SWOT Analysis for Albania’s integration in EU

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1. Background: A Short Story of Transition

Albania’s transition from a communist system into a market economy has been so far a rather successful one, although the country is still one of the poorest in Europe.

The country began market economic reforms from an extremely centralized economic system. As elsewhere in Eastern Europe, a significant decline in production characterized the initial phase of transition. As a result, the country’s macroeconomic situation worsened. Output declined by about 50% from the end of 1990 to mid-1992. External debt quickly rose to 30% of GDP. Foreign exchange reserves were almost completely exhausted. By early 1992, monthly inflation was 10% to 15%.

These difficult initial conditions quickly changed after Albania implemented a series of successful stabilization programs. In general their goals were similar: low inflation and stable prices, sustainable growth and lower budget deficits, improvement in the external position, and financial sector reform.

During 1993–1995, Albania’s macroeconomic situation improved remarkably: The country grew by an average of 9% in real terms while inflation fell to single digits and external imbalances were reduced.

However, in 1996, the positive macroeconomic trend was reversed as a result of increased political tension in the country and rising expenditure prior to the May 1996 general elections. The 1997 crisis of pyramid schemes and the 1999 Kosovo war negatively affected progress in the implementation of the stabilization program. The Albanian Government eventually confronted the crisis through a new stabilization program launched in 1998. The program aimed at restoring macroeconomic stabilization, strengthening administrative capacity, and restarting structural reforms.

The Stabilization and Association Process could foster EU accession prospects. Albania’s external policy environment has dramatically changed over the last four years, which has created new opportunities. Participation in the Stabilization and Association Process (SAP), has introduced a regional dimension to Albania’s foreign trade policy. The SAP seeks to reduce the complexity of the current commercial logistics through promoting simplification and greater transparency in customs procedures and free trade among SEE-8 countries as well as between them and the EU.

Recent Progress towards the SAA has been slow. According to the EC, reform in Albania over the past 12 months has been limited. Despite progress
made during SAA negotiations in discussing the text of the future agreement, many of the reforms necessary to guarantee its proper implementation have not been carried out. Of particular concern are those issues central to the rule of law like the fight against organized crime and corruption, and the functioning of the judicial system.

2. SWOT Analysis

Specific strengths of Albania’s accession could be summarized as follows (table 1):

1. The fact that most citizens support accession to the EU as a strategic aim, which should be achieved as soon as possible, can be regarded as significant strength. All political parties, at least declaratively, agree that the accession to the EU is a strategic aim, although no political census has so far been reached as to what should be done to accelerate it.

2. One important emerging strength comprises the growing openness of Albanian society. This openness is evident in the lively, contentious tone of political debate.

3. Albania’s significant strength lies in its strategic position. From a territorial viewpoint, the EU will not be rounded off until Albania becomes its member, because the major transport routes run across its territory.

4. Albania has a long history of close relationships with EU countries. Joining the EU has become the strategic priority of our foreign policy; meanwhile the EU became our main partner, offering support for political and economic reforms in the country.

A large number of Albanian citizens working in the EU member countries represent a specific link between Albania and the EU. The EU has become the major destination of Albania’s foreign trade. Albanian trade has been reoriented toward the West. Once trading primarily with Yugoslavia and the communist bloc, Albania has undergone a significant reorientation toward trade with Western Europe: the vast majority of Albanian trade is now with the EU.

5. Albania has qualified labor force. Entrepreneurial and managerial culture is rather widespread, so that doing business according to the market principle is not regarded any more as a new system.

6. Potentials to attract FDI. It appears that WTO membership, preferential trading privileges granted by the EU combined with the progress in political stabilization as well as in the region following the Kosovo war have contributed to a more attractive investment environment in Albania. Yet, much progress remains to be done, as the country faces fiscal losses in the short-
and medium-term and must continue improving its business environment to attract even higher levels of FDI and remittances.

**Specific weaknesses**

1. Albania’s external position is still fragile. The current account deficit was 7.5% of GDP in 2003. Without the high levels of remittances, it would be even higher. While FDI has been growing over recent years, its level is still low, especially when compared to other SEE countries.

2. Government revenue is much lower than in any other SEE country. Fiscal sustainability is at risk because of the low tax revenue-to-GDP ratio (about 22% of GDP, significantly lower than that of other SEE and CEE countries, which average 42% and 38% of GDP, respectively). Tax administration is weak. Tax collection is below targets and tax harassment is a major issue for businesses.

3. Expenditure management and prioritization remain weak. Public sector employment is high (18% of total employment). Funding for some non-discretionary items (operations and maintenance, subsidies and transfers, and capital expenditures) is often subject to resource availability. Public expenditure management is inefficient and lacks transparency.

4. Poverty (monetary poverty and access to basic services such as water, health, education) remains pervasive. One-quarter of the Albanian population, or close to 780,000 individuals, fall below the poverty line. Unemployment remains widespread, and is especially high in urban areas.

