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- **ORGANIZED CRIME AND ECONOMIC CRIME IN SOUTH-EASTERN EUROPE**

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- **MERITA MUHARREMI**

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Abstract

The first report on the state of organized crime and economic crime in South Eastern Europe was prepared the summer of 2005, within the CARPO project, a regional project for police co-financed by the Council of Europe and European Commission . First content report on the situation Crime was presented to the Ministers of Interior and Security of Europe at their High Level, in September 2005 in Brijuni, Croatia.

This report is the final result of the commitment and representatives close cooperation with various

institutions (Police, intelligence units, Tax and customs administration, specialized prosecutors and

the State Supreme Audit) from Albania, Bosnia and Herzegovina, Croatia, Kosovo , Montenegro, and

the " Former Republic of Macedonia " (which now and away will be called as 'project areas').

Organized crime and economic crime related to two closely with the profit motive and generate large

amounts of illegal benefits .These two forms of crime seriously threaten the development of

democracy and the rule of law and human rights, but also their State security and economic

development in South Eastern Europe and beyond.

Prevention and punishment of organized crime and economic crime are based largely on a thorough

understanding of these phenomena cross-border, in a clear willingness decisive and national policies

and strategies against crime, in accordance with European and international standards as well as

implementation of them.

Key words: threat, organized crime, terrorism, human rights, regional, criminal organizations, drugs, economic crime, corruption

The Council of Europe has been for a long time i worried about the long term effects of organized

crime and economic crime, such as Eastern Europe.

The goals of this report are:

To update the report on the state of organized crime and economic crime in South East Europe 2005,

focusing on the issues essential for the region,

To highlight new developments, threats, analytical gaps and other issues related to the crime that are

of concern worrying for the region of Southeast Europe.

To increase public awareness and public participation in strategies against organized crime and economic crime.

Globally, organized crime and economic crime is a dynamic concept that fits with environment constantly a permanent change is increasingly structured so heterogeneous and highly flexible.

It consists of a variety of criminal activities, such as illicit drugs, trafficking in human beings, smuggling of persons and economic crimes.

The traditional Balkan drug trafficking has become a two-way street, increasing traffic volume .

Mainly , heroin and cannabis are moving in the direction towards the European Union, which is the main

market of the consumption of illegal drugs, while synthetic drugs are being moved in the direction eastwards, increasingly in the form of multi-drug trafficking (load cocktail).

Turkish and Albanian groups of organized crime dominate in this area of crime, but all crime groups have increased cooperation between them. Ethnic groups Albanian organized crime they are verging more and more control of European markets cocaine.

Domestic drugs markets are growing rapidly, along with the number of drug users, who increasingly are multiple drug users (poly-users) Accordingly, measures should be added not only retribution, but as prevention measures and public awareness on the dangers of HIV / AIDS.

Trafficking in human beings for sexual exploitation has become the secret (clandestine) and sophisticated

He poses new challenges, in terms of internal trafficking and recruitment local. This brings political complications, since it requires not only punitive measures, but also a better prevention and public policies should address the health issues caused by sex domestic market.

Victims appear to undergo a physical treatment less violent, but they are being subjected to more psychological pressures , especially the threat for the life of their families in their country of origin, forced marriage and the requirements for asylum to stay longer guaranteed .

A serious concern is the number of trafficked children (under 18 years), since traffickers and their associates, partially Frustrated by HIV and AIDS victims are choosing increasingly innovative.

Illegal migration has been in charge of national and international agendas for some time, inter alia, due to recent expansion and further the EU, the free movement of people and access to labor markets, but also because the economic requirements, dictated by the fall of active population across EU countries.

The complexity of motion that many people, across long distances requires multinational criminal organizations and sophisticated.

With the maturation of Criminal markets , criminal groups also attempt to consolidate existing activities, to change the type of criminal activity.

Corruption as a low level, as well as high-level, thought that is a key tool for influencing and insight to structures political and commercial.

In all project areas, corruption still poses major . The fact that I these countries have adopted the modernized legal framework, have provided comprehensive anti-corruption strategy and have created services for the fight against corruption (anti-corruption services), is promising, however, the concrete level of their implementation in practical unreserved commitment of law enforcement authorities in this respect still poses concerns .However, reliable figures and comparable regarding the extent of corruption problems are not available

Law enforcement authorities in South East Europe report that organized crime and economic crime are difficult to prevent and to be discovered.

Collection of evidence in order punishment of these cases, is a more complex process, in particular, in the case of international crimes.

The measures developed by the project areas within the framework of the CARPO project, but also in the context of other collaborations with the EU, the Stability Pact, the SECI Center, the United Nations, or the monitoring mechanisms of the Council of Europe as Greco and Moneyval, will help overcome these shortcomings, through:

- Improving the collection and analysis of information on organized crime

- and economic crime, in order to deepen the knowledge and understanding of these phenomena in the region.

2.1 Background and Purpose

Organised crime and economic crime have been on the agenda of the Council of Europe for at least two decades, and have been reaffirmed as the main concerns of the Third Meeting of High Level, Heads of State and Government in May 2005. Also, these issues are dealt with priority in the agenda of the EU, which is testified by the creation Eurpolit, Eurojust and Frontec's and even more with the introduction of ten new countries to the EU.

Eastern Europe, despite some distinct features thought to organized crime and economic crime they have not reached the same critical ratios in all areas of the project.

Generally accepted that organized crime and economic crime in South Eastern Europe threaten democracy, the rule of law , human rights, stability and economic and social progress in the region.

The complex nature and permanent change of serious crimes adds new threats to these societies in transition and it has impact beyond limits of Southeast Europe. Exchange of information widespread between European authorities, law enforcement, improved analysis of information criminal and a closer international cooperation have raised new concerns related to organized crime and economic crime in South Eastern Europe., This and the prospect of accession of these countries.

In the EU, dictate the need for a systematic and fundamental analysis of the scope, nature and characteristics of organized crime and economic crime in the region, as well as its international networks.

However, despite the improvements of national legislations in this field, it turns out that the recognition of what constitutes organized crime and economic crime and in particular the introduction of cross-border and international complications is still limited.

The 2005 report was the final result based on the work done by the working groups, composed of members of the competent agencies of law enforcement (mainly police) from the project areas.

As well as in the case of preparing the annual reports of the Council of Europe on organized crime in Europe, a questionnaire was sent to the working groups in all areas of the project, in spring 2004. A series of activities were undertaken to members of groups work, with a view to training them in width associated with strategic analysis of crime and the legal requirements, institutional and practical in the collection, analysis and management of data on crime.

The main sources for crime situation report, 2006, were replies to the second questionnaire (with extended) that was sent in April 2006, all partners CARPO - in each of the project areas, comments the profiles of the first project countries but also public reports that the crime situation, research and reports and other information, prepared by the Council of Europe, Europol, Eurojust, the Stability Pact, many research institutions, which They focus on the region, Internet searches and the media.

Report 2006, 'On the State of Organized Crime and Economic Crime in South-East' - Satisfies with fresh data and improves the analysis of the scope, nature, characteristics of organized crime and economic crime in the region.

Organized crime and crime economic are increasing, enriching their sphere of activity with new types of crimes and the new borders, exploiting legal businesses legislated for their criminal activities and using high technology, especially to isolate and for their encrypted communications.

Organised crime and other forms of economic crime and serious crime are likely to remain a priority for European societies and the more of the countries in transition, such as Eastern European countries.

Conclusion

Organised crime is a dynamic concept which is continuously adapted to a changing environment ,so that changes every day ,and to new possibilities offered for crime.

The traditional Balkan drug trafficking are turned into shining two-way street, in which heroin and annabis are moving towards the EU, while cocaine and synthetic drugs are moving East West.

Also being developed Economic crime which seriously affects all countries of region..Are removing some opportunities for illegal trade in region .Anyway, enough other possibilities continue to remain .Falsification of documents and key-instrument fake companies that used for fiscal evasion and Money laundering -must be present in all countries of the region.

Other forms of economic crime -such as fraud in public procurement, privatization and financial sector – believed to be increasing and continue to affect public trust in the market economy and the criminal justice system.

Establishment of National Statistics Crime at EU level, the use of common terms and definitions, the establishment of a common reporting system in line with the system used by Europol and in the 25 EU Member paying appropriate attention to securing levels of confidentiality.

Strengthening investigative skills in the areas of organized crime and economic. This may include a major effort to overcome linguistic barriers, through a suitable training linguistic law.

The use of special investigative techniques, secret shares, Human intelligence , monitoring systems for chemicals required as raw material for the manufacture of drugs, protection of witnesses and victims, financial intelligence seizure of illegal income of crime, or p.sh High Impact Operations, pan- approach sector focusing on priority areas, standard operating procedures that, paying proper attention Privacy security levels.

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- Material

- **SMALL DESTINATIONS IN LARGE TOURISM MARKET: THE ANALYSIS OF WESTERN BALKAN COUNTRIES AND THE CHINESE OUTBOUND TOURISM**

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Abstract

The growing purchasing power in People's Republic of China and formation of the middle classes with corresponding consumption practices and lifestyles have increased the demand for foreign travel. The number of Chinese outbound tourists has exceeded 100 millions in 2014 and it is estimated to reach 200 million by 2020. How small but tourism-wise well developed countries fare with regard to attracting Chinese tourists? This paper reviews and analyses statistical data in the Western Balkan region with regard to Chinese tourists and points to the structural problems constraining the development of small destinations in a large tourist market such as PR China's.

Keywords: Chinese tourists, Chinese outbound tourism, Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Republika Srpska, Serbia, Slovenia, Western Balkan

Introduction

With regard to tourism industry the role of People's Republic of China (PRC) became increasingly influential in the last decade; apart from becoming one of world's most popular destinations (4th in arrivals in 2014) it is also the world's top tourism source market with growing expenditure abroad (UNWTO, 2015). If the number of outbound Chinese tourists in 2008 was just over 20 millions, this number increased to 133 in 2015 (Artl, 2016). There has

also been exceptional increase in how many Chinese tourists spend abroad – in 2014 they've spent a record USD 164, 9 billion (UNWTO, 2015) These data point to several important processes within PRC as well as globally; the growing middle classes in China and the complex relationship between modernity and consumption, the emergence of tourism as one of the leading economic sectors in the world, the effects of economic crisis on the global economic restructuring etc. In this regard there is a growing pressure to tap on these flows and processes, especially in the countries that have been hit hard by recent economic crisis. Although latecomers in the game, the countries of former Yugoslavia and Albania, often dubbed Western Balkan countries (figure 1), began to show interest in the Chinese outbound tourism recently. This contribution looks at these nascent attempts in the region through the analysis of statistical data. It argues that although the number may show a remarkable increase in the number of arrivals, the closer examination reveals structural problems in these destinations, which could threaten the further development of this subsector in the future. The article begins with the main characteristics of Chinese outbound tourism and the overview of the main research topics across disciplines. In the second part we present the region with regards to Chinese outbound tourism sector through analysis of statistical data. We conclude by pointing to some of the problems these small destinations face with regard to large tourism market such as PRC's.



Figure 1. Western Balkan Countries and China

2. Chinese outbound tourism: Emerging field of research?

The research on Chinese outbound tourism is a very recent endeavor; first beginnings can be traced back to late 1990' where researchers began to focus on the reasons for increased tourism outbound movements in PRC. Among most important reasons these studies identified the growing personal and household disposable income and the reduction in the number of government regulations concerning Chinese citizens' mobility (Li et al, 2011). This line of inquiry was followed by the research on various aspects of Chinese tourists' behavior and motivations (Kim et al, 2005; Sparks and Pan, 2009). Interestingly, Huang et al (2015) suggested that Chinese outbound tourists do not seem to have contrasting motivations when traveling abroad when compared to Western tourists. This point certainly deserves more attention and also attests to the need of more comparative research on travel motivations. This comparative approach should also be taken among diverse groups within Chinese cultural milieu. Research too often lumps together groups that may have very

different characteristics based on location of origin, class, age or professional affiliation. As a study by Kim et al (2015) suggests tourists from PRC may exhibit different behavioral characteristics as tourists from Taiwan. However, one should be careful not to fall into the trap of finding a cultural explanation for every type of behavior associated with Chinese as was previously done in the case of capitalism in PRC or Chinese migrants' economic ties (for the critique of the literature on the cultural explanations regarding the development of capitalism in China see Dirlik, 1997). Also, as scholars noted, much of research in tourism has a clear Western bias and does not examine the tourist phenomena in the context of other important social processes, such as globalization, geopolitics or economic restructuring. Thus, the future research on Chinese outbound tourism should take this in consideration and move pass the simplistic cultural explanations of Chinese tourists travel motivations and behaviors.

Main characteristics of Chinese outbound tourism

China has a prominent role in today's tourism industry. Using traffic light rating system¹ the tables below illustrate China's headway towards world top tourism destinations not only in number of tourists visiting the country (table 1) but also in the income generated by tourism industries (table 2).

Table 1. Ten most visited tourist destinations in the world (in millions of tourists)

Country	2000	2005	2009	2010	2011	2012	2013	2014
The world	674.0	797.0	881.0	939.0	983.0	1,035.0	1,087.0	1,133.0
France	77.2	75.0	76.8	77.1	79.5	83.0	85.0	83.7
USA	51.2	49.2	55.0	59.8	62.3	66.7	69.8	74.8
Spain	46.4	55.9	52.2	52.7	56.7	57.5	60.7	65.0
China	31.2	46.8	50.9	55.7	57.6	57.7	55.7	55.6
Italy	41.2	36.5	43.2	43.6	46.1	46.4	47.7	48.6
Turkey	9.6	20.3	25.5	27.0	29.3	35.7	37.8	39.8
Germany	19.0	21.5	24.2	26.9	28.4	30.4	30.4	33.0
United Kingdom	23.2	28.0	28.2	28.3	29.2	30.4	31.2	32.6
Rusian Federaion				20.6	22.7	25.7	28.4	29.8
Thailand				15.9	19.2	22.4	26.5	29.1

Source: (UNWTO, 2015)

The growth of Chinese tourists' expenditure abroad seems to be particularly striking (table 3). If Chinese tourists abroad in 2000 spent »only« 13 billion USD, their consumption increased to 164,9 billion in 2014, by far the highest increase among 10 largest tourism spenders.

