory despite the global or regional economic and financial crisis (Report of Foreing Invesment, METE 2012). However the Republic of Albania scores 25-th from 141 economies regarding the FDI performance, despite the potential to reach the 20-th position egsist. This paper intends toestablish a framework for exploring the major obstacles in attracting FDI's bearing R&D's and try to explain the reasons for Albanias limited sucsess.

Key words: *Foreing Direct Investments, reseach and development proces, barierrs to trade, economic globalization*

INTRODUCTION

Radical changes on the global enviroment of business, informatic revolution, economic globalization, the special role of the trans-national firms are transforming the activities of R&D. Who does R&D and were? Even the nature or the degree of the innovation, brings in mind these transformations. These changes have a critical efect on the strategic decision making for R&D from businesess and governments. In fact the transformation of R&D is probably the most important factor driving the global economy today.

Recently, a considerable rise of FDI in developing countries has been noted, more in some regions and less in others. FDI's in developing countries, tradicianally, are concenrated in few countries, partly reflecting economic wellness and lack of barriers to trade. However, the determinating factors and as

consequence the prespective of development dictated by FDI‘s have chaged during time. Though the lack of barriers to trade have a significant impact on the attraction process, now days more and more the FDI’s are in search for favorable countries in the production procesess web of global economy, and as such in need for countries with healthy economic foundations as: market size, market development, good infrastructure, local technological capabilities.

FACTORS THAT GLOBALIZED R&D

Through the last decade R&D globalization has born out as a new paradigma of doing business, putting in a new perspective in concepts like time, distance, culture, etc. The main reasons for such “globalization”,”internacionalization” or “off shoring” of R&D are quite obvios. Companies must reply efectively on the demands of local consumers/clients and efectively compete with foreing competions that have penetreted in these local markets. On the other hand the intensity of products and services in technology has significantly rosen, making technology the determinating factor for competivity. Further to this end, the complexity of global competion has risen because of new products and producers more diverse rezulting on higher demand for inovation as such the economic cicle of production has shortened and the costs for R&D are up.

Globalization of R&D, another example of this “new business” considers the geografic distribution of technological know how, companies look for novel abilities and thus fullfil their expertise not only out thoe company itself but out of country of origin specifally when are in the hunt for deficitary abilities in R&D personnel, specially in industrialized countries, riseing the R&D costs. As such, there is an attraction toward cheap but specialised human resouces in order to produce more cost efectively, wich seems normal considering factors like: rising costs, product development risk. The increase of the base technological abilities and the scientific know how corresponds with the demand to compete in more competitive markets, short production cicles and more competitive price setting strategies As a result, R&D globalization gives the chance to firms to have access on other countries know how, ajusting products to the local markets needs and cost reduction, in response to competion preasure, trchnological change, trade liberalization and improvement of investment climate. A number of Reports confirms the ride of internacionalization of R&D. One such study finds that companies have gradually rise R&D expenses from 15% to 28% of their budget. (UNCTAD 2011.)

Multinational Companies are the main players in the globalizing of R&D process in the framework of global enviroment which is charactrerized by radical changes in technology and production cycle. Global tendencies that are noted, shows for deployment of R&D in a geografic context through FDI and “tecknological alliances”, hence we can draw the conclusion that MNC are the main vessel of globalization and a major resouce of capital and technology.

A considerable part of global spending regarding R&D belongs to MNC. 1.200 more active companies word wise regarding R&D invested aproxm. 900$ biliards through 2010/12. At the mean time the expansion of R&D beyond the country of origin is not a new phenomenon, MNC from U.S.A, Europe, Japan and North Korea has significantly invested expanding the map toward the development countries. According to a questionary from A.T. Kearney, aprox half of investors plan to intensifiy their investment plans in Southeast Europe and Asia, (R&D Scoreboard 2009 (http://www.innovation.gov.uk/rd_scoreboard/) published by DTI.

DETERMINATING FACTORS OF LOCATION CHOICE OF FDI BEARING R&D

Political Factors

The ability to attract butto also to benefit from FDI's depend largely on the host country political enviroment. A calm and construtive political clime, including makro-economic stability, and clear and consistent policies toward trade, industry, but also a transparent legal framework is important. Consolidated politics in support of FDI bearing R&D, that is the establishment of an "national innovation system"- a institucional network in public and private sector, that will gradually act to help and facilitate the import and the dispears of new technologies[1]- will support the R&D activity of MNC aaffiliates in the country.

Infrastructuror Factor

Fisical infrastructure, that is a deseant comunication system (i.e internet) and other infrastructure facilitations are eaqualy important for research and devolopment activities of MNC.

Human capital and "Brain" infrastructure"

The egzistence of "credible"academic or university, science and technology, incubators that lead to the establishment of qualitative conditions for research aro doutless important for MNC. Their labor costs may also be a determinating factor for locatin choice, thus the lower the labor costs the greator the chance of the host to attract FDI's

Economic and trade factors

Market opening, trade liberalization and a legal framework in support of new businesess and trade facilitation are among the preconditions that influence MNC decision to transfer R&D to s certainm country, that is, as easy to start a business and as many the government scemes to support the companies and businesess, specially in an early phase, even better tfor the overall attraction clime for R&D. Nga ana tjetër, madhësia e tregut Prodhimi Kombëtar Bruto, potenciali blerës i njerzëve mund të ndikojnë gjithashtu në tërheqjen e IHD-ve.

Worth mentioning is that several authord like: (Nunnenkamp (2001), Miyamoto (2003), Blomstrom and Kokko (2008)) note that the globlization of markets has undermined the importance of market size vis a vis the decision of international capital to invest in a certain country.