5. Governance indicators from recent surveys show a deterioration of performance over the 1996–2002 period. They indicate: (i) a moderately reduced government effectiveness; (ii) significant reductions in regulatory quality and rule of law; (iii) a dramatic reduction in the “control of corruption”; (iv) increases in bribe magnitudes; and (v) a dramatic increase in state capture.

6. There are also structural and sectorial bottlenecks to competitiveness and growth. Albania’s educational attainment—measured by average years of schooling of 8.5 years—is lower than that in most transition economies. Educational attainment is low.

7. High input costs and the poor quality of infrastructure hinder the development of trade: The export share of GDP is among the lowest for all transition economies. Despite the formal opening of Albania’s trade regime, only 17% of GDP is generated by the export of goods and services, the lowest percent in the region. Albania compares negatively with other SEE countries in terms of input and factor costs. The on-going power sector crisis, the poor water supply system and inadequate transport system represent a major constraint
to trade, foreign direct investment, tourism, growth, and the provision of social services for the poor.

8. Albania’s performance in attracting FDI is still poor when compared to other SEE countries. Despite an increase over recent years, Albania still has one of the lowest levels of FDI in South East Europe.

9. Corruption also affects growth through its effects on the fiscal deficit. The negative impact of corruption on Albania’s tax structure is well documented. Various studies (FIAS 2003) have shown that in addition to loss in tax collection, the more bribes are collected, the more some corrupt public officials can resort to extortion in order to collect even more.

10. Poor governance and ineffective efforts to fight corruption are major constraints to growth various indicators point to a deterioration in governance in recent years.

11. The lack of effective institutional structures, with no clear designation of individual agency responsibility and accountability. Investors often do not know exactly where to go for what, and government authorities also seem confused about who is responsible for what. For investors, this means a waste of time and unpredictability.

12. Ineffective enforcement of laws and regulations. Complaints exist in almost all areas about ineffective dispute settlement mechanisms, both within public administration and the court system. Some officials with operational power are able to abuse their power without being held accountable.

13. Insufficient skills of public officials at all levels. In general, regulatory officials seem not to trust businesses. Many appear to see themselves as policemen, not service providers. It is common perception that some abuse their position by seeking personal gain. Moreover, many authorities do not keep good records of their own performance; many cannot provide statistics on applications received, rejected, appealed, etc.

14. An important problem in Albania is its internal political stability, that is, the fact that no one political party has a majority in the Albanian Parliament.

15. Albania’s economic development is at a low level. Yet the country remains one of the poorest in Europe, with a GDP per capita of USD 1,740 in 2003. Although the EU has not stated in public that one of the criteria for accession to the EU is also a specified minimum level of GDP, it is quite clear that no one country will become a full EU member unless it reaches a specified minimum level of GDP. According to the data from the Transition Report, the lowest level was recorded in Latvia, $3605.
Specific threats

1. Integration into the world economy through further liberalization of trade at the regional level with other SEE countries and with the EU in the context of the SAP will entail short-term costs. Furthermore, Albania will suffer substantial fiscal losses in the short and medium terms because of the impact of trade liberalization arrangements under the WTO, SAA negotiations with the EU, and bilateral free trade agreements with other SEE countries.

2. Full membership in the EU poses a threat, because a larger number of producers will not be able to survive competition from other producers from the EU. Considering the current development level of the Albanian Economy, it is for sure that a large number of producers will not be able to cope with the pressure from competition and can go bankrupt.

3. Pressure from monopolist firms or from the groups whose position could be endangered by this process will be evident.

A potential threat may also be posed by the demands within the EU for stiffening the accession criteria for new members. For one or another reason, the criteria for the new admission can be changed.

Table 1: SWOT Analysis

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<th>Strengths</th>
<th>Weaknesses</th>
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<td>• Most citizens support accession the EU</td>
<td>• Albania’s external position is still fragile</td>
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<td>• Increased awareness of all actors, politicians included, to the benefits of SAP</td>
<td>• Fiscal sustainability is at risk because of the low tax revenue-to-GDP ratio and low tax collection performance.</td>
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<td>• Favorable geo-strategic position</td>
<td>• Real interest rates are still high</td>
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<td>• Long-time close economic and other relations with EU</td>
<td>• Expenditure management and prioritization remain weak</td>
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<td>• Qualified labor force and entrepreneurial culture</td>
<td>• Poverty (monetary poverty and access to basic services such as water, health, education) remains pervasive</td>
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<td>• Existence of a national EU accession strategy</td>
<td>• A moderately reduced government effectiveness</td>
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<td>• Albania’s macroeconomic situation is improved markedly</td>
<td>• Significant reductions in regulatory quality and rule of law</td>
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<tr>
<td>• The growing openness of Albanian society</td>
<td>• Albania’s performance in attracting FDI is still poor when compared to other SEE</td>
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Remittances from Albanians living abroad have supported macroeconomic stability and stimulated economic growth

- WTO membership
- Good networking with neighboring countries
- Increased private sector capacities
- Potentials to attract FDI
- Potentials to improve technology and reach high standards