¹ A traffic light rating system is a system for indicating the status of a variable using the red, yellow or green of traffic lights to indicate the positive or negative dynamics of particular variable.

Table 2. Income from tourism by country (in billion USD)

Country	2000	2005	2009	2010	2011	2012	2013	2014
The world	475.0	680.0	853.0	930.0	1,042.0	1,075.0	1,197.0	1,245.0
USA	82.9	82.2	94.2	103.5	116.1	126.2	172.9	177.2
Spain	30.0	48.0	53.2	52.5	59.9	55.3	62.6	65.6
France	30.0	44.0	49.5	46.9	54.5	53.6	56.7	55.4
China	16.2	29.3	39.7	45.8	48.5	50.7	51.7	56.9
Macao (China)	3.2	7.6	18.1	27.8	38.5	43.7	51.8	50.8
Italy	27.5	35.4	40.2	38.8	43.0	41.2	43.9	45.5
Thailand				20.1	27.2	33.8	41.8	38.4
Germany	18.7	29.2	34.6	34.7	38.9	38.1	41.3	43.3
United Kingdom	21.9	30.7	30.1	32.4	35.1	36.2	41.0	45.3
Hong Kong (China)	5.9	10.3	16.4	22.2	27.7	33.1	38.9	38.4

Source: (UNWTO, 2015)

The number of Chinese outbound tourists started to increase substantially in 2010 and has almost doubled in just three years (figure 2). This astonishing growth has taken by surprise even UNWTO which needed to revise its estimations from 2001 to suit the real growth numbers (Huang et al, 2015). The PRC tourists are still overwhelmingly interested into destinations in Asia. Among most popular are Japan, South Korea, Taiwan and Hongkong, but among ten most popular are also France, Italy and Switzerland (6th, 7th and 8th in 2015) and Germany (10th in 2015) (Travel China Guide, 2015).

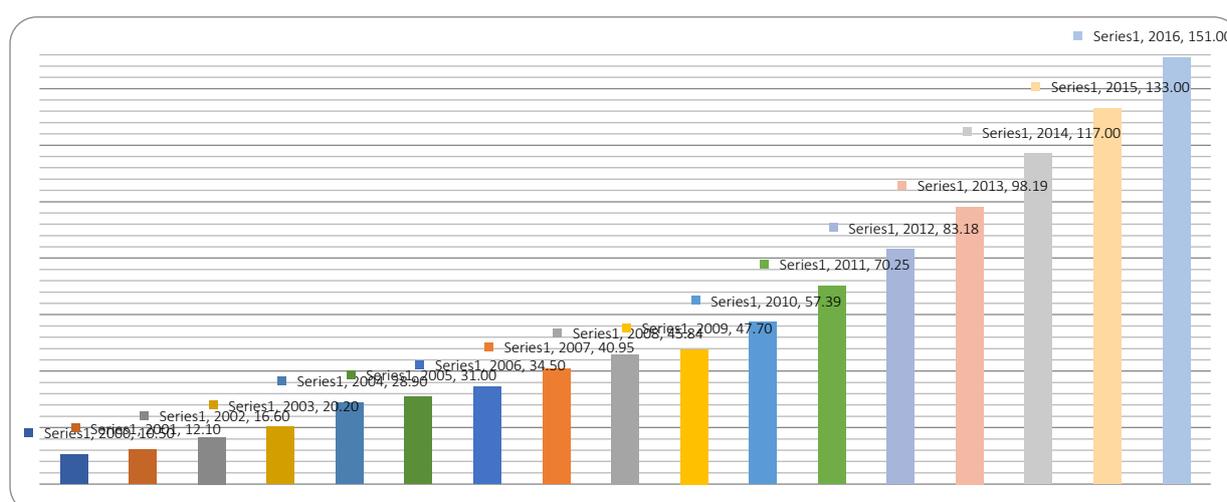


Figure 2. Border crossings from Mainland China in millions 2000-2016 and Source: (China National Tourism Administration (2016) from 2000-2014 and Artl (2016) for 2015 and 2016)

Chinese outbound tourists are leading the world consumption in tourism. According to UNWTO tourists from PRC have taken the lead from USA in 2011 and have retain the first place ever since (see table 3 below). Although the data suggest that tourists from PRC can be considered as big spenders, personal consumption per capita is still rather low in China in comparison to Japan, South Korea or USA (Goldman Sachs, 2015). It is predicted that travel will become even more ubiquitous as spending on leisure activities increases (*ibid.*).

A recent survey among Chinese netizens done by Fung Business Intelligence Center (2015) estimated that the typical Chinese traveler currently spends an average of USD 1,678 on retail purchases (i.e. shopping) per overseas trip, while the US sees the highest retail spend from Chinese travelers. In the US, the average retail spend per Chinese traveler is estimated at USD 2,555 this year, followed by Europe's USD 2,548, much higher than in closer destinations such as Hong Kong. It is their assertion, that the greater the distance, the more the individual traveler spends. In comparison, the data by China National Tourism Administration (2016) on the overall Chinese outbound tourists' consumption would suggest an average consumption of USD 1,422 per tourist.

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Table 3. World consumption of tourists (in billion USD)

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Country	2000	2005	2009	2010	2011	2012	2013	2014
China	13.1	21.8	43.7	54.9	72.6	102.0	128.6	164.9
USA	65.4	69.9	74.1	75.5	78.7	83.5	104.1	110.8
Germany	53.0	74.4	81.2	78.1	85.9	81.3	91.4	92.2
United Kingdom	38.4	59.6	50.1	50.0	51.0	51.3	62.7	67.6
Russian Federation	8.8	17.3	20.9	26.6	32.5	42.8	63.6	60.4
France	22.6	31.8	38.4	39.0	41.1	39.1	42.9	47.8
Canada	12.4	18.1	24.2	29.6	33.3	35	36.2	33.8
Italy	15.7	22.4	27.9	27.1	28.7	26.4	27.0	28.8
Australia	6.4	11.3	17.6	22.2	26.7	28	28.6	26.3
Brasil						22.2	25.0	25.6

Source: (UNWTO, 2015)

4. Chinese outbound tourism in the Western Balkan countries

Notwithstanding some countries' apprehension to be subscribed under the »Balkan« label, the countries of former Yugoslavia and Albania are frequently lumped together to an entity called »The Western Balkans«. This is particularly true in the case of Asian tour operators. Although the region has some common historic traces, the characteristics of destinations, the development of tourism sector as well as the overall infrastructure differ profoundly.

Many commentators agree that the region has a vast tourism potential but also a myriad of problems; underdeveloped infrastructure, underdeveloped service industry, interethnic tensions, lack of strategic planning, formal and informal barriers within the tourism industry, etc. (Ahn et al, 2009).

4.1. General characteristics of tourism in Western Balkan countries

Using traffic light rating system the tables below illustrate the trends in tourists' arrivals and income from tourism in, Albania, B&H, Croatia, Kosovo, Macedonia, Montenegro, Republika Srpska, Serbia, and Slovenia.

Not surprisingly, Croatia is the leading destination in the region according to the number of tourists as well as income generated by tourism. It is followed by other countries with access to the Adriatic sea: Albania, Slovenia and Montenegro. However, in comparison to Croatia (table 4; table 5) these countries have substantially less tourist arrivals and more modest income from tourism.

Table 4. Most visited Western Balkan tourist destinations (in millions of tourists)

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Country	2000	2005	2009	2010	2011	2012	2013	2014
Croatia	6.20	8.50	9.30	9.80	9.90	10.37	10.96	11.60
Albania	0.32	0.75	0.79	2.19	2.47	3.17	3.40	4.20
Slovenia	1.10	1.60	1.80	1.90	2.03	2.12	2.26	2.41
Montenegro	0.07	0.70	1.04	1.09	1.20	1.26	1.58	1.35
Serbia	0.24	0.73	0.65	0.68	0.76	0.81	0.92	1.03
B&H	0.17	0.21	0.37	0.39	0.44	0.33	0.53	0.54
Macedonia	0.22	0.20	0.26	0.26	0.33	0.35	0.40	0.42
Republika Srpska	0.05	0.05	0.09	0.10	0.10	0.10	0.25	0.26
Kosovo			0.04	0.03	0.03	0.05	0.05	0.06

Source: (UNWTO, 2015)

This group is followed by landlocked countries of Serbia, B&H, Macedonia and Kosovo. Although the access to the sea and coastal tourism still plays an important role in the destination attractiveness in this region, countries without access to the sea (e.g. Serbia) are catching up fast.

Table 5. Western Balkan income from tourism (in billion USD)

Country	2000	2005	2009	2010	2011	2012	2013	2014
Croatia	2.80	7.50	8.90	7.60	9.20	8.80	9.55	9.87
Slovenia	1.00	1.80	2.50	2.60	2.75	2.68	2.79	2.72
Albania			1.81	1.62	1.62	1.47	1.47	1.70
Serbia	0.03	0.31	0.87	0.80	0.99	0.90	1.05	1.14
Montenegro		0.27	0.66	0.73	0.86	0.82	0.88	0.91
B&H	0.23	0.53	0.68	0.59	0.63	0.62	0.69	0.71

Macedonia	0.04	0.09	0.22	0.19	0.24	0.23	0.27	0.29
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Source: (UNWTO, 2015)

4.2. Emergence and growth of Chinese tourists in the region

Chinese presence in the region was for a long time limited to involvement in the programmes of scientific and educational exchange between PRC and other socialist countries (before 1991) and to economic migration after the fall of socialist regimes in the region (after 1991) (Chang and Rucker Chang, 2011, Bofulin 2016). The emergence of Chinese tourists in the region is thus a novel phenomenon that is just beginning to attract attention of tourism stakeholders.

From the Chinese venue point the region is part of Central and Eastern Europe (CEE), which has grown in importance to China's foreign policy in recent years, especially due to its connection to one of the new cornerstones of Chinese diplomacy – the New Silk Road initiative (Pavličević, 2015). Within the framework of PRC – CEE cooperation the China – Central and Eastern European Countries' Tourism Coordination Centre (TCC) was established in Budapest in may 2014. They define their mission as an intermediary between state agencies in the field of tourism: "The main role of TCC is to contribute to developing and promoting the relations between China National Tourism Association (CNTA) and the 16 CEE countries' tourism administration for the mutual benefit of the two regions (TCC, 2015)." According to their view CEE is divided in several subgroups, e.g. Balkan region, Visegrad region and Baltic region. In their recent report on the Balkan region they identified several strengths (among other affordability, novelty, Adriatic sea and diversity and past communist regimes) as well as weaknesses (restrictive visa regimes, only few direct flights, lack of adequate services and lack of strong destination brand) (COTRI, 2016).

According to the statistical information by selected country's statistical offices (figure 3) by far the most visited country is Croatia with 93,097 arrivals and 109,192 overnight stays in 2015. Countries that follow are Slovenia, Serbia, Montenegro, Bosnia and Herzegovina and Macedonia. Looking at the absolute numbers all these countries fall far behind Croatia. Interestingly, Slovenia and Croatia had a comparable number of arrivals of Chinese tourists until 2010 where there is a sharp rise in Chinese tourists travelling to Croatia. On the other hand, Serbia had a relatively small number of Chinese tourists until very recently and exhibited high growth in the year 2015.

All in all, the cumulative number of Chinese tourists for 2015 in region was 245,000 Chinese tourists. But since they visit at least 4 countries in the region on average,² these individuals were statistically counted several times. Based on this we can estimate that the region was visited by no more than 65,000 tourists, a much more modest number.

² Based on the review of package tours offered on most popular Chinese online tourism portals Ctrip.com and CITS.

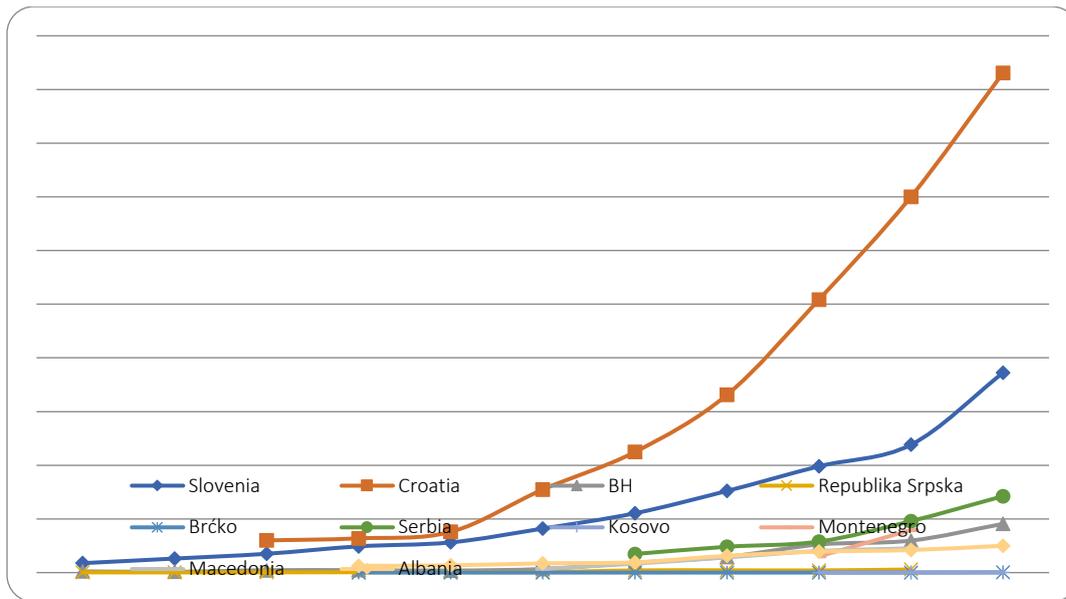


Figure 3. Chinese in Western Balkan region – Arrivals from 2008 to 2015 and **Source:** INSTAT, 2016;

Agencija za statistiku BiH, 2016; MONSTAT, 2016; Državni zavod za statistiku Republike Hrvatske, 2016; Република Македонија, Државен завод за статистика, 2016; Agjencia e Statistikave të Kosovës, 2016; SURS, 2016; Republika Srbija Republički zavod za statistiku.

