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**The Transition and Integration
of the Albanian Economy in the EU**

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Abstract: The transition and integration of the Albanian economy in the EU constitutes a special valuable experience that would be relevant for the present and future development processes of economic market in general. Albania's experience in this regard carries two salient features in the path of Euro-Atlantic integration. First of all, the transition and economic integration in the EU began from scratch without inheriting any element or experience of the market economy and democratic culture; secondly, it began as a radical process conceived as “*shock therapy*”, which excludes a graduated process; thirdly, it started out as a political process driven by upward and will continue as such until its completion. The created elements of market economy and democratic culture are going on in parallel with the process of EU integration. But the lack of democratic culture has created more conflictual than consensual phenomenon that hinders and delays the time of wider economic integration. Not surprisingly, Albania as the most fanatical and dictatorial communist country in the past is the worst in the performance of the integration process. Despite the time and the problems we have “*skipped*” many stages of historical development of a democratic Western society and with optimism, we are having more and more realistic difficulties and efforts still need to be done to reach the standards of civilized Europe. Throughout this period precisely to achieve these standards we consider as a transition, which will end as an economic process but also as a socio-cultural one, when we become a member with full rights in the EU.

Keywords: Economic transition; Integration process; State property; Private property; The planned economy; Market economy; Privatization process; Administrative privatization; Privatization according to market strategy; “Shock therapy”; Gradualism; Goods and services market; Capital market; Labour market

1. Instead of Introduction

The Albanian economy of socialist-communist period was an absolutely centralized and planned economy. The core of this economy system was constituted by state properties, which represented all the people's property or the highest level of its association. In the context of this property existed even the cooperative property as the property of a certain group of agricultural workers in village, who formally had the right to use a certain area of land from the state and were the only owners of the product produced, but the tools of agricultural production were owned by the state.

At the core of this structure property relations, each element of private property *was extremely inconsistent* and even *hostile* to it². The absolute denial of privatization of property went up in denatured and denial of certain elements of property and of individual labor in all economic activities. The previous system prohibited and condemned not just any kind of small private property, but also any kind of individual labor activity for personal or family profit. This represents an extreme and

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² Annual Report of the IMF, since 1992.

typical feature of our economy on the eve of transition: a closed economy to the socialization and planned; a closed economy in its shell and led by the principle of wholly support in its forces; an isolated economy to national and international market relations system; an economy that did not recognize any experience of the functioning of internal and external market mechanisms. While in other former Eastern socialist-communist countries, the situation was much different about the market economy, we were at zero level¹.

Our transition to a market economy had not any objective basis and starting point based on this basis. It was obvious that in these conditions *the transition had to start from the top*, from the interference of political regulation. And this interference, dictated by the pressure of the food crisis of the late 1980s, forced the former regime to take some micro-liberalization measures to allow the *right to exercise individual work for personal benefit purposes*. Some activities for personal gain as self-employment activities were created, for example fairly small social food, transportation and kiosks activities, which created the psychology and mentality of *private work*. The most important part of this whole process is that from it began *the pressure of the need for private property*. The political revolution of 1991-1992 was necessary to open the way to the restoration of this property and the market economy.

2. The Beginnings of the Transition Economy

The first elements of the foundations of a market economy started in the first half of 1991. Among the first laws of the pluralist parliament of that time was the privatization of agricultural land of cooperatives. About 430,000 ha of agricultural land was given in possession, without compensation, to the families that lived in village, associating this process even further with the privatization of livestock, fruit, olive groves and vineyards. This *new agrarian revolution* can be considered as the starting point of the fundamentals of *restauration* of a market economy. With this reform was created the small private property based on the work itself, were created little market private agricultural-livestock products. In national network of retail trade were privatized almost all shops, warehouses and stores by giving the ownership to their vendors and employees. While in transportation began the privatization of light vehicles, heavy ones of its assets, with the exception of railways. The criterion of privatization in these branches was to give the ownership to the employees who were using them. Meanwhile, by the end of 1992 and throughout 1993, were privatized all living rented apartments for all residents of urban areas.

These aforementioned privatization processes were accompanied by liberalizing government policies in the area of removing bureaucratic administrative barriers to the functioning of a free market. Thus, the period of 1991 was characterized by removing almost entirely, the customs and fiscal barriers; at the end of this year was liberalized the exchange rate of the Albanian Lek with foreign currencies; were removed administrative barriers to introducing any foreign investments and their prerogatives; was simulated with specific policies encouraging the opening of private foreign banks giving special priority to the liberalization of financial-banking market.

Regarding the privatization of industrial enterprises in this process began the distribution of securities for each employee hired, with the idea of making them co-owners of assets based on the value of these enterprises. This platform conceived by the IMF monitors, was an experimental model of privatization of the assets of industrial enterprises in Poland². But in Poland there were stock markets, so the sale of

¹ Annual Report of the IMF, since 1993.

