

“ALBANIAN ECONOMIC POLICIES TOWARDS THE GLOBALIZATION AND REGIONALIZATION”

By Ilir Ciko and Evis Sulka¹

In this paper we mainly focus on giving a very brief overview of the general economic situation (macroeconomic) putting a strong emphasise on the economic reforms that the Government has been undertaking with the intention of keeping a stable macroeconomic situation and enhancing the development of the private sector development through an improved climate for private business.

After a short description of the macroeconomic situation of the country and the economic reforms we try to consider the development of the country as part of the region, and focus on some of the incentives and obstacles of the co-operation among Balkan countries.

The last part of the paper is then dedicated to the process of European integration of Albania, mainly seen from the Balkan point of view, in the sense that all the efforts and the obstacles for the integration process, apart from the heterogeneity of the region, are considered as a common issue for all the countries of the Balkan.

Part 1. Albania – macroeconomic overview

The region and European integration are the main orientation and the long term vision, that define in general terms the design of all the economic and social reforms undertaken from us.

The economic and social development of the country is now based on an a document approved from the government, such as the National Strategy for Social and Economic Development and where the mid-term objectives and an action plan to achieve these objectives is set.

The NSSED has been prepared based on a strengthened analysis of the socio-economic situation and on reforms undertaken over the last period. Moreover based on the most suitable models for Albanian circumstances including the WB/IMF PRSP as well as on a wide and open process of consultation with interested actors such as civil society, local communities and local government, the business community, the academic community and international partners

The NSSED implementation is closely connected with the negotiation process of the Stabilisation – Association Agreement of Albania with EU.

The experience of the 2002 showed first of all the vulnerability of economic growth (from 6% forecasted to 4.7%) to endogenous and exogenous shocks. It also demonstrated the need for the forecasting of economic growth to be based on a more extensive analysis of risk factors.

Despite lower growth rates among all sectors of the economy compared to forecasted growth, the positive trend in structural changes to GDP continued during 2002 and is continuing for the 2003, also.

There is evidence for further growth of the service, construction and transportation sectors as a share of GDP, while the downward trend of agricultural production continued. After a

¹ Ilir Ciko, Deputy Minister, Ministry of Economy

Evis Sulka, General Director of Economic Program, Ministry of Economy

decade of strong growth, some modest but sustained trends indicate that growth is permeating all segments of its all society throughout the country including the less developed region.

A macroeconomic stabilisation policy framework has supported the economic growth, which has been oriented towards reducing the impact of endogenous and exogenous shocks. In 2002 the year-end inflation was maintained at the 2.1% target although the average annual inflation rate was 5.4%. For this year the inflation rate is believed to remain at the rate 2-4%. The budget deficit was 6.2% against the projection of 8.5%. The general budget revenues remained under the forecasted level. Among the factors limiting budget revenues, was the failure that year to privatise some of Albania's strategic enterprises and the current account deficit.

With the further consolidation of macroeconomic stability forecast for the future years, including an annual average inflation rate not exceeding 3%, a reduction in the budget deficit up to 5.4% by 2006, a substantial increase in revenues and expenditures (as a percentage of GDP), a declining public debt and with continued emigrant remittances, a favourable climate is expected to achieve objectives for economic growth.

The development of the private sector has been considered as the main factor of economic growth. The priority public measures, which have been implemented, have aimed at strengthening market institutions, improving the business climate and strengthening fairness and transparent competition. The expansion of economic opportunities has been facilitated through free trade agreements with the countries of the region. Support to micro-credit schemes for SME's as well as measures dealing with the strengthening of the financial and banking system are transforming these sectors into an increasingly important factor for supporting private initiative.

This year the Ministry of Economy in co-operation with the World Bank carried out a study on administrative barriers creating obstacles for the private business, domestic and foreign. Based on the suggestions and recommendations of the study, an action plan was approved from the Government in order to plan and monitor the progress on this process of barrier reduction.

Another study is planned to be carried out with OECD and other interested donors on the informal economy in Albania. This will be the first study of the kind in Albania and beside the empirical results, it will also proceed with recommendation and steps to be taken in order to reduce the level of the informal economy in the country.

From the institutional point of view another achievement is the establishment of the 3 Agencies (Agency for Foreign Investment Promotion, Agency for Export Promotion and Agency for Small and Medium Enterprises).

Mid-term measures for supporting private and financial sector development will continue to focus on strengthening market institutions, increasing the financial support by consolidating the banking and financial sectors and adopting incentives that increase the competitive capacities of the private sector in line with a more open economy.

Reducing the informal economy and the battle against fiscal evasion are also components that will contribute in institutionalising the market and the development of the private sector.

The successful achievement of the objectives of the strategy and the Stabilisation-Association Agreement require a deepening of the reform process as Albania progress to a more mature and stable stage of transition emphasising the importance of structural and institutional reform including the creation of a more attractive investment climate

- The acceleration of the privatisation process in strategic sectors and the enhancement of the public service
- The consolidation of financial sector reforms

- The deepening of market reforms

So, the key reform challenges still remain

- Implementation of the government's action plan to improve business environment by combating corruption and strengthening law enforcement
- Accelerating energy sector reform, including further liberalisation of tariffs and privatisation
- Privatisation of the state owned bank which will give another impetus to the banking services

These, will all contribute to a further consolidation of macro-economic stability, a more open economy and high rates of growth that from their side will help Albania achieve its long term objectives including better standards of living and European integration.

Part 2. Albania within the regional context; incentives and obstacles to co-operation in Southeast countries

After having been briefly describing the macroeconomic situation of Albania, we turn now to a broader perspective and focus on the main reasons behind the regionalization and describe some of the arguments in favour and against the regionalization process.

