



**Integration of the  
Western Balkans into  
Euro-Atlantic Structures  
Future Challenges**



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**EPOKA UNIVERSITY  
CENTER FOR EUROPEAN STUDIES**

**First International Conference on Balkans Studies  
(ICBS 2008)**

**INTEGRATION OF THE WESTERN BALKANS INTO  
EURO-ATLANTIC STRUCTURES - FUTURE  
CHALLENGES**

**Editors:**  
Ömer Eroğlu  
Güngör Turan  
Cemal Baltacı  
Nedret Demirci  
Muharrem Gürkaynak  
Ferdinand Gjana

**Tirana, 07-08 November 2008**

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**Published By:** EPOKA UNIVERSITY, CENTER FOR EUROPEAN STUDIES

Rr. “Durrësit”, Laprake, Tirana/Albania

Tel: +355 42 22 32 086

Fax : +355 42 22 117

**[icbs2008@epoka.edu.al](mailto:icbs2008@epoka.edu.al)**

**[info@epoka.edu.al](mailto:info@epoka.edu.al)**

**[www.epoka.edu.al](http://www.epoka.edu.al)**

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**Citation:** Eroğlu, Turan, Baltacı, Demirci, Gürkaynak, Gjana, 2008 (Editors), **Integration of the Western Balkans into Euro-Atlantic Structures-Future Challenges**, Tirana: Epoka University Center For European Studies.

**ISBN: 978 – 99956 – 681 – 3 – 6**

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**Printed By:** Turgut Ozal Education Sh.a.

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*“Integration of the Western Balkans into Euro-Atlantic Structures - Future Challenges”*,

**7-8 November 2008**

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## Preface

The First International Conference on Balkan Studies organized by Epoka University is in fact being held in a special period in which Albania and the Western Balkans countries are re-examining themselves and the rest of the world. This event should be considered as a reflection of the mission of the university to be a contributor to policy-making in the countries they are located in and beyond. In this context, Epoka University, with its relatively short history, but dynamic nature, should be praised for the organization of this Conference.

It is understood from the topic of the Conference - *“Integration of the Western Balkans into Euro-Atlantic Structures - Future Challenges”* – that this event aims at pointing out the problems and suggesting potential solutions as its unique contribution. Despite occupying a very small part of the world, the Western Balkans area is given a special importance by the EU and NATO in their enlargement policies, and this fact shows the importance of the conference’s subject.

The Balkans experienced its worst experience during World War I and II as they became a battleground between various armies. The reflection of this international conflict to the Balkans' nations has been creating the environment for the continuation of regional struggles and tensions.

It is obvious that the development of co-operation between EU and NATO on the one hand and all countries in the region on the other hand as well as the membership of Balkan countries in these organizations will have a positive impact on the solution of the regional problems. This new development in the political arena can be expected to provide a chance to the region to overcome political prejudices which represent barriers for stability in this fringe of Europe.

In this context, I would like to emphasize that the organization of the Conference titled "*Integration of the Western Balkans into Euro-Atlantic Structures - Future Challenges*" in Albania, which has a key role in the preservation of regional stability, gives us the chance to be more hopeful on the region's future.

We hope that this Conference will contribute to a deeper understanding and a thorough discussion on issues related to the future of the Balkan Countries.

Tirana, November 2008

*Prof. Dr. Ali Arslan*



PART I

POLITICAL AND  
SOCIAL  
ASPECTS OF THE  
INTEGRATION

## **Comparison of the relations between the EU and Western Balkan states with the relations between the EU and Turkey**

Ali Arslan  
Prof. Dr., İstanbul University  
Faculty of Literature, History Department.

Today when we talk about the enlargement strategy of the EU, we first consider on Turkey and Western Balkan States. So we want to describe the similarities and differences by making comparison of the relations between the EU and Western Balkan States with the relations between the EU and Turkey.

Firstly we need to describe briefly how the EU is established. As we all know, two powerful states – not from Europe – dominated over Europe for the first time at the end of the Second World War. A fact as USA in Western Europe and Russia in Eastern Europe to be new forces caused the European states to decide and attempt seriously about uniting in Europe and recovering when both forced states make politics for the regions at their controls to abide themselves. The European states competing among themselves in Europe and in the World until that time were anyhow controlled or come under the influence of the others or else dependent on the others.

Beside Europe to be dependent on the others, a fact as controlling Germany not to become a threat again as in the Second World War was effective for the new structure. The European states that wanted getting over and finding solutions for uniting, tried to stand by helping each other<sup>1</sup>.

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<sup>1</sup> Ali Arslan, **Efendi ve Uşak/AB-Türkiye İlişkileri**, İstanbul 2008, pp. 47-90.

## HOW THE EU WAS DEVELOPED IN THE COLD WAR AND TURKEY WAS EXCLUDED?

### How EU developed?

The European Coal and Steel Community was the basis for the permanent integration in Europe and continuity by organizing. **The European Coal And Steel Community** was founded on April 18, 1951 by signing the Paris Treaty in compliance with the aim that the production of coal and steel – two major effects caused the Second World War – would be controlled by a common community having a high authority, and thus the ECSC was established. The ECSC founded a common market for coal and steel production, common targets and common constitutions to control them. The aim of ECSC was to create a common market and to contribute to economic expansion, growth of employment and a rising standard of living for the Member States. The Community would provide stability for the employment and protect the economy of the Member States against significant and consistent problems<sup>2</sup>.

While founding the ECSC, an idea as establishing a defense community was come up. France, Germany, Italy, Belgium, the Netherlands and Luxembourg signed a treaty for establishing a European Defense Community on May 27, 1952. The aim of the EDC was to integrate the European armies. However France refused to ratify the establishment of the EDC because of the rearmament of Germany with the EDC.

The EDC – not to be established – caused an idea that a political unity should be provided as soon as possible. France, Germany, Italy, Belgium, the Netherlands and Luxembourg started to study on creating a federal Europe in compliance with this idea. However, the organization project aiming a

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<sup>2</sup> Ömer Bozkurt, "Avrupa Topluluğunun Bütünleşme Süreci ve Yapısı: Genel Bir Bakış", **Avrupa Topluluğu ve Türkiye**, Ankara 1987, p.9.

federal structure in Europe was refused by the French Assembly on August 30, 1954<sup>3</sup>.

Although France, Germany, Italy, Belgium, the Netherlands and Luxembourg founded the ECSC, they couldn't establish the Federal Europe; however they continued to create a "Union Europe".

The executives of the six states founding the ECSC signed the European Atomic Energy Community and European Economic Community Treaties in Rome on March 25, 1957. These treaties entered into force on January 1, 1958.

A major development was established for the United States of Europe and the European Community (EC) was founded between 1965 and 1967 by uniting the EEC, the ECSC and the EAEC.

### **Which Status was given to Turkey during the foundation of EU?**

Turkey was among Western Block against the threatening of USSR and has started a Military Corporation with USA since 1947. Turkey and USA signed the Common Security Treaty in 1952, and Turkey became a member of NATO at the same time<sup>4</sup>. The main target of USA concerning the membership of Turkey was to benefit for blocking USSR in West and South directions.

Turkey was an exceptional state in the Eurasia and "the only country that is on a strategic point for the Middle East and the Arabic World, and is a stable front in concert against Soviet Union"<sup>5</sup>.

Although USA was not a member of the EEC, it supported the membership of Turkey for the EEC and "encouraged for the application of Turkey"<sup>6</sup>.

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<sup>3</sup> Ömer Bozkurt, "Avrupa Topluluğunun Bütünleşme Süreci ve Yapısı: Genel Bir Bakış", **Avrupa Topluluğu ve Türkiye**, Ankara 1987, pp.12-13.

<sup>4</sup> Mehmet Saray, **Türkiye'nin Nato'ya Girişi**, Ankara 2006.

<sup>5</sup> T. Dursun-F. Tayfun, **Türkiye-ABD İlişkilerinin Dünü, Bugünü, Yarını**, İstanbul 1994, pp.30-34.

<sup>6</sup> Nazif Kuyucuklu, **Türkiye İktisadiyatı**, İstanbul 1986, p.595



However, USA was discontent of the EEC developed economical relations with the member and neighbor states, and this development caused the conflict of interests.

On July 31, 1959, Turkey applied to access into the EEC in accordance with the article 237 of the Rome Treaty founded the EEC. In this article, it was clearly stated that the other European States that didn't signed the Rome Treaty at first, would participate into the EEC<sup>7</sup>.

La Libre Belgique – one of the powerful journals of Europe – stated “The membership of Turkey and Greece for the EEC is impossible for now”. The offer of La Libre Belgique was “to create a free exchange zone” and to name it as “a limited Custom Union”<sup>8</sup>. The offer of this journal – published in Brussels – to cooperate with Turkey at the Custom Union point featuring a free trade agreement was so interesting.

On September 28, 1959'da first meetings were made in Brussels. The target of Turkey was “to be a member of the EEC”. However Turkey wanted this membership to be in a longer term. It was stated that Turkey required a preparation term for competition with the member states of the EEC which are economically strong. The purpose of Turkey was to protract the term described in the Rome Treaty to establish the Custom Union and to set the term between 22 or 25 years for Turkey. The EEC accepted the 22 or 25-year Partnership Treaty to be divided in two parts “preparation” and “passage” term, but it was absolutely refused that Turkey to access into the EEC corporations during the Partnership Period<sup>9</sup>.

Before the coup on May 27, 1960, at the time of the students' conflicts increased and political tension rose in Turkey, the EEC Council observed the application for accession into the EEC of Turkey on May 11, 1960 and determined the beginning of negotiations to be resulted with the

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<sup>7</sup> Feridun Ergin, “Müşterek Pazar Nedir? Girmemiz iyi mi, Fena mı Olur?” **Cumhuriyet**, 12 Eylül 1959.

<sup>8</sup> **Cumhuriyet**, 11 Ağustos 1959.

<sup>9</sup> Şaban H. Çalış, **Türkiye-Avrupa Birliği İlişkileri**, Ankara 2008, pp. 79-81.

“Partnership Treaty”<sup>10</sup>. The application for accession into the EEC of Menderes Government was also officially refused. In fact, the EEC revealed that it would prefer a relationship with Turkey not as a member but in a second class status.

The National Unity Committee withdrew the application of Menders Government<sup>11</sup> and accepted the partnership offer of the EEC not as a member but in a second class status.

After İnönü Government was formed, they followed the policies of the National Unity Committee of May 27 and worked for the development of the relationship with the EEC. At last a Partnership Treaty with the EEC was set. The treaty was signed between Turkey, Belgium, Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands on September 12, 1963. Actually in this treaty Turkey has not been as a European State and the Ankara Treaty was signed in accordance with the article 238 of the Rome Treaty i.e. the article concerning the relationship with non-European states. It was aimed that Turkey has not been included in the EEC corporations and but just accepted into the economical control zone of the EEC as the Custom Union.

In 1963 Turkey got dependent on the EEC economically, an important action was carried on for establishing the United States of Europe and the EC was founded between 1965 and 1967 by uniting the EEC, ECSC and EAEC; nonetheless the executives at that time didn’t care about the mentioned action. Rather they not only complied with the second class status that Europe considered for Turkey but also they weren’t involved in the political area and just looked on that Turkey to experience the period leading to the third class status.

Greece that signed a Partnership Treaty aiming a Custom Union with the EEC together with Turkey, looked for a different attempt and disclaimed the Custom Union, applied for the membership of the EC in 1976 and became a

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<sup>10</sup> Şaban H. Çalış, **Türkiye-Avrupa Birliği İlişkileri**, p. 84.

<sup>11</sup> Şaban H. Çalış, **Türkiye-Avrupa Birliği İlişkileri**, pp. 84-89.

member of the EEC in 1983. Turkey – incapable of understanding the developments in Europe at that time – realized the situations too late and applied for the membership of the EC in 1987 at the time of prime ministry of Turgut Özal. Thus, for the first time Turkey exhibited that they wanted a relationship with the EC states equally. However, the application of Turkey was refused but also was hoped for the membership of the EU in future.

The EU starting to work for the Single Europe in 1985 and aiming an internal market for the member states, signed the European Union Treaty in 1992 and got down to create the United States of Europe. Turkey waiting for the membership of the EU till 1992 wasn't acceded even as a candidate for the membership of the EU. The EU claimed to establish the Custom Union in compliance with the Ankara Partnership in 1963. This claim was accepted by Turkey with the work programme signed by Erdal İnönü – the Deputy Prime Minister and the Coalition Partner – during the Prime Ministry of Süleyman Demirel. So Turkey accepted to be under control of the EU politically and economically instead of being in unequal status with the EU States. The transitional period to the Custom Union entered into force in 1996.

Nonetheless Turkey was accepted as a candidate state in 1999 and it was decided to begin the open-ended negotiation in 2004<sup>12</sup>.

### **HOW USA AND THE EU TREATED WESTERN BALKAN STATES AFTER THE COLD WAR?**

Tito, the Head of Yugoslavia, followed a socialist politics different than Stalin. At the Czechoslovakian act in 1968 they opposed to Russia. They built up trade with the Western States and so the Western States treated Yugoslavia different than the other Eastern Block states. Tito rescued the Non-Aligned countries – also known as Third World – from the Soviet Russia control in 1979.

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<sup>12</sup> Ali Arslan, Efendi ve Uşak/AB-Türkiye İlişkileri, İstanbul 2008, pp. 95-237.

The economical and political crisis in 1989 caused the relationship between Croatia and Slovenia get worse. At the same year the innovation movements in Eastern Block were reflected in Yugoslavia and it was changed to the multiparty system.

As a result of civil war among republics in 1991, Slovenia (June 25), Croatia, Macedonia at the end of the same year and Bosnia-Herzegovina in 1992 declared their independence. The battles in Bosnia-Herzegovina through Serbian attacks ended in 1995. USA followed all the events in Western Balkans carefully.

7 new candidate member states, which were socialists before, accessed in NATO with the head of USA and one of them was Slovenia (the others were Bulgaria, Estonia, Latvia, Lithuania, Romania and Slovakia).

USA still cares about this region and also Albania and Croatia are granted to be a member of NATO in 2009. The other state to which USA gives importance is Macedonia but it was refused because of Greece's veto.

A fact that Germany – the head state of the EU – recognized the independence of Slovenia where is at western part of Yugoslavia and in a strategic point for Adriatic and Central Europe, speeded up the disintegration period of Yugoslavia. Slovenia having supported by the other EU states was accepted in EU in a very short period as May 1, 2004 (other states accepted at the same year were the Czech Republic, Estonia, Southern Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovakia)

Following the membership of Bulgaria and Romania in 2007, the zones described by the enlargement notion in EU were in fact Western Balkan States and Turkey. Today there are three candidate states waiting for the accession in the EU: two Western Balkan States as Croatia and Macedonia, and Turkey.

The potential members of the EU will be wholly from Western Balkan States as Albania, Bosnia-Herzegovina, Montenegro and Serbia. Also it will be same for Kosovo declared their independence on February 17, 2008 although Serbia didn't recognize.

It is revealed that Western Balkan States getting down to integration with Europe from 1992 are adopted quicker than Turkey.

### **HOW THE EU TREATED WESTERN BALKAN STATES AND TURKEY FOLLOWING THE COLD WAR?**

The politics of the EU following the Cold War may be summarized as Turkey is involved in political and economical control of the EU but not accessed in EU. A fact as offering a privileged partnership to Turkey even during the Accession Negotiations for the EU and the negotiations to progress hardly reveals that this politics still continues<sup>13</sup>.

In this context, while creating the enlargement strategies of the EU after 1992, Turkey is always in the last rank. Turkey waiting since 1987 was not on the agenda of the EU, on the other hand at meetings organized between April 28 and March 2, 1994 in Brussels it was decided that Austria, Sweden and Finland will be member of the EU since January 1, 1995. By the way, Jacques Delors, the President of the EU Commission, stated the enlargement strategy of the EU at the beginning of June 1994 as: "... The borders of the Great Europe are next to former USSR borders. In other words Poland, Hungary, Czech Republic, Slovakia, Romania, Bulgaria, Albania, Cyprus and Malta could access in Europe. And the three Baltic States shouldn't be forgotten. Moreover when it is pacified former Yugoslavia, Bosnia, Croatia and Macedonia could also access."<sup>14</sup>.

Turkey is not in the enlargement strategies of the EU and besides it is announced that Western Balkan States which didn't applied at that time, could be the member of the EU.

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<sup>13</sup> Ali Arslan, Efendi ve Uşak/AB-Türkiye İlişkileri, İstanbul 2008, pp. 315-325.

<sup>14</sup> **Milliyet**, 6.06.1994.

## **WHAT ARE THE EXCUSES<sup>15</sup> THAT AVOIDING TURKEY TO ACCESS IN THE EU AND ARE THEY VALID FOR WESTERN BALKAN STATES?**

### **First Excuse: Turkey is not from Europe.**

Actually it is not logical to accept Cyprus at south of Turkey and Georgia at east of Turkey as European states, and at the same time not to accept Turkey as a European state. This excuse is not valid for Western Balkan States just because it is arisen from historical, religious and psychological reasons. Because Bulgaria and Greece at eastern direction are the member of the EU.

### **Second Excuse: Different religion and culture.**

It is not stated by Europe till 1980s that Turkey in Western Block is a Muslim country. Nonetheless when Turkey applied for accession in the EU, the Islam became an excuse for Turkey. The Islam issue is invalid for Croatia, Montenegro, Serbia and Macedonia but may be valid for Bosnia-Herzegovina, Albania and Kosovo.

### **Third Excuse: Turkey is next to the problematic regions as Middle East and the Caucasus.**

This excuse for Turkey is absurd just because the threat perceptions are not identified with the borders. However this excuse for Turkey is not valid for Western Balkan States.

### **Fourth Excuse: Turkey has a large population**

This excuse is illogical as the EU accepted beyond Turkey's population during the enlargement process. However such an argument is absolutely not valid for Western Balkan States.

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<sup>15</sup> Look at EU's excuses for avoiding Turkey to Access in EU: Ali Arslan, Efendi ve Uşak/AB-Türkiye İlişkileri, İstanbul 2008, pp. 238-250.

**Fifth Excuse: Level of income is lower**

The EU is the one making this excuse – put forward for Turkey in 1980s – invalid. For the reason is the EU accepted former East Block states whose levels of income are lower than Turkey. However this excuse could be considered for the most of Western Balkan States.

**Sixth Excuse: Human rights violation and corruptions**

This excuse may be common in each country and stated frequently at the time Turkey applied for accession is also valid for Western Balkan States. It is very easy to talk about the human rights violation in Western Balkan States having many ethnic groups and populations believing in different religions. And to talk about the corruptions lasting with the effect of former closed regime term also is valid for Western Balkan States.

**Seventh Excuse: Civil Wars or Disagreement with the neighbors**

The terrorist organization PKK and unreal Armenian claims in Turkey are put forward for Turkey as an excuse. In this context Western Balkan States could be opposed to this excuse much more than Turkey. Most important ones of these issues are: the problem of Bosnia-Herzegovina with Serbia and the Republic of Serbia; the problem of Serbia with Kosovo and so with Kosovo in the future. The attitude of Greece not accepting the name of Macedonia and the politics of Bulgaria supporting Macedonia will be an excuse for Macedonia, too.

**CONCLUSION**

Turkey was not accepted by the EU in spite of the first application for the EEC in 1959, the partnership signed in 1963 and application for accession in 1987. On the other hand, Slovenia – one of the Western Balkan States within the East Block – became the member of the EU. Although Croatia announced as a candidate member together with Turkey in 2004 completed half of the negotiations, Turkey completed just the two titles of negotiations.

Although the membership negotiations started for Turkey, it is still discussed the European side of Turkey and it is offered a privileged partnership by the most effective states of the EU. For that reason, it is obvious that the membership for the EU of Western Balkan States not applied for accession will be easier than Turkey.

The membership for the EU of Croatia and Montenegro supported by many states especially by Germany will be easier. It is seen that the membership of Macedonia and Albania may be contravened because of the attitude of Greece. It is understood that the support of Italy for Albania is not as effective as the support of Germany and Austria for Croatia.

The relationships between Bosnia-Herzegovina, Kosovo, Serbia and the EU will not be easy because of the excuses as cultural differences, civil war and conflicts with neighbors as the ones put forward for Turkey. And the memberships of Albania and Macedonia to be affected from these issues will be delayed. And the attitude of Greece will also make it more difficult.

Because of the problems mentioned here above, it could be offered a second class status instead of the membership for the EU of Albania, Bosnia-Herzegovina and Kosovo, and even for Serbia.

In spite of all these issues, development of the relations between Western Balkan States and the EU will be quicker than Turkey. And the reason is the EU follows a kind of politics excluding Turkey but including Western Balkan States.



## **The European integration of the Albanian legal system**

Attorney Mr. Jordan DACI, MA (Ph.D. Candidate)  
Daci Law Firm/Lecturer of Human Rights Law and International Public Law  
e-mail:jordan.daci@gmail.com

### **ABSTRACT**

The EU membership criteria as defined by the European Council in 1993 include several legislative criteria which require *inter alia*: 1. Translation of more than 120.000 pages of EU legislation; 2. Approximation of domestic legislation with EU legislation; 3. Continuing harmonization of national institutional framework with EU legislation and institutional framework. On the other hand the Albanian Legal System cannot be integrated into Euro-Atlantic legal system without a significant change of the Albanian jurisprudence in regards to the relationship between international law and domestic law as a must to achieve a full harmonization between EU law and Albanian Law.

**KEY WORDS:** sovereignty, domestic law, international law, approximation

of legislation, *Acquis Communautaire*.

## INTRODUCTION

In June 2003, the Thessaloniki Summit again reconfirmed the EU membership perspective for Western Balkan Countries - including Kosovo. All these countries before join EU must fulfill all the EU membership criteria as defined in the Declaration of the European Council in 1993 which include: 1. Political criteria, Economic criteria, and 3. Legislative criteria. The last criteria require *inter alia* undertaking the following steps: 1. Translation of approximately about 125.000 pages of EU legislation; 2. Approximation and of the domestic legislation with the EU legislation; 3. Continuing harmonization of the national institutional framework with the EU legislation and institutional framework. For Western Balkan Countries including Albania, the harmonization process or in other words the process of Europeanization of domestic legislation with the EU legislation represents one of the major challenges for the EU membership. The EU legislation is usually identified with the expression *Acquis Communautaire* that was used for the first time in an Opinion of the EU Commission of October 01, 1969, concerning the application for membership of United Kingdom, Denmark, Ireland and Norway, than the Article 2 of EU Treaty known also as the Maastricht Treaty defines the meaning of *Acquis Communautaire*:

“To maintain in full the *Acquis Communautaire* and build on it with a view to considering to what extent the policies and forms of cooperation introduced by this Treaty may need to be revised with the aim of ensuring the effectiveness of the mechanisms and the institutions of the Community.”

In simple words, *Acquis Communautaire* or EU Law means the ensemble of rules that form the legal functioning framework of European Community. Today's EU legal system differently from the Universal International Law System or other regional international law systems, has become the most

effective international law system in existence, standing in clear contrast to the typical weakness of international law and international courts.

The harmonization of legislation with Acquis Communautaire *inter alia* means the adoption of legal norms of Acquis Communautaire into the domestic legislation. The adoption is not a mechanical process, in other words is not a literal approximation of legal text, but an approximation of standards. Some domestic acts might require a complete approximation; some others might require partial approximation; while some other acts may not require any approximation. The process of approximation might be understood also as the process of the Europeanization of the domestic law and institutions because of its strong impact on their future configuration and responsibilities.

In parallel with the harmonization, all candidate members should translate the entire Acquis Communautaire into their national languages, composed by approximately 115.000 – 125.000 pages. The translation is a pre-condition for EU membership and the cost of translation must be borne by the countries themselves. In the year 2005 Croatia spent over one million Euro translating part of Acquis, while FYROM spent about 360.000 Euro. The translation methodology involves the establishment of a Translation and Coordination Unit – (TCU) and includes also outsourcing translation. After translation the text is revised by linguistic experts and lawyers with knowledge of foreign languages, than the text is submitted to a database provided by TAIEX and communicated to EU Commission.

In case of Albania, the European Integration process of the Albanian Legal System, beside technical approximation of domestic legislation, requires a significant change of the Albanian Jurisprudence in regards to the relationship between international law and domestic law as a must to achieve a full harmonization between EU law and Albanian Law. The regulation framework and the approach chosen by a state regarding this relationship, in a way or another defines the status of that state in the International Community, which is functional and exists thanks to the rules of international law. While the current phase of European Integration of

Albania offers the most appropriate opportunity to explore the sensitive field of the relationship between the EU and domestic legal systems. In case of Albania, after a detailed analysis of Constitutional provisions especially of articles 4, 5, 116, 121, 122 and 123, referring *inter alia* to few case laws that exist, it results that these provisions are unclear regarding: 1. The issues of hierarchical relationship between international agreements which are not subject of ratification in relationship with other normative acts into force in the Republic of Albania. 2. Direct and indirect effects of treaties accepted by the Republic of Albania into the domestic system produced via the decisions of their supervisory bodies. 3. The relationship between these two systems of law referring to the Vienna Convention on the Law of Treaties and the Law on the Adoption of International Treaties and Agreements of 1999. 4. The relationship between International law and the Constitution itself.

Under the framework of the Euro-Atlantic Integration of Albania, it is understandable that the reform of the Albanian legal system should provide appropriate solutions for the issues identified above in order to achieve a full harmonization of the domestic legislation with Acquis. Indeed, this is a nonnegotiable condition for Albania which in order to be part of EU and international community should act in compliance with the principles of the International Law and EU law upon which is founded the international community and EU itself.

From this point of view should be emphasized that is not enough just to reform the legal system in Albania, but this reform should be followed by a substantial reform of the law enforcement structure, especially of the judiciary. The latter should properly reflect to adapt itself with EU standards and abandon the current conservative and often very old practice. Unfortunately, the approach of the actual judiciary system is unprofessional and often wrong in regards to the application of the rules of the international law. The first reason is the lack of knowledge on international law. The second reason is the lack of knowledge of foreign languages by judges, what does not permit them to be autodidact, especially taking into account the fact that most of the literature on International Law is available only in foreign

languages such as English and other languages. The third reason is the absence of necessary instruments that will ensure a long life learning process for law enforcement persons.

Moreover, the experiences of other candidate countries have shown that the Europeanization process of the domestic law and institutions is very difficult and requires a highly qualified public administration and a good national strategy including an adequate financial support. In case of Albania, the process of harmonization represents a real challenge for Albanian administration, because of the lack of experience, lack of qualified human resources etc.

### **THE CONSTITUTIONAL FRAMEWORK**

The Constitution of the Republic of Albania in compliance with articles 5, 116, 122 accepts the norms of International Law binding for Albania and indirectly accepts the superiority of International Law over domestic law. *De facto*, the Constitution of the Republic of Albania has accepted the Monist theory of International Law. Although, the Albanian doctrine and institutional practice hasn't taken a clear position over this issues which is fully resolved by the Article 27 of the Vienna Convention on the Law of Treaties. Indeed, the jurisprudence of the Constitutional Court of Albania in regards to the relationship between international law and domestic law including the Constitution itself is very poor. Nevertheless, in these few cases, the Constitutional Court of Albania tends to stand between the Dualist theory and Monist theory of international law.

### **THE RELATIONSHIP BETWEEN NORMS OF INTERNATIONAL TREATIES AND NORMS OF DOMESTIC LAW**

The relationship between international law and domestic law does not mean only the hierarchical relationship of legal norms that are into force in entire territory of the Republic of Albania, but means also the harmonization

of the standards that they define. In addition, this relationship does not mean only approximation and harmonization of legal norms, but also approximation and harmonization of their meaning and the way how they are enforced by domestic and international institutions.

In this perspective, the Albanian domestic law like the legislation of other countries of international community lacks harmonization and very often need a significant approximation with EU Law. In many cases, many shortcomings are a result of different application standards. For example, very often for Albanian institutions, unfortunately even for courts human rights are considered as something luxury. This wrong consideration is one of the main reasons why human rights are not fully respected and protected in Albania. Indeed, a deep and comparative analysis between norms of domestic law and norms of international law would underlined many shortcomings, a major part of which has been also the focus of practice. Articles 121-123 of the Constitution and the Article 17 of the Law No.8371, date 09.07.1998 on "The adoption of treaties and international agreements" define that:

1. The ratification and denunciation of international agreements by the Republic of Albania is done by law if they have to do with:
  - a. territory, peace, alliances, political and military issues;
  - b. freedoms, human rights and obligations of citizens as are provided in the Constitution;
  - c. membership of the Republic of Albania in international organizations;
  - d. the undertaking of financial obligations by the Republic of Albania;
  - e. the approval, amendment, supplementing or repeal of laws
2. The Assembly may, with a majority of all its members, ratify other international agreements that are not contemplated in paragraph 1 of this article.

The Prime Minister notifies the Assembly whenever the Council of Ministers signs an international agreement that is not ratified by law. The principles and procedures for ratification and denunciation of international agreements are provided by law.

Any international agreement that has been ratified constitutes part of the internal juridical system after it is published in the Official Gazette of the Republic of Albania. It is implemented directly, except for cases when it is not self-executing and its implementation requires issuance of a law. The

amendment, supplementing and repeal of laws approved by the majority of all members of the Assembly, for the effect of ratifying an international agreement, is done with the same majority. An international agreement that has been ratified by law has superiority over laws of the country that are not compatible with it. The norms issued by an international organization have superiority, in case of conflict, over the laws of the country if the agreement ratified by the Republic of Albania for its participation in the organization, expressly contemplates their direct applicability.

The law that ratifies an international agreement as provided in paragraph 1 of this article is approved by a majority of all members of the Assembly. The Assembly may decide that the ratification of such an agreement be done through referendum.

An agreement becomes legally binding through: ratification, accession, approval by law from the People's Assembly, by decree of the President of the Republic or by decision of the Council of Ministers in accordance with the Constitutional Law. The President of the Republic ratifies, decides on accession and denounces the treaties that are not subject of examination by the People's Assembly as defined by the constitutional law.

The Council of Ministers approves, and denounces agreements which are not subject of ratification, but contain the approval clause. The Council of Ministers gives the approval for the denunciation by the Ministries or other institutions for international agreements signed on its behalf. While the President of the Republic, signs the instruments of ratification, accession or denunciation and the Minister of Foreign Affairs countersigns them.

While based on the Article 11 of the Vienna Convention on the Law of Treaties that is ratified by the Republic of Albania with the law No. 8696, date 23.11.2000, for the Accession of the Republic of Albania to the Vienna Convention on the Law of Treaties, the consent of a State to be bound by a treaty may be expressed by signature, exchange of instruments constituting a treaty, ratification, acceptance, approval or accession, or by any other means

if so agreed. In accordance with this clauses, should be emphasized a very important fact that international agreements are equally binding regardless of mean chosen by the state to express the consent to be bound by a treaty. This expression leaves no space for misunderstanding caused by the terminology used by the Constitution of the Republic of Albania which uses the expression “ratified by law”.

The superiority of international law especially of EU law over the domestic legislation is confirmed also by the European Court of Justice in the Case *International Handelsgesellschaft* 1970 and in many other cases. For Hans Kelsen, “*the content of a domestic legal system of a state is defined by the International Law in the same way how the content of future laws is defined by a constitution which does not contain any provision for their constitutional review... based on this supremacy of the International Law over domestic law, nothing may deny the presumption of the unity between International Law and Domestic Law. Therefore, the International Law stands over a higher position than the Domestic Law, otherwise treaties reached between states wouldn’t be legally binding.* This is especially true for today’s International Law is not just a *jus inter potestas* or a law that regulates only relationships between sovereign states, but applies also on individuals. To conclude the Article 27 of the Vienna Convention on the Law of Treaties leave no space for further discussion about this issue by provided that: “*A party may not invoke the provisions of its internal law as justification for its failure to perform a treaty. This rule is without prejudice to article 46*”. Any kind of interpretation of the domestic law, including the Constitution which would avoid the application of international law at the domestic level as long as the state has accepted international law as integral part of domestic law would be unacceptable and would constitute a violation of the article 31 of the Vienna Convention on the Law of Treaties. The same statement was made by the International Tribunal of ICC in case “*Pyramids*”.

Consequently, Albania in order to be a full member of EU, regardless of its constitutional provisions and doctrine shall accept to apply all the norms of international law and especially of EU law. Like William Blackstone used to



say: "A state that would not accept to be bound by the norms of international law would cease being part of the civilized world".

### THE RELATIONSHIP BETWEEN NORMS OF GENERAL INTERNATIONAL LAW AND THE NORMS OF DOMESTIC LAW

Another unresolved problem is related with the status of the norms of the General International Law, because the Article 117 and 122 of the Constitution of the Republic of Albania speaks only for that part of international law materialized in the form of treaties. If we refer to the text of Constitutional clauses, we will not be able to find any reference in regard to the status of the norms of General International Law in the Republic of Albania, like the major parts of the constitutions of other countries such as Germany, Italy, Greece etc, do.

However, in my opinion the way how the Article 5 of the Albanian Constitution is formulated "*The Republic of Albania applies the International Law that is binding upon it.*", creates the conditions to guarantee the application of the General International Law taking into account the fact that almost the entire norms falling under this category of International Law are automatically binding to all states including Albania, regardless the fact whether states have expressed the consent to be bound by the obligations that they impose. This interpretation is fully compatible also with the general spirit of the Constitution of the Republic of Albania that transmits strong determination and desire of the Albanian People to approximate its constitutional standards with international standards and to be part of international community. Although from a practical and also theoretical context, this issue remains disputable and hopefully the practice of the Constitutional Court of Albania will clarify it.

### CONCLUSIONS

The experiences of other candidate countries have shown that the Europeanization process of the domestic law and institutions is very difficult

and requires a highly qualified public administration and a good national strategy including an adequate financial support. In case of Albania, the process of harmonization represents a real challenge for Albanian administration, because of the lack of experience, lack of qualified human resources etc. For that reason, in order to successfully prepare itself for the initiation and completion of the harmonization process, Albania needs immediately to revise the existing civil service legal framework in order to create a sustainable base for capacity building and make the public administration attractive and at the same time accessible to highly qualified young graduates that have studied abroad in western universities. On the other hand the process of integration of the Albanian Legal system requires a significant change of the Albanian Jurisprudence and courts' practice in regards to the relationship between international law and domestic law.

As part of the Europeanization process the Albanian courts and other national institutions as should accept the supremacy of international treaties for which Albania has expressed its consent to be bound by, regardless of definitions done by constitutional provisions and constitutional laws. Furthermore, the Republic of Albania should accept the direct and indirect effects of treaties accepted by the Republic of Albania into the domestic system produced via the decisions of their supervisory bodies; like in case of Germany, Italy and other EU countries, Albanian courts and institutions need to be Europeanized as part of the European integration process.

The Albanian public should understand that the European Integration provides a framework for development and the Europeanization of the Albanian institutions as well as the Albanian Legal system. Nevertheless, the European Integration of the Albanian Legal System cannot be achieved without the acceptance of the EU law supremacy and a considerable change about the perception of the international law by Albanian law enforcement institutions and its application at the domestic level.

<sup>1</sup> **Karen J. Alter.** *Establishing the Supremacy of European Law: The Making of an International Rule of Law in Europe.* Oxford University Press. New York 2001. Page 1.

<sup>1</sup> **Francesca Astengo.** The Europeanization of the Italian Constitutional Court. *European Integration.* Vol.26, No 2, 125-144, Carfax Publishing. June 2004. Page 1.

<sup>2</sup> **Jordan Daci.** The harmonization of legislation with Acquis Communautaire and Kosovo. *Development and Transition.* No.2. UNDP-Kosovo. March 2007. Page 10.

<sup>3</sup> Ibid.

<sup>4</sup> **Judgment No. 186, date 23.09.2002 of the Constitutional Court of Albania** on the compliance of the Rome Statute of the International Criminal Court with the Constitution of the Republic of Albania.

<sup>5</sup> **Judgment of November 8, 2004** (Application no. 54268/00) of the European Court of Human Rights, Point 38, Case “*Qufaj Co Sh.P.K. v. Albania*”.

<sup>6</sup> *Revista di Diritto Internazionale* 673 at 679 (1983) as cited in G.Gaja. Italy in the effect of treaties in Domestic Law 92 (Francis G. Jacobs & Shelley Roberts eds., 1987). Cited by **Thomas M.Franck and Aurun K. Thiruvengadam.** “International Law and Constitution-Making”. *Chinese Journal of International Law.* 2003. Page 477.

<sup>7</sup> **Hanno Kaiser.** “Notes on Hans Kelsen’s Pure Theory of Law (1<sup>st</sup> Ed.). 2004”. Professor’s Hanno Kaiser webpage. Available at: [www.hfkdocs.com/files/Kelsen\\_Pure\\_Theory.pdf](http://www.hfkdocs.com/files/Kelsen_Pure_Theory.pdf).

<sup>8</sup> Ibid. Page 166. <sup>9</sup> **A.F.M. Maniruzzaman.** “State Contracts in Contemporary International Law: Monist versus Dualist Controversies. *European Journal of International Law.* Vol.12.No.2. 309-328. Page 315.

<sup>10</sup> **Bruno Simma.** “The Contribution of Alfred Vedross to the Theory of International Law”. *European Journal of International Law.* (1995) 1-54. Page 6.

## **Physical Geography's Role and Impact Stage on Determining of Political Units Boundary**

Associate Prof. Dr. Deniz Ekinçi  
Istanbul University, Faculty of Letters,  
Department of Geography,  
Email: [ekincideniz@hotmail.com](mailto:ekincideniz@hotmail.com)

### **Abstract:**

Both countries and international organizations for example EU and NATO have a boundary. How and which criteria determines these boundaries. This study includes physical geography features which forms some of these criteria. These criteria are geomorphologic and hydrological features such as mount, river, sea, lake, etc. These criteria's definitions and features will be explained according to physical geography science. These factors will be supported with samples about determining of boundaries. Besides do these criteria always effect on determining of boundaries? With another word are there different using criteria other these. What are these? They will briefly explain. As a consequence the aim of our study is presenting Physical Geography's importance about determining of border line.

**Key words:** Boundary, Mount, River, lake, Sea.

### **What is Physical geography?**

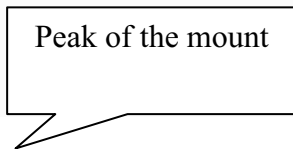
Physical geography is the study of our home planet, Earth (Strahler and Strahler, 2006). This science covers the topics relating to the surface of the earth, the landforms, rivers, climate, oceans, hazards, and more. Physical Geography is also a sub-discipline of two much larger fields of study - Geography and Earth Sciences. The main purpose of Physical Geography is to explain the spatial characteristics of the various natural phenomena associated with the Earth's hydrosphere, biosphere, atmosphere, and lithosphere.

Generally using geomorphology and hydrogeography, branches of physical geography determine political units' boundaries. We will explain these two features following paragraph.

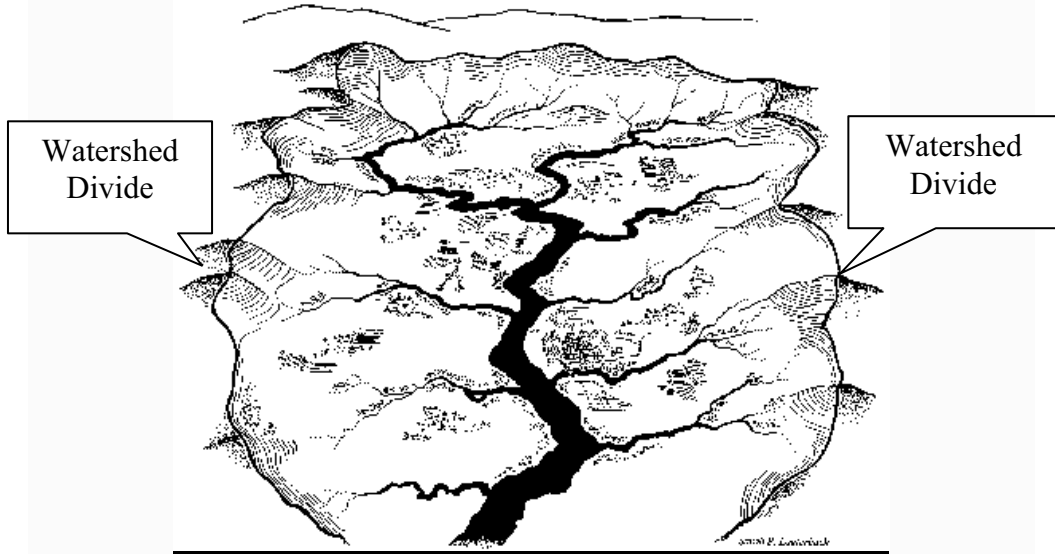
### **Geomorphology's Function and Effects on Boundaries**

Geomorphology is the science of Earth surface processes and landforms (Strahler and Strahler, 2006). It is the science concerned with understanding the surface of the Earth and the processes by which it is shaped, both at the present as well as in the past (Erinç, 2001). Geomorphology seeks to understand landform history and dynamics, and predict future changes through a combination of field observation, physical experiment, and numerical modeling (Hoşgören, 2007).

Mounts and high plateaus which are mainly landforms are primarily criteria on determining of boundaries. These are mostly accepted as natural borders for ancient times. These landforms are conservative areas against to enemies. Particularly peaks of the mount, ridges and watershed divides (Figure 1) compose border with countries.

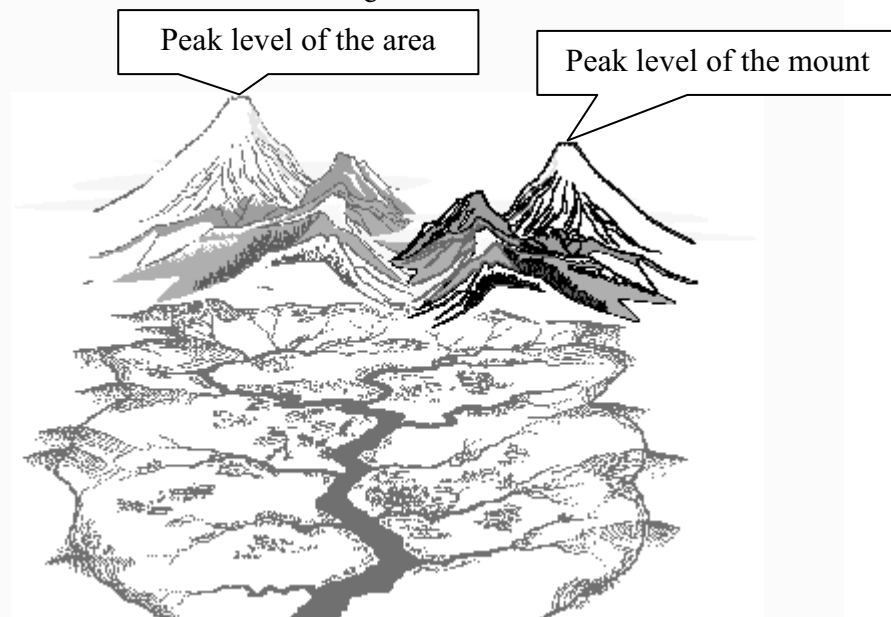


Peak of the mount



**Figure 1: Some Landforms**

Peak level is the top, or one of the tops, of a hill, mountain, or range, ending in a point; often, the whole hill or mountain. Peak is the narrow part of a vessel's bow, or the hold within it (Figure 2).



**Figure 2: Mount and it is the highest point ([www.parks.ashland.or.us](http://www.parks.ashland.or.us))**

In this regard there are a lot of important sample in the Earth. In our study, some samples take places belong to Balkans ([www.peakware.com](http://www.peakware.com)).

The Nemertsika Mountain (2.198 meters) is a border frontier and separates Greece from Albania. The Nemertsika peak is taken from the Greek side of the border (Photo 1).



**Photo 1:** The Greek peak of Nemertsika mountain (Photo by [Anastasios Tzomakas](#)).

Babin zub (The Grandmather's tooth) is the most beautiful peak of Stara planina (Balkan Mountains) (Photo 2). The Stara planina is a border frontier and separates Serbia and Montenegro.



**Photo 2:** The rocks of Babin zub (Grandmather tooth) (Photo by Miroslav Dokman).

Bobotov kuk, this strange name represents the highest mountain peak in the Republic Montenegro (2523 meters) from Dinaric Alps. The peak is a border frontier and separates Serbia and Montenegro (Photo 3).





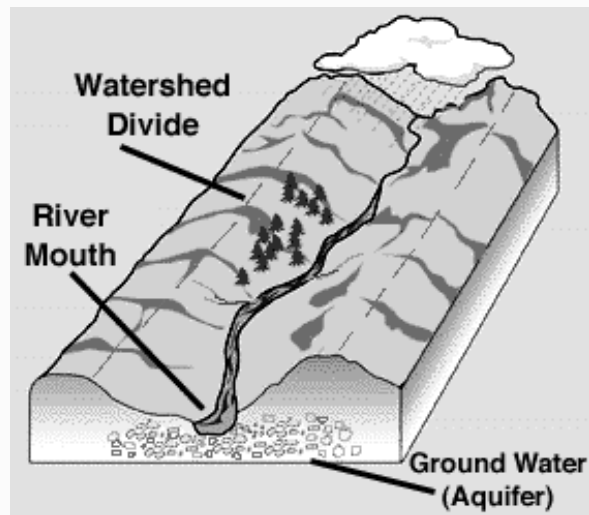
**Photo 3:** The rocks of Bobotov kuk (Dinaric Alps).

The summit of Rtanj, named Siljak (1565m). Šiljak (1565m) is the highest point of cone shaped 7 km long mountain Rtanj, in the east-central region of Serbia. Rtanj is one of the last mountains at the southern end of Carpathian range. The peak is a border frontier and separates Serbia and Montenegro (Photo 4).



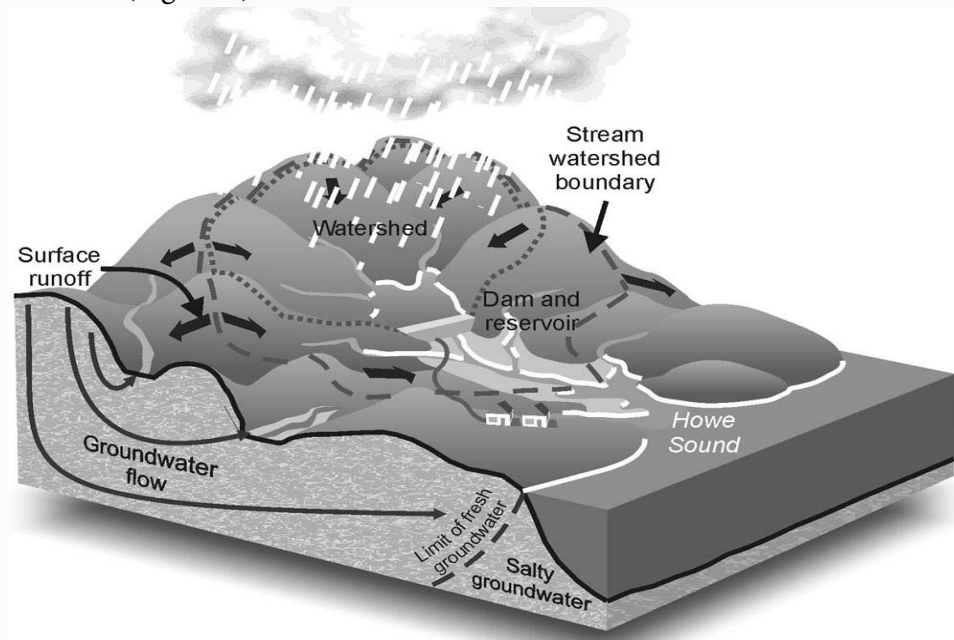
**Photo 4:** The rocks of Šiljak (Balkan Mountains) (Photo by Miroslav Dokman).

A watershed is a geographic area of land in which all surface and ground water flows downhill to a common point, such as a river, stream, pond, lake or wetland. Watershed or water divide, it is important geographical, and often also political boundary, is the line separating neighboring basins (Figure 3).



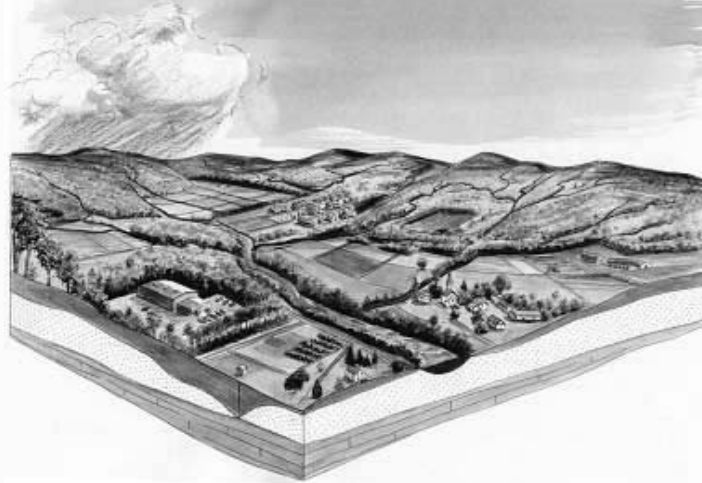
**Figure 3:** A Watershed area

A watershed can be thought of as the land area from which water, sediment and dissolved materials drain to a common watercourse, normally a pond, lake, or stream. Just as a city, county or state has boundaries, so does a watershed (Figure 4).



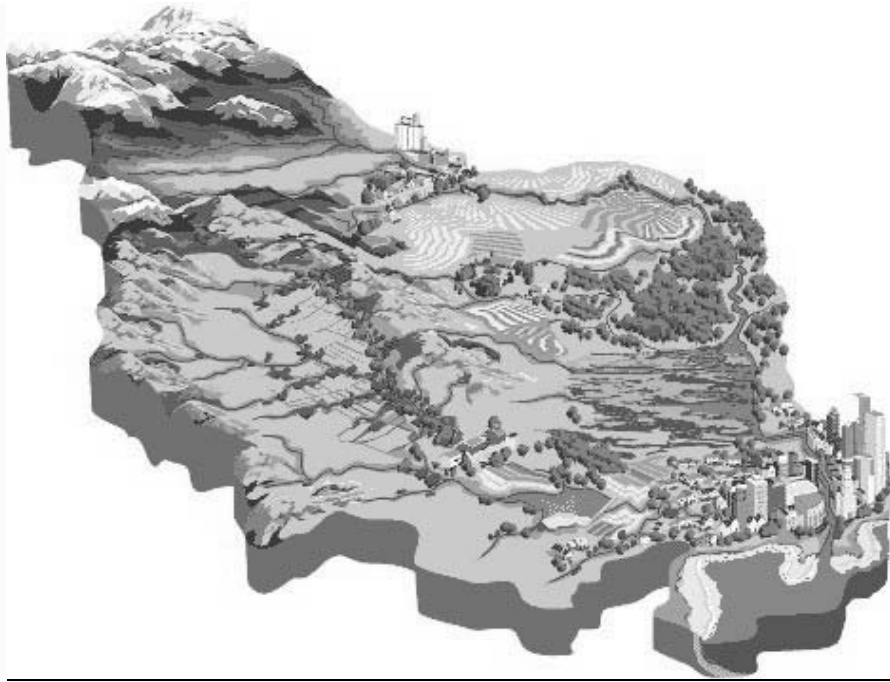
**Figure 4:** A Watershed ([www.geopanorama](http://www.geopanorama)).

Precipitation falling inside this line is delivered to small streams or tributaries which join to form rivers. In mouthy or hilly country, the divide lies along topographical peaks and ridges, but in base or flat country the divide may be invisible – just a more or less notional line on the ground on either side of which falling raindrops will start a journey to different rivers, and even to different sides of a region or continent (Figure 5).



