

# The economic development and trade liberalization in the post-communist Albania

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## Abstract

After the installation of the Communist Regime and rejection of the democratic elections in Albania in 1945, the relations with the West worsened. The rulers of that time implemented the Stalinist economic system, which testifies to the friendly relations between the Soviet Union and Albania, and later with the People's Republic of China. Through this research, we aim to highlight the transformation of the economic system in Albania, the state that in 1967 was declared as the first atheist in the world. The communist system of government and protectionism led to the violation of fundamental human rights and values, the isolation of the inhabitants from the rest of the world, and a ruined and destroyed economy. Using the descriptive and statistical method, we will reveal how Albania has benefited immediately after the collapse of the communist system and the centralized economy, replacing it with the democratic system and free trade. We will see how the economic trend in post-communist Albania has substituted, starting with the transition from state to private property, to Albania's participation in the international trade arena.

**Keywords:** Communism; Democracy; Liberalization; Free market.

## **Introduction**

After the end of World War II, the states were divided into two blocks: The Western Bloc, which aimed at building states on the principles of democratization and trade liberalization, and the Eastern Bloc, which adapted the political system to communism and the planned economy. Although, at first impression, it was thought that Albania would keep the position in the Western group of states, with the organization of the December 2, 1945 elections, the Communists "won" violating the democratic principles and the free vote. By replacing the monarchy with the "People's Republic," it was approved the constitution, which was adopted from Yugoslavia. "Help was given to Albania by Yugoslavia in two important areas: first, in the United Nations and second, at the Paris Peace Conference" (O'Donnell, 1999:17).

After the deterioration of Yugoslav-Albanian relations in 1948, Albania depended on Soviet aid, where it also became part of the Communist bloc by implementing elements of the Stalinist economic system, namely a centralized economy based on collectivism and state property. Even the "friendship" with the Soviet Union did not last long, so Enver Hoxha asked another partner to move forward with his communist philosophy, the People's Republic of China. According to O'Donnell (1999:65), "China promised to give Albania a loan of \$125 million to build twenty-five chemical, electrical, and metallurgical plants", but even this did not work as in the 70s of the last century Albania also broke apart from China where the period of total isolation began. During this period, very few foreigners visited the country; foreign trade was almost at zero, all with the claim that foreigners to not exercise power over them. In 1991, when the communist rule was overthrown, Albania was ranked among the poorest countries in Europe, with low economic development and a population that had paid a high cost for this dictatorial government.

### **1. From Communism to Democracy - replacing autarchy with a market economy**

The states that followed isolationist policies and protectionism inherited a large-scale debt and economic stagnation. Albania is a classic case of applying a policy of authoritarianism. When communist giants like China and the Soviet Union split in 1960, Albania stood alone on China's side, placing itself in an awkward position with its Western European neighbors,

but also with Eastern Europeans. Albania's then policy decided not to participate in world markets, relying on a planned economy as it relies on its forces. "When this curtain of isolation finally fell in 1991, Albania was as poor as decades earlier and had missed out on the prosperity that came to the rest of Europe" (Goldstein & Pevehouse, 2014:291). According to Verner, Albania's situation was as follows: "In the twelve years of isolation (1978-1990), Albania was separated from any technological innovation. By the end of 1991, Albania's external debt amounted to nearly 500 million dollars, increasing steadily. Almost all of the industry has collapsed, as the old manufacturing complexes, partly eastern and Chinese, and the transport trucks that do not work" (Verner, 1999:248).

