



The Qualitative Impact of Foreign Direct Investment in the Albanian Clothing Industry

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Abstract

The objective of this article is to examine the long-term impact of foreign direct investment (FDI) on the garment industry in Albania. The main methods used were analysis, forecasting, and abstraction. The qualitative impact of FDI on the garment industry in Albania was examined. The benefits that Albania receives from actively attracting investments were described, and recommendations were given to improve the quality of clothing production in the country by foreign companies. This article presents an analysis of the evolution of foreign clothing companies in Albania, based on a series of data sources that provide qualitative and quantitative information on the country's clothing industry. A vision of the qualitative impact of foreign direct investment and industrial advances is presented. The study showed that the Albanian government is actively attracting foreign direct investment to develop the clothing industry, recognizing its potential as a catalyst for economic growth. The country's trade policy has been aligned with World Trade Organization standards and there are incentives within the sector to develop such enterprises.

Keywords: macroeconomics, finance, international relations, public policy, clothing production, Albania.

JEL Classification: B22, F65, J38, E64, F42.

How to Cite

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El impacto cualitativo de la inversión extranjera directa en la industria de la confección albanesa

Resumen

El objetivo de este artículo es examinar el impacto a largo plazo de la inversión extranjera directa en la industria de la confección en Albania. Los principales métodos utilizados fueron el análisis, el pronóstico y la abstracción. Se examinó el impacto cualitativo de la inversión extranjera directa en la industria de la confección en Albania. Se describieron los beneficios que Albania recibe de la atracción activa de inversiones y se dieron recomendaciones para mejorar la calidad de la producción de prendas de vestir en el país por parte de empresas extranjeras. En el artículo se analizó la evolución de las empresas extranjeras de la confección en Albania, basándose en una serie de fuentes de datos que proporcionan información cualitativa y cuantitativa sobre esta industria en el país. Se presentó una visión del impacto cualitativo de la inversión extranjera directa y de los avances industriales. El estudio mostró que el gobierno albanés está atrayendo activamente la inversión extranjera directa para desarrollar la industria textil, reconociendo su potencial como catalizador del crecimiento económico. La política comercial del país se ha alineado con las normas de la Organización Mundial del Comercio y existen incentivos dentro del sector para desarrollar este tipo de empresas.

Palabras clave: macroeconomía, finanzas, relaciones internacionales, políticas públicas, producción de prendas de vestir, Albania.

INTRODUCTION

Foreign direct investment (FDI) is defined as an investment made by foreign companies in domestic enterprises with the objective of gaining control of the business or obtaining considerable profits. The most significant characteristic in this context is the first, namely the acquisition of control, which is achieved by obtaining more than 50% of the company's ownership. In general, these investments may include the establishment of new businesses, the acquisition of stakes in existing companies, or the investment in other assets such as real estate. This type of investment is often understood to mean the purchase of significant amounts of equipment and the construction of an enterprise within a particular country. Nevertheless, this is not a mandatory requirement, as it is possible to be considered a direct investor even if one owns a considerable number of shares, namely, over 50% of the shares (Madiyarova et al., 2019; Paul and Feliciano-Cestero, 2021). In light of the aforementioned role of foreign direct investment, it is of paramount importance to consider it

in a multitude of countries and industries. This study sought to assess the long-term effects of FDI in Albania's clothing industry. By focusing on these enterprises, it is possible to identify the benefits that the host country has received from their operations and what they may leave behind if they decide to relocate and move their production to another host country. The rationale for selecting the clothing industry is that it was a pivotal sector in the initial stages of industrialization and is a significant source of employment.

