

Albania's Challenge to Access in European Common Market

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Abstract

Albania is a country in transition and after the communism period it has been in a difficult path for overcoming many social, political and economic difficulties. Much progress is made and this is seen in the increase of the National Income, as Albania is now a middle income country and also it has been able to accomplish the criteria of NATO and VISA affiliation.

For now the biggest challenge for Albania is meeting the requirements for being a potential candidate for the membership of the European Union. Meeting those requirements will be the biggest historic event for Albania. Thus, being an EU member also means entering the European common market.

This paper tries to answer the following questions, such as: What does the common market mean for Albania? What are the economic attainments of Albania till now? Which are the criteria for entering the common market and what has Albania achieved till now and the most important one, what can Albania do for a bigger progress in this field and this will conclude in the factors that may be prohibiting this. How long will this process take and how will Albania confront this achievement in the future?

Keywords: *Common Market; economic growth; European Union; Albania*

JEL Classification: *F4*

Introduction

The European Union is a highly integrated economic and political partnership among 28 countries which have agreed the conditions for being part of it. The main goal of EU was the collaboration of all these countries to help each other in terms of economic growth, mobility, stability and peace aspect. All 28 member countries are part of a common market decided by EU, which is known as European Community. The European Community is the EU's main engine, enabling free movement of people, capital, goods and services among its members. According to this common market there are no barriers and tariffs on goods and services between the partner countries. These restrictions are available only for the countries which are not part of the EU.

Albania has been a potential candidate for being part of the EU membership since 2009 when it submitted its formal application. To get the membership status of EU, Albania has to accomplish the 12 key priorities set out by the European Commission. These 12 key priorities

generally have to do with the establishment of the parliament, well-functioning of juridical and political system, protection of property and human rights, corruption etc. According to the European commission, Albania has met only four key priorities out of twelve. The remaining other part of priorities are being accomplished step by step. So the European Commission states that Albania is a country which is making progress in completing the remained part in order to get the green light from the European Union.

It is very important to mention the economic progress Albania has achieved during these last years. First of all, Albania has tried to maintain the macroeconomic stability. This step is surely achieved and it is better shown by the GDP growth which has remained positive until today. Another crucial key is that monetary policy has successfully kept inflation stable. Also the banking sector has shown its liquidity and it is capitalized. All of these important economic components help Albania to go one more step closer to EU.

What are the benefits for Albania if it enters EU? How helpful is European Community in promoting the Albanian goods and services outside its boundaries? It is sure that entering EU will bring peace stability, economic development and also will help new entrepreneurs engaging in their business activities. Despite of opening a new business, Albanian people have more opportunities to travel, study and work in EU countries. As a certain country of EU, Albania will have the benefit of getting help from other partner countries in case of a crisis. Being part of the European Community, will help Albania to import and export its goods among EU countries without paying any tariff. As a result of this, Albanian market gets larger by stimulating more foreign and domestic investors.

Literature Review

The European Union is a partnership which helps all the member states to expand their economy and to maintain the economic and political stability. The non-member states desired goal is to be part of this union but the way of getting through this journey is not simple. Albania is a potential candidate of the European Union, which has passed through a difficult transition period but nevertheless has made a lot of progress during these last years.

According to Hammermann & Schweickert (November 2005), potential candidate countries should accomplish the economic, political and legal criteria in order to demonstrate their institutional development. In their study, the institutional development is considered as a basic condition in order to be part of the European Union. The political criteria have to do with political stability by demonstrating it through democratic behaviors, and giving special importance to human rights and minorities' protection. The legal criteria are concentrating on the adoption and implementation of the economic, monetary union and political goals. Lastly, the economic criteria are based on the well-functioning and the operation of the economy in the European market. All the above criteria play an important role in getting closer to the boundary of the European partnership.