In recent years, the share of Chinese tourists among all foreign tourists has increased in all the selected countries except Montenegro, but as seen below (table 6) this increase was the highest in Croatia, B&H and Republika Srpska. This rise in the last two countries is somewhat unexpected. Further research would be needed to establish whether this is an effect of the proximity of Croatia and a spill over effect or there are any other reasons for it. In any case, this increase points to a trend in the tourism sector that tourism stakeholders should be attentive to. Moreover, as seen in the table, the share of Chinese tourists in the selected countries among all Chinese traveling abroad (the number of Chinese tourists in a particular country in 2015 divided by the number of all Chinese tourists in the same year as indicated in the figure 2) is also increasing in all these countries. This could mean that the destination brand recognition is improving in PRC.

Table 6. The trend of Chinese tourists' arrivals – part 1

		Base year	2015	Increase
Slovenia (2008)	Share of Chinese among foreigners	0.250%	1.421%	5.69
	Share of Chinese among the Chinese	0.011%	0.028%	2.58
Croatia (2008)	Share of Chinese among foreigners	0.074%	0.705%	9.58
	Share of Chinese among the Chinese	0.014%	0.069%	4.95
B&H (2008)	Share of Chinese among foreigners	0.215%	1.692%	7.86
	Share of Chinese among the Chinese	0.001%	0.007%	6.72
Republika Srpska (2008)	Share of Chinese among foreigners	0.065%	0.479%	7.34
	Share of Chinese among the Chinese	0.000%	0.000%	3.35
Serbia (2011)	Share of Chinese among foreigners	0.454%	1.258%	2.77
	Share of Chinese among the Chinese	0.005%	0.011%	2.14
Montenegro (2013)	Share of Chinese among foreigners	0.227%	0.092%	0.41
	Share of Chinese among the Chinese	0.003%	0.000%	0.01
Kosovo (2013)	Share of Chinese among foreigners	0.040%	0.092%	2.31
	Share of Chinese among the Chinese	0.000%	0.000%	0.00
Macedonia (2010)	Share of Chinese among foreigners	0.326%	1.494%	4.58
	Share of Chinese among the Chinese	0.001%	0.005%	3.62
Albania (2008)	Share of Chinese among foreigners	0.730%	0.100%	0.14
	Share of Chinese among the Chinese	0.003%	0.004%	1.23
Average	Share of Chinese among foreigners	0.251%	0.792%	3.15
	Share of Chinese among the Chinese	0.004%	0.012%	3.22

Source: Calculations by the authors based on INSTAT, 2016; Agencija za statistiku BiH, 2016; MONSTAT, 2016; Državni zavod za statistiku Republike Hrvatske, 2016; Република Македонија, Државен завод за статистика, 2016; Agjencia e Statistikave të Kosovës, 2016; SURS, 2016; Republika Srbija Republički zavod za statistiku.

However, even if this number may point to a growing trend of Chinese outbound tourism, these data may be somewhat misleading. Looking more into detail, the data also reveal that the time that Chinese tourists spend in individual country is persistently shrinking over the last decade. In case of Slovenia (table 7) it has fallen to 1,4 nights in 2015 (SURS, 2015), which is similar to Montenegro (1,36 nights in 2015). In Croatia, despite the relatively high number of tourists, the situation is worse (1.17 in 2015). The similar goes also for other countries with the exception of Serbia with 2.30 nights.

Table 7. The trend of Chinese tourists' duration of stay – part 2

		Base year	2015	Increase
Slovenia (2008)	Foreign tourists' nights	2.83	2.43	0.86
	Chinese tourists' nights	2.20	1.44	0.65
Croatia (2008)	Foreign tourists' nights	5.69	5.50	0.97
	Chinese tourists' nights	1.89	1.17	0.62
B&H (2008)	Foreign tourists' nights	2.21	2.04	0.92
	Chinese tourists' nights	2.61	1.25	0.48
Republika Srpska (2008)	Foreign tourists' nights	2.34	2.35	1.00
	Chinese tourists' nights	1.76	1.75	0.99
Serbia (2011)	Foreign tourists' nights	2.15	2.13	0.99
	Chinese tourists' nights	3.43	2.30	0.67
Montenegro (2013)	Foreign tourists' nights	6.35	6.61	1.04
	Chinese tourists' nights	1.67	1.36	0.81
Kosovo (2013)	Foreign tourists' nights	1.53	1.54	1.01
	Chinese tourists' nights	2.00	2.00	1.00
Macedonia (2010)	Foreign tourists' nights	2.14	2.13	1.00

	Chinese tourists' nights	2.28	1.47	0.64
Albania (2008)	Foreign tourists' nights			
	Chinese tourists' nights	1.70	1.60	0.94
Average	Foreign tourists' nights	2.99	2.93	0.98
	Chinese tourists' nights	2.10	1.53	0.73

Source: Calculations by the authors based on INSTAT, 2016; Agencija za statistiku BiH, 2016; MONSTAT, 2016; Državni zavod za statistiku Republike Hrvatske, 2016; Република Македонија, Државен завод за статистика, 2016; Agjencia e Statistikave të Kosovës, 2016; SURS, 2016; Republika Srbija Republički zavod za statistiku.

5. Discussion

The data presented show the astonishing growth of Chinese outbound tourism, which is expected to exhibit continuous rise in the near future. Although the share of Chinese outbound travels to Europe is still low in comparison to other destinations, some predictions show high increase in future years (Goldman Sachs, 2015). The destinations in Central and Southeastern Europe including the countries of former Yugoslavia have been described as the motor for Europe's overall tourism growth in last few years. These countries have also been exhibiting relatively high growth in the subsector of Chinese outbound tourism. Whether this is a reflection of a general trend of Chinese outbound tourism or a result of targeted actions is due to lack of research hard to established. The countries did step up their marketing activities in the PRC, including attendance at tourism fairs. For example, in 2013 the National Tourism Organisation of Serbia received "Chinese Tourists Welcoming Award" in the category of "Marketing destinations in the Chinese Market" at the COTTM travel fair in Beijing. In the same year the Memorandum of Understanding was signed between the Republic of Serbia and the PRC's National Tourism Administration with the aim of strengthening cooperation. Among other provisions, the agreement defines visa liberalization procedures for Chinese group visits to Serbia (Serbia Travel, 2013). The inclusion of these countries into the framework of CEE – PRC cooperation and especially within the new foreign relations initiative "The new Silk Road" has given the tourism efforts by the local tourists' boards a new boost. Also, the visits by some of the high profile PRC representatives (most notably by the PRC Premier Li Keqiang attending the Belgrade meeting in 2014) have also raised the profile of these countries.

Despite this, the described efforts are hindered by several structural factors. Firstly, the lack of direct flights between these countries and PRC is still very limited. With Chinese tourists' time constrained travel itineraries, this can play a prominent role in attracting more tourists. Currently, there are only three direct flights to countries of Central Europe (From Beijing to Warsaw, Budapest and Prague) and none to a country of former Yugoslavia (COTRI, 2016). Secondly, the visa regulations for Chinese tourists are still relatively stringent. This issue has been regularly addressed by Chinese officials, but has not lead to any visa regime relaxations so far. The effect of this is that Chinese tourists begin and conclude their tours in the countries where it is easier to obtain Schengen visas, most notably in Greece and Italy,

which takes away time that could be spend in one of the countries of former Yugoslavia. Thirdly, the destinations are still not very recognizable, especially among younger and most mobile travellers. The individual countries lack the resources for strong and persistent destination marketing, so steps should be taken to overcome this weakness by joint cooperation and innovative ways of destination marketing.

Lastly, based on the data presented and information gathered we could forecast the future trend of Chinese tourists' arrivals. Following UNWTO, the predictions about the total number of Chinese outbound tourists go as high as 450 billion Chinese traveling in 2030. Assuming the share of Chinese traveling to Western Balkan among all Chinese traveling abroad not to change, this would then mean 530,000 Chinese tourists in the Western Balkan. However, we believe that these numbers may be too ambitious and that the growth will slow down after 2020 (figure 4). Thus, we estimate that the number of Chinese tourists in the region will not exceed 400,000 tourists in 2030.

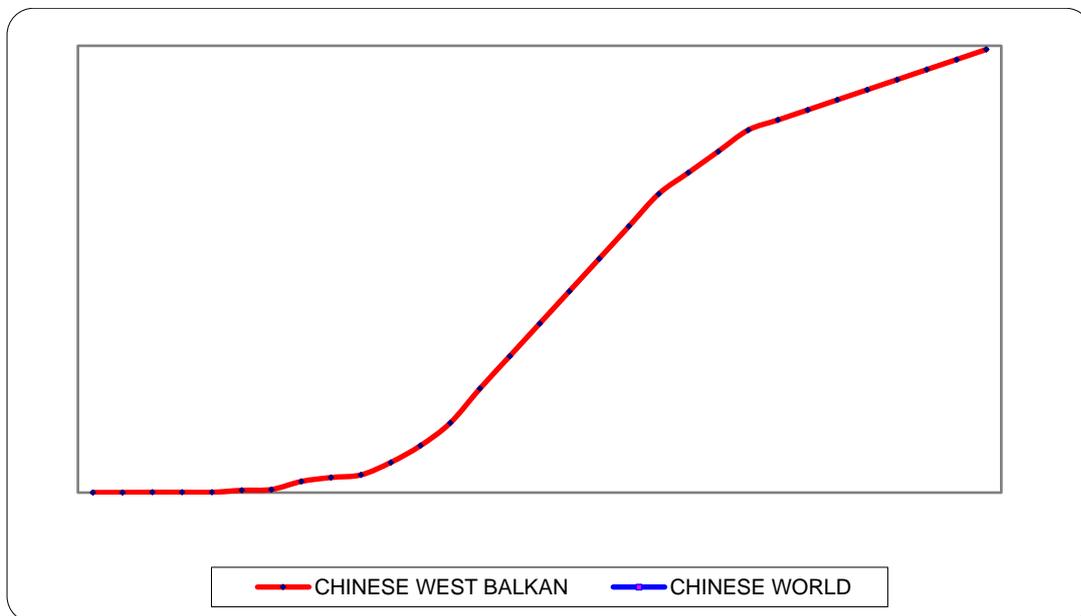


Figure 1. Trends of Chinese tourists in the world and Western Balkan and

Source: Estimations by the authors based on INSTAT, 2016; Agencija za statistiku BiH, 2016; MONSTAT, 2016; Državni zavod za statistiku Republike Hrvatske, 2016; Република Македонија, Државен завод за статистика, 2016; Agjencia e Statistikave të Kosovës, 2016; SURS, 2016; Republika Srbija Republički zavod za statistiku, 2016 and China National Tourism Administration, 2016.

1. Conclusion

This article examines how countries of Western Balkan fair in the emergent tourism market of PRC. It first highlights general characteristics of Chinese outbound travel as well as sketches the developing field of research on this phenomenon. In the following section the authors review and analyse the accessible statistical data on Chinese tourists in the countries of Western Balkan as well as describe some of the characteristics of this region in connection to Chinese outbound tourism. In the concluding part they situate these data within the wider

economic and political processes, pointing to structural weaknesses and give estimations of future trend in the region.

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- **EFFECTS OF FDI ON INDUSTRIAL UPGRADE OF ALBANIA**

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Abstract

Foreign direct investment (FDI) in developing countries brings economic development and enhances the international competitiveness of domestic enterprises. The entrance of FDI would normally be considered as a prerequisite for the success of the introduction of foreign capital. FDI accounts for the largest and most important proportion of foreign capital in Albania, which undoubtedly plays an important role in the Albania's economic development growth and country. However, as the country continues to taking various preferential policies to promote foreign investment and the good momentum of Albania's economic development, FDI increases, and in this paper we want to evaluate how the FDI has influenced the technological progress of the country.

In general, multinational companies have advantages of capital, technology or management-intensive elements, if there is no foreign direct investment, for the host country producing new industries or upgrading of the structure of traditional industries shall be more difficult. The promoted technological progress and management level can lead labor force, labor tools to have productivity growth and can lead directly to changes in the structure of industrial technology. FDI inflows give the "package" of resources, technology and management skills needed not only to help the host country to establish new industries, but also to help host country to promote inter-industry structure within a structural optimization and industrial upgrading. Based on the theory of FDI, this paper through a theoretical analysis and an analysis on data on country's data reaches conclusion that FDI has positive effects on industrial upgrade in Albania.

Key words: FDI , Albania, industrial upgrade

JEL Classification: E22, O4.

1. Introduction

FDI (Foreign Direct Investment) is an important way of international capital flows. International Monetary Fund (1985) refers to international direct investment as obtaining a lasting interest in the investment carried out in a foreign enterprises with the aim of to gain practical business management control; OECD (1996) thinks that international direct investment is when residents of a country (direct investor) in another country or countries residents (direct investment enterprises) conducts activities for the purpose of obtaining a lasting interest. Thus, the international direct investment and enterprise "effective control" or "lasting benefits" are closely related and, therefore, we believe that FDI means that international investors to participate in the production and business activities of enterprises,

having actual management, controlling investments in right way and investing purpose is to obtain durable profits.

We believe that a country's or region's FDI utilization ability is not only ability to attract foreign investment but also from the larger, broader perspective to think that the host country is considering FDI in promoting industrial restructuring, promotion of enterprise technology progress, and increase local employment and tax revenue, promoting the role of foreign trade and other aspects of the series. Based on this, we define FDI utilization ability as follows: The so-called FDI utilization ability shows how the host country's legal and regulatory framework attracts foreign investment, how FDI effects the local economic growth, industrial restructuring and technological progress, residents' employment, how positive is the contribution to foreign trade development.