Many scholars have analysed Albania's current development and foreign direct investment in the country. Thus, Hoxhaj and Pulaj (2022) reviewed foreign direct investment. They showed that FDI has played a significant role in the country's economy over the years. However, they did not focus on the specific sectors in which FDI is attracted and the impact it can bring to the country in the long run. Lleshaj and Korbi (2019) also assessed the potential for foreign direct investment growth in Albania. They investigated indicators such as gross domestic product (GDP) and GDP per

capita, and business taxes and made recommendations in terms of government policy in this area. Konstandina and Gachino (2020) examined the role of FDI in the context of the investment transfer process. In their conclusions, the researchers demonstrated the role of foreign direct investment in the manufacturing sector in Albania, yet did not provide guidance on the implementation of the country's policy. Hobbs et al. (2021) investigated the impact of foreign direct investment on trade and economic growth in Albania. They pointed out the existence of a long-term relationship between these variables, as well as the increase in the efficiency of the economy in the case of stimulating FDI inflows. Cakerri et al. (2020) conducted an econometric analysis of the relationship between foreign direct investment and economic growth in countries. The researchers identified a long-term relationship between these two variables and discussed the role of the government in developing policies to encourage and increase the inflow of foreign direct investment.

The purpose of this study is to analyze the current state of the clothing industry in Albania in the context of foreign direct investment in it. This will facilitate the investment of funds in the industry by investors and government officials, as well as the formulation of policy in the industry.

MATERIALS AND METHODS

The study employed a variety of statistical data sources. For instance, some data was obtained from the Statista (2023) platform regarding the level of revenue of companies operating in the Albanian clothing industry, as well as the changing roles of online and offline sales in this sector. However, the study was unable to identify any publicly available data on the specific volumes of foreign direct investment in the Albanian clothing industry. Therefore, it was necessary to estimate the total volumes of FDI and its share of GDP, which were obtained from the World Bank (2023a; 2023b) databases.

The overarching methodology used in this study was systematic, enabling the examination of the facts (the impact of foreign direct investment on the clothing industry) within a single integrated system, where the various factors interact with each other. The utilization of such a systemic model enhances the reliability and realism of the conclusions drawn within the framework of this research.

Furthermore, the study employed a diverse array of research methods. The analysis method was applied to consider a substantial quantity of both quantitative and qualitative data in order to assess the impact of foreign direct investment (FDI) on the development of Albania's clothing industry. The historical method was also utilized, examining

the last several decades to understand what has influenced the current state of the clothing industry. Abstraction was employed to isolate and evaluate the interaction of only the most critical factors, thereby enabling the determination of the presence or absence of relationships between them. Forecasting techniques were applied to generate estimates of future developments in the Albanian clothing industry, based on the available data. All calculations within the study were performed using Microsoft Excel.

It should be noted that the study is subject to certain limitations that must be taken into account. This paper presents a qualitative analysis of the impact of foreign direct investment, as opposed to a quantitative one. Although some statistical data was used to draw conclusions, the analysis is predominantly general in nature. Therefore, increased openness of statistical data in Albania would improve the effectiveness of such studies in the future. Additionally, the research focused on the clothing industry as a whole, rather than examining individual enterprises. It is crucial to acknowledge that the circumstances may differ considerably between individual companies within the sector.

RESULTS

In general, economic growth can be defined as the process of increasing GDP and other indicators of a country's development over an extended period,

which is associated with technological and social advances. Productivity is intricately linked to how the workforce is integrated with other production components, how efficiently equipment is used and how new knowledge is incorporated into operational processes (Khashimova et al., 2020). In order to guarantee the installation of equipment, it is essential to attract investment in the company and to create an environment conducive to the implementation of such innovations by entrepreneurs. Economic growth is often accompanied by an increase in labor productivity, which allows for the generation of more output with fewer inputs. This can be attributed to technological innovation, enhanced managerial practices, and the development of employee competencies. It also helps to create new jobs and reduce unemployment, after which increased production requires more workers (Azim et al., 2020). Often, such changes are accompanied by an increase in the population's income, which can improve living standards and provide more opportunities for living and investing (Trusova et al., 2021). It is noteworthy that economic growth can manifest in a multitude of forms and affect a diverse array of societal sectors. The clothing industry is often considered the initial phase of industrialization and a significant source of employment in developing countries. It has a manufacturing nature, which means that it requires considerable manual or machine work operations, often performed by numerous employ-

ees (Kataeva et al., 2019). Furthermore, this industry often covers various stages of production, including the supply of raw materials, processing, sewing and sales of finished products and thus contributes to the creation of added value in the country and the formation of global value chains. The development of the clothing industry often leads to the creation of small and medium-sized businesses, which can have an incredibly positive impact on the country's economy. Regarding the industrialization induced by foreign direct investment in the Albanian apparel sector, this study introduces a framework for assessing whether apparel firms have been exempted from FDI restrictions (Mugauina et al., 2020). The industry itself covers a wide range of products, from clothing to underwear, footwear, accessories and textile materials. It stays labour-intensive, as it often requires a lot of manual labour, including sewing, embroidery and fabric processing.

