

# ALBANIA TOWARDS A NEW SUSTAINABLE ECONOMIC DEVELOPMENT

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## **Abstract**

In the last 20 years, Albania has made an obvious economic progress. Lately, the economic analyses have come to the conclusion that even after twenty years of transitional period, there are plenty unfinished issues, missing reforms, impassable obstacles and the lack of a qualitative step that would lead Albania's economy towards a constant sustainable economic development<sup>5</sup>.

In this paper we will have the opportunity to discuss these events and situation, taking into the consideration the undertaken reforms and their impact in economic development of our country. We will try to state both the positive and negative sides of the situation in order to highlight a clear and equilibrated framework.

We will bring up and try to answer to some questions like; what is the current state of Albania? How has the economic crisis affected Albania's economy? What is the country's new economic development? Which will be the development priorities and future challenges? How will this development model can and will depend on internal existing and new resources of our economy and how coherent it will be with the new trends of global economic development.

**Key words:** *economic development, reforms, sustainable, strategic sectors.*

## ALBANIA TOWARDS A NEW, STABLE, PATTERN OF ECONOMIC DEVELOPMENT

Economic development is one of the key factors to live in harmony. Development is no longer only the growth of real income in economy but also global improvement of human welfare, development of possibility of choices that are available for the individuals, is something unique to be free. Globalization or better still eliminating the obstacles for a free

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market and the integration of national economies has been a positive force with all the possible potential to enrich anyone in the world especially the poor. However this pattern has not functioned properly in our country so far.

The subject analyzed in this article is object to an open debate that has become more and more alive given the latest occurring's that are questioning the effectiveness of the current economic politics in governments in many parts of the world.

What is the current situation in Albania? How has the world economic crisis influenced Albania? Has the economic transition terminated in Albania. What are the main achievements of this transition, failures, mistakes, dilemmas and challenges in the future? Which development pattern are we going to choose? What vision will we have for the macroeconomic stability, the control upon the budget deficit and public debt in the context of global crisis and its influences? What will the priority of development be? How much will this pattern rely in exploiting inner and new resources of our economy? How coherent will this development be in relation to the news of global developments? Is Albania ready to pass on from a developing economy to a developed, competitive one? To answer these questions a constructive debate is necessary.

In this thesis we will have the chance to express ourselves taking into consideration the application of reforms undertaken in Albania. We will try to identify positive effects and defects so as to have a clear and equilibrated view.

In the last 23 years Albania has been through an incontestable economic progress. Through the evaluation of the debates we have come to the conclusion that even after 20 years of transition there are a lot of unfinished problems and matters, missing reforms, unsurpassed difficulties and the lack of a qualitative step that will drive Albanian economy towards a sustainable, constant development in time.

## **1.1 A GLANCE OVER THE PATTERNS OF STEADY, ECONOMIC DEVELOPMENT.**

Theories of stable economic progress start by the fact that a region needs to realize a “*Big Push*” to “break” a stationary and static economic system, to push it towards a trajectory of development and growth, to determine simultaneous development in the productive sectors. Therefore stamina should not be interpreted in the neoclassical sense of the term; it should be a model of productive growth including many sectors of the economy. Rosenstein-Rodan has demonstrated that for the presence of vertical and horizontal relations in productive sectors investment generates more effects when they are intertwined. To make it clearer Rosenstein-Rodan gives an example of their theory. They suppose that a close economy like ours was before the 90' a part of the population is employed in a factory that produces just one kind of product (e.x shoes) for a salary. If the workers spent their whole salary on shoes this investment would be efficient. In reality workers do not act this way and this investment would not be efficient for market reason. In a few words it proves that for a country to have progress it has to produce different products and invest in different economic sectors. In order to achieve this there needs to be an opening of the market with a selective protectionism and many investments the majority in infrastructure, to do this a small part of the investments has to be from the national savings and the rest must come from FDI but to achieve this the necessary conditions for the absorption of FDI are requested.

