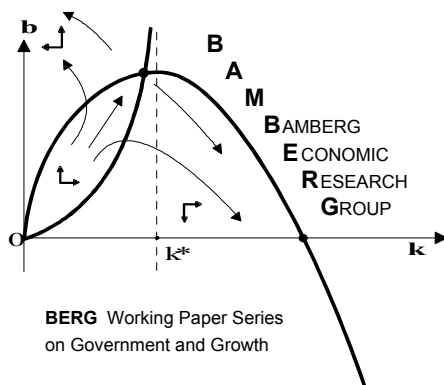


European Integration of Albania: Economic Aspects

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Elke Thiel¹

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Zusammenfassung

Albanien ist Partner im Stabilitätspakt für Südosteuropa und im Stabilisierungs- und Assoziierungsprozess der EU. Die europäische Integration verlangt grundlegende Reformen, die Albanien zum Teil eingeleitet hat, die aber häufig in Justiz und Verwaltung noch nicht umgesetzt wurden. Der sich abzeichnende Wirtschaftsaufschwung und ausländische Investitionsbereitschaft könnten durch politische Unsicherheiten in Gefahr geraten.

Abstract

Albania has been partner of the Stability Pact for South Eastern Europe and the EU Stabilisation and Association process for the Western Balkan from the beginning. European integration requires very fundamental and far reaching reforms. Albania has faced the challenge, but in many cases reform measures are not yet properly implemented. Macroeconomic performances have improved recently, and there are some encouraging signs that foreign business might be ready to invest in the country. Yet uncertainties and deficiencies in the political system remain a major risk.

Schlüsselwörter:

Albanien, EU-Stabilisierungs- und Assoziierungsprozeß für den westlichen Balkan, Systemreformen, Fortschrittsbericht der EU-Kommission, Expertenempfehlungen

Keywords:

Albania, EU Stabilisation and Association process for the Western Balkan, system reforms, EU assessment report, experts' recommendations

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1. Albania's evolving EU relationship

1.1 "The journey is the reward"

Albanian European Integration has to be understood as a process, evolving step by step. Each step has to be implemented properly. Progress achieved on the first step will enable the country to better perform with the requirements of the second step and so on. In the course of the process, Albania will have to implement fundamental, far reaching reforms. This would finally enable the country to fully participate in European integration, including rights and obligations. Such reforms are not only required by the European Union, but urgently needed for Albania as well. Reforms will enhance trust in the Albanian economy and the political system. Experiences in the countries, having just entered the EU, demonstrate that the transformation of the economic and political system has remarkably benefited from EU association and pre-accession strategies. There is a German expression "der Weg ist das Ziel", meaning "the road is the goal". EU membership may be the final objective. Yet, it is the "European journey" that brings rewards.

Albania had already received Western assistance since 1991. In December 1992, the Agreement of Economic Cooperation and Trade (AECT) became the contractual framework, in which relationship with the EU and assistance from the EU could develop. The implementation of the Agreement and preparations for a second one were halted by the uncertain domestic political situation in the years 1996/97, however.

Albanian integration in the Euro-Atlantic System received new momentum by the Kosovo war. With the aim of promoting stability in the Balkan region, the so-called Stability Pact for South Eastern Europe was launched in June 1999, followed by the Stabilisation and Association process for the Western Balkan in the year 2000. Albania has been a partner in both frameworks from the beginning. A Stabilisation and Association Agreement (SAA) between Albania and the European Union is in negotiation since January 2003. Negotiations have been largely completed in technical terms, yet some crucial political issues still have to be settled.

1.2 The Stability Pact for South Eastern Europe

The Stability Pact for South Eastern Europe is a framework on international cooperation in support of the Balkan region. It was launched by a German initiative at the European summit in Cologne in June 1999. The Pact was approved at a summit meeting of all participating partners in Sarajevo at the end of July. Partners of the Stability Pact are more than 40 countries and organisations, including the European Union and its member states, the United States, Canada, Japan and Russia. NATO, the Organisation for Security and Cooperation in Europe (OSCE), the Council of Europe and the UN participate in the framework as well as potential donor institutions, like the International Monetary Fund and the World Bank, the European Bank for Reconstruction and the European Investment Bank.