**Figure 5:** A Catchment Area, ([www.millriverwatershed.org](http://www.millriverwatershed.org)).

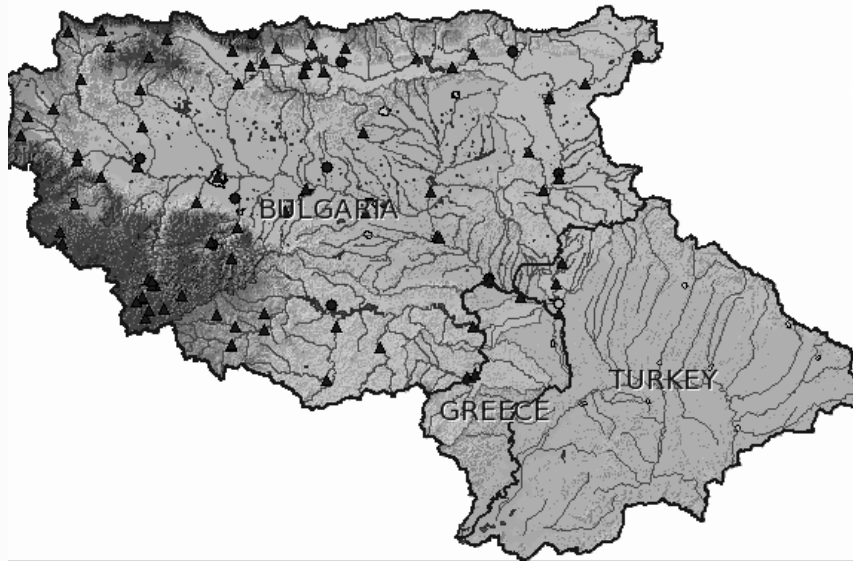
A drainage basin is an extent of land where water from rain or snow melt drains downhill into a body of water, such as a river, lake, reservoir, estuary, wetland, sea or ocean. The drainage basin includes both the streams and rivers that convey the water as well as the land surfaces from which water drains into those channels, and is separated from adjacent basins by a drainage divide (Hoşgören, 2007). The point where two watersheds connect is called a divide because it divides the path of rainwater into two different watercourses (Goudie, A.S., 2004). Each drainage basin is separated topographically from adjacent basins by a geographical barrier such as a ridge, hill or mountain, which is known as a water divide (Figure 6).



**Figure 6:** A Drainage Basin ([www4.agr.gc.ca](http://www4.agr.gc.ca)).

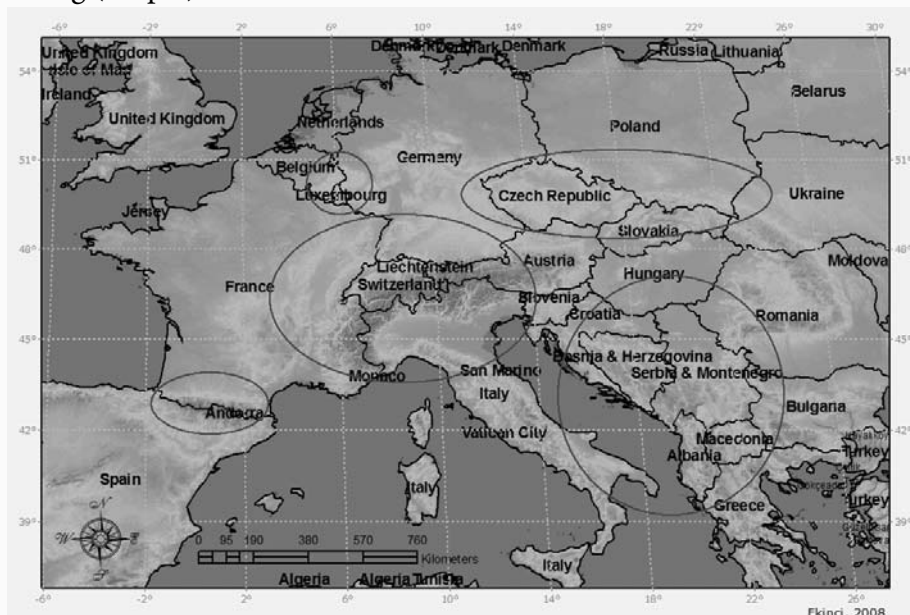
Other terms that are used to describe a drainage basin are catchment, catchment area, catchment basin, drainage area, river basin, water basin and watershed (Lambert, 1998). (Animation 1), ([www.techalive.mtu.edu](http://www.techalive.mtu.edu)).

The main function of a watershed is to capture, store and release water back into streams, rivers or lakes where it can be utilized by plants, animals and people during dryer periods. Furthermore we all live in a watershed. Balkans is comprised of some major (Adriatic, Aegean, Mediterranean, Black sea and Sea of Marmara) and a lot of minor watersheds or drainage basins (Monget, 2004). Each of these major watersheds is made up of numerous smaller scale sub-basins and sub-watersheds (Map 1).



**Map 1:** Meriç River Basin (Sezin etg, 2007).

As it known a lot of countries frontiers had been drawn according to watersheds. For example; Spain-France (Pirenes); Italy- Austria – Switzerland (Alps); Czech – Poland- Slovakia (Karpats); Switserland-France (Juras) borders etg (Map 2).



**Map 2:** Boundary samples

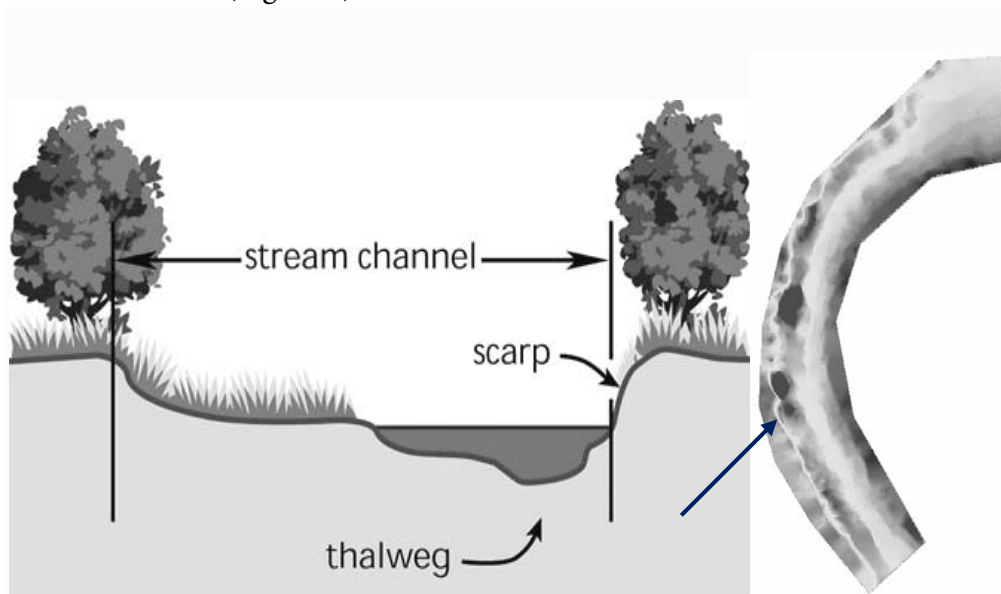
### Hydrograph's Function and Effects on Boundaries

Hydrography is the science that deals with the measurement and description of the physical features of bodies of water and their littoral land areas. Hydrogeography is predominantly concerned with the amounts and quality of water moving and accumulating on the land surface and in the soils and rocks near the surface and is typified by the hydrological cycle. Thus the field encompasses water in rivers, lakes, seas, groundwater, and aquifers and to an extent glaciers in which the field examines the process and dynamics involved in these bodies of water (Hoşgören, 2004; Goudie, 2004).

Rivers, lakes and seas from hydrography features are used to determine of borders.

A river is a natural stream of water, usually freshwater, flowing toward an ocean, a lake, or another stream. In some cases a river flows into the ground or dries up completely before reaching another body of water (Atalay, 1986).

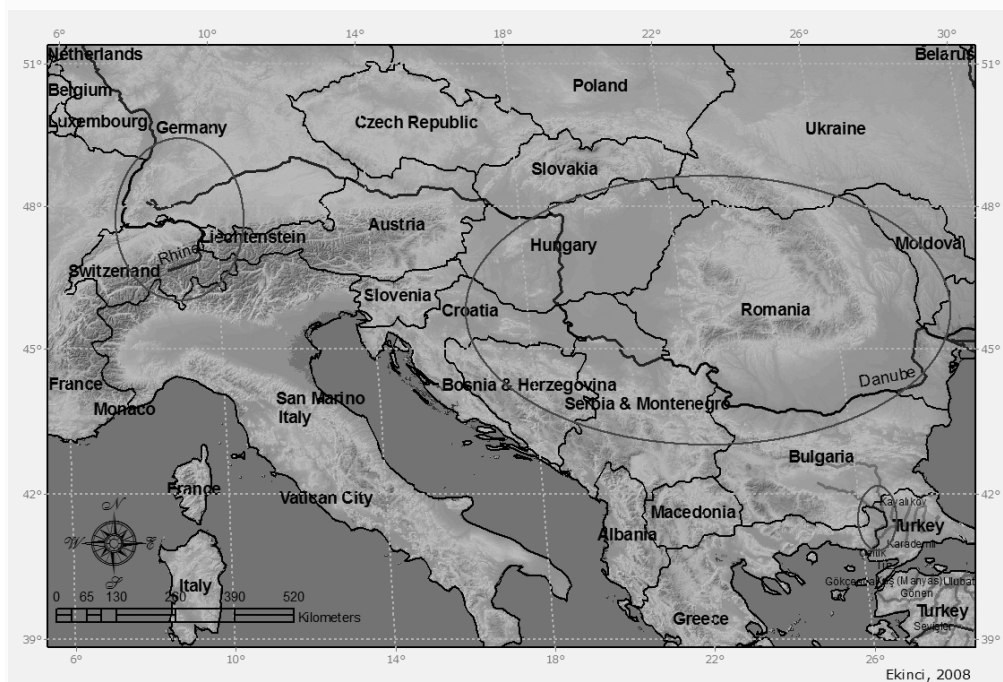
The border on river is determined by thalweg. Thalweg is the longitudinal outline of a riverbed from source to mouth. The thalweg (thalveq) (sometimes called the "valley line") is a line drawn to join the lowest points along the entire length of a streambed or valley in its downward slope, defining its deepest channel. It thus marks the natural direction (the profile) of a watercourse (Figure 7).



**Figure 7:** A river valley and its thalweg ([www.fgmorph.com](http://www.fgmorph.com)).

The thalweg principle is the principle which defines the border between two states separated by a watercourse as lying along the thalweg. The precise drawing of river borders has been important on countless occasions; notable examples include the Shatt al-Arab (known as Arvand Rud in Iran) between Iraq and Iran, the Danube in central Europe, the Kasikili/Sedudu Island dispute between Namibia and Botswana, settled by the International Court of Justice in 1999, and the 2004 dispute settlement under the UN Law of the Sea concerning the offshore boundary between Guyana and Surinam, South America, in which the thalweg of the Corentyne River played a role in the ruling (<http://en.wikipedia.org>.)

There are borders samples according to thalweg. These samples were given below. Romania - Bulgaria (Donua); Turkey - Greece (Meriç); Bulgaria-Turkey (Rezve); Hungary- Balkans (a barch of Douna called Drava) (Map 3).

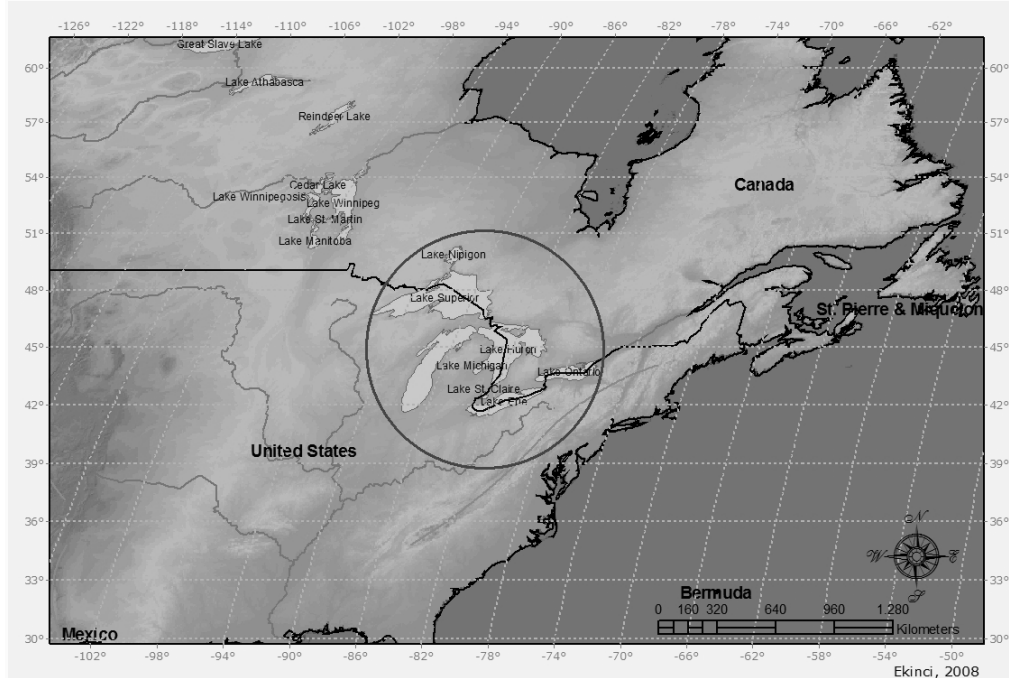


**Map 3:** Boundary samples



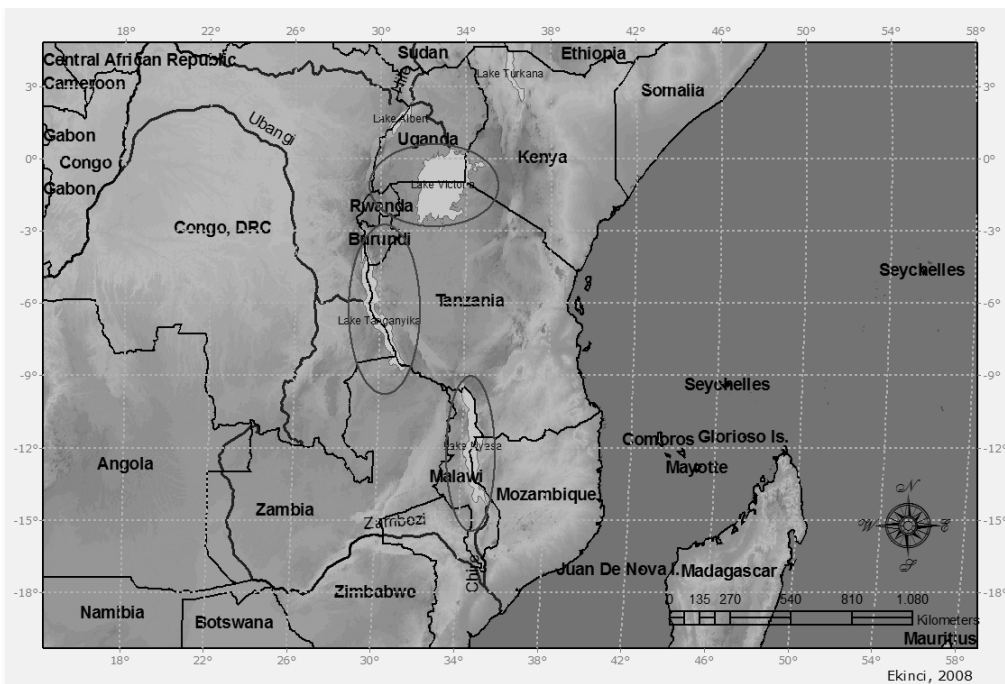
A lake is a terrain feature (or physical feature), a body of liquid on the surface of a world that is localized to the bottom of basin (Hoşgören, 2004).

Lakes Region in North America is a border line between USA and Canada (Map 4) .



**Map 4: Boundary samples**

Cad Lake in Africa is border among Cad, Nigeria and Cameroun. Tanganyika Lake creates border between Tanzania and Zaire (Map 5) (Göçmen, 1994).

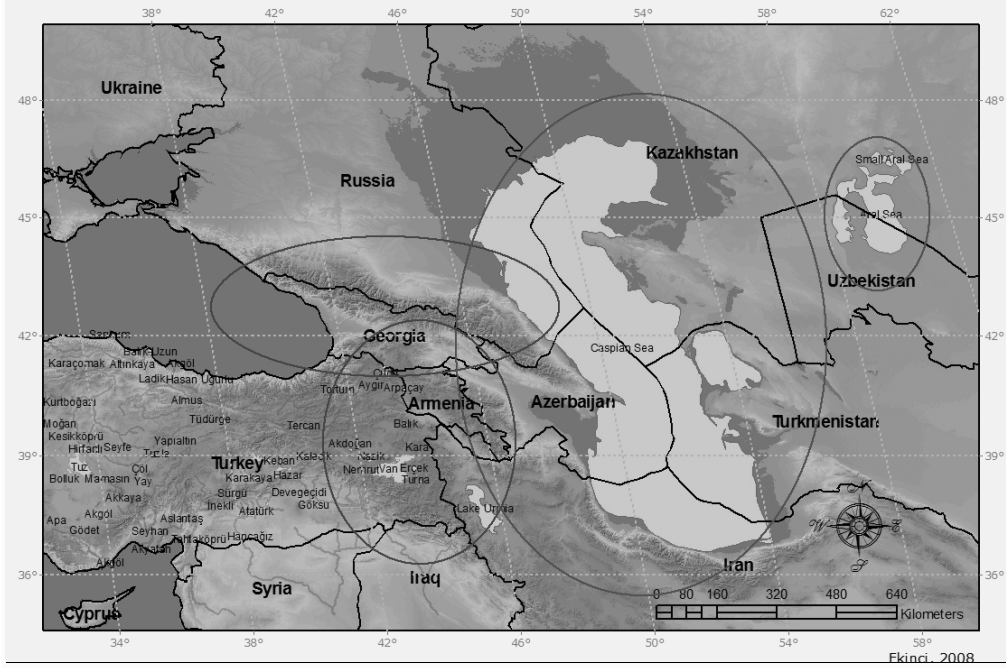


**Map 5:** Boundary samples

A Sea; the term sea refers to certain large bodies of water, but there is inconsistency as to its precise definition and application (Hoşgören, 2004).

Most commonly, a sea may refer to a large expanse of saline water connected with an ocean, but it is also used sometimes of a large saline lake that lacks a natural outlet, e.g. the Aral Sea.

Actually Caspian Sea is a lake, but it accepts as a sea creates a border among Azerbaijan, Turkmenistan, Kazakhstan, and Russia Federation (Map 6).



**Map 6: Boundary samples**

Because seas divide mainland and countries from each other it is accepted as a natural border. For example Black Sea separates Turkey, Ukraine, Romania and Aegean Sea separates Greece and Turkey. It can be seen Map 7.



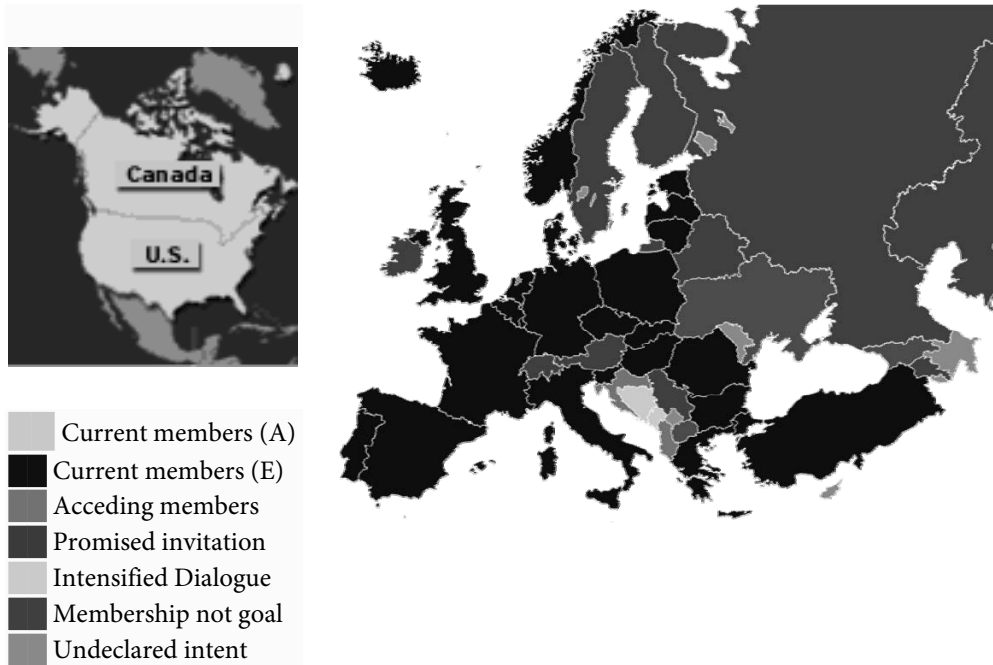
**Map 7: Balkans and Its Surrounding** (<http://en.wikipedia.org>.)

### Conclusion:

Now we have main argument for conclusion. Political unites includes both countries and international organizations. Countries' border generally is drawn by physical geography features, but international organizations' is not drawn by these factors. Are they the basic criteria to determine of international organizations' borders? For example we can analyze NATO.

We know that NATO comprises twenty-six members (Map 8) Belgium, Bulgaria, Canada, the Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Turkey, the United Kingdom, and the United States. At the NATO summit in

Bucharest (April 2008) Albania and Croatia were officially invited to start accession talks with the alliance, and signed the accession protocols on July 9, 2008.



**Map 8:** NATO members Countries ([www.nato.int](http://www.nato.int); <http://en.wikipedia.org>).

As seen NATO have member countries from America, Europe to Asia. So these countries are separated with ocean and seas without creating a geographic unit. Than physical geography criteria is not enough to determine the borders of NATO as an international organization.

**Result**

Physical geography features are more affect to determine of country borders than international organizations like NATO and EU. Other say these factors' impact stage is not adequate on international organizations. There are assessment role belong to human factors. Human factors are cultural and ethnic diversity, economic and military features, historical and architectural

structure etc. So human factors are affecting much than river, lake, and mount criteria in determination of frontier. Geomorphologic and hydrological features are still dominated to determine of countries frontier as ancient time such as Balkan Countries which secure independence new.

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## **The Western Balkans and EU-NATO relations**

Ferdinand Gjana  
PhD, Epoka University

### **INTRODUCTION**

Since the end of the cold war a lot of things have changed in the international relations in the entire world. The profound changes initiated a process of transformation both in NATO and EU. The tragic events of September 11th had a further strong influence on the desire of both organizations to adapt to the new environment. Meanwhile the relations of these two most important organizations of the political West have been the subject in the center of many analyses. In essence, the end of the Cold War profoundly changed the central parameters of the relationship between Europe and the US. The developments in the Western Balkans have been very important in shaping the EU-NATO relations to be more defined. The following paper will examine the Integration process of Western Balkans and under the influence of transatlantic relations.

### **THE NATO-EU STRATEGIC PARTNERSHIP**

NATO and the European Union share common strategic interests. Both organizations consult and work together to prevent and resolve crises and armed conflicts, In a spirit of complementarily. The decision to cooperate on security issues goes back to 24 January 2001 when the NATO Secretary General and the EU Presidency exchanged letters defining the scope of cooperation and the modalities of consultation between



the two organizations.<sup>16</sup> Cooperation has accelerated ever since, in particular with the signing of the landmark “NATO-EU Declaration on ESDP” (European Security and Defense Policy), which paved the way for the adoption of the Berlin-Plus arrangements.

### **The “NATO-EU Declaration on ESDP”**

Agreed on 16 December 2002, the “NATO-EU Declaration on ESDP” reaffirmed the EU assured access to NATO’s planning capabilities for its own military operations. It also reiterated the following political principles of the strategic partnership:

- effective mutual consultation
- equality and due regard for the decision-making autonomy of the European Union and NATO;
- respect for the interests of EU and NATO members states;
- respect for the principles of the Charter of the United Nations; And coherent, transparent and mutually reinforcing development of the military capability requirements common to the two organizations. ;<sup>17</sup>

### **The Berlin-Plus Arrangements**

Following the political decision of December 2002, the Berlin- Plus arrangements were adopted on 17 March 2003 (through an exchange of letters covering 14 agreed documents). They provide the basis for NATO-EU cooperation in crisis management by allowing EU access to NATO’s collective assets and capabilities for EU led operations. In effect, they allow

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<sup>16</sup> Burwell, G. Frances, Gompert, c. David, Policy Paper, March 2006, Transatlantic Transformation: Building a NATO-EU security Architecture, pp. 15

<sup>17</sup> DeCAMP, William S., *ESDP: NATO’s demise or opportunities for NATO?*, USAWS Strategy research Project, 18 march 2005, pp. 79

the Alliance to support EU-led operations in which NATO as a whole is not engaged. They consist of the following major elements:

- A NATO-EU Security Agreement (covers the exchange of classified information under reciprocal security protection rules);
- Assured EU access to NATO's planning capabilities for actual use in the military planning of EU-led crisis management operations;
- Availability of NATO capabilities and common assets, such as communication units and headquarters for EU-led crisis management operations;
- Procedures for release, monitoring, return and recall of NATO assets and capabilities;
- Terms of Reference for NATO's Deputy SACEUR - who in principle will be the operation commander of an EU-led operation under the Berlin-Plus arrangements (and who is always a European) - and European Command Options for NATO;
- NATO-EU consultation arrangements in the context of an EU led crisis management operation making use of NATO assets and capabilities;
- Incorporation within NATO's long-established defense planning system, of the military needs and capabilities that may be required for EU-led military operations, thereby ensuring the availability of well-equipped forces trained for either NATO-led or EU-led operations.<sup>18</sup>

## **CRISIS MANAGEMENT, NATO FIRST**

There need to be wholehearted, unambiguous European adherence to the principle of "where NATO as a whole is not engaged, " and political processes should be developed to ensure that no doubts arise about this point or about NATO's ability, sufficiently early in a crisis, to make such a determination. Many Europeans will resist the notion that this implies "NATO first": But as a

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<sup>18</sup> DeCAMP, William S., *ESDP: NATO's demise or opportunities for NATO?*, USAWS Strategy research Project, 18 march 2005, pp. 83

practical matter, it is important for preserving cohesion of the alliance. Securing this goal, which is important to the United States, will probably have to come from day-to-day consultations, including close cooperation between the North Atlantic Council, the EU's Political and Security Committee, and permanent, day-to-day liaison arrangements between the two; but it requires a shared vision and political commitment on all sides.<sup>19</sup>

In short, US reluctance to share the risks and tasks, especially in the Balkans, the most serious area of instability in today's Europe, would be incompatible with the effort to keep the Security and defense policy of EU (ESDP) as simply a second-choice option for dealing with crisis and conflict in Europe.

### **The 1999 Campaign**

The Serbian genocide had reached at a high level which had made the Kosovars to establish (UÇK) LKA against Serbian Army. But the situation had worsened by many civilian killed and many Kosovo's villages and cities burned. Javier Solana directed NATO's Supreme Allied Commander Europe (SACEUR) General Wesley Clark to initiate air operations in Yugoslavia. The military operation of NATO in spring 1999 against Yugoslavia was called Operation Allied Force.

NATO launched military operations because everything else failed and it was clear that the diplomatic track would not deliver a solution, whilst at the same time the humanitarian situation on the ground had become worse to such an extent that outside intervention became essential in order to prevent a humanitarian catastrophe.

“Targets for air strikes were selected by the NATO Military Authorities, acting in accordance with guidance agreed by the North Atlantic Council on

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<sup>19</sup> Hunter, E. Robert, *The European Security and Defence Policy NATO's Companion or Competitor?*, pp. 149.

broad sets of targets and the requirement to minimise collateral damage. The North Atlantic Council was not involved in the detailed process of target selection. Individual Allies were responsible for the clearance of the targets assigned to them by NATO.<sup>20</sup> The Allies hoped that the air operation would be short, and that Milosevic would again, as he had in the past, back down when confronted with the threat or use of force.

But this time it was different so operations were intensified to increase the pressure on Milosevic, his regime and his forces in order to achieve NATO's objectives. It would have been possible at any time for Milosevic to bring the air operation to an end by withdrawing his forces from Kosovo. "The initial phase of the air operation was designed to degrade the Yugoslav Integrated Air Defence System, the Serbia Command and Control infrastructure, airfields and aircraft and deployed heavy weapons in Kosovo. The subsequent phase widened the operation to include targets of high military value across Yugoslavia."<sup>21</sup> This Campaign lasted 89 days in the end of which the US plan and objective were realized. During this campaign NATO proved itself to be a capable and effective crisis management organisation and that EU partners must work together with NATO Allies to improve their capabilities through the Defence Capabilities Initiative and the European Headline Goal. This will increase their ability to act and strengthen Europe's partnership with the US.

## **EU FOCUSES ON THE POLITICAL ASPECTS**

NATO membership for the most part of the European countries has been one step before the EU membership. In fact, we can claim that EU membership process needs more time and longer way comparing with that of NATO. The enlargement of EU and NATO is commented sometime as a kind of

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<sup>20</sup> NATO'S Air War for Kosovo: A Strategic and Operational Assessment, Benjamin S. Lambeth, RAND publications, pp. 35.

<sup>21</sup> NATO'S Air War For Kosovo: A Strategic and Operational Assessment, Benjamin S. Lambeth, RAND publications, pp.58.

competition. This occurs that both of them during the last two decades are orientated towards the East and Southeast Europe. But when we take the cases we easily understand that the manner two organizations proceeds is different.

The Kosovo is a good example where NATO was ahead during the crisis management and afterwards EU has been active in the time afterward. It should be emphasized that the role of EU has been very important to put rule of law in Kosovo in cooperation with US Department of Justice and also has been very important to keep equilibrium of Serbia by having different negotiation to give as an objective the EU membership.<sup>22</sup>

## WESTERN BALKANS GOOD EXAMPLE OF THE COOPERATION

### **Operation Concordia**

On 31 March 2003, the EU-led Operation Concordia took over the responsibilities of the NATO-led mission, Operation Allied Harmony, in the Republic of Macedonia. This mission was the first in which NATO assets were made available to the European Union.

In line with the Berlin-Plus arrangements, NATO's Deputy Supreme Allied Commander Europe (DSACEUR) was appointed as Operation Commander of this first ever EU-led military peacekeeping mission.

NATO supported the European Union on strategic, operational and tactical planning. An EU-Operation Headquarters (OHQ) was set-up at NATO's Supreme Headquarters Allied Powers Europe (SHAPE) in Mons, Belgium, to assist the Operation Commander. In addition, an "EU Command Element" (EUCE) was established at AFSOUTH in Naples, Italy, which is the NATO Joint Force command for Balkan operations (since mid-2004 it is called the Joint Force Command Headquarters (JFC HQ), Naples. At the time, the Chief of Staff of AFSOUTH also became Chief of Staff of the new EU Command Element, assisted by an EU Director for Operations. These dual

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<sup>22</sup> Pond, Elizabeth, The EU's Test in Kosovo, The Washington Quarterly, Autumn 2008, pp 97-112

NATO-EU posts guaranteed the linkage between the European Union's and NATO's operational chain of command during Concordia.

Concordia was terminated on 15 December 2003 and replaced by Proxima, an EU-led police mission, which was completed on 14 December 2005.

### **Operation Althea**

Building on the results of Concordia and following the conclusion of the NATO-led Stabilization Force in Bosnia and Herzegovina (SFOR), the European Union deployed a new mission called Operation Althea on 2 December 2004. The EU force (EUFOR) operates under Berlin-Plus arrangements, drawing on NATO planning expertise and on other Alliance's assets and capabilities. The NATO Deputy Supreme Allied Commander Europe is the Commander of Operation Althea and there is also an EU Operation Headquarters (OHQ) located at SHAPE. The entire NATO chain of command is in fact used. On the same day as the transition to an EU-led mission, NATO established a NATO Military Liaison and Advisory Mission (NATO HQ Sarajevo) that complements the EU mission with specific NATO competencies.

### **The Independence Proclamation of Kosovo and Afterwards**

Status talks for Kosovo started in February 2006. The talks were initially led by UN Special Envoy for Kosovo, the former Finnish President Martti Ahtisaari. After fourteen months of negotiations, Mr. Ahtisaari presented his Comprehensive Proposal for a Kosovo Status Settlement to the UN Secretary General in March 2007. On 1 August 2007, UN Secretary General Ban Ki-moon launched an extended period of engagement with the parties led this time by the EU, Russia, US Troika under the auspices of the Contact Group. By the end of the Troika's mandate on 10 December 2007, Belgrade and Pristina failed to reach any agreement on Kosovo's future status. NATO supported the international process to determine the status of

Kosovo from the start, including the efforts of President Ahtisaari and those of the Troika.

After a long road of different initiatives to find a solution accepted by both Kosovo and Serbia there was clear that the realization of such a plan would be impossible. The General Secretary of UN said Marti Ahtisari to find the solution of the Kosovo. He after many negotiations and meetings with parties prepared and proposed a draft to UN which was accepted by Kosovo but not by the Serbia. As a result Kosovo politicians decided to proclaim the independence of Kosovo.

The 2008 Kosovo proclamation of independence was an act of the Provisional Institutions of Self-Government Assembly of Kosovo, adopted on 17 February 2008 by unanimous quorum (109 members present), which declared Kosovo to be independent from Serbia.

This decision was supported immediately by US and after that by France, UK and other European countries. The President of France Nicolas Sarkozy, this time preferred to be with US different from Chiraque's view during Iraqi intervention, because he was aware of the future with the Kosovo which geographically is only some hundred of miles from Paris and Berlin. He also was aware that EU, presidency of which would belong to France only some months later, should be the decider in the future of the Balkans. The EULEX (EU Rule of Law Mission in Kosovo) was the mission that EU sent to put the rule of law and to supervise the functioning of new born state.

## CONCLUSION

The NATO membership of Albania and Croatia and especially Kosovo's Independence brought the US and EU closer to each other. In July 2003, the European Union and NATO published a «Concerted Approach for the Western Balkans», which outlined core areas of cooperation and emphasized the common vision and determination both organizations share to bring stability to the region. In the Balkans the cooperation of has been of a high importance during the last two decades. About one decade ago the

common commitment of NATO and the EU prevented a civil war in the Former Yugoslav Republic of Macedonia<sup>23</sup>. The EU took on policing tasks and NATO the military ones. In Bosnia, on the other hand, the EU has been ensuring "hard" security while NATO concentrates on training the Bosnian armed forces<sup>24</sup>. In Kosovo, NATO remained militarily committed for some years. But after the proclamation of Independence, the EU started acquiring a greater role there. For that reason NATO and the EU, in cooperation, has played a decisive role in the situation of the Balkans. And in general the EU's policing tasks have been harmonized with NATO's military tasks.

The other side of EU- US/NATO cooperation has been in the aspect of EU and NATO enlargements. These two organizations have moved almost parallel towards the East and Southeast Europe. Although some commentators consider this as a kind of competition to conclude I say that these two organizations have been complementary to each other to be more effective and successful in Balkans and also in the other parts of the world.

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<sup>23</sup> De HOOP SCHEFFER, Jaap, *NATO and the EU: Time for a new Chapter*, Keynotes speech by NATO secretary General, 29 January 2007

<sup>24</sup> De HOOP SCHEFFER, Jaap, *NATO and the EU: Time for a new Chapter*, Keynotes speech by NATO secretary General, 29 January 2007



## **The changes of social structure and migration in cities in Albania**

Matilda Likaj  
Lecturer, Faculty of Economics and  
Administrative Sciences, Epoka University.

Cemal Baltacı  
Assist Prof. Dr., Faculty of Economics and  
Administrative Sciences, Epoka University.

**Keywords:** Migration, social change, cultural change, change of values

### **ABSTRACT**

Dramatic revolution in Eastern Europe were culminated with the most 'in self closed' country Albania that started to protest against the communism government's power. At 1986's in Eastern Europe started to live in a new pool of thoughts that the fundamental one was liberalism. Liberalism thought gets revolutions that were not be seen before. These revolutions did not contain only political aim, but also their aim was to get new changes in social, cultural and economic structures.

Also in Albania liberal movements started after 1986, and had aim to collapse the system of communism and to create a new democratic-liberal political system. In this paper we will explain the political and social changes, urbanization and social problems that were appear in Albanian society after 1990's. Also the effect that have appear to social values by the change of the social structure and the formation of new conscious in Albanian society.

### **Introduction**

Collapse of the Berlin's wall gave courage to Albanian intellectuals and students to protest for the collapse of communism system and to get new political, social and cultural system.

The main structure of these protests is the students, because always the youth has a dynamic structure to get changes in the society.

Most of the time this protests was trample down from the polices, but they resisted until intellectuals and students got that they wanted: Collapse the

system of communism and totalitarian cultural model, for forming a new liberal, social, cultural and modern society model.

The success of these protests got new liberal system (political, cultural and economical) , democratization, a democratically assembly, liberalization of market and the liberalization of enter to Western and Eastern countries. But here we must remember that liberal consciousness has been forgotten from Albania people.

The pass form a 'closed society' to a liberal one the Albanian society and also the entrance of new political system, new presentations with the values of other cultures got troubles in the existing conscious. But also we can say that these troubles were the first step of transformation of conscious.

The new system got new social change even in the values. We have to remember that is not possible to clean all the values that Albanian people had for a decade and to get new one. All the changes got new changes and sometimes trouble on living, on perception of the regulation of social and individual life.

Albanian society was not prepared on passing on a new social system. All this unprepared situation got new unknown problems and sometimes shock in Albanian society.

These situations effects strongly structure of cities and villages, structure of families, norms, values, traditions etc. These metamorphoses (changes) got social anomies in society, which got major changes in economic, social and cultural structured and in their own values.

### **Migration of People from Rural to Urban Place**

In sociology cities are not supposed only like large and very populate places. City has always an attractive situation, because it contains all types of people, activities cultural-economic and social services. Also it has a structure that contains industry, trade, transportation and communications networks. These all create an attractive power for cities.

In the cities urbanization take an important place, not only by getting modern standards but also it gets a growth of population and changes in many structure of societies. Sometimes these get renovation and sometimes reorientation for a new urban structure. It contains a dynamic structure that

mean that is pre orientated to get changes on the urban structures. That's why many times in social science like sociology concept of urbanization is called as a dynamic structure that gets physical and social changes.

Changes that come from urbanization, affect all structure of society like norms, values, traditions, way of life etc. Urbanization gets a renovation of a social structure by changing social structure. Sometimes it creates a situation that is called anomy. The Albanian society lived this situation on the first years of new democratic system.

In this paper will be explained the changes on social structure and change of values on the Albanian cities after 1990s.

Urbanization is one of the most important process for modern cities and societies. Also it is the most effected factor in the increasing population and also gets so many changes in the dynamic structure of the cities. In the social sciences urbanization is labeled as new dynamic structure on development of modern societies, because it gets changes factors on the social structure. The main changes on a social structure happen by change of values and norms. A rapid urbanization gets a rapid change on norms and values. But most of the time this changes gets an anomic situation.

After 1990s in Albania started major changes in the social, cultural, politic and economic structures. This process was affected from a new and modern civilization and also was called as transition. A part of transition was migration and emigration waves. These kind of waves were causing form the collapse of communisms laws (In communism was forbidden to pass form a country, city, village to another one without having a strong reason). People needed something new in their life style and they tried to find it by changing the place where they lived.

In the Albanian society after 1990 were so many factors that caused the processes of migration and emigration. In this paper we will try to explain only some of the factors of migration and some of the social changes.

Migration was a wave of movement of people from village to small or big cities, from small cities to big cities etc. Migration is one of factor that works fast or slowly mechanism of social-cultural structure.

New wave of migration from rural zones to cities, were searching for a new life style, a new social-cultural environment, for a better economy, for new

place of work or another words for a better social economical and cultural future.

Since the structure of a cities is different from a country migrate people have difficulty to integrate in that society. A social structure of an urban zone contains different values and norms from rural zones. This situation is new and strange for the new inhabitants of cities, and mostly causes on anomic situation to migrated people. Only after the passing anomic situation people can be integrated to cities and can be civilized.

The changes on the Albanians politic get changes in economy, society and culture. Mostly these changes create crises on all institutions like family, education, religion etc. Migration of people from village to cities, founded a new and different culture that was created on the city's own values.

Migrated people try to integrate on this type of social and cultural structure of cities societies. Integration is formed from the process of transformation of their own values to values that they found in this new society's culture. Also integration is a long process and gets so many changes in this society and also in urban one. New people that were placement in cities were not welcomed from the society of those cities. Because for a long time they had their own culture structure and (since they live in communism) and were not prepare to share their culture with others.

Urban citizens life style, relationship with each other, dressing etc is different from *others* or *villagers*. But people that have migrated are interested on their culture, values and norms. To integrate in their societies sometimes they are obligated to get urban citizens values. Sometimes they want to be away from their own values and norms that controlled their lifestyle, behavior and morals. They wanted to be free from these types of social controls by choosing new values of the cities culture.

Another factor of changing the values in social cultural structures is *Europeanization* and *Modernization*. These get new values in urban society's culture and new social and cultural changes. Because urban citizen and people that just migrate on the urban places started to be effected from the new values. New values are different from their own values and create a new situation that can be called as an *identity crisis*. These types of problems are

new for all urban citizens. But the migrated people have more difficulties on the integrated of these new values.

In few words migration gets so many changes in a social structure but we can say that get also a *renovation* and a *reorientation* of social structure.

### **The Change of Values**

Collapsed of communism system got not only a new political system but changed social, cultural and economical structure of society.

Also this change got the collapse of some values and formation of new ones. The importances of many values were disposed by this change. For example voting for only one political party is a values that came from the communism system. By these changes forming a new social structure means get new value to that structure. Western European countries were a utopia model for all Albanian people. This model has a utopia form in the cultural structure (modern) and also in a political one. Like Elias said that utopia makes society to be orientated in a new way and to consider this was as the ideal one. These get a development on a society.

Most of values that were formed in the communism system started become old and unimportant value. Sometimes this was consider as the ideal conscience (Tushi;2006:352)

This ideal conscience brings new oscillation and a chaotic situation in social-cultural structures. Because the values that existed for a decade and was broken up in a shortly time and the entrance of new values in society gets a new situation that was difficult for Albanians people to accept them in a short period of time. These were one of the main factors in forming an anomic situation on the society's structure.

For a long time Albanian cultures were influence from Western and Eastern cultures. These influences reach the structure of Albanian culture. By forming of communism system the only most important traditions, values and norms of this culture were taken to form a monist culture. The monist culture structure was completed by the new value and norms based on the communist mentality. This type of culture can be called as mono culture too, because it is formed only on one society without effecting from other cultures.

After 1990's Albanian culture was influenced from many cultures and also it forms a contradictory situation in itself. To be so much influenced from other cultures means that is a 'lack of drainage filters' said Albanian sociologist Dervishi (Dervishi; 2003:14). After the collapse of communism Albanian cultures were so influenced from Italian and Western European cultures. These cultures influenced almost at all institutions, relationships between people, lifestyles, mentality of people etc.

These influences of other cultures have affected mostly the Albanian youth. As we said before the youth has a dynamic structure and social changes are influenced from them. The 'ideal one' is important for them too. Western culture was an ideal culture for the youth and that is the reason that young people made changes on the values, traditions and customs.

Ethnocentrism that was formed in the communism's culture was exchanged with xenocentrism after 1990 in Albanian society. In social science xenocentrism means to be a fan, to admire and love other country's cultures by being away from own culture.

Xenocentrism got an identity crisis in Albanian society after 1990's, because it was the first step of changing culture and the collapse of values. Like Sartre said, people that come from villages to western European countries try to become a part of that culture by forgetting their culture. Also they repudiate their own values. This happens because their own communism's culture and values were cultivated by using a psychological oppression (Sartre; 1986: Dervishi; 2007: 209).

The change of values in the short time effect conception and moral of persons. This forms an 'identity search' situation that mostly gets a chaotic situation on the identity of that culture. The acceptance of some western's values like equality, success, liberty and democracy in a short period of time, bring a new confused situation.

Sometimes the value of liberty is considered as a value of 'doing what a person wants'. This creates a confused situation that sometimes gets social anomy in social order. One of the values that create a confused situation was 'Individualism'. This value got a new mentality and new behaviors on youth, and also got changes in social order and relationships between people.

A rapid urbanization and migration from rural to urban zone's got important changes on the value. First of all a rapid urbanization get economical, social and cultural changes. Also people that come from rural zones get different social, economical and cultural structure that most times create a type of anomie in urban society. To integrate in the urban society this group of people most of the times try to be away from their cultural values. This creates an anomy in their identity and also gets difficulty to integrate on the urban society.

After 1990 the transition in the Albania affected all structures of society. One of these was family's structure. In a family are founded more than two generation with different mentality. This difference was expressed by values that many time got conflict between generations. Albanian youth were and are still influenced from Western European culture in a life style, people relationships, dressing etc. All these are factors that get new values on youth's lives and formation of a new mentality. We can explain it by giving example of 'dressing'.

'Dressing' like Western people for Albanian youths is new value that they admire. In communism system this kind of value did not exist because it was totally forbidden. But after 1990 for Albanian youth was a prestige to have that value as the most important values.

This type of dress was not only to demonstrate that they are like western people, but it gets a 'modernization' value and it is a part of western culture. Also youth that comes from rural zones, by dressing in that manner thing that is an important point to integrate easily in that society. But it is seen that kind of dressing is getting anomy not only in the norms of that young people, but also in the society where they live.

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## **A comparative study on the role of EU perspective upon the Europeanisation of Croatia and Turkey**

Dr.Yeşim Özer  
Istanbul University  
E-mail: yozer@istanbul.edu.tr

Track: The Strength of NATO and EU conditionality and its impact in the process of Europeanisation of the region (impact on laws, institutions and policies)

### **ABSTRACT**

European Union conditionality has important effects upon Croatia and Turkey which have been part of the ongoing enlargement process. The two countries have been concentrated on the adoption and implementation of the acquis. In this process, several conditions such as EU's new enlargement strategy or each country's specific conditions, have affected countries' status in the accession negotiations. This paper aims to highlight EU's perspective in the accession period and intends to underline different messages of the Union regarding to the candidate countries. In the paper, it is argued that these messages may severely affect countries' Europeanisation process as well as other factors.

### **KEY WORDS**

Turkey, Croatia, Europeanisation, Enlargement

## INTRODUCTION

Croatia and Turkey, as two candidate countries of the European Union (EU) ongoing enlargement, tend to place the main focus in the adoption and timely implementation of EU legal acquis. This process of alignment to the EU acquis generates important Europeanisation effect in the countries.

In this paper, I used the term “europeanisation” in the meaning of “transformative power” of the European Union, as defined by Tim Haughton.<sup>25</sup> As also said by Neil Winn and Erika Harris, it may involve the process of implementation of European rules in a particular country, or more broadly the impact of their implementation on domestic politics.<sup>26</sup>

I limit my self with EU perspective in the paper and I intend to draw attention to the role of EU perspective in Croatia’s and Turkey’s accession process. In the first part, I state the difference of the ongoing enlargement process from previous ones for European Union. In the second part, I analyse Croatia and Turkey in accession process and in the final section, I argue the role of EU perspective in the accession negotiations.

### 1) EUROPEAN UNION’S ENLARGEMENTS

EU has experienced 5 enlargements until now. United Kingdom, Denmark and Ireland become members in 1973. The enlargement continued with Greece in 1981 after the country’s 6 years efforts, then Spain and Portugal in 1986 after 10 years efforts, and Austria, Finland and Sweden as relatively rapid affairs. These enlargements took place towards established political, economic and legal structure comparing to the last wave and it can be considered as relatively unproblematic.

The fifth enlargement wave, South and East European Countries had long way to travel. Although support of EU began in 1989, the actual entry

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<sup>25</sup> Tim Haughton(2007). “When Does the EU Make a Difference?”. *Political Studies Review*, 5(2), 233-246

<sup>26</sup> Neil Winn and Erika Harris. (2003) “Introduction: Europeanisation: Conceptual and Empirical Considerations”. *Perspectives on European Politics and Society*, 4(1), 1-11.

negotiations began in the end of 1990s and in 2004, except Bulgaria and Romania, ten south and east European countries became members of the EU. The driving force behind this enlargement has been the desire to ensure peace, stability and economic prosperity in a reunified Europe.<sup>27</sup>

This enlargement brings new dynamics in the European integration and presents a new opportunity to take forward relations with neighbouring countries, namely Western Balkan countries. In the 12-13 December 2002 Copenhagen Summit, EU has declared that it has avoided new dividing lines in Europe and determined to promote stability and prosperity within and beyond the new borders of the Union.<sup>28</sup> At the same summit, EU has decided to organise a summit between EU Member States and countries of Western Balkan region. Since 1999, these countries have already been part of Stabilisation and Association Process, which is the EU's policy framework for the Western Balkans including both economical and financial assistance and contractual relationships.

This summit has taken place at Thessaloniki between the EU and the countries of the Western Balkans in 2003 and here, the prospect of European integration was consolidated for these countries. EU has declared that Western Balkan countries will become an integral part of the EU, once they meet the established criteria. "The Thessaloniki Agenda for the Western Balkans: moving towards European integration" is prepared.<sup>29</sup> The Union enriched Stabilisation and Association Process which will remain the framework for the EU membership of the Western Balkan countries. In the region, accession negotiations have been opened with Croatia in October 2005 and Former Yugoslav Republic of Macedonia has been still candidate country since December 2005.

This enlargement wave is undeniably different for EU. In the "Enlargement Strategy 2006-2007: challenges and integration capacity", EU lists some criteria for future enlargements indicating first of all that the current enlargement strategy outlines a renewed consensus on enlargement

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<sup>27</sup> The 2004 Enlargement: the challenge of a 25 member-EU. <http://europa.eu/scadplus/leg/en/vb/e50017.htm> (11.10.2008)

<sup>28</sup> Presidency Conclusion Paragraph 22. Copenhagen European Council. 12-13 December 2002. 15917/02. Brussels. 29.01.2003.

<sup>29</sup> The Thessaloniki Agenda for the Western Balkans: Moving Towards European Integration. [http://ec.europa.eu/enlargement/enlargement\\_process/accession\\_process/how\\_does\\_a\\_country\\_join\\_the\\_eu/sap/thessaloniki\\_agenda\\_en.htm](http://ec.europa.eu/enlargement/enlargement_process/accession_process/how_does_a_country_join_the_eu/sap/thessaloniki_agenda_en.htm) (11.10.2008)

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with a view to ensuring that future enlargements do not hamper the functioning of the European Union. The other principles are identified as :

- compliance with commitments made and caution about making new ones
- rigorous and equitable accession conditions
- ensuring the support of citizens and democratic legitimacy of the process.<sup>30</sup>

As also stated in the Strategy paper, benchmarks are introduced as a new tool. They are set for the opening and closure of each chapter and if they are not met, negotiations may be suspended or a provisionally closed chapter may be re-opened.

This strategy shows that EU has made all these arrangements on the basis of the lessons drawn from the fifth enlargement as also said by itself in the strategy paper. Progress of candidates and potential candidates is determined by their success in addressing key priorities. This shows the cautious attitude of the Union towards new enlargement and its intention for the standardisation of the accession process for candidate countries. Croatia and Turkey as members of ongoing enlargement process are the ones which are most affected from this attitude. In the next part, Croatia's and Turkey's accession negotiations will be discussed comparatively.