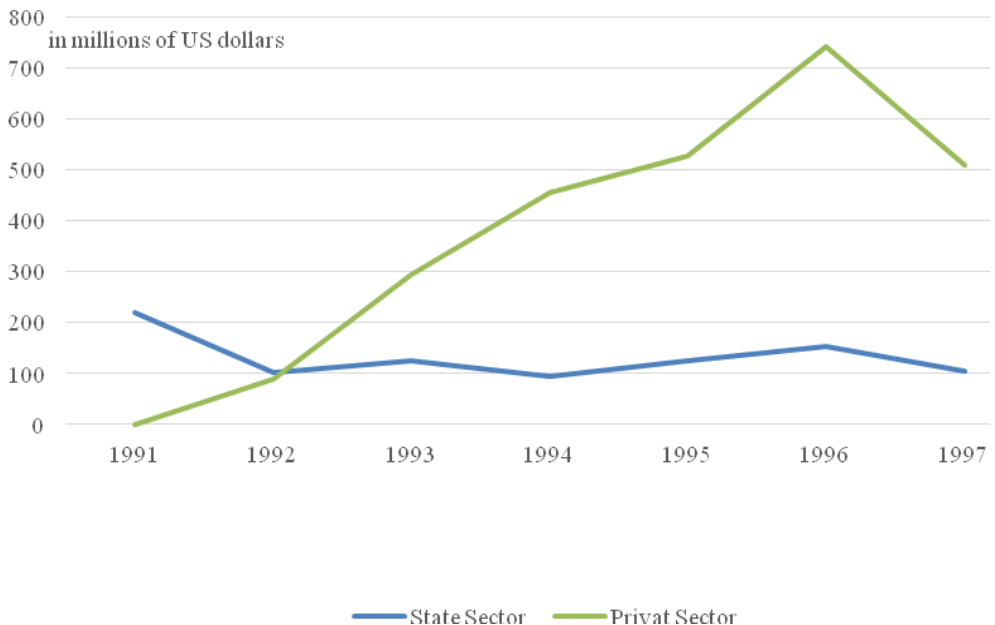
The economic transition and the liberalization of the foreign trade was not an immediate process and act. This transition in Albania began with the breaking of the state monopoly on foreign trade and developed in conjunction with the privatization process and total liberalization of the economy, which was completed with the adoption of the relevant laws by the Albanian democratic parliament. The privatization of the import and export sector in Albania and the volume of trade in the period 1991-1997, is presented in Table 1.

**Table 1.** Imports and Exports in Albania in the years 1991-1997 in millions of US dollars (Source: Mançellari, 1999:211)

Year	1991	1992	1993	1994	1995	1996	1997
<b>Trade volume</b>	312.18	394.1	693.6	744.4	918.5	1149.7	779.6
<b>Exports</b>	91.38	72.9	122.4	143.4	204.8	226.4	147.0
<b>State Sector</b>	91.38	46.9	62.2	71.4	81.9	40.8	27.7
<b>Privat Sector</b>	0	26	60.2	65.9	120.1	166.4	112.4
<b>Imports</b>	220.8	321.2	571.2	601.0	713.7	932.3	632.6
<b>State Sector</b>	220.8	103.0	126.1	93.3	124.2	152.8	105.0
<b>Privat Sector</b>	0	89.0	294.8	455.3	526.6	741.2	509.5
<b>Subsid.</b>		124.9	150.3	52.4	62.9	29.3	18.1
<b>Trade Deficit</b>	129.4	248.3	448.8	457.6	508.9	696.9	485.6

From Table 1, we can see that in 1991, the imports and exports that were realized entirely by the state sector. Through the privatization process and liberalization of the foreign trade, the public sector is always less involved in the import and export of goods from year to year. There can also be a significant increase in overall trade volume, wherein 1991, this volume amounted to just over 312 million dollars, while in 1996 reached 1.1 billion dollars. During the period 1991-1997, there was also a continuous increase in export and import accounts, where the value of goods and services being exported was less than the value of goods and services being imported. This difference has also led to the trade deficit being present, as imports are more massive than exports during this period. The participation of the public and private sector in the imports in trade volume is presented graphically in Figure 1.

**Fig. 1.** State and private sector participation in imports in trade volume in 1991-1997, (Source: Mançellari, 1999:211).



Membership of the former communist bloc states in Euro-Atlantic alliances and international organizations of different characters has been accompanied by challenges in political, economic, and social terms. The

reforms that were to be implemented by the governments were aimed at meeting the standards that are set as conditions for membership, reforms in the field of economy and trade, accompanied by the costs that the state has paid in the membership process, local companies and the population. The primary and necessary condition for WTO membership is undoubtedly the liberalization of the market by lowering tariffs and attracting foreign investment.

