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**LAW**



**CLASSIFYING TURKISH AND ALBANIAN BUSINESS ENTITIES  
IN ACCORDANCE WITH NEW TURKISH COMMERCIAL CODE**

İlyas ÇELIKTAŞ\*

**Abstract**

*On April 14 2008 the Albanian Parliament approved the Law on Entrepreneurs and Commercial Companies (9901/2008), which entered into force on May 21 2008. This Law shall regulate the status of entrepreneurs, the founding and managing of companies, the rights and obligations of founders, partners, members, and shareholders, companies' reorganization and liquidation. According to this Law companies are shoqëritë kolektive (Art.22), shoqëritë komandite (Art.56), Shoqëria me përgjegjësi të kufizuar (Art.68) or Shoqëri aksionare (Art.105). The equivalents of these companies in Turkish Law are general partnerships (Kollektif Şirket) for shoqëritë kolektive (Art.22), limited partnerships (Komandit Şirket) for shoqëritë komandite (Art.56), limited liability companies (Limited Şirket) for Shoqëria me përgjegjësi të kufizuar (Art.68) and joint-stock companies (Anonim Şirket) for Shoqëri aksionare (Art. 105). In the present study we are going to classify the companies for the respect of whether they own legal personality, whether shareholders are responsible for company's commitments and especially if they are Companies of Persons and Capitals.*

**Keywords:** *Commercial law, Albania, Turkey, 'associations of persons' and 'associations of capital'.*

**Notion of company**

A company is an agreement under which two or more persons agree to undertake to bring their skill or capital to attain a common object. This definition is accepted as valid for all sorts of companies and also defined as such in the Turkish Code of Obligations. (C.O., Art.620). The is the simplest form of company and called the ordinary partnership (adi şirket) <sup>1</sup>. It does not have a legal entity separate from the partners<sup>2</sup>. A similar definition can be found in the Albanian Legal system; "Companies are founded by two or more persons, who agree on achieving joint economic objectives through contributions defined by the Statute" (Law on

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1 Tuğrul Ansay, Don Allace, Jr., Introduction To Turkish Law, 2005, s. 99.

2 All partners are jointly liable against third persons because of the transactions of the partnership, and their liability is unlimited, Ansay/Allace, s. 99.

Entrepreneurs and Companies, Art.3/1)<sup>3</sup>. The new law is modelled on the commercial legislation of Germany, Italy and the United Kingdom. It constitutes the main body of law on business organizations and aims to harmonize the Albanian regime with EU law<sup>4</sup>.

### **Classification of Companies**

Companies can be classified in various ways such as; Having legal entities or not, whether they are associations of persons or associations of capital, shareholders' liabilities for company's debts of the shareholders<sup>5</sup>.

### **Trading Companies**

In Turkish Legal System, companies that are defined under the Turkish Commercial Code are called «Trading Company». Trading companies include; General Partnership (kollektif şirket), Limited Partnership (komandit şirket), Joint Stock Corporations (anonim şirket), Limited Liability Companies (limited şirket) and Cooperative companies (kooperatif şirket). (Turkish Commercial Code, Art. 124/1). The cooperatives are regulated by a separate law<sup>6</sup> rather than the Turkish Commercial Code. However, they are still considered as trading companies.

In Albanian Legal System, trading companies are regulated in the Law on Entrepreneurs and Companies dated 14.10.2008. These are; General partnerships

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3 Law no. 9901 approved by the Albanian Parliament on 14 April 2008 on "Entrepreneurs and Commercial Companies", which entered into force on 21 May 2008 and replaced the previous legislation on business organisations in Albania (Laws no. 7632/1992 and no. 7638/1992). The new law regulates individual entrepreneurs and commercial companies. In contrast to the previous company law, the 2008 law also includes the definition of branches and representative offices of foreign companies and details provisions on group of companies. Scope of the Law defined (Art.1/1); "This Law shall regulate the status of entrepreneurs, the founding and managing of companies, the rights and obligations of founders, partners, members, and shareholders, companies' reorganization and liquidation", [http://www.mete.gov.al/doc/20080716095903\\_ligji\\_per\\_tregtare\\_dhe\\_shoqerite\\_tregtare\\_eng.pdf](http://www.mete.gov.al/doc/20080716095903_ligji_per_tregtare_dhe_shoqerite_tregtare_eng.pdf) (1.10.2012). This law intends to create a modern commercial system providing for flexible corporate structures and facilitate the business climate in Albania, Investment in Albania, 2011, www.kpmg.al (1.10.2012).

4 Renata Leka, "Companies Regime is Revamped", <http://www.internationallawoffice.com/> (1.10.2012).

5 Mehmet Bahtiyar, Ortaklıklar Hukuku, İstanbul, 2012, s. 1; Reha Poroy (Tekinalp/Çamoğlu), Ortaklıklar ve Kooperatif Hukuku, İstanbul, 2005, s.13.

6 Law on Cooperatives, Law No. 1163, dated 24 April 1969.

(shoqëritë kolektive) ‘SH.K.’<sup>7</sup>, Limited partnerships (shoqëritë komandite) ‘SH.K.M.’<sup>8</sup>, Limited Liability Companies (Shoqëria me përgjegjësi të kufizuar) ‘SH.P.K.’<sup>9</sup>, Joint-Stock Companies (Shoqëri aksionare) ‘SH.A.’<sup>10</sup> ( Art. 1). A company is a general partnership if it is registered as such, conducts its business under a common name and the liability of partners towards creditors is unlimited (Art, 22). A partnership is a limited partnership, if at least one partner’s liability is limited to the amount of his interest (limited partner), while the liability of other partners is not limited (general partners). General partners have the status of partners in a general partnership. Unless this part of the law provides otherwise, provisions on general partnerships also apply to limited partnerships (Art, 56). A limited liability company is a company founded by natural or juridical persons who are not liable for the company’s commitments and which personally bear losses only to the extent of any unpaid parts of stipulated contributions. Members’ contributions constitute the company’s basic capital (Art, 68). A Joint Stock Company is a company the basic capital of which is divided into shares and subscribed by founders. Founders are natural or juridical persons, which are not liable for the company’s commitments and which personally bear losses only to the extent of any unpaid parts of the shares in the basic capital they subscribed (Art, 105).

### **Legal Entity of Trading Companies**

In Turkish Legal System, Trading companies have legal entities (Art. 125). The legal entity is acquired upon registration in an officially kept registration book<sup>11</sup>. A similar definition can be found in the Albanian Legal system; Companies acquire legal personality on the date of their registration in the National Registration Centre (Art.3/3). Companies must apply for registration in accordance with Art. 22 and subsequent articles of Law No. 9723 on National Registration Centre<sup>12</sup> as relevant to the form of company in question (Art.3/2). All trade companies in Albanian law and as well as Turkish Law have a legal personality which is different from those of the persons who create them.

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7 The name of a general partnership shall contain the supplement ‘shoqëritë kolektive’ or the abbreviation ‘SH.K.’ (Art.4/3).

8 The name of a limited partnership shall contain the supplement ‘shoqëritë komandite’ or the abbreviation ‘SH.K.M’ (Art.4/3).

9 The name of a Limited Liability Companies shall contain the supplement ‘Shoqëria me përgjegjësi të kufizuar’ or the abbreviation ‘SH.P.K’ (Art.4/3).

10 The name of a Joint-Stock Companies shall contain the supplement ‘Shoqëri aksionare’ or the abbreviation ‘SH.A’ (Art.4/3).

11 Ansay/Allace, s. 105.

12 The present law regulates the organization, functioning and operations of the National Registration Center, maintenance of the Commercial Register, the subjects and procedures for registration (Art.1/1).

### **Consequences of Having a Legal Entity**

These consequences are<sup>13</sup>: Legal entities have separate commercial titles from their shareholders constituting them. Legal entities have separate and independent assets from those of the shareholders. The creditors can claim to be paid firstly from the company's assets. They have rights and legal capacities free from their shareholders. They have a separate residence. They also have a separate citizenship. The citizenship is determined according to which country company's headquarter is located in<sup>14</sup>.

### **Differentiation of «Associations of Persons» and «Associations of Capital»**

The numbered 6012 Turkish Commercial Code which was put into operation on 1 July 2012 agrees on the differentiation of 'associations of persons' and 'associations of capital'. Hereunder; General Partnerships and Limited Partnerships are regarded as 'associations of persons', Joint-Stock companies, Limited Liability Companies and Limited Partnerships whose capital are divided into shares are regarded as 'associations of capital'(m.124/2). Similarly, in Albanian Legal System; General partnerships and Limited Partnerships are regarded as 'associations of persons', Limited Liability Companies and Joint-Stock companies are regarded as 'associations of capital'. There is no clear distinction in the Albanian Law as in the case of Turkish Law, but we draw this conclusion from the formation of companies.

### **The Basic Characteristics of Associations of Persons (General Partnerships and Limited Partnerships)**

In 'Associations of Persons', the identity and personality of shareholders and their relationships hold more importance than the capital. People who know and trust each other come together and establish the association. The number of shareholders is small. They are not eligible to gather big capitals. In the Turkish Commercial Law, there is no stipulation as to the minimum capital needed in order to establish an 'association of persons'<sup>15</sup>. The shareholders are expected to trust each other because they have secondary and unlimited liability for company's debts (m.236,

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13 Bahtiyar, s. 3.

14 Unless the Statute otherwise provides, a company's head office is the place where the major part of its business is carried out. A company's head office of which is located in the territory of the Republic of Albania, is subject to this Law (Art. 8).

15 The general partnership of Albania is set out by at least two members who do not have to provide a minimum capital. And the limited partnership does not require a minimum capital, see: Albania Company Laws And Regulations Handbook Volume 1 Strategic Information And Basic Laws, International Business Publications, Washington DC, USA-Albania, 2012, s. 36.

317)<sup>16</sup>. The rules state that since change of shareholders or an increase in their numbers are not regarded as safe, it is quite difficult to add or remove shareholders or sell shares, and can only be done with a consensus of the shareholders (m.226/2, 253)<sup>17</sup>. The rules also state that the shareholders' agreement can only be modified by a consensus of the shareholders. Since the shareholders have secondary and unlimited liability, they each have a right to control. Since the shareholders have the utmost importance, company may come to an end in case of a shareholder's death, loss of their legal capacity or bankruptcy (m.243/1, 248-249, 253, 254).

### **The Basic Characteristics of Associations of Capital (Join-Stock Companies, Limited Liability Companies And Limited Partnerships Whose Capitals Are Divided Into Shares**

The shareholders have limited liability for company's debts, and as the rules state, this liability is only towards the company<sup>18</sup>. It is comparatively easier to add or remove shareholders, and sell shares. A consensus of the shareholders for these operations are not demanded. It is possible to have shareholders in large numbers<sup>19</sup>. Since it is not plausible to give right to control to all the shareholders, indispensably there are managing bodies and auditors. A majority of votes is sufficient to change the shareholders' agreement. Shareholders' right to control is in direct proportion to their shares in the capital. Contrary to the 'associations of persons', a shareholder's death, bankruptcy or loss of their legal capacity do not require the closure of the company. They have such liabilities as founding a website and declaring certain company information there.

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16 In Albanian Law, liability of general partnership's partners towards creditors is unlimited, severally and jointly, for the debts of the company (Art.22).

17 In Albanian Law a partner's of general partnership rights may be transferred to third parties only with the prior consent of the remaining partners (Art.34,44).

18 In Albanian law, a limited liability company is a company founded by natural or juridical persons who are not liable for the company's commitments and which personally bear losses only to the extent of any unpaid parts of stipulated contributions. Likewise a Joint Stock Company.

19 In Turkish and Albanian Law Joint Stock Companies may offer their shares to the public. The main difference is that the stocks of the public joint stock companies are registered at the stock market.

## Conclusion

In conclusion, trade companies where persons are important are unable to develop further due to lack of sufficient number of partners and its unsuitability to attract large amount of capital. In June 2012, 267 joint stock companies and 2,731 limited companies were established whereas only 6 general partnerships were created<sup>20</sup>. Individuals do not want to hold unlimited responsibility. Capital companies, on the other hand, are preferred because the persons on these companies have limited responsibility.

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20 The Union Of Chambers And Commodity Exchanges Information Retrieval Division [www.tobb.org.tr](http://www.tobb.org.tr) (25.07.2012). In 2011, 2,932 joint stock companies, 50,451 limited companies, 25 general partnerships, 1 limited partnership were established, see: The Union Of Chambers And Commodity Exchanges of Turkey Economic Report, 2011, s. 182.

**LEGAL DISPUTES: EXPERIENCED BY THE BALKAN MIGRANTS IN  
TURKEY**

N. Şebnem SAYHAN\*

**Abstract**

*In terms of “migration” which is a concept dating back to the history of humanity, Turkey plays an important role as a transit country for the migrants, as being located on the migratory route of Middle East and Central Asia and also as a country letting in migrants from these regions along with the muslims and Turkish descendants from the Balkans due to many reasons. The problems of the migrants are not resolved upon their arrival in the country allowing the migration, on the contrary, these people face with new problems therein. Legal disputes experienced by the Balkan Migrants in Turkey, which is the subject of this study, have been considered with regard to the concrete examples of Bulgarian migrants.*

*The arrivals of Bulgarian migrants to Turkey took place in various periods and few of these migrations were planned but as the majority of these were unplanned and massive, the number of the problems, which were faced, increased. The migrations realized between 1923 – 1933 were planned and there were not many problems regarding especially the accomodation and habitation, as Turkey had been prepared for this. During the following periods, it is seen that the migrants faced problems due to the outbreak of planned migrations, in spite of Turkey’s good will. Especially, the efforts of the Government to provide housing for the migrants of 1989 failed and the migrants were distressed. Although the legal remedy proposed for the relief of this distress was not sufficient, upon the decree of annulment by the Constitutional Court, further distress of the migrants was prevented.*

*The “retirement” issue experienced by the migrants of 1989 regarding social security was tried to be resolved by the decisions of the Council of State and the Supreme Court of Appeals at first and later a more solid solution was generated upon the amendment in the related legislations.*

*Regarding the resolution of the mentioned problems of the migrants, the significance of the support of both High Courts can be seen. The decisions of the these courts constitute the most important part of this study.*

*The majority of the problems faced by the migrants is related to the country they come from and the solution depends on the negotiations between Turkey and Bulgaria.*

**Keywords:** *Balkan Migrants after the Ottomans / inhabiting and housing / Turkish-Bulgarian Residence Agreement/adding foreign service periods to the period of insurance through debt / adaptation and accession.*

## **Introduction**

As Turkey is located in the middle of the migratory route due to its geographical position, it is a transit country for the Middle East and Central Asia and not only it provides manpower and trained personnel for abroad, it also allows individual or mass migrations of muslims and Turkish descendants from the Middle East, Central Asia, Caucasians and the Balkans due to the ethnical and political issues they face in their countries.

The conquest of Anatolia by the Turks and the territorial expansion of the Ottoman Empire caused the Turks to get settled on a wide area but as the result of the Empire's period of regression and the pressure and mistreatment of the new States founded on the lost lands towards the muslims and the Turkish descendants, migrations started to the Ottoman and then the Turkish Lands. When the 300 year old migration history is studied, it is seen that the most massive migration is from the Balkan countries ( AĞANOĞLU, ÜNAL/DEMİR, 2001:381). The Balkan migrants can be listed as migrants who are ethnically Turks (Turks from Greece, Bulgaria and the migrants or Turks from the former Yugoslavian Republic of Macedonia), Bosnia originated muslim migrants from the former Yugoslavia who are not ethnically Turks and former Yugoslavian Republic of Macedonia originated muslim migrants who are not ethnically Turks (ÜNAL/DEMİR, 2001:382).

In our study, the problems experienced by the Balkan migrants especially by the Bulgarian ones in Turkey after the migration, will be analysed on a legal basis in the light of Jurisdiction and Adjudication Decisions.

## **Inhabiting and Housing Issues**

The continuation of the Balkan migrations, which started in the 19th century, during the Turkish Republic period was related with not only the problems the Turks faced in their countries but also with the population policy of the then young Turkish Republic. As Turkey had to develop socially and economically and protect the country against the external threats it had to have a policy of an increasing population so migrant from outside were allowed (DUMAN, 2009: 474).

However, as the Ministry of Development and Housing reserved all its capability for the migration and the inhabiting of the refugee Turks from Greece during the 1923 – 1933 migrations, a stipulation of being a free migrant was set forth, which means the condition of not demanding any inhabiting and they were asked to bring a certain amount of money with them. Yet, the implementation of this system was not so easy and many migrants, although they had financial problems but just to be able to migrate to Turkey, signed a letter of undertaking stating that they would not demand any inhabiting support. Here, as the indigent migrants from Bulgaria, Romaina and Yugoslavia became indigent in time, they were started to be get inhabiting support as of year 1928 within the bounds of financial facilities (DUMAN, 2009: 476) .



In the meantime, the Turkish – Bulgarian Residence agreement, as an annex to the Turkey – Bulgaria Treaty of Friendship signed on October 18, 1925, provided assurance for the Bulgarians in Turkey and for the Turks in Bulgaria who intermigrated / were made to intermigrate during the Ottoman – Russia Wars between the years 1878 – 1925. As can be understood, the treaty comprises not only the Bulgarians migrating to Turkey, but also the Turks migrating from Bulgaria. As per this Residence Agreement, the migrants will have the right to bring their movable properties and animals with them. They have to sell out their real estate properties within two years after the migration.

As the migrants who arrived between the years 1934 – 1938 had the status of an inhabitant, they were accommodated to the previously planned regions by the local people and residence constructions for the migrants were started as a permanent solution. As per the Settlement Law Numbered 2510 and introduced in 1934, about 18.000 houses were built for the migrants between 1934 – 1937 and the migrants were held liable to pay the value of these houses in 28 years without any payments in the first 8 years and pay the rest of the amount in monthly installments for 20 years (DUMAN, 2009: 487).

Upon the diplomatic note delivered by the Bulgarian Government on August 10, 1950 stating “in keeping with the spirit of the treaty signed in 1925, 250.000 Turks, who are Bulgarian citizens voluntary to migrate, shall be accommodated within three months”, a new wave of migration was started. The Turkish Government, with a counter note dated August 28, 1950, stated that they will not refrain from accepting the Turks who wish to migrate from Bulgaria (ÖZGÜR, 2007: 46-47).

The Council of Ministers, in their meeting held on 16.04.1951, decided that the Turks who already came and will be coming to our Country using the free migrant visa will be deemed as emigrants as per Paragraph 2, which was amended by Law numbered 5098, of Article 15 of Settlement Law numbered 2510 and that they will undergo the inhabiting process and that the local consulates will provide an emigrant visa instead of a free migrant visa as per Law numbered 3659. The Council of Ministers, by approving the main inhabiting programme of the year 1951 which was set forth with Article 1 of the Law numbered 5098, dated June 24, 1947 which amends the Law numbered 2510, came to the decision that, in order to provide the emigrants to own a house, the residences to be constructed will be such as to only fulfill the needs and comprise of one room, one barn or a shop (ÖZGÜR, 2007: 90). During the 1951 migration, although the Turkish Government had difficult times regarding the inhabiting of the migrants due to accepting quite a lot number of migrants in a short time, the result was a success.

As the Turkey - Bulgaria Close Relative Migration Agreement was all about putting the shattered families together, there was no accommodation problem as the migrants were settled by their families in Turkey.

In 1989, when the Bulgarian Government forced the Turkish descendants to migrate, the migrants were transferred and left at the Turkish borders in massive groups and as a result Turkey had to accept the most intensive and forced migration

seen throughout Europe, after the World War II, in such a short period like three months (DOĞANAY,1997:191-203 ).

Some part of the migrants, who arrived in this period, settled using their own financial facilities to the places where their previously migrated relatives or neighbours were in majority and some part of them were settled by the Government to total 21438 residences in 14 city centers and 23 districts and regions within a 5 year period with the financial contribution and obligation of migrants method (DOĞANAY, 1997: 191-203). However, for the Bulgarian migrants subject to forced migration and therefore who wanted to come to Turkey and settle, adjustments regarding the migrate settlement were done upon the amendments with Law numbered 3805, dated May 27 1992 and Law numbered 3583 dated 16.06.1989 and as a result the coordinatorship of immigrant houses was established with the order of Ministry of State upon the 90/T-03 numbered and 27.11.1990 dated decision of the Higher Planning Council. Upon the announcement of the The Ministry of State, functioning for the coordination of immigrant houses, immigrant houses were built by taking an advance amount between 2,5 Million TL and 14 Million TL, in terms of the currency between 1991 – 1995 period, and they were sold to these citizens in installments upto 10 years. 23495 of the migrants who made applications were provided with houses and 3975 of these were provided with lands whereas 17000 of these migrants could neither own a house nor land even though they paid the mentioned advance amount. For this reason, some provisions regarding the migrant citizens were adjusted with the Law numbered 5543, dated September 19, 2006 which amended the Settlement Law numbered 2510.

With the 5th paragraph of temporary Article 1,the opportunity to withdraw the paid amounts along with the legal interest accrued as of the payment date was given especially to the migrant citizens who could not own a house, provided that they apply for this within one year as of the issue date of the Law. Besides, it was stated that the ongoing lawsuits were to be judged and finalized as per this provision. The Housing Development Administration (TOKİ) was assigned for the implementation. As the result of the implementation of the mentioned article, the citizens were subject to loss of money as the rate of the legal interest was very law and there was inequality among those who filed lawsuits. With regard to the Constitutional State, the most import issue was that the provision possessed the nature of intervening the jurisdiction. Upon the action for annulment by the Main Opposition Party, the provision of “the ongoing lawsuits were to be judged and finalized as per this provision” which was also taken to the Constitutional Court by Ankara 12th Court of First Instance with the reason of contention of unconstitutionality, was cancelled befittingly by the Constitutional Court who came to the decision that this provision was against Articles 2, 10, 36 of the Constitution (Constitutional Court, File no: 2006/158, Decision no: 2008/150, 24.09.2008). Upon this deicison of cancellation, a new amendment was made on the Law of Settlement and with the amendment dated December 5, 2008, the Consumer Price Index was taken as the basis instead of the legal interest and provided that the application conditions determined by TOKİ were fulfilled, an opportunity was given to the migrant citizens to benefit

from the social housing projects aimed for the low income group or the poor by assigning the refund as the advance amount or principal payment for these houses.

### **Social Security**

Social Security is another issue that the Bulgarian migrants face in Turkey. The request of migrant Turkish citizens, working under the security of the former Retirement Fund and the Social Security Institution, to add their pay service creditables in Bulgaria before becoming Turkish citizens to their period of retirement service through a debt demand in Turkey, was rejected as the periods of professional service subject to the mentioned liability was not under Turkish citizenship (Council of State, Chamber 10, File no: 74/1423, Decision no: 75/2216, 27.10.1975 and File no: 1980/202, Decision no: 1981/1407, 5.11.1981). Regarding the same issue, Council of State, Chamber 3 (with Decision no: 1978/1246, File no: 1977/1441 dated 29.03.1978 and, Decision no: 1983/510, File no: 1982/5107 dated: 10.02.1983) found it appropriate to become a Retirement Fund participant on the date of application, provided that the application of the debt demand was fulfilled within the periods set forth by the related laws and did not seek for the condition that the service period to be subject to debt should have been served under the citizenship of Turkey. Due to the conflict of precedents between these two chambers of the State of Council, a decision to merge and unify these precedents was given within the direction of the Decision no: 1983/510, File no: 1982/5107 dated: 10.02.1983 by the Council of State, Chamber 3 as follows: *“It had not been announced that the service period to be subject to debt should have been served under the citizenship of Turkey and according to Article 12 of the mentioned Law, being a Turkish citizen is one of the conditions of the participation, and although it does not fit with the laws to add the previous pay service creditable which took place before the acceptance to the citizenship of the person appearing as the participant on the date of application to their period of retirement service with a debt demand, it is obviously seen that it does not comply with the rules of rights and equity either...”* as per the decision of the State of Council’s Precedent Merging Committee, with file no:1983/3, decision no: 1983/12 dated 29.12.1983.

Upon the this decision of State of Council’s Precedent Merging Committee, İstanbul 3rd Administrative Court made references to the mentioned decision with their decisions in 2006, 2008 and 2009 and decided that the services of the Retirement Fund participator migrate citizens in Bulgaria will be considered in issues of adaptation and accession (3rd Administrative Court, file no: 2005/2755, decision no: 2006/2372 dated 7.11.2006 and file no: 2007/935, decisionno: 2008/1432 dated: 11.7.1008)

In the lawsuit filed upon the rejection of the debt demands of the Bulgarian migrants regarding their services in Bulgaria by the Social Security Institution during their services in Turkey under the security of the mentioned Institution, although the local court decided for the acceptance of the debt, the Social Security applied for an appeal but the Supreme Court of Appeals approved the decision of

the local court stating “To apply for a foreign service debt, it is not required to be a Turkish citizen during the mentioned service period so being a Turkish citizen only at the time of the application for the service debt is adequate” (Supreme Court of Appeals Civil Chamber 10, File no: 2004/354, Decision no: 20004/938 dated 17.2.2004). However, later, the Supreme Court Assembly of Civil Chambers stated in their decision numbered 2005/646, file no: 2005/10-492 dated 23.11.2005 as follows: *“It is not adequate to deem that being a Turkish citizen only at the time of the debt demand is enough considering regardless of the aim and spirit of the Constitution and the Law numbered 3201 so as per Law numbered 3201, only the Turkish citizens serving abroad and citizens during the period of the debt may benefit from the mentioned right of debt. People coming to Turkey as migrants may not benefit from the debt issue as they were not Turkish citizens while they were giving service abroad. Becoming a Turkish citizen upon the decision of the competent authority will not affect the past so the debt issue may only be considered for the periods after the date they gained the rights of becoming Turkish citizens while they were abroad.”*

As can be seen, both decisions by the State of Council and the Supreme Court of Appeals and the decisions of the local courts as per these, accepted the abroad pre-citizenship services of the migrant Turkish citizens to be considered within the insurance period through foreign service debt only with “high-pressure” statements. This is because the Law exists in order to facilitate and contribute to the social securities of the Turkish workers going abroad for service upon their come backs. The Lawmaker did not consider the immigrants in this case. The regulation regarding the foreign service of the Turkish citizens to be considered within their insurance period through foreign service debt is an exception the the general rule and exceptional regulations may not be subject to more comments or statements. OKUR, in the same direction, states that the decisions of the Supreme Court of Appeals regarding the acceptance of the debt in a way resolve the deficiency in the Law but that the main solution may only be provided through the new regulations by the Lawmaker (OKUR, 2006: 131-132).

Noticing this deficiency in the law and upon the efforts of the Immigrant Associations, pursuant to Law numbered 5754 dated 17.04.2008, an amendment on the Law numbered 3201 “Consideration of the Foreign Services of Turkish Citizens Residing Abroad with Regard to Social Security” was made and with the temporary Article 6, an opportunity for the consideration of foreign services through debt for the people who were forced to migrate from the countries between which a social security agreement was not signed, from the date 01.01.1989 until 08.05.2008 and who became Turkish citizens afterwards.

Issues regarding retirement have not ended for the ones who came to Turkey on their own will after 1993. They cannot benefit from the regulation of the law as they were not forced-migrants.

Another issue is about the migrant Turkish citizens who served in Bulgaria and retired pursuant to the Bulgarian legislation. These retired people are able to draw their retirement salaries from the Turkish Republic Ziraat Bank Branches as per the

Agreement signed with Bulgaria in 1999. However, most of these retired people who get a salary of approximately 130 – 200 TL per month, do not have health securities in Turkey. These people try to benefit from the health services of the Social Security Institution over their family members having such an insurance.

One of the main reasons of the problems the Bulgarian migrants experience in Turkey is that the Bulgarian Government and Administration does not always fulfill its responsibility regarding some issues. For example, even getting a simple official document may require more than one applications.

## Conclusion

The conclusion of the study reveals that in spite of letting in immigrants for centuries, the legal arrangements regarding migration are still not sufficient in our country. Compensation of the legislative insufficiency had been tried with the not-so-right and high pressure adjudications and when these were not enough, amendments and renewals in the legal adjustments were applied. Besides this, it was inconvenient and difficult for Turkey to face migrations; planned or unplanned and in mass. Although it has been nearly 20 years since the latest migration from Bulgaria, there are still issues waiting to be resolved (e.g. the negligence in applying the still in effect Turkish-Bulgarian Residence Agreement, 1925 in terms of the Turks). As the resolving of these issues cannot be realized by the Turkish Republic alone, a cooperation with the Bulgarian Government is highly required.

## ANNEX: THE NUMBER OF IMMIGRANTS IN TURKEY (DOĞANAY, General Directorate for Rural Services)

1. Within the 60 year period from the Ottoman Empire - until 1922  
From Greece 400 000  
From Bulgaria 225 000  
From Yugoslavia 120 000  
From Romania 120 000  
Other Countries 10 000  
TOTAL 870 000 immigrants
2. From Turkish-Bulgarian Residence Agreement, 1925 until 1949  
19 833 families 75 877 migrants having a right to own a house  
37 073 families 143 121 free migrant
3. During the period 1950-1952, as the result of deportation and forced emigration by Bulgaria  
37 851 families 514 393 migrants having a right to own a house
4. Between 1968-1979, within the scope of Turkey - Bulgaria Close Relative Migration Agreement  
32 356 families 116 521 people
5. 1989 – 1995  
64 295 families 226 863 free migrant

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**THE CONTRIBUTION OF THE INTERNATIONAL CRIMINAL TRIBUNAL FOR THE FORMER YUGOSLAVIA TO INTERNATIONAL LAW AND TO THE PEACE AND SECURITY IN THE TERRITORY OF FORMER YUGOSLAVIA**

Merve Özkan BORSA\*

**Abstract**

*The achievements of the International Criminal Tribunal for the former Yugoslavia are worth focusing on, for their positive effects on the change in the understanding of global justice and on the improvement of international law, especially international humanitarian law, international criminal law and human rights as well as peace and security in the territory of former Yugoslavia. However, the extent of this contribution in the long-term is assumed to be obscure if not ambiguous. Therefore, the basic aim of the study is to examine the extent of the political and legal importance of this tribunal on international law and the territory of the former Yugoslavia, thus the Balkans and international society generally. The most important contributions will be presented in the light of key cases held in the Tribunal, Tribunal's Statute and various conventions with respect to this manner. As a result, inspite of the discussions on the legal basis and effectiveness of the Tribunal, the Tribunal's legal precedents can be said to have constituted a development in international politics and law, principles, norms and procedures; served the expansion of the ambit of substantive and procedural jurisprudence of the law of armed conflicts; contributed to the institutionalization of international criminal justice system and of human rights norms; played a crucial role in the creation of other international criminal courts and took part in the establishment of efficient and fair international trials which is of crucial importance to the peace in the Balkans and the whole world for the future.*

**Keywords:** *The International Criminal Tribunal for the former Yugoslavia, International Humanitarian Law, International Criminal Law*

**Introduction**

Along both with their advantages and disadvantages *vis a vis* national courts<sup>1</sup> and controversial legal basis all international courts have a certainly essential role in the development of international law which primarily aims at maintaining and restoring international peace and security. Because the atrocities in the territory of former Yugoslavia shocked the conscience of people everywhere and the crimes committed

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<sup>1</sup> The advantages and disadvantages of international courts vis-a-vis national courts has been explored in various studies.

were so serious and heinous that they affected humanity as a whole, regardless of state borders, they were acknowledged as an erosion of the international community and the stability of international security system. Thus, the International Criminal Tribunal for the former Yugoslavia (ICTY) has been decided to be established as one preceding instance of these courts. This tribunal, the ICTY, was the first international war crimes tribunal after the tribunals of Nuremberg and Tokyo and the first war crimes court which has been decided to be established by the United Nations Security Council<sup>2</sup> (UNSC), as an enforcement measure pursuant to the Chapter VII powers of the UN Charter<sup>3</sup> in its Resolution 827 of 25 May 1993 for the purpose of prosecuting persons responsible for serious violations of international humanitarian law committed in the territory of the former Yugoslavia since 1 January 1991.<sup>4</sup> The ICTY, which has concurrent jurisdiction with national courts but have primacy over them, was, according to its Statute, empowered to exercise jurisdiction over grave breaches of the Geneva Conventions of 1949 (Article 2), violations of the laws and customs of war (Article 3), genocide (Article 4) and crimes against humanity (Article 5) allegedly perpetrated in the former Yugoslavia. According to the Resolution 827 of 25 May 1993, the UNSC noted that the ICTY was established in the belief that an international tribunal would “contribute to ensuring that such violations are halted and effectively redressed”. The Council’s action can be said to have presented, both politically and legally, a revolutionary experience in the sense that, by the end of the Cold War, for the first time through a long period of history, had it become possible for the Council’s

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2 The creation of the International Criminal Tribunal for the former Yugoslavia has led to a discussion of the United Nations’ competence. For the discussion on this issue, See Mohammed Bedjaoui, *The New World Order and the Security Council. Testing the Legality of its Acts*, Dordrecht, Boston and London, 1994. See also Fenrick, W.J. 1995. “Some International Law Problems Related To Prosecutions Before The International Criminal Tribunal For The Former Yugoslavia” *Duke Journal Of Comparative & International Law*, Vol. 6(1): pp. 103-127. See also Greenwood, C. 1996. *International Humanitarian Law and the Tadić Case*, 7 *European Journal of International Law*, pp.265-283.

3 With the Resolution 827 of 25 May 1993, the Security Council determined that the situation in the former Yugoslavia, and in particular in Bosnia and Herzegovina constituted a threat to international peace and security under Chapter VII of the United Nations Charter. In the same Resolution, the Security Council decided to “establish an international criminal tribunal for the sole purpose of prosecuting persons responsible for serious violations of international humanitarian law committed in the territory of the former Yugoslavia between 1 January 1991 and a date to be determined by the Security Council upon the restoration of peace and to this end to adopt the Statute of the International Tribunal annexed to the Secretary-General’s report.” (The Security Council later amended the the International Criminal Tribunal for the former Yugoslavia Statute.)

4 Before Resolution 827, on 22 February 1993, the United Nations Security Council had decided to set up an international tribunal for the prosecution of people responsible for serious violations of international humanitarian law perpetrated in the territory of the former Yugoslavia since 1991 and requested the United Nations Secretary-General to submit a report including proposals for the effective implementation of the decision. The UN Secretary-General had submitted such report on 3 May 1993. Finally on 25 May 1993 the United Nations Security Council, acting under Chapter VII of the United Nations Charter, inter alia approved the Report, decided to establish the ICTY, and to this end to adopt the Statute annexed to the Report. (See Report of the Secretary-General, Pursuant to Paragraph 2 of Security Council Resolution 808 (1993), S/25704, 3 May 1993 (Secretary-General’s Report).



members to reach a political agreement on a measure that would have been unimaginable in the epoch of “East- West” ideological struggle. (Maogoto, 2009, p.66). This, though not a direct achievement of the Tribunal, is an indicator of the crowning transformation among the states and thus, as a more crucial point for the present study, the understanding of international law.

From this point on, the main assumption of the study is that the ICTY did contribute to international law and to the restoration of peace and security in the territory of the former Yugoslavia; however, the extent of this contribution or its effectiveness in the long-term is believed to be obscure if not ambiguous. (UN ICTY, ICTY Global Legacy 2011 Conference)<sup>5</sup> Although the Tribunal’s contributions to international law and to the peace and security in the former Yugoslavia will be introduced separately from each other, they should not be evaluated differently, for, they are actually expansive enough to be effective on both international law and on the peace and security in the former Yugoslavia. The aim of the study is not whether such a court contributes positively to the peace and security, because it is believed that, importance and necessity of an international criminal court in providing and maintaining peace and security is in any case obvious; but the aim is rather entirely unique developments of ICTY, since it is a tribunal which is in some points a revolutionary precedent for the future courts.

Therefore, in the context of this study, the most important contributions will be presented in the light of key cases held in the Tribunal, Tribunal’s Statute and various conventions with respect to this manner in order to evaluate the extent of the contributions. On the other hand, matters such as the establishment and the legal basis of the Tribunal, its general features, organisational structure or the criminal procedure, information about the conflicts in the former Yugoslavia will be excluded from the study. Besides, the negative evidences or opponents’ opinions about the ICTY that “it remained outside the scope of criticism and that the international community failed to recognise how the sides used it to pursue their own objectives, and the ICTY, let alone contributing to the peace and security, on the contrary have perpetuated conflict”, (Cassese, 2003, p.326-27) will be given reference to merely when required, for, undertaking these elements would not satisfy the target of this study.

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5 If the contributions had not been obscure, it would not have been found necessary and beneficial by the ICTY to convene a conference with the title of “The Global Legacy of the ICTY”, in The Hague on 15 and 16 November 2011. This conference has the aim of bringing together academics, international judges and practitioners, state representatives, and members of civil society, to explore the effect of the Tribunal’s work on international humanitarian law and international criminal procedure, the potential of its jurisprudence to shape the future of global justice and the advancement of human rights. The participants and invitees of the Conference included the Tribunal’s Principals, Judges, senior Tribunal staff, the Security Council Working Group on the ad hoc Tribunals, the Rule of Law Unit from UNHQ, representatives of the national academic and legal community from the former Yugoslavia, non-governmental organisations, international organisations, and organs of the European Union, legal counsellors of embassies in The Hague, representatives of universities, international law associations, think tanks and international law scholars. (UN ICTY, ICTY Global Legacy 2011 Conference)

**The Contribution of the International Criminal Tribunal for the Former Yugoslavia to the Peace and Security in the Territory of Former Yugoslavia: Establishing the Truth, Bringing Justice, Holding Accused Responsible, Giving Victims a Voice**

Regarding the judgements of the ICTY, the first impacts on the peace and justice to be thought of are the opportunity which it provided thousands of victims to be heard and speak about their suffering, establishment of an effective victims and witnesses programme and the Court's ending impunity for serious violations of international humanitarian law by holding individuals accountable regardless of their position. The big steps in cultivating the way to the Tribunal has brought on that, the question was no longer "whether leaders should be held accountable, but rather how best to ensure they would be called to account." (UN ICTY, About the ICTY: Achievements) It follows that because the purpose of an international criminal court is to determine the individual criminal responsibility of individual offenders, it does not focus on collective guilt, but to individual responsibility which can also be evaluated as a contribution to the creation of peace in the region. This also extends to the doctrine of criminal responsibility of superiors or command responsibility which will be detailed below. Individual/personal criminal responsibility and superior / command responsibility are the two bases for holding an individual criminally responsible which is reflected in the Articles 7(I) and 7(3) of the Statute of the ICTY (Mundis, 2003, pp.239-75). This Article adopts four principles of individual criminal responsibility: A person who planned, instigated, ordered, committed or otherwise aided and abetted the planning, preparation or execution of a crime within the jurisdiction of the ICTY; the official position of a person does not absolve him of criminal responsibility nor mitigate the sentence; superiors who knew or should have known that their subordinates were about to or did commit criminal acts are required to take reasonable actions to prevent or punish subordinates; otherwise, they may be held responsible for such acts and superior orders are not to absolve an accused of criminal responsibility but may mitigate punishment. ICTY has interpreted the requirement that the commander must be 'put on notice' literally. For instance, It decided in the Galić case that a commander could be held responsible for the acts of his/her subordinates only if he (the superior) had information in his/her possession which would put him/her on notice of possible unlawful acts by his/her subordinates in cases Galić and Delalić. (Prosecutor v Galić Case No. IT-98-29-A Trial Judgement, 5 December 2003, para 175, following Prosecutor v Delalić et al Case No. IT-96-21-A, Appeal Judgement, 20 February 2001, para 238). On the other hand, in Brdjanin case, (Prosecutor v Brdjanin Case No. IT-99-36-T, Trial Judgement, 1 September 2004, para 278), the knowledge has been decided to be presumed had the commander the means of obtaining the relevant information, but refrained from doing so (Kolb and Hyde, 2008, p.184).

Besides, holding accountable individuals who have violated international humanitarian law also strengthens institutionalization of respect for the rule of law which is more about the ICTY's contribution to international law. Furthermore,

strengthening the respect for the rule of law has also eventuated by virtue of its partnership with domestic courts in the region like transferring jurisprudence, evidence, expertise and knowledge for instance to the War Crimes Chamber of the State Court of Bosnia and Herzegovina, the War Crimes Chamber of the Belgrade District Court or the Croatian judiciary dealing with war crimes cases and cooperation of states and non-state actors. Moreover, although it is hard to establish the facts about a war, judgements in the ICTY have contributed to combatting denial, creating a historical record and even setting a proper forum for admissions of guilt. Additionally, the procedural contributions of the tribunal, some of which are in the areas of protective measures for witnesses, the confidentiality and disclosure of information relevant for the national security of states, guilty pleas of accused and duress as a defence, is also worth noting.

Such as the doctrine of command responsibility is expressed in Article 7 (3) of the ICTY Statute and in the Delalić case (Prosecutor v. Delalić et al., Judgement, Case No. IT-96-21-T, 16 November 1998, para. 343)<sup>6</sup> we can also evaluate some decisions of the ICTY as pertaining to the applicability of general principles of law. For example, with respect to the defences available to the accused, the UN Secretary-General affirmed in the Report that the ICTY ‘will have to decide on various personal defences which may absolve a person of individual criminal responsibility, such as minimum age or mental incapacity, drawing upon general principles of law recognized by all nations.’ So, the ICTY has resorted to general principles of law on this matter. Besides; a rule on *non bis in idem* in Article 10; equality of the parties, fair trial, presumption of innocence in Article 21; the requirement of the judgements to be reasoned in Article 23 and some decisions some of which are Tadić, Decision on Jurisdiction (Prosecutor v. Tadić, Case No. IT-94-1-AR72, Decision on the Defence Motion for Interlocutory Appeal on Jurisdiction, 2 October 1995), Erdemović case (Prosecutor v. Erdemović, Sentencing Judgement, Case No. IT-96-22-T, 29 November 1996) or Furundžija (Prosecutor v. Furundžija, Judgement, Case No. IT-95-17/1-T, 10 December 1998), are also examples of resort to general principles of law by the ICTY which have appeared in decisions of the Tribunal and in articles of its Statute (Raimondo, 2008, pp.84-115). Briefly, the Tribunal provided a necessary development in broadening individual criminal responsibility to respond to modern international inter-ethnic conflicts such as that in the former Yugoslavia (Wagner, 2003, p.351-52).

Finally, the establishment of the ICTY has normative importance which is based on concerns for human rights for the overall development of the rules of international society and how they regulate state action. The human rights abuses’ to be regarded as threat to international peace and security is important because it connotes

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<sup>6</sup> “The Trial Chamber concludes that the principle of individual criminal responsibility of superiors for failure to prevent or repress the crimes committed by subordinates forms part of customary international law.”

confirming the recognition that individuals have rights beyond their state borders (Birdsdall, 2007, p.407-8).

### **The Contribution of the International Criminal Tribunal for the Former Yugoslavia to International Law: Enforcing International Humanitarian Law (Law of Conflicts), International Criminal Law and Strengthening the Rule of Law**

The ICTY can be regarded as part of a general development process of emerging norms of international justice because many of the innovations of the Tribunal have also paved the way for the creation of other international criminal courts, such as International Criminal Tribunal for Rwanda, the Special Court for Sierra Leone and the International Criminal Court (ICC). Other contributions of the Tribunal which especially paved the way for other international criminal courts were, the establishment of the most modern court facilities and technical equipment in the world; unique legal aid system such as the creation of a group of defence attorneys highly qualified to represent accused in war crimes proceedings before international judicial bodies; and a judicial database of all its jurisprudence providing access to a vast amount of jurisprudence (UN ICTY, About the ICTY: Achievements).

Thanks to the huge corpus of jurisprudence, the development of both substantive and procedural international criminal law norms by having completed proceedings against accused persons for war crimes, crimes against humanity or genocide has been generated. Should we explore these developments at close range, as has been noted in the ICTY Global Legacy Conference, we can observe that in various cases of the Tribunal, the elements of offences, the impact of defences raised, the modes of criminal liability, and the scope of superior responsibility has been defined and an important role in the domain of gender crimes has been achieved. For example, the *Kunarac et al.* case (Prosecutor v. Dragoljub Kunarac et al., Case No. IT-96-23, Appeal Judgement, 12 June 2002, paras 106-124.; Prosecutor v. Dragoljub Kunarac et al., Case No. IT-96-23-T, Trial Judgement, 22 February 2001, paras 515-543.) depicted what constitutes enslavement as a crime against humanity and the relationship of gender crimes to the customary law. In the *Erdemović* case (Prosecutor v. Dražen Erdemović, Case No. IT-96-22-A, Appeal Judgement, 7 October 1997, para. 19) it has been determined that duress is not a complete defence to crimes against humanity or war crimes. As one of the modes of criminal liability in international trials currently, the joint criminal enterprise, which had further redefined in cases *Kvočka et al.* (Prosecutor v. Miroslav Kvočka et al., Case No. IT-98-30/1-A, Appeal Judgement, 28 February 2005, paras 79-119.), *Brđanin* (Prosecutor v. Radoslav Brđanin, Case No. IT-99-36-A, Appeal Judgement, 3 April 2007, paras 357-450.) and *Krajišnik* (Prosecutor v. Momčilo Krajišnik, Case No. IT-00-39-A, Appeal Judgement, 17 March 2009, paras 153-248) and later used in war crimes indictment for the first time against a sitting head of State Slobodan Milošević (See Prosecutor v. Slobodan Milosević et al., Case No. IT-99-37-PT,

Second Amended Indictment (Kosovo), 16 October 2001, paras 17-18, 53, 62-68; Prosecutor v. Slobodan Milosević, Case No. IT-02-54-T, Amended Indictment (Bosnia), 22 November 2002, paras 5-9, 24-26; Prosecutor v. Slobodan Milosević, Case No. IT-02-54-T, Second Amended Indictment (Croatia), 27 July 2004, paras 5-10, 26-28) was initially used in the Tadić Case (Prosecutor v. Duško Tadić, Case No. IT-94-1-A, Appeal Judgement, 15 July 1999, paras 195-229). Similarly, by interpreting the Statute’s language regarding the requisite *mens rea* in the *Čelebići* case, the Tribunal has clarified the responsibility of superior (Prosecutor v. Zejnil Delalić et al. (“Čelebići”), Case No. IT-96-21-A, 20 February 2001 (“Čelebići Appeal Judgement”), paras 216-241.) and the nature of the required superior-subordinate relationship. (*Čelebići* Appeal Judgement, paras 242-267.) The Appeals Chamber has, in *Aleksovski* case (Prosecutor v. Zlatko Aleksovski, Case No. IT-95-14/1-A, Appeal Judgement, 24 March 2000, paras 151-152) considered the extent of the application of Article 4 of Geneva Convention IV, that a person may qualify as a “protected person” even where he/she is of the same nationality as his/her captors. It was the first time that a court recognised rape and other sexual violence as a form of torture and convicted an accused on this basis in the “Čelebići” case (Prosecutor v. Zejnil Delalić et al. (“Čelebići”), Case No. IT-96-21-T, Trial Judgement, 16 November 1998, paras 1253, 1262-1263; Prosecutor v. Zejnil Delalić et al. (“Čelebići”), Case No. IT-96-21-A, Appeal Judgement, 20 February 2001, para. 427). In this case, rape has been charged as a grave breach of the Geneva Conventions and a violation of the laws or customs of war. (Prosecutor v. Zejnil Delalić et al. (“Čelebići”), Case No. IT-96-21-T, Trial Judgement, 16 November 1998, paras 475-496). Later in the *Furundžija* case, the specific elements of rape has been clarified and the definition of torture set forth. (Prosecutor v. Anto Furundžija, Case No. IT-95-17/1-A, Appeal Judgement, 21 July 2000, paras 109-114; Prosecutor v. Anto Furundžija, Case No. IT-95-17-T, Trial Judgement, 10 December 1998, paras 159-186) ( UN ICTY, 2011. ICTY Global Legacy 2011 Conference). The definition of torture adopted which remains the same regardless of whether it is being charged as a grave breach of the Geneva Conventions, a violation of the laws and customs of war (under common Article 3 of the Geneva Conventions) or as a crime against humanity (as an underlying act of persecution) reflects the elements of the crime as in the 1984 Convention against Torture and Other Cruel, Inhumane or Degrading Treatment and Punishment (‘Torture Convention’), a prohibition that the Tribunal considers has attained *jus cogens* status under international law (Roberts, 2009, p.755-58).

Kolb and Hyde states in their reference books “An Introduction to the Law of Armed Conflicts” that one other achievement of the ICTY is its being one of the accelerators of the development of the law of non-international armed conflicts in 1990s. This can clearly be observed in, for example Tadić, Galić, Furundžija and Krstić cases (Prosecutor v Tadić, Case No. IT-94-1-AR72, Decision on the Defence Motion for Interlocutory Appeal on Jurisdiction, 2 October 1995 paras 96–127; Prosecutor v Galić Case No. IT-98-29-A, Judgement, 30 November 2006, paras 79–90; Prosecutor v Furundžija Case No. IT-95-17/1-T, Trial Judgement, 10

December 1998; and Prosecutor v Krstić Case No. IT-98-33-T, Trial Judgement, 2 August 2001). After the ICTY, there has been a driving force towards the merger of both branches of the law, the law of international armed conflicts and the law of non-international armed conflicts, roughly civil wars, in customary international law. Many norms of the law of armed conflicts which had been applied solely in international armed conflicts have been extended also to be applied to internal armed conflicts. So, according to the ICTY, there has emerged a law of armed conflicts based on the protection of the human person rather than a law of armed conflicts based on state sovereignty. One noteworthy cause of this change is that, most conflicts are so mixed<sup>7</sup> that separation of a conflict may be arbitrary because of the complication of deciding whether a particular armed conflict has an international or a non-international character and political delicacy. Furthermore, separating areas and actions according to the type of conflict might lead to a discrimination in the protection of people in need: On the one hand are people with problems who enjoy the the law of international armed conflict, and on the other are similar people with similar problems who lose most of the protective guarantees because of the low standards of the law of non-international armed conflicts. Thus, from an humanitarian point of view, the same rules should protect victims of both branches of law and the ICTY has extended the law of armed conflicts from international to non-international conflicts which has also increased the number of victims in need of protection. Likewise, the Security Council resolutions concerning the conflict in the former Yugoslavia called for respect of international humanitarian law in general, without distinguishing as to the type of armed conflict.<sup>8</sup> From this point of view, in Tadić Case, the Appeals Chamber, by putting forward the requirements for the applicability of the grave breaches provisions of the Geneva Conventions, has clarified the legal criteria for distinguishing between international and internal armed conflict and established that most of the protective rules of international humanitarian law were applicable to non-international armed conflicts. Nevertheless, according to the same case, the violations of the law of armed conflicts are not always punishable by criminal sanctions. In order for a violation to be criminally punishable, the violation must constitute an infringement of a rule of international humanitarian law; the rule must be customary in nature or, if it belongs to treaty law, the required conditions must be met, the violation must be ‘serious’, that is to say, it must constitute a breach of a rule protecting important values, and the breach must involve grave consequences for the victim, entailing individual criminal responsibility of the person breaching the rule. (Prosecutor v Tadić, Case No. IT-49-1-AR72, Decision on the Defence Motion for Interlocutory Appeal on Jurisdiction, 2 October 1995, para 94).

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<sup>7</sup> The general understanding about whether a conflict is international or non-international depends on the stage of the conflict being considered; the actors involved; and the specific area where the fighting was taking place. Nevertheless, the international and non-international aspects are such intertwined that it is not easy to differentiate them.

<sup>8</sup> For details, See, eg: UNSC Res 771 (13 August 1992) UN Doc S/RES/771 para [1]

Actually, the Prosecutor accepted that the concept of grave breaches was normally limited to international armed conflicts. He maintained, nevertheless, that the grave breaches provisions of the Geneva Conventions should be treated as applicable to the conflict in Bosnia-Herzegovina whatever the character of the conflict there, because the parties had accepted their applicability in an agreement concluded between them on 22 May 1992 and in a number of subsequent unilateral declarations. The United States, however, went further and argued that the grave breaches jurisdiction under Article 2 of the Statute was applicable to conduct in an internal armed conflict (Greenwood, 1996, p.268).

Through examining the conditions under which a conflict may be international, the Tribunal has also validated the requirement that grave breaches must be committed in an international armed conflict, and has drawn the contours of a necessary nexus between an international armed conflict and the grave breaches. To the effect that, by establishing the internationality of a conflict, the Tribunal has also clarified when grave breaches may be applied in practice. Thus, as being the first body, domestic or international, to systematically interpret who may benefit from the protection of the regime and apply the provisions after the appearance of 1949 Geneva Conventions and a new definition of 'protected person', it has brought new clarity to various aspects of the regime ranging from the general requirements for its application to the specific underlying crimes. Since not all the crimes committed during an armed conflict are subject to international humanitarian law, other crimes will have to be distinguished from crimes such as grave breaches. However there is not any clear guidance in the Geneva Conventions regarding this issue; at that point appears the need to 'operationalize' the grave breaches regime where the ICTY set forth the nexus between the alleged crimes and the armed conflict, which helped distinguish the crimes within the jurisdiction of the tribunal from other crimes (Roberts, 2009, p.743-44).

Conventions on the law of armed conflicts do not explicitly elucidate the answer to the question of what the status of a person who takes part in armed conflict but does not fulfil the conditions, is. Such persons are sometimes called 'irregular' or 'unlawful' combatants. According to the ICTY, such persons do not benefit from the protections regulated by Geneva Convention III because they are not regular combatants. However, given that Geneva Conventions I–III and Geneva Convention IV were drafted to ensure that there were no gaps in the protections afforded, a person who does not fall within Geneva Conventions I–III falls within Geneva Convention IV. Therefore, the ICTY interpreted that under Geneva Convention IV irregular combatants were 'civilians' in Brdjanin case (Prosecutor v Brdjanin Case No. IT-99-36-T, Trial Judgement, 1 September 2004, para 125). As such they are entitled to protection if they fulfil the conditions of Article 4 of Geneva Convention IV. At this point, the provision must be recalled:

Persons protected by the Convention are those who, at a given moment and in any manner whatsoever, find themselves, in case of a conflict or occupation, in the hands of a Party to the conflict or Occupying Power of which they are not nationals. Nationals of a State which is not bound by the Convention are not protected by it.

Nationals of a neutral State who find themselves in the territory of a belligerent State, and nationals of a co-belligerent State, shall not be regarded as protected persons while the State of which they are nationals has normal diplomatic representation in the State in whose hands they are.

Here, the term ‘in the hands of’ had been interpreted by the ICTY in the cases Tadić (Prosecutor v Tadić Case No. IT-49-1-T, Trial Judgement, 7 May 1997, para 579) and Delalić (Prosecutor v Delalić, Case No. IT-96-21-T, Trial Judgement, 16 November 1998, para 246) very widely: People who are in a territory which is under the control of adverse belligerent can be regarded as ‘in the hands of the adverse belligerent’. Thus, not only people under arrest, but also whoever is under an occupied territory are encompassed in Geneva Convention IV (Kolb and Hyde, 2008 p.226).

Secondly, concerning the protection of civilians, as for the notion ‘of which they are not nationals’, the requirement that civilians have a separate nationality from the state into whose hands they fall had been interpreted loosely. Besides ‘enemy civilians’, stateless persons, persons from neutral states without diplomatic protection and persons whose effective allegiance lies with the adverse belligerent and who is in the hands of the opposed belligerent even if the nationality of the civilian and the belligerent is the same, are covered. In the conflict, persons were detainees in camps of the adverse forces, although their nationality was the same with that of the belligerent. As the qualifying condition for the application of the protections, the ICTY has applied the criterion of ‘allegiance’ to an adverse party to the conflict, or non-allegiance to the detaining party instead of ‘nationality’. Thus, as the case shows (Prosecutor v Tadić Case No. IT-49-1-A, Appeal Judgement, 15 July 1999, paras 163–171) the protection of Geneva Convention IV was extended to captives on the opposite side of the conflict in Bosnia to the forces by whom they were held (Kolb and Hyde, 2008, p.224).

Since grave breaches regime or case law earlier than the ICTY regarding this regime provided little guidance, ICTY’s identification of the elements of this offence is considerably important. For example the substance of torture and unlawful confinement of a civilian have been defined for the first time by the ICTY. Although unlawful confinement is not explicitly defined in the Geneva Conventions, in Delalić et al. Appeal Judgement (Judgement, Delalić et al. Case No. IT-96-21, Appeals Chamber, 20 February 2001), the ICTY has interpreted the offences in light of Articles 5 and 42 of Geneva Convention IV. The former provides that where an individual protected person is definitely suspected of or engaged in activities hostile to the security of the state, involuntary confinement would be lawful, otherwise it will be unlawful. Although the initial confinement of a civilian is lawful, it can become unlawful ‘if the detaining party does not respect the basic procedural rights of the detained persons and does not establish an appropriate court or administrative board provided in Article 43 of Geneva Convention IV.’ The detention or confinement of civilians is unlawful when a civilian or civilians have been detained in contravention of Article 42 of Geneva



Convention IV, or where the procedural safeguards required by Article 43 are not complied with in respect of detained civilians (Roberts, 2009:759-60).

ICTY also clearly pointed in the direction of a general prohibition of reprisals against civilian persons. Thus, the ICTY, in the Kupreškić case, considered that under customary international law all civilians are protected against belligerent reprisals in all circumstances (Prosecutor v Kupreškić, Case No. IT-95-16-T, 14 January 2000, Trial Judgement, para 527).

## **Conclusion**

Surely, this study does not claim to cover all the contributions of ICTY exhaustively: There can be found many other judgements and decisions which have further interpreted international law instruments and which have taken further steps than the ones touched upon in this study, but in order not to exceed the limits of the framework of the study and with the concern of being brief, they have been let out of our inquisition.

As a conclusion, in spite of its complications the ICTY is seen as an important step in the incorporation of new norms into the international order. The Tribunal's legal precedents can be said to have constituted a development in international politics and law, principles, norms and procedures which are strong indicators of changing norms and sensibilities; served the expansion of the ambit of substantive and procedural jurisprudence of customary international humanitarian law or the law of armed conflicts and reinforced its objectives by affording protection to civilians to the maximum extent; contributed to the institutionalization of international criminal justice system and of human rights norms for a globally just order; played a crucial role in the creation of the ICC and other criminal courts; achieved jurisprudential contribution to the clarification of the genocide, crimes against humanity and war crimes and by constituting the interaction of common and civil law procedures in its work and by establishing a system based on the highest standards of fairness and due process, it has marked an essential role in the efficient and fair international trials and in the future of the peace in the former Yugoslavia, Balkans and all around the world.

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## THE INFLUENCE OF THE EUROPEAN UNION ACCESSION PROCESS ON THE PROTECTION OF MINORITY RIGHTS IN BALKAN COUNTRIES

Sinem YARGIÇ\*

### Abstract

*According to the Copenhagen political criteria, any candidate who want to be a member of the European Union must achieve the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. The European Union accession process contributed to the protection of human rights and minority rights in some of the Balkan countries which had entered to the European Union especially in the latest round of enlargement such as Bulgaria and Romania. These important/positive examples of the past enlargement process should also be taken into consideration by the other candidate and potential candidate Balkan countries who want to accede to the EU.*

**Keywords:** *Minorities, Balkan countries, Accession to the EU*

### Introduction

Since the post-Cold War period, the protection of minorities started to become a more important issue on the European Union agenda with the beginning of the accession process of the former communistes countries to the EU. The ethnic problems/conflicts realized in the former Republic of Yougoslavia also showed clearly the importance of minority issue not only primarily in the context of the protection human rights but also securing the stability of the whole region. Apart from Greece which joined to the EU in the second enlargement in 1981, the other three Balkan countries became members of the EU in the fifth enlargement which symbolized the reunification of Europe. Slovenia acceded to the EU with other nine European countries in 2004 and Bulgaria and Romania became members in 2007 as part of this same historical wave of EU enlargement.

Apart from the EU member Balkan countries, many of the other Balkan countries are either official candidates or potential candidates to the EU. Turkey, Serbia, The former Yugoslav Republic of Macedonia and Montenegro are currently candidate countries while the other countries of the Western Balkans such as Albania, Bosnia Herzegovina and Kosovo are the potential candidates which means that they have

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the prospect of EU membership. And Croatia which is currently an acceding country will become a member of the EU on 1 July 2013.

Concerning the EU's approach on the protection of minorities, it's possible to say that the Council of Europe's approach concerning the protection of minorities also reflect the EU's approach on this issue. The standards laid out in the fundamental documents on the protection of minorities such as the Framework Convention on the Protection of National Minorities, the European Charter for Regional or Minority Languages adopted by the Council of Europe are also the same standards accepted by the EU. (Çavuşoğlu, p.96; Bilener, p.177)

Among these documents adopted by the Council of Europe, the Framework Convention on the Protection of National Minorities is especially important because it's the main reference document of the EU on the protection of minorities as it can be definitely seen in EU's regular reports concerning the progress of the candidate countries towards accession. In this paper, firstly we will briefly present the influence of the EU accession process on the protection of minority rights in two Balkan countries such as Bulgaria and Romania since they are the two important examples of the past enlargement process. And then try to draw some conclusions and recommendations from their experience for the other Balkan countries which are candidate or potential candidate to the EU.

### **The Influence of the EU Accession Process on Minority Rights in Bulgaria and Romania**

After the collapse of the communist regimes, Bulgaria and Romania have started to make important/significant changes on their policy on minorities which were clearly contrary to the international human rights law. And this change on their minority policy has especially gained a new momentum in the 2000's because of their intention to accede to the European Union.

During the Communist regime the Bulgarian government had adopted an assimilation policy which denied the existence of the main minorities of the country. As an example, the names of the Bulgarian Turks and Roma were changed by force with the intention to target their identity. With the fall of the communist regime in 1989, this policy was abandoned and Bulgaria has started to evaluate the minority issue from a different perspective. In that context it's important to note that a compromising formula which would recognise the principles covered by the Framework Convention on the Protection of National Minorities on the basis of individual human rights without referring to the concept of "minority" was developed in the new Constitution of Bulgaria of 1991 as article 36 of the Constitution provides that citizens whose mother tongue is not Bulgarian shall have the right to study and use their own language alongside the compulsory study of the Bulgarian language. (Çavuşoğlu, p.97)

In the second half of the 1980's, the European Economic Community started to negotiate for agreements on trade and cooperation with a number of Eastern European countries including Bulgaria and the respect of human rights and minority rights were developed as a pre-condition for these negotiations. (Pentassuglia, p.9). Negotiations for a Trade and Cooperation Agreement with Bulgaria which started in April 1989, were suspended because of the European Economic Community's concerns about violations of the linguistic and religious rights of Turkish minority and were resumed only after the realization of domestic reforms which met the EEC's demands in December 1989. (Pentassuglia, p.10)

Bulgaria signed the Trade and Cooperation Agreement with the EU in 1991 and a far-reaching Association Agreement called "Europe Agreement" in 1993. As it was stated by the European Commission, The Europe agreement which created a free trade zone between Bulgaria and the Member States was already part of the strategy of the EU to prepare Bulgaria for accession to the EU, which also included substantial financial and technical assistance. (Regular Report 2005, p.3). Bulgaria submitted its application for membership to the EU on 14 December 1995. Accession negotiations opened in 2000 were closed in December 2004. The Treaty of Accession was signed in April 2005 and Bulgaria became a member of the EU on 1 January 2007.

Bulgaria signed the Framework Convention on the Protection of National Minorities on 9 October 1997 and ratified it on 7 May 1999. The convention entered into force in Bulgaria on 1 September 1999. As Sasse avances, the timing of the ratification of the Framework Convention must have been influenced by the prospect of EU accession since the EU decided to open negotiations with Bulgaria in December 1999 (Sasse, p.23). In its declaration made upon the ratification of the framework Convention for the Protection of National Minorities, the Government of Bulgaria not only made reference to the values of the Council of Europe but also to its desire for the integration into the "European structures". The EU Commission also frequently made reference to the status of ratification of this document by Bulgaria under the section concerning the minorities and the protection of minority rights of its regular reports on Bulgaria's progress towards accession. In its regular report of 4 November 1998, the EU Commission mentioned that although Bulgaria had signed the convention, it had't ratified it yet. And in its regular report of 13 October 1999, it specifically mentioned that the framework convention was ratified by the Bulgaria.

With the aim of joining to the EU, Bulgaria made progress in bringing its legislation into line with European standards and took some concrete steps in order to improve the situation of minorities. In 1994, The Bulgaria adopted the Decree No.183 of the Council of Ministers for Studying the Mother Tongue in Municipal Schools, according to which the pupils whose mother tongue is not Bulgarian can receive instruction in their mother tounge for four hours a week from the first to the eight grades in municipal schools as a facultative subject. And it was provided in the

same decree that “the finances for mother tongue instruction” are supplied by the municipal budgets.

Under article 8 of the Rules and regulations for the application of the National Education Act of 1999, students for whom Bulgarian is not the mother tongue can study their mother tongue in the municipal schools according to the state educational standards for the respective educational level, general educational minimum and the educational plan. (State Gazette, No.68/1999). The Law on the Educational Degree, Educational Minimum and the Educational Plan which was adopted in 1999 repealed the provision of the Decree No. 183 which provided the mother tongue education as a facultative subject. Under article 15 of the Law, studying of the mother tongue was included in the obligatory elective/selectable education. (State Gazette, No.67, 27 July 1999)

With the adoption of The Ordinance No. 4 of the Ministry of Education on the Educational Minimum and the Educational Plan in 1999, the study periods for the obligatory elective subjects are distributed among the subjects from the cultural-educational field and mother tongue and for each of these subjects, up to 72 school periods annually are decided to be given for the 9 - 10 grade, and up to 108 school periods annually for the 11 -12 grade.

A news programme in Turkish was introduced on Bulgarian national public television in 2000 and besides the news programme, the national television started to broadcast two other programmes addressing minority issues and produced by minorities’ representatives. (European Commission, 2001 Regular Report on Bulgaria's Progress towards Accession, p.25)

Bulgaria adopted a decree, establishing a National Council for Ethnic and Demographic Affairs (NCEDA) composed of representatives of the government as well as various minority groups whose main task was to develop and put forward strategies on demographic policy and to promote tolerance and understanding between various ethnic and minority groups in 1997. A framework programme for the integration of Roma into Bulgarian society which laid out core principles and general measures to fight discrimination and unemployment, increase levels of education and health care, improve housing conditions, and to ensure cultural protection and access to national media, was adopted in 1999. On the basis of the framework programme, Roma representatives were appointed in most of the regional centres of Bulgaria as experts on ethnic and demographic issues and Roma advisors were also appointed to a number of ministries. (European Commission, 1999 Regular Report from the Commission on Bulgaria’s Progress towards Accession, pp.15-16; 2000 Regular Report from the Commission on Bulgaria’s Progress towards Accession, pp. 21-22). The Minister of Education and Science created a Consultative Council on Education of Children and School children from the Minority Groups which is tasked with the preparation and implementation of a national education strategy for the integration of children from the minority groups in 2002.

In addition, Bulgaria took steps to bring into line its national law with the two EU directives adopted in 2000, the Racial Equality Directive and the Employment Equality Directive which requires member States to establish a legal framework to prohibit discrimination and put into effect the principle of equal-treatment. It adopted the Protection against Discrimination Act in 2003 which covered all grounds in two directives and additional grounds including sex. (European Commission, Equality and non discrimination annual report 2005, April 2005, p.16). It also established a Commission for protection against discrimination as an independent body which is tasked with all grounds specified in two directives plus sex and other grounds. (European Commission, Equality and non discrimination annual report 2006, September 2006, p.27.)

However, as it was stated in the EU Commission's Monitoring report on the state of preparedness for EU membership of Bulgaria and Romania of 2006, certain concerns persist regarding the integration of Roma children to schools of higher education, the access of the Roma to healthcare services and the administrative capacity of the National Council for Cooperation on Ethnic and Demographic Issues on the regional level. And further efforts are needed to combat all forms of intolerance aiming to combat any form of racism, discrimination or xenophobia. (European Commission, Communication from the Commission Monitoring report on the state of preparedness for EU membership of Bulgaria and Romania, 26 September 2006, pp.21-22). Additionally, it's important to point out that the EU Charter for Regional and Minority Languages hasn't been signed by Bulgaria until now.

Despite this concerns, as a result of the considerable progress made to complete its preparations for the EU membership, the EU declared that Bulgaria was sufficiently prepared to meet the political criteria. (European Commission, Communication from the Commission Monitoring report on the state of preparedness for EU membership of Bulgaria and Romania, 26 September 2006, p.12)

Likewise Bulgaria, Romania established diplomatic relations with the EU in 1990 after the emergence of a democratic regime. It signed a Trade and Co-operation Agreement in 1990 and the Europe Agreement in 1993. In the preamble of the Europe Agreement, it is clearly pointed out the "need to continue and complete, with the assistance of the Community, Romania's transition towards a new political and economic system which respects the rule of law and human rights, including the rights of persons belonging to minorities (Constantin, op.cit., p.3)

It submitted its application for membership to the EU on 22 June 1995 and its accession negotiations opened in 2000, were closed in 2004. The Accession Treaty was signed in April 2005 and Romania became a member of the EU on 1 January 2007 together with Bulgaria. Romania signed the Framework Convention on the Protection of National Minorities on 1 February 1995 and ratified it on 11 May 1995. And the convention entered into force in Romania on 1 February 1998. In

addition Romania signed the European Charter for Regional and Minority Languages on 17 July 1995 and ratified it on 29 January 2008 and the Charter entered into force on 1 May 2008.

As it was declared in its third report on the implementation of the Framework Convention for the Protection of National Minorities, in two decades of democratic evolutions, during which it became a member of the Council of Europe and the European Union, Romania has developed its system of protection of national minorities (Council of Europe, Third report submitted by Romania pursuant to article 25, paragraph 2 of the Framework Convention for the Protection of National Minorities, ACFC/SR/III (2011)002,16 May 2011, p.5). It made significant progress on the protection of minorities, especially during the pre-accession period in order to become a member to the EU. These positive developments regarding the protection of minority rights are primarily crystallized as legislative and constitutional amendments.

The amendments made to the Education Law No 84/1995 were approved by the Romanian Parliament in 1999. According to the articles 118 and 121 of the Education Law, persons belonging to national minorities have the right to study and receive instruction in their mother tongue, at all levels and forms of education with appropriate request and the pupils belonging to national minorities that attend schools with tuition in Romanian shall be granted, at request and according to the law, the study of the language and the literature of the mother tongue as well as the history and traditions of the respective national minority, as school subjects. The law also provides that persons belonging to national minorities shall have the right to set up and manage their own private higher educational institutions. (Law on Education, No.84/1995)

In 2001, Romania adopted the Law on Local Public Administration according to which the official use of minority languages in dealings with local authorities in administrative territorial units where the inhabitants belonging to national minorities represent more than 20% of the population was authorised. In their relations with the authorities and staff of the local public administration, citizens belonging to national minorities may communicate orally or in writing, in their mother tongue and they shall be answered both in Romanian and in the mother tongue. In these territorial administrative units, persons who know the mother tongue of the citizens belonging to the respective minority shall be employed for duties involving public relations and the normative decisions shall be brought to the notice of citizens in the language of those minorities. ( Law No. 215 on Local Public Administration, 23 April 2001, Official Gazette of Romania, No. 204, 23 April 2001)

In addition, the article 79 of the Law No. 360/2002 regarding the status of police servants adopted in 2002 provides that in the administrative-territorial units in which persons belonging to a national minority represent more then 20% of the total population, police officers that know the respective language will be hired. (Law no.360/2002 regarding the status of the police servants)



Besides the legislation extending the official use of minority languages, The Constitution of Romania of 1991 was amended and completed by the Law No. 429/2003 on the revision of the Constitution of Romania in 2003. This law which was approved by the national referendum aimed to bring the Romanian law into line with EU acquis as part of the process for EU accession. The article 148 of the Constitution which is under the new title devoted to Romania's Euro-Atlantic integration specially deals with Romania's the integration to the EU.

Concerning the minority rights, the new second paragraph of article 120 called "local public administration" enshrined the right of national minorities which have a significant weight in the territorial-administrative units to use their national minority language in the relations with the local public administration authorities and the decentralized public services. The article 128 called "use of mother tongue and interpreter in the court" also introduced the right for national minorities to express themselves in their mother tongue before the courts of law.

In addition during the pre-accession period Romania established an Inter-Ministerial Committee for National Minorities and adopted a National Strategy for Improving the Condition of Roma. Although this is a positive development, as it is stated in the monitoring report of the EU Commission, the institutional framework for the implementation of national strategy for Roma is not sufficiently effective and should be improved. (Commission of the European Communities, Communication from the Commission Monitoring report on the state of preparedness of EU membership of Bulgaria and Romania, COM2006 (549) final, 26/09/2006, p.40)

### **General Recommendations for the Candidate or Potential Candidate Balkan Countries**

With the aim of joining to the EU, Bulgaria and Romania realized substantive changes on their national policy concerning the protection of minority rights. Despite some of the problems that should be overcome, as it's declared in the EU's regular reports, these two Balkan countries made far reaching efforts to adapt their legislation and administration to the laws and rules of the EU. (Commission of the European Communities, Communication from the Commission Monitoring report on the state of preparedness for EU membership of Bulgaria and Romania, 26 September 2006, p.13) Concerning the protection of minority rights, as a consequence of their efforts, important legislative and constitutional amendments which may be called as "reforms" were realized and though not perfect, some national institutions for improving the conditions of minorities were set up.

The accession of these two Balkan countries to the EU also demonstrated to the other Balkan countries which are either official or potential candidates to the EU that their ultimate goal is achievable. And therefore the efforts made during the pre-accession period of these two examples of the latest enlargement wave, should also

be taken into consideration by the other Balkan countries who want to accede to the EU.

In this context, ratification of international conventions on the protection of minority rights; bringing into line the national law with the European standards and establishing national institutions for improving the conditions of minorities should be the prioritised/main issues that should be evaluated and reviewed by these Balkan countries.

Among the international minority rights conventions, the ratification of the Framework Convention on the Protection of National Minorities is especially important because although it's a convention adopted by the Council of Europe, it's also the main reference document of the EU on the protection of minority rights as it is clearly observed in the Commission's regular reports. Besides this convention, the EU Commission also refers to another Council of Europe convention, the European Charter for Regional or Minority Languages in its regular reports. As it was seen clearly in these reports, the standards of the Council of Europe on minority rights are also accepted by the EU. (Çavuşoğlu, Ekim 2000-Mart 2001, p.96)

The Framework Convention on the Protection of National Minorities is in force in all of the Balkan countries which are candidate and potential candidate to the EU except for Turkey. Concerning The European Charter for Regional or Minority Languages, it is in force in Croatia, Serbia, Bosnia and Herzegovina and Montenegro. It hasn't been signed by Albania and Turkey yet. And although it was signed by The Former Yugoslav Republic of Macedonia, it hasn't been ratified until now.

To adapt constitutional and national framework to meet international standards on minority rights should be one of the priorities of the Balkan countries which are candidate or potential candidate to the EU. As it is declared in European Parliament's report, some progress has been achieved on this issue especially in Western Balkan Countries but much more should be done concerning the involvement of minorities in the decision-making processes and public administration as well as their socio-economic integration. (European Parliament, Directorate General for External Policies Policy Department, Briefing Note, Reconciliation and Human Rights Protection in Western Balkans, November 2009, p.13)

As an example, under the chapter on minority rights of the new Constitution of Montenegro adopted in 2007, besides the other provisions concerning the minority rights, the right of minorities to use their own language and alphabet in private, public and official use; the right to education in their own language and alphabet in public institutions and the right to have included in the curricula the history and culture of the persons belonging to minority nations and other minority national communities are included. Since these constitutional guarantees should be followed by further legislative harmonisation and the adoption of legal acts, the Law on

General Education of 2003 and the Law on Minorities Rights and Freedoms of 2006 were amended to harmonise them with the new Constitution. (European Commission, Montenegro 2011 progress report, SEC(2011) 1204 final, 12 October 2011, p.20; Council of Europe, Parliamentary Assembly, The honouring of obligations and commitments by Montenegro, Doc.12952, 8 June 2012, p.26)

Likewise under the section on the rights of persons belonging to national minorities of the Constitution of the Republic of Serbia which was adopted in 2006, the right to education in minority languages is guaranteed. In addition to these constitutional guarantees, it's also referred to in other legislation such as the Law on National Minorities, the Law on Elementary Education etc. As it is stated by the Advisory Committee of The Framework Convention, the adoption of the Law on Prohibition of Discrimination and the Law on National Councils of National Minorities in 2009 was also considered as positive developments by the Committee of Ministers of the Council of Europe. (Council of Europe, The Committee of Ministers, Resolution CM/ResCMN(2011)7 on the implementation of the Framework Convention for the Protection of National Minorities by Serbia, 30 March 2011).

As a consequence of these positive developments, European Commission also declared that the legal and policy framework for human rights and protection of minorities in Serbia is overall in line with European standards. (European Commission, Communication from the Commission to the European Parliament and The Council Commission Opinion on Serbia's application for membership of the European Union, COM(2011) 668 final, 12 October 2011, p.8). Concerning the national institutions on minorities, it should be generally mentioned that although the establishment of such institutions is very important for the protection of minority rights on the national level, without political and financial support, their influence remains limited. Because of that, the candidate or potential candidate Balkan countries should not only focus on establishing these institutions but also provide them with political and financial support in order to increase their efficiency.

## **Conclusion**

According to the Copenhagen political criteria, any candidate who want to be a member of the European Union must achieve the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. The European Union accession process contributed to the protection of minorities in Balkan countries such as Bulgaria and Romania which entered to the EU as part of the fifth enlargement in 2007. As a consequence of the internalization and the europeanization process, these two countries made significant progress on the protection of minority rights.

The efforts made by these Balkan countries with the aim of joining to the EU during the pre-accession period which may be called as reforms, should also be taken into consideration by the other candidate and potential candidate Balkan countries who

want to accede to the EU. Within this context, they should primarily focus on the ratification of the international conventions on the protection of minority rights; bringing into line their national law with the European standards and establishing and supporting their national institutions for improving the conditions of minorities.

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**THE IMPACT OF VISA LIBERALIZATION FOR THE WESTERN  
BALKANS:  
THE CASE OF ALBANIA**

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**Abstract**

*This article analyses the impact of the Visa Liberalization Agreements concluded by European Commission with the Western Balkan Countries, on the rate of migration flows with particular focus on the case of Albania. The article analyses, inter alia, the national data on the number of people who have left the WB countries and returned, either voluntarily or forced; as well as the data from returning countries.*

*The article finds that VLAs, did not end up in massive abuses of overstayers in the countries of destination in the first years of the implementation. Overall, the number of irregulars-including overstayers, in its totality does not exceed the pre-visa liberalization period. This is followed by a significant reduction of the smuggling of migrants in some of the countries and of the money that feed illegal international networks. Albanian citizens are not paying large fees for visas and for the corruptive systems 'established' for obtaining visas. This analysis is carried out in a comparative perspective for all the Balkan countries that have concluded such agreement. The article does not analyze Kosovo due to its specific features and relations with EC on such matters.*

*The paper is divided into four chapters. The first one provides general information on the pre-visa liberalization migration of WB and the process up to VLAs. The second analyses the conditions and the impact of the VLAs on the migration rate, in particular on irregular immigration, returnees and over-stayers. The third one refers to the impact of VLA on irregular migration and on the measures undertaken the WB countries to curb irregular immigration-abuses of the VLA. The fourth chapter provides the main conclusions.*

**Keywords:** *Visa liberalization agreement, EU immigration policy, irregular emigrants*

**Introduction**

The paper analyses the impact of the visa liberalization for the Western Balkans (WB), with particular focus on Albania. The analyses focuses in several elements such as actual impact on the mobility, economy, fight against illegal migration and smuggling, as well as on the level of abuses with the visa liberalization leading to (potential) waves of asylum seekers or overstayers.

The paper rests upon the studies carried out before the visa liberalization and uses the statistical data from various sources, including the monitoring reports carried out by EC, as well as data from the WB Migration Structures, in particular from Albanian Ministry of Interior-TIMS system. It finds that in general liberalization agreements have brought about a win-win situation, for the individuals, WB countries and the EU Countries.

The paper is divided in four main sections. The first one includes general remarks on the process leading to the visa-liberalization period, to give an overview of the problems, difficulties and expectations from the visa liberalization agreements. The second one analyses impact of the visa liberalization on the mobility and other dimensions of life in the WB, the third one deals with the measures taken to counter potential abuses of the visa liberalization, while the fourth one provides conclusions as relevant.

### **General Remarks on the Process Towards Visa Liberalization**

EU integration is declared as the main aspiration of the Western Balkan Countries. This perspective was acknowledged by the Thessalonica Summit (2003) and has been since, acting as an incentive for development in the WB. One of the most important and direct benefits of EU integration is considered the possibility for free movement in the Schengen Area. In particular in the case of Albania, free movement is treated both by the political class and the population by and large, as the main aspiration of the country (Poll of the Albanian Institute of International Studies: 2007).<sup>1</sup> Hence, the Visa Liberalization Agreement was a much wanted and long desired objective.

The process of Visa Liberalization in generally follows the one of the Visa Facilitation. Visa Facilitation Agreements on the other hand have been linked by several studies with the finalization of the Readmission Agreements, (D. Bouteillet-Paquet, P. DeBruycker/2005; Roig and Huddleston/2007; Trauner and Kruse/2008, C.Billet/2010; L.Ikonomi and N.Ndoci /2011), following its articulation in some strategic documents such as the Hague Programme (2004) or in the Action Plan implementing Hague Programme (2005).

In the case of Albania, the Visa Facilitation Agreement as a direct benefit from the process was highly discussed in the public debate. A Report of the International Organization on Migration, which analyzed the Albanian press during the period 2003-2005, indicates that during specific phases of negotiations national Medias published alarming reports on the danger of (potential) massive returns of Albanian emigrants from EU MS, given the fact that many of them were with irregular status (IOM Report:2006). However, Governmental representatives actively responded to such statements, declaring that conclusion of the RA was an obligation of the SAA, non reversible and non-negotiable and that it would subsequently lead to visa

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1. The Poll of Albanian Institute of International Studies indicates that 93.7 of the population want EU Integration of Albania, [http://www.soros.al/nosa/sondazh\\_integrimi.htm](http://www.soros.al/nosa/sondazh_integrimi.htm).

facilitation and visa liberalization (IOM report: 2006). This was followed, according to the same report, by a significant change in the approach of the media, which in 2005, highlighted visa facilitation as the direct benefit from the conclusion of RA. Regardless of the interest of the Albanian team for negotiating in parallel a VFA, the Commission made it clear that they were not given the mandate to negotiate VFA or VLA, but only to conclude a RA (De Bryucker:2005).

In practice, most of the states have conditioned RA with visa facilitation, i.e Russia, Moldova, Ukraine, Georgia. This was also the case of other WB countries such as Serbia, Montenegro and Former Yugoslav Republic of Macedonia (Trauner, Cruse: 2008; Ikononi, Ndoci: 2011). Albania was the exception, as it concluded the Visa Facilitation Agreement (VFA) two years after Readmission Agreement. It was not result of an effort of the Commission targeting individually Albania as the first WB state that ratified RA, but was part of a regional approach, which included all the WB countries (with exception of Kosovo). The Commission negotiated in 2006 two agreements in parallel for Bosnia & Herzegovina, Montenegro, Serbia and FYROM, one RA and one VFA. The Commission's negotiations with the above countries and Albania finalized in September 18, 2007 with the conclusion of nine agreements, *five* VFAs and only *four* RAs.

Similarly, implementation of the RA by Albania did not have immediate direct effect for moving from Visa Facilitation towards Visa Liberalization, as it has been articulated in some documents (Declaration of Prague Eastern Partnership Summit:2010). In a press release in 2008, the Slovenian Presidency, informing on the entry into force of the VFAs and RAs with five WB Countries highlighted that:

*The RAs provide for rules and procedures to combat illegal migration. **Their effective implementation** (authors' emphasize), as well as progress in key areas such as border management, document security and the fight against organized crime, will gradually open the way for Albania, Bosnia and Herzegovina, Montenegro, Serbia and the former Yugoslav Republic of Macedonia toward a visa-free regime (Press Release 2008).*

In the case of Albania, EC considered fight against organized crime, corruption and document security with priority. It was one of the last WB Country to benefit from the visa free regime with EU (with B&H), regardless of being the first to conclude and implement a RA. It should be noted though, that additional requirements for visa facilitation/liberalization have given Albania an impetus to reinforce its efforts for strengthening rule of law, fighting organized crime and improving document security.

The requirements for moving towards visa liberalization were laid down in the roadmaps that EC provided to each of the countries, including relevant benchmarks. EC monitored closely and regularly the progress of the WB countries in the five areas included in the roadmap such as documents security and border control; illegal migration and readmission, public order and security, external relations and human rights. (Report of the EC on the Visa Liberalization: 2011). The monitoring



was based on the collection of information on the spot from specific experts and on the basis of regular reports from the respective governments. Based on the findings, the Commission decided to lift visa regime of the Western Balkan countries which had fulfilled the criteria laid down in its roadmap. Namely, to Serbia, Montenegro and Former Yugoslav Republic of Macedonia, through an agreement which entered into force in 19 December 2009, in accordance with the Regulation 539/2001 (Commission Working Paper:2011). The three countries were praised for their commitment to fulfilling the criteria of the roadmap by EC in a press release quoted below:

*"Today's proposal is the result of intensive and hard work for the authorities and the people of these countries in meeting the conditions," (EC Press Release: 2009).*

In parallel, for Albania and Bosnia Herzegovina the process was still open until the fulfillment of the criteria. *"The roadmap is still valid, and it is still perfectly doable if the authorities of the countries put their full will into delivering now. If this progress continues apace, I believe both countries will soon catch up with their neighbors. If all the conditions are fulfilled, the Commission could envisage making a new proposal, which would include them, by mid-2010, (EC Press Release: 2009)".* Indeed, in December 2010, Albania and Bosnia Herzegovina also benefited from the visa liberalization.

We could assume that the **process of Visa Liberalization as such** had a clear impact on the intensification of the fight against corruption, document security (introduction of biometric passports), border management and migration management, given that they were included as *conditio sine qua non* in the roadmaps.

## **The Impact of The Visa Liberalization on the WB**

### ***Mobility before the Visa Liberalization Agreement***

In order to fully understand the impact of the Visa Liberalization Agreements, it is important to analyze the situation of mobility before its conclusion-the period during the implementation of the Visa Facilitation Agreement. As mentioned above, the Visa Facilitation Agreements for WB entered into force since 1 of January 2008. It goes without saying that VFAs aimed a facilitated movement regime for a period of 90 days within 180 days, through:

1. Reducing visa processing time to 10 days; subject to potential increase up to 35 days, if necessary.
2. Provision of a Visa Free Regime in Schengen Area for diplomatic passport holders.
3. Provision of a fixed fee of 35 Euros for processing the visa and removal of such for specific categories such as: members of the delegations, representative of the business community, journalists, members of the civil

society, students pupils, persons attending scientific and cultural activities, conferences, etc,

4. Facilitation of the issuance of the multi- entry visas. (EC- Albania Visa Facilitation Agreement 2008). Regardless of the high expectations from VFAs, the situation in practice did not change. A Monitoring Report prepared by European Movement in Albania (EMA) shows the fallacy behind such agreement (EMA Report:2009). More concretely, the situation post- VFA in Albania indicates various problems such as:
  - Expensive call lines to leave appointment and in various cases limited hours available for making phone calls (i.e embassy of Netherlands).
  - Long waiting period from the date of calling for appointment and the date of appointment/submission of documents, varying in some embassies from 35-54 days.
  - The list of documents required did not change and included the same bureaucratic difficulties such as: the process of translation, notarization and legalization in the Ministry of Foreign Affairs of all the official documents required for the visa, i.e birth certificates.
  - In the Embassies of Greece and Italy continued the queues with around 150-160 persons on a daily basis.
  - In many embassies, the processing of the visas was not reduced to 10 days but extended up to 35 days (EMA 2009).

Analyzing all the costs incurred for the application, the same report comes to a figure of 290 Euros for the people living in Tirana or in the city of the Consulates and around 490 Euros for those living in a different city. This figure includes translation, notarization, photocopy, legalization of certificates, obtaining of the bank statements, travel insurance, travel in and out of Tirana. Not to mention the cost of a full working day in the embassies with large queues with a waiting period for the interview up to 8 hours.

It must be highlighted that the practice was not the same in all the embassies/consulates. Even though the VFA was concluded with the EC as a framework agreement with guidelines for common procedures, the states continued to retain the right to implement individual procedures, if necessary.

Hence, VFA did not change the situation of a very restricted mobility, both for tourism, business and family contacts. The restriction of the mobility perpetuated the illegal immigration, smuggling, visa falsification, creation of illegal networks for facilitation of the visa etc. In the case of Albania, this resulted in continuation of illegal immigration, with figures up to 70.000 illegal immigrants returned on yearly basis, in particular from Greece (MOI: Statistics of 2010; Ikonomi, Ndoci: 2011). Albania continued to be classified as one of the most isolated countries in the world- being ranked 184<sup>th</sup> out of 192 most isolated countries in the world by the

Henley International Visa Restriction Index and as the most isolated country in the region (EMA 2008).

The restriction of the mobility has been also associated with a very limited number of tourists from Albania in Europe, as compared to other countries with which Albania has a visa free regime. Albanians have spent around 8.8-10 million euro in Turkey respectively in 2007 and 2008 and only 0.54 million euro in EU countries. (EMA Report: 2008). After the Visa Liberalization Agreement, Greece, Italy and Spain have been very important destinations for the Albanians.

### *The conditions envisaged by the Liberalization Agreement for the mobility*

The visa liberalization agreement removed the need for the short term visa Type C. This means that the citizens of WB who possess *biometric passport* benefit from the agreement for short term travels for: touristic purposes, family issues, business, etc. The allowed period is 90 days within 180 days, with the counting starting from the first day of border crossing. Stay beyond this timeframe and work within or beyond the timeframe is illegal and is subject to sanctions.

The travel in the framework of the VLA is subject to some requirements in addition to the biometric passport such as: provision of clear information on the journey and reasons for such journey, indicating the hotel booking or the address where the person will live; adequate financial means; travel and health insurance. Failure to provide the above information/documentation when requested by the Border Police can result in the refusal of the entry in the Schengen Countries.

### *The implementation of the VLA: two years after its entry into force for Albania*

The impact of the visa liberalization can be noticed in different aspects of the WB societies. First of all and as expected, it had a clear impact on the **short term mobility**, in particular for tourism and for meeting the members of the family. In the case of Albania, from a poll conducted, it has been found that 56% of the population would undertake a short trip in Western Countries for tourism and family contacts (EMA 2011). The same report indicates a higher possibility for the middle class to travel and a very low one for the persons living in the border areas, due to the already achieved maximum.

The data from the Albanian Border Police indicate that in practice, as expected there has been a significant increase in the number of the persons that have left the country for EU and returned thereafter. Thus, from 15 December 2010 until 12.09.2012, around 627.788 citizens have left Albania and 503755 have returned. This is a significant increase of the number of persons moving in the EU borders. A holistic table with the figures for the period from the entry into force of the visa liberalization is presented below.

Table no.1: Updated information on the entry-exit and return of the persons during the visa free regime with EU from **15.12.2010** deri në orën 24.00 të **dt.12.09.2012**

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| N/R | BCP           | Entry without visa | Exit without visa | Returned without visa | The motive of return    |                         |             |
|-----|---------------|--------------------|-------------------|-----------------------|-------------------------|-------------------------|-------------|
|     |               |                    |                   |                       | Entry ban in the system | Lack of financial means | Others      |
| 1   | Rinas Airport | 96466              | 142256            | 3965                  | 1658                    | 841                     | 1466        |
| 2   | Durrës Port   | 136437             | 144930            | 4082                  | 3137                    | 833                     | 112         |
| 3   | Vlora Port    | 51345              | 54747             | 1079                  | 731                     | 278                     | 70          |
| 4   | Sarandë BCP   | 13940              | 13390             | 416                   | 140                     | 205                     | 71          |
| 5   | Q.Botë BCP    | 16630              | 22934             | 1060                  | 266                     | 353                     | 441         |
| 6   | Kakavijë BCP  | 86273              | 123897            | 6482                  | 4048                    | 1326                    | 1108        |
| 7   | Tri Urat BCP  | 9472               | 11552             | 116                   | 96                      | 3                       | 17          |
| 8   | Kapshticë BCP | 93192              | 114082            | 7376                  | 5094                    | 2068                    | 214         |
|     | <b>Shuma</b>  | <b>503755</b>      | <b>627788</b>     | <b>24576</b>          | <b>15170</b>            | <b>5907</b>             | <b>3499</b> |

**Note: the data for the entry starts by 03/01/2011**

Out of 627788 persons that have left the country, 24576 have been returned by the Schengen countries. While the impact on the illegal immigration will be analyzed further below, it is necessary to mention at this section, that this figure for one year and nine months is significantly lower than the number of the readmitted persons before conclusion of the VLA, which used to be around 70000 persons in 2009 and around 39.100 in 2010

For the first 9 months of the year 2012, the data are as following:

- 178 430 persons have left the Country towards the EU for the first time, with biometric passport.
- 167 658 persons have returned in the country, after their travel in the EU countries

It must be noted here that a very important beneficiary of the Visa Liberalization Agreement is the business community. The visa liberalization has extended possibilities for potential exchange, participation in fairs, conferences or other activities, which could provide cooperation possibilities.

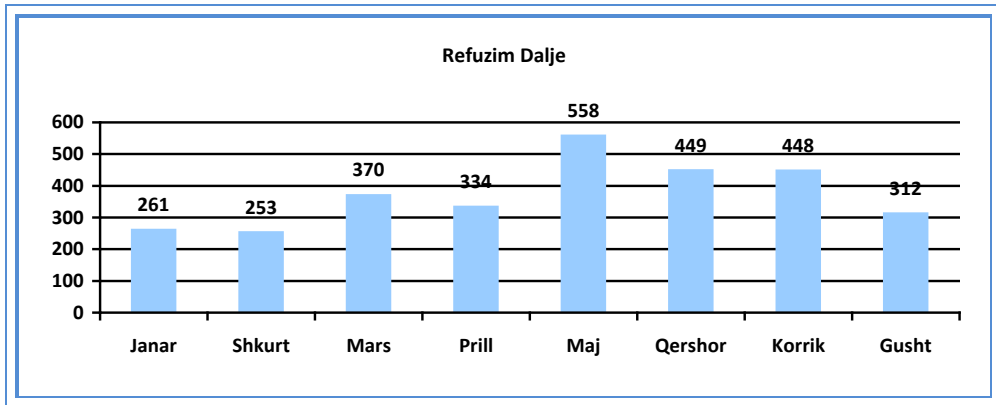
**Visa Liberalization and the Fight Against Illegal Immigration**

One of the fears articulated during process for visa liberalization was the increase of the illegal immigration. However, the process before the visa liberalization, which laid down clear conditions from EU acted as a driving force for the countries of the WB to improve their capacities in border management and fight against illegal migration. The obligation for provision of the biometric passports, installation of the relevant systems in the BCP to detect illegal documentation etc, were very positive steps in the fight against illegal immigration.

In addition, WB have taken measures for establishment of post-visa liberalization mechanisms to manage migration flows. First of all, the WB countries are conditioning the exit of their citizens under the visa free regime with fulfillment of the criteria laid down by such a regime. Namely, biometric passports, financial means, health and travel insurance, invitation or hotel booking etc. In the case of Albania, the Albanian border police asks the citizens that are about to cross the borders under the visa free regime on the reasons for leaving and check if they fulfill the criteria. This has resulted in 2985 persons refused exit by the Albanian police from January 2012-August 2012 (Statistical Data from BP: 2012).

The graphic below indicates the refusals of exit on a montly basis, with May being the peak one. The main reasons for refusal is the lack of documentation – with around 32% of refusals; non-justifying the purpose of travel with 27% of refusals; lack of financial means with 11% of refusals and 21% with entry ban in the Schengen countries; and 7% had already consumed 90 days out of 180 days in the Schengen countries; 2 % with other reasons. The highest number of refusals is in Durres Port with 58%, Rinas Airport with 15% and Vlora with 9% . The rest is in the BCP with Greece.

Graph no.1- Refusals from the Albanian Border Police: January 2012-August 2012



A significant number of (potential) irregular immigrants who managed to pass the filtering of the Albanian border police have been returned from the Schengen Countries for different reasons such as previous entry ban, overstaying, or due to

non-fulfilling the conditions for entry, i.e lack of financial means, lack of invitation by the sponsor etc.

In the case of Albania, the number, as mentioned above is 24576 persons have been refused entry during January 2011-a 21 months period, which is three times lower than prior to visa liberalisation agreement. For the period January-August 2012 the figure is 7200 persons refused entry in EU for the reasons as below:

- **3580** due to a previous entry ban in Schengen area
- **2569** for lack of financial means
- **1061** for other reasons (for non justification of the purpose of travel, lack of invitation from the sponsor etc).

From 15.12.2010- 30.08.2012, there have been readmitted 9994 Albanian citizens who have been staying irregularly in the countries of destination. This number also is significantly lower than the number of persons refused entry in the same period in 2011- with 10240 readmitted, in 2010-38132 and 65.000 in 2009. So, it is clear the impact on the reduction of irregular stay and residence.

The visa liberalisation had an impact also regarding abuse with identity. Many albanian citizens who have not left the country due to the visa requirement, after the VLA tried to go for the first time in the EU. Regardless of fulfilling the conditions of entry, they were subject of refusal due to an entry ban, given in fact to somebody else who had abused with their identity. Such information was not possible before the visa liberalization as they had not attempted to travel because of the visa requirement. The abuse of the identity was made clear from the different fingerprints attached to the same generalities. However, it must be pointed out that the process of correcting the personal data in the Schengen system requires an appeal procedure to be started by the victim of such abuse.

Another dimension of impact of the VL is against the irregular employment. The period of 90 days within 180 days is a good period for potential irregular immigrants to try the labor market. If there are possibilities of legal employment and if they can secure an employment contract, they would return in the country and apply for a working visa-residence permit for labor purposes. This is the case with many Albanians who after contacting a potential employer in the Italy have applied in the Italian Embassy for a working visa. On the other hand, if the immigrant does not come across potential employment, he/she can return home without the fear of never being able to return in the EU. Before VLA many irregular immigrants did not return home, even without a job, due to the fear that return would mean a never ever possibility to enter Schengen area again. It could also mean more money to the smugglers for the next time efforts. Hence, it may be said, that visa liberalization strongly damages the smuggling networks, given that immigrants do have a short term possibility through legal channels to try their luck in the EU. The biometric passports on the other hand have a clear impact on the networks of falsified passports and visas. This means significant money saved, including also the hidden costs of the visa, which in turn may be spent in the destination countries.

Referring to a monitoring report of the EC on the implementation of the VLA, there is a significant trend for decline of illegal stays of nationals from the five visa-exempt Western Balkan Countries. There have been detected 45% less as compared to pre-visa liberalization agreement. In particular, Albanian nationals have had a drop almost 70% in of illegal stay. This is an indication that visa liberalization could alleviate the overstaying problem (EC Monitoring Report:2011).

However, regardless of the measures taken from the WB states, there was a wave of asylum seekers from Serbia, Macedonia and Kosovo in late 2010, and one year later from Bosnia-Herzegovina. According to the different studies, many of them were from impoverished regions of those countries, and in many cases also members of one of these countries' ethnic minorities (CITEE 2011). Up to 10,000 Serbian citizens sought asylum in other EU states in 2010 alone (CITEE 2011). Quite surprisingly, it has been reported that Albanians made zero claims for asylum. However, only 1% of the claims have been successful. (EC Working Paper 2011). Top destinations have been Belgium, Sweden and Germany.

To counter any potential abuse of the asylum system and a potential wave of overstayers, a "post-visa liberalisation monitoring mechanism" was introduced by EU, which according to Cecilia Malmstrom, the EU's commissioner for internal affairs, will only be utilized in "extraordinary circumstances to temporarily stop the visa free regime" (<http://citsee.eu/blog/escaping-balkans-after-visa-liberalisation>).

The EC monitoring reports for 2011 mentions that the commission '*attaches a great importance to the measures taken by the WB to durably meet their obligations for the visa free regime*' (Commission working Paper- 696 final- SEC-30/2011). For the monitoring purposes, there has been established a Steering Committee chaired by the Commission. Update information is obtained by EU delegations in the respective countries and from ad hoc experts visits on the ground.

According to the EC Report of 2011, most of the WB countries have had clear progress on the issuance of the biometric passports by the end of 2011 and have taken measures for implementation of migration and asylum laws (EC report: 2011). Albania was called to work more on the sustainable reintegration of illegal immigrants (EC Report: 2011).

Given the number of asylum cases from FYROM, it has taken measures to fight illegal migration through informative campaigns regarding the negative results of abusive asylum. This was coupled with extensive control on the tourist agencies, increased border control and exchange of information with border services of border countries (EC Report: 2011).

Montenegro has taken measures on the document security, strengthened border control and border management, management of asylum and migration. The measures have resulted in a significant number of citizens prevented from leaving Montenegro, due to not meeting the conditions for entering the EU, i.e lack of funds, no clear reasons, etc. (EC Report: 2011).

In the case of Serbia, there have been taken measures to tackle the problems of passports, due to changes of residence from Kosovo to Serbia, measures for human rights and external relations. Measures have been taken to address the high outflow of the asylum seekers from Serbia, which include: establishment of a commission to monitor the implementation of the visa liberalization, headed by the director of the border police; informative campaigns on abusive asylum; easures for accelerated procedure for resolution of applications for the return in the framework of the readmission agreement- daily resolution, through immediate check of the biometric data and following that- readmission; enhanced border control- pre-departure check/interview of the persons that aim to leave the country.

The monitoring report has found that in general the measures have been implemented effectively and the WB are committed to control the flow of illegal immigration. The continued monitoring process and the fear of returning the visa regime has made the WB countries constantly alert and committed in fulfilling their obligations. (EC working paper).

## **Conclusions**

The implementation of the Visa Liberalization Agreements in the WB is going generally smoothly. It has had a significant impact in increasing the short term mobility of the citizens of this region in EU. It has opened opportunities for exchange in all the dimensions. In the case of Albanian more than half million people has entered EU during its implementation.

The fear of asylum seekers, while rational as it is, has not been backed by the developments in practice. The asylum claims from FYROM and Serbia have been unsuccessful and followed by steady measures in the countries of destination to curtail such phenomena. The WB, being under constant pressure of a potential return of the visa regime, are reinforcing the control in the borders.

VLA was followed with a clear decline of irregulars returned from the countries of destination. However, cooperation in intercepting irregulars and information exchnage are crucial for further reduction of irregular migration.