## 2) TURKEY AND CROATIA IN THE ACCESSION PROCESS

Turkey submitted its application for membership on 14 April 1987 and obtained status of candidate at the Helsinki European Council of December 1999. In its recommendation of 6 October 2004, the Commission said that it considered that Turkey "sufficiently" fulfilled the Copenhagen criteria.<sup>31</sup> It recommended commencing accession negotiations with Turkey. The negotiations began on October 2005 (18 years after application) but they have been subject to certain conditions.

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<sup>30</sup> Enlargement Strategy 2006-2007: challenges and integration capacity. <http://europa.eu/scadplus/leg/en/vb/e50025.htm> (11.10.2008)

<sup>31</sup> Turkey: the Commission recommends opening accession negotiations. <http://europa.eu/scadplus/leg/en/vb/e50015.htm> (11.10.2008)

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Although the Commission acknowledged that Turkey has made substantial progress with political reform through constitutional and legislative changes, it stressed that the Law on Association, the New Penal Code and the Law on Intermediate Courts of Appeal have not yet entered into force. Moreover, the Code on Criminal Procedure, the legislation establishing the judicial police and the law on execution of punishments have yet to be adopted. Commission also underlined that implementation measures need to be further consolidated and broadened.

In the light of these, Commission proposed a three-pillar accession strategy for Turkey. Accordingly, the first pillar, concerns cooperation to support the reform process in Turkey. The EU will therefore monitor the progress closely through revised Accession Partnership Documents. Most importantly, the Commission may also recommend suspending the negotiations if there is a serious and persistent breach of the principles of liberty, democracy, respect for human rights and fundamental freedoms or the rule of law on which the Union is founded. The second pillar concerns the “specific” way in which accession negotiations with Turkey are to be approached. They will be held in the framework of an “Intergovernmental Conference” consisting of all Member States of the EU. For each chapter, Council must lay down benchmarks for the provisional closure of negotiations. The Commission also considered “permanent” safeguards concerning the free movement of workers. The third pillar entails enhanced political and cultural dialogue between the people of the EU member states and Turkey.

Croatia applied for EU membership on 21 February 2003. The June 2004 European Council officially recognized the country as an accession candidate and in November 2004 the Commission recommended opening negotiations. The December 2004 European Council concluded that accession negotiations with Croatia should start on 17 March 2005. The prerequisite for this was full cooperation of Croatia with International Criminal Tribunal for the former Yugoslavia (ICTY). This means to provide the arrest of General Gotovina and his transfer to the Hague. However, accession negotiations postponed indefinitely, as announced by the Council of Ministers on March 2005,

because the country had not fully cooperated with the ICTY. Following a positive assessment on 3 October 2005 from ICTY Chief Prosecutor that cooperation was now full and the very same day Council decided to open accession negotiations (2 years after the application). However, the Council indicated that less than full cooperation with ICTY “at any stage” would affect the overall process of negotiations and could be ground for their suspension.<sup>32</sup> Ante Gotovina was finally arrested on December 2005 in Spain.

Both countries have been started to the accession negotiations within the framework of Accession Partnership Documents which are the main instruments providing countries with guidance in its preparations for accession. In these documents EU sets short-term (1-2 years) and medium-term (3-4 years) priorities concerning the countries. Short-term priorities set for Turkey as democracy and rule of law, public administration reforms, human right, protection of minorities, civil and political rights, economic and social rights, regional issues and international obligations (namely Cyprus issue). Medium-term priorities set as mostly on economical issues like privatisation, agricultural sector and social security system. In the case of Croatia, short-term priorities set as to reform the judicial system, the fight against and prevention of corruption, the implementation of the Constitutional Law on National Minorities, particularly in terms of representation of them, refugee return, reconciling the regional peoples, cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), resolving bilateral issues, with neighbouring countries, and effective implementation of the Stabilisation and Association Agreement. Medium-term priorities set as economical issues again.

Regarding to the Accession Partnership Documents and priorities set in these documents, it can be said that objective elements are applied for both countries and EU’s demands are quite similar. Cyprus issue for Turkey and cooperation with ICTY for Croatia, as sensitive issues of the countries, were set among short-term priorities. There are benchmarks for opening and closing of the chapters but there is not “permanent” safeguard clauses for

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<sup>32</sup> EU-Croatia Relations: Main Steps Towards the EU. [http://ec.europa.eu/enlargement/candidate-countries/croatia/eu\\_croatia\\_relations\\_en.htm](http://ec.europa.eu/enlargement/candidate-countries/croatia/eu_croatia_relations_en.htm) (11.10.2008)

Croatia. It is obvious that from the beginning onwards, Turkey's situation is more complicated and problematic than Croatia. Turkey's membership is undeniably more difficult and costly for EU and it will severely hamper functioning of the EU. Turkey's area is 78362 km<sup>2</sup> and population is 74 million. Croatia's area is 56,594 km<sup>2</sup> and population is 4443 million. Both countries receives financial assistance under the Instruments for Pre-Accession Assistance (IPA). Turkey is benefiting from IPA 2256 million euro for the period 2008-2010 (including 2007) and Croatia is benefiting 589.9 million euro for the same period.<sup>33</sup> Despite of the fact that Croatia has not been a big problem for EU digesting capacity, country's today's performance is also related to its compliance with EU conditionality better than Turkey. It clearly shows its intention for cooperation with ICTY in the case of General Gotovina contrary to Turkey which still has not fully implemented Additional Protocol to the Agreement which provides the removal of all obstacles to the free movement of goods, as demanded by the declaration of European Community and its Member States of 21 September 2005.<sup>34</sup>

The speed of the two countries regarding to the accession negotiations are quite remarkable if we look at the negotiations chapters. Turkey has 7 opened chapters, 1 chapter is provisionally closed and 8 chapters have been suspended. Croatia has 17 opened chapters, 3 chapters are provisionally closed, although these two countries began at the same time to the accession negotiations. As already said, there are certainly many aspects of this difference arising from the political, economic and social conditions of the countries however, here, I want underline the effect of EU discourse in this process. For this reason, I will focus the "messages" of EU regarding to these countries.

### 3) MESSAGES OF THE EUROPEAN UNION

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<sup>33</sup> Instrument for Pre-Accession Assistance (IPA) Multinannual Indicative Financial Framework for 2008-2010. [http://ec.europa.eu/enlargement/pdf/countries/ipa\\_miff\\_081106\\_en.pdf](http://ec.europa.eu/enlargement/pdf/countries/ipa_miff_081106_en.pdf) (12.10.2008)

<sup>34</sup> Declaration by the European Community and its Member States. C/05/243. Brussels 21 September 2005. 12541/05 (Presse 243). [http://www.europarl.europa.eu/meetdocs/2004\\_2009/documents/fd/d-tr20051123\\_13/d-tr20051123\\_13en.pdf](http://www.europarl.europa.eu/meetdocs/2004_2009/documents/fd/d-tr20051123_13/d-tr20051123_13en.pdf) (11.10.2008)

Croatia was part of federal Yugoslavia before and after World War II. The country declared independence in June 1991 and EU established diplomatic relations with Zagreb in 1992. So from the beginning onwards EU has supported the country. On March 2005, in the eve of taking decision about opening of accession negotiations with Croatia, EU avoided to discourage country. During Luxembourg's Presidency of the Council of the European Union, Luxembourg's Foreign Minister stated that even if it is possible to postpone accession negotiations with Croatia, the door of EU would stay open for Croatia.<sup>35</sup>

On the other hand, there is no single picture of Turkey within the EU and mostly past hostilities form part of a negative but nonetheless common experience, as said by Andreas Marchetti.<sup>36</sup> As indicated in an article by Ellen Svendsen, there has been a general negativity of media coverage if it comes to Turkey combined with an underlying fear of Islam.<sup>37</sup> Although the accession negotiation began in October 2005, there is no clear timetable and membership perspective for Turkey. Furthermore discourses offering alternatives to membership for Turkey such as privileged partnership have resulted a serious decline of popular support for EU membership in the country. However, as indicated in Communication Western Balkans: Enhancing the European Perspective, public opinion in the Western Balkans is largely favourable to EU integration.<sup>38</sup> All governments have committed themselves to this objective and are implementing reforms.

In the EU, there has been always opposition against Turkey. French President Nicholas Sarkozy has made it clear several times that Turkey is not a European country and it has no place in the EU.<sup>39</sup> In one of his campaign

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<sup>35</sup> "Avrupa Kapısı Hırvatistan'a Açık Olacak". <http://www.abgs.gov.tr/index.php?p=37985&l=1> (11.10.2008)

<sup>36</sup> Andreas Marchetti (2008) "The Continuing Power Struggle in Turkey: Interpretation in European Union Media". *ZEI EU-Turkey Monitor*. 4(2), p.6.

<sup>37</sup> Ellen Svendsen (2008). "The Turks Arrive! European Media and Public Perceptions of Turkey". *ZEI EU-Turkey Monitor*. 2(3), p.3

<sup>38</sup> Western Balkans: Enhancing the European Perspective. COM (2008) 127, Brussels 05.03.2008. [http://ec.europa.eu/enlargement/pdf/balkans\\_communication/western\\_balkans\\_communication\\_050308\\_en.pdf](http://ec.europa.eu/enlargement/pdf/balkans_communication/western_balkans_communication_050308_en.pdf) (11.10.2008)

<sup>39</sup> "Sarkozy Officially Nominated, Speaks Against Turkey's EU bid". *Turkish Daily News*. 15.01.2007. <http://www.turkishdailynews.com.tr/article.php?enewsid=63974> (11.10.2008)



speeches, he had pointed to Turkey as the natural pillar of his Mediterranean project.<sup>40</sup> Haluk Özdemir stressed that as a result of this attitude, in the summit conclusion of December 10, 2007, the words “accession conference” were dropped as a result of French insistence, instead only the formal label “intergovernmental conference” was used to define the process between Turkey and the EU.<sup>41</sup> This unstable nature of EU-Turkey relations has remarkable effect on the slowdown of the Turkish reform process which have taken place from 2001 onwards and on the sharp decline of popular support for EU membership within the country.

Contrary to Turkey, Croatia has been always motivated by the EU. Any kind of alternative institutional structure has been considered for Croatia. Instead, in the Enlargement Strategy and the Main Challenge 2007-2008 document, EU clearly indicates that if benchmarks are met for opening the remaining chapters, progress in accession negotiations with Croatia is possible in the coming year (2009)<sup>42</sup> It is stated by Croatia rapporteur Hannes Swoboda that if Croatia were to complete all the necessary reforms it could end negotiations by 2009 and become an EU member by 2011.<sup>43</sup>

As seen, Croatia is one of the fastest countries among 27 Member States in relation to the accession and Turkey is the slowest. Besides of the objective elements such as differences regarding to the countries’ specific characteristics, the effect of EU’s attitude in this process have not to be undermined. According to a Eurobarometer Survey in 2006, Croatia’s accession is widely accepted in the EU. As indicated in the survey, 56% of the EU25 and 53% of EU15 are in favour of Croatia’s accession.<sup>44</sup> In the case of Turkey, in Autumn 2005 Eurobarometer Survey, 59% of EU Member States are against it becoming part of the Union.<sup>45</sup> Consequently, being aware of the

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<sup>40</sup> Schmid, Dorothee. (2008)“Turkey and the Mediterranean: An Ambiguous Relationship”. *ZEI EU-Turkey Monitor*. 4(2), pp.4-5.

<sup>41</sup> Haluk Özdemir(2008). “The Union for the Mediterranean: A three-way evaluation”. *ZEI EU-Turkey Monitor*. 4(2), p.3

<sup>42</sup> Enlargement Strategy and Main Challenges 2007-2008. COM(2007) 663. Brussels 06.11.2007. [http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/strategy\\_paper\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/strategy_paper_en.pdf) (11.10.2008)

<sup>43</sup> Hannes Swoboda Says Croatia Will Enter EU by 2011. *Croatia News-CroatiaPress.com*. 09.04.2008. <http://www.croatiapress.com/20080409-436.php> (12.10.2008)

<sup>44</sup> Eurobarometer 2006: Poll on endorsement/rejection in EU countries of future accession of Albania, Bosnia, Serbia and Croatia. <http://www.esiweb.org/index.php?lang=tr&id=306> (12.10.2008)

<sup>45</sup> Eurobarometer 66 Report. [http://ec.europa.eu/public\\_opinion/archives/eb/eb66/eb66\\_en.pdf](http://ec.europa.eu/public_opinion/archives/eb/eb66/eb66_en.pdf) , p.223 (12.10.2008)

fact that perceptions are quite important element of the europeanisation process together with objective elements, the role of the messages has not to be undermined by the EU if it wants to become a reliable global actor.

## CONCLUSION

In relation to the transformative power of the EU, in other words, europeanisation of the negotiating countries, the paper argues that messages coming from the EU and EU's treatment of the countries have significant importance.

It is quite rational for EU to support Croatia which membership will send a strong signal to other Western Balkan countries on their own membership. The new enlargement strategy of EU, "based on merit", will encourage them and they will hope for membership once they fulfill the necessary conditions. Croatia's accession serves EU's strategic interests in security in the Western Balkan region which is bordered by Member States. For this reason, it is not surprising that Croatia has a roadmap for accession and clear indication of its future place in the EU. However, EU ambiguity vis-à-vis Turkey's membership persists. EU actors have increasingly voiced their concerns about Turkey's accession underlining its size, population, its level of economic development, its "different" culture and religion. Open-ended and long term nature of the accession process for Turkey is overemphasized by the Commission.

This paper claims that this attitude of the EU, influences severely the Europeanization of the candidate countries, namely Turkey and Croatia. A key factor in the success of EU conditionality concerns the perceived costs of demanded conditions. So, if a country considers the cost of compliance higher than the rewards, then the transformative power of the EU decreases, as well as its reliability and credibility and vice versa. Croatia and Turkey, as two countries which began accession negotiations on the same time, have been experiencing remarkable different treatment from the EU. In this circumstances, it is worth to emphasize the need for standardisation of EU treatment for each candidate country. It must be aware of multidimensional

nature of the Europeanisation process. This means that as well as other factors, psychological elements are indispensable in this process. EU has to be cautious about its messages in order to not hamper europeanisation of the future members.

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# The dynamics of reforms development in Macedonia and its approach towards European Union

Ylber Sela

## 1. Introduction

Democracy is a form of governing of today's modern state, while democratization is a process of regime change from authoritarian or totalitarian to establishment of liberal democracy. As a political phenomenon it is a transformation that lasts long period of time. Democratic consolidation is longer than the democratic transition and it can last several decades by encompassing the cultivation of democratic values for the elite and the wider population, as well as the legitimating and fully institutionalizing the new democracy.<sup>46</sup> The process ends with the competition of this consolidation. The democracy in Macedonia is young, unformed and non-stabilized; therefore it is still fragile and unsustainable.

## 2. The political situation

The criteria for EU membership for the candidate states is liberal democracy which means that EU accepts those states that exercise universal and objective criteria in their internal and international politics. The Copenhagen criteria<sup>47</sup> demand from candidate states to ensure the guarantee of democracy through institutional stability and the rule of law. How does the current political

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<sup>46</sup> See more , Klod Lëfor: Demokracia dhe totalitarizmi, Tiranë 1993, fq.3-23.

<sup>47</sup> In 1993, European Council of Copenhagen determined the criteria and requirements for membership such as :Political Criteria (Stabile institutions guaranteeing democracy , rule of law , human rights, and protection of minorities); Economic criteria (the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union); Legal criteria (The ability of the state to implement *acquis communautaire*, or national legislation compatible with EU). Blerim Reka/Ylber Sela: Hyrje në të drejtën e Unionit Evropian, Tetovë 2007, fq 45.

situation look opposite these criteria? Political democratization moves on very slowly as it is stated in the EC progress report 2007

*“The reforms in Macedonia during the last 12 months have been very limited. Except the progress in specific areas especially in the economic development and the fight against corruption, a lot of recommendations haven’t been implemented as they should have been”<sup>48</sup>.*

The responsible for this is mainly the political climate which continues to be characterized with political conflicts and crisis between opposition and governing block, the conflict between the president of the state and the Prime minister, and the non-implementation of Ohrid Agreement .<sup>49</sup>

### **3. Public Administration**

The bureaucracy of the administration in Macedonia continues to keep the Byzantine nature by not being able to change into a Weber’s bureaucracy and stays even more distant from the New Public Management of the public administration. The last report of the European Commission emphasizes that “problems that are still ongoing such as the corruption, political interference, the chronic deficit of human resources , the short term nominations and insufficient law enforcement within the public administration , continue to put on risk the consolidation of a professional and independent civil “<sup>50</sup>. The civil service is inefficient has a deficit of administration culture. Means and infrastructure are limited. However, the main problem lies in the human recourses. Civil servants are not capable and professionally prepared and they are constantly under threat of short term nominations. “Political Burocrats“ are ruling over the model idea-typical for rational Weber’s administrators. Even after fifteen years of democracy the majority of nominations in administration are made on political and not on basis of professional qualifications. <sup>51</sup> Many high officials in central institutions have little adequate

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<sup>48</sup> [http://ec.europa.eu/enlargement/pdf/key\\_documents/nov/fyrom\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/nov/fyrom_progress_reports_en.pdf) (European Commission 2007).

<sup>49</sup> See more,Ulrich Kleppmann: Mazedonien im Oktober 2007. In: KAS, Ausgabe 24, November 2007, pg.1-4.

<sup>50</sup> [http://ec.europa.eu/enlargement/pdf/key\\_documents/nov/fyrom\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/nov/fyrom_progress_reports_en.pdf) (European Commission 2007).

<sup>51</sup> Arsim Bajrami: Demokracia parlamentare, Prishtinë 2005, pg. 58.

experience. The criteria for nomination are the nepotism, bribes and political militarization and not the meritocracy or carrier development. These criteria play a determining role not only in nomination but also in the career promotion of civil servants, especially those on key positions. The political connection and loyalty of candidates are the criteria of nomination, damaging the individuals who are much more qualified both technically and professionally “Merits and competence“ are „aliens concepts “,while the political criteria rule over the objectivity. This has a negative impact on stability and efficiency of public administration. Civil service has a tendency to take „the ideological color“ of „pardons “ especially during periods when one party governs for a longer period. Therefore, the improvement and the implementation of the recommendations well connected to nominations, transfer or dismissal of civil servants, as well as the stability of employment, are the most important short term priorities of European partnership with Macedonia

As a conclusion, the public administration in Macedonia in the majority of cases is inefficient in its role for formulating and implementing the governing policies and furthermore it is not in a position to ensure accurate implementation of instruments for needed reforms. EU has clearly send the message that there will not be finalization of date for a start of membership negotiations until there is convincement that administration capacities are ready for reforms implementation.

#### **4. Local government**

Regarding the local governmental reform, the process of decentralization has continued slowly but constantly and more competences have been handed over to the local authorities . However, the power remains unfocused centrally and the implementation of decentralization remains a challenge mainly due to inefficient personnel and the lack of necessary financial sources especially in the municipalities led by the Albanians.

#### **5. The legal state**



The state establishes the regulations for population's behavior through legal norms. The legal norms are written regulations and codes of conduct which are determined and protected by the state. The complete legal norms present the judicial system based on what the rule of law is ensured. The concept of the legal state is pretty multifaceted and multidimensional. It encompasses the complete judicial – political principles which ensure the rule of law in the society. The rule of law respectively the rule of justice means superiority of law towards the state itself as its authors.<sup>52</sup>

The function of the law is one of the basic principles of EU, necessary for democratic stability and immanent precondition for the improvement of the social economical situation. EU states that “The respect and law enforcement remains deficient mainly due to the consequence of weak institutions of law enforcement, limited administrative capacities and high level of corruption and organized crime“.

The mentality of the population of Macedonia is that the law and its implementation are negotiable issues and not obligatory. If Macedonia once to realize its dream for European integration the legal state should rule with more than a concept and that no man cannot stand above the law. The legal state should strengthen and be executed in the way for all its citizens regardless of their ethnicity. Legal state presents the tool for combating organized crime and corruption as well as a tool for functional judicial system.

## 6. Judicial System

The judicial system in Macedonia remains weak regardless of the undertaken improvement measures, the professional capacity of judges, prosecutors, judicial police and the administrative staff remains limited.

The infrastructure and means are insufficient. The general performance of judiciary remains. The judicial system which should play the most important role against corruption and organized crime is weak and ineffective. Its

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<sup>52</sup> Arsim Bajrami: Demokracia parlamentare, Prishtinë 2005, fq. 52.

personnel is low paid, untrained and in a considerable level corrupted. The incapability of police, prosecutors and judges for realization of prosecution, arrest and punishment of low violence and criminals and especially members of organized crime damages harshly the democracy in the country and the rule of law. The disrespect of law and the freedom for organized crime, gains from the pure governing and the failure of justice to act with high efficiency presents a threat not only the public order but also to economic perspective, economic and political stability of the country.

Police is ineffectual, unqualified and unequipped for fulfillment of its task and mainly the area of combating ordinary and organized crime. Low wages are often the reason for police involvement in smuggling, taking bribes, or even worse collaborating with organized crime. The challenge stands in the enhancement of capacities and the improvement of the function of justice, independence of judicial system from politics and organized crime, and prosecution of heavy crime. The cooperation among all institutions continues to be in a need for fundamental improvement.

## **7. Clientisation**

The clientisation refers to the use of state resources of different kinds in order to profit personal electoral support. It is a certain way of management with connection in the government and manipulation of state institution in the interest of the persons in power by creating a system of informal connections of personal relations based on exchanges of favors. Clientisation is encouraged by the special economic political and social circumstances such as poverty, unemployment, democratically weak state institutions as well as distrust and doubt which contribute the collective action to seem difficult. Clientisation is connected with the phenomenon of this „partyocracy“.<sup>53</sup>

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<sup>53</sup> „Rule of parties“ for their own interest neglecting the common societal interests.

By usurpation of a wide range of public institutions, the parties, especially those in government, are able to block a good part of public recourses and to use them for exchange of favors. In a weak state which allows considerable displacement among the parties' personnel in one hand, and groups of interest and administrative positions in the other, it becomes difficult to put clear boundaries between these communities and to understand the capacity of action of the individuals. In this way, the elected politicians control the main resources, public tenders, approval or withdrawal of business license. Such distribution of sources is an important tool for use of electorate. The politicians request to manage the public resources since this is a safe way of keeping the power. Another aspect to this is the ability of employment and nomination of militants and party members especially in public institutions.

## 8. Corruption

Corruption refers to the arbitrary exercise of the government as well as to the material profit and services that are not sanctioned by the law. The high level of corruption and other forms of abuse of power can slow down and to have serious impact over the democratization process. Corruption as a contemporary contagious disease harms fragile "organisms" of countries in transition as a consequence of more factors such as: economic changes ,privatization, weakens responsibility, lack of democratic tradition and lack of an efficient system of reciprocal control on the line : state-politics-civil society<sup>54</sup>. The politicians need to gain access in positions which allow them to influence public decisions. The abuse of position and state also effect the nominations for public positions, exchange and share of bribes from tenders and other illegal profits. In Macedonia<sup>55</sup>, the bribing is much expanded especially in public service, in health services and in education.<sup>56</sup> The practice

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<sup>54</sup> See more, Jeton Shasivari , Korupsioni I personave zyrtarë si kërcënim serioz për shtetin e së drejtës në Maqedoni.

<sup>55</sup>According to surveys realised in 2002 by the Institute for sociological, legal and political research based in Skopje, around 60% of surveyed consider that the state is corrupted and that the most corrupted are the Ministries . ("Kapital", 21.03.2002, Skopje).

<sup>56</sup> According to Brima Galup about Corruption for 2004 organized by Transparency International Berlini,in Macedonia the level of corruption is extremely high and the highest is

of corruption has institutionalized and high governmental officials consider their posts a path to become rich. What is worse corruption has become a fact, a moral norm, a something for which there is no need to be ashamed. The attitude of people towards the behavior and corruptive practice is so while everyone especially governmental and politicians do it, why not the ordinary people as well by considering this as a normal practice. Even though corruptive cases are on daily basis the stories of the media, the corrupted individuals are neither prosecuted nor interrogated. Until today nobody has been sanctioned for corruption, therefore „why not to risk “officials and high politicians are so reluctant to hide their corruption affairs. Corruption affects negatively the internal business. The system has become so much sophisticated so that businessmen have no success in their activities unless they bribe. Public tenders go to those that pay more and not to the best which presents „a mechanism of hell “. A massive network of „connections of reciprocal profit“ have been created among political parties and powerful economic groups of politicians and businessmen of high ranks. Corruption is also well connected with organized crime. This happens due to the need for financing. Another reason that makes corruption difficult to fight in Macedonia is the weak judicial system which is depended and corrupted. As such, it can not act as a problem solving body. A weak judicial system is also a result of a weak state which means that „problematic“ judges and prosecutors without any support from the state can easily become targets of threats or in worse cases to be assassinated by criminals. According to Transparency International latest report Macedonia has improved in the list of corrupted states from Position 104 to 84 and this is a result and a merit of the governmental campaign Zero Corruption.<sup>57</sup>

## 9. Elections

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in the following institutions: courts, police, customs, health and education. (“Maqedonia me shkallë ekstreme të lartë të korrupsionit”, Koha Ditore (editorial for Macedonia), dt. 11.12.2004).

<sup>57</sup> Die International Financial Corporation, 27 September 2007

Electoral system presents one of the most important constitutional and political subsystems of a country. The creation of electoral system presents one of the most important state and institutional decision.<sup>58</sup> Elections are a key political moment which in accordance with time, venue, subjects phases and other characteristics is so complexed that it is impossible to encompass all in one complete electoral system, which has operationalised manner for the voters to express their preference for a party or candidate by voting. Also elections are basic and certain indicators for the inclusion of citizens in the political life.<sup>59</sup>

The electoral system in Macedonia is implemented in agreement with principles that are on hand within all pluralistic political systems. Therefore the constitution specifies the political pluralism as a basic principle of constitutional order of Macedonia.<sup>60</sup>

In the Republic of Macedonia since 1990 , when we talk about the electoral system, in this context, local elections, presidential and parliamnetary elections and as its continuation the establishment of the government, we face 2 important phenomena : the respect of electoral code which underwent positive amandaments ; and the political practice regarding the governmental composition since neither the constitution nor any special law prescribes the obligatory participation of the Albanians , but yet Albanian political parties have been participating in every government. The preferred electoral system is that one whose results are acceptable for the whole political spectrum in the country<sup>61</sup>. In the Republic of Macedonia exist two very contradictory electoral realities which need a solution and they are: presidential elections and the form of establishment of the government.

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<sup>58</sup> See more: Savo Klimovski/Vladimir Mitkov/Renata Treneska/Tanja Karakamisheva: Rregullimi Kushtetues i Republikës së Maqedonisë. Shkup 2004, fq.191-201

<sup>59</sup> Zgjedhjet lokale 2005, Skopje 2005, pg.22

<sup>60</sup>See more: Osman Kadriu: Rregullimi kushtetues i Maqedonisë, Shkup 2006, fq.226

<sup>61</sup> The political system in Macedonia, at least since 2001, has withdrawn from the project of strong national state. On the first view it gives the impression it has accepted the model of a multinational country and values under which it can enhance and remain strong. See more: Sadri Rambaja, Federalizimi i Maqedonisë?. In: [www.lajmet.com](http://www.lajmet.com), 09.08.2006

As for the first case, rules a strong conviction that the president of state is elected by the Albanians' will manifested with their vote and as for the second case the conviction is that the Albanian participant in the government is selected by the Macedonian party that has won considerable number of seats with a possibility of creation of parliamentary majority, which has now become a reality during the establishment of pluralistic democratic governments. A logical interpretation would say that this situation persuades interethnic cooperation; however, this form of regulation continuously generates dissatisfaction by creating two sides of the medal. Instead of creating interethnic cooperation, in reality it creates unacceptable situations by a considerable political spectrum in both, election of president of state and creation of parliamentary majority. This generates continuous institutional crisis and dysfunctional institutions. In the segment of presidential elections we face the bitter practice of refusal of election results by relevant and essential political subjects in the country. A concrete case was the election of the now deceased former president Boris Trajkovski. At this time the Democratic Party of Albanians gave its maximal contribution to help its coalition partner, however, the elected president remained contested during all times by the Union of Social Democrats. In the other case of 2004 presidential elections, the Democratic Union for Integration gave its maximal help the coalition partner and candidate Branko Crvenkovski, even though he was elected, he is continuously contested by VMRO-DPMNE and DPA by characterizing him as illegitimate president<sup>62</sup>.

The situation created along with the creation of the government, in the last elections, when the current Prime minister took its traditional partner DPA, faced huge reaction by DUI which called the government as an illegitimate. The above mentioned situations create institutions which are unacceptable for all, therefore there is a need to find other alternative solutions for solving such situations. The Democratic Union for Integration during its mandate had the opportunity and the institutional capacities to regulate this issue. Now, the next solution to be found will depend on the political will of the participating parties in the government, especially from DPA.

#### **10. The media**

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<sup>62</sup> See more: Fakti, 09.08.2006, fq. 14.

The freedom of speech and media, in general, is not respected in Macedonia, especially lately the government has interfered several media houses in order to influence their way of reporting, which presents a threat to the independence and objectivity of the media. The politicians use (and abuse) media for their own political aims. Nowadays it seems impossible to be in power without the support of the media. On the other hand, the heads of the medias are using their positions to expand their political believe in order to reach their aim and to use the politicians for their aims or of their corporations. The private media often are not seen as business enterprises but only as means to reach economic or political power. For example, the press says Macedonia is not challenged by the market laws. The advertisers do not buy advertising space based on the number of editions or on the impact, but in accordance to the media's relation with the influential politicians or businessman.

Those companies whose president or directot have conetctions to ruling parties, the political marketing will be in favor of the government. Such advertisement artificially keep alive some publications which otherwise would have not survived by their own. In this way, very often a media owner personalizes a combination of media, economic and political capital.

One of ht most powerful Macedonian businessman, Ljubisav Ivanov, is the owner of Sitel television. Officially, the owner is RIK SILEKS, accompany where Ivanov is the owner of majority of shares, president and general manager. The same company has established 11 other companies which operate in different fields such as mines, agriculture as well as trade and finances fields. The example of the former minister of finances who is an owner of another big local television station called Kanal 5 also shows the close connection between the media and politics.<sup>63</sup> The have been continuous complaints about high officials who are exercising financial and fiscal pressures through tax offices and inspections in order to censure newspapers' publishers especially those belonging to Albanians. Such actions ignore the basic rights and freedom of speech and opinion and they present direct violation of democracy.

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<sup>63</sup> See more, Ilda Londo: *Pronësia e medias dhe ndikimi i saj në pluralizmin dhe pavarësine e medias*. Instituti shqiptar i medias, Tirana, 2007, pg 8 -37

The legislation should foresee mechanisms that guarantee editorial independence. These mechanisms should be worked put on the level of individual Medias or companies and they should define clearly the position of the owner from the chief editor. The state should undertake active politics in this field in order to support contents which otherwise will not be able to “survive” in the media market. The support from the state should be given upon bases and criteria which are clearly defined. In particular, this prevents the situation where the state uses the opportunity to put pressure to those who criticize the government.

### **11. Harmonization with EU legislation**

A very important EU requirement is the incorporation of the acquie communitarian in the national legislation and its effective implementation and that is the enhancement of implementing capacities though administrative and legal structures. As for this issue, Macedonia has two challenges in front: first, to ensure the harmonization of legislation with EU and second, to execute them successfully. The structures in Macedonia are still not in that needed level for achieving the aim of harmonizing the legislation with EU and with the acquie.

### **12. The economic situation**

Official reports confirm that Macedonia has made important progress in the economic stability and its macro economic system (in context of IMN programme). The inflation and budgetary deficit have reached comparative level with EU. However, the base for product growth has not been ensured. The budget is dependant from foreign investments; the private sector is weak and the foreign investments level is low.<sup>64</sup> Market institutions are not

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<sup>64</sup>See more, „Beitrittskandidat Mazedonien“, In: Euro Info Center, Nr. 11/2005, aktualisiert Dezember 2007, pg. 7-8



stabilized, they are dysfunctional and corrupted. The low function of market mechanisms has enabled a free private economy (similar to anarchy) which seems to be far away from a functional market economy.

### **13. The future and perspectives**

The development and the integration of the country should happen with free elections, fight against corruption and organized crime, security of borders and legal state, free market, functional democracy, respect and ethnic equity. The slow and contradictory developments of the last years in the abovementioned fields and the installation of corruption system, tolerance to crime and its connection to politics, the lack of free elections have presented the obstacle and the main reason for decent of integration process into Euro Atlantic structures. Every ministry and institution should build up work, to report with measurable indicators and should be entirely responsible for every progress or delay in the implementation of reforms for European integration. The government shall undertake all organizational measures for effective and efficient coordination and monitoring of all other institutional activities. In every institution the specialized units for coordination and monitoring of integration reforms should function effectively. The whole process of integration should be transparent and the government should welcome opposition's contribution, the contribution of the Constitutional institutions and all other ones belonging to the independent state such as civil society, business community, media and every citizen. Governmental institutions should welcome the evaluation reports and recommendations of EU institutions by reflecting serious approach over the remarks and suggestions, and should work on their implementation. Governmental institutions should also use the accumulated experience of other new EU members or of those who are in the process of integration. Te integration in EU is a huge effort which requires joint work of all institutions, all political powers as well as civil society. The EU charter is clear-realization of integration reforms which will alter on change all aspects of political, economic and social life. This is a truth, a valuable aim and a difficult challenge that has no way back...!

### **14. Conclusion**

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As we can see, the political and socio-economic situation in Macedonia is far away from one of a country with aspiration of EU membership. Macedonia remains distant from fulfilling the criteria especially those related to political democratization. This politico-economic immaturity is blocking the road towards future membership. The content and results of reforms in the transitional decade have been more a “talk-shop” and destructive. They are characterized as “zero sum game”, where every achievement is declared as a win of the party in power and not as a value for the country. The goal for integration and membership has been used as catalyst for helping resolving the internal problems.

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## **EU's copenhagen political criteria and the political culture of the western balkan countries: are they compatible?**

Asssit. Prof. Dr.Saban TANIYICI  
Faculty of Economics and Administrative Sciences,  
Mustafa Kemal University  
Hatay/Turkey

### **ABSTRACT**

The European Union considers the establishment of a stable democratic system as a precondition for the EU membership. Political culture of a country is regarded as one of the most important determinants of the consolidation of a democratic political regime in that country. This paper looks at the question of how compatible are the political cultures of the Western Balkan countries with democratic values and in turn with the EU's Copenhagen political criteria. The hypothesis that a a democratic political system requires a democratic political culture has been tested. The individual survey data from the World Values Survey have been analyzed in the paper. Western Balkan political cultures are found to be compatible with democracy in some respects and not to be compatible in some others. However, some countries which seem to have the least demoratic political culture such as Macedonia achieved more progress on democratization compared to other countries which had more democratic political cultures that that of Macedonia.

### **Introduction**

Western Balkan countries strive for the European Union membership. In the process of the EU membership, they have to meet the Copehnagen political criteria in order to become a full member of the Union. However, the

countries of Western Balkans are said to have a different political culture from the other East European countries. Some observers even argued that these countries show the characteristics of Asian countries and cultures different and less democratic than the cultures of European countries. One implication of a such an argument is that these countries are culturally distinct and inherently undemocratic therefore cannot establish stable democracies required by the Copenhagen political criteria. For example Bebler argues that since this region has been very unstable throughout history, it is very different from the northern half of former Eastern Europe. Rather, western Balkans is 'similar in its make-up to the geopolitical fault line stretching from Eastern Turkey all the way to China. Not incidentally, Z. Brzezinski called this fault line the "Asian Balkans" (Bebler, 2008, 7).' Further he asserts that the countries of this region has serious political and security problems including the existence of intolerance, pathological nationalism and xenophobia;- underdeveloped democratic political culture, the lacking art of compromise' (Bebler, 2008, 8). Arguably, 'the Western Balkans represent the most difficult set of prospective accession countries so far encountered by the EU' (Pridham, 2008). The EU Commission recognizes these difficulties. According to a EU commission communication to the European Parliament and the Council: 'Basic issues of state building, good governance, administrative and judicial reform, rule of law including the fight against corruption and organized crime, reconciliation, socioeconomic development, and civil society development, are key reform priorities for the Western Balkans (Communication from the Commission to the European Parliament and the Council, Brussels, 5.3.2008, COM(2008) 127 final).

This paper looks at the political cultures of the Western Balkan countries in the second half of the 1990s and at the beginning of this century. It tries to determine if these countries have a democratic or undemocratic political culture. The paper further looks at the level of demoratization in these countries and seek to understand whether undemocratic political cultures hindered the establishment of democracy in some of the Western Balkan countries.

## **Preconditions for Democracy and the Importance of Political Culture**

The transition to democracy and the consolidation of a democratic system depend on a number of factors in a country. Apart from preconditions concerning economic -social development, and a nation's wealth, the content of political culture of a country is also regarded as a precondition for democracy. Political culture is the system of values and beliefs that defines the context and the meaning of political action (Sorensen, 1993, s. 26). Political culture could be related to larger set of values in society such as religious values. For example, Lipset has long been asserted that political culture in dominantly protestant countries is more conducive to democracy than political cultures of Catholic or Islamic countries (Lipset, 1996). According to Fukuyama, culture is the most important level on which the establishment of democratic political system in a country must occur in order for it to be consolidated. He argues that cultural factors operates at the deepest level affecting ideological, institutional and civil societal levels. Although democracy could be consolidated ideologically, institutionally and at the level of civil society, the culture of a country can be the most resistant to democratic consolidation. From this brief discussion the importance of political culture on the process of democratization, we can propose an hypothesis about the process of democratization in Western Balkan countries.

*Hypothesis:* Those Western Balkan countries which has the least democratic political culture will be the least democratically developed countries in terms of the establishment of democratic institutions and democratic processes.

### **Data and Operationalization**

The data from 1994-99 and 1999-2004 World Values Surveys will be used for this study. These survey were carried out national teams in every country sponsored by the University Michigan's World Values Survey center.

A country has been regarded as having a more democratic political culture if this country scored higher on a number of survey questions including support for democracy, political tolerance, active membership in

civil societal organizations. The level of democratization in these countries will be measured in terms of their progress on the EU's Copenhagen political criteria. The EU's Copenhagen political criteria requires that a candidate country secure the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. A country's progress on these criteria is usually accepted as the criteria for recognizing this country as a candidate country and also for opening the accession negotiations with these countries.

## **Political Cultures of Western Balkan Regimes and Democratization**

### **Existence of a Political Society**

The establishment of functioning and legitimate state structure has been regarded as the most important precondition for democracy. Therefore, the degree to which the public's of the Western Balkan countries see the state they live in as legitimate is important first step in these countries' democratization. This is an issue about which many of the western Balkan countries have significant problems. Since most of these countries are relatively new countries established in the process of the dissolution of the Socialist Federal Republic of Yugoslavia, there could be some problems in terms of these states' collective identity and the constitutional organization. It is important to understand to the degree to which these states achieved a collective political identity. The existence of a political society is seen as crucial for the establishment of a democracy in a country (Rustow, 1970). Therefore, almost all members of a society should view themselves as members of the same political body or the state for a stable democracy to exist. The level of nationalism and patriotism in a society could indicate the degree of its members emotional attachment to the polity. The nationalism is seen here as a positive force uniting the members of a society not the kind of ethnic or micro nationalism as a force of division in society.

**Table 1. % of respondents very proud and quite proud of their nationality and % of respondents willing to fight for their country.**

	Albania		Bosnia		Croatia		Macedonia		Montenegro		Serbia		Srpska	
	1998	2002	1998	2001	1996	1999	1998	2001	1996	2001	1996	2001	1998	2001
Proud of nationality	84,5	92,4	87,8	80,5	79,8	86,3	69,1	78,3	70,0	41,6	70,9	68,2	78	33,0
Willing to fight for country	56,4	54,6	73,9	63,5	66,6	70,6	69,2	71,8	76,7	47,6	70,8	55,0	64,0	56,2

Table 1 shows the percentages of respondents in each western Balkan country who are proud of their nationality and who are willing to fight for their country. These two survey questions could indicate respondents' loyalty to their political societies. Albanians are the most proud of their nationality while Serbians are the least proud of their nationality. While the respondents' attachment to political society remain stable in some countries such as Albania, Bosnia, Croatia, Macedonia and Serbia, there are considerable changes in time in terms of the percentage who are proud of their nationality in some countries such as Montenegro and the republic of Srpska. There occurred a significant decrease in the percentage of respondents who are proud of their nationality in the latter countries between 1998 and 2001. It can be argued that political societies in these countries are fragile in respect to the loyalty of individuals to the state. Although they are the most proud of their nationality, the Albanians are the least willing to fight for their country. It could be concluded that the Albanian national identity is strong regardless of a political society. There is not necessarily a relationship between being proud of for one's Albanian identity and to fight for the Albanian state.

### **Support for Democracy and other Types of Regimes:**

**Table 2. Support fo democracy and other type of regimes in Western Balkan Countries.**



	Albania		Bosnia		Croatia		Macedonia		Montenegro		Serbia		Srpska	
	1998	2002	1998	2001	1996	1999	1998	2001	1996	2001	1996	2001	1998	2001
Having army rule	71,8	10,5	14,5	8,0	13,9	5,3	8,8	22,6	8,8	6,0	8,8	9,2	39,5	9,2
Having a Str. Leader	34,8	15,6	44,4	32,6	28,8	11,5	52,2	65,7	27,7	12,9	27,7	17,7	59,8	29,2
Having Experts	77,2	73,7	81,1	66,5	77,2	80,0	65,2	74,4	80,0	77,5	77,1	78,3	58,8	66,2
Having a democratic pol. Sys.	94,3	91,7	91,5	89,9	95,4	92,7	71,7	82,2	82,9	85,3	77,2	82,9	88,5	70,0
Democracy better	88,7	88,9	89,4	89,4	90,0	88,7	62,4	71,5	84,2	80,6	77,0	74,7	71,5	73,0
Satisf. Dem Developm.		26,3		34,6		16,6		17,2		28,9		40,9		30,2
Dem. Indecisive	29,7	25,0	34,4	35,0	40,0	23,2	41	34,5	38,3	21,8	39,5	41,2	44,2	53,5

Democracy can only be stable if a majority of a country's population regard it as better than any other political regimes. The support for democracy and other type of regimes in Western Balkan countries therefore can be indicative of the prospects of democracy in these countries. Richard Rose argued that democracy should at least be viewed a better form of regime compared to other alternative regime types in order for it to take root in a country (Rose et. al. 1998). A significant percentage of respondents in western Balkan countries think that democracy is a better political regime even though it has some problems. Only in Macedonia and in the Republic of Srpska, the support for democracy is lower than 80 percent. Even though the populations of Western Balkan countries overwhelmingly support for democracy, they do not express satisfaction with the development of democracy in their countries. Macedonian and Croatian publics are the least satisfied in this respect. A significant proportion of the respondents in each country also state that democracies are indecisive and have too much squabbling. The population of the Republic of Srpska has the largest percentage of the respondents viewing democracy as indecisive. Serbian, Macedonian and Bosnian publics follow the republic of Srpska population in this respect.

In general, less than 10 percent of the populations of the Western Balkan countries think that having a political system ruled by the army is very or fairly good. Only exceptions are Albania, Srpska and Bosnia in the 1998 survey and the Macedonian population in the 2001 survey, 22 percent of whom think that having a political system ruled by the army is very or fairly good. Macedonian, the republic of Srpska and Bosnian populations again

have the largest percentages of respondents who think that having a political system ruled by a strong leader is very or fairly good. 65,5 percent of the respondents in Macedonia favored a political system ruled by a strong leader in the 2002 survey. 71,1 percent support for the army rule in Albania should be evaluated in the light of the anarchical condition of political system in this country in 1997. Albania was experiencing an anarchical political and economic situation as the state protected economic pyramid schemes collapsed in 1997. Even army barracks and police stations were looted and most people acquired arms. People were extremely dissatisfied with the government and looked for other alternatives that could provide order and security.

The most serious competitor to democratic regime in the Western Balkan countries is the rule by the experts. A significant percentage of the respondents in each country think that having a political system ruled by the experts is very or fairly good. The expert rule is the most desired in Croatia, Montenegro and Serbia. It could be concluded that economic problems associated with the transition from communist regimes to free market system convinced the publics of these countries that the economies of their countries could be better run by experts rather than indecisive and squabbling politicians. Still, a significant proportion of the respondents in each country think that even though democracy has some problems it is better than other political regimes. Macedonian public however is the least likely to state that democracy is better than its alternatives. Serbian and the Republic of Srpska populations follow the Macedonian public in this respect. Otherwise almost 90 percent of the respondents in other countries think that democracy is a better regime than others. The Croatian and the macedonian respondents are the least satisfied with the development of democracy in their countries.

### System Support: Trust in Institutions, people and the system

**Table 3. Trust in national and international institutions and people** (Percentage of respondents who have great deal and quite a lot trust)

	Albania		Bosnia		Croatia		Macedonia		Montenegro		Serbia		Srpska	
	1998	2002	1998	2001	1996	1999	1998	2001	1996	2001	1996	2001	1998	2001
Confidence in the army	56,8	53,3	89,0	69,2	77,3	63,9	35,7	53,8	57,5	47,9	59,9	72,4	80,5	41,2
Confidence in the Parties	22,2	28,6	41,8	16,0	21,1		10,7	9,3	21,2	23,9	15,9	13,1	53,0	11,2
Confidence in parliament	56,3	43,7	52,5	21,9	39,9	21,9	14,7	6,9	41,2	30,8	29,1	20,9	59,5	15,8
Confidence in civil service	16,2	35,0	59,4	33,2	35,5	34,0	17,7	16,4	44,6	25,7	29,5	25,3	58,8	21,0
Confidence in the EU	81,1	80,0	72,5	54,4	29,9		33,3	31,6	34,6	46,9	20,5	23,8	41,8	32,2
Most people can be trusted	24,3	23,2	24,8	24,8	22,8	17,9	7,5	13,1	30,4	32,9	28,4	18,3	31,2	13,2
Justice system	57		67,4		49,6		22,6		55,8		43,3		73,5	
The police	71,9	64,3	83,2	51,5	59,4	52,6	25,3	50,4	52,1	37,9	43,1	45,9	69,5	53,5
political system as it was before	90,6	82,9	51,4	39,0	78,6	72,8	47,9	43,2	31,2	67,4	45,2	81,3	61,3	33,5
Current system	57,0	64,4	63,2	76,1	54,6	84,2	76,4	87,5	50,8		77,3		76,2	81,2
Corruption	30,7		19,9		19,9		12,1		45,0		30,8		28	
Big interst	51,5-13	38,7-20,7	51,7-36	71,8-18,6	57,5-30,3		59,6-20,8	87-6,7	52,9-39,6	63,9-22,7	64,1-26	56-24,8	47-42,5	75,5-14,2

Postcommunist societies are described as the societies of distrust (Rose, 1996). The endurance of the single party rule with a strict adherence of an all-encompassing ideology made these societies suspicious of the 'real intentions' of the officials and other members of the society. Individuals had dual identities and lives: private and public. The rise of ethnic nationalism was one of the consequences of this distrust but it also reinforced this culture of distrust in these societies. On the other hand, strong democratic political system requires both horizontal (people trusting other people) and vertical (people trusting institutions) trust in a society.

The most trusted institution in the Western Balkan countries is the army. 89 per cent of the respondents in Bosnian Federation stated that they have great or quite a lot confidence in the army in the 1998 survey. 77, 3 percent of Croatian and 80,5 per cent of Republic of Srpska respondents expressed confidence in the army.

Confidence in political parties is the lowest in Western Balkan countries. Macedonia is the leading country in this respect. Only 9,3 percent

of the respondents in Macedonia stated that they had confidence in political parties in the 2001 survey. Albanian public has the greatest confidence in political parties. Although Bosnian Federation and the republic of Srpska respondents had a significant level of trust in political parties in 1998, there was a sharp decline in the level of political party trust in 2001 in both of these political entities. Western Balkan public's trust their parliament more than they trust political parties. However, the confidence in the parliament is still low in these countries. Macedonian respondents have the lowest level of confidence in the parliament, which is 14,7 percent in the 1998 survey and 6,9 percent in the 2001 survey. The civil service in these countries do not fare any better. Macedonian population again has the least confidence in the civil service. Only 17,7 percent of the respondents in the 1998 survey and 16,4 percent in the 2001 survey expressed confidence in the civil service in Macedonia.

The confidence in the European Union is the highest in Albania and the lowest in Serbia, Croatia and Macedonia. Around 80 per cent of the Albanians had confidence in the EU while only about 20 per cent of Serbians, 29,9 percent of Croatians and about 30 per cent of the Macedonians had confidence in the EU. Interpersonal trust is also regarded as providing a favorable environment for democracy in general. In western Balkan countries, the level of interpersonal trust is low. In 1996, only 7,5 percent of the Macedonian respondents said that most people can be trusted in society. The level of interpersonal trust is the highest in Montenegro, which is only around 30 percent.

Western Balkan publics had considerable level of confidence in the justice system in their countries. 73,5 percent of the Republic of Srpska population and 67,4 per cent of the Bosnian federation population had great or quiet a lot confidence in the Justice system in their countries. The police is viewed in more positive terms by these publics. 83,2 percent of the Bosian population, 71,9 percent of the Albanians and 69,5 percent of the republic of Srpska population had confidence in the police in the 1998 survey. Macedonian respondents had the least confidence in both the Justice system and the police. However, when we look at the level of political corruption

perceived by the public, there is a widespread belief that corruption is common in the public sector. Only 12,1 percent of the Macedonians stated that none or only a few of the public officials involved in corruption remaining respondents thinking that there is widespread corruption in the system. Only 19,9 percent of the Bosnian and Croatian publics think that the level of corruption in the public sector is negligible. Montenegrins are the most optimistic on this matter. 45 per cent of them stated that the number of public officials involved in corruption is not significant.

Western Balkan populations viewed the old communist regime in negative terms. 90,6 per cent of the Albanians thought that it was a bad political system. Montenegrins in the 1996 survey had the most favorable view of the old communist regime, only 31,2 percent viewing it as bad. However, the performance of the current political system also evaluated in negative terms in general. 87,5 percent of the Macedonians thought that the existing political system is a bad one. Monteregrins and the Albanians had the most favorable view of the existing political system.

### Tolerance of Different People and Groups

**Table 4. % of respondents who do not want a neighbor of a differen race or religion**

	Albania		Bosnia		Croatia		Macedonia		Montenegro		Serbia		Srpska	
	1998	2002	1998	2001	1996	1999	1998	2001	1996	2001	1996	2001	1998	2001
Neighbor-different race	7,8	30,4	19,1	8,6	8,4	19,5	26,4	19,0	16,7	19,1	15,0	6,1	35,2	22,5
Neighbor-Different Religion	25,0	----	18,4	---	14,3	----	----	----	----	----	----	----	46,0	----
Political Extremists	66,7	---	63,0	----	54,6	----	51,9	----	68,3	----	56,8	----	45,5	---
Least liked to demons	2,4	---	5,0	---	8,1	----	3,0	----	9,2	----	9,7	----	2,5	----
Respect for rights		36,4		37,1		56,7		31,6		38,1		45,8		29,5
Firm party leader	24,5		16,5		22,7		13,6		20,8		15,9		41,5	

The existence of political tolerance in a society is regarded as one of the favorable conditions for the establishment of stable democratic institutions (Seligson, 2000). When asked about their opinion about which group they do not want as a neighbor, the respondents in Western Balkan countries mentioned people from a different race and religion and those who are political extremists among other groups. Among these three, political

extremists are mentioned by the largest number of people. 30,4 percent of Albanians in the 2002 survey stated that they would not like a person from different race as their neighbour. 35,2 percent of the republic of Srpska population and 26,4 percent of the Macedonians said so. 46,0 percent of the republic of Srpska respondents did not want a person from a different religion as their neighbor compared to only 18, 4 percent of the Bosnian Federation respondents who said so. Only a handful of respondents in every country stated that they would allow their least liked group to demonstrate. 2, 4 percent of the Albanian, 2,5 percent of the republic of Srpska population and 3,0 percent of the Macedonians would allow the least liked group to demonstrate. People who would allow the least liked group to teach or to hold office comprise an even a lower percentage. The respondents were also asked about their opinion if a party leader should stand firm for what he or she believes, even if others disagree or he or she should be prepared to cooperate with other groups, even if it means compromising some important beliefs. The highest percentage of respondents who wanted a firm party leader came from the republic of Srpska, which is 41,5 per cent while only 16,5 percent of the Bosnian Federation respondents wanted firm party leader. The republic of Srpska, Albanian and the Macedonian publics seemed to be less tolerant of different people while the Croatian, Montenegrin and Serbian populations seemed to be more tolerant of differences.