The liberalization of Albania's foreign trade was not an immediate process. Initially, changes were adopted through laws passed by the democratic parliament, then moved by the executive, respectively, the government. In the Official Gazette of the Council of Ministers no. 360 dated 10.7.1995 concerning the import and export of goods states: "The import of goods into the Republic of Albania is free, except for goods prohibited by legal acts from entering the Republic of Albania. The export of goods to the Republic of Albania is free, except for the following goods whose export is prohibited. Among the goods forbidden to export are firewood, raw wood, and sawn timber, as well as trash and scrap precious metals such as cast iron, steel, and copper" (Mañcellari, 1999:229). Through this legal text taken as an example from many other laws published in the official gazettes, we can see the orientation of the Albanian state legislature towards free trade, but which also protects by law those sectors which for developing countries through WTO agreements and rules are allowed to be protected in the initial stages.

The liberalization of the internal market, participation in the global market scene, and Albania's membership in the WTO, as any other member state of the WTO, has been associated with different costs. Ahmet Mañcellari categorizes the costs that have accompanied Albania during this process into three groups (Mañcellari, 1999:232):

- Negative impact on customs revenues;
- Competition of the domestic sectors by imports; and
- Costs of institutionalization, the necessary strategies, and reforms.

The costs of institutionalization and strategies for the market liberalization have been the costs that Albania paid extremely in 1997. The inadequate functioning of state mechanisms to regulate and control the financial system in Albania led to the 1997 rebellion known otherwise, like the 1997 Pyramid Crisis or Anarchy in Albania. The bankruptcy of the pyramid schemes, a system that was not adequately controlled by the state,

led to the Albanian population losing 1.2 billion dollars in savings. Pyramid schemes, which started operating around 1991, were based on receiving money from customers and returning a high amount of interest. At first look, it seemed like a process of privatization and market liberalization, and this scheme worked just like commercial banks, but in reality, these firms had no particular investment where money could flow. These moneylenders collected Albanian's money and began to leave Albania, and on the other hand, the IMF advice to close these schemes was not even considered by the then Albanian government. All these irregularities led to a population rebellion, which resulted in a loss of 200 million dollars, and the economy of the country was destroyed entirely, highlighting the lack of institutionalization and the building of excellent and well-developed strategies – liberal thought, using legal mechanisms to control the financial market as recommended by international institutions and organizations.

The events of 1997 were a lesson for the future Albanian governments to control the power. As never before, the need to follow the advice of the international organizations on the rules of trade, finance, and monetary value emerged. Although Albania has been a member of the IMF and the World Bank since 1991, the need to be a member of the WTO was inevitable. Membership in international organizations of an economic nature and adherence to the principles and rules of these organizations would create internal stability while opening up to the international scene would be more successful. The institutionalization of international principles and rules regarding trade and economic affairs, reforms in various fields, and liberal strategies were the only guarantors of investment attraction and export expansion.

## **2. The accession of Albania in the multilateral trade system - the impact of WTO rules and principles**

Liberalization processes are accompanied by the balancing measures, as they would otherwise have undesirable economic and social effects, especially in the short-term. In the long-term, when the initial consequences begin to decrease, the results of a free trade begin to be visible. The administrative costs that customs services and businesses had to face were unavoidable. "Like any form of government policy or commitment, implementing policy results in costs of an administrative nature. Partially

these losses depend on the complexity of the system" (Jaupllari, 2009:113). Despite the challenges and costs that Albania had to pay as a result of its participation in the liberalization process, in the long-term, Albania's integration into international organizations brought many benefits.

Like any organization, the WTO is built on the principles that have emerged as a result of agreements and meetings between member states. Based on WTO publications, the basic principles (WTO, 2015:10-13) of this trading system are as follows:

1. Trade without discrimination:
  - a. Most-favoured-nation (MFN): treating other people equally;
  - b. National treatment: Treating foreigners and locals equally;
2. Freer trade: gradually, through negotiation;
3. Predictability: through binding and transparency;
4. Promoting fair competition; and
5. Encouraging development and economic reform.