The apparel and footwear industry in Albania is characterized by low labour costs and faces competition from cheaper Asian producers (Nesterenko, 2023). Footwear and clothing dominated exports until 2008, after which it declined slightly, but is still an important part of foreign trade. The country's enterprises are mostly owned by shareholders from Italy, Germany and Greece (in the form of organizations such as Konfindustria, Business Albania, The Chamber of the Albanian Facons),

which have brought the latest technologies to the country, upgraded equipment and improved the skills of local workers (Loi, 2023). The textile and footwear industry has made a significant contribution to the Albanian economy in terms of trade, GDP and employment.

The Albanian government itself promotes foreign direct investment in the country. Its trade policy is guided by the principles of the World Trade Organisation (WTO), as well as individual trade agreements such as Central European Free Trade Association (CEFTA). The government is also taking steps to stimulate and support the industry: these include a symbolic rent of €1, accelerated value-added tax (VAT) refunds and the removal of customs barriers. Furthermore, a 5% income tax refund is also available to stimulate employment and social security and health insurance for new employees (European Commission, 2015). However, these incentives have been criticized because they still do not adequately address working conditions and workers' rights. The main export destinations for clothing and footwear produced in Albania are Italy, Spain, Germany, Greece, Kosovo and the United States, with brands such as Bata, Zara, Tods. The industry operates the Trade Union of Textile, Leather and Clothing Industry, which is part of the Confederation of Trade Unions of Albania. The composition of the workforce in the apparel and footwear industry varies between regions. The

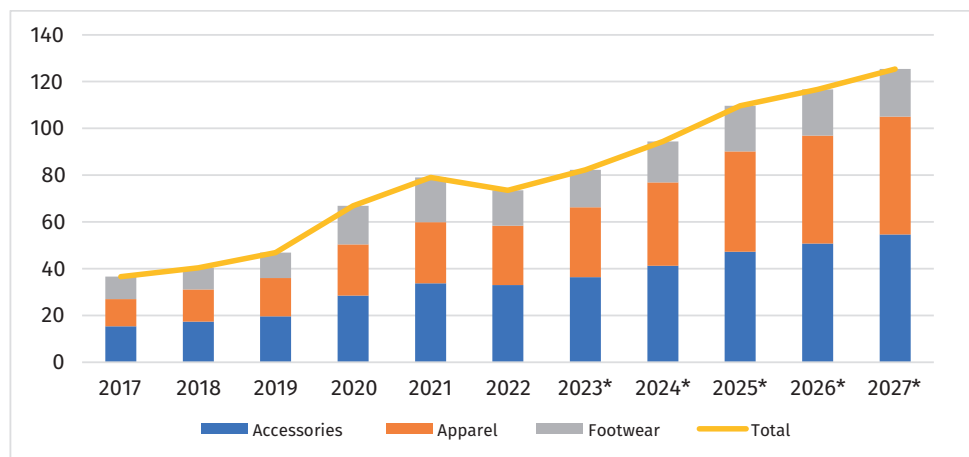
largest number of employees is found in Tirana, followed by Durres, Škoder, Leger, Fier and Vlora. The average age of workers in the industry is 31 and the work often involves operating heavy equipment. The informal sector of the textile and footwear industry is a problem for Albania, as it is estimated that about half of the economy operates informally. In this regard, the state is taking steps to reduce the number of unregistered workers (Arqimandriti et al., 2016).