From the other side, countries which are members of the European Union and others which are potential candidates, have different economic and political goals. Having different preferences makes more difficult to create a unified partnership. From the Alesina, Angeloni, & Etro (2001) view, such heterogeneity in a large union decreases the willingness of countries to agree on common policies. This decline occurs because one country might have different strategies comparing to other countries and the common policies stated above are not part of this strategies pool. In this case, the rule of law studied by (Langhammer, 2002) and (Pelkmans, 2000), has always played a decisive role in governing an increasing deepening of integration in Europe.

Criteria Set for Albania to Enter the European Common Market

After the fall of the communism system, the Albania's challenge was to pass from the controlled economy to the open market economy. In order to become a member of the European Union Albania has to establish its economic rules according to the criteria set by the Presidency of the European Union. Also the so called "Copenhagen Criteria" (EMA, 1999) requires from a candidate country to have a functioning market economy, as well as to have the ability to cope with the pressure of competition and the market forces at work inside the Union. Since the submission of the application for the EU membership Albania has made a lot of progress in meeting the 12 key criteria set to accomplish in order to become a candidate country. On the 5th of December 2013 the European Parliament (2013) claimed that the European Council should admit the progress that Albania has made and the candidate status should be granted to it, however it wasn't granted and this means that a lot of work needs to be done in further governance. But which is the economic progress that Albania has made in order to meet the European Common Market conditions?

First, it is said that the council requires the functioning of a market economy. In general, the political parties have maintained a consensus on the fundamentals of the market oriented economy. Overall Albania has maintained a stable and positive macroeconomic growth, which in turn has experienced a slowdown from 2012 until now due to the decrease in the overall spending. At the same time, a sound monetary policy is maintained but the budgetary planning seems to be still weak with a need for balancing. For Albania the EU countries are the leading trade partners. The CEFTA (CEFTA, 2006) was the most important trade agreement Albania has signed, however the trade integration within this countries has slowed. The state involvement according to (Comission, 2013) is concentrated in the water supply, transport and energy. Albania has made some improvements in SME, but however the business environment needs more regulations. Many regulations are set for the management of different market aspects, but the implementation is still very low and this deteriorates the business environment. The banking system is the financial institution which functions the best in Albania but the credit risk management is an issue to be well controlled since the non-performing loans are still a concern.

The second Copenhagen criterion (Commisson, 2012) is the capacity of Albania to deal with the competitive pressure and the market forces within the Union should be satisfying. As previously said, Albania has made some progress regarding the functioning of the market economy. However, improvements need to be done for consolidating the public finances and the main concern is controlling the ceiling level of the public debt which is estimated to overcome the agreed level. The property right is still making no progress in Albania and the corruption level is high and is one of the greatest challenges for Albania which needs to be improved in order to meet the EU criteria. The investment is guided into telecommunications area and human capital area. The economic structure in Albania remains unchanged and undiversified. Also the informal economy still remains a challenge for Albania. Still the European countries remain the leading trade partners for Albania.

Economic Progress Made

Considering the economic position of the EU countries we have to admit that it is going to be a huge and hard work for Albania to make the necessary preparations for entering this market. The commission's assessment has prepared a progress report in which it represents the level of the preparation and the capacity of the economy of Albania to meet the EU market requirements. The 2013 Progress Report (Comission, 2013) based on real statistic data from the (WorldBank, 2013) and (BoA, 2013) analyzes the economic and political environment progress made till now in Albania.

After communism period, Albania found it easier to move the goods outside its boundaries and also to get in more goods from other countries. From the graph, it is shown that the value of goods imported is higher than the value of the goods exported. This means that the trade balance of Albania is negative from 2008 until 2012. But it is obvious that a progress is made, where exports have increased their value year by year and imports are decreased during the last year.