² Annual Report of the IMF, since 1994.

securities, in terms of our economy was considered as that market would be created in parallel with the issuance of securities of privatization. This concept is practiced in our transition conditions and we did not have the expected outcome, but it rather distorted the privatization of industrial assets. These securities, in the absence of the institution of stock market, began to circulate in the informal market and had a drastic devaluation. Faced with this failure, *the privatization of industrial assets* and other branches of the economy was accomplished in manners and methods, which were more *administrative-bureaucratic* and *clientelist-party*, rather than based on the concepts of *supply and demand of the market*. Consequently, I can say that this performance was inefficient in the privatization of these assets, the privatization in these sectors had no meaning because it did not increase the effectiveness of the use and exploitation of state assets.

The period of the late '90s and early 2000s and beyond, continued with the privatization of strategic objects using methods based more on market supply and demand. The important thing is that the trend has been the orientation and selection of experienced and reputable investors, limiting political preferences. It is worth mentioning that the privatization process was carried out simultaneously with the design and implementation of legislation in the area of attracting foreign investment. Although these investments have been evident, they remained prominent in the level of small and medium businesses and large strategic investors are still one percent.

In the process of restoration of market economy, the Albanian economy quickly changed the physiognomy of its essence. In the mid-1990s *it had become a market economy* of production and exchange of goods; in an economy of free movement of capital inside and outside the country; in an economy of movement and free exchange of domestic currency to foreign currencies; in an open economy and ready to take any kind of formal investment¹.

3. Some Key Features of the Transition of the Albanian Economy

These traits, I am trying to sort according to their importance notwithstanding any particular criterion.

The first feature is the social and political “*surprise*” that raised the need of changing the existing system of relations in production. It is true that the collapse of the Berlin Wall gave a very significant signal for the future of this system, but in reality few Albanian believed that the change would come so quickly and so unexpectedly. We were totally unprepared in every respect. Even political class that emerged in the leadership of political and economic revolution had no social experience. We all entered into an unknown path without any legacy of the past. For us only *the inversion* mattered, but how the future will be built, we did not think at all. Consequently, he showed willingness to accept the advice of international institutions and neighboring European countries, as these countries were the most generous of giving aid and credit easing the transition process in general, and economic one in particular.

Seen in this context, we have to mention another aspect related to the international factor. IMF, World Bank, European Bank for reconstruction and Development and many institutions and developed countries *had no experience*² in the opposite direction movement. The historical succession movement had shown that the capitalist system was born in a certain stage of development of relationships of goods with money and had shaped himself when from the economic liberty, private equity was created as the inexhaustible form of internal energy that keeps the system alive.

¹ Annual Bulletin of the Bank of Albania, 2000.

² Annual report of the World Bank, 1996.

Capitalism of the end of the twentieth century had reached its maturity undergoing many trials and emerged victorious in the race with the opposite system. The triumph of the market economy to planned and centralized economy was evident and irreversible, but lacked knowledge of the new road, the road to switch from the totalitarian economy and hardened within the planned, in a free market economy of Western type. Collecting the weak economy of East Germany within the strong economy of West Germany, was a unique case within a nation divided into two states and not an experience that can be emulated by others. All actors, eastern or western, entered into an *unfamiliar road*, but convinced they had no option other than to try and experiment with confidence to the future of the market and its potential, already confirmed.

The second feature, which is closely related to the first, is that the IMF and World Bank suggested and opted for Albania as transition path what is known as “*shock therapy*.” This term and concept, meant for IMF a transition process of *radical kind*, which I will try to determine as an *aggressive process*, fast and inclusive of the *privatization of state property* and its transformation into a real private property. IMF basically intended to transition, converting our planned economy to a market economy, *had to start* from “*ground zero*”¹, eliminating many previously existing structures of the old economy and opening the path to elements and institutions of private economy. Obviously, this strategy was based on the fact that, unlike other countries, we do not inherit any element or system of market economy relations. Our reality was different from that of counterparts, which had implemented in the process of continual reform of their planned economies not only significant market elements, but had also accumulated significant experience in the operation of its structures and mechanisms.

The third feature has to do with the fact that our political transition from dictatorship and one-party system in a multiparties or pluralistic system had not inherited a culture as the western democracy. In our reality, pluriparties democratic culture was restored for the first time, without any basis inherited from the monarchy and feudal past and, further, the socialist-communist one. This situation of transition gave to the political war for power a character of conflict². Two main political forces, the Democratic Party as the party of the right and the Socialist Party as a party of the left, originally having opposite philosophies to the process of economic transition conceived and built their positions in antagonism with each other. Such a spirit of conflict created mutual distrust between them to the point that laws adopted by one party, were abrogated with the coming to power of the other party.