While Nurke analyses this theory he adds that to create enough production a big push or a critical minimum effort is needed, as it is difficult to establish a saving from lower wage levels reflected in a lower level of productivity. So the dimensions of market are needed or

finding new markets. Hirschman says that for developing economies a balanced progress is needed. Industry must be developed in harmony with agriculture, services should incite the development of the industrial system and the pattern of development should be balanced in all branches (A. Hirschman, 1971). Hirschman adds that if only one industry is created in a developing country than it is difficult for the product to be absorbed by the population. If several economies are developed together it generates the dimensions of a relatively wide market to consume produce. Meanwhile Singer criticizes the first two patterns stating that by investing separately in industrial sectors agricultural produce is left aside; salary increase will generate a consumption growth that is a greater demand for food products for which investments should be activated first. Therefore food industry should be primary to increase productivity (Singer, 1958). Myrdal observes that trade in developed and developing countries is not equal, so scales are skewed by latter (Myrdal, 1957). According to Myrdal the problem for developing countries is precisely international trade. While Francois Perroux in 1950's theory (Perroux, 1950) states that development comes based on the domination principal and sectorial distribution of progress related to external scale economy. Hence he criticizes Myrdal and says that exports have a primary part in regional and overall development. Douglas North<sup>6</sup> adds that economic development depends on the ability of the institutions to compile efficient policies, meaning monetary, fiscal policies and plans for strategic development in the long term. Douglas North is right even though Albania is still considered a developing country, a country with high informal economy and a relatively high level of tax evasion. As a result it is difficult for fiscal politics to be efficient. In like manner monetary policies can separately deal with maintaining stability of inflation since it is difficult for competitiveness to grow in a small country with monetary policies as that of inflation growth.

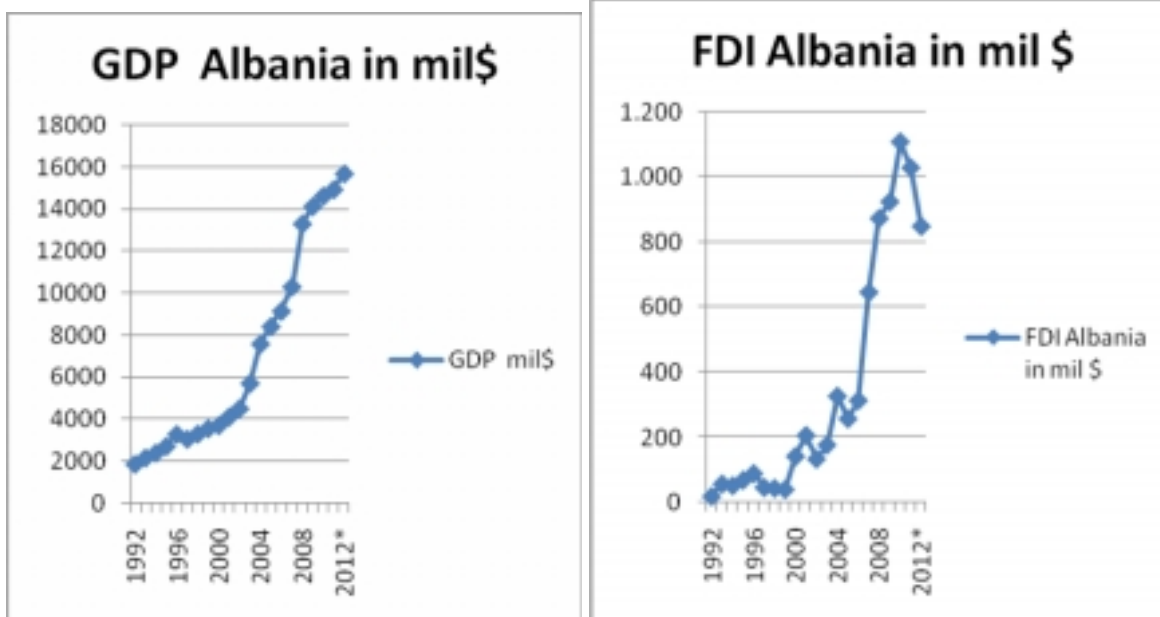
While Harrod and Domar in their model find a specific and linear connection between investments and economic growing rates all over the world (Harrod – Domar, 1946). They add that to achieve sustainable economic development all that is needed is to increase investments. If a poor country has no possibility to develop than it is sufficient for these investments to come from abroad initially. This pattern that has been applied in Albania to these days has somewhat given its effects as you can see in the graph below.