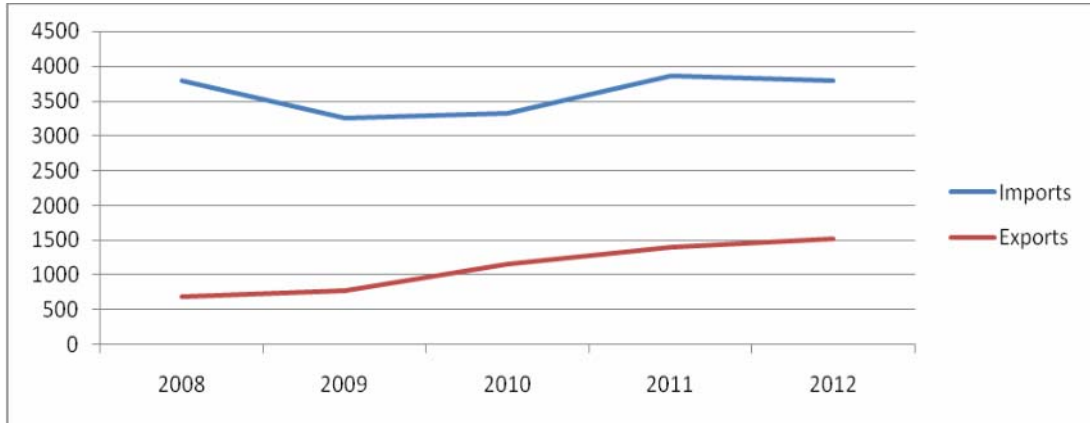


Fig. 1. Imports and exports (million Euros)

Source: Bank of Albania, data processed by the authors.

After the '90s, a lot of Albanian people moved toward European countries because of a better job and better living standards. Not only Albanians but also European citizens found possible to move and integrate in the Albanian labor market. They all were supposed to be treated equally despite their nationalities. Being a member of European Union helps Albania not only on the free movement of goods and services, but also on the freedom of movement for workers. And this effect has made a lot of progress in the last two decades.

Regarding to the right of establishment, a progress has been made in simplifying the procedure needed and the process to take permission for buildings. But giving so much permission has also its disadvantage, which means that the nature is destroyed by these buildings. In the case of free production of services, Albania has improved its process. In the graph below it is shown that the percentage of employment in the service production is increased from year 2008 until year 2010. In the last two years there has been a decline but however the employment percentage in 2012 is higher compared to the employment percentage in 2008.

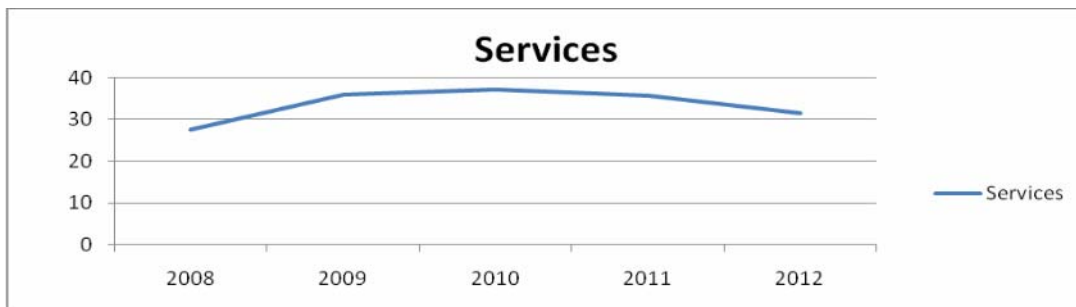


Fig. 2. Services production (% of employment)

Source: Bank of Albania, data processed by the authors.

Despite the free movement of goods and workers, also the movement of capital has played an important role in the Albanian economy and in its future integration. The movement of capital has been controlled easier during the last twenty years. A lot of Albanian people have invested in many European countries by buying different services and also by investing in immovable

properties. It is the same case for the European citizens who still find Albania as a good investing country for their businesses. As it is shown in the graph, the capital flow has fluctuated continuously. The data are shown quarterly and it is interesting that in the last months the investment level has decreased. But it is important to stress out that in the last decade the capital flow is large enough to positively affect the economy of Albania.

