



Weekly Briefing

**Albania economy briefing:
The lack of major Chinese investments in Albania:
mapping some determinants**
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The lack of major Chinese investments in Albania: mapping some determinants

Summary

Why there are no major Chinese investments in Albania? - This is a question made several times by Albanian citizens to local and Chinese authorities alike. It is a fact that bordering countries like Greece, North Macedonia, Montenegro, and more, are way in the loop and attention of Chinese enterprises, but Albania seems to be lagging on that trend. For the purpose of this briefing, we will analyze some cases of important Chinese companies in Albania via a retrospective lens. The more it is researched on these Chinese enterprises trying to enter/being present in the Albanian market, the more it is observed that politics plays a crucial role in determining the success, or lack thereof, of these endeavors.

Introduction

While the Albanian private sector has been very active in cooperation with China for almost two decades, the same cannot be said for the public sector. The segment of the economy that is run by individuals and companies for profit is quite engaged in trade with China and the benefits are visible in the figures of bilateral trade volume increasing year by year. The other segment, managed by government authorities is not only hesitant but there is a visible trend of regress and pushback. The issues of Chinese enterprises in Albania are not a recent occurrence but current times have highlighted the fragility of the foreign investments environment in the country.

Chinese companies in Albania and their experience

According to the Bank of Albania, by the end of 2021 in the list of Foreign Direct Investments (FDI) position China ranks nr. 31.¹ This figure alone can demonstrate plenty of the situation. However, there have been attempts from Chinese enterprises to be present in Albania

¹ Bank of Albania (2022). Foreign direct investments position; Quarterly stock of direct investment-liabilities by country. Aggregate data available at https://www.bankofalbania.org/Statistics/External_sector_statistics/Foreign_Direct_Investments/Foreign_direct_investments_position.html

but more often than ever, their attempts have been crippled by local conditions. Be this corruption, weak rule of law, lack of infrastructure, or no great potential for return on investment, there are many reasons, for which foreign enterprises including Chinese ones find it difficult to settle in the country. Below are some of the most notorious cases:

Case 1 – Arbri Road & China State Construction Engineering Corporation

In 2014, it was made public that one of the most important arteries of the country's routes would be built by a Chinese company. Arbri Road was considered a crucial investment to modernize the country's infrastructure. The memorandum of cooperation with Chinese Exim Bank for the opening of a project site in Albania with Chinese financing was signed in December 2014. "*The first project that will open the beginning of a new era of cooperation between Albania and China,*" writes Rama on his social media on the day.² Labeled in Albania as a political saga, the run for the construction of this highway was one of the major electoral promises of Edi Rama and in 2015, the Albanian government that he led, approved a special law offering China State Construction Engineering Corporation (CSCEC) the competencies for completion of the Arbri Road under a concession deal. China EXIM Bank would provide the financing for the project. However, two years later, the winner of the tender for the construction of this road was Gjoka Konstruksion, an Albanian-run company that was the apparent winner of the government bid, facing no rivalry from two other Albanian companies disqualified for dubious reasons.

Case 2 – the Blue Corridor & China Pacific Construction Group

The other major deal that was initiated but did not go through between China and Albania was the project for the construction of the Blue Corridor motorway. This project was aiming to connect the entire eastern shore of the Adriatic and Ionian - from Trieste in Italy to Greece via Croatia, Montenegro, and Albania. In the Suzhou High-Level meeting in 2015, Albania (and Montenegro) signed a Memorandum of Understanding (MoU) with China Pacific Construction Group for the construction of this motorway.³ This project was never initiated. Thus, there are two major projects, backed by two MoUs that never materialized into actual deeds.