Graph nr. 1

Foreign investments in Albania

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<sup>6</sup> North Douglass.C, istituzioni, cambiamento istituzionale e evoluzione dell'economia, Il mulino, Bologna, 1997.



Source: Data obtained from different international institutions like EB, FMI, etc.

Solow-Swan that growth rates depend not only on investments but also on the rhythm of technological changes (Solow, 1956). While Lucas argues in his model that human capital is a key factor in determining economic growth rate. He says that to have economic development you need qualified human resources (Lucas, 1988).

If we attentively analyse all patterns mentioned above we could say that even though Harrod-Domar pattern has been applied in Albania it would be better to consider all of these patterns regardless the fact that in 20 years of transition Albania has had a steady economic growth because of market liberalization and foreign relations. Thus the growth of exchange rate with foreign countries or the increase of foreign investments as you can see in graph nr 1 has had a considerable amount of remittances which in 2006 – 2008 reached values with two figures compared to the GDP. Their contraction in recent years as a consequence of the world crisis is also reflected in the contraction of the GDP. There has been progress as a result of FDI in Albania even though part of these investments were not greenfield. They were acquisitions of existing corporations accompanied by very few investments in infrastructure organisation. However we can say unequivocally that these investments have influenced positively the increase in the number of employees and an improvement in the trade balance of revenue growth.

The main challenge of our state is now the continuation of economic growth in the future, knowing that global economic crisis has got hold of neighbouring countries where many Albanians have emigrated. As we mentioned it has had a negative influence in the dramatic decrease of remittances. This a very serious problem for our country. In other words the state needs to think about substituting the part that remittances occupied in the GDP.

The emigrants' return from neighbor countries will also be a challenge for the government. On the one hand the emigrants will bring resources they have accumulated during their stay, they will bring their work experience. They are specialized workers therefore they will have a positive and long-term impact on economic development since human capital is becoming more and more important for the future of business. On the other hand their return is going to increase unemployment rates in the short-term.

## **1.2 EDUCATION SYSTEM IN ALBANIA AND TRAINING COURSES**

We are witnesses of a dramatic change triggered by innovative processes of globalization, which are rapidly changing traditions and values in our society. These changes involve businesses, social and institutional assets, production patterns and the characteristics of job market. It is difficult to determine a society in which we live, a society of information, communication, media or knowledge. We talk about expressions that need basic and continuous formation so as to gain new competences through education in the lifecycle.

Foreign investors that come to Albania are more and more in need of qualified people. For example for 47.1% of the companies in Italy education of the personnel is one of the most important components for competitive abilities. Education represents a very important source or better still primary source to have a steady development, to cope with change and to make integration possible.

Moreover there is high agreement in academic literature that the human resource is an important indicator of productivity in individual and aggregate level. (Bassanini e Scarpetta, 2001; Fuente e Ciccone, 2003; Jones, 2005 e Bassanini, 2007). Empirical studies show that by means of education you can increase productivity. Barrett and O'Connell (2001) have found that continuous formation has had a positive effect on the sale increase during 1993-1995, by analyzing a champion, Irish company. Scrutinio et al. (2006) have found a positive relation between education at work and productivity over a valuation of French and Swedish companies. For both countries you can observe that education at work increases productivity and influences the pay rise, which as mentioned positively influences peoples' welfare. Zeick (2002) has demonstrated that in German companies an increase of the number of employees who take part in training courses in the first term has a positive effect on annual production growth. This evidence shows that pre-university education, university education and training courses positively influence production growth, which has a positive effect on the economic development of a country.

As a result we can say that it is fundamental to find the instruments of economic policies and work policies so that they can instruct universities and government organs to commit themselves to encourage education and to enhance the quality of university and pre-university education. At the same time to establish cooperation between businesses operating in a certain area, so that they cooperate with private and public universities as they create undergraduate courses or specific subjects that help to learn or fill in the requirements in the most optimal way also to make it easier hiring new graduates.

A key factor that helps increase performance at work is also Albanian students who have studied abroad and have had experience working in developed countries around the world. So it is important that promotion policies or different programs that encourage graduates returning from overseas become increasingly important.

