

The economic effects of EU enlargement towards the Western Balkan. The case of Albania

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Abstract:

This paper aims to deal with the economic effects of EU enlargement towards the Western Balkan, the case of Albania. The economic integration is properly manifested as a very influential process in the contemporary economic context rapidly developing in a regional level. The phenomenon of regionalization is one of the most important characteristic of international economy.

Today the European Union is a result of a process of integration and expansion and it has contributed in the stability, development and prosperity of the whole Europe, furthermore it also represents one of the most important phenomena that the European continent has experienced. If the initial integration process aimed at maintaining peace and eliminating a new war, later on there are identified many benefits from the expanded cooperation between the European countries. By creating a common market and the gradual alignment of policies, the Economic Member States aimed to promote the harmonious development of the economic activities, sustainable growth and balanced one, which means increasing the stability, standards of living and having closer relations between them. Thus, intensifying the cooperation between the member states of the European Communities has led to significant benefits, not only in terms of security, but also of prosperity.

Key words: integration, enlargement, western balkan, economic growth, market

1. THE PROCESS OF THE EUROPEAN INTEGRATION

Integration into the European Union means, first, aligning the fundamental values on the basis of which it is built and lives this expanded interstate body. One of the most powerful regional integration is the regional economic integration of the European Union. The first ideas for the European integration, observed from a historical point of view, belong to the pre XIX century by many philosophers, scientists, politicians and others such as: Dybua, Proudhon, Bernard, up to the idea of Wilson Churchill and then to the Marshall Plan, and the institutional form like the Schuman plan, etc.

The end of the Second World War put the countries in a very difficult situation. War destruction brought economic losses, the continent was divided on political-military blocks and it was only the beginning of the cold war. The European continent, the economic center of the world lost its significant role up to the beginning of World War II.¹

The Treaty of Paris established the European Coal and Steel Community. The aim of the ECSC was to create a common market in coal and steel between the six countries: France, Germany, Italy, Belgium, Netherlands and Luxembourg, which together had the largest production of coal and steel in Europe. European Community of Coal and Steel Community was considered a common market of these countries regarding these two strategic products of the member countries.²

Based on the Treaty of Paris, signed in 1951, which created the European Coal and Steel Community, the Treaty of Rome extended the scope of international cooperation by reviving thus the establishment of the European edifice, which

¹ Monnet, J., *Memoires*, Fayard, Paris, 1976, pg. 383

² Silasi, G, Rollet, P. Trandafir, N. Vadasan , I.Economia Uniunii Europene.O poveste te success? Editura Universitatii de Vest p.38

was delayed by the failure of the political project of the European Defense Community.

The resistance of the countries was lower in the economic area than in other areas; in this respect, it can be regarded as a consensual cooperation field.

The first attempt to sketch the path of the economic and monetary union in three stages generates from a period of ten years, which begins in 1970 with the Werner Report. However, this initial project did not come to fruition as a result of the strong tensions that swept the international foreign exchange markets after the collapse of the Bretton Woods system in the early 70s, and due to the economic recession caused by the oil crisis in 1973.

To confront this brittle situation and volatile, nine member countries of the EEC in 1979 created the European Monetary System (EMS), which had the basis on the exchange rate mechanism (ERM). This mechanism provided for the currencies of those nine countries, a regime of the fixed exchange rate, but adjustable.

The idea of Economic and Monetary Union would be reborn with the Single European Act in 1986, which created a single market. This milestone led to the conviction that the full benefits of the common market can be yielded only if the participating countries would use a single currency. In 1988, the European Council charged Delors Committee to examine the possibilities and ways to create Economic and Monetary Union (EMU)

A year later, the Delors Report would pave the way for negotiations on the EU Treaty, which created the European Union (EU) and amended the Foundation Treaty of the European Community. Otherwise known as the Maastricht Treaty, because the town where it was signed. This treaty was signed in February 1992, the Treaty of the European Union came into force on November 1, 1993.

EMU's path to Europe passed through three stages. The first phase (1990-1993) was characterized by the establishment of a common European market by removing all the internal barriers in order to have a free movement of persons, goods, capital and services within Europe.

The second phase (1994-1998) began with the creation of the European Monetary Institute and it focused mostly on the technical preparations for the single European currency, to avoid deficits and convergence of economic and monetary policies of the Member States (to ensure price stability and sound public finances).

The third phase began on January 1, 1999, with the irrevocable fixing of exchange rates, the transfer of monetary policy powers to the European Central Bank (ECB) and the use of the euro as the single currency. On the 1st of January 2002, euro banknotes and coins were thrown into circulation in the participating countries and at the end of February 2002 national banknotes and coins did not have any more a legal exchange rate.