All countries of the South Eastern European area are partners of the Stability Pact, namely Albania, Bosnia-Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Serbia/Montenegrin and Kosovo, as well as Bulgaria and Romania which may join the European Union in 2007, and Moldova, which will than become an immediate neighbour of the EU.

Key objectives of the Stability Pact are:

- the creation of a secure environment,
- the promotion of sustainable democratic systems, and
- the improvement of the economic and social situation in the Balkan region.

1.3 Regional Cooperation

Promoting cooperation within the region is a central objective of the Stability Pact approach and of EU policy. Due to its own experiences and success, the European Union strongly favours the concept of regional cooperation. The idea goes back to Jean Monnet, one of the founding fathers of the European Communities in the 1950s. In his vision, economic cooperation between neighbouring countries would create common interests, reconcile former enemies and thus help to achieve a more peaceful and fruit-

ful relationship among countries and nations. Western Europe has benefited enormously from regional integration. After centuries of frequent wars, especially between Germany and France, Western Europe is enjoying an enduring time of peace. Border and minority disputes have been settled amicably and do not matter anymore, since boundaries have been largely eliminated.

Jean Monnet's idea has remained topical. In the Balkan region, many problems can only be solved by a closer integration in the region itself. European integration may help promoting cooperation among the Balkan nations. But both objectives have to be pursued simultaneously.

Several regional projects have been launched under the roof of the Stability Pact, such as an agreement to create an integrated electricity market by 2005 and a common initiative to fight terrorism and organised crime. Political leaders regularly meet at so-called Regional Tables, consulting each other on various issues of mutual concern. A network of bilateral free trade agreements has been concluded. If the agreements are implemented, a regional market with a population of 55 million will develop. A market of this size will offer much better business and investment opportunities than the narrow domestic markets provide.

Albania is playing a very constructive role in regional integration. Free trade agreements with all the countries in the regions have been signed. Relationships with neighbouring countries have become open and friendly. New border crosses have been established. Although many problems remain to be addressed, these are promising achievements.

1.4 The Stabilisation and Association process

The Stabilisation and Association process for the Western Balkan (SAP) was set up as a specific contribution of the European Union to the Stability Pact. SAP is the framework that shall bring the countries of the Western Balkan closer to the European Union, including the perspective of EU membership. Objectives and conditions were ap-

proved by the countries of the West Balkan region at the Zagreb summit of November 2000.

The Stability and Association process entails commitments on both sides. The Union offers a prospect of accession, an assistance programme to support that ambition, and preferential access to the EU internal market. The candidates, in return, undertake to abide by the Union's conditionality and participate fully in the Stabilisation and Association process. Performances are monitored in annual assessment reports. Point of reference is the so-called Copenhagen criteria.

Trade preferences and the EU assistance programme CARDS are the key instruments of SAP. The European Union has offered autonomous trade concessions to the Balkan countries. All industrial products and most agricultural products have duty and quota free access. "Autonomous" means that the European Union immediately opens the internal market, while a longer period of transition is conceded to the Balkan countries before opening up their markets to EU competition.

Exports of the region to the European Union have increased in the last few years, by close to 30% for Albania. But the level is very low. Trade deficit with the EU amounted to € 750 million in 2003. Figures indicate that Albania has not yet been able of taking full advantage of EU trade preferences, partly due to low competitiveness and product quality. EU safety standards are on high levels, especially for food products. If Albania introduces EU standards in the course of European integration, this will enhance trade opportunities for Albanian goods in the European market. But performing with EU quality norm is considered hardship for Albanian farmers and food industries.

CARDS is the short term for "Community Assistance for Reconstruction, Development and Stabilisation". Launched in 2001, the programme has been assigned especially for the funding of the Stabilisation and Association process. Before 2001, assistance for the region was financed by other EU assistance programmes, primarily PHARE, earmarked for the transition countries in Middle and Eastern Europe. Assistance initially focused on emergency operation and reconstruction. The focus then

shifted towards greater support for political, institutional and economic transition. One of the problems obviously is that the capacity of the national administration to absorb assistance is relatively limited. Figures for Albania, for instance, indicate that only about 20% of the allocated funds were contracted or disbursed in 2001.