## **2. A NEW MODEL OF ECONOMIC DEVELOPMENT**

After more than 20 years of endless transition, filled with mistakes and failures, Albania has a new market and financial economic legislation that supports liberalization of the economy

and free trade. It is contemporary according to the legislation of EU countries. So our country has progressed both in legislative and economic aspects even though we have not yet finally solved the land problem, where the reform of 1991 is in force. There have also been occasional political crisis, which adversely affect the confidence of foreign investors regarding Albania. Another significant, unsolved problem is the government's relationship with business reducing our economy's competitiveness in regional markets. Cooperation of the government with business as is the case of CEZ failure or the failure of strategic privatization when the state should be in international arbitration time after time and most of the times have to pay compensation.

Poverty is also a problem, although according to INSTAT (2008) it has fallen from 22.5% in 2002 to 12.5%. But according to a report by USAID (2007) remittances have a positive influence on the reduction of poverty; we should also see what impacts would already falling remittances have on poverty.

Another serious problem is the statistical information where recently even INSTAT joined institutions controlled by the government such as the Ministry of Finance and the Bank of Albania. Some of these provide limited, confused information, not balanced and often do not accurately reflect reality.

To create a model of sustainable and long-term economic development we need accurate and comprehensive information. Like the doctor before writing a prescription to the patient needs to check him or her and carefully examine the analysis. To apply a genuine and successful model of economic development we need to recognize the reality better and to have comprehensive information to make appropriate interventions in appropriate sectors of the economy. As well as that we need to consider all the models presented above. It is very important for Albania to regulate trade balance. Although all policy-makers talk about the development of the agricultural sector as a strategic sector of the Albanian economy, we continue to import about 800 million euros of food products a year.

## **2.1 FUTURE STRATEGIC SECTORS**

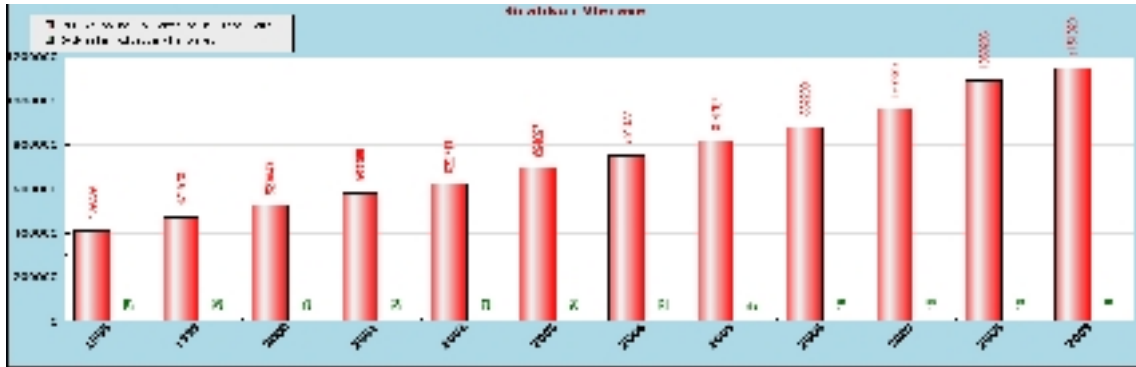
Throughout these 20 years of transition Albania has had an average economic growth over 5% a year. This is a typical factor in many developing countries as a result of the catch up effect and according to the World Bank this happens because of macroeconomic stabilization, structural reforms, fiscal consolidation, monetary policies, liberalization and privatization of trade, remittance increase and two sectors that have had a big increase of productivity like construction and agriculture

Many manuals of macro economy demonstrate that a rapid economic growth generates unemployment. According to a FMN source even in Albania for a period of time the GDP went from 9.17 billion dollars to 11.7 billion dollars, while in the same period the number of employed people fell from 931,000 to 899,000 (Angjeli 2010). Hence the Albanian experience shows that there is a negative correlation between economic growth and employment and a positive correlation between the rise of employment and unemployment rates. As a result the pattern of economic development in Albania needs a steady and comprehensive progress, economic growth, a decrease in unemployment and an increase of citizens' welfare.

## **2.2 AGRICULTURE, THE SECTOR OF THE FUTURE IN ALBANIA**

Agriculture is one of the most important social-economic activities nowadays. The agricultural sector is currently considered to be approximately 19% of the GDP.