The multinational companies with advanced technology with regard to keep the technological leadership, get competitive advantage by maintaining its technological dominance, they always take actions to prevent the spillover of core technology. From the foreign policies of FDI utilization in these states, they all paid high attention to the effect of technology progress, especially the developing countries, they took various measures to induce foreign investors to play the role of technological promoting effect.

Take Brazil as the example, the government required that all the technology and equipment which can offered domestically are not allowed to use FDI, at the same time, took measures on loans, tax, ordering, supply of raw materials, etc., try to promote the foreign companies to expand the production of capital goods, transfer the technology, shorten the duration of the technology confidentiality. Korea also put great emphasis on the technological progress effect of FDI, actively introduced advanced foreign technology, strengthen the digestion and absorption of imported technologies, for those industries that foreign companies are unwilling to transfer their technology by technical trade, such as chemical industry, electronics and automotive industries, the government will encourage them to invest in Korea.

Another example, Singapore put emphasis on the transplantation of science and technology during the FDI utilization process, actively absorbed the FDI of the technology-intensive industries, capital-intensive industries and knowledge-intensive industries, advocated the domestic capital and foreign capital set up joint venture associates in order to play the effects of the FDI technological progress. Albania's FDI is increasing day by day since the opening of country's economy after 90's, and a lot has entered since than in the country's technology.

2. Literatures based on FDI effects to industrial structure adjustment and upgrade

Vernon (1966) research pointed out that multinational companies based at product stages take different strategies at different stages, through direct investment in developing countries will transfer to the host country certain products technical level, and thus will influence a certain impact on the structure of host country's industry; at the same time, developing host countries can through attraction of FDI build a number of not yet formed industries, but still yet the host country shall find it difficult to cross and level the gap between its industry and investor country's industry. After that, some theories came up such as: labor-intensive industrial structure, marginal industrial theory, flying geese model theory, growth stage theory etc., which all predict international transfer of industry where the host country uses FDI inflows to upgrade the industrial structure adjustment. These theories suggest that

FDI can effectively enhance the comparative advantages of host countries, thus promoting industrial structure adjustment and upgrade host country industries. Frank Barry (1999) analyzed Ireland, Britain, Spain, Portugal, four countries data and by comparing the industrial structure upgrading in these countries, concluded that FDI inflow during the upgrade played a very important role in promoting host country's industrial structure upgrading.

Nigel Driffield (2001) analyzed the concentration of FDI on the impact of British industry, and thinks that FDI inflows increased competitive pressure within the enterprises and reduced the excessive concentration of industry so it made possible UK's industrial upgrading. Many scholars have made studies on China FDI inflows effect to industrial structure, most empirical analysis shows that FDI in China has promoted industrial upgrading. Representative literature of which are: Wang Luolin, Jiang Xiaoyuan, Lusheng Liang et al (2000) which pointed out 500 worlds biggest enterprises investment projects in China and the effect of these large-scale investments will help enhance China's industrial structure. Fu Qiang, Zhou Kehong (2005) pointed out that China's domestic industrial restructuring and foreign investments in China have a strong correlation. Since open up reforms from 1978, FDI inflows to China greatly promoted industrial upgrading and improved competitiveness of various industries.

In summary, we see that evaluation of a country's or region's FDI utilization ability involves many indicators, these indicators require not only theoretical support, but also must be based on empirical basis on data analysis testing. Therefore, exploration and research of this topic has some difficulties. Because of this, in order to successfully make a research on countries of South East Europe FDI utilization ability we have to grasp its main aspect and give up some minor factors.

After review of literature, we create an idea that a country's or region's FDI utilization ability is mainly reflected on economic growth, industrial restructuring, technological progress, trade and other major impacts.

3. Host countries ability to use FDI in industrial structure upgrading

In 30's of 20th century , British economist Fisher first proposed the concept of the three economic stages of mankind; he thinks that in history of the world economy, development of human activities has gone through three phases: In the first phase, the primary production stage, production activities was based largely on agriculture and animal husbandry; the second phase began in the British Industrial Revolution, which brought rapid development of large-scale industrial production with the symbol industries such as textile, steel and other manufacturing having rapid rise and development; third phase began in the early 20th century, a lot of labor and capital flows entered travel, entertainment, culture, arts, health, education, government and other activities. These phases respectively phase of primary production industries, second phase of industry and the third phase of industry are called primary industry, secondary industry and tertiary industry, this classification began from the late 50's 20th century. In many countries, is widely used in economic statistics.

Generally it is believed that FDI has played a positive role in evolution to the host country's industrial structure. Most of the existing research results from the point of view in demand structure changes, changes in factor supply, structural changes in international trade and international industry transfer try to explain the effects of FDI to industrial structure on the mechanism of the host country.

First, we look at FDI enterprises demand to lead to upgrade industrial structure, of the host country. Cao Junwei (2002) pointed out that the inflow of FDI may cause changes in the structure of the host country needs and demand; above all, changes usually are caused in the intermediary demand. FDI enterprises usually use the local advantages of resources for production, for example many of FDI inflows into China take advantage of cheap labor and other related raw materials.

In this case, FDI enterprises have an enormous demand-pull effect on the upper reaches of industry, promote quality improvement and production of technological progress of raw materials and intermediate products, thus it promotes development of these industries and stimulate the upgrading of industrial structure. Based on this, we can see that emergence of demand prompted direct promotion of the industrial structure changes, while FDI inflows which brought changing to the demand structure of the host country, at the same time led to changes in industrial structure.

Secondly, FDI inflows enhanced host country's level of technological progress and management, which to some extent, changed the trend of production factors diminishing marginal returns, thus changing the input-output structure of the host country and promoting the development of related industries. The promoted technological progress and management level can lead labor force, labor tools to have productivity growth and can lead directly to changes in the structure of industrial technology.

FDI inflows give the "package" of resources, technology and management skills needed not only to help the host country to establish new industries, but also to help host country to promote inter-industry structure within a structural optimization and industrial upgrading. In general, multinational companies have advantages of capital, technology or management-intensive elements, if there is no foreign direct investment, for the host country producing new industries or upgrading of the structure of traditional industries shall be more difficult.

4. Foreign direct investment (FDI) in Albanian economy and analysis of country's industrial upgrade

The competitive advantages of a country are particularly important in the field of direct investment. Albania has significant opportunities to attract foreign direct investment, among them its geographic position (ports in the Adriatic and the Ionian Seas); natural resources; an educated labor force; and competitive salaries. All of these are attractive elements to foreign investors.

Consequently, our country will gain great economic benefit from FDI. Experience has shown that foreign direct investment has had a major impact on the economic growth of a country. Some of these benefits are:(1) An increase in competitive potential between domestic production enterprises. FDI increases the pressure, enabling stronger competition between domestic producers;(2) The entrance of advanced technology;(3) Experience of the skills of management;(4) Progress in knowledge of various fields of production resulting from contacts with foreign customers;5) Possibilities for the optimal utilization of human resources, which represents a major source for development in Albania and also it helps to increase their professional skills.

4.1 Analysis: The ability of using FDI to promote industrial structure upgrading

The industrial structure upgrading means the industrial structure shift from low technology level to high technology level, from dominant industries with low productivity to dominant industries with high productivity. One purpose of the introduction of FDI is to lead the local industrial structure upgrading by FDI enterprises, with the expectation of the host country which is to occupy a part of higher value added section in the international industrial chain.

All researches made on Albania, every scholar who has made an article on FDI for this country absolutely agrees that the FDI inflows have brought rapid development in the country's industrial upgrade. Since 1990 when Albania's FDI was practically 0 and now that it has very open policies, the structure of Albanian economy has totally changed, and the output of each sector of economy is bigger than the entire GDP of Albania at 1990.

Many scholars have said that FDI has some certain influence on industrial structure upgrading, but there has no indicators to measure the extent of the effect. In accordance with the research on the Quality of China's use of FDI by Han Gang (2005), he considered that the influence of FDI on industrial structure upgrading mainly reflected in the inter-industrial structure upgrading and the structure optimization within the industry. Here we use the research methods of Han Gang (2005) as reference and try to introduce the relative strength of FDI in service industry and the relative strength of FDI in manufacturing industry as the measure indicator to measure the influences of FDI utilization in Albania on the inter-industrial structure upgrading and the structure optimization within the industry. The formula is as follows:

$$OSFS = \frac{FDI_3/FDI}{GDZC_3/GDZC} \quad (4.1) \quad ; \quad OSFM = \frac{FDI_M/FDI_2}{GDZC_M/GDZC_2} \quad (4.2)$$

OSFS and OSFM indicate the FDI investment strength in service and manufacturing, FDI_2 , FDI_3 , FDI_M , FDI express the FDI in the second, third, manufacturing industry and the total FDI in different industries, $GDZC_2$, $GDZC_3$, $GDZC_M$, GDZC represent the fixed asset investment of the second, third, manufacturing industry and the total fixed asset investment in different industries. On the above formula, the greater the value of OSFS and OSFM that suggests the FDI has a larger effect on the inter-industrial structure upgrading and the structure optimization within the industry in Albania. Based on the statistic data offered by Bank of Albania from 1998 to 2008 (tab 4.1), the results are shown in tab.4.2. From the table we can see that the effect of FDI utilization on domestic industrial structure upgrading is growing in recent years.

Table 1. Data on primary, secondary and tertiary sectors of economy of Albania

	FDI	% of Primary industry to GDP	% of Secondary industry to GDP	% of Tertiary industry to GDP	Fixed assets total investments (Mn USD)	Manufacturing fixed assets total investments (Mn USD)	Secondary industry fixed assets total investments	Tertiary industry fixed assets total investments	FDI Manufacturing sector investments	FDI secondary sector investments	FDI Tertiary sector investments
	Mn USD	%	%	%	Mn USD	Mn USD	Mn USD	Mn USD	Mn USD	Mn USD	Mn USD
1998	138.0	26.58	40.79	32.63	274169.91	154906.00	170677.97	89105.25	74.60	92.70	31.70
1999	185.0	24.16	42.81	33.03	318315.47	189397.70	203403.58	97086.72	100.70	114.30	58.60
2000	152.5	22.92	43.01	34.07	355669.49	216958.39	227628.47	112747.23	82.90	89.60	49.30
2001	207.3	21.66	43.49	34.85	408358.02	232764.07	256857.19	121282.36	116.40	134.20	66.20
2002	135.0	18.85	44.82	36.33	410989.10	226044.00	274951.71	122885.74	80.60	95.00	32.80
2003	178.0	19.37	45.08	35.55	460927.27	270593.91	315613.07	157988.55	83.10	94.80	51.70
2004	341.8	17.85	41.56	40.59	521795.67	312555.61	336036.41	164365.63	192.10	211.10	94.50
2005	264.5	16.72	43.24	40.04	559765.33	321865.06	363791.49	177725.49	155.50	179.50	75.90
2006	306.7	16.30	44.60	39.10	632543.70	366875.34	404195.42	192925.83	167.90	197.40	89.80
2007	389.4	15.98	46.63	37.39	635089.57	353744.89	419730.70	189574.24	216.80	234.30	134.60
2008	343.9	14.88	46.77	38.35	706025.68	377608.09	458210.66	225575.21	199.80	208.70	132.90

Source: CES DATABASE

Table 2. FDI Relative intensity of the third and manufacturing industry

Year	OSFM	OSFS
1998	0.89	0.71
1999	0.95	1.04
2000	0.97	1.02
2001	0.96	1.08
2002	1.03	0.81
2003	1.02	0.85
2004	0.98	0.88
2005	0.98	0.90
2006	0.94	0.96
2007	1.10	1.16
2008	1.16	1.21

5. Conclusions

Albania, a formerly closed, centrally-planned state, is making the difficult transition to a more modern open-market economy but in the last few years has achieved more success than its neighbors, this because it has better geographic position, younger population and much more natural resources than all other neighbor countries together. Services (tertiary industry) FDI relative intensity already reflects the impact of FDI on the inter-industry structure upgrade, it is represented as the ratio of FDI refers to the proportion of tertiary industry and the fixed assets investment's proportion to the tertiary industry, measuring the relativity of foreign investment strength in tertiary industry and the intensity of total fixed asset investment.

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- **CO-INTEGRATING ANALYSIS BETWEEN THE EXCHANGE AND INFLATION RATE. CASE STUDY ALBANIA**

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Abstract

This research examines the empirical relationship between exchange and inflation rate in Albania. A major macroeconomic policy issues which are faced by all countries, both developed as well as those in transition, such as Albania is the pricing "fair" and the rate of inflation. The real exchange rate (RER) is seen as a key indicator of a country's competitiveness, and is considered the most reliable indicator of competitiveness in the Albanian context (IMF Report 2003, p. 5). A real rate of exchange deviate from equilibrium thought that can affect a country's economic performance. Inflation is also a monetary phenomenon, which from a general point of view is simply an "overproduction" of money, on the one hand, significantly increased the prices of goods and in other hand reduces the purchasing power of money. He turns into a boomerang for the economy, for stability and for its development in the long term. Bank of Albania's target is achieving and maintaining price stability, or more specifically, maintaining low positive rates of inflation.

The aim of this study is to explore the relevance of these two economic indicators, exchange rate and inflation rate in the long term through the Johansen test. VEC models will be used to connect for the relationship of co-integrating exchange rate inflation

Keywords: Exchange rate, Inflation, CPI, Johansen VEC.

