CHALLENGES OF FDI BEARING R&D IN ALBANIA

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Abstract
MultiNational Corporations (MNC) are playing a major role in research and development, not through their activity in origin countries but also in host countries through their investments, therefore FDI’s. Globalization of R&D is not a new phenomenon what is new is their accelerated rhythm nowadays. However, the geographic display of R&D realised by MNC affiliates is not homogeneous and only few economic communities 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 beneficial technological know-how depend on political, economical, legal, fiscal and human infrastructure national culture along with the economical objectives and political economy pursued by the host country. A growing number of states have adopted friendly policies toward FDI bearing R&D, considering this as a way to improve their inner resources and know-how competitiveness. Even though, the ability to attract FDI’s and their help in “blossoming” of such FDI’s correlates on how the national policies of the host country coresponds with the determining factors of R&D activities of MNC’s, the last being the major players in this globalized economy.

The total flux of Foreign Direct Investment in Albania has significantly risen from 258 million euro in 2006 to more than a billion in 2012. Foreign Direct Investment notably are in a positive trajectory despite the global or regional economic and financial crisis (Report of Foreign Investment, 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 exist. This paper intends to establish a framework for exploring the major obstacles in attracting FDI’s bearing R&D’s and try to explain the reasons for Albania’s limited success.

Key words: Foreign Direct Investments, research and development process, barriers to trade, economic globalization

INTRODUCTION
Radical changes on the global environment of business, information revolution, economic globalization, the special role of the trans-national firms are transforming the activities of R&D. Who does R&D and where? Even the nature or the degree of the innovation, brings in mind these transformations. These changes have a critical effect on the strategic decision making for R&D from businesses 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, traditionally, are concentrated in few countries, partly reflecting economic wellness and lack of barriers to trade. However, the determining factors and as
consequence the perspective of development dictated by FDI’s have changed 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 process 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 paradigm 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 obvious. Companies must reply effectively on the demands of local consumers/clients and effectively compete with foreign competitions that have penetrated in these local markets. On the other hand the intensity of products and services in technology has significantly risen, making technology the determining factor for competitiveness. Further to this end, the complexity of global competition has risen because of new products and producers more diverse resulting on higher demand for innovation as such the economic cycle of production has shortened and the costs for R&D are up.

Globalization of R&D, another example of this “new business” considers the geographic distribution of technological knowledge, companies look for novel abilities and thus fulfill their expertise not only out the company itself but out of country of origin specifically when are in the hunt for deficitary abilities in R&D personnel, specially in industrialized countries, rising the R&D costs. As such, there is an attraction toward cheap but specialized human resources in order to produce more cost effectively, which seems normal considering factors like: rising costs, product development risk. The increase of the base technological abilities and the scientific knowledge corresponds with the demand to compete in more competitive markets, short production cycles and more competitive price setting strategies. As a result, R&D globalization gives the chance to firms to have access on other countries knowledge, adjusting products to the local markets needs and cost reduction, in response to competition pressure, technological change, trade liberalization and improvement of investment climate. A number of Reports confirms the ride of internationalization 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 environment which is characterized by radical changes in technology and production cycle. Global tendencies that are noted, shows for deployment of R&D in a geographic context through FDI and “technological alliances”, hence we can draw the conclusion that MNC are the main vessel of globalization and a major reservoir of capital and technology.

A considerable part of global spending regarding R&D belongs to MNC. 1.200 more active companies worldwide regarding R&D invested approx. 900$ billion 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 questionnaire from A.T. Kearney, approx half of investors plan to intensify 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 buttos also to benefit from FDI’s depend largely on the host country political environment. A calm and constructive political climate, including macro-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 institutional network in public and private sector, that will gradually act to help and facilitate the import and the dispers of new technologies1- will support the R&D activity of MNC aaffiliates in the country.

Infrastructure Factor

Fisical infrastructure, that is a descent communication system (i.e internet) and other infrastructure facilitations are equally important for research and development 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 are doubtless important for MNC. Their labor costs may also be a determining 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 certaim country, that is, as easy to start a business and as many the government scemes to support the companies and businessess, specially in an early phase, even better tfor the overall attraction clime for R&D. Nga ana tjetër, madhësia e tregut Prodhimi Kombëtar, 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 efficency 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 intellectual property protection in the development countries, which is considered by MNS as a pre-condition in the decision making process. According to questionnaires addressed to MNC, the intellectual property issue springs out as a major pre-condition in their decision making process. Specifically, 38% of the respondents note that intellectual property rights is the most important issue. Hence the existence of an patent structure and a proper and functioning system of intellectually protection is considered to be of prime importance to attract R&D activities.

Cultural Factor

In addition to above mentioned, the cultural factors must be taken into consideration. The number of patented innovations and the overall innovator climate but also the research “culture” is very close related with the expansion of the R&D activities in host country. The geographic advantage of Albania, also the strategic privatization policies, disperse of information technologies and the natural resources 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 affordable for businesses, making the country more attractive to foreign investors.

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

Obstacles of R&D in Albania

An comparative approach must be engaged prior to the analysis of R&D obstacles, thus 3 (champion) countries vis a vis the ability to attract FDI’s are in microskope: China, India and Singapor, in order to explain the limited success 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 globally. In Albania one needs 80 days to start a new business while in Singapor 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 fact that the Indian government has set new rules and regulations to construct a better business climate and is sticking 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 perspective of the overall trade in that particular country, Singapor scores the unbelievable number of 252% (of GDP) obviously has a more favorable climate of doing business than Albania with 30%, also we note that Albania’s ekspart are mainly natural commodities (minerals or wood).

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2 Fjala vjen shihni nismën “Shqipëria në moshën e Internetit”
Infrastructural factors mentioned above correlate with R&D transfer in a certain country, Albania with approx. 25 users of internet for 100 inhabitants is far from Singapore with 46, on the other hand a drastic increase is noted in phones subscriptions in our country both mobile and fixed lines. The total number of researchers in the country is considered an important factor that represent the existence or the possibility to undertake and execute new high-tech projects, Albania does not appear to be comparable to countries that we used as referral points. On the other hand 0.5% of GDP at its best are the Albania’s budgetary expenses for R&D, way less than the countries under analysis i.e: China with 1.3%, Singapore with 2.15%. All the same, the protection of industrial property rights can be measured with the total number of filed applications, in Albania case even though the progress achieved the last 5 years one can not say that the legal, regulatory framework secures an absolute protection toward investors.

CONCLUSION AND POLITICAL IMPLICATION FOR ALBANIA

Technological infrastructure must be improved and further developed in 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, professional affiliations and research community, to establish and nurture the creation of local knowledge and know how.

Since MNS’s are in the look for countries to allocate R&D that have credible 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 recruiting 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 upgrading may be realized through partnership with private sector. The participation of foreign firms manager and CEO’s in the Board of Directors of academic institutions may be a way to forge the linkages and making the research work more fruitful for the industry, this link or cooperation influence positively in the quality of universities but also the quality of the workforce. The Albanian government must support the creation of R&D centers and promote the technological upgrading of firms, hence the adoption of regulatory norms that will legally induce firms to accept internships 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 investors, a stable legal framework off course enforcement in order to create an overall positive business environment.

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 domosdoshmi.
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