The Government of Albania has applied for membership in the GATT since November 1992. Based on the GATT Regulation, a working party was established which reviewed the application of the Albanian Government to become part of the GATT Agreement. In 1995, when it transitioned from the GATT to the WTO, the GATT membership working party became part of the WTO. This group held meetings on 29-30 April and 29 October 1996; April 30, July 9, July 30, September 17 and October 6, 1999; and on 3 July 2000 (WTO, 2000a:1). Among other topics discussed and negotiated, was the issue of customs tariffs. "The representatives of Albania said that the Albanian government is engaged in reforms in the field of trade and maintenance of the free trade regime. There is a new law, the Law on Customs Tariff Nomenclature no. 8477 of 14 April 1999 approved by Parliament. Steps have been taken to reduce the average tariff over the medium term, by reducing the rate of customs duty from 5 to 3. The purpose of these changes was to create a transparent and simple tariff structure with relatively low tariffs of 30% at 20%" (WTO, 2000a:1). Negotiations between the countries participating ended on July 17, 2000, and on September 8, 2000, Albania became the 138th WTO member country.

Albania's WTO membership was welcomed, both by participating States in the working parties and by the leaders of this organization. The General Director of that time, Mike Moore, welcomed the event by saying: "I

welcome Albania into the multilateral trading system. Membership promises a more prosperous future and raised living standards for all Albanian citizens. I also believe that, by encouraging the trade links between countries, the WTO can help foster greater peace, stability, and development in south-eastern Europe. Albania's membership brings this Organization ever closer to being a truly 'World Trade Organization' (WTO, 2000b). This speech of the Director-General on the occasion of Albania's membership is very significant. It links this act to the peace, security, and development of South-East Europe, which shows that Albania plays an essential role in the region in terms of stability.

Albania's WTO accession has affected:

- Development strategies: promoting domestic investment, export growth, and development;
- Improving skills: productive and competitive; and
- Benefits from WTO agreements and principles.

Based on the WTO publications, the benefits (WTO, 2014) of the multilateral trading system can be listed as follows:

1. cut living costs and raise living standards;
2. settle disputes and reduce trade tensions;
3. stimulate economic growth and employment;
4. cut the cost of doing business internationally;
5. encourage good governance;
6. help countries develop;
7. give the weak a stronger voice;
8. support the environment and health;
9. contribute to peace and stability; and
10. be effective without hitting the headlines

In 2010, the WTO Secretariat released the evaluation report on ten years of progress in Albania in the terms of economic development, attracting foreign investment, trade liberalization, reduction of customs tariffs, and other relevant macroeconomic data. According to this report, during the years 2002-2009, Albania achieved substantial economic growth of around 5.8%, which was accompanied by increased domestic demand, foreign direct investment penetration, and remittances. According to the same report, Albania has reduced government debt, increased tax revenues, reduced unemployment, and kept control of inflation, all with the World Bank recommendation. Over two decades, from a closed market and a



centralized economy, today, it is free and market-oriented and led by the private sector (WTO, 2010).

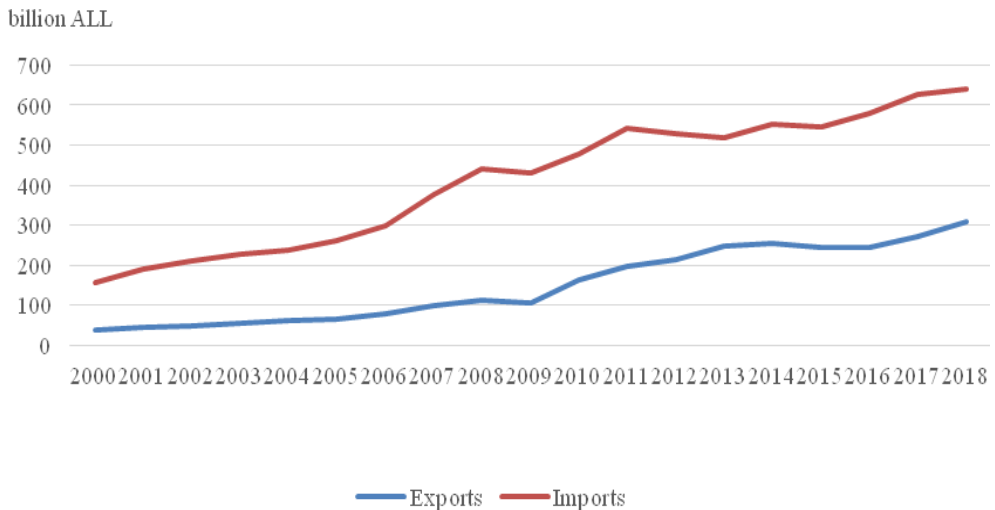
The Albanian economy, especially after the market liberalization and economic and financial stabilization following the events of 1997, is driven by the services sector (including construction) in 2008. Services include commercial sales, car sales, and repairs, hotels, restaurants. The expansion of agriculture, hunting, and forestry is sufficient but has declined from 2002 to 2008. Construction had increased from 12% of GDP in 2002 to 14% in 2008. The manufacturing sector remains low, contributing only that with 9% of total GDP in 2008 (WTO, 2010).