The apparel and footwear industry in Albania has several strengths and weaknesses. Albania's favourable location, good infrastructure and low labour costs make it attractive for export-oriented investments (which have already been successfully attracted in the past). The benefits of investing in the apparel industry in Albania include a skilled and flexible workforce, lower labour costs compared to neighbouring countries, a favourable geographical location with easy access to European markets and no VAT or customs duties. However, the industry faces several gender issues. Women employed in this sector often face economic and social challenges and work in difficult conditions. They may experience fear, work in unsafe conditions and experience discrimination. Although trade unions try to protect the country's population from this, they are not always successful (Ashraf & Prentice, 2019). A common complaint is that salaries are insufficient to ensure a decent standard of living.

Compliance with workplace regulations can sometimes be dangerous for employees (e.g., they may be exposed to toxic substances while working), which can also affect the willingness of foreign investors to invest in a company (Butenko et al., 2023).

Local companies have faced significant challenges during the COVID-19 crisis. The pandemic led to a sudden drop in demand and supply chain disruptions, forcing many international retailers to cancel orders (Wardana & Darma, 2020; Przybyłowski et al., 2022). Exports to Italy, the country's main trading partner, have also become increasingly complex. The pandemic has also had a major impact on factory workers who have lost their jobs or have been forced to work for less. During the pandemic, some companies switched from fashion to personal protective equipment, although this did not fully compensate for their losses. The pandemic has also prompted companies to review their supply chains, potentially leading to "offshoring" (moving production and the business closer to the main hub) to countries such as Albania to increase supply chain resilience. As COVID-19-related restrictions have been lifted, Albania's industrial sector has been gradually recuperating and is currently at a level comparable to that observed prior to the onset of the crisis.

Some data on the development of the apparel industry in Albania are presented on Figure 1.



Note: * – the value is a forecast.

Figure 1. Revenues of Companies in the Apparel Sector in Albania from 2017 to 2022 and forecast until 2027, USD million.

Source: Compiled by the authors of this study based on data from Statista (2023).

As Figure 1 shows, the profits of companies in this sector have been gradually and steadily increasing between 2017 and 2022, with the highest growth rates in the clothing industry. It is also worth paying attention to the forecast made by Statista (2023) (considering the risks from the beginning of the war in Ukraine), which expects companies' revenues to grow in the future. The ongoing conflict in Ukraine has the potential to influence investment decisions in Albania, particularly in light of the broader implications for global markets and investor confidence. Investors may adopt a more cautious and restrained stance, resulting in a decrease in foreign direct investment in Albania. In addition, the conflict in Ukraine could potentially affect production in Albania if the country

depends on supplies or markets that are disrupted by the war, leading to disruptions in trade routes or supply chains. The positive expectations derived from such assessments provide a foundation for optimism regarding the industry's substantial potential for future growth. It is also worthwhile to evaluate the data presented in Figure 2.

As illustrated in Figure 2, the share of online payments in the total number of payments in Albania is gradually increasing, which indicates a reorientation of the sector and its overall development. Nevertheless, it is still insignificant, which suggests the need to formulate government policies to promote more active development of online sales in the future.

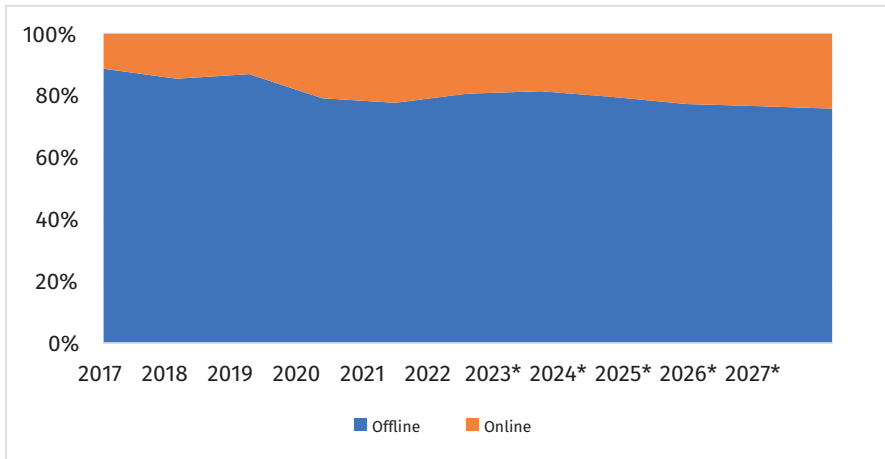


Figure 2. The Share of Offline and Online Sales of Garment Products in Albania between 2017 and 2022, and forecast to 2027

Source: Compiled by the authors of this study based on data from Statista (2023).