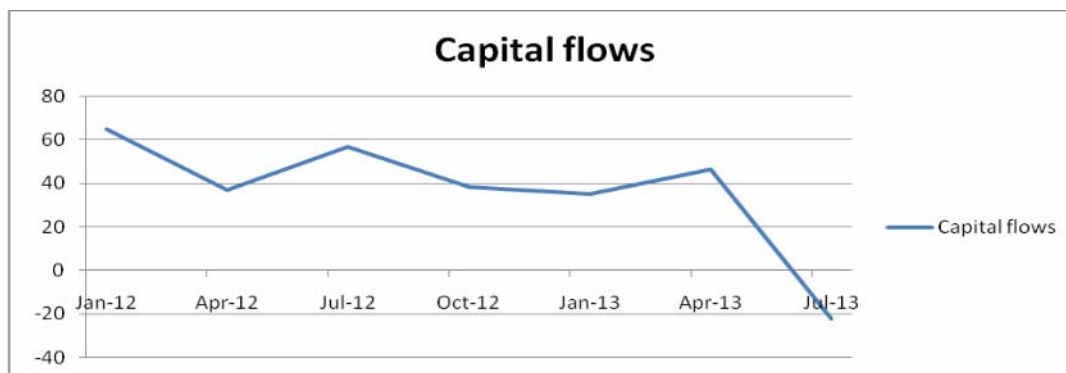


Fig. 3. Capital flows (million Euros)

Source: Bank of Albania, data processed by the authors.

In this area, Albania has tried to improve its laws which directly affect the political and economic development. The center known as National Registration Centre applied some specific laws by which registering businesses operate. According to these laws, it is possible the merger of the companies either by acquisition or either by forming a new company. At the same time, the dissolution of the companies is supported by these laws and it has made some progress in Albania.

The intellectual property law has not been a crucial concern for the Albanian government. In this context, there is not enough progress. In 2012 the government took some actions to protect the rights of intellectual property such as trademark protection from piracy and counterfeiting. But in 2013 the expected result did not occur because the number was too high. Even though the fake products are in high number in the market, the government has not yet taken the needed actions.

In the banking sector, the Bank of Albania took some important actions by which this sector would perform better and would be more trustful and safe for its customers. The regulations adopted in the bank area were more concentrated on the electronic payment, liquidity of the bank, capital adequacy and on different risks. Another important progress in this field is the banking supervision regulation which increased more its efficiency. Regarding to non-banking sector, the government was not too much active. In the case of insurance services, the highest percentage is covered by non-life insurance. Even though the insurance market is too small, the government has not intervened by its regulations.

Albania has progressed quickly in the area of information society during the last decade. The communication and information technologies have been widespread by reducing more the costs. Reduction on mobile networks tariffs is very important since Albania is considered as a high mobile usage country. A lot of Albanians have the opportunity to communicate by internet and they can use it not only as a communication tool but also as an information service. The media has also progressed but comparing it to the information society the progress is in lower level. The problem in the media field is that members who are part of it do not have their own independence. It should be a crucial concern for the government in order to have an advanced progress.

The agriculture sector has always played the most important role in the economy of Albania. The graph below shows the percentage of workers employed in this sector. During year 2008 there was around 44.6 % of workers occupied with agriculture. In the following two years there was a slight decline in the percentage of employment. However, agriculture sector has still remained the most important sector. The highest employment percentage is about 51.1 % which is shown during year 2012. The increase in agriculture employment has occurred because the government investments were at high level.