1.5 The Copenhagen criteria

The reference point for the assessment of performances is whether the country is making progress in the direction of an implementation of the Copenhagen criteria. The criteria have been formulated in 1993 as the conditions, countries would have to fulfil before becoming a member of the European Union.

The European Union is a highly integrated economic and political space. If one of the member states gets into troubles, others will be affected as well. Member states are closely bound together. Boundaries for protection do not exist anymore. Moreover, countries with very different backgrounds are going to join the European Union; many of them still in a crucial phase of system transition. It may thus be understandable that the European Union aims to ensure that the new member states conform to the principles and values, to which the European Union and its members are committed. Candidates shall be prepared to assume membership obligations at the time of accession. Otherwise, the European Union will become increasingly fragmented by different rules of transition and exception clauses.

According to the Copenhagen criteria, qualification for membership includes:

- Stability of institutions, guaranteeing democracy, the rule of law, human rights and the respect for and protection of minorities,
- Existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the Union,
- Ability to take on obligations of membership, including adherence to the aims of political, economic and monetary union.

Albania has just started with “European integration” and it is certainly understood that the country cannot perform with the Copenhagen criteria right now. But the direction should be clear and steady progress being achieved at all stages of the integration process.

2. Albanian Performances

The European Commission submitted the 2004 annual report on Albania in April², together with the Commission proposal for a Council Decision on a European Partnership with Albania³ which shall intensify Stabilisation and Association. In January 2004, a Commission report on “The Western Balkan in Transition” was published. The following data primarily result from these reports.

2.1 Macroeconomic indicators

Albanian macroeconomic indicators are encouraging. The economic situation in 2003 points to a sustained growth of about 6%. Albania is the only country of the region having achieved a gross domestic product (GDP) higher than in 1989, the year preceding the Kosovo war. Inflation has been ruled in, from more than 20 % in 1998 to currently less than 4%. Unemployment is still high, however, estimated at about 15% on the average. The fiscal position has improved, as the public deficit has halved since 1998. But the level of revenues is low in comparison with the GNP. The trade and current account deficit is quite large, although to a certain extent lowered by remittances from Albanians abroad. The external debt position, about 24 % GDP, seems to be under control.⁴

² European Commission, Staff Working Paper Albania, Stabilisation and Association Report 2004, Brussels, April 2004, Com (2004) 203 final.

³ European Commission, Proposal for a Council Decision on the principles, priorities and conditions contained in the European Partnership with Albania, Brussels, April 2004

⁴ European Commission, Directorate-General for Economic and Financial Affairs, “The Western Balkan in Transition”. European Economy, Occasional Paper, No. 5, p. 27.

Comparative figures indicate that Albanian macroeconomic performances largely converge with performances in the region. Regarding current rates of economic growth, Albania has even performed more favourably in 2003. Yet per capita GDP is relatively low. Foreign direct investment inflows (FDI) level to an average of € 112 million a year in the period of 1997 to 2003 for Albania, while the average for the region amounts to € 1930 million. In relative terms, Albania has the lowest figures: a per capita investment inflow of € 36 against € 89 for the region and of 2.7 % GDP against 4.1 % GDP for the Western Balkan in the overall.⁵

2.2 Uncertainties and system deficiencies

Albanian economic performances have improved recently. But encouraging signs of economic development are being at risk by various uncertainties and deficiencies in the Albanian system. Electricity shortage is a major handicap of the country. Many working hours are getting lost when electricity is switched off. This increases costs of production and business management. Infrastructure - traffic and transportation - is a problem, which particularly impedes economic development and investment in the more remote and rural regions. Regional development is considered a high priority objective by most experts.

Poverty is extremely high in some areas, providing the soil for smuggling and other illegal businesses. Poverty also is a major reason for migration, opening door for human trafficking. These are “vicious circles”.

Albania needs foreign investment and has to compete for this with other countries in the area. Recent developments indicate that enterprises are prepared to engage in Albania. Two American firms, General Electric and Lockheed Martin have, for instance, negotiated agreements on work in the energy sector and on the reconstruction of Albanian ports. A German-American Consortium will invest \$ 80 million in the construction of an international airport in Rinas (Tirana Airport).