### **Political Interest and Civic Engagement**

**Table 5. Interest in Politics and membership in civic associations**

	Albania		Bosnia		Croatia		Macedonia		Montenegro		Serbia		Srpska	
	1998	2002	1998	2001	1996	1999	1998	2001	1996	2001	1996	2001	1998	2001
How often follow politics		55,7		57,9		76,6		75,8		58,7		67,8		53,2
Politics Important	22,0	30,8	48,4	37,6	26,0	28,8	31,3	35,9	28,3	27,7	23,9	24,3	47,2	31,0
Member of a religious Organization		4,8		16,1		16,2		4,4		3,3		2,1		9,8
Member of a political party		13,1		6,0		2,8		5,7		5,0		3,0		21,0
Member of a Sport or recreat. Org.	5,1		11,6		10,6		6		4,6		5,8		17,8	
Member of a Art, music, educ. Org.	3,3				6,6		4,6		2,5		1,9		11,8	
Member of a labor union	1,6		7,5		6,0		4,9		2,5		1,9		16,0	
Member of an Environ. Organization	0,8		2,5		1,4		2,3		0,4		0,5		3,8	
Member of a professional Organization	4,9		4,6		6,1		4,3		3,8		2,8		14,0	
Member of a charitable organization	0,4		3,5		4,2		2,8		0,8		1,3		9,2	

While a significant part of the Western Balkan countries are interested in politics, they do not necessarily think that politics is important. Well above 50 per cent of the respondents in every country stated that they follow politics in the news at least several times in a week. While those who think that politics is important comprised about 20-30 percent of the respondents.

The level of active membership in civil societal organization is low in Western Balkans. Only a small number of individuals in each of these countries involved in civic associations actively, which is usually less than 4 percent. The most important exception is the republic of Srpska, which seem to have the most mobilized population in terms of active membership in organizations. 21 percent of the country's population is a member of political party compared to 6 percent in Bosnian Federation and only 2.8 percent in Croatia. 17,8 percent of the republic of Srpska population is an active member of sports or recreational organizations whereas only 4,6 percent of Montenegrins are actively involved in these kinds of organizations. The active

labor union membership is again the highest in the republic of Srpska and the lowest in Albania. The exceptional involvement of the respondents from the republic of Srpska reminds one of the Almond and Verba's (1963) warning that too much of a participatory political culture is not conducive to democratic stability. There should be a balance between the governmental authority and citizen involvement in a democracy.

## **Conclusions**

The political culture of Western Balkan countries show considerable support for democratic political regime. These publics think that democracy may have problems but it is better than other alternatives such as the rule by the army. The support for a political system ruled by the army or a strong leader is relatively low. However, western Balkan populations favor a political system ruled by the experts. A considerable part of these publics are not satisfied with the development of democracy in their countries and also think that democracies are indecisive and have too much squabbling.

When we turn to people's confidence in institutions and other people, we see considerable variation. While political parties and the civil service do not attract people's confidence, the parliament, the Justice system and the police are trusted by these publics more. The level of interpersonal trust is low in these countries.

Tolerance towards people from different religion, race and political opinion is rather low in these countries. Very few respondents expressed willingness to allow the least liked group to demonstrate, not to mention to teach or to hold office. People's interest in politics is rather high however they think that politics is not important. The active involvement in civil societal organizations is very low in Western Balkan countries.

Croatia is currently a negotiating candidate country, which is expected to join the EU first among the current candidate countries. Macedonia is an official candidate state while Albania is a potential candidate state. Macedonia



could enter the Union after Croatia depending on Turkey's performance. Freedom House ranks Croatia as a free country while Albania and Macedonia are ranked partly free democratizing countries.

### **Explaining the Macedonian Exception**

Macedonia, according to the survey data used in this paper, stood out as having the least democratic political culture in terms of a number of aspects such as support for democracy, confidence in institutions and people, political tolerance and the level of corruption in the system. However the current progress of Macedonia on democratization is accepted to be better than other Western Balkan countries except Croatia. We may conclude that political cultures of Western Balkan countries do not allow us to draw a rosy picture in terms of democratization in these countries. However, the example of Macedonia which seemed to have the least democratic political culture among these countries, suggest that democratization and the stability of democratic regime do not only depend on a country's political culture but rather were affected by a number of more easily changeable factors such as the pacts between elites and international intervention.

Macedonia with its multiethnic societal structure has been unique in avoiding major conflict. Since the Ohrid agreement in 2001 it also achieved considerable success in building a multiethnic democracy (partly free according to Freedom House ratings (Matovski, 2008). The relative success of Macedonia was not predetermined. After its independence from the SFRY in 1992, the republic of Macedonia faced severe domestic and international problems. There has not been a consensus among the political elites of the county. Macedonian majority and the Albanian and other minorities lived an uneasy life without much national identity. Politics was mired with mistrust between different ethnic groups. Economic and social problems of the country were not less serious (Perry, 2001). The European Union played an important role in easing the ethnic tension and encouraging the Slavic

Macedonian and Albanian leaders to sign the Ohrid Agreement in 2001 (Cohen, 2005, 367). Despite some progress on interethnic relations, there remains significant problems between two communities. For example, Cohen quotes an Albanian leader as stating that 'Neither Albanians nor the Macedonians are loyal to the state' (Cohen, 2005, 371). Without international intervention, these tensions could easily turn into violence and separation. Therefore, it can be argued that despite its shortcomings and the difficulties it may encounter (Hoffman, 2005, Pridham, 2008), the European Union policies have had considerable impact on the process of democratization in Western Balkan countries and particularly in Macedonia. Therefore, we need to look at other explanations such as the impact of international environment and the role of elites in explaining the relative success of Macedonia.

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## EU's role on the Western Balkan Democratization

Cüneyt Yenigün, Associate Professor  
Istanbul Kültür University, Faculty of Economic and Administrative Sciences  
Department of International Relations  
Emails: [c.yenigun@iku.edu.tr](mailto:c.yenigun@iku.edu.tr) ; [cuneytyenigun@hotmail.com](mailto:cuneytyenigun@hotmail.com)

### **Abstract:**

This article overviews democratization process of the Western Balkan countries by the assistance of the EU. Democratization firstly should be developed in the region by the domestic willingness and later by the external assistance. The EU's vision toward the future of the Western Balkans is accepting the region's countries to the EU, after completing their democratizations by using Stabilization and Association Agreements as a carrot. This external assistance has developed South East European countries democracies like Bulgaria, and it is still working in the region like Macedonia. Democratic developments are very beneficial for the region and also for the EU on her target of encompassing the continent.

**Key Words:** Minority Rights, Balkan Democratization, Europeanization, Ohrid Framework Agreement.

### **EU'S ROLE ON THE WESTERN BALKAN DEMOCRATIZATION**

#### **1- INTRODUCTION TO BALKANS: COMPLEX HETEROGENEITIES**

For thousand years Balkan area had/s multiethnic heterogeneity. Under the Ottoman rule, these ethnicities had lived in peace for a long time. During the Ottoman period, today's ethnicities divided according to their religions and denominations. Long lasting mutual tolerance among the peoples and religions yielded Balkan peoples to live together without a conflict. Certainly, even before the region fell victim to the nationalism, Ottoman state did not live in a certain undisturbed environment, however all Balkan groups lived

together for centuries under a state.<sup>65</sup> At that time Ottoman State did not have a terminological word of her vocabulary because every person was counted as her people, until the recent times of her collapsing. After independence, within the region, nations, nation-states, majority and minority groups and related issues have flamed up. Because, the idea of nation-states and nationalism has brought “our” and “others” approach, rigid policies/politicians and ignoring the others’ rights.

There are a lot of meanings of “Balkan” term. One of these explanations says “Balkan” is a term of combination of two words in Turkish; “bal” is honey, “kan” is blood. These meanings explain that, Balkan area can be a honey-world or a bloody-world because of its heterogenic features. The region is still exactly heterogenic in terms of religion, denomination, ethnicity, culture, ideology and so on. If one of these entities struggles for being a dominant power without giving the importance to the others, the area could transform to a conflict region quickly. But as its history happened, if the tolerance is used as a key and main tool among the peoples by the policy-makers, the region could be a perfect sample of the peace and good neighborhood.

Under the communist ideology and governments the nations were pressed on ideology, so the nationalism was diminished for a limited time. But after 1990s, new world order and its thoughts have brought again nationalism with new versions, such as micro-nationalism and tribalism to the region. Like early 19 and 20<sup>th</sup> centuries’ nationalism, at this time tribalism carried out the “blood” to the Balkan area with Croat, Serb and Bosnian conflict between 1992-95 years, Kosovo conflict in 1999 and Macedonia conflict in 2001. Right that time, EU offered “Europeannes” to the region countries. Being a European was a better and bigger idea than tribalism and it could be a way of getting rid of negative aspects of micro-nationalism, right along with the economic benefits of the EU.

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<sup>65</sup> Hans Georg Majer (2007), “*The Ottoman Heritage Revisited*”, Proceedings of the International Conference on Minority Issues in the Balkans and the EU, in M. Hacısalıhoğlu and F. Aksu (eds) Proceedings of the International Conference on Minority Issues in the Balkans and the EU, Istanbul: OBIV Istanbul, 26, 33.

## 2- CARROTS TO THE BALKANS: CHARM OF DREAM

All Balkan countries were dreaming of being member of the EU, because of mostly economical reasons. Even today, in some countries and especially in the Western Balkans unemployment rate is very high; for example 36% in Macedonia and 49% in Kosovo. On the one hand, because of exaggerated misunderstanding of the workers and young university generations about unemployment rate will fall down, new business sectors will open, and the workers can go to the Europe to work immediately, all Balkan countries, except Serbia, are under the public opinion pressure for joining to the EU. On the other hand South East Europe (SEE) and Western Balkans is the natural geographical enlargement for the EU to encompass the continent. Also this enlargement will bring diplomatic prestige and the higher sound to the EU within the international arena. However, the EU wants to go carefully and with strong steps with Western Balkans and does not want to cope with the internal or international conflicts like Cyprus. Because of this reason, the EU on the one hand has started to put a lot of economic, but especially political criteria as obligatory conditions in front of these countries before their accession to the union, on the other hand it has started to frustrate them economically to do these criteria.

For the accession calendar, the EU divided the Balkans as SEE and the Western Balkans according to their economic, security and democratic situations. Western Balkans term includes Croatia, Bosnia-Herzegovina, Macedonia, Kosovo, Serbia, Montenegro and Albania. The SEE term is used for Western Balkans, Bulgaria, Romania, Greece and Turkey by the EU. The most important specific feature of the Western Balkans is to be unsecure and unstable area within the Europe. Even today, there are still very serious political and security issues in the Western Balkans, such as intolerance, micro-nationalism xenophobia, underdeveloped democratic and political culture, ill-governance, corruption, organized crime, illegal trafficking, over one million refugees and displaced persons.<sup>66</sup>

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<sup>66</sup> Anton Bebler (2008), "The Western Balkans and the International Community", *Avrasya Dosyası*, 14, (1), 11.

During the Bosnia War, in 1993, EU declared the Copenhagen Criteria including of stability of the institutions, guaranteeing democracy, the rule of law, human rights and respect to the minorities and their rights. Madrid European Council, in 1995, has also enlarged above mentioned lines with the adjustment of administrative structures, transformation and putting into force the EU legislation into the national legislations.

In May 1999, the EU launched the Stabilization and Association Process (SAP) for the five Western Balkan states. The SAP has been using as a tool to reinforce the region's countries' economic and political reforms on the way of the EU. (EU has provided 7 billion Euros donor to the Western Balkans, to establish peace, stability and economic prosperity in the region, since 1991 until now.) Under the SAP, Stabilization and Association Agreement (SAA) was put into force. The SAA's purpose is to provide technical and financial assistance and trade preferences to the Western countries to get close them to the EU's legal and economical system on bilateral, regional and multilateral levels. The SAA is a key for the region's states right now.

In June 2003, EU Thessalonica Summit has presented to richen regional cooperation and strengthen the stabilization process like a key in the Western Balkans. After the 2004 enlargement of the union, pre-accession progressing and assistance became a necessity in accordance with the EU model for the Western Balkans. Instrument for the Pre-Accession Assistance (IPA) was built for the region again in 2007. The purpose of the IPA is establishing transition and institutional building assistance on cross-border cooperation, regional and human resources and rural developments. Another very important step was taken by the CEFTA Agreement which was put into force in 2007. The CEFTA aims to establish Balkan regional free trade area in the whole Balkan region. Lastly, Regional Cooperation Council (RCC) was established in Sofia, in February 2008 to ensure regional, economic and security cooperation.<sup>67</sup> These all agreements have become beneficial keys, but also obligatory conditions for the Western Balkans.

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<sup>67</sup> Enika Abazi (2008), *Albania in Europe: Perspectives and Challenges*, *Avrasya Dosyası*, 14 (1), 239-242.

### 3- FUNDS AND DEMOCRATIC PROGRESS IN THE WESTERN BALKANS

The EU's pre-accession demands and also assistance and funds have made economical, political and cultural progress and transformation toward liberalization and democratization in the Western Balkan countries. It is well-known that the democratization cannot be exported by the external power, but can be imported and developed by domestic will in accordance with the internal habitat. Iraq and Afghanistan experiences have shown this fact explicitly. The EU has chosen more democratic and rhetorical way; to be a member of the EU; she put the democratic conditions in front of the candidates to seed and raise their own democracies.

In the Thessaloniki Summit in 2003, Central and Eastern European countries became candidates. And for the Western Balkan countries, the door was going to be open to be a candidate until accomplishing the SAA targets. Today two Western Balkan countries gained candidate status and the others are the potential candidates. In 2006, Salzburg Declaration has brought two additional conditions for the Western Balkans: Copenhagen Criteria, SAP responsibilities and cooperation with the International Criminal Tribunal for the Former Yugoslavia.

Albania has signed the SAA in 2006. She has taken a lot of way on the cross-border inspections and the international cooperation. Albanian perspective and working together with the Europe on the Kosovo's independence was/is very constructive.<sup>68</sup> In addition to this, she has hesitated from escalation with Serbia and unification with Kosovo. Unlike her neighbors there is no internal conflict in Albania, and she has more stable environment in compare with the other regional countries. Montenegro also has signed the SAA in 2007. To strengthen public administration and state control, the EU has founded Regional School of Public Administration in the country.

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<sup>68</sup> European Commission (2007), "*Enlargement Strategy and Main Challenges*", 2007-8 COM (2007) 663 Final.



In Bosnia-Herzegovina there is *sui generis* situation. Dayton Peace Agreement has ensured the peace in the country, but it could not establish a normal state to work. That's why it can be said that, Dayton is a peace agreement, but not an establisher treaty of a natural country. In spite of that the EU has made different and beneficial services in Bosnia-Herzegovina. In 2003, EU has created EU Police Forces for three years, instead of UN Police. This duty has become the first mission under the European Security and Defense Policy. After the UNSC Resolution 1575, the EU Military Forces has been also established and deployed into the country in 2004. Because of the Serb Republic's resistance within Bosnia-Herzegovina, nationalism and dividing lines have risen in the country, so reform process has declined. However at the end of 2007, Bosnia-Herzegovina has also signed the SAA with the EU.

In Serbia, majority of the young generation desire joining to the EU. Previous elections had shown that fact. Although the last election shows the nationalism is rising, Serbian government also wants to be a member of the EU because of the first economic, later political reasons. With this aim Serbia started the SAA negotiations in October 2005. Six months later, negotiations were cut because of the lack of the cooperation about Mladic's capture and Kosovo's status. But after the Karadzic's capture the SAA was signed with Serbia, as a green light on the promise of the EU. As a result, Serbia's eagerness to become a member, yielded Karadzic's capturing, Montenegro's independence; but the most importantly she has chosen the diplomatic way against Kosovo's independence instead of war.

Croatia firstly has started the negotiations with the EU by signing the SAA like the others. In June 2004, Croatia was declared as a candidate country. Membership negotiations have started in October 2005. During the negotiations she has taken a long way on ensuring Copenhagen Criteria and working with the International Criminal Court. The EU also demands from Croatia to solve some issues which inherited from the war time. These issues are generally European Human Rights Agreement, protection of the minority

rights, protection of the Serbian minorities, inspection and punishment ethnic discrimination and returning issue of the refugees.<sup>69</sup>

Recognizing Kosovo's independence is a huge democratic development by itself. Although a few numbers of members reject the recognizing because of their similar internal minority issues, today 22 members of the EU have recognized Kosovo. Even Montenegro, Serbia's traditional friend, has also recognized Kosovo on 15 October 2008 to establish warm relations with the union. Also Macedonian Parliament, another friend of Serbia, has accepted a draft about recognizing Kosovo in the same day. Today Kosovo Parliament has 10 Serbian Member of Parliament and one them says "it is good we are presented in Kosovo institutions, participation in institutions has provided Serbian community with results thus far."<sup>70</sup> As former UN Envoy for Kosovo Status, Marti Ahtisaari says, Serbia's current resistance to recognize Kosovo will change sooner or later, stressing that both countries intend to become members of the EU. International community, particularly the EU will support an independent Kosovo, as it builds its democratic institutions.<sup>71</sup> The EU has appointed EULEX and Special Representative to Kosovo to ensure and cope with the security issues before independence, in February 2008. Police Forces, judges, and custom officers have been also sent under this mission by starting 1 billion Euros assistance for this mission. These all EU supports have been giving the way democratic developments in Kosovo.

#### **4- "SAMPLE" FROM THE EAST TO THE WEST BALKANS: BULGARIA**

Bulgaria had very bad history on human and minority rights by the all aspects before the candidacy. In 1984 under the "Bulgarization Process", more than one million Turks' names were changed with the Bulgarian names, Islam religion and Turkish speaking were banned, so 350.000 Turks flowed to Turkey under these assimilation superimposes. During these negative developments, international community and the EU isolated Bulgaria. Bulgarian economy almost died, foreign debts increased, international

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<sup>69</sup> European Commission, Enlargement Strategy...

<sup>70</sup> Kosara Nikolić, (July 2008) *We Still Have to Fight For Own Rights and Place in Society*, Assembly Support Initiative Newsletter (ASI), 32 (1), 7.

<sup>71</sup> The Kosovo Post, September 16, 2008, (15), 1.

financial credits were cut. These all (especially external) developments started the beginning of the end of the communist regime. By the domestic resistance and international aids, Rights and Freedoms Movement (RFM) was established as a Turkish minority's ethnic party.

The RFM joined the creation of the democratic constitution during the seventh session of the parliament. New constitution has established independent management system, multiparty political system, independent judiciary and guaranteed human and minority rights. In 1990 first democratic election was held and FRM gained 24 Members of Parliament. In the last 18 years the FRM and Bulgarian Governments have built mutual tolerance and understanding and working together culture. In the following elections, the FRM became the coalition partner consecutively. After 2005 election FRM gained "equal partnership" within the coalition government by the representative power of 8:5:3. The FRM was represented by 1 Deputy Prime Minister, 3 Ministers, 14 Deputy Ministers, 4 Mayors and 5 Heads of Parliamentary Commission in the government. On the other hand FRM has succeeded an quite transition from being an ethnic party to the national party. In the last election, FRM got 456.000 votes and 11% of it came from Bulgarians not from Turkish minorities<sup>72</sup>. Joint-working of the FRM and the other majority parties in the government has brought giant steps on the way of the democratization and also economic welfare by the mutual trust. As a result "reward" came to the country: on the 1<sup>st</sup> of January 2007, Bulgaria became a full member of the EU. On this process, it should not be forgotten of the EU's contributions, guidance, political and economical pressure and aids.

##### **5- THE BEST PROGRESS OF THE WESTERN BALKANS: MACEDONIA**

Unlike the other federate states of the former Yugoslavia, Macedonia became an independent state bloodlessly by 1991 Referendum. According to 2002 Census the country's demographic structure comprises 64% Macedon, 25%

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<sup>72</sup> Younal Lutfi, "*FRM Participation on Bulgarian Government and Bulgarian Ethnic Model*", Istanbul Kültür University, Istanbul, 27 March 2007.

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Albanian, 3% Turks and 2% Roman, Serb and the others.<sup>73</sup> During the foundation of the new state Albanians did not support the independence, referendum was boycotted by the Albanians and participation rate stayed around 72%. But Ethnic Albanians and Turks have involved into drafting of the new constitution. Under socialist constitution Macedonia was the country of the Macedonians, Albanians, Turks and the other minorities, however during the negotiations on the new constitution, by the nationalism winds, Macedonians ignored this point and it was not put into the new constitution by mentioning the minorities' names explicitly. Important political amendments and forms of the democratic institutions did not take place in Macedonia and Macedonian politicians avoided mutual negotiations with the Albanian and Turkish colleagues between the years of 1991-2001. On the contrary, at times the government undertook drastic measures to uphold laws that were deemed controversial. So, before 2001 adoption of the amendments to the 1991 constitution could not consolidate the democracy.<sup>74</sup>

Then 2001 Macedonian Conflict came. National Liberation Army, formerly Kosovo Liberation Army fighters, rebelled against Macedonia Government. Conflict enlarged and escalated quickly and could not be controlled by the authorities. Peace could be ensured by the US (James Pardew) and intensively the EU (François Leotard) mediation. The EU drafted Ohrid Framework Agreement (OFA) and made pressure on the Macedonian Government to put it into force. Before this agreement Macedonia and the EU had signed the SAA in April 2001. But to start the membership negotiation, the EU envoys stated beyond the screens, Macedonia should have signed the OFA. By this struggle, the peace could be obtained and OFA was signed by the sides. After signing the agreement and monitoring it's putting into practice for three years, in November 2005, Commission decided that Macedonia ensured Copenhagen Criteria and she was a democratic country. In December 2005, Macedonia was first recognized as an official EU candidate.

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<sup>73</sup> Macedonia State Statistical Office (2005), *Census Population, Household and Dwellings in the Republic of Macedonia*, V: I, Skopje, 176.

<sup>74</sup> Zhidas Daskalovski (2008), "The Future of the Peace Process in Macedonia", *Avrasya Dosyasi*, 14 (1), 99.

The OFA has given extended rights to the minorities, especially Albanians. Government has been reserving millions of Euros to improve the equalities and to keep her promises in favor of the minorities in the agreement. Today all state institution employment rates are 13% Albanians, 2% Serbs and 1.4% Turks.<sup>75</sup> The OFA has brought very democratic conditions to the minorities about representation, language, religion, express of idea, education and establishing institutions by the amendments of the constitution.

According to the OFA, language other Macedonian, spoken 20% of the population is also counted an official language, any person living in a unit of local self-government in which at least 20% of the population may use any official language to communicate with the officer of the government or municipality, for less than 20% of the population of a unit of self-government, local authorities shall decide on their use in public bodies.<sup>76</sup> The freedom of religion confession and the right to express one's faith freely are guaranteed also by the OFA. According the agreement, Orthodox, Catholic and Islamic Communities are separate and equal before law and they are free to establish schools and institutions.<sup>77</sup> State guarantees the protection of the ethnic, cultural, linguistic and religious identity of all communities.

Members of the communities have right to express, foster and develop their identity and community attributes and they can establish primary and secondary education schools in their own language.<sup>78</sup>

Two institutions were established by the OFA. The first is Ombudsman (Public Attorney) to protect the constitutional rights of the citizens when violated by the state bodies. Second is the Committee for Inter-Community Relations which consists of 7 members, 5 of them should be from Turks, Vlachs, Romans and the other two minorities. Also 1000 police officers from

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<sup>75</sup> Kenan Hasipi (2008), "Socio Cultural and Politic Situation of the Macedonian Turkish Minority" 9 January 2008, Istanbul Kültür University, Istanbul.

<sup>76</sup> Article 7, *Ohrid Framework Agreement, Constitutional Amendments*, 13.08.2001, Skopje, Macedonia.

<sup>77</sup> Article 19, *Ohrid Framework Agreement...*

<sup>78</sup> Article 48, *Ohrid Framework Agreement...*

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the minorities have hired and trained by the OSCE, US and the EU until July 2003.

Although the OFA has given the little consideration to the small minorities, its changes have been geared toward improving the position of the especially Albanian community.<sup>79</sup> Macedonia State TV Channel-II broadcasts 2,5 hours, radios 5,5 hours Turkish programs.<sup>80</sup> In addition to the OFA, Badinter system has brought an obligation of making a coalition with a minority party to establish a government in Macedonia.

## 6- CONCLUSION: FURTHER ON THE RIGHT PATH

Democracy does not come easily to, or establish in an environment quickly. Consolidation of a democratic regime, especially in the multi-ethnic countries like whole Balkan region, is more difficult than homogenous countries. Firstly it should be desired by the domestic people and governments, later external assistance could be taken. The EU has become that external server for the SEE countries such as Bulgaria. Then today, it is still assisting to the Western Balkans on their democratization process and transition guidance by its experts, financing, mediations and using the SAAs. During the political assistance, The EU has been using the “membership card” to the regional countries. This technique and aim has brought a lot benefits to the EU and the Western Balkans. That’s why it should be continued that the regional countries actively to encourage for the further develop. Within a decade, Western Balkans will be a fully-democratic, respective to the minority rights and peaceful and tolerance world by the assistance of the EU.

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<sup>80</sup> Hasipi, *ibid*.

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PART II

ECONOMIC  
ASPECTS OF THE  
INTEGRATION



## **Marketing planning in supporting the performance of the rural AREAS - some cases in Albania**

Ines Dika, PhD  
Lecturer at Tirana University, Albania

Klodiana GORICA, PhD  
Lecturer at Tirana University, Albania

**Keywords: planning, marketing strategy, rural areas, sustainable development.**

### **INTRODUCTION**

Tourism is emerging as the world's largest industry and the country facing big challenges regard to the fact of being important tourism largest service export. Thought major multinational corporations are visible on the global stage, small businesses and smaller communities are the ones who keep the engine of the tourism industry moving around the world. These smaller communities, who cannot match the marketing muscle and expertise of major multinational or national corporations, are at a disadvantage in terms of attracting a large number of tourists (Inskeep, E. (1991). Additionally, in many areas of the world, national, state/provincial, and local governments are no longer in a financial position to found major tourism programs. Thus, local communities need to become more self-reliant in the area of tourism development and promotion, thus in the marketing area.

### **DESTINATION MARKETING ORGANISATION**

From the economic point of view a *destination is a marketplace in which many different companies, large and small, compete against each other and at the same time collaborate in a restricted space.* The products and services provided by individual

tourism companies constitute a multi-optional offer for tourists. Guests are able to choose from a variety of products and services for such tourism functions as accommodation and catering.

From the customer's point of view, competition in tourism is primarily among destinations and not individual tourism enterprises. From the tourism company's point of view, even while competing, individual suppliers are forced to work together at the level of the destination. Initially, they delegated the promotional activities for the destination to the local tourism organization. The classical tourist offices are the oldest form of vertical co-operation in tourism. In many European countries Destination Management Organizations (DMOs) form a hierarchical network, with local tourist offices at the bottom and with regional and national tourist boards, including international branch offices. Traditionally, these DMOs focus on destination internal tasks such as monitoring, planning, support in product creation and education as well as external tasks such as promotion and marketing (cf. Werthner / Klein 1999).

Yet, the diffusion of ICT, and especially the enormous spread of the internet, enabled and encouraged DMOs to extend their activities by means of e-business. Following the remarks from above, destinations are some kind of virtual enterprises which require a lot of internal coordination and networking, apart from their external marketing oriented activities (cf. Buhalis / Deimezi 2004).

Smaller communities are going to organize themselves through DMO (destination management organizations), which can be in these forms:

- chamber of commerce,
- convention,
- visitors bureau,
- Local tourism promotional organizations, etc.

#### **NECESSITY OF USAGE OF TOURISM MARKETING PLAN – ADVANTAGES**

Few communities today can afford to ignore the tourism industry, and few can afford to be without some form of a community tourism marketing assessment. So, this means that not all the communities are seeking for a *tourism marketing assessment* which will not result with a great impact on profits. The assessment made

able the business community to see the usage and predict the capacity of business activities. Inskip, E. (1991). When properly developed, a community tourism marketing assessment gives a clear and concise direction for achieving specific tourism development goals or objectives. All this at the end will have a backup in helping to maximize the return on investment in marketing activities. *This research is intended to help and orient DMO through understanding the process of designing a community tourism marketing assessment plan, which they can further employ to enhance their competitive advantage.* Because today's competitive world changes so rapidly, plans must be formed efficiently so businesses can take action to influence the market and adapt the plan when necessary. The community tourism marketing plan is some steps process and includes identifying community stakeholders, determining community stakeholder needs, establishing goals and objectives, etc.

So, there can be noted two stages:

1. *tourism marketing assessment plan*
2. *Understanding and using the impact of this plan in creating the competitive advantage.*

#### **WHY AND HOW ALBANIAN COMMUNITIES SHOULD APPLY A TMP?**

A TMP (tourism marketing plan) gives or offer to the local destination management organization (DMO):

- a model for understanding the nature of tourism prospects;
- a model for understanding their needs;
- a model how to communicate with them;

In fact, referring Albanian communities, which are rich in potential, rich in tourism flows, and with agriculture, or even with human resource, application of a community tourism marketing plan is a necessary tool in planning and monitoring of whole process of tourism development. Of course, it takes time to know, understand or even to apply a TMP for the communities in the country. This takes time and support.

In this way there are the Albanian communities those who in the future:

- Will have direct impact on usage of proper potentials;
- Will control and monitor the process of sustainable development of potentials;
- Have direct impact on economic, social and cultural effect of tourism;
- can provide a plan for economic growth and development;
- Can discover what potential tourists want and need.

A TMA will be done by each DMO located in tourism communities who decide to use their potential in a planned and managerial ways. For this, a DMO's should spend no more than three to six months:

- developing their assessment,
- Develop and update their community tourism marketing plan with fresh information.

In a Albanian surroundings, where communities needs more than developing, supporting and monitoring the process, and where the foreign aid takes special value in marketing assessment, the apply of a TMP for each community has a critical and decisive function.

So, in this way, following such plans, Albanian local businesses invest in a plan of action that helps ensure they maximize their community's product potential and profitability.

#### **Why?**

- ✓ The community tourism marketing assessment is **a strategic process** used by a DMO in developing and maintaining the optimal fit between the allocation of community resources and the business opportunities available in a changing environment.
- ✓ It is more than knowing the private sector market mix of the four P's of marketing product, price, promotion and place. Community tourism marketing plan will provide **a method** for establishing objectives and

formulating strategies and tactics in order to organize a community's marketing efforts.

- ✓ *A model* which help or orient how to allocate scarce resources in order to achieve specific economic development objectives (i.e., tax revenue generation and job creation).

Regarding to the main steps in the process of applying a TMP will be specified some of those who are important for Albanian communities.

- *Stakeholders* are interest groups, parties, actors, claimants, and institutions- both internal and external –who influence the development of a community's tourism marketing plan. Stakeholders are individuals who have a direct or indirect interest in the tourism industry. In Albanian case, the main stakeholders are the proper **parties** that have direct impact on the communities, the **local authorities**, which are directly connected with residents and parties, and sometimes and **Diaspora**, the impact of those is indirect through the **parents and relatives** located in the area, and finally **tourists**.
- After identifying stakeholders, will provide to the DMO an opportunity to obtain information from individuals who have a significant impact on a community's tourism efforts (Mitroff, 1983, pp.35-37).
- Stakeholders should be aware of the community's tourism efforts (Smith, 1989, p. 87). They should be asked questions they are capable and qualified to answer, I.e., their perceptions of existing efforts/programs, planned programs and /or the effectiveness of existing programs. In Albanian case, several assumptions which DMO directors may wish to make about stakeholder behavior for comparison should take into consideration some special issues regard to the development and awareness.

#### **DETERMINING SOME COMMUNITY STAKEHOLDER NEEDS IN SOUTH OF ALBANIA'S COMMUNITIES**

Albanian communities are suffering by a lack of awareness of their potentials, of their inputs and competences, which can be turn in back in competitive advantages for their areas. Questions that must be asked of stakeholder committee members in order to determine the perceptions/needs as they relate to an effective community tourism marketing assessment are:

1. Where is the community's tourism industry now? Determine the current tourism marketing situation.
2. What is happening in the environment? Assess opportunities and threats to local businesses.
3. What does the public want to achieve? Establish realistic, measurable objectives.
4. How could the community achieve these objectives? Determine which marketing strategies will work best to achieve objectives.
5. What specific actions does the DMO need to take? Create marketing programs/tactics with required Budgets and assigned responsibilities.
6. How will the community measure success? Build an evaluation and control system to measure results.
7. In what form will the communities present its plan? Put it all together into a concise plan document.

#### **ESTABLISHING GOALS AND OBJECTIVES – CASE OF RADHIMA**

Developing mutually agreed upon tourism goals enables committee members and other stakeholders to identify common perceptions about what a community tourism marketing assessment should accomplish and how it should be implemented. The final responsibility for goal development belongs to the committee. In addition, political and legal constraints may need to be incorporated into the process.

In fact, in some cases, in some communities in the south, especially in Vlora Region, the stakeholders are mutually connected with some special aim to be achieved regard to develop of their communities.

So this is the case of Radhima, a very well known community for the attention that the community, through the representatives, is organized into comities and is trying to manage the process of development of their potentials and inputs. In this case, individuals who are most likely to have a proactive interest in tourism and its overall success could be selected. So, for **Radhima Community** can be recommend a DMO with some persons together functioning as a advisory boards which interface with local industry, which is fishing and tourism. This advisory board:

- ⊗ can assist in identifying stakeholders, so the persons, individuals or organizations directly having impact and interest on tourism resources and having competences in this field;
- ⊗ who would write up a stakeholder interview questionnaire, in this case can be use the University located in the Vlora Region;
- ⊗ Who would revive stakeholder comments? This can be by the National tourism offices or representatives of the Ministry of Tourism in Vlora Region, Municipality, or even again the University, through the Department of Tourism which in this case can be served as a **research centre**;
- ⊗ Who would determine what differences in perception were important. In this case, it is necessary the impact and support of international representatives in Vlora, as UNOPS (Italian Corporations) or even the private researcher;
- ⊗ Who would decide what follow-up steps would follow data collections and analysis. This can be organized due to allocated to all the forces, included the University, Prefecture, and all national level of interesting in tourism sector. ; and
- ⊗ Who would develop the final report? This need the support of international al organizations, as World Bank or UNDP located in Albania.

Having a very clear statement of what the main goals should be, according to the stakeholders, the Committee can develop an implementation process to achieve goals. In the Radhima case it is necessary the fact of using a stratified random sample survey. This can be as a starting point for the other communities in the whole Vlora Region, which have potentials, inputs, and capabilities, or even the competences in tourism sector, etc.

### WHO COLLECT THE INFORMATION IN VLORA REGION, AND BY WHOM?

In many cases, the rural area, get the information directly by:

- their representative committee, or t
- electing and gathering data available by Technological University of Vlora, s
- Private Sector (hotels, motels, travel agencies), P
- GO-s, N
- Municipality, etc. M

In this way they can get valuable information about potential tourists from travel publications that want their advertising business. These publications have a wealth of information available and are often willing to research questions a committee member might have about a particular tourism segment. There are two major approaches to collecting information about tourists: primary and secondary research. Primary research is research conducted firsthand by directly asking or observing tourists. It can be conducted on a formal basis using quantitative or qualitative methods. Primary research is privileged, and allows the rural areas to seek answers to questions that are considered most relevant. This type of research has been done by Universities and Municipality of Vlora.

The different surveys include:

- Primary research: telephone surveys, mail questionnaires, as well as focus groups, and informal interviews. P
- Secondary research includes trade magazine articles, seminars and travel industry information sources, as well as published research studies or demographic profiles done by local public authorities. In the case of rural areas in Vlora region, we S



consider secondary research very useful for identifying categories of tourists that can be grouped according to demographics (age, sex, income, etc.) or psychographic profiles that can shed light on their expected behavior.

The impact of government at all levels has been shown to affect demand for tourism services. In general, local government actions tend to underestimate the contribution of tourism to creating jobs and wealth in the Radhima zone. This situation requires that the committee or even any DMO remain keenly aware of government initiatives (in local and national level), that affect the individual domestic and international tourist as well as companies that compete for the traveler's time, attention and spending.

#### **INVENTORY OF POTENTIAL IN RADHIMA TOURIST ZONE – A NECESSARY STEP**

In fact, we can consider this step as very fundamental for all the Albanian tourism areas (TDA) which have potential and, the second step after this is to have a clear inventory or what having *in quantitative and qualitative* aspects.

Sometimes, in some communities within the country, many DMO would agree that *community tourism marketing assessments must focus not only on the community's product service capabilities and image, but also on the community's tourist potential.*

This means getting to know the community and its tourists as thoroughly as possible. This can be achieved through a community tourism resource inventory, primary market research, and other sources of secondary information.

Conducting an inventory of current community tourism resources is an essential step for the whole communities and its benefits. Can be dividing into two categories: natural and man-made.

#### ***Natural resources include:***

- ☒ Climate, environment, natural attractions (mountains, oceans, canyons, etc.), historical, religious, ethnic and cultural identity, and related sights. They are the backdrop for tourism development. These natural resources are difficult to evaluate because they are difficult to quantify. Every Albanian community has its own unique character and ambiance. Each Albanian community has its own traditions and heritage. Usually, they are expressed in the day to day activities of its people, as

well as their festivals, events and celebrations. They give life to the authenticity of the community, the ambiance of the town, and the charm of its people.

***Man-made resources are:***

- ⊗ The physical facilities, the infra-structure and super-structure of the area. It is the accommodations, attractions and theme parks, restaurants, shopping malls, recreational activities, transportation, and complimentary services that are commonly called the “tourism industry” or an **Albanian Unique Community’s “tourism product”**.

An inventory of resources normally focuses on these elements. This is particularly true because these resources can be identified and measured with relative uniformity. The comparison of the number of man-made resources in a community can be related to sales, population, or square miles, thus providing a barometer or yardstick of relative development or underdevelopment of the Area in Vlora Region.

There are, however,

- ⊗ no absolute standards to follow in evaluating community tourism resources;
- ⊗ Not are there standards for what is enough tourism development.

Comparison among Albanian Communities located in the South of the Country, mainly in Vlora Region, well known for the popularity of the incoming and domestic tourism flows, the comparison within a community over a period of time serves to help the committee identify:

- ⊗ what type of development may be desirable;
- ⊗ Developments those are compatible with the values of the residents within a community.

The inventory of Radhima, or even in Jal, Himara, Qeparo, etc., community tourism resources can also serve *as a basis for future non-tourism planning*. Therefore, all community tourism resources which are identified should be included in the inventory.

There are potentially as many different classifications of community resources as there are professionals conducting community tourism inventories. The following classifications provide a working list, for the Universities or individual researcher

which might be able to have their proper support in Albanian communities for all this process, to begin an inventory:

- ☒ Accommodations;
- ☒ Attractions;
- ☒ Retail Services/Products;
- ☒ Information Systems;
- ☒ Transportation;
- ☒ resident Attitudes;
- ☒ Business Leaders Attitudes;
- ☒ Public Official' Attitudes

#### **HOW SHOULD PREPARE ECONOMIC IMPACT FOR THE CASE STUDY?**

Radhima compose a community which by years is promoting tourism by local businesses that operate in an extremely competitive environment-competition

The different organization among the local business in Radhima, must look beyond their community and recognize that many other attractive communities are available to tourists, both domestically and internationally. It is helpful to divide a community total tourism market into:

- c  
urrent tourists;
- t  
ourists to competitive cities;
- P  
rospective Tourists.

Given the proper information, the committee should be able to generate a detailed description of existing tourists. This description can include:

1. demographics,
2. lifestyle,
3. a purchasing history,
4. Other collected Information.

Most of the methods used to measure economic impact incorporate one or more models, i.e., mathematical relationships among or within groups of travel industry components, to project the total impact of the industry from actual measurements of a smaller number of these components. These actual measures are themselves usually projected from a small sample taken within the community. Some questions must be addressed to prepare an economic impact study;

1. How many tourists are visiting the Radhima zone?
2. What is the average party size?
3. How long are they staying?
4. What are they purchasing?
5. What is the purpose of their trip?
6. How are they arriving (Heller, 1985).

#### RECOMMENDATION

Local communities are encouraged to explore the potential of tourism growth. By integrating the tourism concept into the existing structures, local public officials will be able to develop a more integrated approach to economic development planning and implementation. Tourism may very well be the twenty –first century’s new crude!

#### *Focus on the customer, not in the Albanian products*

Because of that, we recommend that every type or organizing within the rural area, (TDA), should fail or win depending what is undertaking in the first steps, how is organize everything in the beginning, how is training the staff, who is taking the responsibilities, who is manager of the whole process of assessments, but especially by the fact, that how and *in which way is started* the process. This means to place more importance on the Albanian tourism *product* or on the *costumer* (domestic or international). For the local actors, private or public ones, it is a crucial moment to keep the attention primarily and focused on the customer. This should be essential.

#### *Evaluation of Residents’ Features*

An understanding resident' attitude requires an understanding of the relationship between the residents and the tourism industry. Residents are both the primary beneficiaries of tourism development within the community and a critical part of the tourism product. Clearly, the successful initiation and implementation of any community tourism marketing requires support from residents. This may be in the form of changes in local laws, taxation levels, willingness to retrain for newly created jobs, or through their hospitable receptiveness of tourists.

Lack of awareness on the part of residents as to what there is to see and do within the community suggests to the DMO that the community has little to offer, or is indifferent to the tourist's needs. The relationships which all Radhima's residents are likely to have tourists will depend on the *skill levels*, the *availability of a labor force*, and the *interest of residents* in employment opportunities within the tourism industry.

A survey of residents will serve to pinpoint specific concerns or population groups with differing attitudes. Such information will save time and effort over the long run of the community tourism marketing plan since the design strategy can be responsive to identified concerns. Such surveys can be conducted by University of Vlora or even other professional organizations.

#### *Attract firstly domestic visitors*

The experience has shown that if a destination (in the level of macroeconomic statement) develop international demand and has much potential, there results will be lowest compare than if there is develop primarily the domestic demand, so attracting the residents is an effective strategy of marketing. For this reasons, the regions within Albania, not only Radhima as a case which we are developing, but all the small areas during the Ionian Sea, starting from Vlora town to the southeast part of Albania, will develop their tourism offer to serve primarily to the national tourists, visitor or excursionists, Albanian residents or Diaspora, and after them, the second group will be the international flows.

#### *Follow a marketing approach in attracting the tourists*

The rural areas will not follow a *sales-oriented approach* that assumes customers are naturally resistant to making purchases and, therefore, must be persuaded to buy travel products or services through high pressure sales techniques. This orientation is particularly short-sighted in today's marketplace. Because these tools that we discussed often focus on only immediate opportunities for sales, they seldom consider long-term marketing approaches that would stimulate repeat business.

#### *Evaluate the economic Impact*

It is very difficult to create a tool for evaluation of planning tourism impact, especially the economic impact of tourism. Anyway, the importance of having an accurate measure of the economic impact of the tourism industry on the rural areas is essential. The direct impact includes:

- the jobs and wages created for local residents, t
- the profits received by local businesses from sales to tourists, t
- the direct net revenues received by local state and federally owned facilities, t
- the taxes paid to local government from sales and wages created by tourist purchases. t

One of the recommendations goes to the *policy of investment and planning* in Radhima and other small tourism areas *must be very transparent*. So, we propose:

- Local governments must invest tax revenues for the development of tourism programs because one of the reasons is that the taxes are collected by local government and reinvested in goods and services enjoyed by residents and tourists alike. L
- Economic impact studies, most likely, would be commissioned through Vlora University or an organization having similar specific technical expertise. E

#### *Evaluate the advantages*

Radhima as a very competitive zones around the Vlora Region, should be describe separately in order to evaluate any key differences and points of opportunity: what makes competitive area, and is there any real difference in what these tourists want and need?

#### *Evaluation the Business in Radhima*

The nature of the tourism industry is such that in many communities it permeates throughout the community unseen. Unlike agriculture, manufacturing, or high-tech industries, the tourism industry in a community is not readily identifiable. Rather, it is made up of a full spectrum of businesses which serve the tourist's needs.

Transportation, accommodations, attractions, restaurants, retail sales, and recreational attractions combine to make up the community's tourist product. These businesses are an integral part of the community serving not only tourists, but also residents.

Many of the businesses in the tourism industry are small businesses. While some of these may be affiliated with franchise chains, particularly accommodations and restaurants, the majority are small, independently and locally owned and operated (Ibid., 1981, pg.87). Their individual ability to influence tourism growth may be negligible, but by working together, their impact can be considerably greater.

## **Investments role in Albania's economic growth in the course of transition**

Edlira Luçi

Phd, Lecturer, Faculty of Economy, University of Tirana

Dorina Kripa

Phd, Lecturer, Faculty of Economy, University of Tirana

**Key words:** Investments, Gross Domestic Production, Transition economies, Economic growth

### **Abstract**

In the early 90s, Albania embarked on the road to reforms for stabilization, liberalization, privatization and integration of its economy in the overall global and regional economic trends. Among the challenges facing the economy during transition, an important place is occupied by investments, which play a primary role in economic growth. This brief presentation focuses precisely on the range and issues of investments in the course of transition, while trying to give a brief outlook of the dynamics and effectiveness of investments in Albania, their role and impact on economic growth, key problems and challenges currently facing them, as well as some recommendations in the light of improvements of the situation in the future.

The presentation focuses specifically on the macro-economic situation and the dynamics of the investments in the course of transition. The analyses, which in fact is a comparative advantages analyses with other economies of South East Europe (SEE), points out that there has been progress in terms of



growth and macro-economic stability. Also, progress is dedicated to investments, which have increased substantially, except for two years, namely 1997 and 2002.

We have also stopped to look on the review of investments effectiveness. Data speak of a satisfactory level of feasibility of investments utilization. According to the indicator of investment spending per one percent of GDP growth, Albania is ranked fourth among the SEE economies. Even though effectiveness rates are high, still there is an undesirable trend of its aggravation in the course of time, which represents yet another challenge.

The structure of investments according to ownership points out to the private sector as the promoter of investments growth. An analyses of private investments based on the enterprise structure survey indicates the increasing positive trend of their volume and effectiveness. In order to maintain this trend there are recommendations for improvements to the business environment. Public investments show fluctuations throughout the period, while there is a declining trend after 2001. Given that there is a decline in the rates of external financings, preservation of the high levels of public investments remains an issue that needs to be addressed for the future.

As a conclusion, we have tried to come up with some concluding remarks and recommendations for improving the investments situation, mainly with regard to enhancing further their feasibility and role in the country's economic growth.

## ***1. INTRODUCTION***

In the recent year Albania has made progress regarding political stability, and economic growth. In 2006, Albania signed the SAA with the EU, and in 2008 in the Bucharest Summit it received the invitation for NATO membership. The economy was witnessed satisfactory growth, as a result of the

intensification of the role of the private sector, and due to structural reforms. During 1998-2005, real annual GDP growth was 6.3%. Currently, according to GDP size per inhabitant, Albania is ranked among middle income economies. Growth rates are high even when compared to the transition economies of the SEE.

Growth was accompanied by price stability, expressed in a moderate annual average inflation rate at 2.9%, and a reduced budget deficit. These together with favorable monetary terms, characterized by historically low interest rates, and stable exchange rates have enabled a fast growth of investments. However, there are also problems, gaps and challenges, which are mostly related with the not-so-motivating yet business climate. This is the reason why in this report we are focusing on the issues of the dynamics and effectiveness of investments during transition, and on their impact on economic growth.

Economic theory and practice have proven that the degree of the impact of investments on economic growth in any country is conditioned by two factors:

- (i) the volume or the dynamic of investments;
- (ii) the effectiveness of the use of those investments.

The volume and effectiveness of investments, as key growth indicators, help in the dynamization of the economic life, and yield the desired economic and social progress. Economies that ensure high rates investments and effectiveness in their use are truthfully developed and dynamic economies. Whereas on the contrary, countries with low and unsustainable investment growth rates, and in particular those that fail to use investments efficiently are generally characterized as undeveloped economies.

Given that the mission of investments is to foster economic growth, their dynamic in the macro perspective is expressed in the investments participation rate in the GDP (**Ipr**), which is calculated as the ratio of gross

investments ( $G_i$ ) carried out during one given period with the volume of the GDP for that particular period:

$$Ipr = \left( \frac{G_i}{GDP} \right) \times 100$$

$Ipr$  indicator influences the dynamics and the quality of development in terms of GDP annual growth rate. However, the same volume of investments could potentially lead to different GDP growth rates, and this is entirely dependent on the effectiveness of the utilization of the investments.

From the macro perspective, the effectiveness of the investments is expressed through two main indicators: marginal capital coefficient ( $Mcc$ ) and the investments spending per one percent of GDP growth ( $Is$ ). The  $Mcc$  indicator is calculated as the proportion between gross investments and the GDP increase during a given time interval. Whereas the  $Is$  indicator is calculated as a proportion between the investments participation rate and the percentage of the increase of the GDP during a given timeframe.

The relationships among gross investments, GDP growth rate, and the effectiveness indicators represent the substance of the Harrod-Domar model, which is broadly used in macro-economic reviews. According to this model, GDP growth rate on account of investments may be estimated as a ratio of the GDP investments participation rate and investments spending per one percent of GDP growth.

## **2. THE DYNAMICS OF INVESTMENTS AND THE MACRO-ECONOMIC SITUATION**

The dynamic of investments and the macro-economic situation are closely and mutually related. The macro environment determines the business climate, and consequently the dynamics of investments as well, whereas investments on their end appear as an important factor for the country's growth and stability. In Albania's circumstances, with a relatively low development level, where unemployment and poverty rates are high, where

there is growing inflationary pressure, and the trade deficit is very high, etc., the issue of the dynamics and effectiveness of investments becomes particularly important for long-term sustainable growth.

Even though the subject of the presentation is the analyses and impact of investments on economic growth during transition, in order point out the changes that occurred after the 90s, comparisons are made also with the pre-transition period, as well as with the countries of the SEE region. The main indicators of the dynamics of investments, and of the changes in the macro-economic situation in Albania in the course of 1950-2007 are presented in Table no. 1.

*Table no. 1. Indicators of the dynamics of investments, and of the macro-economic situation in Albania during 1950-2007*

Years	Investments (in million Lek)	Ipr indicator (in %)	Growth rates (in %)		
			GDP	Inflation	Unemployment
<b>1951-1990<sup>81</sup></b>	100,249	31.5	-	-	-
<b>1996</b>	48,806	15.5	9.1	12.7	12.4
<b>1997</b>	47,417	16.8	-10.2	32.1	14.9
<b>1998</b>	51,650	16.2	12.7	20.9	17.8
<b>1999</b>	69,812	19.9	10.1	0.4	18.4
<b>2000</b>	92,988	24.7	6.5	0.0	16.8
<b>2001</b>	117,624	29.2	7.1	3.1	16.4
<b>2002</b>	108,600	26.2	4.3	5.2	15.8
<b>2003</b>	109,533	25.0	5.7	2.4	15.0
<b>2004</b>	109,963	23.7	6.7	2.9	14.4
<b>2005</b>	130,228	26.6	5.5	2.4	14.2
<b>2006</b>	129,026	25.1	5.0	2.6	13.8

<sup>81</sup> Because of gaps in the Social Product which contains also the domestic turn over for the calculation of the Ni indicator for the period 1950-1990 we have used national income indicator, which is closer to the GDP.