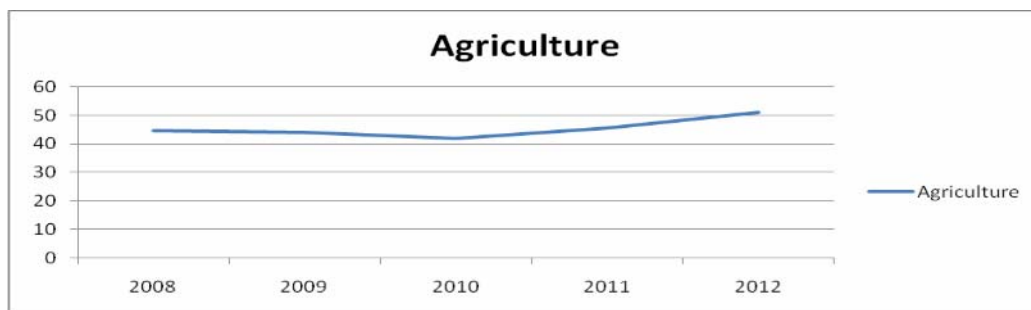


Fig. 4. Agriculture sector (% of employment)

Source: Bank of Albania, data processed by the authors.

The food safety area has made no progress. This field lacks a clear administrative framework, but however it has made an improvement in the quality of the inspectors of this field. There is made no establishment in the risk assessment capacity and the inspection plans are still missing. On the other side a progress has been made in the veterinary policy and the progress is represented in the animal information system. There is a strong need for meeting the requirements of EU in the food safety rules especially regarding the bacteriological criteria for raw milk. And there has been a little progress in the phytosanitary policy.

In the area of fisheries there has been a progress in the adoption of the legislation regarding this area, but however there is needed the collection of the information of the multi annual fisheries management plans, which are very important in order to meet the obligations under the international agreements, part of which is the General Fisheries Commission for the Mediterranean and the Commission for the Conservation of Atlantic Tunas (ICCAT). The progress made in the area of fisheries and agriculture is illustrated in Figure 5.

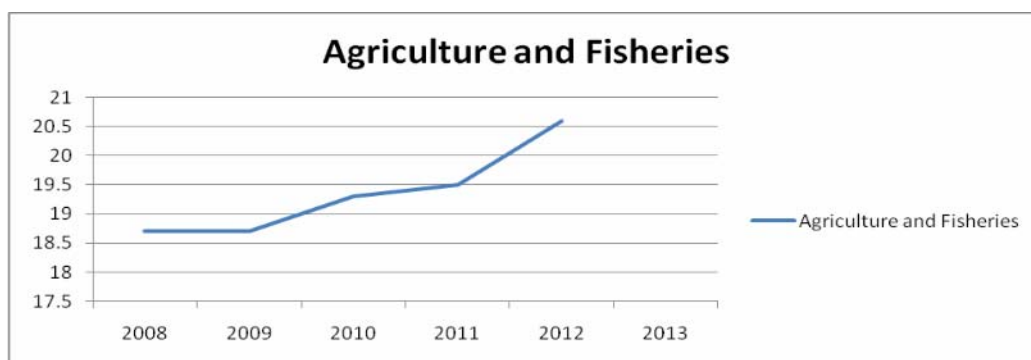


Fig. 5. Agriculture and Fisheries, Gross Value (%)

Source: World Bank, data processed by the author

There has been no progress regarding the road safety in Albania. The legislative requirements in line with the *acquis* have made no development. The resource allocation for the rail transport is still low. The issues concerning the air transport have improved regarding the implemented legislation and safety but however it depends on external experts.

Albania has made some improvements in the field of energy. It is important to mention the new Ashta hydro-electric power and Trans Adriatic Pipeline project. So there has been some progress in the energy supply but the energy sources are not diversified and also the bill collection rate is very low and this requires an efficient management. Figure 6 demonstrates the primary productions of all energy products which are estimated to increase in the following years since many hydro-plants are projected to be functioning.