**Table 2.** Flow of goods in the years 2000-2018 (billion ALL) (Source: Instituti i Statistikave, 2019:4)

Years	Exports (mld lekë)	Annual Change (%)	Imports (mld lekë)	Annual Change (%)	Trade Balance (mld lekë)	Cover (%)
2000	37	(23.5)	157	-1.5	-120	23.6
2001	44	19.1	190	21.0	-146	23.2
2002	47	7.7	210	10.6	-163	22.6
2003	54	14.7	226	7.4	-171	24.1
2004	62	14.0	236	4.5	-174	26.3
2005	66	6.0	262	11.1	-196	25.1
2006	77	17.6	299	14.1	-222	25.9
2007	97	25.5	376	25.8	-279	25.8
2008	113	15.8	440	16.9	-327	25.6
2009	105	-7.2	429	-2.5	-324	24.4
2010	162	54.6	478	11.4	-316	33.8
2011	197	21.9	544	13.9	-347	36.2
2012	213	8.2	528	-2.9	-315	40.3
2013	246	15.7	517	-2.1	-271	47.6
2014	256	3.8	552	6.7	-297	46.3
2015	243	-4.9	545	-1.4	-301	44.7
2016	243	0.1	579	6.3	-335	42.1
2017	273	12.1	626	8.1	-353	43.6
2018	310	13.7	641	2.4	-331	48.4

It can be seen from Table 2 that the values of export and import of goods in Albania after 2000 when Albania becomes a WTO member state are increasing steadily. While in 2000, the total value of export of goods was about ALL 37 billion in 2018, this figure amounts to ALL 310 billion. Also, the total value of the import of goods has increased from 2000 onwards. While imports in 2000 amounted to ALL 157 billion, in 2018, this value is somewhere around ALL 641 billion. The export and import of goods in Albania in the period 2000-2018, graphically, is presented in Figure 2.

**Fig. 2.** The export and import of goods in Albania in the period 2000-2018, (Source: Instituti i Statistikave, 2019:4)



If we look at the graphical presentation of export and import of goods in the period 2000-2018, we can see that in 2009, we have a decrease of 7.2% in the value of exports compared to 2008 and a decrease of 2.5% in the value of import of goods. Albania has also been affected by the financial crisis of 2008, which has resulted in foreign trade indicators. Also, a decrease in the value of export and import of goods can be observed in 2015 as well.

The trade in services has been quite dynamic since the WTO accession, with exports of services accounting for some 65% of total exports of goods and services in 2008, while 33% of total imports are services. As a result of the fact that the export of services is higher than the import, in 2007, Albania recorded positive balances in the foreign trade balance in the