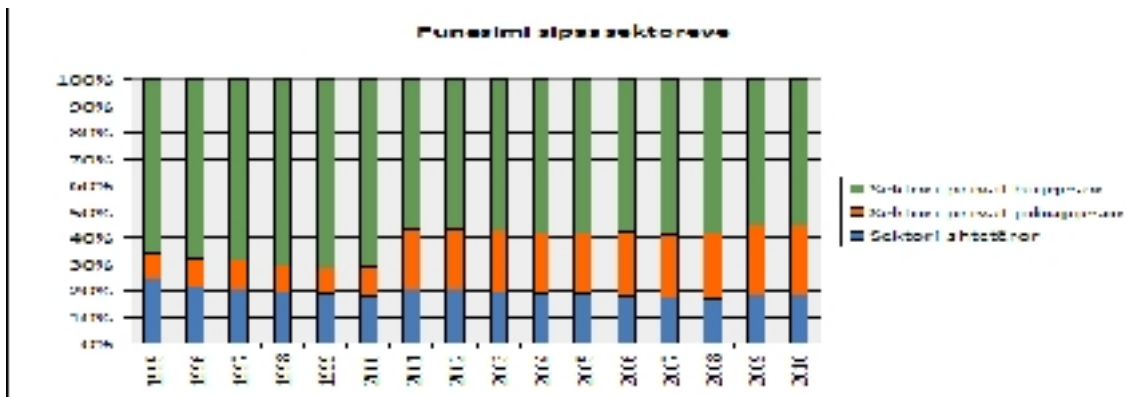
Graph nr. 2



Source, Bank of Albania

Agriculture includes nearly 53% of employed people in the country

Graph nr. 3



Source: INSTAT, Ministry of Labor, Social Affairs and Equal Opportunities.

In like manner agricultural export takes 50 million dollars that is 2.54% on the total, while import takes 608 million dollars, which in percentage is 12.3% of the total import.

It is necessary for agriculture to be orientated towards new, efficient models, which guarantee the efficient use of natural resources and functional cooperation with the agro-processing industry, raising at the same time the level of its competitiveness. Agriculture is currently organized in small farms where land area is a little more than an acre. This is a serious obstacle in increasing land productivity and its efficiency. A solution would be the creation of cooperatives, which is a difficult term for the Albanians even though an organization of this kind is quite efficient and successful in developed countries and product distribution is made, based on participation not on equality as it was before the 90s' in Albania or other ex-communist countries. Another important problem is the fact that although Albania has lots of hydric resources in reality agriculture suffers the lack of water for irrigation since the sanitations have been destroyed and part of the land remains untouched.

If agriculture has continuous support by the government, if it increases production efficiency, it will be able to constantly reduce the import of food products limiting it to only technological import.

As well as that the development of agro-tourism, a modern branch of agriculture, would add to the values of agriculture in Albania and it would largely influence tourism, which is another important sector in Albanian economy with satisfying growing rates in the recent years.

People all over the world are seeking a better quality of life every day by asking for biological products, unspoiled nature, good weather conditions and a clean environment. Albania being a relatively small country, where process industry is not developed, can be said to have non-polluted environment and as such has all the possibilities to insist on these two branches since they would make Albania a unique territory in Europe. To realize agro-tourism in Albania and develop agriculture a genuine infrastructure network is needed especially a road network which makes the communication between agriculture and the market easier. It also makes travelling in the Albanian territory a more relaxing process for the tourists.

## **CONCLUSIONS**

After 20 years of transition full of hopes, promises and delusions Albania has yet many unsolved problems, missing reforms and unsurpassed difficulties. This has sometimes been caused by the lack of will of policy makers or maybe some mistakes made in the past as that of a non-efficient development economic model. For this reason even though the country has had a satisfactory economic progress it must intervene in encouraging the growth of employment rates, an improvement of market balance, and a growth in tax income. The main challenge for our government is now continuation of economic growth in the future. The application of a long-term economic development model considering all the patterns mentioned above. Although we think that Albania needs a combination of development models like Hirschman and Singer's patterns. Furthermore it is very important for Albania to regulate the market balance by joining the agricultural sector as a strategic sector in Albanian economy with that of agro-food industry where there is a considerable deficit.

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