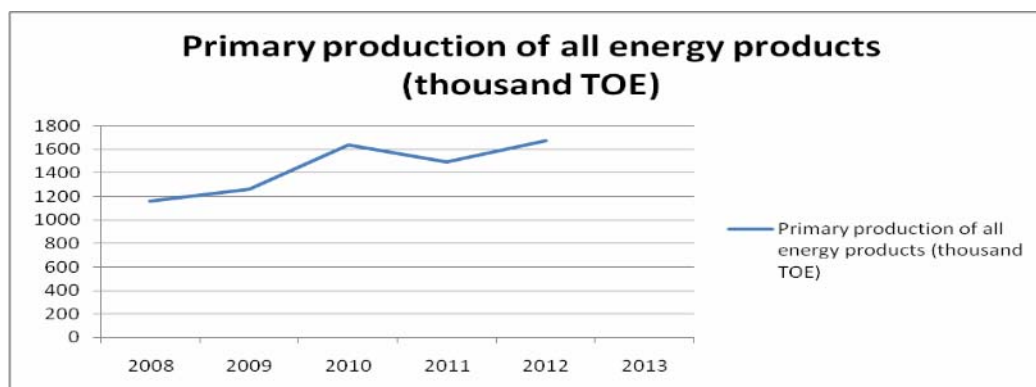


Fig. 6. Primary production of all energy products (thousand TOE)

Source: World Bank, data processed by the author

Concerning the volume of the value added tax there is a positive trend, but still there are problems with the tax registration implementation. As for the direct taxation, there has been an increase in the first data declaration, but the draft of mergers and savings has not been adopted yet. The main concern regarding taxation still remains the tax evasion and corruption, the penalties for which have increased in the prosecutor's office. In general it has to be admitted that Albania has made a moderately preparations meeting the legislative alignment with the acquis.

The Bank of Albania is maintaining a prudent monetary policy. It has put its efforts in the euroisation of the financial system; however the BoA has to maintain an efficient monetary policy aligned with the acquis. In January the government of Albanian adopted the 2013-15 fiscal and economic programs, focused on the decrease of the net borrowings as a percentage of GDP. At the same time it invalidated the public debt ceiling which is predicted to overcome the 60% limit. From the Figure 7 it is clearly seen that the foreign debt is tending to increase in the following years. There is a strong need for the implementation of the policy coordination.

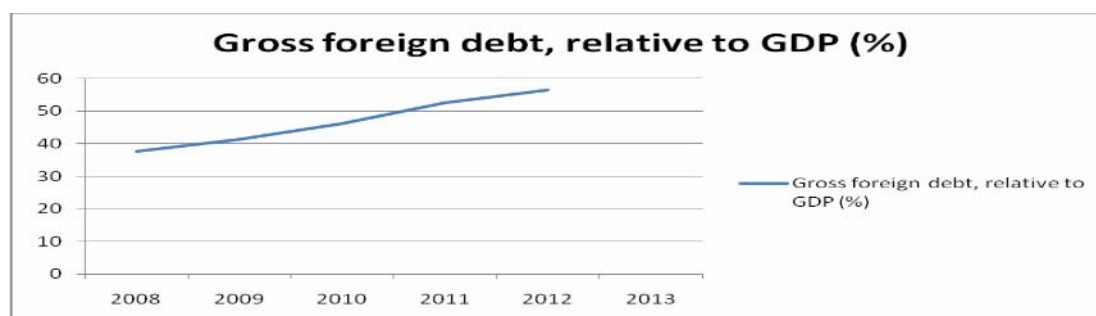


Fig. 7. Gross foreign debt, relative to GDP (%)

Source: World Bank, data processed by the author

The new structure of the National Statistics Institute was approved in December and its capacity has increased. The main concern regarding this institute is its independence. Many sectors of the Institute need to be enriched and overall to become available for the public.