2. ALBANIA'S ECONOMIC SITUATION AFTER THE SIGNING OF THE SAA

Western Balkan countries, which are very close to the European Union, are also part of that future, and one of these countries is even Albania. All these countries have indicated their desire to join the European Union. The EU has confirmed its readiness to accept them in her bosom enjoy the protection as soon as these countries get ready for this.

The countries of the Western Balkans have undergone a major economic transformation over the past 15 years, and many are unrecognizable compared with where they stood at the turn of the century. Following the conflict-ridden 1990s, these countries set out to comprehensively rebuild and reform their economies. They opened up to global trade and became

increasingly export-oriented, expanded the role of the private sector, dismantled regulations that stifled business development, and began to build institutions needed to support a market system. Banking systems were built up—literally from scratch in some cases—with the aid of foreign capital and know-how. The result of these efforts has been robust economic growth, a significant rise in incomes and living standards, and enhanced macroeconomic stability.³

The Albanian economy has had a good progress regarding the economic growth, recording an average real annual growth of 3.1% in 2008-2015. Monetary policies have played an important role in mitigating the effects of the global financial crisis and ensuring macroeconomic stability. During the 2009-2013 global crises, the GDP growth slowed, while for the period of 2014-2015, the growth rates have been re-established, creating an atmosphere of growing expectations for the period ahead. Regarding the economic criteria, Albania has made progress in establishing a functioning market economy and maintaining macroeconomic stability through a sound monetary policy, despite the significant decline in the growth of GDP.⁴

Albanian economy managed to avoid recession and the worst consequences of the financial / economic global crises that started in 2007, the economic growth slowed down in recent years and the level of public debt rose. As addressed in Section 4 from a macro perspective, during the global crisis of 2009-2013, the economic growth slowed more, till it reached the average level of 2.5% of GDP, compared to the average growth of GDP of about 7% a decade ago.

Foreign direct investments play an important role in the Albanian economy. There was a relatively high flow of foreign direct investment (FDI) in Albania in recent years (equivalent to 8.8% of GDP in 2014 compared to 7.7% that was in 2012),

³ https://www.imf.org/external/pubs/ft/reo/2015/eur/eng/pdf/erei_sr_030915.pdf

⁴ Strategjia Kombëtare për Zhvillim dhe Integrim, 2015- 2020

despite the interruption and the insecurity of the euro area. Private sector development and reforms of the regulatory framework in Albania are expected to lead to an increase in FDI as there would be an enhancement of the confidence of foreign investors. In relation to foreign direct investment per capita, Albania is classified the fourth in the region. In Eastern Europe, FDI flows have decreased by almost half of the value in recent years, mainly due to the investments which are declining regarding the traditional investors from the EU, who have experienced economic problems in their countries of origin.

Before unleashing the financial and economic crisis, the countries of Eastern Europe have been quite successful in attracting direct foreign investment, resulting in an increase in cash flow from 2.1 billion in 2002 to 13.3 billion Euros in 2008.

Increased direct foreign investment in the region, especially after 2006, was caused due to the economic recovery, a better climate of investment and due to the beginning of the negotiations with the EU. Relatively low cost of labor, easy introduction of the European markets and the privatization of remaining state-owned enterprises encouraged the inflow of direct foreign investment. This positive trend was not working in 2009, when the inflow of direct foreign investment fell sharply in all countries of the region. On the other hand, Albania was able to maintain a stable trend in direct foreign investment during this period, as Serbia and Croatia becoming the three main recipients of FDI flows in the region in 2012.

During the year 2015, the current economic developments indicate that the Albanian economy has come under a steady rate rhythm and low inflation rates. The cyclical economic weakness continues to generate low pressures towards the increase of employment, wages and production costs. Also, the external environment transmits low inflationary pressure in the country. Under the influence of supply and demand factors, consumer prices have only slightly increased during the last quarters. The latest rate of inflation

was 2.2% in October in 2015. Low levels of inflation seems to have contributed to the persistence of low inflation expectations in recent quarters (the average inflation stood at 1.9% from January to October).⁵

3. THE ECONOMIC EFFECTS OF THE EUROPEAN EXPANSION

Various scholars, Albanians and foreigners have offered special models to measure the economic effects of the European integration process. These effects are divided into direct effects and indirect effects. It is understood that the effects of the first group can be measured more easily when we do quantification, while the latter - indirect effects are considered those effects associated with the impact of this process in various sectors of the national Albanian economy, effects in the allocation of resources and the effects on the redistribution of income and wealth. Among the direct effects of integration, some authors list:

- a) The effects on the diversification of trade, ie changing the direction of foreign trade from a partner country in terms of another country
- b) The effects on the balance of payments;
- c) The effect on government revenues;
- d) The effects on consumer welfare, etc.