Case 3 – Tirana Airport & China Everbright Limited

² Edi Rama (2014, December 16). Rruga Arbërit fruti i parë i një epoke të re. Available at https://www.facebook.com/media/set/?set=a.10152596110271523.1073742454.138734771522&type=3&comment_id=10152596229431523&comment_tracking=%7B%22tn%22%3A%22R%22%7D

³ Garaca, M (2015, November 26). Montenegro, Albania sign motorway MoU with China's CPCG – govt. Available at <https://seenews.com/news/montenegro-albania-sign-motorway-mou-with-chinas-cpcg-govt-503275>

A concession of 10 years ended in just over 4 years. In October 2016, Everbright completed the acquisition of 100% Tirana International Airport (TIA) and commenced operating the airport through a concession right until 2027. Through an efficient and effective post-investment management approach, Everbright helped a satisfactory development of TIA. The number of airlines and the number of destinations increased rapidly and the annual passenger flow of Tirana International Airport increased from 2 million in 2016 to 3.3 million in 2019, becoming one of the fastest-growing airports in Europe.⁴ Thus, it was a business success story, until politics got in the way.

In April 2019, there was a heist in this airport and immediately after, three ministers from the Albanian government did not spare any animosity towards the Chinese company. It seemed just as if they were waiting for an excuse to do so. The then Minister of Defense stated that the security mechanisms under the responsibility of the Chinese concessionaire company failed.⁵ The Minister of Internal Affairs also blamed Everbright because it did not implement the mandatory security standards, set by local legislation.⁶ Then it was the turn of the Minister of Infrastructure, who spared no words, as to the limits of outrageous.⁷ In addition, of course, the PM, via Twitter called it a failure of the Chinese company.⁸ On 24 December 2020, China Everbright Limited announced it has completed a transaction selling 100% equity of the concessionaire - Tirana International Airport SHPK to a local company, Kastrati Shpk (whose owner is many times linked to PM Rama in the media).

Case 4 – Huawei Albania

Huawei is present in Albania since 2007. At its best times, Huawei was employing 120 Albanians, plus foreigners. In a country, that is bleeding to the emigration of youth and trained professionals, 120 jobs mean a lot. The company has a record of commitment, innovation, efficiency, and perseverance, despite local conditions and political implications. Huawei's investment in Albania should have been supported, yet it did not happen. Throughout the years,

⁴ Everbright limited (2020, December 14). China Everbright Limited Successfully Sold 100% equity of Tirana International Airport. Available at <https://www.everbright.com/en/news/china-everbright-limited-successfully-sold-100-equity-tirana-international-airport>

⁵ Ministry of Defense of the Republic of Albania (2019, April 9). Ngjarja në Rinas, ministrja Xhaçka: Policia Ushtarake dhe efektive të Forcave Speciale në perimetrin e sigurisë së aeroportit. Available at <https://www.mod.gov.al/newsroom-2/deklarata-per-shtyp/3704-ngjarja-ne-rinas-ministrja-xhacka-policia-ushtarake-dhe-efektive-te-forcave-speciale-ne-perimetrin-e-sigurise-se-aeroportit>

⁶ Ruci, A. (2019, April 10). Ushtria merr në mbrojtje aeroportin ndërkombëtar “Nënë Tereza”. Available at <https://www.dw.com/sq/ushtria-merr-n%C3%AB-mbrojtje-aeroportin-nd%C3%ABrkomb%C3%ABtar-n%C3%ABn%C3%AB-tereza/a-48282588>

⁷ Balkanweb (2019, April 10). Grabitja/ Balluku-kinezëve: Pehlivanë, koha e fjalëve mbaroi!. Available at <https://www.balkanweb.com/balluku-shperthen-ndaj-kinezeve-pehlivane-koha-e-fjaleve-mbaroi/>

⁸ Edi Rama (2019, April 9). Post available at <https://twitter.com/ediramaal/status/1116006476852731904>

Huawei has been shrinking in Albania, and so are its local jobs. Huawei is perhaps the most obvious case where local politics dictated business practices.