When we say arguments against the regional co-operation, it is for the sake of theoretical reasons. These means that these are some of the factors that might make the regionalization process difficult or might add some cost to the process; so it is better to know them and try to work and manage the situation in a way that they do not prolong the integration process.

Regional co-operation is primarily approached in the context of European integration. For all the Southeast European countries the regional integration is being considered as a precondition to be fulfilled in order for the European integration to be considered achievable.

What is more distinctive to of the new regionalist agenda is its diverse and multi-dimensional character; it involves many actors and co-operation in many different fields of development. For the most part, regionalism is interpreted as a naturally positive development which all the parties involved are expected to favour. In reality, however, it is not always a straightforward process despite the good intentions of those who support it.

The term "region" according to the Cottey, 1999 definition refer to a more flexible type of interaction, accommodating diverse groups of states, economies, and cultures dominated by ideas of opening and promoting mutual interdependence.

Many factors can contribute to co-operation in any given region. These include: geography and physical proximity; common history and heritage; cultural and social cohesiveness in terms of ethnicity, race, religion or popular culture; economic cohesiveness in terms of trade patterns and economic complementarity; common membership in international organisation or common goals to join the same international organisations; common and regional issues and problems; the need to create a security regime in an area of potential instability and conflict.

Common geography and immediate neighbourliness are the first and most obvious factors conducive to cross-border co-operation in SEE. Moreover, most of the Balkan countries share some common historical experiences. The more recent communist experience had a common impact in the political culture and economic structures of Balkan countries, which today face similar developmental and transition features. This enables government and peoples in the region to understand each other and appreciate each other's needs and interests.

The existence of regional issues and shared problems derived from the transition, underdevelopment and the lack of security in the region, is recognised as a major factor stimulating cooperation. Regional issues are understood as those that require collective and multilateral action by some or all the states in the region in order to achieve benefits that cannot be attained by individual states acting in isolation.

As such, the development of regional infrastructure related to transportation, energy and communication networks, appear as major regional incentives to co-operation and convergence.

Following the wars in Croatia, Bosnia and Kosovo, post-war reconstruction has added an additional dimension to the shared needs of the region. Security problems and externalities triggered by the wars such as crime, corruption, illegal immigration and cross-border environmental damages are considered regional in character and are, therefore, being addressed in a regional context.

The current international climate of regionalism is highly conducive to regional cooperation, a trend that current local actors cannot ignore. Albania, as many countries in the region have become members of various new regional European groups or initiatives.

More important, the shared will of Albania and other countries to become members of influential organisations such as the EU, NATO denotes common political interests and similar attitudes towards the international environment.

And more practically, Albania is a player on regional and European initiatives like the European network for Energy, the SME's Network, the Regional Network of Tourism and others.

While there are in principle several factors conducive to co-operation, there are also some obstacles to the regional co-operation.

In general, the economic performance of Balkan countries in the last 10 years or more has been worse than that of Central and Eastern Europe, despite the fact that most of them started off with similar levels of development. The wars in the region have been significant factors that contributed to this development lag.

Political instability and conflict contributed to an uncertain business environment, and disrupted trade.

Transitional recession, deeper and of longer duration has had a strong effect on the informal economy and unfortunately Albania is ranked among the worst cases.

But the last few years, as we mentioned also on the first part, in Albania and other countries in the region reforms have taken a steadier course, focusing on privatisation and corporate restructuring. Institutional and structural reforms are focusing on the macroeconomic stability, an improvement of business environment, enforcing the rule of law.

Part 3. Albania on the framework of EU integration

The European Union, in particular, is promoting sub-regional cooperation in the Balkan as a means of preparing states in the region for future accession. Other international organisations, including international financial institutions, have become involved in the regional strategy for the Balkan and are primarily concerned with the infrastructure development (BEI, EBRD, Bilateral donors), economic restructuring (IMF, WB, EBRD) and boosting the private sector.

The Stability Pact and the Stabilisation-Association Agreement were the two initiatives introduced from the EU in the attempt to foster political and economic stability in the region.

The conflict prevention strategy of the pact is based on three pillars:

- The creation of a secure environment,
- Promotion of sustainable democratic systems,
- Promotion of economic and social development

In founding the Pact, the EU aimed to bring the Balkan towards full integration with EU structures, provided that the countries satisfy the economic, political and institutional criteria. integration and the Economic integration is the establishment of trans-national rules and regulations that enhance economic and trade co-operation among countries. There have been a number of regional economic efforts undertaken over the last 30 years, although none of them has attained full economic integration. But, the most successful has been the EU.

Experiences from regional economic integration over the past fifty years at different levels in general produced a win-win situation, which means the members can get more development opportunities. The key reasons behind are that economic integration can facilitate the mobility of production factors and specialisation among the members, improve efficiency of resources allocation, and therefore raise regional competitiveness.

Most Balkan countries have today a much clearer prospect of European integration, be it in the form of accession negotiations already under way or in the form of cooperation with the EU within the Stabilisation and Association Pact. In order to make the fullest use of the opportunities offered by European integration, each and all of the countries concerned need people in all sectors of their societies that are sufficiently trained and knowledgeable in EU matters, be it to negotiate association and accession agreements, to develop and implement an association regime or to make appropriate adjustments to their legal, economic and socio-political systems to harmonise them with the *acquis communautaire*. At the same time, there are a number of regional issues that can only be resolved by closer intra-regional cooperation, which in turn will increase the prospects of more rapid and successful European integration.