<b>2007<sup>82</sup></b>	142,219	26.1	6.0	3.0	13.5
<b>1996-2007</b>	1,157,866	23.7	5.1	7.3	15.2

**Source:** Institute of Statistics, Ministry of Finance, Bank of Albania, World Bank and IMF databases

The economic situation during the first years of transition deteriorated substantially. In the face of competition it became objectively impossible for majority of the capacities inherited from the former system given that they were based on backward technologies. In 1992, the GDP marked a decline of 33.2% compared to 1990, whereas the industry suffered a much deeper decline of 70%. The economy was faced with strong hyper inflationary pressure, which reached a three digit figure of 236.6%, and was accompanied by a rapid and expansive depreciation of the local currency; the budget deficit was very high and reached up to 60% of the GDP; galopant increase of unemployment rates of 27%, etc. This situation was further aggravated because the old centralized management structures were abandoned, while market institutions had not yet been established. Hence, a chaotic situation was created, where there was neither planning, nor market available. To this end also contributed the political conflicts, social tensions, strikes, and the absurd phenomenon of the destruction of the national properties.

Under these circumstances, in addition to the reforms for the liberalization, privatization and institutionalization of the market economy it became necessary to formulate a stabilization program, which began to be implemented in April 1992. The main objectives of this program, which was drafted with the assistance of the International Monetary Fund and that of the World Bank included: growth of GDP and reduction of inflation by 1996 to a level below 20%. These would be achieved through reduction of the budgetary deficit, reduction of the number of public administration; reduced expenses for wages, elimination of subsidies, and reallocation of budget expenditure, while giving priority to investments in infrastructure.

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82 Most of 2007 data are preliminary.

In the course of four years, namely 1993–1996, the Albanian economy witnessed very promising progress: GDP increased to 46.7%, inflation in 1995 fell to 6% out of the three digit level of 1992, and unemployment was reduced from 26.5% in 1992 to 12.4% in 1996. Until 1996, all macro-economic parameters were optimistic, and continuously improving. However, the accumulation potential of the economy at this stage was limited and consequently investment levels were modest.

After 1996, considering the difficulties of the transition, the dynamics of investments introduces a growing positive trend. The investments flows are a lot higher when compared to the previous period. Thus, average investments per inhabitant during 1996-2007 were 26 times higher than those during 1950-1990. In addition to the ongoing pace of high growth of investments, in the course of this period macro-economic performance as well improved significantly, except for two years: 1997 and 2002.

In 1997, the promising macro-economic progress was interrupted due to the bankruptcy of the pyramid schemes (fund-raisers), which had accumulated the savings of over one third of the Albanian households, and which in monetary terms meant 1.2 billion USD, or approximately 50% of the GDP<sup>83</sup>. The pyramid schemes in addition to creating a general chaos; they also promoted parasite behavior, and discouraged investment of savings in economic activities. After four years of annual growth at 13.8%, the GDP in 1997 fell at 10.2%, inflation from 6% in 1995 reached to 32.1%, whereas the exchange rate of Lek with USD reached 149 from 104.5 only a year ago.

Another unfavorable situation was that of 2002 as well. In 2002, investments fell by 7.7% compared to the previous year. This decline was particular sharp for public investments which are covered by external financings. The situation was reflected also in the deterioration of the macro-economic

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<sup>83</sup>Malaj, A., F. Mema. (1998): “Characteristics and impact of financial informal market”, *Journal Economy and Transition*

performance since GDP growth from 7.1% in 2001 fell to 4.3% in 2002, inflation increased from 3.1% to 5.2%, etc.

Despite the negative influence of the last two years, the dynamic of investments during transition has been relatively high. Real investments during 1996-2007 increased to 291%, i.e. with an annual high rate of 10.1 %. Average investments per inhabitant in 2007 resulted 248.5% higher than in 1996. The Ipr indicator for a period of 11 years reached the level of 23.6 %, and marked a substantial increase from 68.4% to 15.5 % in 1996 to 26.1% in 2007. The same trend is reflected by the Gross Fixed Capital Formation (GFCF) indicator, which shows the place they occupied in the GDP composition for each year of the investments and stock, and capital constructions. This indicator has marked an increase to 233% coming from the level of 26% of the GDP in 1996 to 60.6 % in 2005. From an analysis of the dynamics of investments, and of the macro-economic situation during transition, the conclusion can be drawn that the situation has kept improving continuously, and investments are one of the key factors that have led to this improvement.

Of interest are as well comparisons among different transition economies. It's only normal that the size, dynamics, and effectiveness of investments vary from one economy to the other, even so within the same economy in different years. These are the result of the economic policies applied in each country, and are conditioned by the real potential of the economies of those countries for the relative participation of gross investments in the shaping of the GDP. Meanwhile, these comparisons help in creating a more accurate image, and lead to more comprehensive evaluations regarding the dynamics and the level of effectiveness of utilization of investments for each country. The data of Table 2 serve for the comparison of the dynamics of investments in the SEE transition economies.

**Table no. 2. Investments growth and average annual indicators during 2000-2005<sup>84</sup>**

Transition economies	Gi (2005 versus 2000 in %)	Average investments ( in USD per inhabitant)	Ipr indicator (in % versus GDP)	Is indicator (per 1% growth of GDP)
<b>Albania</b>	143.1	1,174	25.86	4.46
<b>Bosnia &amp; Herzegovina</b>	121.9	1,388	20.00	4.17
<b>Bulgaria</b>	165.5	1,717	21.17	4.70
<b>Croatia</b>	194.7	3,313	27.99	6.08
<b>FYR of Macedonia</b>	100.4	1,230	18.11	12.07
<b>Moldavia</b>	174.7	399	23.96	3.47
<b>Rumania</b>	153.5	1,735	22.16	3.89
<b>Slovenia</b>	115.0	5,175	25.30	7.23

Source: Transition report 2006<sup>85</sup>

During 2000–2005, according to gross investments growth rate of 43.1%, Albania was ranked fifth among the SEE economies. But, this relative indicator is not very appropriate for comparison purposes, given that the stages of economic development of different countries, and the investments growth rate are influenced by their absolute size for the period that serves as the bases for the comparison.

<sup>84</sup> Indicators of investments per inhabitant, participation of investments in the GDP, and investments spending per one percentage of GDP growth in the transition countries

<sup>85</sup> Transition report 2006, Finance in transition, (EBRD)



The more appropriate indicator for comparisons among economies is the Ipr indicator. According to this indicator, Albania comes second after Croatia, leaving behind other countries economies. During 2000-2005, Albania spent on average annually for investments 25.86 USD per 100 USD GDP, while this indicator for Croatia, which is ranked first among the SEE economies, is 27.99 USD, whereas for FYR of Macedonia which is ranked last is 18.8 USD. Meantime, it is worth pointing out that the Ipr indicator also, as an indicator of the dynamics of investments, does not reflect the economic potential of each country. Equal Ipr indicators for two economies do not offer equal amounts of investments, since the latter depend not only from the Ipr indicator, but also from the absolute size of the GDP of each country. The more developed the economy, with a higher average GDP per capita ensures a high investments flow.

In order to fill the above mentioned gap of the Ipr indicator, we have opted for the average investments indicator per inhabitant, which reflects concomitantly the rate of investments participation in the GDP, but as well the absolute sizes of GDP, i.e., the potential of the country's economic development. According to annual average investments per inhabitant for 2000-2005, Albania with 1,174 USD is ranked penultimate, close to FYR of Macedonia and Bosnia-Herzegovina. According to this indicator, even though Albania's Ipr indicator is higher than that of Bulgaria and Rumania, it has average investment rates per inhabitant respectively 31.6% and 32.3% lower than these countries.

Under these circumstances, the challenge facing Albania is that because it is not possible to increase the Ipr indicator, it can at least maintain for the future as well the positive trends proven so far in the economic growth, and investments dynamic. Facing this challenge is related to further improvements in the investments climate. This is due to the important role of investments in the economic growth, generation of new employment, changes in the sector structure of the economy, improvements of technology, and increased production effectiveness. Among the main factors that would

determine the improvements in the investments climate, in addition to the macro-economic environment, and the political context would be the development and strengthening of the physical infrastructure of the economy, intensification of the fight against high levels of corruption, efforts to eliminate barriers that hamper the increase of the competitive capacities of the economy, and increased investments in activities of research and development, and establishment and strengthening of human capital capacities.

### 3. ECONOMIC EFFECTIVENESS OF INVESTMENTS

An analysis of investments economic effectiveness is necessary to determine their impact on economic growth, and macro-economic stability. Table 3 below shows the indicators of investments effectiveness for 1950-2007.

**Table no. 3.** *Investment expenditure and marginal coefficients of investments during 1950-2007*

Years	1950-90	1996	1997	1998	1999	2000	'01	'02	'03	'04	'05	'06	'07	'96-'07
Is indicator	8.18	1.49	1.52	1.32	1.97	3.37	3.94	8.45	4.11	4.03	4.29	5.02	4.35	4.47
Mcc indicator	8.15	-	0.0	1.43	2.17	3.60	1.29	-	4.34	4.22	4.53	5.27	4.75	4.67

**Source:** Institute of Statistics, Ministry of Finance, Bank of Albania, World Bank and IMF databases

For the period 1950-1990, investments effectiveness is low. This is indicated in the Mcc indicator, which as an average for the entire period is 8.15. The same situation is reflected by the Is indicator as well, which is 8.18. In the OECD countries, the Is indicator for 1960-1980 is 5.15. The situation of the effectiveness of investments during this period was a direct consequence of the isolation of the economy from the international market, and its

competition. In the arguments for the investments, the political logic prevailed over the economic one, and hence in most of the cases investments were translated into objects with backward technologies and low effectiveness.

The analyses of the efficiency of investments in the course of transition shows an increase compared to the precedent period. The *I<sub>s</sub>* indicator, as annual average for 1996-2007 was 4.47 or 45.4% higher compared to that of the pre-transition period. The same applies for the *M<sub>cc</sub>* indicator, which as an average for the transition period was 4.67. This indicator is 75% higher compared to that of the pre-transition period.

Of interest is the analysis of investments effectiveness by comparing its levels with those of the SEE transition economies. With reference to Table no. 2, in terms of effectiveness in the utilization of investments, Albania is ranked fourth in the list of SEE transition economies behind Moldova, Rumania and Bosnia- Herzegovina. The *I<sub>s</sub>* indicator for Albania was 4.46, which means that for 1% of GDP growth, 4.46 USD have been spent, whereas the inverse of the effectiveness coefficient was 0.22. This indicator is 4.8% higher compared to that of Bulgaria, which comes behind Albania in terms of investments effectiveness, and 275% higher than that of FYR of Macedonia which is ranked last.

Even though according to the average level of investments effectiveness indicator for the period of transition, the situation in Albania is relatively good, even compared to that of other SEE economies, it must be pointed out that the trend of the change of indicators during the period is not satisfactory since it shows a continuous decline in terms of investments effectiveness. If before 2000, the *I<sub>s</sub>* indicator was fluctuating in the 1.32-1.97 interval, which corresponds to a significantly high effectiveness rate, after 2000 the situation deteriorates since the *I<sub>s</sub>* indicator is now at an interval between 3.37- 8.45. Thus, there is a decline in the effectiveness of investments. If the investments effectiveness coefficient in 1996 was 0.67, in 2006 it dropped to 0.20, so it suffered a decline of 70%. This indicates that the country is faced with the

challenge stopping the deteriorating trend of investments effectiveness through implementation of those investment policies that would guarantee maintaining the existing level of investment effectiveness at the macro-economic level.

Another problem of effectiveness is the low scale of the impact of investments on increases competitiveness of the Albanian business and products in the regional and international market. Statistical data testify that most of the GDP goes for final consumption by the households, administration and not-for-profit institutions. During 1996-2003, to this purpose went 84.5% of GDP. This situation is a consequence of the allocation of priority investments in the service sector dominated by: trade, hotel services, bars and restaurants, etc. This sector in 2006 accounted for 51.6% of the GDP, while agriculture and industry contributed only 32.6% of the GDP. This sector structure of the GDP indicates that Albania is a consumer country of goods and services that come from imports.

The above mentioned conclusion is reiterated by the foreign trade balance, which is running at a deficit, more so a continuously increasing one. In 2005, the deficit reached 196.4 billion Lek or 40% of the GDP, with an increase by 3.1 times compared to 1995. These data show that so far, allocation of investments has not always been in the right direction with the view to expanding the sectors of goods production and enhancing their competitiveness in the global market. It shows that investments are oriented mainly towards short-term benefits, with no regard for the future interests to guarantee sustainable and long-term growth of the national economy. Improvements in this direction are an important element for enhancing long-term effectiveness of investments.

#### **4. PRIVATE AND PUBLIC INVESTMENTS**

The investments structure can be reviewed according to different features. In our presentation we have limited ourselves only in the review of investments

according to types of ownership. This criterion serves to make the distinction between private and public sector investments. During transition, profound changes have occurred in the structure of investments according to ownership type, which are presented in the data of table 4 below.

**Table no.4.** *The structure of investments for 1996-2007 (in percentage of GDP)*

Years	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	07-96
<b>Private investments</b>	11.0	12.5	10.4	12.4	17.8	21.7	19.4	19.3	17.8	21.3	19.4	19.8	17.6
<b>Public investments</b>	4.5	4.3	5.8	7.5	6.9	7.5	6.8	5.7	5.9	5.3	5.6	6.3	6.1
<b>Public investments with external financing</b>	2.4	2.3	3.3	3.6	3.3	3.3	3.0	1.9	1.4	1.3	n/a	n/a	n/a

**Source:** Institute of Statistics, Ministry of Finance, Bank of Albania, World Bank and IMF databases

#### **4.1. Private Investments**

Law no. 7512 of 10.08.1991 “On the sanctioning and protection of private ownership, free initiative, etc., led to the birth of the private sector of the economy. During the transition, this sector has lived a more rapid development than that of the public sector, which has kept shrinking due to the process of privatization. Currently, the private sector accounts for 75 % of the GDP, employs 80% of the overall number of employees, and is responsible for 75% of the country’s overall investments.

The dynamic of the growth of private investments has been rapid. Private investments grew 3.11 times, while in the public sector this growth was 2.42 times. This allows us to come to the conclusion that the private sector not only dominates the country’s economy, but with the priorities that manifests vis-à-vis the public sector it has become the promoter of rapid growth of investments in the transition period in Albania.

Maintaining and enhancing the dynamics of private investments will require the contribution of all factors that determine the investments climate. Leaving aside the endogenous factor related to natural resources and the size of the domestic market, the quality of the investments climate is determined by three factors: (i) the macro-economic environment, (ii) infrastructure and (iii) the political context. If the first two factors are pre-requisites for the potential investors, the third factor, the policy of the government translated in the institutional framework is decisive since it defines the rules of the game in the business area.

In the course of transition, and in particular during the two last years, the institutional framework has improved. Thus, the tax burden has decreased: corporate profit tax has declined from 23% to 10%; social and health insurance contributions have decreased by 31%; simplified profit tax and local taxes have been reduced by 50%. With the establishment of the National Center for Business Registration, the time for registering a new business shall be only 1 day, from 40 days which was the case before. Likewise, the administrative burden has been reduced up to 40%, with regard to documents and the time for obtaining a license, etc.

However, despite all improvements, the business environment is not yet conducive. Thus, in the case of Albania, there is low scoring for the following: governance and enterprise restructuring score with 2+ points; competition policy scores 2 points; markets and non-bank financial institutions security scores 2- points; and the infrastructure reform scores 2 points<sup>86</sup>. Also, in terms of the business conditions, Albania is ranked 136 among 178 countries, lagging behind other countries of the region<sup>87</sup>. Doing business conditions in Albania are summarized in Table no. 5.

**Table no. 5.** *Albania's ranking according to some of the Doing business conditions ( 2007 and 2008)*

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<sup>86</sup> Transition report 2006, Finance in transition, (EBRD)

<sup>87</sup> Doing business 2008, Country profile for Albania, World Bank

<b>Doing business conditions</b>	<b>Ranking for 2007</b>	<b>Ranking for 2008</b>	<b>Change</b>
<b>Company registration</b>	124	123	+1
<b>Licensing</b>	162	168	-6
<b>Employment</b>	110	109	+1
<b>Property registration</b>	77	82	-5
<b>Borrowing</b>	45	48	-3
<b>Investor protection</b>	165	165	0
<b>Tax payment</b>	138	118	+20
<b>Trade</b>	107	70	+37
<b>Contractual power</b>	76	74	+2
<b>Business closure</b>	178	178	0

The above-mentioned evaluations indicate that the environment for investments and doing business is still difficult, while the improvements in the business climate are slow. A comparison of 2008 with 2007 shows some slight improvements in terms of registration of companies, employment, trade, tax payment, and contractual power, while there is a worsening situation in terms of licensing, property registration and borrowing.

Among the negative phenomena related to the business climate, we can point out the legal steps taken recently for putting in the administrative channel of the reference prices for the estimation: of costs and prices of construction works; of the prices for the sale of apartments, reference wages of employees; customs reference prices, etc, which even though used with the good intention of fighting informality, fiscal evasion, abuse, unfair competition, etc, in truth they severely infringe the economic freedom of the market, creating a suffocating environment for the business, and seriously hampering new flows of private investments, and in particular FDIs.

Allocation of private investments has been the main factor, which has led to intensive changes of the sectoral structure of the economy during transition. For the study of this role, we made use of the data of the economic enterprises sample survey. The scope of this survey was collecting and processing of data

regarding the activity of enterprises in industry, construction, transport, and telecommunications, trade and some other service sectors.

The review of the structure of private investments according to sectors shows that during transition most of these investments have focused on the services sector. Consequently, services has witnessed faster growth compared to other sector, and thus becoming the main factor contributing to the growth of the GDP. During 1990–2005, the activity of this sector has increased 539.7%, whereas its contribution to the GDP in 2004 was 54.6% compared to 12.7% which was the figure for 1990. According to the contribution, services are currently the key branch of the Albanian economy. Within it there is a rapid development of tourism, with several positive developments such as: increased accommodation capacities, doubling of marketing expenses, increased volume of investments, and a satisfactory increase in the number of foreign visitors.

The tendency of priority allocation of private investments in the services sector is the result of not only market demand for services, but also of the interest of private entrepreneurship to invest in this sector where there are high rates of economic return. Between 1999-2003, the average time for investments repayment in the service sector was 11 months, while this indicator for producers of goods was 34 months. Thus, the effectiveness of investments in the service sector was 3 times higher compared to that of the production sectors.

The branch structure of private investments and their effectiveness for each branch are conditioned by the market demand. In the industry sector, private investments account for 37.5% and the repayment schedule is very high at 58.5 months. Within the industry, priorities in terms of investments has the processing industry which has absorbed approximately 60% of the industry investments. The transport and telecommunication have received 38.4% of the private investments, and the repayment schedule is 18.6 months. In the construction industry indicators are respectively 8% and 10.7 months, whereas in trade 16.1% and 6.3 months. Priority branches for private



investments included transport, telecommunication and industry, which have attracted the majority of private investments of enterprises of goods' producers.

The structure of private investments according to its integral elements indicates a prevalence of machineries and equipments, which absorb 39.6% of the investments. For the goods' producers this element accounts for 51.2% of the investments. This is an indication that under the new circumstances of the liberalized market economy, private entrepreneurship must focus particularly on the ownership of up-to-date modern technologies and techniques in order to face the challenges of competition.

#### **4.2. Public Investments**

The role of the Government in the economy for a long time now is subject of debate. Regarding this issue there is a great difference of opinion, starting with the suggestion for a very active intervention of the Government in all aspects of the economy, up to the minimization of the role of the Government as a minor regulator instrument. In the last decades, the developed countries and the developing ones are more inclined to support the neoclassic school regarding the role of the government. However, this does not mean that in practice the role of the government has been minimized. On the contrary, in the analyses of the long-term perspective we note that the percentage of the government budget against the GDP of the countries is increasing. However, modern governments' interventions in the markets are different from those of the past governments.

Public investments represent one of the most tangible forms of intervention of the governments in the markets. They contribute to the development of the country, while ensuring the production of public goods, which would have otherwise insufficiently been provided for by the private markets, or not with the appropriate efficiency. Thus, for instance, investments in infrastructure are generally considered as public goods. Public investments become

indispensable even in those cases when private markets fail to ensure efficient allocation of economic resources.

While private investments have introduced a clear increasing trend, public investments show major oscillations, and after 2001 there is again a declining trend. This phenomenon is explained mainly with the reduction of externally financed investments. However, despite this, the Ipr indicator of the public sector in Albania stands visibly above the accepted level of the economies of the region. During 1999-2003, the public Ipr indicator in Albania was 6.42, in Bulgaria and the Czech Republic 3.4, in Hungary and Greece 3.8, in Poland 5.1, in Rumania 3.4, in Slovakia and Slovenia 2.9.

The sectoral structure of public investments shows that investments have mainly focused for financing of infrastructure such as: roads, electricity, telecommunication, water and waste water. For the period between 1999-2005, in the sector structure of public investments, the main position is occupied by the transport sector, which has absorbed 34.3% of public investments. Investments in the water and waste water sector have increased substantially. This sector during 2005 absorbed 15.2% of public investments, while during 1999-2005 only 8.6% of these investments.

The priority of investments in infrastructure became indispensable due to the extreme inherited sector backwardness. In 2005, point scoring for the infrastructure development indicators for Albania looked like this: levels of penetration of fixed telecommunication per 100 inhabitants was 8.6; for the mobile telecommunication was 39.5; internet access per 10.000 inhabitants was 1.7, the electricity household tariff was 6.7 US cent per kwh, the average collection rate for the electricity bills was 74%<sup>88</sup>. According to these indicators, Albania ranks behind other SEE transition countries. Improvements in infrastructure are minimal compared to those in the macro-economic environment, and the policy framework. By the end of 2005 and during 2006, the country faced a severe energy crisis. This was the result of

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<sup>88</sup> Transition report 2006, Finance in transition, (EBRD)

the absence of investments for this sector for a period of more than 20 years, major technical losses due to the old transmission network, under cost prices which lead to the artificial consumption levels of electricity, lack of interest by the private capital for investments in the sector, which currently is a state monopoly, and where prices are lower than the cost is, etc.

The country will continue to show a need for high levels of public Ipr indicator in order to guarantee growth through priority development of infrastructure. Given that external confessional assistance, which until recently was financing the majority of public investments, has fallen substantially since 2001, and it will continue to decline even further, ensuring of sustainable levels of domestic financing for public investments should be an important integral part of the strategy for medium-term fiscal management of the Government. To this end, there will be an increased need for resources of available public resources through expansion of crediting, increased efforts for attracting higher FDI flows, but also through increasing the effectiveness in the use of domestically financed public investments, where there are currently problems and a large spread into a large number of small and very small projects with very high costs. The application of tariffs in line with the costs of public services, improvement of management of state enterprises, and the introduction of regulatory structures for the sectors of infrastructure will also be necessary for promoting the attraction of FDIs in these sectors as well. The creation of industrial parks would greatly benefit the improvement of the business infrastructure.

Even though the sector allocation of investments is done in line with the priorities of the National Strategy for Economic and Social Development, gaps in terms of the procedures for management of public investments only raise more concerns regarding the effectiveness of domestically financed public investments. The attention of the management of public investments is only focused externally financed projects. Domestically finances investments are subject of a minimal evaluation. The procedures for the identification, evaluation and approval of domestically financed projects are less strict than those for externally financed projects etc.

Avoiding the above mentioned gaps requires the introduction of new procedures for the identification, evaluation and management of public investments, with equal application both for domestically and externally financed projects. In this context, the following reform measures are recommended:

- (i) Rationalization of the domestically financed projects portfolio, freeing public investments from maintenance expenditure; merging the large number of small investments into a limited number of major projects, and avoiding projects which are not feasible.
- (ii) Introduction of new procedures regarding revaluation and approval of projects related to the Medium-Term Budget Framework, irrelevant from their financing source.
- (iii) The establishment of the Public Investments Committee, which will be responsible for the review and approval of public investments projects, according to strategic priorities of the Government.

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## Intellectual Property Rights as Economic Development Engine

Dr. Robert McCloud

Associate Professor, Computer Science & Information Technology

Sacred Heart University, Fairfield, Connecticut

Fulbright Scholar, U.S. Department of State

American University in Kosovo (2007-08, 2009)

**ABSTRACT:** Intellectual property rights in Kosovo are almost non-existent. This paper investigates the state of these rights in three areas: music, film and software. It reports on first-hand research and makes specific recommendations for implementing an effective intellectual property rights protection program.

**KEYWORDS:** intellectual property rights, Kosovo, bootleg, Rule of Law

Contemporary minimum standards for international Intellectual Property rights enforcement date to the TRIPS (Trade Related Intellectual Property Rights) agreement. That document recognizes “the special needs of the least-developed country Members in respect of maximum flexibility in the domestic implementation of laws and regulations in order to enable them to create a sound and viable technological base<sup>89</sup>.”

The word “members” in this document refers to those countries which are part of the World Trade Organization (WTO), an organization Kosovo does not belong to. However, in December, 2007, Kosovo did join the Central European Free Trade Association (CEFTA). CEFTA is a sort of minor league training ground for countries aspiring to European Union membership. Poland, Hungary, Czech Republic, Slovakia, Slovenia, Romania and Bulgaria

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<sup>89</sup> <http://www.tripsagreement.net/Annex1C>

have all graduated to the EU from CEFTA. Current members, in addition to Kosovo, include Croatia, Macedonia, Bosnia and Herzegovina, Moldova, Serbia, Montenegro and Albania. One can, then, make some assumption that CEFTA members also aspire to the WTO and the EU.

While it is the intention of the TRIPS agreement to provide maximum flexibility, there is some dispute as to how this should be implemented. In the face of a lack of hard evidence, the debate has essentially arrived at two points of view. Many feel that, by observing the minimum standards defined in TRIPS, developing countries provide necessary incentives for intellectual property development. Further, they argue that these standards encourage both outside and domestic investment.

The counter to this argument is a concern about price. Is the protection of patent and copyright holders in highly developed countries a sustainable strategy for long-term development? If protection is given priority, does this price intellectual property protection out of the market for a developing country like Kosovo?

In this paper we look at music, movies and software as areas where this debate plays out. Specifically we ask whether it is realistic to expect United States and Western European pricing standards to be rigidly enforced in a country with an average personal income of about 200 Euros per month.

In addition, we consider this in the light of the following questions: what is the role of the new Kosovo government; what is the daily experience of those selling bootleg intellectual property; what would it take to implement in Kosovo a working policy for intellectual property protection.

## **1 BULDOZING CORONA**

Those promoting economic development in Kosovo frequently cite Rule of Law as being a key driver. Usually this is code for difficulties in determining who owns what and how property rights and zoning regulations will be

enforced. Late last summer a popular and recently opened restaurant in Pristina's Germia section was bulldozed. The restaurant, Corona, was opened by a successful local restaurateur who had for many years operated at a nearby location. He was well respected and drew steadily growing crowds to his new eatery.

Yet local residents were far from being upset at seeing this popular restaurant bulldozed. Many of these residents openly applauded the government's action. They pointed out that, after all, the owners had proceeded without proper zoning and building permit permissions. They should be punished. If Kosovo is to demonstrate its viability as a new country, then it must recognize the rule of law in all aspects of daily life. Although this is not specifically an intellectual property question, the public reaction to this rule of law issue is interesting: Kosovar Albanians recognize that the outside world is watching. They want this world to see a new country that demonstrates concern for both domestic and international law.

If the young country is going to attract economic development, then the outside world needs to see rule of law established. In the past Kosovo existed in a loosely regulated economic environment. This has had more than one negative effect. Property ownership and compensation disputes occupy large chunks of legal time. While consuming substantial resources in litigation, these disputes also have the effect of discouraging investment.

Foreign countries reason that they do not want to put money into a place where property ownership rights are unclear. This puts an extra burden on Kosovo and other developing Western Balkan countries. If they want to become part of the establishment, then they need to demonstrate a willingness to play by establishment rules.

Knock off software, CDs, DVDs, and other intellectual property items are available for a small fraction of their commercial cost in other western countries. The issue is once again rule of law. Kosovo wants to change its



lawless image. Part of this involves respecting intellectual property. There are encouraging signs.

## **2. STOPPING BOOTLEG CABLE CONTENT**

In August, 2008 Kosovo established an Independent Media Commission. One of its first actions was to implement fines against five cable operators broadcasting unlicensed material, much of which was American content. Those found guilty of violating international copyrights were: IPKO Telecommunications LLC; Kujtesa; Eagle; Elektra, and Tele-Net.

Because of new commission's initiatives, cable operators are now actively engaged in securing proper copyrights for all of the channels they broadcast in Kosovo. They have also gained stronger incentives to become self-regulators. Prior to the establishment of the Independent Media Commission, there was no penalty for showing illegal content. Cable operators did not report each other because they were all benefiting from pirated content. Now, if one provider shows unlicensed content, the others will have incentive to complain. They realize that unlicensed content means a potential loss of their own viewership and revenue.

All five of these cable operators immediately agreed to take unlicensed content off the air. For this reason the IMC agreed to suspend the fines.

While taking this action, the IMC identified six other cable providers who were operating illegally. Action has been initiated to shut down these unlicensed operators all of whom were deemed to be in copyright violation. In taking this action the IMC noted that it was promoting economic growth through protecting those outlets that operated within the country's licensing provisions. It also was protecting international copyrights by fining any operators who violated international intellectual property provisions.<sup>90</sup>

In the cable industry competition is strong. Operators willingly accept copyright restrictions because they see it as being in their best economic

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<sup>90</sup> <http://www.imcko.org/index.php?id=507&l=e&p=7>

interest. For the government it is also relatively easy to police this industry. There is a defined set of players, all of whom are present daily on the airwaves.

Industries like music, software, film and publishing present a different problem. Outlets are abundant. As pointed out by shop owners, the cost of entry into this market is marginal. All a new seller needs is to find a spot on a well-travelled sidewalk. To learn more about the operations of this fractured marketplace, we went directly to those involved in the bootleg music, film and software industry.

### **3. BOOTLEG PRODUCTS DOMINATE IN PRISTINA**

To obtain first-hand knowledge about the bootleg music/film/software business in Kosovo two university students, both juniors, were sent out to conduct unannounced interviews. Their instructions were to go into a store, introduce themselves, and say they were doing research about the bootleg industry and about whether merchants felt that a program to help promote copyrighted material would be beneficial to them.

The students were both female, well-dressed in a non-threatening manner. Both were native Albanian speakers. They have translated their interview notes into English. Although minor changes have been made in the interest of clarity, what follows is faithful to both the content and the tone of their original notes. The interviewers reported that most shop owners and employees were very willing to talk openly. But they also noted that some merchants felt the visitors were really government inspectors in disguise. In many ways both the frankness and the tone of the merchant replies is revealing.

Ragib Rysinovci of Pristina's *Production Sound*, sells a mixture of copyright and bootleg product. His shop included Albanian CD's and DVD's, which were copyrighted and foreign movies, games and software, which were all bootleg. In Mr. Rysinovci's estimate, between 40 and 50% of Albanian music is copyrighted material. He feels that there all foreign movies, games, software and music are bootleg.

Most bootleg product comes from the Internet. Self-styled entrepreneurs, called DJ's in the trade, download movies and music. Then they sell their product to the commercial outlets. A typical price for a pirated movie is ten Euros. Mr. Rysinovci pointed out that he could easily do the downloading by himself. However, this would require him investing a large amount of his own time (he estimated between three and four hours for a movie download). Plastic cases are imported from Dubai for 10 cents each. Photos and information materials to insert in these cases are simply printed out directly from the Internet.

Bootleg movies could become even easier to obtain. The Seattle based digital media firm RealNetworks has announced a \$30 software program that enables people to make digital copies of their DVDs. (New York Times, Oct 01, 2008). Although legal disputes over the new software have so far been confined to United States courts, it is almost certain that this software will find its way to the Balkans in the near future. When it does, then the creation of bootleg DVDs will see a quality upgrade. At present one incentive for using original, copyrighted material is the superior quality it provides.

Regardless of the quality issue, Mr. Rysinovci said that he would be willing to participate in a voluntary program to sell only copyrighted materials. However, he feels threatened by other illegal sellers who come out on Saturdays and Sundays. While they stand in the street and earn money, he has to pay 700 Euros rent for the shop. He would also like some protection from this form of street corner competition.

The Albanian community sometimes has different standards for itself than for the rest of the world. At *Dea Productions* the company has contracts with Albanian singers. They produce their own CDs which are sold under copyright. In turn, they trade CDs with "four or five" other production/retail outlets. Thus each store sells with permission of the original music producer. Like its counterparts, *Dea* complained about the street vendors, who often copy their original product and sell them on the streets for two euros. *Dea* also would welcome a stricter copyright law.

*Chill-out Productions* currently sells only bootleg CDs and movies. They obtain these from DJs. When asked about a program for copyright music, the

sales personnel said it would be welcome. Such a program, they opined, would make them feel “calmer”.

At *Beni CD Shop*, the personnel were candid: they say it is better to work with “not licensed” materials because they have more profit. According to them, if they would sell copyrighted products, the price for CD/DVD/software would be much higher, and not too many people would buy. They already have a decrease in revenue, and they say that the reason is the Internet. People are able to get almost anything through Internet. Moreover, they use the Internet to get supplies for their shop. Mostly they use the KAZA program to download movies and music. They buy software and games from somebody else.

The lady working in *Dabi CD Shop* said that, it is better for her to have copyrighted CD's in her shop, but then the price would be a threat to them. The reason why she agrees on copyrighting is that singers would be more protected at the same time respected. By copying their singles and selling without permission, DJs earn profit with giving no contribution. Still, she was on the DJs side, at the same time her own side, because singers get to earn more money by singing in bars and discos or by giving concerts to Albanians living in foreign countries.

The stores inventory mostly come from Albania. The lady estimated that “about 10%.” Of *Dabi CD Shop*'s material is copyrighted.

The owner of *The CD Shop* was frank. He stated, “Considering the living standard in Kosovo I think it's better not to have copyrights law in function. The price would be higher and people will not buy CDs anymore. As for the quality, it is pretty good right now. If people would not like it they would not buy.”

At the moment we went in, we happened to meet the owner of the *403 CD Shop*. Regarding the copyrights system he said that it depends on from which perspective you look at it. “From the author's point of view, logically, it is better to have copyrights law because their work is respected and paid. From customer's point of view is the same because they will get a long lasting product with higher quality. But then, not all of the CD shops will continue to work because competition will play a major role and profits will be lower.”

He said that not even 10% are licensed; about 95% of CDs in Kosovo are copied.

On Sunday, we were lucky to meet one *DJ*, who did not want us to know his name. He was selling CDs in front of the Grand Hotel. Most of the time he works in his “studio” burning CDs and DVDs, the rest of the time he comes out illegally, with one small table, exposing his material and selling it with a very low price.

He said that his major supply is the Internet, a place where he downloads all the music, movies and games. He also cares about CD covers and pictures. CD covers come from Serbia, with a very cheap price. As for the pictures, there is a special story. He prints all the pictures taken from Internet. At times when the printer ink is over, he found a cheaper way how to refill them. He uses a syringe (needle) to fill the cartridge with artist ink.

He has started this business since the end of the war of 1999. He is happy with his job and the amount of money he earns.

The owner of *Kema CD Shop* was blunt. “I don’t want to tell about our supplier, it is our own business. I am against the copyrighting law.”

At *Meoldia Shop* the owner’s estimates were consistent with his colleagues, “I think 90% of the CDs and DVDs in Kosovo are not copyrighted. Since people are interested about these kind of materials, I continue to work, although, I am aware that my job is not legal. Yet, we all realize the bad situation Kosovo Albanians are living in. That’s why every one of us is trying to survive in every possible way. I take care of my whole family expenses. This shop is keeping us alive”.

In *Music/Movies/Games Shop* “I am not sure what to say about copyrighting! For some it may be positive and for some others not. However, this issue has to be resolved one day. If we want to be a country where the laws function and go toward improvements, than we have no choice. Just like every other developed country, we will have to respect the author’s rights. But right now, I don’t think its going to happen.

*Labia* is a well known production house. Just like in “Dea” production they have contracts with some singers. Therefore, they have the complete right to sell these singers’ albums. Also they record some other CD/DVD usually, inviting different artists and creating a collage.

They absolutely agree that it is better to have copyrights law in function. "Then, everyone would be protected".

"In our store 100% of the CDs are copyrighted but regarding to other stores in Prishtina, I would say not even 10% is copyrighted".

#### **4. ILLEGAL SOFTWARE PREVALENT IN CREATIVE FIELDS**

Advertising agencies constitute a large market for software. Programs such as Photoshop, Flash, Fireworks, Quark, InDesign and PowerPoint are international standards. Given the substantial creativity of the young Albanian/Kosovo population, it is not surprising that so many have gravitated to the agency business. Their growth is fueled by Non Governmental Agencies (NGOs) spending foreign development funds, by the new Kosovo government, and by the many multi-national corporations setting up shop in Kosovo.

Because of the country's inherent entrepreneurial nature and also because of its recent history of doing whatever is necessary to survive, the agencies tend to open their doors with software acquired at low prices from bootleg vendors. The author has yet to meet any agency personnel who use licensed software.

This represents a real opportunity for intellectual property protection. USAID, for example, could make it part of an NGO's contract that it deal only with agencies which can produce licenses for creative software. The Kosovo government could make a similar requirement. And it could enlist banks and corporations to do the same.

There is a certain justification in this that is not present in the CD and DVD situation. Since an agency uses software to make money off its product, it can amortize the cost over a large number of projects.

#### **5. IS A LOW-PRICE STRATEGY THE ANSWER?**

The question of implementing a low-price strategy for developing countries has been debated for at least three decades. In his article, "Multinational Pricing Strategy in the Developing Countries"<sup>91</sup> Nathaniel Leff made a strong

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<sup>91</sup> Nathaniel H. Leff. "Multinational Corporate Pricing Strategy in the Developing Countries." *Journal of International Business Studies*, Fall 1975. pp. 55-64.

case for the viability of a corporate low-price strategies in developing economies

In this seminal work he argued that the increase in demand generated by such a strategy would generate sufficient sales to actually increase a company's overall profit. But he also noted a problem with this strategy: distribution channels in developing countries are often very poor. Setting up and maintaining such channels would involve additional expense.

In the case of intellectual property, movies, music, and software, the distribution problem is obviated. Because of the Internet's pervasiveness, these are downloadable from almost anywhere in the world. If the bootleggers are already adept at producing packaging locally, this should also be a doable task for legitimate sales. Or packaging could be shipped in tax free, with the cooperation of national customs regulation. Such shipping could also easily include the CDs themselves. Again, however, there would have to be agreement from the customs authorities. This illustrates an important point: protecting and nurturing intellectual property requires cooperation of several entities: distributors, resellers, creator, and both developing and developed country governments. It is not enough for the developed world to take an aloof and holy attitude toward bootleggers: the wealthy countries must be willing to creatively help with solutions.

Intellectual property provides an excellent test case for this special pricing strategy: its incremental cost to the producers is marginal. Thus the increased income would be profitable almost from the beginning. Further, because it is so easy to steal intellectual property, any encouragement toward legitimacy helps all players: more profits for the producer, higher margins for the merchant, protection for the creator, and greater quality for the consumer.

## **6. RESEARCH LESSONS**

The individuals involved in the business are consistent in their estimation that 90% of non-Albanian product is not copyrighted. There is no doubt that illegal production and distribution of intellectual property is prevalent throughout Kosovo. The fact that one of Pristina's largest illegal distributors exists across the street from the Police Department is testimony to the fact that this is an accepted part of daily commercial life.

People feel they are in the bootleg business to earn a living and survive. To them the copyright question is not a moral issue. Rather it is a fact of life. Their first job is to take care of their families. If this trumps any ethical question, then that is too bad. Although they might not like the current rules of the game, merchants feel they do not have the luxury of dropping out. Current circumstances are what they are. If everyone else is subscribing to the bootleg methodology, then they will also do it to survive.

Many would be interested in copyright protection, but wonder how it would work.

It is not enough for developed countries to establish intellectual property rights by fiat. There has to be a cooperative system in place to publicize and implement a fair transition. This requires the cooperation of major intellectual property rights players like the United States.

Kosovar Albanians cannot afford to pay Western developed country prices. If an industrialized western pricing model is enforced, then the drive for intellectual property rights enforcement will fail. New prices need to be established. They should recognize the advantages to legitimacy and quality while also understanding that these goods are being sold in a poor country.

Find and develop champions. In a telephone interview<sup>92</sup> Marc Tejtzel pointed out that, by lowering software prices to an affordable level and promoting their product, companies can nurture champions. They will become expert users who will carry the message into the general community. Cisco Systems and Microsoft both have this type of program already operating in Kosovo.

## **7. PROPOSALS FOR INTELLECTUAL PROPERTY RIGHTS IN KOSOVO**

In her review of the international copyright system Ruth Okediji writes

Access to knowledge goods both to enrich human resources and facilitate economic growth is an indispensable requirement for the international system. Developing countries have a role to play by actively implementing limitations and exceptions in a manner that best suits their

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<sup>92</sup> Telephone interview with Marc Tejtzel, Deputy Chief Counsel, Commercial Law Development Program, Office of the General Counsel, U.S. Department of Commerce. October 07, 2008.



domestic needs, especially the need to stimulate local creativity. In addition, the international system must more explicitly recognize, emphasize, and promote the critical role of limitations and exceptions in ensuring follow-on creativity and promoting diverse forms of creative engagement.<sup>93</sup>

There is recognition that the international intellectual property copyright system cannot be totally rigid. Limitations and exceptions are an accepted part of copyright law. The question, then, becomes how to implement such a system for intellectual property in Kosovo. Based on research in the three areas of music, film and software, the following recommendations are proposed:

*A multi-faceted approach is only way it would work.* There is not an easy solution. For intellectual property rights to work in these three areas careful plans should be drawn and implemented. These should include a buy-in from copyright holders, manufacturers, the Kosovo government, tax legislation, enforcement agencies and merchants. This is not a simple solution. Any plan that works has to take into account the Kosovo economic situation. At the same time this solution will benefit from Kosovo's strong desire to be recognized as a lawful, innovative member of the international commercial community.

*Creative participation of international companies must be present.* Following the lead of Cisco and Microsoft, holders of intellectual copyright holders should work to come up with pricing, marketing and distribution systems that work. They should also focus on ways to develop product champions. Recognizing that they are starting from almost zero revenue at the current time, the companies can increase income dramatically with a small incremental cost.

*Low or no import duties.* Intellectual property downloaded from the Internet should not be subjected to taxation. It would also be ideal if actual goods, such as CD and DVD packages, coming into the country were not subject to duties. If the Kosovo government is asking private corporations to help with

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<sup>93</sup> Ruth L. Okediji, *The International Copyright System: limitations, Exceptions and Public Interest Considerations for Developing Countries*. International Centre for Trade and Sustainable Development Issue Paper No. 15, March 2006.

intellectual property rights development, then it should be willing to chip in with its own contributions. This would demonstrate to the international community that Kosovo is serious about participating in the world economy.

*Mount a vigorous advertising campaign.* Everyone needs to know about Kosovo's commitment to intellectual property rights. This will both reinforce the commitment and also make it more unacceptable to steal intellectual property. Without a very public commitment, there will be much less incentive to participate. Such a campaign could also highlight the international business community's cooperation and help for Kosovo.

*Develop strict enforcement mechanism.* Merchants made the point that they feel unfair competition from street corner vendors. For the intellectual property rights effort to succeed, it needs to be applied equally to all. Much like the bulldozing of Corona, highly publicized enforcement activities will show that the government is sincere in its commitment.

## **Economic trade relation in focus of regional integration of West Balkans Countries**

Engjëll Pere

Economic Faculty – University of Tirana

E mail: [engjellpere@fakultetiekonomise@edu.al](mailto:engjellpere@fakultetiekonomise@edu.al)

### ***Abstract***

European integration of West Balkans countries has two main dimensions: (i) bilateral relation of European Union (EU) and (ii) their regional integration. In this point of view economics relations have a particular importance. The paper intend to give a comparative analyze Albania's trade relations with other West Balkans countries. It provide the progress of foreign trade integration policies in West Balkan region, focusing on its particular moments, from Free Trade Agreements up to CEFTA –2006. Furthermore it reflect general aspects of economics opening of West Balkan countries, macroeconomics development, progress of exports and imports, trade balances, the trends of regional integration against the European Union, etc.

**Key Words:** Integration; foreign trade relation; West Balkan.

### **Economic trade relation in focus of regional integration of West Balkans Countries**

West Balkans Countries where is included Albania, Bosnia-Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia, has make clear their politic orientation, that is integration to the European Union.

A characteristic aspect of this integration is the cooperation and regional integration of these countries, as a first step in their European integration. In the political-economic literature it has been noticed even the idea of the integration of these West Balkans Countries in block, of course considering the specific countries reforms development.

In the politic aspect, cooperation and regional development of the West Balkan countries is considered as a particular importance in the political and safety stabilization, not just the region in general but even for individual countries. In the economic development view, the economic integration of these countries is considered with the same importance. The regional integration importance is related mostly in these main aspects: (i) already exists an EU block integration experience of the new candidates countries, experience that seems like will go on; (ii) the regional integration is been considered as a preliminary phase and as a “school” to past to a higher step of the integration as it is that of EU; (iii) is well known the fact that the economic block has advantage comparing to the special economic development, with a low cooperation level; (iv) for the West Balkan Countries, since we are taking in consideration these small economies and with a low level of development, is necessary for those to act through different forms of regional collaboration.

### **1. The process of the regional politic integration of the West Balkan Countries.**

The first moment through new bases to a politic-economic collaboration among West Balkan Countries was that of the South-East Stabilization Pact, signed on 1999 (10 June 1999, Köln- RF Germany). In fact one of the main reasons of undertaking this pact was the dramatic occurrence of the Kosovo war. In this aspect one the primary objective of the Stabilization Pact was that of the political economic situation in Kosovo. Begining to a regional situation (Albania, Croatia, Montenegro, Serbia, Bosnia Herzegovina,

Macedonia, Bulgaria, Rumania and Moldavia)<sup>94</sup>. The Stabilization Pact consists in three main problems blocks: first of all in the democratization and in the human rights; second, in the reconstruction, development and economic collaboration and third, the safety issues blocks.

In the economic problems group, beginning to the fact that the West South European countries were small economies and relatively underdevelopment, the main development reasons has been specified those of the trade, transport and energy. In fact in these fields, these economies can't have other development alternatives, except their regional collaboration and cooperation<sup>95</sup>.

Starting from this background this paper will focus mainly in the economic, commerce relations through West Balkan Countries. The trade relations development among countries, presuppose first of all their liberalization. In this aspect a particular importance will have the Free Trade Agreement subscription among different countries of the region. Agreements like this are based in the reduction of the tariffs (till elimination), quotes and preferential politics for the products. They are considered as the second phase of the regional integration of the countries.<sup>96</sup> All West Balkan Countries has finished free trade agreement matrices among each other since the beginning of 2006. Albania is considerate a country that fulfilled relatively quickly the frame of FTA with other West Balkans countries, undersigning FTA with Macedonia në 2002; with Croatia and Kosovo 2003; with Serbia and Montenegro and Bosnia & Hercegovina 2004. The table 1 evident the matrix of free trade agreement subscription of the West Balkan Countries:

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<sup>94</sup> On 28 February 2008 the Stabilization Pact would be substituted from the Regional operation Council – RCC consisting of the region member them self, but always in the international community support and monition.

<sup>95</sup> European Commission - Regional cooperation in the western Balkans; A policy priority for the European Union (2005)

<sup>96</sup> Economic Integration can be classified in a main period: preferential trade, free trade agreement, duty union, common market, economic monetary union, entire integration.

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**Tab. 1 Matrix of Free Trade Agreements in West Balkan Region**

	Albania	Macedonia	Serbia & Montenegro	Bosnia & Herzegovina	Croatia	Kosovo
Albania		SEE - FTA 2002	SEE - FTA 2004	SEE - FTA 2004	SEE - FTA 2003	SEE - FTA 2003
Macedonia			SEE - FTA 2006	SEE - FTA 2002	SEE - FTA 2002	SEE - FTA 2006
Serbia & Montenegro				SEE - FTA 2002	SEE - FTA 2004	
Bosnia & Herzegovina					SEE - FTA 2005	SEE - FTA 2006
Croatia						SEE - FTA 2006
Kosovo						

A characteristic for these agreements is they were bilateral and not unique in the entire region. A thing like this has generated an amount of problems for their unique extension in the entire region, creating much difficulties in the benefits prerequisite that would have the creation of the unique free trade zone through the so-called “scale economy”. For this reason with the incentive and the international community support, has agreed among countries for the necessary minimum level standard implementation for the free trade agreement. Exactly this was concretized on June 27, 2001 with the Memorandum of Understanding on Trade Liberalization and Facilitation – (MoU). In the main standards were: (i) elimination of every new restrictive measure in the field of trade (ii) elimination of import tax at least 90% of the Harmonized tariffs System and the reduction of the tariffs for such sensitive products(into 6 years) (iii) facilitation and legal duty procedures, service liberalization etc.

Next important step was that of the West Balkan countries including in CEFTA 2006 (*Central European Free Trade Agreement*). CEFTA 2006 is a free trade agreement of the West Balkan Countries plus Moldavia that is based in a bilateral among these countries. First of all in the CEFTA 2006 agreement were included Poland, Hungarian, Czech Republic and Slovakia (21 December 1992, Krakove - Poland), later Slovenia (1996), Rumania (1997), Bulgaria (1999). The main aim of this agreement was the member countries

encourage directing into the approach and EU integrations. In this could be member countries that full fill three main conditions: (a) was member of the WTO (b) has subscribed a EU association agreement (c) has signed a free trade agreement with the members countries.

With the full rights entree of the most of the EU countries on April 2006

(Bucharest-Rumania) has started the initiative for CEFTA extension with

new members as Albania, Bosnia-Herzegovina, Montenegro, Kosovo,

Serbia and Moldavia. This agreement was signed on December 2006 (19

December 2006, Bucharest-Rumania) and that was execute in on

November 2007. Its aim was the construction of the free trade zone

among the members starting from 31 December 2010. So is predicted to

have the whole liberalization of the industrial products import tariffs and

for a special liberalization for agriculture goods (concerning of the

sensitiveness of this goods in the trade structure of one country).

## **2. Macroeconomic development of the West Balkan Countries.**

Before we analyze the economic relations among different West Balkan countries, is necessary to have a general view of macroeconomic development of these countries.

After the '90 all West Balkan countries has passed in a relatively long transition period from a centralized economy to free market economy. Most of it were confronted with dramatic conflicts, as wars in ex Yugoslavia; since years West Balkan was identified with the notions of the ethnic conflicts, minority right negation, massive and uncontrolled emigration, civil wars among different nations etc.

A same situation of course has influenced in their general economic development, and especially in their relations.

Anyway, the crossing into a democratic system sustaining in the free market mechanism, and also in the west countries relations, now days after 15-17 years brought a certain level of development and macroeconomic stabilization. Table 2 evident some of the macroeconomic figures of the West Balkan countries for the years 2005-2006.