This situation of instability and unprincipled political wrangling was reflected in *the volatility* of economic reforms. The two main political forces also failed to find common ground on major issues of strategic reforms in economy. Each thought its way was the best and did not tolerate the way suggested, or followed by another. Even today we do not have *a common strategy for economic transition*, at least for its crucial problems. This situation was complicated even more by what was known as the “*pyramid crisis*”, which besides the shock and socio-economic damages, worsened even more the trust relationships between political actors, increasing the conflicts between them.³

The only regulatory tool, generally-accepted by both political forces for economic transition, were the recommendations “*almost mandatory*” of the IMF, the World Bank and the European Commission.

The fourth feature, which is the result of three features above, has to do with the conclusion that the whole process of economic transition has begun and continues to walk in the way of direction “*from above*” of politics. In this point of view I include the recommendations of economic policies of

¹ Annual Reports: IMF 1993; European Commission, 1994.

² Foreign Commission Report of the European Parliament, 1995.

³ European Commission Report, 1998, 1999, 2001.

international institutions, which created the structures and mechanisms of restoration of the market economy. An established market economy ' "from above" obviously cannot be a natural way and as such carries even greater problems and more difficult to overcome (Gorbachev, 1997). These problems become even more complicated when it lacks a culture of dialogue and consensus, which become necessary, as unprepared is the country that has embarked on the path of economic transition (Gorbachev, 1997). This Albanian reality has made the transition *more difficult, more prolonged and more problematic than the other former socialist countries*.

The fifth feature has to do with *the speed* of the followed path in the privatization of state assets. Maybe we are the only country in the world that has privatized in a record time almost the majority of state assets and real property underground, and we are confident to privatize what is left of them. Such a *unique* experience, without having any prejudices, instills doubts about the future efficient operation of this type of market. Governments by giving up ownership of key strategic assets, are becoming institutions with quite limited ownership, which inevitably will lead to even limiting the means to pursue certain public policy, and social adjustment. The fact that we face in such an experience, the privatization of such magnitude, raises some questions. For example, Can the next government play with credit easing policy when there are only private commercial banks? Can it affect the public sector employment policies when this is becoming smaller? Why such an experience has not been followed by countries with a developed economy and generally stabilized in key parameters? Will the government be able to afford our next serious situation of economic crisis? Would the solution to these problems be based, and others like these, on only fiscal policy, and debt policy? These questions and others of that nature, I think that cannot get *accurate theoretical answer*. Their explanation theory remains hypothetical and much less realistic. However, I tend to leave the doubts raised to the time which will tell us more than what we know so far.

4. Questions and Conclusions

These features of transitions have the importance and the role in understanding whether the transition process of our economy towards a shaped market economy is completed or is continuing. In parenthesis I want to clarify what we mean *by the end* of this transition process? In economic literature currently available, the end of the process of economic transition, at least for the former Eastern socialist communist countries where we are part, is related to the period of their full membership in the EU. This event has alleged that, in relation with the specifications of each country, it has been achieved the standard of real and institutional parameters that characterize a shaped market economy, that with the accession the economies of the respective countries have fulfilled the needs of such reforms that have made them compatible with "*the standards and operating mechanisms*" to play in the market competition. Naturally, being a market economy in content and the outcome of the transition process or not, are two different matters.

Judged in this point of view, our economic transition quickly established *goods and services market*, which was followed further by the creation of a private banking system. We have currently a shaped and consolidated goods and services market that constitutes one of the crucial pillars of a market economy, supported from the banking and credit system. But while the Albanian market economy, also *misses* two other elements of a shaped and matured market economy of Western-type. Absent is also *the capital market* and the *labor market*. The capital market is related, primarily, to the creation of market securities and their derivatives, which are realized by *the institution of stock markets* and all institutions-monitoring and controlling their functions. The creation of this market is related to the

maturity of the system development of monetary financial institutions, which were created by the necessity and importance of real economic progress. (Krugman, apud Torres & Giavazzi, 1993)

The same thing I would say for the labor market. In our current economy there is, generally, only institutional service registration of unemployed and social assistance to them, but is almost nonexistent genuine labor market, *as market recognition and monitoring of supply and demand for different types of occupations*, or the people who work and offered to businesses seeking to employ them. It is exactly this “compatibility” of demand for labor supply, tasks and basic function of a shaped labor market, which lacks to our economy. (Bernanke, Laubach & Mishkin, 1999)

Given the above, I would say again that the Albanian transition to a market economy has not been completed. *Our economy continues to be in transition process*, not only it did not create the capital market and the labor market, but also for the creation of these two markets is required the appropriate network operation of their institutions, which requires a time, which is not connected only with prodding from the macroeconomic policies, but also it is related to the objective conditions that arise in the process of developing its content. (Buti & Sapir, 2002)

The acceleration of the European integration process, taking soon the full status of EU candidate country will progress, not only the completion of the transition process, but will also serve to achieve the levels and standards compatible with those of the large European market. In my conclusion: **Albanian economy transition will end when we become member with full rights in the EU.**

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