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**POLITICAL SCIENCES AND  
INTERNATIONAL RELATIONS**

## DEMOCRATIZATION AND NEOLIBERALISM IN THE BALKANS: THE DILEMMA OF (IN)COMPATIBILITY OF SIMULTANEITY

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### Abstract

*Balkan countries are undergoing a system transformation process structured by democracy and free market economy of the neoliberal model, large outside snow-ball driven accompanied by the spirit of triumphalism of freedom over slavery, of democracy over totalitarianism, and of free market (of neoliberal model) over socialism. The primary concern appears transformation as an act, with less attention paid to the quality, the substance and even less to the outputs of it. As the transformation enters into its third decade, on the horizon still appears a wide gap between the expectations and the fruits of transformation tasted by citizens. Obviously, each Balkan country concerned here has its own peculiarities, from where can be drawn the explanation for the development of this gap. However, the paper argues that among the major explanations of generalisability value, is the incompatibility of simultaneity of democracy and neoliberalism during system transformation. Neoliberalism is challenging the institutional structural efficiency, while at the society level it is producing a social milieu not conducive for development of democratic consolidation.*

**Keywords:** *Democratization, Neoliberalism, Balkans*

### Introduction

The collapse of the communist iron curtain in the former socialist Europe, usually marked with civil society protest in Poland and the fall of the Berlin Wall in 1989, opened up a marvellous and historical chance to bouquet the wind of freedom and democracy blown all over post-communist Europe including Balkan countries<sup>1</sup> in snow-ball approach. This marked the beginning of system transformation (Merkel, 1999)<sup>2</sup>. The high domestic enthusiasm and eagerness for transition to freedom from

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1 In this paper Balkan states are referred to the states that emerged from former socialist space in the Balkans.

2 This paper will be based the Merkel's categorization of democratization period, generally called system transformation, comprised of the three steps: from the lost of legitimacy and collapse of former regimes, up to installation of democratic and free market institutions as the second phase of system

chains of communism and democracy that attributed the system transformation in the Balkans was strongly complimented, supported and pushed forward by the democracies of the world, perceiving it as a historic change and an opportunity to extend the space of freedom and democracy in the world covering Balkan countries as part of democratic and liberal world. This echo was best illustrated and articulated in the Fukuyama thesis “the end of history”, signifying the triumph of democracy and free market economy over communism and socialist economic system. Based on this spirit of system transformation, appears to have been developed the main streams of theories of democratization (Przeworski, 1986; Przeworski, 1991; O’Donnell and Schmitter, 1986), focusing on the actors of democratization, and agents needed to be trusted with the system transformation, leaving aside and ignoring theoretical consideration for structural and societal requirements for democratization (Lipset, 1959; Lipset, et.al., 1993; Rueschemeyer et.al., 1992) to take place and democracy be enrooted<sup>3</sup>. This enthusiastic and idealistic, or to an extent even holistic approach of the system transformation, principally explains the challenges, complexity and uneasiness still undergoing in the Balkan new democracies. It appears that the process of system transformation has gone off course from a rationality of transformation, sliding to a sort of more dogmatic and ideologised transformation, whose effects come back now as haunting challenges for the consolidation phase of democratization. Doubtless, such echoism has helped in terms of legitimising transformation, but it has also contributed to its process and outcome malaise. The model of system transformation in the Balkan countries is a radical and simultaneous transformation, in terms of the speed of

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transformation, followed by the consolidation of the regime as the most time and energy demanding phase of the system transformation. The two stages of system transformation in the Balkans are considered to have been successfully finalised, while the last one proved quite challenging and highly demanding, expected to be concluded yet. On the other side, some of the scholars divide the system transformation process into two phases: the collapse of former regime and installation of democratic institution as they call it first transition, then the second transition including the phase of consolidation (Valenzuela, 1992; O’Donnell, 1993): *World Development*, vol. 21, n.8, 1355-70. This system transformation is categorised under the third wave of democratization which started in Spain in 1974 (Huntington, 1991, 44). The Third Wave: Taking into account the roots and type of the system transformation it could have been counted as a fourth wave. (von Beyme, 1994). However, there was no reverse wave (“a group of transitions from non-democratic to democratic regimes that occur within a specified period of time and that significantly outnumber transitions in the opposite direction during that period of time” (Huntington, 1991, 15) in between, which it could mark a new wave of democratization.

3 The democratic requirements according to minimalist conceptions, of course, were easy attainable, but not sufficient and compatible with transformation expectations. Societies emerging from former communist regimes in Balkans, despite their uncompromised will for freedom, possessed no structures conducive for democracy development. Moreover, they had little, or not all, experience with democracy. Therefore, preparing societies for democracy, in terms of social structure developments, and teaching democracy to them was of essential importance for democratic development and democratization process. This approach could have brought the people at the main focus to get along with democratic structures, in terms of creation of the public will, opinion, and institutional decision making in general, and citizen participation which lay at the heart of democracy. It could make democracy consolidation in Balkans visible. Yet, the actor and agent oriented theoretical approach has not primarily hub at the people and masses, which in itself sounds, if not undemocratic, at least a minimalist one.

transformation, and simultaneous in terms of the width, encompassing entire transformation starting from its polity, economy and society. The paper argues that, the way and the model of transformation applied has compromised the system transformation process, in terms of *modus operandi*, as well as outcomes, making it unmatched with the intended and expected transformation results, though entering into the third decade since system transition started. It proves that the transformation approach is not suitable and compatible with socio-economic structural circumstances of Balkan countries, resembling an effort of sailing a dried out place. The democratic consolidation in the Balkan post-communist countries is still waiting to take place in substantial meaning of democracy, having citizens at its focus.

The paper has its shortcomings as well, but it aims to put light on the root causes of malaise democratization process in Balkans. It could have been further enriched by bringing the data about privatization process and social structure indicators. However, the paper is more of theoretical rather than empirical nature.

### **Neoliberal Shock Therapy Model Of System Transformation in the Balkans**

Eastern Europe and Balkans as well opted, or were asked to, for a radical and simultaneous system transformation. This raised the concerns of various scholars about doability and quality of the process. The idea of Elster (1990), later called by Offe (1991) as dilemma of simultaneity, raising doubts on the capacity of states and societies to move along with rapid transformation in all dimensions at the same time, doability in terms of the functioning of such transformation, and institutional and structural bearability of the transformation. The “shock therapy” way of radical economic change necessitated the jump from an extreme left to an extreme right spectrum in economic terms, from a command economy to free market economy. A model which in reality produced a lot of shocks in the quality of transition and democracy generally attained so far. Was there an alternative to shock therapy, to leap from an extreme to another one? Doubtless, yes. Were Balkan states and societies able to choose among the alternatives? Actually, not. System transformation to a large extent was a feature of a snow ball effect, or as a domino transition implying the role of external causes of transition, alongside the domestic demands for change. Internally, the societies’ preparedness to take part in deciding their fate by choosing the path of system transformation was not there. Actually, celebrating the collapse of the regimes among Balkan societies took priority over the social concerns about the path of system transformation, its future prospects and possible products of each alternative path chosen. In this regard, also the institutions of societal participation through which social will could be developed, at the time were not built to an extent of emancipating and articulating the will of “well informed” societies about possible modalities of system transformation. At the external level, referring to the role of international community in the transition process, and its promotion of values of democracy, liberalism, and free market economy, it was believed that the righteous way for system transformation should

be the shock therapy model, as part of neoliberal policy. While talking about the role of EC/EU as one of the main players within the international community and its free market values, it should be pointed out that some of the member states adhere to a form of welfare rather than pure free market system. Yet, the EC/EU itself promotes the values of free market economy, constituted in the Maastricht Treaty, Draft Constitution and Reform Treaty of Lisbon. It was the EU itself rather than its member states specifically that dealt directly with former socialist states of Europe, including Balkans, through EU enlargement policy. This radical model of transition is used for the first time in the democratization history in case of post-communist Europe, intending to produce a functional democracy and pure free market society simultaneously, within short period of time, transformations that took decades and century for western democracies. What is more important here, no room for alternative model and policies was left to states and societies concerned, to chose other than the shock therapy and neoliberal approach. They carried on radical and simultaneous transformations in all dimensions, regardless of its possible democratic outcomes. It seems that not democracy, but pure free market economy was of primary importance, which somehow contradicts with the idea of simultaneity itself. This was either due to incompatibility, and the power of market to surpass democracy, or intentionally it was meant democracy to serve the pure free market purposes. Now, understandably the quality of democracy has been compromised by the neoliberal policies pursued at the same time during transition. As the system transformation started off, reasonably the dilemma of simultaneity was puzzled with enthusiasm of transition, not interrogated or disputed neither at the institutional nor society level, but it was rather perceived as the only and the right way to move on with transition. Some of the scholarly concerns (Elster, 1990; Offe, 1991) were also not much considered due to enthusiasm of transition and due to the fact that this was externally promoted. However, with time, as transformation is being prolonged, enthusiasm draining out, and the gap between intended and real outputs widening consistently, the concerns about such model of system transformation and its outputs are consistently raised out among the academic community, though still considerably ignored. There is a wide perception that democracy Balkan societies are experiencing now is not what they have expected, or that they still waiting for real democracy to take place. One of the explanations that is loosing its argument on timely basis is that the delays and inabilities of democracies to deliver in terms of citizens and society interest protection, is because the transition process has not been yet completed and takes time. Or, it seems that the major concern, even by international sponsors of democracy in the Balkans, it has been transition, not really consolidation.

Nonetheless, the roots of this system transformation failure, if I might call it so since it has not so far produced the intended results, come out to be the issue of simultaneity and radical economic reforms. The incompatibility of simultaneous transformation is compromising the quality of transformation end result, producing a sort of authoritarian electoralism instead of real democracy, privatization of politics through corrugation of public sphere, consequently increasing the level of informalities which challenges the institutional stateness of the Balkan states and

indirectly democracy itself, opening the possibility of those few more powerful to carry on their interest at the expense of the majority powerless and easily manipulated. Such development makes democracy transformation roll back more likely, or if not due to international community insistence, it keeps democracy to a level of an authoritarian electoralism, or simply democracy without citizens, since it leaves the citizens and society at the periphery of decision-making system, basically resembling the place of citizen in the former regime, featured with monopolisation of power. The only obvious development appears to be the shift of power from a monopoly to an arranged oligopoly system. Furthermore, in the case of the Balkan system transformation, this is happening due to incompatibility of simultaneous transition and the priority given, though externally driven, to economic transition through shock therapy, as part of neoliberalism, over democracy, meant to stimulate democracy development as well. Yet, it brought democracy under the shadow of the economic liberalism – of neoliberal type, different even from classical economic liberalism in which the state has still some regulatory power. Likewise, the concept of democracy within the system transformation was conceptualized on the neoliberal lenses and framework, being primarily elite oriented, of sceptical value about society's ability to participate, principally serving the economic elites. Moreover, it did not take into account the few and interrupted experiences of Balkan societies with democracy, which principally implies the essential that transformation should have been meant, among others, also to teach democracy among Balkan societies as a prerequisite for democratic consolidation.

### **Neoliberal Concept of Democracy And Implication for Balkan System Transformation**

Neoliberalism (von Hayek, 1981; von Hayek, 2003; Friedman, 1982; Saad-Filho and Johnston, 2005) as an ideology and project has its own view of democracy, largely developed from realist and pragmatic point of view. Neoliberals rely on economic theories of democracy considerably taking form elitist theories, primarily on the classical works of Schumpeter (1947) and Downs (1957). It is very important to enlighten the concept of democracy according to neoliberalism, because it helps to explain the type of democracy that is emerging in the Balkan states, based on neoliberal spirit. The scepticism of economic elitist theories of democracy about the ability and readiness of people to participate in politics is dominating the current trend of democratization in the Balkans, and it is promoted even by international sponsors of democracy. Schumpeter doubted on the ability and readiness of masses to participate, referring to the lack of information, time and the will among citizens to participate. He gave importance to competition among the elites as determinant of democracy, and people participation in elections making up their mind to decide on election among the offers provided by the elites competing among themselves. His concept of democracy presents democracy more as a method, different from its original sense, limiting the sovereignty of citizens to the power to choose among the elites, but not to participate in the building of public and society will supposed to be articulated on elites' offers to citizens during elections. In general his concept of

democracy bring into being a minimalist democracy, hardly matching the substantial meaning and purpose of democracy. The idea was furthered by Downs (1957) applying economic principles in the theories of democracy, conceptualising human being as *homo oeconomicus* and perceiving democracy as a market relying on decisions based on cost-benefit calculations. In the same spirit has also been developed the rational choice approach and public choice theory, with foundations on the elitist and economic principles. These neoliberal theories conceptualise democracy in such a way that makes democracy a mean rather than an aim to free market development. It produces an economised society, in the narrow sense of numeric and statistical principles of economics. Essentially, such concept of democracy is incompatible with the true meaning, sense and purpose of democracy. According to the meaning of origin, democracy should have citizens at the focus. In contrary, neoliberal theories are primarily concerned with the capital rather than welfare, with the elites - in particular economic elites rather than society in general, with the narrow particularistic interest rather than general public interest of society. In a democracy, if that is to be called a democracy, perceived as a market where everyone acts based on cost-benefit analysis, the most capable to act and protect their own interests are those more powerful, the most powerful in a pure (capitalist), neoliberal, free market system are the economic elites. Neoliberalism transforms democracy from a system where everyone is free to pursue their own interests, into a system where those capable will pursue their interests. Based on this logic, citizens and society do not participate in the building of the social will which is a backbone of democracy. Moreover, it produces undemocratic and unrepresentative institutions. The "social will" is created and promoted by political institutions superficially flying above society, such as political parties with low level and intensity of social integration and mobilisation, without mass participation, and open to pressures and influences from economic elites which are more powerful. The offers of political parties are meant to be sold to electorate, though not created by electorate themselves, as true meaning of democracy requires. Balkan political parties mostly offer candidates, but not real policies. This appears to be largely due to lack of space for alternative development, due to unquestionable dominance of neoliberal policies, making party offers poor one and inconsistent with normative party functions. Likewise, parties use variety of means from PR companies, advertisings, and media to make their products more attractive to easily manipulated masses. In other words, political parties, with low mass participation rates, develop programmes outside the masses, in order to maximise their profit – win election, but do not win elections to carry on politics. Not paying much attention to the mass participation, which is the key to a substantial democracy, is damaging key elements of democracy, the essential institutions for representative democracy, the institutions of accountability and responsibility. In a democracy where the institution of accountability is not up to the expected level, or does not exist at all then it is hard to talk of democracy. This makes degeneration of democracy unavoidable, and if that persist it brings de-democratization for democracies and never attaining real democracy for transition countries. The only possible way to develop democratic horizontal and vertical accountability is through mass participation. Yet, we saw that neoliberalism does not provide space, and does not



have even the intention, for mass participation. Furthermore, the mass participation is considered as a threat to economic elites' interest, as a threat to the primary concern of neoliberalism. In a way, neoliberal model of system transformation is not conducive to the development of democratic accountability and to democracy in general. This puts a light into the inability of Balkan parliaments to hold accountable the executives and public agencies, because the society can not hold accountable the parliaments. In other words, the chain of democratic accountability is cut and do not function. Yet, the only thing that makes representative democracies a real democracy is the accountability structure.

Referring to Balkan transformation system, the actual lack of democratic spirit and feeble democratic institutions in its real meaning is the result of the promotion of democracy on the neoliberal terms and neoliberal concept of democracy, as explained above, setting the state and the fate of democracy in the Balkans in the flux und unstable condition. The only viable democratic institution is elections, though largely frail because of the lack of pillars of democracy such as accountability. This has brought the whole idea of democracy rounded on elections. Therefore even the supposed election effect on democracy and democratic development seems to have degenerated further from a "*stop and go effect*" to a "*just go effect*". Election alone do not suffice, though minimalists claim the opposite. Therefore, the alleviation of the importance of the institution of accountability in the democratization process in Balkan states has its roots in neoliberal model of transition. Nonetheless, such as an approach of democratisation guarantees no successful completion of the process. Indeed, it makes the process roll back more likely. In practical terms, it raises uncertainty about sustainability of such democracies relying solely on elitist institutions, undermining the importance and place citizens should have in a democracy. Can democracy be legitimised as such, which is crucial for democracy consolidation of the transition countries? Of course, largely democracies in the Balkans have been legitimized in enthusiastic way and externally since supported by western democracies and international institutions such as IMF and World Bank, and the EU where Balkan countries pertain to be integrated. However, while talking about externally legitimation, it should be pointed out that the EU integration is largely playing its role as democratiser of the Balkans, through enlargement policy, spelt out in the membership criteria, Copenhagen criteria. Yet, looking at the requirements of the membership criteria, one finds out that the requirements are quite of neoliberal nature, largely focusing on electoral process of democracy through which democracy is measured, not paying much attention to the fundamental principles of democracy such as: public creation of the social will, public creation of the opinion, deliberation and alternative thinking, and what is more crucial citizen participation<sup>4</sup>.

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4 For instance political parties are not asked to develop their inner democracy to widen mass participation. Mainly, the focus is on the election. Thus, the lack of fundamental principles of democracy as root causes of consistent sink of democratic behaviours and attitudes during election process in the Balkan democratisation states is not of concern by the EU. The role of EU in the process can be treated separately, and is not our concern here, but I just briefly mentioned it, since Balkan

## The Quality of Democratization in the Balkans

The promotion and development of democracy in the Balkan transformation countries is being done through the neoliberal lenses, confining the aims and limits of democracy development prospects. This has transformed the democratization process into pretty *ideologised* in itself, shaping the type and quality democracy should be developed.

Therefore, some of the shortcomings in the democracy development appear not to be of a nature of time requirements, but rather as not intended and pursued at all, laying outside the neoliberal framework of democracy and democratisation. Creation of democratic society that should have served as a safe divan for democracy and democracy development was not in the priorities of the agenda of democratisation. The most viable social structure that could stabilize, enroot and consolidate democracy is a society with a solid middle class (Lipset, 1959; Lipset et.al., 1993; Rueschemeyer, et.al., 1992) that enables mass participation, widens social integration in the political process and accordingly develops and functionalises accountable institutions indispensable for democracy. Social participation and integration fuels democratic accountability to check and control consistently the vitality and quality of democracy in line with its fundamental principles. Yet, one of the major defects of Balkan democracies is the lack of accountability, as a result of low level of social integration in the political process, actually making Balkan democracies degenerate and unable to deliver in terms of attaining democracy objectives, primarily promoting citizens' interests. From the neoliberal perspective, accountability has minimalist electorally sufficed expectations.

Young and not yet consolidated democracies are in desperate needs for legitimacy. Despite externally driven legitimation, which might somehow fill the gap of legitimacy for short period of time, the most reliable democracy legitimation is ensured only through society wide participation and integration. The current developments and shock therapy radical reforms in the Balkan societies have created and produced a social structures with very unjust distribution of wealth, concentrating most of the wealth on few, while leaving the majority to oscillate between poverty and absolute poverty line, in particular through high rates of unemployment caused by "*privatise now, everything*" strategy pushed forward by the shock therapy model of system transformation. This brought Balkan post-communist states into what O'Donnell (1993) calls it a fast social *inequalisation* of society, constructing social structures not promising for democratic stability. The wealth distribution is closely linked with the possibilities and opportunities for democratic participation and society integration in the political process, normatively aimed by democracy. The current wealth distribution structure ensures the neoliberal spirit of democratic participation and integration, including economic

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democratisation is for the most part externally reliant, especially on the EU promoting democracy on the neoliberal spirit.

elite mobilisation, but excluding social mobilisation. In such type of minimalist democratic structures, economic interests have unconstrained power to carry on with their economic interests, though often incompatible with the public interest of society. Such a narrow concept of participation shrinks the idea of democracy to a sort of an elitist democracy being consolidated, a democracy without citizens.

Hence, it became obvious that the process of democratisation in Balkans was not on the right track to produce a conducive environment for democratic consolidation. This social structure is reflected in the feeble *democraticability* and functionality of democratic structures and institutions, supposed to serve as pillars of democracy: parliamentarism, political parties, civil society, public sphere, democratic creation of the public will and opinion, the media and other likely channels of representation. So far Balkan democracies are characterised with weak parliamentarism, reflecting the slash on the chain of representation and accountability due to low level and intensity of participation and integration set by the actual social structures is not contributing to democracy development, but rather is producing undemocratic institutions of representation such as actual political parties, supposed to fill the seats of the parliament and reflect the will of society as the most powerful institution of democracy. Political parties in Balkan democracies still build up parliaments, but since they lack inner democracies they serve as cut chain of representation and accountability, prone to and open to carry on particularistic interests and represent the few. Thus parliaments look like a reflection of the will of economic elites rather than of society, though they periodically and routinely obtain the blessing of society during elections. Yet, elections do not suffice, especially with the development of various sophisticated methods and pour of huge amounts of money to shape the preferences and make up the mind of voters. Likewise, parliaments are not really depended on the will of society. Moreover, parliaments of Balkan countries were often needed as rubber stamp to carry on neoliberal policies in contrary to society's public interest, especially in case of privatisation, and it was very easy since parliaments in the Balkan states rarely reflect the wish of masses and rarely do vote in society accountability spirit. There was no need to ignore the parliament and make outside parliamentary decisions, as neoliberals often do, since parliaments largely were prone to pressures from small powerful interest groups favouring such neoliberal policies. The argument that parties are hold accountable periodically during elections, which is the most minimalist requirement of democracy, does not appear to function, since undemocratic parties and small interest groups control the means of creation of public opinion, especially the media largely used to manipulate masses rather than provide alternative sources of information as their democratic moral obligation. The neoliberal approach of democratisation seems to have intentionally missed one of the fundamental aims of democracy and democratization, the emancipation of society, in particular Balkans societies having no healthy experience with democracy previously. Political parties as vital institutions of democracy among others, placed between state and society are normatively entrusted with social mobilisation through which they emancipate the society. However, political parties of Balkan democracies somehow, tough poorly, are trying to learn from the experience of consolidated democratic societies,

which to a certain degree are moving towards a *postdemocratic* arrangement, using the modern means of campaign to set up the minds of voters as they wish, and marketing strategies to sell the offers of vital public interest like the one used to sell bath towels. In this direction, civil society is considered as one of the most important pieces of healthy democracy, mobilising and integrating the society into political process (Putnam, 1993). It is closely related with public space (Habermas, 1992), wider the public space more breathe would be for civil society. It is also one of the most important components to measure the functionality of democracies. Balkan democracies are known for flimsy civil society, often used as a cosmetic of the system rather than a powerful voice and milieu of social will mobilisation. Most of the organisations such as NGOs within the frame of civil society are established to raise funds for private and particularistic purposes, putting themselves into a clientalist structure with the donors among them government. Often real civil society empowerment might be considered as a threat to the power of economic interest groups. In particular workers' unions so far have proved to be useless and unable to promote and mobilise workers interests. The source of this can be explained referring to the neoliberal model of democratization, which does not have in its agenda the empowerment of civil society in particular workers unions. The trend of transformation in Balkans does not look favourable to empowerment of civil society and consequently slander public space as required by democratic standards. The consolidation of Balkan democracies through empowerment of civil society and widening of the public space does not appear in the agenda of system transformation and logically it should not be expected to be developed. However, it does not mean that Balkan democracies have no civil societies. They do have, but they are not functional. Likewise, the explanation that the inability of civil society to carry on its agenda is not due to instability of transition process, which seems to be a never ending, but rather due to the fact that it is not in the agenda to be developed at all, and as such it correlates with the low level of social participation and integration, justified by the economic elitist theories of democracy. Often neoliberals perceive the majority principle of democracy as a threat, since it enables the mass participation and empowers them with the ability to limit the private property, competition, and free market economy. From the neoliberal point of view democracy is acceptable as long as it does not touch the pure free market economy (Ptak., 2002).

Thus, the feeble democratic structures in the Balkan states appear as a result of neoliberal model of system transformation. Democracy is used as a mean to achieve pure free market economy, instead of being the opposite. The end products of system transformation in Balkans so far are the type of democracies known as electoral authoritarianism (Schedler, 2006) or *delegative democracy* (O'Donnell, 1994) attributed as *noninstitutionalised poliarchy*. The voters have the possibility to choose among authoritarians, since elections bring no policy change and no more democracy. It has ended up into *electoralisation* of democracy, bringing to the focus elections as number of votes rather than citizens. The authoritarian values, attitudes and behaviours as outcome of dogmatic system transformation and the lack of freedom to think of alternatives, are largely evident. This elucidates also the

dearth of political programmes offered by political parties, having not much space for alternatives, able to choose starting from neoliberal up to neoliberal policies.

### **The Implication of Neoliberal System Transformation into Stateness**

The state as a unit of political organization of the social will is a reflection of society impacted by and impacting society as well, in terms of organizations, orientations, and expectations. As such the societal milieu is decisive about the nature of the state in terms of stateness, ability to fulfill its obligations, which in turn is decisive for the prospect of democracy. At the heart of neoliberal ideology stands the slim state (Harvey, 2005). The role of neoliberal state is merely the implementation of agreements and protection from robbery, violence and cheating (Nozick, 1976). In other words the ultimate goal of the state is to keep the order of private property in a free market economy, or to ensure free market system. This is known as a minimalist concept of state, since it constitutes one among various state responsibilities. However, the concept of state as an organisation of the public will within specific territory (O'Donnell, 1993), apparently stands not in line with the neoliberal ideology that tries to reduce and confine the publicness within the scope of the expression of economic interests. The tiny role attributed to the state has to do with ensuring economic interests, not necessary the interest of public in general has repercussion for democratic development, and is not compatible with the ultimate goal of democracy. Almost all Balkan states concerned here are considered new states, since some of them were created recently during system transformation process and some others, though created long time ago, could not inherit from the state structure of the communist regimes in term of governing structures. Democracies function and are governed differently from former regimes. Therefore, those states have weak stateness in need of further strengthening. In contrary, the neoliberal approach in the democratization process in the Balkans, while perceiving states as a threat and trying to make them as slim as possible, has produced weak states, if not to say failed states.

The best way to make slender states was meant to use privatisation of almost everything implemented by shock therapy model. Yet, the experience of Balkan democracies with shock therapy privatization so far proved dysfunctional. It ended up into what O'Donnell (1993) calls it *perverse* privatisation. The push for rapid all encompassing privatisation was uncompromisable and dogmatic, regardless of its outputs. The state had to reach its thinness, so that economic elites would need to pay less for the state, and they can easily control it. Taking into account the lack of accountability institutions, explained above, privatisation has made easier the intertwine between political elites, entrusted as democratising actors, and economic elites, trying to make use of privatisation for particularistic interests, as it is actually the case with the privatisation process and outcomes in the Balkans. This has triggered the development of state capture behaviours (Grzymala-Busse, 2008, 628), and later attitudes as well, among the political and economic elites' interpenetration, sustaining each other. What is more important to be stressed here, while intending to make the state more functional, slim, and effective through

privatization, meant to prevent the political elites from the use of the state for their own private benefit, in reality it happened just the opposite, political elites themselves or in arrangement with economic elites, privatised the public wealth and property for themselves, transferring the property from public to their private hands, for a cost of almost nothing. In a way, it could not make possible the detraction of the public wealth from the hands of politicians, in contrary it made them owners or shareholders of former public wealth and property, where citizens claim no rights on it anymore. As a consequence, from the democratic perspective, politically it blurred further the boundaries between narrow private interests of elites and the public interest, defined on the way elites wished to, leaving the *publicness* under the shadow of private narrow interest. It has led basically to high level of personalisation of politics, or *presidentialisation of politics* (Poguntke and Webb 2007), which stands contrary to fundamental principles of representative democracy. It downgrades further the freedom and ability of democratic participation, widens and deepens the poverty among society, and opens the way for easily *votebuying* institution development, which is quite obvious and increasing among Balkan democracies. Moreover, it leads to undemocratic behaviour feature of Balkan democracies, such as overempowered executives, considered as *vetoactors* in the democratic consolidation structure.

Generally, this is shaping weak, or almost failed, rather than slim states as it was primarily intended. Feeble states unable to reflect the public will and to look after it, from the governing point of view, empowering executives with authoritarian tendencies, often surpass the will of majority in favour of few particularistic interests. This is best illustrated in the helplessness of Balkan states to functionalise the rule of law. While regarding the democratic prospects of such state arrangements, according to Merkel theory of democratization (Merkel, 2007), those authoritarian executives are considered as veto players in the democratization process. The only way to bring them under the rule of law is through empowering the society participation in the democratic process, which seems not to be in line with the current democratization agenda in the Balkans. States that can not enforce their legality all over equally among all citizens, regardless of their economic status, promotes a sort of democracy of low intensity citizenship, opening the way for development of so called clientelist rather than citizen democracy. Any meaning of democracy avoid of fundamental elements of citizenship, the autonomy and basic equality required for participation, does not make sense.

Thus, the nature of the states emerging during system transformation in the Balkan states, which fits to the concept of schizophrenic state (O'Donnell, G., 1993) – having mixture of authoritarian and democratic elements, confirms Polanyi's worries (Harvey, 2005) that neoliberal order can be sustained only by resort to authoritarianism, restricting the freedom of the masses in favour of the freedom of the few. For sure, authoritarian affinities in the Balkans are extensively present and growing consistently.

## Conclusion

Balkan post-communist countries are following the path of system transformation based on neoliberal model. It pushed for simultaneous and rapid transformation affecting largely the state and society levels pertaining to quality of democracy acquired so far and democracy consolidation process and outcomes. So far, simultaneous developments of the system transformation appear to have given priority to economic transformation of neoliberal type, not in line with society democratic expectations, compromising the democracy quality and consolidation prospects. Initially, such incompatibility of simultaneity was not a theme due to enthusiasm of system transformation. Yet, the more the enthusiasm dries out and the more prolonged the completion of consolidation of democracy, more obvious would be the wrong path of the Balkan system transformation.

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## THE ROLE OF EULEX ON THE RULE OF LAW FUNCTIONALISATION IN KOSOVO

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### Abstract

*For a considerable time there was and still appears to persist the international perception that Kosovo (previously provisional) authorities are not capable to take on their hands the responsibility of the rule of law. Even after eight years of UNMIK mandate the situation on the ground proved not to have changed to an extent that the rule of mandate be trusted to local authorities, especially expected after the declaration of the independence in 2008. Based on that and the UN Special Envoy Marti Ahtisaari's proposal for the supervised independence solution to the Kosovo issue, the EU Council agreed on a joint action to mandate a CSDP rule of law mission in Kosovo, named EULEX, pertaining to undertake the responsibility for the rule of law functionalisation in Kosovo. There was a hope, in particular at the beginning of the EULEX deployment, that it will give the meaning to the stateness of Kosovo through making justice and the rule of law system work and functional. The paper argues that EULEX mission in Kosovo is necessary, but unlikely to fulfil its mission. Taking into account the three levels of rule of law process such as the laws, the institutions and politics, the rule of law international missions approach, as it is the role of EULEX in Kosovo, principally operate at the second level. While at the heart of the not functioning rule of law system in Kosovo still remains politics. Therefore, the measures and mechanisms the EULEX is using are not suitable to address the rule of law functionalisation in an environment where politics is a master rather than a servant of justice.*

**Keywords:** *Rule of law, Kosovo, EULEX*

### Introduction

The rule of law is a fundamental human good. It gives meaning to life in community, while, its frailty or total absence makes life within community unpredictable and unsecured. No citizenship in democracies, in its full meaning, can be ensured if they have feeble rule of law. Establishing and maintaining the rule of law and order is permanent task of states and other communities. Usually, states are supposed themselves to be capable to consolidate and maintain the rule of law, signifying a character of stateness. Nonetheless, there are cases where foreign

support is needed to lend a hand on the rule of law system, principally through international organisations, in cases of states newly established or states experiencing legitimacy crisis. Same is the case with Kosovo rule of law system issue, primarily and previously under UNMIK administration, and then currently under the EULEX rule of law mission.

The paper addresses and aims to shed light on the challenges of the rule of law system in Kosovo and EULEX mission endeavours in this regard within its mandated responsibility. After looking toward the conceptualisation of the rule of law while being so complex concept, the paper moves to the actual challenges pinching the rule of law system functionalisation in Kosovo context, in particular the influence of politics in justice system. Then it explains the EULEX mission, bringing into attention the nature of the mandate, mission, tools, challenges and opportunities, and objectives of the mission. The paper relies primarily on the concept of categorising the rule of law system into three levels and their interrelations and particular requirements, examining the expected potential and real contribution of EULEX into each level and on the general functionalisation of the rule of law system in Kosovo. Finally, the paper examines overall the possibility and capability of EULEX to fulfil its mission, the adequacy of the mission to functionalise the rule of law in Kosovo. Hopefully, the paper opens up an academic and policy oriented debate and triggers critical thinking about the rule of law system in Kosovo, its defects and possible functionalisation, and the role of EULEX mission in this direction. Shall policymakers in practical terms rely on the foreign missions to functionalise in Kosovo, without taking into account their adequacy and capacity, or should the issue be addressed from the root causes of rule of law system disfunctionality, as a guiding principle to functionalise the rule of law? Likewise, the paper seeks to sets off the possible right direction that the rule of law system functionalisation in Kosovo should take. It suggests that in order to functionalise the rule of law system, it must primarily get politics right. It should make politics servant, rather than master of justice. The technical and institutional foreign support should follow, rather than guide it. The paper suffers from various shortcomings. It is more as a starting point to stimulate further empirical studies for finding the right path to functionalise the rule of law in Kosovo. It mainly suggests the root causes of the rule of law system failures and the incapability of foreign missions to handle it in the substantial meaning of the rule of law concept. However, it does not get deep into the exact way Kosovo justice system should take in order to functionalise its rule of law system. So, it is more as opening the door, rather than entering into the concrete solutions.

### **The Concept of Rule of Law**

The rule of law is very complex in its nature. It comprises various substances, actors, and processes at different levels, and at different social, cultural, historical and philosophical settings. Such complexity is reflected into the conceptualisation of the rule of law as well. Normatively, it has held a range of meanings in different

times and contexts. This convolution is due to historical, philosophical and cultural character of the concept itself. One of the traditional and simple straight forward conceptualisation of the *rule of law* is referred to its differentiation and opposite to the *rule of man* (Morlino and Palombella, 2010; Tamanaha, 2004). However most of the conceptualisations of the rule of law belong either to the formal or substantive definitions. The formal conceptualisation is merely concerned with the laws and the process itself, while the substantive approach is more output related, bringing at the heart of the concept the effects that the rule of law achieves (Craig, 1997, 467 - 487). One of all encompassing definitions of the rule of law is offered by the former UN secretary general: “*the rule of law is a concept ... refers to a principle of governance in which all persons, institutions and entities, public and private, including the State itself, are accountable to laws that are publicly promulgated, equally enforced and independently adjudicated, ... . It requires, as well measures to ensure the principles of the supremacy of law, equality before the law, accountability to the law, fairness in the application of the law, separation of power, ...*” (Report of the UN Secretary General, 3 August 2004). While as a system or subsystem within the overall political system, the rule of law in general involves three levels: the laws, the institutions, and politics (Carothers, 2006, 7-8). The first level is rather formal, easy to be reformed and less energy and time consuming especially in cases under profound and direct external influence, able to squash the legislatures for passing the required laws, at least on paper. The second level of the rule of law system includes law related institutions such as courts, police, prosecutors, prisons, and public defenders, whose impartiality and the freedom from the political interference is uncomprisable. The third and most challenging level of the rule of law system is the political level. Political influence and dictate has repercussions for the rule of law functionalisation in substantial meaning of the rule of law. The paper relies on the substantial conceptualisation of the rule of law, pertaining to the rule of law outcomes, as end results and ultimate objectives of the rule of law system functionalisation. Whilst at the system level it looks at possibility of rule of law functionalisation through the lenses of categorisation of the rule of law system into three levels. This obscurity and complexity of the rule of law concept definition is reflected also at the empirical stage on the requirements and endeavours needed und pursued to functionalise the rule of law system on the ground. The procedural conceptualisation, on the other side, focuses on ensuring the procedural measures of the rule of law. Yet, setting up laws and procedures alone does not necessarily guarantee the rule of law. Foreign missions could help a lot on setting up procedures, while their institutionalisation and routinisation can be made certain only internally through getting politics right, stopping the interference of politics in justice system.

## **The Rule of Law And its Endorsement by International Community**

The very idea of the rule of law promotion as today applied in terms of the scope and intensity by international community involvement is relatively new. Throughout the life of the UN during the cold war the notion of rule of law was rarely used and quite broadly and loosely framed within the UN peacekeeping mission. It was first used as a term in case of the turmoil situation in Congo in 1961 UNSC Resolution. After the cold war the concept became almost indistinguishable from international peacekeeping, peacemaking and peace building operations. In 1992 summit of UN Security Council, leaders of the countries emphasised the importance of the rule of law empowerment for international peace and security. Since then it got importance and was highlighted in various meetings of UN bodies and commissions, and it got place in a number of international missions, as well as in a number of UNSC Resolutions (Bowden et. al., 2009). From the time of the end of cold war, the importance of the rule of law has been increased consistently. No doubt, the fragility of number of states, increased after the collapse of the cold war ice, posing a threat to regional and international peace and security, largely correlating with the lack of rule of law, made the rule of law issue among the major current security concerns of international community, including the UN and regional bodies, among them the EU. The complex nature of the rule of law is fairly reflected into the conceptualisation of the rule of law by international community. Its conceptualisation takes cultural, regime, traditional, contextual colours among others. This is one of the reasons why the UN concept of the rule of law is so broadly and contextually defined, associated with order and security, which has its substantial implication for the rule of law of the country concerned in general. Largely within the UN the concept of rule of law in various international missions seems to have taken variety of meaning owing from the context and the terrain of mission operation. It mostly includes: law and order; ending impunity for crimes; resolving conflict through law; protecting and promoting human rights; principled governance (Bowden, et. al., 2009). These elements of the rule of law concept defined by UN are developed from pragmatic perspectives based on the specifics of each context of international missions, their experience on the ground, successes and failures as well. Such a widely and flexible concept of UN for the rule of law is being developed consistently, in context related bases and the specific needs and requirements of each context and the role and capacity that UN is meant to play there.

Likewise, the rule of law concept by international missions is primarily based on capability of promotion rather than internal rule of law functionalisation driven. It takes into focus the ability of the mission to functionalise the rule of law, and not the primary concerns of the community's necessity for the rule of law. Therefore, externally based rule of law functionalisation is very challenging in itself, because it should to be internally thrust. Rule of law system might be set in motion even externally, but real functionalisation and maintenance requires domestic steering. Often international peacekeeping and peacebuilding missions containing rule of law

as well were quite ambitious, but while encountering the realities on the ground brought even the peacekeeping process in danger in the places they were deployed, leading to a frame of the rule of law as loose as almost detracted from the substantial conceptualisation of the rule of law, pertaining to justify mission's actual operation.

### **Eulex Mandate as (External) Guarantor of the Rule of Law in Kosovo**

One of the major challenges for new and post war countries is law and order. The disordered and chaotic environment caused by war is not conducive to a functional rule of law system. No other dimension of political system is more affected and more complicated to become functionalised by such a milieu than the rule of law. This is principally due to complex, sensitive, and all encompassing nature of the rule of law. Most of the energy of newly created states is dedicated on the endeavours to fight with the legitimacy crisis of just created institutional state structure, including institutional structure of the rule of law. Often these new institutions are in need of external support to catch up and develop to required level. Usually, the external support and assistance on the rule of law suffices the easiest and outer side of the rule of law system, which doubtless helps in substantial functionalisation of the rule of law, while the haunting essential challenges lay mostly on non externally supportable dimension, on domestic and *unseen* part of the rule of law. It is a straightforward issue to build formal institutions, but is more challenging to set them in motion of functioning, build trust on them, and institutionalise them. Essentially, Kosovo is confronted with two inconveniences for the rule of law system functionalisation. It is a newly established state and a decade ago emerged from war. Since then it is still having persisting problems of feeble rule of law, struggling to cope with the functionalisation of the rule of law, in particular with hardly approachable shortcomings of the rule of law system. There has been considerable progress in terms of the outer side, skeleton, establishment of institutional structure of the rule of law, but when it comes to its functionalisation and building of trust on the rule of law still high inadequacies are evident. It resembles a body having a skeleton without muscles, blood, and spirit. The international promotion of the rule of law by UNMIK (United Nations Interim Administration in Kosovo, under the 1244 UNSC Resolution/1999) and now by EULEX has added and is yet adding to the formal structure of the rule in Kosovo, or to the hardware of the rule of law if put so, while the dimension of software the rule of law system is barely externally supportable, especially through the rule of law mission in the UN and currently EU understandings.

Lack of trust among Kosovo society on the rule of law system and its weakness is principally attributable to deficiency of the independence of judiciary as a repercussion of political influence on judicial system. This is perceived for a considerable time even by international community that Kosovo authorities, yet after many years of UNMIK administration, are not capable to take the full responsibility of rule of law on their hands, in particular the rule of law enforcement

mechanisms where the door to political influence is easier opened, or the door is not there at all. The political influence on the rule of law at the legislative level in Kosovo context is heavy internationally over sighted, whereby the laws needed to be passed can arranged through external sway. Yet, the implementation level of the rule of law appears challenging and prone to political control. Such domestic and international perception about the rule of law in Kosovo seems to have not been altered for over a decade and despite international communities' direct role in the rule of law system in Kosovo. This is clearly spelt out at the Report of the Special Envoy Representative of the UN Secretary General Kai Eide in Kosovo in 2005. In his report among other he states "... *There is a little reason to believe that local judges and prosecutors will be able to fulfil in the near future the functions now being carried out by international personnel*" (Letter dated 7 October 2005 of the Secretary General addressed to the President of the Security Council, p. 14). Although, since mandated and its deployment to administer Kosovo after the war, the UNMIK was chief responsible for the rule of law structure in Kosovo. Yet, even after eight years of its mandate and experience on the ground of overall administration, include the rule of law, the situation on the ground proves not to have improved to an expected extent that the rule of law to be trusted to Kosovo authorities, as anticipated after the declaration of the independence in 2008. Based on this and the UN Special Envoy Marti Ahtisaari's proposal (UN Secretary General, "Comprehensive Proposal for the Kosovo Status Settlement") for the supervised independence solution to the Kosovo issue, among others, it was meant to transfer the rule of law responsibilities from UNMIK general administrative and institution building mission, to a more specific rule of law mission under the direct responsibility of the EU. Such a mission is meant to be carried out by a CSDP<sup>1</sup> directed by the European Union. The EU Council agreed<sup>2</sup> on a joint action (Council Joint Action, 2008/124/CFSP) to mandate a CSDP rule of law mission in Kosovo, named EULEX, pertaining to undertake the responsibility for the rule of law functionalisation in Kosovo, in particular among others cases being directly linked with politics: war crimes, terrorism, organised crime, corruption, interethnic crimes, financial and economic crimes, and other serious crimes. In other words, what the UNMIK and Kosovo provisional institutions failed to achieve for eight years, is meant to be achieved by the EULEX. The primary objective of the mission is set to functionalize the rule of law in Kosovo. The mission is mandated referring to the 1244 UNSC Resolution, and is the largest CSDP mission ever launched by the EU. The mission at the beginning targeted to have 3200 staff, though recent frustration in the mission in terms of not successfully fulfilling the mandate. The mission plans to reduce itself including the number of personnel. In the mission take part EU member states (excluding Cyprus) as well as Norway, Switzerland, Turkey, Croatia, the US and Canada, while others could join as well ([www.eulex-kosovo.eu/en/info/whatisEulex.php](http://www.eulex-kosovo.eu/en/info/whatisEulex.php)). The EULEX mission is overwhelmingly and

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1 European Security and Defence Policy

2 Except Cyprus, using the "constructive abstention" mechanism (Article 23(1) Treaty on European Union). Arguing that the Ahtisaari's proposal has not been approved by the UN Security Council

enthusiastically welcomed by the Kosovo citizens, disappointed by the long, monotonous and fruitless policies of the UNMIK, in particular futile role of UNMIK on the rule of law system functionalisation. There was a hope, in particular at the beginning of EULEX deployment, that this is an opportunity to give the meaning to the stateness of Kosovo, in terms of making justice work, addressing the most challenging issue in Kosovo. For eight years responsible the UNMIK and Kosovo provisional institutions failed to do so. Now it is the turn for EULEX. However, as a mission it took almost two years to settle itself and seems that is still dealing with the issue of deployment, discussing its structure and mission. Despite long time consuming mission settlement activity, EULEX so far appears to follow the same path the UNMIK did, in terms of its conception of the rule of law and effectiveness of the mission. The society's eagerness hoping on EULEX to ensure the rule of law and bring justice is slowly being vanished as time is passing and ineffectiveness are growing, bringing into question the very mission itself.

Leaving aside the possible outer factors pinching into effectiveness of EULEX mission, such as the non recognition of Kosovo state by five EU member states, or inefficiency of CFSP itself, or the lack of coordination among EU and US as the main players on EULEX priorities (Interview of Vreeswijk, 30.07.2010), the mission's main challenges appears to be its approach to the rule of law in Kosovo based on the common conception of the rule of law by the UN peacekeeping missions, largely ignoring domestic milieu and the issue of external supportability at the *software* level of the rule of law system. EULEX orientation and energy is directed to the *hardware* of the rule of law system that was merely built by the UNMIK administration to its utmost. However, the roots of the problem lay somewhere else. In order for a problem to be solved it should be tackled at its roots, otherwise one should be prepared to encounter it daily. The EULEX rule of law mission in Kosovo is necessary, but it is unlikely to fulfil its mission. Taking into account the three levels of the rule of law process such as the laws, the institutions and politics, EULEX approach on the rule of law mission in Kosovo is principally operating at the second level. While at the heart of the not functioning rule of law system in Kosovo principally remains politics. Therefore, the measures and mechanisms that EULEX is using are not sufficient and suitable to address the issue and fulfil the mission for what it has been mandated. The EULEX is handling a political issue with technical instruments. The signs of failure are becoming frequent, reflected into frustration of the mission in search for an exit strategy, before completing deployment yet.

### **Eulex Challenge and Opportunity to Functionalise the Rule of Law in Kosovo**

Generally, the rule of law system involves three major levels and other sublevels: the laws, the institutions, and politics (Carothers, 2006). The first level is merely formal, easy to be reformed and less energy and time consuming especially in cases like Kosovo context, under heavy and direct external influence to squash the legislatures to pass the required laws. Considerably, legislative process due t

international presence in Kosovo has been transformed into a merely technical rather than political issue, having to do more with writing and passing laws. Under heavy international pressure, many laws in Kosovo are written then passed by legislature, even in package procedure (Report of the UN Secretary General to the UN Security Council on the UNMIK, S/2009/149), which is known as less democratic procedure. This was largely due to international community insistence, previously by UNMIK, then followed by the supervisors of independence and influential diplomatic missions in Kosovo. In short, passing any law required was almost doable and trouble free issue. However, the stuck then appeared on the law implementation stage. The second level of the rule of law system includes law related institutions such as courts, police, prosecutors, prisons, and public defenders. One of the main challenges at this level is to ensure the impartiality and the autonomy of these institutions from the political interference. In a country of high level of politicisation, ensuring independence of these institutions from political interference is quite illusory. Actually, these law implementation institutions are founded by international presence in Kosovo namely UNMIK, and later on consistently supervised and supported by international supervisors of independence, while recently mentored and monitored by EULEX. Certainly, the rule of law institutions in Kosovo political system are quite new and in need of training and assistance, as technical and institutional reforms improve their performance and help the rule of law functionalisation. EULEX is doing most of its activity in this direction in terms of training judges, prosecutors, police and customs. In many cases the EULEX judges themselves are involved in judicial panels, assist prosecutors and police, and make investigation on their own as well. Yet, the question remains to what extent do these reforms, at this level of the rule of law system, suffice to ensure the impartiality and fair trial in the rule of law system as well as government constrains by law to ensure the primacy of law over politics? Principally this is the level of the rule of law system, where international missions can contribute and add in mostly. Therefore, in cases where rule of law limps at the institutional level that entails technical and professional support and assistance, international rule of law missions can be very successful, since they are able to deliver and provide it. If the rule of law is hobbled by politics, it is very challenging for international rule of law missions themselves, since it is an area where such missions can not deliver, because it requires primarily getting politics right in order to have the rule of law from politics and functional. The most challenging issue and more time and energy consuming reforms at the rule of law functionalisation efforts are at the third level known as political level, where politics enslaves justice. The issue of closing the door of politics on the justice system is highly demanding. Political influence and dictate has repercussions for the rule of law functionalisation and effect giving, in substantial meaning of the rule of law. It averts the developments in the right direction of two other levels of the rule of law system, the laws and the institutions. As long as law implementation institutions and judiciary branch linger directly dependent and influenced on politics, it is difficult to talk of the rule of law, or to expect a foreign mission to functionalise it. Politics has been and is still an obstacle to the rule of law function in Kosovo. The lines between political, economic and criminal networks are plenty blurred, and most of the political commitments on the



rule of law functionalisation so far remain at the rhetorical level (Grevi et. Al., 2009, 366). This implies the necessity of real division of power to ensure the independence of justice institutions. The political interference and influence in the rule of law system in Kosovo is repeatedly and explicitly also pointed out and emphasised on the European Commission Reports of Progress in Kosovo since 2005: *“The justice system remains weak and vulnerable to political interference...”* (Commission of the European Communities, Kosovo Under UNSCR 1244 Progress Report, SEC (2009) 1340/3, 11); *“Along challenges such as corruption and nepotism, the continued political interference at different level and at different forms in a number of cases, including the work of Kosovo Judicial Council, is of serious concern. In several instances judges and prosecutors have refused to deal with sensitive cases. There have been reports of threats and intimidation against them.”* (European Commission, Kosovo\* 2010 Progress Report, SEC (2010) 1340/3, 11). Nonetheless, looking at the introductory part of EULEX mission, portraying itself as a technical mission, implies that it has no intention and tools to deal with the third level of the rule of law system functionalisation, the political level, to depoliticise the rule of law system that is considered as the fundament of the pyramid of hitch of the rule of law. Referring to the EULEX mission statement (Council Joint Action, 2008/124/CFSP, Article 2) it became obvious that one of its major objectives in assisting and supporting the Kosovo institutions, judicial authorities, and law enforcement agencies, is to ensure their independence and freedom of these institutions from political interference. In other words, it pertains to depoliticisation of the rule of law system. Yet, the tools used by EULEX do not appear consistent with the objective of ensuring the freedom of judiciary from political interference. As such, it poses defiance to EULEX mission itself pertaining to functionalise the rule of law system, while being incapable to depoliticise law institutions currently under such political influence.

Moreover, referring to the EULEX Programme Reports (EULEX Report 2010, 2011), the achievement of sustainability and accountability of Kosovo institutions, judicial authorities and law enforcement agencies, as additional aims of EULEX, are well specified in terms of the policies and actions taken. Within the sustainability clause are involved obtaining the legal basis, procedures and policies, resources and human skills, budget, sufficient and appropriate buildings, trained and motivated staff. While with the accountability aim is meant the account of activities and documentation of what ever the law institutions do. But, all the elements of the sustainability and accountability do not suffice to constitute and guarantee the freedom of judicial authorities and law enforcement mechanisms from political interference. On the other side, while dealing with the issue of ensuring freedom from political interference of law institutions, judicial authorities and law enforcement agencies, the aims remain vague and ambiguous in terms of the specific and concrete policies and actions required to be undertaken. This makes further obvious the complexity of the rule of law system in Kosovo, high level of political influence on the rule of law system, and the inadequacy of foreign missions to achieve such objectives. The sustainability and accountability are more of procedural and technical nature not ample for a rule of law functionalisation in

substantial meaning of the rule of law. Certainly, they are very important and irreplaceable, but do not guarantee the rule of law, as it is meant to be achieved by EULEX.

Furthermore, moving down to the actions and the field of operation, the major obstacles that EULEX is facing on the ground are cases having a dose of political influence, or linked with politics. This obscurity is best illustrated by the EULEX authorities' commitments as they deployed, and their failure to comply with. This, in turn was very damaging for the image of EULEX among the public, as a result the mission is currently spending a lot on PR campaign to improve its image and trust among disappointed public. Furthermore, the trust of people is a key to the mission's success. It might be the case that people's expectations were higher than EULEX capacity, but in general the mission itself appears unable to functionalise the rule of law, since foreign missions have no adequate means to address rule of law problems at political level. The former acting EULEX chief prosecutor, on an interview about EULEX mission and activities, he promised that within a year they will move with tackling issues of political implications from central level down to even local authorities, including the arrest of many according to him "*big fishes*", predicting a deep heat for August 2010 (Vreeswijk interview for daily newspaper "Koha Ditore", 06.05.2010). Since then the "big fishes" keep on being free and even influence further politics and the rule of law system, making the boundaries between politics, economy, and criminality auxiliary hazier. This leads to establishment and consolidation of a vicious cycle that challenges the rule of law system permanently. The more powerful the "big fishes" are, the more able they would be to influence the rule of law system. The more influenced the rule of law system is by them and politics in general, more shabby would be the rule of law system to put them under its control. Another, important factor which underlines the high level of political influence on the justice system in Kosovo, is the role of various international bodies acting in Kosovo, including the diplomatic missions. They often dictate the agenda and actions of EULEX, reacting on various cases tackled by EULEX, bringing into agenda of the rule of law functionalisation the political consequences of EULEX mission, policies and activities, in a way put forward a sort of politicisation of EULEX rule of law agenda.

Thus, the technicality of the EULEX mission adding to technical and professional dimension of the rule of law institutions, does not guarantee the functionalisation of the rule of law, since it has no adequate means to deal with third level of the rule of law, most challenging in case of Kosovo. It can not close the door of politics to justice system. Its contribution is more related to the rule of law in the procedural meaning of the rule of law. Yet, in substantial aspect of the rule of law, such contribution is not expectable, as long as it requires primarily political rather than judicial reforms. In turn, this defies the mission, since the fulfilment of objectives is directly linked with the fate of the mission itself.

## Conclusion

To sum up, the EULEX mission in Kosovo is welcomed and indispensable for the time being, at least on the institutional level of the rule of law reforms, but it has no appropriate approach and it lacks the suitable mechanisms to achieve its objectives, functionalisation of the rule of law. It has no means to bring justice system in Kosovo free from political interference, influence and control, which is considered a necessity for the rule of law system to function. Training judges, prosecutors and police, renovating buildings, and heading routine technical bodies, do not ensure the impartiality of judges and security of the rule of law system from political interference. As such, the mission appears to play an animated game behind the ports of the real play field. What is more, the credibility of the CFSP in general is dependent on its achievements on the Balkans (European Council, “A Secure Europe in a Better World”, 2003, 8), part of which is Kosovo and EU has freer hands, through EULEX, to act directly compared to other Balkan countries. For sure, the justice system in Kosovo is in need of better offices, more chairs and tables, and even more and better trained and skilled judges, prosecutors, police and personnel, but what it needs utmost is to get rid of political influence, which can not be affordable by EULEX mission. The rule of law functionalisation in Kosovo needs to get politics right, and EULEX has no such mandate.

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## BALKAN WARS AND THE RISE OF TURKISH NATIONALISM

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### **Abstract**

*The formulation of Turkish nationhood centred around the motherland, Islam and blood formula was tried by Young Ottoman firstly and later by Young Turks. The throughout the 19th century, Ottoman ruling class was engaged in countering supremacy of European countries and northern neighbour, Russia. Nevertheless they aimed to restore Ottoman army and consolidate the “state power” with imposing institutional and political reforms. A group known as the Young Ottoman, was formed consisting of intellectuals concerned about the disintegration of Empire. The famous writer, Namık Kemal who was to be an inspiration for later generation of Turkish nationalist, popularized the notion of motherland with using nationalistic terms. In the reign of Abdulhamit II, Young Turks who organized against the Sultan, continued to promote Ottomanism. At the end of the 19th century there were four main ideological attempts focused on maintaining integrity of Ottoman state and its indefinite future. Unlike Islamism, Ottomanism and Westernism; Turkish nationalism became the most popular and applicable one among the others because of the distinctive marks of Balkan Wars (1913-14) and wartime atmosphere. In this paper I aim to analyse the process that indicates the rise of Turkish nationalism among the others regarding with the texts from the nationalist periodicals both for adults and children, especially from Turk Yurdu Dergisi [Homeland Magazine] and prominent issues on the agenda of nationalists.*

### **The Roots of Turkish Nationalism**

There had been actually some studies defined cultural heritage of Turks, especially in literature, history and ethnography before the Balkan Wars. Predecessors of Turkish nationalism, who expressed some basis about Turkish language and history, were the members of Ottoman ruling class. For example Ahmet Vefik Pasha attempted to standardize Turkish language regarding its folk version; another name Ahmet Cevdet Pasha claimed Turks and Arabs, two ancient nation, ruled Muslim world unprecedentedly. Suleyman Pasha, the commander of military schools, focused on pre-Islamic era of Turks and emphasized the “continuity” from Central Asia to Ottomans. Mustafa Celaleddin Pasha tried to prove that Turkish tribes descended from the same roots with Europeans. Thus all these studies paved the way for constructing national consciousness in the beginning of the 20<sup>th</sup> century.

The nationalist intellectuals, such as Ismail Gaspirali, Huseyinzade Ali, Agaoglu Ahmet etc., came from Russia and its periphery at the end of 19th century and in the beginning of 20thies and the studies on Turcology in Europe especially in Hungary, Finland and Denmark also promoted Turkish nationalism and contributed to form nationalist discourse among the intellectuals and Ottoman middle class (Göçek, 2002). Yusuf Akçuraoglu, the prominent thinker and famous nationalist writer, in his well-known article named *Uc Tarz-ı Siyaset* [Three Ways of Politics] compared Islamism, Ottomanism and Turkism to find the political remedy what the most applicable was. Akçura argued that the Ottomans could choose from three options: an Ottomanism that assimilated all the empire's inhabitants into one nation; the embrace of Panislam and the unity of all Muslims or the pursuit of the unity of the Turkic peoples, who extend from Central Asia to Montenegro.

According to Akçura Islamism, a system in which only Muslims would constitute the citizens of the Ottoman Empire was out of date. Then he tried to prove the impossibility of the success of Ottomanism which gained support after the 1908 Young Turk revolution and could be defined the all the inhabitants of Empire as essential Ottoman citizens, regarding with actual positions of European states referring to national principles. Turkism was only way out for Muslim Turks to survive and restore the state. According to Akçura, inevitability of nationalism was clear: “this century is the century of nationality, the most influential force on the consciences of this century is the ideal of nationality” (Akçura, 1976). After the Balkan Wars *Uc Tarz-ı Siyaset* would be the reference point of not only Turkist intellectuals but also the Committee of Union and Progress and its political cadres.

The Young Turk revolution in 1908 resumed the constitutional momentum which was postponed during the Hamidian era. Lots of the members of Young Turks were ideologically foremost nationalist and criticized the imperialist policies of European countries although they were bound up with the idea of Western civilization. In this period, several intellectuals promoted the idea of a Turkish nation as a final resolution to the problems facing the Empire. After the 1908 Revolution, *Türk Dernegi* was established to deepen studies about Turkish culture and ethnography. *Cemiyet-i Tibbiye-i Osmani* as a Medical Science Association and another association named *Cemiyet-i İlmiye-i Osmaniye* began to translate the western terms and notions to Turkish. Four years later, nationalist intellectuals and activists gathered in some organizations such as *Türk Yurdu Cemiyeti* [Homeland Association] (1911) and *Türk Ocagi* [Turkish Hearth] (1911-12). Besides *Genc Kalemler* [New Pens] with its writers such as Omer Seyfettin, Ziya Gokalp and Ali Canip; *Türk Yurdu Dergisi* was one of the most popular journal that became the official one both Committee of Union and Progress and the government in 1913. Well-known authors of *Türk Yurdu Dergisi* -Akçuraoglu Yusuf, Aka Gunduz, Kopruluzade Fuat, Mehmed Emin, Kazim Nami and Halide Edip attempted to formulate Turkish nationalism (N. Önen, 2005: 102-107). Authors of *Türk Yurdu* and the other nationalist agents such as Omer Seyfettin, Mehmet Ali Tevfik began to influence the literate Muslim-Turks with their so-called “scientific” articles by utilizing enthusiastic discourses. Seyfettin as a publicist and essayist militated for a

essentialised nationalism, claiming that “if you are a Turk, you will think, feel and act like a Turk”. He addressed to his intellectual peers not only essays but also his popular fiction.

Besides Seyfettin, Ziya Gokalp’s writings and speeches impressed the nationalist leaders and he was elected a member of the Committee of Union and Progress’ executive council. Gokalp, called the “father of Turkish nationalism”, systematized an ideology that synthesizes modernism, Islam and Turkism (Gökalp, 1976). He claimed the tribes “developed” into religious communities and then into nations and also believed that nationalism was the new political religion of twentieth century. According to him, culture was national but the advances of “civilization” were international. Gokalp’s works contributed to the nationalist literature with his didactic poetries and political thoughts formulated both in the latter days of Empire and Turkish Republic that followed (Parla, 2005).

### **Balkan Wars and Their Reflections on Turkish Nationalism**

Italy seized Libya after a brief war with Ottomans and Ottoman Empire had to withdraw its military forces from Libya according to article 2 of Treaty of Ouchi (1912). Realizing how easily Italy had defeated Ottoman army; before the Italian war ended, members of Balkan alliance attacked the Ottoman Empire. In October 1912, a war broke out between the Ottoman Empire and the alliance set up between Russia, Serbia, Bulgaria, Greece and Montenegro. Ottoman reformers who had accepted the centralization of administration tried to reconcile non-Muslims in Balkans by advocating Ottomanism. But their efforts at Ottomanization had been rejected by Balkan nationalists that demanded full independence.

In the first war, The strong march of the Bulgarian forces in Thrace [Trakya] pushed the Ottoman armies to the gates of capital city, Istanbul. Ottoman Empire lost substantial amounts of land in Europe including parts of its former capital named Edirne that caused traumatic consequences because of its historical and symbolic importance in the process of empire’s becoming a power. In this context nationalist writers and some soldiers tried to remind the “glorious days” of Edirne to agitate and encourage masses. For example Kopruluzade Fuat wrote that in *Turk Yurdu*:

“While Selim, the son of Magnificent Suleyman, in Edirne where the heart of the great and ancient civilization in Europe, did the Turkish master build the everlasting temple, our flag had been wawing in plains of Hungary. In those times Edirne was not a border-city where the enemies of Turks attacked.” (*Turk Yurdu* May 1913)

As well as, reminding the “glorious” past was not limited only foundation and the rise of Ottoman Empire, the distant past in Central Asia became an “historical reference” to mobilize Turks for taking vengeance from the enemies in the future. Nationalist scholars imparted a “national memory” that how Turks should remember themselves especially their past and enemies. Both adults and the

children should have been aware of Turkish “glorious” history and taking vengeance was essential part of it. The statement of Ilyas Sukru that published in *Mektepli*, the juvenile magazine, gives an example of these thoughts:

“I am a Turk and I have the glorious history. Bulgarian, bloody ones... My noble heart is full of hatred and anger for you. Bulgarian! You should learn that the nobility of Turkishness is revenge and revenge!” (*Mektepli*, June 1913)

Another text from Kopruluzade Fuat;

“Turkish Youngs! If you want to save your dignified nation that to be devastated by the enemies; at the moment of tiredness and desperation; listen the voices comes from the steps of Asia: for the sake of Turkish nation I did not fall asleep at nights; not rest in daytimes and did struggle constantly till I would die (*Turk Yurdu*, February 1913)”

With the fall of Edirne, so many people in Anatolia were worried about the fate of Istanbul. They had shared same feelings during the Russian War in 1877-1878. Istanbul was the last ground that signified sovereignty of state and imperial days. The huge afraid of losing the capital intertwined with anger targeted Bulgarian and the other members of Balkan alliance. Famous woman writer and activist Halide Edip [Adivar] addressed to Sultan with those words after the outbreak of first Balkan War:

My Sultan, the enemy threatened Istanbul where was conquered with sword of great ancestry and holy blood. Our old gardeners with their muddy feet grabbed field guns of our soldiers in order to trample down our honour and dignity (*Turk Yurdu*, November 1912).

The citation above and the similar ones show us the nationalist evaluated the Turks as “supreme nation” and the other non-Muslims as the slaves. Turkish nationalists could not understand the effects of nationalism on the non-Muslim subjects of Empire. During the Balkan Wars, thousands of Muslim migrated from the Balkans to Ottoman’s Anatolia desperately with traumatic memories and composition of population of motherland suddenly and radically changed. In this circumstance, the definition of “motherland” also had been modified in accordance with new situation. With rising of Turkish nationalism, Ottoman land became to be mentioned as Turkish motherland and instead of the loyalty that expected to be shown to Ottoman identity, declaring loyalty to Turkishness became much more imperative.

At the wartime in January 1913, after a brief constitutional rule, the Committee of Union and Progress led by Enver Pasha staged a successful coup and took control of the government. Hence Committee of Union had reinforced its single-party regime and the leadership emerged as a military dictatorship in the hands of triumvirate consisting of Mehmet Talat Pasha, Ahmet Cemal Pasha and Enver Paha. According to the leaders and the intellectuals of the Committee of Union and Progress, the



sovereignty of the nation was being overlooked by the European countries and the former government could not be successful to protect the motherland. Perpetuity and integrity of the Ottoman land could not be sacrificed under any circumstances and even more wars could be fought. With these assumptions Committee of Union and Progress carried out nationalist transformation projects from education to law. In this process, Turkish nationalism step by step became a “state politics” and much more popular among the intellectual cadres and Muslim societies. For example contents of textbooks, such as history and reading books, were changed in accordance with nationalist aim and its discourse. Committee of Union and Progress aimed to cultivate soldier-citizens in order to “secure” well being of Turks. Some para-military organizations such as *Türk Gucu Dernekleri* [Turkish Force Committee] were established by Tevfik Rustu, Ahmed Cemal, Edhem Nejat and Falih Rifki (Akin, 2004: 95). “National economy project”, based on exclusion non Muslim merchants in Empire from economic activities, was intensified with the boycott of 1913-1914 anyway.

In 16 June 1913, after the first Balkan War, a second war broke out after disagreements between the victorious states. Bulgaria, dissatisfied with its share, attacked Serbia and Greece. Serbia and Greece had signed a defensive alliance; Bulgarians without any official declaration of war attacked Greeks and Serbs. These two countries counter-attacked Bulgaria and by the wartime Romania that had territorial disputes with Bulgaria, engaged in too. As the result of second war, Bulgaria lost territory to all her enemies by the treaty of Bucharest. Ottoman took advantage of the conflict and Ottoman army reclaimed the former capital Edirne at the end of the second war. But it was insufficient to appease the nationalists and the some people who came from Balkans with hatred and anger. Turkish nationalism and fear of losing national integrity would surround the political agencies. At the end of the Balkan Wars, there was growing more homogeneously Muslim as Empire lost its heavily Christian territories and accepted a steady influx of Muslim immigrants and refugee

### **Turkish Nationalism After the Balkan Wars**

The Balkan Wars prepared the way for World War I by satisfying some of the aspirations of Serbia and thereby giving a great impetus to the Serbian desire to annex parts of Austria-Hungary. After the Balkan War defeat, the need to modernize Ottoman army was recognized immediately and a military mission from Germany came to help the government. Liman Von Sanders was appointed commander of First Army in November 1913 and large quantities of new equipment were purchased in Europe. In this process nationalist scholars went on writing essays about the linkage between Turkish nationalism and resurgence. Nationalist decided that Asia Minor would be homeland for Turks alone and the others were to be eliminated. With the outbreak of World War I, it was the beginning of the collapse of Ottoman Empire; Germany and Ottoman state allied fully. In this process nationalist leaders perpetrated and carried out deportation and massacres of

Armenians; thus the combination of population in Anatolia was radically changed again. The armistice was signed at Mudros in 1918 giving the Entente the right to occupy any places if it saw reasonable. Committee of Union and Progress was blamed for the Empire's losses during the World War I; and the leaders of party fled. British, Italian and French military forces began to occupy the provinces of southern Anatolia and Greeks landed at Izmir in May 1919. Grand National Assembly was proclaimed in Ankara on 23 April 1920, forming shadow government and Turkish nationalist forces were engaged in War of Independence. Aftermath of Turkish Independence War (1919-1922), the addressee of Turkish nationalism was defined as the Turkish speaking populace of Anatolia with republican references. Mustafa Kemal as a founder and national leader played the key role to build new nation-state. In 1930's, while official ideology was being re-invented by intellectuals and officers, Turkish nationalism with its popular positivist components, dominated to process of institutionalisation and collective identity. The ideology was officially formulated in 1935 as consisting of six principles: nationalism, republicanism, secularism, revolutionism, statism and populism. The stereotypes constructed in Balkan Wars and traumatic heritage of occupy proceeded to designate the "national history" and internal politics in early republican era.

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**THE ROLE AND STRATEGIC IMPORTANCE OF BALKAN COUNTRIES  
IN CASPIAN BASIN'S ENERGY DIPLOMACY**

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**Abstract**

*Being one of the important dynamics of countries' socio-economic development "energy" plays an important role for the countries with scarce natural resources which imports them from abroad. It is obvious that the more output in GDP means the more energy consumption. In fact, having higher income per-capita leads to higher energy consumption per-capita in world economy.*

*It is equally important for the countries besides their internal consumption also to deliver the rest of their resources to the global market. "Strategic Transportation Pipes" gives extra importance in terms of security and economic sustainability for the relative partners of this market. A small instability on these transport lines will cause depression effect for the economies and at same time will lead other kind of socio-economic problems such as recession, unemployment and scarcity.*

*In this regard, Europe Union very considered for the bilateral cooperation with Balkan countries, because of their geografic position as a gateway to the main energy basis in south-east countries. Having secured relations with these countries means sustainable energy flow to EU countries.*

*The importance of Balkan countries in regard of strategic and geographical positioning to pass through the Caspian Energy resources to EU has been investigated in this study. An important issue has been stressed in this article are the energy resource and transportation security issues in energy politics and the stability of energy prices and the transportation of energy to markets in a requested quantity are also in the centre of attention.*

**Keywords:** *Caspian Sea, Balkan Countries, energy, security, energy market, energy route lines.*

## **Introduction**

The countries located in the Caspian basin that have a considerable proportion of high-quality oil and natural gas reserves, Azerbaijan, Turkmenistan and Kazakhstan, settled in the attention center of world energy policy after gaining independences in 1991. In the next 20 years, because of the increasing energy demand in major economies each passing day, the countries in the Caspian basin which is great potential for foreign sales of crude oil and natural gas, will become important competitive tools for the global politics in the regional and global demand for energy.

The primary target in the energy policy is to provide the security of energy supplies, safety of transportation and to ensure price stability. In addition, it is aimed to low the cost of the required energy, and to deliver demanded quantity and quality to the markets.

Even though energy resources, production and transportation are such competitive tools in the foreign policy behaviors, but also that offers new perspectives of cooperation. While the countries with energy sources and producing countries search for client diversity for economic independence, energy importers seek out diversity of sources for the same purpose.(Gasimov I.H., 2010). In this way, both sides aim to provide own energy safety. Any period of economic and political crisis, consumers contemplate not to meet with the problem of energy intake, producers, who do not wish to adhere to a single consumers, guarantee not to have export issues. In this view, the energy policy of Azerbaijan, one of the chief actors in the Caspian basin energy policy, is determined within the framework of competition and cooperation of the regional and global forces.

## **Energy Policies of Caspian Basin Countries**

With the increase in political tensions and wars in the Middle East, as new exporter countries in the energy market, the Caspian basin countries tend to different centers to ensure the safety of supply of importing countries and for this reason, International Energy Agency has defined Caspian region as the new geopolitics of energy in the international arena (Gawdat, 2005).

Today, the energy, both in terms of resource states, and countries providing transportation, has become a factor of economic and political benefits. Energy resources provide a country to have a say in the international arena and to direct the events.

There are three main determinants of the European Union's energy policy: competitiveness, safety of energy supply and environmental protection. As a result of increasing dependence on foreign energy sources, European Union has established close relations with the Meiddle East, the Caspian Region and Russia. In

order to ensure energy safety and to maintain sustainable development, EU wants to create a single market for Eurasian energy. For this reason, following a policy of multiple pipelines, tries to create a diversity of sources in energy imports (Bayraç, 2009).

Caspian Basin contains extremely high amounts and high-quality natural gas and oil, while states in the region aim to provide economic development with reaching international markets, besides, are trying to increase the political realibility in foreign policy, and energy policies is seen as the key to diplomatic relations. It can be said that Russia is the biggest obstacle for the reach to global markets of these resources. Today's, Europe is the most important market for Russia that is trying to keep the transportation routes in the hands and for this reason, Russia tries to prevent others in order to be the only state that sells natural gas to Europe (Uğurlu, 2009).

As being in the middle of The Caucasus, the Middle East and the Balkans, Turkey acts such a natural bridge between Europe and other importers. Because of having historical, cultural and economic ties to the regional countries, its geographical location, internal sources and population and also being a significant energy importer, Turkey has a strategic importance in the region (Yüce, 2005).

In the context of political relations, Turkey has also been serving as a bridge between the regional countries and Europe. Due to this close proximity, in Turkey-Russia relations, particularly in the energy transmission lines issue, Caspian Basin has been the most intense region having conflicts. Having developed relations with regional countries in military matters and being a member of NATO are significant factors that Turkey is making more progress to be more effective actor.

### **EU Interest to the Caspian Basin**

Providing the safety of energy supply in the region, EU has taken important steps to create assistance programs based on economy domain stability and energy security in the Caspian region : TACIS (Technical Aid to the Commonwealth of Independent States), TRACECA (Transport Corridor Europe-Caucasus-Asia) and INOGATE (Interstate Oil and Gas Transport to Europe). With the Nabucco project signed on 13th of July, 2009, it is planned to carry the Caspian natural gas from Georgia and Iran to Austria via Turkey and Bulgaria (Gasimov I.H., 2010). This project is to ensure Europe's safety of energy supply through multiple pipelines and an important pillar of creating a single Eurasia energy market strategy.

Due to entrepreneurial role of Turkey, the East-West Energy Corridor described as the 21st Century Silk Road has provided the delivery of the rich carbon-hydrogen resources of the Caspian Basin to the Western markets directly (Çelepçi, 2000). Pipeline projects linking the Caucasus and Central Asia to Europe are main factors in terms of integration with the West. It is foreseen that secure and commercially

profitable pipelines will provide a significant contribution to bring stability and prosperity in the region. Many multi pipelines have been constructed and new projects have been manufactured in order to provide the safety of energy supply needed by EU.



**East-West Energy Corridor.**

(Source: US EIA - <http://www.eia.doe.gov/cabs/Turkey/NaturalGas.html>)

Baku-Tbilisi-Ceyhan (BTC) is one of the most important crude oil pipelines and began to carry oil since June 4, 2006. Kazakhstan has been included in the BTC project officially on June 16, 2006 and beginning from 2008, began to pump oil to the pipeline. In new energy transports, Turkey is manufacturing new by-pass projects in order to limit movements through straits. For this purpose, works for Trans-Anatolian By-Pass Oil Pipeline were launched on April 24, 2007 (Turan, 2010).

Another important pillar of the east-west energy corridor, the Baku-Tbilisi-Erzurum Natural Gas Pipeline became operational on 3 July 2007. This line, which will at the same time provide the flow of natural gas from Kazakhstan and Turkmenistan named Trans-Caspian Natural Gas Pipeline Project, is considered as the first step (Kasim, 2009).

Turkey's goal is to be the Europe's fourth main artery of natural gas supply after Norway, Russia and Algeria, that will strengthen the links between Asia and Europe. Thus, it is obvious that Turkey has a strategic importance in transportation of oil and natural gas by multi pipelines to Europe. (Davutoğlu, 2010).

The only way to get the Caspian and Central Asian energy resources for Europe is through Turkey and the Balkan countries, that proves the strategic importance of these countries, and also, in terms of opening up to the Western markets, it has a great of importance for the Caspian region countries (Bayraç, 2009). Turkey that is a strategic transit country and the Balkan countries are becoming energy markets at the same time. Therefore, it is great importance for Turkey and the Balkans to develop wide range of energy transportation projects in terms of providing import diversity of oil and natural gas resources,ensuring safety and continuity.

Hence, to reduce the dependence on Russia partially, supplying natural gas from the Middle East and Central Asia through Turkey, as a more secure country, and the Balkans will serve the EU's policy of energy supply. Therefore, this energy corridor has a extremely important place for the diversity principle of the EU. Especially, East European and Balkan countries are much more dependent on Russia than the other EU member countries. From this perspective,the EU intends to implement an important and strategic decision in the policy of energy safety with Nabucco gas pipeline.

### **Azerbaijan's Energy Policy and Projects**

Azerbaijan, which is one of the countries established oil industry in the world, is one of the important countries in the region in spite of experiencing a lot of problems caused by neighboring Armenia that rapes the territory of Azerbaijan, penetration efforts of great forces. Domestic and foreign policy priorities of Azerbaijan are Nagorno-Karabakh, delivery of energy sources to international markets efficiently , the development of non-oil sector and the country's economy diversification (<http://www.azerbaijans.com>). While determining foreign policy, Azerbaijan should protect own national profits and being the leading country in the region as well as maintain the relations which depend on having equal rights with neighboring countries and the other countries that have profits from the region (Turan, 2010).

The realization of the Baku-Tbilisi-Kars railway project could be specified as one of the most important achievements of Azerbaijan's foreign policy. A memorandum of understanding was signed between Turkey and Georgia about the project emerged depending on Azerbaijan's strategic policies in the meeting of Joint Transportation Commission held in Ankara on 26-29 July, 1993. Then, the talks on the project was suspended. No success was gained on the realization of the Kars-Ahalkalaki railway project in the meeting of the Transport ministers of both countries held in Istanbul on 20-21 July 2002 (<http://www.azerbaijans.com>). Finally, Azerbaijan raised its

diplomatic effort for the realization of this strategic project and made it the main priority of regional policy (<http://www.azerbaijans.com>). As a result of multiple attempts, on May 25, 2005, the presidents of these three countries (Turkey, Georgia and Azerbaijan) signed a new joint declaration on the realization of the Baku-Tbilisi-Kars railway project finally.

The importance of the project, Azerbaijan is as one of the leading countries in this work, is not only about the economy but also has geo-political character. For that reason, Armenia and Armenian lobby in the western countries strived obstacles towards the realization of this project. As a result of the strives, US Congress imposed a ban on the allocation of loan for the project by the U.S. Exim Bank. However, Azerbaijan earmarked low-interest loans to Georgia for the financing of this project, showing brave enough political stance. Thus, interventions directed to stop the project was a fiasco. February 7, 2007 in Tbilisi, agreements have been signed on the realization of the project. With the realization of this project strengthening Azerbaijan's position in the regions such a Europe-Caucasus-Asia (TRACECA) transport corridor connection, it will increase the status of Azerbaijan as a transit country.

A new leap, focused on safety and named New Neighbourhood Policy, has been taken in by European countries after European Communities. The main purpose of NNP is to create an effective security perimeter around the outside of EU where EU never expands. In term of EU, the economic and trade relations with the countries included in this policy are such a motive that can not be ignored (Clawson, 2000). Especially in the case of relations with Azerbaijan, New Neighbourhood Policy of the European Union is noteworthy which the size of economic interest can be seen.

Azerbaijan's cooperation with the EU gets out of the country's security needs, it grew in economic, political and social spheres. Within the framework of the European Neighbourhood Policy, EU-Azerbaijan Action Plan was adopted in 2006, having been reinforcing political dialogue between the EU and Azerbaijan, improved the cooperation in the fields of economic and industrial reforms. The importance of Azerbaijan in the energy safety of Europe has increased with being the leading state in the region (Şahbazov, 2012).

Not only as an energy producer but also as a transit country, Azerbaijan has become an important player and the center of the region with the realization of successful regional infrastructure projects such as The Baku-Tbilisi-Ceyhan oil pipeline and the South Caucasus gas pipeline for Europe.

### **Azerbaijan-EU Relations in the Caspian Basin Energy Diplomacy**

Prior to the New Neighbourhood Policy, Azerbaijan-EU relations proceeded more with the TACIS program and projects INOGATE and TRACECA within the scope



of TACIS. The previous relations, limited with programs, conveyed to the political relations scope with NNP. With this new policy that the main objective is to create a security perimeter announced by the EU, the Union demonstrated the same inconsistency such in the case of expansion policy with Turkey (Şahbazov, 2012). Obviously, All of Nagorno-Karabakh and the surrounding regions have been in the invasion of Armenia for almost 20 years. Armenia that does not respond positively to the peace steps taken by Azerbaijan, is known with its intractable attitude in the resolution process. Unfortunately, Azerbaijan does not have much choices (only one) towards Armenia that does not want to retreat from the occupied lands of Azerbaijan and intractable attitude of Armenia, especially in recent clogged negotiations. President of Azerbaijan : "To take back our land through the basic to the way of peace is the solution, but if the Armenian side exhibits uncompromising attitude , we apply all required steps to any lengths to get back the Nagorno-Karabakh and the surrounding lands which were Azerbaijani lands throughout the history". This speech is the key word to show that Azerbaijani authorities have tried all the options to solve the issue, except the alternative mentioned in the speech. War is always the last solution and Azerbaijan is aware of that. In fact, this awareness was the main factor in peace efforts' continuation of such a long period of time. The size of Azerbaijan or Armenia in this issue is not pointed, but rather the attitude of the EU to the problems (Şahbazov, 2012).

The course of the present issue of the occupation of Nagorno-Karabakh by Armenia triggers a new war in the region. Azerbaijan strategy basic motive is obviously the economic interest of the Union countries within the framework of the New Neighbourhood Policy. Particularly, the Nabucco project, functioning BTC pipeline and the oil consortiums, the Baku-Tbilisi-Kars railway project and new ideas are Europe oriented projects (Çelepçi, 2000). Indeed, Azerbaijan has set the priority of the foreign policy as Turkey and West oriented rather than the Russian Federation in the North so many years ago (Yüce, 2005). A probable war in the region undermines economically not only countries in the war, but also hits the EU that benefits the resources of the region. Therefore, The EU must be involved in the resolution process of the problems of the region to protect the economic interests within the scope of the New Neighbourhood Policy and to create security circle around.

Nowadays, it is observed that the EU has pursued only Armenia's interests with Azerbaijan policy within the framework of the New Neighbourhood Policy. EU sees Azerbaijan as an important business partner, ignoring the issue of the occupation of Nagorno-Karabakh, as if this is an ethnic conflict problem, which evaluates the two countries. The Union refers that the problem can only be solved between the two countries. Hence, the double standart is evident in the the South Caucasus policy of the EU.

To prove this idea, it is enough to take a look at the attitude in the problems with Russia in South Ossetia in Georgia, the other part of the New Neighbourhood Policy, in 2008, It is much more difficult problem than the occupation of Nagorno-

Karabakh process in terms of direct or indirect interventions of foreign countries. In 2008, events in South Ossetia, were down in the history as a conflict that the army of the Russian Federation took part. With the mediation of the European Union itself, the interventions of French President Sarkozy and German Chancellor Merkel, as a result of convince of Russia, Georgia has been recovered from being occupied by Russian troops. In addition, at the end of 2011, Russia was condemned by the European Union once again as an occupying country. Thus, in spite of having Russia against them, the EU undertook responsibility to solve the problem in Georgia, but, still saying the same word, "the problem between Azerbaijan and Armenia about Nagorno-Karabakh is region's problem." shows such an attitude of inconsistency of the EU(Şahbazov, 2012).

The EU, stopped the war in Georgia, has still insensitivity about the ongoing occupation of Nagorno-Karabakh by Armenia, in spite of the four decision, taken by UN at different times, demanded Armenia to evacuate occupied territories of Azerbaijan. Rather than solving the problem, on the contrary, the EU accepts the problem as region's own "internal problem" and even reluctant to mediate evaluating the solution.

## **Conclusion**

In 21st century, energy has been one of the most important determinants in relations between states. Exporting countries want to have rights on decision on their own recourses, to keep their export revenues at a certain level by selling oil or natural gas to different consumers while importing countries want resource sustainability, provision of transportation security and the stability of prices. Both parts develop their ebergy policies in this way.

In order to maintain the sustainable development, source owner countries improve bilateral or multilateral relations for competitiveness with global forces, so that, they try to provide political and economic development.

The EU is the most intensive energy-consuming part of the world, in turn, due to insufficiency of its own sources, the EU wants to meet energy needs by using the advantage of geographical proximity to Euroasian countries that have a significant portion of energy sources in the world.

The EU, in addition to the regulations in the field of energy in their own, aims to establish policies taking into consideration the interest of energy security and the dependence on foreign energy sources that it will face near future. Indeed, the EU, adopting "multiple pipe lines policy", is trying to develop new approaches about the pipeline from the Middle East, Central Asian countries and North Africa to the Europe.

The Union would like to see the Caucasus as an alternative source of stabilized a region in reducing the dependence on Russia. The EU wants to create secure transport corridors where the pipelines pass through, Although, the EU supported the projects TRACECA, TACIS, INOGATE and the other projects which are also supported by the United States, when compared to other global forces, the EU is far to create a strong policy on the region these days.

In energy policy, It is one of the main priorities of Azerbaijan to get back the territories occupied by Armenia. And also Azerbaijan is the most important actor in the region. The situation that the demands of Azerbaijan are not met, reduce the importance of the EU in Caspian Basin energy policy.

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**THE CIVIL AND POLITICAL SOCIETY DURING NATION  
BUILDING PERIOD IN ALBANIA: 1912-1939**

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**Abstract**

*The Albanian history is full of consecutive invasions that have continued for different centuries. The power has been in the hands of foreigners for different centuries. Therefore, the social and political conscience was mainly composed of the survival concept. The governance of the Ottoman Empire was based on the military and political power instead of a market's dynamics. This factor has prevented for a long period of time the development of a middle and urban class that is the base of every modern society. As the author E. Vlora highlighted the society was divided in two main categories: the nobles composed of landowners and some few bourgeois that have never been democrats and the massive population composed of peasants, shepherds, soldiers that used to follow their leaders.*

*Due to these factors, after the declaration of the independence in 1912, the efforts for the development of a civil or political society were not easy to undertake. This paper will try to analyze the dynamics and the logic of the creation and development of a civil and political society in the nation building period. The analysis will be focused on the evaluations of different social, historical and cultural factors that have strongly influenced the process of the creation of the civil and the political class. In the framework of this paper the civil society will be assumed as a community based on communication, persuasion, consensus and diversity (Almond and Verba, 1963). With the term political class will be intended the community of people that is or tries to be to be part of the political power and government.*

**Keywords:** *Civil Society, Political Class, Nation Building*

**Introduction**

The absence of tolerance, consensus and understanding among the political class in is one of the most discussed problems in Albania since the beginning of the transition in early 1990's. The continuous conflict between political forces is becoming one of the most relevant concerns not only for the society but also for the

international organizations that are monitoring the democracy's consolidation. The research question of this paper is: Is the actual Albanian political and civil culture traditionally transmitted from the state building history? The main hypothesis of this paper is based firstly on the Putman's claim (1993: pp.1) that politics is oriented by the institutions and the institutions are oriented by the state history and secondly on the argument that the civil culture of a country is reflecting the history which is hereditary from one generation to another (Filo 2004, pp.59). The purpose of this paper will be to highlight some characteristics of the civil and political culture development during the nation building period (1912-1939), in order to find out if these elements can still be found in the actual situation.

Firstly, through the theoretical framework and method will be discussed the correlation between the civil and political culture and the politics' performance in the democratic modern systems. In this way we can understand why it is important to look into the civil and political culture for a better understanding of a general panorama on the performance of the political system. In the same section the method will explain the way the research is conducted.

Secondly, through the analysis of the civil society during the state building period, will be indicated the main elements that have designed the attitudes of both political class and civil society. This analysis will also give explanations of the social, economic, historical factors that have marked the civil society and the political class.

Thirdly, will be shown, the common elements of the civil and political culture noted in both periods: nation building and democracy building. In this way we can answer to the question if the political and civil culture that is actually dominating in Albania is or is not transmitted by the historical period that coincide with the first steps of the state creation.

### **Theoretical Framework and Methods**

The democracy's performance is strongly connected to the civil development of a society. In accordance to the results of Lijphart (1988: pp.55-56), the twenty-four most developed democracies in the world, have in common, not only a strong economy based on the free market, urbanization, industrialization and high level of education but also some common cultural values that consists in civil characteristics of a society.

Some principles and values like regulations, hierarchy, authority, solidarity, belief, and conflicts' solutions are the main elements that compose the general frame of a civil society. These values are a perception of the history and politics (Brown 1977, pp.1).

The social and economic modernization, which is the result of the industrial revolution in one hand and the civil community which consists in social cohesion and solidarity, at the other, are the two most important factors that can influence the democracy's performance (Putman 1993, pp.64). The economic development together with the industrialization makes possible the enlargement of the middle class, that is the base of a modern democratic society. In addition the civil society consists in participating citizens in the public issues, solidarity, trust, political equity (Putman 1993, pp.82), voluntary associations (Walzer 1974, pp.64), which all together makes possible the existing of a communication bridge between the politics and the society. The solidarity and the sense of community are enforced by four factors like: the norms of participation, the tools of participation, the feelings towards the community and the tradition.

The civil culture in Albania during the nation building will be explored through the literature based research method. At the same time the method of the literature review will be used in order to explore some elements of the civil culture during the transition period.

### **Civil Culture in Albania During the Nation Building**

In order to facilitate the research and to have a clearer panorama of the developments of the civil culture, the historical period of the nation building will be divided into two subsections that consist with two different phases.

The first one begins with the Declaration of Independence in 1912 and ends in 1920. During this period of time Albania lost its independence in 1914 when the country was entrusted to the German Prince Wilhelm Wied who governed it for less than one year. In 1914 the First World War has begun, during which the Albanian territory was transformed in battle ground, divided into pieces and invades by different states. After the World War in 1918 the most important aim of the Albanian political class was to rewind the independence and to assure the international recognition in Paris Conference of Piece in 1919.

The second phase starts from 1920 and it represents the first steps toward the creation of a political and juridical system. It ends in 1939 when the country was officially occupied by Italy.

### **Civil and Political Class Culture After Independence (1912-1920)**

After the declaration of the independence in November 1912, Albania was in a disaster situation from the social, economic and political point of view. Obviously the influence of the approximately 500 year invasion of the Ottoman Empire was the most remarkable.

The political system constructed by the Ottoman Empire' government was a primitive one, because it was based on the power of the army, the use of the force and not on the market mechanisms (Stamenova 2001, pp.217) and wealth.

From the political point of view the Ottoman Empire was supported by the big property owner's class whose interest was to keep their privileges in a primitive feudal system. The population was rural and the industrialization did not exist. The society was divided in two main parts: some few powerful families composed mostly by land owners, few commercial families and the second part consisted in free peasants, shepherd, soldiers, and workers that were following of their owners. The gap between the feudal families and the rest of the peasantry was enormous and the medium class did not exist.

Therefore in such primitive community, it was impossible to conceptualize something outside the individuality, or at least outside the dynasty, village and mountains (Frashëri 1997, pp.171). The rocky territory and the weak infrastructure, could not allow the concept of national idea among the population (Biberaj 2001, pp.30), that, was divided in different religious, local, language (dialects), traditions, folklore and moral laws (Koka V., et al., 2007, pp.17-18). In addition, because of the invasions, the population was concentrated basically on the mountains (Koka V., et al., 2007,pp.33) and totally isolated from each other.

During the occupation of the Ottoman Empire the class of big property owners' could enjoy some advantages because of the full autonomy that was recognized to them inside their properties. Nevertheless they lived in the middle of tensions, conflicts and misunderstanding between them.

Obviously under these social and historical conditions, the creation of a civil culture was not possible. The Ottoman occupation could create a unique mentality which consisted in a strong suspect to the political power and to the common civil life (Fischer 2004, pp.55). Consequently, the first sign of national and social movements started abroad, among the Albanian emigrations' community especially in the United States of America. Firstly these movements had national purposes for the independence after the fall of the Ottoman Empire. We can mention the publication of some newspapers like "Kombi" (the Nation), "Koha", "Lidhja", "Dielli" with the aim to promote the national interests. The association "Besa –Besën" was created in Boston with the purpose to open schools in Albania and to promote the national symbols. In 64 different cities of the United States were created different Albanian associations. The biggest one was "Vatra" under the direction of Fan Noli that was the result of the merging of some other associations. These associations undertook a considerable lobbying activity in the USA for the Albanian independence.

The political class was not appropriately prepared for quality steps toward the state building. From the analysis of the Declaration of Independence can be noticed poor concepts, forms and content (Krasniqi 2009, pp.15). Mostly the political class was educated abroad and some of them used to have some important political posts

during the Ottoman Empire. Consequently, it is understandable that most of them were part of the advantaged feudal class. However they could introduce some principles of democracy like the political representation, the separation of the state from the religious authorities (Koka, et al., pp.33). In conclusion the efforts for the modernization of the country couldn't be successful as the country was facing a lot of vital problems like the economic survival and the threats for the loss of the independence (Koka, et al., pp.34), and the First World War that started just two years after.

### **Civil Society and Political Class After the First World War**

The real modernization reforms started after the recognition of Albania from the Paris Peace Conference and the creation of the first real government. In the years 1922-1923 were built some elementary and high schools and some foreigner scholarships for higher education were distributed. However as a result of the reforms, in the years 1920-1924 the educational system could improve.. At the same time the Ministry of Education was established with the purpose to enforce the secularism and the nationalism. The education was supposed to be offered only by the government and not by any other religious or foreigner authority (Rama 2005, pp.15).

In addition, the society could improve. The feudal class diminished, and part of it was transformed in the public administration cast (Koka, et al. 2007, pp.117). Anyway the general disobedience of the population to the state authority has been a crucial problem in the society. Albanians were used to trust only "the powerful man" and never believed in the ideas or in the common good. Generally for the Albanians the only thing that's worth to fight for, was the defense of the tradition and honor (Vlora 2003, pp.460).

Albania is reach of natural resources, and some efforts have been undertaken for the industrialization of the country, but they haven't been enough for any considerable development of the economy. So the country couldn't reach any level of industrialization as happened in the other countries that could enjoy the consequences of the industrial revolution. Hence the absence of factories, and the development of the urban zones strongly penalized the development of the middle class and the modernization of the society (Meta 2003, pp.20).

The social movements organized in 1920-1930 mostly consisted in protests where the citizens were manifesting against the poverty and the unemployment. Except some associations like "Bashkimi" and "Atdheu" the rest were some spontaneous protests' activities with the purpose of ensuring some minimum surviving conditions. For the same purpose some trade unions were organized also in other cities of Albania (Meta 1999, pp. 47). As Vlora argues (2003: pp.484) the lower class was always ready to join the army for the defense of the territory if, but they



couldn't pretend to enjoy any right, as they didn't have any minimal political competence.

The political situation was extremely unstable. Because of the extreme conflicts between the interests of political groups, (Vlora 2002, pp.473) in 1920-1922 have been changed seven prime ministers (Fischer 2004, pp.52). Basically the political class was composed of components of high feudal class or from the administration. The Parliament was divided in two groups: the conservatives organized by the Popular Party and the Party of Development. The groups didn't have any ideology to support, or organizational structure. Both groups were frightening to get government's power. The Parliament was reflecting the unorganized, egoistic and backward society (Vlora 2003, pp.490). The extreme conflicts in the political arena produced the Revolution of June in 1923 where the Party of Development directed by F. Noli tried to build a democratic and modern state, that anyway never tried to organize free elections. Therefore it couldn't assure the recognition in the international arena.

The political class was operating in accordance to the philosophy "eliminate the opponent". Throughout the instrumentation of the Military Court, many politicians or anyway components against the regime were physically eliminated or imprisoned.

### **Common Elements Between Two Periods: Nation Building And Democracy Building**

As Guçe argues (2000: pp.121) the Ottoman Empire produced the "mundus vivendi" philosophy instead of the social contract. Therefore the everyday solutions with the invaders have been the foundation of every political activity of the political class. The popular political conscience has been always focused on the pragmatic way of thinking of surviving. Similarly the communist regime produced almost the same effects in the transitional period. In the communism époque the products and resources were extremely limited and equally distributed. In this way the society was marked by the concept "what I win, you lose" (Kornai 1985, pp.21). The lack of the surviving resources and the economic crises that followed the entrance in the free market, reduces the possibilities for the dominance of solidarity among the society. People became more and more individualistic and always looking to find alternative ways to avoid the legal authority. The disobedience to the state power is notable also in the nation building period. The beginning of the new era of democracy was realized mostly as an era against the communism. The solidarity and the common good idea were unappreciated as conceptualized hereditary from the past communism (Kajsiu 2004, pp.91).

At the other hand the absence of pluralism and the existing of a unique party produced the effect of the atomization of the society (Smamanova 2001, pp.221). Every person was directly connected with the state authority or the unique party and

there were no groups or associations between state and society. The passing from the centralized economy to the free market economy, caused ambiguity to the population that couldn't be certain anymore on their incomes. Therefore the identification of the groups in accordance to their interests was not easy since during the transition, the exchange of the interests between powerful economic groups and politicians was based on cooperation (Dumanova 2005, pp.69) and personal connections. The same consequence was produced by the feudal system in the nation building period where every person was connected only with the feudal who was the only recognized authority.

The political class has been recruited among the old class of politicians. The political identity was not clear. Also the ideological ideas and structural organization were ambiguous. The supremacy of the old class in politics is remarkable also in the nation building period where the components of the governments were mostly members of the big feudal families.

Among the political class is notable the role of the leader like the father in the family or like a despotic figure. The leaders of the political groups have a central role. They are like legends without which the party cannot exist (Bajraba 1999, pp.26). In fact the political arena has been dominated basically by the leaders of the main parties. The game between government and opposition is not significant because as soon as one political force is in opposition, it takes an irrelevant role in the legislative process. In conclusion it is evident the absence of tolerance and cooperation (Bajraba 1999, pp.32) and the theory of the exclusion. Similarly the same way of doing politics is noted in the nation building period because the relevant components of the opposition were physically eliminated. In addition the political arena was dominated by two leaders: Noli as the supporter of the democratization and modernization and Zog as the supporter of the old noble's class.

In Albania since the creation of the state, has never existed a democratic system, so there is no memory of the civil society. However this fact penalized the awakening of the civil community sense during the transitional period (Biberaj 2000, pp.35). At the same time when the democratization process started not enough attention was paid to the community and civil society (Paley 2000, pp.473). The international actors together with the local ones focused their efforts mostly on the most critical problems of democracy like: creation of democratic institutions, free and honest election and freedom. Some NOG's (non governmental organizations) were created with the help of the international institutions but they were supposed to be completely neutral to the government issues. The same lack of attention can be found in the nation building era, where the modernization reforms were focused mostly on the immediate needs of the country like the opening of the schools, the secularization and the enforcement of the economy.

## Conclusions

In this paper have been indicated some aspects of the civil society in Albania in two different periods of the history: the nation building (1912-1939) and the democracy building. Using the literature based research methodology we could find some common elements that have marked the civil and political culture in these two different periods. Also similar historical factors came out even we are treating two different periods of time.

Ottoman Empire established a forceful regime that strongly marked the Albanian society after the independence. In the same way the communist regime has obviously left some negative elements that root the Albanian society during the transition and democracy building.

Firstly, following the independence the political class did not have enough competences for the foundation of a modern state because in a community that haven't had schools or educational system for hundred years, can not exist a capable elite to govern. In the same way, the communist regime established an educational system inspired by the Marxism ideology where the principles of democracy and the free market could not be studied. In addition the old political leadership could survive: so after independence the political class was still composed by exponents of the feudal system, as in the first years of transition many exponents of the communism continued their activities as a result of self reformation.

Secondly the Ottoman period has produced a weak economy, without industrialization and urbanization where the resources have been always extremely limited. In the same way the communist regime was characterized by absence of goods. Both regimes have created the concept that "what I win, you lose". This philosophy deduce to the other aspect of the society: the absence of civil society, the absence of the sense of common good and trust.

In both periods are notices that the civil community is weak and insignificant and the modernizing reforms undertaken by government during the nation building, and international organization during the democracy building, couldn't be successful, because the country was facing some other relevant problems. Therefore, while the government was focused to the economic development reforms, creation of an educational system, public order, or insurance of the independence during nation building, in the transition the international actors were focused more on the establishment of democratic principles and free elections.

Another important finding is that in both periods have produced the sense of "trust to one person", not "trust to one idea". In post independence the individuals trusted only their padrone that could be the feud leader or a powerful man in the relative circle. Similarly the the communism produces the atomization of the society. People were connected directly to the state or to the unique party. Secondly the same effect is dominant among the political class.

In conclusions can be pointed out that the civil and political culture is transmitted from one generation to another. The actual scenarios of the political and civil arena are hereditary from the history of the Albanian state. After 20 years from the beginning of the transition, Albania has a strong institutional framework but still facing lots of problems of tolerance, of cooperation and of solidarity, which means that the institutions are oriented by the history.

The civil and political cultures are arguments that should be explored further and from different aspects. Conflicts are most dangerous among those societies who have not developed a trust rapport between their individuals. Democracy is hindered by the political culture that does not recognize the solidarity and institutional trust that push the society towards individual solutions based on disparity and not on meritocracy (Dahl 1987, pp.55). For these reasons it can be suggested to make other research on how to improve the civil society, the sense of the community, the sense of the reciprocity and of the common good, in order to transform the civil culture and to assure a better life for the future generations.

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**CASE OF ITALY-ALBANIA RELATIONS:  
POLICY CULTURAL INTERACTION (1878-1918)**

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**Abstract**

*After the Treaty of Berlin, there was a considerable change in the political status of the Balkans. Especially in Albania, the political and cultural studies of neighboring countries started to operate. Italy, with the aim of expanding its colonies through the weakening Ottoman Empire and by depending on its old heritage, started to realize certain plans in Albania. In our study, Italy's enhancement of cultural oppression on Albania between the years 1878 and 1918 by cultural means will be revealed by probing the newspapers and archival documents of that period. Attention will be drawn on the significant impact of educational and cultural interaction on political relations such as the demand to adopt the Latin alphabet in Albania and increase of schooling, by emphasizing oppression of cultural transformation besides political interaction while creating this effect.*

**Key Words:** *Albania-Treaty of Berlin-Italy-Balkans-cultural oppression*

**Introduction**

In the 1878 Berlin Congress, some districts of Albania were decided to be surrendered to Montenegro, including a few ports that Russian Tzardom took from the Ottoman Empire by Ayastefanos Treaty. Reacting to the decisions, Albanians established a national union in Prizren with the support of the Ottomans (Bozbor, 1997.). The Prizren Union, which was formed as a result of the congress on June 10, 1878, determined regulations on subjects like Albania being a solitary state, start of diplomatic struggle, and preparation of an autonomous status (Alpan,1978). Later on, the Prizren Union was demolished by European powers. Despite its demolition, the act of independence was conducted by other organizations and gained power after the Second Constitutionalist Period. Starting from the end of 1905, national acts that began to revive among Albanians developed with great speed and attempts to start a common act between northern and southern Albanians reached to such a

level that they drew the attention of foreign states in mid-1907. Due to these nationalist acts, the administration of Istanbul arrested or sent many suspected Albanians to exile (Açar, 2000).

The National Congress that gathered in Bitola in 1909 made the first step in the way of independence and requested an autonomous Albania that would include Shkoder, Kosovo, Bitola and Janina in the Ottoman State. In addition, a committee of national union was elected. Disapproving this demand, the Party of Union and Progress tried to find ways of compromise with the impact of developments in the Balkans. In the years 1909, 1910 and 1911, Albanians outraged against the Ottoman State for their demands.

With the ending of the Balkan War in 1912, Albania gained independence but then became a principality of the Ottoman Empire in December 1912. The progress of Serbians in Northern Albania irritated the Austro-Hungarian Empire while the desire of Greece to annex South Albania including Vlore had the same effect on Italy. With the call of the British who wanted to prevent the conflict from turning to a war that would include all of Europe, a conference was held in London with the participation of Balkan countries and it had to recognize Albania's independence. The Kosovo district, where the majority of Albanians lived, was left to Serbia and the first president of Albania was Ismail Kemal Vlora.