**Tab. 2 Main macroeconomics figures of West Balkans Countries.**

	GDP Growth (%)		GDP Inflation Deflator (%)		GNI per Capita (USD -Atlas Method)		Open Index (Merchandise trade % of GDP)		Foreign direct investment (% of GDP)	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Albania	5.5	5.0	3.5	2.0	2,570	2,930	39	42	3.1%	3.6%
Macedonia	4.1	3.0	3.8	2.7	2,840	3,070	91	99	1.7%	5.6%
Serbia	6.2	5.7	15.1	15.6	3,570	4,030	59	61	5.6%	16.0%
Montenegro	4.3	16.2	3.5	2.6	3,270	4,130	86	97	---	---
Bosnia & Herzegovina	5.0	6.0	2.1	6.5	2,890	3,230	88	87	4.8%	3.5%
Croatia	4.3	4.8	3.2	3.4	8,360	9,310	70	74	4.6%	7.9%
Kosovo		2.4	-1.3	0.6		1,500	40		2.0%	2.0%
Euro Zone	1.5	2.7	2.2	2.3	32,332	34,307	61	65	3.4%	3.8%

Source: World Bank; (World Development Indicators 2008) and National Statistic's Office of Kosovo.

From these figures it is evidenced the fact that West Balkan countries have a low level of income per capital (GNI-Gross National Income per



*Capital*). The indexes are too far from the Euro zone average. According to the Foreign Direct Investment, the best figures are those of Serbia, Croatia and Macedonia, and the lowest levels are those of Kosovo, Bosnia-Herzegovina and Albania. But according to the scale of an opened economy<sup>97</sup>, it noticed the increase of this index, thing that shows the increase in the integration level, but also it seems like this index has relatively lower level for Albania and Kosovo. Among these indexes, the foreign direct investment from one part, and the scale of an opened economy from another, I think that has an important relation and correlation. The aim to an economic collaboration and integration in general, and in particular the regional panel, has to be considered as a resultant objective of a direct economic correlation between a foreign trade and entire economic development. In fact the increase of foreign trade level and in particular the increase in exports it means also the increase of competitions of the entire economy, thus producing with relatively lower cost, higher quality etc. From another part these competitions can be achieved only through new technology, which necessarily needs foreign investment. So independent from the other factors, relatively the low level of opened economy as Albania and Kosovo is related relatively to a low level of foreign direct investment in these countries. Anyway all the countries are characterized by this gradually increase but at least continuously in the scale of an opened economy. Characteristic is the fact that they present a considerable deficit relating to a foreign relation. In the following graphs is presented the ratio of current account for each country for 2000 to 2006. (Graph 1).

More negatively is the situation of trade deficits, as is shown by the import roofing from the exports, according to the countries (calculated as the exports to total import ratio). This index for 2007 is presented as:

Albania	25.7%
Macedonia	64.2%
Serbia	47.6%
Montenegro	23.9%

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<sup>97</sup> Calculated as a ratio of total export and import to GDP.

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Bosnia Herzegovina	43.7%
Croatia	47.8%
Kosovo	10.5%

As we see the cover coefficient of Montenegro and Albania is lower, even for Kosovo is lower but anyway it has an increase level from 4.9% in 2005 to 8.6% in 2006 and 10.5% in 2007.

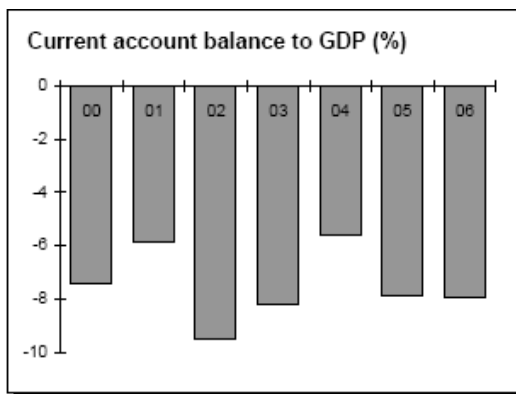
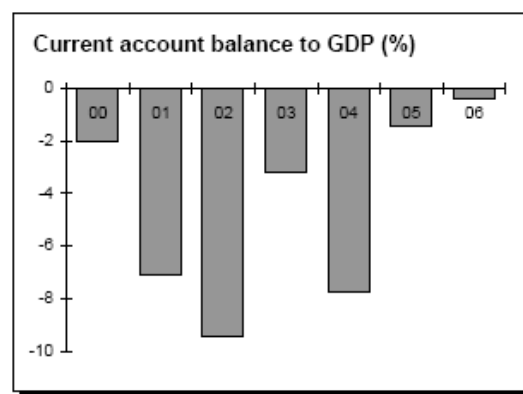
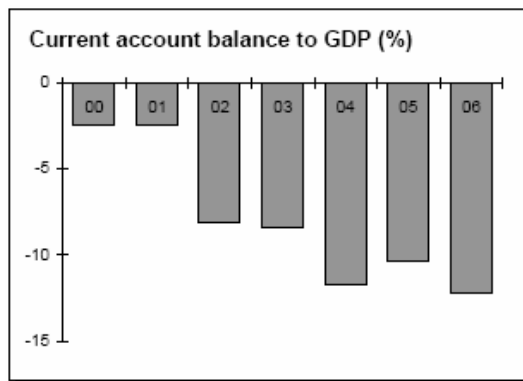
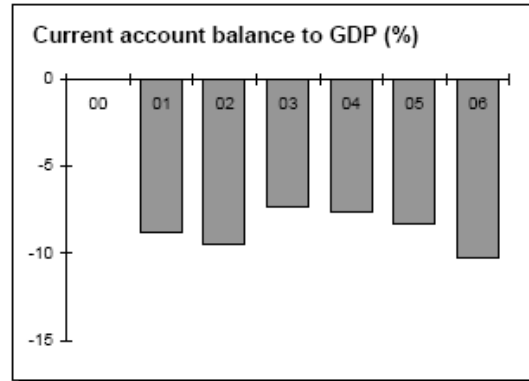
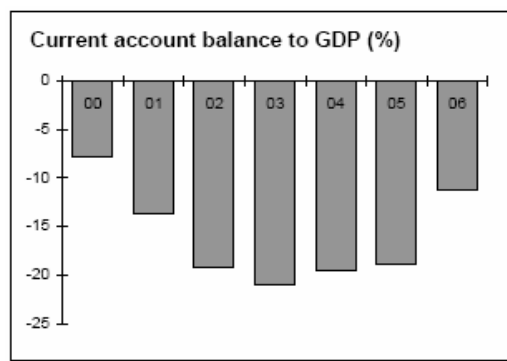
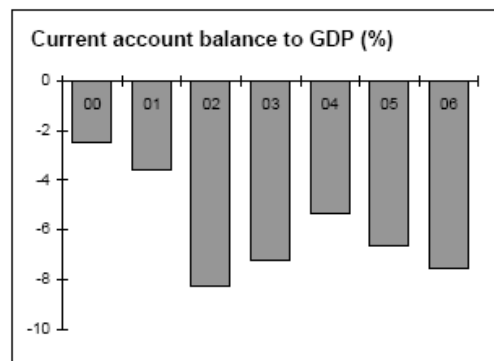
### 3. Trade relationships between West Balkan Countries

The economic agreements in the free trade area signed among West Balkan Countries, theoretically in the literature are supported from the idea of the advantages that represent the development of the economic blocks and the monetary unions. A fortiori this in the West Balkan countries condition with small economies, where free trade zones construction will produce opportunities and advantages from economies scales.

Anyway different studies notify that the free trade agreement roles haven't yet succeeded a significant way in the economic relations between countries. For 2007 the export and import data between these countries are presented in the table 3 and table 4. In these tables are presented the ratio of import and export of different countries with the region, versus the total of import export of each country.

The data shows that the export inside the region goes in 7.8% (Croatia) and 41.6% (B-H). The biggest part of exports is oriented to EU countries. A characteristic for Kosovo is the fact of the decrease of the weight of the exports (2006 comparing with 2007) with Albania (from 20.1% to 8.1%) and Serbia (from 26.1% to 8.1%). In the total exports of countries, the exports inside the region weight about 23%, instead this ratio in EU that is about 64%. The main countries where are ahead our exports as it is Serbia whom goes 23.1% of the Macedonia exports, 19.2% of Macedonia, 8.1% of Kosovo and 5.3% of Croatia..

### Graph 1 Current account balance to GDP (%)

**Albania**

**Macedonia**

**Serbia**

**Montenegro**

**Bosnja & Hercegovina**

**Croatia**


Source: World Bank "Country at a glance" (28.09.2007)

**Tab. 3 Ratio of export with others West Balkans' Countries (2007)**

	Albania	Macedonia	Serbia	Montenegro	Bosnia & Herzegovina	Croatia	Kosovo	West Balkan	European Union
Albania	-----	2,3%	1,9%	0,4%	0,4%	0,1%	4,8%	9,9%	82,9%
Macedonia	2,4%	-----	19,1%	0,9%	2,6%	4,9%	1,0%	30,8%	67,4%
Serbia	1,3%	4,9%	-----	9,6%	11,8%	5,9%	0,3%	35,1%	54,4%
Montenegro	2,5%	0,2%	23,1%	-----	5,7%	2,4%	0,8%	35,1	63,9%
Bosnia & Herzegovina	0,6%	1,6%	11,9%	6,84%	-----	21,8%	0,2%	41,6%	63,0%
Croatia	0,3%	0,9%	5,3%	1,2%	na	-----	0,1%	7,8%	71,0%
Kosovo	8,1%	6,2%	8,1%	0,9%	3,4%	1,00%	-----	27,7%	60,1%

Source: Statistics of different countries and General Custom Directory - Albania

**Tab. 4 Ratio of import with others West Balkans' Countries (2007)**

	Albania	Macedonia	Serbia	Montenegro	Bosnia & Herzegovina	Croatia	Kosovo	West Balkan	European Union
Albania	-----	2,0%	2,8%	0,2%	0,3%	1,00%	0,6%	6,8%	62,8%
Macedonia	0,1%	-----	8,6%	0,00%	0,7%	2,1%	0,0%	11,6%	77,3%
Serbia	0,4%	3,5%	-----	0,7%	2,8%	2,8%	0,0%	10,1%	55,1%
Montenegro	0,6%	1,1%	35,1%	-----	5,8%	6,4%	0,1%	48,9%	45,0%
Bosnia & Herzegovina	0,0%	1,7%	20,0%	0,7%	-----	18,6%	0,0%	41,0%	na
Croatia	0,0%	0,8%	1,3%	0,0	0,1%	-----	0,0%	2,2%	65,1%
Kosovo	1,9%	15,2%	12,8%	0,6%	2,0%	3,5%	-----	36,0%	36,5%

Source: Statistics of different countries and General Custom Directory - Albania

The data of imports vary from 2.20% (Croatia) to 48.94% (Montenegro). In the total import around 11% seize the imports from region and 64% from EU countries. The main country that import mostly is again Serbia. From this country comes 35.1% of the Macedonia import, 20.0% from Bosnia-Herzegovina import, 8.6% of Macedonia and 2.8% from Albania.

To show the economic integration level in a general way for the west region countries, can be analyzed the data from Table 5.

Tab. 5 Ratio of export and import for different West Balkans' Countries within region and EU (2007)

	West Balkan Region		European Union	
	<u>Export</u>	<u>Import</u>	<u>Export</u>	<u>Import</u>
Albania	9,9%	6,8%	82,9%	62,8%
Macedonia	30,8%	11,6%	67,4%	77,3%
Serbia	35,1%	48,9%	63,9%	55,1%
Montenegro	35,1%	48,9%	63,9%	45,1%
Bosnia & Herzegovina	41,6%	41,0%	63,0%	na
Croatia	7,8%	2,2%	71,0%	65,1%
Kosovo	27,7%	36,0%	60,1%	36,5%

*Source: Statistics of different countries.*

As we see the highest correlation among region is that of the Montenegro (38.1% in exports and 48.9% in imports), Bosnia-Herzegovina (42.6% with 41%), but even Kosovo (27.7% with 36.0%). For Albania the ratio is too low, exactly 9.9% for exports and 6.8% for imports. Except Croatia, such structure is related mostly with the fact that the ex Yugoslavia countries had been integrated in one economy before their decomposed with each other in Federation. The total export-import inside the region for the year 2007 has been around 4.800 million euro. For this year the exports of all the region countries toward EU is counted around 13 milliard euro, and the imports around 26.2 million euro, with a cover index of 48%.

Anyway, can be called these data in the level to characterize an intensive cooperation among the region countries? The ratios at least depend from the weight of the economies of the different countries; form the development level, economies competitions etc.

To have a better view of these reasons can help the trade intensity coefficient of one country versus other region countries, the weight that has the region in general in the international economic relations. If the index is higher than unit (1) so it means that the country has higher exchange intensity with the region than with global economy in general

The difficulty in the coefficient calculations has generate that we direct in the past calculus of the period 1996-2004 in a study presented by the United Nations This data follows in table 6:

**Tab. 6 Index of intensity's trade among SEE –7 and EU –25**

	SEE - 7			EU - 25		
	1996	2000	2004	1996	2000	2004
Albania	9.19	7.24	2.51	2.19	2.44	2.23
Macedonia	57.51	64.05	39.76	1.28	1.23	1.41
Serbia and Montenegro	75.83	61.52	45.87	0.96	1.26	1.31
Bosnia & Hercegovina	59.98	55.86	48.49	1.15	1.25	1.33
Croatia	30.53	34.73	31.32	1.74	1.82	1.59

Source: V. G. Wittich "Some aspects of recent trade developments in South –East Europe"<sup>98</sup>.

First, for SEE it is evident that the index is higher than the unity; that shows that the intensity of the relation of the country with its region is bigger than the region relations with the global economy. This coefficient for the year 2004 varies from 2.51 (Albania) to 48.94 (BiH). Second, except Albania, it shows that the index is much more higher than SEE-7 to EU-25. Third, in general the index has decreased comparing to SEE-7, instead a small increase toward EU-25.

If this tendency has been continuously during the the upcoming years or not, we can see in the easier way another index, that specify weight difference dynamic of the export and import of one country according to the West Balkan region. For the next years the data in fact shows the relative increase of the inter regional trade. So for Croatia in the year 2007 comparing o the year 2006 the exports with the West Balkan countries was 7.7% again 6.4%, instead imports were in the level of 2.2% again 2.0%. For Serbia the exports between the regions were on the level of 35.12% (2007) again 29.9% (2006), instead the imports were exactly 10.7% (2007) again 9.0% (2006). For Albania in 2007 comparing to 2006 it was an increase in the exports weight among the region with 2%, but the same happened with the decrease of the imports. Otherwise happened with Kosovo when it was evident the considerable decrease of the weight in the region from 61.5% to 27.7% (2006 to 2007), but there was a import stabilization. (Table 7):

<sup>98</sup> UNECE, Discussion Paper Series – December 2005, No.6 - 2005

**Tab. 7 Ratio of export and import with West Balkans' Countries****2006 – 2007 (%)**

	Export		Import	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Albania	7.6%	9.9%	4.7%	6.8%
Macedonia	32.7%	30.8%	10.7%	11.6%
Serbia	29.8%	35.1%	8.1%	10.3%
Montenegro	35.3%	35.1%	36.9%	48.9%
Bosnia & Herzegovina	34.1%	42.2%	23.7%	41.1%
Croatia	6.5%	7.8%	2.0%	2.2%
Kosovo	58.4%	27.7%	39.9%	36.5%

*Source: Statistics of different countries and General Custom Directory - Albania*

#### **4. The dynamics and the structural of the trade relations of Albania with West Balkan countries**

From the above data it is evident the fact that Albania relatively has a low economic integration level in the region than the other countries. This aspect is understandable ascertainment if we consider the fact of the isolation before the '90 and in the other side we are talking about countries that were part in the past of a one Federation (FRJ), with a higher level of cooperation and specialization of each republic.

Anyway for Albania, if we consider the dynamic of the export and import ratio in the region we will see that this weight has increased. (Table 8):

**Tab. 8. Change of ratio of Albanian's export and import with other West Balkan Countries (%).**

	Export				Import			
	2004	2005	2006	2007	2004	2005	2006	2007
Macedonia	1.3%	1.6%	1.6%	2.3%	1.0%	1.2%	1.6%	1.9%
Serbia & Montenegro	0.4%	0.8%	1.4%	1.9%	0.6%	0.6%	0.9%	3.0%
Montenegro				0.4%				0.1%
Bosnia & Herzegovina	0.1%	0.2%	0.5%	0.4%	0.1%	0.1%	0.3%	0.3%
Croatia	0.1%	0.0%	0.3%	0.1%	1.3%	1.2%	1.4%	1.0%
Kosovo	4.6%	4.1%	3.8%	4.8%	0.1%	0.4%	0.5%	0.6%
<b>Total</b>	<b>6.5%</b>	<b>6.7%</b>	<b>7.6%</b>	<b>9.9%</b>	<b>3.1%</b>	<b>3.5%</b>	<b>4.7%</b>	<b>6.9%</b>

*Source: General Custom Directory - Albania*

The increase of the ratio of the exports and also of the imports, although modestly, shows in fact the higher intensity of the Albania relations among the region countries. The main factors in this increase will be: (i) the Free Trade Agreement signing with the region countries (ii) the increase in the competitions of the region economies in the global one.

It shows that the biggest increase has had the specific weight in 2006 and 2007, years that belongs to end of FTA signing with the region countries. Anyway, the period that pertain these data is relatively short and the change of this tendency in the upcoming years will give as a full view about the determinate factors of the change of this structure. From another part if we analyze the import export structure of Albania with the region countries, it is evident that the main products in exports and in imports are still raw material or rough materials. This characteristic of course reflects a important aspect of the integration nature of Albania with region economies.

## Conclusion

The regional integration of the West Balkan countries shows important European integration countries of the region, it can be considered as a preliminary phase of the countries in its EU integration. A very important aspect of integration is concretized in economic collaboration with the region countries



West Balkan countries have had a relatively fast development in the direction of the regional integration politics in the economic field. The process started in 1999 with the Stability Pact that was concretized at least with the CEFTA -2006 agreement.

Macroeconomic stability of the west Balkan countries and the openness of the economies are generally associated with the current account deficits and trade deficits increase. The positive correlation among the economy opening scale of the special countries and foreign direct investment of these countries, that it is not something accident. This correlation shows the fact that trade development is result of the increase in the economies competitions of the region countries, which from other part mostly depends in the foreign investment.

The trade intensity level among region countries is relatively high, especially among Ex Yugoslavia Federation. The data shows that this intensity, despite with its decrease for the period 1996 - 2004, has risen for the period 2006 - 2007. The export and import part of the different countries with other region countries shows an increase tendency.

Albania relatively with other west Balkan countries shows a low level of economic collaboration, thing that is unexplainable with the country close before the '90. Anyway the characteristic is even for this country the increase tendency of the specific weight of the trade with other region countries.

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## ICT IN SMALL AND MEDIUM ENTERPRISES (CASE OF ALBANIA)

Prof. Asoc., Dr. Kozeta SEVRANI  
Head of Mathematics, Statistics & Applied Informatics Department  
Faculty of Economy  
Email: [ksevrani@sanx.net](mailto:ksevrani@sanx.net)

Dr. Rovena BAHITI  
Mathematics, Statistics & Applied Informatics Department  
Faculty of Economy  
University of Tirana, AL  
Email: [rbahiti@hotmail.com](mailto:rbahiti@hotmail.com)

### ABSTRACT

Small and Medium-sized Enterprises (SMEs) are a crucial sector for the EU economy that needs support by ICTs. They are keys for making SMEs grow. As the global economy becomes increasingly reliant on ICTs to receive, process, and send out information, SMEs in developing countries should not be left behind. The purpose of this paper is to give an overview of the ICT market in Albania and to study the beliefs and attitudes of SMEs toward the use of ICTs as well. Beside information on the current situation, this paper aims to identify the needs and difficulties SMEs faces in using ICTs.

**Key words:** ICTs, SMEs, Internet

### CONCEPTS AND DEFINITIONS

#### *1.1 What are SMEs?*

The technical definition varies from country to country. Some countries have different definitions for SMEs in the manufacturing and services sector and

may exempt firms from specialized industries or firms that have shareholdings by parent companies. But the European Commission has a recognized legal definition. According to this definition an SME must have less than 250 employees, a turnover less than 50 million Euros, and a balance sheet of less than 43 million Euros.

### ***1.2 Why are SMEs important?***

*The only way to reduce poverty in a sustainable way is to promote economic growth, through wealth and employment creation. In developing countries, SMEs are the major source of income, a breeding ground for entrepreneurs and a provider of employment.*

UNIDO, WSIS Report, February 2003

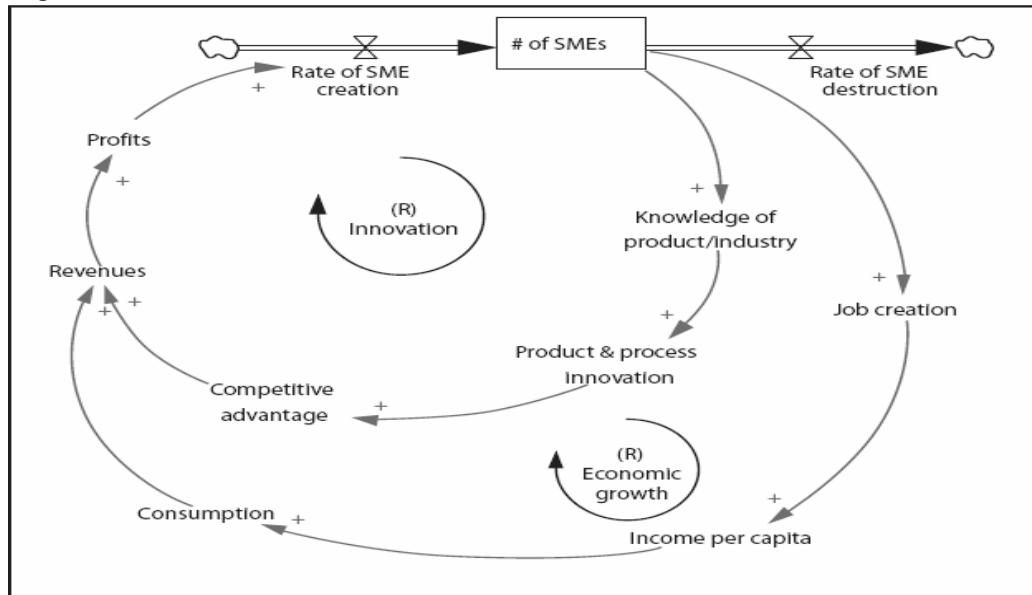
SMEs are important because on average, they comprise over 95 percent of the economy. The contributions of SMEs to employment and the countries' gross domestic product (GDP) are by no means trivial. As of July 2006, close to 140 million SMEs in 130 countries employed 65 percent of the total labor force.<sup>99</sup> Moreover, SMEs are the driver of economic growth and innovation. Figure 1 describes both reinforcing dynamics. The total number of SMEs in the economy depends on the rate of SME creation and rate of SME destruction. Profitable market opportunities increase the rate of SME creation. This increases the total number of SMEs in the country, which increases job creation and income per capita. As people become wealthier, they will increase their consumption, which in turn will open up new market opportunities that will entice the creation of more SMEs. Contrary to multinational corporations, the growth of SMEs directly benefits the country because most SMEs are domestic firms. This reinforcing dynamic generates economic growth. The reinforcing loop of innovation also drives economic growth. As the number of SMEs increases, their knowledge of their product and industry increases. Their knowledge allows them to innovate on the product or process, which helps them form a competitive advantage to generate more profits. Again, market opportunity as captured by the

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<sup>99</sup> World Bank. International Financial Corporation Report: Micro, Small and Medium Enterprises 2006.

profitability of SMEs will encourage more people to establish their own SMEs to capture the opportunity.

**Figure 1: SMEs are a Driver of Economic Growth and Innovation**



Information and communication technology (ICT) connectivity (PCs and Internet) is very widespread in businesses of all sizes. As is the case with all technologies, small businesses are slower than large ones to adopt new ICTs. Potential small business benefits and firm and sector-specific strategies drive the adoption and use of ICTs. Furthermore, sectors are increasingly global and dominated by large firms and the structure of their values chains and operations shape opportunities for small and medium size enterprises (SMEs). Principal reasons for non-adoption are lack of applicability and little incentive to change business models when returns are unclear. SMEs also face generic barriers to adoption including trust and transaction security and IPR concerns, and challenges in areas of management skills, technological capabilities, productivity and competitiveness. The issues for governments are to foster appropriate business environments for e-business and ICT uptake (e.g. to diffuse broadband, enhance competition), and target programmes to overcome market failures to the extent that they are needed in particular areas (e.g. skill formation, specialized information). Governments

have a range of SME ebusiness and Internet use programmes. However commercial considerations and potential returns are the principal drivers of small business adoption and profitable use.

### ***1.3 Which is the role of SMEs in European Economy?***

*SMEs are the D.N.A. of the European economy. They are the basis of our future growth and prosperity... Why? ... Because, in Europe, that growth and prosperity must be based on knowledge... and it is SMEs that are most capable of turning knowledge into growth, ... of turning bright ideas into commercial success, ...of turning research into rewards. That is why they are the essential catalyst in what we call the Lisbon agenda.*

Janez Potočnik

European Commissioner for Science and Research, Paris, 15 September 2008

Using the said definition the importance of SMEs in Europe is undeniable:

- There are twenty three million SMEs in Europe: some 99% of all businesses.
- They employ 100 million people: some 70% of the workforce.

It is precisely SMEs that are considered to form “the backbone” of the European economy. They are a key source of jobs and a breeding ground for business ideas. Europe’s efforts to usher in the new economy will succeed only if small business is brought to the top of the agenda

Because of this importance the SMEs have on European Economy, the Commission is considering how to improve the ways in which the research and innovation policies and programmes at all levels – regional, national and European - can help SMEs to innovate, improve and grow. In June 2008, the Commission launched the Small Business Act (SBA). This sets out the overarching framework for future SME related policy. A framework – based on the principle of “think small first” - that promises to place SMEs in the mainstream of European policy making.

The SBA already includes a number of specific measures. But it is also a serious political commitment to ensure that policies at EU and Member State level are designed to provide the best environment and the best opportunities for SMEs to grow and flourish.

The impact of these initiatives needs to be improved by better coordination between programmes and initiatives at regional, national and European levels. There are 70 different national cluster policies around Europe and hundreds of regional ones. Each of these is doing a good job but in order to argue for more resources it's necessary to improve their impact through better coordination.

The ways in which the European Commission can support research and innovation are different. The 7th Research Framework Programme provided up to 50% of project financing, and up to 75% for SMEs. To help SMEs to innovate it's necessary less obstacles and better regulation. The European Commission's efforts, in partnership with Member States, to simplify and improve regulation, and to reduce administrative burdens, are particularly important for small businesses. Their lead market initiatives, clear the regulatory way in markets with the highest growth potential, are particularly important for innovative enterprises.

In this global economy, SMEs cannot compete on the basis of just cutting costs; they must compete on the basis of knowledge and value-added. The role of European Research Area is to effectively convert taxpayers' Euros into that knowledge at the best possible exchange rate. It is businesses, especially innovative SMEs that have the job of turning that knowledge back into Euros at a good rate of return.

In the future, regions, countries and the EU must work even more closely together to develop a true partnership between them.

#### ***1.4 How has the Knowledge-Based Economy impacted SMEs?***

*For countries in the vanguard of the world economy, the balance between knowledge and resources has shifted so far towards the former that knowledge has become perhaps the most important factor determining the standard of living – more than land, than tools, than labor. Today's most technologically advanced economies are truly knowledge-based.*

World Development Report, 1999



Countries in the world are moving from an industrial economy to a knowledge economy in which economic growth is dependent on a country's ability to create, accumulate and disseminate knowledge. Computers and the Internet catalyzed the growth of the knowledge economy by enabling people to codify knowledge into a digital form easily transmitted to anywhere around the world. People who have access to this new wave of ICT – broadly defined as technology that can be used for transmitting and/or processing information – are part of an information society connected to a virtual network that constantly creates and disseminates new information. ICT has speed up the pace of globalization and increased the complexity of business practices because firms not only need to be familiar with their local context but also with global developments. Thus, to compete in the knowledge economy, countries need a strong ICT-literate skills base that can innovate and adapt quickly to change. More value is placed on the knowledge worker than ever before. Knowledge, change and globalization are the driving forces of the new economy.

The knowledge economy has impacted SMEs both positively and negatively. On the positive side, because the knowledge economy relies heavily on ICT, it has led to the rapid growth of ICT

sectors. Many countries such as India, the Republic of Korea and Taiwan have created enabling environments to ensure that SMEs are well positioned to capture these emerging business opportunities. India, for example, offered relief from import duties for IT hardware, tax deductions for income earned from software exports, and tax holidays. India's thriving ICT sector has in turn propelled the country's economic growth. SMEs outside the ICT sector have also benefited by adopting ICT in their own operations, enabling them to communicate quickly, increase productivity, develop new business opportunities, and connect to global networks.

Conversely, the reliance on ICT in the knowledge economy means that those SMEs who have not yet adopted ICT will have trouble surviving. For example, 60 percent of Intel's material orders are now done electronically<sup>100</sup>. With e-procurement becoming mainstream in developed countries, SMEs

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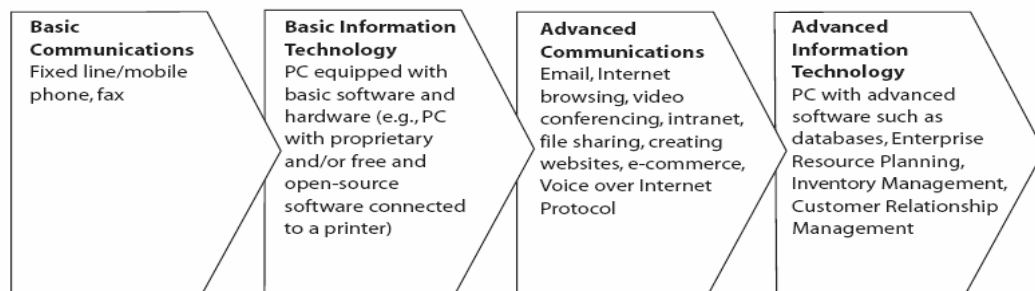
<sup>100</sup> Lian, Lee Wei, 'Net Value: Making SMEs See the Value in ICT'. *The Edge Singapore*, 20 June 2005.

that do not have that capability will not be chosen as business partners. Additionally, SMEs that have not adapted to the faster pace and increasing complexity of the way businesses are conducted will lose out to the increasing competition brought about by globalization.

### **1.5 How do SMEs use ICT?**

SME usage of ICT ranges from basic technology such as radio and fixed lines to more advanced technology such as email, e-commerce, and information processing systems (see Figure 2).

**Figure 2: Progression of ICT Adoption**



Using advanced ICT to improve business processes falls into the category of e-business. However, not all SMEs need to use ICT to the same degree of complexity. The first ICT tool that most SMEs adopt is having basic communications with a fixed line or mobile phone, whichever is more economical or most convenient for their business. This allows the SME to communicate with its suppliers and customers without having to pay a personal visit. After acquiring basic communication capabilities, the next ICT upgrade is usually a PC with basic software. Even without Internet connectivity, SMEs can use PCs for basic word processing, accounting, and other business practices. With the Internet, SMEs are able to use more advanced communications capabilities such as email, file sharing, creating websites, and e-commerce. This may be sufficient for most SMEs, especially those in service industries such as tourism. SMEs in manufacturing may adopt more complex IT tools such as ERP software or inventory management software. SMEs may adopt the tools progressively or jump immediately to advanced ICT capabilities.

### ***1.6 What types of Advanced ICT Products are SMEs starting to use?***

Like any firm, an SME decides which type of ICT products to adopt based on the concrete benefits they can bring to its core business, the ICT capacity of its employees, and the financial resources available. Most people are familiar with basic ICT such as fixed phone lines, mobile phones, fax, computers, and basic document processing software – like Microsoft Office.

Advanced communication technology, however, is more complex. Advanced communication technology relies primarily on the Internet and the intranet, which allow people within the firm to share files with each other over the same network. Having Internet connectivity enables firms to do faster research, set up websites, conduct e-commerce, and set up video conferences. One of the most revolutionizing developments in advanced communication technology is Voice over Internet Protocol (VoIP). VoIP includes all types of voice communication transmitted through the Internet, whether it is between computer and computer or in hybrid form between computer and regular phone. It competes directly with traditional fixed line and mobile phone operators. Users only pay for their dial-up, broadband, or wireless Internet connection. iSuppli, a market-research firm, estimates the number of VoIP residential users worldwide will reach 197 million by 2010<sup>101</sup>.

Most complex of all is advanced IT. It is often very expensive, sophisticated and takes more time to implement by a firm. SMEs can sign up for one or all available services. In order to reduce costs, some firms opt to outsource this component or use an application service provider (ASP) that provides functional software capabilities over the Internet. The major types of products are:

#### **Major Products of Advanced Information Technology**

- Enterprise Resource Planning (ERP)
- Customer Relationship Management (CRM)
- Supply Chain Management (SCM)
- Enterprise Application Integration (EAI)

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<sup>101</sup> *The Economist*, 17 September 2005, pp. 69–71.

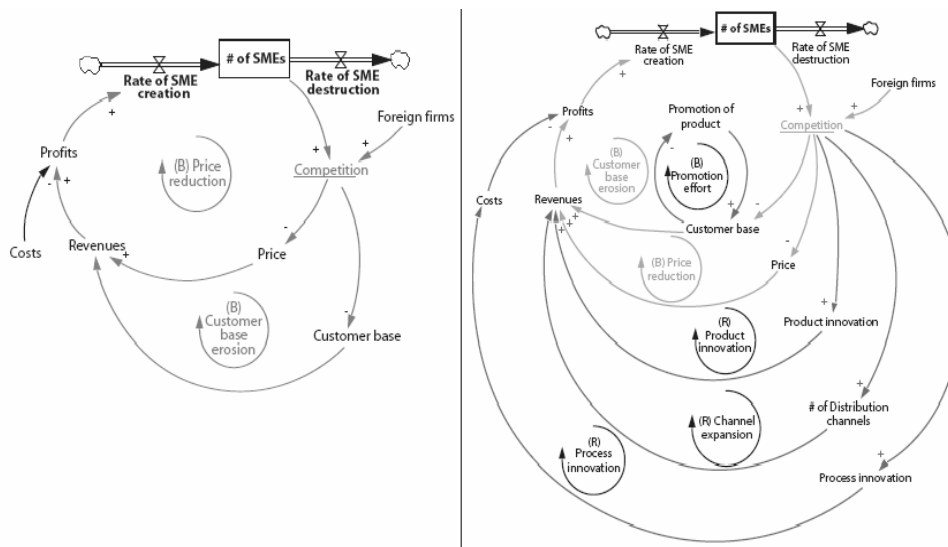
- Rapid Prototyping and Manufacturing (RPM)
- Knowledge Management (KM)

## 2. SME ADOPTION OF ICT

### 2.1 Why Should SMEs Adopt ICT?

SMEs are often the main driver for a country’s economic growth. However, as the number of SMEs increases, competition increases, which then results in a decrease in prices, customer base, or both. This in turn will erode existing profits, creating less incentive for people to start SMEs. This dynamic is captured by balancing feedback loops where the greater the number of SMEs, the greater the competition, resulting in a slower rate of growth for SMEs (see Figure 3, left). To counter the increasing competition, firms can lower prices, increase promotion of their product, improve their product, add new distribution channels, and/or improve their internal processes (see Figure 3, right). The challenge is to counter competition when the firm still has the financial resources to do so. Otherwise, once the pressure of competition sufficiently erodes the SME’s profits, it will no longer have resources to counter the competition and will have to exit the market.

**Figure 3: A Systems Dynamics View of Firm Response to Competitive Pressures**



## **Competitive Pressures of SMEs      Ideal Firm Reaction to Competitive Pressures**

Foreign firms in both the import and export markets further add to competitive pressures, especially if they react faster to improve their product, process, promotion, or distribution channels. This is the problem of the Digital Divide. When firms in developed countries adopt ICT, firms in developing countries will lose out on the competition. This in turn can slow the growth rate of SMEs and hurt the economy as a whole.

ICT can thus play a very important role because it can help SMEs both create business opportunities and combat pressures from competition. Appropriate ICT can help SMEs cut costs by improving their internal processes, improving their product through faster communication with their customers, and better promoting and distributing their products through online presence. In fact, ICT has the potential to improve the core business of SMEs in every step of the business process.

In countries where SMEs are only starting to adopt basic ICT, obtaining a fixed or mobile phone line can help their business. It can replace the time and costs necessary for face-to-face communication. In countries where SMEs already have basic ICT, adopting more advanced ICT still brings enormous benefits. Advanced communication technologies such as email can help firms communicate faster and cheaper with both its suppliers and clients. In 2000, an organization that uses paper took on average 7.4 days to move a purchase from request to approval, but if done electronically, today it takes only 1.5 days. Advanced ITs such as ERP software can capture cost savings. Beyond cost savings, SCM software can also help increase productivity, efficiency of inventory controls, and increase sales through closer relationships and faster delivery times.

### ***2.2 Use of ICT and Internet among SMEs in Europe***

Today, ICTs and economic development are closely linked. The European project outlined in Lisbon in 2000 makes the information society a major objective of growth policies, emphasizing that “*The shift to a digital, knowledge-based economy, prompted by new goods and services, will be a powerful engine for growth, competitiveness and job*”.

ICTs provide all businesses with opportunities for development, innovation and improved productivity. More specifically, where SMEs are concerned, it is information exchange tools that increase the efficiency of traditional exchange procedures, both within the company and with suppliers and customers. ICTs afford companies considerable potential to extend and give structure to the scope of their influence at very little cost. For example, SMEs can gain a new shop window (e-commerce), but also offer new online services. ICTs also give SMEs the opportunity to benefit from or provide existing services remotely at lower cost, in particular through VoIP

Nevertheless, this positive influence of ICTs does not seem to be perceived quite as easily by the companies themselves. The E-Business Watch report<sup>102</sup> reveals that only a minority of companies recognize that ICTs have an impact in terms of increased income, improved company processes and productivity (33%, 44% and 40% respectively, all sizes of firms combined). In such a context, the majority of players that are reticent about e-business cite the size of their business as an explanatory factor (68%). But other significant hindering factors seem to come into play as well: cost (40% of businesses, all sizes combined), complexity (35%), security concerns (33%).

The most marked differences appear when we look at usages. For example, applications integrated into internal procedures appear to be less developed in small enterprises than in large ones: just 11% of small businesses have a document management system, compared with 42% of large ones. Whilst 68% of large companies make use of online ordering facilities, just 54% of small businesses do the same. Finally, just 14% of small businesses monitor working hours or production times electronically compared with 38% of large companies.

These figures, therefore, highlight a significant disparity between ICT equipment and usages as a function of company size. Nevertheless, as e-Business Watch underlines *“It is debatable whether small companies really need the same powerful solutions as large firms in order to achieve the same benefits. In a small company, information management and e-business can possibly be also effectively and efficiently achieved by the use of less sophisticated and less expensive systems”*. Although this assertion is entirely

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<sup>102</sup> [www.ebusiness-watch.org](http://www.ebusiness-watch.org)

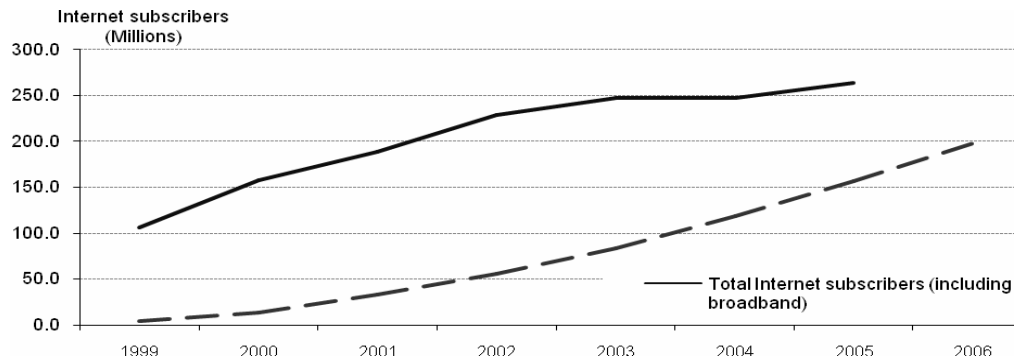
relevant, it does not apply to all of a company's activities and this lag may remain worrying.

Internet access is also commonplace among SMEs. While Internet penetration is generally higher in larger enterprises, the gap between larger firms and SMEs is narrowing. Computers and access to the Internet have become common in most OECD countries, but sales and purchases over the Internet have yet to take off. While available data suggest that electronic commerce is growing, it still accounts for a relatively small proportion of economic activity for firms of all sizes. Purchasing over the Internet is more common than selling. The table below presents the internet penetration in our region and the graph shows the trend of internet subscribers' number during the years.

**Table 1. Internet Penetration in Balkan' Countries - 2008**

Country	No. population	No. users	% of users	Broadband users
Albania	3,087,159	471,200	15.3%	300
Greece	10,706,290	3,800,000	35.5%	787,000
Macedonia	2,056,894	392,671	19.1%	36,500
Serbia	10,087,181	1,400,000	13.9%	121,700
Montenegro	665,734	266,000	40.0%	25,800
Bulgaria	7,322,858	2,200,000	28.7%	384,300
Romania	22,276,056	7,000,000	31.4%	1,796,300

**Graph 1. Internet Subscribers during the years**



Source: OECD Key ICT Indicators [[www.oecd.org/sti/ICTindicators](http://www.oecd.org/sti/ICTindicators)]

### 2.3 Towards e-business integration

Some businesses, mainly early adopters of e-commerce, are entering the next stage of ICT use, e-business. They have begun to engage in increasingly sophisticated uses of ICT, involving business process reengineering and more complex technology. In such firms, B2C and B2B e-commerce are components of an overall e-business strategy. External relations with customers as well as internal processes are being linked. Marketing and sales, logistics and delivery, after-sales service, supply chain management and other business functions are integrated in an overall e-business strategy.

Most SMEs appear still to be at a stage where establishing a Web site or adopting e-commerce is

the main issue. Successful integration of external and internal business processes in e-business necessitates organizational and management changes which may entail proportionally greater costs and risks for SMEs. In addition, smaller firms may have fewer incentives to integrate their business processes than larger firms, which have more complex business processes and resources to harmonize and co-ordinate. It may therefore take more time and resources for SMEs to adopt e-business strategies. However, in the near future, B2C and B2B electronic commerce will have to become components of SMEs' overall e-business strategy and "normal" business processes that are supported by ICTs and carried out on electronic networks.

In relation to assisting SMEs to integrate e-business into their entire business process, there could also be more emphasis on integrating e-government into the business process. E-business will have greater appeal to SMEs if their B2B,



B2C and B2G activities can be more closely integrated. Making use of e-government initiatives as an incentive for SMEs to go online is crucial but again, these need to be seamless and integrated into business activities more generally.

#### ***2.4 ICT adoption and firm performance***

Despite the potential benefits of ICT and e-commerce, there is debate about whether and how their adoption improves firm performance. Use of and investment in ICT requires complementary investments in skills, organization and innovation and investment and change entails risks and costs as well as bringing potential benefits. While many studies point to the possibility of market expansion as a major benefit for SMEs, larger businesses can also expand into areas in which SMEs dominated. Moreover, it is not easy for SMEs to implement and operate an on-line business, as this involves complementary costs for training and organizational changes as well as direct costs of investing in hardware and software solutions.

While many studies provide evidence of the positive effects of ICT adoption on firm performance, others have shown no relation between computer use and firm performance. Recent OECD analysis shows the impacts of ICTs and e-business strategies on firm performance are positive overall, but that ICTs are not a panacea in themselves. The OECD's Electronic Commerce Business Impacts Project (EBIP) studied a set of 220 early successful adopters of e-business strategies in a range of established sectors in eleven different countries. This study showed the positive impacts of e-commerce on their turnover and profitability and to a lesser extent on employment, most notably when e-commerce is part of larger business strategies of firms (OECD, 2002a). Further work by researchers in 13 OECD countries based on large scale statistical surveys provides evidence that the use of ICT can contribute to improved firm performance, in terms of increased market share, expanded product range, customized products and better response to client demand. Moreover, it indicates that ICT may help reduce inefficiency in the use of capital and labor, *e.g.* by reducing inventories, and that the more customers or firms are connected to the network, the greater the benefits (spillover effects). However, the analysis shows that complementary investments in

skills, organizational change and innovation are key to making ICT work, and that the use of ICT affects firm performance primarily when accompanied by other changes and investments and that without these, the economic impact of ICT may be limited.

### 3. THE ALBANIAN ICT FRAMEWORK

#### *3.1 Albania – A Brief Economic Profile*

Economic reforms of the first decade of transition were much focused on the areas of privatization, deregulation and liberalization efforts in all sectors of the economy. Although much progress was achieved, as it is broadly evidences in numerous reports, the crisis of 1997 witnessed the fragilities of the reform progress and the limitations in other so called second generation reform directions. Recognizing the need for deepening of the reforms, the current economic program embodied in different government documents, stresses the government's intention to maintain economic stability, accelerate structural reform and step up the fight against crime and corruption.

Albania's nominal GDP<sup>103</sup> in 2007 totaled 982.2 billion lek (or 8.2 billion Euro), while maintaining a growth rate of six percent (rate of growth in 2005 was also six percent). This strong growth was based primarily on expansion in the services, construction, and transport sectors.

The Albanian economy is open to trade. Exports and imports continue to grow each year, but import growth has outpaced that of export growth. The flow of goods in 2005 indicates that imports totaled 261,710 billion lek (or 2.2 billion Euro), while exports totaled 65,766 billion lek (or 540 million Euro)<sup>104</sup>. The EU remains Albania's main commercial partner, accounting for 87.1 % of exports and 59.8 % of imports. The main trade partners remain Italy and Greece, whose represent 27.5 and 13.7 % of imports and 72.9 and 9.2 % of exports respectively<sup>105</sup>.

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<sup>103</sup> Ministry of Finance, Macroeconomic Department, Economy in Focus, May 2007

<sup>104</sup> INSTAT – Albania in Figures, July 2006

<sup>105</sup> INSTAT – Quarterly Statistical Buletin, no.1, 2007

### 3.2 The Albanian ICT policy framework

This section provides a brief overview of the ICT research environment in Albania. The Government of the Republic of Albania considers the development of the information society and the use and deployment of ICT in the country as one of the highest priorities in achieving higher living standards and economic growth. The Albanian National ICT Strategy<sup>106</sup> builds on the many individual and sector e-initiatives already being implemented by other development organizations, such as e-governance activities led by the Italian Government, World Bank, European Union, DFID and USAID, e-vocation, e-education, and information activities led by the Open Society Institute and GTZ, as well as many other cross-cutting ICT activities supported by these and other donors. The goals of the National ICT Strategy are to exploit the potential of ICT in order to promote human development in the country, to support growth and sustainable development and to increase living standards for the whole population. ICT should be used to create employment, improve working conditions, and motivate highly educated individuals to stay in the country. National and local needs and circumstances will be an important factor to be considered for the development of the Information Society in Albania.

The ICT sector in Albanian has had considerable growth these last years. It's notable to mention the number of the ICT companies created and active in the last five years. The telecommunications is the sector that has experienced spectacular growth during the last years due to the entry of and heavy investment by two new mobile companies. However, telephone density remains low and the potential for high rates of growth is still present. Demand continues to increase for physical facilities and equipment to meet the telecom companies' expansion needs.

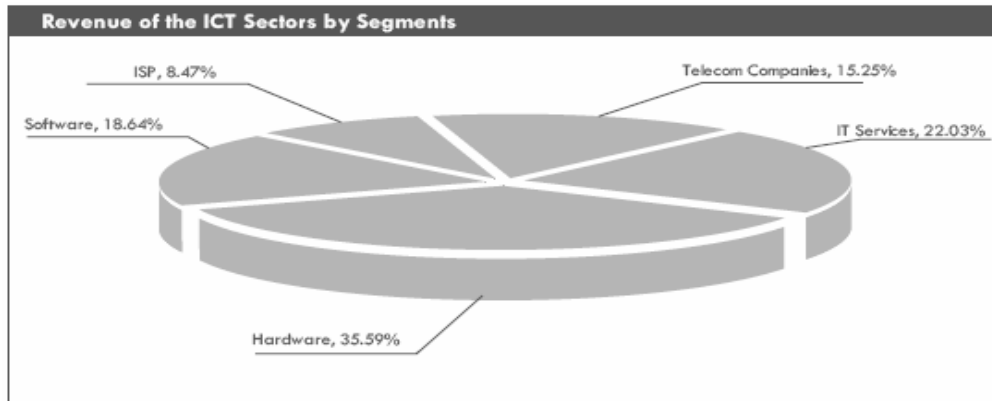
The following chart gives a better view of the revenue of ICT Sectors by Segments<sup>107</sup>.

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<sup>106</sup> "Information and Communication Technologies Strategy" UNDP, <http://www.undp.org.al/index.php?page=projects/project&id=32>, <http://www.ictd.org.al>

<sup>107</sup> Statistics published by the Chamber of Commerce of Tirana and Albania, <http://www.cci.gov.al>

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The majority of products are imported from abroad. However, there is a strong tendency and increase in the ICT sector to adapt products to local needs. Some programs have been adapted to the local language. There is a variety of choices with regard to equipment and programs, which are accessible and affordable for the majority of small and medium enterprises as well as for many individuals. The average annual investment in ICT is about 2.5-3 million USD (or 2.2 million Euro) and all ICT revenues total about 20 million USD (or 15 million Euro)<sup>108</sup>.

In spite of achievements that the Albanian ICT Sector has made in recent years, technological needs remain at a considerable level. There is the need for countrywide Internet coverage. There is a need for a fast and reliable network infrastructure. Scientific research activities in Albania are very limited too, primarily due to the lack of infrastructure and the insufficiency of financial resources. A considerable number of qualified specialists have left scientific research institutions and most of them have emigrated abroad. Specialized ICT departments in particular have suffered considerably from “brain drain”. Nevertheless, in the context of integrating Euro-Atlantic processes, the academic community has been involved in some important regional projects funded by the European Commission. The country’s participation in the European Commission’s Framework Program 7, as an important activity that encourages European integration, is supported through participation in SEE-ERA and IDEALIST projects. Main projects in ICT research in the country both in national and international level are focuses mainly in e-government,

<sup>108</sup> Republic of Albania, Electronic Assessment – Report on the status of information technology and communications in Albania, 2002-2005

e-health, e-learning and e-infrastructure. Main ICT research capacities of research organizations in Albania includes: ICT supporting businesses and industry; ICT meeting societal challenges for governments; Software, grids, security and dependability; ICT for content, creativity and personal development; ICT meeting societal challenges for health; etc. During 2007, the Council of Ministers has approved Albania status as associated to FP7. In order to associate the country to the FP7 Program, the government approved a draft for financing 200.000 Euro.

ICT should be used to create employment, to improve working conditions, and to motivate highly educated individuals to stay in Albania. National and local needs and circumstances will be an important factor to be considered for the development of the Information Society in Albania.

Besides all these efforts, Albania still lacks a real official ICT structure. One of the measures taken recently from the Albanian Council of Ministers is the creation of the "National Agency of Information Society and Electronic Government" (AKSHI), which will prepare a strategic policy, coordinate and supervise the implementation of the programs and projects for Information Society.

Some duties that will be performed by the agency are:

- To solicit and support the development of e-business.
- To solicit and support online services, internet, and computer usage by Albanian citizens
- Collaboration with other national and international institutions, civil society, and the private sector in the field of Information Society.

### ***3.3 An overview of the SME sector***

The backbone of the Albanian economy is formed by the large and expanding sector of small companies. SMEs have a crucial role in the transition process. SMEs already make up the vast majority of private businesses operating in Albania and because of their size and adaptability are likely to be the main source of employment generation. Improving the business environment for SME development is a key objective of the policy framework in Albania.