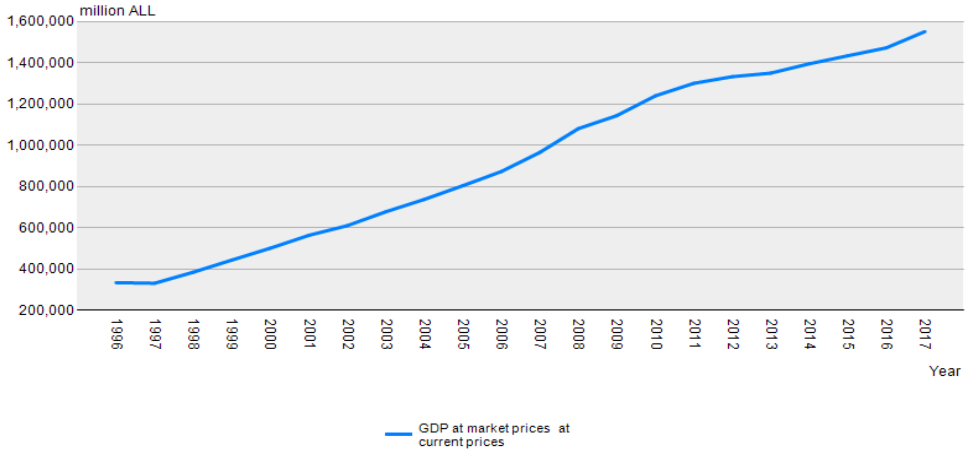
services sector. This surplus was worth € 69.4 million in 2008, accounting for some 0.8% of GDP (WTO, 2010). The participation in export and import of goods and services in GDP%, as shown in Table 3.

**Table 3.** Participation as % of exports and imports of goods and services in GDP in Albania in the period 2002-2008 (Source: WTO, 2010).

	2002	2003	2004	2005	2006	2007	2008
<b>Trade deficit in goods and services</b>	-24.7	-24.7	-22.4	-24.6	-23.6	-26.7	-26.7
<b>Export of goods and services</b>	19.6	20.4	22.0	22.8	24.9	28.2	29.4
<b>Import of goods and services</b>	44.3	45.1	44.4	47.5	48.5	54.9	56.1

It can be seen from Table 3 that the participation of export and import of goods and services in Albania's GDP has an impact on total GDP. In 2002, exports accounted for 19.6% of GDP or an effect of -24.7% as a result of trade deficit, while in 2008, this share was 29.4% of exports and 56.1% of imports, respectively, a trade deficit of -26.7 %. Although the trade deficit in 2008 is large, the overall GDP is more significant as a value. While in 2002, GDP per capita was 1437 dollars, in 2008, GDP per capita was 2785 dollars (WTO, 2010).

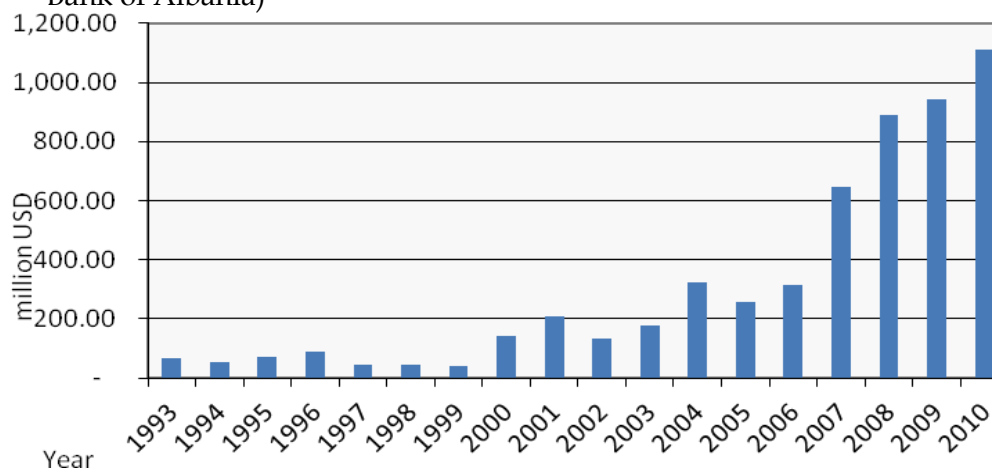
**Fig. 3.** GDP at market prices at current prices (Source: Statistical Database)



From Figure 3, we can see that Albania has continuous economic growth, especially after 2000, when it becomes a member of the WTO trading system. Except for 1997, where there is an economic downturn of some 11%, in the following years, economic growth is positive. Thus, in 2001 compared to the previous year, we have a GDP growth of 8.3%, and in 2008 an increase of 7.5%. Although many other factors have contributed to an increase in the value of GDP, we can conclude that Albania's WTO membership was of particular importance, as among other benefits of the trade system is economic growth.