At the London Conference, which was held on May 30, the Ottoman Empire had to abandon all her rights of Albania. After the determination of the Albania-Greece border by an international commission gathered at the London Conference, European governments decided Albania to exist as an independent principality under the guarantee of neutral, hereditary, sovereign, and majestic powers on July 29, 1913. The independence of Albania executed under the will of major governments at the London Conference was recognized by the Ottoman Empire in May 1913 (Başdoğan, 1991).

In the beginning of the First World War, Albania was only in her first year of independence when it was shared and invaded by Italy, Greece, and Serbia. Consequently, the country encountered the conflicts and issues that kept occurring in its history for centuries because of its strategic location. Not being able to fall into its place and devoid of the protective umbrella of the Ottoman, it was inevitable for Albania to be shared (Şimşir, 2001).

Shared by means of a treaty among Italy, Greece, and Serbia, Albania was invaded especially by Italy among the three countries until 1920. Based on the treaty, the north of the country was taken by Montenegro and Serbia, its south by Greece, and the remainder was taken by Italy. Being in the middle of this sharing, Italy proceeded with the plan of preventing the existence of a powerful government across the Adriatic. Moreover, she both supported the rights of Greece in North Epirus and Thrace and encouraged Albanians for armed and diplomatic struggle (Armaoğlu, 1991).

In December 1919, with the congress held in Durres, one of the ports of Albania, the legislative government was settled under the presidency of Turhan Pasha. The new government sent a committee to Paris Peace Conference, which started to meet on January 18, 1919, in order to provide Albania's territorial integrity. With the second congress held in January 1920 in Lushaje, it was decided that both the territorial integrity of Albania would be protected and invasion of Italy would end. A new government was effectuated under the presidency of Süleyman Delvina and Tiran was set to be the capital city.

The Italian troops that invaded the north of the country during war under the leadership of General Ferrero barely abandoned the country in 1920. As a result of acts and armed struggle that started with the establishment of the new government, Italy had to compromise and leave the country. Consequently, the borders of Albania determined in the 1913 London Conference were recognized in Paris Peace Conference (Coşkun,2001). As a result of positive political developments, Albania was accepted to the League of Nations in December 1920 (Glenny,2001).

### **Ottoman State and the Case of Albania**

In the Balkans, nationalism was constructed basically on language and religion in the 19<sup>th</sup> century. All national cultural leaders considered the element of language to be the most powerful means to establish the national union. The most significant example of this phenomenon is Albania, where religious differences among the Muslim, Catholic and the Orthodox are relatively easily realized. On the other hand, Albanian nation is the latest arousing nation among the Balkan nations. As a result of national and international developments, Albanian nationalism gained acceleration with the dominance of national feelings instead of Ottoman thought. Developing as a result of the spreading of fundamentals of modern nationalism among the Albanian intelligentsia, Albanian nationalism was the first failure of the Ottoman politics of pan-Islamism. On the other hand, this was the result of the supporting of countries like Italy and Austria for Albanian national movement in order to use this for their own benefit. The main factors that affected Albanian nationalism are as follows: The ignorance of Albanian identity by the Ottoman nation system, benefit conflicts of European powers in the Balkans, ethnic elements enrolling in attempts of deploying against Ottomans after establishing their countries, the research of the Albanian rich and intelligentsia living abroad and foreign researchers about Albanian language, history, etc., the rise of a new Albanian class in Albania as a result of developing trade with Italy, the emergence of a modern intellectual community from this new class and their cultural and political enrollment, Abdülhamit's oppressive governance and his acceptance of the abandonment of some Albanian land to Balkan nations in Berlin, and his liberalism as to conservative Islamic belief (Çelik, 2004).



The national consciousness of Albanian society first revealed itself in June 1878, when an Albanian League was established just before the Berlin Congress. The aim of this league was to prevent the distribution of districts that belonged to the Ottoman Empire to neighboring countries. However, Albanian representatives could not be effective in the congress. Consequently, contrary to their expectations, some Albanian land was given to Montenegro, Serbia, and Greece with the Berlin Treaty. Albanians hereby concluded that the Ottoman governance was bereft of protecting their benefits and started a resistance movement in the occupied districts. European countries wanted the Ottoman government to enforce the decisions to Albanians by force of arms. Thereafter, constant perturbations arose in the Albanian states (Heinzelmann, 2004). Prince Bismark, the chairman of the Berlin Congress, denied a nation under the name Albania and insisted on recognizing them based on their religious identities (Muslim Albanians as Turks, the Orthodox as Greeks). By this way, some of the Albanian land was decided to be distributed among the new Balkan nations (Greece, Montenegro, and Serbia) at the congress. Albanians strongly reacted to the commissions that were formed for the purpose of executing the Berlin decisions and determining the borders with the Ottoman Empire and Bulgaria, Serbia, Montenegro, and Greece. Furthermore, the Prizren league condemned this decision (Bozbor,1997).

One of the most significant elements in the development of the national consciousness of Albanians is the Albanian language. Among the Balkan nations, only Albanians were not allowed to provide education in their language. Muslim Albanians were taught Ottoman whereas Orthodox Albanians studied Greek letters and Catholics learned Latin.

There had been long-lasting correspondences and debates about language with the Ottoman Empire. It was written in a petition to the sultan dated 1897: *"Measures should be taken in the states that form Albania for the recognition of Albanian language as national language, for the official approval and protection of churches and schools as has been applied to Bulgarian and Serbian churches and Schools, and for facilitating the relations between Albania and Albanians living in Italy"*. (BOA,BEO, Nu. 1001/75051;BOA, Y.A.Hus. Nu. 376/22 )

However, a year later, demands changed as follows: There were no schools in Albania; however, Europeans knew the Albanian language and it was obligatory to open Albanian schools in the shortest time possible (BOA, Y.PRK.BŞK. Nu.58/6).

Taking these demands into consideration, the Ottoman Empire decided that it was necessary to open schools in districts with no schools in 1899 but education shares would be collected later. The purpose was to establish order and overcome illiteracy. They started to calculate the location and number of schools in Albania and the necessary budget (BOA,DH.TMIK.S. Nu.28/54 ;BOA,DH.TMIK.S. Nu.29/43).

The first society to be affected from national movements in the Balkans among Albanians is Orthodox Albanians. The most significant reason of this national consciousness is the unavoidable result of their education in Greek schools. Even though the general purpose of these Greek schools was to make the Orthodox Albanians Greek, this idea was partly successful. In contrast, it contributed to national consciousness of Albanians. After this step, the main goal of Orthodox Albanians was to cut loose from the patriarchate and establish their own church and school (“İsyân Nasıl Başladı”, **Sabah**, 20 Mayıs 1912, s.2.).

In South Albania and Janina, the Greek thinking was aimed to pervade by means of schools. The scripts sent to the government indicated that many teachers in the schools of this area did not have diplomas; instead, they had a script from the metropolitan bishop, which was an insufficient document to be appointed to a school according to law. It was also added that some of the teachers and principals in those schools were graduates of Greek schools and universities, were raised in Greece and aimed to pervade Greek culture (BOA, BEO, Nu. 2016/151137 ; BOA, BEO, Nu.2052/153878).

The Ottoman Empire wanted to increase the number of schools in problematic districts for both preventing cultural effects and establishing order. For instance, due to spoilt moral values and religion in districts of Kosovo, it became necessary to open schools in those villages (BOA, BEO, Nu.2121/159044; BOA, MF.MKT, Nu.718/69; BOA, DH.TMIK.S. Nu.29/43).

After 1908 in the air of freedom resulting from the constitution, Albanian intellectuals were involved in profound cultural activity by founding many societies and associations. Although some of the Albanians who established these societies for the purpose of bringing national identity forward indicated in their regulations that they would not be involved in politics, they had a political aim. On the other hand, some others founded societies to protect Ottoman identity and reflect their conservative attitudes. Especially Baskim Organizations became the most important center of Albanian national movement (Çelik, 2004).

After the Second Constitutionalist Period, the purposes of opening of schools in Albania changed due to demands from Albania. This time, Albanian society increased their demands of nationalizing the language of education and pressurized the government for setting Albanian to be the national language. They declared to the government the need to open schools that give education in Albanian language and to design an alphabet. Furthermore, the society reacted to Latin being the language of education in some districts of Albania. Coming to the subject of the Arabic alphabet and calligraphy, besides the two Arabic alphabets -one in Latin the other in Greek alphabet- by Austrian and Italian Catholic reverends, there was even one written in an alphabet invented by Şemseddin Sami Bey. Most part of South Albania accepted education in Latin alphabet while some parts of North Albania accepted Latin and the rest accepted education in Turkish (BOA, TFR.I.MKM, Nu.32/3101). This became an issue to impede union in the

country, which was used by European countries to their advantage to such extent that because of alphabet conflicts, there were rebellions in South Albania and consequently some people were mobilized (BOA, DH.MUË, Nu. 104-2/18).

Conflicts arose among Albanian intelligentsia about some issues, the primary one of which was the Albanian alphabet. Some of the Albanians maintained Albanian to be written and read in Latin alphabet whereas others were for Arabic letters. Conservatives founded societies for this purpose and tried to be effective on Albanians via the media (Çelik, 2004). After the proclamation of the constitution, these movements reached their peak with the rebellions of 1909 - 1911 and the one that broke out in 1912 brought independence.

After the 1910 rebellion, Albania claimed the following issues from the government: the start of an exclusive reform in Albania, a fair attitude from the government to prevent the oppression of ignorant and powerless public, punish rioters, prevent suffering of the society, send qualified and authorized government officials, construct roads, open schools, select officials to send to Albania among people knowledgeable about Albania, send governors and tenants who were appreciated by Albanians, give importance to opening schools (BOA, HR. SYS., Nu.135/41; Çelik, 2004). Before the government found the opportunity to start the reforms, news arrived about the exacerbation of rebellions in Firzovik, where forces gathered and took the Kacanik Gate under control. They ruined the telegraph and train lines between Skopje and Firzovik, disallowing military transport, even appropriating military equipment and capturing officers and soldiers. Due to this reason, it became obligatory for reserve soldiers of Salonika and Denizli to be called to arms (**Tanin**, No. 596 ;Çelik, 2004).

By the end of 1910 rebellion, Albanian newspapers were forbidden; some Albanian leaders of struggle were captured and put into prison; Albanian alphabet and language were forbidden and organizations and schools were closed (Çelik,2004).

In 1911, the Ottoman government decided to take some precautions to establish order in Albania. The solution was Sultan Reşat's visit to Roumelia to atone Albanians. This was the plan of the unionists. By this visit, they planned to encourage the commitment of the public to the government and the sultan and to control Albanians. Sultan Reşat accepted the demand of the unionists (Çelebi,2002). In the end, in June 1911, Sultan Mehmet Reşat visited the provinces of Salonika, Bitola, and Kosovo, demonstrating his interest in public issues. Upon the order of the sultan, the rioters were given three days' time to lay down arms and amnesty was guaranteed in return (Heinzelmann, 2004). The government declared that it accepted some of the demands of Malisors on June 10. Accordingly, they were granted privileges as having authority to bear arms, paying their taxes to rulers instead of Ottoman tax collectors, being able to be hired to Albanian governmental posts, and using Roman (Latin) alphabet in schools and official correspondences.

After a few days, the sultan declared amnesty in Kosovo. Albanians were determined not to return back despite the privileges provided by the government.

Reacting to the Albanian rebellion, the Albanians in Istanbul held a meeting in the Albanian Education Associations Head Office (Arnavut Maarif Klüpleri Merkez-i Umumiyesi) in Aksaray. In the meeting, there was reaction against Latin letters and Ismail Kemal. They sent a committee to the Ottoman Porte and submitted a declaration to state. They also claimed that autonomy demands would not serve benefits of Albanians. Moreover, they telegraphed their commitment to the Ottomans (Çelik,2004)..

As a consequence, conflicts began in South Albania and the government declared that it was ready for amnesty, accepting the existence of governmental arms as well. Due to this, opening of Ari schools in South Albania, teaching Albanian with Latin alphabet, decreasing taxes, and constructing bridges and schools were approved by the government. As a result of the Albanian meeting in Tepelena, the amnesty proposal was approved. Thus, the Ottoman administration impeded the spread of the rebellion to the south at its start by providing several privileges to them. By the laying down of arms of the rioters, Albanian rebellion reached to an end.

In 1912, Catholics in the religious institutions of Shkoder and Prezrin Episcopacies were using Latin alphabet in education. In contrast, in North Albania, where people were for Arabic letters, the use of Latin and national letters was allowed in Kosovo, Prishtina, Peja, Prizren and Dibra provinces in addition to Elbasan and Gorce. In the following days, at several locations of Albania, some coursebooks published in Vienna were used in schools. This caused upbringing of children without any knowledge of their own country, especially in history and geography courses. Government officials, particularly Ministers of Education and Inner Affairs, drew attention on this subject. It was decided that different languages could be taught in Albania provided that history and geography courses be national, Turkish be definitely taught and there should be Arabic and religion courses in schools that Muslim children attend (BOA,BEO,Nu.3998/299810; BOA,BEO,Nu.4056/304168). Some Albanians reacted to the decision of the government that there could be education in several languages((BOA,BEO,Nu. 4001/300031).

Hasan Prîştine's 14-article program included the following demands: opening of new schools that gave education in Albanian, teaching Albanian as the official language at Albanian provinces, Ottoman servants knowing Albanian and the culture and traditions of Albania, doing the military service in Albania and Macedonia, restitution of confiscated armament, conservation of Islamic tradition and attitudes, supporting Madrasas with credit, opening of agricultural and technical schools, construction of governmental agencies, amnesty of rioters, and setting courts for the judgment of Hakkî Pasha and Said Pasha governments (Arnavutluk Ahvali, **Sabah**, 1 Haziran 1912,s.2)..

On August 15, the British government suggested the Ottoman government to execute the Albanian reforms which had long been promised (İngiltere'nin İhtarı, **Tercüman-ı Hakikat**, , 15 Ağustos 1912, s.2). Nevertheless, the Ottoman Empire did not have the opportunity. Journalists of the time described the situation as

follows: *"How will all this happen? There are no roads in Albania, no railways, no schools, no agriculture, no trade, no art, almost nothing. How will all of this take place in a short time?" As it is understood, it will not be possible to establish an autonomous management in Albania,*" (Ferit Vakkas, Arnavutluğa Dair, *Tercüman-ı Hakikat*,05 Aralık 1912,s.1).

Balkan wars were named as the Balkan disaster among Turks and Albanians and both nations were negatively affected by this war. Almost half of the Albanian land was lost and ten thousands of Turks and Albanians became immigrants, sheltering in the Ottoman land where they considered to be their homeland (Dündar,2002).

### **Italy and the Case of Albania**

Even though Italy was so close to the Balkans due to its geographical location, it was not powerful enough to take part in politics of the region. However, after she had gotten a severe blow in Ethiopia and lost hope about Africa, Albania became more attractive. Due to this reason, Italy became interested in Albania. The civil servants of Albania were serving to reveal Albanian nationalism. Moreover, Albanian diplomats were indicating that invading Vlore port meant dominating the Adriatic.

It was indicated that the diplomatic rivalry between Austria and Serbia existed between Austria and Italy as well, adding the desires and concerns of Italy about the Balkans. Since Italy gained powers, Austria kept her benefits in the Albanian sea where she ruled, which forced Italy to preserve her own benefits. For this reason, there was rivalry on marine trade between Austria and Italy.

In the year 1893, the counselor of Italian Embassy in Istanbul, Marquis de Rizio, visited Albania and during the trip, some facts were revealed as a result of some correspondences. Italy started an intensive cultural campaign in Albania, trying to turn Albanians into Italians. This was done through schools and feasibilities. With this idea in mind, they opened schools, set curricula to spread Italian culture, put families of poor students on salary, awarding scholarships. During the year 1893, extra ships sailing twice a week to Brindisi and from Brindisi to Durres transported some Christian Albanians to Italy and brought them back to Albania with guns and orders (BOA,Y.PRK.AZJ., Nu.26/47).

In 1897, in a correspondence submitted to the Ottoman Empire from the Governor of Janina, there were such warnings as: "The Italian government is trying to win Albanians over by informing Albanians of the Greek attacks; however, officials of Janina, Skodre, and Kosovo have prevented any act that will cause conflict between Muslim and Christian public. Some Greek and Italian volunteers were roaming in Albania, which requires the government to take action" (BOA,Y.PRK.BŞK.,Nu. 50/59).

In May 1900, Italy, Germany, and Austria met in Berlin, where they expressed their concerns and therefore took action. Monsieur Crispi dealt with this issue in the "La Tribuna" newspaper, drawing the attention on the case of Albania. In his article, Monsieur Crispi emphasized that the public in Albania was not Slavic. They were a Balkan country with their own language, religion, and culture. He added that there were desires to invade Albania and emphasized the long-term alliance of the Ottoman Empire with Italy, the ruler of the Adriatic Sea. Furthermore, a similar article titled Albania was published in Magazine newspaper in Florence (BOA,HR.SYS., Nu.125/38).

It is known that in 1900, Austria demanded custody right over Albanian Christians according to Berlin Treaty and in 1905 she did so for Albanian Catholics (BOA,HR.SYS.,Nu. 123/12 ;HR.SYS.,Nu.123/34). In 1901, Jesuits and Capuchins were seen to have misconduct about Albania (BOA,BEO,Nu.1685/126351). In the same year, it was announced in the Morning Post newspaper from London media that Italy had no intentions to invade Albania and that they were just allies based on early law (BOA,Y.EE.,Nu.15/64).

Italy was not content with the governance of Bosnia and Herzegovina having been given to Austria in addition to Pljevlja province and the policing of the lower regions of the Adriatic. Austria's allying with Papacy in patronizing Catholic Albanians, her receiving approval from the Ottoman porte about Bosnians in Albania and opening consulates in places like Skodre, Vlore, Skopje and Prezrin were among the sources of concern for Italy. In a newspaper article, Italy's concern was demonstrated in these words: "On the day Austria invaded Albania, the Italian government anticipated that the future of the Adriatic and peace on the east coast would be at stake (Arnavudluk Meselesi, **Sabah**,26 Kasım 1912,s.2.).

In the news of Tanin newspaper titled Montenegro Intrigue dated June 22, it was mentioned that Italians caused destruction on the Montenegro border for the purpose of causing difficulty for Turkey and that there was information from trustworthy sources about Italy sending financial and military support to the region (Karadağ Entrikası, **Tanin**,22 Haziran 1913; BOA,HR.SYS.,Nu. 147/65). On June 25, the same newspaper stated that Italy took advantage of Albanian riot to cause difficulty to Turkey (Balkanlarda, **Tanin**,25 Haziran 1912). Adding that Italy especially caused trouble to the Ottoman Empire during Balkan Wars, Tanin newspaper described Italy as the country to take advantage of Balkan turmoil. She was the cause of the loss of Tripoli by imposing peace besides being responsible from the loss of Albania by imposing decentralization in Albania and Macedonia (Harp ve Sulh, **Tanin**,06 Ekim 1912).

In the news article of İkdâm newspaper titled "The Case of Albania", it was indicated that the claims of Austro-Hungaria on Albania affected Italy not only by economic means but also by other aspects on the Balkan Peninsula and that Austria tried to share the Ottoman heritage by demanding the autarchy of Albania (Arnavudluk Meselesi, **İkdâm**,05 Aralık 1912,s.4). In 1904, the declaration of

Italy's Minister of Foreign Affairs, Monsieur Titovni, overtly revealed the utilitarian aims of Italian and Austrian governments on Albania: "We only care about the ports [of Albanians]".

Italy and Austria were two great powers that had rivals on Albania. Therefore, the two allies signed a treaty in 1897 to guarantee their disinterest on Albania and not to be at odds for this reason. The Romana newspaper commented that Italy would oppose the dependency of Albania to Serbia or another Balkan government. Austria, on the other hand, demanded autocracy in Albania in order to open the gates of the Adriatic since she had annexed Bosnia Herzegovina (İtalya ve Arnavutluk, **Tercüman-ı Hakikat**,28 Kasım 1912,s.2).

The rivalry between Italy and Austria showed its presence in the phase of determining the regime of Albania. In the news of Sabah newspaper with the title "Albania's Regime", it was stated that even though Russia leaned towards the idea that Albania be governed autonomously under Ottoman governance, Italy had concerns about this possibility. Her reason to argue against this project was the concern about the probability of Austria's custody of Catholic Albanians (Arnavudluğun Tarz-ı İdaresi, **Sabah**,29 Nisan 1913,s.1).

Albanian riots could not receive the support they hoped from Bulgarians but from Italy. She provided arms and financial aid to Albania during the days of riots. Italian hookers sailing in Albanian waters transported material and armament. Several vessels under the colors of Montenegro approaching the port of Vlore were allotted for transport of armament (Karadağ ve Arnavudluk Meselesi, **Tercüman-ı Hakikat**, , 19 Temmuz 1912, s.2).

For putting an end to Turco Italian War as soon as possible and elicit a peace treaty to her own benefits, Italy continuously provoked Albanians against us and used Montenegro as a tool (**Resimli-Haritalı Mufassal Osmanlı Tarihi**, C.VI s.3482).

In the news of Sabah newspaper dated November 30 and titled "Albania's Future", it was indicated that Ismail Kemal Bey paid official visits to Rome about independence of Albania, visited Italy and Austro-Hungarian consulates and asked for support for her independence which was about to be proclaimed soon. It was also added: "*In his meeting with the consulates of Italy and Austria, Ismail Kemal Bey stated that Albania's future depended on principles of total independence and neutrality and Albania was appreciated by great powers.*" ( Arnavudluk'un İstikbali, **Sabah**,30 Kasım 1912,s.4).

Again on the following days, Italian and Austrian delegates indicated Ismail Kemal Bey that their governments had a positive opinion about the Albanian nation, cared about the development and wealth of Albania and that they would give moral support to Albania (Ferit Vakkas, Arnavutluğa Dair, **Tercüman-ı Hakikat**, 4 Aralık 1912, s.2).

While the media interpreted the issue in this aspect, abroad, the vacancy which occurred with the yielding of the Ottoman forces within a few weeks caused an international conflict. Serbia suddenly expanded, invaded Albania and proceeded to the Adriatic, which frightened Austria and Italy. News articles mentioned that Italy would forever oppose the dependency of Albania to Serbia or another Balkan government and that Austria was for the autonomy of Albania (**Tercüman-ı Hakikat**, “İtalya ve Arnavutluk” 28 Kasım 1912.). In this respect, Austria chose to use an independent Albania as a means of pressure on Serbia. As a result of the support of Italians for this issue, Albanians proclaimed their independence on 28 November 1912. Russia’s support of Serbia required France, Britain, and Germany to support their allied country. When the dispute caused by the case of Albania reached a critical level, the British Minister of Foreign Affairs, Edward Grey, proposed to handle the case at an international conference (Halaçoğlu, 1995).

Meanwhile, Italy, having benefits over Albania, became involved in the subject. This was considered in **Tercüman-ı Hakikat** newspaper as follows: Italy would explore any avenue to pulverize Austria’s any attempt on Albania, while Austro-Hungarian government was preparing for solitary intervention in favor of Albania, and in need of partial intervention, not only Austria but also all great powers would intervene and the Italian government would never allow Austria to do this on her own (**Tercüman-ı Hakikat**, “Arnavutluk, İtalya ve Avusturya Rekabeti” 9 Ekim 1913).

Montenegro’s declaration of mobilization caused rumor that Serbia and Montenegro were about to organize “Great Serbian Union”. Following this development, on the night of October 17, 1913, Austria sent an ultimatum to Serbia, demanding that she withdraw her armed forces in Albania in 8-days-time. In the ultimatum, it said: *"Otherwise, Austria would have to take the necessary measures to reveal her demands"*. Having been panicked by the possibility of war, great powers asked Serbia to approve of the decisions of London Conference of Delegates. Seeing Russia do the same, Serbia had to bow to the ultimatum of Austria. After the Albania crisis ended this way, a peace treaty was signed between Serbia and the Ottoman Empire in Istanbul. In fact, the empire did not have common borders anymore since she had lost Roumelia. However, the treaty signed with Serbia depended on common issues (Savaş, 2000).

## Conclusion

The nationalist movement which affected the world and especially Europe in the 20<sup>th</sup> century had an impact on multi-national countries. This negative impact was experienced both in the east and the west of the Ottoman Empire. Abandonments from the Ottoman Empire, nationalist movements, studies, and activities would mostly serve the great powers which had their eyes on the Ottoman.



The last nation to abandon the Ottoman Empire was Albania. Her exposure to the idea of nationalism started with the political movements of 1878. After this date, Albanian nationalism began to flourish in a country of different elements. The greatest work was done in making the language national. While studies continued to set Albanian to be the language of education, these demands and attempts would lead to struggling for independence.

While these developments and changes in Albania motivated the three governments -Austria, Italy, and Serbia-, even Greece would start to show interest in Albania. For this reason, the competition to receive a share from Albania, attempts to ignore the Ottoman Empire, and especially Greece and Italy's plans to deploy by means of cultural impact were revealed. In the struggle between 1878 and 1920, the most profit-making country was Italy.

Italy especially worked on educational issues in Albania. She opened schools, awarded scholarships to children, and expanded the Italian culture. In the armed struggles, she even supplied armament to Albania. In order to dominate in the Adriatic and to increase her powers in a conjuncture leading to the First World War, she supported Albania's struggle for independence. This, however, made the Ottoman Empire hemorrhage as the last nation state in the Balkans was abandoning the Ottoman Empire. In this war of separation, Albania owed a lot to Italy since she tried to seem to be filling in the vacancy left by the Ottoman Empire in Albania.

The case of Albania is a subject to be repeatedly searched since it proves that cultural penetration is more effective than political penetration. Furthermore, nationalism policy in Albania was the first event to show that Pan-islamism policy, brought forward by the Ottoman Empire in order to survive, had come to an end. It is also a sign that unity of religion and language lost their importance among the nations of the 20<sup>th</sup> century and that real unity is in the idea of nationalism.

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**PUBLIC ADMINISTRATION REFORMS IN ALBANIA AND TURKEY  
DURING THE EU INTEGRATION PROCESS: A COMPARATIVE  
ANALYSIS**

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**Abstract**

*In post-war period, EU witnessed two vitally important transformation: Constituting the standards about the political and administrative matters and enlargement process by new members... Thus, EU would maintain its weight in 21th century by means of institutionalization. For this reason, the process turned into more institutionalized structure since 1992 Maastrich Treaty. Today the EU consist of 28 countries including the Croatia in 2013. Turkey is on the negotiation table and getting ready to be full member for a decade. Albania applied into the full membership on April 28, 2009 and gained the position of "potential candidate". On October 9, EU Council determined the membership criteria for administrative reforms of Albania which triggered the ardent reform period for this country. In this context, this study attempts to compare and contrast the EU accession process of Turkey and Albania in respect of their experiences and capacities for administrative reforms. This presentation consists of 5 chapters. As follows, the first chapter mentions about the criteria and experience of two countries within the EU integration process. The second chapter focuses on the fundamental principles of EU administrative reforms and its road map. The third one is assigned to the discussion of Albanian membership issue and the reflection of the reforms over the differenf segment of Albanian society. The fourth chapter summarized the Turkey's negotiation process and lastly, the endeavours and the adventure of two countries will be discussed in accompanying with the comparative prespective of the past experiences and futuristic hopes and expectations.*

**Key words:** *EU integration process, negotiations, administrative reforms, membership criteria, and structural tarnsformation*

**EU Membership Criteria and Enlargement Process**

The European Union (EU) is an economic and political partnership that represents a unique form of cooperation among 27 member states today. The EU has long viewed the enlargement process as an historic opportunity to further the integration of the continent by peaceful means and to encourage the transition of the countries involved to democratic societies and free market economies. Analysts contend that the carefully managed process of enlargement is one of the EU's most powerful policy tools that has helped transform former dictatorships such as Spain and many of the former communist states of Central and Eastern Europe into stable

democracies and more affluent countries. The EU maintains that the enlargement door remains open to any European country, including Turkey and the Western Balkans, able to fulfill the EU's political and economic criteria for membership. Croatia, for example, is expected to become the 28th member of the Union in July 2013.

As a known that, EU was built at After World War II. The leaders in Western Europe were anxious to secure long-term peace and stability in Europe and to create a favorable environment for economic growth and recovery. In 1952, six states—Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands—established the European Coal and Steel Community (ECSC), a single market in these two industrial sectors controlled by an independent supranational authority<sup>1</sup>.

In 1957, the six ECSC member states signed two new treaties in Rome: the first established the European Economic Community (EEC); the second created a European Atomic Energy Community (EURATOM) to ensure the use of nuclear energy for peaceful purposes. These two treaties, commonly referred to as the “Treaties of Rome” came into force in 1958. In 1967, the ECSC, the EEC, and EURATOM collectively became known as the European Community (EC). The EC first added new members in 1973, with the entry of the United Kingdom, Ireland, and Denmark. Greece joined in 1981, followed by Spain and Portugal in 1986. The Single European Act modified the EC treaties in 1987 to facilitate the creation of the single market, introduced institutional reforms, and increased the powers of the fledgling European Parliament. At the beginning of 1993, the near completion of the single market brought about the mostly free movement of goods, people, capital, and services within the EC.

On November 1, 1993, the Treaty on European Union (also known as the Maastricht Treaty) went into effect, establishing the modern-day European Union and encompassing the EC. The Maastricht Treaty established an EU consisting of three pillars: an expanded and strengthened EC; a common foreign and security policy; and common internal security measures. The Maastricht Treaty also contained provisions that resulted in the creation of an Economic and Monetary Union (EMU), including a common European currency (the euro). The European Union was intended as a significant step on the path toward not only greater economic integration but also closer political cooperation.

On January 1, 1995, Austria, Finland, and Sweden joined the EU, bringing membership to 15 member states. In June 1997 signed Amsterdam Treaty, which took effect in 1999, enhanced the legislative powers of the European Parliament, sought to strengthen the EU's foreign policy, and aimed to further integrate internal security policies. In December 2000, EU leaders concluded the Nice Treaty to pave the way for further EU enlargement, primarily to Europe's east. Entering into force in 2003, the Nice Treaty set out internal, institutional reforms to enable the Union to

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1 Kristin Archick (2012), “European Union Enlargement”, CRS Report for Congress, RS21344 Congressional Research Service (April 4)7-5700 www.crs.gov, s: 1

accept new members and still be able to operate effectively. In particular, it extended the majority voting system in the EU's Council of Ministers (representing the member states) to a number of additional policy areas that had previously required unanimity, and restructured the European Commission (the EU's executive).

In March 1998, the EU began accession negotiations with Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia<sup>2</sup>. In December 1999, the EU decided to open negotiations with six others: Bulgaria, Latvia, Lithuania, Malta, Romania, and Slovakia. In December 2001, the EU announced that 10 of these countries—Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia—would likely be able to conclude accession talks by the end of 2002<sup>3</sup>. A deal was finally reached, however, and the EU concluded accession talks with all 10 at its December 2002 summit. The accession treaty was signed with the 10 countries on April 16, 2003, and they acceded to the EU on May 1, 2004. In December 2004, the EU completed accession negotiations with Bulgaria and Romania, despite some continued EU concerns about the status of judicial reforms and anti-corruption efforts in both countries. Bulgaria and Romania formally joined the EU on January 1, 2007, bringing the Union to 27 member states. With the addition of these last two countries, the Union's borders now stretch from the Baltics to the Black Sea and the EU has a total population of almost 500 million<sup>4</sup>.

Although the Nice Treaty had sought to introduce institutional reforms to allow an enlarged Union to function better and more effectively, critics asserted that the treaty established an even more complex and less efficient decision-making process. Certain provisions in the Nice Treaty also effectively (although not explicitly) limited the size of the EU to 27 member states. In light of the criticisms of the Nice Treaty and with a view to potential enlargement beyond 27 members, the EU embarked on a new institutional reform effort in 2002. This process culminated on December 1, 2009, when the Lisbon Treaty came into force. The Lisbon Treaty evolved from the proposed EU constitutional treaty. The Lisbon Treaty aims to further streamline the EU's governing institutions and decision-making processes, and in doing so eliminates the technical hurdle to enlarging the EU beyond 27 member states. The new treaty also seeks to give the EU a stronger and more coherent voice and identity on the world stage, and attempts to increase democracy and transparency within the EU, in part by granting more powers to the European Parliament<sup>5</sup>.

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2 Ibid s: 2

3 [http://en.wikipedia.org/wiki/Member\\_state\\_of\\_the\\_European\\_Union](http://en.wikipedia.org/wiki/Member_state_of_the_European_Union) (18.08.2012)

4 Archick, Op.cit, s:2-3

5 Kristin Archick and Derek E. Mix (2009), "The European Union's Reform Process: The Lisbon Treaty", CRS Report for Congress, RS21618, Congressional Research Service (November 9), 7-5700 [www.crs.gov](http://www.crs.gov), s: 2

Major changes under the Lisbon Treaty aim to achieve three broad goals<sup>6</sup>:

1. *A stronger and more coherent EU voice,*
2. *More streamlined decision-making,*
3. *Increased transparency and democratic accountability.*

According to the Maastricht Treaty, any European country may apply for EU membership if it meets a set of core political and economic criteria, known as the “Copenhagen criteria”. These criteria for EU membership require candidates to achieve “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union; the ability to take on the obligations of membership, including adherence to the aims of political, economic, and monetary union<sup>7</sup>.”

In addition, the EU must be able to absorb new members, so the EU can decide when it is ready to accept a new member. When a country submits an application to join the EU, it triggers a complex technical process and a sequence of evaluation procedures. At the same time, EU enlargement is very much a political process; most all steps on the path to accession require the unanimous agreement of the existing member states. As such, a prospective EU candidate’s relationship or conflicts with individual member states may significantly influence a country’s EU accession prospects and timeline. Following the submission of a given country’s application, the European Commission first issues a formal opinion on the aspirant country, after which the Council of Ministers decides whether to accept the application. Following a positive unanimous decision by all 27 member states in the Council of Ministers to accept a given country’s application, that country becomes an official EU candidate. Accession negotiations, a long and complex process in which the candidate country must adopt and implement a massive body of EU treaties, laws, and regulations, may then begin. The Commission and the Council of Ministers (acting unanimously) must also approve the actual opening of accession negotiations and a negotiating framework, which establishes the general guidelines for the enlargement talks<sup>8</sup>.

The EU’s 80,000 pages of rules and regulations are known as the *acquis communautaire*. The *Acquis Communautaire* is the accumulated body of European Union (EU) law and obligations from 1958 to the present day. It comprises all the EU’s treaties and laws (directives, regulations, decisions), declarations and resolutions, international agreements and the judgments of the Court of Justice. It also includes action that EU governments take together in the Area of Freedom,

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6 Ibid, s:2-3

7 European Council Conclusions, Copenhagen, Denmark, June 1993.

8 Archick, Op.cit, s:4-5

Security and Justice and under the Common Foreign and Security Policy<sup>9</sup>. The *acquis* is divided into 35 subject-related chapters that range from good governance to food standards.

Accession negotiations on each chapter begin with a screening process to see to what extent the applicant meets the requirements of each chapter; detailed negotiations take place at the ministerial level to establish the terms under which applicants will adopt and implement the rules in each chapter. The European Commission proposes common negotiating positions for the EU on each chapter, and conducts the negotiations on behalf of the EU. Enlargement policy and accession negotiations are directed and led by the EU Commissioner for Enlargement and European Neighborhood Policy, currently Stefan Füle. In all areas of the *acquis*, the candidate country must bring its institutions, management capacity, and administrative and judicial systems up to EU standards, both at national and regional levels. During negotiations, applicants may request transition periods for complying with certain EU rules. All candidate countries receive financial assistance from the EU, mainly to aid in the accession process. Chapters of the *acquis* can only be opened and closed with the unanimous approval of all 27 existing EU member states acting in the Council of Ministers. Periodically, the Commission issues “progress” reports to the Council of Ministers and the European Parliament assessing the achievements in the candidate countries. Once the Commission concludes negotiations on all 35 chapters with an applicant state, the agreements reached are incorporated into a draft accession treaty, which must be approved by the Council of Ministers and the European Parliament. After the accession treaty is signed by the EU and the candidate country; this process can take up to two years.

### **The Basic Principles of the EU Criteria for Administrative Reforms**

In the EU accession process Public Administration Reform is part of the Copenhagen political criteria that emphasise the candidate countries need for institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, as well as the ability to take on the obligations of membership and the administrative capacity to effectively apply and implement the *acquis communautaire*<sup>1</sup>. At the same time, since the 1995 Madrid European Council<sup>10</sup>, the “*adjustment of administrative structures*” in candidate countries has been identified as a pre-condition for an effective implementation of the *acquis communautaire*<sup>11</sup>.

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9 Heather Grabbe (2002), “European Union Conditionality and the “Acquis Communautaire” International Political Science Review, Vol. 23, No. 3, July, (249-268), 249-251 and also [http://en.wikipedia.org/wiki/Community\\_acquis](http://en.wikipedia.org/wiki/Community_acquis) (18.08.2012)

10 [http://www.europarl.europa.eu/summits/mad1\\_en.htm](http://www.europarl.europa.eu/summits/mad1_en.htm) (20.08.2012)

11 <http://www.ips-institute.si/data/uploads/PAR> (20.08.2012)



Moreover, the pending Lisbon Treaty strengthens the role of administrative cooperation between EU Member States: “*The Union may support the efforts of MS to improve their administrative capacity to implement Union law. Such action may include facilitating the exchange of information and of civil servants as well as supporting training schemes*<sup>12</sup>”.

Consideration related to PAR have been developed in several Commission papers, such as the White Paper on European Governance from 2001 and the Communication on a Comprehensive Policy against Corruption from 2003. These documents, together with SIGMA and World Bank reports, constitute the main sources of reference of the present list. However, the Public Administration Reform is not explicitly regulated as a separate chapter of the *acquis communautaire*.

Than those mentioned above, EU have a different program about administrative reforms. This program is known as SIGMA. SIGMA — Support for Improvement in Governance and Management in Central and Eastern European Countries — is a joint initiative of the OECD and the European Union. The initiative supports public administration reform efforts in thirteen countries in transition, and is principally financed by the European Union’s Phare Programme. The Organisation for Economic Co-operation and Development is an intergovernmental organisation of 29 democracies with advanced market economies. Its Centre for Co-operation with Non-Members channels the Organisation’s advice and assistance over a wide range of economic issues to reforming countries in Central and Eastern Europe and the former Soviet Union. Phare provides grant financing to support its partner countries in Central and Eastern Europe to the stage where they are ready to assume the obligations of membership of the European Union<sup>13</sup>. Firstly The SIGMA program targeted to adopt Administrative Law Principles of candidate countries. The administrative law principles, setting standards and inspiring the behaviour of civil servants, usually appear scattered among different pieces of legislation ranking from the constitution to several acts of Parliament, and specific pieces of delegated legislation as well as case law of the courts dealing with litigation concerning public administration<sup>14</sup>. In the field of European Community Law, the European Court of Justice has defined a large number of administrative law principles by making reference to the general legal principles of administrative law common to the Member States, in an ongoing process. If we attempt to systematise the main administrative law principles common to western European countries, we could distinguish the following groups: 1)reliability and predictability (legal certainty); 2)openness and transparency; 3)accountability and 4)efficiency and effectiveness<sup>15</sup>.

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12 Lisbon Treaty Art.176 [http://europa.eu/lisbon\\_treaty/glance/index\\_en.htm](http://europa.eu/lisbon_treaty/glance/index_en.htm) (20.08.2012)

13 CCNM/SIGMA/PUMA (1999), European Principles For Public Administration SIGMA Papers: No. 27, s: 3

14 Ibid. s: 8

15 OECD-SIGMA Program Information Sheet, [http://www.abgs.gov.tr/files/SIGMA/sigma\\_programi\\_hakkinda\\_bilgi\\_notu.doc](http://www.abgs.gov.tr/files/SIGMA/sigma_programi_hakkinda_bilgi_notu.doc) (22.08.2012)

Secondly, to include the candidate countries in the European Administrative Space (EAS). The EAS has been describe as European system of administrative justice, and shared basic public administration values and principles, have led to some convergence amongst national administrations. The notion of a European administrative space is taken from the more common notions of European economic and social spaces, widely debated upon in EU constitutional negotiations. It also relates to an EU-wide system of judicial co-operation, which includes mutual assistance in law enforcement and some approximation in the relevant field of law<sup>16</sup>. However, no common agreement yet exists for EU administrative spaces.

As already mentioned, it is the European Court of Justice which has elaborated most of the administrative law principles governing what could be termed as common European administrative law<sup>17</sup>.

SIGMA activities six technical areas:

- Develop and implement reform programs,
- Management, including regulatory, policy-making and coordination capacity
- Legal framework, public services and justice,
- External audit and financial control,
- Public expenditure management,
- Public procurement.

In October of 1999, "Control and Management Systems for EU membership Outlines" who work under the name SIGMA, six important in the field of public administration has revealed the outlines. These areas are: Public Services, Public Sector External Audit, the Public Financial Control, Public Expenditure Management System, Policy Making and Coordination Tools and Public Procurement Management System. Developed by SIGMA six separate areas and these are summarized in the outlines good practices, both formal (legal basis, institutional framework) and dynamic (application performance in the future, the necessary capacity to improve performance), the size of the cover. Therefore these six areas, which outlines minimum standards for determining the candidate countries have been involved in the process.

Administrative capacity for the evaluation of horizontal outline of SIGMA briefly as follows:

- Policy Making and Coordination
- Public Services,
- Public Expenditure Management System,
- Public procurement
- Public Financial Control
- Public Sector External Audit.

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16 SIGMA Report 27, Op. cit. s:15

17 SIGMA Report 27, Op. Cit s:16

SIGMA's working methods and priorities of each country to adapt to the specific needs identified. Therefore SIGMA's methods are very flexible. This flexible, taking into account the different needs and priorities of each country to respond as soon as possible SIGMA of the working methods of the EU, the candidate countries' administrative capacity in horizontal the most important tool developed to support reconstruction efforts<sup>18</sup>.

### **Albania's Membership Process and Administrative Reforms**

It would not be wrong to say that, with the beginning of the reforms carried out in Albania, the emergence of the integration process. The parliamentary democratic system was established in 1991 after 47 years of communist regime. The second phase of the democratization of Albania, was begun 22 March 1992 - is between May 26, 1996. During this period Democratic Party has came the power. After this elections, the new government has direct relations with the EU for the first time. Thus, the Trade and Cooperation Agreement was signed in May 11, 1992. And also in this period the new government abolished monopoly on trade and has a free market economy. However, the period marked by the economic and political reforms have led to serious problems. Rising unemployment, deteriorating economic and political crisis has shown itself as soon as possible<sup>19</sup>.

The third stage of the democratization of Albania May 26, 1996 - June 29, 1997. In this period, the country has had to deal with major crises. During this period the economy has been destroyed, government agencies ignored the central government lost control of many of the province with a civil war between Tosk-Ghegs (south-north) reached, which will be expressed in hundreds or even dozens of deaths occurred, a large part of the military weapons in the hands of civilians, the country is a serious is on the verge of separation<sup>20</sup>.

The fourth phase of the democratization process in Albania July 1997-3 June 29, 2005. However, this period until 2001, the process also needs to be addressed. In the 1997-2001 semi-period passed that, efforts to socio-economic stability and regional crises. Serbs of Kosovo Albanians ethnic cleansing policies of occupation, and then to establish close relations with the EU have led Albania. Furthermore, another problem for Albania, initiated by ethnic cleaning of the Macedonian's Albanians.

After 2001, the process of EU enlargement to include the Balkans is raised. Since then, a growing image of Albania has entered into relations with the EU. After this stage Albanian's government have started very quickly and effective reform process for EU. The Commission recommends the undertaking of

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18 OECD-SIGMA Program Information Sheet Op.cit.

19 Sokol Brahaj (2012), "Anavutluk'un Demokratikleşmesi (1990-1992) (3)", <http://balkangunlugu.com>, (22.08.2012)

20 [http://en.wikipedia.org/wiki/1997\\_rebellion\\_in\\_Albania](http://en.wikipedia.org/wiki/1997_rebellion_in_Albania) (23.08.2012)

negotiations on a *Stabilisation and Association Agreement* (SAA) with Albania. The Göteborg European Council (June 2001) invites the Commission to present draft negotiating directives for the negotiation of a SAA. Negotiating Directives for the negotiation of a SAA with Albania are adopted in October 2002. On January, 31, 2003, Commission President Prodi officially launches the negotiations for a SAA between the EU and Albania. As a “potential candidate countries” Albania was considered to be started in 2003 and the Stabilisation and Association Process. In 2003 at Thessaloniki Summit (June), the SAP is confirmed as the EU policy for the Western Balkans. The EU perspective for these countries is confirmed (countries participating in the SAP are eligible for EU accession and may join the EU once they are ready). Council decision on the principles of a revised European Partnership for Albania in December 2005. In June 12, 2006 the SAA was signed at the General Affairs and External Relations Council in Luxembourg. The European Commission decided to start visa facilitation negotiations with Albania in November, 2006. This process ended June 2, 2006, and completed an important step for Albania's EU membership and on April 28, 2009 Albania's government has applied to become a member of the European Union. The Council of the EU asked the European Commission to prepare an assessment on Albania's readiness to start accession negotiations. December, 16, The European Commission submitted the Questionnaire on accession preparation to the Albanian government. Following its application for EU membership, the Council of the European Union asked the European Commission on 16 November 2009 to prepare an assessment on the readiness of Albania to start accession negotiations, a step in the accession process that usually takes about a year. On December 16, 2009 the European Commission submitted the Questionnaire on accession preparation to the Albanian government. Albania returned answers to them on April 14, 2010. Candidacy status was not recognized by the EU along with Montenegro in December 2010, due to the long-lasting political row in the country. The parliament did in August 2012 reject a proposal to abolish immunity for parliament members, ministers and people in some other official positions. The EU required this to be abolished, so candidacy is delayed<sup>21</sup>.

Albania's integration process started in 2005 after the political, legal and economic reforms launched in the field of many. The ultimate aim of these reforms is determined as full EU membership. Legal reforms are focus on amendment the Constitution, human rights, pluralist democratic system and the rule of law becomes permanent. Especially in the field of human rights and regulations of public administration is striking. Economic reforms aims to the opening of global markets and Albania's transition to a liberal economic system. The issue of economic reforms are privatization activities, encouragement of foreign investment, taxation and the fight against corruption. And also the issue of political reforms are pluralism, strengthening civil society, freedom of expression and minorities<sup>22</sup>.

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21 [http://en.wikipedia.org/wiki/Accession\\_of\\_Albania\\_to\\_the\\_European\\_Union](http://en.wikipedia.org/wiki/Accession_of_Albania_to_the_European_Union) (23.08.2012)

22 Nikolin Agallija (2009), “AB İle Değişen Arnavutluk”, Yayınlanmamış Yüksek Lisans Tezi, Selçuk Üniversitesi, SBE, Konya, s: 70-75

Draws attention to the reforms of public administration management reforms in Albania. Because all of the arrangements made in the field of administrative reform is the common point. The current administrative system in Albania is based on the Council of Europe's Charter on local self-government (art. 108) and arises out of the 1998 Democratic Constitution and both subsequent and previous legislation, in the latter case only if such legislation has not explicitly been repealed<sup>23</sup>. At the programming level, Albania's system is rather straightforward, and has three levels: central, local (or territorial), and peripheral. The central Public Administration is made up of 16 Ministers, each in charge of their respective sectors<sup>24</sup>. The newly created Department of Public Administration (PAD), a department of the Prime Minister's Office, co-operates closely with the Ministries and with other central level institutions in order to help them achieve their goals.

The organisation and functioning of local governments are based on the principles of independence, local autonomy, and decentralisation. Key sources include:

- The 1998 Constitution (art. 108- 115)
- The decentralisation law (n.8652 of 31.07.2000).

The latter is a law that sets out principles, and has only partially been implemented. The local government model, at least on paper, is described below: At the local level, the basic government unit is the *Bashkia* (Municipality). Traditionally, only relatively large urban agglomerations are considered *Bashkia*. Smaller towns and villages are classified as communes; these are the smallest local government entities. Within both Communes and Municipalities smaller administrative units can be created to serve parts of the territory. Prior to the decentralisation law, Communes and *Bashkie* (Municipalities) were parts of the Districts, which numbered 36 and were in turn parts of the Regions. The new model, outlined by the 1998 Constitutional Charter, eliminates Districts, and the Communes and Municipalities become the basic administrative units within the Regions. A Region is made up of various local government units linked by traditional economic ties and common interests. Currently<sup>25</sup>, there are 309 Communes, 65 Municipalities, and 12 Regions in Albania<sup>25</sup>.

The professionalisation of PA personnel is another cornerstone of the Albanian reform process. The planned administrative apparatus is based on three fundamental principles<sup>26</sup>:

- Information

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23 CAIMED (2011), Administrative Reform In The Mediterranean Region, www.caimed.org (24.08.2012), s: 6

24 Blerta Selenica (2007), "Aspects of Reforming Public Administration in Albania", Public Administration: Protection and Quality of Public Services - International Trends, The International Conference organized by Koinoniko Polykentro, the Scientific Center of the Confederation of Public Employees in Greece, (185-192), Greece, s:185

25 Ibid, s: 7

26 Selenica Op.cit. s: 186

- Publicity
- Transparency

The new administrative procedure code (all.2) – L. n.8485 of 12.05.1999 – is a key law. It is rather generic in some aspects and therefore will be integrated with future legislation. To some extent, this has already happened with regards to the professionalisation of public sector employees, with law n. 8549 of 11.11.1999, which will be further integrated in light of the principles included in the framework law on ethics that is still being discussed in the Parliament.

The European Union is the most important foreign body supporting the evolution of the Albanian administrative system, within the framework of a broader economic stabilisation process and with an eye towards association. The European Commission's support will have two main guidelines:

- development and improvement of Albania's administrative system, through strengthening the key institutions of the Albanian Public Administration (such as the Civil Service Commission, the General Secretariat for Public Administration, the Department of Public Administration and the School of Public Administration). This is the goal of the latest PHARE programme for 2002-2003.
- The emission of CARDS for priority areas in order to bring Albania closer to EU standards and to give the Stabilisation and Association agreement adequate momentum.

These areas include:

- Public finance (including conventions, tax burdens, fiscal controls) in order to raise revenue and fight corruption and fraud.
- Standards for public acquisitions, in accordance with the clauses of any future stabilisation and association agreement;
- State supports and free competition;
- Bringing statistics and data analysis in line with European standards.

Administrative reform in Albania includes many actors in addition to the so-called institutional ones, and many organisms have developed programmes and strategies to assist this reform. Among these actors, the United Nation Development Programme (UNDP), IDRA (Institute for Development Research Alternatives), World Bank and The Open Society Foundation for Albania (OSFA) have played a particularly important role.

### **Turkey's Membership Process and Administrative Reforms**

On September 12, 1963 the Ankara Agreement created a Turkey-EEC Association, which came into being on December 1, 1964. The Agreement was directed towards full integration with the EEC, starting with the creation of a Customs Union. The Ankara Agreement called for the free exchange of goods, people, and capital, but excluded Turkey from European decision-making processes and from the possibility

of appealing to the ECJ for solving controversies<sup>27</sup>. Furthermore, it called for collaboration on commercial matters, and the EEC committed itself to furnishing economic aid to Turkey<sup>28</sup>. On November 13, 1970, the Additional Protocol cleared up the modalities for the creation of the Customs Union. It established that the EEC and Turkey would abolish quantitative and tariff barriers for its imports from Turkey (with a few exceptions such as manufacturing goods) once the Protocol came into being, and that Turkey would proceed to harmonise its legislation with EU legislation on economic matters. Furthermore, the Protocol calls for the free circulation of people between the EU and Turkey for the next 12 years.

On 14 April 1987, Turkey submitted its application for formal membership into the European Community. The European Commission responded in December 1989 by confirming Ankara's eventual membership but also by deferring the matter to more favorable times, citing Turkey's economic and political situation, as well its poor relations with Greece and the conflict with Cyprus as creating an unfavorable environment with which to begin negotiations. This position was confirmed again in the Luxembourg European Council of 1997 in which accession talks were started with central and eastern European states and Cyprus, but not Turkey. During the 1990s, Turkey proceeded with a closer integration with the European Union by agreeing to a customs union in 1995. Moreover, the Helsinki European Council of 1999 proved a milestone as the EU recognised Turkey as a candidate on equal footing with other potential candidates<sup>29</sup>.

The next significant step in Turkey–EU relations came with the December 2002 Copenhagen European Council. The European Commission recommended that the negotiations should begin in 2005, but also added various precautionary measures. The EU leaders agreed on 16 December 2004 to start accession negotiations with Turkey from 3 October 2005. Both Austria and France have said they would hold a referendum on Turkey's accession. In the case of France, a change in its Constitution was made to impose such a referendum, but later another constitution change has enabled the parliament (if a large majority of its members agrees) to prevent such a referendum. The issue of Cyprus continues to be a major obstacle to negotiations. European officials have commented on the slowdown in Turkish reforms which, combined with the Cyprus problem, led the EU's Enlargement Commissioner Olli Rehn in March 2007 to warn of an impending 'train crash' in the negotiations. Due to these setbacks, negotiations again came to a halt in December 2006, with the EU freezing talks in 8 of the 35 key areas under negotiation<sup>30</sup>.

Administrative reforms in Turkey is based on very old. Since the 18th century, the process of administrative reform is an issue constantly raised. General

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27 The Ankara Agreement is still the legal basis for the Association between Turkey and the EU.

28 CAIMED (2011) Op.cit. s: 98

29 Vincent Morelli (2011), "European Union Enlargement: A Status Report on Turkey's Accession Negotiations" CRS Report for Congress, 7-5700, RS22517, www.crs.gov, s:2-3

30 [http://en.wikipedia.org/wiki/Accession\\_of\\_Turkey\\_to\\_the\\_European\\_Union](http://en.wikipedia.org/wiki/Accession_of_Turkey_to_the_European_Union) (24.08.2012)

characteristics of the reforms to make government more efficient and focused on work. For this purpose, we can say about 187 administrative reform in the 18th century to the present day. However, the process of administrative reform makes sense for EU membership, and undertook a different function.

When we look at the content of recent administrative reforms, it is reasonable to classify them into two main categories. The first set of reforms might be named as “managerial reforms”, the second type of that as “governance reforms”. While managerial reforms aimed at improving economy, efficiency and effectiveness of public sector, good governance reforms focused on transparency, accountability, responsiveness and participation in public administration<sup>31</sup>. Managerial reforms are associated with the “New Public Management” (NPM) which became a worldwide phenomenon during the 1980s and 1990s. The main tenets of NPM can be classified into three broad categories: the use of market-type mechanisms, organizational restructuring, and a focus on performance. In line with the global trend Turkey has carried out a wide-range of managerial reforms. Privatization policies have been one essential component of managerial reforms in Turkey. Indeed, Turkey has initiated privatization programs in the middle of the 1980s and accelerated her efforts in the 2000s. Another logical consequence of privatization and liberalization policies has been the establishment of autonomous regulatory agencies in order to regulate the relevant market. Today, in Turkey, there are nine autonomous regulatory bodies. In addition to major privatization policies, in recent years, Turkish public organizations have been also increasingly outsourcing functions such as cleaning, waste collection, personnel transport, catering, security and IT services.

Decentralization is also a central aspect of the NPM-type managerial reform agenda. In this context, the former laws regulating local governments were totally changed and the duties, responsibilities and powers of local governments were expanded with the Law (No. 5302) on Provincial Special Administration, and the Law (No. 5393) on Municipalities, Law (No. 5216) on Greater City Municipalities and the Law (No. 5355) on Local Government Unions. The new laws, approved in the middle of 2000s, narrowed the administrative tutelage control of the central government on local governments. Besides, local government bodies are also granted the legal authority for outsourcing almost every service in their spectrum of tasks<sup>32</sup>.

In line with recent democratization policies in Turkey, the introduction of good governance reforms has been another essential component of administrative reforms. Governance reforms aimed at improving transparency, accountability and participation within public administration. With regard to transparency and accountability one important legal regulation has been the introduction of the Law on the Right to Information (*Bilgi Edinme Hakkı Kanunu*, BEHK) into the Turkish

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31 Süleyman Sözen (2012), “Recent Administrative Reforms in Turkey: A Preliminary Assessment”, *International Journal of Business and Social Science* Vol. 3 No. 9; May, (168-173), s: 168

32 Sözen (2012), *Ibid.* s: 170



legal system. The Law was (Law No. 4982) came into force on 24.04.2004<sup>33</sup>. Furthermore, the establishment of the Ethics Committee for Civil Servants in 2004 with the Law (No. 5176) on the Establishment of the Ethics Committee for Civil Servants and Amendment of Some Laws has been another notable development for public administration.

In the 2008 Program of the Government, under the section “Increasing Quality and Effectiveness in Public Services”, it was stated that the work on the Draft Law on General Administrative Procedures will be concluded by the end of the year. Similarly, the 2010 Program of the Government indicated that the work on the Draft Law on General Administrative Procedures will be completed and will be sent to the Parliament by the end of December 2010 (SPO, 2010:242). The 2008 version of the Draft Law contains significant provisions oriented to ensure transparency of the administration. There is no doubt that when the Draft Law becomes as a statutory law, there will be substantial implications for public administration. The Law will reinforce transparency in public administration and foster the transition from secrecy to transparency in the relations between the administration and the individual.

### **Conclusion**

The Albanian and Turkey the two countries that broke away centuries ago. Experience of the state of the two countries followed different processes. Today, both countries have a common point. This common point is the EU membership. Turkey's EU membership adventure older than Albanian's. Naturally, Turkish administrative reform experience is much more advanced. Albania. However, the administrative reform process in Turkey, walked heavily and often interrupted. There are many reasons to delay Turkey's administrative reforms. Historical fractures and cultural differences one of the main reasons for this delay. However, Albania is a different country from Turkey for the historical and cultural character. Culturally Albania is a part of Europe and historically, belongs to Europe. Therefore, for Albania's full compliance with the EU criteria and EU membership include different meanings. Following the collapse of the communist regime in Albania's EU membership compulsory destination is determined as a sense of progress. For this reason, Albania's EU membership is likely can be faster than Turkey.

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**EQUALITY - NOW OR NEVER:  
THE POLITICAL THOUGHT OF ENVER HOXHA**

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**Abstract**

*Students of politics know very well that Plato's perfect city in Republic is a political model of philosophico-pedagogical tyranny. For Ranciere, the political thought of the thinker of autocratic hierarchy, namely Plato, has much to do with what Ranciere calls the founding gesture of philosophy. In other words, since Plato, a silent majority has always been excluded from the privilege of thought and art and this has helped the construction of the implicit alliance between philosophy and the repressive order of social hierarchy. According to Ranciere, Marx, Sartre, Althusser and Bourdieu, despite their intellectual standing in the Left, are thinkers of inequality and pedagogical privilege. Each assumes, as Plato does, that the pedagogue must think for and educate those who are unable to think for themselves; only then will society change for the better. Yet, the fundamental gesture of philosophy (and even science) not only provides privileges to intellectuals but also continuously postpones the actual realization of achieving equality. If we take equality as an end rather than a presupposition or an axiomatic point of departure it would only prolong the hierarchy between "those who know" and "those who does not know". In this paper, I plan to examine Enver Hoxha's political thought from a Rancierean perspective. I mainly focus on a major concept which unifies Ranciereian thought, that being "equality".*

**Keywords:** *Enver Hoxha, Jacques Ranciere, equality.*

In this paper I examine Enver Hoxha's political thought from a Rancierean perspective. Actually I am going to focus on one major concept, *equality*, and the way Ranciere formulates this concept.

Jacques Ranciere is a French philosopher who was born in Algeria in 1940. In 1965, at the age of twenty-five, Jacques Ranciere, as a true believer of Althusserianism, contributed to Althusser's influential work, *Reading Capital*. While it would be misleading to suggest that he was totally forgotten after his contribution to Louis Althusser's *Reading Capital*, it has taken several decades for the work of Jacques Ranciere to find a wide audience.

Ranciere began to separate himself ideologically from Althusser after having contributed to *Reading Capital* because of Althusser's perspective regarding the student uprising in Paris which occurred in May of 1968. Furthermore, he even became quite critical of Althusser himself. "The May' 68 revolt crystallized his objections to Althusser's thought and much of Ranciere's work thereafter can broadly be understood as the attempt to give discursive form to the idea of radical equality implicit in May but unrecognized, at the time, by Althusser." (Davis, 2010, p.1).

The central unifying concept in Ranciere's work is equality. Let me quote from Jean-Philippe Deranty, who wrote several essays and a book on Ranciere's thought:

The many books Ranciere has written, covering a wide array of topics, make up one coherent conceptual world. This coherence stems from a fundamental ... [idea]: the idea that equality is not an essence, a value or a goal, but the first presupposition from which theory must start. This simple and radical axiom led to the break with Althusserianism in the 70s. Underneath Althusser's shifting intellectual position, and in Marxism more generally, Rancière recognised the same fundamental gesture that, according to him, was also the founding gesture of philosophy: the exclusion of a silent majority from the privilege of thought and art, the implicit alliance between philosophy and the repressive order of social hierarchy. Against this elitist posture, Rancière holds that the role of the philosopher is not to give his/her voice to the silent aspirations of the dominated, but to add his/her voice to theirs, to hear their voices, rather than interpret them, to help them resound, to make them circulate. The division of labour that keeps apart the intellectual's science from ordinary experience is an ideological fallacy that perpetuates the relations of domination (Deranty, 2003, p.1).

Ranciere based his radical conception of equality on "critical reflection on, and polemical reaction against, the philosophical pedagogies of" (Deranty, 2003) Althusser, Marx, Sartre and Bourdieu in both his well known book *The Ignorant Schoolmaster* and other works. It is Ranciere's belief that these savants take it for granted both the pedagogical power and the social privilege of intellect which was first postulated in Plato's *Republic*.

According to Ranciere, Althusser tried to secure a role for Marxist intellectuals in the revolution through his attempt to create a more theoretical and genuine Marxist science. However, this reduced the hegemony that the Party had over the interpretation of Marx. Yet according to Ranciere, "Marxist science had been set free from the authority of the Party only to become dependent instead on that of the pedagogue [Althusser or Althusser Hoxha]." (Davis, 2010, p.7). It is for this reason that Ranciere rejected Althusserianism, calling his first book *Althusser's Lesson*. Although this book appears to be an argument against pedagogy, it is in reality a critique of the political implications of the scientific outlook of Althusserianism.

After May 1968, Althusserianism seemed to Ranciere to be no more than a “pedagogy of delay” which held back the actual revolution thereby strengthening the present social and institutional privileges of its pedagogues. Ranciere holds that Althusserianism was no more than an attempt to exasperate the inequality between those who have mastered the intricacies of Marxist science and those who have not. This, according to Ranciere, was used to strengthen the authority of the teacher, who was in this case Althusser Hoxha (Davis, 2010, p.29). And this two-way relationship between student and teacher becomes “a one-way pedagogical relationship” in which the Marxist intellectuals give directions without which “the proletariat are condemned to spontaneous and aberrant, rather than properly revolutionary, action.” (Davis, 2010, p.13).

Althusser’s view of the instructional role of the elite vanguard of revolutionary intellectuals has a long history within the Marxist tradition, especially in the Leninist tradition, the vanguard party is the key word for such an understanding. For Marxist-Leninist theorists, the “working class were the embodiment of the future. However, they did not themselves have direct knowledge of their defining role in the historical process. For that they depended on intellectuals: as Ranciere put it parodically, ‘the workers need our scientific knowledge.’” (Ranciere, 1974, p.35 cited in Davis, 2010, p.14). Such a way of thinking can be called “scientism,” or as Zizek dubs it “theoreticist elitism.” Ranciere holds that scientism is not only concerned with providing privileges to intellectuals but also to continuously postpone the actual realization of achieving equality. More specifically, he believes that for both Marx and Althusser, through the use of the pedagogy of delay, that there would always be a knowledge deficit through which the intellectual gains the upper hand over the student and thereby both gain legitimacy and perpetually postpone the revolution (Davis, 2010, p.17).

According to Ranciere, even the slightest postponement for equality to be realized entails indefinite postponement. It is his proposition that for equality to be sincerely realized there mustn’t be even the slightest of hesitation in implementation. Moreover, its implementation must first and foremost be applied to the analytical approach taken to address questions of social justice. According to Ranciere, despite the fact that Marx, Sartre, Althusser, and Bourdieu are considered to be the “pillars of the left,” they are in fact a supporter of inequality and pedagogical privilege, just as Plato once did, in his well-known book *Republic*. In place of these four, he is a proponent of the pedagogy of “the ignorant (school) master,” namely Joseph Jacotot, as portrayed in Ranciere’s book *The Ignorant Schoolmaster: Five Lessons in Intellectual Emancipation* (1991 orig 1981) (Davis, 2010, p.25).

In this book, Ranciere describes the method of education Joseph Jacotot used that freed the minds of his “students,” or allowed their minds from falling prisoner to a broken system of hierarchy (stultification). Jacotot discovered, through happenstance, that he was able to teach subjects that he did not even know himself. Ranciere details to the reader Jacotot’s story while heavily emphasizing the aspect of “emancipation” and “stultification.”

Let me say a few words about the adventures of Jacotot. Jacotot was forced into exile after the Bourbon Restoration and found himself teaching French literature in today's Netherlands. However, he neither knew Flemish, nor did his students know French and was, as such, unable to follow the traditional way of professing his knowledge unto his students. Therefore, he distributed copies of a bilingual version of Fenelon's *Telemaque*. After the class finished the first half of the book, he had them repeat what they had read and then continue the remaining portion of the book. Afterwards, he asked the class to write about what they read, in French. What surprised Jacotot is that, although these students' native language was not French and he had not explained anything to them, they were able to express their ideas with an extreme amount of fluency. After such an experience, Jacotot was led to a general skepticism about the role of explanation. Ranciere articulates as follows:

Explanation is not necessary to remedy an incapacity to understand. On the contrary, that very incapacity provides the structuring fiction of the explicative conception of the world. It is the explicator who needs the incapable and not the other way around; it is he who constitutes the incapable as such. To explain something to someone is first of all to show him he cannot understand it by himself. Before being the act of the pedagogue, explication is the myth of pedagogy, the parable of a world divided into knowing minds and ignorant ones, ripe minds and immature ones, the capable and the incapable, the intelligent and the stupid (Davis, 2010, p.6).

In other words, Ranciere's understanding of intellectual equality derived from Jacotot is an equality that must be presupposed, from the outset, in the pedagogical encounter, which must be declared and which must be verified in that encounter. In short, Jacotot's pedagogy is against the transfer of knowledge from teacher to student and instead to inspire students' will (Citton, 2010, p.27). This pedagogical formulation also has prominent influence on Ranciere's understanding of 'emancipation'. According to Ranciere, 'what an emancipated person can do is be an emancipator: to give, not the key to knowledge, but the consciousness of what an intelligence can do when it considers itself equal to any other and considers any other equal to itself.' (Ranciere, 1991, p.68 cited in Davis, 2010, p.27).

Both Alain Badiou and Todd May state that Ranciere's radical understanding of equality is "one of the most important defining and original features of his work and has implications far beyond the field of pedagogy in a narrow sense." Davis, 2010, p.27. Inspired by Ranciere, May divides equality into two: active and passive. Active equality is "a form of equality which the oppressed presume, declare and verify for themselves and which is to be distinguished from equality as conventionally understood," whereas passive equality "is given (or, more often, not given) by those in power." (May, 2008). In other words, equality, for Ranciere, "is created *by* people rather than *for* them." (May, 2010, p.70).

The reason that Jacotot's pedagogy gained such importance is because it presupposed that equality must exist at the onset of the teacher-student relation instead of as a result of being taught. As such, Jacotot's pedagogical experiment

opens the way for a new understanding of what equality truly is (Davis, 2010, p.30). It can therefore be said that “equality is a presupposition, an axiomatic point of departure, or it is nothing.” (Ranciere, 2007, p.xi cited in Davis, 2010, p.31).

Let me quote from Ranciere’s essay that was published in an editorial work of Zizek namely *The Idea of Communism*.

It is the logic of the pedagogical process in which the schoolmaster starts from the situation of ignorance which is that of the student and progressively replaces ignorance by knowledge and progressively takes the student away from a situation of inequality to lead him or her towards a situation of equality. It is also the logic of Enlightenment in which the cultivated elites have to guide the ignorant and superstitious lower classes in the path of progress. This is, Jacotot said, the way of infinite reproduction of inequality in the name of a promise of equality. The process leading the ignorant to science and the lower classes to modern life of republican progress is predicated in fact on the knowledge of ignorance. This is the inegalitarian principle. Its opposite, the egalitarian maxim can be summed up in two principles: firstly, equality is not a goal; it is a starting point, an opinion or a presupposition which opens the field of a possible verification. Secondly, intelligence is not divided, it is one. It is not the intelligence of the master or the intelligence of the student, the intelligence of the legislator or the intelligence of the artisan, etc. Instead it is the intelligence that does not fit any specific position in a social order but belongs to anybody as the intelligence of anybody. Emancipation then means: the appropriation of this intelligence which is one, and the verification of the potential of the equality of intelligence (Ranciere, 2010, pp.167-168).

In the same paper Ranciere also asserts that “emancipation means the communism of intelligence” (Ranciere, 2010, p.168). And without the communism of intelligence we all know and some of us experienced what communism resembles.

Now I want to deal with a well known figure from the perspective that I tried to explore, namely Enver Hoxha. The official biography of *Enver Hoxha: His Life and Work* is a publication of the Institute of Marxist-Leninist Studies at the Central Committee of the Party of Labour of Albania. The book starts with a commemorative essay written by Ramiz Ali. What Ramiz Ali writes about Enver Hoxha is a par excellence example of that Ranciere called Platonic or philosophical gesture:

The name of the Enver Hoxha is inseparable from that of the Party which he created and led for nearly half a century. When Albania was at the crossroads of history, when the very existence of the Albanian people and nation had been placed in doubt, many Albanians felt the gravity of the situation, but those who were able to see the coming days of freedom and prosperity beyond the black enslavement were few indeed... Enver Hoxha was the first who saw the essential need for the creation of the Communist Party as the key link to save the Homeland and bring the people into light (Alia, 1986, p.5).

And again what Ramiz Ali writes about Enver Hoxha shows that Enver was perceived as the “eternal school master”:

The present and future generations will be guided by his teachings. Faced with any major question, faced with any difficulty or obstacle, they will seek the advice of Enver. And Enver will assist them. He will give them answers through his work (Alia, 1986, p.10).

One can easily say that these quotations are from a commemorative essay and it is understandable that his successor had to praise him. But the way Ramiz praises Enver Hoxha tells us more on how their, the communist elite I mean, relation with knowledge was. There was no sign of a dialog but a monolog. “Those who have knowledge” thus stand in a one-way pedagogical relationship to the proletariat. It can be asserted, in light of Plato’s *Republic*, that “those who know” (theologians, philosophers, central committee of the party) have since given themselves the sole right to dictate political authority as they believe themselves to be the “owners” of a sort of superior knowledge. Due to this supposed ownership Ranciere puts forth the understanding, through Jacotot, that the “explainer tends to stultify the explainee due to the structural inequality of the explanatory model.” Therefore, “‘those who know’ tends to kill the democratic process because of the very position from which he pretends to enlighten it. No matter how well intended or knowledgeable he may be in his disciplinary field, the expert represents a potential threat to democratic politics in so far as his very enunciation divides the citizenry in two: those who have the knowledge (and who are entitled to command), and those who lack the knowledge (and must therefore obey).” (Citton, 2010, p.29). But let me make my argument clear. I do not denounce “‘those who have knowledge”, but those who let their expert knowledge become a tool for silencing the claims and resistance expressed by “the ignorant ones”. (Citton, 2010, p.30).

Let me quote from some of Enver Hoxha’s own works. About the events in Iran Enver Hoxha writes on January 14, 1979 that:

Many intrigues will be hatched up so as to prevent this revolution from carrying out deep-going reforms. In this very important strategic country it will still take a long time for the people to become even more conscious of their great strength and this consciousness must be created by a genuine Marxist-Leninist party (Enver Hoxha, 1984, p.211).

And again about Iran he writes January 1980 as following:

The Iranian Marxist-Leninists must, in particular, submit the strength and orientations of the working class to Marxist-Leninist analysis and then their party must base its activity on this analysis, go among the working class, educate it and clarify it politically and ideologically, while tempering itself together with the working class struggle which, far from being ended, has only begun and will certainly assume diverse aspects (Enver Hoxha, 1984, p.379).



He also says that:

The Marxist-Leninists must teach the people to assess the events that are taking place in the light of dialectical and historical materialism (Enver Hoxha, 1984, p.380).

Let me quote from another book of Enver Hoxha that highlights his understanding of vanguard party:

Marxism-Leninism teaches us that the struggle between the proletariat and the bourgeoisie builds up continuously and will certainly be crowned with the victory of the proletariat and its allies. But for this struggle to be crowned with success, the proletariat must be organized, must have its vanguard party, must make the broad masses of the people conscious of the necessity for revolution, and lead them in the fight to seize state power, to establish its own dictatorship, to build socialism and communism, the classless society (Enver Hoxha, 1979, pp.142-143).

Another example from many others which indicates the role he assigns to intellectuals, or party cadres:

The duty of revolutionaries, progressives, and patriots in the countries with a low level of socio-economic development and dependent on the imperialist and social-imperialist powers is to make the peoples conscious of this oppression and exploitation, to educate, mobilize and organize them and hurl them into the liberation struggle (Enver Hoxha, 1979, pp.201).

Before I finish let me give another example in which Enver determines who are capable and who are not:

The organization of the masses of the youth is of special importance to the Marxist-Leninist parties. The role of the youth in the revolutionary movements has always been great. From its very nature the youth is for the new and against the old, and shows itself ready to fight for the triumph of everything progressive, revolutionary. However, on its own, it is incapable of finding the right road (Enver Hoxha, 1979, pp.232).

To sum up, Jacotot's pedagogical experiment opens the way for a new understanding of what equality truly is. It is, in a narrow sense, not only a pedagogical anti-method but also a new way of looking at politics and society. Inspired by Jacotot, and of course the understanding of equality implicit in May of 1968, Ranciere formulates his radical conception of equality as not an end but a presupposition or an axiomatic point of departure. Otherwise equality is meaningless and nothing more than an empty word.

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## TURKISH FOREIGN POLICY TOWARDS BALKANS: ALBANIA

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### **Abstract**

*This paper investigates Turkish foreign policies towards Balkans in general and Albania in particular. It is clear that there is not a great deal of academic study conducted on this topic.*

*The purpose of this study is to shed light on Turkish foreign policy towards Balkans in general and Albania in particular which has been misunderstood recently. In other words, the paper tries to find answers for these questions, within the Balkan scope: is the Turkish foreign policy in the 21<sup>st</sup> century 'new Ottomans'? What has changed in Turkish foreign policy since 2002?*

*It is important to note that this research adapts quantitative and content analyses. However, some data concerning of export-import and foreign aid is quantitative in nature. These data would be collected from official government sources.*

*Initially, the paper starts using a historical narrative in order to establish a clear and meaningful theoretical approach for Turkish foreign policies during the 20<sup>th</sup> Century. Then it is compares this with the 'new Turkish foreign policy' towards Balkans in 21<sup>st</sup> Century to observe whether any changes have taken place.*

*Secondly, the paper investigates the tools of foreign policy and their contributions to the decision making process of Turkish foreign policy. These include economic developments and foreign aid, export-import regimes as well as cultural relationships with these countries. As a consequence of these, the paper answers the question: what is the Turkish perception concerning foreign policy?*

*Thirdly, the paper tries to bring various discussions on 'new Ottomans' of Turkish foreign policy. Then the research wraps up all these discussions to weigh up their truth values. If there is no truth in them, then why do many people want to continue to keep the matter alive?*

*Finally, the paper concludes its findings and results with discussions and further suggestions.*

**Keyword:** *Foreign policy, New Ottomans, Balkans, Albania, Cultural Relations*

## **Introduction**

This study will shed light on Turkish foreign policy since 2002 towards Balkans in general, particularly in Albania. The reason is that, this new foreign policy of Turkey has been discussed and debated in various platforms and news papers. However, it is difficult to say that the same amount of weight has been lifted by the academic world.

Secondly, it seems that there is a kind of misunderstanding on Turkish foreign policy especially since Davutoğlu became the Foreign Secretary of Turkey. This study tries to clear this misunderstanding and provide evidence about his policy and aims and objectives concerning foreign policy. His initiative was called a 'Zero Problem with neighbouring countries, and other foreign policies that need to be discussed and evaluated. Thus, 'in some respects, the AKP's "zero problems with neighbors" policy is much more in line with the original foreign policy pursued by Atatürk and initially by İnönü than the anti-Soviet and later anti-Hussein policies of their Kemalist successors' (Larison, 2010). Then this paper will do these.

Thirdly, this study will concentrate on more Turkish foreign policy towards Albania with foreign policy tools. It does not mean that the study will not consider Turkey's foreign relations with other Balkan countries. The reason is that, Albania occupies a better position in terms of democratic and economic transition with her neighbours. Further, there is a large Albanian speaking ethnic community living in Turkey. Therefore, the relationship between Albania and Turkey could be seen an example for other Balkan countries.

Fourthly, the study will analyse a term which has been used very often in order to define new Turkish foreign policy towards Balkans which is "New Ottomans". It is obvious that this term and its connotation are problematic when one uses it in international relations. Since the Ottomans ruled the Balkan region for more than four centuries and disappeared at the beginning of the 20<sup>th</sup> century. Now, some people knowingly try to bring this term into usage intentionally not for explaining any part of Turkish foreign policy, but for creating confusion against Turkey in the region.

Finally, a conclusion will be drawn from the study.

## **Background of Turkish Foreign Policy**

Since the establishment of the Republic of Turkey, this new state has adopted a new foreign policy. It is not quite clear what the nature of that policy is. The reason is that, after World War I, not only Turkey, many countries changed their old, traditional foreign policies. It seems that their new policies were not able to prevent them from going into war. Then World War II took place in 1938. During this period, Turkish foreign policy was aimed towards creating and assisting peace within Turkey and its neighbouring countries. The chief political architecture during this period was Atatürk as stated 'Turkish foreign policy between the two world

wars was influenced by Ataturk's vision and his personality' (Gol, 2012, p. 57). Concerning the Balkans, it is claimed that 'Atatürk decided that a Balkan federation was the ultimate aim of Turkish foreign policy. Turkey had signed treaties with all the Balkan States separately' (Gol, 2012, p. 65). It is important to keep in mind that Ataturk concluded how Turkish foreign policy should be during his time as follow:

- (a) The Republic of Turkey was accepted as a part of the European state system,
- (b) Turkey had good relationships with its neighbours and preserved the peace both in the Balkans and the Middle East,
- (c) It was not in the revisionist camp; it chose to protect the status quo between the two world wars.
- (d) It was a faithful adherent of international law (Gol, 2012, p. 70).

Since 1938, Turkish foreign policy slightly changed because Ataturk passed away and Inonu, the second chief, ran the country until he lost the post in a general election in 1950 to Menderes. During his term, any considerable changes in Turkish foreign policy had not been recognized apart from Turkey becoming a member of the United Nations (UN) and the North Atlantic Treaty Organisation (NATO) in 1948.

Menderes' foreign policy was very much American orientated and against the communist bloc. Menderes did not have any independent foreign policy due to those aforementioned memberships as well as huge amount of American foreign aid to Turkey.

After the first military coup d'état in 1960, once again Turkish foreign policy slightly changed, but the main pillar of this policy remained the same which was to keep a close link with the USA and the NATO. This is also considered as 'Turkey started to re-evaluate its Western oriented foreign policy from 1960 onward because of external and domestic factors' (Göktolga, 2012). After 1970, there were some attempts to change the roots of Turkish foreign policy, but the Turkish government could not manage to do so until 1980.

The second military coup d'état in 1980 and Ozal's governments in 1983, 1987 and 1990s, are sufficient to evidence that Turkish foreign policy had a new root in terms of policy priorities and practices. Economic growth and new political stability of Turkey since 1983, led the government to set up new foreign policies which enabled Turkey to improve her relations with neighbours and states in the region alike. When the communist bloc fell down, new independent states in Central Asia become the main focus of Turkey in 1990s. During this term, another important development in Turkish foreign policy was noticed, namely Turkey's aims to join the European Union. Various agreements were signed between Turkey and the EU in order to bring Turkey's legal and economic conditions to the level of EU standards. Since then Turkey is still struggling to continue doing her home works which have been given by the EU.

In 2002, an important change took place in Turkey, the Justice and Development Party (AKP) came to power. Since that date, this party has been in power.

According to experts and academics, Turkey has got a completely new foreign policy which is worth to study and analyse. Therefore, this study will to some extent, evaluate the AKP government's foreign policies towards Balkans in general, particularly towards Albania.

### **Turkish Foreign Policies Towards Balkans**

It is important to make clear what Balkan means? In this study, Balkans, or Balkan countries means, Albania, Bosnia & Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia ( The U.S. State Department, 2012).

Turkey has never lost interest in this region since its parting from the Ottomans at the beginning of the 20th century. It is also important to understand that this interest has not become one of main foreign policy pillars of Turkey. Turkey watches the regional countries and continues low level of trade activities. Similarly, when one looks at Turkey's visa regime towards these countries, there is not a real visa implementation at all. Another important fact is that there is a considerable population from these countries living in Turkey and still people of these countries are able to communicate in Turkish apart from other significant number of historical remains present in these countries.

The main goal of Turkish foreign policy towards Balkans has changed after the Cold War. These changes have evolved further since the APK has come to power which is still in the power. If one looks at the changes, these can be noticed:

First, the remembrance of history and culture was extremely important in promising a new foreign policy framework in which Turkey could get what it wanted more easily and free itself from the shallowness that made it suffer throughout the 20th century. ... Second, Cem is drawing attention to the reasons why Turkey had broken with its past in the early republican period. It did so, he argues, because it needed to carry on with the revolution that it advanced in the modernization period. Turkey needed to build a nation but what it had at the end of World War I was everything but a nation. ... two main goals for Turkish foreign policy with equal importance: the first is to become a member of the EU; and the second is to become a "decisive centre in a Eurasia that is no longer just a geographical concept but in on the way becoming an economic, social, and political reality (Ozdemir, 2012, p. 28)

For the purposes of this paper, there is no need to go back until the beginning of the 20<sup>th</sup> century. If one starts with Turkish foreign policy towards these countries after the collapse of communism, that would serve the purposes. Further, it would be wiser to look at these countries and their relations with Turkey and other regional players since 1990 to understand their relations in 21st century. Finally, the Turkish foreign minister states that:

Our Balkan policy is shaped by the defining principles of regional ownership and all inclusiveness. It is based on four main pillars which can best be summarised as security for all, high-level political dialogue, further economic integration and the preservation of the multi-ethnic, multi-cultural and multi-religious social structures in the region (Raxhimi, 2011).

This statement clearly indicates the main pillars of Turkish foreign policy towards Balkans.

### **Turkish Foreign Policies To Albania**

Albania is one of the Balkan countries. It is surrounded by 'Kosovo, Serbia, Montenegro, Macedonia, and Greece. Due to its strategic geo-political position, Albania is seen as an interesting and different country of the Balkans' (Progonati, 2011). Since the collapse of communism, Albania transformed her political, economic and social structure quickly. These rapid changes and international intervention in to the region forced Turkey to implement an 'active foreign policy' (Sülkü, 2010, p. 1) in the region. As stated that

main tenets of Turkish foreign policy towards Albania were almost identical to Turkey's overall Balkan policy. Main objective of Turkish Balkan policy was to endure stability and peace in the region. Bearing this main objective in mind Turkey developed its bilateral relations with Albania immediately after the end of Albanian isolationist policies following the death of Enver Hoxha. Turkey until the mid 1990s rapidly increased its political, military and economic ties with Albania (Sülkü, 2010, p. 1).

One thing is for certain which is this closer relationship has increased since 1990. Turkey has used various ways to increase this relationship including economic aid, supporting social and cultural programmes by The Turkish International Cooperation and Development Agency (TIKA), training police officers and establishing schools. Further, in order to understand Turkish foreign policy towards Albania more broadly, one needs to read what has been written on the homepage of Turkey's Ministry of Foreign Affairs, which is stated as

Turkey considers Albania a strategically important country for the establishment of enduring peace and stability in the Balkans and supports its integration with Euro-Atlantic institutions, which, it believes, will strengthen Albania's internal stability Turkey is also supporting Albania, in its efforts at bilateral and multilateral level, for developing its diplomatic relations and international effectiveness.

Cooperation in the field of defense constitutes a comprehensive dimension of Turkish-Albanian bilateral relations. Teams assigned by the Turkish Land, Naval and Air Forces have been training Albanian Armed Forces and supporting them in logistics and modernization aspects, while Albanian soldiers assigned to Afghanistan within NATO framework are serving their mandate within the Turkish troops deployed in this area (Republic of Turkey Ministry of Foreign Affairs , 2012).

This statement underlines a general conception of Turkish foreign policy to Albania. It is understood that 'enduring peace and stability in the Balkans' is vital for Turkish foreign policy and 'Albania a strategically important country' in order to protect this peace. There is a visible development that Albania and Turkey are

members of various regional co-operations such as the NATO, the Black Sea Economic Cooperation Organization, The Regional Cooperation Council; these memberships help both countries to increase their foreign relationships further.

### **Misunderstood Policies**

The developments in Turkish foreign policy since the end of the Cold War have been misunderstood by various people and states. Their main argument was ‘Turkey tries to create a pax-Ottoman or a neo-Ottoman’ when Turkish foreign policy changed direction and her policy interests were directed towards the sovereign states living on former Ottoman lands.

It is a known fact that Turkey became dependent on the United States from 1945 until 1991, because after the Second World War, ‘the Soviets were powerful and attempted covert operations to subvert both Turkey and Greece’ (Friedman, 2012). After 1991, Turkey did not feel strongly to keep her dependence on the US, because the fear of the Soviet Union has gone. In other words, ‘fading away of the Cold War international relations paradigm, end of bipolar power system has been the main systemic factor of the search for a new foreign policy path. ... In addition to the international factors, socio-political transformations at domestic level have also been influential in the reconstruction of old policy attitudes in foreign policy agenda’ (Aktas, 2010, p. 17). This new condition forced Turkey to adopt a new foreign policy which aimed to increase her relationships with neighbouring countries and change import and export regimes. So, Turkey tries to use economic tools more than political leverage in order to improve her foreign policy.

The exports and imports of goods usually go to countries where they have socio-economic ties and cultural similarities on consumption. For example, Turkey’s exports to Germany have been increasing because; the Turkish population in Germany has been increasing. Similarly, since 1990, Turkey’s imports to Balkan countries have increased because of the cultural similarities. This does not mean that Turkey tries to create a neo-Ottoman pact. Therefore, these developments and similar trends towards Balkan countries in general, particularly Albania will go further. For example, over the last two years, many Albanian TV screens have begun to show Turkish soap operas which have great impacts on Albanian society. One describes this as ‘Turkey returns to the Balkans, nearly 100 years after the Ottoman Empire was forced to leave the region and the scene of history’ (Tartari(2), 2012). The Ottoman has not returned back to Balkans, only Turkey is in Balkans with its exports and goods including soap operas.

Tartari reported that Berisha told ‘the Turkish investments in Albania increased nine times starting from 2005, but this could have been 19 times, and this is an objective for the future’ (Tartari, 2012). This is an ambition which needs to be fulfilled on the one hand. On the other, the opposition of Berisha creates more doubt about Turkey’s intentions to Albania, some of which have been stated by Tartari as follows:



Kiço Blushi, a writer and analyst, used the term Ballkanadoll (a word made by two, Balkan and Anadoll-Anatolia) that is born with the new engagement of Turkey in the Balkans. According to him, the neo-othoman policy and culture represented by Turkey is dominating in front of neo-Bysantium represented by Greece-Serbia coalition.

Historian Ferit Duka, professor in the University of Tirana says in an interview that “I have the impression that “neo-ottomanism” does not represent a stream, a spirit, or a concern that is related to Albanian environment”.

Professor Fatos Tarifa, a former Albanian diplomat, replying to Mr. Duka sees Turkey policies toward Albania as a problem, in a time when Albanians still have problems with their identity. “...(it) is known the traditional pragmatism of ethnic Albanians, who, in difficult historical circumstances have been able to survive by adapting precisely those circumstances, being converted (most of them), centuries ago, into Islam religion of the invading Ottoman, and today (a part of them) in the official religion of Greek neighbors, a small, even by "changing" their nationality (national "identity") to "Greek" or "epiriot". This phenomenon, gives us the reason that, when we speak of Albanian national identity, not to consider it as a given quantum once forever and unchanged” Mr.Tarifa writes.

Piro Misha, writer and analyst, says in an article for a weekly magazine that “The problem is that in the Western Balkans this project (neo-othomanism) has to compete more openly with another project, that of the EU, which for years considers this part of Europe as its territory”.

All these clearly show that Turkish foreign policy towards Albania has not been properly understood since ‘the declarations of Turkey’s Foreign Minister, Ahmet Davutoglu in Sarajevo, Bosnia, about the “old spirit of the Ottomans’ (Tartari(2), 2012). Turkey needs to explain her intentions and her actions in Albania in a detailed and wider way. The reason is that ‘the declaration is not understood properly or maybe misinterpreted’ (Tartari(2), 2012). He may ‘tell the Balkan countries that they should find the spirit of living together’ (Tartari(2), 2012) as it used to be during the era of the Ottomans.

### **The Tools of Foreign Policy**

There are usually three tools of foreign policy, namely political, economic and military instruments. Sometimes, these are grouped as multilateral diplomacy, negotiations, public diplomacy, international law and organisation, alliances, foreign aid, economic sanctions, trade restrictions, trade policy, persuasive use of force, military force and war fighting (Deibel, 2002). In general, Turkey uses these tools according to the situation and requirements. For example, Turkish foreign policy towards Balkans is more economic and cultural than other tools used, or it can be said to be ‘multi-dimensional’. Thus, ‘Turkey has also signed Free Trade Agreements with Morocco, Palestine, Tunisia, Syria, Egypt, Albania and Montenegro’ (Aktas, 2010, p. 83). This statement clearly provides enough evidence in this concern.

It is important to keep in mind that ‘Turkey shows its presence in all important political and economic decisions in the Balkans’ (Tartari(2), 2012) currently. When Turkey faces with political problems in the region, any or many of multilateral diplomacy, negotiations, public diplomacy international law and organisation and alliances tools are used. That is the reason why Turkey’s role in the region is seen to be a ‘modernising force’ (Author(None), 2012) by some local politicians. Further, it is clear that

Turkey’s geography forces him to establish a web of foreign relations, in which just one link has a potential to break all political order in its region. This situation leaves no chance for Turkey to be immune from the international politics in this region. This also makes him obliged to define a strong foreign policy vision. Turkey’s new vision pursues regional peace by means of gaining democratic legitimacy in international relations and stabilizing democracy in domestic politics (Aktas, 2010, p. 85).

All these require Turkey to have an internally more democratic political system and externally to be able to use foreign policy instruments effectively in order to maintain the regional peace and to protect the countries’ vital interests.

### **Foreign Aid to Albania: TIKA**

For example, ‘in Albania, TIKA established a kilim (traditional woven Turkish rugs) weaving course in cooperation with an Albanian NGO to assist Albanian women in developing skills that would help support their families. During the course, women are educated about domestic violence, women’s rights, ethics, and illiteracy’ (et.al, 2012). According to TIKA’s 2010 annual report, ‘32.88 % of its resources were spent in the Balkan region’ only 3.28% of this amount was spent in Albania (Others, 2011, pp. 8, 118).

### **Export-Import**

There is an increasing trend in the trade activities among Albania and Turkey. For example, the trade volume ‘between the two countries had been risen from US \$120m (90.8 m euro) in 2008 to \$210m (158.9m euro) in 2009’ (Hamidi, 2012). The new figures are higher than these. In April 2012, Prime Minister Erdoğan stated that ‘Albania is Turkey’s strategic ally in the Balkans. Currently trade between the two countries is valued at \$400 million... and we intend to boost Turkish investments that have already surpassed one billion dollars’ (Likmeta, 2012).

### **New Ottomans: Turkish Foreign Policy**

It is quite clear whether Turkish foreign policy towards Balkans is ‘new Ottoman’ or not. This is a highly debated topic and will be debated more in the future. The reason is that Turkey has become more stable politically and is an economically growing country. These developments give Turkey a unique position in the region

that might be perceived as a kind of threat to other interested parties in the region. They know that public diplomacy is very important to increase international gain. For this reason, some use the term 'new Ottoman' in order to create public fear against Turkey which is not Ottoman in anyway.

The following paragraphs have been chosen from Davutoğlu's (Raxhimi, 2011) reply to some questions being asked:

**Q: What place does the Balkans occupy with regard to Turkish foreign policy?**

A: Due to its geographical, historical and cultural heritage Turkey is a Balkan country itself. Therefore, the Balkans is neither a bridge with the EU nor a Turkish 'backyard'. We have very strong historical, social, cultural and human ties with all the countries in the region.

There are millions of Turkish citizens that have their origins in the Balkans. Turkey aims at lasting peace and stability in the Balkans. We share and actively support the Euro-Atlantic vision of the Balkan countries. We believe all the Balkan countries should be sheltered under the umbrella of EU and NATO, in a not too distant future.

Our Balkan policy is shaped by the defining principles of regional ownership and all inclusiveness. It is based on four main pillars which can best be summarised as security for all, high-level political dialogue, further economic integration and the preservation of the multi-ethnic, multi-cultural and multi-religious social structures in the region.

Our perspective on the Balkans envisages a zone of prosperity and welfare, instead of a region beset by conflicts and tension. We want the Balkans not to be considered as at the periphery of Europe, but as an integral part of it.

Transport corridors and energy pipelines must go through the Balkans and trade, financial transactions and cultural interaction should grow. Historical centres like Sarajevo, Belgrade, Skopje, Plovdiv, Mostar and Dubrovnik must prosper along with Thessaloniki and İstanbul.

The people of the Balkans should make best use of the energy created by the common cultural and historical heritage they share, and convey it as a valuable asset for a common future to their next generations.

**Q: Following your 2009 Sarajevo speech, you have been accused by some of promoting an anti-European Union agenda and a return to 'neo-Ottoman' nationalism. How do you respond to this?**

My speech during a visit to Sarajevo in 2009 on contemporary Turkish foreign policy has been misinterpreted as advocating a policy of neo-Ottomanism. I am not a neo-Ottoman. Actually there is no such policy. We have a common history and cultural depth with the Balkan countries, which nobody can deny.

We cannot act as if the Ottomans never existed in this region. My perception of history in the Balkans is that we have to focus on the positive aspects of our common past. We cannot create a better future by building on a negative view of history.

We need to build a better future for the next generations that is based on common history, shared values and a joint vision. To this end, we wholeheartedly support the Euro-Atlantic orientation of all Balkan countries. We believe in the importance of securing the entire region under the European and Euro-Atlantic structures.

**Q: Many commentators in the Balkans view you as an apologist for the role the Ottoman Empire played in the Balkans. They believe Ottoman rule is the root of the region's poor economic development and internecine conflicts. Don't they have a point?**

I guess I already answered the question. However, as a matter of fact, the Balkans had its golden age of peace during the Ottoman reign. This is a historical fact. Those who blame the Ottoman period for the region's economic backwardness and internecine fights are under the influence of historical prejudices and stereotypes.

It will be enough to travel only a few hundred kilometres to identify the patrimony created during the Ottoman rule. Therefore, we do not want to be part of this blame game. As I told you before we have to focus on the good. To start with, we have to take a clear and realistic picture of the history. Those who do not know history cannot make history.

Despite the positive developments taking place in the region recently and the rapprochement efforts of local leaders, which we welcome wholeheartedly, the Balkans remains to be the fragile part of Europe and the test case for lasting peace and stability in the continent. Important challenges are yet to be overcome.

We must admit that wounds are fresh and need constant attention to be completely healed. We must deal with the legacy of the conflict - from organised crime to refugees and displaced persons; from war crimes to shattered economies and infrastructure, carefully and with a visionary approach while leaving behind the misgivings without delay.

These responses provide enough evidence for people who want to understand which way the Turkish foreign policy is going. However, if some people try to interpret it in any other way, that is their choice. In short, it seems that there is no room for new-Ottoman and there are no real works towards this way too.

## **Conclusion**

Turkey's foreign policy towards Balkans in general and particularly Albania is not unique. In other words, Turkey tries to implement her foreign policy; whereby 'multi-dimensionality envisages increase of influence in all of its neighboring regions and improving its relations with all international actors, rather than just depending on relations with the European Union and the United States' (Aktas, 2010, p. 85).

Secondly, Turkey wants to increase economic relationships with its neighbouring countries including the Balkans. This is important because, in this global world, economic strength leads countries to a stronger position than a military one.

Thirdly, Turkey pays more attention to tools of foreign policies namely, cultural and economic perspective and ‘political-strategic perspective, integrating to European values, putting the individual rights and liberties forward, having a strong, democratic, consolidated the political system and establishing an undisputable political stability’ (Aktas, 2010, p. 89). In order to achieve all of this, Turkey needs also time and work with other countries and statesmen.

Finally, Turkey’s foreign policy towards Albania is exceptionally getting better. Hence, there is cooperation between two counties on diplomatic and political relations. More investors of Turkey are coming to Albania and trade between the two countries is increasing. Lastly, schools and universities which are run by Turkish entrepreneurs help Albanian education and academia which would have a lasting impact on the future of the countries.

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## TURKEY'S POLICY: TOWARDS THE BALKANS AFTER THE COLD WAR

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### **Abstract**

*After the cold war, the civil war broke out in Balkans and intervention of USA/NATO ended the war with world public opinion's influence. Turkey was not indifferent to the war in Balkans because of its security and national interest perception. After the war, Turkey had an active foreign policy in security and stability studies and it played a role by sending soldiers to 'peace corps' leagued to provide consistency in reconstruction*

**Keywords:** *Balkans and stability, Kosovo problem, Bosnia Herzegovina problem, Turkish Foreign Policy and Balkans*

### **Introduction**

Turkey has started to carry out a multidimensional and an active foreign policy by reconsidering geopolitical, geocultural and geoeconomic values in new conjuncture consisted of collapse of Soviet

Block in the late 1980. In this context, it became important how Turkey takes part in poignant events happened in Balkans especially in first half of 1990 rather than whether Turkey takes part in that or not. Turkey has not been indifferent to developments by force of active Turkish foreign policy in Balkans especially after 1992 and it has strained every nerve in order to establish permanent peace in this region by improving its diplomacy internationally.

Balkans are important for Ankara which has historical and cultural relationships with this region and has strong relation because of the fact that there is Turkish and Muslim population in Balkans and Balkan-origin population in Turkey. When it is considered that Turkey's economic and trade relation with countries in the region was developed well and the region is a door which is opened to Europe for Turkey, it is well understood that achievement of peace and stability are important for Turkey.

However, economical problems and impairment of energy transmission lines safety pass over Turkey may arise from refugee flow to Turkey, increasing of transnational

crime enterprise, disconnection of only land connection between Turkey and EU and the biggest trading partner of Turkey when the region gets into depression.

The aim of this study is to explain Turkey's policies related to Balkans after cold war. Besides of historical and cultural relations, the region's safety and stability is very important for Turkish foreign policy. Events have a place in Turkey's national interest after collapse of Yugoslavia. The study consists of two parts. In first part of the study, after the cold war, collapse process of Yugoslavia has been tried to explain. In the last part of the study, manner of Turkey in relation to crisis in Balkans has been tried to explain with reasons.

### **Developments in Balkans From End of the Cold War Until Today**

Balkans have been important region for different societies since time immemorial because it is near to Europe and it has easy transition between Europe and Africa. Balkan Peninsula was under the sway of Hellene civilization, Rome and Byzantine Empire and Ottoman Empire for 500 years in chronological order.<sup>1</sup> Axis powers were defeated at the end of the Second World War. Thus, the region was brought under control by Soviet. End of the cold war has started painful transition period from communism to capitalism.

Collapse of socialist regimes in East Europe in late 1989 affects Balkans countries which adopt these regimes. While Bulgaria, Romania and Albania changed their system as liberal system harshly and sometimes smoothly, change of regime in Yugoslavia differs from them because of unique structure of Yugoslavia.<sup>2</sup> Yugoslavia's ethnicity and federal system which based on important balance has entered in process of dispersion with chance of regime.

Popular front in the leadership of Marshall Joseph Broz Tito, struggled against German occupation and became legendary, won elections in 1945 and 'Democratic Federal republic of Yugoslavia' which consists of six states (Serbia, Croatia, Slovenia, Macedonia, Bosnia Herzegovina and Montenegro) and which is changed as Yugoslavia Federal Republic was established by preparing a federal constitution in accordance with Soviet model.

There were no national unity and solidarity among these six republics and there are Hungarian, Turk, Bulgarian Italian, Rumania, Czechoslovakian and German minority. Slovenes and Croats were impressed with German culture because they kept to Austro-Hungarian Empire and other regions were impressed with Turk-Muslim culture. The most important element was Marshall Tito who is held these

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1 Mark Mazower, *The Balkans From The End of Byzantium to The Present Day*, Phoenix, 2000, pp.44-46

2 Ramet, Sabrina Petra, "War in the Balkans", *Foreign Affairs*, issue 71, 1993, pp.79-98



communities together and after he died, Yugoslavia entered a period consisting of economical problems and waxing nationalist tendency. <sup>3</sup>After 1980s, republics which constitute federation have started to decide freely in economical and political field and Serbian, Slovene and Croat nationalists have started to obtain separatist qualification.

After Yugoslavia Socialist Federal Republic collapsed in 1991, Struggle with Catholic Slovene and Croats and also Muslim Bosnians in order to achieve 'Great Serbia' ideal has turned into a civil war and battue. Croats declared its independence in June, 1991 as a result of struggle with Serbian. After Bosnia Herzegovina proclaimed its independence in 1992, battles were started in Sarajevo. Serbians believed that Bosnian- Herzegovina who consist of 43% Muslim of 4.5 million people, 32% Serbian of them and 17% Croats of them was not a natural republic and they have started ethnic cleansing because they asserted that Bosnian were not a particular nation.<sup>4</sup>

Taking part of UN in Yugoslavia crisis firstly started with judgment numbered 713 of Security Council in September 25, 1991. According to this judgment, required precautions were brought into force in order to stop weapon, arming sending to Yugoslavia and cooperation with European Community was provided in order to solve this problem. In 1992. United Nations Peace Force under the name of UNPROFOR was deployed to institute safety zones and protect them.<sup>5</sup>

Territorial integrity of Bosnia Herzegovina was guaranteed as a independent and dominant state by means of Dayton Agreement signed with led by USA in 1995 and it was decided that 51% of territorial integrity and 49% of it are under control by Bosnian- Croat Federation and Bosnian Serbs respectively. After NATO was assigned for application of Dayton Peace Agreement, NATO Implementation Force IFOR was allocated. IFOR gave place to NATO Stabilization force SFOR after it achieved its mission. SFOR delegated to EU force EUFOR in December 2, 2004.