1. Introduction

Exchange rate (ER) is regarded as one of the most important economic concepts, the study of which has been paid great attention by economists, since after the collapse of the Bretton Woods system. Inflation is a general increase of prices in a given economy and occurs only when most prices rise to a certain degree, in all geographic distribution, in a given economy. Inflation is one of the main economic problems, where low inflation is one of the main goals of this policy. Inflation (high) qualifies as a "macroeconomic illness". Albania's economy is regarded as an economy in development and that's why this economy walks with very small steps, which make it more difficult to study in this field. This is because the factors that influence the volatility of exchange rates, yield a very low effect compared with the effect that really should give if the economy will qualify as developed economics. Albania is a small country and product prices generally takes input from the international market. Changes in the exchange rate in Albania may be preceded by inflation (Mançellari, Mytkolli and Kola, 1999) and it is an important variable in explaining inflation (Kola and Liko, 2011). Fluctuations

in the exchange rate in developing countries can affect aggregate demand and the expansion of investment (Frenkel, 2004), while an overvalued currency negatively affects employment (Hua, 2011). On the other hand, the high level of external debt, makes it the debt susceptible to the movements of RER. A real course consistently overestimated is an early indicator of potential currency crisis (Kaminsky and Reinhart, 1999).

2. Literature Review

One of the most crucial things that illustrates the importance of causality in the economy is the work of Adam Smith's "An Inquiry into the Nature and Causes of the Wealth of Nation (1776)". The link between causality and economy dates back to Smith. Starting with Aristotle, the great economists are also great philosopher of causality. Modern econometric models dating back to the development of structural econometric models that follow research by Jan Tinbergen in the 1930s, the conceptual basis of econometric probability Trgyve Haavelmo (1994) and developing techniques to identify the problem. In the Tinbergen books, structural models are explained in the diagram using arrows to express causal relationships between variables of time. Also, after the Cowles Commission research, two approaches can be distinguished clearly: Approximation of Hermann Wold, which dictates the asymmetry of causality and belongs to the tradition that ultimately held the Granger's causality and auto regression vectors. Another approximation emphasized the difference between endogenous and exogenous variables, and identification and assessment of structural parameters. Herbert Simon (1953) showed that causality can be defined in an econometric model not only among those endogenous and exogenous variables, but also even between endogenous variables.

2.1 Exchange rate

In the new era of globalization and financial liberalization, exchange rate plays a key role in the international markets and not only, but also in the financial system of a country in progress, as in the case of Albania. The role of exchange rates is considered so important, because any change in it, affects every stone of the financial system. A stable exchange rate helps companies and entrepreneurs to evaluate the performance of their investments, liquidity, solvency, liabilities and above all be able to predict their economic situation for the next few years. Changes in exchange rates have great consequences and the latter give their effect on the volatility of macroeconomic factors. Among these factors we mention: interest rates, prices of goods and services, inflation, trade balance, etc.. The behavior of the exchange rate, it is therefore one of the objectives of the governments of each country.

The exchange rate connects the country's economy, with the world economy. It reflects all the transactions between economic agents within and outside the country. Because of the sensitivity reason representing economic activity on the exchange rate, a successful macro policy cannot be applied without taking into account exchange rates. Fluctuations in exchange rates are probably the most important factors that influence sales, profit forecast, plans for capital budgeting and the value of foreign investments. From this perspective, changes in exchange rates play an important role in the economic and political stability of the world in general and the welfare of nations taken separately. On the other hand, it is also an issue of particular importance for Albania's own conditions where there is a heavy dependence on foreign trade and of the migrant remittances from abroad, an issue which preoccupies the banks and the other interest groups. Trade and foreign investment are realized in the framework of an international monetary system consisting in the currency system and their connections through the markets of foreign exchange rates.

Ravindran, Ganisen and Roslan (2008) ARIMA and GARCH models used to predict the rate of foreign exchange rate. They claim that some financial time series are not entirely random as in the efficient markets hypothesis. They also argue that the historical financial data can be used to achieve accurate short-term forecasts that can be used in practice.

Claessen and Mitnik (2002) analyzed the performance of GARCH model to forecast the German DAX index returns. They claim that the GARCH model is valid only for anticipated future fluctuations DAX index returns, but it contains valuable information to predict future prices. They say that the hypothesis of efficient markets for DAX index stands.

Sparks and Yurova (2006) have studied the performance of ARIMA and GARCH models to predict a later period stock prices. In their research they used MAPD (Mean Absolute Percentage Deviation) to evaluate and compare the prediction of models. Their main finding was that the model GARCH performs better than ARIMA in terms of MADP.

Fahimifard, Homayounifar, Sabouhi and Moghaddamnia (2009) found that the forecast of exchange rates for 2, 4 and 8 days Pattern model GARCH performs better than ARIMA in terms of RMSE (Root Mean Squared Error), MSE (Mean Squared Error) and MAD (Mean Absolute Deviation).

Garcia, Contreras, Akkeren and Garcia (2004) used a GARCH model to predict the regulated prices of electricity. They said the GARCH model is better than ARIMA model during periods of high variability.

2.2 Inflation

For more than two decades, it has been a distinct decline in inflation rates in industrialized countries as well as in those with a poor economy. In most part, these developments are a reflection of the distribution of knowledge negative repercussions on the economies with high inflation rates. Rates of high and volatile inflation in most countries in the previous periods were associated with a variability in production, unemployment and a reduction in production potential. For this reason economists have concluded that a high-inflation environment is crucial to the functioning of the economy of a country. A not saved inflation rate means higher uncertainty, waiting to be affected by inflation and negative effects throughout the whole economy.

By considering that monetary policy should aim a low inflation as a contribution to the functioning of the economy, there are many costs arising from a high-inflation environment. Theoretical and empirical analysis of the costs of inflation usually compares incomes in economies with low inflation to those with high inflation.

Inflation is usually seen in two broad forms, monetarist and structuralism. Monetarist claims that the empirical study of monetary history shows that inflation has always been a monetary phenomenon. Makochekamwa (2007) in Zimbabwe has used an analysis of CGE (Computable General Equilibrium) with annual data to prove the relationship between inflation and exchange rate using data for vitet1975-2006. He empirically found that variables relating to inflation and exchange rates by Granger's causal link are reciprocal. M.O. Odedokun (1995) analyzed annual data for 35 countries from 1971 to 1990. The findings suggest that monetary growth, the rate of depreciation of the domestic currency has a positive effect on inflation, while the expansion of food production per capita, as well as overall growth economic served to lower inflation rates.

Imimole. B & Enoma. A (2011) examined the impact of exchange rate depreciation on inflation in Nigeria for the period 1986-2008 using the co-integration procedure. The research found

that the depreciation of the exchange rate, money supply and gross domestic product are the main determinants of inflation in Nigeria, and that the devaluation "Naira" is a positive and significant long-term effect on inflation, in Nigeria. This means that the exchange rate depreciation could bring an increase of the inflation rate in Nigeria.

Ndungu (1993) estimated VAR model of the money supply, domestic price level, exchange rate index, foreign price index and the interest rate. In an attempt to explain the movement of inflation in Kenya, he noted that the inflation rate and the exchange rate explain each other.

The study conducted by Kamas (1995) in Colombia noted that exchange rates have not played a significant role in explaining the variation in inflation and inflation seems to be primarily inertial about the exchange rate.

According Madesha. W, Chidoko. C and Zivanomoyo. J (2013) inflation and exchange rate tested by Dicker Fuller generalized test found that the series are I (1). After testing and confirming that the series are I (1), Madesha, Zivanomoyo reviewed Chidoko and presence or absence of co-integration between variables. In the case study it is determined that long-term inflation (Linfe) and long-term exchange rate (LEXCH) are variables that have a long-term mutual relationship.

2.3 The relationship between the exchange and inflation rate according to the paper (2015) of Lufi & Sinai [10] on the exchange and inflation rate results for Albania, conclude that the variable exchange rate is (1) while the inflation rate is I (0). Causal link exists between them unilaterally. The exchange rate is one that affects the rate of inflation in the case of Albania. In the paper it is being built a two-dimensional VAR model I selected by being based on the selection criteria to lag is a VAR model (2), for more on this model does not appear problem of serial correlation and residues have a normal distribution.

3. Co-integration

Co-integration is one generalization of the unitary roots' test of the vectors' system. We suppose that we have two time series that are not stationary, but are integral series and have unitary roots, that are presented in the shape of an MA model as below:

$$(1-B)Y_t = p(B)e_t$$

$$(1-B)X_t = p(B)u_t$$

In general also the linear combination of two series Y_t and X_t has a unitary root. If the linear combination $Y_t - aX_t$ is stationary, then it is said that the series are co-integrated (1-a) is their vector of co-integration.

Co-integration is an integral part of the analysis for variables of time series type. Two or more time series, we say that are co-integrated when they have a common random shift. If 2 or more time series are integrated individually, but any linear combination of them has a lower degree of integration, we can say series are co-integrated with each other. If such a combination has a low degree of integration, especially if I (0), this means that a balanced relation between the original series which they say co-integrate.

3.1 The maximum longitude method Johansen

Method maximum longitude Johansen (1988) is probably the best method for assessing the long-term economic variables and relationships. Many studies of a lot of researchers have made comparisons around different approaches to co-integration analysis and are generally in favor of this method. Although it should be noted that it is necessary for

each case study of time series. Johansen test is used to test the existence of co-integration and is based on an assessment of the ECM with the maximum longitude method.

Johansen methodology begins with assessing the VAR model (p) k dimensional form where the general trend and intercept include:

$$X_t = \phi_1 X_{t-1} + \phi_2 X_{t-2} + \dots + \phi_p X_{t-p} + \mu + \delta t + u_t \quad (1)$$

The above reconciliation has all components matrix, so the X_t and X_{t-i} are vector with $k \times 1$ measures. Vector X_t consists of k series that are stationary of the first order, $I(1)$. This is the reason that compels us to transform the equalizer (1) in an error correction model VECM, down side by side X_{t-1} .

$$\Delta X_t = (\phi_1 - I)X_{t-1} + \phi_2 X_{t-2} + \dots + \phi_p X_{t-p} + \mu + \delta t + u_t$$

Perform transformations on until we reach the equation:

$$\Delta X_t = \Gamma_1 X_{t-1} + \Gamma_2 X_{t-2} + \dots + \Gamma_p X_{t-p} + \mu + \delta t + u_t$$

$$\Gamma_i = \phi_i + \phi_{i-1} + \dots + \phi_1 - I$$

We can write the last equalizer in a familiar form

$$\Delta X_t = \Pi X_{t-1} + \sum_{i=1}^{p-1} \Gamma_i \Delta X_{t-i} + \mu + \delta t + u_t$$

In this draw entries are:

$$\Pi = \sum_{i=1}^p \phi_i - I, \quad \Gamma_i = - \sum_{j=i+1}^p \phi_j$$

We can write the matrix $\Pi = \alpha\beta'$ where α is the matrix of adjusted coefficients while β' matrix of co-integrated. According to the test are found its values $\hat{\lambda}_1 \geq \hat{\lambda}_2 \geq \dots \geq \hat{\lambda}_k$ and the way the matrix giving the following tests:

$$\text{Statistics traits } \lambda_{\text{trace}} = -n \sum_{i=r+1}^k \log(1 - \hat{\lambda}_i)$$

$$\text{Statistics of its max values } \lambda_{\text{max}} = -n \log(1 - \hat{\lambda}_{r+1})$$

1. Test of traits

$$H_0: r \leq r_0$$

$$H_a: r_0 < r \leq k$$

If $\lambda_{\text{trace}} > \text{critical value}$, then the basic hypothesis swoop .

2. The test of its maximum value

$$H_0: r \leq r_0$$

$$H_a: r = r_0 + 1$$

If $\lambda_{\text{max}} > \text{critical value}$, then the basic hypothesis swoop .

In both cases, testing is implemented sequentially.

Sequential tests:

- i. $H_0: r = 0$, cannot be refused \rightarrow end
 $H_a: r > 0$, true \rightarrow we continue the test

- ii. $H_0: r = 1$, cannot be refused \rightarrow end $\rightarrow r = 1$
 $H_a: r > 1$, true \rightarrow we continue the test

Testing continues until we reach the maximum value of r , r is known that takes values in the segment $[0, k-1]$.

3.2 Empirical analysis

By reviewing the literature we have considered that the exchange rate is (1) and inflation (0). Since the theory of co-integration has the basic criterion to be non-stationary series, we are continuing the analysis by replacing the inflation of the consumer price index (CPI). It is economically justified the use of the consumer price index inflation in the country because they are the result of one another. The Consumer Price Index is shown from Sinai (2009, 2015) which is a series I (1).

Since the series of exchange rate and index consumer prices are variables I (1), the need to study us the connections that exist between them in the short term as well as in the long term. According Lufi & Sinai (2015) is shown with the help of Grangers' causality test that exists between these variables unilateral causal link and exactly KRUSI rate is a variable that influences inflation in the short and medium term.

Johansen let us apply the test to find out if this relationship lies and in the long term. Test results are presented in the following table.

Table 1. Test results

Included observations: 151 after adjustments				
Trend assumption: Linear deterministic trend				
Series: ER INF				
Lags interval (in first differences): 1 to 4				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.202185	36.03668	15.49471	0.0000
At most 1	0.012694	1.929060	3.841466	0.1649
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.202185	34.10762	14.26460	0.0000
At most 1	0.012694	1.929060	3.841466	0.1649

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level		
* denotes rejection of the hypothesis at the 0.05 level		
**MacKinnon-Haug-Michelis (1999) p-values		
Unrestricted Cointegrating Coefficients (normalized by b'*S11*b=I):		
ER	INF	
-0.000326	0.964198	
0.139911	0.120716	
Unrestricted Adjustment Coefficients (alpha):		
D(ER)	0.222184	-0.127512
D(INF)	-0.265723	-0.019023
1 Cointegrating Equation(s): Log likelihood -368.4768		
Normalized cointegrating coefficients (standard error in parentheses)		
ER	INF	
1.000000	-2957.878	
	(488.089)	
Adjustment coefficients (standard error in parentheses)		
D(ER)	-7.24E-05	
	(3.3E-05)	
D(INF)	8.66E-05	
	(1.5E-05)	

From the results of the Johansen 's test, we see that the statistics of maximum value itself in the case when the basic hypothesis is that series are not co-integrated is 36.6 and is greater than the critical value 15:49, consequently basic hypothesis swoop, therefore we must continue testing. While in the case when the basic hypothesis is we have a couple of series in co-integration, again seen that the observed value of statistics that separate maximum value is 1.9 less than the critical value of 3.8 and therefore we end up testing, we say that series co-integrate. Likewise perform testing with the help of trace statistics and the conclusion is the same.