As mentioned above, there is limited data on the volume of foreign direct investment in the apparel industry in open sources. It is possible to find a certain relationship between the indica-

tors of total FDI and the performance of industries. Figure 3 presents the data on the volume of foreign direct investment and its ratio to GDP.

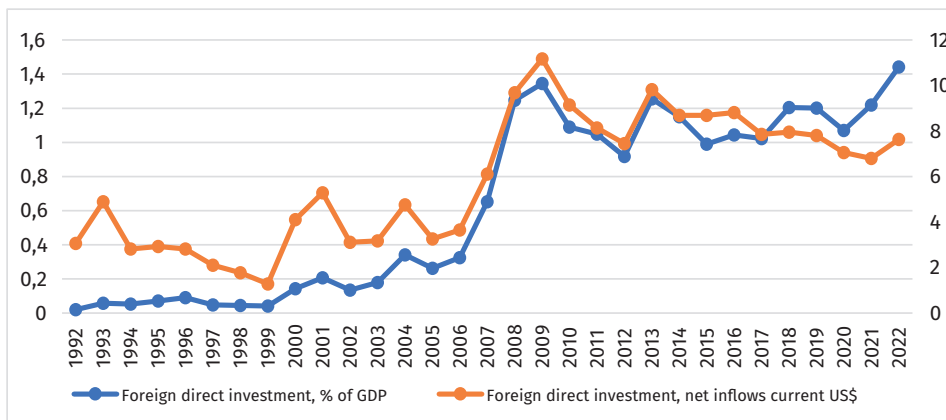


Figure 3. Foreign Direct Investment and Its Share in GDP in Albania from 1992 to 2022

Source: Compiled by the authors of this study based on World Bank (2023a; 2023b).

As Figure 3 shows, the volume of foreign direct investment in the country as a whole has been increasing over time. Moreover, this applies to both total volumes and share in GDP, which is vital in the assessment. This can serve as evidence that foreign direct investment is indeed having a positive impact on the development of the fast-growing apparel industry in Albania, as presented on Figures 1 and 2.

Thus, it can be generally concluded that foreign direct investment has a positive impact on the apparel industry in Albania. This is done through many components. For instance, this is facilitated by technological upgrades, which are driven by the entry of new technologies into the sector along with considerable amounts of money. This allows for increasing productivity and product quality. Furthermore, the newly constructed production facilities provide enhanced access to global markets and buyers, thereby facilitating the export of Albanian garment products. The funds received can also be used to train people, i.e., improve the country's human capital, which also has a considerable positive impact on the long-term development of the economy (Wida Riptanti et al., 2024). Overall, this makes the country more competitive in the international arena. Government policy should be aimed at further increasing the country's investment attractiveness to be able to attract foreign investors' funds to the country more actively. Although certain types

of incentives already exist, they are insufficient to meet the current needs of the industry. Moreover, it is still important to improve the social conditions of workers at garment enterprises.

DISCUSSION

Foreign direct investment in host countries has attracted considerable attention from academics, governments and the public, with differing opinions on how it affects economic development and long-term sustainable growth. The impact of foreign direct investment (FDI) is typically classified into two categories: quantitative effects and qualitative effects. Quantitative effects refer to the immediate, short-term impacts on the macroeconomic performance of the host country. Qualitative effects, on the other hand, encompass the long-term technological and financial externalities that arise from the presence of FDI in the host country (Madiyarova et al., 2018). Notably, the overall impact of FDI on the host country is context-specific and depends on several factors.