Regarding the labor law, amendments still are waiting for adoption. The biggest challenge for this is the child labor. The health and the safety at work still remain poor. For the improvement of this, the organization capacity needs to be improved. The published unemployment rate from Instat has decreased, however the youth unemployment is very high. Also the unemployment rate for women is still at low rates. Some efforts have been made regarding the anti-discrimination and equal opportunities. The social policy and the employment policies need to be implemented, especially at local levels. Figure 8 represents the progress made in decreasing the unemployment rate:

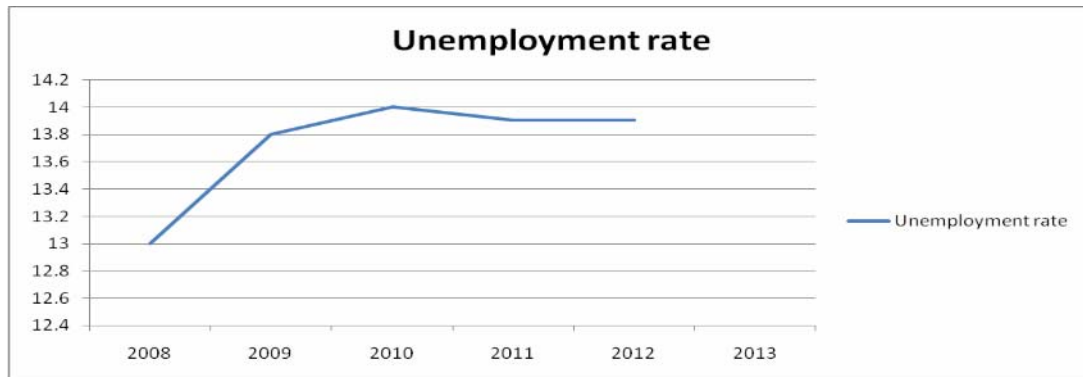


Fig. 8. Unemployment rate

Source: World Bank, data processed by the author

Albania has made moderate preparations in the enterprise and industrial industry. The progress has been mainly in the SME policy implementation. The focus of the government of Albania should be in the improvement of the business environment and introducing the legislation for the business operations is crucial.

The previous government of Albania put a lot of struggle in the infrastructure network, but still the maintenance of transport infrastructure is a big concern. The Ashta Hydro Power Plant and the Trans Adriatic Pipeline are the most important contracts that our government has signed regarding the energy networks. Albania needs to make further improvements for the Trans-European networks.

Suggestions and Conclusions

Considering the 2013 progress report by the European Commission one has to admit that Albania has made little progress in economic area. This was declared by the European Commission which didn't give Albania the candidate status. This requires a more serious work not only from the government side of Albania, but from the contribution of each Albanian citizen.

Albania has approved many laws and other legal policies for meeting the criteria of the European Commission but the main concern is their implementation. Almost every economic area lacks the legal policy implementation. Many economic, trade and political contracts are signed between Albania and other countries as well as different institutions contracts are signed but they are far from the well establishment.

The government intervention is another challenge for Albania. It is intervening in many sectors and it is taking no actions on other sectors. The government is violating the media independence and on the other side government was supposed to support and protect the trademarks from the counterfeiting but the actions were not enough. It is stated that in 2013 the number of piracy and

counterfeiting was higher compared to the previous year. In this field more intervention from the government is required.

As mentioned, the European countries are the crucial traders of Albania. However Albania is maintaining a negative trade balance. It is suggested that the government should shrink the difference of imports and exports and controlling the capital flows.

From many analyzes it is suggested for Albania to develop the energy sector. The Ashta hydro-plant and the Trans Adriatic pipeline will be the most important energy plants for Albania and for the region also and this will increase the trans-European relationships of Albania.

Regarding the financial and monetary system, Albanian government and the Bank of Albania have set the fiscal and monetary policies, but however the main challenges are the public finances. Albania maintained a stable economic growth and did pass the 2008 economic crisis with not considered losses, but is has to be vigilant with the unemployment rate and the public debt level. For now the new budget policy 2014 (Finances, 2013) is the main concern for the Albanian Parliament and for the society of Albania which on behalf of the Albanian Government is expected to increase the economic performance of Albania.

From the regression analysis it is found that imports have a higher effect on the level of GDP. However, comparing their t-statistics with the significance level is found that all the variables are statistically significant and should be kept in the regression equation.

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