As a consequence, the motive of FDI has changed from market oriented to eficency oriented, "motivated by new competion springs" (Nunnenkamp (2001)). Thus, this is a positive development for small economy countries, specifically for those with a high dergree of integration with global economy.

So far two types of R&D activity have been noted: a) adaptive R&D and b) innovative R&D. In the second category, the R&D activity does transfer mainle to benefit from production cost reduction. In the case of adaptive R&D the search activity transfer mainly to adapt the production to the local market demand, in these cases market size or better the GDP and PPP, defines or influence the attraction proces of FDI and R&D all the same.

[1] Ministria e Inovacionit e krijuar këto vitet e fundit –gjykohet si hap në drejtimin e duhur, por natyrisht jo I mjaftueshëm.

Legal Climate

One of the main legal principles that influence R&D is intelectual property protection in the development countries, which is considered by MNS as a pre-condition in the decision making process. According to questineres adresed to MNC, the intelectual property issue spring- out as a major pre-condtion in their decision making proces. Specifically, 38% of the respondees note that intellectual propertyu rights is the most important issue. Hence the egzistence of an patent structure and a proper and functioning system of intelectually protection is considered to be of prime importance to attract R&D activities.

Culturor Factor

In addition to above mentioned, the culturor factors must be taken into consideration. The number of patented inovations and the overall innovator climate but also the research "culture" is very close related with the expasion of the R&D activities in host country. The geografic advantage of Albania, also the strategic privatization policies, dispearse of information technologies[2] and the natyral resouces as well are considered the advantage of Albania in this global *regatta botërore*. Another point, the energy costs are lowering in Albania, specifically in the phase of giving with concession for HEC building across the country, thus making the energy more afordable for businesess, making the country more attractive to foreing investors.

Albania's results regarding scientific research are improuving each year, these publications are an very positive indicator that influence the decidion making on the behalf of MNC's. To this end, is worth mentioning that the number of counries cooperating with Albania in scietific matters has increased, thus reflecting the fact that there is knowledge and technological know how within the academic institutions, this tendence natyrally is considered a positive factor.

Obstacles of R&D in Albania

An comperative approach must be engaged prior to the analisys of R&D obstacles, thus 3 (champion) countries vis a vis the ability to attract FDI's are in microskope:Chine, India and Singhapor, in order to explain the limited sucsess of Albania in attracting FDI bearing R&D. First off, the climate to conduct business in Albania is not comparable with that of 3 major players in R&D globaly. In Albania one needs 80 days to start a new business while in Singhapor only 6 days. In India the number of days was 71 in 2005, 35 days in 2006 and in 2011 only 7 days, this drastic reduce is dedicated to the factthat the Indian government has set new rules and regulations to construct a better business climate and is stiking to this stance. Also in China, where the government there has strict rules, only 35 days are need to run a business, more over the Chinese government has a very liberal concept when it comes to conducting business. Market opening id the sum of exports plus imports divided by GDP of the country in question, also is an indicator that shows a clear prespectiv of the overall trade in that particular country, Singhapor scores the unbelivable number of 252% (of GDP) obviously has a more favorable clime of soing business than Albania with 30%, also we note that Albania's eksport are mainly natyral comodities (minerals or wood).

[2] Fjala vjen shihni nismën "Shqipëria në moshën e Internetit"

Infrastructuror factors mentioned above corelates with R&D transfer in a certain country, Albania with aprox. 25 users of internet for 100 inhabitans is far from Singhapor with 46, on the other hand a drastic increase is noted in phones subscribtions in our country both mobile and fix lines. The total number of researchers in the country is considered an important factor that represent the egsistence or the possibility to undertake and execute new high-tech projects, Albania does not appear to be comparable to countries that we used as refereal points On the other hand 0,5% of GDP at its best are the Albania's budgetory expenses for R&D, way less than the countries unde analisys i.e: China with Kina 1.3%, Singhapor with 2,15%. All the same, the protection of industrial property rights can be measured with the total number of filed applications, in Albanias case even though the progres achived the last 5 years one can not say that the legal, rregulatory framework sicures an absolute protection toward investors.

CONCLUSION AND POLITICAL IMLICATION FOR ALBANIA

Technological infrstructure must be improuved and further develop n Albania in order that the access to internet become more easy and cheap for all, another issue that must be develop are the policies that will enable local universities, profesional affiliations and research community, to establish and nurish the creation of local knowledge and know how[3].

Since MNS's are in the look for countries to alocate R&D that have crediable academic institutions, a major challenge for national innovative policies of an developing country like Albania may be the enforcement of public and private academic institutions by rekruting suitable personnel and also by financing adequately to execute research projects. Albanian universities must be able to undertake Phd and post PHD in mathematical and technology subjects. This up gradeing may be realized through partnership with private sector[4]. The participation of foreing firms manaxher and CEO's in THE Bord of Directors of academic institutions may be a way to forge the linkages and making the reseach work more fruitfull for the industry, this link or cooperation inluence positively in the quality of universities but also the quality of the work force. The Albanian government must support the creation of R&D centers and promote the technological up gradeing of firms, hence the adoption of rregulatory norms that will legally induce firms to accept interships and other forms of knowledge transfer. Albania with a growing politika risk due to the lack of political constructivity, indeed needs transparent policies in favor of invertors, a stable legal framework off course enforcement in order to creat an overall positive business enviroment.

[3] Fjala është për Qendra Ekslence sikurse Fondi i Ekslencës që tashmë funksionon në Ministrinë e Arsimit, por natyrisht shumë me i gjërë dhe i orientuar kryesisht në drejtim të "dijes teknologjike".

[4] Vendimi i Këshillit të Ministrave për pjesmarrjen në financime edhe te Universiteteve Private është një domosdoshmëri.

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