Wang et al. (2022) conducted a review of a considerable number of studies on the impact of foreign direct investment. Their paper provided insight into the historical development, key players, influential journals, global representation and thematic evolution in the field. Scientists described the relevance of research on this topic, both in developed and developing countries. Yue (2022) investigated the impact of foreign direct investment on the innovative efficiency

of Chinese local manufacturing enterprises in the early 2000s. The researcher concluded that FDI has a considerable positive impact on highly productive enterprises, but less so on low-productive ones. Thus, they are beneficial for capital-intensive enterprises in terms of developing innovative productivity. Export companies also benefited from foreign direct investment. Based on this, the scientist formulated a recommendation for state policy, which proposed the creation of incentives for investing in innovative technologies to attract even more funds to the sector. In general, similar recommendations were made in the present study for companies in Albania. Nevertheless, the creation of additional incentives for innovative enterprises is particularly effective, given that innovations will allow for more efficient results for industries in the long run.

In a recent study, Navarro and Álvarez-Quiroz (2022) examined the relationship between foreign direct investment (FDI) and economic growth in Peru. The findings indicate that an uptick in FDI can have a favorable or unfavorable impact on GDP, contingent on the comparative incline of specific curves. Specifically, the study concludes that an increase in FDI leads to GDP growth in both the short and long run, indicating an elastic relationship between the two variables. Based on this, the authors propose that Peru's economic policy should be aimed at

attracting foreign capital to increase FDI. Comparable results were obtained in the present paper upon analysing foreign direct investment in Albania and recommendations were made to the government authorities to improve the investment climate in the country. Peters et al. (2021) assessed the current state of the fashion industry in terms of greenhouse gas emissions. Scientists noted that emissions in this area are currently at their highest levels and the countries with the highest emissions are China, India, the United States and Brazil. The reason for this is the so-called "fast" fashion, when certain things cease to be popular quickly enough, which leads to the need to produce them in massive quantities. In order to address this issue, it is necessary to direct efforts towards interventions within the clothing life cycle. This could include strategies to improve the efficiency of production processes, reduce consumption and promote the use of end-of-life clothing to replace raw materials: industry, the public and non-governmental sectors should work together to encourage consumers to buy less clothing. Although this may cause some damage to the industry, policy components can be introduced to minimize such negative effects. Notably, Albania specializes in the production of clothing, including branded clothing. Thus, the country has good opportunities to combine "green" production and still have a strong position in the international market.

Swazan and Das (2022) investigated the production of ready-made clothing in Bangladesh. The scientists described the role of the industry's influence on the country's economic development, which allowed it to rise to the level of a middle-income country. The main reason for this was the competitive price and the ability to deliver products to their main customers on time. Furthermore, Islam et al. (2020) and Talapatra et al. (2020) studied government policies aimed at increasing exports and reducing local taxes played a significant role. The study showed that the clothing industry can indeed serve as a significant driver of a country's development and positively influence its long-term growth rates. In Albania, the clothing industry is also still one of the main sources of exports and gross domestic product. Considering the experience of other countries, one can expect that the role of this sector in the country will increase to a certain point, after which other industries, such as mechanical engineering, will take the lead.

Calabrese and Balchin (2022) investigated foreign investment and its impact on the clothing industry in Africa and Asia. The researchers showed that foreign investors play a major role in the initial stage of development of the clothing industry in developing countries but have a varying impact on modernisation depending on their characteristics and interaction with the local industry. Thus, investors who,

along with investments, create new innovative production models have a positive impact on the development of the industry, but there are cases when there is no modernization and therefore no positive impact from it. The researchers observed that domestic firms play a pivotal role in influencing the industrial environment and advocating for government incentives to facilitate industrial modernization. As previously noted, foreign direct investment has played a significant role in the development of the clothing industry in Albania. Nevertheless, domestic firms should retain a substantial portion of domestic production. Consequently, government officials should consider this when formulating their policies. Meyer et al. (2021) investigated the working conditions of women garment workers in Ethiopia. They noted that there are considerable employment issues in the country in this area, specifically due to the onset of the COVID-19 crisis. Therefore, it is important to support employees of enterprises and ensure better working conditions for them. This is generally true for Albania, where there are still problems in terms of the quality of existing jobs in the clothing industry.