Kosovo is another country which was faced with a crisis after Bosnia. Serbians attacked and did a systematic ethnic cleansing in 1998 in order to get under control Kosovo which was one of the autonomous territorials of former Yugoslavia Republic like Voivodina. When Serbians did not want to compromise, NATO started to coventrize without decision of UN Security Council in March 24, 1999. Serbians accepted plan offered by USA at the end and an international force called as KFOR (Kosovo Force) was sited in Kosovo in order to bring about peace and

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3 Lendvai, Paul, "Yugoslavia Without Yugoslavs: the Roots of the Crisis", International Affairs, issue. 67, 1 (Jun 1991), s. 14-27

4 Smith, C. J. "Conflict in the Balkans and the Possibility of a European Union Common Foreign and Security Policy", International Relations 13, no.2 (1996): 1-21

5 Smith, Martin A. "NATO: West is Best ?", in Uncertain Europe: Building a New European Security Order? Edited by Martin A. Smith and Graham Timmins. New York: Routledge, 2001

later NATO joined in this force. Kosovo proclaimed its independence in 2008 and independence of Kosovo was approved by International Court of Justice.

Serbia and Montenegro which were two parts of former Yugoslavia had been continued to carry its existence as Yugoslavia Federal Republic. However, it was named as Serbia- Montenegro in 2003 because this description was not accepted by international community. Montenegro proclaimed its independence in because of Montenegro community'desire for independence in plebiscite held in Kosovo in 2006.

### **Turkey's Stance Relation to Crisi Experienced in Balkans**

Turkey's attitude in relation to Balkan problems has been shaped with regard to The Ottoman heritage perception. Foreign policy perspective is to not have problems with neighboring countries because of existence of Turks in Balkans. Thus, Turkey plays an active role for Balkan problems.

Turkish community has not remained insensitive for crisis experienced in both Bosnia Herzegovina and Kosovo because of common historical awareness. After the cold war, Turkey has started to play an active role on foreign policy in Balkans experienced in ethnics conflicts. In this period, Ankara swiftly recognized countries which were proclaimed their independence in Balkans. In addition to economic relations with these countries, Turkey has preferred to keep company with international community in relation to development in this region.<sup>6</sup> In this remodeling period in Balkans, Turkey-Serbia relations was low level and they sometimes experienced important rise and fall. For example, Serbia recalled its ambassador during Bosnia Herzegovina crisis. Turkey recognized Bosnia Herzegovina in February 6, 1992 and it was involved in international peace force during ethnic conflicts in this region. It also participated in military mission (United Nations Protection Force-UNPROFOR) situated in Bosnia Herzegovina and it participated in NATO's operations (The Stabilisation Force Mission-SFOR).

Turkey's attitude in relation to crisis experienced was to contribute to solution of problems in terms of diplomacy instead of force entry. Turkish public opinion and decision makers showed an interest in Bosnia herzegovina War and Turkish Republic had an active foreign policy in order to stop the war. It has also made an attempt on preparing of a proposal which accords 'self defence right 'for Bosnia herzegovina with the frame of Clause 51 of UN Agreement and by participating countries which send soldiers within UN.

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<sup>6</sup> Sayari Sabri," Turkish foreign policy in the post-Cold War era: The challenges of multi-regionalism" Journal of International Affairs; Fall 2000; 54, 1

Although it was anticipated that Kosovo problem was solved within frame of territorial integrity of Yugoslavia, Turkey has started to have same decision with Kosovar Albanians after conflicts reached an increasing level. Turkey allowed NATO's aircrafts to use its airfield and also it contributed to KFOR with unit consisted of thousand.

In addition to these contributions, Turkey had an active role on establishment of Southeast European Cooperation Process in 1996. Active support of Turkey has continued in cooperation process which aims at integration of Balkans with EU and NATO. Turkey which was preside of European Cooperation Process for a period of two year between 1998-1999 and 2009-2010 has recently started successful diplomatic attempt and it has made very important contributions to establish permanent peace in this region.<sup>7</sup>

Development of neighborhood which is very important for peace and stability in the region is one of most important practices Turkey carried into with slogan of 'from shared past to common future' when it was term president. The best example for this practice is that Turkey has made tripartite meeting between Bosnia Herzegovina, Croatian and Turkey; Bosnia Herzegovina, Serbia and Turkey.

Tripartite meetings between Bosnia Herzegovina, Serbia and Turkey picked up steam with Istanbul Declaration in 2010 and this process has continued by reaching the level of presidency. In addition, the main objects of Cooperation Process which are civil rights, democracy, strengthening of democratic security, intensification of economical activities and enhancement of collaboration has been achieved by Turkey during its term president and Turkey has given support to Montenegro Republic which was term president after Turkey.<sup>8</sup>

Turkey has contributed to integration of countries in the region with EU and NATO as well as it has been instrumental in playing an active role on institutionalization of stability environment desired by European Union and NATO and activities of international bodies. Continuity of peace and stability in the region is very important for Turkey because if peace and stability continues in the region, Turkey will accomplish energy project which was developed recently in order to transport Western countries and Turkey's trade activities with EU countries will not be interrupted. Turkey has tried to carry out all of Turkey's policies such as geocultural, geopolitics and geoeconomic which provide peace and stability in the region because Turkey believes that 'Common future' is merely possible when all parties live together in peace and on easy street.

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7 <http://www.mfa.gov.tr/guneydogu-avrupa-isbirligi-sureci.tr.mfa>

8 <http://www.mfa.gov.tr/turkiye-bosna-hersek-siyasi-iliskileri-.tr.mfa>

## Conclusion

Turkey, which desires to provide stability in the region has remained in the forefront of international attempts related to analysis of Bosnia Herzegovina and Kosovo problem. Turkey has taken the initiative in order to start important attempts such as Southeast European Cooperation Process (SEECP) and Multinational Peace Force of South Eastern Europe (MPFSEE) / South Eastern European Brigade (SEEBRIG) with this framework and Turkey supported Southeast European Stability Pact and Southeast Europe Cooperation Initiative (SECI). Also, Turkey entered as term president in Southeast Europe Defence Ministry Coordination Committee (SEDM-CC) and Political Military Steering Committee- Multinational Peace Force of South Eastern Europe (PMSC-MPFSEE) for a period of two year.

Turkey attended KFOR and United Nations Mission in Kosovo (UNMIK), SFOR and European Union Police Mission (UNPM) in Bosnia Herzegovina and Police Mission led by EU 'Proxima'. Also, Turkey has supported integration of West Balkans countries to European organizations in order to be provided permanent peace and stability in the region.

After Balkans proclaimed their independences, their target was to be member of European- Atlantic organizations. Generally, it is concluded that Turkey's stance for Balkan policies is to have same approach with Western countries and to find a middle course in relation to expectations of allied in Balkans and Turkey's public opinion

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**BORDERS, IDENTITIES AND KIN POLITICS IN THE BALKANS:  
CONTINUITY AND CHANGE AT THE TURKISH-BULGARIAN BORDER**

Nurcan Özgür BAKLACIOĞLU

**Abstract**

*The paper focuses upon the historical and social construction of various crossborder identities across Turkish-Bulgarian border and elaborates the role of the border minorities, dual citizens and local kin politics on the development of the economic, political and cultural cooperation across the border. While the post-communist opening of the border led to the formation of new crossborder actors such as seasonal migrants, dual citizens, border minorities, irregular migrants, twin associations, schools, municipalities and free trade zones, the Europeanisation of the border gives rise to new physical, electronic and digital fences and walls. The paper questions the possible outcomes of the interactions that take place amidst this binary top-down and bottom-up dynamics. The question of how Europeanisation of the border could affect the local social, political, economic and cultural structures and dynamics? lays at the core of the study.*

**Introduction**

During the last decade, border studies have come a long way from the study of the hard territorial line separating states within the international system to the contemporary study of borders as a process of bordering, symbols and perceptions, through which territories and peoples are respectively included or excluded. (Newman, 2003; 2006). Once thought to be rigid, the lines and borders are as flexible as they were reflecting new territorial and aspatial patterns of human behaviour. The modern digital and cyber technologies has deminished the traditional barrier role of borders, while have served to create new sets of symbolic, social and administrative borders and boundaries that enclose groups with common identities and interests dispersed all around the world. The new networked borders do not require territorial attachment.

As Paasi (1998) underlines the borders are not anymore simple lines drawn on a map but they are institutions which possess their own internal rules and functions and their own mechanisms..Emphasizing the performative role of the borders, Scott (2006) suggests that the borders are not just institutions but elements of everyday procedures that lies deeply embedded within society. These procedures are identified and work throug ideologies, behaviors and perceptions and are resembled through symbols, principles and norms.

The borders are social and ideological inventions that perform certain functions. Through their institutional and procedural functions, the borders define “*who is us*” and “*who are the others*”, they impose entry and exit conditions and act as “*filters*” that determine the degree of permeability of individuals, ideas and principles. They have the capacity to separate, categorize and select the political, social, economic and geographic differences. They function as barriers that exclude and include, prevent or allow the entrances and exists in a group, society, institution or territory. However, as the Janus face of the borders suggests, the borders and border zones provide also places of contact, interaction, and hybridity that bridges different cultures, ideas, ideologies, performances and social entities.

The Balkan history used to be constructed under the discourse of the traditional territorial conception of the borders. The territorial and ethnogeographical hostilities and nationalist historiographies used to emphasize the conflictual and dividing function of the borders. Nevertheless, with its ethnic, historical and religious composition and hybridity the Balkans present one of the most fruitful area to investigate the complex Janus faced nature of the borders as physical, political, social and symbolic constructions that not only separate, delineate and divide, but also bridge, meet and combine.

### **Historical and Socio-Political Construction of Crossborder Identities in the Balkans**

In the Balkan historiography the borders convey the traditional ethno-territorial meaning of the border as a place of fear and threat. The history of the borders in this region is more about the border as a subject of power relations and imposition of the Great powers. The demarcation, delimitation and ultimate location of boundaries are a function of power relations, while the territorial legacy of partition, division and boundary superimposition remains a prominent component in the Balkan map today. The boundary superimposition lies at the core of many local conflicts in the region. The borders symbolize not only the interrupted nation-building and shifting sovereignty, but also divided identities and histories as well. The borders in the Balkans demarcated and delineated the sovereignty of the nation-states, but also constituted traumatic gates for millions of forced migrants, exchanged populations, refugees etc. Only the Ottoman-Russian war of 1877-78 resulted in deaths of millions and emigration of 1.445.000 Muslim refugees from the Bulgarian to Anatolian lands. (Eren, 1993:298) Thus a mutual geography of fear and pain has maintained untangible separation between people who have been driven from their homes to the “other” side of the boundary.

The most painful years of the late-Ottoman Balkan history are the years following the Balkan wars. Intertwined with ethno-territorial wars and exoduses the nation-building processes in the region emphasized the borders primarily as military zones and war stages. Militarization of the national borders had been a necessary condition against any external hostile aspirations and territorial claims that led to

the Balkan Wars and WWI and WWII. The wars ended with forced emigrations of millions from both Balkans(Ağanoğlu, 2001) and Anatolia and numerous bilateral border agreements to recognise, order, regulate, manage and control the borders as national barriers. Known as the Ottoman gate to the Gorgeous Roumeli,i.e. Balkans, the Bulgarian-Turkish border zone undergone subsequent Greek, Bulgarian and Turkish alegations and invasions until Lausane Treaty declared the official Bulgarian-turkish border in 1923. The Bulgarian and Serbo-Croatian-Slovenian collonisation and nationalisation of the occupied Ottoman lands after the WWI (Stokes,1998: 25-30) followed by forced deportations of the Ottoman population from Bulgaria and the Kingdom of Yugoslavia(Noel Malcolm,1999:342). According to Ottoman Migration Commision, between years 1919-1926 198.688(Şimşir,1986) refugees from Bulgaria and 131.000 refugees from Kingdom of Yugoslavia crossed the Bulgarian-Turkish border towards Anatolia. The Bulgarianisation of the Pomak population in Southwestern Bulgaria between 1931-35 led to forced migration of Pomak villages to the Eastern Thracean part of the Turkish-Bulgarian border. During 1930's the fashist Koseivanov government deported Turkish intellectuals in Bulgaria. The territorial exchanges and the shifts at the Romanian-Bulgarian border in Dobrucea resulted in the emigration of Tatars and Turks. Following the proclamation the Turkish Republic the Bulgarian-Turkish border undergone passages of approximatelly 1.519.368 Muslims and Turks (Eren, 1966:91) (Table 1) and 30-50.000 Thracean Bulgarians and Armenians (in 1913).

**Table 1: Balkan Migrations to Anatolia**

| <b>Years</b>         | <b>Yugoslavia</b> | <b>Romania</b> | <b>Greece</b>  | <b>Bulgaria</b>  |
|----------------------|-------------------|----------------|----------------|------------------|
| <b>1912-1913</b>     |                   |                |                | <b>440.000</b>   |
| <b>1923-1939</b>     | 115.427           | 117.095        | 384.000        | 198.688          |
| <b>1940-1945</b>     | 1.671             | 4.201          | -              | 15.744           |
| <b>1946-1960</b>     | 152.003           | 55             | 23.808         | 154.112          |
| <b>1961-1970</b>     | 30.502            | 274            | 2.081          | 15.000           |
| <b>1971-1980</b>     | 1.797             | 136            | -              | 116.104          |
| <b>1981-1990</b>     | 2.623             | 760            | -              | 178.664*         |
| <b>1993-1997</b>     |                   |                |                | 77.000           |
| <b>Total</b>         | <b>304.023</b>    | <b>122.521</b> | <b>409.889</b> | <b>749.648</b>   |
| <b>General Total</b> |                   |                |                | <b>2.026.081</b> |

**Source:** (Şimşir, 1986), (Kirisci, "Post Second...", 1995:175-80)

\* Jivkov yönetiminin devrilmesinden sonra Bulgaristan'a geri dönen 133.272 göçmen hariç tutulmuştur.

These interwar processes of national and territorial socialization constructed national identities with national territory as a major component of identity construction in the region. The constitutive significance of the territory is one of the major legacies of the interwar history in the Balkans. So, the borders in the interwar Balkans constituted indivisible part of the territorial and national identity. Most of the historical animosities and conflicts today lie at this period of Balkan history.

The post-WWII history of socialist federalization has frozen the territorial conflicts in the region. National borders have been subsumed as internal administrative borders in the Soviet or Yugoslav federations, while others delineated the Warsaw Zone. During the communist era the borders in the Balkans constituted geographies of exclusion that separated two ideological camps. The main function of the borders at that time was to provide the invisibility of the “other” side. The invisibility itself created a new Cold War dimension of fear emanating from the capitalist side of the border. The Bulgarian, Yugoslavian borders and the Berlin Wall had been institutionalized as borders of the two hegemonic ideologies of the Cold War. Common characteristic of these borders is an underdeveloped border zones under threat of occupation during potential war, no extensive investments, local colonizations and displacement of the autochthone populations.

The post-WWII migration era (Castles & Miller, 2008) was based on social and economic modernization and ideological competition across the two sides of the Berlin Wall. The Bulgarian-Turkish border faced with political asylum movements between the Eastern and Western Block. 31% of the Balkan immigrants who came to Turkey until 1960 came from Bulgaria and 22.4% from Yugoslavia. (Geray: 6-12) The socialist and nationalisation reforms raised radical social, cultural and political borders in the front of the Muslim populations in these countries. Forceful defeat of the minority opposition to the Stalinist reforms resulted in forced emigration of 250.000 Bulgarian Muslims and Turks (Stoyanov, 1992: 10-11) and from 151.889 up to 412.000 Muslims and Turks from Yugoslavia. (Özgür Baklacioğlu, 2010)

However, in the post-Stalinist era the people in the communist Balkans did not experience the borders between the Republics of ex-Yugoslavia or the other communist states (except Albania) as a barrier. Without difficulties they worked across the borders, attended nearby schools irrespective of the border side, owned and cultivated agrarian land in cross-border area, intermarried and maintained various intensive daily crossborder contacts across the borders. During these years the Bulgarian-Turkish border performed as an external border of the communist block that connects the Eastern Europe with the Middle East.

During 90's the borders in the Balkans faced controversial binary phenomena. After the break down of the Berlin Wall, the internal borders of the Warsaw area of freedom of movement turned into external borders of the new liberal democratic states. Throughout wars, ethnic cleansing and new territorial agreements the internal borders of the Yugoslavian federation became external borders of new independent



states. The border regimes changed, and affected the perception and performances of the borders and the borderlanders. Similar to the interwar years the ethnic and religious identity of the populations settled across the borders gained significance and led to new securitization of the borders. Years after WWII the borders in the Balkans constituted again a geography of fear, exile and conflict. After the Great Excursion of Bulgarian Turkish refugees in 1989, the Bulgarian-Turkish border undergone mass refugee inflows of 35.000 Bosnian (1993-95), 15.000 Kosovo (1997-98) and 6.151 Macedonian Turkish (after March 2001) refugees.

The fear of spread of potential regional war found reflection in rearticulation of the borders as bridges for cooperation and friendship. In 1993 the Bulgarian-Turkish Friendship Agreement underlined the significance of the 1925 Agreement which arranged enjoyable opportunities of movement, employment and migration across the Bulgarian-Turkish border. In the late-90's both countries had reached agreements for the demilitarisation of the border regions and signed an agreement for clearance of the mine zones and lower customs and tax regime for the Turkish trucks across the border. ("Bulgarian and Turkish Ministers...", 2002) Some military units had been removed or shifted from the border. The Bulgarian border constituted one of the busiest commercial and migratory borders opening for Europe. The end of the Cold War promoted the regional commercial and private traffic as well. According to the Edirne Municipality data in year 1990-93 the border crossings had reached 8.302.472 per year ("Sınır Kapıları", 2002). Although a good part of these crossings constituted of Iraqi refugees escaping the Gulf War on the way to Germany, there was important number of local visitors and suitcase traders.

During the interwar years the Bulgarian textile and leather production in Gabrovo used to exchange its products with the Bulgarian merchants in Eminonu, İstanbul. During 90's the Turkish middle and small range business from Turkey started to discover the small markets and cheap labor of Bulgaria and Romania. The İstanbul market profited through the suitcase trade with the small Eastern European merchants, while at the same time taught the free market rules to the new-born Bulgarian businessman. The crossborder social linkages and networks of the Turkish minority produced important crossborder regional economies integrated into new trans-border and trans-national geographies during 90's. After each great economic crisis in Bulgaria, the diming mass unemployment in the minority regions triggered increase in the labor emigrations to Turkey. Family-to-family linkages among the Bulgarian Turks in Bulgaria and Turkey facilitated the intensification of economic migrations to Turkey during 90's. Beside the Turkey's strict visa prohibition for the Bulgarian Turks, the number of the irregular Bulgarian Turkish immigrants in Turkey exceeded 76.000, while the registered ones were only 33.123. ("İçişleri Bakanı Meral...", 1997:11-12) After the facilitation of the EU visa requirements for Eastern European citizens in 2001 the family and kin networks in Western Europe prevailed. The border crossings at the Bulgarian -Turkish border fall to 1.198.516 crossings in 2001.

The available data talks about 30.000 Bulgarian Turks in Sweden, 10-30.000 in Netherlands and 1000 in Austria. (Laczko,;2002, 187; The Sophia Echo, 2009) The real numbers of the Bulgarian Turkish economic seasonal migrants in the Western Europe surpass the available data, because there is constant circulation of labour between the minority regions and Western European countries. The main reasons for the emigration to Turkey or Western Europe are (Маева&Манчева, 2004) :

- Shut down schools, unemployed Turkish teachers, low educational levels amongst the minority children
- Emptied villages as result of emigration to the cities, Turkey or Western Europe
- Unemployment rate 80%
- EU minority development projects applied selectively and insufficiently, primarily in the Pomak and Roma minority regions
- Underdeveloped infrastructure, Low investments
- seasonal migration opportunities in Western Europe
- Organised employment networks established between the Western Europe and the minority villages in Bulgaria
- Illegal employment, low wages, social insecurity

While the labor emigration to Turkey leads to irregularization of the stay and employment and ends up into permanent emigration to Turkey, the labor emigration to Western Europe is under temporary legal residence and illegal employment managed and organised through work-finding agents or village Networks. The field interviews show that the labor emigration to Western Europe rarely ends up into permanent emigration, instead, the accumulation of the migrant resources promotes the inter migration in Bulgaria, ie permanent emigration from the village to the city that provides sufficient education opportunities for the children. If there was an opportunity for legal residence in Turkey and promotion of the seasonal employment than the tendency for permanent emigration to Turkey would decrease. The post-communist crossborder movements across the border raised new actors with various identities, performances and expectations across the border.

### **New Actors, New Performances in the Crossborder Sites**

The closest minority that are involved into daily crossborder activity and exchange are the Bulgarian Turkish and Roma minorities. The most part of the seasonal and irregular migrants, as well as suitcase traders in Turkey is constituted by Turks and Roma that live in border cities such as Haskovo, Svilengrad, Kırçali and Burgaz. There are also about 862.712 (in year 2000) and 401.597 (in 2001) gurbetchi tourists that cross the border each summer on the way to Anatolia. ("Kapikule Sezona...", 2001) The minority migrants and dual citizens that immigrated and settled in the Thracian border region after 1989 constitute the second active crossborder group that is more interested in family business and trade of

Bulgarian foods at the small “Bulgarian immigrant market kiosks” in İstanbul. Banitsa, boza, vafla, salami, Bulgarian cheese and yoghurt are some of the numerous communist-time tastes that take place at these migrant shop shelves.

The primary institutional actors across the border are the small business companies and small range investors. The number of the Turkish companies that invested in Bulgaria during 90’s had reached the number of 1100. Many of them went bankrupt, the biggest ones are concentrated in construction, tourism, textile etc. sectors. The free trade zones and Plovdiv and Edirne Trade Fairs provide the most important channels for the regional crossborder cooperation and exchange across the border. Between 1992- 2001 Haskovo border municipality attracted 41.64 million USD in foreign investments. As a border city the economy of Svilengrad depends a lot on the crossborder free trade zones extending to the Greek and Turkish sides of the border and the Svilengrad-Edirne municipality cooperation. Important limit to the strengthening of this cooperation is partly the ethnic background of the population of Svilengrad which became a city of colonisation after 1913 when Bulgarian refugees from Western and Eastern Thrace had been settled around.

| Bulgarian Side   | Turkish Side   |
|--|--|
| Seasonal migrants<br>Retired dual citizens<br>Thrace Bulgarians<br>Bulgarian Turks<br>Roma<br>Bulgarian Tourists | Migrant associations<br>Dual citizens<br>Minority migrants |
| Gurbetchi (European Turks) Twin municipalities Free Trade Zones Universities                                     |  |

Acting continuously across the border most of these actors undergone dual processes of political and territorial socialization. So, typical for these new actors are dual attachment and affiliation to two different places, territories and social spaces. Especially the Bulgarian Turkish minority and dual citizen migrants have developed extensive cultural, economic, political links and performances across the border and transformed the border from a place of separation into place of linkage and new local, mixed identifications. (Figure 2).

Political parties and NGOs play a key role for social, political and cultural integration of minorities - including their adequate representation in decision-making process at local, regional and national levels.

As globalization extended the role of migrant communities through internal restructuring, higher capacity of mobility and access to information the migrant communities expanded their sphere of activity from culture to politics. This functional change led to diasporization of migrant communities as in the case of Bulgarian Turkish migrants which started collective action for their social rights left behind in Bulgaria. The search for social compensation mobilised crossborder political action of the migrant associations around the discourse of human rights and freedoms. Crossborder elections constitute fruitful stage for the lobbying and

propaganda performances of these actors. The associations use to put pressure over the minority leaders and the leaders in Turkey, mobilize and register the electoral vote in Turkey and prepare the electoral stages, as well as in some cases monitor the elections themselves. They are also involved in advising and reporting on the human rights problems and cultural expectations of the minority in Bulgaria.



As defenders of the migrants rights, the migrant associations are the prime opponents of the nationalistic claims among some Bulgarian associations in Bulgaria too. Based on the fact that most of the association leaders have personal and commercial affairs with Bulgaria, they do not feel independent enough to apply harsh opposition against the Bulgarian governments. Neither there is clear opposition against the aspirations of the Thracian Associations in Bulgaria. This is a union of associations of the Bulgarians and Armenians who emigrated from Eastern Thrace after September 1913. Organised under rather nationalist propaganda, these diasporic groups claim for financial compensations for their lost properties at the Thracian frontiers at the Turkish side of the border. Their attachment to this “sacred territory” is based around symbols, signs and myths(Bulgarian and Armenian churches, cemeteries, village names, schools etc.) in the landscape, as well as the creation of territorial histories and myths which reflect the holyness of this exclusive ancestral homeland called once upon a time Odrin kingdom of Bulgarians. Yet, there is not direct face to face quarrel between the migrant associations at the both sides of the border, the claims fight through the governments.

Important competition goes among some anti-Dogan associations in Turkey and the MRF leader in Bulgaria. Some of the associations use to question the legitimacy, performance and efectivty of the MRF’s leadership and ask for radical change at the top of the minority party. The electoral performance of the MRF and its ability to overcome the legal and political pressure of the nationalist circles in Bulgaria, provide the MRF with sufficient capacity to afford these opponent voices. Moreover, MRF as a minority party that represent only 5-7% of the electoral votes has representations in 28 municipalities, 247 districts, 2128 quarters where it is

represented by 68.000 members (in 2003-2006) and 24.000 members in the Youth organisation of MRF. Through this wide organisation the MRF supports higher political and administrative representation of the Turkish minority elite in the parties, bureaucracy, politics, i.e. enlarges the political elite among the minorities.

The MRF's Turkey sponsored quota for high education in Turkey provided high education opportunities for up to 1500 minority members. There are more than 20.000 Bulgarian students abroad that are sponsored by the Bulgarian government, but there is no available data about the representation of the minorities in this quota. The schooling and employment problems and the absence of effective social policies in the minority regions leads to low education quality among the minorities. Although approached as a threat to Bulgarian unity and a privilege, the high education opportunities provided in Turkey and the crossborder vote provide important ground reproducing the cultural identity of the Turkish minority in Bulgaria as well as opens new perspectives for common action and hopes for future projections among the young minority members. Doubtlessly, these crossborder activities provide a social tool for creating an active cross-border cultural space, yet, this cultural space works within the cultural, political and economic sphere of the minority and involves low number of Bulgarians. The anti-Roma and anti-Turkish feelings among the nationalist Bulgarians are still strong. For example there are only few cases of twin municipality initiatives that meet a Bulgarian and Turkish populated municipalities. While the migrant Networks and cultural affiliation constituted the basic reasons for establishing twin municipalities, after the Europeanisation economic factors and efforts for requisition of the EU funds dominated in the initiation of twin municipalities.

So far, beside the dual citizen migrants and the local business, the most EU-involved active crossborder actors are the twin border municipalities. They head, take part or overtake the coordination of many local crossborder economic, cultural and societal cooperation initiatives that usually involve the local NGO's too. As it is well known not always the interests of these institutional crossborder actors represent the expectations of the minorities, very often these institutions and groups take under consideration the kin-state sensitivities and convey different cultural values and norms. For example, in an attempt to isolate the impact of some radical Islamic sects such as Rabita, Suleymancılar etc. Turkish Diyanet is supporting the opening of some Islamic schools in Bulgaria, however, there are differences in the Islamic rituals and understanding at the two sides of the border. Thus these initiatives are perceived as imposition of foreign Islamic values among the Islamic circles in Bulgaria.

The rise of the Bulgarian nationalism after 2008 constitutes the primary factor that hampers the development of crossborder cooperation through activation of ethnic and historical bias and hostility, populist nationalism, revanchism, corruption, instable political life etc.. The absence of common competencies and low foreign capital investment in border zones results in ad hoc, less institutionalised, temporary cultural cooperation.

**Conclusion: Europeanisation of the Border: Eurozone Cooperation on New physical, Electronic and Digital Fences and Walls.**

How Europeanisation of the border could affect the local social, political, economic and cultural structures and dynamics?: EU enlargement created a new eastern border in the Eastern Europe. This borderline goes through areas inhabited by people who belong to 71 minorities (Toth,2006:21), thus speak numerous different languages, but share the values, culture and memories of the same communist past. Beside the ethno-territorial problems and claims, there are many cultural, moral and historical similarities as legacies of the communist education, social life and cultural policies. This is one of the factors that tends to support the local crossborder initiatives. For example few years after the Balkan wars the former Yugoslav republics removed the visa limitations and initiated crossborder freedom of movement, exchange and cooperation.

The introduction of the Schengen regime and the Europeanisation of some of the borders in the Southeastern Europe defeated the traditional local crossborder dynamics and brought new competitions and inequalities among the new EU-members and non-EU member states. Since the Schengen system is fundamentally about re-interpreting national borders and their meanings in regard to the movement of persons, it created a borderless or semi-open world for some and a new “iron curtain” for the other states in the region. Avoiding to import the local minority conflicts and poor immigrants, the EU placed aside the social ties, cultural proximity or ethnic origin as main criteria in its border management policies. (Hatvany,2006:49) However, as most of the new member states undergone problems related to crossborder kin minority policies or kin state affiliation(Hatvany,2006:49), they started to put pressure on the EU justice, freedom, security agenda and call for flexibility of border crossing policy has started to put pressure on the EU agenda.

The introduction of the Schengen border code and visa policies interrupted the local habits of crossborder movement and caused indirect losses in the tourism and local market sector. In the case of Turkey and Bulgaria there is a continuity in the implementation of the visa policy, but there has been increase in the Bulgarian visa cost for the Turkish citizens. Although the Schengen system foresees visa facilitation for the citizens of the candidate states that provides a right to enjoy visa-free travel up to 90 days, this provision is not applied to the Turkish citizens. The costly and hardly obtainable Bulgarian visa prevents the growth of tourism between Bulgaria and Turkey. While Bulgarian citizens are provided the right to stay 3 months in Turkey with a tourist visa, the Turkish citizens undergo strict visa and registration practices. As a result, beside its wide variety of alternative touristic opportunities Bulgaria hosts small number of tourists from Turkey (except the dual citizens), while Turkey is one of the favoured tourism sites for the vacational tourism.

Turkey is also a transit country for refugees and migrants from the South Asia, Middle East and Africa, but also a source country for Turkish emigration to Europe and receiving country for irregular migration from former Soviet Union. Since 90's there has been an intensified grass roots movement from below which challenges the continuous functional norms of the border. However, except the liberalised mobility of the dual citizens, twin municipality governors, businessmen, these local factors support the securitization of the bordering and migratory processes. After the deadly experience of the restrictive visa policies applied to kin-minority members during 90's, when in 1997 seven Bulgarian Turkish children were found dead in a traffickers truck while passing illegally to Turkey. Turkey took one-sided legislative, administrative measures to limit the negative effects of visa policies. However this kin-minority facilitation is temporary, applied only before the parliamentary elections, and involve temporary single renewal of the residence permit. Because of the 3 months limitation of the stay in Turkey, hundreds of Bulgarian Turks are living in irregular status in Turkey. Because of this they do not have access to citizenship application until completed 10 years of residence. After the Europeanisation of the visa procedure, the law on work and residence conditions of the Turks and other kin immigrants in Turkey is not applicable anymore.

There are available additional administrative mechanisms to limit the negative impact of return, border and visa regimes imposed through Europeanisation. These measures are not in conflict with the EU regulations and involve application of ethnic preferences in migration regulation and naturalisation, provision of trans-border nationality status for minorities or liberal visa for minority visitors, labourers, suitcase traders, students etc.

One of the most successful performances of the crossborder kin policy was the accommodation of the dual citizenship status. This status "solved" the issues of social rights and retirement problems of the migrants of 1989. Most of the aged migrants had to buy their already installed retirement years from the Bulgarian government or most simply got satisfied by minimum retirement salaries in Turkey and Bulgaria. The highest advantage of the dual citizenship policy was the facilitation of the crossborder travel of the minority migrants of 1989. Yet the minority itself does not enjoy such freedom of travel to Turkey. Moreover, the Bulgaria's dual citizenship policy bases on ethnic origin and kin solidarity. It is employed as a nation building tool and strengthens the spirit of the ethnic majority in post-communist Bulgaria.

So far, the Europeanisation of the border has resulted in modernisation, technological improvement and professionalisation of the borders as institutions under integrated border management programs. Now there are more effective, digitalised, selective, fast, clever and moving borders. The borders are connected through extensive digital data and networks and share immense information and data about the people who can pass and who cannot pass the border. Today the borders know and distance the ethnic, religious, professional, social background and fingerprint of each foreigner who pass the Europeanised borders. So in the case of

Bulgarian-Turkish borders we see a shift from demilitarized national borders to securitized and marketized European borders. For difference from the Cold War times, the rules and regulations governing the border today are changed not by gendarmeria or military bodies, but by policy decision makers, through built-in adaptive mechanisms such as internal auditing. Europeanisation does not require governments to relinquish control of the borders, instead EU integrated border management system requires standardized and optimized border structures. The increase in the illegal passages and human trafficking applies strong challenge over the border functions from below.

The Europeanisation as a process of standardization across the borders, leads to immense degree of interaction and cooperation to take place between the border administrations at the both sides of the border. Integrated border Management foresees common border checkpoints, crossborder cooperation in risk and data analysis and exchange, education, orientation, coordination, patrolling etc(Akman&Kılınç,2010:9).The data systems, criteria and mentality of selection, functions and approaches against irregular migration and human trafficking are common. There is intensive SIS and Eurodac-based digital interaction between the border police at the two sides of the border. Co-operation in the field of migration and asylum through protection of human rights of (lawful) migrants; co-operation to improve security standards (biometrics in travel documents); functional border control and staffing, concluding readmission agreements; collaboration with sending, transit and destination countries in asylum management; and promotion of public awareness about the opportunities and limits of individuals' rights in migratory movement.

Regardless of the absence of direct reference on minorities, the overall security context may indirectly support the utilitarian approach by taking minorities into account as security issues on fringes of Europe. (Toth,2006:25) Indeed the European Parliament Regulation on local border traffic at the external borders of the EU about the border residents crossing of borders is not implemented at the Bulgarian-Turkish border. (Toth,2006:34) In fact, Bulgaria as a member states may conclude agreements on local border traffic with neighbouring third countries or maintain existing agreements provided that these agreements comply with the Regulation. Here the local historical and political prejudices and interests play role.

“Bottom up” development of European integration at its borders (Gabbe 2006) bases on the idea that only actors from the cross-border region can efficiently design developmental tasks and projects, which fit to broader developmental strategies at regional, state or Community level. there are limits and shortcomings of such endeavour: The Shengen regime impose a new border-the EU border b/w an EU member and non-member state, these are two different statuses and positions that create inequality and marginalisation of the non-member part in the participation in any crossborder or regional developmental program. Very often the crossborder developmental programmes require the applicant party from non-EU member states to



provide higher percent (around 15 %) of the total eligible cost, thus the non-member part faces both financial shortcomes or problems in fulfilling of eligibility criteria..

This dual situation across the Schengen border leads to new competitions that merge with the old local ethnic or national competitions for power, i.e. municipal government, public services and resource distribution. This leads to more segregation where ethnic groups create their own distinct and homogeneous cultural spaces, send their own representatives to the local municipalities and compete for resources along distinct ethnic and sectoral interests across the border.

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## EU INTEGRATION PROCESS OF BOSNIA HERSEGOVINA: A CRITICAL PERSPECTIVE

Hüsamettin İNAÇ\*

### Abstract

*As one of the Western Balkan countries Bosnia-Herzegovina had the first official contact with the EU immediately after its recognition as the sovereign and independent state on April 1992 by the Union. Nevertheless, some structural and institutional problems arisen from the Dayton Peace Agreement halting the war had been signed on December 1995 made the EU integration process more complex and complicated for Bosnia-Herzegovina. Under these circumstances, Dayton Peace Agreement created a state which was lack of executive and bureaucratic structure which will represent the whole country and intermixed decision-making bodies/assets which will proceed the relations with EU. This study aims to elaborate the EU-Bosnia-Herzegovina relations within the framework of Western Balkans. For this target, the strategies, policies, dynamics, actors and instruments of the EU used for the sake of removing the problems during this process will be explained in the first stage, the historical evolution, turning points and theoretical perspective of the relations will be summarized secondly and lastly, the critical analysis of the recent developments and futuristic perspective of these relations will be discussed with socio-political aspects as well as with the different perception of the parties concerned with this process.*

**Keywords:** *Bosnia-Herzegovina, EU Integration Process, Western Balkan countries, Constitutional Reform, Regional Approach, perception and identity.*

### Introduction

After the separation of Federal Yugoslavia, the EU developed an enlargement policy towards Southeastern Europe in order to provide the political stability in the region. In this context, EU had established relations with Bosnia-Herzegovina, Croatia, Montenegro, Macedonia and Serbia known as Western Balkan Countries. Nevertheless, in comparing with Eastern European Countries, the integration process of Western Balkan Countries delayed because of the struggle with the countries which rejected the independence of newly established countries. In this presentation, the strategies and instruments of the negotiations used by the EU in shaping the relations with the Western Balkan Countries, the historical evolution of EU integration process of Bosnia-Herzegovina as well as the problems during the negotiations and their ways of solution will be elaborated. As a result of the analysis, it is concluded that the EU couldn't develop a coherent and common foreign policy for the Bosnia and lost her reliability and prestige in presenting and

implementing her common foreign and security policy which is aiming to lessen the American hegemony in the region. In respect of Bosnia Hersegovina, the most important obstacles in entering into EU are the restructuring of the police organization and the Constitutional reform as well as lack of executive body to implement the EU negotiation process. In addition, this process couldn't create a unifying identity which removes the ethnic cleavages and angers inherited by past history (İnaç 2004: 38).

### **The Strategies, Dynamics, Policies and Instruments of EU Towards Bosnia Hersegovina**

Immediately after the signature of Dayton Agreement in 1995, a new policy pertaining with Western Balkan Countries was adopted by the EU in order to remove the doubts and hesitations felt by these countries and end the hegemony of the USA within the region. This new policy was called as 'Regional Approach' singling out the stability in Balkans and gaining the membership perspective for Western Balkan Countries. This approach which was signed in 1996 is really important in respect of reflecting that EU established a correlation between her stability and the solution of the problems in Balkan Peninsula. For this target, both economic and political aims have been adopted and the enhancement of democracy and the supremacy of law and restoration of country economies have been emphasized (Bulletin of the EU, No. 1-2/1996).

A year later, as a second instrument, a new report called as 'The Application of the Conditionality to the Development of Relations Between the EU and the Countries Concerned by the Regional Approach' has been released which stipulated some criteria and particular/specific conditions per each country in economic and democratic matters including the financial aids, commercial-economic cooperations and other bi-lateral agreements. In this report, below-mentioned issues have been stipulated: The return of the refugees into their homes, the implementation of Dayton Agreement which stipulates the cooperation with the War Criminals Penal Court of Ex-Yugoslavia, enhancement of human and minority rights, performance of the free elections, and improvement of the good neighboring (The Bulletin of the EU, No.4-1996). Otherwise, the commercial privilege would be suspended and outgoing financial aids would be stopped.

The third instrument is Stabilization and Association Process (SAP) which was adopted in order to get the Western Balkan Countries more closer and to contribute new dimensions into the existing relations. The main aim of SAP was to harmonize the legal frameworks of the Western Balkan Countries with the EU acquirer and established a new and more consolidated relations between two parts and accelerated the enlargement processes of these countries. Meanwhile, these countries couldn't achieve some important issues such as returning the refugees into their homes and arresting the war criminals. In that case, a new policy,

as a fourth instrument, have been invented towards the Western Balkan Countries called as 'strengthened approach' including the below items:

1. The signature of SAP which carries the EU membership perspective after performing the Copenhagen Criteria
2. The improvement of the economic and commercial relations of the EU within the inside of the region
3. The increase in the economic and financial aids
4. The accumulation of the aids in order to consolidate the civil society, education, and official institutions
5. Cooperation in justice and home affairs
6. Development of political dialogue (Mujezinović 2007: 70).

In Presidential Document of Feira Summit which was held on 19-20 June 2000, it emphasized that Western Balkan Countries which accept the EU's principles of democracy, human rights, supremacy of law, regional cooperations and stipulated criteria will be considered as potential candidates and it is decided to hold the 'EU-Western Balkan Countries Summit' as soon as possible (Kavalalı 42). The basic aim of both 'Regional Approach' and 'Stabilization and Association Process' and 'EU-Western Balkan Countries Summit' is to organize, regulate and improve the relations among the Western Balkan Countries. Hence, after providing the stability, these countries would have more open negotiation and membership perspective. In order to realize this aim, some strategies and instruments have been created within the extent of Stability and Association Process such as Stabilization and Association Agreement (SAA), economic and financial aid, one lateral commercial allocation, cooperation in justice and home affairs, and improvement in dialog in regional level.

At the beginning of 2000s, the interest and concern of USA had been lessened for Western Balkan Countries because of September 11, 2001 terrorist attacks, Iraqi war initiated in 2003. In this period of time, EU had more mission such as ending of ethnic conflicts in Macedonia, establishing peace mission for the sake of unifying the state unity of Serbia and Montenegro and acting as head of police organization in Bosnia-Herzegovina. Therefore, 1 January 2003 when Greece took over the Presidency, the EU emphasized the EU integration process of Western Balkan Countries. In concluding remarks of Thessalonice Summit which had been held 19-20 June 2003; the proposals to improve the EU enlargement policy of Western Balkan Countries had been accepted (Meurs 2003: 9-16), 'European Association Assembly' as the fifth instrument to evaluate the short, medium and long term reform and integration studies had been created. A kind of progress reports will be released and reform process will be followed and controlled by means of this instrument. In this way, the strengthened Stability and Association Process by Thessalonice Summit and 'Action Plan' as the sixth instrument made the process much more clear and most importantly, this summit made to sign bi-lateral agreements with the candidate countries depending upon progress realized during the negotiations (Sebastian 2009: 27). Under these circumstances, Stability and Association Agreements are relevant

with the extensive regional cooperations and development of relations among the countries in the region and give the potential status of candidacy as differing point from the other association agreements.

As it is known, after signing of the SAA as the first step for the EU membership process, the ratification process will be initiated by European Parliament national parliaments of EU member states. In this period, 'Transitionary Agreement' which regulates the commercial relations among the EU and Western Balkan Countries. This agreement is signed together with SAA and enters into enforcement without any ratification. After performing all criteria stated in SAA, an individual country can apply for full membership.

### **The Historical Evolution of EU Integration Process for Bosnia-Herzegovina**

As the historical turning point which was initiated the process was the Dayton Peace Agreement which created a sui generis complex administrative structure that was developed after ended up creating an environment of administrative crisis and held the future of the country hostage. In line with this reality, the complex institutional structure of the Dayton Peace Agreement, combined with the ethnic conflict environment left unresolved after the war, prevented the establishment of a democratic structure in Bosnia-Herzegovina (Sebastian 2007: 1). After years of slow and feeble efforts, the process reached a dead-end in 2010, and ethnic nationalism skyrocketed while separatists' discourses began filling the public squares, thereby signaling a return to the pre-war political atmosphere. As of today, the EU and NATO membership talks have almost halted. The normalization and state building processes have not proceeded as planned. Therefore, the administration of the country was not fully transferred to the Bosnia-Herzegovinians.

Under these circumstances, the elections on October 3<sup>rd</sup> were a turning point for Bosnia-Herzegovina. In a country where unemployment has reached 42%, they had basically two options: either elect moderate politicians and return to the EU-NATO membership route, or continue with the nationalist politicians, who would most likely perpetuate the current crisis environment resulting in secession. After Dayton, the international community mobilized behind the EU and the USA, and initiated a series of structures for 'normalization' and 'state-building' (Dzihic 2007: 25). While the effectiveness of the NATO troops in the region has increased, a protectorate administration was created under the Office of the Higher Representative (OHR). As the representative of the International Community, the Higher Representative was appointed at a higher status than the legislative, executive and judiciary branches. He was endowed with an exceptionally high political authority, called "Bonn Powers" (Szewczyk 2010: 29).

All of these steps on the way to 'normalization' and 'state-building' began to bear fruit very soon after 2002; important reforms were accomplished under the

leadership of a moderate coalition that was supported by the International Community. Between 2002 and 2006, the tax system and control of customs were transferred to the central government, and important progress was achieved in security reform which projected the unification of the entity militaries in Bosnia-Herzegovina. During the same period, the most important reform movement to date, the 'Bulldoze initiative' was begun. Consequently, the process to pass approximately 50 laws in 150 days, which would then put the economy back on track, had started (Basuener 2009: 3). As a result of all these positive developments in 2005, the Dayton Agreement then ten-years-old, the international community began to emphasize the country was in the final stages of normalization, and could become self-sufficient after establishing a new order with the help of some fundamental reforms in the Constitution. After making some changes to the Constitution, the administration would attain a centralized structure and subsequently the international community would withdraw from Bosnia-Herzegovina.

Even though constitutional reforms were expected to make Bosnia-Herzegovina suitable for membership to EU and NATO during 2005, this expectation couldn't undermine the ethnic-oriented politics and "April Package" which covered the necessary reforms for membership to international institutions and supported by EU rejected by Bosnia Herzegovinian Parliament's House of Representatives.

The nationalist leaders claimed that the reforms proposed by the package were insufficient, Republica Srpska was an illegitimate product of genocide, entity administration would be eliminated and completely centralized structure would be established. As a reaction to the Haris Silajdzic argumentations, as a national political leader of Bosnia-Herzegovina, Milorad Dodik, the leader of Republica Srpska, interpreted these declarations as intentions to eliminate the Republica Srpska. These discussions led to halt the positive process. For the name of the constitutional reforms, second turning point was the redefining the territories of the entities and establishing the four territorial units for each ethnic group entitled as Prud process in January 2009. Despite these talks produced nothing, EU signed a Stabilization and Association Agreement (SAA) with Bosnia-Herzegovina in 2007. According to this agreement, firstly; an international body would be established to implement Dayton Peace Agreement called as Peace Implementation Council (PIC), secondly; Bosnia-Herzegovina was responsible to perform 5 objectives- resolution of state property, resolution of defense property, completion of Brcko Final Award, fiscal sustainability, and entrenchment of rule of law - and 2 conditions – signing of SAA and positive evaluation of PIC and lastly; the Office of High Representative (OHR) would be closed. Nevertheless, after October 2010 elections, all hope were disappeared because no governing coalition is possible without support of parties which are singling out the ethnic nationalism. As a result, in recent days, The EU integration process of Bosnia-Herzegovina is at stake both the historical perspective we mentioned above and the socio-political and economic problems we will analyze below.

## Socio-Political Problems

Bosnian Serbs and Bosnian Croats, making up more than half of the population, desire to unite with Serbia and Croatia, while Bosniaks as the only constituent of the Federation, is favour of a more centralized state and full integration with the international community. Bosniaks are aware that the existing decentralized state does not serve the purpose of stability, progress and development as well as territorial integrity of the Bosnia-Herzegovina is strongly relevant with the EU integration process. This controversy in futuristic perspective leads almost all projects to be blocked by the other. Even though Bosnian Serbs and Bosnian Croats carry the passports of Serbia and Croatia, whereas the Bosniaks only have the passport of the Bosnia State until the end of 2010 when the EU lifted the visa requirement for her citizens. This practice displayed the double standards and discrimination against Bosniak Muslims.

The other important issue is that Bosnian political system is not functioning properly because of the ethnic-based structure of Dayton Peace Agreement. As it is known, The Bosnian Constitution is annexed to this Agreement which deepens the ethnic division. This Constitution propose a weak Bosnia state which consist of Republica Srpska that is centrally administrated and a loose Bosnian-Croatian Federation that is divided into cantons. This structure requires the Constitution to be revised and amended in order to create the centralized body. Nevertheless, many attempts to propose the Constitutional reforms couldn't be concluded and rejected in Bosnia-Herzegovinian Parliament in spite of the will of international community. However, the discrimination against the minorities such as gypsies and jews originated from the structure of the Constitution tried to be prevented by April 29, 2010 decision of the Parliament Assembly of European Council which emphasizes the need for a comprehensive constitutional reform package. Unfortunately, the October 2010 elections made these efforts futile and this situation impliedly violated the European Human Rights Convention and ECHR decisions. As a matter of fact, each entity has the right to veto any legislative act in Bosnia-Herzegovina and as people vote according to their ethnicity, entity veto turns into an ethnic veto. In this context, since 1995, 262 laws and decisions have been vetoed by the Republica Srpska (Çetinkaya 2010).

The other important issue regarding with the Constitutional amendment is the police reform which stipulates the establishment of a united police force. It was the requirement of the Stability and Association Agreement during the EU integration process. There are 19 separate and independent police organizations in entity and canton level without any cooperation and shared criminal record system (Berting 2012 33-34). Nevertheless, especially after transferring the military, judiciary and financial authorities to the central state, especially Serbia perceived the police organization as the unique representative of the state and unwilling to lose her control, otherwise EU-supported reform may lead to the creation of a nation-state in three levels: Firstly, the budget and administration of the police organization has to take place at the state level. Second, police areas should be determined by taking



technical needs into account, not according to political structures in the region. Third, police activities should be kept separate from politics.

On the other hand, the ethnic people in the country are feeling themselves as insecure and started to possess arms and ammunitions. Especially Muslim Bosniaks realized the injustice and unequal attitudes of the international community against them and needed the small fire arms. According to the report released by the United Nations Development Programme, there is a threat of being stolen arms and immunitation problem, sixteen percent of Bosnian populace possess these weapons illegally and these weapons may be used in attacking civilians to the other ethnic communities. The other issue is the matter of education because the atrocities, angers, hatreds and violence among different ethnic groups can be passed into the younger generations by means of education. In this context, according to a report released by Council of Europe, there is no common curriculum for the whole country, Bosnian Croats and Serbs use the curricula of Croatia and Serbia, respectively, while Bosniaks are the only community using the curriculum of the Federation (Latif 2006). It means that children are being separated in accordance with their own ethnicity.

### **Economic Problems**

The most important reason lying under the economic problems in Bosnia-Herzegovina is the sense of economic security enhanced by the ethnic nationalism. Political stalemate, inter-communal hostilities, nationalistic policies, ethnic divisions all deteriorated the economic situation in the country. This situation led to the economic insecurity and social explosion. Rising unemployment especially for the educated people made abandon the youth's hopes from the future. Increasing poverty and communal anger may trigger the ethnic conflict. According to the data released by the Central Bank of Bosnia-Herzegovina, the current official unemployment rate is 42 percent (Batt 2009: 77-79). Different segments of society feel themselves hapless and seeks to immigrate into different countries. The export and foreign direct investment is almost impossible because of the border problems among the cantons and unjustifiable tax regulations. The political deadlock retarded the economic development witnessed approximately a decade after the Dayton Peace Agreement. In fact, many people suffered a kind of mental health problems because of the post-war trauma and actually they could not have a chance to find a regular job even they get rid of their illnesses. Moreover, for Berting, the desperation and anger of the war generation has reflected into the young generations and most of them try to leave the country (Berting 2006: 51-53). As it is generally known, if there would be political and social instability as the stable ground, there would be no chance for the foreign direct investment and economic activities (Terzi 2004: 240-241). There is a widespread corruption committed by the politicians and bureaucrats abused the existing system. On the other hand, it can be mentioned that the conflicting parties couldn't come together in order to enhance the economic

stability, sustainability and progress because EU couldn't be prudential external actor to cooperate among the different political units in Bosnia-Herzegovina.

## **Conclusion**

Under the light of aforementioned information, we can conclude that almost all problems are originated from the Dayton Peace Agreement which is instigating the maladministration, insecurity, instability, disfunctionality and political deadlock which may lead to the another ethnic conflict or to secession. Poverty and unemployment rates are higher than ever and the hostilities and enmities were nourished by the educational system-based on ethnic cleavages. In this case, International Community is bound to have the task of reforming Bosnia-Herzegovina in order to prevent the disintegration of the state. In this respect, it should be understood that Bosnia-Herzegovina had not a capacity to transform itself without the support of EU and USA as external factors. Nevertheless, these two actors are operating insufficiently in the region and posing low profile. New strategies and a more active involvement of both EU and USA as important components of the international community are required to prevent the risk of social explosion, possible ethnic violence and enhance the political stability and economic progress, build the confidence among the different political units/cantons and ethnic communities and more significantly establish a negotiation framework which is consistent to Bosnian multi-ethnic realities. As the concluding remark, EU should confess that the membership criteria for Bosnia-Herzegovina are arbitrary and unfair and far from being incentive to solve the problems during the integration process and the amendment of the Constitution which can be harmonized and complied with the main principles of the European Convention of Human Rights and European Council as well.

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## KOSOVO/A CRISIS IN INTERNATIONAL RELATIONS THEORIES

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### Abstract

*This paper focuses on the Kosova crisis of 1999 through the lenses of the main analytical perspectives of International Relations as well as of the alternative approaches. This paper aims to evaluate the dimensions of the Kosova crisis, the importance it gained in international relations, and especially questioning its popular depiction as the first war fought on values and principles.*

*Kosova issue raised crucial questions in academia, research institutions and international community due to its standing at the intersection of hotly debated issues like ethnic violence, identity politics, human rights, sovereignty and international law to name but a few. Some of the research questions which guide this study are as follows: Was the Kosova crisis and the war that followed primary a result of the primordial ethnic hatreds between two main ethnic groups Albanians and Serbs or is such antagonism socially constructed? Were it and the NATO intervention a result of systemic sources like international anarchy, or conducted for humanitarian reasons, or a result of United States hegemony? Or was it as Vaclav Havel proclaimed the first war not been waged in the name of “national interest” but rather in the name of principles and values?*

*Different theories have different things to say about the Kosova crisis emphasizing different aspects of this complex issue and revealing its multidimensional nature that cannot fully grasped by any single theory. It is argued that Kosova crisis was far from being an isolated matter between two ethnic groups, let alone being just a war fought for values and principles.*

**Keywords:** *Kosova crisis, International Relations Theories, Realism/neorealism, Liberalism/neoliberalism, Alternative Approaches*

### Introduction

There is no doubt now that Kosova crisis of 1999 which led to NATO's contested intervention in Kosova represents a watershed in international politics. This is because Kosova issue stands at the intersection of hotly debated issues like ethnic violence, identity politics, human rights, sovereignty and so on. Yet, due to the leading coalition's claims and media representation, has become common sense to

regard Kosovo war as the first war waged not in the name of “national interest” but in the name of “principles and values” as Vaclav Havel famously put it. This “common sense” is especially widespread among the Albanians. Yet, as this paper aims to demonstrate this is a very superficial account of Kosova war, obscuring at its best the causes underlying this conflict and its development. Thus, in order to reveal the causes underlying Kosovo crisis, the factors that shaped its development and understanding the importance it gained in international relations we need to go beyond this common sense.

Kosova crisis represents a fertile ground for International Relations Theories (IRT). Emerging as an academic discipline because of a crisis in relations between European states in the aftermath of the First World War (Halliday, 1996: 318), IR sought to understand the major causes of war in order to prevent it from recurring. Thus, dealing with questions of war and peace become the *raison d'être* of the new discipline. The Second World War put an end to the liberals' (or idealists) expectations which found the causes of war on the misperception among political leaders and undemocratic practices of authoritarian governments, giving birth to the dominance of Realism in IR. Thus, during the Cold War the focus of IR under the dominance of Realism was confined to questions about war, (military) security and balance of power called also as “high politics”, leaving at the margins of the discipline questions about uneven development, structural violence, nationalism etc., which dominated the Third World. Nevertheless, alongside with the developments in international politics after the so called “third debate” in 1980's the focus of the discipline was radically broadened and deepened to include as well alternative approaches which interrogated the traditional assumptions surrounding IR, shifting the focus to questions of knowledge-power relationship, identity, emancipation, gender and so on. Alternative approaches illuminated issues about vertical dimensions (hierarchy under anarchy) of international relations and other knowledge-power relations once neglected by the mainstream IR that focused exclusively on the practices of soldiers and diplomats.

In this study both the mainstream approaches like Realism/neo-realism and Liberalism/neo-liberalism as well as alternative approaches like Critical Theory, post-structuralism, constructivism and feminism, are utilized to view the different aspects of Kosovo crisis. Some of the main research questions which will be scrutinized through the lenses of different IRT are as follows: Was the Kosova war underlined by human values rather than national interest?; Was the Kosova crisis and the war that followed primary a result of the primordial ethnic hatreds between two main ethnic groups Albanians and Serbs, or is such antagonism socially constructed? Were Kosova war and the NATO intervention a result of systemic sources like international anarchy, or conducted for humanitarian reasons, or a result of United States (US) hegemony?

Because the main purpose of this paper is not dealing with IRT *per se* but utilizing them to better understand the complex aspects of Kosovo crisis, we will only briefly mention when necessary the main tenets and assumptions of IRT and focusing on

what they have to say about Kosova crisis. It is impossible to do justice to all the theoretical approaches in IR in this paper, since all of them are also divided among proponents. Similarly it is beyond the scope of this paper to address in a detailed way and chronologically the historical roots of the Kosova question. This is already done elsewhere. Among the vast literature dealing with Kosova question we can mention (Malcolm, 1999; Mertus, 1999; IICK, 2000; Judah, 2008) and (Booth, 2001) for the human rights dimension of the Kosova crisis.

### **Mainstream Approaches and Kosova Crisis**

#### *a) The timeless wisdom of Realism/neo-realism and systemic sources of Kosova Crisis*

According to neo-realism what really matters in international politics is not international law, institutions and norms but the distribution of power in the system among the great powers which defines also the structure of international system. Thus the first thing we have to do in analyzing any issue from realist and neo-realist lenses is to begin by viewing the structure of international system at a given time, because it is this structure which defines the behavior of states. The unipolarity of US that emerged after the end of the Cold War is central to understand the development of the Kosovo crisis. Neo-realists like Mearsheimer expected conflict to break out in Europe after the end of bipolarity which he saw as the main cause of peace and stability in Europe (Mearsheimer, 1990: 14). While Mearsheimer's assumption was proven false in Western Europe it flourished in the Balkans.

Neo-realism focuses on systemic sources of Kosova war. Yugoslavia itself was a creation of great power politics in nineteenth century and so it was its dissolution at the beginning of unipolar era. International anarchy (the absence of a central authority) neo-realists argue is not only the cause of international war but also of the civil war as well, because when state authority is weakened domestic politics resemble the international ones (Adams, 2006: 18), giving birth to a "security dilemma" between ethnic groups. Without a great power ally to protect Yugoslavia's interests it gradually slipped into a civil war. Furthermore, the end of the Cold War put an end also to the ideological and financial support of "Communist" governments. On the other hand, Serbs possessing the monopoly of military force naturally tried to turn the balance on their side forcing Kosovar Albanians to obey new rules created for the centralization of power at the hands of Beograd and rescue what remained of ex-Yugoslavia (Serbia plus Montenegro). The massive refugee crisis that resulted from the forced expulsion of Kosovar Albanians especially toward neighbor countries like Macedonia whose ethnic composition was very fragile, jeopardized the stability of the entire region, and this was in contrast to US interests for stability while it was consolidating its role as the sole hegemon. Even though being legitimate NATO's intervention was considered illegal from the point of existing international law because it acted without the authorization of Security Council (IICK, 2000: 4). Furthermore, the prohibition of the use of force by the UN Charter excludes any conception of humanitarian intervention. Yet this

did not prevent it from occurring because what is decisive in international relations, where force is the final arbiter, is the relative power and interests of great powers. The Kosovo intervention demonstrated the global hegemony of US.

*b) Liberalism/neo-liberalism and institutions*

British Prime Minister Tony Blair famously declared the Kosova conflict to be a war “fought not for territory but for values”. This moral rhetoric is well suited to a liberal view of international relations which generally presupposes that cooperation under anarchy although difficult is possible and relations among states can develop progressively once common values and institutions are built. It is not necessary to say that these common values have at their heart liberal ideas concerning individual autonomy, commerce, market capitalism and universal rationality. Liberal democratic states, the argument goes on, would be more peaceful in relations with one another, but it doesn’t mean that these liberal democratic states would be less war prone in relations with authoritarian and undemocratic states.

Moreover this argument may serve also as a kind of justification for intervening on behalf of human rights and other fundamental liberal ideas. Furthermore, the “end of history” thesis provides the democratic peace theory with the necessary ideological justification for intervening on behalf of liberal values as the ultimate destination which all states will reach. Thus while liberalism can explain peaceful relations between states it also can explain why liberal states can be war-like in certain cases.

US as the paragon of the liberal states, lead the NATO intervention against Serbia, a non-liberal state with a record of gross human rights violations since the Bosnian conflict. In the case of Kosova, “liberal peace” arguments become a justification for humanitarian intervention. US acted according to liberalism’s expectations when choosing to rely on a multilateral intervention through NATO escaping the perils of unilateralism.

The method chosen by NATO to bring Milosevic to terms, namely the air strikes, was chosen as the most appropriate method for a liberal public that while on the one hand wanted the ending of human rights violations and atrocities committed by the Serbian government, on the other hand was not ready to accept risks to soldier’s lives. Moreover NATO’s intervention is in itself a development which demonstrates the importance of institutions, because NATO had changed its Cold War mission from collective defense to a new mission of spreading Western values. Thus NATO become a tool of consolidating Western-liberal principles and norms in Central and Eastern Europe, where NATO’s new strategic concept and credibility of the institution itself was jeopardized by the crisis in Kosova (Kay, 2006: 64).

## Alternative Approaches and Kosova Crisis

### a) *Critical Theory and the exposure of hypocrisy: whose security?*

Critical theorists<sup>1</sup> encompass a large variety of scholars from radical tradition of thought having their roots in Western Marxism and ranging from neo-Gramscian school of International Political Economy with Robert Cox as its leading proponent to Frankfurt School inspired Critical Theorists like Jurgen Habermas, Andrew Linklater etc. At the heart of Critical Theory lays the critique directed to the established (hegemonic) order taken as given by mainstream theories and the search for emancipation instead of order as the real producer of security. Critical Theory aims to evaluate the possibilities for changing the human wrongs that dominate world politics. Critical perspectives also broaden the conception of power to include both international and interpersonal power and what is more important it explores how this power has come about and become naturalized.

With the exception of Habermas who saw the NATO's intervention as a chance to establish stronger international norms, Critical theorists have been critic of NATO's so called "humanitarian" intervention. They opposed intervention not because it aimed to prevent the ongoing human rights violations but because of the exposure of hypocrisy by the leading states. They asked that how can NATO claim it acted on behalf of human rights protection when similar or worse atrocities are happening around the world in front of the eyes of NATO's leading states and NATO or UN is doing nothing to prevent it from occurring. For example a stronger argument existed in Bosnia from 1992 to 1995 for intervening, yet UN and international society failed to act. Critical theorists by asking "whose security?" argue that the military strategy employed by NATO namely the air combat campaign, served primarily the security of NATO's troops while leaving Kosovar Albanians open to intensifying Serbian atrocities. As Wheeler (2000: 284) puts it "by ruling out the ground option, NATO governments demonstrated that their commitment to defending the human rights of Kosovars did not extend to accepting the risks to soldiers' lives of deploying ground forces." It is well known now that a vast refugee crisis begun right after the bombing campaign as a result of massive expulsion of Kosovar Albanians by Serb forces. Additionally, NATO's bombing altitude also resulted in unnecessary civilian casualties among the Serbian as well as Kosovar Albanians. This they argue throws shadow to claims of humanitarian concerns by the leading coalition. Moreover US strongly argued that Kosova was a *sui generis* case not to be repeated, impeding so the emergence of humanitarian intervention as a new norm.

Another variant of critical theory puts emphasis on the politic economy aspect of the crisis. From this point of view Kosovo Crisis is part of a larger crisis related with neoliberal globalization and its effect on Yugoslavia. More accurately it was about the rivalry between US and Europe over the shape of the post-Cold War

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<sup>1</sup> It must not be confused with the term "critical" which refers to all the post-positivist approaches like post-structuralism, feminism, post-colonialism of whom Critical Theory is only one of them.



global capitalist order. As Cafruny puts it (2006: 209) “As a result of this campaign the United States realized a set of interlocking objectives, including the incorporation of a recalcitrant semiperipheral region within the neoliberal and Atlanticist international division of labor; the consolidation of US economic and military on the European continent; and the extension of US influence in Central Asia and the Caucasus, an arena of increasingly fierce competition among states and multinational corporations over access to oil and gas deposits and transportation routes.” In this case Cafruny continues “Kosovo represented a crucial interest for the United States because of its potential to destabilize a region that served as a gateway to oil and pipeline routes linking Western Europe to the Black Sea and the Caspian basin.” (Cafruny, 2006: 210).

*b) Post-structuralism, discourse and the deconstruction of myths*

The dissolution of Yugoslavia has attracted the attention of post-structuralist writers like David Campbell who was among the first to deconstruct the myths surrounding Bosnia conflict. For post-structuralists there is not anything such as an objective enemy or threat, let alone being primordial and ahistorical. Post-structuralists share this point also with constructivists and critical theorists as well. Indeed they argue these are constructions that depend on interpretation. For example a certain issue becomes a threat to the “self” only when constructed and interpreted as such and this does not happen automatically. This is why we must focus on discourse which is the ambient where the “regimes of truth” are constructed. According to post-structuralists the “truth”s can exist only within certain regimes/conditions ideologically laden. And it is within these “truth” claims that power is exercised. From this perspective both Serbs and Albanians “truth” claims over Kosova must be considered prudently.

Thus from a post-structuralist perspective the so called primordial enmity that existed among Serbs and Albanians in Kosova is a myth serving at its best the nationalist discourse from both sides. As Buzan and Herring (1998: 186) put it, “Ethnic conflict is a strategic myth in the sense that it is not ethnic groups that are fighting each other, but sections of ethnic groups led by those who claim to speak on behalf of the supposed whole. These ethnic groups are not actually fixed, completely separate groups of people - their separateness is created and moulded through representational practices.” Thus for post-structuralists these myths and symbols and the whole discourse that naturalizes them as the “truth” itself must be taken seriously. At this point post-structuralists try to deconstruct these “truths” revealing that they are ideologically laden and serving to justify the enmity between two sides as well as the intervention on behalf of one “truth”.

*c) Constructivism: identity and interests as socially constructed*

Central to constructivism is the study of identity formation and how social interaction produces social identities. In contrast to neo-realists constructivists like Alexander Wendt see the structure of international system as primarily ideational and not just material. Moreover they argue that what gives to material objects their meaning are the ideas we have about them. In the same vein, constructivists argue

that interests so central to states are not something given prior to interaction but socially constructed and a product of them. Thus it is identity which defines the interests, but identity is not static but amenable to change. Even central concepts taken for granted by Realism like anarchy and security dilemma are what we make of them and thus amenable to change. Constructivists like post-structuralist argue against the idea of the primordial enmity between Serbs and Albanians which was popular at the beginning of the dissolution of Yugoslavia also serving as a justification for Conservative British government not to intervene in Bosnia.

In the case of Kosova the security of Yugoslavian state was based on the insecurity of a part of its citizens, Kosovar Albanians. Yet the antagonism between two main ethnic groups Serbs and Albanians in Kosova was far from being primordial and natural as it was commonly referred by the media. While Realists focus on the security dilemma as an objective threat, constructivists see it as constructed via media manipulation and other means. "Serb nationalists created rather than responded to a "natural" security dilemma in relation to Kosovar Albanians." (Baylis/Smith, 2005: Case Study: The 1999 Kosovo Crisis). At this point constructivists stress the failure of Tito's *Yugoslavism* and the triumph of nationalism as precursors to state failure. Unlike the Yugoslav idea, the nationalist ideas on all sides reached a critical mass removing the foundations for the state of Yugoslavia, showing how ideas shape politics (Hoffmann, 2006: 136).

d) *Feminism: nationalism, rape and war*

Feminist scholars of IR are not a monolithic group and important differences can be found among liberal, critical/Marxist, post-modern and post-colonial feminists. Feminist theory focuses on the socially constructed role of "gender" in world politics (Smith/Owens, 2005: 280). International Relations traditionally considered as an arena of power and men have constantly marginalized and overlooked the insecurities and several problems surrounding women especially when dealing with security. This is obvious especially in the case of Bosnia and Kosova crisis when several atrocities happened against girls and women. Thus a feminist perspective, by giving importance to personal narratives, tries to bring into our attention what has been traditionally invisible or eclipsed by "high politics": insecurities of women in conflict and after.

Rape has accompanied war throughout its history and has been largely considered as an inescapable by-product of war. Historically rape in war is seen as an "injury to the male estate and not to the women herself", because traditionally women are seen as mere objects of male possession (Kennedy-Pipe/Stanley, 2001: 68). Yet the ideology of nationalism gave mass rape a new dimension. Because nationalism often describes the nation as female, the women's identity became associated with national and cultural survival. Thus, "the rape of women of a certain nation or ethnic group can be a symbolic rape of the body of that community" (Kennedy-Pipe/Stanley, 2001: 69), so mass-rape becomes an important part of ethnic cleansing. Yet it was not until the Bosnian conflict, where around of 20.000 women, most of them Muslim, were subjected to sexual violence that the issue of rape was

taken seriously by the Hague Tribunal and considered as a “war crime” and not just as a “spoil of war”. Yet again it was the rape for a political purpose or as a form of ethnic cleansing that was considered as a “war crime” and not any kind of opportunistic rape (Kennedy-Pipe/Stanley, 2001: 73-76).

There were striking similarities of women experiences in Bosnia and what happened in Kosovo after May 1998 when Serbs begun a major military offensive in Western Kosovo where as a start more than 90.000 Kosovar Albanians were displaced to neighbor countries. The rape as a policy of war in the case of Kosovo was justified also by the dehumanization of Kosovar Albanians through the Serbian press. As Mertus puts it, “Slurs against Kosovo Albanians shifted..., a sexualized imagery of Albanian men and women was adopted. In the mainstream Serbian and Yugoslav presses, Albanian men were declared to be rapists... Albanian women were portrayed as mere baby factories... Accused in the past of being culturally inferior, Albanians increasingly were depicted as genetically inferior.” (Mertus, 1999: 8). In this case the British government even declared the systematic rape of Kosovar Albanian women by Serb forces as one of the justifications for the military intervention (Kennedy-Pipe/Stanley, 2001: 78-79). Yet it is striking the fact that the rape of Kosovar Albanian women was not confined only with them committed by the Serbian forces. Kosovar Albanian women were also subject to rape by their “own menfolk on their return from the front line. Post-war incidents were reported as well. For example “in the case of Grize refugee camp in Albania was reported that a small of number of women had been forced out of the camps at night to act as prostitutes.” (Kennedy-Pipe/Stanley, 2001: 80). Even though the greatest atrocities were committed by Serbian forces there are evidences that rapes were committed on all sides.

## **Conclusion**

By no means was this paper an exhaustive survey of the possible ways IRT might help us think about the Kosova crisis. Nor it was it exhausting regarding the scope of theories chosen to view the subject. Yet applying different perspectives to the same issue helped us revealing many aspects of the Kosova crisis which otherwise would remain hide or overlooked. While mainstream approaches focus on states, international organizations and other non-state actors, alternative approaches focus on individuals, gender, discourse, symbols, identity and hegemony. Thus while mainstream theories look at the practices of soldiers and diplomats for explaining the Kosovo crisis, critical perspectives in the broad definition of the term shift attention to the experiences of the disadvantages (victims, refugees) or whose voice is not heard and to the social construction of identities. Given the diversity of questions and answers raised by different IRT it is obvious that Kosova crisis was far from being a matter resulting from primordial hatreds between two ethnic groups. Nor it was a war fought on pure humanitarian concerns as is commonly referred to. Kosova crisis reflected a myriad of questions concerning the effects of unipolarity, the meaning of sovereignty and relevance of existing international

norms in front of human rights violations, the hypocrisy of great powers, the rivalry on global economy, the role of discourse and ideas in shaping politics etc. At the end, we want to conclude with a citation from Ken Booth arguing that: "... 'Kosovo' is not simply a Balkan or even a European matter; it is of global significance. At the start of a century that will see a further shrinking of time and space, and simultaneously the predictable overloading of all human environmental systems, Kosovo tells us critical things about the practice of international politics, and asks us fundamental questions about global issues." (Booth, 2001: Preface)

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**THE TRANSFORMATION OF ALBANIAN NATIONALISM  
FROM NATION TO STATE**

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**Abstract**

*Manifestations of nationalist movements in the Balkans are interrelated. Different peoples of the Balkans firstly have started and then adopting the nationalist sentiments after the researches and studies of cultural, historical and linguistic issues. Beginning of this process was simultaneous with modernizing and centralizing efforts of the Ottoman Empire. The study of Albanian nationalism through theories of nationalism detect the character of new invented traditions, the creation of common myths and guarantees of luminous future. Such a result puts Albanian nationalism in same line with other nationalist movements in the world. Also the element of "other" in Albanian nationalism has a special significance. Through this elements have been made strong efforts to eliminate local and religious diversity. Period from Prizren League 1878 to Independence 1912 was called as Albanian Renaissance because of struggles for formation of national identity.*

*The Declare of Independence in 1912 and development of Balkan Wars 1912-1913 were important indicators for the transformation of Albanian nationalism. From nationalism which creates nation has passed into nationalism that tries to establish the state to pass then into legitimacy for governance. The period from 1912 to 1924 is the fundamental part of transformation of the Albanian nationalism. The anarchy which have been created after the departure of Ottoman rule, the Balkan Wars, instability of local government and local efforts for political power and authority are a series of issues which affected the transformation of Albanian nationalism.*

**Keywords:** *Nationalism, national identity, nation formation, national mentality, Albanians, Ottoman rule, Balkans, myths, political environment, transformation, constitutionalism, anarchy, government.*

**Inspirations of albanianism; Performance and Formation**

Albania's declaration of independence on 28 November 1912 cannot be considered as a finalization of Albanian national renaissance mentality. Furthermore, it is a solution imposed by the reality of the invasion by the armies of neighbor countries. Ideal of national revival or national conception period is dedication and effort

devoted to the creation of the “Albanian Man” through which aims to make Albania. Consequences and the situation after the declaration of independence created Albania and don't leave space to create or complete “Albanian Man” in ideal form. In this policy line Albanian independence period in addition to the ideal of creating Albanians were forced to engage in the creation of the Albanian state. This situation created the first depth differences and alternatives of Albanian political thought.

Initially it is necessary to make analysis and research about the ideal of the creation of the Albanian national personality which relates to the period of national revival, Albanian nationalism activists and recently political leaders of Albanian society. The Declaration of Independence of Albania was an experience of transformation for Albanian nationalism. Sensitivity of transformation more appeared in the area of mobilizing throughout Albanians. High level of mobilization fell so deep after the formation of the Albanian state. Nationalist activists attempt to establish Albanian political unit together with the efforts of the Albanian identity creation which was limited only to certain limits of independent state. In the period before Albanian independence the Albanian social mobility was higher and wider. Also level of the representation of Albanian nationalism was multilateral. Political and intellectual fields were activity arena of many Albanian figures. Their activity although not always coordinated, but causes of the same goals, arrived to qualify as effort with successful outcome. The activity of Albanian nationalist activists in the field of Albanian identity formation arrived to create Albanian national consciousness. The stream of Albanian nationalism configuration effort and national awareness may be part of a classification or a selective overview. By analyzing the period before the declaration of independence of Albania, in first of all we need to agree that exist a wide mobilization networks which works inside and outside of the Albanian geographical space which makes advantages for favor Albanian identity formation. The entire field of activity of the Albanian nationalist activists of this period is summarized in the context of identity construction.

Conceptual space of the Albanian nationalist movement is highly correlated with the maintain of Albanian being in its geographical area. Therefore, the emergence of the nationalist idea is the result of the danger of Albanian existence from neighbors nationalisms. Based on this Albanian nationalism can be termed as defensive nationalism.<sup>2</sup> The beginnings of social change and the decline of social security provided until the last period of the Ottoman state, arose the need to create a new support in order to create for Albanians the social security. This support was organized around Albanian nationalism as a result of single alternative of

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2 Albanian nationalism has similar features to the Greek and Serbian nationalism. These features are collected in the field of nationalism construct. Originally build on culturally fields through the importance of language, culture and history of the people and then passes to political aspect which intends power. For the understanding and comparison of Balkan peoples nationalism. V. Yeni Balkanlar, Eski Sorunlar, (New Balkans, Old Problems), Ed. by Kemal Saybaşılı, Gencer Özcan, Bağlam Yayınları, İstanbul, 1997. Friedrich Meinecke makes such a difference when making the separation of nations cultural and political. Andrew Heywood, Siyaset, (Politics), Adres Yayınları, İstanbul, 2007, p.156.

international political organizing and system.<sup>3</sup> As such, despite the current situation where society was cosmopolitan character, Albanian nationalism was dedicated only within the boundaries of being Albanian. The Albanian nationalism also appears as a nationalism with defined character without saying extremely isolated. Albanian nationalism built its operational area in the Albanian foundations of ethnic, linguistic, cultural and historical fields.<sup>4</sup> As limited in the ethnic and secular rule the communication with other nationalisms was excepted within possibility of being comprehensive. Restrictive framework of Albanian nationalism can say that was cause of generic non development of Albanian political thought. This limits the possibility of preserving the Albanian being manifested only in the articulation of the idea of wide Albanian integrator political organization. In such an extension built the concept of exception of any environment and non-Albanian political organization. This will then appear as a good foundation Albanian policy both inside and outside independent Albania. Exclusionary attitude to non Albanian political organizations will appear in Kosovo and Çameria. In the independent Albania would be granted the special right of political representation of Albanians who were not part of Londoner Albania.<sup>5</sup> This in a way represent only political integration mentality within the Albanian political organization. If on the one hand aside political character of Albanian nationalism and see his substantive level can see what earlier we called as sorting or selective summary based on the activity and Albanian nationalist capital.

Intense period of trial and Albanian nationalist activity starts earlier than the League of Prizren. The first begins with the efforts of Albanian researchers activists about the culture, tradition and history.<sup>6</sup> However, the establishment and activities of the League of Prizren in 1878 began publicly Albanian wide mobilization around the world. This is articulated through activity and mobilization effort for the formation of national identity. Albanian nationalism clearly promotes national unification through the Albanian language. The unification through Albanian language raised as an alternative because varied Albanians from other residents of the Balkan Peninsula and rise Albanian local differences within geographical space. Namely unification through Albanian language also make balances between different religious affiliations. It is worth mentioning that since the seventeenth century in Europe see a tremendous interest in the languages of this continent. Lexicographer,

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3 Ernest Gellner, *Milliyetçiliğe Bakmak*, (Encounters with Nationalism), İletişim Yayınları, İstanbul, 2008, p.45.

4 Hysamedin Feraj, *Skicë e Mendimit Politik Shqiptar*, (An Outline of Albanian Political Thought), Shtëpia Botuese PEGI, Tiranë, 2006, p.81.

5 After the declaration of independence more than half of Albanian-inhabited territories occupied by their neighbors. In 1913 an international conference between the great powers gathered in London set the boundaries of today's Albania. This determination is left abroad for more than half of the population. For this reason it is often used as Londoner Albania, the cause of setting boundaries in London.

6 Nathalie Clayer, *Në Fillimet e Nacionalizmit Shqiptar*, (Beginnings of Albanian Nationalism), Botime Përpejka, Tiranë, 2009.

grammarians, philologists and writers exhibit affinities about the languages of many European nations and this interest brings new results that cause various processes also afterwards.<sup>7</sup> Based on this research by many European philologists about the Albanian language made to raise also interest of Albanians to their language. Foreign interest began to become increasingly large. This interest appeared to Albanian language, roots and history.<sup>8</sup>

Now we will see the names of Albanians inspired by the achievements and discoveries about the foreign culture will become part of the research and new works about Albanian language and culture in general. At the same time these will be coordinated with the political character that beat the Albanian language and tradition will be built as missionary work of Albanian intellectuals and activists. The mission of their work will be associated with patriotism as the value that will contribute to shaping Albanian national identity. Names like Vangjel Meksi, Naum Veqilharxhi and Konstantin Kristoforidhi will be heads of research and work achieved by the Albanians themselves.<sup>9</sup> Later work and efforts over Albanian language will be active almost every part of Albanian nationalism activist. Known for unique works about Ottoman and Turkish language Shemeddin Sami Bey Frashëri perfected a unique example of the Albanian alphabet. Thus his work brought a great contribution to the establishment of the Albanian national identity and unification.<sup>10</sup> Through work around language Albanian nationalist activists always in the spirit of unifying identity politics ruled local differences being raised dialectical differences of Albanian language.

Although there were significant differences between *Gheg* and the *Tosk* dialect is the attempt to overcome this difference turned out to be the most successful and in principle, this resulted in the unification language written in a very short period of Albanian nationalist activity.<sup>11</sup> Albanian language became the main axis of the Albanian nationalist opinion. Shemseddin Sami Bey Frashëri wrote "How can be preserved national aspect of a people? First through the language, the main

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7 Benedict Anderson, *Hayali Cemaatler, (Imagined Communities)*, Metis Yayinlari, Istanbul, 2007, p.87.

8 Nathalie Clayer, *Ibid*, p.144.

9 Akademia e Shkencave e Shqipërisë, *Historia e Popullit Shqiptar II, (History of The Albanian People II)*, Botimet Toena, Tiranë, 2007, p.125.

10 Frances Trix, "The Stamboul Alphabet of Shemseddin Sami Bey: Precursor to Turkish Script Reform", *International Journal of Middle East Studies*, Vol. 31, No. 2, Cambridge University Press, 1999, p.257.

11 An example of the rise of the phenomenon of language by Albanian nationalism also brings Eric J.Hobsbawm. It is interesting to see the language used by the Albanian press in the period of nationalism. The language used is carefully written so as to be understood by a larger Albanian wide readership. Eric J.Hobsbawm, *1780'den Günümüze Milletler ve Milliyetçilik, (Nations and Nationalism Since 1780)*, Ayrıntı Yayınları, 3.Basım, İstanbul, 2006, p.72.



foundation of the first and most important a nation is its language."<sup>12</sup> It is worth noting that the language remained not only unique communication and standardizing tool wide Albanians. Albanian nationalism was able to use the language value as historical fact of the Albanian roots. Albanian language with its unique originality and unparalleled with other languages which are spoken in the Balkans became a fact of continuing ancestors Albanians, Illyrians and Pellasghs. Albanian known activist Pashko Vasa through his works brought a thesis that even the names of Greek gods are from Pellasghs language. Consequently, these names were also found meaning in spoken Albanian language.<sup>13</sup> Thus an argument brought Albanians into the position of older people in the geography in which they lived and the political mentality of the time it was legitimate for national unification and state efforts. On the other hand, shows that language is a powerful weapon of any nationalist movement. Considering the fact that is the language spoken by a people through unification and standardization reaches its become the language of communication between government and society. Standardization and unification language is very necessary step due to the need of understanding and communication throughout society. Nationalism calls for social purposes. Calling in the historical past to build national future.<sup>14</sup> This necessarily calls should be in a language understood by all. In this way, experiencing its instrumentalization by the language of nationalism and benefits of a political nature. Context contains language problems inevitably direct political issues related to power, status and political ideologies.<sup>15</sup> Inevitably political character of efforts around the Albanian language is unquestionable. Being no written language and not display usage trends in the political arena in the past along with recent efforts to homogenize and standardize are basic evidence for this. Although the language more than anything else is society's cultural resource with the beginnings of its manipulation by nationalist activists shows the nature and using its political character.

As the treatment and attitude towards Albanian language Albanian nationalism has maintained the same attitude towards many other Albanian social assets. It's a similar phenomenon with other Balkan nationalisms continued emphasis over ethnic culture. Nationalism promoting growth of national consciousness within support of national awareness through people's culture and linguistic features.<sup>16</sup> Each resource

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12 Sami Frashëri, *Shqipëria Ç'ka Qenë Ç'është E Ç'do Të Bëhetë*, (Albania - What it was, What it is and What it will be) Vepra II, Rilindja, Prishtinë, 1978, p.54.

13 Pashko Vasa is emblematic figure of the Albanian nationalist thought and history. Is from the region of Shkodra and worked as an assistant of Ahmet Cevdet Pasha in Albania and Bosnia. "E Vërteta Për Shqipërinë dhe Shqiptarët" (The Truth on Albania and Albanians), Ed.by. Aristotel Mici, Pashko Vasa-Vepra Letrare, Shtëpia Botuese Naim Frashëri, Tiranë.

14 Benedict Anderson, *Ibid*, p.96.

15 Eric J.Hobsbawm, *Ibid*, p.135.

16 Kemal H. Karpat, *Balkanlar'da Osmanlı Mirası ve Ulusçuluk*, (Nationalism and The Ottoman Legacy in

the Balkans), İmge Kitabevi, İstanbul, 2004, p.78.

or identity relevant parts of society behind other resources identity preferred by nationalism. Besides language Albanian nationalism excessive exalted elements of ethnic identity by raising them on religious identities and affiliations. Religious identity can be an obstacle of national homogeneity. In this way, national identity became the foundation built on religious differences. Albanian national identity necessarily would have to win over the numerous religious identities which characterized Albanians.<sup>17</sup> Originators of Albanian nationalism and often knew to idealize factual situation of the Albanian society in terms of religion. Shemseddin Sami Bey Frashëri says that never in the history of Albanian society are not listed clashes and conflicts that would have grounds or religious implications. It is emphasized that, above all, in the first Albanians held national identity and later identified belonging to religion.<sup>18</sup> Although the religious affiliation of the Albanians has multiple instances of being serious obstacle of national unification. Religion played not very constructive role in shaping Albanian national identity, namely the growth of national consciousness. Namely the role of the Istanbul patriarchate was no small obstacle connections cause waving Albanian Orthodox solidarity. Furthermore Pan-Islamist policies and Ottomanism were ideologies that keep Muslim Albanians away from embracing the idea of nationalism.<sup>19</sup> Albanian society situation regarding the attitude towards religion has become an idealization of the verses prove another nationalist ideologue Pashko Vasa. "Wake, Albanian, from your slumber, Let us, brothers, swear in common. And not look to church or mosque, The Albanian's faith is Albanianism!"<sup>20</sup> Other activists of Albanian nationalism, see the religious issue of Albanians as a continuation of foreign influence. Many of them even call the religious clergy in national awareness.<sup>21</sup> Albanian nationalist attitude towards religion occasionally gets even deeper role opponent. Along with this we have an elevation of Albanian religious belief in the Pelasghian-Ilyrian. A great praise becomes to prehistoric religion belief. *"In the old time religions and faiths of today did not exist. Pelasgians to their God saw the sun and the moon, the sky and the earth, and those worshipping"*.<sup>22</sup> The call of Albanian nationalism was an invitation to neglect religious beliefs in favor of ethnic Albanian unification. Ongoing effort to increase national awareness was leaving the country national identity over any other identity or affiliation even the religious.

Albanian nationalism also paid special importance to Albanian origin. Here through the glorification of the roots and genesis as well as other examples of nationalism possibility of separating people. "We" and "They" here take the instrumental

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17 Hysamedin Feraj, Ibid, p.77.

18 Sami Frashëri, Ibid, p.54.

19 Eric J.Hobsbawm, Ibid, p.72.

20 Translated from the Albanian by Robert Elsie.

21 Hil Mosi, "Shpresa e Shqypnisë", (Albania's Hope), Mendimi Politik e Shoqëror i Rilindjes Kombëtare Shqiptare, (Political and Social Thought of the Albanian National Renaissance), Ed. by. Zihni Haskaj, Universiteti i Tiranës, Instituti i Historisë dhe Gjuhësisë, Tiranë, 1971, p.318.

22 Sami Frasheri, Ibid, p.24. Pashko Vasa, Ibid, p.45.

connotation with political aims of the division of human society in the nation. The myth of ethnic roots has important features of the division and national seclusion. The myth of genesis and roots of society is particularly ethnic nationalism. Through the concept of proximity and blood ties created advantage of separation and segregation from foreigners.<sup>23</sup> Genetic connection of Albanians with the Illyrians and Pellasghs through seniority of existentiality in the Balkans gained legitimacy for Albanians to configuration specific identity and to be independent as a state. At the same time making genetic exaltation by Albanian nationalist activists represents the nature of nationalist ideology, which content racist views, also inevitable feature of Albanian nationalism.<sup>24</sup> Certainly effort being separate society from prehistory serves to differentiate from other societies or people. Emphasis done consistently opposed and features from the past is message to differentiate Albanians from neighboring peoples. Unique language, traditions and history of the unique will be divide Albanians from Turks, Slavs and Greeks.<sup>25</sup> This was an important message of Albanian nationalism appeared before Albanian society itself but also around the world. Acquiring Pellasghs and Illyrians as ancestors of the Albanians present them as older peoples of Europe is also an attempt to align the Albanians as an inevitable part of Western history, respectively the European history.<sup>26</sup> Albanian nationalism through increasing attempts to unify the Albanian origin myth along with a common language. Thus the myth of origin and language become raising tools through which national unity can be excluded any other partitions feature of the Albanian people.

Albanian nationalist mentality reserve an important place for the establishment of national icons. As much as earlier mentioned Albanian nationalism manipulate with social assets using also pre-national figures, such as an exalted icon Gjergj Kastrioti – Skënderbeu. In this figure summed up the whole mentality hostile to the Ottoman state, respectively the opposition of Turkish influence among Albanians. Through the recovery of historical memory increase past into instrumental way exceeds the limits of symbolism and myth becoming an important tool of nationalist thought. By selecting the figure of Scanderbeg was born among Albanians memory of being a unique nation and independent state.<sup>27</sup> Pre-national icons are highly complementary in meeting the needs of being sovereign, state or empire. Not infrequently, these icons are related to the goals of nationalism.<sup>28</sup> Frequent use of this figure by the Albanian nationalism has become the cause of symbolism that gathered this figure in itself. First, his leadership recall among the Albanian leadership. One thing needed to be met by the Albanian society. Secondly, figure of Skënderbeg brought

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23 Eric J.Hobsbawm, *Ibid*, p.83.

24 Naim Frashëri, *Vepra të Zgjedhura II*, (Selected Works), Tiranë, 1980, p.268. Pashko Vasa, *Ibid*, p.47.

25 Nathalie Clayer, *Ibid*, p.291.

26 Enis Sulstarova, *Arratisje nga Lindja*, (Escaping from the East), Botimet Dudaj, Tiranë, 2006, p.35.

27 Hysamedin Feraj, *Ibid*, p.84.

28 Eric J.Hobsbawm, *Ibid*, p.94.

to mind the idea of being unique against a foreign enemy. It was just a reformulation of Albanian political organization.. Thirdly, the figure of Skënderbeg gathered in itself all the beliefs that exist among Albanians. Born as child in a zone around the Orthodoxies, grew up and was educated with of Bektashi janissaries, served to Ottoman Sunni dynasty and later worked deeply with European Catholic royalty. It is very important that the figure of Skanderbeg is rediscovered by Albanian nationalist activists from European literature.<sup>29</sup> Being named figure in European literature fulfill the Albanian need for supporting of European countries. The using of this figure expresses hostility and euphoria of Albanian nationalism against Ottoman rule. Elevates Skënderbeg period as a period that Albanians held off Ottoman rule and made shield of Europe against Ottoman rule.<sup>30</sup> It is worth noting that is the feature of Balkan nationalisms to acquire orientalist mentality. Along with the rise of nationalist ideas show their trends underestimating the whole eastern cultural heritage, respectively the Ottoman. This trend will continue later in the official historiographies of Balkan national states. In between the Albanians had the same experience with their orientalist approach of their nationalism.

### **Albanian Nationalism; the Political Environment and the Transformations**

In the initial period Albanian nationalism is coordinated only with cultural activity. Should know that this activity was not extensive involvement. It started by foreign intellectuals and embraced by a narrow layer of mainly Albanian intellectuals operating outside the Albanian geographical space. Interest in Albanian culture and tradition gained political importance and shake the foundations of the Ottoman state. This raised the level of initial cultural nationalism to another level by giving political nature. The serious political environment transformed Albanian nationalist mentality to associate directly with the state. We can understand correctly the political side of nationalism when linked it with the phenomenon of state. Nationalism in this way related to politics and politics is about power - authority. In the modern world power – authority as a concept is equal to the state leadership.<sup>31</sup> When we look at the evolution of Albanian nationalism look to be related to excessive political events that took place in the Ottoman state. We can say that since the Tanzimat center and periphery relations began to experience strain. In this environment the Albanians as a community experience a distance from Ottoman center. Period of Sultan Abdulhamit II is the period when Albanian nationalism experiencing empowerment and extension measures. In this period, the government policies especially driven by sultan advanced in order to obtain an Albanian loyalty

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29 Rexhep Qosja, *Historia e Letërsisë Shqipe*, (History of Albanian Literature), Toena, Tiranë, 2000, p.263.

30 Thoma Murzaku Thoma Murzaku, “Gjergj Kastrioti Skënderbeu Si Simboli I Luftës Për Çlirim Dhe Bashkim Të Popujve”, (Skënderbeg As a Symbol of the Fight for Liberation and Unification of Peoples), Vjetar, Arkivi i Kosovës, Prishtinë, 2006, s. 65.

31 Umut Özkırımlı, *Milliyetçilik Kuramları*, (Theories of Nationalism), Doğubatu Yayınları, Ankara, 2008, p.134.

to the Ottoman state. Through reports prepared by the Ottoman emissaries about the political situation in the Balkans proved special importance for stability of Albanians and especially importance of Ottoman presence in this space.<sup>32</sup> Subsequent importance given to Albanians viewed through central policy in the establishment of educational institutions, railway and telegraph network expansion. Although these can be regarded as modernizing actions on the other hand are the areas through which the Ottoman center would increase its influence and control to the periphery. Treaty of San Stefano as a result of the Russian - Ottoman war impact on Albanian's everyday life. The treaties about borders were reached after the Berlin Congress rough Albanian population and set them to self organize. This led to a opposite position to the Ottoman center and allowed to expand by Albanian nationalist opinion. The late periods will be characterized with deep attention of the state in this area. Sultan personally will work to establish a relationship with the local authorities, whether religious or political character emerging. Through these friendships control and regulate state-built reports and awards prizes as well as regular payments from the Ottoman state caches.<sup>33</sup> Even the created friendship will arrive to intervene at the end of the hostilities of blood feuds among Albanians.<sup>34</sup> On the one hand, trying to win the loyalty of Albanians and on the other side stopping everything was with Albanian nationalist content Ottoman center create an hostile and distrustful environment. Especially in the field of education in the Albanian language is shown rather limited. Ottoman state representatives were obliged to stop everything related to the Albanian language. Included stops as Albanian schools as well as publications that appear in that language.<sup>35</sup> These restrictions later became strong weapon for Albanian nationalist activists to laying their claims against the Ottoman center. Another important thing is the beginnings of the Albanian community alienation from the Ottoman state. Consistency of numerous objections will be a cause of increasing hostility. This phenomenon will increase in the period between 1900 - 1912 where the Albanian armed groups in response to the government will take positions in mountainous areas.<sup>36</sup> Later we see that the use of violence in this period will be able to become a defensive tool by the state as well as members of the society in general. Numerous documents indicate an extraordinary presence of violence.<sup>37</sup> This tense situation began to legitimize Albanian nationalism and alienate Albanians measures from the Ottoman State. At the same time also should think Italian and Austrian influence. Their influence extended through schools and through publications that espouse. Also different

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32 Nathalie Clayer, *Ibid*, p.236.

33 Bilgin Çelik, "İttihatçılar ve Arnavutlar", (Unionists and Albanians), Bûke Kitapları, İstanbul, p.43.

34 George Gawrych, *Gjysmëhëna dhe Shqiponja, Sundimi Otoman, Islamizmi dhe Shqiptarët*, (The Crescent and The Eagle, Ottoman Rule, Islam and The Albanians), Bota Shqiptare, Tiranë, 2007, p.203.

35 Nathalie Clayer, *Ibid*, p.353.

36 Süleyman Külçe, *Osmanlı Tarihinde Arnavutluk*, (Albania in Ottoman History), İzmir, 1944.

37 George Gawrych, *İbid*, p.203.

groups Albanian nationalist activists were sponsored by the governments of various countries. Albanian nationalism activists more and more will be constantly in contact with politicians and foreign diplomats and will make efforts to the interests of foreign states to comply with the Albanian interests already.

A deep politicization of the Albanian community will experience revelation of constitutionalism (II.Meşrutiyet) where many Albanian nationalist activists as representatives of the local Albanian population will become part of the Ottoman Parliament and will be an active part of the Albanian question.<sup>38</sup> Albanian nationalists known figures like Ibrahim Temo, Ismail Kemal, Nexhip Draga, Shahin Kolonja and Mithat Frashëri will be involved in the Young Turk movement in the Ottoman parliament and were grand contributors to Albanian nationalist movement.<sup>39</sup> Troubling even deeper Albanian issue and not right reading from Ottoman central government will bring antagonism and irreparable controversy between Albanians and Ottoman rule.

Most challenging periods continued to grow after the opening of the Ottoman parliament and continues up to the declaration of Albanian independence. Campaigns and numerous military expeditions made by the government did not allow space for solutions tricky situation. Thus, nationalism became the only option for salvation of Albanian population. Subsequent events will take divided direction by the position that has been of Albanian nationalism. A drastic transformation will result in attitude toward the Ottoman state. This approach would incur the direction hostile to the Turkish state. Balkan Wars will also be triggers ongoing transformation of Albanian nationalism. After the period of the declaration of independence of Albania because of invasions of neighboring countries that made to the Albanian lands will change directions to Albanian nationalism. Ideal goal of the Albanian nation and will be transformed in order to create Albanian leadership and the Albanian government consolidation. Anarchy and weakness in order to withstand the gap created after independence, invasion of neighboring Ottoman forces removal and administrative leadership emptiness were blow for Albanian nationalist mentality.

Many Albanian nationalist activists as masterminds of Albanian nationalism was transformed into leading politicians where many daily problems stopped them to idealizing further around the nation. Example of Ismail Kemal and Hasan Prishtina shows us the vicissitudes of this transformation. From being members of the Ottoman elite and ideologue of Albanian nationalism, the Albanian political life after 1912 forces them to be part of the political clashes between interest groups that aim political power.

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38 Tark Zafer Tunaya, Türkiye’de Siyasal Partiler, (Political Parties in Turkey), Doğan Kardeş Yayınları, İstanbul, 1952.

39 Banu İşlet Sönmez, II. Meşrutiyette Arnavut Muhalefeti, (The Albanian Opposition on II. Constitution), Yapı Kredi Yayınları, İstanbul, 2007, p.64.

Constant interference of neighboring countries in Albania lost the values of any local authority who will lead the country. Albanian nationalism seemed to feed the idea of the Albanian national being but this environment had secured by Ottoman state. Invaded by the armies of neighboring countries and the lack of control over its citizens the new Albanian state with a newly formed government failed to establish authority and legitimacy. Immediately interest groups were able to articulate the voice of the opposition against nationalist government. Formal groups supported the great landowners became influential opposition layer deep. In this way, the Albanian nationalist government was facing internal social problems. Albanian nationalist mentality did not develop and analyze the possibility of the occurrence of such a problem. Lack of control over its own territory, the lack of authority over the people and the lack of international legitimacy forced first Albanian nationalist government to relinquish his leadership of the state which created.<sup>40</sup> In such an atmosphere even idealistic goals could not be implemented. Many administrative leadership practices were inherited from the Ottoman system. Attempt to unify around national education became the exclusion of religious education in schools.<sup>41</sup> Nationalist government also watched the possibility of cancellation of economic concessions inherited from Ottoman rule in Albania. This aggravated the Nationalist government's international legitimacy. Extremely important, for other Albanians remained outside the borders of the Albanian state. A tacit consensus among Albanian politicians was achieved by not insisting on the goal of being under a unique Albanian state. In addition heads originating from the remaining areas under the occupation of Serbia, Montenegro and Greece other leaders and the central part of Albanian leaders did not attempt to discuss and solve the problems of the Albanians remained outside the new state. Overall efforts, including those focused nationalist efforts within state borders. Immediately after the declaration of independence distinguish three social layers who aspire to their political goals. The first layer is a continuation of the Albanian nationalist activists who did fight against all the players who did not believe in the Albanian nation and declared the independence of Albania. Second layer enter the great landowners. These representatives inherited from Ottoman rule did not see any interest associated with the nationalist leadership. For more nationalist government was the only barrier and became the cause of stopping previous privileges. On the other hand a narrow layer sits about Albanian irredentism and represents the most important grouping nationalist opponents of the government and society of the new Albanian state.<sup>42</sup> The main problem of this layer was remaining under occupation by neighbors. Albanian political life will be the scene of the problems of these layers with each other and with the external world in general more neighbors. Albanian periodical press suffered a significant decline. Former mobilization of Albanian nationalist

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40 Akademia e Shkencave e Shqipërisë, Historia e Popullit Shqiptar III, (History of The Albanian People III), Botimet Toena, Tiranë, 2007, p.39.

41 Historia ... Ibid, p.45.

42 Historia ... Ibid, p.125. Fehmi Pushkolli, Mbrojtja Kombëtare Shqiptare e Kosovës, (Albanian National Defance of Kosova), Prishtinë, 1991.

activists in many global center focused now within the boundaries of the state. Periodical publications, although not numerous in post-independence period display problems, processes, and issues important to the Albanian political history.<sup>43</sup> Albanian nationalism started as a project to collect Albanians within a political organization failed. Further progress of events demonstrates the profound transformation of Albanian nationalism. Albanian nationalism already begins to become part of the Albanian political mentality. In the midst of being exclusive part of a core of intellectuals and activists takes place in all classes or leading political factions. The cause of the policy interest is nationalism has been used occasionally. Through nationalism is seeing Albanian political life enrichment.

### **Conclusion**

Beginnings and development of Albanian nationalism was done in the period of Ottoman rule. This development has enormous performance interconnection processes that happen in the Ottoman state. Being part of this state for the Albanians and their idea of nationalism had enough space to build a comprehensive and articulated nationalist opinion. Similarity of content structure of Albanian nationalism are similar to neighboring nationalisms but we cannot say that is offensive character nationalism. By the time Albanian nationalism experienced profound transformations. Political situation charged excessively the Albanian nationalism. Especially after the period of Ottoman rule created political anarchy led to particularization of Albanian nationalist thought. Political currents created after independence allowed the embrace of nationalism from all political groupings. But this hug or fit with nationalism was partial. Given that we will see not only an Albanian nationalism as a unifying generally Albanian political opinion but will show a series of "nationalisms" as part of the currents and created the Albanian political groups. The theoretical and ideal fields of Albanian nationalism shaped by intellectual capital and practical political experience of Albanian nationalist activists, but the practice of Albanian nationalism shaped by crisis and political anarchy. Among the two opposite direction Albanian nationalism emerged a trend influenced by the development of both sides. So idealized Albanian nationalism in the Ottoman period by Albanian intellectuals never found relevant political interlocutors in practice of Albanian political life.

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43 Historia ... İbid, Luan Zhelka, Shtypi Shqiptar Gjatë Viteve të Pavarësisë, (Albanian Press during the Independence Years), Toena, Tiranë, 2001. Gazmend Shpuza, Kuvendime për Historinë Kombëtare, (Conversation on National History), Dituria, 2000.