Referring to test of himself maximal value and also the series traces statistics concluded that exchange rate and inflation (CPI) have a stable connection even in the long term in the case of Albania.

Likewise, we use the VEC to support on co-integration series results obtained in the study. Feedback shown in the table below:

Table 2. Feedback

Vector Error Correction Estimates
Included observations: 151 after adjustments
Standard errors in () & t-statistics in []

Cointegrating Eq:	CointEq1	
ER (-1)	1.000000	
INF (-1)	-2957.878 (488.089) [-6.06013]	
C	8075.479	
Error Correction:	D (ER)	D (INF)
CointEq1	-7.24E-05 (3.3E-05) [-2.20243]	8.66E-05 (1.5E-05) [5.77370]
D(ER(-1))	0.266452 (0.08261) [3.22524]	0.032192 (0.03769) [0.85414]

Based on the results of VEC evaluated we conclude that series co-integrate among themselves. Let's see if this model or not VEC suffers from auto correlation. The use portmanteau test and the results are shown in the following table:

Table 3. Portmanteau test results

VEC Residual Portmanteau Tests for Autocorrelations
Null Hypothesis: no residual autocorrelations up to lag
h
Included observations: 151

Lags	Q-Stat	Prob.	Adj Q-Stat	Prob.	df
1	0.195707	NA*	0.197012	NA*	NA*
2	2.606247	NA*	2.639908	NA*	NA*
3	4.402053	0.6224	4.472115	0.6131	6
4	12.67298	0.2425	12.96810	0.2255	10
5	17.65674	0.2229	18.12254	0.2013	14
6	21.22734	0.2681	21.84088	0.2391	18
7	25.17578	0.2887	25.98127	0.2525	22
8	29.14628	0.3045	30.17389	0.2605	26
9	34.80813	0.2497	36.19459	0.2018	30
10	38.04452	0.2903	39.66052	0.2322	34
11	38.28425	0.4566	39.91908	0.3848	38
12	55.65841	0.0771	58.79317	0.0442	42

*The test is valid only for lags larger than the VAR lag order.

df is degrees of freedom for (approximate) chi-square distribution

Referring to the results it is clear that the VEC model autocorrelation problem appeared not to waste it.

Below we present and are the graph of co-integration, which so clearly shows how the distinction that the impact of the exchange rate in Albania over the rate of inflation.

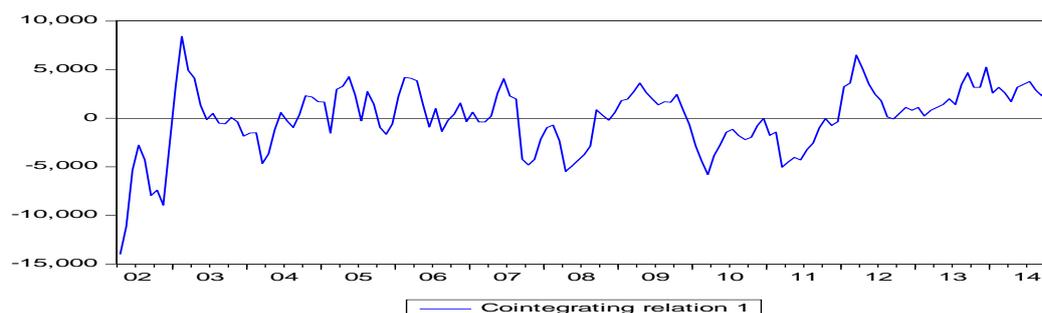


Figure 1. Cointegration relation

The Appendix has been presented and the series impulse response received in the study. It can be mentioned that the reaction that undergoes the inflation from the exchange rate, this impact is likely to be negative after three periods, null after 4 months and after significant impacts.

4. Conclusions

In this paper, it was analyzed relationship between exchange and inflation rate in Albania as the medium -term as well as long term ones. The exchange rate is one variable non stationary and he returned a difference stationary, while inflation is a stationary variable. In the co-integrating analysis, the inflation was replaced by the consumer price index so that the series was stationary at the first order. The causal analysis found that course of exchange is due to changes in the rate of inflation. The Johansen test used in this series shows that in the case of Albania it is a stable relationship and in long term periods.

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- **ENSURING SUSTAINABLE GROWTH AND DEVELOPMENT OF MARKET ECONOMY THROUGHOUT A FAVOURABLE CLIMATE FOR INVESTMENTS**

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Abstract

The so-called "Greenfield" investments are of crucial importance to economies in transition on their integration path. The Kosovo government has not approached the process of integration with due diligence and seriousness, whilst blaming EU for applying double standards for integration purposes. However, investments flow to Kosovo has been decreasing from year to year given the certain indicators such as, legal constrains, unfavorable business climate, tough regional competition, negative balance of payments, general political issues, decline of consumption, etc. The negative trend continued throughout last year. Thus, paper aims to provide an overview of economic performance of Kosovo's efforts toward European integration processes. Moreover, while revealing the issues of investments and its impact on the real sector of Kosovo's economy, stressing out the opportunities deriving from the stabilization association agreement. Finally, the paper provides certain recommendations to improve the current processes toward

Key words: investments, foreign direct investments, remittances, real sector, economy of Kosovo.

JEL classification: B10, E20, I18

Introduction

As of 1999, relations between Kosovo and the EU are co-dependent, since the Kosovo's objective was to integrate with the EU. EU guidance and support did not yield concrete results for the integration process of Kosovo with the EU. Since 2003, compared to neighboring countries, Kosovo lags behind in the integration process falls short of its aspirations for integration, and cannot keep commitments set forth by the European Union. (World Bank, 2015).

Investments play a key role in growth and development. The relation between FDI and the level of economic development is not just one direction. FDI inflows affect economic development, but at the same time, levels of economic development have a positive influence on attracting FDI. Thus, the attraction of foreign investments has a great importance for the economic growth and the future integration of the country. Therefore, it is very important to create a favorable environment to trigger foreign investments in the country.

Kosovo has implemented initial reforms to establish a fully functioning market economy but the weak rule of law, a large informal economy and an underdeveloped policy framework continue to hinder socio-economic growth. Unemployment is very high at 30.9 %,

according to official records (Central Bank of the Republic of Kosovo, 2015), whereas, youth unemployment stands at 55.3%. The high rate of unemployment is accompanied by very low labor market participation overall as well as by an equally low gender employment rate. Foreign Direct Investment in Kosovo increased by 11.20 EUR Million in November of 2015. Foreign Direct Investment in Kosovo averaged 67.52 EUR Million from 2007 until 2015, reaching an all time high of 440.70 EUR Million in June of 2007 and a record low of -19.10 EUR Million in April of 2014. (Central Bank of the Republic of Kosovo, 2016).

Outlook of economy

Economy of Kosovo has remained considerably protected from the Eurozone crisis, due to limited integration into the international financial markets and low export base. The financial sector continues to enjoy a high level of sustainability in liquidity and capital rates. However, high interest rates result in insufficient investments. Despite fluctuations, chiefly due to developments in recent years in Eurozone countries and a slowdown of the privatisation process, foreign direct investments have a positive impact in funding the current account deficit and other investments. Domestic investments are mostly oriented towards foreign companies in import of goods, while the pension trust funds are invested in international financial instruments, due to lack of instruments for investment in Kosovo and overall regulations. Kosovo faces high levels of trade deficit, which continues to have a negative impact on economic growth, with imports of goods covered by only about 10% of exports. This is because it is mainly based on trade in services, which have limited capacities to create added value to the economy and generate new jobs. The fiscal situation, on the other hand, remains stable in terms of both revenues and expenditures, positively contributing to economic growth especially in times when private sector faced difficulties. Overall revenues continued to grow, dominated by the revenues from customs. The government believes that the increase of domestic tax would provide for less reliance on the budget on customs revenues. (National Strategy for European Integration Kosovo, 2020).

EU and Kosovo agreements

The first agreement ever to be offered to Kosovo, considered to have an important role in its economic development, was the trade agreement. For years Kosovo has enjoyed trade preferences within the “autonomous trade measures” the European Union announced for all countries of the Balkans region. Since production in Kosovo has not made significant progress from this unilateral liberalization, the profit was modest. Meanwhile, all other countries of the region have reached Stabilization-Association Agreements with the EU and provisional Stabilization-Association agreements including Kosovo, which as of recently has signed the agreement.

The Commission admits that unilateral trade measures alone are not sufficient to stimulate the necessary investments in Kosovo’s economy and for production. The Commission reasoned in 2009 that EU Kosovo trade relations based solely on autonomous trade preferences do not offer a substantive perspective for the sustainability of Kosovo’s long-term economic development. Such a perspective can only be provided through a trade agreement between the European Community and Kosovo. A trade agreement offers important advantages for both Kosovo and the EU. An agreement provides a legal framework offering stability and predictability to investors. Kosovo received this offer with enthusiasm.

In the following spring, the Kosovo government received a questionnaire. Yet, Kosovo did not treat this offer seriously. Kosovo authorities delayed drafting the required studies. However, due to the lack of unity regarding the status of Kosovo, a discussion was opened in the EU surrounding the framework for signing this agreement and the parties that were to sign it.

As of 2015 the both parties finally agreed to sign the Stabilization Association Agreement (SAA), which aims at:

- to support the efforts of Kosovo to strengthen democracy and the rule of law;
- to contribute to political, economic and institutional stability in Kosovo, as well as to the stabilisation of the region;
- to provide an appropriate framework for political dialogue, allowing the development of close political relations between EU and Kosovo;
- to support the efforts of Kosovo to develop its economic and international cooperation, should objective circumstances so permit, including through the approximation of its legislation to that of the EU;
- to support the efforts of Kosovo to complete the transition into a functioning market economy;
- to promote harmonious economic relations and gradually develop a free trade area between the EU and Kosovo;
- to foster regional cooperation in all the fields covered by the Agreement.

EU expectations

The agreement provides a comprehensive framework for closer political and economic relations between the EU and Kosovo. Kosovo should maintain the positive momentum, including by addressing the numerous reform challenges ahead, in particular in the rule of law in fighting organised crime and corruption. There is an urgent need for the government and the Assembly to ensure that board members for many independent institutions and regulatory authorities are appointed, without any further delay, on the basis of merit. The EU said to welcome the progress made towards meeting the requirements of the visa liberalisation process. Kosovo has taken some effective short-term measures to curb irregular migration to the EU. The assembly should be allowed to hold a free and open debate on all issues affecting Kosovo, in accordance with democratic procedures. Obstruction of the assembly and violence for political purposes are not acceptable.

Challenges deriving from Stabilization Association Agreement

SSA is a two-way process and a regional process, through which relations are established among countries of the South-Eastern Europe and the EU, and at the same time, cooperation is encouraged among regional countries. Stabilization Association Agreement Tracking

Mechanism (SAATM) is the basis for a regular dialogue between the EU and Kosovar authorities on EU issues. In addition, a new structure of sectorial working groups was established under the SAATM umbrella in the areas of good governance, economy, internal market, innovation, infrastructure and agriculture. In this sense, The Action Plan is used to plan activities of the Government: in relation to political agenda of the Government and its priorities, legislative agenda of the Government (laws, sublegal acts, decisions and other legal acts) and of the Parliament, employment plan required for implementation of the European integration agenda and implementation of harmonised legal acts, plan for institutional building and training of personnel (needs for general and specific trainings), and plan for investments, especially with regard to construction (advancement) of the IT network in relation to Acquis.

The business climate of Kosovo

The business climate in Kosovo is hindered by limited access to finance, unreliable energy supply, unfair competition and corruption. Kosovo's enterprise sector is dominated by small and micro-enterprises; retail trade continues to be the dominant sector.

The trade deficit is large, with a deficit of 33.9% of GDP and a ratio of imports to exports of some 9:1. Kosovo's main trading partners are the EU, Albania, Serbia, the former Yugoslav Republic of Macedonia and Turkey. Currently, about 90% of exports consist of raw materials. Moreover, economic statistics (central accounts in particular) are extremely weak, making a comprehensive assessment of the economic situation difficult.

Kosovo needs to maintain a focus on improving the business environment as a policy priority. Although in a number of Doing Business subcategories investment climate indicators are better than the averages of relevant comparators, other constraints constitute considerably higher hurdles for businesses. The Government had established a National Economic Development Council to coordinate corresponding reform efforts, which sponsored amendments to business organization and internal trade laws to reduce registration costs, simplify procedures, eliminate work permits, and waive charter capital requirements for limited liability companies. The Government intends to revive the National Economic Council, which had not been functional for the last year, and to utilize it as a forum to facilitate public private dialogue. The Secretariat of this Council is foreseen to be administered by the Ministry of Trade and Industry. The government also has taken measures to speed up business registration through the establishment of one-stop shops that have, among other measures, integrated business registration, value added tax (VAT), and fiscal numbers into one document. Recently, the authorities have adopted new fiscal reforms comprising the differentiation of the value-added tax (VAT) from a flat 16 percent to 18 and 8 percent, with the reduced rate for a list of "basic" products (bread, water, oil, energy and heating). The Government aims at shortening the VAT repayment period for those companies that pay their contributions regularly. (Government of Republic of Kosovo, 2015).

Investments in Kosovo

Investments flow to Kosovo has been decreasing from year to year given the certain indicators such as, unfavorable business climate, tough regional competition, negative

balance of payments, general political issues, decline of consumption, etc. This trend continued throughout last year, although the official statistics have not been published yet. (American Chamber of Commerce, 2014).