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<th>Opportunities</th>
<th>Threats</th>
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<td>- Faster economic growth and the creation of the new jobs</td>
<td>- Competitive pressure from producers from the EU market</td>
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<td>- Free access to the EU market</td>
<td>- Pressure from monopolist firms or from the groups whose position could be endangered by this process</td>
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<td>- EU’s readiness to admit countries in transition from South-eastern Europe to EU membership</td>
<td>- Requests within the EU for the stiffening of the membership criteria</td>
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<td>- Initiated process of accession, including the possibility of using EU accession funds later</td>
<td>- Integration into the world economy through further liberalization of trade at the regional level with other SEE countries and with the EU will entail short-term costs</td>
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<td>- Use of the positive experiences of other countries in transition</td>
<td>- Substantial fiscal losses in the short and medium terms</td>
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<td>- Gradual harmonization with the EU’s regulation</td>
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<td>- Continuous improvement of the macroeconomic indicators and economic performance</td>
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<td>- Maintenance of macroeconomic stability</td>
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- Albania’s net enrollment rates for basic education are below those for the OECD
- Corruption also affects growth through its effects on the fiscal deficit. Poor governance and ineffective efforts to fight corruption
- Insufficient skills of public officials at all levels
- Poor implementation of regulations and operational guidelines
- The informal sector is very large and favors tax evasion
- The lack of effective institutional structures
- Albania’s economic development is at a low level
- High input costs and the poor quality of infrastructure

- Opportunities
- Threats

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Specific opportunities

1. Accession to the EU can provide a significant impetus to accelerated economic development and the creation of new jobs. Previous experience shows that all countries which had joined the EU entered the period of a dynamic economic development after a shorter or longer time lag. In that context, the funds that Albania would obtain as an underdevelopment country would be of great significance.

2. Free access to the EU market would provide a great incentive of specified industries, such as agriculture, food processing, light industry, etc. Naturally, this poses a threat, because a larger number of producers will not be able to survive competition from other producers from the EU. On the other hand this will facilitate the transfer of technology and know-how, which represent one of the most sensitive issues of Albania’s economy.

3. An opportunity is also provided by the fact the EU expressed its readiness to admit all countries in transition from South-Eastern Europe on a number of occasions and that the accession time-limit depends largely on individual countries and the results of their reforms.

4. In the process of accession it is important the fact that eight countries in transition are accepted and three more (Bulgaria, Romania and Croatia) are in the process. In our process of integration we can be based in the experience of those countries.

3. Conclusions

Albania’s cumulative growth since the fall of the communist regime in 1990 has been impressive and among the highest of all transition economies. Yet the country remains one of the poorest in Europe, with a GDP per capita of USD 1,740 in 2003.

Several factors explain the growth performance:

First, macroeconomic stabilization and structural reforms have provided an environment conducive to economic growth over most of the past ten years.

The second factor explaining growth performance is total factor productivity. Structural reforms were also implemented in key sectors of the Government’s development strategy (education, health, and energy). This has led to the reallocation of resources from low productivity sectors like agriculture to high productivity sectors (services, construction). As a result, during the period 1993–2003, total factor productivity growth contributed 6.14 % of the annual average annual real GDP growth (6.27 %).

The third factor is the remittances from migration. Albanian growth has been fueled by remittances.
While Albania’s performance has been impressive, there are concerns about the sustainability of high rates of economic growth in the future. The Government’s key medium-term objectives articulated in the National Strategy for Social and Economic Development (NSSED) are to sustain growth, reduce the number of people living in poverty, improve infrastructure and build human capital.

**Policies to maintain a stable macroeconomic framework:**

- Continued adherence to fiscal discipline to further reduce the budget deficit will be necessary in the coming years.
- Major improvements are needed in public expenditure management. This means undertaking a comprehensive public expenditure review in order to analyze equity issues and the effectiveness of public resources.

**Policies to mobilize human resources:**

- Increasing the quality of human capital. In the short to medium term, two policy actions are particularly important for improving quality. One is for the government to participate routinely in international assessments of learning and to publish the results. The second is a thorough and systematic revision of the curriculum, as the curriculum defines what gets taught and learned and how.
- Increasing the demand for education through least cost options. Increasing the quantity of human capital.

**Policies to boost trade and integration:**

- Maintaining the commitment to a liberal multilateral trade regime, and accelerating regional and European integration. Trade liberalization should proceed along all dimensions, as the biggest gains are to be realized when Albania lowers its barriers to trade with respect to all trading partners.
- Implementing the policy agenda agreed with FIAS to remove administrative barriers to investment.

**Policies to improve public infrastructure like (transport sector, electricity sector and water sector)**

**Policies to improve governance and strengthen institutions:**

- Redouble efforts to ensure managerial integrity within the public administration;
- Redouble and diversify efforts to ensure reliable, predictable and fair enforcement of the rule of law.
Establish and nurture mechanisms that can facilitate more effective service delivery voice – i.e., mechanisms that increase the odds that citizens and firms who are the direct targets of particular regulations or public services will both know how and find it easy to pressure the state to perform its regulatory and service delivery functions more fairly and effectively.

References:

Albania, INSTAT Reports.
Building market institution in SEE countries.
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