The SME sector accounted for about 99%<sup>109</sup> of the total number of active private enterprises in 2005, contributing 64% to the GDP and representing 66% of total employment. SMEs' access to bank credit has improved, but remains below needed requirements.

*The national definition of SME:* Article IV of the law nr. 8957, date 17-10-2002 "On Small and Medium Enterprises" states the definition of the micro/small and medium enterprises applied in Albania. The micro enterprises definition embodies only the staff headcount criteria – and states that entities employing fewer than 5 persons will be classified as micro enterprises. Small and micro enterprises definition except the staff headcount criteria add to the definition financial indicators as those of the turnover and balance sheet as well as the ownership and financial independency elements.

- Small enterprises are those entities that employ 6-20 persons, and have an annual turnover that does not exceed 40 million *Leke* (around 320 thousand Euro). The capital of the enterprise should be owned by subjects that are classified under this law as small enterprises as well.
- Medium enterprises are entities that employ 21-80 persons; the annual turnover of the entity does not exceed 80 million *Leke* (around 620 thousand Euro) and at least 25% of the capital of the firm does not belong to an enterprise that is not small and medium.

The logic of defining SME in Albania is consistent with the EU definition, but because of the economy size and performance the criterion do differ. The number of employees is the main criteria employed in both definitions, and this is seconded by the turnover and balance sheet figures.

Agency for the Development of Small & Medium Enterprises has the basic aim to support the setting-up of the SMEs according to markets needs, to foster the capabilities of human resources for the specific businesses, in order to promote the development of the SMEs in the country. The agency was established in 1991. Among a variety of tasks and missions the agency should:

- provide support for SMEs in the process of acquiring new technologies,
- should establish an information system with data of importance for SMEs,
- and should contribute to the transfer of knowledge and technologies.

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<sup>109</sup> Albania 2006, Progress Report, Ministry of Integration

So far, the agencies failed to support the commercialization of new technologies and products developed in R&D sector. Nevertheless, the work of this Agency seems very effective and is continuing with a positive trend.

The Albanian authorities are increasing the support given to the SME sector, in recognition of the growing importance of SMEs to the national economy. The deepening of reforms in line with the government action plan has produced a more encouraging environment to develop private enterprise. Administrative barriers were lowered, communication between the private and the public sector has improved, governance has been strengthened and market opportunities are broadening.

The groundwork on developing a favourable regulatory framework for SME's has made substantial progress through Albania's participation, since 2003, in the European Charter for Small Enterprises process.

Albania is the fifth country of the group of EU candidate and potential candidate countries to join an important part of the EU's Competitiveness and Innovation Programme (CIP). Under the CIP, the European Commission promotes innovation, entrepreneurship and growth in SMEs. On 27 June 2008, European Commission Vice President Günter Verheugen and Mr Genc Ruli, Minister for Economy, Trade and Energy of the Republic of Albania, signed a Memorandum of Understanding formalizing the Republic's entry to the EIP, the entrepreneurship and innovation pillar of the CIP.

Commission Vice-President Günter Verheugen, responsible for enterprise and industry policy has said: *"We are creating a win-win situation for Albania and for the EU. The decision of Albania to join the CIP confirms the European aspirations of Albania and the progress already achieved. We also share the understanding that the challenges of today's global world are best faced by integration and ever closer co-operation."*

Albania will be able to take part in the framework of the European Charter for Small Enterprises by making direct ties with EU Member States and learning from good practice in promoting entrepreneurship and innovation in all its various forms. This will strengthen Albania's own policy and delivery capability for the benefit of SMEs. Albanian policy stakeholders and experts can now join the relevant policy groups which the European Commission will set up under

CIP to assist to develop an SME friendly policy, which is key to achieve sustainable growth and more and better employment opportunities. It is another step to bring Albania, which has an EU Membership perspective closer to the EU. It will benefit Albanian SMEs as it will benefit those SMEs from the EU with business ties to Albania, to develop together.

### ***3.4 Why have so few SMEs adopted ICT?***

Given the benefits that ICT can bring to SMEs, SMEs in most developing countries in Europe still have been slow to adopt it. In Albania, better part of SMEs still use basic communication technology such as fixed phone line and fax, and only a small part use CRM software. Meanwhile, their counterparts in developed countries are using advanced ITs. One cause of limited adoption is the lack of dynamism between ICT firms and SMEs outside of the ICT sector. ICT firms have not provided goods and services tailored to SMEs in the past because demand from SMEs has been low. However, their demand is low in part because ICT products available in the market are too complex and expensive. The result is a vicious cycle of limited supply and limited demand that ultimately excludes SMEs from the benefits of ICT. Other factors also contribute to the limited supply and demand of ICT for SMEs:

#### ***Supply Side***

##### **1. Poor communications infrastructure results in limited access and higher costs**

Albania has poor communications infrastructure. Outdated equipment and state-owned monopolies often result in expensive charges and limited coverage, especially in rural areas. This discourages SMEs from adopting even the basic ICT of fixed lines or mobile phones.

##### **2. Most advanced ICT products are designed for larger firms and not SMEs**

ICT firms used to target large enterprises because they had a larger budget and were willing to pay for more complex ICT services. Their products are often too expensive and too complex for SME users. However, competition in this market is making firms – both large and small – turn their attention



towards the untapped SME market. A recent study<sup>110</sup> showed that software companies have as their primary market: retail and wholesale, education and science, SMEs (34%), telecommunications finance, industry, and local government.

### ***Demand Side***

#### **1. Limited ICT literacy of SME owners hinders their ability to choose the appropriate technology and understand the concrete benefits it can bring to their business**

Many SME owners are unfamiliar with operating a computer, are skeptical of the concrete benefits to its core business, and have the stereotype that ICT is only for larger companies. Even if they have the will and financial resources to integrate ICT into their core business, SME owners are often at a loss when needing to choose the most appropriate and cost-efficient product.

#### **2. Limited ICT literacy of employees in SMEs hinders ICT adoption**

Even if SME owners have a strategic understanding of why they should adopt ICT, their staff is often untrained. Training costs both time and money – resources that SMEs usually lack.

#### **3. Adopting ICT is an adaptive challenge, not a technical challenge**

Adopting ICT is a difficult task for companies of all sizes, whether they are in developed or developing countries. In fact, a lot of management literature focuses on the organizational changes that firms must go through in order to effectively adopt ICT because they change the way firms do business. While the changes may be beneficial in the long run, they often hurt one department and strengthen another. Thus, SME owners are often reluctant to bring their firm through a learning curve that may be difficult and costly.

#### **4. Lack of financing options limits SME ability to purchase ICT**

*Lack of financing and appropriate technology is clearly a major handicap to developing country producers and exporters, and it inhibits developing countries from deriving full benefits from their trade rights.*

Rubens Ricupero, Secretary General of UNCTAD, 18 February 2002, Geneva

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<sup>110</sup> ICT Market in Albania: Specific Research on ICT Sector in Tirana, Shkodra and Korca (2007), S. 29.

SMEs usually have limited ability to make larger investments in their firm due to the lack of financing options. Given the financial squeeze, IT budgets are usually small or nonexistent. In addition, adopting ICT is not a one-time cost because there are ongoing costs of maintenance, upgrading, and human capacity building.

#### **5. Lack of financial and legal infrastructure**

SMEs may still be hesitant to engage in e-commerce due to undeveloped legal policy for electronic payment and security issues. Many Albanian banks, a key link in the e-commerce chain, have not even adopted online banking in their own systems.

In the end, the definite costs of identifying the right goods and/or service, finding staff to manage it, taking the company up the learning curve, and obtaining financial resources are not perceived to justify benefits.

#### **3.5 Conclusion**

Our studies were intended to identify problems and needs rather than to provide solutions or answers. Nonetheless, there are two clear and complementary areas for action. First, IT manufacturers and vendors could make concerted efforts to be sources of solutions and not just of problems. Second, small business owners would benefit from greater awareness of the sources of sound information that would help solve IT problems and reduce the pain produced. In sum, there is work for both IT leaders and small business IT users if entrepreneurial small businesses in Albania are to obtain the greatest benefits from IT innovation and development.

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## Can SMEs in developing countries resist crisis? An analysis on Turkish and Albanian cases

Canan Şentürk – Hidayet Keskin – Yasemen Kiriş–Perihan Türköz –  
Hakan M. Kiriş

### ***Abstract***

SMEs have an important role in terms of their economic share in developed and developing economies, though there are different definitions of SME among various organizations and countries. Today, instead of giant industries, SMEs having gained importance in the developing economies, become advantageous being economic enterprises having the capability of quick adjudication, working with less capital but more intense labor and having low cost of management and thus having cheap production. In short, the concept of *small is beautiful* becomes important in the current economic conjuncture with giant firms.

In this context, SME definition and SME's role in Turkish and Albanian economies will be dealt with. It will be also questioned whether SMEs in developing countries resist crisis or not.

*Keywords:* SMEs, Turkish SMEs, Albanian SMEs.

### **INTRODUCTION**

Small and Medium Size Enterprises (SMEs) are the dynamic and gripping elements of improving economies, as they are in the world. Generally, SMEs can be defined as economic enterprises requiring little capital, having the quality to make a quick decision, working with manual labour and in low level of management expenses and manufacturing with low expenses.(Uludağ, Serin; 1990) Small enterprises, at the same time, are the

enterprises that are dynamic, innovative assessing the opportunities in time. (Erken, 1990)

These enterprises possess an important feature for industrialization, strong urbanization, optimum distribution and commercial applications within the social and economical structure of countries. In the said developed and developing economies, SMEs are profit-focused and creating value added enterprises contributing to employment drastically, decreasing the problem of unemployment, leading economic growth and transition of thought to the action. Thus they play an active role in determining the policies and strategies of all the countries. (Türköz, 2008)

In this regard, SMEs play a central role in the world economy. Recent empirical studies show that SMEs contribute to over 55% of GDP and over 65% of total employment in high-income countries. SMEs and informal enterprises, account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries. In the European Union countries, for example, there are some 25 million small businesses, constituting 99% of all businesses; they employ almost 95 million people, providing 55% of total jobs in the private sector. Important contribution is also on exports and on productivity growth.

## **1. DEFINITIONS OF SMALL AND MEDIUM-SIZED ENTERPRISE (SME)**

Today, micro or small enterprises are not equal with unsuccessful firms any more. This new condition is different from the past. Any firm can be successful and it can be small class also. (Erkan, 1990). On the contrary SMEs are dynamic and innovative enterprises and evaluate opportunities on time. Definition of SMEs and their size criteria is a controversial subject. There are various opinions about SMEs size measurement criteria and their amount. (Dinçer, 1994).

Institutions which working on SMEs case can make several definitions. Limits of SMEs definition generally changes according to economic size of countries. Thus SMEs phrase have economical meaning rather than legal meaning. Most of countries accept that number of employee is a common measurement of SMEs definition.

According to some institutions number of employee have more importance, for the others enterprises turnover have more importance in SMEs definition.

World Bank's definition of SMEs : (WB)

- micro scale; less than 50 employee,
- small scale; 50 employee,
- medium scale; 50-200 employee.

In European Union, the new definition of SME includes those with fewer than 250 employees. (CEC, 1999) This group is further disaggregated into micro enterprises (with fewer than 10 employees), small enterprises (with 10-49 employees) and medium sized enterprises (with 50-249 employees). Micro enterprises would include self-employed people working for themselves with no employees.<sup>111</sup>

Eurostat has made re-arrangement on statistics of EU by enterprises scale.(Yilmaz, 2004)

- Not employee (micro)
- 1-9 employee (micro)
- 10-49 employee (small)
- 50-249 employee (medium)
- 250-499 employee (large)
- More than 500 employee (large)

## 2. PLACE AND IMPORTANCE OF SMEs IN THE WORLD

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<sup>111</sup> Sometimes the term small, medium and micro-sized enterprises (SMMEs) is used rather than SMEs.

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In European Community, every three people out of 25 (12%) in 1985 were free from business. Therefore, a research has been made to achieve an important increase in employment in Europe. The results of the research show that one solution to achieve this rise is Small and Medium Size Enterprise (SMEs). It is noted that SMEs, the significance of which become clearer for resolving employment problem, have gained importance also in Europe after 1970s.(Bulmuş, Oktay, Törüner; 1990)

Some policies are also tried to be prepared enabling competition and formation of small enterprises making changes in the production, sale and management, besides the policies aiming to increase the employment in the small enterprises which have been monitored till now in the countries developed in the first decades of 21st century.(Sariaslan, 1994)

**Table 1. Share of SMEs in Some Countries (%) (2004)**

	USA	Germany	Japan	France	England	South-Korea	India	Turkey
<b>SMEs in Total Enterprises (%)</b>	97,2	99,8	99,4	99,9	96	97,8	98,6	99,5
<b>SMEs in Total Employment (%)</b>	50,4	64	81,4	49,4	36	61,9	63,2	61,1
<b>SMEs in Total Investment (%)</b>	38	44	40	45	29,5	35,7	27,8	56,5
<b>SMEs in Total Value Added (%)</b>	36,2	49	52	54	25,1	34,5	50	37,7
<b>SMEs in Total Export (%)</b>	32	31,1	38	23	22,2	20,2	40	8
<b>SMEs in Total Credits (%)</b>	42,7	35	50	48	27,2	46,8	15,3	4

**Source:** YILMAZ, B., “Kobi’lerin Finansman Sorunlarına Bir Çözüm Önerisi: “Risk Sermayesi Finansman Modeli””, (available at <http://www.dtm.gov.tr/dtmadmin/upload/EAD/TanitimKoordinasyonDb/Beytullah.doc>), (accessed March, 14, 2008).

It is seen that SMEs form a major part of total enterprises in the countries in Table 1 in the period between 1045 and 1970, emphasizing large size enterprises, economic growth and rehabilitation activities are implemented in the world. However, in this period, it is understood that SMEs have superior features compared to large size enterprises. In several countries, SMEs' role in creating employment and enabling competitive atmosphere, have gradually increased. In 1970s, the conjuncture on economic crisis has become effective in such a case. On the other hand, after the economies of scale have begun to decrease, SMEs have begun to construct the basis of macro economies' policies in many countries because SMEs have contributed to the usage of sources economically, the employment and income distribution after the depression in 1970. Contrary to the large enterprises focusing on the manufacturing of products the demand of which have showed high or low income elasticity, are the units affected least by the economic crisis.(Yılmaz, (accessed March, 14, 2008)) Once the economies of developing and developed countries are analyzed, indicators of SMEs disclose the significance of this sector clearly. Although SMEs show agricultural and structural differences country to country, an invariable fact is that these enterprises have great contribution to the economies of whole world countries.

SMEs constitute the basic source of materials, ideas, process and service that large enterprises cannot do or do not want to do. Because aiming to benefit from the cost advantage of economies of scale, large enterprises implement a policy of manufacturing a product for a long period due to the big investments for the machines, tools, devices and labor force. However, SMEs do not have such problems as maintaining a large scale investment. Because their economies are small and they possess more elastic structure when compared to large enterprises.(Efe, 1998)

SMEs remain important not only in developing countries but also in developed and industrialized countries. In these years of 21<sup>st</sup> century, in developed countries, the policies aiming to increase employment of small enterprises, observed up to now, are postponed and it has been tried to



constitute some policies enabling formation and competition of small enterprises making changes in production, sale and management. In developed countries, policies of small enterprises should be to improve alive, livable and dynamic enterprising, not focusing on increasing employment. (Sariaslan, 1994) Despite these difficulties, in all countries, there can be made such a generalization that SMEs constitute about 99% of enterprises. Despite the change from one country to another, SMEs constitute 40-80% of employment and 30-70% of gross national product. 5% of the SMEs are of the statute of large enterprises. This data designates a superiority of small enterprises upon large ones. One of SMEs small but important characteristics is that they are in a leading position to improve industries and technologies. SMEs are densely existed within the enterprises implementing innovative studies. By decreasing cost of communication, SMEs technical opportunities will increase and thus, SMEs' achievement in global market will improve. Contribution of SMEs to the employment is also important. (Küçükçolak, 1998)

Regardless of the level of economic growth, in all countries SMEs are the basis of economic and social order in terms of numerical and job creation capability. In almost all of the countries, SMEs constitute nearly all of the enterprises. According to this, in all countries, SMEs have an active role. (KOSGEB, 2000, 1993) Consequently, today, with the globalization of world markets, developed and developing countries are more aware of the capability and elasticity of SMEs to keep up with the social and economic changes. Thus, they focus on incentive economic measures to increase their competition capability and technological level. In short, in the world, the concept of "Small is Beautiful" is common.

### **3. ADVANTAGES AND DISADVANTAGES OF SMEs**

#### **3.1. Advantages of SMEs<sup>112</sup>**

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<sup>112</sup> See also Table 7.

Small and medium size enterprises have become popular in the world especially since 1960s. In 1973, a book about SMEs were published in USA named "Small is Beautiful" by E. F. Schumacher and this work aroused great echo in the world. In his book, the writer denotes the superiorities of SMEs as such:

- SMEs have a competitive structure.
- SMEs are more efficient.
- SMEs keep up with the new demands and new technology easier.
- SMEs' working styles are not monotonous or boring.
- SMEs are more enduring to the economic crisis.
- SMEs have a more successful role in increasing employment and arranging income.

It can be stated as a result that thanks to these features explained by Schumacher, SMEs have been leading enterprises in the industrialization of Western Countries since 1960.(Çarıkçı, 2001) Furthermore, SMEs;

- Provide more production and product variety with less investment.
- Create employment opportunity with low investment cost.
- Contributes to the reduction of employment working with intense effort technologies and employing, generally, low qualified employee.
- Affected less by the economic fluctuation because of their elastic structure.
- Keep up with the change and variety in demand easier.
- Are susceptible to benefit from technological innovations due to their elastic structure.
- Enable a balance in integral development.
- Reduce the instability in income distribution.
- Foster private savings.
- Complement and support large industry enterprises.
- Are the balance and stability elements of economic and social system.

Before all else, owning a small enterprise provides entrepreneur two fundamental advantage to compete with large enterprises. These are; to establish close relations with customer and operational staff, and to be more elastic in terms of marketing, production and service than large enterprises.

Entrepreneurs of SMEs are individuals who know local market they are in and realize the features and requirements of the market, and establish close relations with the customers and sellers. Especially, close relations with the customers provide superiority to these enterprises, which large enterprises cannot possess.

SMEs, observing the market closely, understanding the requirements of customers better and having intimate relations with its employee, have more elasticity than the large ones in terms of manufacturing, marketing and service. As this elasticity enables harmony with the changes in outside in time and on-site, SMEs pass over many troubles lightly with less damage. Right along with these, SMEs may obtain some advantages in some surroundings. (Yilmaz, (accessed March, 14, 2008)

SMEs' advantages are:

- SMEs provide the strength of element of “balance” income spectrum. This balance gains importance in terms of both social and economic sides. These enterprises are the sources of new ideas and discoveries. They contribute to the industries for providing required elasticity.
- SMEs have the opportunity to make a decision more quickly. Because they work with less expense of management and general operating, they have faster and cheaper production.
- SMEs play an important role in creating private initiatives. Also they enjoy large shares in employment and training. These enterprises are the first establishments in which many qualified workers receive technical training.
- SMEs constitute an effective way to expand the manufacturing and industrialization to the whole country.

- SMEs are of the situation to be the manufacturer of intermediate goods and inputs of large industrial enterprises.
- SMEs may be effective in increasing quality of life providing some opportunities for small investments to use labor force, raw material and financial sources that cannot be used because of social and political reasons.
- SMEs possess a significant role to fulfill the function to reflect small savings and family savings directly to the investments.
- It is observed that the relations between employee-employer improved in a closer and more positive environment.
- In the war economy, when large industries are damaged, small enterprises take an important function.

In a report of European Community about SMEs, the contribution of these enterprises to the economic system are summarized as the following; “these enterprises constitute a required part of commercial and industrial structure because of their numbers and studies about different cases; effects over all sectors having a field of manufacturing, trade and service; contributions to employment and level of welfare.”

### 3.2. Disadvantage of SMEs<sup>113</sup>

- Fail to provide professional administrator: The opportunities of small enterprises to possess a functional management style, are limited. Many small enterprises share the problem of not having managers specialized in their fields. This quality makes up a vital problem in their managing. At the beginning, enterprises may fulfill whole tasks about functions of the enterprise without needing any help. However, while growing, entrepreneur cannot fulfill these tasks alone or may have difficulties in managing.
- Fail to provide required capital: SMEs have some troubles in providing long term investment capital. Furthermore, they cannot pay loan of small quantity at a low rate of interest. Or at the time when they need loan, the loan may be cancelled. Right along with these, SMEs cannot find the

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<sup>113</sup> See also Table 7.

opportunities to reserve required fund to supply the risks because they do not have enough capital in the first years of marketing.

- Fail to provide enough labor force: One of the most vital problems of enterprises is to provide qualified and facile worker. Different factors affect their difficulty in providing staff. Generally small enterprises cannot provide equal employee benefits and wages to the large ones. Confidence and prestige that is provided by large enterprises causes people to work in these enterprises.

- Rules arranging economic life: Laws about minimum wage, working hours, worker health and environmental pollution sometimes cause important problems for SMEs. The expenses to gather tax withholding and insurance premium of wages; to arrange required documents and to convey premiums, tax withholdings and value added tax periodically to the related institution may be much more when compared to the large ones.

On the other hand, trade unions raise difficulties for SMEs by demanding the same rise of wages and employee benefits from all of the enterprises without discriminating them as large or small.

- Tax Laws and the system of taxation: Taxes and the system of taxation have an important role because SMEs are generally depend financially on savings of individuals, family members and close friends. Although there are some legal decisions in favour of them, tax laws and taxes are important problems for SMEs.

- Limited opportunities of research and development (R&D): SMEs have some important disadvantages about research and development when compared to the larger ones. Research and development requires important expenses and specialized staff. Before all else, they cannot reserve source for them and cannot find many opportunities to employ required staff. Competitive strength of small enterprises is low if compared to the enterprises having research and development opportunities. In such a situation the most rationalist way to follow is that some small enterprises, coming together, may found a center of research and development.

Government may partially solve the problem by letting SMEs benefit from its R&D center in a return for a certain price.

- **Privileged Attitudes:** One of the SMEs' disadvantages is that they lack strength to struggle against monopolistic attitudes and large interest groups. Likewise, SMEs experience difficulties as they generally become ineffective in the relations of entrepreneurs with the trade unions and government agencies and in the most of the demands.

On the other hand, SMEs cannot oppose much to the unfair competition created by economic unities in the market. Therefore, today, in many countries, some laws are laid down to keep the studies of economic unities (Cartel and Trust) under control.

Working under some risks are valid for all enterprises but there are more risks for small enterprises. Larger ones generally undertake the production and distribution of goods that have constant and prescribed demand. Thus, small enterprises have to work for the goods having low demand and changeable qualification. Price competition in many business lines, especially in the ones in the industrial sector, is higher when compared to SMEs' large rivals unit cost of which are high.

As long as there is a more detailed division of labor, the efficiency of labor improves and so units of labor costs decrease. Labor displacement and detailed division of labor are peculiar to mass production. Furthermore, some enterprises making mass production, make large amount of purchase. That's why they can buy materials of higher quality at a lower figure. This situation is while increasing efficiency of material, decreases the expenses of unit cost. On the other hand, large enterprises enjoy a great advantage in terms of cost of financing. Large enterprises take up a loan of large amounts. Moreover they can get this loan in more appropriate conditions.

According to these explanations, because of the negative competition, lack of general administration, especially the lack of total participation of low level workers to the decisions taken by the owners or partners, not employing

specialist and financial consultants in the enterprise, lack of an expert group in financing and lack of department, lack of capital and financial planning, not taking enough support from the banks and other financial corporations, not benefiting enough from capital market, lack of product development, lack of coordination between production and sale, not showing the activities of modern marketing, not to be able to participate in the activities such as bidding because their small size, littleness of business sites and residential areas, risk of bankruptcy and losing its independency, not to be able to provide specialized staff, legislation and bureaucracy, SMEs may be called disadvantageous.

**Table 7. A Comparison of Small and Large Firms (Advantages and Disadvantages)**

	<b>Small Firms</b>	<b>Large Firms</b>
<b>Marketing</b>	Ability to react quickly to keep abreast of fast-changing market requirements. (Market start-up abroad can be prohibitively costly.)	Comprehensive distribution and servicing facilities. High degree of market power with existing products.
<b>Management</b>	Lack of bureaucracy. Dynamic, entrepreneurial managers react quickly to take advantage of new opportunities and are willing to accept risk.	Professional managers able to control complex organisations and to establish corporate strategies. (Can suffer an excess of bureaucracy. Often controlled by accountants who can be averse to risk. Managers can become mere “administrators” who lack dynamism with respect to new long-term opportunities.)
<b>Internal Communications</b>	Efficient and informal internal communication networks. Affords a fast response to internal problem-solving; provides ability to recognise rapidly to adapt to change in the external environment.	(Internal communications often cumbersome: this can lead to slow reaction to external threats and opportunities.)
<b>Qualified</b>	(frequent lack of suitably	Ability to attract highly-skilled

<b>Technical Manpower</b>	qualified technical specialists. Often unable to support a formal R&D effort on an appreciable scale.)	technical specialists. Can support the establishment of a large R&D laboratory.
<b>External Communications</b>	(Frequent lack of time or resources to identify and use important external sources of scientific and technological expertise.)	Ability to “plug in” to external sources of scientific and technological expertise. Can afford library and information services. Can sub-contract R&D specialist centres of expertise. Can buy crucial technical information and technology.
<b>Finance</b>	(Can experience great difficulty in attracting capital, especially risk capital. Innovation can represent a disproportionately large financial risk. Inability to spread risk over a portfolio of projects).	Ability to borrow on capital market. Ability to spread risk over a portfolio of projects. Beter able to fund diversification into new technologies and new markets.
<b>Economies of Scale and the Systems Approach</b>	(In some areas scale economies of form substantial entry barriers to small firms. Inability to offer integrated product lines or systems.	Ability to gain scale economies in R&D, production and marketing. Ability to offer a range of complementary products. Ability to big for large turnkey projects.
<b>Growth</b>	(Can experience difficulty in acquiring external capital necessary for rapid growth. Entrepreneurial managers sometimes unable to cope with increasingly complex organisation.)	Ability to finance expansion of production base. Ability to fund growth <i>via</i> diversification and acquisition.
<b>Patents</b>	(Can experience problems in coping with the patent system. Cannot afford time and costs involved in patent litigation).	Ability to employ patent specialists. Can afford to litigate to defend patents against infringement.
<b>Government Regulations</b>	(Often cannot cope with complex regulations. Unit costs of compliance for small firms often high.)	Ability to fund legal services to cope with complex regulatory requirements. Can spread regulatory costs. Able to fund R&D necessary for compliance.



Source: (Xhepa, 2006)

#### 4. SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN TURKEY AND ALBANIA

##### 4.1. A Comparison of Small and Medium-Sized Enterprises Definition in European Union, Turkey and Albania

Small and Medium Sized Enterprises (SMEs) have always taken significant roles in national economics. SMEs, which are the driving sector of economic growth, have an important effect on the economic activity. On the other hand, SMEs, which have flexible structures in the production process are able to manage economic crises more easily than big-sized enterprises.

Turkey which is undertaking preparation for the membership of European Union should take necessary measures, due to the reasons mentioned above, so that it might approach to the standards of SMEs in Europe Union.

One of the main issues concerns the definition of SMEs. All of the Western Balkan countries (except Bosnia and Herzegovina) and UNMIK/Kosovo apply an EC definition of SMEs.<sup>114</sup> Most of the countries adopt the EU employment criterion but use different parameters for turnover and asset classification. (OECD, 2007)

**Table 2. Definition of Small and Medium Sized Enterprises in European Union, Turkey and Albania**

	<b>Criteria of Definition</b>	<b>Micro Enterprises</b>	<b>Small Enterprises</b>	<b>Medium-Sized Enterprises</b>
<b>EU</b>	Headcount: Annual	< 10	< 50	< 250

<sup>114</sup> For the EC definition of SMEs, see [http://ec.europa.eu/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm).

	Work Unit (AVU)			
	Annual Turnover	≤ € 2 million (previously not defined)	≤ € 10 million (in 1996, € 7 million)	≤ € 50 million (in 1996, € 40 million)
	Annual Balance Sheet Total	≤ € 2 million (previously not defined)	≤ € 10 million (in 1996, € 5 million)	≤ € 43 million (in 1996, € 27 million)
<b>Turkey</b>	Headcount: Annual Work Unit (AVU)	< 10	< 50	< 250
	Annual Turnover	1 million YTL (€ 606,000)	5 million YTL (€ 3 million)	25 million YTL (€ 15.15 million)
	Annual Balance Sheet Total	1 million YTL (€ 606,000)	5 million YTL (€ 3 million)	25 million YTL (€ 15.15 million)
<b>Albania</b>	Headcount: Annual Work Unit (AVU)	< 10 (previously <5)	< 50 (previously 6-20)	(previously 21-80)
	Annual Turnover	-	≤40 million <i>Leke</i> (around € 320 thousand )	≤80 million <i>Leke</i> (around € 620 thousand)

Source: (EC, 2003; DPT, 2007; Xhepa & Agolli, 2004)

The micro enterprises definition embodies only the staff headcount criteria – and states that entities employing fewer than 10 persons will be classified as micro enterprises. Small and micro enterprises definition except the staff headcount criteria add to the definition financial indicators as those of the

turnover and balance sheet as well as the ownership and financial independency elements. Small enterprises are those entities that employ fewer than 50 (< 50) persons, and have an annual turnover that does not exceed 40 million *Leke* (around 320 thousand Euro). The capital of the enterprise should be owned by subjects that are classified under this law as small enterprises as well. Medium enterprises are entities that employ fewer than 250 (< 250) persons; the annual turnover of the entity does not exceed 80 million *Leke* (around 620 thousand Euro) and at least 25% of the capital of the firm does not belong to an enterprise that is not small and medium.

#### 4.2. SMEs in Turkey

In the first half of 20<sup>th</sup> century, because the enterprises were getting bigger and bigger day by day, the thought that SMEs would not be able to surround, came up. However, today, SMEs have survived, moreover, they have become more important because of the improvement in technology, the increase in the tendency of independency in individual and society, and the transition to information society since 1970s.

In our country, in whatever period the economic process is in, SMEs have maintained their economical, social and political importance and have had a significant role to define the countries' policies and strategies. (Diken,1996) However, although SMEs constitute a major part of total industrial enterprises of Turkey for long years, they have not caught enough importance required.(Ören,2003)

As it is known, Turkey experienced a severe economic crisis in the year 2001. This economic crisis has been costly for the Turkish economy and has typically been accompanied by a collapse of output and employment as well as striking declines in real wages. The 2001 Crisis interestingly caused a set of catastrophe and it is worthy to analyze its emergence, mal-administration, and wide damage on the Turkish economy and to show the structure that transformed political climate in the post-crisis period. (Keskin et al., 2008)

Struggling to provide a stable transition to the process of development, getting rid of inflationary instability, the importance of SMEs is comprehended better and the problems of SMEs are tried to be found out and to be solved with the acceleration of European Union process in also Turkish economy, in 2000s. (Ataol, 2006)

Small and medium-sized enterprises (SMEs) play a very important role in the Turkish economy owing to their large share in the total number of enterprises and in total employment.(OECD, 2004a) In Turkey, the number of SMEs including those in the service sector constitutes 99.8% of total enterprises and 76.7% of total employment. The share of SME investments within total investments reaches 26.5% and 38% of total value added is also created by these enterprises. Although the share of SMEs in total exports fluctuates on an annual basis, on the average, it is 10% and their share in total credit volume is 25%. (DPT, 2007)

**Table 3. Enterprise distribution, % of Total Enterprises in The Economy (2002).**

	Number of workers	Distribution (%)
<b>SME</b>	<b>1-250</b>	<b>99.89</b>
Micro (self-employed)	0	1.38
Micro	1-9	94.94
Small	10-49	3.09
Medium	50-99	0.3
Medium	100-150	0.1
Medium	151-250	0.08
<b>Big-Sized Business</b>	<b>≥251</b>	<b>0.11</b>

Source: TÜİK, (available at <http://www.tuik.gov.tr>), (accessed October, 2, 2008).

Since 2002, within total number of industries, the rate of micro sized firms employing less than 10 workers is 96 %, 32, of small size firms employing 10-49 workers is 3 %, 09, of medium size firms employing 50-250 workers is 50-250.

**Table 4. Enterprises Distribution by Sectors ( 2002)**

Sectors	Number of Enterprises	%	Number of Workers	%
Trade	794.715	46,19	2.048.264	32,38
Manufacturing	246.899	14,35	2.043.815	32,31
Transport and Communication	244.490	14,21	500.104	7,91
Services	395.550	22,97	1365.821	21,62
Construction	35.702	2,07	229.400	3,63
Mining	1.809	0,11	80.341	1,27
Electric, Gas, Water Distribution	1.703	0,10	57.591	0,91
<b>Total</b>	<b>1.720.598</b>	<b>100</b>	<b>6.325.036</b>	<b>100</b>

Source: TÜİK, (available at <http://www.tuik.gov.tr>), (accessed April, 15, 2008).

The number of enterprises in out country is 1.720.598, and when industry-specific distribution of enterprises is analyzed (Table 4), it is noted that the biggest share belongs to commercial sector with the rate of 46.19 %. However, manufacturing sector has 246.899 firms, which constitute 14.35 of the total enterprises.

When looked at the dispersal of the enterprises of manufacturing industries according to their sizes (Table 5), the enterprises called as micro size employing 1-9 workers, constitute 89.12% of total enterprises, having the biggest share.

**Table 5. Distribution of Enterprises in Manufacturing Sectors, by Scale (2003)**

Number of workers	Number of Enterprises	%
0	1.509	0,61
1-9	220.030	89,12
10-49	20.325	8,24
50-99	2.453	0,99
100-150	946	0,38
151-250	719	0,29
<b>≥251</b>	<b>917</b>	<b>0,37</b>

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Total	246.899	100
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Source: TÜİK, (available at <http://www.tuik.gov.tr>), (accessed April, 15, 2008).

At the end of the explanations made, the importance of SMEs for Turkey can be stated as such: (Gücelioğlu, 1994; Alpugan, 1988; Sariaslan, 1994)

- To contribute to decrease the unemployment and to create employment country wide depending on the characteristic of being effective in resource utilization and working with labor-intensive technology
- To keep up easier with the change and variety of demand in a shorter period.
- To complete the improvement of inputs such as raw materials, supplementary materials, operating supplies or semi-manufactures used by large enterprises and thus to form a supplier industry in the economy.
- To perform the economy by fetching the large enterprises to the competitive environment, producing the same goods and providing the same facilities.
- To foster elasticity and innovations
- To form a basis to prevent the migration from small cities to the larger city centers and to enable the region to develop within their own potential, contributing to the rise of regional employment opportunities because they are labor intensive.
- To affect the distribution of income in both functional and regional plane in a positive way by affecting income distribution in a positive way and preventing the gathering of capital in the hands of few people or large industry enterprises.

In our national economy, having an important role especially for employment, SMEs' contributions to the system can be reified as such:

- To manufacture some products of special skill and technic
- To constitute a beginning of improving industries of region
- Resolving the problems of industries of region in terms of repairing and caring

- To help large industrial enterprises via secondary control

In this context, in light of the SMEs' weaknesses in Turkey, attention is focused especially on three areas:

- *Financing*: Increase SMEs' share in the overall volume of bank lending; deploy structures that would enable SMEs to make more and better use of financial instruments such as venture capital and partnerships in financial or real estate investments.
- *Non-financial support*: Develop communication and interaction among service providers, SMEs, trade organisations and government agencies in order to improve the quality of services rendered and expand the number of SMEs receiving them.
- *Technology*: Raise the technological level of SMEs via training programmes and support for R&D to underpin the development of firms' technological infrastructure.

**THE ACTIONS TO BE UNDERTAKEN IN THESE THREE AREAS ESSENTIALLY FOCUS ON EDUCATION AND TRAINING, CREATION OF NEW ENTERPRISES, ENHANCEMENT OF SMES' CAPACITY TO TAKE ADVANTAGE OF TECHNOLOGY AND LEGISLATIVE AND REGULATORY PROBLEMS. (OECD, 2004B)**

#### **4.3. SMEs in Albania**

As the transition in central and eastern Europe enters its second decade, policy-makers and analysts in the region increasingly recognise the importance of a good investment climate as the basis for sustainable economic growth and improvements in living standards (see, for example, EBRD, 1999). In this regard, particular attention is now being paid to the role of small and medium enterprises (SMEs) but so far there is little understanding of the difficulties and constraints facing SMEs. (Muent, Pissarides, Sanfey; 2001)

In its short history of transition to a market economy, Albania has gone through several massive shocks which have influenced the development of the economy in general and the SME sector in particular. The establishment of a market economy was preceded by a period of chaos, demonstrations, destruction of public property and mass emigration in 1991. The newly elected democratic government which came to power 1992 faced the task of not only building the institutions of a market economy but also responding to the urgent needs of the population for food, law and order and economic security. With the bulk of state-owned enterprises hit by severe transformational recession, the liberalisation of entry conditions, privatisation of agriculture, housing and small firms, encouraged the rapid growth of new businesses, almost all small scale enterprises. The rapid growth of agriculture, transport, trade and services led to a recovery from 1993, with the industrial production returning to growth in 1995, after almost 7 years of decline.(Hashi, 2001)

Over the past decade, Albania has undergone a turbulent transition, alternated by periods of relative tranquility and steady growth to major, unforeseen setbacks (IMF, 2003). Albanian economy reveals a low level of competitiveness. In particular the low levels of export and the high trade deficit, point out to the need to take measures which will contribute to fostering the business environment, through promoting the private sector development and attracting Foreign Direct Investments. (Xhepa, 2006)

Small (micro & small) and medium-sized enterprises (SMEs) make important contributions to development. The growth of a healthy, competitive SME sector will be maximized when there is a strong enterprise culture in the society at all levels; a continuous growth in the quality stock of independent business; maximum potential for growth of existing small businesses: and a highly supportive economic, social and stakeholder environment. These are the broad target areas for policy development. (Xhepa, 2006)



Private sector development has been fairly vigorous in the recent past in Albania. GDP growth has been fairly steady at 6% per annum, fuelled by expansion in sectors such as construction, transportation and services. As the end of 2004, micro and SMEs registered and operating in the Albanian economy were about 54,596 firms, which make up to 99% of total firms operating during this year. (Bitzenis & Nito, 2005) Micro and SMEs have provided employment for 56% of total employment, 65% of total turnover of the economy and 45% of total investment generated by private non agriculture sector. In particular, micro enterprises dominate with 94% of total firms operating in the country, while the Small and Medium-sized firms account for about 5%. (Xhepa, 2006)

**Table 6. Enterprise Distribution in Albanian Economy (2004)**

Firms Size	Number of Enterprises	Annual Average of Employed	Turnover	Investments
<b>(Total Enterprises in The Economy)</b>				
1-4 employed	35,006	53,789	128,438	4,975
5-9 employed	1,860	11,630	60,328	3,297
10-19 employed	906	11,902	65,203	5,164
20-49 employed	559	16,679	78,415	6,517
50 + employed	336	63,283	196,701	34,236
<b>Total</b>	<b>38,667</b>	<b>157,292</b>	<b>529,085</b>	<b>54,189</b>
<b>(By Sectors)</b>				
<b>Industry</b>	<b>4,818</b>	<b>63,104</b>	<b>122,884</b>	<b>25,888</b>
<b>Construction</b>	<b>1,325</b>	<b>16,783</b>	<b>68,988</b>	<b>4,127</b>
<b>Transport&amp; Communication</b>	<b>4,313</b>	<b>16,783</b>	<b>67,012</b>	<b>11,004</b>
<b>Trade</b>	<b>20,258</b>	<b>36,079</b>	<b>244,039</b>	<b>9,881</b>
<b>Service</b>	<b>7,953</b>	<b>24,858</b>	<b>26,164</b>	<b>3,289</b>

Source: (Xhepa, 2006)

As a result, the share of the private sector activity is among the highest in the SEE<sup>115</sup> region, at 75% of GDP. The place and role of micro and the SME in

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<sup>115</sup> South-East European Countries.

these developments is very important; they are widespread all over the country, from the major cities to the remote areas in the villages. Therefore, neglecting their development would mean not to take into account important drives of the economic growth of the country. (Xhepa, 2006)

In short, small and medium-sized enterprises display the highest productivity (the production per employee), especially during 1999-2002, in Albania. Big-sized (large) enterprises low productivity is mainly related to the economies of scales for the micro group, and for the large enterprises what may be an obstacle of the productivity result is that this group is mostly comprised of the big state companies. (Xhepa & Agolli, 2004)

## CONCLUSION

SMEs have an important role in terms of their economic share in developed and developing economies though there are different definitions of SME among various organizations and countries. Today, instead of giant industries, SMEs having gained importance in the developing economies, become advantageous being economic enterprises having the capability of quick adjudication, working with less capital but more intense labor and having low cost of management and thus having cheap production. In short, the concept of *small is beautiful* becomes important in the current economic conjuncture with large firms (big business).

Moreover, in both Turkish and Albanian economies, SMEs' share in total enterprises exceeds 90%, and SMEs play a very important role because of creating employment and value added to these economies. In this regard, small (micro & small) and medium-sized enterprises (SMEs) make important contributions to development in both economies.

SMEs, observing the market closely, understanding the requirements of customers better and having intimate relations with its employee, have more elasticity than the large ones in terms of manufacturing, marketing and service. As this elasticity enables harmony with the changes in outside in time

and on-site, SMEs pass over many troubles lightly with less damage. Although SMEs have some weaknesses, they are less affected from economic crises due to its flexibility and abilities which keep up with changed conditions. Besides they absorb economic crises effects and play a role as “compress”. In this regard, SMEs have crucial importance, especially for the developing countries.

Nowadays we have witnessed capitalism’s 2008 global economic crisis. In such a case we can say that SMEs will continue their important role. Because current economic conjuncture has generated not only disadvantages but also advantages for developing countries’ SMEs. We can expect that potential of SMEs’ impulsive force in these countries which have less large firms (big business). Nonetheless lack of policy determinations and implications accrue coordination and promotion problems in SMEs’ activities. Chronic economic problems of developing countries have affected energy of these enterprises, negatively. Briefly, providing necessary opportunities and directions of SMEs has emerged advantageous conditions for developing countries.

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## **Problems at the Labour Market in the Western Balkans**

Prof.As.Dr. Arjeta Troshani  
Dean of Economic Faculty  
Shkodra University “Luigj Gurakuqi”  
E-mail: [arjetatroshani@yahoo.com](mailto:arjetatroshani@yahoo.com)

### **ABSTRACT**

In this paper are analyzed problems related to job creation as a major priority throughout the Western Balkans. In the paper is stressed out the idea that even in countries with fairly strong economic growth during the last years (e.g., Albania, Serbia), labor market performance has been sluggish. In the other countries where growth has been slower, outcomes are even worse. It is also analyzed the contribution of emigration to sustainable growth as an employment alternative and with regard to the enlargement of Eu with new member states after 2004. There are varying migratory patterns and motivation across the Balkan region, also making it impossible to generalise. One theory, known as the “migration hump”, suggests that, as economic development proceeds, rather than reducing migratory outflows it will actually stimulate them. However, some analysts contend that, in the case of Albania and Turkey, it would, in the medium term bring them out of the “migration band” and reduce mass emigration. For other Balkan countries, on the other hand, it might increase emigration pressures: “aid in place of migration” is not a serious option for much of the Balkan region, despite the imperative of the area’s economic development.

In the third part of the paper are explored women labor market potential through economic analysis of some areas in Shkodra region taken in case. In a report of the World Bank of 2000 in Albania the informal economy occupied 33.4% of GDP, and according to the claim of Labour Inspectoriate–Shkodra branch in northern region is noticed an informality at 40% during 2005. As well is noticed by the businesses that there are infractions of law competition in

which the strongest makes progress with illegal and unfair methods. Through analyzing of traditional women employment in Shkodra region there are given some alternatives for future women employment such as handicraft, services, family tourism, textile industry.

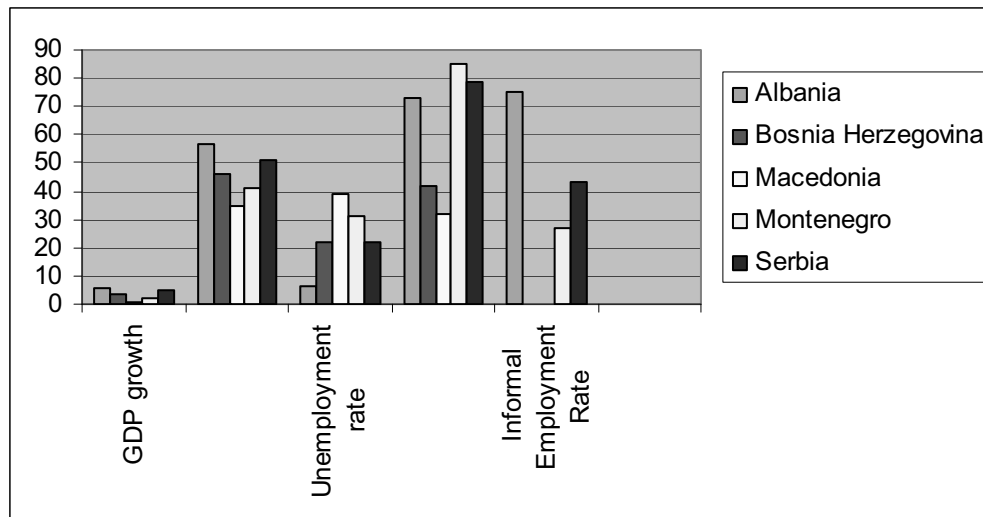
## **PROBLEMS AT THE LABOUR MARKET IN THE WESTERN BALKANS**

### **I. JOB CREATION**

Job creation is a major priority throughout the Western Balkans . Even in countries with fairly strong economic growth this decade (e.g., Albania, Serbia), labor market performance has been sluggish. In the other countries where growth has been slower, outcomes are even worse. No country in the region, for example, is even close to the EU Lisbon employment standard of 70% (Table 1). Macedonia has the lowest employment rate in ECA with Montenegro and Bosnia and Herzegovina near the bottom. Unemployment is high in all countries throughout the region, and most unemployment is of a long-term nature. The exception, as far as aggregate employment and unemployment rates are concerned, is Albania, where the large agricultural sector absorbs many job-seekers, although in low-quality, low-earnings positions. Informal employment is a prominent feature of the labor markets in all countries, especially Albania.

**Table 1: GDP growth and key labor market indicators (%) Western Balkans 2005**





Sources: World Bank estimates based on LSMS (Albania and Bosnia and Herzegovina) and LFS (Macedonia, Montenegro, and Serbia)

**Improving this employment performance will require actions on many fronts including but going well beyond the labor market.**

Certainly, maintaining and improving economic growth is a necessary condition. This will require sound macroeconomic policies as well as an acceleration and completion of the transition to market institutions and policies. In many respects, the Western Balkan countries continue to lag behind the leading reformers in the ECA region. As a group,

**Labor market and social protection reforms are also needed to improve employment performance.** Recent studies by the World Bank for the ECA region (World Bank 2005a) and more specifically for Bosnia and Herzegovina, Albania, and Serbia (World Bank 2005b, 2006a, 2006b) have identified a number of labor market and social policy reform priorities to enhance job opportunities. These include reforms in the areas of labor market regulation, wage setting, labor taxation, and active and passive employment programs.

**Better education and skills development will be critical for the countries in the Western Balkans to not only create jobs but to create the kinds of jobs that will raise productivity and living standards in the future.** This policy note argues that, while the supply side may not be the most important binding constraint to job creation in the region right now, a better educated

and more skilled workforce will be essential if the Western Balkans economies are going to become more productive and move into higher value-added goods and services that will generate more and better jobs. Research from other regions shows that education, especially when coupled with technological innovation can make a major contribution both to productivity gains within industries as well as to shifting labor and other production factors towards higher-productivity sectors (e.g., de Ferranti et al. 2003). Given regional and global economic trends, basing competitiveness on low costs and unskilled labor-intensive activities will not be a viable strategy for the Western Balkans and certainly will not move these countries far along the path of convergence to EU members.

## **II. Sustainable development and emigration in Western Balkan**

The Eastern enlargement of the European Union has triggered a net migration from the new member states (NMS) into EU-15 of some 250 000 persons per year in the first two years following the 2004 enlargement round. Although this migration flow is rather moderate at the EU level, it has fanned fears in those EU countries that have opened their labour markets from the beginning and are particularly affected by immigration from NMS. But what are the economic consequences of extending the free movement of workers to the NMS in the enlarged EU?

To answer this question a stimulation model has been developed that frames the conditions of European labor markets with wage rigidities and high unemployment. It finds that the relatively moderate migration after enlargement yields a mere 0.03 percent increase in the enlarged EU's GDP, and that even in the two most affected countries – Ireland and the UK – the GDP gains amount to no more than 0.1 percent. In the long-run, the GDP of the enlarged EU will increase by some 0.6% if four percent of the population of the new member states migrate into the EU-15. In particular the GDP of Ireland will increase by more than four percent and that of Austria, Germany and the UK by about two percent. These gains dwarf those of a further integration of goods and capital markets.

The main winners are the migrants themselves: their income increases by more than 100 percent. While natives in the sending countries tend to gain

on average, the aggregate impact on the income of natives in the receiving countries is neutral or even negative. The unemployment rate increases in the destination countries by less than 0.1 % points with blue collar workers being particularly affected.

### **1. Sustainable development and emigration: the contemporary Balkans and the European Union.**

In the years since 1989, about 15 % of the population of the western Balkan countries has been involved in migration – some ten million people. Of these, five million have emigrated permanently and about three million are “waiting to see”, while 2.5 million returned to their homes in less than a year. In the case of Albania, some 20% has migrated; from Bosnia, the figure is 25 % plus a further 25% who are displaced. Across Europe, there are now about one million nationals of FR Yugoslavia, living mainly in Germanic countries; around two million turks; 600 000 Albanian in Greece and Italy; and probably another million from Croatia, Bosnia and FYR Macedonia combined.

The reasons for emigration from the region are many and varied, but there seem to be three major categories:

1. Ethnic complexities and co-existence problems after the break – up of Yugoslavia. Thus, the ethnic majority is only 70 % in many Balkan countries, while in Serbia and Bosnia it is much lower
2. Economic factors: with collapsing economies throughout the 1990, per capita incomes became very low, unemployment very high and emigration the only short-term solution. This was especially true for Albania, but there is still the potential from Serbia, Kosovo and Romania.
3. Political factors: notably, “ethnic cleansing” in Bosnia and Kosovo.

These causes of mass emigration from the Western Balkans are important, because they indicate the sort of people who have migrated. Significantly, the “brain drain” critique of these emigrations is not so relevant, largely for the following reasons:

- They have involved many unskilled as well as skilled workers
- The costs of migration to neighbouring countries were low much of the migration was illegal and has unclear economic implications – migrants

actually support their home economies through remittances, which they could not do if they had remained unemployed in their home country.

Furthermore, given very high long-term unemployment rates in comparison with Eastern Europe, the already – low participation rates could fall with a “discouraged worker” effect and erosion of skills. Thus, the emigration of skilled personnel can act as a mechanism to retain those skills and keep them available for future repatriation.