Case 5 – Patos-Marinza oilfields & Geo Jade Petroleum

The only “stronghold” left is Bankers Petroleum, a fully-owned subsidiary of Geo-Jade Petroleum, which is the dominant oil operator in Albania. Shanghai-listed Geo-Jade Petroleum bought Bankers Petroleum in 2016 in a 381 million US dollars (\$) deal. Patos-Marinza is the largest oil deposit in Albania and one of the largest onshore fields in Europe. According to their official statements 3.5 billion \$ were spent on Patos-Marinza Oilfield; 587 million \$ were paid in royalties for the Albanian State Budget and the company counts 2000 employees, 530 direct employees, and 1470 indirect-subcontractors employees. It soon became one of the biggest contributors to the Albanian economy. In the last 15 years, it has paid over 740 million \$ in taxes in Albania. ⁹

With the above achievements the logical economic thinking would be that a company of this stature would be very welcomed and appreciated by local and central politics in Albania – unfortunately, it is not the case.

It started with a two-year investigation; Albania's competition authority launched an in-depth abuse of dominance, but the company states that it has never violated free market and competition rules and has not abused any dominant position.¹⁰ After there was a fine of over 120 million Euros. Then the company sued an Albanian former director for corruption accusing him of taking bribes from companies Bankers traded with.¹¹ Thus, the company is facing private corruption as in the case of the above-mentioned director and it can be easily assumed that they have been facing the same from authorities. According to Transparency International for 2021, Albania has fallen down the list of the world’s most corrupt countries, coming in at 110 out of 180. This marks a decline of 27 places since 2016 the year Geo Jade Petroleum started working in Albania.

⁹Official website of Bankers Petroleum in Albania (2022). Profile and history of the company, available at <https://bankerspetroleum.com/about/>

¹⁰ Reuters (2019, October 24). China's Bankers denies abusing dominant oil position in Albania. Available at <https://www.reuters.com/article/us-albania-competition-crude-idUSKBN1X31UP>

¹¹ Exit News Albania (2020, May 18). Bankers Petroleum Sues Former Director for Corruption. Available at <https://exit.al/en/2020/05/18/bankers-petroleum-sues-former-director-for-corruption/>

Foreign investments and politics

In May 2021, PM Edi Rama attended an annual high-level forum of the European Union in Florence, Italy. He was asked whether he sees Albania's relationship with China as an important relationship in this setting. Rama's answer was "*I would say that our relations with China are, normal, and normal in these relations means nothing special.*"¹² From this statement alone can be assumed that this attitude can affect almost every aspect of bilateral cooperation, investments included.

In 2015, the Albanian parliament passed a law on strategic investments. Seven years later, the data show that local investors have reaped most of the benefits of the favored, facilitated, and expedited procedures provided by this law. The fact that only locals and not foreign investors benefited from the law is compromising and Albanian economists are referring to the term "government clientelism" to describe the trend. An investigation has found that, of the 35 projects listed as strategic investments from 2016 to 2021, only two have come entirely from abroad.¹³

Thus, this is not only a problem for Chinese enterprises, it is more international than that, however, Chinese enterprises have way more difficulties than others to enter and stay in the Albanian market.

Conclusion

What primarily makes for the success or the failure of foreign investment is the host country's policies, and in the case of Chinese investments, Albania has been not the ideal host. Out of the five cases mentioned, two did not even manage to start, one left, and the other two are at the crossroad of difficulties. The crucial problem here is that this history creates a bad reference for the future and for other Chinese companies willing to invest in Albania. On the other hand, the ones that lose the most are Albanian citizens, because such companies give a boost to the much-desired economic recovery of a developing country.

¹² Office of the Prime Minister of the Republic of Albania (2021, May 6). European integration, only and ultimate choice of Albania. Available at <https://kryeministria.al/en/newsroom/europa-ne-nje-bote-qe-po-ndryshon/>

¹³ Sinoruka, F. (2022, April 29). Ligji për investime strategjike cilësohet si mjet klientelist. Available at https://www.reporter.al/2022/04/29/ligji-per-investime-strategjike-cilesohet-si-mjet-klientelist/?fbclid=IwAR3r-J0Wg0YoSxrFO69WtR_4D3vTytkYQ8F0CfGDDi12cYFarDazYEMDVgs