The directions of these effects are varied, complex and prove the increase of interdependence of the economy against the markets of European countries, particularly in cases where the country is a net importer, with a weak and anemic economy regarding the competition. Speaking specifically, the Albanian economy has benefited from EU funds in several directions, such as

⁵ *PLANI KOMBËTAR PËR INTEGRIMIN EVROPIAN, 2016 - 2020*
www.financa.gov.al/Integrimi/PKIE_2016-2020_Kapitujt_e_MF.

transfers in budgets through grant programs, from which other countries in the region have benefited. These programs are such as the PHARE (Community Assistance for Reconstruction, Development and Stabilization (CARDS), SAPARD, ISPA, Instrument for Pre-Accession (IPA), TEMPUS, etc. It is understood that these funds have contributed to an amplified public investment, farmers' incomes, etc., and in a synthesized way have contributed to the growth of GDP of the country.

In the context of an increase in our economic competitiveness, a special role is played by the programs of Instruments for Pre-Accession (IPA), programs intended to support candidate countries and potential candidates included in the Stabilization and Association Agreement Process, so that these countries fulfill the criteria for membership in the European Union. Albania has benefited since 2007 from these programs. Starting from 2014, the financial support of EU towards the candidate and potential candidate countries is provided through the new financial instrument, IPA II, implemented during the period 2014- 2020.

Other indirect effects of European integration lie on the distribution of resources in order to prepare the country for a full opening to the western competition, the effects on foreign trade. Of the same important are the effects related to the implementation of a set of rules emanating from the *acquis communautaire*, costs related to environmental protection, in agriculture, in the consumers protection.

In a globalized world, a satisfactory growth of exports is essential to a long-term sustainable growth for a small country such as Albania. Being a small country with a small market, the capacity of Albania to participate in the globalization process will grow, in order to be competitive in the global market, of course this can be achieved if Albania gains the EU membership. The EU is an important trade partner of Albania, which has imports several times higher than exports. Removing trade barriers has a significant importance for Albania, this

would make the Albanian traders to gain access to the European market and would help in facilitating the trade.

Stabilization and Association Agreement is an agreement signed in June 2006 between Albania and the European Community. It was ratified by all member states and entered into force in April 2009. Expected effects of SAA on trade liberalization consisted on the deepening of the liberalization tax, reduction of the nominal fee, the reduction which would be greater and real (due to the dominant role) of the imports from the EU, increased opportunity for the Albanian exports due to the advancement in structural and institutional reforms. In order to realize successfully the expected effects of the SAA, it was needed a support from EU assistance programs. After the entry into force of the SAA (2009-2012) there is a significant increase of FDI though the period in question coincides with the severity of the sovereign debt crisis in the euro zone, the area of origin of a significant part of the FDI towards Albania.

According to the Bank of Albania, in 2014, the economic activity recovered after the slowdown experienced 2 years ago. This happened because the domestic demands grew again, replacing foreign trade as the main driver of the growth. The growth accelerated in 2015, with an increase of GDP of about 2.8% during the first quarter. The latest data show a similar trend during the second quarter. During that year, the structure of growth was more balanced, supported by domestic demand and the foreign one as well. Employment rose during the year, but the unemployment rate remained high, at around 17%. According to the Bank of Albania, the Albanian economy continues to be characterized by spare capacity in capital markets and labor. Modest demand pressures are reflected in very low rates of core inflation growth. Also, weak inflationary pressures from abroad, together with low prices of raw materials in international markets constitute another factor

which results in low inflation. Average annual inflation was 1.8% during the first eight months of the year 2015.

The high rate of unemployment, although significantly declined, from 18.3 to 17.3% in the second three months of 2015, as well as external environmental influences have had an impact on the country's economy started to fluctuate relatively, a little below its potential. According to the World Bank (June 2015), the real economic growth of 1.9 during 2014 was supported by domestic demand which was supported by the fiscal policy and structural reform, as well as by an increase in consumption and foreign investments.

CONCLUSIONS

The process of European construction is complex and multilateral by its nature presenting a wide and fertile ground for scientific study and research thus the foreign and national literature dedicated to the European integration is very abundant and diverse. There is hope that joining the European Union can resolve many problems in the Western Balkans. Values of western civilization are considered as corner stones of European integration. Albanian accession into European Union will represent at the beginning a political process, deriving from the common political will of both parties, but with strong economic and social constrains. The EU promise to admit countries of Western Balkans as members in the future has always served as a catalyst for reforms in these countries that want to join the group.

A successful economic integration of Albania into European Union is dependent on the implementation of structural reforms, in order to promote sustainable economic growth. EU institutions could help by reducing the opportunity cost of the process, assisting with the better implementation of those reforms and supporting these countries on their way towards the EU.

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