According to Central Bank of Kosovo, investments in 2014 were characterized by a decline of around 8 percent. Investment position is estimated to have been deteriorated in 2014 due to the decline in public investments, while private investments were characterized by a slight increase. The real annual decline of about 23.9 percent of public investments in 2014, to some extent, may be a result of increased government current expenditures which have limited the scope for capital investments, but also can be attributed to the delay in the establishment of institutions after elections in 2014. The decline in public investments in 2014 may have had a negative impact on the private investments, which however are estimated to have recorded a slight increase in real terms of 1.6 percent. In the context of private investments, there was marked a considerable FDI decline of 46.0 percent, but at the same time was recorded a significant increase of new investment loans with a rate of 35.9 percent. Also the data of import of capital goods, which marked a growth of 12.9 percent, suggest that there was an increase in the private investments.

The negative value of net exports continued to contribute negatively to the economic growth also during 2014. Unlike the previous year, when the negative value of net exports was reduced, thus contributing positively to the growth, in 2014 negative position of net exports marked an increase of 5.0 percent. The real growth of exports of goods and services of 17.8 percent, was offset by real imports growth of 9.5 percent which significantly has larger weight than exports in total foreign trade of Kosovo.

The amount of FDI flows in Kosovo still remains one of the lowest in the region. Experience from transition economies shows that FDI is directly linked to the increase of exports and was the main contributor in the generation of new jobs, improvement of the overall economic and political stability. In order for FDI flows to increase, the investors need to gain the confidence that they can operate in an environment that is free of any undue political interference. The recent criticism of certain political figures from the local and central levels directed against a number of companies regarding compliance with environmental laws will have a negative impact not only on the protection of the environment. This is due to the fact that criticism in the form of political rhetoric that is not substantiated by facts neither improves the protection of the environment, nor helps Kosovo build an image of a country which is governed by the rule of law. (Statistical Agency of Kosovo, 2014)

What triggers foreign investments?

Opportunities for growth in foreign direct investment in the economy of Kosovo are present, but many factors hinder their implementation. To be able to use existing capabilities, identification and analysis of the limiting factors is the first step on the road to attract foreign direct investment. On the unattractiveness of Kosovo placement of foreign direct investment were affected political risks as well as the underdevelopment of financial markets. At lower FDI inflows were influenced by external factors related to the worsening global economic situation falling global investments. Under these conditions, much attention should be paid to building an attractive investment environment and promoting domestic locations, as well

as increasing domestic economy benefits can be expected from the already opened branches in its territory. The basic conditions for attracting foreign investments are considered to be:

- Political and economic stability,
- High-quality laws,
- Intensive cooperation with EU,
- Regulation and partial write off foreign debt,
- A dynamic and stable economic development,
- Proper fiscal policy,
- Low potential risks,
- Conduct clearly aggressive promotional policy.

Balance of payment

Integration of the economy in terms of trade and investment integration is essential to staying competitive in the EU market, which Kosovo aspires to join. In the last decade, Kosovo's economy has been more liberal on imports, but it failed to export products and services and to attract foreign direct investments. Foreign trade statistics consistently show high trade deficit, exports of products and services are estimated to be 8.2% of imports during the last ten years (Statistical Agency of Kosovo, 2014).

Balance of payments						
EUR million	2009	2010	2011	2012	2013	2014
Exports	165	296	319	276	294	325
Imports	1,936	2,158	2,492	2,508	2,450	2,539
Trade balance	(1,770)	(1,862)	(2,17)	(2,232)	(2,156)	(2,214)
Coverage ratio	9%	14%	13%	11%	12%	13%

Source: Statistical Agency of Kosovo (2016)

Data of Foreign Trade in Kosovo show a trade deficit being relatively stable during the last five years. This shows that the negative trend of improvement in terms of domestic production and yet, respectively fail to trigger fresh capital from abroad.

The perspective of growth / Recommendations'

Despite the current trends, Kosovo has a potential for growth and sustainable development. There are several comparative advantages for attracting domestic and foreign investments and increasing export: a young labour force, unused natural resources, agricultural land of good quality and access to regional and EU markets. In its path towards the EU, the main objective therefore would be to build a sustainable and competitive market

economy with fast economic growth. In order to reach this objective, certain emphasis need to be placed in the following recommendations:

Good economic governance

It will be achieved through a process of sustainable policy making and management, employing the potential of human and physical resources in order to generate sustainable growth, reduce unemployment and alleviate poverty. This way Kosovo will maintain macro-fiscal sustainability, develop and implement a National Development Strategy, ensure consistent planning of the Medium-Term Expenditure Framework and annual budget and develop sufficient institutional capacities for functioning market economy and economic integration with the EU. Furthermore, it will ensure sufficient quality and quantity of statistics, effectively implement and enforce corporate governance standards and adequately manage public assets and properties.

A competitive market economy

A competitive market economy will accelerate the integration with the EU by ensuring that Kosovo's market fully complies and structurally converges to the EU internal market, its rules and standards. This will ultimately create conditions that are supportive to the approximation of Kosovo's legislation and policies with those of the EU, across the levels and sectors, as well as to implementation and enforcement. In short term perspective, Kosovo will have a more competitive market economy. To this purpose, government needs to make sources of financing accessible and favourable, ensure fair competition in the market, complete the privatisation / liquidation process, develop SMEs, enhance research and development and develop productive social dialogue with all stakeholders.

Create a favourable climate for investments

For small and developing economies like Kosovo, FDI directly contributes to economic growth, as well as to economic competitiveness and integration with regional and EU economies. As a starting point, a favourable investment climate provides the basic framework for all investors, both local and foreign, to ensure that their investments are protected and are made in a stable and reliable environment. Such a climate implies financially open markets, rule of law, available capabilities, economic predictability, available infrastructure, internal markets and particularly efficient labour market.

Kosovo has so far managed to attract a small amount of FDI, only around 8.5% of GDP, mainly concentrated in the services and financial sectors (with much less potential to improve trade balance and generate jobs, compared to other sectors, such as agriculture, or manufacturing. The origin of FDI is mainly from EU countries, with Slovenia, Germany and Great Britain being in the lead. A number of policy measures to attract foreign investors have been undertaken over the recent years. However, more stable, transparent and predictable conditions for investors are needed. In this context, there are still legal flaws with regard to the creation of conditions for investments and promotion of opportunities for investments and facilitation of doing business.

Furthermore, there is still room for making the administrative and similar obligations easier concerning operation of enterprises. In addition to measures aimed at improving economic governance and competitiveness, as well as those targeting the education system, SMEs and industrial policies, in forthcoming years government would have to ensure a favourable climate for investments and ensure that investment promotion policies and other relevant policies are implemented at all levels. The fiscal policy also needs to be more supportive for investments including through tax incentives.

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- **THE STANDARDIZATION OF TECHNICAL TERMINOLOGY**

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Abstract

One of the direct methods of the standardization of terminology is the unification of terms in form and content from international terms. For the present time, the phenomenon of globalization is oriented mainly on this specialized lexical layer, and relates in a particular way with the flux of English words in it, mainly in new areas of science, of technology (informatics, genetics, biotechnology), which have gained the status of internationalisations.

The problems of the norm and the unification and overall of the standardization of terminology units, of the representation of this lexicon in language are treated and resolved within the framework of issues regarding the standard of the language lexicon as a whole, thus its observation is done from the viewpoint of linguistics and not terminological. The word of the general language and the term as a special language unit at this level are included in the circle of the same standard and the emergence of some features of words and their meanings find expression in the relevant terms and concepts as well.

Key words: *technical terminology, standardization of terminology, general language.*

Introduction

The activity/procedure to register and design unique terminologies became widely required since the time when special languages became discerned as separate observational and study objects. With the progress of science and technology, the formation and consolidation of national languages, in particular in precise areas and technical ones, scientists and specialists in the field of knowledge tried to create terms for concepts of their fields of study on the basis of Latin and Greek languages, to be understood internationally. Individual scholars, scientists, researchers, engineers since from the fifteenth century onwards were interested in the development of terminology and precise definition of the concepts for disciplines and works of their products, such as: engineers Alberti, Leonardo da Vinci, mathematician Leibnitz, Dürer in geometry, in chemistry Berthollet, Berzelius, Lavoisier and others³.

In the eighteenth century the great scholars and scientists established systems of terms, which have served their purpose and which have remained until today. Thus, for example, we can mention systems of terms for biology, established by Linne (1735) and for

³ H. Felber, “*Terminology manual*”, UNESCO and Infoterm, Paris, 1984, p. 27.

chemistry by Morveau (1782). For the formation of a unified terminology in botany, zoology and chemistry, served principles and rules for the formation of nominators approved also in international congresses. The first Congress for botanists was held in 1867, the one for zoologists in 1889 and the one for chemists' in 1892⁴.

Work with technical terminology in the world

The progress in technology made a special approach necessary towards terminology. Individual specialists of knowledge fields, and linguists and lexicographers have made great efforts in the twentieth century to prepare special one-language dictionaries and multilingual ones. In the early twentieth century the growth of international cooperation between specialists in science, technology and economics made the preparation for reliable dictionaries and special bilingual and multilingual ones necessary. Thanks to the great need of registered terminologies, individual lexicographers compiled dictionaries, by using a rough lexicographical approach in terminology, to that applied in the preparation of philology dictionaries (of language). They focused, above all, in the preparation of translation dictionaries, the credibility of which was often questioned by the experts in the field. Also the publication of special dictionaries, prepared by specialist subject teachers, has not always been satisfactory. The obstacle of special dictionaries prepared by individual specialists of the subject fields in a sense was that the prepared terminology reflects only the opinion of the specialist in the field who prepared the dictionary. *Therefore the team approach and project work was considered most appropriate for the activities in the field of terminology.* Since the late nineteenth century, committees of terminology to specific areas of knowledge, especially technical ones, began working within specific scientific organizations becoming responsible for the preparation of terminological dictionaries of relevant subject areas. In the twentieth century these committees also extended to organizations of technical and professional fields. In many countries with developed terminologies - Academies of Sciences have created committees also for terminologies of narrow fields for a thorough analytical processing, led mainly by subject specialists. From this point of view dominates the idea that systematic terminologies on the basis of priority treatment of concepts before terms can be prepared only by specialists of narrow fields of subjects. Wüster stressed "that the systemic work must be a field of terminology, i.e. of the subject specialists, with additional training in terminology."

The German Association of Engineers (VDI) in 1900 decided to start a major project called Technolexikon. This project aimed to register the existing term particle of science and technology. For this project, were processed from 1902 to 1905, 3.6 million units collected from a young linguist assigned by VDI. Technolexikon terms were supposed to be placed in alphabetical order. In 1906 the young German engineer Alfred Schlomann⁵ published a small dictionary of terms of machines, presented in a classified way, into six languages and figures. The Steering Board of VDI's, which declared in 1907 that Technolexikon will need another forty years for its completion, considered Schlomann's work as well. Aware that the new method of Schlomann's classified and systematic ranking was superior before the lexicographical traditional method with an alphabetically order used in Technolexikon, the management board of VDI's stopped work on Technolexikon and supported Schlomann's practice. Up to 1932 Schlomann published 17 full technical dictionaries called The Illustrated Technical dictionaries (Illustrierte Technische Wöreterbücher-ITW) for 17 different subject

⁴ Wüster, E.: "*Internationale Sprachnormung in der Technik*", UDI, Berlin, 1931, p. 11-13.

⁵ Pllana, G., "*KRIJIMI I LEKSIKUT SHQIP TË TERMINOLOGJIVE TEKNIKE*" (*Procese të krijimit, të pasqyrimet në gjuhë dhe të standardizimit*) (*dorëshkrim*), dis. QSA, Tiranë, 2015, p. 147.

areas. These dictionaries are prepared by a team of terminologists based on guidelines developed by Schlomann.

Besides this the work in the involved encyclopedic committees continued, especially in multilingual encyclopedia project.

Terminology work in developed countries

Terminology work in developed countries today is performed in terminology offices for the creation of databases and compiling terminology banks. Their collections serve for the preparation of systematic terminology dictionaries by committees composed of specialists of fields and terminology linguists according to today's terminology. *Modern terminology work is a team work. The time of individual terminologists or modern terminographers who prepare a special vocabulary of a subject field is gone*, even though such a dictionary is a valuable basis for joint work in a committee.

Modern terminology work

Modern terminology work requires the work of terminology committees which should consist of the following types of specialist⁶:

1. Subject area specialists, who are responsible for systems of concepts, definitions and terms of terminologies to be prepared.

2. One specialist in the application of terminological principles and methods of terminography - of a professionalist terminologist-, who advises subject specialists, how to organize terminology work in the best way and how to apply the most appropriate methods for building systems of concepts, the selection of terms or the formation of new terms for new concepts. From a professional terminologist is expected that he coordinates special training of specialists for the establishment of terminology principles. At least one member of the committee is required to have a degree of training in the implementation of the principles and methods of terminology.

Regarding the construction of encyclopedic thesaurus, subject specialists are guided by a Documentalist (archivist/librarian), specializing in the application of the principles for the composition of encyclopedic treasure and the organizing of encyclopedic work.

The Documentalist (archivist/librarian) serves as a consultant for the literature terminology, as well as provides the Committee with existing terminology, terminology studies and other terminology literature. Literature should also include classification schemes for encyclopedic treasure as well.

Commission's terminology in the future

In the future, the terminology committees will be directed more and more towards terminology studies in thesis form prepared in universities which will lead to the introduction of lectures on the theory and practice of terminology in universities.

⁶ Pllana, G., "KRIJIMI I LEKSIKUT SHQIP TË TERMINOLOGJIVE TEKNIKE" (*Procese të krijimit, të pasqyrimet në gjuhë dhe të standardizimit*) (dorëshkrim), dis. QSA, Tiranë, 2015, p. 150.