Yet, the overall business environment is not so suitable for foreign investors. Among others, legal uncertainty hampers foreign businesses. In many cases, adequate rules

⁵ Ibid, p. 13

have been established, but the law is not properly enforced. Market economy has been introduced, but still does not work as it should, because of a widespread informal sector. For foreign investors, the system is not very transparent, which makes it difficult to gain a foothold in the Albanian market, especially for small and medium size enterprises. Trust in the stability of the political system is a very important aspect when a firm is going to decide, whether it will invest in a country. Current uncertainties in the political situation are very detrimental to the business climate.

2.3 Experts' recommendations

Regarding all experts' reports on Albania, the overall recommendation is: continuation and implementation of intended reforms. Key issues for continuation and implementation are:

- Privatisation and restitution of property.
- Reliable business rules and means of contract enforcement.
- Combat of money laundering, organised crime and trafficking has to become more effective.
- Proper application of rules by administration authorities.

Privatisation of remaining state owned enterprises is proceeding: the crucial issue of the Albanian Saving Bank now seems to be settled by a contract with the Raiffeisen Bank of Austria. Privatisation of the energy sector is scheduled for 2005. If the project succeeds, this may help to promote privatisation in other parts of the economy, too.

Restitution of property is a very important issue: Owners, expropriated at the time of the communist regime, either have to get their property back or receive financial compensation. As long as the issue remains undecided, uncertainty about ownerships will prevent any productive use of the property. The problem is also known in East Germany, where ownership frequently has to be clarified by the courts, which may take years.

Business rules have to be reliable in order to achieve trust, which, for instance, requires rules of enforcement of business contracts by jurisdiction. Corruption is consid-

ered a serious problem. An anti-corruption plan has been introduced recently, which now needs to be implemented comprehensively.

Combat of organised crime and trafficking has become a major concern in the European Union's relations with Albania and with other Balkan countries as well. The Balkan is considered to be an entrance doors through which illegal migration and trade can find its way into the European Union. All countries are urged to pay more attention to the issue. Notwithstanding acknowledged improvement, the general impression still is that the Albanian judicial system, custom authorities and police cannot efficiently handle the matter.

In many cases, the legal framework is in existence. But rules are not properly applied, because of shortage of administration capacities and insufficient staff training. The problem is very common in all transition countries. "Institution building" has become a focus in the EU assistance programmes for this reason.

3. Perspectives

Finally, what are the perspectives? At the European summit in Thessaloniki in June 2003, the instrument of a "European Partnership" was introduced as a means of intensifying the Stabilisation and Association process. Based on its 2004 annual report on Albania, the European Commission has identified the priorities for the European Partnership of Albania. They are expected to be accomplished in the short-term (one to two years) and in the medium term (three to four years) and have been selected on the basis that this are realistic expectations.⁶

Next step would be the conclusion of the Stabilisation and Association Agreement. The Commission will have to submit a recommendation to the Council on the matter,

⁶ European Commission, Proposal for a Council Decision on the principles, priorities and conditions contained in the European Partnership with Albania, Brussels, April 2004.

which will take into account the progress already made in the accomplishment of the priorities. Most likely, the evaluation will be included in the annual report on Albania, forthcoming in spring 2005.

Albania has a principle option for EU membership, but this will not follow automatically from association. Albania would have formally to apply for membership negotiations. In this case, the European Commission would prepare a feasibility study. The report would evaluate progress achieved in the association process and would draw a conclusion on whether entrance negotiation could be expected to be successful. If the recommendation is positive, negotiations will be opened. Simultaneously, a pre-accession strategy would be set up with the view of promoting and supporting the implementation of EU rules in Albania. At the time of accession, Albania would have to take on all membership obligations.

European integration is often considered hardship, but can also be used as an anchor for Albanian reforms. Assistance comes from the European Union and several other institutions.

Progress in Albanian European integration will enhance motivation and trust in the country. Monitoring may help identifying problems and deficiencies. However, reforms will have to be implemented by Albania itself, and it should be understood, that this is not done for the European Union but, above all, for the Albanians.

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