Consequently, a number of recommendations can be formulated with regard to the development of the clothing industry in the country. It is of the utmost importance to continue to improve the investment climate, enhance the working conditions at such enterprises,

develop infrastructure and technology, and facilitate international trade. This can be achieved through government guarantees for foreign investors and manufacturers in the clothing industry, direct injections of funds into the industry, or other methods (tax breaks or lower lending rates for them). While these measures are likely to have a positive impact on the development of the industry, their implementation may prove challenging. The effectiveness of the state's actions may be limited, or they may inadvertently harm other industries. This is because the redistribution of funds through the budget often has a negative impact on the overall development of the state.

CONCLUSIONS

Thus, economic growth is a multifaceted process that is characterized by qualitative changes and restructuring of the nation's economy. Albania, like many other countries, has experienced this transformation through the lens of its developing clothing industry. Often considered to be the initial phase of industrialization, the industry has played a significant role in creating employment opportunities and contributing to economic development, both in terms of trade and gross domestic product. The study showed that the Albanian government is actively attracting foreign direct investment to develop the clothing industry, recognizing its potential as a catalyst for economic growth. The country's trade policy has been aligned with World Trade

Organisation standards and there are incentives within the sector to develop such enterprises.

The analysis showed that foreign direct investment has brought many positive benefits to the country, which was confirmed by statistical data, despite its limited publicly available sources. Thus, foreign investors, mainly from Italy, Germany and Greece, brought advanced technologies and investments to the country, improving the infrastructure, equipment and skills of the local workforce. This has had a positive impact on the development and growth of the industry, but despite this, such enterprises often face problems related to gender equality, employee rights and working conditions, among other things. The role of trade unions in the country is still insignificant, which precludes the possibility of entirely avoiding these difficulties. This is one of the factors that can influence an investor's decision to invest in a country and therefore requires more attention. Furthermore, the COVID-19 pandemic has had a considerable impact on the industry, causing disruptions in supply chains and a decline in demand. Despite these challenges, the sector has demonstrated resilience and adaptability. As restrictions have been lifted, it has shown rapid signs of recovery.

The Albanian government should continue to focus on improving the overall investment climate in the country to make it more attractive for

foreign investors. This could include measures such as providing tax incentives, reducing bureaucratic barriers, and improving the legal and regulatory framework for businesses. Specific to the clothing industry, the government could consider offering special incentives like subsidized rental rates, fast-tracked approvals, and customs duty exemptions for foreign companies setting up manufacturing facilities in the country. Additionally, the government should work on upgrading the country's physical and digital infrastructure to facilitate efficient logistics and supply chain operations for clothing manufacturers. Investing in modern transportation networks, reliable electricity and water supply, and high-speed internet connectivity would help address some of the key concerns foreign investors may have about operating in Albania.

It is of significant importance that the government should also prioritize policies that improve labor regulations and working conditions in the clothing industry. The implementation of measures designed to ensure compliance with international labor standards, the provision of skills training programs, and the reinforcement of worker protections would not only benefit employees but would also enhance Albania's reputation as an attractive destination for socially responsible foreign investment in the sector. Collaborating closely with industry associations and labor unions could help the govern-

ment develop a balanced approach to labor regulations that meets the needs of both workers and businesses. By implementing a comprehensive set of investment-friendly and worker-centric policies, the Albanian government can position the country as a preferred destination for foreign direct investment in the clothing manufacturing industry, ultimately driving long-term economic growth and development.

It is crucial for future research to examine the influence of foreign direct investment on other industries in Albania, beyond the clothing industry. An assessment of foreign practices, particularly those of developed countries, in influencing state policy in the field of foreign direct investment remains a pertinent area of study.

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DECLARATION OF CONFLICTS OF INTEREST

The authors declare that they have no conflicts of interest to disclose.

AUTHORS CONTRIBUTION

Jonida Teta and Eralda Xhafka equally contributed to writing original draft, investigation, methodology and visualization. Jonida Teta was responsible for conceptualization, data curation as well as review and editing.

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