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**THE LEGACIES OF NATO INTERVENTIONS IN THE BALKANS FROM  
THE PERSPECTIVE OF NEW INTERVENTIONISM**

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**Abstract**

*This paper focuses on the analysis of the NATO interventions in the Balkans from the perspective of new interventionism. NATO has been considered one of the basic and leading components of peace and stability in the region—especially after Kosovo War. Besides, as the role of NATO in Atlantic security and world politics has been transformed after the Cold War and its strategic concept is renewed since September 11; security in the Balkans is gaining more and more importance. NATO has interfered into the conflicts in the Balkans with military means and after the conflicts; it maintains peacekeeping missions in the region. Can NATO's Balkan interventions be evaluated as legitimate within the framework of humanitarian intervention? What are the legacies and significance of NATO interventions for providing enduring peace and stability in the Balkans? Did the presence of NATO contribute to create the necessary conditions for human rights and democracy in the region -especially for the adaptation purposes of the regional countries to the new international system in Post-Cold War era? Or did the big powers use the humanitarian intervention to shape the developments in terms of their interests and policies? While trying to find answers of these questions, I will use the perspective of new interventionism. Firstly, I will discuss the relevant articles and chapters of Charter of the United Nations in terms of use of force to evaluate the legalities of the humanitarian interventions. And afterwards, I analyze the Kosovo and Bosnia interventions from this point of view.*

**Keywords:** *New interventionism, NATO interventions, NATO in the Balkans, Balkan conflicts.*

**Introduction**

There is an ongoing argument between two different views over new interventionism and the contrast between these two views reflects a dilemma in this respect. First view is based on the classical rules of law; focused on the borders of the nation state and principle of non-interference to the internal affairs of a state. But on the other side, the liberal defense of new interventionism relies on the principles of fundamental human rights and highlights the normative approach which specifies that, there can be no excuse for human rights violations. The second

view emphasizes that today; the domestic law argument is not effective and valid as before. There can be interferences to domestic affairs of states, if there are problems regarding to fundamental human rights and freedoms. According to those who defend this view, the interventions have been taking place due to the presence of serious threats to not only internal but also international peace and security as well.

Defenders of new interventionism find it necessary to redefine the concept of intervention in today's world. They think that the United Nations Charters' provisions on the use of force need to be rearranged and new norms for humanitarian intervention should be developed in international law. International community needs a ground of legal justification for intervention firstly. Besides, the humanitarian intervention should be done with public support and under the leadership and command of the United Nations and when there is a multilateral participation.

### **Charter of the United Nations and Use of Force**

The contrast in new interventionism is coming from the past; we can see its bases in the Charter of the United Nations. Today, United Nations seems to be a platform on which this dilemma has been experienced in fact.

The paramount international convention governing the exercise of armed force in the international community is the Charter of the United Nations. Opponents of humanitarian intervention point to Article 2(4)'s injunction that "all states... refrain in their international relations from the threat or use of force against the territorial integrity and political independence of any state, or in any other manner inconsistent with the purpose of the United Nations." They also note Article 2(7)'s declaration that "nothing in the present Charter shall authorize the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any state." For some international lawyers, this is the end of the matter. (Holzgreffe, 2003, p.37)

However, in Article 26 of the Charter, the Security Council is authorized "in order to promote the establishment and maintenance of international peace and security with the least diversion for armaments of the world's human and economic resources, the Security Council shall be responsible for formulating, with the assistance of the Military Staff Committee referred to in Article 47, plans to be submitted to the members of the United Nations for the establishment of a system for the regulation of armaments. As we can see, Security Council has been authorized for providing international peace and security. The exceptions to this fundamental norm are very narrow and consist of a) self-defense against armed attack, as provided in Article 51 of the Charter, b) use of force or authorization of the use of force by the Security Council which is defined under Chapter VII centralized security system for the maintenance of peace, c) decentralized 'enforcement action' by regional organizations as contemplated by Article 53. (Francioni, 2000, p.113)

Those, who defend that humanitarian intervention is legitimate, think that it is not violating the territorial integrity and political independence of a state. That is why it is not contradicting the United Nations Charter. But according to the others, there is an external intervention to a state's internal affairs and thus political independence of the state is being violated.

### **Humanitarian Intervention and NATO Interventions in the Balkans**

New interventionism and the privacy of the borders of the nation state are being discussed in the Post-Cold War era and these discussions have been much more intensified in the 21<sup>st</sup> Century because of the increasing role of the human rights in world politics. "As the 20<sup>th</sup> Century fades away, so too does the international consensus on when to get involved in another state's affairs. The United States and NATO -with little discussion and less fanfare- have effectively abandoned the old United Nations Charter rules that strictly limit international intervention in local conflicts. They have done so in favor of a vague new system that is much more tolerant of military intervention but has few hard and fast rules." (Glennon, 1999, p.2)

When it comes to the definition of humanitarian intervention; it is the use of force across state borders by a state (or group of state) aimed at preventing or ending widespread and grave violations of the fundamental human rights of individuals other than its own citizens, without the permission of the state within whose territory force is applied. (Holzgrefe, 2003, p.18) There were several discussions about the NATO interventions in the Balkans in terms of humanitarian intervention considering their legality and legitimacy.

Actually, NATO interventions have been occurring in two different platforms: with or without United Nations Security Council approval. In Kosovo intervention there was no Security Council resolution. And also about the legality of Bosnia intervention there were also serious discussions. It is difficult to say that NATO had taken action with the accurate and exact United States authorization. However, most international lawyers approved these interventions. On the contrary, some of them argued that Kosovo intervention might be evaluated as legitimate but illegal because it was not compatible with a strict reading of the United Nations Charter. (Koskenniemi, 2002, p.159) "The Independent International Commission on Kosovo found also that the Kosovo intervention was illegal, but legitimate (implying a disjunction between the law of intervention and the ethics of intervention)." (Clarke, 2002, p.93)

In the case of Kosovo, legal commentators argue that intervention was required in order to promote justice and morality, despite the illegality of such intervention. And international lawyers have begun to argue that there are situations in which the international community is justified in undertaking military intervention even when such action is outside the law. According to this argument, a commitment to justice requires the international community to support the NATO intervention in Kosovo, despite its illegality. While earlier literature about international intervention saw the

Security Council as the guarantor of humanitarian values, literature about the Kosovo intervention has begun to locate those values in a more amorphous 'international community'. The conviction about the need for intervention expressed in Post-Cold War legal literature has mirrored the arguments made by European and US political leaders justifying international intervention. (Orford, 1999, p.680)

"It is noteworthy that in Kosovo -and virtually every other case of so-called humanitarian intervention- states were reluctant to justify their actions in legal terms. In particular, states chose not to articulate a legal argument that might be used by other states to justify other interventions. In relation to Kosovo, for example, the German government atypically used the phrase "humanitarian intervention" but emphasized that Operation Allied Force should not be a precedent for further action. US Secretary of State Madeleine Albright stressed that the air strikes were a "unique situation *sui generis* in the region of the Balkans." British Prime Minister Tony Blair retreated from his initial enthusiasm for the intervention to emphasize the exceptional nature of the air campaign." (Chesterman, 2011, p.6)

Kosovo and Bosnia interventions were not under the exact authorization of United Nations Charter directly. There had been some comments which mention that "Kosovo intervention is an apparent violation of the Charter of United Nations and international law rules which govern resort to the use of force. Kosovo also raised questions about the way NATO conducted the bombing" (Bilder, 1999, p.167) and the character of the intervention whether it was humanitarian intervention or not inherently.

Presumably a humanitarian intervention, even it legally and morally justified, should be conducted in humanitarian way and solely to achieve its humanitarian purpose. But, as the Kosovo bombing campaign lengthened, many people were increasingly troubled in this respect. Thus, by June 6, 1999 when bombing stopped NATO had;

- Continuously bombed Yugoslavia and Kosovo for 78 days –more than 11 weeks- using some 1.100 primarily US aircraft which had carried out over 35.000 sorties at a cost to NATO of over 4 billion dollars
- Struck Yugoslavia with over 23.000 bombs and missiles including large numbers of cluster bombs many of which are still unexploded and currently causing civilian deaths and injuries
- According to NATO, killed over 5.000 Yugoslav military and wounded 10.000 more and according to Yugoslavia killed over 1.500 civilians and wounded many more
- According to Yugoslavia, caused some 100 billion dollars in damage to the Yugoslav infrastructure and economy including the widespread destruction of factories, refineries, bridges, roads, railway lines and radio and television stations. (Bilder, 1999, pp.167-8)

There were serious bombings for peace and human rights in both Bosnia and Kosovo. The reason was very humanistic and without this intervention there would

be more serious problems in terms of right to life. But these human right violations could be stopped only with military means. As Richard Bilder argues in his article whether rejecting the new interventionism means that the international community must or should stand helplessly by in the face of genocide or other massive human rights violation, or not? And he gives the answer: "Certainly not! Everyone agrees that we must do something to try to cope with humanitarian disasters. It is clear that the Security Council acting under its Charter VII authority can respond with the full authority of the United Nation's collective weight to such crises." (Bilder, 1999, p.164)

## **Conclusion**

The clash between what is today considered necessary and legitimate and what is permissible under the United Nations Charter framework was highlighted in 1999 with the conflict over Kosovo. Although the military intervention led by NATO lacked formal legal authority in the absence of a United Nations Security Council mandate, the advocates of intervention claimed that the intervention was humanitarian and thereby had a moral legitimacy and reflected the rise of new international norms, not accounted for in the United Nations Charter. (Chandler, 2004, p.59)

Another issue is that; different states may have different motivations and different degrees of humanitarian commitments. For example, European Union members did not have integrated/compatible approach to Balkan conflicts, although they are all against human rights violations. Besides, they were not able to conduct common policy to stop the conflicts and/or interfere to the situation in terms of prevention of human rights violations. There was even no consensus between the European Union members about the strategy which needs to be conducted in the region during the conflicts. It was the United States who had taken initiative and lead to NATO, for conducting intervention in the Bosnia and Kosovo. But it is again the United States who does not take any initiative to stop the human rights violations in Syria nowadays. This shows us that the situation is rather political and the interventions can be used by the big powers as instruments for their interests.

Besides, there has not been created a standard norm for NATO to take decisions about intervention and the decisions are more political than legal. There have been no normative reference point and standard rules for the humanitarian intervention. New interventionism today has not been based on the normative rules, but rather the political will. We can say that today, interventionism is instrumentalized in some respects in consequence of the policies and instruments of the big powers.

It is still the political authority who decides to interfere or not to interfere to the conflicts which contain human rights violations. That is why the dilemma of new interventionism is still an issue of political debates rather than being carried to the legal arena. The legitimacies of the interventions depend on the United Nations Security Council resolutions. But even if there is a Security Council resolution

about the issue (not like in Bosnia and Kosovo interventions) there is still veto mechanism and this subject is still an issue of political sphere.

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**THE IMPACT OF EUROPEAN MODEL IN STATE-BUILDING  
PROMOTER OF WESTERN BALKANS AND ALBANIAN CASE IN EU  
INTEGRATION PROCESS**

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**Abstract**

*European Union remains the main actor to step up efforts to achieve a successfully democracy towards Western Balkans. The main aim of the study will analyze the impact of EU model approach to achieve a democratic state-building through political reforms in the Western Balkans.*

*However, the study will analyze the path of the Western Balkan countries on their state-building and EU impact on implementation institutional reforms, political and economical of these countries to promote the implementation of institutional democratization. One of the main Willingness is to promote the fulfillment of criteria through cooperation between neighbors in order to promote democratization and common trade.*

*In this picture analyzes will build on the success of the EU in promoting democratic state building in the Balkan states. The focus of study remains the results of Balkan countries reforms to implement the EU model of state-building.*

*The main focus remains to analyze democratic process of Western Balkans seeing the EU model on promotion of state-building. The democratization process first want internal political demands and then external support and therefore, the EU vision for the future of the Western Balkans remains the implementation of democratic reforms as key criteria in the path of integration.*

**Keywords:** *Europeanization, Democratization, EU integration process, state-building*

**Introduction**

The Balkan region is a group of states geographically in Europe, consisting of a mix of cultures, nationalities, beliefs which in recent decades has been characterized by a strong political instability, which culminated with the breakup of Yugoslavia. During the 90's these countries changed their structure from a centralized economy to a free market economy undergoing a period of reforms to improve the situation of economic, political and social. European Union countries and mainly the nearest

neighbors like (Italy, etc) played the main role to help these countries to achieve the goal of building economic and institutional instruments.

This study explains the conditions under which the construction of the European Union state model is mainly helpful to produce democratic reforms in the Western Balkans.

The question turns on the 1990 debate about the priorities of today's state-building, with issues such as borders and minorities, market issues and other regional approach.

The European Union helps in the maximum priority in implementations of the European standards, to improve the weak central internal policy to realize the deepening of democracy. No region has a regional organization to promote democratization through its readiness to challenge ourselves with new challenges, but neighboring states that have implemented the main criteria democratic and free market promote democratization assistance auxiliary and mercerization. In this way, the question is whether will be the EU followed by that success was promoted democratic state-building from the Central Europe to Western Balkans?

The main purpose of the study lies to analyze the causes of the failure of reform and what it means for the Western Balkans. Would we still have a common political agenda for the Western Balkans or a new European strategy for them? What is their position today?

In this paper could find the answers through empirical analysis approach European model of state-building democratic political reforms for the Western Balkan countries and the factors that explain this impact.

In this logical line, the argument of the study is based on face major trends do so together, trying to "impose" the values and norms that Europeans try to promote the identity of the Balkans, on the other hand they can observed as an attempt to mitigate the existing paradigms through harmonization of procedures in order to realize integration.

This paper reflects the submission of arguments as an empirical process research and structured as follows:

1. Examines the theoretical concept of Europeanization of the Balkans an international phenomenon that has focused on the distribution of values and common benefits for the realization of the construction, or the institutionalization of states trying to achieve the implementation of the reforms from the European level to national level.
2. The article analyzes the potential spaces for a good governance model states focusing on the creation of a successful democratic infrastructure. Promoting a European good governance model through international

economic actors produces decent policy effectively and efficiently. However, the epicenter of its models is that EU trying to improve the management of the relevant institutions in order to increase transparency.

3. Albanian dynamics towards European integration challenges is the focus of the study both positive and negative attitudes Albanian integration process. The study dealt with the dynamics of EU institutional procedures for arguing the steps taken by the Albanian government and the possible scenarios for the process of obtaining candidate status to Albania, seeing it in the dynamics of its domestic policy developments as and possible European models.
4. The main concern in this paper is to:  
Emphasize the theoretical background necessary to argue the other elements of the process, highlighting various explanations and clarifications of the concept of Europeanization. The purpose of the paper will present the historical origins and ideological transformations need painted and stereotypes that characterize the Balkan periphery in order to be able to reconstruct the idea of a united Europe. The methodology used in the article is based on empirical studies, as well as on the basis of comparative methods arising from the bibliography used.

### **Theoretical Concept of Europeanization in Western Balkans**

Europeanization process, according to a large number of researchers, is that today is facing two immediate international phenomena. On the one hand there is the economic factor, political and social, where global trends, universally characterized of which are sourced from the United States of America and the other implication redefined institutions and the adoption of European policy. In this way Europeanization appears in various forms of globalization, affecting in this way not merely EU member states, as well as potential candidate countries imposed by the international community norms and government models, which undoubtedly cause changes in national policy. This condition identified by European institutions, builds relationships between the respective benefits of a region, convincing reflect costs, increasing in this way the principles to EU members themselves.

The term "Europeanization" is perceived as different from that of "European integration", but referring backgrounder it distributes its political influence in the transfer by delivering value and benefits of shared norms, rules, and discussions of identity.

Claudio Radaelli, which gives more inclusive definitions of Europeanization, brings to attention, arguing the changes that can bring Europeanization, referring to the process:

- a) Structure;

- b) Distributions;
- c) To institutionalization;
- d) Formal and informal rules;

Procedures, policy paradigms, the separation of beliefs and norms defined and consolidated first EU political process and the inclusion of domestic discourse, identities, political structures, public policies. In the context of this argument, we note that what characterizes Europeanization is multi-dimensional dynamic process including governance, institutionalization and debate. So, in this way states respond in different ways according to their economic structures, political and different actors.

Europeanization can be conceived taking into account some aspects of the phenomenon, mainly European institutional governance development that evolves as a single central decision-making body.

Europeanization, seen as a change of external borders implies the transformation of Europe as a continent into a single political space. Viewing conception of Europeanization that focus on relationships between union members network and non-EU countries that this political project aims to give the EU a role internationally known actor, able to operate and worked hard.

This dimension of her made it possible to deal with exporting governance practices and European strategies. To define Europeanization, as well as treat a group of authors as a term that has a two dimensional function, on the one hand stands the domestic level of income through implementation of the *acquis communautaire* and a different sense, referring to the transfer policy being implemented at the nation European level . Accepted interpretations of Europeanization are what encourage the axial separation between process top-down and bottom-up.

Top-down approach mainly refers to changes that bring special methods in national European countries policies. In this way, "European integration" defines Europeanization as a "change in internal system." In building a bottom-up approach, the aim is first to influence the process of European integration in different countries. In this sense, what argued above, an interpretation of Europeanization is seen as a dynamic interactive process between the EU and domestic problems where the expanded European institutions are changing their internal framework?

In this way, Europeanization can be seen as a correlation between national and international institutions. EU within it creates horizontal and vertical networks.

European integration mechanisms are numerous. They refer to socialization and social complex methods of candidate countries.

Also, refer to the values and norms of the EU to pursue a pragmatic logic of consequences, and administrative regulation and institutional policy development in time and across countries.

**1. The regional dimensions of state-building in Western Balkans towards the EU integration process.**

There are two ways to assess the situation in the region, mainly in public administration reform, which is the goal of state-building efforts of European and local democratic governance, which is seen as key in establishing European standards of democracy.

EU strategy basically has to do with the main categories of countries such as Croatia, which is ready to join the EU in 2013, the former Yugoslav Republic of Macedonia and Montenegro have candidate status; Bosnia-Herzegovina and Kosovo remains all practical purposes protective part of the Europeans, but decided to test it and remains a special case. Albania was regarded as characterized in the second category, but different political situations that have characterized the show that her case is special.

Visa liberalization process was a positive signal for the future of these countries so that they can come to understand what Europe was in order to believe in the future that will be a part of Europe tomorrow. Kosovo was the only state that was involved with the initiative of the EU because of its situation in the region, but Kosovo is currently on the road to meeting the standards for visa liberalization process. Was given candidate status of Montenegro and the Republic of Macedonia, but Albania was postponed due to the situation of its polarizing policy. Given candidate status to Serbia as a result of significant changes it has made in the region, Kostunica's policy was characterized by it a positive political step from the moment of the break-up of Yugoslavia, Serbian politics is identified with that important step towards the region to normalized tensions with its neighbors seeing a concrete political turn toward acceptance of criminals of war crimes and cooperate with Kosovo. Tadic during his visits in Srebrenica and Vukovar was seen as a new phase in relations with Serbia policy towards its neighbors in the region. One of the persistent problems to continue in Bosnia-Herzegovina is Republic Serbska, which still behaves like a state within a state. Serb-committees were formed to establish better relations to solve the difficulties of bilateral problems, a welcome precedent for Serbia's relations with Kosovo. Adoption of Resolution UN and EU in September 2010 for fundamental changes in relations between Kosovo and Serbia made possible for Serbia to establish direct talks with Kosovo mainly in relation to the situation of Kosovo Serbs relations with Serbia, but also a series of bilateral issues. Such a situation was followed by Serb attitudes which were followed by the decision of the International Court of Justice on Kosovo's independence ach is not contrary to international law. This decision-maker was a strong blow to Serbia which was convinced that there was new strong legal argument though political realities on the ground are moving differently. Today the EU decision -maker regarding the abolition of Kosovo's independence conditionality will bring impact on Serbian politics.

What remains to be affected is to support the right of the EU in promoting policies to make it possible to overcome the difficult issues that identify the Balkans.

However, in addition to favorable developments, the main issue for a regional approach to EU enlargement in the Balkans stems from the specific nature of the region's difficult: to reconcile conflicting duties of the construction of the nation-state and European integration. The big change with the countries of Western Balkans is not only a time delay or the degree of democratic consolidation, but the question of citizenship and state capacity.

A democratic state requires first a territorial consensus, as long as it was not created as a result of the break-up of Yugoslavia and as long as issues related to borders and national minorities, political agendas, and the chances of democratic consolidation will be wiry.

Kosovo's independence marked the end of the map, but successor states are still in creation. In 1988 Djindjic called Yugoslavia "an unfinished state" and today V.Surroi calls unfinished states where his descendants: Kosovo is still in search of sovereignty and recognition, Bosnia and Herzegovina in search of a post-Dayton constitution to replace a draft constitution to end the war for a functional democracy; Serbia in search of borders without completing the above-mentioned states (non-recognition of Kosovo and ambience recognition of its relations with Republican Srpska. The Republic of Macedonia remained in search of an identity and a name.

Albania is an effort to solve its internal political problems.

The project was conceived European perceived causes as a relative way the sovereignty of the states, which are involved in the creation of new nation-states that also aspire to become members of the European Union.

Transformative power of the EU towards the integration process of these countries has shown that it was effective, although it is faced with contesting states. The process associated with the establishment of future member states which have implications regarding the terms of state capacity, this is a mitigation perspective of the EU to facilitate reformist consensus among member states of the EU, and many times to help political balances in favor of democratic forces (as was the case in Slovakia, Romania, Bulgaria) which is touched with post-communist nationalists.

Another aspect is to facilitate the building of state institutions and capacities, where the question of dual citizenship and state capacity is a specific feature of South-East Europe and calls for an approach modification for a suitable extension. The argument border issues and minority issues in the applicant countries are interdependent strengthens the case for a common approach to regional expansion. European main objective is intended to help calm so controversial territorial issues and institutional parallelism in the process of membership.

Acceptance of any candidate country should not be beholden to the incompatibility of its neighbors, but taking into account the interaction between different aspects of Serbia a rises (Kosovo or Bosnia) look positive developments in order to encourage a regional approach to resolving issues between them.

The EU has emerged as the unchallenged role of international cooperation in the Balkans, exhausted by a decade of conflict, but realizes healing and capacity for cooperation. The EU has not clear and reliable program to expand and can be use involvement directly some of its member states in the region to facilitate the accession process.

## **2. Member States as vector for Western Balkans towards integration process in the EU.**

EU perspective contested issue with "citizenship unfinished" concerning this issue is seen in the form of an assumption about the EU member neighbors that can act as a "sponsor" a facilitator to facilitate the process of Europeanization. Assumption can be seen in several bilateral contextual issues can become very serious in the process of EU membership. Croatia on the problem of international waters that was with Slovenia, but in recent years it excluded blocking potential that was it for Croatia's membership, but existed causes as a great danger to the prospects of the rest of the Western Balkans.

The second bilateral conflict is serious on the issue Republic of Macedonia, which is still in its name identity dilemma unacceptable by their Greek neighbors. Besides the issue of unresolved between Athens and Skopje, Greek issue has a wider significance for the expansion of the Balkans, but on the other hand during its economic crisis shows a failed state, and no functional which indicates that the region is perceived within the EU and that its aid from EU countries that gives us the message that Greece can not hinder EU policy in the Balkans.

Macedonian issue reveals tensions between the EU policy in the Balkans and those of some of its Member States. Some of them, such as Greece, Austria, Italy, for historical and geographical reasons have been involved directly and have been regarded in Brussels as vectors of the EU's influence in the region. Other countries such as Slovenia, Romania, etc. have a direct interest in the stability of the region and the prospects of accession. The main problems that have been identified as the Balkan region problems with the rule of law and the fight against corruption have created reservations within the EU for "admission" premature to other post-communist states in the Balkans.

Case of Cyprus eastern enlargement in 2004 at the insistence of Greece with the assumption that its admission will be possible to overcome the division of the island, and this case is a good lesson for EU policy towards the Western Balkans. These developments are enough to qualify the assumption that a new EU member

state that automatically acts as a stabilizer and as a "advocate" accepting neighboring country. The inclusion of Croatia in the EU would certainly contribute to the stabilization of democracy and the rule of law.

The issue of citizenship in different countries of the Balkans is provided with various forms which brings attention to what is the European norms in this matter?

The answer to this question is difficult to find because we have different cases such as that of Viktor Orban of Hungary, which provided citizenship to its minorities in neighboring countries. What remains important is the importance of European enlargement policy to have into account the impact on fragile states that are not involved and its relations with the policies of the "Eastern Partnership".

These are some of the challenges and dilemmas that the EU is facing in its approach to the Western Balkans. This shows an "enlargement fatigue" within the EU to bring together some challenges; political elites of the region many times, use verbal commitments for EU membership as a pretext for the policy causes as a business model. Less important is the erosion of popular support for EU membership.

Relevance of such dilemmas for a long process of these countries cannot be successful without the support of democratic societies concerned. EU Agenda for the Western Balkans is clear, including the treatment of raised doubts about the rule of law, corruption, nepotism preference for bi-passing the legal norms such phenomenon identified in the new member states such as Romania and Bulgaria what shows phenomena as the main sources of the legacy of socialism ("social capital" means corrupt networks to be taken about the law) obscurity economy and the transition to the market. (With a dark and largely corrupt privatization process).

Last but not least, employment in the public sector remains for political patronage and state capture. Dividing line in Balkan politics is not between liberal democrats linking Europe with their civil societies on the one hand and on the other hand, radical nationalists.

It is the duty of governments to these identified today with a continuation States `nationalism and mostly in the hands of governments composed of moderate nationalists. Croatia's case suggests that the pragmatic nationalists may become yielding European, this process identified now in Serbia, which has moved a decade of radical nationalist moderates. This center of gravity of internal policy and pragmatism will make it possible to overcome the above. Controversial issues and the creation of a consensus on necessary reforms in order to complete the admission process in the region.

Balkan barriers are those that exist in the EU as the euro crisis and the challenges presented raise concern about the continuation of the EU at the same time and will remain in top European Balkan enlargement agenda. The result is mutual distrust as a result of an economy in crisis and an accounting policy which both sides claim



from each other where the first European agenda is the process of expanding and continuing skepticism about the outcome.

First, positive signals exist from Brussels to accelerate the Balkan enlargement policy.

Secondly, the capacity of local actors to attend to the European agenda of reform not only as something that is imposed from outside, but as homework in the family for any European democratic society in the twenty-first century.

Thirdly, since the early nineteenth century, European modernity is way identified in state-building nations, where the EU is protecting the transfer of its model of peace through institutional interdependence in the Balkans while at the same time, being drawn on a delayed process of building a nation-state or prospective members of state-building. The new concept of the nation-state in the realization of a multicultural society where the argument was frozen out loud by intellectuals, western politicians creating legitimacy and public support for a European commitment, and even for military intervention against ethnic cleansing. Today this argument becomes clearer where we see a return to political identity and the growth of the national-populist forces on issues related to immigration and integration.

However, three arguments to support are the key of successful case: political success, self-interest and reliability. The EU enlargement agenda in the Balkan presents pursuing its successful policy. Where EU perspective to influence the adherence will be reduced among political elites and radical forms of nationalism are likely to resurface about controversial unresolved issues that have to do with "unfinished states" of the Balkans. European commitment to the Balkans, the progress made during the last decade can create major financial and political costs that will force the EU to return to the logic of protectorates such a thing will make its institutionalized interdependence model and it remains for debate.

The process will depend on the context of skills offered in each country, the political elite, making the charge of their actions as this on the other hand, the EU wants to spend her reluctance between control and integration and to renovate its promise for the future of the Balkans, in order to restore its credibility in the region and at the international level.

### **3. Albanian dynamics towards European integration challenges and possible scenarios of EU approach for Western Balkan.**

Europeanization process in Albania is closely linked actuality of course, with the cooperation of the European Union and NATO. In this sense Albania's main challenge is the consolidation of democracy through cooperation between party groups. Implementation of European reforms requires at the same time institutional stabilization, economic and political interest groups.

European integration is seen by all the Balkan countries, although their history is associated with many phenomena, but one of their challenges was meeting the "Copenhagen criteria" by all acceding countries.

We broader concept of integration means: solidarity; share together the benefits and problems or challenges. Integration means the alignment and no assimilation. Assimilation means fusion into a single, forced or voluntary, and where there are the distinctive features of one part or the other. A characteristic feature of the integration is to maintain the distinctive features.

According to the arguments above what comes to mind realizing this global world today is what historical change have passed nations to come today in a joint challenge to achieve a goal and mutual competition. What is perceived as a "psychological factor" consists today as a challenge to the implementation of European structures.

Where is Albania today in the implementation of this process? Is she ready, and what are the possible scenarios for successfully implementing European integration process?

Albania to establish bridges with Europe, after the collapse of the communist system has followed a long performance in the construction of a democratic system. In this long process of Europeanization, what has followed is Albanian governments foreign policy accompanied by tolerance and compromise, although domestic political colors are characterized by aggressiveness, but despite the negative marks from international income Albania has made progress very high. The signing of the Stabilization and Association Agreement has shown great progress in the way of implementation of the integration process.

Preparations for EU membership negotiations themselves are interrelated processes, but each is distinct and follows logic of membership.

A European challenges raised today before the Albanian political elite, civil society and all people within the fulfillment of European standards in the way of Europeanization is the fulfillment of the criteria for obtaining candidate status. Policy challenges of each country that is aspiring to join the EU and other are potential candidate make us able to understand the challenges, tasks and possible strategies for obtaining or granting candidate status to Albania or neighboring countries look today at a crossroads as a result of political and economic situations own internal states.

Proceedings of the EU institutions are so complex and dynamic, and this enables the application procedure starts with the application for membership of the applicant country.

Council immediately forwards Commission asking for an opinion / Avis if the acceding country is ready for the opening of negotiations. This assessment normally passes through both political and technical plans which run as a matter without debate at Council meetings. Certainly, the process willingness evaluated in both

technical and coordinating plans and vocation political process that should reflect the acceding country.

Seeing this evaluation in its chronology noted that this problem has become a serious problem in Albania. Progress in some areas, mainly in the drafting of laws, strategies, action plans, and the creation of new institutional structures, on the other hand, failure to comply with the legislation as the main problem identified, invalidates most of these achievements estimates provided by the European Commission focused on the implementation of the Copenhagen criteria not remain concern the agenda of governments.

Another notable element in this process is the implementation of the completion of the questionnaire completed by the Albanian government a process which took place in a very discreet and confidential in accordance with each institution's priority. Within this performance after the Albanian government sends documents with specific responses, the Commission prepares Opinion with appropriate assessment and reflects whether the aspirant is not ready to begin the process of negotiations, as decided unanimously by all EU countries. A policy pursued by the EU takes consideration the results and circumstances encountered in the field of policy or institutional building.

From a comparative perspective what is observed in the context of this Europeanization process or Albania's democratic process in specific areas is characterized by positive grades. The progress of the Committee according to the guidelines set forth by the Council on the granting of candidate status, unless in any particular case is dismissed possibly as a result of geopolitical situations or any other case, but one that identifies the Albanian case mere rise as a result of problems that encountered in the field of political dialogue or not to build democratic institutions.

Seen from this perspective, and compared with the strategies pursued by the EU in the case of other states to approve the recommendation scenarios obtaining candidate status of our country will associated with a specific event that will take place only between dialogs among political parties in order to be recommended by the EU opening accession negotiations.

Commission evaluation cases have been different of course we have of those times with countries such as Greece, Slovakia, etc. which in their years as aspiring to potential candidate countries have received negative assessments by the Commission and are certainly giving priority first possibility of meeting the relevant criteria until the full membership. Another scenario in the Commission's assessment is when the opportunity for the status, but untie negotiations praising the reforms made by the respective state in domestic politics as well as regional.

Current situation for Albania under the Commission's negative assessments are certainly an "ear tug" for Albanians in the performance of democratizing reforms, which were added during the political crisis makes European model to be specific

comparison of the models applied to other states. We have a non positive assessment, but we also progress evaluations or semi-progress for the country. At the same time we have a new appreciation for the past this transitional period until a candidate status.

Dynamics of 12-state-building tasks of Albania is one of the most problematic for the political parties for the proper functioning of the assembly elections in accordance with international standards, standards for the functioning of the judiciary, the fight against organized crime, respect property rights, vulnerable groups, improving the treatment of persons in detention, these and other requirements that accompany this long process of Albania's integration.

The above analysis gives us the understanding that critical positions on non fulfillment of all criteria or implementing democratic institutions of states in the path of integration may be some, but in the case of Albanian challenge what remains an important task is to find mechanisms right between partisan groups in order to find together the key of success to achieve European integration process.

The importance of the integration process lies precisely in finding collaborative bridges between all stakeholders in this process. Course and the educational and cultural development of society by all current European standards is an element of success, solution scenarios of this long political stalemate Albanian lie precisely on the political will of political leaders on the left and right and not excuses on the EU annual reports, after their verdict is simple corollary of our actions.

In the context of this argument, the path to the European Union is safe, because its values as an organization include within any country that is willing to deal with the economic and political challenges of any member state which it is composed. We need to see the EU where our values as a nation combined and identify us with the same values as European citizens.

Despite the above arguments Albania has made a long journey, and progressive in the context of Europeanization, the improvements and reforms undertaken in the selection of the ombudsman by consensus, or debates on administrative court are today a positive indicator towards European criticism in framework to meet the standards by showing that there never will and cooperation success is sure. As long as the mechanisms of success are always in the hands of the political class, governments and citizens, then the future of all will be well and Europeanization process easier to achieve.

However, besides these analyze the possible scenarios of developments for a regional approach for the Western Balkan countries towards the fulfillment the EU challenges remain still as the main dilemmas confronting the EU approach.

The agenda for the Western countries of Balkan and for EU seems clear enough. There is no doubt that situation between Serbia and Kosovo will followed by a new EU strategy maybe a new status-quo will be necessary between them to create differences among them policy. Croatia now as the new EU member will be the

promoter of the reforms in the region. Bosnia-Herzegovina looks unfinished state. Montenegro is in the good road on the fulfillments of EU reforms. Macedonia will be the last state, which join the EU as results of its national policy and its confrontations with Greek policy too.

Last but not least Albania will join the EU only after EU implementation reforms these will be only its green light to catch the European standards.

## **Conclusion**

The European Union is undoubtedly the locomotive of economic transition process in the Western Balkan countries and political at the same time ensures the continuation of the implementation of collaborative reform. European integration of the region is the perfection of the model itself EU through applying strategies requires a faster implementation of institutional and state democratic process excellence within the region by providing a stable and unlike previous expansions integration.

Within this analysis, come up with some conclusions as follows:

1. Reform progress aspirant countries have shown that the prospect of accession is the best way to achieve regional stability in the interest of the entire continent. Phenomena such as crime and corruption are still scattered, but regional police and judicial cooperation have shown success in this field, so the presence of the EU in these countries through its economic models show that its aid is yet to resolve problems characterize each country, because you cannot ignore the problems that come from its neighbors even though they are still candidate countries.
2. European integration process implies in itself an effective model to promote the implementation of European standards to the aspirant countries. European policy in this model tells us that open door strategy identifies us improve financial reforms, judicial, crime, corruption, stability, etc. in order to be cooperative geopolitical strategies. European integration process is one of the challenges of each country where their task remains implementations Copenhagen Criteria helping in this way the aspirant countries to leave the Balkan mentality towards European trends. Europeanization process is a process, which helps countries to cooperate among themselves in order to limit barriers breaking extinguished nationalist conflicts, collaborative bridges up and stabilizing values dominate among those destabilizing.
3. Identification of the Balkan values merged with European values can be identified, not as two separate regions Europe and the Balkans, but as a set of values that together combine and identify as center (EU) and the so-called periphery (the Balkans).
4. Albanian political situation characterized by positive and negative marks that identify our country at a crossroads state building. Instability in the

current political class has yet identified Albanian image as a place where scenarios and European models are difficult to be implemented by them.

5. Despite negative marks Albania's success on the road to European integration process is visible. European scenarios abound to promote cooperation in improving reforms.
6. States with the most successful historical past that Albania received critical notes during the integration process, but it has not stopped at all those be potential member today. In the framework of a historical past of chopped Albanian state-building, its green light is definitely brighter today than yesterday and that is that European mechanisms are set in motion the necessary political engines as a common cause of the Albanians is to be successful in the European integration process.

**WORTH A POMERANIAN GRENADIER'S BONES:  
THE BALKANS FROM 1877 TO 1914**

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**Abstract**

*Bismarck emphasized the insignificance of the Balkans for Germany's interests in his famous quote "it is not worth the bones of a single Pomeranian grenadier". But it could also be interpreted as his way of avoiding the hardest dilemmas of Germany's geopolitical equation after Prussia defeated the French in 1870. His two allies against French revanchism, Austria and Russia had conflicting interests in the Balkans as Ottoman power was falling apart. They were watching over suspiciously each other while spoils of Turkey in Europe were up for grabs. This redesigning process of the region would continue for 35 years without triggering a major conflict. However the general European balance that absorbed the shocks emanating from the region collapsed in July 1914 giving way to global scale warfare. In this paper, we will try to see why a region, seemingly of secondary importance to most of the global players, triggered a war that required so much sacrifice. Why did the major powers, which were adept at containing local conflicts before, let the events slip out of control in 1914? Was it the increasing significance of the region for them that they were less willing to compromise each time, or was it the disastrous result of failure of diplomacy?*

**Keywords:** *The Balkans, Bismarck, 1877-1878 Russo-Turkish War, Balkan Wars, 1<sup>st</sup> World War*

**Introduction**

Bismarck's famous quotation "the Entire Orient is not worth the bones of a single Pomeranian soldier" is usually believed to refer specifically to the Balkans rather than the whole Ottoman Empire (McMeekin, 2010: 8). This remark was generally accepted as a sign of his indifference to the fate of Turkey or Bismarck's distaste of the Eastern Problem. In fact, he was not unaware of Turkey's strategic importance and realized that although it did not mean a lot for Germany directly, it was of great significance for other major powers (McMeekin, 2011: 80). Nevertheless, less than half a century later, the strains in the region would create a political vortex that would draw in Germany as well.

As the Balkans entered the last quarter of 19<sup>th</sup> century, Ottoman political domination in the region had become very fragile. Serbs were planning a military move to drive Turks out of their homeland while Greek and Bulgarian nationalists were restless. More importantly the arch enemy Russians were recovering from the humiliation they suffered at the hands of the French and British during the Crimean War. The military engagement in Crimea was already a response of these major powers to the expansionistic drives of Russia in the Balkans. In 1856 Britain and France aimed to make the conditions imposed on Russia in the Balkans and Black Sea everlasting but the turn of events was to show that the effort was a futile one (Taylor, 1974: 217). International conditions were changing at a rapid pace and neither Britain nor France had the strength and the resolve to pursue their anti-Russian policies.

European balance of power underwent a major shift after France's decisive defeat against Prussia in 1870 and the change in power distribution among major players was bound to have an effect on the peripheral zones. The French not only lost Alsace-Lorraine and were obliged to pay an indemnity but also had to deal with a unified and powerful Germany and hence were in no mood to antagonize the Russians. Apparently, Bismarck's primary concern would be maintaining the newly established *status quo* (Stavrianos, 2000: 394) against the French. As a result, Three Emperors League of 1873 united Russia, Austria and Prussia in alliance against republican and revolutionary ideas but the main issue, at least for Bismarck, was French revanchism. For this treaty to hold, allied powers should be able to contain the differences among themselves, the most serious being the power struggle between Russia and Austria in the Balkans.

However the situation in the region was in a delicate balance while the restless local nationalist movements were agitating and they also could find powerful allies. Czar Alexander and Russian Foreign Minister Prince Alexander Gorchakov were careful enough not to stir the Balkans in order not to provoke Austria but an effective group of nationalists including the Ambassador to Istanbul Ignatiev favored Pan-Slavist ideas (Glenny, 2000: 129). This romantic political movement was aimed at creating bonds of brotherhood among Slavs that were members of Orthodox Church. National aspirations of Balkan nations were naturally a means rather than an end for Ignatiev and his followers for their main task was to reverse the clauses of Paris Treaty of 1856 that excluded Russia from the Balkans and Black Sea region.

Austria also adopted a more aggressive strategy in the southeastern Europe after being expelled from Italian Peninsula. They had to accept loss of Lombardy in 1859 after France intervened on the side of Sardinian King who would be crowned as the King of Italy. In 1866 after their defeat in the hands of Prussians, Austria withdrew from the entire Italian peninsula so southeastern Europe would become their sole area of expansion and the most convenient location for political and economic domination. In that sense Austrian reverses in Italy would create important repercussions for Balkan Peninsula (Yasamee, 2011: 64).



In the meantime, victorious Germans not only managed to divert European powers' aggressive energies to peripheral zones but also welcomed it. Bismarck was happy to have France distracted in African affairs, he similarly could have his southern and eastern neighbors deadlocked in the southeastern Europe on the condition that it did not turn into an armed conflict.

1877-1878 War and Berlin Congress

The crisis starting in the Balkans starting in 1875 became a source of concern for Bismarck for it had the potential to bring down the Three Emperors League (Young, 2006: 45). The possibility of triggering a general European War made the region a hotspot to be dealt with urgently; hence he would urge Russia to proceed only with Austria's approval. Russia could only make some gains provided that Austria was also compensated in order to maintain balance of power<sup>120</sup> (Morgenthau, 1965: 179), as both countries in the Balkans were in constant vigilance against each other. By preserving peace in the Balkans, Germany could sustain the fragile balance in Europe established after the victory against France in 1870. But Russia should also not be alienated, so that they would not have an incentive to make an anti-German alliance with France. In order to do so, Austria should also be kept close but her expansionary drives in southeastern Europe had to be checked.

Although seemingly oblivious to the fate of Turkish Empire, Bismarck did not have a preference for the dismemberment of Turkey in Europe nor did he share the fashionable anti-Turkish sentiments of the day. Actually he was telling Kaiser Wilhelm I that those who abused the terms Europe or Christendom to justify their territorial ambitions were not to be trusted (McMeekin, 2011: 82).

In 1875, the uprising in Bosnia Herzegovina, drew the attention of Austria and Russia and eventually turned into a full-scale crisis. Brutal suppression of dissenters coupled with Turkey's default on debt payments was alienating even traditional supporters like France and Britain. Having struck a deal with Austria, as Bismarck had required, Russia now had a free hand against Turkey and in April 1877 Russo-Turkish the war started. Serbia and Montenegro were already fighting since 1876.

Russian forces started moving south, deep into Turkey's European provinces in the summer of 1877 and it seemed that it would not take long before they reached Istanbul. Unexpectedly they were to be stopped by the dogged defense of Gazi Osman Paşa and his soldiers, an event that probably saved Turkey's presence in Europe even today (Taylor, 1974: 245). Ottoman Army managed to hold the ground until the next year and by that time British were ready to intervene. Even the image of the Turks in British media was changing from the oppressor of helpless people to heroic fighters against a powerful aggressor.

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<sup>120</sup>Morgenthau defines compensation as one of the major mechanisms to maintain balance of power. In order to maintain the balance, opposing parties should not make one-sided gains at the expense of others. Each party should be compensated with a balancing gain.

Once the Russian troops advanced to San Stefano after bloody battles and British fleet stood menacingly at the entrance of the Straits, Bismarck would take the stage in Berlin Congress in order to find a peaceful settlement. Even though he seemed indifferent to the fate of Ottoman Empire at best, the role he undertook at the Congress could be considered pro-Ottoman. Porte's ability to survive Russian aggression impressed him but more importantly it would be impossible to arrange a complete dissolution of Turkey in Europe without triggering a major war. In Berlin, the harsh terms of San Stefano Treaty imposed upon Turkey by the Russians would be amended if not annulled by the participation of Great Powers. According to the conditions of Berlin Congress, an autonomous and tributary Bulgaria was created but at a reduced size. Rumelia and Macedonia would be restored to Turkey but Bosnia Herzegovina would be occupied and administered by Austria while Serbia, Montenegro and Romania would now be independent countries. As a matter of fact, Hungarians were opposed to inclusion of more Slavs into the Empire for they feared that they might lose control of the country (Glenny, 2000: 139). But British were happy to offer Bosnia to Austria-Hungary so that they could balance Russia in the Balkans. After 1878, Britain now relied more on Austria-Hungary rather than Turkey in creating a counter-balance to Russia. When Austria extended its sphere of influence to Bosnia-Herzegovina, Sanjak as well as bigger trophies like Serbia and Montenegro, British were happy to oblige provided that Habsburg Monarchy continue to be friendly to their interests (Kovic, 2011: 316). The Russians were obviously unhappy with the results of the Congress but Bismarck was able to appease them to some extent by reviving the Three Emperors League in 1881.

From the beginning of the crisis, Britain's position was insisting on checking Russian advances in the region because they wanted to assure that the Straits continue to be controlled by the Turks. For Prime Minister Disraeli, whose name would be associated with jingoism, would continue to assert that his defense of Turkey was serving to protect the interests of British Empire (Ibid., p.313). He believed that disintegration of Turkey would create a void that was going to be filled with Russia and the balance of power in the region would badly tilt in favor of the Czar. He even speculated that if eventually the Ottoman Empire would collapse, Britain should occupy Istanbul to establish a base for the Navy before the Russians.

The Berlin Congress served to find a common ground between the major powers rather than settling the issues between fighting countries. Austria-Hungary was not an active participant in the War but she was most to gain from the settlement. Turkey was clearly losing a great deal and her presence in southeastern Europe was substantially reduced but Russia did not win either even though she emerged victorious from the War. Similarly Romania and Serbia did not reach their maximalist targets despite the fact that they actively fought in the War.

As a result, Russia left the Congress with major grievances and Bismarck committed Germany more deeply into Eastern Question (Thomson, 1990: 466), because Austria was now exposed to irredentism of Russia as well as nationalist movements. Bismarck, as we have already commented, did not find anything

directly involving Germany but was determined to preserve the balance of Three Emperors League. Therefore when the British Navy appeared before the Dardanelles he would be the one to call the Congress. His *Realpolitik* approach to foreign affairs is well known, meaning he was interested in power, balances and compensations rather than Balkan people's expectations. It was a natural consequence for him to offer Bessarabia to Russians in return for a smaller Bulgaria (Glenny, 2000: 149) than agreed at San Stefano, a small consolation for the Czar.

The result of the agreement not only failed to satisfy all of the major powers but also regional balance of power looked very fragile. Turkish and Bulgarian authorities were in disagreement about drawing of the common border, refugee problem, status of Eastern Rumelia but also there was the headache of Bulgarian nationalists continuing agitation in Macedonia (Tokay, 2011: 256-258). Furthermore, the multicultural multiethnic structure of the Empire had fallen apart to be replaced by exclusionary nationalisms of each ethnic group. It meant that Pan-Slavist and Pan-Orthodox political currents would also fail (Karpat: 2004: 226) as Russians would also soon find out.

Before the Explosion: Troubles Pile Up 1878-1912

Ottoman Empire was still holding on to Macedonia, Albania, most of Epirus and Thrace though the temporary situation was only a reflection of the balance of power between major players. Within a few years irredentist powers would start to carve into the European territories of Ottoman Empire. The new King of Bulgaria, Alexander, being German by birth and hostile to Russia, earned West's sympathies that would be helpful in 1885 when Eastern Rumelia sought to unite with Bulgaria. In fact, because of Britain's opposition during the Berlin Congress, Eastern Rumelia –that was claimed by the Bulgarians- was left under Ottoman rule and Russians had to swallow the bitter pill. But under Alexander's rule, Bulgaria would find her allies in the West while Russia withdrew its support for the Bulgarian claims (Jelavich, 1991: 213). British support deterred Turkey from taking any action against Eastern Rumelia's annexation by Bulgaria; Sultan Abdülhamid II could not dare to undertake any military action without the backing of any major power.

In the meantime, competition for domination of the region was intensifying and tensions were high among the young nations of the Balkans, namely Serbia and Bulgaria. A greater Bulgaria would be a heavy weight power in the regional power play to become the primary concern for regional rivals. Serbia, fearing the possibility of losing the struggle for Macedonia, decided to strike first. Serbian King Milan may also have also planned a larger military conflict to draw in major powers. According to his calculations, after having smashed the Bulgarian forces, he could draw in Russia to the war which would naturally compel his Benefactor Austria to reach out to Serbia's help (Glenny, 2000: 176). However Serbia was squarely beaten by Bulgaria after a military engagement and Austria's threat of going to war against Bulgaria could barely help Serbia avoid territorial losses as a consequence of their defeat.

On the southern cone of the Peninsula, Greek ambitions were also not satisfied with the settlement in Berlin because large portions of Thessaly and Epirus were not granted to them (Thomson, 1990: 470). Thessaly was acquired via negotiations with Turkey but the revolt in Crete and Greek support for the rebels would trigger a war against Turkey in 1897. Greece suffered serious defeats but international mediation undid the damage so Berlin settlement survived this military confrontation as well.

Macedonia in terms of its economic value and its strategic location increased the appetites of contenders for power in the region. A complex ethnic composition could be used to justify Serbian, Bulgarian, Greek and Albanian claims in the region at the same time. Soon afterwards, guerilla warfare erupted in the region against Turkish rule and IMRO was among the best known of these fighting forces. They claimed to fight for an independent Macedonia but had close ties to Bulgarian population even though they were not directly linked to the government.

The Ilinden Uprising incited by IMRO guerillas in 1903 caught not only Ottoman authorities but also the Bulgarians who might consider coming to their rescue, off-guard (Hupchick, 2004: 302). After three months of fighting, the government authorities finally managed to suppress rebellion but the ferocity of military measures and the illustrated weakness of the Empire would bring in foreign intervention.

Political pressure on Ottoman rule would take a concrete form after the rebellion when Austria-Hungary and Russia agreed on Mürszteg reform program in 1903 and imposed it on the Empire; however the Sultan delayed its application. The authorities had no doubt that the program favored Christians at the expense of Muslims but did not have the strength to oppose those big powers. Bulgarians who were asking for an autonomous Macedonia that would be ruled by a Christian ruler were not satisfied but the Albanians would be the most disappointed group after the implementation of reforms (Tokay, 2011: 262).

Albanians, too, were starting to become another source of restlessness in the region. They were 70% Muslims and were considered to be among the most loyal subjects of the Sultan. For a while, it seemed that Albanians could be satisfied with autonomy and decreased taxation but as Christian communities gained independence one by one, establishing a nation state comprised of Janina, Kosovo, Bitola and Shkoder provinces appeared more and more attractive (Jelavich, 1984: 84). While Serbs, Bulgarians, Montenegrins and Greeks fought for fulfilling their maximalist dreams, Albanians could not wait idly to see their homeland taken away.

In fact, after Sultan Abdülhamid II was finally deposed by the Young Turk movement, declaration of Constitution in 1908 was hoped to bring about a peaceful coexistence of nations in the Balkans. Unfortunately, these expectations would not materialize and it was soon understood that İttihatveTerakki was rather bent on a policy of centralization in opposition to the Constitution (Hupchick, 2004: 312). It would not take long before centrifugal national forces in the Empire's domain find

their own way. Albanians would be among those frustrated subjects of the Empire to rise for their independence after 1909.

While the region was boiling with political agitation, both Austria and Russia were planning for an eventual termination of Ottoman rule. In 1908 Austria annexed Bosnia-Herzegovina that they effectively administered since the Berlin Congress. Serbia's relations with Austria had already deteriorated sharply since the accession of pro-Russian Karadjorgevic, so Austria did not hesitate to step in to a territory that the Serbians thought was a part of their homeland. This was going to unwind the series of events (Fischer, 2007: 56) leading to 1914.

On the larger picture European balance of power was also witnessing major shifts. Within few years after departure of Bismarck from the office, France and Russia would sign a military agreement to be converted into a full scale alliance shortly after. This Dual Alliance was confronting the Triple Alliance at the center of Europe established between Germany, Austria-Hungary and Italy. Britain was staying aloof, in line with her holder of the balance role, though eventually in 1904 they signed the Entente Cordiale with France to counter the increasing dominance of Germany in Europe. They were already getting nervous about Germany's naval build-up strategy. With the signing of a British-Russian Treaty in 1907, old differences were settled between those two powers and division of Europe into two hostile camps was finally completed.

### **The Balkan Wars 1912-1913**

Until the second decade of twentieth century, it was mostly the delicate balance between Austria and Russia in the Balkans rather than Ottoman military might that kept the Balkans stable. Russia was busy with her own troubles in the Far East and Austria did not want any disruption of its trading system in southeastern Europe, so nationalist agitation in the region could not find external support. But annexation of Bosnia-Herzegovina by Austria caused Russia to unleash the irredentist fervor of her Slavic brothers in the Balkans. Besides, their dreams of an Empire in the Far East were blocked as a result of the stunning defeat they suffered at the hands of Japanese in 1905. Despite mutual jealousies and conflicting interests, Balkan nations would be able to hold together long enough to form a War alliance while Turkey was distracted by Italian invasion of its Libya province.

First Balkan War which took place between Turkey and the alliance of Balkan states Montenegro, Serbia, Bulgaria, and Greece resulted in the complete defeat of the former. Ottoman forces were broken everywhere but worst of all Bulgarian Army threatened to occupy the capital city, Istanbul and they could hardly be stopped before capturing her. Nevertheless the uneasy coalition bringing the Balkan nations together could not withstand the jealousies arising from Bulgaria's capturing the lion's share hence the Second Balkan War was fought to prevent the domination of the region by Bulgaria. Treaties of Bucharest and Istanbul concluded

the War as England and France used their leverage to reach an agreement for their primary concern was to avoid drawing in major powers in the conflict, provided that Istanbul and Straits were still controlled by Turkey (Kutlu, 2007: 207). However, the peace treaties could only provide a very brief respite but did not terminate the warlike atmosphere in the region as all parties looked on to each other with suspicion. Worse still, tensions between Austria and Russia were rising as changes in regional balance of power directly affected their status vis-à-vis the other. Britain and Germany were not also very reconciliatory so it was a close call before the War could be averted. It was a warning signal to all parties showing the possibility of contagion of War from the region but the events would show that the lessons would not be drawn properly from the incident.

### **Road to World War I: 1914**

After losing influence in their major client state in the Balkans, Bulgaria, Russians quickly found another opportunity to compensate for their losses when Peter Karadjordjevic captured the Serbian throne by a military coup in 1903. He was not only supported by the Army but was also a defender of romantic nationalistic ideas that sought to establish a greater Serbia comprised of Habsburg controlled territories, Croatia, Slovenia and Bosnia. As a result the relations between Austria and Serbia deteriorated sharply after that date (Jelavich, 1991: 240). The annexation of Bosnia by Austria in 1908 in that sense struck at the heart of Serbian nationalism.

A secret society organized under the name *Narodna Obrana* was meant to resist Bosnia's occupation by Austria. Although Serbia had to abandon much of their activities under pressure, many of their members joined Black Hand working for the same purpose. The reputation of the organization grew after Balkan Wars (Ibid., p.255) while the nationalistic fervor of Serbians were reinvigorated rather than satiated after doubling of their territory according to the terms of the settlement. Austrian Archduke Francis Ferdinand's assassination in Sarajevo was the doing of this nationalist clique according to Austria's view.

Habsburg Monarchy correctly saw the problem with nationalities as their main concern and desired to solve it or at worst sustain it on "a balanced state of mutual dissatisfaction" (Joll & Martel: 12). Serbia's maximalist dreams constituted an existential threat to Austria's territorial integrity. Archduke's assassination provided a perfect opportunity to settle the problems at once and Austrians escalated the tension in order to humiliate Serbia to a maximum extent. Although the Serbians were quite conciliatory in the face of Austrian ultimatum, Habsburg Monarchy would decisively take steps leading to war.

At the outset, there were signs that the Germans thought that the conflict could be a localized affair between Austria and Serbia (Turner, 1970: 84) but the possibility of Serbia being crushed by Austria would significantly improve her position at the expense of Russia, not to mention the psychological blow it would bring onto Slav

solidarity. The Russians toyed with the idea of a partial mobilization to exclude districts on German border but technically it would not work. Austria's full mobilization would invoke Austro-German Alliance (Ibid., p.92) and require a general mobilization of Germany. That would automatically force French mobilization and a Franco-German War. The German war plans envisaged striking at France through Belgium which meant Britain's involvement. A relatively minor conflict triggered an unstoppable chain reaction and all the hell broke loose.

## Conclusion

Morgenthau defines the balance of power as a system comprised of several sub-systems that are interrelated to each other (Morgenthau, 1965: 198). There is a hierarchy among those systems such that the dominant imposes its conditions on dependent ones thanks to its greater weight. To state it differently sub-systems are conditioned by dominant system.

Interestingly, Morgenthau refers to the balance of power in the Balkan sub-system as a source of concern for great powers (Ibid., p.199) throughout the nineteenth century. They had become more or less involved with the issues of the region and the general European balance of power conditioned the struggle among the regional powers. Until the First World War, European balance of power was stable enough to absorb the shocks coming from the Balkans. Although there were major changes in power distribution among regional powers while Ottoman Empire retreated, great powers managed to reach a settlement each time and enforce their solution to the local players. Berlin Congress is a perfect example of this claim as England, Germany, France and Austria agreed on a common plan and imposed it on the regional powers as well as the isolated big player Russia. Despite emerging victorious from the War, the general balance of power did not let Russia reap the benefits of their successful military campaign.

Likewise, Balkan Wars were terminated without drawing in European powers into the conflict but European balance of power was becoming more and more unstable. Diplomacy managed to contain major wars in the region but in 1914, assassination of Francis Ferdinand in Sarajevo created a spark that was going to flame the whole World. This seems enigmatic because nearly for forty years major powers had not let events get out of control. So, the question becomes what had changed to convince big European countries to go to a bloody war because of a region that was allegedly "not worth the bones of a Pomeranian grenadier"?

Our explanation is that neither the initial contempt for Balkan affairs was real nor did the region become a primary concern for Great Powers later on. The Balkans was never an insignificant part of the World for major powers in the 19<sup>th</sup> century. But in terms of prioritization Bismarck was more concerned with general European balance as were England and France. His powerful wording reflected emphasis on the delicate situation in Europe, just as he once put a map of central Europe and said

“This is my map of Africa” (Warwo, 2010: 133) indicating how colonial struggles were of secondary importance to him.

Until the outbreak of World War I, the success in maintaining the stability of the dominant system helped absorb the instabilities in the dependent systems, in our case the Balkans. However, a new redistribution of power, that is the ascendancy of Germany in Europe, was bringing an end to the stability of the system. In practical terms, Germany’s war strategy based on the Schlieffen Plan that was designed to take on France and Russia at the same time<sup>121</sup>, ensured that a conflict in Eastern Europe would automatically involve the West as well. The setting of the balance of power among major players had become such that once one of them started to mobilize, it was becoming more rational to take the last step rather than try to hold the mobilization; hence a doomsday machine was created (Kissinger, 1994: 202). Technically it was almost impossible to stop the mobilizations in coordination under those circumstances. Besides, neither Russia nor France was willing to take on Germany alone so they had a stake in generalizing a local conflict. But even that might not be sufficient to stop the Central Powers. So, the imbalance in power distribution would draw in holder of the balance<sup>122</sup> (Morgenthau, 1965: 194) England into the equation.

In terms of its significance for World politics not much had changed in the Balkans from 1878 to 1914 but as the dominant system turned from a stable to an unstable equilibrium, the sparks coming out of the region would inevitably ignite the powder keg at the center of Europe. The instability in the system explains the feeling of many of the protagonists of time that they were being taken away by the course of the events (Joll & Martel, 2007: 202). The complex military and political arrangements had created such a mechanism that once it started to unwind it was becoming harder to stop before the conflict was carried on to the extremes. The price would be the bones of millions of soldiers and civilians.

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121 Created by Count Von Schlieffen, the plan is a response of German military planners of 19th century to the possibility of a two front war against France and Russia. Russia’s long mobilization duration and geographical depth convinced the Germans to deliver a quick and decisive blow to France first and deal with Russia afterwards.

122. In order for balance of power to hold, a neutral power strong enough to maintain the stability of the system should throw its weight to the weaker side. In 1914 Britain would support Franco-Russian alliance against Germany-Austria.



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## RELIGION AS A SOURCE OF PEACE OR CONFLICT IN BALKAN POLITICS: AN ASSESSMENT

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### **Abstract**

*Although scholars converge on the importance of religion in Balkan politics, they disagree on its exact role. Based on the activities of some religious groups in countries like Bosnia and Herzegovina, some observers consider religion to have a divisive and centrifugal effect on the Balkan people. Another line of argument, however, states that religious actors can help prevent or mitigate conflicts in the region. Although further research is necessary for conclusive remarks, this study argues that both sides have validating points to their claims. Data from World Values Survey and other available research on the region affirm the general stance that religion constitutes a significant factor in the lives of Balkan people and politics, and cannot be easily dismissed as irrelevant. The importance attributed to religious institutions and leaders also make them likely candidates for promoting peace in the region. Whether religious leaders and institutions have used their full potential to date or not, however, remain questionable, and needs explanation. Given the complex effect that religion seems to have on Balkan politics, and its rising importance as an explanatory variable in the contemporary IR literature, it is likely to retain its focal position in Balkan studies for the foreseeable future.*

**Keywords:** *Balkan Politics, Religion, Conflict Resolution*

### **Introduction**

Religion as an explanatory variable has found an increasingly interested audience in the international relations literature in recent years (Hatzopoulos and Petito 2003; Pettman 2004; Thomas 2005). The rising interest in religion as an explanatory variable has also brought the linkage between religion and peace on the table. For instance, based on data provided by Minorities at Risk dataset compiled by Ted Robert Gurr et al, Fox and Sandler (2004: 65-8) argue that religious differences can play a key role in the decisions for international political interventions.

Furthermore, unlike earlier literature on religion, which tended to link it with extremism and violence, recent studies question this assumption. According to Cavanaugh (2009: 3), “the ‘myth of religious violence’ is the idea that religion is a transhistorical and transcultural feature of human life, essentially distinct from “secular” features such as politics and economics, which has a peculiarly dangerous

inclination to promote violence.” Therefore, Cavanaugh argues that separating human activities, such as politics into categories, such as ‘secular’ is artificial, and cannot be justified through research (ibid.)

Meanwhile, some authors discuss the possibility of promoting peace in conflict prone regions through religious actors and institutions. While discussing the positive impact of religion on peace, Little and Appleby (2004: 5) describe what they refer to as “religious peacebuilding” as follows:

we use the term religious peacebuilding to describe the range of activities performed by religious actors and institutions for the purpose of resolving and transforming deadly conflict, with the goal of building social relations and political institutions characterized by an ethos of tolerance and nonviolence [emphasis original].

Long before it has become a hotly debated item in the IR literature, religion as a variable has also played a pivotal role in the history of Balkan politics, where scholars often use it interchangeably with ethnicity for individual and group identification. As Abu Nimer and Kadayifci-Orellana (2008: 562) point out, regardless of the cause of conflict, religious traditions and myths have often been abused for use in stereotyping and dehumanizing the “other” . . . As a result, religion, and in the case of Muslims, Islam, becomes an important aspect of conflict generation as well as conflict resolution and peace building in the region.

In fact, while discussing its role in Balkan politics, in order to underline its importance, some observers go so far as to claim that “the real future shaping force in the Balkans . . . will not be ethnicity but religion (Deliso 2007: xii).”

Although scholars working on the Balkans converge on the overall importance of religion in the region, they remain divided on its exact role.<sup>123</sup> During 1990s, while the Balkans were torn apart by bloody conflicts like the war in Bosnia and Herzegovina, and later in Kosovo, primordialist debates stressed ethno-religious differences as a major underlying cause. Similarly, functionalist arguments raised during the same years approached religion as a tool conveniently used by conflicting sides to further their goals (Kaplan 1993; Zimmerman 1996).

In later years, based on the activities of some extremist and/or externally funded religious groups in the region, some observers have come to regard religion to have a divisive and centrifugal effect on the Balkan people. Another line of argument, however, argues that religious actors can help prevent or mitigate conflicts in the Balkans. Proponents of this viewpoint stress that the proximity of local religious actors to public and their intimate knowledge of their everyday needs make them ideal for knitting closer ties between estranged communities. Although further research is necessary for conclusive remarks, this study seeks to underline that both sides seem to have validating points to their claims. It also argues that while the

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123 On the role of churches in politics of former Yugoslavia, see Palmer (2000).

possibility of reaching long-term peace in the Balkans through the help of religious actors is real, some of the factors that would make it possible seem to be currently missing.

### **Religion And Balkan People: Some Figures from World Values Survey**

Prior to discussing the capabilities and limits of religion as an independent variable on Balkan politics, it is worthwhile to consider the perceptions of the Balkan people on the matter. Data from World Values Survey (WVS) and other available research on the region affirm the general stance that religion constitutes a significant factor in the lives of Balkan people and politics. For instance, according to the WVS data, a total of 40% of the Balkan people consider religion as “very important,” in their lives, which is followed by 28% of people, who regard religion to be a “rather important” factor (see Table 3).

Meanwhile, it is important to note that the importance attributed to a religion in the Balkans may not be a sign of religiosity and/or religious observance on the part of an individual. In a study on Bulgaria, for instance, Broun (2007: 108) points out that less than 2 percent of young people in the 18-29 age range prayed on a regular basis, regardless of their religious affiliation (i.e., of Muslim or Orthodox background).

A simple overview of the relationship between religion and Balkan politics in figures also offer interesting results. Once again, according to the WVS data, a considerable amount of people in Balkans, such as Croatia, Romania or Turkey seem to be convinced that “churches”(religious institutions)“absolutely” influence national politics (See Table 1). Balkan people also express more confidence in their religious institutions than in their parliaments: an average of 26% of the people there has stated that they have “a great deal of confidence” and 34.1% of them have “quite a lot of confidence” in religious institutions. Meanwhile, only 8.2% of the same people seem to have “a great deal of confidence” and 44.5% of them have “quite a lot of confidence” in their parliaments (see Table 4 and Table 5). In the same vein, an average of 3.9% of Balkan people seems to have “a great deal of confidence” and 19.3% of them have “quite a lot of confidence” in political parties (Table 6). In comparison, Table 6 also suggests that 42.7% of the people have explicitly stated that they “do not have very much confidence” and 34.1% of them “do not have any confidence” in political parties.

The WVS data also offer interesting glimpses on the tolerance level of Balkan people toward people of different religious faith. When asked about their preferences concerning neighbors, an average of 27% of them has responded that they would not like to live with neighbors with a different religious faith (Table 7). The worldwide average for this question in the WVS data is 17.8%. Interestingly, and somewhat in tandem with these findings, in countries like Bulgaria, some authors also explain the peaceful coexistence of different religious groups like Orthodox people and Muslims with “the fact that on the whole they still live apart” (Broun 2007: 106).

### **Peace Through Inter-Religious Dialogue**

The importance attributed to religious institutions and leaders as shown in WVS data further reinforce the argument, which assumes them to play a beneficial role in promoting peace in the region. According to Abu Nimer and Kadayifci-Orellana (2008: 567), religious actors, particularly local Muslim clerics are respected in their respective communities in the Balkans, and can play a significant role in establishing ties between estranged ethno-religious groups in conflicted lands. These authors further argue that their local communities consider these religious leaders to be able “to rehumanize the ‘other,’” since the locals perceive them as closer to their community and thus, as more capable to address their daily concerns than another figure (ibid). Similarly, Clark (2010: 674) underlines the greater credibility of local religious leaders in their respective groups in countries like Bosnia and Herzegovina, where political leaders are regarded as far more corrupt. According to this viewpoint,

religious actors are to some extent not merely the guardians of their nation’s religious identity, but also of its national identity . . . Religion, therefore, is about something much deeper than spirituality alone. Hence religious actors . . . are theoretically well equipped to reach people and to thereby gain their trust (Clark 2010: 674).

While discussing the inter-religious relations in Bulgaria, Broun (2007: 123) stresses that “at local level, relations between Orthodox and Muslims are often cordial.” Broun also gives some examples on how local religious communities have helped each other to help repair their churches or mosques, or help overcome intra-communal conflicts (ibid).

The positive impact of inter-religious dialogue on preventing violent conflict is already observable in certain parts of the Balkans. For instance, in Macedonia, along with political measures, Mojzes (2008: 413) accounts the co-operation of the leaders of main religious groups as significant in preventing the country from falling into the clutches of a bloody civil war. While political negotiations and external actors were the outstanding factors in ending the conflict, the author argues that the atmosphere of dialogue maintained by the major religious leaders have enabled conflicting parties to trust each other (ibid).

Similarly, Johnston and Eastvold (2004:230-231) mention the efforts of an international organization, named as The World Conference of Religions for Peace along with several other international donors to bring together the religious actors representing the major religious groups in Bosnia and Herzegovina after the Dayton agreement to build a common moral understanding between communities. While the resulting collaboration has faced some serious difficulties in taking the initial steps further, the authors state that it has nonetheless received a lot of praise (Johnston and Eastvold 2004: 231).

### Limits of Religious Cooperation

Contrary to the viewpoint that inter-religious dialogue can promote peace in the Balkans, pessimists question its significance. Drawing on the example of the war in Bosnia and Herzegovina, they point out that religious authorities had almost no influence in ending that conflict (Johnston and Eastvold 2004: 229). Among other factors, those that doubt the impact of religion on peacebuilding also further draw out the potential pitfalls of religious extremism, including its potential to segregate communities living together. Similar to the essentialist arguments that associated religions like Islam with violence in earlier years; religious groups established and/or funded by external actors in the Balkans are oftensuspected to have ties with terrorism, or condone violence.<sup>124</sup> While discussing radical Islamist groups in the Balkans, a proponent of this view argues that [f]or the Islamists, the desirable future political order is not one of cozy nationstates, but rather a religious commonwealth, a sort of revived Ottoman Empire distinguished by Saudi mosques, Afghan clothes, and fundamentalist mores . . . [I]t is highly likely that, because of their activities, the Balkans will increasingly come to be identified as a spawning ground for terrorists, dotted with no-go areas and concealed urban command centers, together comprising a series of interconnected nodal points in a global network of terrorist and fundamentalist organizations (Deliso 2007: xii).

Another point raised by the critics is the incapability or unwillingness of the religious actors in the region to take the initiative and try to find solutions to the existing problems on their own (Mojzes 2008: 412). While foreign actors have encouraged different ethnic communities to meet in common settings like international conferences to create rapport, not much base seems to be covered in such meetings, and that there is little hope that these steps can lead into more concrete actions (Mojzes 2007: 416). In fact, authors like Johnston and Eastvold (2004: 232) have gone as far as to claim that “[i]n looking ahead even further, it is important to recognize that moves by the West to bring all the religious factions together to smooth over their differences, as a prerequisite to restoring multiethnic harmony, are unlikely to succeed.”

The problem is, despite the positive contributions of religious leaders in some cases, such as those mentioned earlier, they have failed to use their credibility in public to take more decisive steps that lead to longer lasting results in regional peace. Put differently, the critics of religious actors argue that they simply have not done as much as they should to promote peace in the region. For instance, in places like Bosnia and Herzegovina, where reconciliation is still much needed, they point out that religious actors have eschewed taking serious steps to acknowledge any wartime atrocities committed by their respective group, which is considered by many as a vital initial step. To make things worse, some of the clerics have even

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<sup>124</sup>E.g. Nidzara Ahmetasevic “Investigation: Emissaries of Militant Islam Make Headway in Bosnia,” <http://birn.eu.com/en/75/10/2490/>(accessed on 22 October 2012).

adopted extremist stances, which further drive conflicting groups apart (Clark 2010: 676).

On the one hand, some steps were taken in recent years to promote inter-faith cooperation through multi-religious meetings, such as those conducted with Orthodox and Muslim actors in different parts of the Balkans. On the other hand, pessimistic observers have dismissed such attempts as shallow, and unable to propel the participating actors into taking concrete steps for further cooperation. Mojzes (2007: 416) explains this failure with the following observation: “The main reasons for this are the lack of visionary leadership and of a critical mass of educated religious leaders, as well as the inertia that is the result of centuries of suspicion, hatred, wars and oppression.”

Another potential roadblock facing the efforts of the religious actors is the heterogeneous composition of the communities they are addressing. Due to historical reasons, religious groups like Muslims in the Balkans do not have a united religious identity. In fact, Islam in the Balkans is hardly a homogenous entity (Babuna 2004: 287-288). Countries like Bosnia and Herzegovina, for instance, “exhibits a patchwork of micro micro-identities that are far from homogeneous and cannot be aggregated into simple categories” (Sarajlic 2011: 174). Meanwhile, in countries like Bulgaria, Islam “is highly diversified both ethnically (it includes Turks, Pomaks, Roma and Tatars) and religiously (the Turkish Muslims are divided into Sunnis and Shiites)” (Merdjanova 2006: 5). Often, Muslims from different regions within the same country are biased toward each other on various cultural or other differences (Broun 2007: 108). Therefore, as Oktem (2011: 157) underlines, “[f]or Muslims in the Balkans, ‘being Muslim’ means different things in different places at different times.” Adding further complexity to the picture is the fact that Muslims in the Balkans do not share the same language, which makes intra-religious cooperation across borders more difficult, and can exacerbate inter-ethnic conflicts (Oktem 2011: 160). One of the consequences of the internal fragmentation of major religious communities is the increased tendency to encounter intra-religious conflicts, along with inter-religious rivalry (Bougarel 2007: 97; Mojzes 2007: 55). Numerous divisions within major religious communities in countries like Bosnia and Herzegovina also increases the difficulty of establishing a steady and fruitful inter-religious dialogue. The fact that the religious leaders are unable to speak for the whole community affects their credibility—another crucial factor in using religion for peacebuilding. For instance, an administrative unit called the Islamic Community formally represents the Muslims in Bosnia and Herzegovina, and is in charge of the religious schools and mosques, and other similar units. However, its authority and capacity is often challenged by the other Islamic players in the country (Sarajlic 2011: 177). In post-communist Bulgaria, Merdjanova (2006: 9) similarly points out that the Muslim population have experienced conflict amidst its ranks to pick the Chief Mufti. Merdjanova (2006:9) explains that “[t]he severe contest over the post of the Chief Mufti has led to the establishment of rival Muslim councils, selecting rival chief muftis, and subsequent lawsuits, accompanied by mutual accusations and bitter fights in the media.”

As a result, notwithstanding the tendency to portray all external Islamic actors as a monolithic bloc in popular media, there is little evidence that they act together, or even pursue similar goals. Rather, as Mandaville (2010: 8) states, “contemporary forms of Muslim transnational solidarity express a diverse range of political and normative agendas, and only rarely and in the most extreme cases articulate a vision of the umma as a political unit.”

Another problem associated with the heterogeneity of major religious groups like Muslims in the Balkans is security. Detailed works, such as the one undertaken by Tziampiris (2009), which explores the nature and depth of the threat from religious terrorists in certain countries, such as Bosnia nad Herzegovina already exist. While discussing the impact of religious groups established and/or funded by international actors and their impact on Balkan security, Nazarko (2007: 15) claims that they are poorly controlled by the governments in countries where they operate, thus making them pervious to infiltration of religious extremists, including terrorists.<sup>125</sup> Nevertheless, authors challenging this view argue that the link between religious groups/networks and the possibility of increasing levels of religious terrorism in the region is probably exaggerated (Oktem 2011: 156).

### **Inter-Religious Dialogue And External Actors**

After the disintegration of Yugoslavia and the fall of communism in the region, the following turbulent years have also witnessed the increasing influence of external actors on religious affairs. As Sarajlic (2001: 174) has put it, “[t]he vacuum that was created by the breakdown of the entire social fabric in the region was filled with activities of external actors and their local proxies.”As stated earlier in this study, external actors have also sought to create inter-ethnic and inter-religious peace by supporting the gathering of religious leaders of major religious communities in the region.

For Balkan Muslims, one of the external actors influencing religious actors and forming new networks is Turkey, which operates both through state institutions, such as the Presidency of Religious Affairs and Turkish Development and Cooperation Agency (TIKA), and socio-religious non-state networks like the Gulen movement, which originated in Turkey (Oktem 2011: 160). Along with Turkey, Middle Eastern countries like Saudi Arabia and Iran have also have remained active in the creation of religious networks. While earlier religious networks often concentrated on providing relief to war struck areas places like Bosnia and Herzegovina, along with proselytizing their version of Islamic teachings, recent years have witnessed the increased involvement of religious networks into politics on both domestic and international level (Sarajlic 2011: 174).

Islamic networks with ties with the external actors not only seek to influence the Muslim population in religious matters, but also seek to play a role in the foreign

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<sup>125</sup> See also Broun(2007) for a detailed discussion of similar concerns among Muslims in Bulgaria.



policies of their respective countries. Sarajlic (2001: 174) goes further and claims that in places like Bosnia and Herzegovina, “the state ceased to be the sole player in the realm of foreign policy.” This condition, in return, has increased the stakes for all players involved.

While international actors have played a definitive role in stopping violent conflicts in the Balkans, they also seem to have inadvertently propelled intra-religious rivalry. For instance, an important factor fuelling the rivalry between the Bosnian Muslim activist groups is the diminishing international funding that was formerly available to the community through the international Islamic players. (Sarajlic 2011: 177). Furthermore, external religious actors sharing the same faith also frequently end up competing with each other to expand/control their existing networks, thus carrying religious rivalry on an international level.

Independent of any history of conflicts between different religious groups, external factors can further exacerbate the widening rift within and between the religious congregations. In Bosnia and Herzegovina, for instance, Muslims remain divided between the Middle Eastern oriented and more conservative interpretations of Islam, and its liberal interpretations represented by the Turkish and European Muslim networks.<sup>126</sup> To summarize it briefly “The arrival of many other Islamic players, belonging to other schools of thought and practice within Islam, has brought these in conflict with the local Islamic practices and produced conflicts along the interpretative dimension of Islam in Bosnia . . . Essentially, it is a matter of a particular ideological vision outlining the orthodoxy and orthopraxis of Islam in Bosnia (Sarajlic 2011: 176-177).

Internal fragmentation may not be unique to the Balkan Muslims, either. Following the end of communism, the Orthodox Christians have also experienced a split among their ranks between their Byzantine/Russian and Central European religious tradition and teachings. According to Merdjanova (2006:3), in countries like Bulgaria in particular, this condition has caught the Orthodox Church unrehearsed. Aside from its theological or sociological implications, such splits can have important consequences on long-term peace prospects in the region. In fact, some observers consider the consequences of picking conservative or extremist traditions on both sides as a recipe for disaster. For instance, Mojzes (2008: 417) claims that “[i]f the Middle Eastern orientation among the Muslims and Eastern orientation among the Orthodox prevails, the clash of these two civilisations would seem to be inescapable.” Meanwhile, as discussed earlier, external interference of any form to help solve the issue may further complicate the existing picture.

## **Conclusion**

Unlike in international relations, where it has only recently attracted the interest of scholars, religion has always remained a prominent variable for scholars studying

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<sup>126</sup> For similar problems and conditions in Bulgaria, see Broun (2007).

Balkan politics. A perfunctory overview of the role that religious leaders have played in promoting inter-communal peace in the region raises hope for them to play a meaningful role in furthering dialogue between groups. However, as this study has tried to outline in further detail, there are also serious impediments against their taking solid steps for long-lasting results. Nonetheless, given the role religion has played in other multiethnic or conflict prone parts of the world in recent years, there is reason for cautious optimism for the positive role that religious actors can play in the Balkans in the foreseeable future. As things stand, however, the current efforts for peacebuilding through inter-religious cooperation particularly in conflict prone settings are more likely to succeed in some parts of Balkans, such as Bosnia and Herzegovina and Macedonia than others, such as Kosovo (Mojzes 2007: 412).

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Appendix

**Table 1: The impact of religious institutions on national politics<sup>127</sup>**

|   |                             | Country/region |               |               |                |
|---|-----------------------------|----------------|---------------|---------------|----------------|
|   |                             | Total          | Croatia       | Romania       | Turkey         |
| Church(es) influence on national politics | Yes, absolutely             | 19.9 %         | 12.0 %        | 15.8 %        | 29.5 %         |
|   | Yes, think so               | 41.9 %         | 57.3 %        | 37.7 %        | 32.9 %         |
|   | No, I don't think they have | 26.3 %         | 26.4 %        | 28.9 %        | 24.2 %         |
|   | No, absolutely not          | 11.9 %         | 4.3 %         | 17.5 %        | 13.3 %         |
|   | Total                       | 2929<br>(100%) | 896<br>(100%) | 906<br>(100%) | 1127<br>(100%) |

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<sup>127</sup>Unless otherwise stated, all of the tables in this section are constructed from data from World Values Survey collected from the following Balkan countries in indicated years: Albania [1998], Albania [2002], Bosnia and Herzegovina [1998], Bosnia and Herzegovina [2001], Bulgaria [1990], Bulgaria [1997], Bulgaria [1999], Croatia [1996], Croatia [1999], Greece [1999], Macedonia [1998], Macedonia [2001], Montenegro [1996], Montenegro [2001], Romania [1993], Romania [1998], Romania [1999], Serbia [1996], Serbia [2001], Slovenia [1992], Slovenia [1995], Slovenia [1999], Turkey [1990], Turkey [1996], Turkey [2001], Turkey [2001]. Since WVS is global in scale, only available Balkan countries in that survey are selected for the scope of this study. Data collected in various waves of WVS are subject to various limitations and shortcomings, which are discussed in detail on their website. As such, the findings presented here should be taken as preliminary, rather than conclusive in nature. Table based on data from Values Survey Databank, which comprises data collected from the following Balkan countries in indicated years : Albania [1998], Albania [2002], Bosnia and Herzegovina [1998], Bosnia and Herzegovina [2001], Bulgaria [1990], Bulgaria [1997], Bulgaria [1999], Croatia [1996], Croatia [1999], Greece [1999], Macedonia [1998], Macedonia [2001], Montenegro [1996], Montenegro [2001], Romania [1993], Romania [1998], Romania [1999], Serbia [1996], Serbia [2001], Slovenia [1992], Slovenia [1995], Slovenia [1999], Turkey [1990], Turkey [1996], Turkey [2001], Turkey [2001] .

**Table 2: Religious Institutions and Government Policy 128:**

|   |       | Country/region |            |             |            |
|---|-------|----------------|------------|-------------|------------|
|   |       | Total          | Bulgaria   | Romania     | Slovenia   |
| Churches speak out on:<br>government policy | No    | 74.2 %         | 59.8 %     | 79.6 %      | 81.8 %     |
|   | Yes   | 25.8 %         | 40.2 %     | 20.4 %      | 18.2 %     |
|   | Total | 2708<br>(100%) | 836 (100%) | 1010 (100%) | 862 (100%) |

**Table 3: The Importance of Religion for Balkan People 129**

|                            |                  | Country/region |         |                        |          |         |        |         |          |        |                        |                       |
|----------------------------|------------------|----------------|---------|------------------------|----------|---------|--------|---------|----------|--------|------------------------|-----------------------|
|                            |                  | Total          | Albania | Bosnia and Herzegovina | Bulgaria | Croatia | Greece | Romania | Slovenia | Turkey | Macedonia, Republic of | Serbia and Montenegro |
| Religion important in life | Very important   | 40.9 %         | 26.4 %  | 34.7 %                 | 14.6 %   | 25.9 %  | 32.9 % | 43.8 %  | 15.4 %   | 78.8 % | 41.7 %                 | 25.0 %                |
|                            | Rather important | 28.0 %         | 33.6 %  | 37.9 %                 | 24.7 %   | 40.5 %  | 35.4 % | 33.1 %  | 25.8 %   | 13.4 % | 30.6 %                 | 37.4 %                |

128Table based on data from Values Survey Databank, which comprises data collected from the following Balkan countries in indicated years: Albania [1998], Albania [2002], Bosnia and Herzegovina [1998], Bosnia and Herzegovina [2001], Bulgaria [1990], Bulgaria [1997], Bulgaria [1999], Croatia [1996], Croatia [1999], Greece [1999], Macedonia [1998], Macedonia [2001], Montenegro [1996], Montenegro [2001], Romania [1993], Romania [1998], Romania [1999], Serbia [1996], Serbia [2001], Slovenia [1992], Slovenia [1995], Slovenia [1999], Turkey [1990], Turkey [1996], Turkey [2001], Turkey [2001].

129Table based on data from Values Survey Databank, which comprises data collected from the following Balkan countries in indicated years : Albania [1998], Albania [2002], Bosnia and Herzegovina [1998], Bosnia and Herzegovina [2001], Bulgaria [1990], Bulgaria [1997], Bulgaria [1999], Croatia [1996], Croatia [1999], Greece [1999], Macedonia [1998], Macedonia [2001], Montenegro [1996], Montenegro [2001], Romania [1993], Romania [1998], Romania [1999], Serbia [1996], Serbia [2001], Slovenia [1992], Slovenia [1995], Slovenia [1999], Turkey [1990], Turkey [1996], Turkey [2001], Turkey [2001] .

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|  |                      |               |              |              |              |              |              |              |              |              |              |              |
|--|----------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | Not very important   | 20.2 %        | 27.3 %       | 18.1 %       | 32.4 %       | 23.0 %       | 20.3 %       | 17.4 %       | 35.2 %       | 4.9 %        | 18.3 %       | 28.8 %       |
|  | Not at all important | 10.9 %        | 12.7 %       | 9.3 %        | 28.3 %       | 10.6 %       | 11.4 %       | 5.7 %        | 23.6 %       | 2.9 %        | 9.4 %        | 8.8 %        |
|  | Total                | 30218 (100 %) | 1957 (100 %) | 2376 (100 %) | 2962 (100 %) | 2168 (100 %) | 1124 (100 %) | 3428 (100 %) | 2986 (100 %) | 7525 (100 %) | 1996 (100 %) | 3697 (100 %) |

Table 4: Confidence in Churches in the Balkans<sup>130</sup>

|                      |                | Country/region |         |                        |          |         |        |         |          |        |                        |                       |
|----------------------|----------------|----------------|---------|------------------------|----------|---------|--------|---------|----------|--------|------------------------|-----------------------|
|                      |                | Total          | Albania | Bosnia and Herzegovina | Bulgaria | Croatia | Greece | Romania | Slovenia | Turkey | Macedonia, Republic of | Serbia and Montenegro |
| Confidence: Churches | Agree at least | 24.1 %         | 26.0 %  | 21.8 %                 | 15.4 %   | 21.1 %  | 14.8 % | 43.7 %  | 12.6 %   | 32.5 % | 19.7 %                 | 12.6 %                |
|                      | Quite a lot    | 33.2 %         | 34.1 %  | 39.1 %                 | 25.3 %   | 39.5 %  | 40.0 % | 35.0 %  | 24.8 %   | 37.8 % | 19.5 %                 | 33.1 %                |
|                      | Not very       | 26.5 %         | 26.4 %  | 29.5 %                 | 30.8 %   | 29.6 %  | 32.7 % | 17.4 %  | 38.6 %   | 13.8 % | 37.8 %                 | 35.6 %                |

<sup>130</sup>Table based on data from Values Survey Databank, which comprises data collected from the following Balkan countries in indicated years : Albania [1998], Albania [2002], Bosnia and Herzegovina [1998], Bosnia and Herzegovina [2001], Bulgaria [1990], Bulgaria [1997], Bulgaria [1999], Croatia [1996], Croatia [1999], Greece [1999], Macedonia [1998], Macedonia [2001], Montenegro [1996], Montenegro [2001], Romania [1993], Romania [1998], Romania [1999], Serbia [1996], Serbia [2001], Slovenia [1992], Slovenia [1995], Slovenia [1999], Turkey [1990], Turkey [1996], Turkey [2001], Turkey [2001] .

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|  |            |               |              |             |              |              |              |              |              |              |             |             |
|--|------------|---------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|
|  | Very much  |               |              |             |              |              |              |              |              |              |             |             |
|  | Not at all | 16.2 %        | 13.5 %       | 9.6 %       | 28.5 %       | 9.8 %        | 12.6 %       | 3.9 %        | 24.0 %       | 16.0 %       | 23.1 %      | 18.7 %      |
|  | Total      | 29839 (100 %) | 1972 (100 %) | 2348 (100%) | 2932 (100 %) | 2147 (100 %) | 1123 (100 %) | 3422 (100 %) | 3011 (100 %) | 7367 (100 %) | 1957 (100%) | 3560 (100%) |

Table 5: Confidence in Parliaments in the Balkans<sup>131</sup>

|                        |             | Country/region |         |                        |          |         |        |         |          |        |                        |                       |
|------------------------|-------------|----------------|---------|------------------------|----------|---------|--------|---------|----------|--------|------------------------|-----------------------|
|                        |             | Total          | Albania | Bosnia and Herzegovina | Bulgaria | Croatia | Greece | Romania | Slovenia | Turkey | Macedonia, Republic of | Serbia and Montenegro |
| Confidence: Parliament | Agree a lot | 8.7 %          | 8.2 %   | 7.2 %                  | 8.9 %    | 7.1 %   | 2.8 %  | 3.4 %   | 5.0 %    | 16.6 % | 2.1 %                  | 8.2 %                 |
|                        | Quite a lot | 26.3 %         | 44.5 %  | 31.1 %                 | 32.0 %   | 25.9 %  | 21.5 % | 16.4 %  | 23.7 %   | 30.9 % | 9.0 %                  | 22.1 %                |
|                        | Not very    | 37.6 %         | 33.9 %  | 46.7 %                 | 39.9 %   | 49.3 %  | 48.1 % | 45.0 %  | 51.0 %   | 21.0 % | 37.9 %                 | 37.4 %                |

<sup>131</sup>Table based on data from Values Survey Databank, which comprises data collected from the following Balkan countries in indicated years : Albania [1998], Albania [2002], Bosnia and Herzegovina [1998], Bosnia and Herzegovina [2001], Bulgaria [1990], Bulgaria [1997], Bulgaria [1999], Croatia [1996], Croatia [1999], Greece [1999], Macedonia [1998], Macedonia [2001], Montenegro [1996], Montenegro [2001], Romania [1993], Romania [1998], Romania [1999], Serbia [1996], Serbia [2001], Slovenia [1992], Slovenia [1995], Slovenia [1999], Turkey [1990], Turkey [1996], Turkey [2001], Turkey [2001] .

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|  |                       |                         |                    |                |                    |                    |                    |   |   |                    |                |                |
|--|-----------------------|-------------------------|--------------------|----------------|--------------------|--------------------|--------------------|---|---|--------------------|----------------|----------------|
|  | mu<br>ch              |                         |                    |                |                    |                    |                    |   |   |                    |                |                |
|  | No<br>ne<br>at<br>all | 27.4<br>%               | 13.4<br>%          | 15.0<br>%      | 19.2<br>%          | 17.7<br>%          | 27.6<br>%          | <b>35.2</b><br>%                        | <b>20.3</b><br>%                        | 31.5<br>%          | 51.0<br>%      | 32.3<br>%      |
|  | Tot<br>al             | 2940<br>8<br>(100<br>%) | 1894<br>(100<br>%) | 2341<br>(100%) | 2936<br>(100<br>%) | 2113<br>(100<br>%) | 1119<br>(100<br>%) | <b>3329</b><br><b>(100</b><br><b>%)</b> | <b>2955</b><br><b>(100</b><br><b>%)</b> | 7295<br>(100<br>%) | 1971<br>(100%) | 3455<br>(100%) |

**Table 6: Confidence in Political Parties in the Balkans<sup>132</sup>**

|   |                             | Country/region |             |                              |              |             |             |              |            |                                   |                                 |
|---|-----------------------------|----------------|-------------|------------------------------|--------------|-------------|-------------|--------------|------------|-----------------------------------|---------------------------------|
|   |                             | Total          | Alba<br>nia | Bosnia<br>and<br>Herzegovina | Bulga<br>ria | Croa<br>tia | Roma<br>nia | Slove<br>nia | Turk<br>ey | Macedo<br>nia,<br>Republi<br>c of | Serbia<br>and<br>Montene<br>gro |
| Confide<br>nce: The<br>Political<br>Parties | A<br>gre<br>at<br>dea<br>l  | 3.9<br>%       | 2.7<br>%    | 4.9<br>%                     | 4.6<br>%     | 3.4<br>%    | 2.2<br>%    | 2.2<br>%     | 6.6<br>%   | 1.8<br>%                          | 1.9<br>%                        |
|   | Qui<br>te a<br>lot          | 19.3<br>%      | 23.4<br>%   | 25.6<br>%                    | 24.6<br>%    | 19.0<br>%   | 11.7<br>%   | 11.5<br>%    | 22.6<br>%  | 8.6<br>%                          | 17.4<br>%                       |
|   | Not<br>ver<br>y<br>mu<br>ch | 42.7<br>%      | 48.1<br>%   | 48.4<br>%                    | 44.2<br>%    | 56.5<br>%   | 46.4<br>%   | 50.9<br>%    | 27.7<br>%  | 44.2<br>%                         | 48.7<br>%                       |

<sup>132</sup>Table based on data from Values Survey Databank, which comprises data collected from the following Balkan countries in indicated years : Albania [1998], Albania [2002], Bosnia and Herzegovina [1998], Bosnia and Herzegovina [2001], Bulgaria [1990], Bulgaria [1997], Bulgaria [1999], Croatia [1996], Croatia [1999], Greece [1999], Macedonia [1998], Macedonia [2001], Montenegro [1996], Montenegro [2001], Romania [1993], Romania [1998], Romania [1999], Serbia [1996], Serbia [2001], Slovenia [1992], Slovenia [1995], Slovenia [1999], Turkey [1990], Turkey [1996], Turkey [2001], Turkey [2001].



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|  |                       |   |  |                                    |   |  |  |   |  |                                    |                                    |
|--|-----------------------|---|--|------------------------------------|---|--|--|---|--|------------------------------------|------------------------------------|
|  | No<br>ne<br>at<br>all | 34.1<br>%   | 25.7<br>%  | 21.1<br>%                          | 26.6<br>%   | 21.1<br>%  | 39.7<br>%  | 35.4<br>%   | 43.1<br>%  | 45.4<br>%                          | 32.0<br>%                          |
|  | Tot<br>al             | 1907<br>2<br>(100<br>(100<br>(100%)<br>(100%)<br>(100%) | 1943<br>(100<br>(100<br>(100%)<br>(100%)<br>(100%) | 2360<br>(100%)<br>(100%)<br>(100%) | 978<br>(100<br>(100<br>(100%)<br>(100%)<br>(100%) | 1124<br>(100<br>(100<br>(100%)<br>(100%)<br>(100%) | 1157<br>(100<br>(100<br>(100%)<br>(100%)<br>(100%) | 965<br>(100<br>(100<br>(100%)<br>(100%)<br>(100%) | 5138<br>(100<br>(100<br>(100%)<br>(100%)<br>(100%) | 1962<br>(100%)<br>(100%)<br>(100%) | 3446<br>(100%)<br>(100%)<br>(100%) |

Table 7: Neighbor Preferences in the Balkans—People of A Different Religion<sup>133</sup>

|   |                      | Country/region      |                   |                               |                          |                    |                          |                          |                    |
|---|----------------------|---------------------|-------------------|-------------------------------|--------------------------|--------------------|--------------------------|--------------------------|--------------------|
|   |                      | Total               | Albani<br>a       | Bosnia and<br>Herzegovin<br>a | Bulgari<br>a             | Croati<br>a        | Romani<br>a              | Sloveni<br>a             | Turke<br>y         |
| Neighbour<br>s: People<br>of a<br>different<br>religion | Not<br>mentione<br>d | 73.0<br>%           | 75.0<br>%         | 72.4<br>%                     | 83.3<br>%                | 85.7<br>%          | 69.6<br>%                | 77.2<br>%                | 64.9<br>%          |
|   | Mentione<br>d        | 27.0<br>%           | 25.0<br>%         | 27.6<br>%                     | 16.7<br>%                | 14.3<br>%          | 30.4<br>%                | 22.8<br>%                | 35.1<br>%          |
|   | Total                | 10114<br>(100%<br>) | 999<br>(100%<br>) | 1200<br>(100%)<br>(100%)      | 1072<br>(100%)<br>(100%) | 1196<br>(100%<br>) | 1239<br>(100%)<br>(100%) | 1007<br>(100%)<br>(100%) | 3401<br>(100%<br>) |

<sup>133</sup>Table based on data from Values Survey Databank, which comprises data collected from the following Balkan countries in indicated years : Albania [1998], Albania [2002], Bosnia and Herzegovina [1998], Bosnia and Herzegovina [2001], Bulgaria [1990], Bulgaria [1997], Bulgaria [1999], Croatia [1996], Croatia [1999], Greece [1999], Macedonia [1998], Macedonia [2001], Montenegro [1996], Montenegro [2001], Romania [1993], Romania [1998], Romania [1999], Serbia [1996], Serbia [2001], Slovenia [1992], Slovenia [1995], Slovenia [1999], Turkey [1990], Turkey [1996], Turkey [2001], Turkey [2001]. The original question asked in the interviews was: “V39. On this list are various groups of people. Could you please mention any that you would not like to have as neighbors? (Code an answer for each group):People of a different religion.”

**‘DIRTY POLITICS’ AND THE FAILURE OF DEMOCRATIC PROMISE:  
CITIZENS’ ALIENATION FROM POLITICS IN SERBIA**

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**Introduction**

When a society is undergoing profound social, political, and cultural change, its collective identities are being redefined, the political community reconceived, new rules of the political game established and routinized. In such periods the status of the political sphere, professional politicians and political institutions is of utmost importance. This includes not just the objective role and place of politics in social life but also the prestige and reputation of political actors: how do rank-and-file citizens view them, how much are they esteemed? It is the job of politicians to govern the country and make decisions affecting everybody. These decisions are often difficult and painful, and not all citizens approve of them at all times. For these reasons, professional politicians must maintain a twofold relationship towards their social base: to represent it as best they can, but also to be able to resist the passions of majority when the common interest and political wisdom so require. If governmental decisions, including unpopular ones, are to be acknowledged and implemented, politicians must enjoy some genuine authority in the eyes of citizenry. This holds regardless of the fact that active democratic citizenship and civil society always presume healthy criticism of those in power.

Serbia, as a postsocialist country, is precisely in such a turbulent period of political reconstitution. Even more than that: unlike many other postsocialist countries with stabilized liberal democratic political regimes, capitalist economies and membership in the EU, Serbia has been in a significant delay. Its path out of real-existing socialism has been highly specific. After 1990, a modified socialist regime led by Slobodan Milošević remained in power, having already substituted nation for class as its legitimacy basis back in the late 1980s. Some reforms were launched in the early 1990s, such as the introduction of political pluralism and competitive elections, as well as limited privatization in the economy. Nevertheless, the extremely unfavorable circumstances of wars in former Yugoslavia, international sanctions provoked by Serbia’s involvement in these, and the authoritarian nature of the ruling regime produced a stalemate that Serbian sociologists have termed “blocked transformation” (Lazić /ed./ 2000, Lazić 2011).

The process of social development was unblocked only in 2000, after an entire decade of criminalization of state and economy, another war in Kosovo in 1998-99 including NATO bombing, and intensely escalating social conflicts and cleavages. It came as a surprise to many observers, both outside and inside the country, that the change of regime in 2000 took a bloodless and markedly democratic form, through Milošević's electoral defeat and mass civic mobilization in defense of popular vote in late September and early October 2000. It was only after October 5, 2000 and the election of the new republic Assembly and Government in December of that year that Serbia returned to the community of nations and resumed its movement towards liberal democracy. The difficult legacy of the 1990s is still felt though.

Given Serbia's delay in democratic transformation, and the fact that it began pursuing true reforms in an altered, less favorable international economic and political environment, it becomes even more important for its political elite to perform well and maintain a functional, two-way communicative relationship with the citizens. The reality is, however, far from this desirable condition. The profession of politician is the most denigrated social role currently in Serbia, a target of bitter jokes and utmost contempt by ordinary people. The established institutions of the political system, from the president of the republic to the parliament, are distrusted and poorly respected. Political apathy is pervasive, with ordinary people believing nothing can be done to change the bad situation in society via the regular institutional channels, while at the same time being unwilling to engage in a more spontaneous, informal political action beyond the party system.

It is the aim of this paper<sup>134</sup> to present and discuss the extremely low prestige that the political sphere and its main actors currently enjoy in the eyes of Serbian citizens, as well as to examine some implications of this state of affairs for Serbia's further democratic development. In the first part of the paper, the image of politics as a dirty business, far removed from ordinary people and unconnected with their concerns and interests, will be illustrated on the basis of an empirical study of social classifications. In the second section, the recent history of Serbia's democratic trajectory will be briefly sketched, starting from the "democratic promise" of 2000 through progressive disillusionment and disaffection to the present-day wide gap between what the society sees should be represented and representative capacities of the established party system. Here again, the analysis will draw on empirical data collected in various sociological studies undertaken during the 2000s. In the concluding section, offering a more general view of the issue, it is argued that the failure of democratic political forces after 2000 to take seriously civic mobilization and the highly set „democratic threshold“ of the anti-Milošević movement in the year 2000 has generated profound political alienation and cynicism of citizens, which in turn contributed to the victory of right-wing populists in both presidential and parliamentary elections of 2012.

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134 The analysis presented in this paper has been developed as part of the research project „Challenges of New Social Integration in Serbia“ (No. 179035) of the Institute of Sociological Research, Faculty of Philosophy in Belgrade, supported by the Ministry of Education and Science of Serbia.

## Politics as a Dirty Word

This part of the paper will provide illustrations of the bleak colors in which ordinary people in Serbia today depict the world of professionalized politics. The evidence derives from the sociological study “Social and Cultural Capital in Serbia“, specifically, a set of focus-group interviews implemented within this multi-segment research project. The project as a whole aimed at identifying elements of social and cultural capital that individuals and social groups in Serbian society have at their disposal. Capitals were investigated both in terms of quantity and composition, as their objective characteristics, and in terms of their values on various social markets. This latter level includes necessarily also respondents’ subjective perceptions and judgments, as well as (open or suppressed) conflict between these various perceptions. In theoretical terms, the project drew on Pierre Bourdieu’s sociological approach, especially his notion of social classifications (Bourdieu 1979, 1997), Michele Lamont’s study of symbolic boundaries and boundary work (Lamont 1992), and Luc Boltanski and Laurent Thevenot’s sociology of critical capacity (Boltanski and Thevenot 2006). The methodology included a combination of quantitative (survey) and qualitative methods (interviews, focus groups).<sup>135</sup> In this paper only the data collected by the focus group research technique will be used.

For a clear understanding of the findings that follow, a brief description of the general research context is necessary. Firstly, it must be stressed that the project was *not* focused on politics at all; research objectives did not include discussing or evaluating political life in Serbia, or recommendations how to improve it. Accordingly, the questions included in the focus group protocol were not formulated to that end. Instead, the topics broached were sociological in the narrow sense of the term: social classifications, how social groups and the boundaries dividing them are perceived, definitions of „Us“ and „Them“, etc. Against this backdrop, it is all the more striking to what extent political topics, that is, quite specifically, *politicians* as a social category, imposed themselves and fought their way to the forefront of analysis, much beyond what had been anticipated in the beginning.

Focus group interviews that provide the basis for the present discussion were organized in spring 2011 in four Serbian cities and towns.<sup>136</sup> The aim was to identify discourses of social differentiation and classification operative nowadays in

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135 The project was run by the Center for Empirical Cultural Studies of Southeast Europe, Niš, Serbia, in the framework of the Regional Research Promotion Program in the Western Balkans (RRPP) coordinated by the University of Fribourg. Its main results are presented in the collective volume: Cvetičanin (ed.) 2012.

136 There were eight focus groups altogether, two per site. One was composed by participants with secondary education or less, and the other with college degrees. The participants were coming from diverse social, professional, ethnic and generational backgrounds. The sites were selected to reflect regional variation (Novi Sad, Beograd, Novi Pazar and Niš). The total number of participants was 57 (29 men and 28 women).

Serbia, to examine how crystallized and consistent these discourses are, to reconstruct how the respondents see, evaluate and rank themselves and others, and which criteria are applied in this process. Positive and negative qualifications of types of people were elicited by rather direct questions, such as „What kind of people you would never collaborate with?“, „What is the type of people you wouldn't want to be your friends?“, „What is the kind of people you like, and why?“ Additionally, more responses were obtained in other sections of group discussion, apparently quite unrelated to the main topic (questions like „What is it that you'd never do to achieve your goals?“ or „What is valued in Serbia today?“). This dispersion of discourses of social classification, which almost invariably also included the mention of the figure of „politician“, is the first thing to be noted.