According to the Report (2010, p. 12), issued by the WTO Secretariat, Foreign Direct Investments in 2008 reached a value of 675 million euros, which is a 40% increase over 2007. Somewhere 19 % of foreign investment in 2008 comes in the form of privatization of state-owned enterprises, while the rest is increased capital of the existing foreign investment and new investments. Some 27% of foreign investments that entered 2008 were in the banking sector, 44% in manufacturing activities, and 2% in telecommunications. The total direct investments that have penetrated in Albania from 2002 until the first quarter of 2009 reach the amount to 2.65 billion euros. Foreign direct investment is from EU countries, especially Greece and Italy.

**Fig. 4.** Foreign direct investments in million USA 1993-2010 (Source: Bank of Albania)



As can be seen from the graph, the value of FDI measured in USD has been volatile over the last 20 years. At the end of 2010, the value of foreign direct investment reached USD 1.11 billion, which is the highest value achieved during the analysis period. The lowest value was reached in 1999, where the amount of foreign direct investment was only 41 million USD. The highest increase in foreign direct investment was observed during 2000, where foreign direct investment increased by 249%, while the most significant decrease was seen during the crisis year 1997, where foreign direct investment decreased by 47%.

The process of privatization of the state-owned enterprises and the establishment of private businesses by domestic and foreign investors gave an enormous impetus to Albania's participation in the international scene of trade in goods and services. Companies that were unable to cope with competition from imported goods and services were destined to go bankrupt, but on the other hand, companies were established that began to produce goods and provide services that met international trade standards, following WTO rules and agreements. Many goods and services that are produced and offered in Albania today are offered and consumed not only in the region but also around the world. TV packages with a variety of programs and documentaries produced by Albanian companies have penetrated the European and international markets. Apart from services, companies operating in Albania are also involved in the regional and

international markets with products. Thus, cement producing companies such as Fushë-Kruja Cement Factory is the largest exporter of cement with sales abroad totaling ALL 3.6 billion. Even oil companies such as Kurum, according to some sources, cover some 85% of the market in Kosovo, 35-40% in Macedonia, 20-25% in Montenegro (Liperi, 2015).

### **3. Conclusion**

Centrally planned socialist economy, which was dominant in the countries of Central and Eastern Europe until the 90s-of XX century, blocked all the integration processes, economic and trade issues, and therefore states that were part of these systems began steps towards the trade liberalization and foreign investments immediately after the '90s. Detected problems, but also resolved in the transition phase, are price liberalization, privatization, restructuring of the national economy, and economic stabilization of the country. The transition in Albania began with the breaking of the state monopoly on foreign trade, in parallelism with the process of privatization and total liberalization of the economy, which was completed with the approval of the relevant laws by democratic parliaments.

Albania's membership in the WTO has been associated with costs that have been categorized into three groups: the negative impact on customs revenues, competition from imports of the domestic industries, and the costs of institutionalization, strategies, and the necessary reforms. The Government of Albania has applied for membership in GATT since November 1992. As defined in the membership conditions, negotiations were conducted the necessary in working groups, which ended on 17 July 2000, in which case Albania on 8 September 2000 became the 138th WTO. Albania's membership in the WTO was welcomed by member states in the working groups and by the heads of this organization. Director General's speech on the occasion of Albania's membership in the WTO is significant by the fact that this act associates it to peace and security in Southeast Europe.

Albania, since accession, has been forced to adopt the package of laws of international trade for the gradual reduction of customs tariffs and the elimination of all non-customs barriers. Political authority is affected because all activities and laws have to be ratified and implemented in terms of foreign trade should be following the rules and WTO agreements.

Foreign direct investment is an essential indicator of the confidence of foreign investors in a country, and they decrease in conditions of economic and political crises and increase in conditions of improved economic and political environment.

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