For all these reasons, it is extremely difficult to apply in the Balkans the existing theoretical literature on migration and development, where the focus has tended to be in semi-skilled migrations and high investment costs, whereas it is the middle class and the educated who migrate. There are varying migratory patterns and motivation across the Balkan region, also making it impossible to generalise. One theory, known as the “migration hump”, suggests that, as economic development proceeds, rather than reducing migratory outflows it will actually stimulate them. However, some analysts contend that, in the case of Albania and Turkey, it would, in the medium term bring them out of the “migration band” and reduce mass emigration. For other Balkan countries, on the other hand, it might increase emigration pressures: “aid in place of migration” is not a serious option for much of the Balkan region, despite the imperative of the area’s economic development.

Globally, remittances are now thought to constitute an extremely important source of external funding, second only to foreign direct investment (FDI). Furthermore, this source of funding has doubled over the 1990s whilst official development assistance has been falling; it is much more stable source of income than private flows and is expected to rise as the G7 economies recover. There is even evidence that remittances are counter-cyclical and used as insurance against economic “shocks”, since the arrangements of temporary economic migrants are intra-familial and designed to protect the family interests.

Migrants transfers worldwide are conservatively put at \$70bn, but this figure is significantly under-stated and is thought to be more like \$100bn, or 1,6% of GDP (World Bank). In the Balkans, Albania is the country where it has the most impact. The figure for 2001 was \$700m, as it was also for Croatia. From

1995- 1999, migrant remittances constituted some 16% of Albania's GDP, while Turkey's remittances were the fourth highest in the world. The latest available data show migrant remittances to Albania rather lower, at just over 12% of GDP for 2001 and 2002, and falling. However, this is primarily a statistical consequence of sustained GDP growth throughout the region, but especially in Albania.

Thus migrant remittances are starting to emerge as a new possible strategy for economic development, despite the previous negative perceptions of development economists. The primary point of criticism used to be the actual usage of remittances in that much was spent on consumption; another negative critique is the well-known "brain drain" phenomenon. However, consumption is itself an economic stimulant and too much emphasis should not be placed on this sole aspect. Essentially, economic development depends on : A combination of FDI, trade liberalization, aid, remittances, return migration, and improved governance.

### **III. Exploring women labour market potential through economic analysis of some areas in Shkodra region.**

#### **1.LOCAL ECONOMIC EVALUATION AND THE ECONOMIC PROFILE Economic tradition and the role of women.**

Until 1944, Shkodra like many other cities of Albania represented a city in its transitory phase from feudal system to the establishment of capitalist system in many cities of Albania. In the beginning of the XIX century Shkodra was one of the most important cities in the Balkans with a population of 40 thousand inhabitants the most of whom had the priority of provision of income, craftsmanship and trade. Compared to the others it was one of the most potential cities of capitalist system development which displayed for the first time the first workshops of manufacture development and the first signs of the industrial production based on the production machinery since 1875. Such developments mainly included the immersion of motor mills for processing mainly of corn and factories of the manufacture type like the ones of oil, cigarette, soap etc. Until 1924 you could number about 12 industrial enterprises like 5 motor mills, 5 cigarette factories, one alcohol factory, two spaghetti factories, one chocolate factory, one soap factory, one factory of

belts, a lime kiln, one tile kiln, one brick kiln, which in 1938 made up about 20% of the industrial production at home only from Shkodra. About 2204 employees worked in these small enterprises, but there are no exact data on the women number in these factories although it is well known that there were employed women from the rural areas who had moved from the poorer areas to work in these factories on monthly salaries. In 1944 in Shkodra operated 96 factories and workshops which listed as the main ones the cigarette, soap, flour, fabric, pasta and the cement factory which came into operation since 1929 and produced 9000 ton of cement with only 96 workers. Of a great importance in Shkodra were also the handicraft productions of weapons, leather, embroidery, carpets etc, which involved mainly women. Food industry succeeded in spawn and dried fish, olive oil, jerky etc which despite the primitive methods were also on top of export in the neighbouring countries like Italy and France.

One of the main productive and export activities in Shkodra used to be the collection, processing and export of wool. The Shkodra highlanders collected big quantities of wool which were then sold to the commercial firms in Shkodra which went through the washing, controlling, and cleaning processes so it is ready to export. In this very important activity took part many Shkodra women whose number went up to 100 for one washing. (2)

During centuries the cultivation of silk took an important place in Shkodra and during the Ottoman Empire it gained great advantage being the most important silk market in Rumelia. The Shkodra silk from about 20 workshops was transported to Kremona, Milan and Venice (Italy).

In the Shkodra yards and gardens the mulberry for growing the silkworm had always an important role. The varieties of the silkworm seeds according to the specialists manifested essential bio-technological values.

It was so much estimated that it was known by name "*Seta Scutarina*". The most important silks in Shkodra area were the silk from Shiroka, Zogaj and Zadrina (3). Our mothers, women, grandmothers have worked the silk from the beginning to the end of the process. They have fed the silkworms, have twisted the thin threads and then have woven the fabric giving in this way the shape to the traditional dresses and have decorated with thicker silk thread in softer magnificent colours.

During ottoman period the Albanian silk knitting which was made into shirts, handkerchiefs, tablecloths, cloths for dresses, elements for decoration, scarves etc, are found in the world museums including the Arts Museum in Boston, the Textile Museum in Washington and the Metropolitan Museum in New York.(4).

One of the market spots of the industrial and handicraft products of the Shkodra masters became the Shkodra Bazaar with more than 2500 shops followed by the net of warehouses and the small market squares. As per trade development at home Shkodra held the monopole role of a main handicraft and trade centre which was in trade relationships with all regions including Kosova until the '80 -is of the XIX century.

Since the middle of the last century the Shkodra merchants built branches and commerce agencies all over the regions of the country including Kosova as well as the port towns of Tivar, Ulqin, Lezha, Virpazar, Rijeka, Cetine, Podgorica, Gucia etc.

In the foreign and home trade Shkodra took the first place compared to the other centers of the country. The main places in the foreign trade were Austria, Italy, Greece, Malta, Tuniz and France. The goods like wool, silk, corn, coloured processed leathers, belt weapons, silver works, dried fish and spawn etc, were distinguished among others. From 1945-1992 Albania was the antithesis of market economy. The private property was totally banned and the whole activity was controlled by the state. The Albanian case was unique in terms of isolation and centralization of economy.

After 1944 Shkodra takes off a general social cultural and economic development. The electric and mechanic industry takes off too in producing 20 of the industrial production at home. The industry of construction materials and food industry took off as well. There were built some big plants like the "Wire plant", the Wood processing Factory, the "Drini "plant, the Leather and Shoe, the Vau Dejes Hydropower station, the Tobbacco processing Factory, the Mechanical and Agricultural Plant, the Fabric Factory etc.(6)

The main activities in the light and food industry were the processing of tobacco, production of cigarettes, and production of tin foods, sugar products, drink factories, milk, pasta, bread, rice and cooking oil.

In the textile industry the main enterprises listed the confection and silk factories, in the wood industry was the wood and paper processing factory.

During this period the mechanical industry was represented by the wire plant, the telepherics plant, the Drini plant, the car service, the bus producing plant, the mill producing plant, etc. There were two important handicraft plants: the handicraft enterprise and the straw processing enterprise. During this period Shkodra took the fifth place compared to the economy of other cities. An important role in the production process played the women of Shkodra who after 1944 takes an active part as a working power in factories, plants, hydropower stations and agriculture, farming etc, by integrating in a collective productive formation.

There have been plants and factories which employed more women than men, so for example the straw processing enterprise which was one of the biggest factories in the country and realized the biggest part of home production for export and had about 2600 employees, had almost 80% women employees rather than men. (7) As well can be said about the creation of handicraft enterprise in Shkodra which had a considerable number of women employees whose role was great in the massive production of carpets, goblins, filigree, decorative boxes and other items. A wide participation of Shkodra women can be mentioned also in the fabric enterprise, the wire plant, in health sectors, culture and education in particular.

Zogaj village known for its tradition of rug production there was a workshop which employed about 100 women. All this period served Shkodra women not only to exercise such traditional skills but also to learn other skills such as filigree, copper, wood and straw. After 1990 when a large number of state enterprises disintegrated for Shkodra women started a difficult period which meant losing jobs and staying home without income.

This difficulty made them think for their future so they tried to find jobs in previous fields of work. Precisely this is the flourishing time for some private businesses and these women try to find themselves by facing the challenges of market economy. There were opened selling points, set up workshops, the handicraft work starts under the home conditions by growing in years and taking consolidated shapes.



During the '90, the Albanian government undertook a number of reforms and passed a number of laws on private property, private activity, competency, bankruptcy, foreign investments, consumers' protection, and privatization of small and middle enterprises and many other elements of a modern commercial system.

As a result of these economic reforms, many structural changes happened in the economy of our city.

Actually, about 87% of state enterprises have been privatized. The biggest part of the privatized economic subjects did not keep to their right destination. This phenomenon is noticed mainly in the mechanical industry enterprises which were unique in their kind and had a guaranteed interior market.

As far as food industry, wood industry and handicraft industry which used to be the biggest employers for the time being were changed into a big number of micro, small and middle businesses. The industry of tobacco and cigarette processing suffered a total destruction. The impossibility for a technological renovation and the competency as a result of import products made this industry go bankrupt.

From all economic developments we could make mention for this period of:

1. Shkodra woman was an important factor of the economic life and has played a considerable role in its development. In some sectors of light industry in wool, silk production, in farming and agriculture, in handicraft products, in tailoring, carpet production, embroidery or handicraft ones their role was predominating. Also village women have played an important role and have given an extraordinary contribution in farming and agriculture by taking over all the heaviest work in such productions.
2. The historic period until 1944 along with social, cultural and traditional complexes had hindered the women active participation not only in economic developments but also in the social and cultural ones. In this period the main place of work for them was parents' home or husband's.
3. The woman of rural areas especially from highlands was much more emancipated in terms of her participation in the production process

because she was obliged to work despite prejudices and due to the poverty in family she was obliged to contribute in the domestic economy by doing different kinds of jobs in agriculture and factories.

4. From 1944 to 1990 there was a wide and organized participation of women in factories, workshops, and villages as well in agricultural cooperatives and agricultural enterprises. Although this kind of wide participation was emancipating, women had have had great objective and subjective difficulties to provide for the family and sometimes her situation got worse and worse until slavery.
5. After the 90 women go through a new reform in a new form of organization in the process of production and marketing and capitalist competence which came along with the difficulties in the system. The situation in the countryside and rural areas appears more difficult for women since they find themselves doing only the hard agricultural works or taking care about their families. This has brought regress in their emancipation since they remain away from the contemporary changes in the mentality. In some of Shkodra areas the economical situation of women has been worsened even more by applying some traditional laws such as the blood feud phenomenon.

## **2. THE FUTURE OF WOMEN EMPLOYMENT OPPORTUNITIES IN SHKODRA**

Taking into account tradition, the recent situation, and natural resources that Shkodra city displays, women have the following employment opportunities:

- HANDICRAFT
- SERVICES
- FAMILY TOURISM
- TEXTILE INDUSTRY

**HANDCRAFTING.** It would be a great idea to design special squares to exhibit the works of handicraft women. These places should be selected according to the biggest concentration of visitors like “13 Dhjetori” street or other streets and squares of the city as defined in accordance with the urban planning authorities in the region. (Municipality or Prefecture) It is already traditional for almost every European city to have a designed place for

exhibition of the handicraft works especially the hand made ones. This activity would be promotional in terms of regional products at a low cost level for foreigners and the natives who have become aware of the value an artistic traditional product has versus the similar imported item.

Through this organization we create opportunities to cultivate and increase the production of such items made mainly by city and country women with a tradition in handcrafting. It is not only the foreigners but also the Albanians (especially the new generations) do not know the characteristic productions (embroidery work, carpets, national dresses, copper and silver work) in different areas. Exhibition of handicraft products made in Shkodra region in pre designed squares is a contemporary pattern that should be applied in an organized way by respective institutions. Shkodra has a long tradition in this kind of trade since the beginning of XX century (boosting during 1929-1933) in the old Shkodra Bazaar. This one more reason for the handicraft to be listed as one of the priority sectors to develop in which women continue to find themselves. Finally some of the conclusions and ideas for the development of Shkodra handicraft sector would be:

- Actually the Shkodra handcrafters work individually at low efficiency that is the reason to suggest future cooperation units or concentration points into real businesses.
- Shkodra handicraft products do not have a make of their own production by having many oscillations in the quality of their products, what reduces the safety of their sale at home but also in the foreign countries. The customers often do not doubt in the originality of the products and the blending of the natural raw material with the handicraft one or blending the machinery work with the handmade one Teuleda agency has made a continuous effort to create the Shkodra handicraft make but the procedures to approve it legally have always failed this economic development agency has prepared the the digital catalogue of the handicraft works made in Shkodra (See appendix)
- Despite the fairs and advertisements the handcrafters themselves are not connected to commercial firms to realize selling of their products.

It is a demand for the local authorities to support small businesses and provide free of charge advice for their businesses and be more active in promoting cultural and historic values of the city and region by organizing **regional fairs** on handcrafting possibly during summer time.

- Our artisans lack **internet access** and the majority of them have no idea how to use a computer. Internet access would be in their favour to: a) do market search; b) exchange experience; c) find patterns to exchange reciprocal experience with their counterparts in other countries; d) ordering and receiving patterns and introduce their on line
- In cities there **should exist** a shop which would introduce samples of handcraft products in Shkodra region and do the deals of orders from native and foreign clients
- **Special squares or streets** should be along Shkodra in order to sell artisan products since the actual market is not at all suitable and visible.
- The artisans need connection with other artisans in other countries to introduce elements of new technology and updated patterns. Another effort to introduce new elements in artisans products are met in some small businesses run by women who likes to introduce the bamboo wood to make new products for which she needs foreign experience. Another case to consider is the artisans of Blinisht –Lezhe who are in touch with an Italian firm which realizes the foreign market sale for them,
- Shkodra artisans need **trainings and counselling services** especially in the field of promotion and information. Regarding promotion they ask for help in preparing the leaflets and booklets and in organization of fairs. They buy the raw material, make the goods and sell them. Dealing with so many such things at a time naturally increases the level of difficulty to find markets and then we can meet the phenomenon of decrease of quality. (The entrepreneurs seek help in getting information on the market, raw material, export)

**SERVICES IS ONE OF THE** most developed sectors in Shkodër in which women find themselves with exception of cases when their husbands even when the family is a need do not prefer such kind of a job because women are in a big contact with a number of people like the case with saleswomen or hotel or travel agencies. It is worth mentioning that services are in the form of small businesses and the women employed are with secondary education like saleswomen, hairdressers, and with higher education, like stomatologists, lab technicians, travel agents etc., and the ideas for the future development in this sector cover: **Trainings** which could be in the business financial fields, marketing, loans for a better management of such small units of business. Such units need promotional means like catalogues, TV adverts, aiming to increase their activity.

- Tour operators and the tourist agencies should organize excursions at home and abroad in order to further develop their business and can encourage the clients to buy from the local producers and not in the hotels. It is worth mentioning that the big number of travel agencies are reduced only in selling plane tickets at a time when they should communicate with their clients through the brochures and the service catalogues they offer
- Coordination of all actors in this sector is a necessity in the field of tourist services including tourist agencies, tour operators, accommodating structures bar restaurants and transportation businesses in harmonizing the quality of chain services by also creating chain partnerships (clusters) which would help in increase of quality, mitigation of fighting for prices at the expense of tourists, and a bigger satisfaction of our clients-tourists.
- A process of importance in the field of businesses will be in the future the creation of a **common touristic logo** in order to represent our products in front of native and foreign tourists to be identified. This could be initiated by the organs of local authorities like Shkodra Municipality (with the support of GTZ) which are actually in their embryonic stage and not powerful to make important decisions for

Shkodra tourism and to meet the needs and requests to coordinate with businesses which operate in the field of tourism.

- Taking into consideration the informality in tourism and other services and knowing about the diversity of their economic informal activities in tourism we think that the change should happen in the behaviour of the informal players of the formal economy. Regarding the government reaction instead of treating this phenomenon as a form of survival and avoid the taxes on the poor, or of a means to increase competence of the formal firms, the regulating regime should be designed to bring informal players into formal economy by providing support program for entrepreneurs. In fact many cases demonstrate that many programs called training programs, facilitating loans and supporting in marketing have led to the support of legalizing the informal enterprises. Again in the end development of irregular economy has been influenced mostly by a form adopted by regulated economy.

**FAMILY TOURISM** In continuity of two former alternatives and a combination of both in mitigating the problem of women unemployment could be family tourism. It could be combined with selling of handcrafting products mentioned above. This could be done not only in the country but also in the city. It is well known the fact that in Shkodra hospitality is proverbial and in the old Shkodra houses have always existed the “guest room”. Precisely hospitality as a key factor for tourism development is mainly in the hand of women. Shkodra women have displayed the best traditions of the city in various period knowing how to serve the guests. The standard characteristics of tourist employees match much better with women nature than with men’s women can be involved in family tourism serving the tourists and advertising the best values of hospitality tradition that the Albanian family displays. While in Zogej or villages like Razma and Vermosh family tourism and can be accompanied with trade of artisan, agricultural, farming products characteristic of this area if there existed the necessary culture to sell them. We need to mention that in general the tourist sector lacks the culture of professional training of the tour operator. In such terms

an important role should play the education institutions especially state policies related to the immediate problem of training of the genuine employees in the sector of tourism.

**TEXTILE INDUSTRY**, actually it is a great aspiration of Shkodra women since it has existed a former employment tradition of a big number of women and girls in textile industry and in the light industry in general. Development of such industry would be part of the state policies encouraging the foreign and native investments which Shkodra deserves and which should have back the industrial economy it used to have before the '90 and which would bring employment of thousands of women. The precautions that Shkodra businesses of industrial products can make, are:

- Enlargement of women working force which depends on the selling contracts
- Trainings of women and girls who have no experience in certain work processes.
- Infrastructure problems with electric power cuts which have been very problematic losses for the company which the state never responded as based on the contracts signed by the state.
- As a response and concrete answer of some ideas and problems presented by women who cherish to enlarge the existing businesses and could be helped by credit institutions. Further below is given the list of financial bank and non bank institutions in Shkodra city according to their working time experience in Shkodra city and their legal status.

It should be taken into consideration that today there are great difficulties of business women in provision of finances. This is confirmed by many independent observations that are done by different research centers with the business community. It happens not only for mentality causes but also for the fact that business women have less credibility in contacts with native and foreign donors in creating partnerships or in the provision of funds. Starting from the fact that women businesses are mainly in the service sectors that banks pass and refuse this situation with the reasoning that in this sector the risk is higher or simply business which are difficult to be financed. Besides this we should bear in mind that in the biggest part of the cases women are in

the secondary position in the family after the husband and as a result they do not have exclusive rights on the spouse property like in reality are exercised by the family heads. So as a result of this situation women had no way of being free to start a business since they do not manage to take approval by the family heads.

**The highest level of informality and unfair competence**

In a report of the World Bank of 2000 in Albania the informal economy occupied 33.4% of GDP, and according to the claim of Labour Inspectoriate–Shkodra branch in northern region is noticed an informality at 40% during 2005. As well is noticed by the businesses that there are infractions of law competition in which the strongest makes progress with illegal and unfair methods. What keeps the businesses off the legal is related to the long registration procedures, the high costs of this registration, the corruptive conversations, time costs. In this aspect we can say that albanian government took two important steps since June 2006: 1)was reduced the time of business registration from 48 days in 8 days and 2)was reduced the registration costs by 50%.

**Direct familiarity with the market** is also another challenge and in some cases maybe even more difficult than provision of financial business means. Their direct familiarizing with the market would bring women contract provision for the continuancy of their products, new employment opportunities and extention of business in the future. Contract provision remains one of the main problems for women who produce handicraft works in Shkodra region. Many of the business women realize products or services for local markets even for the size characteristics of the business. Because the businesses run by women are small they find it difficult to provide the right information as well as to benefit from new programs available to find markets. Only one small part of them who have the opportunity to use technology of information can create partnerships with their counterparts locally or regionally. It is known that another powerful means in a successful business is information provision for ex. related to the new competitive products, presentation of offer in the foreign and native market through participation in national and international fairs. The lack of this information



as a problem for women who run businesses would bring decrease of the business rhythm and their gradual exit from the market.

Finally we should say that Shkodra is one of the richest regions in natural resources which generate economic resources and involvement of free work forces in the region. Besides tourism which we treated in its function we parallelly can say that development of agriculture and farming is highly potential in Shkodra. Combination of such sectors is of great importance because economic development becomes independent from import and generates internal resources. This development brings along employment and real economic enrichment of the population in the region in which women have a prevailing percentage of free working force.

### 3.SWOT ANALYSIS OF THE WOMEN'S EMPLOYMENT OPPORTUNITIES

#### Swot analysis of women's employment opportunities in Shkodër

<b>Strengths</b>	<b>Weakness</b>
Middle and higher education of the women in the rate of <b>60 %</b>	The mentality to not be involved in some certain jobs
City with a big natural wealthy: near the Lake of Shkodra, 30 km distant from the seaside, 45 km away from the mountains, enclosed from three main rivers.	Inequality in society between the man and the woman
Handicraft and textile industry traditions.	Mis-education for work where the youngest don't want to work in some kind of jobs.
More possibilities for loans	
Women emancipation.	
<b>Opportunities</b>	<b>Threats</b>
Possibilities for tourism's development having also the tourism branch in the economy faculty of Shkodra university where women have the	Absence of low credit rates loans for that women that work in small legal businesses.

possibility to get a qualification in this sector with a great and future potential for the area.	
Closeness with Montenegro give the possibility of the trade activities expands and touristic businesses	Economy and a weak legal government doesn't guarantee safety for the businesses especially small businesses
The project supported from AECI that has in focus women's employment.	Disinters of state to intervent in economy especially in Shkodra region in the direction of new job positions opening

#### 4. CONCLUSIONS AND RECOMENDATIONS

Shkodra region has a geographic position, a cultural wealth and a human potential for the development of some economic sectors as tourisms, handcraft, trade, textile industry, grocery industry, etc. The main problems in the city economy are:

1. absence of state intervention
2. weak infrastructure- the absence of electrical energy
3. absence of foreign investments
4. unemployment in the levels of 15988 ( womens form the 40% unemployed)
5. in some cases the people mentality regarding the work education.

Meanwhile its necessary to punctuate that actually the economy is favorised from the emigrants intervent, personal attempts and the natural wealthy which the area has.

The bigger employer is the public sector with the 53% of the total employers. While in the private sector are employed 47 %.

The bigger employer from the total employed in the public and private sector is the public administration with 19 %. Second place goes to the manufacturing with 17%. Than in rank is education with 16%, trade with 10 %, sanitary a social activity with 9 %, construction 7%,

The women of Shkodra has a potential employment in this sectors :

- HANDICRTAFT
- SERVIVES

- FAMILY TOURISMS
- TEXTIL INDUSTRY

main problems that have the business managed from the women and that have employed women are:

- Absence of organised work
- the organised security of markets
- the protection of production from the speculation
- the absence of direct connection with foreign markets
- the absence of trained women and girls in handicraft productions
- the absence of helping by loans with favored rates of interest
- the absence of handicraft productions promotion
- the absence of logos in the way that the shkodra handcraft easily identified and standardized with the contemporary criteria.

### Recommendations

Recommendations for the solving of problems:

- Creating special places for the handicrafts products exposure in traditional roads like Piaci. **Actors:** the existing Handcraft Society (national society of Shelgu), shkodra city hall.
- Creating the logo of handcraft area. **Actors:** TEULEDA, handcraft societies.
- Foundation the handcraft women societies which will help in their accumulation and in the direction of foreign markets. **Actors:** persons, University of Shkodra, foreign donors with their experiences.
- Digitalizing and designing a special webpage and show there the digital catalogue of handcraft products. **Actors:** TEULEDA, University of Shkodra (trainers)
- Powerful promotion. **Actors:** persons, University of Shkodra (training in marketing field)
- Qualification of staff for reaching the quality standards and the way to communicate with the clients. **Actors:** University of Shkodra (trainers for handcraft women), the centre of professional education in Shkodra.

- Building the electronic communication and the direct models of marketing. Actors: persons, university of Shkodra.
- The expanding of the unit rural areas. Actors: persons, crediting institutions in Shkodra.

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## Optimum Currency Area Theory: Albanian Case

Migena Zaçe  
University of Tirana

Eglantina Laçi  
Epoka University

### Abstract

This paper is focused in the literature of the optimum currency area (OCA) and in the Albanian case as an application of this theory in practice. According to the literature the OCA has passed through phases: the “*pioneering phase*” which settled down the OCA theory and its properties, the “*reconciliation phase*” when the properties are explained in more details, the “*reassessment phase*” that led to the “new OCA theory,” and the “*empirical phase*” during which the theory was subject to due empirical studies. After a brief view of the OCA properties, all these ones have been taken into the consideration in order to have a clear answer to the question whether or not Albania is ready for an early euroisation. Seen the general view of the economists, the currency union has the major part in its side.

**Keyword:** Optimum Currency Area, Economic and Monetary Integration, EMU and Albania

## Introduction

The optimum currency area theory, as all the theories related to the integration of all standards of different countries in a unique one, has been one of the most discussed theories that with the passing of the decades has passed through different phases. All these phases have been steps necessary to go through the perfect measure of the criteria needed for counties to be part of this “cooperation”. So, in the beginning of such an integration it is seen that just some ideas in for of criteria has been presented, but with the time, all these criteria have been analyzed one but one. Then the analyses have been deeper by analyzing the effects of these criteria to each other because it has been recognized that sometimes some of the criteria can be in confront with other criteria, so not just the theory but also the empirical studies have been with a great interest.

The structure of our paper is set in the following way; in the first section of our paper we have presented an historical view of the phases through time. In the second section we have analyzed the case of Albania, by constructing a model that contains the criteria we estimate whether Albania’s present economic situation fulfils the conditions to successfully join the currency area, that of Euro as a national currency.

## I – Literature of Optimum Currency Area Theory

The literature of the optimum currency area theory presents us a huge period in which this theory has been developed. This period begin from the early 1960s with the first phase, the “*pioneering phase*” which continued for approximately one decade. The second and third phase also, respectively the “*reconciliation phase*” and “*reassessment phase*”, had a lifetime about one decade. But the fourth phase, the “*empirical phase*”, called also the “new OCA theory” because of the innovations during this period, begins in the 1980s and is still continuing in the finding done in this field by empirical studies.

## The “pioneering Phase” - from the Early 1960s to the Early 1970s

The first of OCA theory is the “pioneering phase” from the early 1960s to the early 1970s. This was the first phase during which the OCA properties have been defined. These kind of definitions opened the well-known debate on the borders of a currency area by initiating the analysis of the benefits and costs from monetary integration. Briefly, the OCA properties include: the mobility of labour and other factors of production, price and wage flexibility, economic openness, and diversification in production and consumption, similarity in inflation rates, fiscal integration and political integration. The similarity of shock and correlation of incomes was added later.

There has also been a debate about the links between political, economic and monetary integration. The European process of integration has privileged economic integration. In Europe a ‘functional’ integration process first, must begin with the economic integration and then the economic integration will exert pressure towards monetary and political integration.

Even this phase defined a set of some necessary properties, all these properties still needed to be analysed in some detail even it is difficult to be measured. Also the pioneering phase as a whole lacked a unifying framework.

The amplitude of each property must be well defined. There are two main problems related to the property definition. The first problem, it is called the “problem of inconclusiveness”. This kind of ambiguity rises out from different directions that OCA properties can take. For example, if we take the case of a country that at the same time it is quite open in terms of reciprocal trade with a group of partner countries indicating the preferability of a fixed exchange rate regime and has a mobility of factors of production and labour with these trading partners suggesting instead that a flexible exchange rate arrangement.



The second problem, it is called the “problem of inconsistency”. The classic example is that of small economies, those are generally more open and prefer to adopt a fixed exchange rate, following the openness property but these kinds of economies are more likely to be less differentiated in production than larger ones. In this case they prefer the flexible exchange rates according to the diversification in production property.

So, the general problem during this phase was the properties ranking according to their importance. Price and wage flexibility, and the mobility of factors of production including labour, had a prominent role in the debate. Financial market integration was deemed to be very relevant. However, at least until the mid-1980s for several European countries full capital mobility and convertibility was still the exception rather than the rule. Inflation differentials were still relatively small but not negligible until the oil shocks (at least compared with the differentials of the subsequent periods). Economic openness and the diversification in production and consumption tended to display their effects through product and labour markets. The political will to integrate was understood to be a crucial prerequisite to pursue integration in most of the other areas.

### **The “Reconciliation Phase:” - the 1970s**

The second phase of the integration in a single currency, called the “Reconciliation Phase”, was also called the second era of contribution because the debates regarding the importance of OCA properties and the benefits / costs received have been discussed and interpreted in more details. This reconciliation strengthened the interpretation of some properties and led to diverse new insights such as the role of similarity in shocks.

During this phase different OCA properties have been brought together. The similarity of shocks has gain the importance as the newest property in the range of OCA properties. Even this phase was known for its effort done in the way of measuring costs and benefits, the lack of empirical content was a great barrier.

The ranking of OCA properties also changed. “It was said that price and wage flexibility could be rank as the highest and can permit rapid responses to disturbances. Openness and similarity in shocks are also important. But it was also argued that if members of a currency area are financially integrated, a high similarity of shocks among them, although desirable, is no longer a strict prerequisite. This has relevant implications for the debate about the size of a currency area. The mobility of factors of production and labour is highly desirable but also entails some costs and cannot effectively cope with disturbances in the very short-term. Different authors have different ranking, if for some of them the similarity in price and wage inflation is ranked as the highest, for the others it is not.

### **The “Reassessment Phase:” - the 1980s and Early 1990s**

The reassessment became apparent with the reconsideration of the effective costs and benefits from monetary integration and with the debate on the size and timing of currency areas. The analytical framework during this phase was related not just with OCA but also with the EMU question. New views on the short-term Phillips Curve, the credibility issue and the importance of a nominal anchor, the internalisation of the benefits of low inflation, the effects of a single currency on labour markets, and the views on the low effectiveness of exchange rate changes were observe.

The reassessment phase based on the “old” optimum currency area theory, always drawing attention that this one had lots of missing points, underlined the fact that theory side and empirical side brought together a immense domain of new research.

Concluding this phase, we can say that the proceeding toward complete monetary integration in Europe for several EU members it was more beneficial. It was seen that there are fewer costs in terms of the loss of autonomy of domestic macroeconomic policies but more benefits, due to

credibility gains, for countries with a track record of higher and more variable inflation.

### **Empirical Studies of OCA - from the 1980s to today**

The last phase has used the works done during previous phases but the prosperous of this phase was the several studies due to the theoretical innovations. The advancements in econometric techniques and the renovated interest toward European economic and monetary integration were two other reasons which push forward the empirical studies. These empirical studies seek to assess why specific groups of countries may form an optimum currency area by analysing and comparing a variety of OCA properties and applying several econometric techniques.

After several empirical analysis, the researches of this field have concluded that the following properties are approved to be part of OCA theory. But they draw the attention that this range can change with the time passing.

- a. Price and wage flexibility
- b. Labour market integration
- c. Factor market integration
- d. Financial market integration
- f. The diversification in production and consumption
- g. Similarities of inflation rates
- h. Fiscal integration
- i. Political integration
- j. Similarity of shocks

## II - Albanian Case

### OCA criteria - A static analysis

In the following section, we tried to present the OCA theory in general, the steps of this theory during years and the strong and weak point of each phase. Based on OCA theory we intend to analyze all the properties one by one in order to find an answer to the question: Is Albania ready for an early euroisation?

These set of criteria is as follows:

#### Size and openness

Albania is a very small country, with a population of only 3.17 million people which is approximately only 0.9% of 314 million people that live in EU (2006). Its average share of GDP (at current prices and exchange rates) relative to EMU countries is only 0.05% for period 1997Q1-2005Q4. Thus, its size does not allow Albania to influence prices in the world market.

Albania operates a considerably liberalized trade regime. It is WTO member since 2000. Most of the industrial products are already fully liberalized or with very low tariff (2%). Albania has signed a FTA with the other countries in the region (more specifically with Macedonia, Croatia, Bulgaria, Romania, Kosovo, Serbia and Montenegro, Moldova and Bosnia and Herzegovina). In the table 1 there is a general view of total trade as percentage of GDP for the Balkan Countries. If we refer to the rapport of trade with EU to total trade, the situation of Albania is ranged the first in the Balkan with 68.4 percentage for year 2005.

**Table 1: Trade as % of GDP for the Balkan Countries (2005)**

Countries	Total trade (as % of GDP)		Trade EU / total trade
	Goods	Services	

	Exports	Imports	Exports	Imports	
Albania	9.5	29.7	13.7	15.7	68.4
Bosnia&Herzegovina	28.0	81.2	13.7	15.7	56.5
Bulgaria	44.5	63.6	16.8	14.0	56.4
Croatia	24.0	49.6	26.6	9.0	64.3
Macedonia	32.4	51.8	8.6	9.1	52.0
Romania	29.4	39.2	5.0	5.7	68.2
Serbia	18.5	43.1	5.0	5.7	50.0

Source: INSTAT

Table 2 refers to the comparison between of Albania to the other countries of the region regarding trade and FDI indicators for year 2006. For the case of Albania, according to 2007 Annual Report of Bank of Albania and 2007 Balance of Payment Booklet, the year 2007 has show that Export/GDP has raised to 10.2%, Trade openness to 84% and FDI/GDP to 6%. Import coverage remains almost the same during both years.

**Table 2: Trade and FDI indicators during 2006 (in %)**

Country	Export/GDP	Import coverage	Trade openness	FDI/GDP
Albania	8.70	27.23	74.00	3.60
Bosnia and Herzegovina	29.38	45.34	95.96	3.70
Serbia	20.37	51.00	60.32	13.98
Macedonia	38.91	65.10	98.70	5.85
Bulgaria	48.00	68.35	118.21	16.40

Source: Bank of Albania

To measure the trade openness of Albania and the intensity of trade with EU countries we use two indicators:

- *The degree of openness*, measured as the share of total trade (exports + imports in both goods and services) to GDP at current prices.
- *The geographical concentration of trade*, measured as the share of trade with EU countries to total trade (for each exports and imports).

**Table 3: Albania's trade with EU-25**

Share/Year	2000	2001	2002	2003	2004	2005	2006	2007
Total trade / GDP	59.8	63.67	66.51	65.78	64.06	68.65	72.0	84.0
Exports with EU-25 / Total exports	92.5	91.5	92.1	93.3	90.7	89.0	88.6	83.1
Imports from EU-25 / Total imports	78.1	78.2	71.1	68.7	68.2	63.5	65.6	59.8

Source: INSTAT, ACIT

Albania has been benefiting from EU's autonomous trade preferences since 2000. These preferences imply that all Albanian industrial products and most Albanian agricultural and fishery products can access EU markets duty and quota free. The entry in force of the SAA will strengthen even more the trade relationship between Albania and EU since a FTA should be established between Albania and the EU in.

A high geographical concentration of a country's trade favours pegging the currency to its main trading partner. Albania's economy, among other countries in the region, is the most sensitive ones toward the euro exchange rate volatility, thus the one that will benefit more from removing the exchange rate uncertainty. Considering the future prospect of strengthening the trade integration with EU countries, with the time, the advantages of removing exchange rate uncertainty will become even more obvious.

### Symmetry of hits

According to Mundell's theory, countries which are exposed to symmetric hits or those possessing mechanisms for absorbing asymmetric hits could be optimal for adopting a common currency. The existence of asymmetric shocks is an obstacle on a country's way to forming a currency

area, because it compromises the exchange rate stability between two countries and lowers the utility of adopting a fixed exchange rate regime. We identify the shocks in the real sector and measure their magnitude for Albania as well as for some other countries in the region which have already joined the EU.

$$SDY_{ij} = \left| SD \ln \left( \frac{GDP_i^t}{GDP_i^{t-1}} \right) - SD \ln \left( \frac{GDP_j^t}{GDP_j^{t-1}} \right) \right|$$

where:  $i$  denotes the respective country,  $j$  denotes the EMU (12) and GDP is at constant prices (1995 as the base year). We use the data for the period Q1 1995- Q4 2005.

**Table 4: The magnitude of the real asymmetric shocks between some Balkan countries and EMU (12) (1995 – 2005)**

Country	SDY <sub>ij</sub>
Bulgaria	0.4417
Romania	0.3326
Slovenia	0.0447
Albania:	
with year 1997	0.02628
without the year 1997	0.01173

Source: Respective Central Banks' official websites, ECB Data Ware House

As we can see, this indicator for Albania is well below those of other Balkan countries which have already joined the EU. This can be explained by the fact that Albania is the country that trades with EU more than any other country in the region. Greater the trade intensity, the more harmonized the business cycles between the economies in question. The indicator is even smaller if we exclude from the estimation the data of the year 1997 which, because of the economic and political turmoil of that year exposed Albania do asymmetric hits referring to EU. However, bearing in mind the problems

with the reliability of the data on the macroeconomic indicators in Albania, this result should be considered with due caution.

### **Labour mobility**

If real wages are rigid, the burden of asymmetric shocks falls on employment. In such a case, the adverse effect of asymmetric hits can be adjusted by high factor mobility, especially labor. Labor mobility in Albania is fairly high, due to a large portion of the population living and working in the EU countries. Since 1990, 500-600,000 Albanians have left the country and have emigrated to the developed countries, mainly to EU countries. This corresponds to more than 15% of the population as a whole, 26% of the population in the working age and 35% of the labor force. Countries to which Albanians emigrate most are mainly those geographically close to Albania, with certain economic, historical and cultural ties. Almost 80 % of Albanian emigrants are settled in Greece and Italy, working mainly in agriculture, construction, trade and housekeeping activities. The others have chosen Germany, England, France, Belgium and few have emigrated in USA and Canada. The majority of them are already legalized, which mean that they can easily go back and forth each time they need to do so. The emigration has helped to smooth the consequences of the transition and the related decline in real wages. It has also helped to moderate the pressure on the active population and thus reducing the number of unemployment. The economic impact of factor movement is large since remittances and income from seasonal labor abroad form a large and continuous share of the Albanian GDP (almost 15%) and they are almost twice the amount of exports.

### **Capital mobility and capital market integration**

A key ingredient to absorb any asymmetric hits is the capital mobility, which implies international arbitrage across countries. Albania is regarded as a country with low barriers to foreign capital inflows and direct investments. The regime on capital movement is set out in July 2003, on the basis of the Law of Bank of Albania and of the 1993 Law on Foreign Investment.

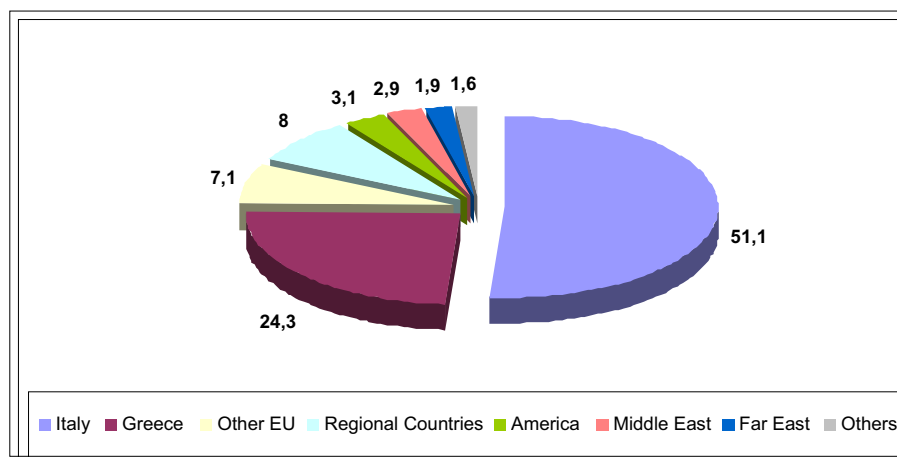


According to this regime, there are no limitations on inward direct investments (except purchases of real estates by foreigners in Albania), there is no approval process and no sector is closed to foreign investment. Repatriation and initially invested foreign capital as well as the earnings face no obstacle in leaving the country. However, outflows of capital are still subject to restrictions. In order to be able to transfer capital abroad, physical and judicial persons as well as individuals, residents of Albania, need to receive the approval of licensed subjects (commercial banks). The ceiling on the amount that could be transferred abroad by a single individual is 28.000 US dollar (increased from 20.000 US dollar until 2002). The law regulated by the BoA doesn't allow residents to carry out direct investment abroad, investment in foreign securities, lending to non-residents, etc. However, it is believed that Albanian residents transfer capital out of the country through illegal channels. Thus, regarding the capital movement between in Albania, we can conclude that it is highly liberalized on the side of inflows and more liberalized than suggested by the law on the side of outflows.

An indicator of the capital mobility can be the capital account openness - measured as the ratio of the sum of the absolute value of inflows and outflows of capital (FDI and portfolio investments) to GDP. Despite facilities in the law, the capital inflows and outflows in Albania are relatively. FDI flow in Albania, as a share of GDP is relatively low, only 5%. Although Albania is well positioned to attract foreign direct investments, with its favorable geographical location, competitive salaries and natural resources, foreign investors fear to approach Albania. There are several reasons behind this, such as technological factors, which may result in differences in production, the presence of informal economy, unclear property rights, and low levels of credit. At the same time, an underdeveloped financial system offer few opportunities for portfolio investments in Albania, compare to more developed countries in EU. However, it is worthy to mention the undeniable fact that the data on the capital account, like the majority of statistics in Albania, are subject to some erroneous registrations, estimations and misspecifications. Based on these observations, we can conclude that incoming or outgoing capital in Albania might be higher than those reported.

Albania's capital market is highly integrated with that of the EU. EU countries have a dominant position in foreign direct investment in Albania. According to BOA, in 2006, 434 out of 526 direct investment enterprises, had participation of European Union capital, of which 269 Italian and 128 Greek. This constitutes 82.5% of total direct investments in Albania. The EU investments' presence in Albania is another factor of reducing the risk of asymmetric economic hits. Their sensitive presence in industrial sectors makes these firms to be affected by economic hits the same way their mother companies are in their countries of origin. Net effect of this factor is the increase of the symmetry of economic hits.

**Chart 1: FDI in Albania by origin country (2006)**



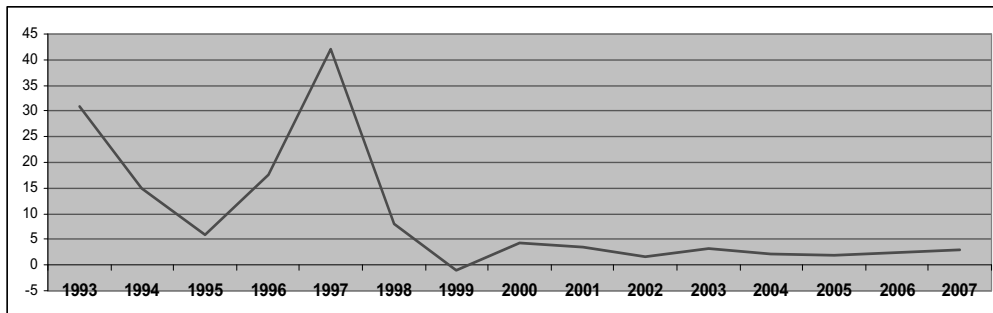
Source: Respective Central Banks' official websites, ECB Data Ware House

In the near future, we expect the capital account in Albania to be fully liberalized. This is a commitment to meet the requirements of WTO and EU. At the same time, the assignment of SAA has imposed on Albania certain conditions regarding the capital mobility between Albania and EU countries. The categories of capital movement, which to date are subjects to restrictions, will be fully liberalized in 5 years, as stated in SAA.

### Similarities of inflation rate

When inflation rates between countries are low and similar over time, terms of trade will also remain fairly stable. This will foster more equilibrated current account transactions and trade, reducing the need for nominal exchange rate adjustments.

**Chart 2: Average annual inflation rate 1993 – 2007**

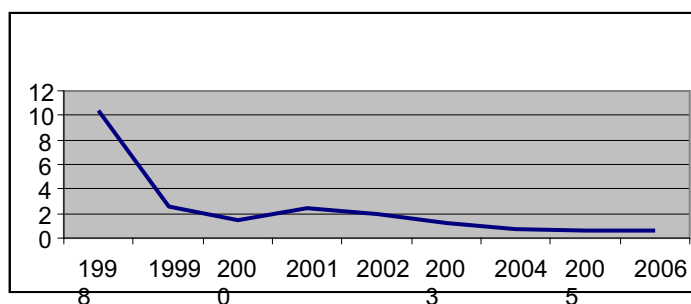


Source: Bank of Albania

In terms of price stability, Albania has shown impressive results. Inflation has been lower than the other transition economies and since 2001 Bank of Albania has been successful in maintaining it within its aim target of 2-4% as it is seen in chart 2.

After the crisis of 1997, inflation rate differentials between Albania and EU countries  $|\pi_{AL} - \pi_{EU}|$  have narrowed within slim margins as it is seen in chart 3.

**Chart 3: Albania – EU annual inflation rate 1998 – 2006**



Source: Central Bank of Albania, official websites

As an economy exposed to imports (almost 4 times higher than exports), Albania is inevitably impacted by imported inflation level, mainly from its biggest trading partners, Italy and Greece. Out of survey made by the Institute of Statistics in 2005, it resulted that about 46 % of the consumer basket goods are imported goods. Therefore, their price performance (combining their price in the national currency with the exchange rate) takes much importance in explaining the inflation rate in Albania and makes the inflation behavior in Albania much similar to that of the EU countries.

### **Price and wage flexibility**

Flexible prices and wages would be a good substitute for monetary policy since shocks could be absorbed by changes in wages and prices, which reduce the pressure for exchange rate adjustments. In case of Albania, prices are highly flexible. Despite prices of water, railway transport and electricity which are still affected by the government subsidies, all the other prices are fully liberalized. However, there have been mixed signals about the flexibility of wages. The speed of adjustment after major shocks in 1992-1997 could be interpreted as an evidence of flexibility in wage adjustments. Nevertheless, we notice a weak correlation between nominal wage levels and employment. The lack of data on this sector makes it difficult to reach to a definite conclusion and this issue needs deeper analysis.

### **Diversification in production and exports**

If we have a quick look on the origin of GDP in Albania, we notice a quiet well-diversified structure of production. We can observe the same structure of GDP share according to sectors for the instant years.

**Table 5: The origin in GDP in Albania (year 2005)**

Origin of GDP (% of total)	Year 2005
Agriculture	21.8
Industry	14.5
Construction	9.5
Services	45.2
Transport	9.0

Source: INSTAT

While production seems to be diversified, exports diversification remains lower. Albania's export structure is geared toward labour-intensive products. On a sector level, EU primarily imports manufactured products from Albania, which accounts for 88% of Albania's EU-orientated exports. Textiles and clothing, together with footwear and leather products play an important role in Albania's exports to EU, accounting for about 64% of its total trade. The EU main exports to Albania are machinery equipment and other manufactured products. However, we should note that the problem of diverse production and export in Albania is much less acute than the problem with the quality of the products. This difference in quality renders any comparison between Albania and EU countries inaccurate.

**Table 6: The Geography of Albania's' Trade Flow (2007)**

	Exports		
	Value	Share to total	Growth rate 2007/2006
	(Million USD)	(%)	(%)
EU-27 (EU 25)	894,8	83% (88%)	28%
Italy	733,4	68% (73%)	28%
Greece	88,7	8% (10%)	18%
Germany	26,3	2% (3%)	5%
Sweden	17,1	2% (1%)	154%

France	6,7	1% (1%)	22%
Bulgaria	7,6	1% (0%)	131%
Other EU countries	15	1% (1%)	52%
<b>Countries of the region</b>	107,8	10% (8%)	68.4%
Kosovo	51,5	5% (4%)	71%
Macedonia	25,3	2.5% (2%)	101%
Serbia and Montenegro	25,7	2.5% (1%)	138%
Bosnia and Herzegovina	4,2	0% (1%)	-2%
Croatia	1,1	0% (0%)	-55%
Moldova	0	0% (0%)	-

### **A sound banking and financial system and financial integration**

A stable and developed banking and financial system is a precondition for euroisation, as lender of last resort functions of the central bank disappear along with the domestic currency. Financial system in Albania is small and dominated by the banking sector, which represents 90% of formal financial system assets. Albania has completed the process of privatization of the banking system with the privatization of the largest bank in the country, the Savings Bank, by the Raiffeisen Bank of Austria, in 2004. The banking sector in Albania is comprised of 17 banks - 2 Albanian and 15 foreign owned/joint ventures. The major part of the foreign-owned banks several of the 17 banks are branches of large European banks, which shows a high degree of banking sector integration between Albania and EU. The largest bank in Albania, the Raiffeisen Bank, accounts for about 54% of deposits and 70% of government debt held by the banking system.

**Table 7: Indicators of banking sector in Albania (2004-2006)**

Indicators	2004	2005	2006	2007
Total number of banks	16	17	17	17
Number of foreign banks	14	15	15	15
Non-performing loans (% total loans)	4.7	3.5	2.8	3.4
Liquid assets to total assets	73.5	69.4	-	49.8
Credit to economy (% GDP)	8.4	10.8	21.2	29.9
Private credit (% total domestic credit)	69.4	68.8	66.5	64.2

Source: Bank of Albania, Annual Supervising Report 2007

However, despite the above mentioned significant progress, the Albanian banking system remains relatively underdeveloped with respect to the EU standards. A good indicator of the financial development can be the credit to the private sector as a share of GDP or of total domestic credit. Although, the credit to the private sector makes up the largest share of total domestic credit in Albania, it remains still low with respect to GDP.

While the Albanian banking sector has demonstrated relatively good performance in recent years, other financial system sectors remain less developed. The small size of non-bank financial institutions is a consequence of the lack of understanding of financial products and services by potential users, and the still rudimentary level of basic financial infrastructure. As for the capital markets and the use of different financial instruments, though existing, they are still shallow and far from the standard of their counterparts in the EU countries. The government separated the Tirana Stock Exchange from the Bank of Albania, effectively creating an independent stock market in the country; however trading is limited to treasury bonds and privatization vouchers. A complete assessment of the soundness of the banking and financial system in Albania deserves a deeper analysis, which is beyond the scope of this paper. However, we can conclude that there exists the necessity

to further strengthen the financial sector before a possible unilateral adoption of the Euro.

### III - Conclusion

This paper has provided an overview of all the development process of the OCA theory, which last 40 years. Although some of the properties still face problems regarding inconclusiveness or inconsistency, almost all the OCA properties have proved to be remarkably strong. After a lot of studies done in this field, we can conclude that there isn't a single OCA-test with a clear cutting score. The successful experiences of EU show that the association to a currency union is now deemed to generate fewer costs in terms of the loss of autonomy of domestic macroeconomic policies.

Summing up, this preliminary analysis indicates that Albania satisfies the main criteria of OCA at a satisfactory level. It is a small and relatively open economy, with a high trade concentration and high level of financial integration with EU. Albania doesn't seem to be very exposed to asymmetric hits with EU countries, compare to other countries in the region. We expect any possible asymmetric shock in the economy to be absorbed by flexible prices and labor mobility, which can be considered as relatively high, due to the great number of emigrants that live and work legally in the EU countries. However, there exist doubtful evidences on the export diversification and wage flexibility. Albania's inflation rate has shown low levels since the crisis of 1997-1998, showing a similarity with that of the EU countries at satisfactory levels. The banking and financial system development in Albania, although under-developed compare to that of EU, is growing significantly due to an increased competition and financial deepening, setting the stage for a credit boom in the future. Thus, from the traditional OCA point of view doesn't seem that the adoption of Euro could pose excessive risk of destabilizing either side to the point of offsetting the benefits of an early euroisation.



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ISBN: 978-99956-681-3-6

Address: Epoka University, Rr. e Durrësit, Tirana - Albania

Tel: +355 4 2232 086

+355 4 2222 077

Fax: +355 4 2222 117

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