Overall, the boundaries the respondents drew were moral rather than sociological: contrary to what was found by both Bourdieu and Lamont, people did not make distinctions between „Us“ and „Them“ on the basis of some social characteristics (wealth, education, profession, ethnicity, rural/urban residence etc) but rather on the basis of a set of moral values.<sup>137</sup> As a matter of fact, they often found it necessary to explicitly deny the relevance of social criteria of differentiation, pointing out that they select their friends and acquaintances from among the „good and honest“ rather than according to some external characteristics.<sup>138</sup> Both the „own“ and the „Other“ were described in predominantly moral categories. What we ended up with were not really any recognizable social groups transplanted to the symbolic plane but rather aggregates of individuals brought together only by virtue of their shared personal traits. There was the pole of “honest, consistent, correct, open, frank, warm, friendly” people, opposing the pole of the “insincere, hypocritical, inconsiderate, money-grabbing, cold-hearted, egotistic, spineless” persons. There is, however, a notable asymmetry: while at the positive pole no realistic sociological referent could be recognized, at the negative side there emerged a definite social group: the *politicians*.

In virtually every focus group, regardless of the research site or participant features, politicians were the one social group explicitly named as someone against whom a clear social distance is to be made. They are followed by two more groups, cited somewhat less frequently: *tycoons* and *showbiz stars*. This is a surprising kind of company for politicians to find themselves among; what is more, the respondents

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137 This thorough moralization of classification discourses that we found is explained at length in: Spasić and Birešev (2012).

138 To bar any possible misunderstanding: by this we are not claiming that ethnic, cultural, racial, or class differences are irrelevant in Serbia, and that people (perhaps even these same people who took part in our study) do not choose their partners and friends on such basis. The finding only indicates that there is no publicly accepted language of the legitimacy of such boundaries. In other words, people avoid talking about and arguing in favor of classifying others along these lines, although this may stand in contrast with what they actually do.

sometimes made explicit connections between these social types, implying that they all fall somehow together, forming a universe of their own.<sup>139</sup>

In the discussions politicians were described in rather drastic ways. To remind: neither was politics explicitly brought up by the protocol questions, nor did the moderators mention politicians as such. The descriptions that follow thus emerged spontaneously, without any specific prompting on the part of the researchers. Moreover, such disparaging portrayals were given in such a tone as this was the most natural thing to do – something self-understandable, ordinary and “normal”, something that needed no further proof or argument, something that “everybody knows”. The few dissonant opinions, on the contrary, required extensive justification and elaboration, as they generally encountered much resistance from the group. I’ll return to this. Let us first sample some of the most picturesque statements arising from focus group discussions:

“[Politicians] have devastated this country, and they multiply like parasites. They are spreading everywhere, like cancer.”

“I think if a person gets involved actively in politics, his or her human criteria get so distorted that this person loses the last gram of soul. Whatever is done in politics, it goes beyond some human, moral principles. It’s only reaching a goal that counts.”

“Politicians... it’s a never-ending catastrophe.”

“What is valued in our society? I’d rather turn the question around, let’s talk about those people we shouldn’t value, and they are ruling Serbia.”

“Come on, show me an uncorrupt politician? They are so few. And if there is such a person in politics, they surely sent him away to put up posters in the streets.”

“A person who is unable to lie to you, to promise the sun and the moon, and then do nothing – such a person won’t go into politics.”

According to research participants, the politicians are the only Serbians who are making it nowadays. To the question “Who is well off in today’s Serbia?” these were the most frequent answers:

“Only politicians and those around them.”

“Politicians, of course.”

“Only politics, politicians, only them, no one else.”

“Politicians, thieves, tycoons.”

“Both political position and opposition are well off.”

“The ruling oligarchy, political and financial.”

“In order to gain anything, to get anywhere, you must get involved in politics, or become member of mafia.”

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139 Let us note in passing: in none of the previous studies of social classifications, the best known examples being Bourdieu’s *Distinction*, studying French society of the early 1970s, and Lamont’s *Money, Morals, and Manners*, focusing on French and American upper middle classes in the mid-1980s, did politicians stick out as a separate group worthy of special attention. Groups such as the rich and the poor, Blacks and Whites, provincials and metropolitans, the primitives and the cultivated were differentiated by the respondents, but never the “politicians” as a separate group.

As may be seen, politicians are routinely classified together with tycoons and thieves, and sometimes also with celebrities – folk singers, entertainers, reality show participants:

“Nowadays, very young kids, when you tell them that education matters, they point out your material status and they compare you with, say, starlets or politicians. And you just shut up, because there’s nothing you can say.”

“I can be friends with most people. But not with the tycoons and the politicians.”

“One could either join a party, or sign up for the *Grand Stars* TV contest...”

Engaging in politics is described as antipode to good quality:

“If you’ve earned a degree, a doctorate, you won’t engage in shady dealings, in politics, in such things.”

“Being a good politician, this is what it means: I’ve given a statement today, and then five minutes later I denied it. And I’ve convinced everybody that I never gave it at all.”

“Authoritarian submissives – such types fare the best in politics. And people who advance thanks to their worth, education, skills, they are very rare.”

“Politicians, it’s horrible, God forbid!”

When asked who is the type of people they would rather avoid collaborating with if they could, focus group participants often mentioned politicians as their first choice:

“With politicians in general. I’d have a hard time working with them.”

“I wouldn’t with... politicians.”

Entering politics and joining a party is described as the greatest sin a person can commit. Although some participants admit that they would accept membership in a party if that meant securing a job, the majority mood is well expressed by a woman who, asked „What is it that you’d never do to achieve your goals?” answered *first* that “the party option is ruled out because in this way I’d lose myself”, with the rest of the group approving loudly.

Politicians are not seen as working towards the benefit of society and state:

“How did we come to this distorted value system? Because the political elite needed this kind of state and this kind of people. They don’t need well educated, self-assured, financially independent people.”

“We should take up sticks and rout those idiots in Belgrade who are making circus in the Parliament.”

On the contrary, they are an obstacle to achieving valuable collective, and even personal goals:

“Well, politicians, it’s them alone [an obstacle in my life]. Otherwise nothing stands in my way.”

“Obstacles frustrating my goals? Politicians, the system.”

Political parties are not initiators of change:

“If I knew I could change society through a party, I’d join it.”

“Parties operate as interest groups, as mafia syndicates... It all boils down for you to play the role of their party soldier.”

“Our politicians have no desire to get things into motion. .. They ought to be our reflection, so that we express our expectations through them, but it doesn’t work that way.”

During the 1990s, the participants argued, politicians did mean something – citizens identified with representatives of one political option, hated the other one, and generally, politicians were important to people. But now it's all gone. This observation indicates the mood of political disappointment, to which I will return:

“There was a period when people held politicians in high esteem, which is not the case today. Some people appreciated advocates of the national interest, the others appreciated advocates of social change or human rights or anti-war activists. And for some years, these things really mattered. But later on it all eroded gradually to end up where we are now.”

Although the dissatisfaction with the condition of Serbian society was consensual, no participant suggested founding a new political party, or even a social movement, as a means to express and operationalize this sentiment. Any idea of political mobilization was completely absent, while personal involvement towards social change, if recommended, was always framed individually and psychologically: “we should all work more”, “each one should be good at his or her job”, “let's not be pessimists”, “let's see what we can do in our own little worlds and so the society will improve too” etc.

Furthermore, no distinction was made among political parties. On the contrary, the idea that “they are all the same” was expressed many times, in various forms:

“It's like two attorneys in the court – they apparently fight, but afterwards they go for a drink. This was just a show for the populace because they actually get along quite well.”

“The typical politicians' approach is – I won't prosecute you, because when you come to power, you won't prosecute me, because you'll be doing the same things I'm doing now.”

“Ordinary people usually don't say they are against this or that party, they are against all parties. Because people increasingly realize what's really going on here.”

“Regardless of the party, they're all the same. They only mind their political interests, they don't care at all for the public interest.”

“Sometimes we are told that there exist a “First” and an “Other” Serbia, but that's not true. They are all together one Serbia, and you and I are the other.”

These excerpts from the data point in one and the same direction. They demonstrate a strong desire of Serbian citizens to mark, explain, and vividly depict their distance towards professional political actors. The term “politician” functions as a slur, almost a swearword. Research participants perceive politicians as an alienated “class” apart, with its own interests that are sharply distinct from those of the people, rather than as specialized protagonists of an important social sphere with the purpose to articulate various worldviews and represent the interests of particular segments of society. They, the politicians, are “all the same”, and they, as a group, are sharply different from “us”. Tellingly, no participant positioned him/herself, or another individual he/she talked about, in party political terms: they did sometimes express preferences in ideology or worldviews, but no party was ever singled out as



a bearer of any meaningful political position – not even negatively, in order to oppose it.

In democracies, political parties are indispensable as they serve to orient and aggregate electoral choices made by citizens and channel them into policies. They are supposed to reflect the diversity and nonviolent competition of various interests, commitments, values and desires occurring in a society. Perhaps most significantly, as Cohen and Lampe (2011: 223-224) remind, parties should provide the connective tissue between citizens and civil society on the one side, and state institutions on the other. In Serbia, however, they are not seen in this way at all. They are summarily written off as organizations based on naked self-interest, composed of cliques and clans. And contrary to their very definition, they are decidedly *not* seen as places where a person willing to get actively involved in public affairs and contribute to changing society for the better, in accordance with one's own beliefs and values, could find an arena for this ambition. If you want to improve society, our respondents say, you must stay in the private realm: love your family, nurture your friendship network and do your job well. Joining a party can only ruin your noble intentions.

Politicians as a group are targets of intense distrust. They are perceived less as performers of a useful social function and more as a class apart, a coterie, even a peculiar human *type*, divided by an abyss from the ordinary person. This demarcation is described in a very emphatic vocabulary: for example, the process of becoming a politician is presented as a sort of personal transformation, when a person, who up to that point was a “human being”, turns into something else. Phrases such as “to lose oneself”, “to lose one's soul”, “absence of morality”, “God forbid” etc. go far beyond the normal civic criticism of government.

What does all this tell us about the condition of Serbian democratic transition, at this moment, more than a decade after the removal of Milošević's regime?

### **The Forgotten Democratic Promise**

If we are to understand these findings properly, some background is necessary. It is not only that Serbian postsocialist transformation has been belated, distorted, and thwarted in various ways; in addition, its “unblocking” moment, that is, the ousting of Slobodan Milošević from power in 2000, had a very specific course that has had lasting effects. As already noted in the opening sections, contrary to most expectations, after a decade of violence, political repression and despair, all under the mask of a facade democracy, the removal of the authoritarian regime took the form of a peaceful but resolute mass mobilization of Serbian citizens who stood up for change, democracy and return to the international community.

This mobilization attracted unprecedented numbers of people from all social strata, and was geared towards an unprecedented goal. Rather than purely economic, survival-based interest in a better life (although this motive was of course also

present), the main driving force behind the mass protests that followed the elections of September 24, 2000 was a desire to defend something utterly immaterial, namely, one's vote, which Milošević had tried to forge. In this way Serbian citizens proved they had learned some important lessons about democracy, in spite of all the efforts of the Milošević regime to render democratic institutions empty and meaningless. This mass basis provided the necessary support to and bestowed democratic legitimacy on the actions of the united anti-Milošević opposition, generously assisted by the West. Thanks to this democratic awakening the citizens of Serbia felt the victory of October 5, 2000 to be *their* victory. Surely, the victory was achieved in common struggle with the opposition politicians but did not "belong" to the latter. This meant that the new, post-Milošević political leaders were faced with a new kind of attitude on the part of the democratically matured citizens: instead of fear, awe, love or hate, they were felt to be "our", popular representatives with a mandate to implement what "all of us" – opposition parties and "the people" alike – agreed was necessary to drive Serbia forward. This new, higher normative standard that was put in place at this crucial moment meant a new opening, a new and strong democratic promise – but by the same token made possible a correspondingly deep disappointment.

This dynamics was well captured by the longitudinal qualitative research project "Politics and Everyday Life", based on interviews with ordinary people in Serbia. The first of its three research waves was undertaken at the very beginning of postauthoritarian transformation in 2001-02 (Golubović, Spasić and Pavićević /eds./ 2003). At that point, a cluster of what we termed "normative expectations" was identified. In addition to simpler, economic demands related to the standard of living and economic recovery of the country, the citizenry was confronting the new government with a series of normatively grounded claims that aimed at clearly marking the break with the old regime and making the transition irreversible. The revolution of October 5, 2000 was seen as a democratic threshold after which some things were never to be done again, and some ways of doing things in politics were to be abandoned forever. Such normative demands included, for example, *equality before the law and legal security* (no impunity for anyone, a functioning legal system, protection of rights); *institutional rules* (eliminating corruption, general regularization of procedures in state institutions); *depoliticization of life chances* (political preferences or activities must not influence a person's well-being, as it had been customary all the time since 1945); and *caring for the common good* instead of partisanship. It is important to stress that, unlike distributional claims, these demands did not require substantial financial expenditures, and hence failure to meet them could not be excused by lack of money. On the contrary, most of these ideas/ideals referred to symbolic, cultural things, matters of language, style and attitude, of how politicians treat citizens, or how they understand their own responsibilities.<sup>140</sup> Yet, the new political forces, once in power, did not heed these

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140 Public opinion polls, using quantitative methodology, registered identical trends. In a December 2000 survey on a representative sample, respondents expressed trust in the new democratic government and strong belief that it would behave differently from their predecessors: 54% said that

appeals, and in this way missed the chance to put the profession of politician on a totally new footing.

In our first research report already (Golubović, Spasić and Pavićević 2003: 287-293) we anticipated that, if politicians did not take seriously the fragile pact they had struck with the citizens through their joint struggle, the capital of “October 5” as a symbolic moment would be wasted away, while the alienation of politicians from their base, and citizens from politics, would continue to grow. At this beginning of the “unblocked transformation” stage, an interesting paradox concerning political activism could be discerned. On one hand, citizens wanted to be “left alone” by politics – to be able to live their own lives “normally”, as they saw them lived in what they took as “normal” parts of the world (like Western Europe, or, ironically, real-existing socialism of former Yugoslavia). Yet at the same time they were equipped with a newly obtained insight that those in power must not be left unattended: they have to be constantly monitored because the damage they can inflict by carelessness or wicked design is enormous. The tension between the two – politics as something to be get rid of, and politics as something too important to be relegated to politicians alone – amounts to what may be termed the “paradox of (non)involvement” (Spasić 2008). In view of this paradox, it was extremely important for the formerly oppositional politicians, now turned professionals in public office, not to forget how they came to power in the first place, and to stay in tune with their constituency. In this way they could have continued the collaborative process of collective learning of democratic conduct that had proceeded quite successfully at both sides of the politicians/citizens divide during the late 1990s. Nevertheless, they chose a different path. In too many areas, they behaved in ways remarkably similar to the Milošević political elite. True enough, they did not bring the “old times” really back, and significant progress has undoubtedly been made in many respects – especially if viewed from the outside. But from a perspective within the society itself, in the eyes of those who took to the streets in October 2000, this progress has not been sufficiently visible at the level that mattered so much – the normative one.

In the later stages of the “Politics and Everyday Life” project the fruits of this process were already visible, in the form of disappointment and growing pessimism. The first shift from readiness to be patient and wait until the new democratic government is consolidated, to disheartenment and apathy, was detected in 2005

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the once-oppositional coalition government would be much more resistant to corruption than the Milošević one, while only 6% believed the reverse. At the same time, citizens stressed the necessity for mechanisms for checking power: 57% ranked “consequent division of power into legislative, judiciary and executive” as their first or second choice of best instrument to ensure such control; 42% chose regular elections; and 32% free and independent media. Even more importantly, citizens strongly supported the idea that public officials be subject to special scrutiny in order to reduce chances for corruption: state officials should declare their property at the beginning and end of their term (supported by as many as 87% respondents), should be banned from running private or state firms (77%), should not be members of managing boards in companies (71%), and should put their offices in parties, unions and NGOs on hold (64%) (Mihailović 2010: 21-22).

(Golubović 2005; Spasić 2005). Two years later, it was confirmed and exacerbated (Golubović /ed./ 2007). Unlike the optimistic, sometimes euphoric mood that dominated our first interviews, what prevailed in 2005 and, especially, 2007 is the gloomy tone of disillusionment. When talking about how they felt, and how people around them felt, interviewees said that hopes were dashed, that there was nothing to be expected any more. Back in 2002, people were saying they knew that change could not happen overnight and they were ready to wait. Three years later, they were still in principle patient, though stating that they no longer knew how much longer it would take. And in 2007, they stopped waiting altogether – there was nothing to wait for, they said. Or, as Golubović (2007a: 71) summarized it: in the first years following 2000, people were dissatisfied with the *pace* of changes; from 2005 on, they were no longer sure as to the *direction* of changes. The most frequent phrase was “I'm not sure where Serbia is going”.

Disappointment of the democratic electorate can explain the fact that today, twelve years after 2000, the value of the popular revolution of October 5, 2000 has faded almost to the point of unrecognizability. Those who were at the other side in 2000 have increasingly managed to press a different reading of the event – as the beginning of deterioration rather than improvement. The preposterous claims that all evils in Serbia, from poverty and unemployment to hurt national pride and international powerlessness, started in 2000 strike surprisingly many chords. Sadly, many participants in the movement of 2000 are among those who have come to think this way. The democratic forces contributed to this curious outcome by their own neglect for the symbolic side of politics. The watershed event of October 5 should have been institutionalized into a sort of national holiday, a great date in recent Serbian history when citizens undertook their own collective political subjectivation. This symbolic crystallization could have channeled a portion of popular emotional energies away from celebrating aggressive nationalist symbols into celebrating democracy. This opportunity was not used, and the symbolism of October 5 was quickly devalued by quarrels and mutual accusations within the anti-Milošević coalition. The way was opened for later radical reinterpretations. What initially seemed to be clear to everyone – that the Milošević era was one of the worst periods in modern Serbian history – is no longer self-evident. In our interviews, this process is reflected in the changing way our respondents talked about the meanings of “October 5”: in 2002, it was for them a day that made history, Serbia's new dawn etc. In 2005, it began to sink down into the indistinguishable morass of »politics«. In 2007, its mention made people angry rather than proud, because they felt it to be the symbol of failed hopes and cheated promises.

### **Was Disappointment Inevitable?**

The findings based on focus group interviews quoted above concur with available quantitative data. Indices on (dis)trust of Serbian citizens in political and state institutions have for years been consistently discouraging. Parties are routinely

listed among institutions perceived to be the most corrupt sector of the political system. In spite of the widespread awareness that politics has a strong impact on people's everyday life, as little as 6% said in a 2010 survey that politics was important for them (Gavrilović and Jovanović 2011: 140, data from the Gallup Balkan Monitor).<sup>141</sup> This figure is arguably a reflection of people's feeling of resentment against and rejection of politics, their desire to keep it away from their lives as much as they could. Another survey taken in the same year, 2010, used a different set of measures to show the same trends. While distrust was higher than trust for all the institutions included in the questionnaire, by far the worst ranked on the 1-5 scale (where 1 stands for "total distrust") were political parties (2.17), followed by National Assembly (2.35), labor unions (2.46), Government (2.48) and the media (2.52) (Slavujević 2010: 63, 66). Citizens' trust having thus reached the lowest point since the introduction of political pluralism in 1990, the author of the cited paper concludes bitterly: „The institutions of the political system are facing their deepest legitimacy crisis to date“ (Slavujević 2010: 62). In her research carried out in the latter half of the decade, the anthropologist Jessica Greenberg (2010) similarly reveals ubiquitous, habitual political apathy in Serbia, with depoliticization coming close to a consciously adopted strategy especially among young people.

Without doubt, unfavorable opinion of professional politicians and established politics is not peculiar of Serbia. Political disenchantment was routinely registered in all post-communist countries, after the brief period of initial euphoria following the great rupture of 1989/90. Distrust in political institutions is pervasive throughout the postsocialist world, although with variations due to both historical legacies and specific paths out of communism (Dimitrova-Grajzl and Simon 2010). Rising levels of electoral abstention threaten the once-solid legitimacy of postcommunist governments (Cześniak 2006). The region of South East Europe seems to be even more than the post-socialist average prey to developing a rift between the party system and constituency. According to studies, in 2007 more than two-thirds of the respondents in every Western Balkan state, except Montenegro, distrusted political parties (Cohen and Lampe 2011: 234-35).<sup>142</sup> Kajsia's (2010) analysis of the entrenched "antipolitical" discourse in Albania closely parallels the one presented here.<sup>143</sup>

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141 In the same poll, high levels of distrust in institutions were registered: the most trusted was the military with 77%, followed by the Serbian Orthodox Church with 66%, and the police with 59.6%. All other institutions fell below the 50 percent line: the media (41.6%), the judiciary (38%), and the government (33%).

142 The figures are: in Albania, 16% of respondents expressed "some distrust" and 57% "complete distrust"; in Bosnia-Herzegovina, 21% and 46%, respectively; Croatia, 27% and 44%; Macedonia, 13% and 56%; Serbia, 20% and 51%; Montenegro, 21% and 32% (data from the European Bank for Reconstruction and Development). Further data on electoral abstention and distancing from the party system may be found in another chapter of the same book by Cohen and Lampe (2011: 279-287).

143 Compare the remarkable similarities: „The president of the republic called Albanian politics 'dirty'... Ismail Kadare noted that he was not aware 'of another country in Europe where the political class is in opposition with its own country and against it.' A well-known political analyst noted that

Moreover, disaffection, depoliticization and alienation from the existing system of representative democracy have been on the rise in the developed West as well. Expressed in, for example, low voter turnout, diminishing party membership, growing distrust of major parties and recourse to forms of direct action, they have been the objects of extensive theoretical and policy debate (see e.g. Alonso, Keane and Merkel /eds./ 2011). The prevalence of dissatisfaction with the established solutions to political problems should not, however, blind us to the specificities of the local situations in each particular country. In the societies with weak and poorly grounded democratic institutions, burdened by difficult pasts, disparagement of politicians and cynicism regarding the existing political system may have more profound consequences, because the system cannot be trusted to run “by itself”, so to speak, but rather requires the involvement and support of the broad strata of the population.

In the Serbian case, the depth of political disappointment wrought by the post-Milošević democratic parties in power after 2000 affected most heavily precisely their own constituency. Having failed to uphold some of their most important promises, including departization of social life and dignity of public office, the democratic forces have lost the support of significant segments of their electorate. Their voters have increasingly opted for other parties or, more often, turned away from elections altogether, while some initiated a “white ballot” campaign (deliberately invalidating the ballot paper to show dissatisfaction) which did have some success.<sup>144</sup> This resulted in the apparently surprising electoral defeat in 2012, when both presidential and parliamentary elections were lost to the Democratic Party’s main opponent, the Serbian Progressive Party (Srpska napredna stranka).<sup>145</sup>

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politicians are willing to become ‘deceivers, cheaters, bastards, male whores, bandits, servile, chameleons, clowns, idiots, quarrelsome, etc. etc.’ Politics was now seen as corrupt by nature... a threat to society ... against [which] society should remain united. Politics and politicians thus gradually became the ultimate evil, pure negativity, against which Albanian society was constituted“ (Kajsiu 2010: 244-245).

144 The number of invalid ballots was over 4 percent in the 2012 elections. The census for entering Parliament is set at 5% of the vote, and some commentators joked that white ballots almost made it to the National Assembly.

145 In the contest for presidency, in the second round held on May 20, 2012 Serbian Progressive Party’s candidate Tomislav Nikolić beat DS’s Boris Tadić by 49.54 : 47.31 percent. In parliamentary elections of May 6, the coalition led by the Serbian Progressive Party won 24.04 % of the vote (that is, 73 seats in Parliament), while the coalition headed by Democratic Party, previously the strongest party in several consequent elections in the 2000-2008 period, dropped to 22.06 percent (67 seats). A few additional parties managed to enter the National Assembly: Socialist Party of Serbia 14.51% (44), Democratic Party of Serbia 6.99% (21), Liberal Democratic Party 6.53% (19), United Regions of Serbia 5.51% (16), and ethnic minority parties (data from the Statistical Office of the Republic of Serbia,

[http://webzrzs.stat.gov.rs/WebSite/userFiles/file/Izbori/Izbori2012/parlamentarni/Tabela1\\_PARLAMENT\\_KONACNA.pdf](http://webzrzs.stat.gov.rs/WebSite/userFiles/file/Izbori/Izbori2012/parlamentarni/Tabela1_PARLAMENT_KONACNA.pdf)). The Democratic Party tried unsuccessfully to reach an agreement with smaller parties to put together a Government with sufficient parliamentary support, so the Progressives took over and a new postelectoral coalition led by them was announced in July 2012.

This party, a revamped version of the ultranationalist Serbian Radical Party from which it split three years ago, abandoned the aggressive nationalist language of its progenitor and embraced, at least rhetorically, the “European way” for Serbia. Yet it remains strongly populist, often playing the anti-elite, anti-intellectual, egalitarian card that tries to reach the impoverished broad strata by promising them quick and unrealistic solutions to the many problems Serbia is facing. Flirting with a populist authoritarian idea of a strong state that will “take care” of all citizen needs, attacking the banks and the rich in public, stressing the necessity to promote national authenticity in culture and education, and other age-old ingredients of a populist political position, the new ruling party has given rise to fears that the next few years will mean a step back in Serbia’s democratization. These anxieties are further nurtured by the personal composition of the new Government and its appointees in state institutions. We are witnessing the return into political life of some of the gravely compromised public figures from the infamous proto-totalitarian period of Milošević’s rule, towards the end of 1990s, when the Serbian Radical Party participated in power.

To be fair, the new incumbents are trying hard to alleviate these doubts and to balance the populist-nationalist side of their political image with the newly adopted pro-European and tolerant one. They are also striving to convince the public that democracy is their highest value and that they have no intention of imperiling the attained level of democratic development in Serbia. They claim, on the contrary, that a change in power after a long period of domination of Democratic Party at all levels of government will contribute to upgrading Serbia’s democracy. They may be right. Whether this party’s democratic transformation has been genuine, and whether a new political constellation will benefit Serbia and the region, remains to be seen. After all, it is not unusual in our part of the world that conservative, moderately nationalist governments take some of the hardest, politically riskiest but necessary steps on their country’s path away from the past and into a new stage of societal transformation. Croatia is a case in point. Serbia may well turn out to be another example of the same paradox.

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**MAPPING THE NEXT GENERATION'S IMAGINATION:  
BALKAN WARS AND THE TURKISH NATIONALISM**

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Characterized by voluntaristic nationality in terms of citizenry concept, Ottomanism as a political ideology lost gradually its credit due to the political developments<sup>146</sup> in the post-1908 Revolution period. Especially the loss of *Rumeli* with the Balkan Wars and with the Muslim immigration from there, the multi-ethnic composition of the Empire was relatively disappeared. It was commonly accepted that the Balkan wars was a turning point in Turkish nationalism, which was “materialized as a political ideology”<sup>147</sup> and was recognized as an official policy by the Unionists, who came to power with a coup d'état in 1913. Before the Balkan Wars, Turkism was appeared as an expression of Ottoman intellectual's identity searching in terms of both the reinvention of ethnic history and a defense mechanism against the Western expansion.<sup>148</sup> The disappointment experienced in Ottomanism transformed Turkist movement, which had been a reactionary cultural movement, into an officially accepted ideology and to some extends it “became synonymous with the Pan-Turkism”<sup>149</sup>, which aimed the political unification of all Turkic peoples. Even though the approaches on the scope of official Turkism-from cultural Turkists to Pan-Turkists- was variable, one should realize that Turkism in general was evaluated in this era a compensation way for the crushing defeat in the Balkan Wars.

No doubt, such an ideological transformation in the political regime was reflected on the educational field. Turkish nationalism as a political ideology was included to educational system in 1913 by the Temporal Law Enacted for Primary Schools. In the preparation phase of the law, intellectuals such as Ethem Nejat , İsmayıl Hakkı [Baltacıoğlu], Tüccarzade İbrahim Hilmi[Çırağan] ,sought the reason of the defeat in the Balkan Wars in the education system rather than the military capacity of the Empire. Comparing the pedagogical attitudes of Bulgarians, Greeks and Serbs with the Ottoman Turks, they determined that the triumph of the former subjects of the

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146 The annexation of Bosnia by Austria and Crete by Greece, the independence of Bulgaria and Albania, Trablusgarp War and finally the Balkan Wars

147 Mehmet Ö. Alkan, "Modernization from Empire to Republic and Education in the Process of Nationalism.", In *Ottoman Past and Today's Turkey*, edited by Kemal Karpat, Leiden;Boston;Köln: Brill, 2000. p.110.

148 Gülay Göksu Özdoğan, *Turan'dan Bozkurta Tek Parti Döneminde Türkçülük (1931-1946)*, trans. İsmail Kaplan, İstanbul: İletişim Yayınları, 2001. s. 41.

149 Ibid. p. 42.

Empire stemmed from their “qualified and patriotic” educational system.<sup>150</sup> It should also be mentioned that these intellectuals mentioned above ,who considered the defeat as a result of the lack of nationalist pedagogy and supported the new regulation of school curriculum in 1913, were among the writers of the main periodicals ,as *Çocuk Dünyası* and *Talebe Defteri*, published after 1913. Moreover, the foremost Turkist intellectuals of the era were among the writers of the periodicals for children: Ziya Gökalp, Mehmet Emin [Yurdakul], Hüseyin Ragıp [Baydur] in *Çocuk Dünyası* ; Yusuf Akçura in *Talebe Defteri* . In parallel with Pan-Turkist approach, *Çocuk Dünyası* was fixed a price of two Ruble for its Turkic subscribers living in Russia, even we have no information if there existed any. Nevertheless, it should be mentioned that the Turkist approach and the relation between the Committee of Union and Progress and the periodical publishing can not be generalized for all the periodicals and writers in this era.

In the very beginning of Ottoman educational modernization, “patriotism” was the main incentive behind the public education whether in the Hamidian or Second Constitutional period. However, the mention on the patriotic educational system in the Temporal Law indicated the re-identification of “citizens of the future”, who had been expected to show a voluntaristic loyalty to the Ottoman identity in the period before the Balkan Wars, in order to create a new generation loyal to an ethnically determined fatherland. Turkish nationalism seems to be possessed as the same meaning with patriotism where the Ottoman fatherland became to be mentioned as Turkish fatherland. In this way, with its vengeful nationalistic discourse, the period after the Balkan Wars was a new phase in the political socialization of homeland’s children in which they were identified as the soldiers of the future or the little soldiers who would take the Turkish revenge of loss lands. Thus, periodicals for children functioned firstly for “reminding” the children of their Turkish ethnicity. “I am a Turk, I have a great history. Bulgarians are bloody enemies! My noble heart is filled with eternal zeal of grudge and enmity against to you” says İlyas Şükrü in the name of Turkish youth in *Mektepli* “Bulgarian! Learn this: The nobility of Turkishness is revenge. Revenge! Revenge!”<sup>151</sup>

Not only were the foundation period of the Ottoman Empire but also the distant past in Central Asia unified under a glorious Turkish history. Such a reminding practice through a Turkish historical context with references to distant past was combined with the function of “making children not to forget” the loss of Balkans at present in order to mobilize them for taking vengeance in future: (accents are mine)

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150 Yahya Akyüz, "Eğitim Alanında Aydınların Özeleştirisi ve Balkan Savaşları," Tarih ve Toplum, no. 228 (Aralık 2002), p. 55.

151 “ Ben bir Türk’üm muazzam bir tarihim var . Bulgar kanlı düşman ! Kalb-i asilim sana karşı müebbet kin ve husumet ateşiyle yanıyor. (..) Bulgar bunu bil . Türklüğün asaleti intikamdır. İntikam! İntikam!” İlyas Şükrü, "Genç kini," Mektepli, no. 5 (13 Haziran 1329), p. 82.

“My brother you are Turk, you belong to a great and an honorable nation. *Once upon a time*, your ancestors had shaken the world. Khans had knelt down in front of the Turkish flag, nations had submitted Turkish Khans. Yet, Turkishness is in dark *today*. Turkishness is ill; you will cure it. The dirty flags of our former servants are waving on the holy lands that your ancestors conquered by their swords. (...) Having read this history, you will proud of being a Turk, your eyes will be filled with tears of joy. *You will not hesitate* about dying in order to keep it [the Turkishness] alive, about sacrificing your happiness in order to make it happy. Do you hear what your ancestors say? ‘Turkish son you have an obligation, a great obligation: Vengeance!’<sup>152</sup>

In the formulation formed with the discourse of “past-today-future”, children were expected to be a generation who would feel the fervid faith in the uniqueness of Turkish existence and pride in Turkish history. They were to feel themselves as the heirs of ancient times, the times of “once upon a time”. The matter was not just related with the homeland itself, it was also about survival of Turkishness and thus, the main duty of children, taking vengeance, signified a more vital point that transcended the emotional affection felt for a certain territory. The great fervor about the glorious Turkish past would bring the great ardor about taking vengeance or in other words, it would provide the emotional background for the main duty foisted upon children. On the one hand “being vengeful” was a feature that indicate being worthy of glorious Turkish past. The military action that would be performed in the future was a revival of the wars in the first conquest of the Balkans. The war on vengeance would be like *Kosova War* or *Sırpsındığı War* in which soldiers of the future would “make Sofia remained in blood”.<sup>153</sup> At the same time, the vengeance was a historical responsibility for them in which the future was personified as for calling children to account for their actions. “If you do not strive for taking back the banks of the Danube and do not make your unfortunate mother smile the next generation will damn you” said Nezihe Kemal addressing Turkish youth, who was described as the sons of *Ertuğrul* and *Yavuz*, in her article *Hatırla ki ! (Remind that!)*<sup>154</sup> From this point of view, standing on the ground between their ancestors and the next generation military service was a historical responsibility for children in this era rather than constitutional obligation.

Pretending children as if they had been the members of the “ready armed forces” was also appeared in the sample solider children heroes appeared in the “national

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152 “Dedelerinin yastık yerine kılıca yaslanarak kazandıkları mübarek topraklar üzerinde dünkü uşaklarımızın kirli bayrakları dalgalanıyor. (..) Bu tarihi okuduktan sonra Türk olduğun için göğsün kabarcak , gözlerin sevinçten yaşaracak . Onu yaşatmak için ölmekten , onu bahtiyar etmek için kendi bahtiyarlığını feda etmektен çekilmeyeceksin İşitiyor musun bak ataların ne diyor? Türk oğlu senin bir vazifen var , büyük pek büyük bir vazifen: İntikam!” Rıdvan Nafiz, "Küçük Türk tarihi," Çocuk Dünyası, no. 57 (10 Nisan 1330), p. 99

153 Fahri Hamit, "Yurdun dileği," Çocuk Dünyası, no. 4 (25 Mayıs 1329), p. 2.

154 “ Ey Türk genci, sebat etmesen Tuna'yı, güldürmezsen bedbaht anayı lanetler seni ahfadın.” Nezihe Kemal, "Hatırla ki.." Çocuk Dünyası, no. 69 (3 Temmuz 1330), p. 290.

stories". Consider for instance, the series of *Kahraman Nuri* (Nuri-The Hero) published in *Çocuk Dünyası*.<sup>155</sup> Having listened in his village, in Afyon, how the Bulgarians killed Muslims in the Balkans as like the "wild animals", Nuri , a twelve years old boy , joined to the army and became a veteran. The photograph of a little soldier child made the story more realistic. In another national story Tayfur, who was again twelve years old brave Turkish son, put the Turkish flag on the top the highest tree of the town occupied by the Bulgarians. None of the enemy forces had been able to haul down the flag, yet Tayfur was shot and he became a martyr.<sup>156</sup> Islamic symbols were as important as Turkishness in order to naturalize the death among children. Presenting the military service was an Islamic sacred deed; periodicals for children glorified the nationalist values of patria, nation and state through the Islamic values of jihad, ghaza and martyrdom.

Calling children to dye renders this period different in terms of the meaning attributed to the childhood's distinctiveness and it vindicates the fact that the identification of children or even the concept of childhood per se, is moving on a volatile ground depending on current politics. At least in the level of discourse, the social construction of children as the ready force that would run for fighting reduced the description of childhood, which was mainly based on the separate nature of children from adults, to a minimum level. Because, whether the small heroes that the children would take them as a model or the presentation of military service as a quality of Turkishness and Islam, the periodicals tended to consider the Turkish children as "little adults" in terms of little soldiers rather than adults of the future. In one respect, one can claim that in the scene occurred after the Balkan Wars, children were expected to sacrifice their childhood for the homeland, and for the nation. Thus, in contrary to the modernity's construction of "extended childhood" through a long public education process, periodicals for children published after the Balkan Wars were inclined to shorten the process through the militarization of childhood. No doubt, this tendency appeared in the periodicals stemmed from the survival question of the Empire and social Darwinist approach about the life and the future of the state occurred after the War. Indeed, it was nothing to define a distinct period for children in case of the Empire had come to an end. Before evaluating the social Darwinism as a basic motive in the periodicals for the identification of children as little soldiers and calling them to die, the conceptualization of fatherland in this era should be underlined in order to grasp the fact that children were called to die for the sake of whom.

Indeed, one of the most important reflections of the loss of the Balkan Wars in the periodicals for children was the re-conceptualization of fatherland. Putting it simply, it can be observed that there existed two different but related with each other, imagination of fatherland. The first one was the Ottoman Empire itself, which

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155 Ethem Neşet, "Kahraman Nuri -Milli Hikaye-," *Çocuk Dünyası*, no. 6 (18 Nisan 1329), pp. 2-3. , no. 7 (25 Nisan 1329), pp. 1-2. , no. 11 (23 Mayıs 1329), pp 1-2.

156 Nazım Hürrem, "Kahraman Türk oğlu," *Çocuk Dünyası*, no. 25 (7 Teşrin-i Sani), p. 39.

was engendered, weak, and divided space. The second one was *Turan*, which was a masculine, powerful and glorious fatherland, appeared as the second imagination. What the feature in common for both imaginations was, from this time on, apart from its narrow meaning of a person's birthplace, the fatherland was presented not only as the state to which one currently belonged, but also as that state's predecessors. The fatherland was a territorial unity, which was determined via clear references made to the past. It can be observed that periodicals' two main functions related with the collective memory, "making children not to forget" the loss of Balkan wars and "reminding children" their Turkish ethnicity, maintained the fatherland's different conceptualizations. In this manner, "making children not to forget" corresponded to a weak and divided fatherland whereas the reminding function corresponded to *Turan*.

Contrary to the fatherland concept that was defined under the well-protected domain of an absolute sultan and which was identified and concretized through the Sultan's own existence, or constitutional domain of happy Ottoman collectivity, the "distinct spirit" of the fatherland was put forward and more direct bond was constructed between children and the fatherland. For instance, in 1886 the periodical *Etfal* questioned the source of the sense of loving fatherland and concluded that it was appeared naturally in human beings. Yet, in this era after having personified, the fatherland started to be talked with children in periodicals in order to underline why children were to possess the sense of loving homeland:

You are eating, drinking, and living thanks to me. I am providing your happiness. In response to this, consider my happiness and bring it into existence.<sup>157</sup>

From this point of view, being benevolent was a quality possessed by the fatherland itself rather than an image that legitimized the absolute existence of the sultan. At the same time, the fatherland, which had been identical with the paternal mission of the sultan, appeared to be engendered in the process of this personification. The concept of fatherland was replaced by the concept of "motherland", and thus it began to indicate the children's own mothers or sisters.<sup>158</sup> Due to the chaotic atmosphere in the Empire following the Balkan Wars, the fatherland was depicted as a mother who was about to die or very sick. This metaphor became identical with the lost territories, especially with Edirne. The concept thus was divided into the free and independent fatherland and the captive fatherland. Students, therefore, were obliged both to love the whole fatherland and to liberate its captive parts in the future. The period starting with the occupation of Edirne and its recapture by the Turkish army, was narrated through the engendering of boundaries and spaces in *Çocuk Dünyası* as follows: (accents are mine)

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157 " Benim sayemde yiyor, içiyor ve yaşıyorsun. Bahtiyarlığımı ben temin ediyorum. Buna karşılık sen de benim bahtiyarlığımı düşün ve meydana getir."Hamit, "Yurdun dileği.", p. 2. A similar article was published in Mektepli: Emin Haki, "Vatanın dileği," Mektebli, no. 1 (15 Mayıs 1329), p. 7.

158 For a similar engendering process of fatherland in the Iranian context see: Mohammad Tavakoli-Targhi, "From Patriotism to Matritism : A Tropological Study of Iranian Nationalism: 1870-1909," International Journal of Middle East Studies, no. 34 (2002), pp. 217-238.

My mother was ill. She was so ill that she turned pale, her lips were torn out, her arms were broken off, and her mouth dried out. She was a patient, who had been struck at her breast, at her brain. Why could we, her thousands, her hundreds of thousands of children, not treat our mother? My poor, sick mother died and her virtuous soul reached her beloved God just beside, even in front of, the vile and damned enemies, despite all of the many treatments made...Nobody left for protecting us. We were crying, struggling, yet could not shout. *Alas! Nobody was grieved besides than patient's real children. Her real children injected the thing that the greatest physicians were not able to find*, into her body; then the patient slowly regained consciousness... Finally, she said to her children, who were standing at her bedside: "My children, I am pleased with you. *I have five more sisters who are sick like me. Even if it is not today, go to the help and rescue them tomorrow*"... *The name of my mother, who recovered today, is Edirne.*<sup>159</sup>

From this point of view, "the motherland provided a receptive and vulnerable image in contrast the active image of the fatherland" which the description of occupied lands in a engendered context made possible the use of the sexual imageries. The occupation of the Balkan territories of the Empire, which was executed through "the non-intimate (*namahrem*) hands of the enemies appeared to be against the intimacy of the children's mother.<sup>160</sup> The "cleaning" or preservation of the virtue of their mothers in terms of liberating the lost lands or defending the homeland was a moral obligation to be performed by Turkish children in the future. Moreover, as the article mentioned above designated, the engendered discourse constructed the sense of otherness in the minds of the little readers by putting forward a differentiation based on the motherland's "real children," the Turkish-Muslim children, who would protect the existence of the state, and the "stepchildren," the non-Muslim elements, who were considered to be the potential accomplices of the enemy. The real children-stepchildren dichotomy appeared to be another way to reproduce the feminine sexual image of the motherland and the nation. The non-Muslim elements of the Empire were described as "the bastards", and in this period, it can be

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159 "Validem hastaydı. Öyle bir hastaydı ki rengi solmuş, dudakları kesilmiş, kolları koparılmış, ağzı kurumuştur. Göğsüne yumruk, beynine gülle indirilen bir hasta. Binlerce, yüz binlerce evlat nasıl oluyordu da biz validemizi tedavi edemiyorduk? Zavallı hasta valideciğim , yapılan bir çok tedaviye rağmen pak-ı mukaddes ruhunu alçak ve la'in düşmanlarının yanında , hatta onların elinde pek sevdiği Allah'ına teslim etti... Artık bizi himaye edecek kimse yoktu. Biz ağlıyor çırpınıyor , fakat bağırıyorduk. Heyhat ki, hastanın öz evlatlarından başkası müteessir olmuyorlar. O öz evlatlar büyük tabiplerin veremediği şeyi onun sevgili vücuduna zerk ettiler., hasta yavaş yavaş afiyet buldu...En sonunda baş ucunda duran evlatlarına "Sizden çok memnunum, benden başka beş hemşirem benim gibi hastadır. Bugün değilse bile yarın onların imdadına koşun ve onları kurtarın" dedi... Bugün şifayab olan sevgili validemin adı Edirne'dir." Rabia, "Hayat bulan validem için," Çocuk Dünyası, no. 23 (15 Ağustos 1329), p. 4.

160 "Ben senin validenin, bana uzanmak isteyen namahrem ellere lanet et, kır, kes, dağla. Valideni muhafaza için hiçbir şeyden korkma." Hamit, "Yurdun Dileği.", p.2.

concluded that the non-Muslim ethnicity corresponded the “loose women” image. Consider, for instance, the poem “*Çalış ve Utandır*” (*Work and Embarrass*):<sup>161</sup>

A little woman, even a sick woman  
Breast-feeding her child in the arms  
Not consider the child too little  
Osmancık is his great name

Holding his mother’s breast tightly with his teeth  
He doesn’t leave the nipple, he is smashing it ...  
Many of the bastards of the enemies  
Separated the child from his mother  
Everywhere remained bloody...

The periodicals depicted the enemies of the nationalist ideology in terms of “us” and “them” with the position of Greeks and Bulgarians on the other side and reinforced the argument with articles about their savage deeds during the Balkan Wars. Moreover, these articles functioned to create a Turkish national collective memory, which was nourished by lively dramatic expressions of the enemy oppressions in the Balkans, in the minds of children in order to mobilize them to take vengeance on the loss lands and captivated part of the nation. In this era, symbols that would awake the religious and national sentiments among children played an important role. During the war, children’s sisters had been taken away to be hung, brothers had been sent away to be burned, grandfathers with the turban on his head, and Holy Korans, the gift of God, had been desecrated. The crescent and the star had been thrown into the mud and innocent orphans had been sold.<sup>162</sup>

Particularly *Talebe Defteri* utilized illustrations in order to create a lively image of the Muslim-Turk’s sufferings in the Balkans. One of them was the depiction of a household after an enemy raid.<sup>163</sup> In the illustration, while disappearing in the horizon, the enemy troop had left behind a pillaged home whose inhabitants were killed. Several bodies among which belonged to a baby, a little girl -possibly was raped due to her skirt was torn- and an old man, dispersed outside the house on the ground. Only an old woman had been able to survive, yet her exhausted image and her messy hair indicates she had been exposed to violation. It was shown that the

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161 Bir kadıncık hem de hasta bir kadın/ Süt emiyor kucağında evladı/Pek küçük mü zannettiniz/Osmancıkmiş onun büyük adı/ Dişleri sıkılmış bütün annesinin göğsünü/Bırakmıyor parçalıyor memeyi.../Bir çok düşmanların piçleri/Annesinden yavrusunu hep birden ayırdılar / Kan içinde her yer "Çalış ve utandır," Çocuk Duygusu, no. 11 (22 Ağustos 1329), p. 1.

162 “Bağırtarak götürdüler hemşireni asmaya , başlarında tüy bitmeden kardeşlerini yakmaya. Dedelerinin sarığını çıkardılar boğdular. Tanrımızın hediyesi Kuranımızı yırttılar. Ay yıldızlı sancağı çamurlara attılar, analardan öksüz kalan masumları sattılar. Yavrularım siz bunları unutmayın belleğin. Öç duygusu kalbinizin derininde sürmeli.” Rodoslu Ahmet Kemal, "Öç duygusu," Çocuk Dünyası, no. 13 (6 Haziran 1329), p. 3

163 "Levha," Talebe Defteri (18 Temmuz 1329). p. 72..



enemy did not care the civilians; they killed, oppressed, raped, or forced them to immigrate. The image of anguished defenseless people in the captivated part of the fatherland was significant. Apart from their function of inciting hatred in order to made children ready as the soldiers of the future for taking vengeance of those defenseless people; the illustrations with their harsh depictions became also a way for giving children a Social Darwinist perception. Thus, what was conveyed by the term “reading” could also be extended to reading more than words. Through the reading of those illustrations, it was intended to discompose children in order to “awake” them and brought them back to reality of the life , which was considered to be based on violation to the extend that even defenseless people were slain. Thus, the illustrations and the articles about sufferings in the Balkans represented a “reality” that children would draw a lesson. Through a subtitle of an illustration that depicted a scene from Balkan Wars, Muallim Tevfik explained this tragic reality as follows:

“You, the Ottoman child! Do not intend to relax your sad eyes irritated from this bloody scene under the broken wings of your helpless mother. Under those merciful wings, the strength did not remain in order to reanimate the tender warmth that you expected to find. (...) The old honorable laws which had commanded mercifulness to innocence and respect to honesty, have been already removed from the humanity’s magnificent surface, and they were replaced by the black shadows of the avarice and benefits. Come my son; watch this lesson-drawing place. (...) My son, your father and grandfather did not work enough in contrary to their ancestors who had worked with great effort without getting tired. For that reason, you will not find a place for your orphan body to rest. You, the children who will be the Ottomans in the hard days of the future! Mind you are not overwhelmed by the flood of heedlessness as we did.”<sup>164</sup>

The reality of life was considered for both the individuals and the nations as struggling and fighting in order to survive. The Balkan Wars was considered as an example from inside of the life, which became to be perceived as “a continuous war”.<sup>165</sup> In the new world, as mentioned in the article above, humanist merits means for nothing. In this way, the Balkan Wars was a confrontation with the harsh reality of the life, which obviously revealed the Empire’s survival question. Actually, social Darwinist perception of the life brought the “adults” about making

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164 “Ey Osmanlı yavrusu: Şu kanlı manzaradan ürken melil bakışlı gözlerini biçare ananın şikeste kanatları altında dinlendirmeye koşma. O şefik kanatlarda artık umduğun munis sıcaklığı tecdid takati kalmamıştır. İsmete hürmet , masumiyete rikkat emreden eski necib kanunlar insanıyetin sath-ı muhteşeminden çoktan silinmiş, onun yerine hırs ve menfaatin siyah gölgesi kaim olmuştur. Gel evlat şu ibretgahı temaşa et (...)Yavrum dün baban ve deden büyük dedelerin gibi yorulmak bilmeden gayretle çalışmamış. Onun için bugün yetim vücudunu dinlendirecek penah bulamayacaksın. Gelecek müşkül günlerin Osmanlısı olacak yavrular ! Siz bizim düştüğümüz seylabe-i gaflete sakın kapılmayın.”

Muallim Tevfik, "Ordu -Levha -," Talebe Defteri, no. 2 (6 Haziran 1329). p. 21

165 Süleyman Sadi, "Turan yavrularına," Çocuk Dünyası, no. 37 (21 Teşrinisani 1329), p. 1.

an auto-critic in order to show the points that they failed to grasp to the next generation. In several articles writers blamed on their generation and the former one for not distinguishing the new world order, which based on the idea “strong crushes the weak” at the right time: Mehmet İlhami , mentioned that when children would start to read history at school, they would learn how their “wretched fathers” left the Balkans, their ancestor’s inheritance, to the enemy without any effort.<sup>166</sup> Although this was an unfair and exaggerated interpretation, the main intention in the “heedless” depiction of the “fathers” was motivating future generations: “[Then] my son, you will say to us ‘traitors, cowards’; your little heart will be exuberant and the passion of ‘taking vengeance on enemies’ will shine in your eyes, which stare with grudge at the coward generation”.<sup>167</sup> In this way, the main duty foisted upon children, taking the vengeance, was an expression of “*intibah*” (awakening)<sup>168</sup>, which included the new perception of life and the new identification of children in order to achieve the survival of the Empire. “*İntibah*” became a separate column , where the war was evaluated with a social Darwinist manners, in *Mektepli* under the name of “Pages of Awakening” (*İntibah Sahifeleri*). From this perspective, the main intention of the periodicals published in this era through mentioning *intibah* was “making the children tremble and make them regain consciousness”. The engraving drawn by Prince Ömer Faruk Efendi for the readers of *Talebe Defteri* was well depicted this purpose.<sup>169</sup> In the engraving a student stands in front of a Balkan map, which was focused on the lost territories of the Empire. Nevertheless, no borders were mentioned in the map. It indicates the defeat in the Balkans was unacceptable and inculcated children that those lands constitutes the occupied lands of the Empire What the main feature of the engravings was the sacred and startled position of the student.

Then how would children find the encourage in order to taking vengeance of the loss lands, considering the fact that their fathers were blamed and they were startled? The answer was hidden in the masculine homeland with its glorious history. It was the distant past in Asia or the first years in Anatolia that would motivated children for their ultimate aim., the vengeance. This was expressed very well in *Talebe Defeteri*: “The future under the protection of the past”. From this point of view, having conceptualized as the other homeland, *Turan* appears as an emotional background rather than a political purpose in the periodicals.

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166 “Lakin sana tarih okutacaklar . Sen Osmanlının diyecekler. Sonra sana haritayı gösterecekler . Ecdadın diyecekler buraları aldı.Dün ki sefil babalarımız bunların hepsini tüyelerini kıpırdatmadan bıraktılar. Gözlerinden bir damla yaş düşmedi” Mehmet İlhami, "Atiye doğru," *Mektepli*, no. 1 (16 Mayıs 1329), p. 6.

167 “Sen oğlum o vakitler bize ‘hainler, korkaklar’ diyeceksin. Senin küçük kalbin hoplayacak ve korkak nesle kinle bakan gözlerinde ‘düşmanlarımızdan intikam’ sevdası kaynayacaktır. Ibid.

168 İskender Fahrettin, "İntibah ve intikam," *Mektepli*, no. 6 (20 Haziran 1329), pp. 42-44.

169 “Levha,” *Talebe Defteri* no. 16 (16 Kanun-u Evvel 1329), [Cover].

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**BUSINESS & ECONOMY**

# **ECONOMY**

## A PROPOSAL ON PUBLIC ACCOUNTING REFORM IN TURKEY AND BALKAN COUNTRIES

Ali KABLAN

### Abstract

*This study which is based on the reform in the field of government accounting, shows that taking into consideration that these studies had began in our country in the late 90s, and that Kazakhstan, Kosovo, Macedonia and Serbia are still applying cash-based government accounting at both local and central level, it is not difficult to adjudicate that we are well underway in accordance with the countries of the Balkan. In this study, cash-based accounting system is compared with accrual-based accounting system; the benefits of accrual based accounting and innovations after the transition to that system are tried to be presented to the Balkan countries which implement cash-based accounting; and related examples to the mixture of cash-based and accrual-based accounting system which are applied in Turkey and which are proposed to Balkan countries are provided.*

### Introduction

Public accounting is the entirety of activities concerning the recording of public financial transactions which can be expressed in monetary terms, collective display of recorded information and the interpretation thereof. The purpose of public accounting is; in order to provide required public economic information for the planning and administration of national economy as a financial administration and control means; to track budgeted incomes and expenditures of a certain fiscal year during that year and end-term as well as the assets and sources of the state in general and administrative units and report administrative units budget practice results as of certain periods and activity results to those concerned according to their information needs.<sup>170</sup> Another purpose of public accounting becoming a financial management tool is however is to form the bases for efficiency analyses by putting forth the costs of services performed by the public.<sup>171</sup> In this scope, another fundamental purpose of public accounting is to audit whether public administrations fulfill performance criteria, thereby generate adequate data for assigned auditing units.<sup>172</sup>

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<sup>170</sup> Erkan KARAASLAN, "Accrual Basis Accounting and Transparency in State Accounts", Financial Guide Journal, January 2002, no: 15, P:17

<sup>171</sup> Erkan KARAASLAN, "The Notion of Public Accounting and Accounting Standards in our Country", Türmob Publications, November 2005 no:1, p:1

<sup>172</sup> Baki KERİMOĞLU, "Accrual Basis Public Accounting", Current Legislation Research Training Journal, January 2006, p:5-6

It is important for a healthy public financial administration to record and keep all financial data the public field may need on a daily basis, correctly and reliably; the processing and analysis thereof and thereby the timely provision of produced management information and financial information to governors holding decision making standing.<sup>173</sup> A well planned accounting information system provides governors with correct, reliable, timely and adequate information in the decision making processes and generated required reports. Thereby, while helping governors to take effective, timely and correct decisions, it plays an important role in their fulfillment of their accountability.<sup>174</sup>

As public accounting used to have narrow activity boundaries, it used to express the need to solely track and report the results of budget revenues and expenses within this narrow field.<sup>175</sup>

The economic influences of the stated had gradually increased and economic decision taken by governments had started to guide the economy in a national sense. Upon these developments, the recording and reporting of financial transactions undertaken and financial decisions taken by governments, i.e. public accounting and financial reporting started to draw attention by information users. As a result of the mission adopted by the developing public accounting, the desired efficiency cannot be yielded from public accounting in Balkan countries in the cash based accounting system.

As a result of the financial regulations made in Turkey in the public field the Public Financial Administration and Control Law<sup>176</sup> has been published. As per provisions of this law, in the public accounting system, a transition has been made from the cash based accounting practice to accrual basis accounting principle and with this regulation also comprising general administrative units an accounting unity has been tried to be ensured in the public field.

### **Public Accounting Systems**

For many years accounting systems have been based on the cash based system, whereby allowances granted to budgets, expenses made thereby, revenues collected for the financing of expenses and some other information needed are comprised, while revenues are mainly recorded when collected. Therefore the cash based accounting system mainly is the start of public accounting in a modern sense. At the

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<sup>173</sup> Erkan KARAASLAN, “**Transactions concerning account receivables within the context of the most recent regulations**”, Financial Guide Journal, January 2004 No:23 , p:126

<sup>174</sup> Ministry of Finance, Department of European Union and Foreign Relations, “**International Financial Standards**”, Ankara University Press, 2002 Ankara, p:127

<sup>175</sup> Giray ADİL, “**National Accounting and Public Accounting**”, Ankara 1997, p: 136

<sup>176</sup> Published in the Official Gazette dated 08/06/2005 with government decree no. 2005/25839.

other end of public accounting, including tangible fixed assets, accrual basis accounting system is the case, which means that all kinds of transactions manifested in the fiscal period and to manifest in the future are recorded.<sup>177</sup>

### **Cash Based Accounting**

In cash based public accounting transactions due to cash flows are recorded. In this system, financial transaction and incidents are recognized when they are received or paid in cash. Cash based accounting is unrelated to when services and advantages yielded from transactions arise. In this system financial reports mainly display budget incomes and expenses; cash inflows and outflows and cash assets.<sup>178</sup>

As a result cash based accounting does not comprise and record public properties ownership, accrued incomes and expenses, investments in actives, public liabilities and debts, appreciation of long term assets, commitments made, semi financial transactions, deferred payments, treasury warranties and tax expenditures<sup>179 180</sup>.

### **Accrual Basis Accounting**

By the accrual basis transactions and incidences are recorded when they occur, regardless of when cash flows have happened. Revenues account, regardless of whether collected in cash, display the income transactions accrued throughout the fiscal year and to be recorded by generally accepted accounting principles; while expenses account displays the entirety of expenses accrued throughout the fiscal year, regardless of whether paid in cash. As may be understood, the accrued revenue and expenses are included in the accounts and reports of the year during which they have arisen. Such an approach records and reports transactions concerning economic incidents in the fiscal year they have manifested, while accurately reflecting the financial transactions of the relevant activity periods.<sup>181</sup>

Financial reports generated by the accrual basis accounting system includes incomes, expenses (including depreciations), assets, liabilities and other economic flows. Since the right to use sources expected to offer advantages to the organization in the future are obtained, these are recorded as assets; similarly when future liabilities of the organization towards third parties arise these are recorded as

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<sup>177</sup> Erkan KARAASLAN, “**Public Financial Management and Accrual Basis Public Accounting**”, Finance Journal, August 2002, p: 58-75

<sup>178</sup> Erkan KARAASLAN, “**Public Accounting Reform and Regional Governance**”, Regional Governance and Control Journal, April 2003 p: 3

<sup>179</sup> **Tax Expenditure**: expresses tax revenues the state abstains from due to several economic and social reasons by means of tax exemptions and similar practices, while it should have been subject to taxes.

<sup>180</sup> KARAASLAN, *ibid.*, “**Accrual Basis Accounting and Transparency in State Accounts**”, p:15

<sup>181</sup> Erkan KARAASLAN, “**Reflection accounts and period end procedures in accrual basis public accounting**”, Financial Guidance Journal, July 2002, No:17 p:107



debts and liabilities. Therefore the difference between assets and debts is recorded and reported as equity.<sup>182</sup>

Moreover accrual basis accounting calculates and reports the entirety of costs including depreciation expenses. In this respect, it can be used in the measurement of whether public resources are being used effectively, efficiently and economically.<sup>183</sup>

In the accrual basis system, financial reports comprise all transactions related to stocks and stock movements and displays all changes arising in the financial state. Financial reports, balance sheets, activity report and cash indicators to be generated by this system, report the government's economic and financial policies' effects and results, thereby form the bases of transparency in state accounts.<sup>184</sup>

### **State Accounting Reform and the Process in Turkey**

For transition to the accrual basis public accounting, "Public Accounting General Regulation" comprising accounting and reporting standards and framework calculation plan for units within the general governance was published on 19.11.2003 with government decree no. 2003/6334, while the "General Governance Accounting Regulation" was published on 08.06.2005 with government decree no. 2005/25839.<sup>185</sup> With the "General Administration Accounting Regulation", the accrual basis public accounting practice, which is an accounting system conformant to international standards and suitable for consolidation has been proceeded to. The aimed public accounting system eliminating the deficiencies in the cash basis practice has been established with the accrual basis accounting system.<sup>186</sup>

As a result of the regulations made in public accounting; a framework account plan suitable for comparison and consolidation with respect to common accounting and reporting standards in central governance within the scope of general administration and social security institutions.<sup>187</sup>

#### **4. Keeping public accounting records by the accrual basis in Turkey**

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<sup>182</sup> AINSWORTH Penne- D DENIES – R.D. PLUMLEE – C.X. LARSON, **Introduction to accounting; an integrated approach**, USA, 1997 p: 25

<sup>183</sup> Erkan KARAASLAN, "Public accounting journey in our country", State Audit Court Journal, July 2004 p:43

<sup>184</sup> KERİMOĞLU, *ibid.*, "Accrual basis public accounting", p:5-6

<sup>185</sup> KERİMOĞLU, *ibid.*, "Accrual basis public accounting", p:5-6

<sup>186</sup> Eyüp KIZILKAYA, "Tangible fixed asset accounts in accrual basis public accounting", Financial Guidance Journal, Financial Audit Controllers Association Publications, July - September 2002, p: 105

<sup>187</sup> KARAASLAN, *ibid.*, "Public Accounting Reform and Local Governance", p:1

In the abated accounting system, recording is made on cash basis which causes the failure to record much information holding significance in terms of financial reporting. One of the most important characteristics of the new public accounting system is that it has the capacity to produce results of both cash based budget practices and accrual basis activities.

In the cash based budget practice, budget revenues are recognized and accepted as revenue when collected; while budget expenses are recognized and accepted as expenses when paid. However, public financial transactions are not limited by their budgets. In the new regulation, the reflection technique has been used for the harmonization of the accrual basis accounting system with cash based budget system and the production of accrual basis accounting reports and cash based budget reports. Thereby transactions recognized as incomes and expenses by budget laws are written into budget revenue and budget expenses accounts and by using reflection accounts; transactions recognized as incomes and expenses by generally recognized accounting principles are reflected on income and expense accounts; transactions which are not recognized as incomes and expenses however are reflected in relevant asset or liability accounts.<sup>188</sup> As a result, in the accrual basis accounting system such recording of incomes and expenses makes it possible that both cash based budget practice results are yielded and current period activity results are determined appropriately by the accrual basis method.

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<sup>188</sup> KARAASLAN, *ibid.*, “Reflection accounts in accrual basis accounting and period-end procedures”, p:109

For example, when a vehicle is purchased;  
Records to be kept according to accrual basis accounting system;

|                              |     |     |
|------------------------------|-----|-----|
| _____ / / _____              |     |     |
| VEHICLES ACC.                | XXX |     |
| GRANTED CHEQUES AND TRANSFER |     |     |
| INSTRUCTIONS ACC.            | XXX |     |
| _____ / / _____              |     |     |
| BUDGET EXPENSES ACC.         | XXX |     |
| EXPENSE REFLECTION ACC.      |     | XXX |
| _____ / / _____              |     |     |

Records to be kept according to cash based accounting system;

|                      |     |     |
|----------------------|-----|-----|
| _____ / / _____      |     |     |
| BUDGET EXPENSES ACC. | XXX |     |
| PAYABLE CHEQUES ACC. |     | XXX |
| _____ / / _____      |     |     |

### **Novelties to manifest as a result of the accrual basis public accounting practices in the Balkan countries**

In Balkan countries, novelties to materialize with the establishment of a healthily functioning accounting system in conformity with the generally recognized accounting principles and by the accrual basis have been examined by the recording of all public activities and reporting titles.

### **Recording of all public activities by the accounting system**

The cash based accounting system practiced in most of the Balkan countries is entirely focused on the budget. Transactions covered by the budget are recognized, public activities beyond budgets however cannot be tracked within the accounting system. The budget focus of the accounting system results in the failure of transactions formed by financial legislation or administrative decisions and unassociated with budget accounts to reflect in audits and cannot correctly reflect the state's real activity results. With the commissioning of accrual basis accounting system the budget focused accounting system is exceeded and alongside all tangible and intangible fixed which cannot be covered by the budget, unrecorded budget transactions and probable public liabilities will also be recognized. Thereby, in all reports to be obtained by accounting, transactions affecting public activities and performance will be seen.<sup>189</sup>

In the present cash based system, the amount of public debt manifested in public charge yet not taken accounts of is not seen. Such debts cannot be seen in the

<sup>189</sup> KERİMOĞLU, *ibid.*, "Accrual basis public accounting", p:21-22

accounting system, efforts to determine debt amounts do not produce correct and complete results. With the accrual basis system, full financial reports will be drawn up and adequately detailed information will be produced.<sup>190</sup>

The recognition of tangible fixed assets in the current system requires that all expenses made therefore shall be written off as expense to the relevant year's budget. Nevertheless, a vehicle bought during a financial year or a building constructed therein is also used in the following years. Therefore tangible fixed assets must be written off as expenses as of the years they are used. In other words, these must be activated and recognized as an expense by being subjected to depreciation throughout its economic life. Cash based accounting system considers expenses for fixed assets directly as periodical expenses and recognized these as an expense in the period during which expenses have been made. The increases and decreases of fixed assets cannot be tracked. Writing off the expense made to the budget of the year in which the tangible fixed asset has been purchased, caused the expenses for that year to be overrated.

With the implementation of the accrual basis accounting, financial statements to be produced shall comprise financial tangible and intangible fixed assets, whereby through depreciation and year end re-appreciation practices fixed assets will be reported with market values within the reporting history.<sup>191</sup>

## Reporting

In Balkan countries included in the cash based accounting system detailed activity results cannot be drawn. In the accrual basis accounting system propose to be implemented however, many procedures are applied as period-end procedures, accounts are settled within the period-end transactions and activity results can be drawn as balance sheet – activity result statements.<sup>192</sup>

One of the most important shortcomings of the cash based accounting order presently applied in many Balkan countries is that balance sheets cannot be drawn up in this system. This is because information about asset debt and liabilities and equities is necessary for the preparation of the balance sheets. The failure to record these matters healthily by the system and to produce information causes the balance sheet not to be prepared. Moreover in the cash based accounting system predictions concerning economic flows cannot be made, accordingly, lack of information concerning period expenses and period incomes comparison poses restrictions

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<sup>190</sup> Eyüp KIZILKAYA, “**Accrual basis public accounting and the problem of budgeting debts**” Financial Guide Journal, Association for Finance Audit Controllers, January - March 2005, p: 84

<sup>191</sup> KERİMOĞLU, *ibid.*, “**Accrual basis public accounting**”, p:22

<sup>192</sup> Erkan KARAASLAN, “**Differences between accrual basis public accounting registry system and cash based public accounting registry system**”, Current Legislation Journal, January 2006 p: 8

regarding the evaluation of the institution’s financial performance and performance indicators cannot be prepared.<sup>193</sup> Cash based accounting system can only produce information concerning budget practice results, in form of statements drawn up by separate transactions.

In the proposed accrual basis accounting system balance sheets and activity statements can be drawn up; instead of the statements in the cash based accounting system which are far from being informative, balance sheets comprising assets, debts and equities, activity statements setting forth activity and services results can be adjusted and performance appreciation can be made. The relevant institution’s financial standing and performance can be set forth in a clear, understandable and correct way.<sup>194</sup> In the below regulated table; implemental differences between cash based accounting system applied in the Balkan countries and proposed accrual basis accounting system is given.

| CASH BASED ACCOUNTING  | ACCRUAL BASIS ACCOUNTING  |
|--|---|
| <u>Accounting Reports</u><br><br>Budget settlement statements<br><br><br><br><br><br><br><br><br><br><u>Accounting Practices</u><br>Cash based accounting system | <u>Accounting Reports</u><br><br>Balance sheet<br>Activity result statement<br>Cash flow statement<br>Income and expense functional / economic classification statements<br>Budget revenue and budget expense functional /economic classification tables<br><br><u>Accounting Practices</u><br><br>Accrual basis accounting system<br><br><br>Depreciation<br>Display of assets in the balance sheet<br>Immediate recording of stock and fixed assets in audits |

*Table 1: Comparison of accrual basis accounting order and cash based accounting order*

<sup>193</sup> MONTESIMOS Vicente – MARGUES Jose M. Vela, **Bases of Accounting in Governmental Accounting System in Spain IFAC Public Sector Committee**, 1996, p: 21-23

<sup>194</sup> MONTESIMOS, MARGUES, *ibid.*, “**Bases of Accounting in Governmental Accounting System**”, p: 21-23

A proposal concerning the start of joint tracking on budget and activity accounts by Balkan countries' public accounting system

While in countries implementing cash based accounting system, accounting records are kept for elements considered to be revenues and expenses in terms of budget, elements considered to be revenues and expenses both in terms of budget and accounting can be recorded with the transition to the accrual based accounting system.

According to the proposal made; incomes related to the budget, are both recorded in the budget expenses account and expenses account or relevant account by means of expense reflection account. Budget related revenues however are recorded in the budget revenues account on the one hand and revenue account through revenue reflection account on the other. An element considered as income-expense merely in terms of accounting are recorded in the expenses account/ revenues account without being associated with budget revenues and expenses. For example;

|  |   |
|--|---|
| Yield of Tax Revenues;<br>_____ / / _____<br>CASH ACC.<br>INCOMES ACCOUNT.<br>_____ / / _____<br>INCOME REFLECTION ACC.<br>BUDGET REVENUES ACC.<br>_____ / / _____ | Asset Sales;<br>_____ / / _____<br>CASH ACC.<br>VEHICLES ACC.<br>_____ / / _____<br>INCOME REFLECTION ACC.<br>BUDGET REVENUES ACC.<br>_____ / / _____ |
|--|---|

In the second journal records kept; the yield of tax revenue and revenues arising due to asset sales, since they are budget related revenues, are associated with budget accounts through the income reflection account.

|  |  |
|--|--|
| Consumption Material Purchase;<br>_____ / / _____<br>EXPENSES ACC.<br>CASH ACC.<br>_____ / / _____<br>BUDGET EXPENSES ACC<br>EXPENSE REFL. ACC.<br>_____ / / _____ | Asset Purchase;<br>_____ / / _____<br>BUILDINGS ACC.<br>CASH ACC.<br>_____ / / _____<br>BUDGET EXPENSES ACC.<br>EXPENSE REFL ACC.<br>_____ / / _____ |
|--|--|

In the second journal records kept; expenses arising due to the purchases of consumption materials and assets, since they are budget related expenses, are associated with budget accounts through the expense reflection account.

With the proposed new accounting system, financial, tangible and intangible fixed asset account grouping will be used with the commissioning of the accrual basis accounting system. In the cash based accounting system these assets are not tracked, there not observable in accounting records.

In the proposed system, financial, tangible and intangible fixed assets can be tracked comprehensively. Thereby produced financial statements will comprise tangible fixed assets, with depreciation and re-appreciation practices tangible fixed assets will be reported with the required value.

For example; accounting records in case a public institution in Macedonia is purchased by writing tangible fixed asset into the budget as incomes and expenses<sup>195</sup>;

a- Records to be made according to the accrual based accounting system;

|                         |     |
|-------------------------|-----|
| _____ / / _____         |     |
| FIXED ASSET ACC.        | XXX |
| CHEQUES AND TRANSACTION |     |
| INSTRUCTION ACC.        | XXX |
| _____ / / _____         |     |
| BUDGET EXPENSE ACC.     | XXX |
| EXPENSE REFLECTION ACC. | XXX |
| _____ / / _____         |     |

Tangible fixed assets amortized by year end;<sup>196</sup>

|                               |     |
|-------------------------------|-----|
| _____ / / _____               |     |
| EXPENSES ACC.                 | XXX |
| ACCUMULATED DEPRECIATION ACC. | XXX |
| _____ / / _____               |     |

b- Registry to be made according to the cash based accounting system;

|                      |     |
|----------------------|-----|
| _____ / / _____      |     |
| BUDGET EXPENSES ACC. | XXX |
| CHEQUES ACC.         | XXX |
| _____ / / _____      |     |

Depreciation records are not kept in the cash based accounting system.

Moreover, in countries with cash based accounting system there are no expense accounts for future months/ years and income accounts for future months/years.

<sup>195</sup> Income or expense transactions affecting the budget are definitely tracked with budget reflection accounts. The second record kept has been made for this purpose.

<sup>196</sup> There is no such registry in the cash based accounting system.

Therefore as a prerequisite of the notion of periodicity the tracking of incomes and expenses of future periods as future period incomes and expenses is not possible. Incomes and expenses are not transferred between periods, incomes and expenses are recognized as incomes and expenses for the periods during which they materialized. Those the transactions effects of which will come out in pursuant periods remain in the year they are recorded and are not carried forward.<sup>197</sup>

Again in countries with cash based accounting system there are no Income / Expense Accrual Accounts. Therefore the tracking of accrued incomes and expenses, the collection – payment of which however will be made in following periods is not possible. In cash planning, it is possible to take advantage of accounting records. As a prerequisite of the notion of periodicity in the proposed system, it is possible to write incomes and expenses as incomes and revenues of the periods they belong to, whereby financial statements become capable of reflecting reality.

For example; a building has been rented on 01.05.2012 to be used by a municipality in Kazakhstan and the rental amount for two years, 120.000 TL, has been paid in cash.

Monthly rental cost:  $120.000/24 = 5.000$

a- Records made according to the accrual basis accounting system:

|  |         |
|--|---------|
| _____ 01 / 05 / 12 _____                   |         |
| EXPENSES OF PURSUANT MONTHS                | 60.000  |
| EXPENSES OF PURSUANT YEARS                 | 60.000  |
| CHEQUES AND PAYMENT INSTRUCTIONS<br>GIVEN. | 120.000 |
| _____ / / _____                            |         |
| _____ 01 / 05 / 12 _____                   |         |
| BUDGET EXPENSES                            | 120.000 |
| EXPENSE REFLECTION                         | 120.000 |
| _____ / / _____                            |         |
| _____ 31 / 12 / 12 _____                   |         |
| EXPENSES                                   | 40.000  |
| EXPENSES FOR FOLLOWING MONTHS              | 40.000  |
| _____ / / _____                            |         |
| _____ 01 / 05 / 13 _____                   |         |
| EXPENSES FOR FOLLOWING MONTH               | 60.000  |
| EXPENSES FOR FOLLOWING YEARS               | 60.000  |
| _____ / / _____                            |         |

<sup>197</sup> Erkan ÇALIŞ, “**Reform Works in Turkish Public Accounting**”, Analysis – Accounting Financing Research and Implementation Journal, October 2005, p:100



b- Registry to be made according to the cash based accounting system:<sup>198</sup>

|                          |         |
|--------------------------|---------|
| _____ 01 / 05 / 12 _____ |         |
| BUDGET EXPENSES ACC.     | 120.000 |
| CHEQUES GIVEN            | 120.000 |
| _____ / / _____          |         |

For example; when one assumes that the amount of processed interest revenue receivable to be collected the following year as of 31.12.2010 concerning receivables tracked in the public receivables in a public institution in Kosovo is 20.000 TL;

a- Registry to be made according to the accrual basis accounting system:

|                      |        |
|----------------------|--------|
| _____ / / _____      |        |
| REVENUE RECOGNITIONS | 20.000 |
| REVENUES             | 20.000 |
| _____ / / _____      |        |

When proceeds are made

|                      |        |
|----------------------|--------|
| _____ / / _____      |        |
| BANKS                | 20.000 |
| REVENUE RECOGNITIONS | 20.000 |
| _____ / / _____      |        |
| REVENUE REFLECTION   | 20.000 |
| BUDGET RECEIPTS      | 30.000 |
| _____ / / _____      |        |

With this regulation proposed to be made in the public accounting system, it is wrong to assume that the cash based system is abandoned entirely. One of the most important characteristics of the proposed public accounting system is that it is capable of producing the results for both cash based budget practices and accrual basis activities. In order to record the proposed system accounting transactions a composition of cash and accrual bases is used. According to the cash basis in terms of budget transaction, registry is made in terms of activities on the accrual basis. With the establishment of the connection between the two systems, accrual basis accounting reports are used, while reflection accounts are used for the production of budget reports on a cash basis. With this recording method both budget results and activity results are obtained by accounting data.

<sup>198</sup> In the cash based accounting system records are made concerning period distinguishing accounts.

## Conclusions

In the study predicated on the reform in the public accounting field, it has been seen that Kazakhstan, Tajikistan and Russia were the countries to lastly join the reform works process which Azerbaijan had started first amongst Balkan Countries in 2004. The main criteria of this reform however, has been specified as the transition to an accrual basis accounting system. In countries such as Kazakhstan, Kosovo, Macedonia and Serbia where both at local and central levels cash based public accounting is still being practiced, all financial data needed in the public field with the transition to accrual basis can be kept on a daily, accurate and reliable way; these can be processed and analyzed and thereby with the produced production information financial information can be provided to the use of governors who need to take decisions correctly, reliably and on time.

Since an accounting system parallel to the private sector accounting is established with the suggested system, in the accounting practices of all sectors of the national economy, similar and identical financial reports can be produced by the data generated in unity and on the same basis.

One of the most important characteristics of the proposed public accounting system is that it is capable of producing results for activities both in cash based budget practices and accrual based activities. Moreover in the proposed accrual basis accounting system balance and activity statements can be arranged; instead of the statements in the cash based accounting system far from being informing balances comprising assets, debts and equities, activity statements which can set forth the results of activities and services and performance appreciation becomes possible.

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## CURRENT ACCOUNT DEFICIT SUSTAINABILITY IN TRANSITION COUNTRIES

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### Abstract

*The current account balance represents the most important measurement of a country's economic performance and it is important to keep the current account deficit within sustainable levels. Over the last decade, the importance of a sustainable current account deficit has been major concern of policy makers and investors. In this paper, we investigate the sustainability of the current account deficit in transition countries over the period from 1995:01 through 2011:03, using intertemporal solvency model. According to this approach, the existence of a cointegrating relationship between exports and imports+ (including imports, net interest payments and net transfer payments) gives that countries do not violate their intertemporal budget constraint. To achieve our objective, the cointegration test which recently developed in the presence of two potentially unknown structural breaks, is carried out. These breaks are taken into account in our analysis by considering that the long run relationship between related series might change and the shifts can occur in the cointegrating vector. The obtained results suggest that there is evidence of cointegration for selected transition countries, implying sustainability.*

**Keywords:** *Current account deficit, Sustainability, Cointegration, Structural breaks, Transition countries*

### Introduction

The current account balance represents the most important measurement of a country's economic performance. On one hand, a current account deficit is a reflection of the strength of a developing economy, in so far as it measures resources coming into the country. According to definition of Mann (2002), a current account deficit can mean that a country is an "oasis of prosperity" attracting investment from around the globe because the economy delivers higher investment returns at lower risk than other investment choices. On the other hand, a current account deficit can reflect a dangerous and unsustainable imbalance between national savings and domestic investment. This deficit can mean that a country is "living beyond its mean", because overall consumption and investment exceed the national savings of the economy (Roubini and Wachtel, 1997; Mann, 2002).

Short run or temporary current account deficits are not “bad”, they reflect reallocation of capital to the country where capital is more productive. However, long run or persistent deficits can have serious effects: First, they might increase interest rates to attract foreign capital and secondly, they might impose an excessive burden on future generations as the accumulation of large external debt owing to persistent deficits will imply increasing interest payments and a lower standard of living (Wu et. al., 1996). These long run or persistent deficits can also indicate a lack of competitiveness. They signal economic vulnerability which could lead to a crisis (Ogus Binatli and Sohrabji, 2002).

It is important to keep the current account deficit within sustainable levels. A sustainable current account deficit occurs when exports and imports+ (including imports, net interest payments and net transfer payments) converge in the long run. Based on the econometric side, Hakkio and Rush (1991) and Husted (1992) suggest that the existence of a cointegrating relationship between exports and imports+ gives that countries do not violate their Intertemporal Budget Constraint (IBC). In this case, the effectiveness of the macroeconomic policies of the countries is supported. Therefore, significant changes in the policies are not necessary (Tiwari, 2012). On the other side, an unsustainable current account deficit occurs when exports and imports+ do not converge in the long run. In the existence of an inactive government implications, this situation could lead to significant increases in the interest rates.

Over the last decade, the importance of a sustainable current account deficit has been major concern of policy makers and investors. In analyzing sustainability of the current account deficit, cointegration approach with and/or without structural breaks has been used by a number of empirical studies including Husted (1992), Liu and Tanner (1995), Wu et. al. (1996), Leachman and Thorpe (1998), Fountas and Wu (1999), Apergis et. al. (2000), Arize (2002), Baharumshah et. al. (2003), Irandoust and Ericsson (2004), Kalyoncu (2005), Narayan and Narayan (2005), Gulcan and Onel (2008), Holmes et. al. (2011), Ogus Binatli and Sohrabji (2012), Tiwari (2012). These studies on different countries, different time periods and methods give mixed results, as summarized in Appendix.

The main objective of this paper is to investigate the sustainability of the current account deficit in transition countries over the period from 1995:01 to 2011:03, using intertemporal solvency model of Hakkio and Rush (1991) and Husted (1992). This objective is pursued with the use of modern time series techniques. We contribute to the existing literature in two ways: First, we consider to examine the current account sustainability for transition countries since the rise in their current account deficits has raised doubts about their sustainability. As argued by Roubini and Wachtel (1998), the current account deficits seen in transition countries reflect two important aspects (Aristovnik, 2006). One of them is that these deficits reflect the success of structural changes that have enabled capital and investment inflows and have opened up prospects of fast economic growth. Another one is that current account deficits frequently reflect mismanaged transition processes featuring

unsustainable imbalances that are potentially a source of value or a balance of payment crisis. As a second contribution, we incorporate two structural breaks into the cointegration process by considering that the long run relationship between the series might change and the shifts can occur in the cointegrating vector. Different from previous studies, in our paper, a cointegration test which recently developed by Hatemi-J (2008) in the presence of two potentially unknown structural breaks as an extension of Gregory and Hansen (1996) cointegration procedure, is employed. To the best of our knowledge, there is no such study which examines the current account sustainability by using this test in respect of transition countries.

The remainder of the paper is balanced as follows: Section 2 provides the theoretical model of the intertemporal approach to the determination of the current account deficit sustainability. Section 3 briefly discusses the cointegration test in the presence of two potentially unknown structural breaks. Section 4 gives definition of the data and reports the empirical results. Section 5 contains some concluding remarks.

### Theoretical Model

To determine the sustainability of the current account deficit, we adopt the intertemporal solvency model suggested by Hakkio and Rush (1991) and Husted (1992). The model starts with the following individual current-period budget constraint:

$$C_0 = Y_0 + B_0 - I_0 - (1 + r_0)B_{-1} \quad (2.1)$$

where  $C_0$  is current consumption,  $Y_0$  is current output,  $B_0$  is international borrowing (which could be positive or negative),  $I_0$  is investment expenditure,  $r_0$  is the one-period interest rate and  $(1 + r_0)B_{-1}$  is the initial debt size. Hakkio and Rush (1991) and Husted (1992) make several assumptions to derive a testable model and report it as follows:

$$EX_t = a + bMM_t^* + e_t \quad (2.2)$$

where  $EX_t$  is exports of goods and services and  $MM_t^* = (MM_t + r_t B_{t-1})$  is imports of goods and services plus net interest payments and net transfer payments. Here, the necessary and sufficient condition for the intertemporal budget constraint is the existence of a vector  $(a, b)$  such that the process is stationary and  $(a, b) = (0, 1)$ . In other words,  $EX_t$  and  $MM_t^*$  are cointegrated with cointegrating vector  $\beta = (1, -1)$ . Hakkio and Rush (1991) and Husted (1992) demonstrate that the existence of a cointegrating relationship between  $EX_t$  and  $MM_t^*$  implies that

countries do not violate their intertemporal budget constraint and therefore supports the effectiveness of their macroeconomic policies in preserving the long run equilibrium (Tiwari, 2012). Here, it is clear that Equation (2.2) provides a useful framework for testing the sustainability of the current account deficits.

### Methodology

In this paper, the sustainability of the current account deficit is investigated by using recently developed cointegration test procedure in the presence of two unknown structural breaks. The reason to take into account the structural breaks in our analysis is that the long run relationship between the series might change and the shifts can occur in the cointegrating vector. On the econometric side, Gregory and Hansen (1996) argue that the cointegration tests which do not take into account the presence of structural changes or regimes shifts, have low power. Following this way, they propose a cointegration test procedure that allows for an endogenously determined break in the cointegrating relationship. In their procedure, three alternative forms of structural break are considered: level shift (model C), level shift with trend (model C/T) and regime shift (model C/S). In general, the specification of the model with regime shift (model C/S) is constructed as below:

$$Y_t = \alpha_0 + \alpha_1 D_t + \beta_0 X_t + \beta_1 (D_t * X_t) + u_t \quad (3.1)$$

where  $D_t$  is a dummy variable equal to 0 if  $t \leq \tau$  and 1 if  $t > \tau$ . Here, the unknown parameter  $\tau$  denotes the timing of the change,  $\alpha_1$  denotes the change in the intercept coefficient at the time of the shift and  $\beta_1$  represents the change in the slope of the cointegrating equation. Given that the timing of structural break is unknown a priori, Gregory and Hansen (1996) propose a suite of tests: the commonly used ADF test statistic and the extensions of the  $Z_t$  and  $Z_\alpha$  test statistics of Phillips (1987). By using these three statistics, the null hypothesis of no cointegration is tested against the alternative of cointegration with structural break. Hatemi-J (2008) extends Equation (3.1) by considering the possibility of two structural breaks as follows:

$$Y_t = \alpha_0 + \alpha_1 D_{1t} + \alpha_2 D_{2t} + \beta_0 X_t + \beta_1 (D_{1t} * X_t) + \beta_2 (D_{2t} * X_t) + e_t \quad (3.2)$$

where  $D_{1t}$  and  $D_{2t}$  are dummy variables constructed as:

$$D_{1t} = \begin{cases} 0 & \text{if } t \leq \tau_1 \\ 1 & \text{if } t > \tau_1 \end{cases} \quad \text{and} \quad D_{2t} = \begin{cases} 0 & \text{if } t \leq \tau_2 \\ 1 & \text{if } t > \tau_2 \end{cases}$$

Here,  $\tau_1$  signifies the period before the first break and  $\tau_2$  signifies the period before the second break. In order to test the null hypothesis of no cointegration  $ADF^*$ ,  $Z_t^*$  and  $Z_\alpha^*$  test statistics are used. These statistics are defined as follows:

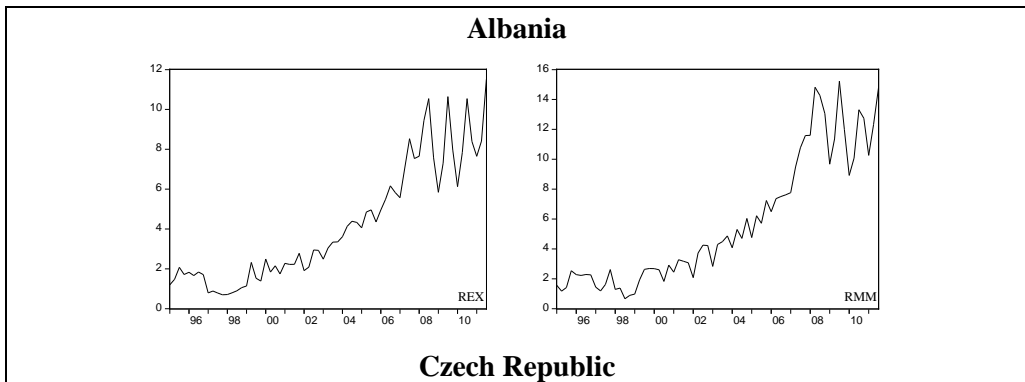
$$ADF^* = \inf_{(\tau_1, \tau_2) \in T} ADF(\tau_1, \tau_2), Z_t^* = \inf_{(\tau_1, \tau_2) \in T} Z_t(\tau_1, \tau_2), Z_\alpha^* = \inf_{(\tau_1, \tau_2) \in T} Z_\alpha(\tau_1, \tau_2)$$

where  $T = (0.15n, 0.85n)$ . Since these test statistics follow non-standard distribution in the presence of two structural breaks, Hatemi-J (2008) produces new critical values via simulations. The details of the test procedure can be found in Hatemi-J (2008).

### Data and Empirical Results

In our analysis, we use quarterly data on exports and imports+ spanning from 1995:01 to 2011:03 for five transition countries<sup>199</sup>: Albania, Czech Republic, Hungary, Macedonia and Slovenia. The analyzing period for Macedonia is chosen as 1996:01-2010:04 based on data availability. The measure of exports includes exports of goods and services and the measure of imports+ includes imports of goods and services plus net interest payments and net transfer payments. Both exports and imports+ are expressed in real terms by using consumer price index and denoted as *REX* and *RMM*, respectively. All data are obtained from International Financial Statistics (IFS) database of IMF.

Figure 1 illustrates the plots of the *REX* and *RMM* series for selected transition countries.



199 Here, it is important to note that Czech Republic, Hungary and Slovenia are Central and Eastern European (CEE) countries while Albania and Macedonia are Southern and Eastern Europe (SEE) countries.



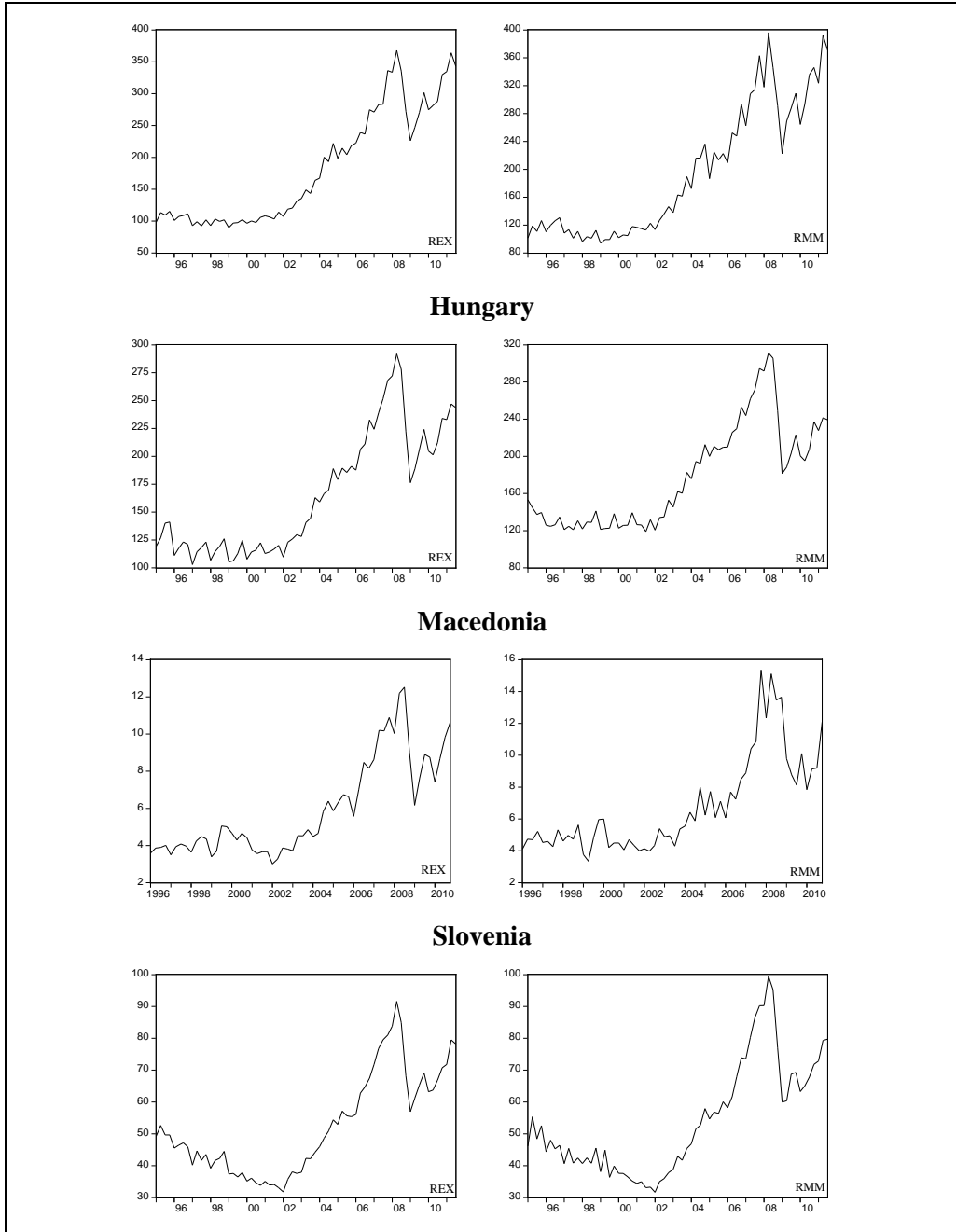


Figure 1: The plots of the *REX* and *RMM* series of five transition countries

At a glance, the plots in the figure indicate that *REX* and *RMM* series of the countries exhibit a nonstationary behavior and include some structural breaks. Since this visual inspection does not deliver clear evidence, as a first step, we investigate the stationarity properties of the *REX* and *RMM* series by using Augmented

Dickey Fuller (ADF), Phillips and Perron (PP) and Kwiatkowski-Phillips-Schmidt and Shin (KPSS) unit root tests. These tests differ in the null hypothesis: The null hypothesis of the ADF and PP tests is that a time series contains a unit root while the KPSS test has the null hypothesis of stationarity. The test results are tabulated in Table 1<sup>200</sup>.

Table 1: The results of ADF, PP and KPSS unit root tests

| Countries      | Series              | ADF                 | PP                   | KPSS               |
|----------------|---------------------|---------------------|----------------------|--------------------|
| Albania        | <i>REX</i>          | -2.691              | -4.118 <sup>a</sup>  | 0.201 <sup>b</sup> |
|                | $\Delta$ <i>REX</i> | -3.936 <sup>a</sup> | -                    | 0.080              |
|                | <i>RMM</i>          | -2.389              | -3.292 <sup>c</sup>  | 0.161 <sup>b</sup> |
|                | $\Delta$ <i>RMM</i> | -3.563 <sup>a</sup> | -                    | 0.085              |
| Czech Republic | <i>REX</i>          | -2.318              | -2.331               | 0.125 <sup>c</sup> |
|                | $\Delta$ <i>REX</i> | -7.162 <sup>a</sup> | -8.177 <sup>a</sup>  | 0.120              |
|                | <i>RMM</i>          | -2.857              | -2.973               | 0.146 <sup>b</sup> |
|                | $\Delta$ <i>RMM</i> | -3.957 <sup>a</sup> | -11.942 <sup>a</sup> | 0.114              |
| Hungary        | <i>REX</i>          | -2.746              | -2.452               | 0.139 <sup>c</sup> |
|                | $\Delta$ <i>REX</i> | -4.321 <sup>a</sup> | -7.575 <sup>a</sup>  | 0.152              |
|                | <i>RMM</i>          | -3.013              | -2.540               | 0.141 <sup>c</sup> |
|                | $\Delta$ <i>RMM</i> | -3.980 <sup>a</sup> | -7.538 <sup>a</sup>  | 0.097              |
| Macedonia      | <i>REX</i>          | -1.903              | -2.508               | 0.181 <sup>b</sup> |
|                | $\Delta$ <i>REX</i> | -8.338 <sup>a</sup> | -6.681 <sup>a</sup>  | 0.059              |
|                | <i>RMM</i>          | -2.943              | -2.847               | 0.121 <sup>c</sup> |
|                | $\Delta$ <i>RMM</i> | -4.072 <sup>a</sup> | -11.056 <sup>a</sup> | 0.063              |
| Slovenia       | <i>REX</i>          | -2.390              | -2.054               | 0.124 <sup>c</sup> |
|                | $\Delta$ <i>REX</i> | -3.019 <sup>b</sup> | -6.437 <sup>a</sup>  | 0.179              |
|                | <i>RMM</i>          | -2.646              | -1.934               | 0.208 <sup>b</sup> |
|                | $\Delta$ <i>RMM</i> | -2.898 <sup>c</sup> | -8.003 <sup>a</sup>  | 0.118              |

**Note:** The sign “ $\Delta$ ” refers to the first differences of the series. <sup>a</sup>, <sup>b</sup> and <sup>c</sup> indicate rejection of the null hypothesis at the 1%, 5% and 10% significance levels, respectively. The test statistics are obtained under the case with an intercept and a linear trend for levels, as Figure 1 suggests. On the other hand, the test statistics are calculated under the case with an intercept for first differences (the figure which illustrates first differences is not reported here). Therefore, the critical values differ based on these cases.

The results in the table show that both *REX* and *RMM* series are nonstationary in levels and stationary in first differences for Czech Republic, Hungary, Macedonia and Slovenia. The test results differ for Albania. According to ADF and KPSS unit root tests, both series are found nonstationary in levels. On the other hand, PP unit

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200 The unit root properties of the series are also investigated by using unit root tests with structural breaks. Since the results are similar, we do not report them here. They are available on request.

root test results point to the stationarity in levels for *REX* and *RMM* series. In the case of contradiction between ADF and PP unit root tests, the results of KPSS test give evidence to final decision. Thus, our results generally support our expectations that both *REX* and *RMM* series are integrated of order one ( $I(1)$ ). The implication of this evidence is that the relationship between *REX* and *RMM* series, hence the sustainability of the current account deficit can be investigated in the context of cointegration method for considered countries. In achieving this aim, Hatemi-J (2008) cointegration test in the presence of two unknown structural breaks is used. The structural breaks are taken into account in our analysis by considering that the long run relationship between *REX* and *RMM* series might change and the shifts can occur in the cointegrating vector. The test results for the model specification with regime shifts can be seen in Table 2.

Table 2: The results of Hatemi-J cointegration test with two unknown structural breaks

| Countries      | Test statistics | Statistic value      | $\tau_1$ | $\tau_2$ |
|----------------|-----------------|----------------------|----------|----------|
| Albania        | $ADF^*$         | -7.994 <sup>a</sup>  | 2006:01  | 2006:02  |
|                | $Z_t^*$         | -8.056 <sup>a</sup>  | 2006:01  | 2006:02  |
|                | $Z_\alpha^*$    | -67.398 <sup>c</sup> | 2006:01  | 2006:02  |
| Czech Republic | $ADF^*$         | -5.089               | 2000:03  | 2002:04  |
|                | $Z_t^*$         | -8.506 <sup>a</sup>  | 1999:03  | 2006:03  |
|                | $Z_\alpha^*$    | -70.092 <sup>c</sup> | 1999:03  | 2006:03  |
| Hungary        | $ADF^*$         | -4.768               | 2004:04  | 2006:02  |
|                | $Z_t^*$         | -8.164 <sup>a</sup>  | 2002:03  | 2006:03  |
|                | $Z_\alpha^*$    | -62.015 <sup>c</sup> | 2002:03  | 2006:03  |
| Macedonia      | $ADF^*$         | -7.706 <sup>a</sup>  | 1999:03  | 2003:03  |
|                | $Z_t^*$         | -6.784 <sup>a</sup>  | 2001:01  | 2005:01  |
|                | $Z_\alpha^*$    | -53.073 <sup>c</sup> | 1999:03  | 2005:01  |
| Slovenia       | $ADF^*$         | -6.938 <sup>a</sup>  | 1998:01  | 2004:04  |
|                | $Z_t^*$         | -8.828 <sup>a</sup>  | 2000:04  | 2006:03  |
|                | $Z_\alpha^*$    | -70.251 <sup>c</sup> | 2000:04  | 2006:03  |

**Note:** <sup>a</sup>, <sup>b</sup> and <sup>c</sup> indicate statistically significance at the 1%, 5% and 10% levels, respectively. The critical values for  $ADF^*$ ,  $Z_t^*$  and  $Z_\alpha^*$  test statistics are collected from Hatemi-J (2008). These are -6.503, -6.015 and -5.653 for  $ADF^*$  and  $Z_t^*$  statistics and -90.794, -76.003 and -52.232 for  $Z_\alpha^*$  statistic at the 1%, 5% and 10% significance levels, respectively.

According to the results in the table,  $ADF^*$ ,  $Z_t^*$  and  $Z_\alpha^*$  statistics give evidence in favour of the existence of a long run relationship between  $REX$  and  $RMM$  series for all considered countries, implying sustainability of the current account deficit. When the attention is given to the identified structural breaks, it can be seen that the results are mixed based on three statistics. Here, we decide to choose the break points according to  $Z_t^*$  statistic as this statistic has the largest power (Gregory and Hansen, 1996). The first breaks for Czech Republic, Hungary and Slovenia (which are European Union (EU) countries), are found to be at 1999:03, 2002:03 and 2000:04 respectively. We consider that these breaks are related to economic and monetary integration process<sup>201</sup> of these countries to be able to a member of EU. On the other hand, the identified second breaks for mentioned countries are the same (2006:03) which refer to the process after accession of these countries (2004) to the EU. When we give our attention to the identified breaks for Albania (which is a candidate country for EU accession), it is clear that these breaks are very close to each other (2006:01 and 2006:02). Our conjecture is that these breaks refer to the date when the Stabilisation and Association Agreement<sup>202</sup> is signed (June 2006) with Albania. This agreement entered into force on April 2009. It also supersedes the Interim Agreement on trade and trade-related aspects, which entered into force in December 2006. Finally, we need to interpret the structural breaks for Macedonia (which is a candidate country for EU accession). The first break occurs at 2001:01 while the second break occurs at 2005:01. This first break corresponds to the date when the Stabilisation and Association Agreement is signed (2001) with Macedonia. It may also refer to the date (2001) when the Interim Agreement on trade and trade-related aspects entered into force. For the second break (2005:01), it can be said that Macedonia is granted candidate country status for EU membership in this year. When the structure of the countries is considered totally, the identified significant breaks clearly indicate that it is necessary for our analysis to take into account these breaks.

## Conclusions

This paper investigates the current account sustainability in five transition countries (Albania, Czech Republic, Hungary, Macedonia and Slovenia) by using quarterly

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201 This process is known a pre-accession phase which the countries have a free hand in the choice of their exchange rate regimes. In this phase, they have to adopt some reforms (completely liberalise capital flows, make their central banks independent, prohibit direct financing of the government by the central bank and prohibit privileged access of the government to financial institutions) (Lavrac and Zumer, 2003).

202 In meetings with countries that have expressed a wish to join the EU, the Association Agreements in exchange for commitments to political, economic, trade or human rights reform in that country, are typically concluded. In exchange, the country may be offered tariff-free access to some or all EU markets (industrial goods, agricultural products, etc.), and financial or technical assistance.

data over the period from 1995:01 through 2011:03. For this purpose, the intertemporal solvency model of Hakkio and Rush (1991) and Husted (1992) which requires the existence of a cointegrating relationship between exports and imports+ (including imports, net interest payments and net transfer payments) for the intertemporal budget constraint, is followed. On the econometric side, we apply Hatemi-J (2008) cointegration test in the presence of two potentially unknown structural breaks. The obtained results support the evidence of cointegration, hence, current account deficit sustainability for selected transition countries.