Conclusion

In special languages (specific), because of the rapid progress in science and the pressure in technology, with the creation of an abundance of concepts and terms (millions of concepts in a single subject area), free developing of terminology, since the terminology in the twentieth century began to create committees of terminology in order to unify and standardize concepts and terms. In science, the standardization of terminology has already begun as early as the nineteenth-century. In technology, standardization of terminology began in the early twentieth-century.

Terminology as a comprehensive techniques' vocabulary of standard language contains a huge mass of units, infinite and nearly defined, that represents all areas of knowledge (so far around 1,500 identified fields) with approximately 3,000,000 units (one word terms, compound words and terminological nomenclature). This is an impossible mass to encompass as a whole except only through its division, according to hierarchy structuring from broad fields to those narrower ones, to enable by all means its research from parts (fields) to the whole. Today we achieve this platform through the research in structured fields in conceptual entities on the basis of conceptual connections.

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- **JUDICIAL ETHICS AND PROFESSIONAL DEONTOLOGY IN ALBANIA**

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Abstract

Judicial ethics can find its roots deep in Albania's history. The customary law is an example of historical ethical solutions, and can be used to draw conclusions of the recent developments in the field. The current ethical rules, although quite complete, lack in the enforcement aspect, and are closely intertwined with legal provisions. This makes for a vague process of ethical enforcement. The article dwells on these issues, as well as on the structural obstacles, especially those currently in the process of inspecting judges and investigating their ethical violations.

Keywords: Albania, High Council of Justice, Code of Judicial Ethics, Inspectorate

JEL Classification: C82, C88, E00, P00,

1. Introduction

Judicial ethics finds its beginnings in Albania in the customary law. The “*Kanun of Leke Dukagjini*”⁷, the most popular codification of customary norms, contains a number of provisions dedicated to the position of “*old men courts*”. The old men were chosen by both parties; they were not permanent courts, although the same persons with impeccable reputation would have been chosen as old man over and over. The Kanun stipulates that “*old men are under oath, impartial, and completely independent*”⁸. The oath of the old man expressed the same principles: “*Upon this God provided good that may assist me if [I be] acting in good will, I will not adjudicate in trickery and one-sidedness, and [acting] on what my mind and soul believe, I will not infringe the Kanun and the fair trial.*”⁹

The decision of the chosen old man could be appealed, and in that case other old man of reputation would be chosen, and in the most difficult cases, men from the leading families

⁷ Collected between the end of XIX century and the beginning of XX century by Shtjefën K. Gjeçovi. First publication in Shkoder, on 1933. Version referenced here is the one published by the Academy of Sciences of Albania in 1989.

⁸ Article 150.

⁹ Article 154 and §1031 of the Kanun.

of different regions would serve as judges¹⁰. If ascertained that an old man had acted in bias due to bribery, he would be forever disrespected, and never serve again as “old man”¹¹. In certain regions, the process of declaring the wrongdoing of an old man was public and was called “to murder the old man”¹². The entire village would be called, the old man publicly discredited, and weapons would be fired with the statement: “The trial of this old man has been murdered”. That man would never serve as old man again.

Although Albania remained under Ottoman Empire rule for around five centuries, the Kanun was still the only governing body of rules in areas where the enforcement of the occupant’s laws had not been possible.

With the declaration of independence and the establishment of the first government of Albania, the first law on the organization of the Albanian judiciary was adopted; it was called *Kanoni i Zhurisw*¹³. Under the Lushnja Government, the Law “On the organization of courts” was approved¹⁴. Although it served primarily as an organic law, it also established some purely ethic rules. Succeeding governments adopted even more elaborate laws on the organization of the judiciary that contained ethical provisions as well.

During the communist regime, the organization of the judicial power was regulated by a complete and detailed legal frame. Judicial ethics and deontology was a fully elaborated field of law, but as the rest of the legislation it was indoctrinated by totalitarian principles and controlled by authorities outside the judiciary.

2. Current Code of Judicial Ethics

In 1991, Albania entered into a newly established democratic regime. The bases of this regime were the temporary constitutional provisions adopted in April of 1991¹⁵. During a transitory period, the only applicable ethical rule was laid out among these constitutional provisions: “Judges are obliged not to participate in the adjudication of a case, when there are legal grounds that undermine their impartiality, as well as to avoid any behaviour that creates doubts about justice or weakens its dignity”¹⁶.

Although far from sufficient, this provision provided the essential ethical rules of avoidance of conflict of interest and safeguarding the appearance of justice and the reputation of the justice system. This rule was supplemented by the new codes of criminal and civil procedures¹⁷ that contained detailed recusal and disqualification rules.

¹⁰ Article 157. This appeal process was introduced later on, and only as an exception to the rule of no appeals: “No old men could overrule old men”. With time, the exception became the rule, but even then, it was necessary to ascertain the wrongdoing of the first court before starting a second trial.

¹¹ Article 158 and § 1061 of the Kanun.

¹² Same articles.

¹³ Adopted on May 10, 1913.

¹⁴ Adopted on January 7, 1923.

¹⁵ Law no. 7491, dated 29.4.1991, “On the main constitutional provisions”.

¹⁶ Article 11 of the provisions, as added by Law no. 7561, dated 29.04.1992.

¹⁷ The Code of Civil Procedure, adopted with Law no. 8116, dated 29.03.1996 and the Code of Criminal Procedure, adopted with Law no. 7905, dated 21.03.1995.

In the midst of these changes, the Association of Albanian Judges was established. The association adopted the first Code of Judicial Ethics¹⁸. In 1998, the new Constitution¹⁹ mandated the creation of the National Judicial Conference (NJC), as the official gathering of all judges of Albania. The association ceased to exist, and allowed for the existence of the Conference as the only association of judges. The Conference upheld the existing Code of Judicial Ethics²⁰. In 2005, the Conference was re-organized based on a law on its organization and functioning²¹, and it re-adopted the Code of Judicial Ethics. The only amendments to the text of the Code were made in December 2006 by the National Judicial Conference.

The Code is composed of four chapters that represent the four areas of interest for ethical dilemmas:

1. General rules on independence and impartiality of the judge.
2. Rules on the exercise of judicial functions.
3. Rules on extra-judicial activities.
4. Enforcement of the Code of Ethics.

3. Constitution and Law on Judicial Power

With the new Constitution of 1998, new institutions were created. Among these was the High Council of Justice (HCJ), whose 9 of 15 members had to be judges and were to be elected by the National Judicial Conference²². Such institution being non-existent, on 3- 4 December 1999 all judges were gathered in the first National Judicial Conference.

The Constitution creates the obligation that all courts should be established by law²³. In reality, they have been established by virtue of the law on the organization of the judicial power in the Republic of Albania, and of the law on administrative justice²⁴. This law stated that this power is exercised by district courts, appellate courts, serious crimes first instance and appellate courts, administrative first instance and appellate courts and the Supreme Court.

According to the Constitution (the right to fair trial)²⁵, all courts should be independent and impartial. These two concepts are two faces of the same idea: the independence of the judiciary. It should exist not only towards legislative and executive power or various social, political, economic groups, so as to assure free decision making (independence), but also towards parties in a proceeding, so as to assure impartiality. Thus, we speak about institutional independence of the judiciary and about personal independence of a judge.

The article 138 of the Constitution states that judges are immovable from their functions. This means they cannot be subject of a disciplinary measure other than those

¹⁸ The Code was adopted in 1994, based on the American models of codes of judicial ethics. The American Bar Association assisted both the establishment of the association and the drafting of the Code.

¹⁹ Adopted with Law no. 8417, dated 21.10.1998, and confirmed by referendum.

²⁰ In 2000, the Conference voted to re-adopt the Code.

²¹ Law no. 9399, dated 12.05.2005, repealed by the Constitutional Court. Decision no .25, dated 05.12.2008 of the Constitutional Court.

²² Article 147.

²³ Article 135, paragraph 1.

²⁴ Law 49/2012 "On the organization and functioning of administrative courts and on the adjudication of administrative disputes".

²⁵ Article 42, paragraph 2.

explicitly allowed by law and on the occasions prescribed by law. This article also states that the salary and other benefits from the position could not be reduced for judges under any circumstances. Furthermore, courts enjoy financial independence; they have their own budget and administer it independently. Also, the HCJ has a separate budget.

Judges in Albania enjoy immunity both from civil proceedings. They cannot be sued in a civil court for fact or action committed during the exercise of this function. Thus, a person that suffered a damage from the result of a court proceeding could not sue the judge and ask for compensation. Judges cannot also be arrested or be subject of search without prior authorization of the HCJ or the Assembly.

Judges have the right to protection for themselves and their families in case they have been threatened by parties in process or during delicate or serious processes.

While independence is preserved by protecting the judge, the impartiality serves to protect the parties and is preserved by imposing restrictions on the judges.

Judges are not allowed to join political parties or to participate in political events; they cannot exercise any mandate gained by election or any public or private function or activity, except for teaching; they cannot give information about pending cases or opinions expressed during court sessions or public or private documents in the file.

Other bending legal rules are found in the Criminal and Civil Proceeding Codes and regard the cases where a judge is not allowed to rule on a certain conflict. In general, a judge is obliged to dismiss himself from a case if an objective circumstance emerges (familiar relationship with persons involved or attorneys; financial interest from relations or conflict with any of the parties; having ruled on any previous stage of the proceeding; etc.) or if he is convinced that he could not perform an impartial decision making for any other important reason.

If the judge wishes to resign from a case, he presents this resignation to the Chief Justice that takes a final decision and can overthrow it.

If the judge does not resign, the parties can ask his dismissal. In civil proceeding is the same judge or panel that decides, while in criminal cases the request is decided by the higher court. In civil cases, parties can appeal the decision of the judge refusing to dismiss himself only when the case has been decided. It is clear that the higher court will only revise if the judge has abused his discretionary power.

A disciplinary proceeding against judges is initiated by the Minister of Justice, but is the HCJ that takes a decision on the merits. The actions that imply disciplinary responsibility can be divided in two categories:

- Breach of discipline,
- Actions that seriously discredit the figure of judge and the authority of the courts.

A judge can also be dismissed for committing an offence, mental or physical disability and professional insufficiency.

All dismissed judges have the right to file an appeal against the HCJ decision in the Supreme Court, which rules with all its members.

Judges of the Supreme Court can be dismissed for the same reasons, but the decision is taken by the Parliament with the pro votes of 2/3 of all members. The judge can file an appeal in the Constitutional Court.

There are 3 conditions for the existence of a professional ethics breach:

- Distinguishable actions pretended to have breached ethics, proved beyond any reasonable doubt;

- Identifiable, serious and essential damage caused by this action;
- Nonexistence of a misinterpretation of the law, because only the higher court can rule on law matters.

4. Inspectorates and Inspecting

Perhaps the hottest issue to be settled when it comes to the HCJ is the organization and functioning of the inspectorate attached to it. The Judicial Inspectorate is supposed to exert control on the judiciary on behalf of the SCJ. Its competencies of control which are to be found in the Law no. 8436²⁶ are formulated very vaguely. As a consequence, there exist serious uncertainties as to the procedures to be followed by the inspectorate with regard to the investigation and the decision making on questions of misbehaviour of judges.

In addition to the existing uncertainties, in present-day Albania there exist two inspectorates with a very blurred distinction among each other. The first inspectorate is the one attached to the HCJ²⁷. The second one consists of a number of inspectors attached to the Minister of Justice.

It is important to note here that the HCJ inspectors enjoy the status of judges of appeals courts (immunities included). On the other hand, the inspectors of the minister are mere civil servants. Whereas the competencies of the HCJ inspectors are reasonably clear (if we leave apart for a moment the procedural aspect of their activity which is far from being clear), the scope of activities to be ascribed to the ministerial inspectors is highly unclear.

The law stipulates that the organization and the functioning of the HCJ inspectorate are provided for in the HCJ internal by-law. Here again, there exist strong objections. The HCJ inspectorate is perhaps the only government agency capacitated to perform controls on the judiciary. The effects of its work are potentially huge, both in the good and the bad. Therefore, it is essential for their competencies to be envisaged in detail in a piece of legislation. The argument here is that the constitutional entitlement for HCJ to control the judiciary is not a sufficient basis for its inspectorate to perform smoothly. A separate law is also a guarantee for a better dissemination of its content.

Another question of principle (it is presently an issue that has prompted hot scholarly debate) is whether the parallel existence of the two inspectorates (some argue that the one attached to the Minister is not a real inspectorate) is of any use. The extreme view on this matter is that the existence of the ministerial inspectors is but a reminiscence of the old communist age, an expression of the then legitimized interference of the executive power into the affairs of the judiciary (the Albanian constitutional doctrine at the time was that of unity of government powers). Another argument of a practical nature is that the parallel existence of the two inspectorates would bring about serious problems of communication and in a longer run the failure of the supervisory role of HCJ. The supporters of this view would therefore advocate for the abolishment of the office of ministerial inspectors and the following concentration of supervisory powers on the hands of HCJ inspectorate.

²⁶ Article 44.

²⁷ As envisaged by the law on the organization of the judiciary.

Such view does not seem able to strike deep root anyway. Most scholars argue that leaving supervisory powers with the HCJ inspectorate alone is not a very good idea if one takes into consideration the fact that the HCJ's members are judges for the most part (article 147 of the Constitution says that 10 out of the 15 members of the HCJ are judges elected by the Judicial Conference). This being true, the judges might be inclined to support judicial independence to the point of virtual unaccountability. Such a thing would be clearly at the expense of overall rule of law and the constitutional doctrine of checks and balances. Although the actual verification of such scenario does take some fantasy, it is not completely unlikely.

On the other hand, the ministerial inspectors, being the minister in a constant state of "institutional tension" with the judiciary, should, in theory, be more prone to collide with the judiciary. In addition to the aforementioned, the ministerial inspectors are more accessible and, as a consequence, they constitute a better remedy for the individuals whose rights have been allegedly violated by the judiciary. What is more, the performance of the HCJ inspectorate is arguably diluted by the fact the HCJ itself is not a standing organism, but rather a periodical meeting of its members.

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