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*Online at:* <http://fbe.emu.edu.tr/journal/doc/11-12/09.pdf>

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**APPENDIX**

Table: Summary of the previous studies on the current account deficit sustainability

| <b>Study</b>                  | <b>Countries (period)</b>  | <b>Methodology</b>   | <b>Result</b>  |
|-------------------------------|--|--|--|
| Husted (1992)                 | US<br>(1967:01-1989:04)  | Engle - Granger cointegration test                                     | No sustainability (in the case of no structural break)<br>Sustainability (with a structural break)                             |
| Liu and Tanner (1995)         | US<br>(1982:01-1994:04)  | Maximum likelihood cointegration test                                  | Sustainability (with a break)  |
| Wu et. al. (1996)             | US and Canada<br>(1973-1994)                                     | Johansen (1995) and Gregory-Hansen (1996) cointegration tests          | No sustainability  |
| Leachman and Thorpe (1998)    | Australia<br>(1959:03-1983:04 and 1984:01-1996:01)               | Cointegration and Multicointegration tests                             | Sustainability   |
| Fountas and Wu (1999)         | US<br>(1967-1994)  | Engle – Granger and Gregory-Hansen (1996) cointegration tests          | No sustainability  |
| Apergis et. al. (2000)        | Greece<br>(1960-1994)  | Johansen-Juselius (1990) and Gregory-Hansen (1996) cointegration tests | Sustainability   |
| Arize (2002)                  | 50 countries<br>(1973:02-1998:01)                                | Johansen (1995), Stock-Watson (1988) and Hansen (1992) tests           | Sustainability (in 35 countries)   |
| Baharumshah et. al. (2003)    | Indonesia, Malaysia, the Philippines and Thailand<br>(1961-1999) | Johansen (1995) and Gregory-Hansen (1996) cointegration tests          | Unsustainability (except Malaysia - prior to the Asian crisis)<br>Sustainability (except Malaysia - in the post crisis period) |
| Irاندoust and Ericsson (2004) | Industrialized countries   | Johansen-Juselius (1990) cointegration                                 | Sustainability (for Germany, Sweden)   |



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|                                  |  |  |   |
|----------------------------------|--|--|---|
|                                  | (1971:01-1997:04)                        | test   | and the USA)  |
| Kalyoncu (2005)                  | Turkey (1987:01-2002:04)                 | Johansen-Juselius (1990) cointegration test                                      | Sustainability  |
| Narayan and Narayan (2005)       | 22 least developed countries (1960-2000) | Bounds test for cointegration  | Sustainability (for only 6 countries)   |
| Gulcan and Onel (2008)           | Turkey (1992:01-2007:01)                 | Johansen-Juselius (1990) and Gregory-Hansen (1996) cointegration tests           | No sustainability   |
| Holmes et. al. (2011)            | India (1950-2003)                        | Johansen (1995), Saikkonen-Lutkepohl (2000), Breitung (2002) cointegration tests | Sustainability (in the late 1990s)<br>Unsustainability (for the prior period) |
| Ogus Binatli and Sohrabji (2012) | Turkey (1987-2009)                       | Johansen (1995) and Gregory-Hansen (1996) cointegration tests                    | No sustainability   |
| Tiwari (2012)                    | India (1970-2007)                        | Johansen et. al. (2000) cointegration test with structural breaks                | Sustainability  |

## FOREIGN DIRECT INVESTMENT: ALBANIAN CASE

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### Abstract

*In this paper, FDI is to be examined in general and specifically in Albania. In the first part the definition of FDI is given, its history, its positive effects or costs that cause to the host country, effects to the economic growth and GDP, is the main theme which will receive particular attention in this paper. In the second part is being studied the areas that the country provides for FDI and the areas where the foreign businesses invest more in Albania and the Albanian's government policies to attract foreign direct investments. Finally, through regression analysis will be tested the connection of FDI to GDP in the post-communist Albania through the years 1995-2010.*

**Keywords:** *FDI, economic growth, Albania.*

### Introduction

Foreign direct investment (FDI) has a very important and growing role in global investments. It gives the chance to a business for a new market and market connections, cheaper production facilities, provides new technology, products, skills and financing. Such investments, regardless of whether the investor whether the host country, are useful in developing technology, development management committee, production and economic growth in terms of macro and micro. FDI have effect in different types of countries but the most profound effect has been seen in developing countries, where yearly foreign direct investment flows have increased from an average of less than \$10 billion in the 1970's to a yearly average of less than \$20 billion in the 1980's, to explode in the 1990s from \$26.7 billion in 1990 to \$179 billion in 1998 and \$208 billion in 1999 and now comprise a large portion of global FDI. Driven by mergers and acquisitions and internationalization of production in a range of industries, FDI into developed countries last year rose to \$636 billion, from \$481 billion in 1998.<sup>203</sup>

The most influent countries on FDI are China, India, Brazil, and USA etc... These are big countries with a big market. China remains the top-ranked destination by foreign investors, a title it has held since 2002. The United States retakes second place from India, which had surpassed it in 2005. India, Brazil and Germany

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203 Graham, Jeffrey P. and Spaulding R. Barry, "Understanding Foreign Direct Investment", Going Global, [http://www.going-global.com/articles/understanding\\_foreign\\_direct\\_investment.htm](http://www.going-global.com/articles/understanding_foreign_direct_investment.htm), accessed (09.07.2011).

complete the top five favored investment destinations. Overall, developed economies rose in the Index as investors looked for safety. The most striking exception is the United Kingdom, whose reliance on financial services left it exposed in the current crisis. At the same time, the placement of China, India and Brazil in the top five shows a strong vote of confidence for the strength of these economies. Investors also expressed the most optimism about the future outlook for China, India and Brazil. For the first time, the three major emerging markets—China, India and Brazil—all ranked among the top four investment destinations as investors expect these countries to continue to deliver growth despite the economic crisis<sup>204</sup>.

### Literature Review

Foreign direct investment, in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property<sup>205</sup>. There exist different opinions on the start of FDI in the world. History of FDI is thought to have begun with American companies, the reasons behind that is that their characteristics are similar to the characteristics of American companies. It has been suggested that foreign investment have started in 1600's in England with the Indian traders, who for diversifying their trade in different countries of the world felt the need of people working for them in host countries to shape their trade market thus forming their foreign branches<sup>206</sup>.

Wilkins describes the Virginia Company, founded by King James in 1606 as the first company that brought FDI in America, which later in 1624 it was bankrupt. According to Wilkins the years 1875-1914 were years of increased foreign investments in private sector<sup>207</sup>.

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204 <http://www.atkearney.com/index.php/Publications/foreign-direct-investment-confidenceindex.html?q=confidence+index>, accessed (02.08.2011).

205 Graham, Jeffrey P. and R. Barry Spaulding, [http://www.going-global.com/articles/understanding\\_foreign\\_direct\\_investment.htm](http://www.going-global.com/articles/understanding_foreign_direct_investment.htm), accessed (09.07.2011).

206 Wilkins Mira, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914*, Cambridge, MA, Harvard University Press, 1970. <http://www.nber.org/papers/w8665.pdf>, p.17, accessed (09.07.2011).

207 Wilkins, Mira, *The History of Foreign Investments in United States to 1914*, Harvard University Press, 1989, <http://www.nber.org/papers/w8665.pdf>, p.17, accessed (09.07.2011).

According to Godley (1999) first investments began in Great Britain as early as 1890 and were mainly directed to consumer goods, but after the failure of this type they were focused more on the production of goods. A typical example of first MNC is given by Singer Manufacturing Company in 1900 where thanks to the commitment to FDI soon became one of the biggest companies in the world<sup>208</sup>.

There are two different kinds of benefiting from FDI as a host country. Firstly, the incoming fund of investments benefits the capital account of the home country's balance of payment. The data from 1980 to 2004 revealed that the FDI flows have account for 2% to 4% of global fixed capital formation. In US and Europe, there are 14% and 20% of manufacturing jobs accounted by FDI which are the key sources of world outward FDI though the FDI has shifted to build up the economics since 1980s. Economic growth and inward FDI show a positive relationship in developing nations in spite of some arguments regarding the financial development of the country<sup>209</sup>.

Secondly, benefits arise when the home country MNE enhances its skills and know-how in the foreign markets which could be transferred back to the home country. Through the exposure to other countries, the MNE could learn about better organizational methods and superior process technology.

The most important fear is about the balance of payments and the employment effects of outward FDI. The balance of payments of the home country may suffer in three ways.

First, FDI to foreign countries takes initial capital loss which creates a burden to the capital account of the balance of payment. Since the form of FDI is indefinite, it is possible that the outflow of FDI means damage to the home country's economy. The benefits that a home country can have are the incoming capital earned from the possible future return of these FDI projects. This effect though, is often canceled out by the following inflow of foreign earnings.

Second, if the aim of the foreign investment is to help the home country from a low cost production location, then the balance of payments' current account suffers. Third, the balance of payments' current account suffers if the FDI is a substitute for direct exports.

About the employment, the most serious problem arises whenever FDI is meant to be a substitute for domestic production. A clear consequence of such FDI is the decrease in employment in the home country. If the home country's labor market is already firm, with not much unemployment, and then this problem is not serious. Nonetheless, unemployment is a problem that the home country faces, the anxiety about jobs export may rise. The US labor leaders raised an opposition frequently to

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208 Godley, Andrew C., *Pioneering Foreign Direct Investment in British Manufacturing*, Business History Review, p.394. <http://www.nber.org/papers/w8665.pdf>, p.18, accessed (10.07.2011).

209 Chang Ch. Ying, *Can a home country benefit from FDI? A theoretical analysis*, Victoria University of Wellington <http://www.victoria.ac.nz/home/research/publications/research-publications-2009.pdf>, accessed (12.07.2011).

the free trade pact between Canada, US and Mexico is that the US is going to lose thousands of jobs since US firms invest in Mexico in order to take advantage of low-priced labor and then export back to the United States<sup>210</sup>.

An extra popular effect of FDI is being as a helpful way for the host country when dealing with high unemployment. There are two ways that FDI effects on employment, direct and indirect. Whenever a MNE goes to a country to establish a center or a production line, a huge number of workers are hired to work for the firm, this is known as the direct effect of FDI on employment. Nonetheless, it is argued that when FDI purchases local firms rather than investments starting a business from scratch, there is no rise in employment. Employment is sometimes probable to fall if the foreign owner re-organizes the firms. The indirect effects are seen when jobs are created in other fields of industry supplying material for the investment field. In addition, the increasing expenditure of the MNE's Employees it also increases jobs for particular local firms that are near the MNE. For instance, when Toyota made a decision to establish a new auto plant in France in 1997, estimation indicates that the plant would create 2,000 direct jobs and possibly another 2,000 jobs in support industries<sup>211</sup>. However, not all the new jobs created by FDI are to be taken as net additions in employment. This situation often happens when a MNE enters to run a business in the host country, it creates many jobs but on the other hand, due to huge advantages in technology and management skills the firm may take over the market share thus bringing host country firms' business down, which by the way leads to significant decrease in employment. At the end the number of job opportunities created by FDI will not be as the company had promised at the entering stage.

In other cases, when a firm decides to acquire an operator in the host country, like in the case of BKT or Altelecom, the first task is to restructure the firm in order to improve its operating efficiency. As a result, many employees will lose their jobs by being replaced due to inappropriate ability and skills to the firm standards. However, this is just the beginning of the whole process of reforming. Once when the adjustment period has passed, as MNE foreign company grows it will employ more workers than it fired and perhaps even more than the local operators do.

One of the important benefits that FDI brings to the host country is to rise up the level of competition between firms in the same industry. As the market share decreases because of more firms enter to the sector, the companies are forced to improve product quality, appearance as well as decrease the price. For example, FDI by large Western discount stores, consisting of Tesco, Wal-Mart, Carrefour and

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210 Hill Charles W.L., "The benefits of FDI to host countries", Global Business Today, 5th edition 2008, McGraw-Hill/Irwin, USA, p.359, <http://beautybywind.blogspot.com/2011/04/literature-review-foreign-direct.html>, accessed (12.07.2011).

211 Jenkins Rhys, Globalization, FDI and employment in Vietnam, United Kingdom, 2003, <http://beautybywind.blogspot.com/2011/04/literature-review-foreign-direct.html>, accessed (12.07.2011).

Costco appears to have encouraged local Korean discounters like E-Mart to advance the efficiency of their own operations<sup>212</sup>.

Advanced technology often comes with FDI that enhance the quality of product with lower prices due to higher competition. The long-term effect may include increased productivity, product process innovations, and greater economic growth.

### **Foreign Direct Investment in Albania**

By changing the totalitarian regime, Albania opened the doors to the world in all areas and therefore changes in all areas of life such as economic policy, etc were noticed. With the liberalization of the economy in Albania the competition in the market began to work. But since domestic business was very weak the main role would be played by foreign direct investment. Analysis regarding foreign investment in Albania will be a broad analysis and above all will discuss the period from 2000 until today. That is because even if foreign investment in Albania began with the overthrow of the communist regime, circa 1993, the figures were not substantial enough to influence Albanian economics. Between the years 1993 to 2000 FDI in Albania were not stable because of the political and economical system in Albania.

The free working cost in Albania made possible the attraction of some small enterprises such as tailoring, shoe production and leather. With the transition taking place in years 1996 - 1998 those few small enterprises left the country. Only after 2000 with the stabilization of political and economic system the foreign investors began invest again in Albania. Countries that have invested more in Albania are EU countries with Italy and Greece having the majority of these investments.

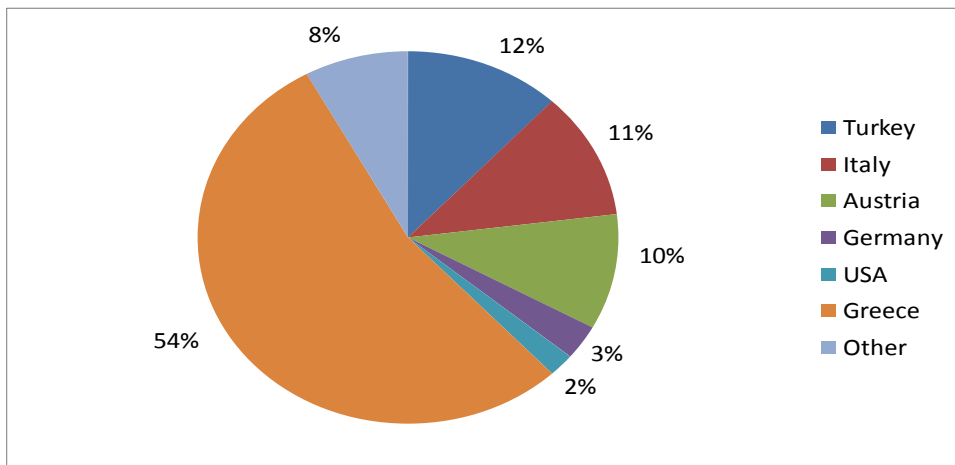
Areas which were coveted by foreign investors were the areas of telecommunications, banking services, energy, construction sector, agriculture, wholesale and retail sales, etc...

In 2008, FDI in services were the dominant share of the whole FDI-s for that year in Albania are There are two main groups of services that carry a great importance in attracting FDI, and these are telecommunications and financial intermediation.

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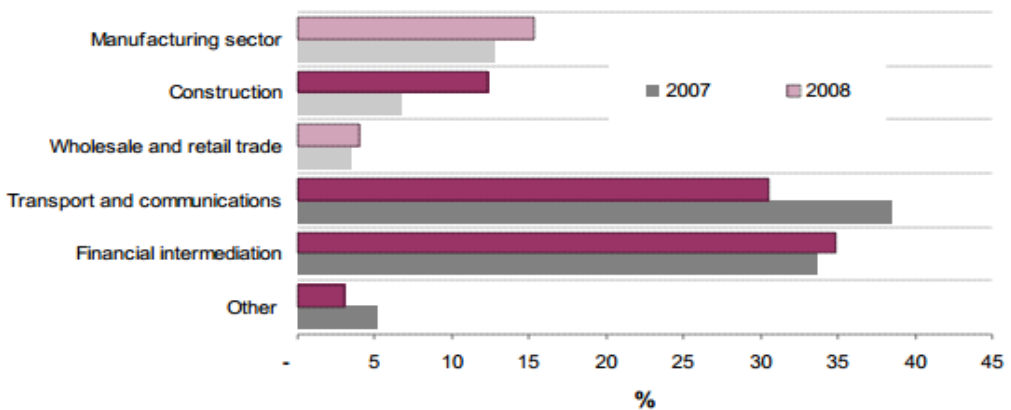
212 Hill, p.360, <http://beautybywind.blogspot.com/2011/04/literature-review-foreign-direct.html>, accessed (12.07.2011).

Figure 1: Total foreign capital by countries of origin, 2007



Source: investimet\_e\_huaja\_direkte\_ne\_shqiperi\_per\_vitin\_2007\_2341\_1, p 113 (foreign direct investment in Albania for year 2007) , <http://ebookbrowse.com/5investimet-e-huaja-direkte-ne-shqiperi-per-vitin-2007-2341-1-pdf-d31106813>, accessed on 19.11.2011.

Figure 2: Inward FDI stock by economic activity in Albania, 2007-2008

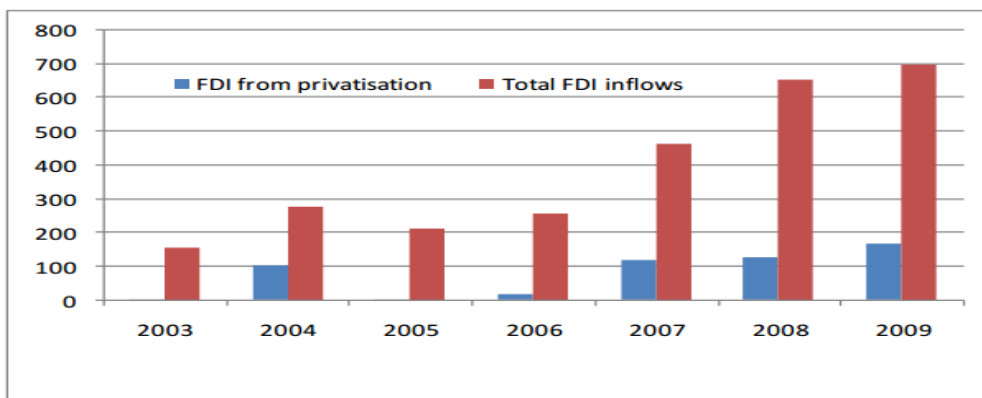


Source: [http://www.mete.gov.al/upload/fdi\\_raport\\_2010.pdf](http://www.mete.gov.al/upload/fdi_raport_2010.pdf), p. 26, accessed on 12.12.2011.

Since 2006 it has been seen an increase in rates of foreign investment reaching peaks in 2008 and 2009 which were made possible by the privatization of most of the stocks of companies like Albtelecom, CEZ etc<sup>213</sup>.

<sup>213</sup> METE, Report On Foreign Direct Investment In Albania, 2010, p. 13.

Figure 3: Contribution of privatization to FDI inflows in Albania, 2003-2009 (millions of dollars)



Source: Based on data of BoA for FDI inflows, METE and MF for FDI inflows from privatization, [http://www.mete.gov.al/upload/fdi\\_raport\\_2010.pdf](http://www.mete.gov.al/upload/fdi_raport_2010.pdf), accessed on 06.11.2011.

Thanks to the growth and progress in economy, Albania became a very good potential for foreign investment. During this period, Albania reached an average annual increase of GDP by 6%<sup>214</sup>. The majority of flows of FDI in Albania are in the form of equity, which constitutes approximately 70% of the total. Reinvested earnings represent a smaller percentage, though they are growing, while the other capitals (that are loans mainly within companies) are almost negligible<sup>215</sup>.

Telecommunications represent one of the most dynamic activities in service sector in Albania. They have been developed mainly through privatization and subsequent investments in the field by foreign investors and to some extent through domestic investment. Actually in Albania there are four mobile operators AMC, Vodafone, Eagle Mobile and PLUS, while for the fixed telephony there are: Albtelecom, Tring, ABCom operators and many other small actors.

The first operator that entered the Albanian market was AMC which was part of Albtelecom and consequently being state owned. In 2000 Telenor consortium Cosmote (Greece) bought 85% share paying 85.6 million euros. The rest of the

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[http://www.mete.gov.al/upload/fdi\\_report\\_2010.pdf](http://www.mete.gov.al/upload/fdi_report_2010.pdf), accessed ( 12.12.2011 ).

214 Raporti i Investimeve te Huaja Direkte në Shqipëri, 2010, Foreign Direct Investment Report, p. 9.[http://www.mete.gov.al/upload/fdi\\_raport\\_2010.pdf](http://www.mete.gov.al/upload/fdi_raport_2010.pdf), accessed (06.11.2011)

215 Ibid, p.19. accessed (06.11.2011)



shares were sold much later in the year 2009 with an estimated value of 48.2 million euros.

Investment figures of AMC in recent years amount to several hundred million euros in technology, maintenance, construction, etc... AMC provides network coverage to approximately 89.03% of the territory of Albania and approximately 99.8% of the population. AMC is one of the main contributors to the revenues of the government budget with an approximate value of 155 million euros in taxes and VAT. The company has over 500 specialized employees, which makes it one of the largest employers in the private market and state<sup>216</sup>.

Vodafone launched its GSM services in Albania in August 2001 after winning the international tender with more \$ 38 million. Vodafone Europe B.V. owns 50% of the equity of Vodafone Albania, while Vodafone International Holdings BV Panafon owns 50% (the latter owned by Vodafone Group Plc). Vodafone GSM network covers 91.25% of the territory of the Republic of Albania and about 99.6% of population in urban and rural areas. In December 2010 the company won the tender for 3G services with price 31,400,000 Euro, a record for the Albanian market. It must also be included the investment in 3G service which amounts to 70,000,000 euros<sup>217</sup>.

The third operator in the mobile market, part of Calik Holding present in Albania through three major companies, Albtelecom, National Commercial Bank and Eagle Mobile with a sum of 300 million euro investment, was founded on October 23, 2003 by the Albanian government, as an integral part of fixed telephony operator in Albania, Albtelecom. Privatization began in 2005 and was finished on September 28, 2007, when Calik Holding, acquired 76% of stock, with its Turkish partner Turk Telekom. While the other 24% of the shares is owned by the Albanian government and other stakeholders. Eagle Mobile, entered the market in October of 2008, employing 370 people, while 150 people were employed in sub-contracting companies. The company achieved 97.8% coverage in the country's population and 90% of the territory by making an investment of more than 50 million euros<sup>218</sup>.

PLUS Communication sh.a. the only mobile operator which is composed of Albanian and Telecommunications of Kosovo capital was founded in June 2009, after taken by AKEP Individual Authorization (license) to provide GSM mobile phone services, after presenting the highest offer of 7.2 million euros in the international tender. The new operator in the market has managed to cover 95% of the population. The Company Plans to invest around 100 million euros during first two years. In order to achieve market expansion PLUS Communication sh.a. borrowed funds from the Albanian banks with figures more 35 million euros<sup>219</sup>.

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216 [www.amc.al](http://www.amc.al), accessed (19.10.2011).

217 [www.vodafonemobile.al](http://www.vodafonemobile.al), accessed (19.10.2011).

218 [www.eaglemobile.al](http://www.eaglemobile.al), accessed (19.10.2011).

219 [www.plus.al](http://www.plus.al), accessed (19.10.2011).

Developments in informatics and call-center industry began evolving since 2008, being thus 3.3% of the whole value of FDI in Albania. This development was achieved thanks to geographical proximity to the Italian state and the ability of the Albanians to learn quickly foreign languages in particular Italian language. Two of the leading companies in this area are Italian companies Teleperformance and Answer Group<sup>220</sup>. Increased workforce training and better services of fix telephony are very important factors in the growth of business services and enhance the perspective of Albania in comparison with regional countries.

Since the overthrow of the communist system another area where the foreign companies could invest was banking service. After 90's there has been a restructure of the banking system not only in Albania but in the entire region, in Albanian market foreign banks were those who played this role. Largest investors in banks in Albania come from USA, Austria, France, Greece, Italy and Turkey.

At the end of 2010, 16 banks, nine non-bank financial institutions (three of which were licensed in 2009), and two savings and loans associations were operating in Albania. The financial market continued to be dominated by banks, and the banking system was characterised by a high degree of concentration. At the end of 2010, the three largest banks accounted for 56.2% of total banking assets, slightly up from their year-end share in 2009 (55.7%). By the end of the year, total banking assets stood at ALL 990.6 billion (euro 7.1 billion), representing an annual growth rate of 11.8%<sup>221</sup>.

During 2008, statutory capital of banks in Albania held by foreign investors increased by ALL 12.5 billion (33%), while Albanian capital fell by ALL 266 million (5.6%). By the end of December 2008, foreign capital in Albanian banking is estimated to have increased to ALL 50.3 billion or 91.8% of the total (from 88.8% in end-2007), while domestic capital is estimated to have fallen to ALL 4.5 billion or 8.2% of the total<sup>222</sup>. During the year 2008, ten insurance companies, including both foreign and domestic, were operating in Albania. Some examples of banks and insurance companies with largest foreign capital in Albania are:

Raiffeisen Bank Albania, which is the largest bank in the country. Its total assets are approximately 2 billion Euros. Raiffeisen International acquired the Albanian Savings Bank in 2004 paying to the state 126 million dollars. The loan portfolio has grown from zero in 2004 to 770 million euros at the end of 2010<sup>223</sup>.

National Commercial Bank (NCB) was founded in January 1993, from the union of the Albanian Commercial Bank and National Bank of Albania. One of the

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220 METE, Report on Foreign Direct Investment in Albania, 2010, p. 36.  
[http://www.mete.gov.al/upload/fdi\\_report\\_2010.pdf](http://www.mete.gov.al/upload/fdi_report_2010.pdf), accessed (19.10.2011).

221 Annual Report 2010- Procredit Albania, p.10.  
[http://www.procreditbank.com.al/repository/docs/raport\\_vjetor2010.pdf](http://www.procreditbank.com.al/repository/docs/raport_vjetor2010.pdf), accessed (05.12.2012).

222 METE, Report on Foreign Direct Investment in Albania, 2010,  
p.41.[http://www.mete.gov.al/upload/fdi\\_report\\_2010.pdf](http://www.mete.gov.al/upload/fdi_report_2010.pdf), accessed (13.01.2012).

223 [www.raiffeisen.al](http://www.raiffeisen.al), accessed (19.10.2011).

privatization processes undertaken by the government at that time was the privatization of this bank. NCB ended the process of privatization in 2000. The Albanian Parliament approved on 6 July 2000 the contract of sale between the Ministry of Finance on one hand and the Consortium of International Investors (60% of shares), International Finance Corporation (20%) and European Bank for Reconstruction and Development (20%) on the other hand. On 30 June 2009, Calik Financial Services acquired the stock from International Finance Corporation (IFC) and European Bank for Reconstruction and Development, thus becoming sole shareholder of the NCB with 100% of the shares. NCB has now a capital of about 110 million dollars, and employs about 800 employees throughout Albania<sup>224</sup>. National Bank of Greece (NBG) Albania opened its doors in November 1996. NBG Bank Albania is part of NBG Group, the largest financial group in the Balkans and South-Eastern Europe, with its net profit after tax amounting to approximately 1 billion euros in 2009 and a very good capitalization.

Initial capital was 2 million euro. Number of employees in 2011 was about 305. Initial capital was 2 million Euro. Number of employees in 2011 was circa 305<sup>225</sup>.

Intesa Sanpaolo Bank Albania was founded in 2008 by merging of two important banks in the country Italian-Albanian Bank (BIA) was founded in 1993 and American Bank of Albania (ABA) was founded in 1998, both were bought by the Intesa Sanpaolo Group. The number of employees in 2011 was about 531<sup>226</sup>.

Sigal was founded on 22 February 1999, starting from the year 2002 grew rapidly, ranking as the largest company in the insurance market in Albania.

Sigal sh.a. is the first company that attracted foreign capital in the Albanian insurance market. In March 2007 Sigal signed a cooperation agreement with one of the most powerful financial groups in Central and Eastern Europe, Uniqa Group Austria, which currently owns 68.7% shares of Sigal. Over 80% shares of Sigal Uniqa Group Austria are owned by foreign investors and the rest pertain to the domestic shareholders. Income from insurance premiums in the period from January to November 2011, reached nearly 7.689 millions ALL, or 5.27% more than the same period last year<sup>227</sup>.

SIGMA sh.a. is a part of Vienna Insurance Group, which holds 87% of the shares. It is among the largest companies in the Albanian market and is one of the main contributors to the liberalization of the insurance market. Income from premiums in 2008 reached over 14.4 millions of euros, from 12.5 millions euros in 2007, thus increasing 15.2%<sup>228</sup>.

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224 [www.bkt.al](http://www.bkt.al), accessed (19.10.2011).

225 [www.nbgbank.al](http://www.nbgbank.al), accessed (19.10.2011).

226 [www.intesasanpaolobank.al](http://www.intesasanpaolobank.al), accessed (19.10.2011).

227 [www.sigal.com](http://www.sigal.com), accessed (27.10.2011).

228 [www.sigma-al.com](http://www.sigma-al.com), accessed (27.10.2011).

In December 2005, the company Dukagjini-Al sh.a. not holding on to the competition in the market and failing to respond to the demands of time, sold its shares 100% and in March 2006 appeared in the market with a new name "Eurosig" sh.a., wholly owned by new domestic shareholders<sup>229</sup>.

The company's market position has strengthened and it has been constantly increasing. In the closing figures of the year 2010, the company's share in the market reached the level of 7.17% by assembling a net value of the total turnover of 460 million lek. The equity capital of the company amount to 508.88 million lek where 88% of this amount consists of money and 12% of capital contributions in the firm.

There are a number of sectors and industries in attracting foreign investment that could be mentioned. Such as: energy, mining, oil and gas. In these areas can there have not been serious investments by foreign firms in proportion to the opportunities that Albania offers. In the following 5 years there are expected to be built hydropower plants. The contracts for these powerplants have been signed between the Albanian state and concession companies with a value of more than 1.3 billion euros. The concession contracts stipulate the construction of 264 power plants with total installed capacity of approximately 1055 MW and average annual output of electricity of 4.5 billion kWh<sup>230</sup>.

One of the major investments is the construction of three hydropower plants in Devoll by Austrian firm EVN and Statkraft of Norway. There is also one hydropower plant in Ashta of Shkoder with an estimated 160 million euros by the Austrian firm Verbund.

Another successful project is the concession of oil terminal Petrolifera in Vlore, an Albanian-Italian investment worth 57 million euros, which was inaugurated in June 2009 in the southern city of Vlore.

One of the most successful concessions is Tirana's international airport, managed by a consortium of Hochtief Airport, Deutsche Investitions, Entwicklungsgesellschaft mbH and the Albanian-American Enterprise through a Build–Own–Operate–Transfer contract type (BOOT) for a period of 20 years. In 2009, the airport served 1.4 million passengers, 180% more than in 2005.

In the oil industry, the government has reached agreements in the field of hydrocarbons for the existing wells and exploration with companies like Medoil United Kingdom, Rockall Island, DWM Petroleum (Switzerland), Bankers Petroleum (Canada), Albania Stream Petroleum Ltd (Canada) and Sherwood Company. Recently, the government has started negotiations for two new

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<sup>229</sup> www.eurosig.al, accessed (27.10.2011).

<sup>230</sup> www.mete.gov.al, accessed (06.11.2011).

agreements with IEC Visoka Company and DWM Petroleum AG for blocks 2 and 3 for underground exploration<sup>231</sup>.

Tourism is a sector that has taken very little foreign investments, because that the law of private properties is still problematic.

The transition from centrally planned economy to market economy many transformations have been part of the government's agenda of these years. These are changes to areas such as political, economic, social, legal, etc... Land reform, financial market reform, price liberalization and privatization are some of the most important reforms of the economy. These processes are still continuing and are about the regulation of business atmospheres and reduction as much as possible of legal and administrative procedures in the establishment of foreign business in Albania. Due to these reforms, according to the Index Performance of Foreign Direct Investment of UNCTAD's, Albania has moved from 80-th country that was in 2006, and was ranked 25- th in 2009<sup>232</sup>.

**Table 1: Albanian's ranking according the Inward FDI Performance Index and the Inward FDI Potential Index**

|                              | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------------|------|------|------|------|------|------|------|------|
| Inword FDI Performance Index | 39   | 58   | 68   | 78   | 51   | 33   | 23   | 18   |
| Inword FDI Potential Index   | 115  | 101  | 83   | 84   | 83   | 79   | 81   | .... |

Source: UNCTAD  
[http://www.unctad.org/Sections/dite\\_dir/docs/WIR11\\_web%20tab%2028.pdf](http://www.unctad.org/Sections/dite_dir/docs/WIR11_web%20tab%2028.pdf), accessed on 19.01.2012.

While at the World Bank report "doing business", in terms of ease of doing business, for 2011, ranked Albania in the 82-nd place out of 181 economies<sup>233</sup>.

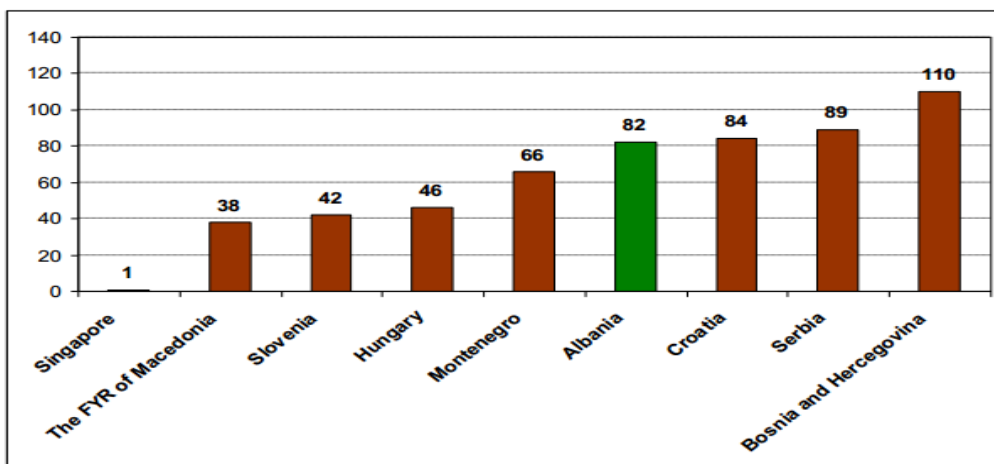
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231 METE, Report on Foreign Direct Investment in Albania, 2010, p.53.[http://www.mete.gov.al/upload/fdi\\_report\\_2010.pdf](http://www.mete.gov.al/upload/fdi_report_2010.pdf), accessed (13.01.2012).

232 Ibid, p.12, [http://www.mete.gov.al/upload/fdi\\_report\\_2010.pdf](http://www.mete.gov.al/upload/fdi_report_2010.pdf), accessed (13.01.2012).

233 <http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/annual-reports/english/db12-fullreport.pdf>, p.77.

Figure 4: The facility of doing business: global ranking of Albania and other countries



Source: World Bank, IFC, Doing Business, 2011: Changing Enterprises, Published by Palgrave MacMillan, IFC and World Bank in Washington D.C. available at: <http://www.doingbusiness.org/documents>, accessed on 12.12.2011.

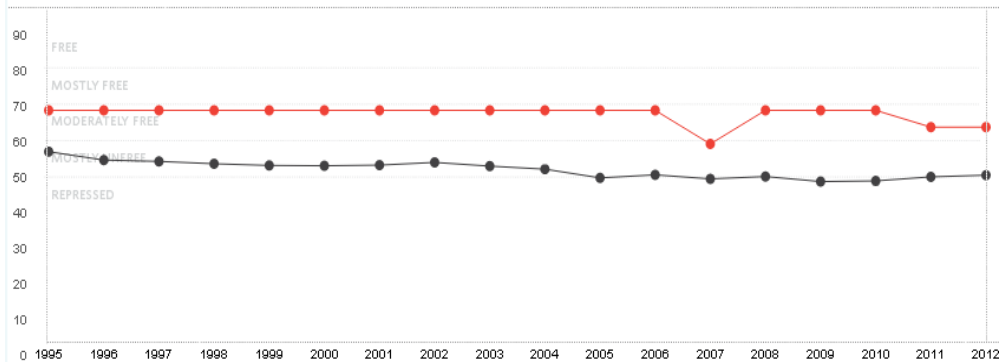
As regards the ten most important areas of business doing indicators there is a huge gap between the performances of the country according to different indicators. According to the report, in beginning a business, Albania was ranked in 68-th place in 2009, ranked 46-th in 2010, and in 2011 moved to 45-th to place of global ranking. Most problematic factors that hinder competition in Albania, according to this report are: access to finance, corruption and tax regulations<sup>234</sup>.

While the report of the World Bank and the Economic Freedom Index for 2010 Foundation Heritage Foundation, Albania is ranked as the 53-rd by 179 countries but in 2012, undergoes a decrease of 4 seats. Investment across borders Albania places it among the ten rapid countries of the region in terms of the initial process of foreign companies.

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<sup>234</sup>World Bank Publications:World Bank Report 2011, <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf>, accessed (12.12.2011).

Figure 5: Index of economic freedom/investment freedom, 2012



Source: The Heritage Foundation, Albania Ranking,

<http://www.heritage.org/index/visualize?countries=albania&type=6>, accessed on 30.11.2011.

- Albania's rank average
- World's rank average

In 1993, Albania adopted a legal framework in favor of FDI, which consequently improved where the economy would be open to all investors regardless of foreign or domestic. According to the law both of these two categories are equal, except some sectors such as: production of weapons, domestic maritime transportation, fishing and notary services and enforcement. Foreign investors allowed buying land through their companies without any restriction. Also, foreign companies can easily employ are foreign workers. The following are the stages taken during the period 2006-2010<sup>235</sup>.

Reform of business registration process is maximally simplified on a day, which is made online. As well as the steps were reduced from 10 to 5. Issuance of licenses is much simplified and the need for licenses for many activities has been removed. Fiscal reform has also changed in favor of gradually reducing the investor's income tax rate from 25% in 2000 to 10% in 2010, changing the income tax and reducing the tax burden on income from work. Trade policy is a policy in accordance with the Common European Trade (European Common Commercial Policy) and has fully liberalized regime of import-export goods. Meanwhile, in terms of special conditions of investment they benefit from exemption from customs duties on

235 Raporti i Investimeve te Huaja Direkte në Shqipëri, 2010, Foreign Direct Investements Report in Albania, p.55.

[http://www.mete.gov.al/upload/fdi\\_raport\\_2010.pdf](http://www.mete.gov.al/upload/fdi_raport_2010.pdf), accessed (30.11.2011).

imported machinery and equipment used for capital investment. Free spaces & Industrial Parks are projects that the Albanian government provides approximately 60 million euro investment and the creation of 30.000 new work places. Privatisation and Public Private Partnership (PPP) have been important parts of the country's reform process. Foreign investors are allowed 100% ownership of privatized enterprises<sup>236</sup>.

The government has given concessions in different sectors such as energy, mining, infrastructure and management of water supply and sewerage system in some cities of Albania. While the plans for privatization are: privatization of strategic state assets that have not yet been privatized, mainly oil company's assets of Albpetrol, the Albanian minority share in Albtelecom land telephone operator and the Insurance Institute (INSIG).

Challenges that the government of Albania faces, have always been informal economy which negatively affect tax revenues as well as the circulation of money in the banking system in the economy, which at the same time is perceived by foreign investors, corruption and general lack of transparency continued to democracy and multinational enterprises to invest in Albania, as well as poor infrastructure, including transport and communication which create barriers to business and the economy in general.

### **Albanian Application**

In this research the FDI in Albania has considered only post-communist period where it can be stated precisely and after 2000 as these years and after investments are concrete and significant. As well as data related to this theme are more accessible and more detailed after this year.

The data are taken from various sources such as the BoA, UNCTAD, FDI Confidence Index, Regularly survey conducted by Kearney, the World Bank Database, EBSCO database of EPOKA University.

Discussing in terms of GDP, Albania is a rather average country compared to other countries in the region.

As it seen from the data when the neighboring countries the percentage of foreign investment decreased, in Albania is quite the opposite, it increased. During the years 2008-2009 the percentage of investment in Serbia shifted from 8.75% to the year 2007 down to 6.13% and 4.47%, while in Albania from 6.11 in 2007, which is growing at 7.23% and 8.14%. It also has a fluctuating discount in Bosnia Herzegovina and Macedonia.

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<sup>236</sup> Ibid, p.58, accessed (30.11.2011).



Table 2: Foreign direct investment in Albania compared to the region

| % FDI/GDP              | 2000  | 2001   | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  |
|------------------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Albania                | 3.88% | 5.07%  | 3.03% | 3.15% | 4.57% | 3.13% | 3.56% | 6.11% | 7.23% | 8.14% |
| Bosnia and Herzegovina | 2.65% | 2.06%  | 4.03% | 4.56% | 7.08% | 5.65% | 6.27% | 13.6% | 4.98% | 1.38% |
| Croatia                | 5.21% | 6.92%  | 4.16% | 6.05% | 2.65% | 4.02% | 7.05% | 8.53% | 8.65% | 4.61% |
| Macedonia              | 6%    | 13.01% | 2.78% | 2.54% | 6.02% | 1.67% | 6.66% | 8.83% | 6.17% | 2.69% |
| Serbia                 | 0.85% | 1.56%  | 3.76% | 7.15% | 4.34% | 8.13% | 17%   | 8.75% | 6.13% | 4.47% |

Source: <http://open.data.al/lajme/lajm/id/205/titull/Investimet-e-Huaja-Direkte-ne-Shqiperi-Krahasuar-me-Rajonin>, accessed on 30.11.2011.

What has been the link between investments and GDP during the years 1995 to 2010? Did it have a good effect or bad effect the FDI in Albanian GDP?

Table 3: Database for regression

| YEARS | FDI | GDP (million dollar) |
|-------|-----|----------------------|
| 1995  | 70  | 2,424                |
| 1996  | 90  | 3,013                |
| 1997  | 48  | 2,196                |
| 1998  | 45  | 2,728                |
| 1999  | 41  | 3,434                |
| 2000  | 143 | 3,687                |
| 2001  | 207 | 4,091                |
| 2002  | 135 | 4,449                |

|      |       |        |
|------|-------|--------|
| 2003 | 178   | 5,652  |
| 2004 | 341   | 7,464  |
| 2005 | 262   | 8,376  |
| 2006 | 325   | 9,133  |
| 2007 | 662   | 10,705 |
| 2008 | 959   | 12,969 |
| 2009 | 964   | 12,045 |
| 2010 | 1,110 | 11,786 |

Source: World Bank, <http://databank.worldbank.org>, accessed on 03.12.2011.

The regression equation is;

$$Y = \alpha + \beta X + e$$

Where:

Y- is the depended variable, what is being predicted or explained, GDP.

$\alpha$  - is the expected intercept parameter, equals the value of Y when the value of X=0.

$\beta$  - is the expected slope, how much Y changes for each one-unit change in X.

X- is the independent or explanatory variable, FDI.

e - is the error term; the error in predicting the value of Y, given the value of X (it is not displayed in most regression equations).

After running the regression analysis the following results are:

**Table 4: Summary Output/Anova**

| SUMMARY OUTPUT        |             |
|-----------------------|-------------|
| Regression Statistics |             |
| Multiple R            | 0.927392621 |
| R Square              | 0.860057074 |
| Adjusted R Square     | 0.850061151 |
| Standard Error        | 1480.072704 |
| Observations          | 16          |

| ANOVA        |              |                |          |          |
|--------------|--------------|----------------|----------|----------|
|              | df           | SS             | MS       | F        |
| Regression   | 1            | 1.88E+08       | 1.88E+08 | 86.04078 |
| Residual     | 14           | 30668613       | 2190615  |          |
| Total        | 15           | 2.19E+08       |          |          |
|              | Coefficients | Standard Error | t Stat   | P-value  |
| Intercept    | 3119.27592   | 520.099        | 5.997466 | 3.27E-05 |
| X Variable 1 | 9.720647723  | 1.047956       | 9.275817 | 2.35E-07 |

The equation gained by running the regression analysis is:

$$Y = 3119 + 9,72X$$

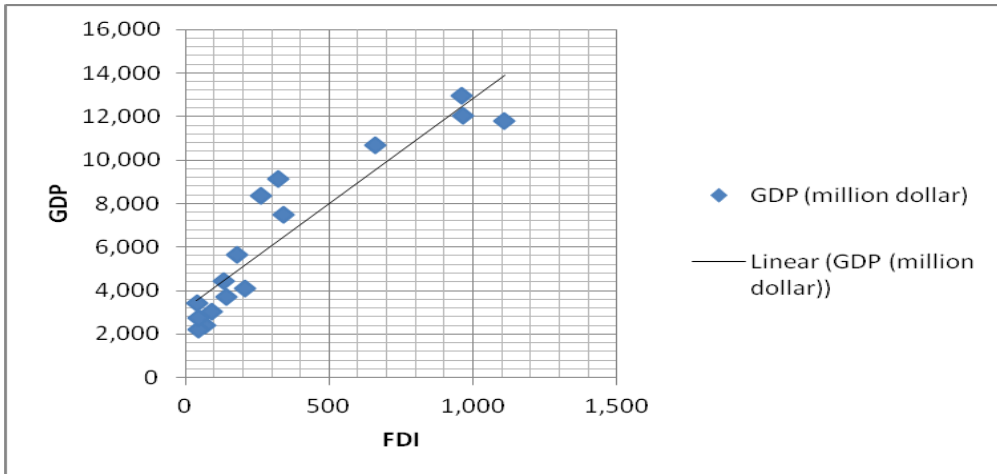
If  $X = 0$ , then  $Y = 3119$ .

t- statistics = 5,997, that is bigger than 5, it means that the b coefficient is statistically significant, so this means that the independent variable or X (foreign direct investment) should be kept in the regression equation, since it has a statistically significant relationship with the dependent variable or GDP.

R<sup>2</sup> - is a measure of association; it represents the percent of the variance in the values of Y that can be explained by knowing the value of X; from the summary output, R<sup>2</sup> = 0, 86 which is then 0.5. This means that there is a strong and significant relationship between Y and X. So there is a strong and significant relationship between GDP and FDI. Interpreting differently, 86 % of change in GDP is explained by FDI.

The regression equation can be interpreted as; any 1 million USD increase in FDI, would increase the value of GDP by 9,72 times. Or every 1 USD of GDP comes from 0.86 lek of FDI and 0.05 from other factors.

**Table 5: Linear Regression**



**Conclusion**

As a conclusion, as it could have been easily foreseen by the field specialists, the transition from a centralized economy to a market economy, where every factor would not be determined by the State Party but from the global economy, part of which Albania had decided to be, wasn't going to be easy and this transformation required time to adapt to the new politics in Albania and the Albanian people and vice-versa. And that is what happened, the transition took place gradually in a 10 year period of time, and the same amount of time was required for the serious foreign companies to come and invest in Albania.

Regarding the research done in this work and based on the data above it is shown that FDI in Albania during 1995 years were not in substantial numbers to affect the Albanian economy, this due to the political transition that Albania had in this period. It needed about five years that Albania could recover its political state, to stabilize, to improve its image toward the world and to win the confidence of foreign investors. After the year 2000 thanks to the improvement of Albanian politics and commitment of the Albania government in attracting FDI there was a considerable increase in FDI so as to affect the Albanian GDP. In our days the FDI have a considerable effect on GDP, if FDI increases GDP also increases. If FDI decreases, GDP also decreases. Despite a decline that had FDI during 2005-2006 there was a rise in the coming years. FDI have been developed despite global and regional trends in economic and financial crisis, indicating a steady rise until 2010.

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## INDUSTRIAL PARKS IN THE BALKANS AND THEIR PERFORMANCE IN COMPETITIVENESS GROWTH AND FDI's ATTRACTION

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### Abstract

*Industrial Parks are a widespread initiative of the last decades especially in those countries that are trying to attract FDI's<sup>237</sup>, to promote rapid industrialization and to achieve a more balanced regional distribution of production and employment. Industrial Parks provide optimal conditions for foreign investors and other entrepreneurs developing competitive industrial activities, because the parks ensure infrastructure, utilities and administration standards above the national average. Therefore they contribute directly in improving the country's attractiveness especially for foreign investors that otherwise would have little or no motivation to invest.*

*This paper aims to explore the Industrial Parks experience in Albania and other Balkans countries and their FDI performance in order to evaluate the real outcome in comparison with their perceived advantages.*

*For this purpose, it was conducted a wide literature review and a comparative analysis of Industrial Parks development in the Balkans and their FDI performance. Also a considerable number of half structured interviews were conducted with experts of actual and former units in charge of Industrial Parks development in Albania in order to identify success factors and common problems that may lessen their impact as FDI attractors.*

**Keywords:** *Industrial Parks, FDI's, competitiveness*

### Introduction

Industrial Parks, as a very wide spread type of Economic Zones, have rapidly proliferated in the last decades in developing countries, and not only. Two phenomena contribute to such acceleration: first, all developing countries have shifted their growth politics toward export oriented strategies, which are considered optimal to increase employment and facilitate the entrance in the global economy (Giles, Williams, 2000). Second, with the intensification of global competition, the production of labor-intensive goods in particular, has shifted toward developing countries, due to their abundant labor supply and relatively low cost.

The standard definition of an Economic Zone applied by international organizations (World Bank 1992, UNIDO 1995, ILO/UNCTC, 1988) states that it is an industrial

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237 FDI – Foreign Direct Investment

area that constitutes an “island” or enclave where the commercial code in force in the host country (regarding licensing, red-tape procedures, and other free trade barriers) does not apply.

An Industrial Park adds to the up mentioned features considerable advantages in infrastructure quality, utilities, business services and management. These advantages include lower costs deriving from economies of scale, and the possibility for industrial clusters to form, which means better quality and lower costs for inputs, knowledge and information spillovers, and greater power in client-supplier relations (common suppliers and distribution channels). In other words, an Industrial Park guarantees optimal legal and economic conditions to attract investments and enterprises, in order to develop competitive industrial activities (UNIDO, 1997). Combined with a strategic geographical location, IPs can improve the host country’s competitiveness in attracting foreign investors that otherwise would have little or no motivation to invest.

Multiple empirical studies argue that Industrial Parks have positive effects for the host country that go beyond economies of scale and beyond their geographical borders: they contribute to the attraction of advanced technology; they offer access to international distribution channels; they contribute in improving the performance of local businesses by knowledge and information spillovers, and catalyst and demonstration effects; they offer a great possibility for managerial staff training (Brown & Hendry 1998, Belussi & Pilotti 2002, Boari & Lipparini 1999, Visser & Boschma 2003, etc.). Positive side effects of IP development for the host country include growth in the business volume not only for companies operating inside the parks, but also for those operating outside the parks all over the country, due to supplier-client connections in the value chain (Rhee, 1990).

Considering the benefits that IP development represents for the investor, but most of all for the host country, it can be easily understood why developing countries in particular have implemented or are on the way of implementing such projects.

Balkans’ countries make no exception, showing a clear tendency in developing IP projects. Bearing the burden of years of conflict and political instability, infrastructural deficiencies and economical backwardness, the Balkans is trying to enter a new, more positive era. The prospect of EU accession is contributing to market reforms, and is also raising the region’s attractiveness for businesses. Roads, railways, ports and airports are being upgraded and expanded as trade flows are increasing. It is the Balkans’ strategic location between Europe and Asia that gives the region huge potential to become a key hub for direct trade between the two continents.

This paper will try to explore the Industrial Parks experience in the Balkans’ countries and their FDI performance in order to evaluate their outcome in comparison with their perceived advantages. It will also try to identify the most successful models and the factors that have contributed to such success, as well as common problems and difficulties that can hinder their performance and diminish the expected benefits.



## Methodology

The methodology used in this study consists mainly in qualitative research methods. The first part of the study is based on a wide literature review regarding Economic Zones and Industrial Parks features, advantages, and implementation issues. IPs contribution in FDIs attraction and competitiveness is discussed in detail, pointing out some of the preconditions for successful implementation. It also tries to establish the criteria for IPs' performance evaluation.

The second part consists on a wide comparative analysis of Economic Zones and Industrial Parks initiatives in Balkans' countries that intends to explore: EZ238 and IP239 experience in Balkans' countries; their performance in FDI attraction, employment and general economic development. The most successful models are pointed out, trying to establish the factors that have contributed to such success, as well as some unsuccessful models are analyzed in order to understand the reasons behind their failure.

The third part focuses on IP initiatives in Albania. There are used primary sources by conducting a series of face to face semi-structured interviews, consisting of open ended questions. The interviewed are experts including high rank executives in METE240, directors and specialists of IP development Unit near METE, METE specialists for Economic Zones, State Aid, Commercial Policy, representants of assistance programs in Albania (UNDP Trade Liberalization and Promotion Project) and former directors and specialists of former Free Zones National Unit.

Industrial Parks and their performance in competitiveness growth and FDI attraction IP development is considered by many authors as an instrument for economic development that offers considerable benefits for all parties involved: for the investor, for the economy of the host country in general and for the region. IPs can play a useful role particularly in countries which intend to develop an export-oriented manufacturing sector, but do not have adequate countrywide conditions for foreign investment (UNIDO, 1997).

### Contributions of IPs' for the investor

By investing in an IP, the investor gains access to the comparative advantage of the host country's economy: geographic location, low cost workforce, political-legal stability, technological and/or scientific infrastructure, free trade agreements, government incentives, and the efficiency advantages of the IP.

IPs are mainly located in attractive hot spots for exporting industries, offering access to transport infrastructure and work services. Because of industrial spatial concentration, economies of scale can be achieved in infrastructural services (energy and water supply, communication and waste processing), technical services

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238 EZ – Economic Zones

239 IP – Industrial Park

240 METE – Ministry of Economy, Trade, and Energy

(maintenance, engineering), security services, supporting services (accounting, IT, banking, work services, etc.).

The IPs' contributions for the investor can be summarized as follows:

IPs reduce the cost of capital investment to the industrialist;

Eliminate delays for the industrialist in obtaining a suitable site, utilities and buildings.

Encourage more effective use of resources through the development of large-scale industrial complexes (including diversified industries of all sizes centered on major projects such as ports, airports, railroad and highway junctions, power plants, oil refineries, steel mills and chemical plants).

Improve product quality and increase productivity;

Offer access to strategic transport links and markets;

Offer incentive packages for companies with satisfactory performance.

Contributions of IPs' for the host country and the region:

Supporters of IP development sustain that one of the most important advantages of IPs is the growth of FDI flows into the host country, which derives from the growth of the host country's competitiveness in attracting FDIs. Economic growth is stimulated as result of the value added (wages and taxes) and the development of mutual industrial, commercial and services relations with international markets.

These authors argue that IPs are a solution for the region too, since they create demand in the work market, with a vast variety of jobs that would encourage technological education, and also promote growth of economic activity in regions currently facing stagnation, attracting new inhabitants (Eldar, 1992).

The IP's contributions for the host country's economic growth and competitiveness can be summarized as follows:

- IPs attract private investment both national and foreign;
- They promote more rapid industrialization of the country;
- Increase national and local employment;
- Achieve a more balanced regional distribution of employment and production, and consequently more balanced regional growth;
- Attract advanced technologies;
- Promote development of local businesses from knowledge spillovers and demonstration effect;
- Induce structural changes in production and employment, especially diversification;
- Train labor and increase its productivity;
- Train managers and implement new forms of management;
- Achieve economies in investment in public infrastructure.
- Industrial Parks' performance evaluation criteria

After discussing the contributions of IPs to FDI attraction and economic growth and development, it is important to discuss some of the criteria that can be used to measure such contribution, in other words to evaluate their performance. In fact, IPs performance evaluation criteria are different in different countries and cannot be fully unified. This derives from the fact that the objectives they seek to fulfill are also different: some countries use them as instruments to improve business climate and attract FDIs, others as instruments to boost exports, technological development, employment, human resources development, etc. Anyway, some of the most widely and frequently used criteria for IP performance evaluation are the following:

- Quantity of FDI's attracted in the IPs (value).
- Number of multinationals located in the IPs.
- Percentage of the IPs exports to total exports of the country.
- Number of new jobs created
- Number of high-tech investments;
- Efficiency and productivity levels in comparison with companies operating outside the IPs.

#### IP development experience in the Balkans

Bulgaria: Several IP projects have been implemented in Bulgaria, such as Rakovski, Kuklen, Maritsa, Parvomai, Letnitsa, etc. for a total of 19 industrial zones. The first IP, Rakovski, was established in 2005, as a public-private partnership. While the establishment of these parks was not limited geographically, there was a clear emphasis that they should, where possible, be related to strategic transport locations including sea or river harbours, international airports, transport shipment centres or along major transport highways - the objective being to facilitate speedy transportation of goods on international trading routes to and from neighbouring countries, so that the supply and distribution is obstacle free. Due to the strategic location of Bulgaria, 5 out of the 10 Trans-European Corridors pass through the country. And 3 out of these five pass in close proximity to Rakovski Industrial Zone (Invest Bulgaria, Fact Sheet, 2010).

The land for the projects' development was provided by the Government, which was also responsible for providing the zones with the necessary infrastructure, being owner (even in a small part) of every zone.

Some of the main services offered to investors in these IPs are: Land with changed status ready for industrial construction; Designing and building of facilities according to investor's specifications; Building manufacturing facilities with leasing schemes financed by banks; Financial, fiscal and legal consulting; Human resources services; Administrative services and short realization period; Issue of all necessary initial construction permits and final approval documents; Railway services in the zone; All other feasible investors' suggestions. etc.

For certain investors that fulfill criteria regarding capital investment and job creation, there can be exemptions on customs duties for capital equipment used for manufacturing activities inside the IPs.

Bulgarian IPs have attracted a vast number of foreign investors such as Hyundai, Daewoo, Kia Motors, CITCO, Schwartzkopf, Henkel, Landmarl Chemicals Ltd., Schneider and BINDL Energic Systeme GmbH.

Croatia: A part for a number of technology parks, which are really incubators - single buildings serving small and growing technology companies (OECD, 2007), the only Industrial Park (following our definition) in Croatia is Nova Gradiška (IPNG). It is positioned on the main international motorway E70 which connects West Europe with South-east Europe and Asia. It is also in the close proximity with European corridor 5C which links North and Central Europe with the Mediterranean.

For important investment projects, which are determined by the type of investment, new jobs created and the value of investment, a competitive package of incentives is available on national and local level. Investors that invest more than 150,000 EUR and employ at least 5 workers will be exempt from paying utility fees fully for the first year, 50% for the second year and 25% in the third year of operation. Also, investors whose investment values reach 270,000 – 6,700,000, and who employ 7-60 employees are exempt from municipal contributions from 25% to 100%. Significant direct assistance was provided by USAID during IPNG's start-up phase, including advice on potential users, ownership issues, workforce, parceling, infrastructure, and local incentives.

To increase FDI and domestic investment, a number of activities were conducted such as disseminating information on investment opportunities in Croatia including competitive and comparative analyses of site location factors; linking potential investors to other investors already operating in Croatia; searching for appropriate sites; organizing and supporting investor on-site visits, follow-up requirements, and aftercare services; providing matchmaking services for strategic partnerships or joint ventures between local and foreign companies; and facilitating access to finance for new investment projects. Today, the zone has 9 beneficiary companies that have invested \$7,700,000 and employ 150 people. With EU support, the much-needed new Computer Numerical Control (CNC) Programming training center has been built within the Park. Further Park expansion is planned in the near future.

Macedonia: The Technological Industrial Development Zones (TIDZs) in FYR Macedonia have been built on the concept of Free Economic Zones. With the current incentives for investing in one of the four TIDZs in the country (Tetovo, Skopje 1, Skopje 2, and Stip), these zones seem to be some of the most attractive tax propositions in the Balkans (PricewaterhouseCoopers report, 2011).

The zones' land is available under long-term lease (up to 99 years). Companies located in TIDZs are exempt from paying fees for land-building permits. In addition, companies starting their operations in the zones have free access to infrastructure for connections to natural gas, water, sewage and electricity.

The most important incentive of TIDZs applicable to all companies located in the zones is the 10-year tax holiday from paying both profit tax and personal income tax. Furthermore, TIDZ-operating companies are exempt from the payment of VAT

and customs duties for goods, raw materials, equipment and machines used for export production. A Green Custom Channel is also available for express service of exports to the EU (PWC, 2011).

Further incentives are given to certain companies. In selected cases, and with the approval of the Government, training and building costs of up to EUR 500,000 may be covered by the Government if the interested party/investor is a multinational company transferring all or a portion of its business to a TIDZ in FYR Macedonia.

The zones have already attracted investors like Johnson Controls, Johnson Matthey, TeknoHose, Kemet, Protek Group and Motherson Group for a total of investment of nearly 190 million USD. Important investors are those belonging to the automotive industry like Johnson Controls (with a 40 million USD investment at Skopje 1 and 300 employees that are expected to grow to 500 in 2013, and a 20 million USD investment at Stip TIDZ with 1300 new jobs created) and Johnson Matthey with a 60 million USD investment at Skopje 1 TIDZ.

Romania: The 2002 law on the establishment and operation of industrial parks define the industrial parks as limited zones in the boundaries of which economic, scientific research and/or technological development activities are performed by using the human and material potential available in the region. As a concrete expression of its commitment to the development of industrial /business parks government has set aside a fund of 583 billion lei from the state budget for the period up to 2006 to provide grants for park development.

The Romanian Government is being supported in its efforts by the European Union under the Phare 2000 Economic and Social Cohesion investment component.

The land property related to the industrial park has to comply cumulatively with all the following conditions: To ensure access to national or European roads; To be owned or used for at least 30 years by the company requesting the industrial park license; Not to make the object of any pending litigation in respect of its legal status; If more than one incentive regime is applicable to an investment, the investing company has to explicitly choose one of them (Pirciog, EURECO, 2005).

Local Chambers of Commerce have been assigned to provide full support to companies operating in industrial parks in obtaining the necessary authorizations and clearances.

Companies operating in industrial parks benefit from the following incentives, reinforced by the Fiscal Code: Exemption from payment of taxes for modifying the land destination or land withdrawal from the agricultural use in order to be used for the industrial park; Deduction of 20 % out of the value of the new investments in industrial park applied in constructions for transporting and distributing electric and thermal power, natural gas and water, etc;

By this time in Romania there are more than 45 industrial parks according to the Romanian Agency for Foreign investment, although the IBC Focus Report includes a database of 91 Industrial Parks and 30 Logistic Parks. As many as 189 new multinational companies are expected to invest in Romania in the next decade

Serbia: Up to 2009 Serbia counts 64 planned Industrial Zones Parks, of which only one refers to a brownfield locality revitalization of the old industrial zones in Smederevo, while the others refer to greenfield IZs and IPs.

One of the IPs that have received greater attention is the one of Indija, which has attracted in the last 5 years more than 300 million EUR foreign investments. Actual investors include Microsoft, Grundfos GROUP, TerraProduction, Thyssenkrupp, Monbat, Henkel, Bauerhin, Esca Food Solutions, Lagermax, Gombit, Remax, VanCo, etc.

Incentives include : Corporate tax rate of 10%; 10 year Tax Holiday for investing over EUR 7.5 million and creating 100 jobs; Tax credits for investment in fixed assets up to 80% of assets value; Various government subsidies for creating new jobs; Carrying Forward of Losses for up to 10 years; Tax Exemptions for Concessions for 5 years; Tax credits for employing new workers for 2 years in the amount of 100% of gross salaries (Zekovic, 2009).

Turkey: According to the investment program of the Ministry of Industry and Commerce of Turkey in 2005, 116 industrial parks (in part of which infrastructure construction was still going on) were part of this program (Türk, 2006). The first IP in Turkey Is Bursa Industrial Park established on 1968.

One of the most well known is Gebze Industrial Park (GOSB, Gebze Organize Sanayi Bolgesi), created in Istanbul on 1986, is the first private park in Turkey. In these last years there were located several global companies like Alarko Carrier, Colgate-Palmolive, Procter & Gamble, Corning Cable, Roche, etc. With the termination of the second and third phase, GOSB plans to accommodate 400 companies with a total investment of 6 billion \$ and 45.000 jobs. GOSB is recognized as “best-practice” by many national and international organizations due to effective and transparent functioning of the regulatory authority, and also due to the ability to employ private resources in order to create a world class physical infrastructure.

At the same time GOSB is following ambitious projects like GOSB Techno park, which accommodates 65 high-tech SMEs focused on research and development projects. Some of GOSB advantages are as follows:

1. Strategic location: 30 minutes from Istanbul (the largest market, and the highest quality human resources in Turkey), 30 minutes from Kocaeli, the province with the highest GDP per-capita in Turkey and highest industrial density. It is located near TEM highway, a 6 lane highway connecting Ankara, Istanbul and Edirne, a location near the border and an important gateway to Europe. Low transport costs due to proximity to Derince and Haydarpaşa seaports and to the Sabiha Gökçen airport.
2. Highly qualified, affordable and available workforce.
3. Quality of infrastructural services. World class standards and many solutions to make industrialist’s productive activities easier. Apart energy, telecommunication, natural gas, water, waste and waste water, fire safety and security services, GOSB provides fiber optic connection for all companies with the vision to become a

“smart-zone”. Another project on the way is “telecom” which makes international phone calls even cheaper than local calls, while calls between companies inside GOSB are free.

4. Economies of scale in buying most of utility services which can be offered to the entrepreneurs at cheaper rates than the market, but also in an reliable and efficient way.

5. Consulting services to minimize the regulatory burden for the investors. GOSB functions as a true “one-stop-shop” which is another attractive factor for companies to invest there.

Albania: Actually speaking, there are 7 Economic Zones with the status of Industrial Park approved, of which 2 have been identified and proposed by METE structures (the zone of Spitalla – Durrës and the zone of Elbasani – former metallurgic plant brownfield), and the other 5 are unsolicited proposals from private investors or local government.

The Albanian government has applied a set of liberal fiscal policies during the last years. These policy measures consist of: Reduction of corporate and personal income taxes from 20 %, implementing a “Flat tax” of 10% since 1 January 2008; Tax rates 10% on personal income tax; Unification of the simplified profit tax and the tax on small business. Local authorities are now responsible for the collection of the new tax; Reduction of the fiscal burden of social security paid by employers from 29% to 20%; A 30% reduction of electricity rates for businesses; A tax exemption of dividends designated for investments.

**Table 1. Industrial Park Projects in Albania**

| Zones and location                                  | Proposal   | Destination  | Investment Value                        |
|---|--|--|---|
| 1. Shëngjin Industrial Park, surface 3.2 ha         | “ATX International ” develop/ operate for 35 years | Industrial and Commercial Center. Light manufacturing industry.            | 17,054,152 €<br><br>1400 - 3000 jobs    |
| 2. Koplik Industrial Park, surface 61 ha            | AIIOA  | Industrial and Commercial Center.  | 16,374 jobs                             |
| 3. Spitallë, Durrës Industrial Park, surface 850 ha | METE   | Industrial and Commercial Center. Commercial and manufacturing activities. | 109 million ALL for feasibility project |

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|---|--|--|--|
| 4. Shkoder<br>Industrial Park,<br>surface 130 ha                                    | Shkodra<br>Municipality                | Revitalization of<br>brownfield                                  | 5.3 million<br>USD                           |
| 5. Vlorë<br>Industrial Park,<br>surface 125 ha                                      | “Idea Vlora”                           | Industrial Center.<br>Light manufacturing,<br>food processing.   | 20,819,797 €<br><br>18,586 jobs              |
| 6. Elbasan<br>Industrial Park,<br>surface 254.7 ha                                  | METE                                   | Revitalization of<br>former industrial<br>metalurgic plant area. | 41 million ALL<br>for feasibility<br>project |
| 7. Durrës<br>Proposal for “Free<br>Zone” at Durrësi<br>Port                         | KURUM<br>Steel Co<br>Sh.p.k.Tiran<br>ë | Ship repair activities.<br>Construction of new<br>vessels.       | 7.3 million €<br>600 jobs                    |
| 8. Vlorë<br>Proposal for “Free<br>Zone” and<br>containers port at<br>Triport, Vlora | “ZumaX<br>LTD”                         | Containers   | 1.7 billion €                                |

Source: METE

Albania, in spite of being a small market, may represent a very interesting location for FDIs because of its particular geographical position and proximity to the European market. It is crossed by Corridor VIII a long-term planned traffic axes development of the European Union. This corridor runs from South Italy to Varna on the Black Sea and is gaining importance because up to now functioning connections like Pireus, Thesaloniki and Bosforus, are facing and will continue to face lack of capacities and delays. Other factors that attract investors’ attention are: a dynamic work force of young age, low labor costs and relatively high economic growth rates in comparison to the neighboring countries.

These factors alone are not sufficient to create an attractive climate for investments without a competitive IP infrastructure, which will serve to overcome the deficiencies Albania has in transport and utilities infrastructure.

Other factors may hinder the implementation of IP projects in Albania leading to the attraction of an insufficient number of investors. These factors are mainly related to the image and attractiveness of Albania - endangered by the lack of political stability, corruption, property issues, lack of a strong and constant support from the government, or even lack of information regarding the opportunities Albania offers to foreign investors that derive by poor IPs marketing.



## Analysis and Conclusions

All Balkan countries have established or are in the process of establishing Industrial Parks as part of a FDI attraction strategy, but also as a strategy for industrial sector revitalization. Not all of them have been equally successful in achieving these objectives. Highest performance in FDI attraction is achieved in recent members of EU (Romania and Bulgaria) and in Turkey, although these countries have abolished fiscal incentives, focusing more on physical and technological infrastructure.

Fiscal incentives are still being used from Serbia and FYROM and Albania also attempted to use them. It is not a coincidence that these countries are those facing the greatest political instability and corruption problems, that's why they try to compensate these important competitiveness deficiencies by offering fiscal incentives. Anyway, harmonization with the legal and economical EU environment, will certainly bring to their abolition, since they are considered as instruments that distort competition.

Romania, Bulgaria and Turkey not only have large internal markets, but also ensure access to larger markets: Romania and Bulgaria being part of the EU, while Turkey being a strategic joint between two continents Europe and Asia. EU membership has offered Romania and Bulgaria extra financing advantages, although privately owned IPs have resulted in some cases equally successful.

Location is another very important factor that every country seem to have taken in consideration when selecting between IP projects, choosing strategic transport locations.

Location, stability, market size, incentives, input costs and IP infrastructure are some of the most important factors that determine IP's success in attracting FDIs. But as we mentioned before, there are other objectives that countries seek to attain by IP establishment, so success of IPs initiatives is also related with their contribution to industrial and technological development, volume of exports, employment, human resources development etc. Each country, in accordance with their specific national development objectives, offers differentiated performance oriented incentive packages.

Since some of these objectives cannot be easily measured in the short run (such as technological or human resource development, or exports), most of the countries analyzed by using the following criteria to measure IP performance:

- Value of FDI's attracted in the IPs.
- Number of multinationals located in the IPs.
- Number of new jobs created

From the analysis of the Balkans' countries IPs, some of the most important success factors result to be:

- Strategic geographical location
- Political stability
- Excellent IP infrastructure

- Interesting market size, or access to larger markets (EU)
- Strong support from the government
- Performance oriented incentive packages
- Support from EU funding
- IP government

Reasons for Industrial Parks not being able to reach success

1. Inconvenient location selection of the industrial park. Location selection of industrial parks is done according to administrative criterions instead of economic criterions. Establishment on agricultural land or touristic sites, damaging actual economic activities. Also, sometimes feasibility studies are carried out only formally (Türk, 2006).

2. Lack of sufficient financing causing delays in the construction of IPs' infrastructure. Considering that one of the main advantages of IP initiative is offering quick ready solutions for investors who are seeking a location, any delay means losing chances to find investors.

3. Lack of clear selection criteria for IP developers and lack of performance criteria for users, which can lead to the concentration inside the IPs of passive users, minimizing the positive impacts expected.

4. Lack of coordination. There exist clear policies regarding the selection of the IP projects and developers, for example "economical priority of the region", but sometimes no analysis exist to determine which are these regions. Also, being eager to wellcome any investment proposal, can cause concentration in the IPs of industries interesting mainly for the investor (labor intensive), while the major benefits from IPs are achieved from attracting industries that can contribute in the general industrial and technological development of the host country.

5. Poor IPs marketing.

6. Lack of sustainable and consistent support from the government.

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## THE FISHER EFFECT AND ALBANIAN APPLICATION

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### Abstract

*This paper is discussing The Fisher effect. Firstly, there is going to be explained in brief the theory of the Fisher equation, an identity that links the nominal interest rate to expected inflation, named after Irving Fisher. After that, there will be given examples of applications in some countries and finally we tested whether it can be applied in Albanian economy or not. The examples of the countries studied generally support the Fisher effect. There are some countries where strong Fisher hypothesis takes place, which is a one-to-one relationship; it is seen in 16 countries. There are others where simple Fisher hypothesis is verified. As for Albania, data will be taken for a period of 15 years, 1995-2009. The data used are the actual inflation and the nominal interest rates, integrated in ex-post Fisher equation. Excel program has been used to elaborate the data, using data analysis and regression functions. The outcome is supportive to Fisher effect. There exists a relationship between inflation and interest rates in Albania. This relationship is strong but not a one-to-one as implied by Irving Fisher. In years 1996 and 1997 a political and social turmoil took place in Albania. This caused an abnormality in inflation trend and figures so that unnatural high two digit numbers of inflation were registered. This slight deviation in the trend of inflation leaves intact the relationship between inflation and interest rates. Nevertheless it has some effect, i.e. negative effect, on the strength of the relationship. As a conclusion, Fisher effect theory holds true for Albania as there exists a strong relationship between inflation and interest rates.*

**Keywords:** *Fisher effect, nominal interest rate, Albania.*

### Introduction

In this paper the relationship between expected or actual inflation and interest rates will be discussed and tested. Examples taken for a vast number of countries show the empirical support for this relationship, also known as the Fisher effect. Different periods and countries have been taken into account. Generally the theory holds true and the empirical evidence, supports the strong relationship between inflation, sometimes expected and other times actual inflation due to a lack of information, and interest rates.

Information of the countries taken into account has been mined out of several books and some of the most relevant studies in the Fisher effect area. Most of the examples are taken from secondary sources. The author main part is in finding and elaborating information about Albania and how it incorporates in the Fisher theory.

According to the data being studied, there exists a fairly strong relationship between actual inflation and nominal interest rates.

The degree to which nominal interest rates respond to the expected inflation rate, with no effect in the real interest rate, is an important issue for a number of relevant questions in economics (Bajo-Rubio O., et al, 2010). Fisher hypothesis suggests that there is a positive relationship between interest rates and expected inflation. Boudoukh (1994) argues that this positive relationship exists at all horizon lengths.

Moreover, Yuhn (1996) reported that the Fisher effect is strong over long horizons in USA, Japan and Germany, and that the presence of the Fisher effect can be seen in the short-run for Germany. Therefore, the results obtained by testing for the Fisher hypothesis might be influenced by the time horizon that has been selected. Beside this, Yuhn also found that the Fisher effect is not robust to policy regime changes.

Application in other countries and the following dilemma whether the empirical evidence supports the theory or not will be tested.

The last part will include conclusions and review of how the mechanism works in Albania. The data that is studied is a 15 year long data and is used in yearly terms. Albanian case is generally supportive to the theory of the Fisher effect.

## Literature Review

In economics, market equilibrium occurs when the amount that people are willing to buy, better known as demand, equals the amount that people are willing to sell, known as supply, at a given price. Equilibrium is when supply and demand congregate. The price at that specific quantity is known as equilibrium price. The quantity at that specific price is known as equilibrium quantity. Market equilibrium is a dynamic variable which changes over time in response to different shocks either on demand or supply in economy.

Similarly, in the money market, equilibrium is achieved when the quantity of money demanded (Md) equals the quantity of money supplied (Ms) (Mishkin 2004):

$$Md = Ms \quad (1)$$

Equilibrium interest rate, where demand for money meets supply for money, determines the price of money known as the interest rate. The demand for money is the amount of cash that people prefer to keep plus checking accounts. There are three main reasons why persons would like to keep the money instead of bonds, which determines the demand for money. These motives are:

To settle transactions, since money is the medium of exchange.

As a precautionary store of liquidity, in the event of unexpected need.

To reduce the risk of a portfolio of assets by including some money in the portfolio, since the value of money is very stable compared with that of stocks, bonds, or real estate. While for the supply of money there is a different discussion. The money supply is a fixed amount which is established by the Central Bank (CB) of every country. The CB interferes whenever there is a tendency for the inflation to rise or whenever there is a shortage of money supply in the market. Instruments for doing this are direct and indirect. The CB of every country is always monitoring the market in order to preserve the level of inflation and to prevent large depreciation of domestic currency.

It is called the interest rate at which the money is borrowed, it is also known as the price of money, or the opportunity cost of it. The nominal interest rate is the real interest rate,  $r$  added by inflation,  $\pi$ . The interest rate is the price of money, the interest that settles the equilibrium in the market between the demand for money,  $M_d$ , and the supply of money,  $M_s$ . Lenders would require a nominal interest rate to recompense them for any possible loss in the purchasing power for the duration of the loan; such a loss represents the expected inflation rate.

The real interest rate,  $r$  is the real cost of borrowing money, and is given by subtracting inflation  $\pi$  to nominal interest rate  $i$ . This reflects more accurately the true cost of borrowing.

Real interest rate = nominal interest rate - inflation (expected or actual)

$$r = i - \pi \tag{2}$$

The real interest rate is the growth rate of purchasing power derived from an investment. By adjusting the nominal interest rate to compensate for inflation, you are keeping the purchasing power of a given level of capital constant over time.

For example, if you are earning 4% interest per year on the savings in your bank account, and inflation is currently 3% per year, then the real interest rate you are receiving is 1% ( $4\% - 3\% = 1\%$ ). The real value of your savings will only increase by 1% per year, when purchasing power is taken into consideration.

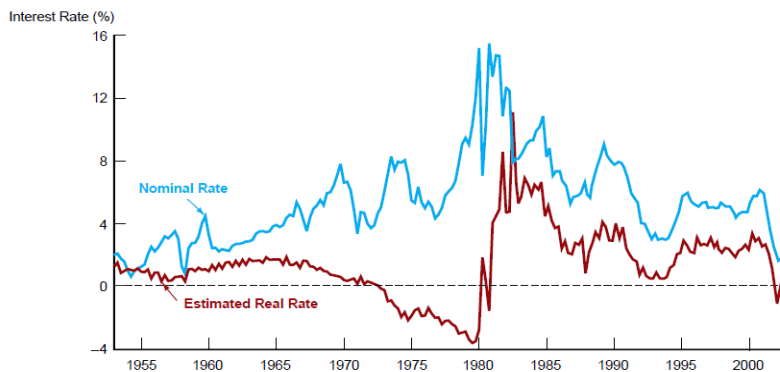


Figure 1: Nominal and real interest rates throughout the years 1955-2000 in US economy.

Source: Mishkin, p.125.

There is a distinction between interest rates according to the time they are discussed. When a borrower and a lender agree on nominal interest rate, they do not know what the inflation rate over the term of the loan will be. Therefore, a distinction must be made between real interest rate when agreement is made, called the ex-ante interest rate, and real interest actually realized, named ex-post real interest. Even though lenders and borrowers cannot predict future inflation, they have expectations. If  $\pi_e$  is expected inflation ex-ante real interest rate is  $i - \pi_e$ , and the ex-post real interest is  $i - \pi$ . It is clear that nominal interest rate cannot adjust to actual inflation, because actual inflation is not known at the time nominal interest rate is set. But it can adjust to expected inflation (Mankiw, 2007).

The Fisher effect, also named the Fisher hypothesis is defined as the one-for-one relation between the expected inflation rate and the nominal interest rate (Fisher, 1930).

“The Fisher equation is an identity that links the nominal interest rate,  $i$ , the real interest rate,  $r$  and the expected inflation rate,  $\pi_e$  and  $\pi$  respectively. It can be used in ex-ante and ex-post analysis”(Horn, 2008). So there are two different versions depending on the type of information that is available.

If one can find information about the expected inflation and the nominal rate this would be the ex ante Fisher equation, which means that people adjust the cost of borrowing, or nominal rate as stated above to the expected inflation  $\pi_e$ . Expected inflation, ex ante, is embodied in nominal interest rates. Investors want compensation for expected decreases in the purchasing power of their wealth.

The second type is the ex post Fisher equation, which decomposes the nominal interest rate,  $i$  into real interest rate,  $r$  and actual inflation rate,  $\pi$ . It is referring to this version later on this study when discussing about the Fisher effect. If investors feel that the prices of real goods will increase, better known as inflation, it will take increased interest rates to encourage them to place their funds in financial assets.

Mathematically the formula is:

$$i = r_a + \pi_e \iff r_a = i - \pi_e \text{ (ex ante)} \quad (3)$$

and

$$i = r + \pi \iff r = i - \pi \text{ (ex post)} \quad (4)$$

Where:

$i$  is the interest rate, i.e. the nominal interest rate.

$r$  is the interest rate, i.e. the real interest rate.

$r_a$  is the actual interest rate.

$\pi_e$  is the expected inflation.

$\pi$  is the inflation.

The actual Fisher Equation is:

$$i = r + \pi + (r\pi) \tag{5}$$

From this equation one can easily notice that a lender gets compensated for: rent on money loaned, in this case real interest rate or  $r$ .

compensation for loss of purchasing power on the principal, in this case the inflation or  $\pi$ .

compensation for loss of purchasing power on the interest, in this case  $r\pi$

From the equation it is shown that nominal interest rate can change for two reasons, either because real interest changes, or the inflation changes. The quantity theory of money shows that the rate of money growth determines the rate of inflation. If it is to be combined with the Fisher equation, money growth will affect nominal interest rate. Let's take an example to better understand how the lenders of the money, which in general are the investors and the financial institutions, modify or establish the nominal interest rate over their funds. Contract rate for: 1 year \$1000 loan when the loan parties agree on a 3% rental rate for money and a 5% expected rate of inflation.

**Table1: Example on how the lenders adjust interest rates to inflation**

| items to pay                       | calculation     | amount \$  |
|------------------------------------|-----------------|------------|
| principal                          |                 | \$1,000.00 |
| rent on money                      | \$1,000 x 3%    | 30.00      |
| purchasing power loss on principal | \$1,000 x 5%    | 50.00      |
| purchasing power loss on interest  | 1,000 x 3% x 5% | 1.50       |
| total compensation                 |                 | \$1,081.50 |

The third term, i.e. purchasing power loss on interest, in the Fisher equation is a very small number almost equal to zero, so it is dropped in many applications. The resulting equation is referred to as the approximate Fisher equation and is the following  $i = r + \pi$ .

If inflation rises from a constant level for instance, 4% per year, to a constant level, say 8% per year, currency's interest rate would eventually increase to get to the level of the higher inflation, rising by 4 points from its initial level. These changes leave the real return on that currency unaffected. When expected inflation rises, the



supply curve shifts to the right, and the demand curve shifts left. The equilibrium moves from point 1 to point 2, with the result that the equilibrium bond price falls from initial price  $P_1$  to final price  $P_2$  and the equilibrium interest raises from  $i_1$  to  $i_2$ .

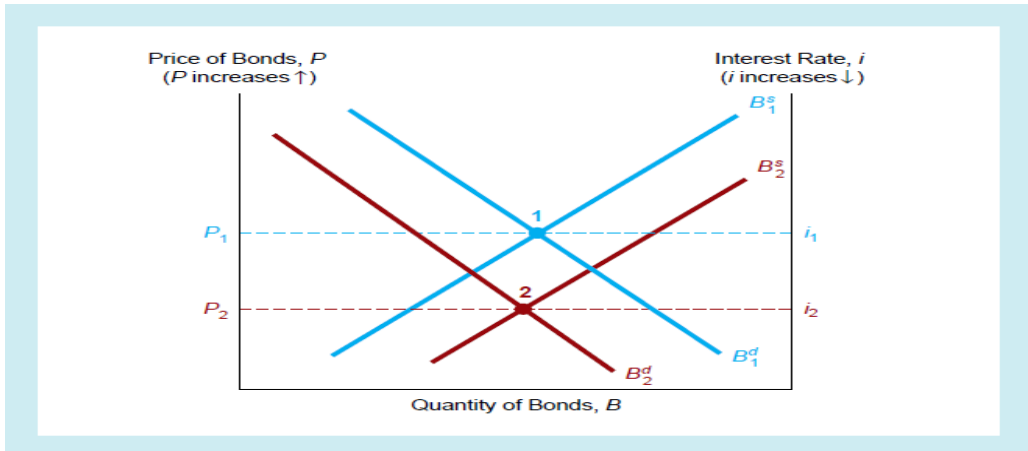


Figure 2: Example of the Fisher effect in bonds

Source: Mishkin, p.151.

The Fisher effect is evidence that in the long-run, purely monetary developments will have no effect on that country's relative prices, so when expected inflation rate increases, the nominal interest rates also increase, while the real interest rate stays the same.

In this part many countries are being studied. Data about inflation and interest rates have been taken in long periods to test the Fisher hypothesis. In many countries there exists the one-to-one relationship as implied by the theory. In some others there is just the weak form of the Fisher effect, where expected or actual inflation move in the same direction as interest rates, with the direction being from inflation to interest rates.

The Fisher equation has some interesting implications:

$$i \approx r + \pi$$

a. If  $\pi = 0$ , then  $i = r$ . In this case money is neither losing nor gaining any value. Thus, the cost of holding money is equal to its opportunity cost, the real return on assets.

Under this condition  $r$  cannot be negative, as  $i \geq 0$

b. If  $\pi > 0$ , then  $i > r$ . For a positive inflation rate, nominal interest rates will always exceed real interest rates.

c. If  $\pi < 0$ , then  $i < r$ . For a negative inflation rate (= an expected deflation), real interest rates will always exceed nominal interest rates.

d. For a given  $i$ , the higher  $\pi$ , the lower  $r$ :  $\frac{\partial r}{\partial \pi} = -1$

This case is particularly relevant if an economy is in a liquidity trap where  $i$  cannot be influenced by the central bank anymore. This is argued about Japan below.

#### Can Interest Rates Be Negative? The Case Of Japan

The answer is: nominal interest rates cannot be negative whereas real interest rates can.

The nominal interest rate,  $i$  is supposed not to be negative. If  $i$  was negative, holding money would be profitable. So it would be profitable to borrow infinite amounts of money and keep it until the end of agreement. But no individual or institution would agree to lend money under these circumstances.

Based on the definition of the cost of holding money:  $i = r - (-\pi)$ , it can also be concluded that holding money would be more attractive than investing in assets other than money:

If  $i$  was negative the cases would either be:

a negative real return on assets other than money:  $r < 0$ , or

a positive real return of holding money (that is a deflation):  $(-\pi) > 0$ , or

both

Nevertheless, there exists a rational explanation of negative nominal interest rates. If holding money was dangerous under some circumstances, or in some places, individuals would prefer to hold bonds or “pay a fee” in order to keep the money safe. This is a rational decision under some given conditions. A similar reason explains the occurrence of negative T-Bill rates in Japan in November 1998 where banks yielded an interest rate of -0.004% on their T-Bills because holding T-Bills was more convenient for them than holding cash.

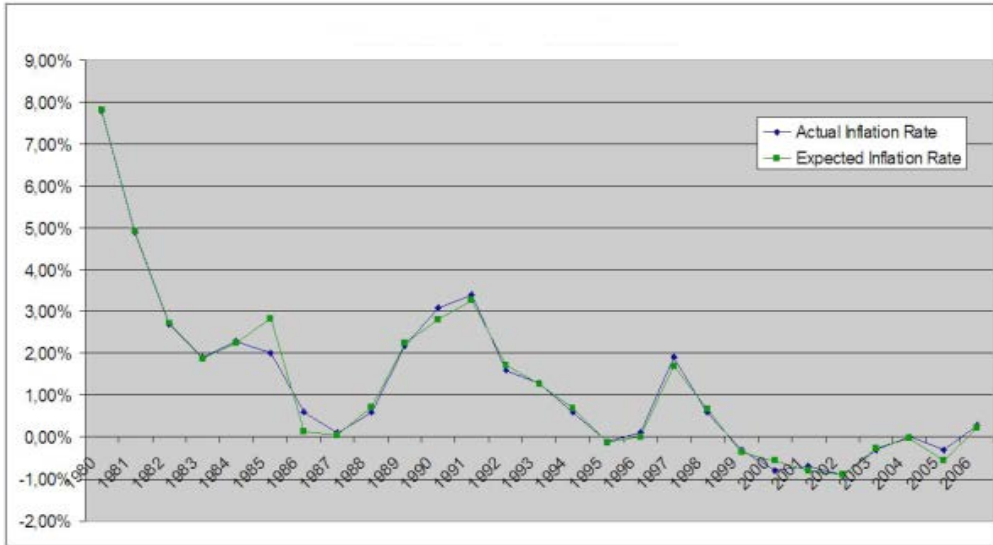


Figure 3: Annual inflation rates in Japan 1980-2006

Source: OECD Factbook 2007, <http://caliban.sourceoecd.org/>, accessed (20.09.2011).

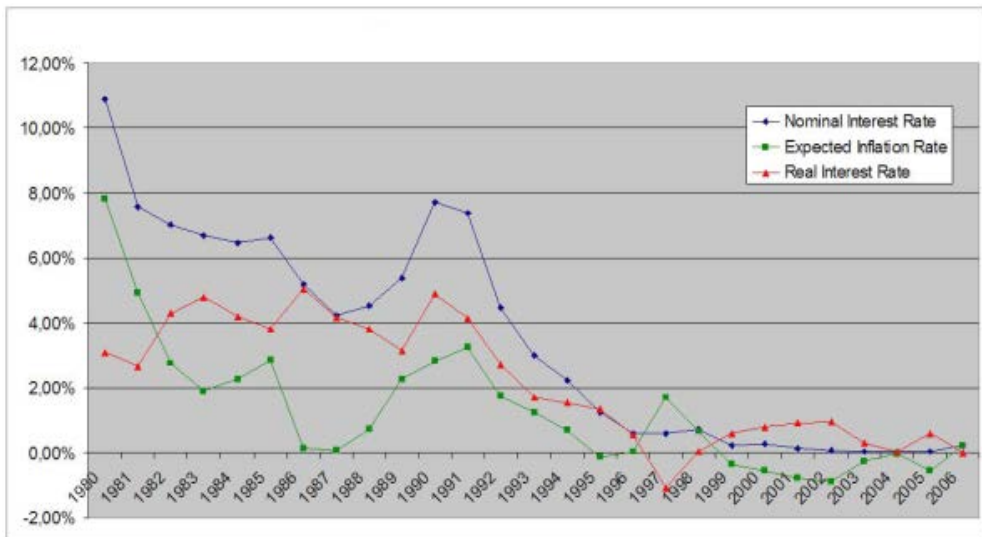


Figure 4: The Fisher effect in Japan

Source: Horn, p.13.

In Figure 3, it can be noticed that expected and actual inflation are very close and in the same trend. In figure 4, it is clear that the Fisher effect holds true for the case of Japan. Even though there are fluctuations the trend generally supports the strong

relationship between inflation, either expected or actual inflation, and nominal interest rates.

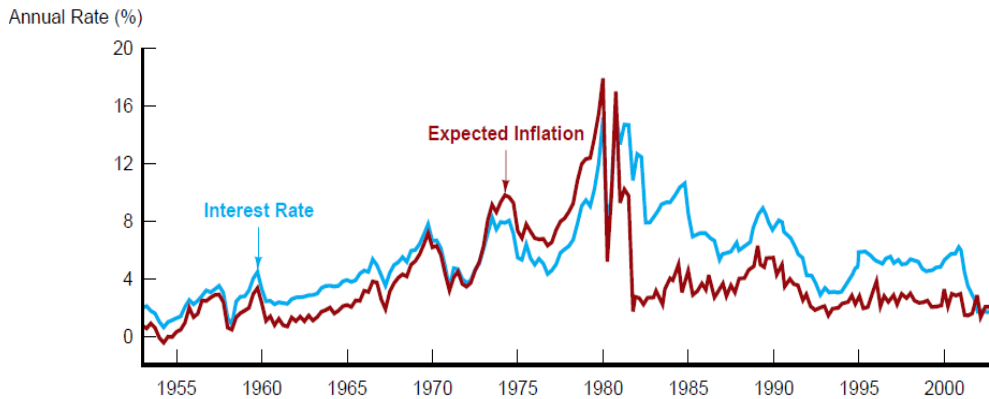


Figure 5: Movements of the inflation and interest rates in United States (1955-2000)

Source: Mishkin, p.152.

Here it can be understood the theoretical part that is explained above in a real life application. The data is taken in U.S. between years 1955 to 2000, and best represents how interest rates adapt to a change in inflation rates. The curve of inflation oscillates in a larger scale than the curve of the interest rates. Note that the curve of interest rates oscillates along with and according to the movement of the inflation.

As a conclusion to the figure 5, interest rates change with a change in inflation. This means that the data taken in these years that are being studied are in accordance with the theory, i.e. the Fisher effect.

In this part, it is provided an empirical test of the Fisher effect, where the existence of instabilities in the co integrating, or long run relationship is explicitly tested. The analysis is made in UK, for the period 1966-2007.

In the application, it will be taken to use data for the UK over the period 1966 - 2007. The data is taken from Organization for Economic Co-operation and Development (OECD, 2008). Specifically, series on long-term government bond yields/over 10-year/total, and the annual percentage change of the Gross Domestic Product (GDP) implicit price deflator (2003=100 is taken as base year, at market prices) are used, as proxies for the nominal long-term interest rate and the inflation rate, respectively. Ex-post real interest rate is computed as the difference between the interest rate and inflation series. The interest rate on long-term government bonds has been chosen because this is the most standard proxy for the long-term interest rate in empirical analyses of the Fisher effect. Further, using the GDP deflator is usually preferred to other alternatives, such as the Consumer Price Index

(CPI), since it is not based on a fixed basket of goods and services, so allowing changes in consumption patterns or the introduction of new goods and services to be reflected automatically in the inflation rate. Finally, the choice of the sample period is dictated by the availability of data on this proxy for the long-term real interest rate, which was not available before 1966. The time evolution of the three series is shown in

Figure 6.

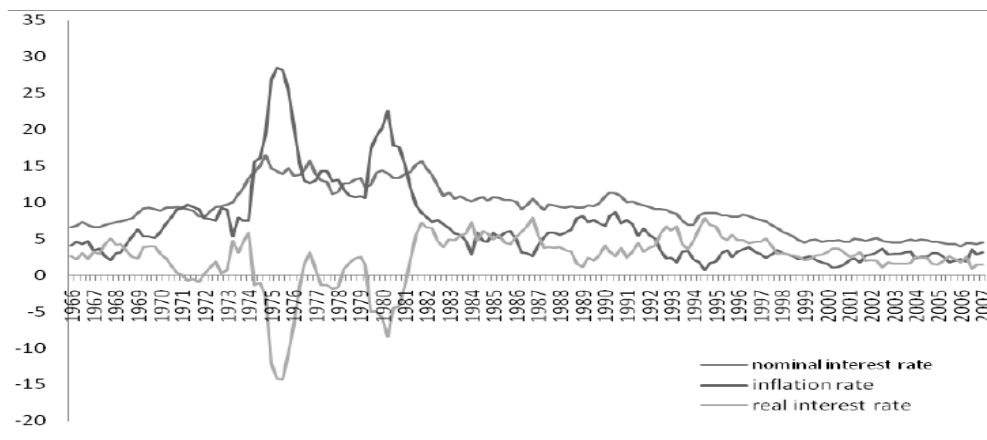


Figure 6: The rates of UK and inflation through the years 1966-2007

Source: Bajo-Rubio, et al., p.7.

Overall, the results of the study support the existence of a partial Fisher effect for the UK economy in the long run. Especially, for one point increase in inflation rate, one third of it would have been passed through to a higher nominal interest rate, with the remaining two third of it being reflected in a lower real interest rate.

This part will test if the Fisher hypothesis holds by analyzing a sample of 26 countries. The study will test if the long-run relationship between nominal interest rates and inflation rates is a one-to-one, taking into consideration the short run dynamics of interest rates (Berument an Mehdi Jelassi 2002).

This study is the most extensive study testing the Fisher hypothesis as far as the number of the countries that are incorporated is concerned. Engsted (1994) and Koustas and Sertelis (1999) are the most comprehensive studies as far as the numbers of countries are concerned. These studies consider 13 and 11 OECD countries respectively, for the testing of the Fisher hypothesis.

The basic equation that has been used to test the Fisher hypothesis is:

$$it = \alpha + \beta\pi et \quad (6)$$

Where  $i_t$  is the nominal interest rate at a given moment in time  $t$ ,  $r_t$  is the real interest rate, and  $\pi_t$  is the expected inflation for the period  $t$ . Here,  $\beta$  is the coefficient of inflation expected to be one as there is a one-to-one relationship between interest rates and the expected inflation, the strong form of the Fisher hypothesis. However,  $\beta$  is positive but not equal to one in its weak form. Tobin (1965) suggests that if money and capital are the only forms of wealth, when the opportunity cost of holding money increases due to higher inflation, money holding decreases and capital stock increases.

The list of the countries is shown in the Table 2. The interest rate taken into account is either the T-bill rate or the lending rate.

**Table 2: List of 26 countries**

| Country                     | Interest rate used | Sample period   |
|-----------------------------|--------------------|-----------------|
| <b>Developed countries</b>  |                    |                 |
| Belgium                     | Treasury bill rate | 1957:04 1998:05 |
| Canada                      | Treasury bill rate | 1957:08 1998:05 |
| Denmark                     | Treasury bill rate | 1981:06 1988:12 |
| Finland                     | Lending rate       | 1978:03 1998:04 |
| France                      | Treasury bill rate | 1966:03 1998:05 |
| Germany                     | Treasury bill rate | 1975:10 1998:05 |
| Italy                       | Treasury bill rate | 1977:07 1998:04 |
| Japan                       | Lending rate       | 1957:05 1998:05 |
| Korea                       | Lending rate       | 1981:01 1998:03 |
| Switzerland                 | Treasury bill rate | 1980:05 1998:05 |
| UK                          | Treasury bill rate | 1964:07 1998:05 |
| USA                         | Treasury bill rate | 1964:04 1998:05 |
| <b>Developing countries</b> |                    |                 |
| Brazil                      | Treasury bill rate | 1995:05 1998:03 |
| Chile                       | Lending rate       | 1978:01 1998:05 |
| Costa Rica                  | Lending rate       | 1982:05 1998:05 |
| Egypt                       | Lending rate       | 1976:03 1998:04 |
| Greece                      | Lending rate       | 1957:05 1998:05 |
| India                       | Lending rate       | 1979:04 1998:01 |
| Kuwait                      | Treasury bill rate | 1979:08 1996:07 |
| Mexico                      | Treasury bill rate | 1978:04 1998:05 |
| Morocco                     | Treasury bill rate | 1978:08 1991:12 |
| Philippines                 | Treasury bill rate | 1982:01 1998:04 |
| Turkey                      | Treasury bill rate | 1985:12 1995:08 |
| Uruguay                     | Lending rate       | 1980:04 1998:05 |
| Venezuela                   | Lending rate       | 1984:07 1998:04 |
| Zambia                      | Treasury bill rate | 1985:02 1998:01 |

Source: Berument and Jelassi, p.3.

In this work, attention was focused on testing the strong version of the Fisher hypothesis: Does the nominal interest rate rise point-for-point with the expected inflation? This study finds supporting evidence for the strong version of the Fisher hypothesis in 16 out of 26 countries. The strong version of the Fisher hypothesis is also widely known as a one-to-one relationship. It is also likely that the Fisher hypothesis holds more for the developed countries than the developing ones in the sample. The strong version of the Fisher hypothesis could not be rejected for 9 out of 12 developed countries and for 7 out of 14 developing countries.

### Albanian Application

In this part it will be studied whether the Fisher effect holds true for the economy in Albania. The years taken in consideration will be post 1990, because before the 1990's the economic system of Albania has been a controlled centralized economical system. This means that theories of free market economies do not hold.

The period of the study is 15 years [1995-2009], because of the data being more reliable in these years. There is unbalanced inflation in the late 1996 and completely 1997 because of the political and social disorders that happened at the time in Albania. Nonetheless, loan interest rate has also shifted upwards in order to follow the abnormality of inflation, leaving thus the Fisher theory intact. The following years after turmoil had finished, i.e. after 1997, normal economic activity took place and the data generally supports the Fisher effect. This will be explained in detail in the following figure 7 and table 3.

As an indicator for the interest rate it is taken a one to three year loan released from the banks. This is a consistent indicator of the loan because it is a middle term loan, therefore does not change considerably when there are temporary shocks in economic activity.

Inflation taken in consideration is the real inflation, due to lack or missing information about the expected inflation with reference to the years in which the study takes place. With this being said is implicitly understood that, consistent with the explanation in the theoretical part, the ex-post Fisher equation is being studied in our case.

**Table 3: Database for regression analysis**

| Year | Actual Inflation | Loan Interest Rate | Real Estimated Interest Rate |
|------|------------------|--------------------|------------------------------|
| 1995 | 6.0              | 21                 | 15.0                         |
| 1996 | 17.4             | 28.8               | 11.4                         |
| 1997 | 42.1             | 43                 | 0.9                          |
| 1998 | 8.7              | 25                 | 16.3                         |
| 1999 | -1.0             | 25.8               | 26.8                         |
| 2000 | 4.2              | 24                 | 19.8                         |
| 2001 | 3.5              | 11.9               | 8.4                          |
| 2002 | 1.7              | 16                 | 14.3                         |
| 2003 | 3.3              | 10.5               | 7.2                          |
| 2004 | 2.2              | 13.7               | 11.5                         |
| 2005 | 2.0              | 12.2               | 10.1                         |

|      |     |      |      |
|------|-----|------|------|
| 2006 | 2.5 | 12.9 | 10.4 |
| 2007 | 3.1 | 11.7 | 8.7  |
| 2008 | 2.2 | 11.8 | 9.6  |
| 2009 | 3.7 | 12.5 | 8.7  |

Source: www.instat.gov.al, accessed on (20.09.2011).

INSTAT (Albanian Statistical Institute) publications, the annual change of Consumer Price Index (CPI) with 2007 as the base year.

These figures represent the actual inflation and the source of the information is INSTAT.

This is the ex post real interest rate calculated from the author:  $r = i - \pi$

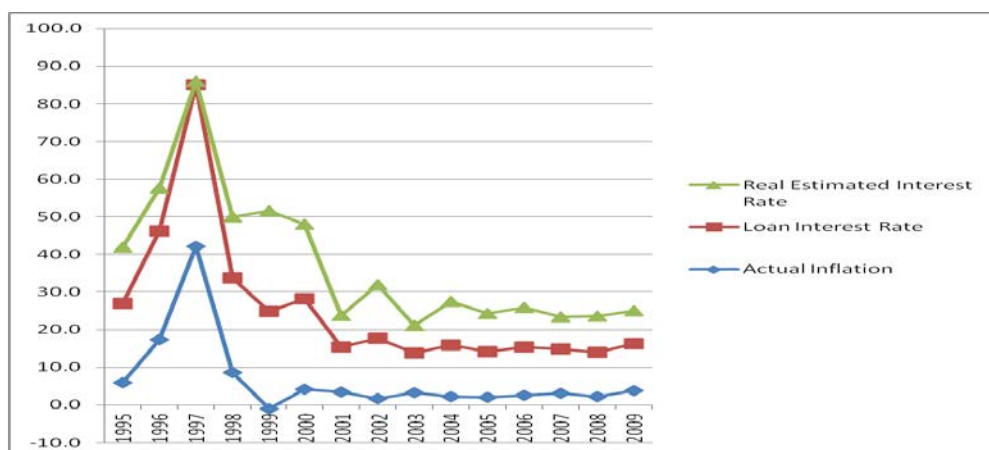


Figure 7: The graph of the curbs of inflation, nominal interest rate

Source: generated from INSTAT by author.

Following the graph as in figure 7, as well as the data in table 3, several conclusions can be drawn. According to the theory of Fisher, the ex-post application, nominal interest rate will increase due to an increase in actual inflation. This can be seen in Albanian case in the period being studied.

As seen in the graph, the Fisher effect theory generally holds true for Albanian economy through the years 1995-2009. The data has been processed with excel program. It has been analyzed the regression between inflation and interest rate.

Inflation is the independent value while interest rate is taken as dependent. According to the theory of Fisher there exists an almost equal change in interest rates whenever the expected inflation rate changes.

The outcome of the study as taken in excel is shown annex.



The Regression equation is:

$$Y = \alpha + \beta X + e \quad (7)$$

Where:

Y - is the depended variable, which is being predicted or explained, in this case the interest rates.

$\alpha$  - is the expected intercept parameter, equals the value of Y when the value of X=0.

$\beta$  - is the expected slope, how much Y changes for each one-unit change in X.

X- is the independent or explanatory variable, in this case inflation.

e – is the error term; the error in predicting the value of Y, given the value of X (it is not displayed in most regression equations).

Conclusions that can be drowned from the regression analysis and ANOVA (table for analysis of variance) statistics.

The equation of regression between interest rates being the dependent variable and inflation rates being the independent variable is as follows:

$$i = 13.9093639 + 0.71\pi$$

Where i represents interest rates which are trying to be predicted or explained by  $\pi$  which represents inflation. The intercept would represent the value of interest rates if inflation was equal to 0, or there would be neither inflation nor deflation, as seen above in this paper in section 2.4.2, the case of Japan in page 11. In this case if there was neither inflation nor deflation and inflation was 0, the interest rate would be expected to be almost 14 %.

Slope in this case is 0.71; this would be understood as a level of correlation between variables. It extensively explains at what extent is inflation influencing interest rates. This result may be influenced at some level by abnormal inflation rates occurring in years 1996-97. In that time correlation between the two variables is surprisingly strong giving further support to the theory of Fisher, with hyperinflation taking place caused by political and social turmoil.

As for the statistical significance, t-statistics is going to be studied. t- statistics = 8.39, that is bigger than 5, it means that the b coefficient is statistically significant, furthermore, means that the independent variable or X, i.e. inflation, should be kept in the regression equation, since it has a statistically significant relationship with the dependent variable or interest rates.

Finally explanatory meanings of the statistics found will be tested. In this part how much of a variable inside the equation, i.e. the dependent variable or interest rates, can be explained by a change in the other variable i.e. independent variable or inflation. This is given statistically by R<sup>2</sup> also known as determination coefficient. In this formula, R<sup>2</sup> is equal to 0.681762648 >0.5. In this case only 68% of the change in interest rates can be explained by a change in inflation.

This concept can be easier to understand in this way; for every point increase in inflation, interest rates would increase by a multiplier of 0.68. What can be seen is that interest rates move slower but in the same direction as inflation. If there is a change in inflation, then according to the figures in Albania during this period of time, a change somewhat smaller in interest rates would be expected.

The value of F statistics used in ANOVA, also known as F ratio is important in regression analysis. Specifically, F statistics is used to test the hypothesis that the variation in the independent variables (the X's) explains a significant proportion of the variation in the dependent variable (Y). Thus, F statistics can be used to test the null hypothesis that all the regression coefficients are equal to zero against the alternative hypothesis that they are not all equal to zero. Null hypothesis is going to be accepted if  $F\text{-statistics} < F\text{-table}$ . In this case  $\alpha=0.05$ . There are 15 observations so  $n = 15$ . The F distribution for each level of statistical significance is defined in terms of 2 degree of freedom (df). These are  $k - 1$  for the numerator and  $n - k$  for the denominator. So when finding F-table value  $k - 1 = 2 - 1 = 1$  must be taken for numerator and  $n - k = 15 - 2 = 13$  for the denominator. The critical value of F from the table for 5 percent level of significance is  $F\text{-table} = 4.6672$ .

This value is smaller than F-statistics calculated from the equation. The rule was that null hypothesis were to be accepted if  $F\text{-statistics} < F\text{-table}$ . Since the calculated value of the F statistics of 27.85 exceeds the critical value of 4.67 for the F distribution with 1 and 13 df, it is rejected at the 5 percent level of significance the null hypothesis that there is no statistically significant relationship between the independent variable and the dependent variable (i.e. alternative hypothesis is accepted at the 5 percent level of significance that not all coefficients are equal to zero).

## Conclusion

In this paper the relation between interest rates and inflation is tested. There are many countries in which the Fisher hypothesis finds support. In most of the cases there is strong evidence that there exists a positive relationship between inflation and interest rates. Direction is from inflation, which is the independent variable, to interest rates, being the dependent variable. In real life this means that the business and the traders as well as households tend to increase or decrease the interest rates in order to follow the changes in inflation, actual or expected likewise. If the business expects inflation to rise, this must mean that the yield of rented money in loans will decrease in real terms. So the money in rents and loans would lose its purchasing power, forcing the profit down. In response to this businesses would require a higher interest on loans in order to keep the profit level unchanged.

Albanian case also supports the Fisher effect theory. In this paper, Albanian economy in a fifteen year [1995-2009] period has been studied. Results show evidence proving the Fisher effect in those years as inflation causes at some extent the interest rates to move in the same direction. Nevertheless, there is not seen a one-to-one relationship as stated by the theory. After performing the regression

analysis the relationship holds true. Even though a change in inflation generates a minor change in interest rates, the change in interest rates cannot be explained by the change in inflation but for only 68% of it.

| SUMMARY OUTPUT               |                     |                       |               |                |                       |                  |                    |                    |  |
|------------------------------|---------------------|-----------------------|---------------|----------------|-----------------------|------------------|--------------------|--------------------|--|
| <i>Regression Statistics</i> |                     |                       |               |                |                       |                  |                    |                    |  |
| Multiple R                   | 0.825689196         |                       |               |                |                       |                  |                    |                    |  |
| R Square                     | 0.681762648         |                       |               |                |                       |                  |                    |                    |  |
| Adjusted R Square            | 0.657282852         |                       |               |                |                       |                  |                    |                    |  |
| Standard Error               | 5.358627486         |                       |               |                |                       |                  |                    |                    |  |
| Observations                 | 15                  |                       |               |                |                       |                  |                    |                    |  |
| <i>ANOVA</i>                 |                     |                       |               |                |                       |                  |                    |                    |  |
|                              | <i>df</i>           | <i>SS</i>             | <i>MS</i>     | <i>F</i>       | <i>Significance F</i> |                  |                    |                    |  |
| Regression                   | 1                   | 799.7100224           | 799.7100224   | 27.85001312    | 0.000149619           |                  |                    |                    |  |
| Residual                     | 13                  | 373.293551            | 28.71488854   |                |                       |                  |                    |                    |  |
| Total                        | 14                  | 1173.003573           |               |                |                       |                  |                    |                    |  |
|                              | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> | <i>Lower 95%</i>      | <i>Upper 95%</i> | <i>Lower 95.0%</i> | <i>Upper 95.0%</i> |  |
| Intercept                    | 13.9093639          | 1.656751148           | 8.395566177   | 1.31321E-06    | 10.33017066           | 17.48856         | 10.33017           | 17.48856           |  |
| X Variable 1                 | 0.710292529         | 0.134593642           | 5.277311163   | 0.000149619    | 0.419520644           | 1.001064         | 0.419521           | 1.001064           |  |

**Note:** Regression analysis for the Albanian data between inflation and interest rate in years 1995-2009. Source INSTAT [www.instat.gov.al](http://www.instat.gov.al), accessed (20.09.2011) and personal elaboration of the data.

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**AN EVALUATION OF BILATERAL TRADE BETWEEN TURKEY AND BALKANS: BASED ON GRAVITY TRADE MODEL AND LINDER HYPOTHESIS 241**

İpek GÜMÜŞCAN & Mustafa KAHVECI\*

**Abstract**

*2008 crisis had crucial impact on economic indicators of the countries. In this paper, we are going to evaluate the influence of the crisis on bilateral trade relations between Balkan countries and Turkey. Broadly speaking; in the first stage, export, import volumes and trade deficits and surpluses between Turkey and 11 Balkan countries is analyzed in comparative perspective. In second stage, theoretical background of the study is going to be based on the Tinbergen's Gravity Model that is regarded as workhorse of the empirical international trade literature. Obviously, just depending on economic magnitude and distance in order to explain the trade relations between Turkey and the other Balkan countries can give misleading results; to prevent this case; control variables like religion, existence of trade agreement and Eurovision Song Contest voting scores as cultural proxy is added to the regression model. In this respect, paper not only takes into account the supply side determinants of the trade but also considers the effects of demand side by taking Linder Hypothesis as reference point for the time span of 2004 through 2011. To sum, paper aims to test the explicative power of sociological concept homophily -geographical, cultural and preferential (similarities in demand structure) closeness- for the trade of Turkey with Balkan countries.*

**Keywords:** *Export. Import. Gravity model. Linder Hypothesis. Balkan countries.*

**Introduction**

Since 2008 crisis stroke most sectors of the world economy, vast amount of studies that deals with the impacts of the crisis-called Late Great Depression<sup>242</sup>- on various economic indicators has been given. As the global economy sinking into the mire, many economists forced to analyze the occurrences -in other words causes and consequences- based upon different indicators like mortgage credits, current account deficit, oil prices, and exchange rates (Mulligan & Threinen, 2008; Mian, Sufi & Trebbi, 2008; Mizen, 2008). By utilizing from the variables listed above, gamut of 2008 crisis' underlying causes addressed in published studies, however;

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241 The title of the paper is updated. In IBAC 2012 conference book the title was "2008 Crisis and Its Makings on Bilateral Trade between Turkey and Balkans: Gravity Model Approach"

242 "Late Great Depression" terminology is used by Yale University Professor Robert, Shiller in his speech to CNBC Monday to stand for 2008 crisis. (<http://www.cnbc.com/id/47200513>)

this paper focuses on not the causes of the turmoil but rather aims to reveal the impact of crisis on international trade statistics of specific set of countries-namely Balkan Countries-with Turkey.

Relatively higher growth rate in world trade volume vis à vis growth in world GDP for the last 4 decades -shown in Figure 1 and in Figure 2- provides enough motivation to search for statistically significant and explicative factors of bilateral trade relations of the countries. Turkey as the 18th largest economy of the world with 25 % exports to GDP ratio and 15, 5 % imports to GDP ratio has European Union<sup>243</sup> as the main trading partner.<sup>244</sup> However, international trade statistics shown in Figure 5 exhibits sharp decline in 2008 for export and total trade amount for all the Balkan countries included in sample with Turkey.

Every issue in economics has supply and demand sides. International trade theory is not an exception to it. From the beginning of the international trade literature, Absolute Advantage Model (Adam Smith Model); Comparative Advantage Model (David Ricardo Model)<sup>245</sup> and Heckscher-Ohlin Model (Factor Endowments Theory)<sup>246</sup> tried to explain the international trade relations by depending on supply side determinants, in other words, those models only took into account cost structure and were blind to demand side.(Sen,2010) After Heckscher-Ohlin Model's empirical validity is violated by Wassily Leontief's input-output model for US data, at last, new trade theories began to deal with demand tier of trade as well. Most prominent figure in the literature that advocates the demand side and tries to propose possible solution to the Leontief Paradox was Stockholm School of Economics professor Staffan Burenstam Linder who posited:

“The more similar the demand structure of the two countries the more intensive potentially is the trade between these two countries.” in his doctoral thesis.

The purpose of the paper is to use Linder Hypothesis to test the feasibility of trade Between Balkan States and Turkey by taking Linder's “overlapping demand” as reference point. But, just depending on demand structure leads us to fail the main criticism we directed to one-sided Classical Trade Theories which only focuses on supply conditions. That's why together with Linder Hypothesis, Tinbergen's gravity

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243 4 of European Union member states take place in our sample.- Bulgaria, Greece, Romania, Slovenia-

244 42% of Turkey's total trade, takes place with EU.(Figure 4)

245 Absolute and Comparative Advantage models take only labor as factor of production. Comparative advantage model of Ricardo was highly criticized for not fitting the data. Despite being mathematically correct, model does not empirically justified because of implying complete specialization in equilibrium. Costinot & Donaldson (2012) put effort to come up with a new evidence for justification of compatibility of the model with real world data by using the scientists who specialized in agricultural crop faring under range of possible growing conditions.

246 Heckscher Ohlin Model's empirical validity was tested by Wassily Leontief for US data. According to theorem, U.S as the most capital abundant country of the world is expected to export capital intensive goods and import labor intensive goods. However, Leontief's input-output modeling to test the H-O model came up with results contradicting to model's expectations.

model approach -that relates bilateral trade with economic factors at the flow's origin and flow's destination together with geographical distance- to international trade is plugged into analysis to stand for supply side determinants. In this respect, we can say that paper targets to address three different homophily<sup>247</sup> that are geographic homophily cultural homophily and similarities in demand for 11 Balkan States shown in Figure 6 with Turkey for the years from 2004 and 2011.

Geographic homophily depends on the idea that geographically close nations tend to be more involved in trade relations with each other. (Verbrugge, 1983; Wellman, 1996) To test geographic homophily we utilize from the gravity model, reminiscent of the law of gravity in physics, pioneered by Tinbergen (1961) which claims that trade between two countries can be formulated as follows:

$$TF_{ij} = (GDP_i, GDP_j, D^{-1}_{ij}) \quad (1)$$

$TF_{ij}$  : Trade flow between country i and country j

$GDP_i$ : GDP magnitude of country i.

$GDP_j$ : GDP magnitude of country j.

$D^{-1}_{ij}$ : Geographical Distance between country i and country j.

In this formulation, economic sizes of the countries are expected to be positively related and geographical distance is expected to be inversely related with trade flows. Gravity Model that bases on Newton's Law of Gravitation was applied to different concepts like movement of people (migration), spread of information as well as international trade between countries. Especially, it is used for evaluating the ex-ante and ex-post implications of Regional Trade Areas (RTA)(Krugman,1991; Porojan,2000;Carillo and Li,2002 and Roberts,2004)

Cultural proximity relates to the sharing of a common identity, to the feeling of belonging to the same group, and to the degree of affinity between two countries. (Felbermayr & Toubal, 2010; p.279)

In order to account for the degree of affinity between Balkan States and Turkey annual Pan-European Song contest Eurovision voting scores are used as proxy. The third tier of homophily which is preference similarity represented in regression model with differences in GDP per capita of each country.

The remainder of the article is structured as follows: next section is devoted to introduction of the variables used in empirical formulation and the data gathering processes and model specification. Second part summarizes the findings of the

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<sup>247</sup> It is the idea in sociology that says socio-cultural proximity between actors draws them together and facilitates tie formation.

regression model and in concluding remarks section possible threats to validity of the model are stated.

**Data, Variables And Measurement Issues**

In our analysis, we gathered information from several secondary data resources. As dependent variable 2 different foreign trade statistics –ln exports and ln total trade- that are derived from Turkish Statistical Institute is used. (<http://www.turkstat.gov.tr>) First explanatory variable of the gravity model, GDP magnitudes, are collected from Worldbank database; second regressor, distance, represents the geographical distance between capitals of countries and Ankara; .248 I, stand for the similarities in income structure of the countries and derived by taking the ln of difference in GDP per capita. Variable border, is a binary construct and takes value 1 if the country j has a border with Turkey; 0, otherwise. Religion dummy takes value 1 if both of the countries belong to same religious denomination and 0, otherwise.

While calculating cultural proxy variable, following indexing is used: this table says us that if country i gives vote to country j that is above country j’s average score and if country j gives vote to country i that is above country i’s average score then ESC variable takes value 2; if country i votes country j above average and country j votes country i below its average then the value of ESC (Eurovision Song Contest) takes 1, so forth.(Table 1)

$$\ln(\text{exp}_{ijt}) = \alpha + \beta_1 \ln(\text{GDP}_{it} * \text{GDP}_{jt}) + \beta_2 \ln(\text{D}_{ij}) + \beta_3 \ln(\text{I}_{it} * \text{I}_{jt}) + \beta_4 \text{border} + \beta_5 \text{religion} + \beta_6 \text{cultureproxy} + e_{ijt} \quad (2)$$

$$\ln(\text{totaltrade}_{ijt}) = \alpha + \beta_1 \ln(\text{GDP}_{it} * \text{GDP}_{jt}) + \beta_2 \ln(\text{D}_{ij}) + \beta_3 \ln(\text{I}_{it} * \text{I}_{jt}) + \beta_4 \text{border} + \beta_5 \text{religion} + \beta_6 \text{cultureproxy} + e_{ijt} \quad (3)$$

**Table 1: Eurovision Song Contest Voting Results Indexing**

|           | Country j     |               |               |
|-----------|---------------|---------------|---------------|
|           |               | Above Average | Below Average |
| Country i | Above average | 2             | 1             |
|           | Below Average | 1             | 0             |

**Empirical Results**

For the purpose of the study, we use cross sectional data for particular time period, 2004-2011. Estimated coefficients derived by using Ordinary Least Squares (OLS) method of four different models developed to assess the bilateral trade between 11 Balkan States and Turkey. Initial estimates indicated that using two different

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248Googlemaps driving direction is used in calculation of the distance between capitals.



dependent variable-whether we use lnexport or lntotaltrade-make difference. (Table 2)

According to derived results, the estimated coefficients on distance and GDP in all cases are statistically significant at the 1 % level. The results for GDP and border have the expected results. In other words; there is positive relationship between countries' economic masses and trade flow. The direction of the relationship between distances and trade flow is negative. Having border with Turkey and country j has statistically insignificant but positive impact on export and total trade. As the income per capita differences between country i and country j increases, it leads decline in the volume of export and total trade. So, we can emphasize that Linder's detection of

“The more similar the demand structure of the two countries the more intensive potentially is the trade between these two countries.” hold for the trade relation of Balkan States and Turkey for the period we analyzed. Even the sign of the cultural proxy represented by ESC index indicates to positive relationship, yet; it is statistically insignificant.

**Table 2: Gravity Model for 11 Balkan Countries and Turkey**

| VARIABLES                | (1)<br>lnexportsto   | (2)<br>lntotaltrade  | (3)<br>lnexportsto    | (4)<br>lntotaltrade   |
|--------------------------|----------------------|----------------------|-----------------------|-----------------------|
| Lndistance               | -2.594***<br>(0.346) | -3.093***<br>(0.369) | -3.696***<br>(0.481)  | -4.274***<br>(0.504)  |
| Lngdpigdpj               | 0.608***<br>(0.0482) | 0.714***<br>(0.0513) | 0.649***<br>(0.0481)  | 0.732***<br>(0.0504)  |
| Border                   |                      |                      | 0.204<br>(0.180)      | 0.213<br>(0.188)      |
| Ingdppercapitadifference |                      |                      | -0.378***<br>(0.0924) | -0.489***<br>(0.0968) |
| Religion                 |                      |                      | 0.674***<br>(0.163)   | 0.521***<br>(0.171)   |
| ESC index                |                      |                      | 0.00237<br>(0.0773)   | 0.0404<br>(0.0810)    |
| Constant                 | 23.20***<br>(2.944)  | 24.50***<br>(3.135)  | 31.27***<br>(3.906)   | 34.04***<br>(4.095)   |

|              |       |       |       |       |
|--------------|-------|-------|-------|-------|
| Observations | 82    | 82    | 78    | 78    |
| R-squared    | 0.755 | 0.790 | 0.836 | 0.864 |

Note: The dependent variable is  $\ln$ export for the models 1 and 2 and it shows the  $\ln$  of export volume from Turkey to country  $j$ ;  $\ln$ totaltrade for the models 3 and 4 and it shows the  $\ln$  of total trade (export+import) between Turkey and country  $j$ , in US dollars,. Numbers in parentheses are standard errors. \*\*\* indicates statistical significance at the 1%, \*\* at the 5% and \* 10% level. Estimates are obtained from OLS on pooled data.

### Concluding Remarks

The ultimate goal of the study was grounding on gravity model and Linder hypothesis to estimate the bilateral trade relation between Balkan States and Turkey for the years from 2004 to 2011. Derived results indicate that the geographical homophily- that is represented with the distance between the countries' capitals-, preferential homophily that stands for similarity in demand structures of the states- that is represented with the difference in GDP per capita of the countries-are at work and contributes to our understanding of the trade formation between Balkan States and Turkey.

This study only deals with the existing panorama of the trade relation and has no comment on potentiality as regards to Turkey's trade with Balkans. By using estimated coefficients potential total trade and export numbers can be calculated and compared to actual statistics to evaluate whether Turkey under-trading or over-trading with the sample of Balkan countries we dealt with.

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Appendix

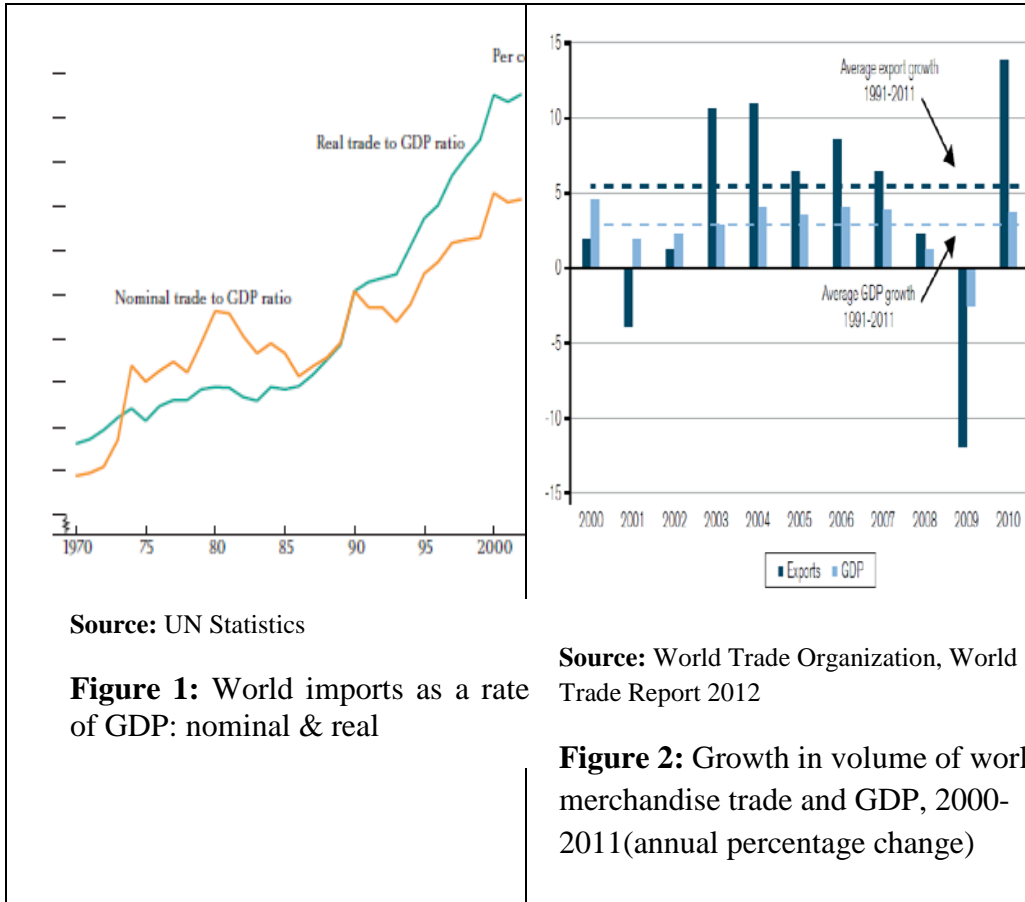


Figure 3: Turkish Economy's Main Economic Indicators

| TURKEY                   |  |   |      |      |
|--------------------------|--|---|------|------|
| MAIN ECONOMIC INDICATORS |  |   |      |      |
| Surface Area:            | 783,6 1000 sq km **  | * : IMF (World Economic Outlook) *** : IMF (DoTS & WEO) |      |      |
| Population:              | 72,2 Millions of inhabitants - 2011 (estimates after 2010) * | ** : World Bank (World Development Indicators)          |      |      |
| Current GDP:             | 548,2 Billions of euros - 2011 (estimates after 2010) *      | **** : Trade-to-GDP ratio = (Exports + Imports) / GDP   |      |      |
| GDP per capita:          | 7 597,7 Euros - 2011 (estimates after 2010) *                |   |      |      |
| Exports-to-GDP ratio:    | 15,5 % (2010) ***  | 2008  | 2009 | 2010 |
| Imports-to-GDP ratio:    | 25,0 % (2010) ***  | 0,7   | -4,8 | 8,9  |
| Trade-to-GDP ratio:      | 40,5 % (2010) ****   | 10,4  | 6,3  | 8,6  |
|                          |  | 2011  |      |      |
|                          |  | 6,6   |      |      |
|                          |  | 10,4  | 6,3  | 8,6  |
|                          |  | -5,7  | -2,3 | -6,6 |
|                          |  | -10,3   |      |      |

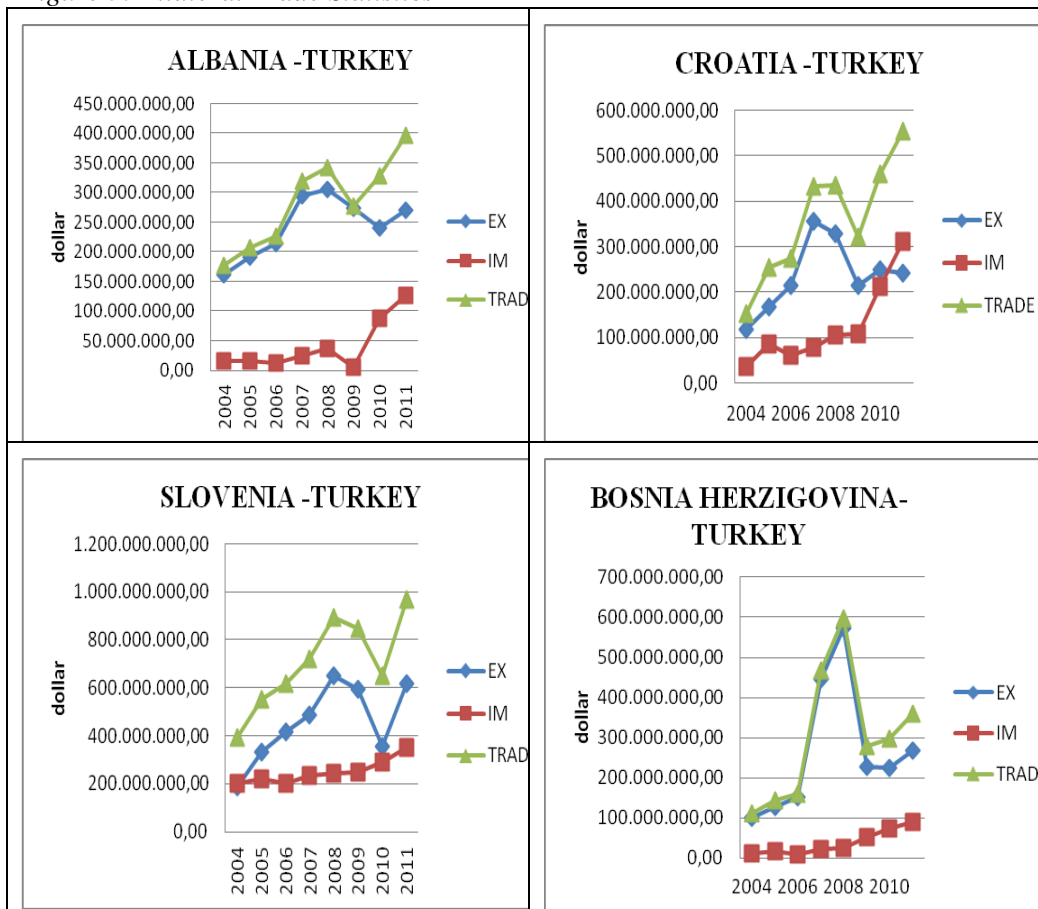
Source: Eurostat

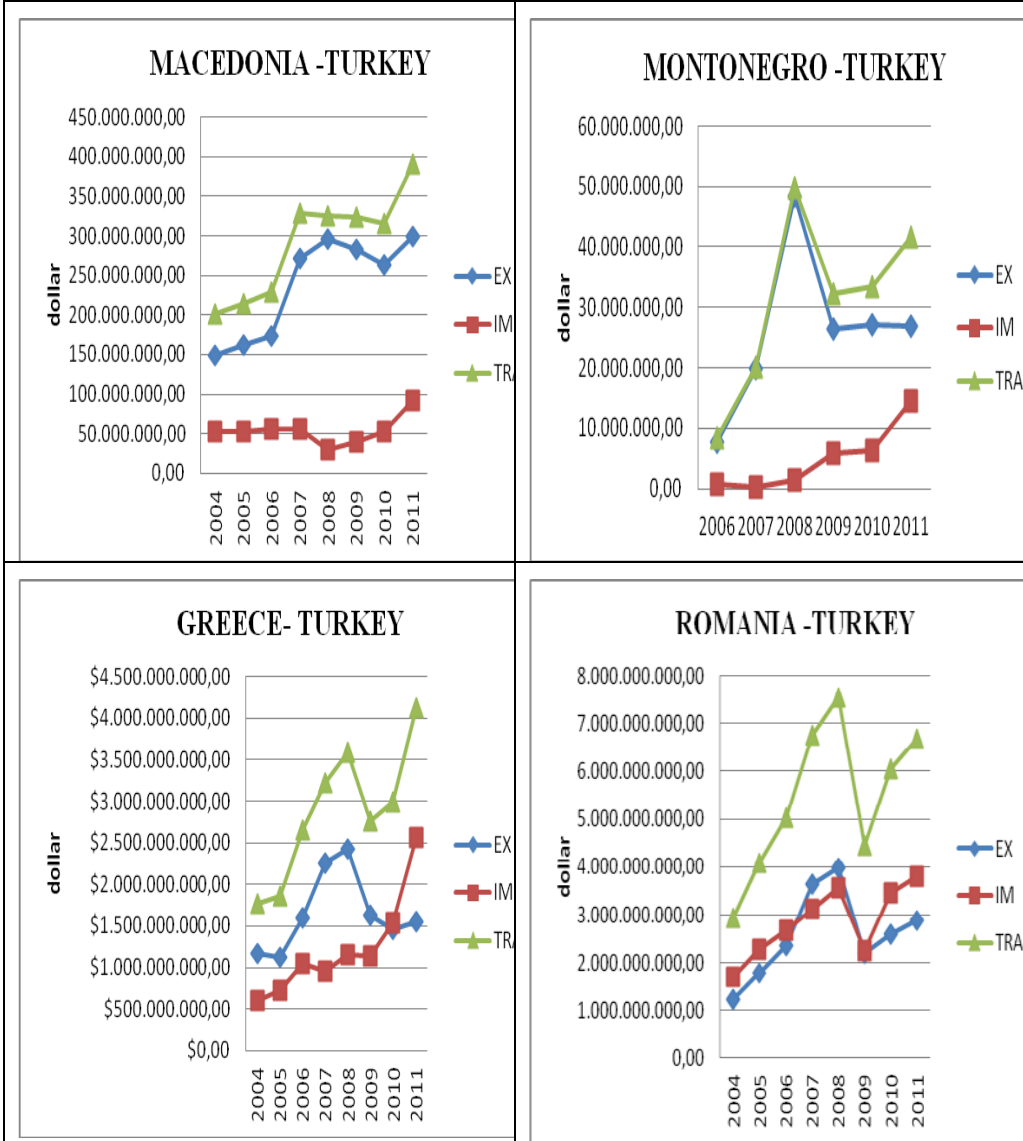
Figure 4: Turkey's Top 10 Export Partners

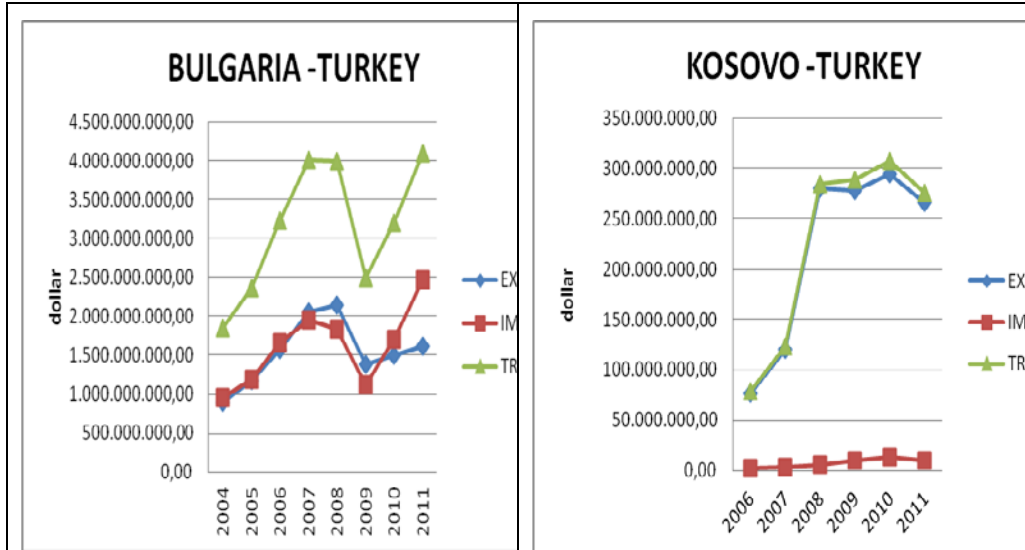
| The Major Imports Partners                   |               |          |       | The Major Export Partners                   |                     |          |       | The Major Trade Partners                     |               |          |       |
|--|---------------|----------|-------|---|---------------------|----------|-------|--|---------------|----------|-------|
| Rk   | Partners      | Mio euro | %     | Rk  | Partners            | Mio euro | %     | Rk   | Partners      | Mio euro | %     |
| <b>World (all countrie)</b> 138 894,2 100,0% |               |          |       | <b>World (all countrie)</b> 85 949,4 100,0% |                     |          |       | <b>World (all countrie)</b> 224 843,7 100,0% |               |          |       |
| 1  | EU27          | 54 609,7 | 39,3% | 1   | EU27                | 39 754,5 | 46,3% | 1  | EU27          | 94 364,1 | 42,0% |
| 2  | Russia        | 16 290,8 | 11,7% | 2   | Iraq                | 4 564,0  | 5,3%  | 2  | Russia        | 19 788,3 | 8,8%  |
| 3  | China         | 12 999,0 | 9,4%  | 3   | Russia              | 3 497,5  | 4,1%  | 3  | China         | 14 715,2 | 6,5%  |
| 4  | United States | 9 338,2  | 6,7%  | 4   | United States       | 2 906,2  | 3,4%  | 4  | United States | 12 244,4 | 5,4%  |
| 5  | Iran          | 5 791,1  | 4,2%  | 5   | United Arab Emirats | 2 522,1  | 2,9%  | 5  | Iran          | 8 091,5  | 3,6%  |
| 6  | South Korea   | 3 608,9  | 2,6%  | 6   | Iran                | 2 300,3  | 2,7%  | 6  | Iraq          | 5 586,3  | 2,5%  |
| 7  | Ukraine       | 2 903,5  | 2,1%  | 7   | China               | 1 716,2  | 2,0%  | 7  | Switzerland   | 3 976,5  | 1,8%  |
| 8  | India         | 2 585,8  | 1,9%  | 8   | Egypt               | 1 698,9  | 2,0%  | 8  | Ukraine       | 3 853,2  | 1,7%  |
| 9  | Japan         | 2 495,7  | 1,8%  | 9   | Saudi Arabia        | 1 683,7  | 2,0%  | 9  | South Korea   | 3 838,1  | 1,7%  |
| 10   | Switzerland   | 2 389,3  | 1,7%  | 10  | Switzerland         | 1 587,2  | 1,8%  | 10   | Saudi Arabia  | 3 529,1  | 1,6%  |

Source: Eurostat

Figure 5: Bilateral Trade Statistics







Source: Authors' derivation from the data gathered from TURKSTAT

Figure 6: Countries included in the analysis

|                |                 |               |
|----------------|-----------------|---------------|
| .Albania(70)   | .Bosnia(93)     | .Bulgaria(68) |
| .Croatia(92)   | .Greece(9)      | .Kosovo(95)   |
| .Macedonia(96) | .Montenegro(97) | .Romania(66)  |
| .Serbia(98)    | .Slovenia(91)   | .Turkey       |

Note: Numbers in parenthesis represents the country codes that take place in foreign trade statistics of Turkish Statistical Institute

## HOW IS INCOME DISTRIBUTED AMONG THE FACTORS OF PRODUCTION?

Gungor TURAN\* & Indrit BEQARAJ\*

### Abstract

*This paper gives an overview of the distribution of income among the factors of production with a specific view on the case of Albania. It presents some literature about the distribution of income and explains in detail the concepts of the personal distribution of income and of the functional distribution of income. Then it goes into the specific analysis of income distribution in Albania. For the preparation of this paper a lot of available data for the overall economic situation of Albania have been used. Mainly, the data are gathered from the publishing of international financial organizations like the World Bank and International Monetary Fund and also from the publishing of Albanian Central Bank and the Albanian Institute of Statistics. The data were taken for a period of 14 years, from 1997 to 2010. The data used are output, labour (no. of employees) and capital (foreign direct investment). These data are integrated into the Cobb-Douglas production function. Excel programme has been used to elaborate the data. From the regression model, it is shown that labour contributes to 77 percent of the income and capital accounts for 23 percent of the income in Albania. As a conclusion, the Cobb-Douglas production function can be used in the case of Albania and it gives results that are similar to the original CD function.*

**Keywords:** *Income, distribution, Albania.*

### Introduction

Income distribution is an important issue in many different countries. The disparity between the rich and the poor people is very high. This is a cause for many social conflicts. The aim of this study is to analyze the causes of the disparity in the income distribution.

There has been no specific study regarding the income distribution in Albania so this study will be a first step towards the studying of this important issue.

The data have been collected by the publications of the most important institutions in Albania, specifically from the Albanian Institute of Statistics and the Central Bank of Albania. Also, more general data have been taken from international institutions like the World Bank and the International Monetary Fund.

The organization of this study is easy to understand. Firstly, it will be given a general overview about the concepts of the personal income distribution and



functional income distribution, by looking at the past literature. Then the data and the research methodology used throughout the study will be explained in details. Then focus will move on to the specific application in Albania and about the results found. Finally, some concluding remarks and the references used will be given.

This study will try to answer some major research questions:

How has the concept of income distribution evolved through the years?

Does Albania have a similar production function to that of the United States of America?

How much does labour and how much does capital contribute to the income of Albania?

### **Theory Of Income Distribution**

The distribution of income is a very important topic in economics. The well being of all the citizens around the globe depends on it. There are two ways to look at the income distribution. These two ways are the personal distribution of income and the functional distribution of income. Personal distribution of income means the distribution of income among various individuals in a society. It shows how the inequality of income emerges in a country. On the other hand, the theory of the functional distribution of income studies how the various factors of production are rewarded for their service. It studies how prices of factors such as rent of land, wages of labour, interest on capital and profit of entrepreneur are determined. In this study, main focus will be given to the functional distribution of income.

The focusing on the functional distribution of income does not mean that the personal distribution of income is not an important matter. On the contrary, it is gaining importance now more than ever due to the disproportional division of income between different classes of people. Table 1 shows the ratio of the total income received by the 20 percent of the population with the highest income (top quintile) to the total income received by the 20 percent of the population with the lowest income (lowest quintile) for the countries of the European Union for the years 2005-2010.

**Table 1: Ratio of the income received by the top quintile to that of the lowest quintile**

|                   | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------|------|------|------|------|------|------|
| EU(27 countries)  | 5.0  | 4.9  | 5.0  | 5.0  | 4.9  | 5.0  |
| EU (15 countries) | 4.8  | 4.7  | 4.9  | 4.9  | 4.9  | 5.0  |
| Belgium           | 4.0  | 4.2  | 3.9  | 4.1  | 3.9  | 3.9  |
| Bulgaria          | 3.7  | 5.1  | 7.0  | 6.5  | 5.9  | 5.9  |
| Czech Republic    | 3.7  | 3.5  | 3.5  | 3.4  | 3.5  | 3.5  |
| Denmark           | 3.5  | 3.4  | 3.7  | 3.6  | 4.6  | 4.4  |
| Germany           | 3.8  | 4.1  | 4.9  | 4.8  | 4.5  | 4.5  |
| Estonia           | 5.9  | 5.5  | 5.5  | 5.0  | 5.0  | 5.0  |
| Ireland           | 5.0  | 4.9  | 4.8  | 4.4  | 4.2  | 5.3  |
| Greece            | 5.8  | 6.1  | 6.0  | 5.9  | 5.8  | 5.6  |
| Spain             | 5.5  | 5.3  | 5.3  | 5.4  | 6.0  | 6.9  |
| France            | 4.0  | 4.0  | 3.9  | 4.3  | 4.4  | 4.5  |
| Italy             | 5.6  | 5.5  | 5.5  | 5.1  | 5.2  | 5.2  |
| Cyprus            | 4.3  | 4.3  | 4.4  | 4.1  | 4.2  | 4.4  |
| Latvia            | 6.7  | 7.9  | 6.3  | 7.3  | 7.3  | 6.9  |
| Lithuania         | 6.9  | 6.3  | 5.9  | 5.9  | 6.3  | 7.3  |
| Luxembourg        | 3.9  | 4.2  | 4.0  | 4.1  | 4.3  | 4.1  |
| Hungary           | 4.0  | 5.5  | 3.7  | 3.6  | 3.5  | 3.4  |
| Malta             | 3.9  | 4.0  | 3.9  | 4.2  | 4.0  | 4.3  |
| Netherlands       | 4.0  | 3.8  | 4.0  | 4.0  | 4.0  | 3.7  |
| Austria           | 3.8  | 3.7  | 3.8  | 3.7  | 3.7  | 3.7  |
| Poland            | 6.6  | 5.6  | 5.3  | 5.1  | 5.0  | 5.0  |
| Portugal          | 7.0  | 6.7  | 6.5  | 6.1  | 6.0  | 5.6  |
| Romania           | 4.9  | 5.3  | 7.8  | 7.0  | 6.7  | 6.0  |
| Slovenia          | 3.4  | 3.4  | 3.3  | 3.4  | 3.2  | 3.4  |

|                |     |     |     |     |     |     |
|----------------|-----|-----|-----|-----|-----|-----|
| Slovakia       | 3.9 | 4.1 | 3.5 | 3.4 | 3.6 | 3.8 |
| Finland        | 3.6 | 3.6 | 3.7 | 3.8 | 3.7 | 3.6 |
| Sweden         | 3.3 | 3.6 | 3.3 | 3.5 | 3.7 | 3.5 |
| United Kingdom | 5.9 | 5.4 | 5.3 | 5.6 | 5.3 | 5.4 |
| Iceland        | 3.5 | 3.7 | 3.9 | 3.8 | 4.2 | 3.6 |
| Norway         | 4.1 | 4.8 | 3.5 | 3.7 | 3.5 | 3.4 |
| Croatia        | 4.7 | 4.4 | 4.5 | 4.5 | 4.3 | 5.6 |

Source:Eurostat,

[http://epp.eurostat.ec.europa.eu/portal/page/portal/product\\_details/dataset?p\\_product\\_code=TESSI180](http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_product_code=TESSI180) accessed on (02.05.2012).

As can be seen from the table, the differences between incomes are striking. In the European Union the top quintile gets as income almost five times what the lowest quintile gets. In some countries such as Latvia, Lithuania and Portugal the ratio of the income of the top quintile to that of the lowest quintile is as high as seven. Clearly, this is a huge difference and it may be a cause for social conflicts in these countries. This would be a really interesting study but however but it would need entrance into the complicated realm of ethical issues. Abstention from that temptation will be practiced though and focus will be given instead only to economical issues.

The distribution of income has much to do with the meaning of value. Economists since Adam Smith have been thoroughly interested in this issue. One of the most important maxims regarding value in Economics is that provided by Adam Smith in his Wealth of Nations (Smith, 1776):

“The word value, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called value in use; the other, value in exchange. The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have little or no value in use. Nothing is more useful than water: but it will purchase scarce anything; scarce anything can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.”

It is well known that Adam Smith maintained a labour theory of value (Smith, 1776):

“The real price of everything, what everything really costs to the man, who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. Labour was the first price--the original purchase-money that was paid for all things. In that early and rude state of society, which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects, seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually cost twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for, or be worth two deer. It is natural that what is usually the produce of two days', or two hours' labour, should be worth double of what is usually the produce of one day's, or one hour's labour.”

According to David Ricardo though, another influential writer in the history of economics, Adam Smith has nowhere analyzed the effects of the accumulation of capital, and the appropriation of land, on relative value (Ricardo, 1821):

“It is of importance to determine how far the effects which are avowedly produced on the exchangeable value of commodities, by the comparative quantity of labour bestowed on their production, are modified or altered by the accumulation of capital and the payment of rent.”

Ricardo talks throughout his book about the accumulation of capital. He maintains that:

“Even in that early state Adam Smith refers to, some capital, though possibly made and accumulated by the hunter himself would be necessary to enable him to kill his game. Without some weapon, neither the beaver nor the deer could be destroyed, and therefore the value of these animals would be regulated, not solely by the time and labour necessary to their destruction, but also by the time and labour necessary for providing the hunter's capital, the weapon, by the aid of which their destruction was effected.”

A great deal of controversy in the history of economics has occurred due to the problem of rent and more specifically on the reason why rent existed in the first place. These two authors gave very different reasons for the existence of rent. Adam Smith believes that the rent of land is a monopoly price (Smith, 1776):

“The rent is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take; but to what the farmer can afford to give.”

He further develops his ideas in another paragraph (Smith, 1776):

“Rent enters into the composition of the price of commodities in a different way from wages and profit. High or low wages and profit are the causes of high or low

price; high or low rent is the effect of it. It is because high or low wages and profit must be paid, in order to bring a particular commodity to market, that its price is high or low. But it is because its price is high or low; a great deal more, or very little more or no more, than what is sufficient to pay those wages and profit, that it affords a high rent, or a low rent, or no rent at all.”

On the other hand, David Ricardo takes a completely different approach to the problem of rent. He does not believe that high rent is the effect of high price, but rather it is the contrary fact that holds true.

In one of his brilliant paragraphs Ricardo states that the reason why raw produce rises in comparative value is because more labour is employed in the production of the last portion obtained, and not because a rent is paid to the landlord (Ricardo, 1821):

“The value of corn is regulated by the quantity of labour bestowed on its production on that quality of land, or with that portion of capital, which pays no rent. Corn is not high because a rent is paid, but a rent is paid because corn is high.”

Everyone recognizes the advantages of rent. Ricardo expresses the general opinion when he states that (Ricardo, 1821):

“Nothing is more common than to hear of the advantages which the land possesses over every other source of useful produce, on account of the surplus which it yields in the form of rent. Yet when land is most abundant, when most productive, and most fertile, it yields no rent; and it is only when its powers decay, and less is yielded in return for labour that a share of the original produce of the more fertile portions is set apart for rent.”

There is a parallelism in here between land and all the other natural resources. The only difference is that land is scarcer than any of these other resources. In Ricardo’s words (Ricardo, 1821):

“If air, water, the elasticity of steam, and the pressure of the atmosphere, were of various qualities; if they could be appropriated, and each quality existed only in moderate abundance, they as well as the land would afford a rent, as the successive qualities were brought into use. With every worse quality employed, the value of the commodities in the manufacture of which they were used would rise, because equal quantities of labour would be less productive. Man would do more by the sweat of his brow, and nature performs less; and the land would be no longer pre-eminent for its limited powers.”

Both of the authors have made great contributions to the field of economics. However, both of them had many mistakes in their theories. Nonetheless, they have provided the foundations over which other economists have worked on establishing a general theory of value, of income and of distribution.

Income is one of the most important economic indicators for every country, group of countries, continent and even for the world as a whole. If the income is increasing, the general well being of the citizens is increasing as well. If we can

think of the overall income as a pie, it means that the pie is getting greater; however, this does not mean that the division of the pie is getting more equal. Even though income may be greatly increasing some social groups' income may increase by a lower rate than the average or may even decrease. That is, the increase of the overall income does not necessarily mean that each factor of production is benefiting proportionately to that increase.

One of the main reasons for the writing of this study is actually to find out how the increase in the overall income is being distributed to the population. How much is each factor of production contributing to the continuous increase of income? To better answer this question a more detailed discussion on the specific factors of production is needed.

The four generally recognized factors of production are land, labour, capital, and entrepreneurship. In a literal sense, anything contributing to the productive process is a factor of production in itself. However, economists seek to classify all inputs into a few broad categories, so standard usage refers to the categories themselves as factors. Before the twentieth century, only three factors making up the classical triad were recognized. These were land, labour, and capital. Entrepreneurship is a fairly recent addition. One intuitive basis for the classification of the factors of production is the manner of payment for their services: rent for land, wages for labour, interest for capital, and profit for entrepreneurship.

Even though it is fairly recent, entrepreneurship is a very important factor of production. It is not only economically important, but socially important as well. Economically, entrepreneurship invigorates markets. The formation of new businesses leads to job creation and has a multiplying effect on the economy. Socially, entrepreneurship empowers citizens, generates innovation and changes mindsets. These changes have the potential to integrate developing countries into the global economy.

For all the people around the world, supreme importance attaches to one economic problem — that of the distribution of wealth among different claimants. Is there a natural law according to which the income of society is divided into wages, interest and profits? If so, what is that law? This is the problem which demands solution and to which an answer will be provided in this study.

John Bates Clark (1899) shows that the distribution of the income in any society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates:

“However wages may be adjusted by bargains freely made between individual men, the rates of pay that result from such transactions tend to equal that part of the product of industry which is traceable to the labour itself; and however interest may be adjusted by similarly free bargaining, it naturally tends to equal the fractional product that is separately traceable to capital. At the point in the economic system where titles to property originate, where labour and capital come into possession of the amounts that the state afterwards treats as their own, the social procedure is true

to the principle on which the right of property rests. So far as it is not obstructed, it assigns to everyone what he has specifically produced.”

However, it is somehow difficult to divide exactly the income in a clear way between all the factors of production. In Clark’s own words:

“Nearly every man's income is more or less composite. Labourers own some capital, capitalists perform some labour, and entrepreneurs usually own capital and perform a kind of labour.”

As was said before, there are four factors of production. They are land, labour, capital, and entrepreneurship. However, land may be treated as a special case of a capital good. This is somehow an unusual approach if taken into consideration that the prevalent theory is that land rent is totally different from wages, interest and the entrepreneur’s profit, in that the income from land is a differential gain fixed by a law of its own, which does not apply elsewhere. Clark brilliantly expresses this viewpoint when he states that:

“The rent of a particular piece of ground is measured by comparing its product with that which can be had from the poorest piece that is utilized by the application of the same amount of labor and capital.”

So, it may be considered that the rent of a piece of land is an interest for the use of that kind of capital good. The wages for labour and the interest of capital can also be seen as differential incomes. The well-known Ricardian formula can be used for determining their values. Let us suppose that there is an unused portion of land. It is first introduced one unit of labour, then another and another more. It will be seen that the first unit of labour will produce a large amount of income, the second a little less, the other units of labour still less and so on. This happens because of the law of the diminishing marginal returns, which is a law of economics stating that as the number of new employees increases, the marginal product of an additional employee will at some point be less than the marginal product of the previous employee.

The same result will follow the other way around though. Let us suppose that there are some units of labour. It will be first introduced one unit of capital, then another and another more. It will be seen that the first unit of capital will produce a large amount of income, the second a little less, the other units of capital still less and so on. So the law of diminishing marginal returns functions exactly in the same way for capital as well.

In order to separate what part of the income is to be attributed to labour and what specific part to capital, the law of the final productivity of the factors of production has to be used. As was said before, if ten units of labour are put to work with a fixed amount of capital all but the last unit will create a surplus. The sum of these surpluses is the part of the income that can be attributed to labour only. The other part is to be attributed to capital.

John Bates Clark has brilliantly caught this point (Clark, 1899):

“Labour, as thus applied to land, is subject to a law of diminishing returns. Put one man on a quarter section of land, containing prairie and forest, and he will get a rich return. Two labourers on the same ground will get less per man; three will get still less; and, if you enlarge the force to ten, it may be that the last man will get wages only. If the men are hired by the owner of the land at the prevalent rate of wages, what has happened is that the force has been enlarged till the last man produces only what is paid to him.”

Again Clark in another paragraph (Clark, 1899):

“All the earlier men in the series create surplus products, over and above the amount created by the last man. They get only what the last one produces, and the farmer-landlord gets the remainder. What goes to the owner of the land is the sum of a series of remainders that are made by taking, in each case, the product that is attributable to one of the earlier men as a minuend and the product that is imputable to the last man as a subtrahend.”

In the same way, it can be measured that part of the income that is to be attributed to capital when different units of capital cooperate with a fixed proportion of labour. So, from the above discussion it can be seen that wages and interest are both determined by the law of final productivity.

Not a single word has been written yet about the profit of the entrepreneur. What was discussed above was a static condition. There were no changes in the overall structure of the economy and also there was perfect competition. Therefore, there was no place for profits in this abstract world. The profits enter into our picture when the overall economic structure is dynamic. According to John Bates Clark, there are five important changes going on in the world (Clark, 1899):

“Population is increasing, capital is increasing, industrial methods are changing, the modes of organizing labor and capital for productive purposes are changing, human wants are multiplying and refining.”

These dynamic movements have different effects on the part that each factor of production takes from the overall income. Let us take a look at each of them. Let us start with an increase of population. This increase of population will cause the rate of wages to fall in terms of the amounts of goods that each worker can have.

An increase in capital will cause a decrease in the rate of interest. Labour, on the other hand, will profit from this increase of capital because each unit of labour will have more capital to work with.

If there is an invention, there will be more profits in the economy. At first, these profits will be grasped by the entrepreneurs, but in the long run they will go towards increasing the rate of wages. In Clark’s own words (Clark, 1899):

“If, instead of occurring at intervals considerably separated, the improvements in industrial methods were continually taking place, —if one followed another so closely that, when the second occurred, the fruits of the first were only beginning to make their impression on the earnings of labour, — then, as a result, we should



have the standard of wages moving continuously upward and actual wages steadily pursuing the standard rate in its upward movement, but always remaining by a certain interval behind it.”

It is these dynamic movements that create the profits of the entrepreneurs. Whenever there is an invention, the first to profit from it are the entrepreneurs. Only when enough time has passed and the new invention has become a usual part of the production process that the profits go towards increasing the wages of the labour.

### Literature Review

Factors of production are the inputs used to produce goods and services. The two most important factors of production are capital and labour. Capital is the set of tools that workers use. Labour is the time people spend working.

The available production technology determines how much output is produced from given amounts of capital and labour. Economists express this relationship using a production function. Letting  $Y$  denote the amount of output, we write the production function as:

$$Y = F(L, K).$$

The production function reflects the available technology for turning capital and labour into output. If someone invents a better way to produce a good, the result is more output from the same amount of capital and labour. Thus, technological change alters the production function.

The distribution of national income is determined by factor prices. Factor prices are the amounts paid to the factors of production. In an economy where the two factors of production are capital and labour, the two factor prices are the wage workers earn and the rent the owners of capital collect.

The more labour the firm employs, the more output it produces. The marginal product of labour (MPL) is the extra amount of output the firm gets from one extra unit of labour, holding the amount of capital fixed. It is expressed as:

$$MPL = F(L + 1, K) - F(L, K).$$

This equation states that the marginal product of labour is the difference between the amount of output produced with  $L + 1$  units of labour and the amount produced with only  $L$  units of labour.

Most production functions have the property of diminishing marginal product: holding the amount of capital fixed the marginal product of labour decreases as the amount of labour increases.

When a firm is deciding whether to hire an additional unit of labour, it considers how that decision would affect profits. It therefore compares the extra revenue from increased production with the extra cost of higher spending on wages. The increase in revenue from an additional unit of labour depends on two variables: the marginal

product of labour and the price of the output. Because an extra unit of labour produces MPL units of output and each unit of output sells for P dollars, the extra revenue is:  $P \times MPL$ .

The extra cost of hiring one more unit of labour is the wage W. Thus, the change in profit from hiring an additional unit of labour is:

$$\Delta\text{Profit} = \Delta\text{Revenue} - \Delta\text{Cost} = (P \times MPL) - W.$$

The firm hires labour until the next unit would no longer be profitable, i.e. until the MPL falls to the point where the extra revenue equals the wage. The firm's demand for labour is determined by:  $P \times MPL = W$ .

This can also be written as:

$$MPL = W / P.$$

$W / P$  is the real wage - the payment to labour measured in units of output rather than in dollars. To maximize profit, the firm hires up to the point at which the marginal product of labour equals the real wage.

The firm decides how much capital to rent in the same way it decides how much labour to hire. The marginal product of capital (MPK) is the amount of extra output the firm gets from an extra unit of capital, holding the amount of labour constant:

$$MPK = F(L, K + 1) - F(L, K).$$

Thus, the marginal product of capital is the difference between the amount of output produced with  $K + 1$  units of capital and that produced with only K units of capital.

Like labour, capital is subject to diminishing marginal product.

The increase in profit from renting an additional machine is the extra revenue from selling the output of that machine minus the machine's rental price:

$$\Delta\text{Profit} = \Delta\text{Revenue} - \Delta\text{Cost} = (P \times MPK) - R$$

To maximize profit, the firm continues to rent more capital until the MPK falls to equal the real rental price:

$$MPK = R / P.$$

The real rental price of capital is the rental price measured in units of goods rather than in dollars.

Before continuing with the application of the Cobb-Douglas production function in Albania, a discussion of the results of the United States of America is needed. In 1928, the economist Charles Cobb and the mathematician Paul Douglas published a study in which they modeled the growth of the American economy during the period from 1899 to 1922. They considered a simplified view of the economy in which the production output is determined by the amount of labour involved and the amount of capital invested. While there are many other factors affecting economic performance, their model proved to be remarkably accurate.

The function they used to model production was of the form:

$$P(L, K) = b L^\alpha K^\beta$$

where:

P = total production (the monetary value of all goods produced in a year)

L = labour input (the total number of person-hours worked in a year)

K = capital input (the monetary worth of all machinery, equipment, and buildings)

b = total factor productivity

$\alpha$  and  $\beta$  are the output elasticities of labour and capital, respectively. These values are constants determined by available technology.

The assumptions that were made by Cobb and Douglas can be stated as follows:

If either labour or capital vanishes, then so will production.

The marginal productivity of labour is proportional to the amount of production per unit of labour.

The marginal productivity of capital is proportional to the amount of production per unit of capital.

Results for the United States of America

Cobb and Douglas used the method of least squares to fit the data and came up with the following result:

$$P(L, K) = 1.01 (L^{0.75}) (K^{0.25})$$

So, this result shows that 75 percent of the increase in income is due to labour and only 25 percent of the increase is due to capital.

Up to now production has been looked upon from the supply side. A different way, but which gives the same result is to look at production from the demand side. Even though in this study a regression of a Cobb-Douglas production function will be performed, that is, it will be looked at production from the supply side it is still important to know how demand determines production. There are four main components of the demand for goods and services. Those are consumption, investment, government purchases and net exports.

Households receive income from their labour and their ownership of capital, pay taxes to the government, and then decide how much of their after-tax income to consume and how much to save. Economists define income after the payment of all taxes,  $Y - T$ , to be disposable income. Households divide their disposable income between consumption and saving.

Economists assume that the level of consumption depends directly on the level of disposable income. A higher level of disposable income leads to greater consumption. Thus:

$$C = C(Y - T).$$

The marginal propensity to consume (MPC) is the amount by which consumption changes when disposable income increases by one dollar. The MPC is between zero and one: an extra dollar of income increases consumption, but by less than one dollar.

Both firms and households purchase investment goods. Firms buy investment goods to add to their stock of capital and to replace existing capital as it wears out. Households buy new houses, which are also part of investment.

The quantity of investment goods demanded depends on the interest rate, which measures the cost of the funds used to finance investment. For an investment project to be profitable, its return must exceed its cost. If the interest rises, fewer investment projects are profitable, and the quantity of investment goods demanded falls.

Government purchases are the third component of the demand for goods and services. The federal government buys guns, missiles, and the services of government employees. Local governments buy library books, build schools, and hire teachers. Governments at all levels build roads and other public works. All these transactions make up government purchases of goods and services.

If government purchases equal taxes minus transfers, then  $G = T$  and the government has a balanced budget. If  $G$  exceeds  $T$ , the government runs a budget deficit. If  $G$  is less than  $T$ , the government runs a budget surplus.

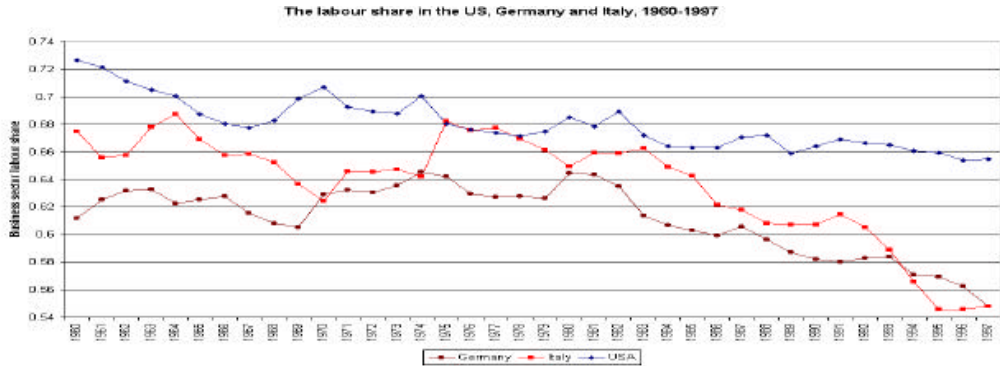
Sales of a country's goods and services to buyers in the rest of the world during a particular time period represent its exports. Imports are purchases of foreign-produced goods and services by a country's residents during a period.

Net exports are negative when imports exceed exports. Negative net exports constitute a trade deficit. The amount of the deficit is the amount by which imports exceed exports. When exports exceed imports there is a trade surplus. The magnitude of the surplus is the amount by which exports exceed imports.

In this part many countries are being studied. Data about output, labour and capital have been taken in order to test the Cobb Douglas production function. In many countries the results show similarities in conclusion with the results of the original Cobb Douglas production function. In some others some qualifications are needed in order that the production function conforms to the original Cobb Douglas production function.

In the United States, according to Charles Cobb and Paul Douglas, the labour share was 75%. The period under study was from the year 1899 to the year 1922. Has the labour share changed much since their findings?

Figure:1 1

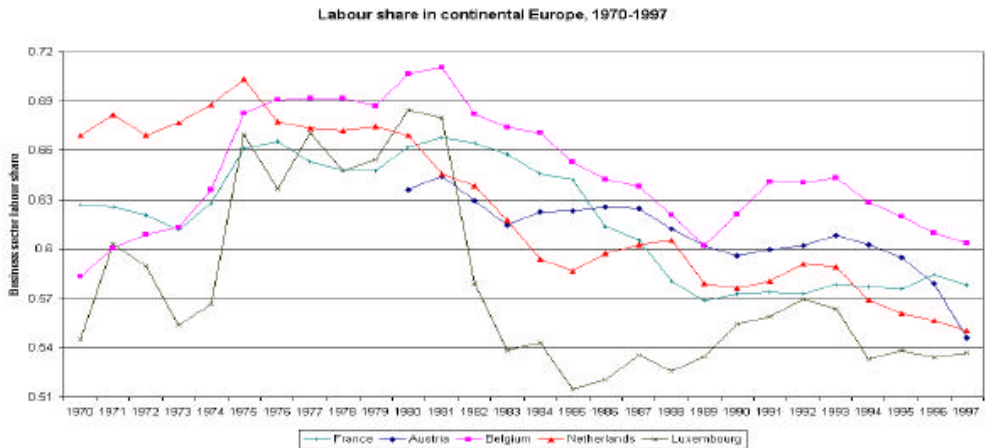


Source: Giammarioli Nicola et al., “European Labour Share Dynamics: An Institutional Perspective”, EUI Working Paper ECO No. 2002/13, p. 5.

From the above graph, we can see that in the United States, the labour share in the economy has fluctuated around 70 percent. For Germany and Italy the values are slightly lower and they seem to be decreasing in the nineties.

Figure:2

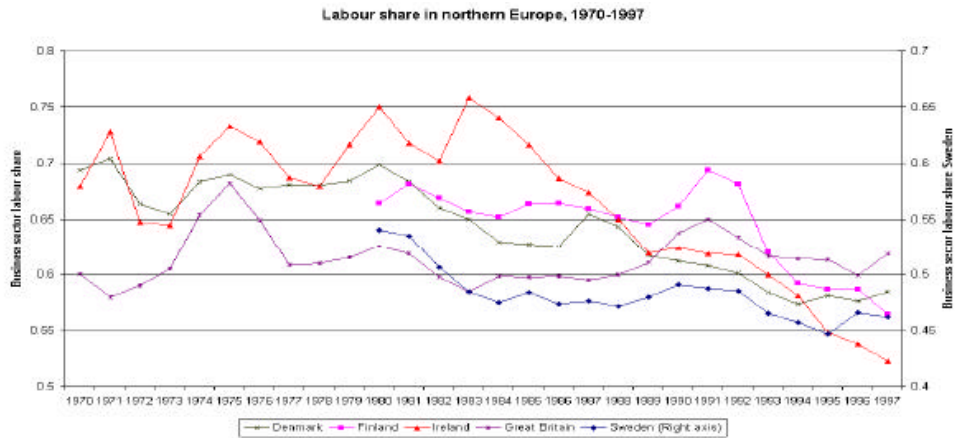
2



Source: Giammarioli Nicola et al., “European Labour Share Dynamics: An Institutional Perspective”, EUI Working Paper ECO No. 2002/13, p. 5.

In continental Europe, the labour share is lower, ranging from 55 percent to 70 percent.

Figure 3:



Source: Giammarioli Nicola et al., “European Labour Share Dynamics: An Institutional Perspective”, EUI Working Paper ECO No. 2002/13, p. 6.

In northern Europe, the labour share has been decreasing in the nineties.

Figure 4:



Source: Giammarioli Nicola et al., "European Labour Shape Dynamics: An Institutional Perspective", EUI Working Paper ECO No. 2002/13, p. 6.

In southern Europe, the labour share has been fluctuating around 60 percent.

Is Cobb-Douglas the Right Production Function to Use?

The Cobb-Douglas production function is often used to analyze the supply-side performance and measurement of a country's productive potential. This functional form, however, includes the assumption of a constant share of labour in output, which may be too restrictive for a converging country like Albania. Harrison (2002) shows that labour shares of countries in a panel based on United Nations data are rather volatile over time.

Also from the figures in the preceding section it can be seen that the labour shares have changed during the years both in the United States of America and in Europe.

Dana Hajkova and Jaromir Hurnik (2007) apply a more general form of production function and allow the labour share to develop according to the empirical data. For the period from 1995 to 2005, the authors do not find any significant difference between the calculation of the supply side of the Czech economy by the Cobb-Douglas production function and a more general production function.

Jurgen Antony (2010) shows that the Cobb-Douglas production function, combined with perfect competition, fulfills the necessary and sufficient conditions for a twofold maximization problem. This problem can be seen as maximizing at the same time the present values of consumption expenditure out of labour income and out of capital income.

Even more, Bhanu Murthy (2002) maintains that even in the face of imperfections in the market, the Cobb-Douglas production function does not introduce imperfections on its own. This production function facilitates computations and has the properties of explicit representability, uniformity, parsimony and flexibility.

Jones (2003) gives an argument related to the distributional properties of labour and capital augmenting technologies providing a long run production function that is Cobb-Douglas.

So, from all the above considerations it can be concluded that the Cobb-Douglas production function may be confidently used in order to estimate the labour share and the capital share in the production function of the economy of Albania.

### **Albanian Application**

In economics, a production function describes an empirical relationship between specified output and specified inputs. A production function can be used to represent output production for a single firm, for an industry, or for a nation. In this

study, interest is focused on the production function for a nation, specifically for Albania.

In most applications of production functions, the input variables are simply labour (L) and capital (K). It is generally assumed that a production function,  $F(L, K)$ , satisfies the following properties:

$F(L, 0) = 0, F(0, K) = 0$  (both factor inputs are required for output)

$dF / dL > 0, dF / dK > 0$  (an increase in either input increases output)

At a given set of inputs, the production function may show decreasing, constant, or increasing returns to scale:

If  $F(kL, kK) < kF(L, K)$ , there are decreasing returns to scale

If  $F(kL, kK) = kF(L, K)$ , there are constant returns to scale

If  $F(kL, kK) > kF(L, K)$ , there are increasing returns to scale

Constant returns to scale imply that the total income from output production equals the total costs from inputs.

The general form of the production function is  $Q = f(L, K)$  where  $Q$  = output,  $L$  = labour and  $K$  = capital. Although, a variety of functional forms have been used to describe production relationships, attention will be focused only on the Cobb-Douglas production function. However, there are some problems with this production function.

The Cobb-Douglas production function does not lend itself directly to estimation by the regression methods because it is a nonlinear relationship. Technically, an equation must be a linear function of the parameters in order to use the ordinary least-squares regression method of estimation. However, a linear equation can be derived by taking the logarithm of each term. That is, the production function becomes of the form:

$$\log Q = \log A + a \log L + b \log K.$$

Generally, there are three types of statistical analyses used for the estimation of a production function. These are: time series analysis, cross-section analysis and engineering analysis. In time series analysis, the data for the amount of various inputs used in various production periods in the past and the amount of output produced in each period are taken into consideration. In cross-section analysis, the data for the amount of inputs used and output produced in various firms or sectors of the industry at a given time are taken into account. In engineering analysis, data supplied by the engineers are used.

In this study, the time series analysis will be used. It is a more appropriate analysis for studying the full economy of such a country as Albania. However, this type of statistical analysis has some limitations. This time series analysis is restricted to a relatively narrow range of observed values. Another limitation is the assumption



that all of the observed values of the variables pertain to one and the same production function. In other words, a constant technology is assumed.

Theoretically, the production function includes only efficient combinations of inputs. If measurements were to conform to this concept, any year in which the production was less than nominal would have to be excluded from the data. However, it is very difficult to find a time series data, which satisfy technical efficiency criteria as a normal case.

In addition, there are both conceptual and statistical problems in measuring data on inputs and outputs. A decision has to be made on choosing between gross value and net value. It seems better to use net value added concept instead of output concept in estimating the production function. The data on labour is mostly available in the form of number of workers employed or hours of labour employed. The number of workers data may not reflect underemployment of labour, as they may be occupied, but not productively employed.

The data on capital input has always posed serious problems. Net investment i.e. a change in the value of capital stock, is considered most appropriate. Nevertheless, there are problems of measuring depreciation in fixed capital, changes in quality of fixed capital, changes in inventory valuation, changes in composition and productivity of working capital, etc.

Keeping in mind all these problems though, it is still important to make a study on the distribution of income among the factors of production in Albania. This study has never been done before so this should be a first step into that direction.

The data used in this linear regression have been taken from the Statistical Institute of Albania (INSTAT) and from the World Bank. The data have been collected from the year 1997 until the year 2010. For the output, the data taken from the Statistical Institute of Albania are used. As regarding the labour data, the number of the people employed in the private non-agricultural sector has been taken into consideration. In Albania, in the agricultural sector there are a lot of people working but that are not registered so that is why a decision was made to exclude those labourers from the calculations. Since they make up most of the part of the overall labour force, it can be concluded that the data on the overall labour force published by INSTAT are not reliable. Unfortunately, there was no data available for the hours of labour employed. As regarding capital, data on the amount of foreign direct investment are taken into account. These data were taken from the World Bank database. Since the amount of domestic investment is negligible, the use of the foreign direct investment gives the true picture of the amount of capital flowing into Albania. In order to estimate the linear regression, "Microsoft Excel" programme has been used.

### **The Regression Analysis**

The data that were found and which will be used in the regression analysis are as below:

**Table 2: Database for the regression analysis**

| Year | Capital (FDI) | Output    | Labour  |
|------|---------------|-----------|---------|
| 1997 | 59,810        | 576,036   | 120,382 |
| 1998 | 51,491        | 693,974   | 111,354 |
| 1999 | 41,230        | 809,747   | 102,675 |
| 2000 | 143,041       | 903,110   | 116,024 |
| 2001 | 199,997       | 1,002,397 | 205,267 |
| 2002 | 122,991       | 1,083,616 | 207,742 |
| 2003 | 135,150       | 1,154,199 | 211,169 |
| 2004 | 207,643       | 1,280,648 | 213,000 |
| 2005 | 150,037       | 1,401,806 | 214,935 |
| 2006 | 179,182       | 1,525,496 | 224,058 |
| 2007 | 329,936       | 1,739,537 | 229,900 |
| 2008 | 424,228       | 2,001,152 | 238,975 |
| 2009 | 474,994       | 2,143,531 | 236,838 |
| 2010 | 577,545       | 2,294,878 | 244,255 |

Sources:

<http://www.instat.gov.al/graphics/doc/tabelat/Treguesit%20Ekonomik/Llogarite%20Kombetare/LLK2012/T3.xls>, accessed (11/05/2012)

<http://www.instat.gov.al/graphics/doc/tabelat/Treguesit%20Sociale/Punesimi/PUN%202011/t1.xls>, accessed (11/05/2012)

<http://databank.worldbank.org/ddp/home.do?Step=3&id=4>, accessed (12/05/2012)

The Cobb-Douglas model has the following form:

$$Q = A (L^b) (K^c)$$

As was said before, if  $b + c = 1$ , the Cobb-Douglas model shows constant returns to scale.

If  $b + c > 1$ , it shows increasing returns to scale, and if  $b + c < 1$ , it shows diminishing returns to scale.

Equivalent is a linear function of the logarithms of the three variables:

$$\log (Q) = \log (A) + b \log (L) + c \log (K) \text{ or}$$

$$\ln (Q) = \ln (A) + b \ln (L) + c \ln (K)$$

If we assume constant returns to scale the equation becomes:

$$\ln (Q) = \ln (A) + b \ln (L) + (1-b) \ln (K)$$

However we can transform this equation into:

$$\ln (Q) = \ln (A) + \ln (K) + b [\ln (L) - \ln (K)]$$

$$\ln (Q/K) = \ln (A) + b \ln (L/K)$$

$$\ln (Q/K) = \beta_1 + \beta_2 \ln (L/K)$$

This is the equation which will be used in the regression process, and the coefficients of which will be found.

## RESULTS

| SUMMARY OUTPUT        |          |
|-----------------------|----------|
| Regression Statistics |          |
| Multiple R            | 0.907542 |
| R Square              | 0.823632 |
| Adjusted R Square     | 0.808935 |
| Standard Error        | 0.036294 |
| Observations          | 14       |

## ANOVA

|            | Df | SS      | MS      | F       | Significance F |
|------------|----|---------|---------|---------|----------------|
| Regression | 1  | 0.07382 | 0.07382 | 56.0395 | 7.37E-06       |
| Residual   | 12 | 0.01580 | 0.00131 |         |                |
| Total      | 13 | 0.08962 |         |         |                |

|              | Coefficients | Standard Error | t Stat  | P-value  | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|--------------|--------------|----------------|---------|----------|-----------|-----------|-------------|-------------|
| Intercept    | 0.03941      | 0.014593       | 2.70054 | 0.01929  | 0.007614  | 0.071205  | 0.007614    | 0.071205    |
| X Variable 1 | 0.76921      | 0.102754       | 7.48596 | 7.37E-06 | 0.545332  | 0.993097  | 0.545332    | 0.993097    |

The value of the intercept or  $\ln(A)$  is equal to 0.04. This means that  $A$  equals 1.01.

The value of  $X$  variable or  $b$  is 0.77. Therefore, the value of  $(1 - b)$  equals 0.23.

So, the estimated model is  $Q = 1.01 (L 0.77) (K 0.23)$ . The significance level  $\alpha = 5$  percent will be used.

$X$  Variable = 0.77 → This means that when the labour force increases by 1 percent the output increases by 0.77 percent.

$R^2 = 82.36$  percent → This shows that 82.36 percent of an increase or a decrease in the output is explained by the model, i.e. by an increase or a decrease in the amounts of labour and capital.

Intercept's P-value = 0.02 → This means that the intercept's value is statistically significant for  $\alpha = 5$  percent.

$X$  Variable's P-value = 0.00 → This means that the labour's value is statistically significant for  $\alpha = 5$  percent.

$H_0: \beta_1 = 0$ , insignificant model

$H_a: \beta_1 \neq 0$ , significant model

The  $t$  criterion is used for the verification of the hypothesis. The value of the observed  $t$  is 2.701, meanwhile the value of the critical  $t$  for the degrees of freedom  $(n - k) 13$  with the significant level  $\alpha = 5$  percent is 1.771. The observed  $t$  is greater than the critical  $t$ , so the hypothesis  $H_0$  can be refuted. The hypothesis that the

coefficient is equal to zero cannot be accepted. In this way, it can be concluded that the model is significant.

H<sub>0</sub>:  $\beta_2 = 0$ , insignificant model

H<sub>a</sub>:  $\beta_2 \neq 0$ , significant model

The value of the observed t is 7.486, whereas the value of the critical t for the degrees of freedom (n – k) 13 with the significance level  $\alpha = 5$  percent is 1.771. So, the value of the observed t is greater than the value of the critical t. The hypothesis that the value of the coefficient is equal to zero cannot be accepted. In this way, it can be concluded that the model is significant.

F statistics is used to test the hypothesis that the variation in the independent variables explains a significant proportion of the variation in the dependent variable. Thus, F statistics can be used to test the null hypothesis that all the regression coefficients are equal to zero against the alternative hypothesis that they are not all equal to zero. Null hypothesis is going to be accepted if the value of the observed F-statistics is smaller than the value of F-table. In this case  $\alpha = 0.05$ . There are 14 observations so n = 14. The F distribution for each level of statistical significance is defined in terms of 2 degrees of freedom (df). These are k – 1 for the numerator and n – k for the denominator. So when finding F-table value k – 1 = 2 - 1 = 1 must be taken for numerator and n – k = 14 – 2 = 12 for the denominator. The critical F value from the table is  $F_{\alpha} = 0.05 : (1, 12) = 4.75$ .

The observed F value is 56.04. Since the observed value of the F statistics exceeds the critical value of 4.75 for the F distribution with 1 and 12 df, the null hypothesis is rejected. It can be concluded that there is a statistically significant relationship between the independent variable and the dependent variable.

## Conclusion

To conclude, this study analyses the distribution of the income among the factors of production. This has been a highly controversial topic for a long time because of the important repercussions it has.

The Cobb-Douglas production function seems a proper production function to use in order to calculate the shares that labour and capital contribute to the production. This production function facilitates computations and has the properties of explicit representability, uniformity, parsimony and flexibility. It is applicable both to well developed countries and to converging economies.

In Albania, the labour gives a more important contribution towards the increase of Albania's output than does capital. Specifically, the shares are 77 percent for labour and 23 percent for capital.

A way in which this study can be extended would be to include in the production function intangible factors of production like: human capital, social capital and technological capital.

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## EVALUATING THE ENERGY DEMAND AND SOURCES IN BALKAN COUNTRIES

Ahmet YÜCEKAYA\*

### Abstract

*Balkan region can be considered as a transition location between Europe and Asia. The area is rich in terms of water and forest resources. The countries that include Albania, Bulgaria, Croatia, Macedonia, Bosnia and Herzegovina, and Serbia are not energy rich countries in terms of energy resources and power generation technologies. On the other hand, these countries have increasing power and energy demand that should be balanced with cost effective, reliable and long term resources. Energy is accepted as a very important requirement for developing and under-developed countries and its importance is increasing as the population increases and technology develops. The companies that have international capital hesitate to invest in the region due to the problems with political and economic stability in the region. As a result of their geopolitical location, the region is in the middle of energy transportation routes. Hence, this advantage can be used for economic benefit. Another important issue is the natural gas pipeline projects that include Nabucco and South Stream that will pass through Balkan countries. These projects bring some reliability and new opportunities for the economy of the countries. The current electricity generation infrastructure in the region is old and usually coal based and hydroelectricity supported. In this research, the energy status of the Balkan countries is first presented and then the supply-demand growth of energy are analyzed to show the shortages, surpluses and dependency of the countries.*

**Keywords:** *Balkan Countries. Energy Demand. Natural Gas Pipelines. Energy Sources.*

### Introduction

The world is known with its limited resources, and energy is the crucial resource for the planet. It is the most important element for people to continue their lives, businesses to run, vehicles to operate, and countries to grow. On the other hand, the resources are limited, the demand is growing, and there is distance between the resources and demand location. The energy resources are usually located in unstable countries where socio-politics and socio-economic events play an important role.

Electricity is the most used form of energy. It is considered essential for countries to have a strong electricity generation, transmission and distribution infrastructure to

have stable developing economy and a crystal clear future. Balkan countries have won their independence not so long ago. The infrastructure in these countries including energy transportation and power plants is not new and needs to be renewed with cutting edge new technologies. The region had wars, troubles, and economic crises in past. The countries have shown economic growth after their independence especially after support of the European Union. The countries have historical and cultural relations with Turkey that increase the potential for economic relations (Cimen, 2009). On the other hand Balkan countries are on the passage of energy corridor from energy rich Caspian and middle east countries to west European countries. New natural gas pipeline projects and oil transportation projects will contribute the region's economy. Balkan countries first need to do a fundamental analysis for energy dependence and possible effects of the projects to their future. Next section provides the country profiles in Balkans.

### Country Profiles In Balkans

#### Macedonia

Macedonia is a developing country with 1.3% economic growth in 2010. The estimated population in 2011 is 2,077,000 and gross domestic product (GDP) is \$9.17 Billion (IEA, 2011). It imports all of its natural gas and almost all of its oil. Although energy consumption growth is 4.2%, there is no growth in energy generation. Figure 1 shows the electricity consumption and generation in Macedonia after 2000. Figure shows that the country cannot meet all of its demand with its own resources (EEC, 2012).

#### Macedonia

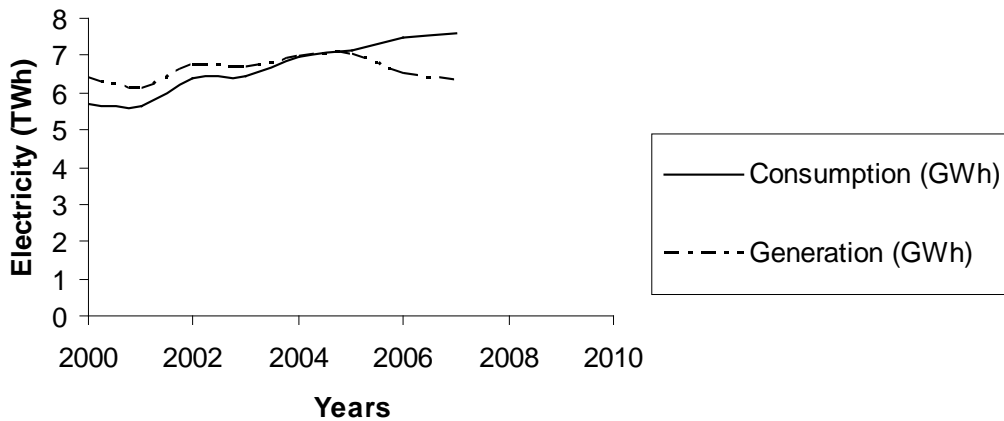




Figure 1: Electricity demand and generation in Macedonia

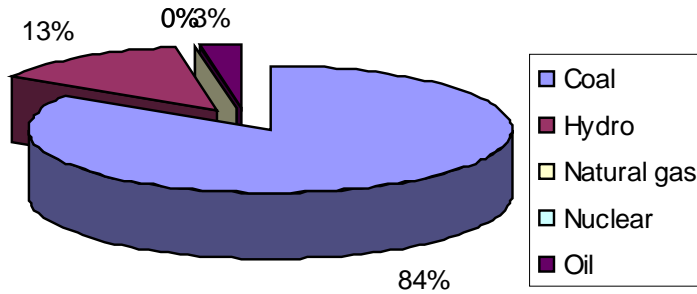


Figure 2: Electricity generation resources in Macedonia

Figure 2 shows the resources that are used in electricity generation. The electricity is mainly generated using coal resources which cause extra costs and emissions. Hydro and oil are other resources of electricity. Even if all power plants work with % 100 capacity, country still needs to imports almost 17% of its power demand.

### Albania

Albania is a country in southeastern Europe bordering Macedonia, Kosova, Montenegro and Greece. With an around 3,000,000 population and \$12.85B GDP, country has growth potential in its region. The GDP growth rate is 2 % (3.1% in 2010) and industrial production growth rate is 3% (2010). Figure 3 shows the electricity demand and generation change in Albania. There is a gap between generation and consumption and the shortage in power should be imported.

**Albania**



Figure 3: Electricity demand and generation in Albania

It is interesting to realize that almost all energy is generated using hydro resources. Figure 4 shows the energy resources that are used to generate power in Albania (EIA IEA, 2011). Hydro resources are cheap resources but not reliable as it depends on the climate. Resource diversification should be provided to have a more reliable power supply.

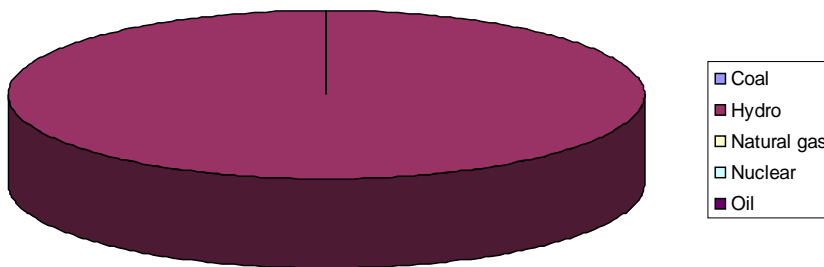


Figure 4: Electricity generation resources in Albania

**Serbia**

Serbia is a country with 7,300,000 population and around \$39 B GDP. The growth rate is around 2% with a service sector occupying the large share in GDP. The

industrial production growth is 3.2% which shows that energy demand would also increase accordingly. Figure 5 shows the electricity generation and consumption change in Serbia. Figure shows that country can meet its demand with its own resources but the gap is not reliable yet.

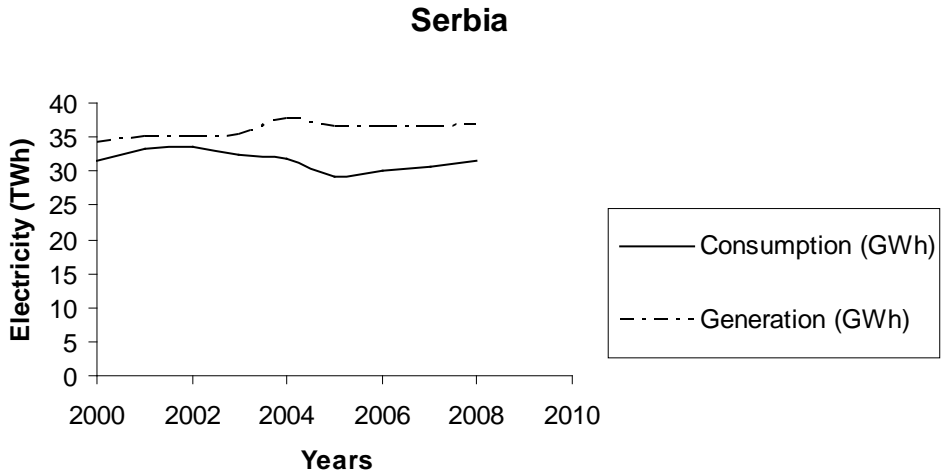


Figure 5: Electricity demand and generation in Serbia

On the other hand, the energy resources used for generation are shown in Figure 6. Coal has the largest share in generation portfolio followed by hydro. The cost of energy generation is not cheap and the resource mix is not reliable.

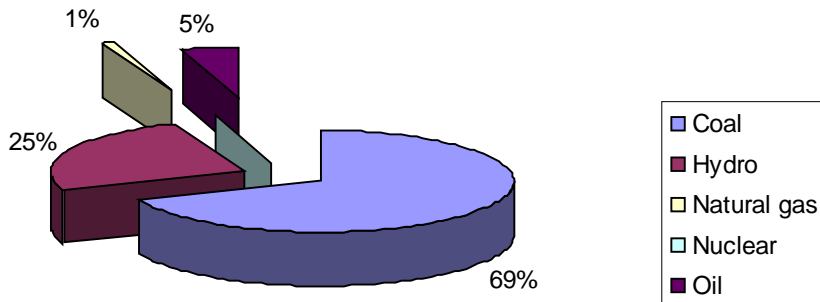


Figure 6: Electricity generation resources in Serbia

**Croatia**

Croatia is a country with 4,400,000 population with \$60B GDP. The demand growth in energy is around 4.3%. Figure 7 shows the electricity demand and generation figure in Croatia. Figure shows that country could not meet its demand using its own resources and the gap between generation and consumption is growing. The remaining energy should be imported from other countries.

**Croatia**

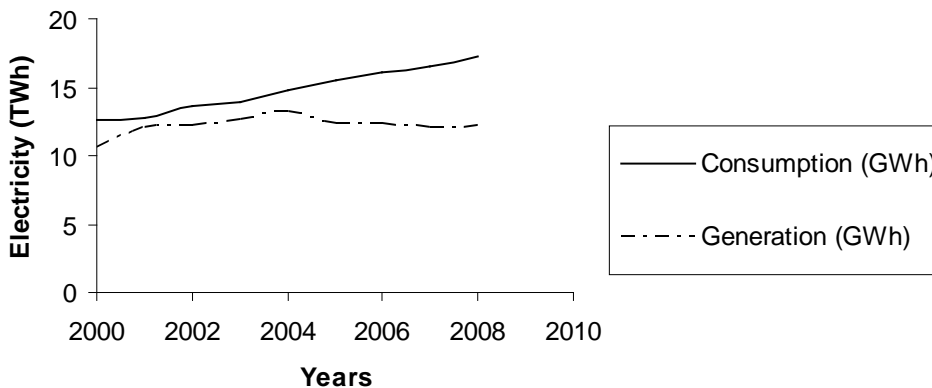


Figure 7: Electricity demand and generation in Croatia

Figure 8 shows the energy resources used in electricity generation. Hydro is the main resource whereas coal and natural gas are the secondary resources used in energy generation. The energy generation is expensive and not reliable.

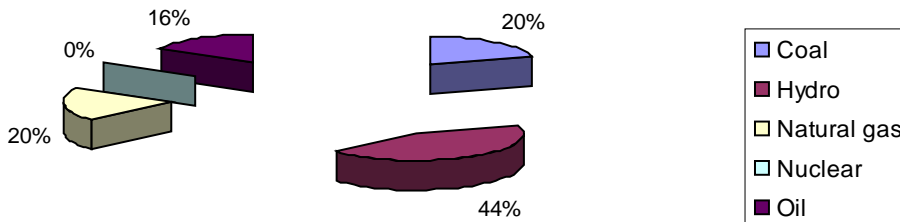


Figure 8: Electricity generation resources in Croatia

**Greece**

Greece is the country seriously affected by economic crises. The debt ratio is so high that makes it difficult to turn it with its own resources. The population is around 10,700,000 and the GDP growth rate is -4.8%. Though its energy demand is growing that makes it difficult to meet with its own resources. Figure 9 shows the electricity demand and generation in Greece. It's shown that it is very difficult for the country to meet with its own resources.

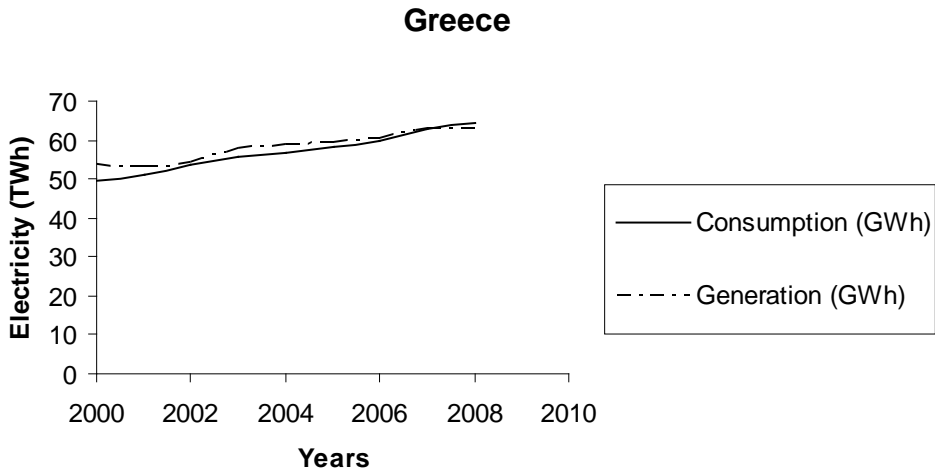


Figure 9: Electricity demand and generation in Greece

Figure 10 shows the main resources used in electricity generation in Greece. Coal has the largest share with 58%, natural gas and oil are other resources used in generation.

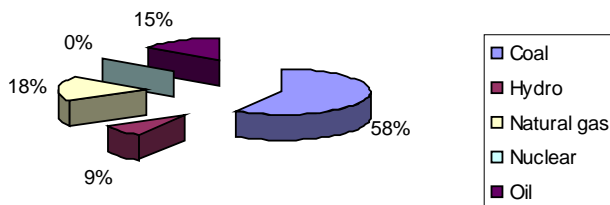


Figure 10: Electricity generation resources in Greece.

### Natural Gas Pipeline Projects

Nabucco is a large pipeline project which connects the energy-rich Caspian and Middle East region with the west Europe passing through Turkey, Bulgaria, Romania, Hungary and Austria. The length of the pipeline will be 3900 km with 31 bcm annual natural gas carrying capacity. Figure 11 shows the proposed map of nabucco pipeline project (World Bank, 2012).



Figure 11: Overview of nabucco pipeline

It is expected that the natural gas supply will secure the supply, provide reliability and decrease the cost. The natural gas based power plants have considerable share in the energy portfolio of Balkans. The nabucco project will feed the natural gas network of Balkans directly or indirectly bringing more reliability to energy market. There are other natural gas pipeline projects that will affect the Balkan regions and result a socio-economic change. Figure 12 shows the routes that pipelines follow through Turkey and Balkans. The nabucco and the blue stream project play an important role to develop economic relations between Turkey and Balkan countries (EIA, 2011).



Figure 12: Natural gas pipeline projects in Turkey

Figure 13 shows the general map of natural gas pipeline projects from Russia, Turkey and North African countries such as Algeria and Egypt. Even though these projects mainly developed to secure the natural gas supply of west European countries, they also bring economic opportunities to Balkans as they have to pass through these countries.



Figure 13: Natural gas pipeline projects in Balkan region

The crude oil is also an important energy source that is needed in Balkans. The Balkan countries do not have rich oil fields that will meet their own demand. Figure 14 shows the oil pipeline projects in Balkan region. More supply will provide lower costs that will decrease the cost of power generation with oil and natural gas (IEA, 2011; EEC, 2012; World Bank, 2011).



Figure 14: Crude oil transportation projects in Balkan region

## Conclusion

Balkan countries are not energy rich countries. The current power generation infrastructure is old, the plants are old coal-based, natural-gas based, hydro or oil based which decreases efficiency and increases cost. On the other hand, countries are located on the passage of energy routes that transports natural gas and oil to west European countries. This advantage brings opportunities for low-cost and reliable energy plants to be built. As a result, if the countries properly utilize the pipelines, the medium will be more attractive for new investments to come.

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## **STRUCTURE OF FOREIGN DIRECT INVESTMENTS AND THEIR IMPACT ON ECONOMIC GROWTH IN REPUBLIC OF MACEDONIA**

Marijan STEVANOVSKI\* & Susana Stoshevska NIKOLOVSKA\*

### **Abstract**

*Investment policy as an intermediate element of global economic policy monitors factors that are directly related to the process of the economic development, imperatively including the investment activities. As part of macroeconomic policy, the investment policy plays an extremely important role to improve the economic growth that tends towards higher economic development of the national economy. The established goals of the economic development as a fundamental prerogative determine ways to achieve the goals that are directly facing the economic development of the national economy.*

*Foreign direct investment (FDI) has the capacity of one of the most important instruments used in the process of economic reforms, market economy, the restructuring process, and before achieving macroeconomic stability and positive growth rate. But the structure of foreign direct investment acts differently towards the economic development and all the positivity that touches convergently the issues of economic policy. The proper structuring and structural streamlining of foreign direct investment depends on the full utilization of the positivity of this kind of investment and the elimination of all formal and informal factors that may occur directly in the investment process. The structure of foreign direct investment programmes the future economic growth of the national economy.*

**Keywords:** *Foreign direct investments, structure, economic development, growth, macroeconomic, policy.*

### **Introduction**

When it comes to economic development, the term investment is being pointed out. The investments are the basic determinants of economic development observed by micro and macro aspects. Every economic policy has the investments as their imperative factor. A satisfactory level of economic development, economic stability and any other social trends can be achieved with them.

The development of the companies and, most of all, the implementation of the development plans cannot be imagined without the investment ventures. Not only that the investments should be included in the plans, but it is necessary to prepare adequate basis for their implementation too. Every national economy which does not include investments in its strategy is doomed to stagnation and maybe even

failure. And why is that so? Because there is no increased reproduction but current playback only in a short period of time which latter begins to decline gradually.

Foreign investment is profit that comes from private companies and financial institutions, international institutions and organizations i.e. any investments that are undertaken in the host country by private companies, institutions and organizations, countries or individuals.

<sup>249</sup>Foreign direct investment, which is the basis of our elaboration, is a category of international investments where the purpose of the entities is to gain permanent economic interest in other international economy. Foreign investor is treated as a direct investor. The company that has been directly invested by the foreign investor is a directly invested company.

<sup>250</sup> Foreign direct investments are presented as an international profit movement through which the goal for long-term interest between the direct investor (resident of one economy) and directly invested enterprise (resident of another economy) is reflected.

It is thought that there is a lasting share if the investor assumes at least 10% of the profit.

FDI beside the initial transaction of self investment, they also incorporate not only other subsequent investments but their affiliations as well. Long-term interest is a significant level of investor's impact in running the enterprise where the profit has been invested in.

FDI research process is a complex task. Few main factors need to be pointed out for its implementation:

- Location and companies' policy,
- Reaching effects from FDI and their impact on the country,
- Transfer of knowledge and technology,
- Convergence and regional development,
- Competitive location in order to attract more FDI etc.

One of the basic postulate that needs to be observed is to cause positive effects from FDI. FDI should, of course, cause positive effects although they might not always result as positive nor tend towards development. Therefore detailed analysis should show the true meaning of FDI in economic system. Therefore the detailed analysis should show the true meaning of FDI in the economic system.

#### **TYPES OF FOREIGN DIRECT INVESTMENTS (FDI)**

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<sup>249</sup>Hereinafter FDI

<sup>250</sup>vidi: Balance of Payment Manual, IMF, 1993; Balance of Payment Compilation Guide, IMF, 1995;

There are several types of FDI that differ depending on the criteria by which they are observed. According to investor's legal office, FDI is divided into inward FDI and outward FDI.

According to the purpose FDI is divided into: horizontal or market seeking FDI, vertical or resource-seeking FDI and export-platform.

Most predictable and used forms of dividing FDI are the following:

- Founding new company (green field),
- Taking over already existing companies in the country (cross-border acquisition),
- Merging companies (international manager),
- Combination between founding new company and acquisition (brown field),
- Joint venture

Most productive type of FDI is green field investment. This type allows construction and operation of a new company. Green field investments affect the gross domestic production of the country where it is located. This type of FDI helps the process of rapid development in the country. Usually every country implements green field investments in its investment policy as a priority from foreign direct investments.

Taking over existing companies or international acquisition includes selling the home company to a foreign one which acquires the majority share package or does a simplification process of purchase. Ownership is transferred to the buyer and the company that has been sold exists no more. The new owner begins with his independent work.

International merger is a process which completely ceases the existence of the domestic company, sells and alters the ownership of the company's wholesome assets and liabilities, the company no longer exists as a legal entity, and interchangeable process takes place where shares are replaced for shares from a foreign company.

Brown field investments are sublimated form of direct investments, acquisition and green field investments. In this process the domestic company is bought and all the control is taken over.

Joint venture is a contract investment between international and domestic investor in order to form a joint venture. This kind of cooperation can also occur as a process in which international company's investment aims to cause cooperation for achieving common interests.

There are portfolio investments too, which are an indirect kind of international investment that do the transfer of domestic profit, achieve query but not ownership as well. Flourishing the profit and beneficence are the main factors for transferring profit without accomplishing control of management.

## Effects from Foreign Direct Investments

As a basic positivity their role is to raise the investment and general economic activity in the country or the region. Among the major benefits we can set aside the increased employment. The question is how do FDI impact domestic investments? Probably the empirical research offers the best answer which is: “new evidence from the analysis run by American multinational companies refer to the process of simultaneous increasing of both domestic and foreign investments. This estimation of complementarity involves combining domestic and foreign production in order to generate final products with less cost than the ones from production of only one country, where every stage of manufacturing process becomes a profitable and abundant.

“The effects from FDI are different. Undeveloped countries accept them because they offer rapid economic development although some of them have negative externalities. Developed countries accept them in order to achieve increased economic activity, development of poorly developed areas, development of certain industrial activity, introducing new knowledge and technology, increased productivity, including domestic companies into foreign trends and international process of technology, manufacture and distribution.

Material resources are integrated and processed through an integration package of profit, technology, management, marketing, organization skills, workforce education and so on.

Positive externalities can be viewed as an important effect. They are expressed through transfer of management skills, ideas, knowledge in technology, innovation in manufacturing process, creativity etc.

Reflection of the effects from FDI on the economy of the countries in transition

Since the early nineties there have been great economic changes in the transition countries, i.e. the countries of Central, Eastern and Southern Europe in terms of economic reforms, transitive changes, European integrative processes as well as processes that are directly involved into FDI's growth. The effects are different depending on the countries, their previous economic development, economic openness, established social and political order, legislations and other elements that have an impact on economic development of those countries.

Common characteristics for all these countries are: lack of domestic investment profit, investment banks and financial markets. Very few countries have previous experience in the process of foreign investments so to be able to draw some historical observations.

FDI's exposure can lead to:

- Foreign investors buying the companies,
- Buying the market in order to achieve full domination on the market as a kind of strategy to conquer the market,

- Foreign investments are focused on most profitable part of the market, which are the services,
- Creating array elements of distortion such as monopolies, oligopolies, cartels etc,
- Companies that appear as holders of FDI are exporters but at the same time are the largest importers,
- Although modernization is expected from FDI yet it falls behind due to the fact that investments are placed in old technologies and the perceptive capabilities of domestic companies are limited.

Even though the FDI in transitive and developing countries shows some negative features yet it is impossible not to quantify and highlight the positive effect that they cause on the economy and economic development of these countries. First of all these investments help to eliminate negativity in terms of companies' faster revitalization, greater accumulation and economic development, joining faster to contemporary economic trends, faster process of qualitative performance on the world market, better utilization of resources or simply faster process of normal profitable operation

#### **Investment portfolio in republic of macedonia in terms of FDI.**

The investment portfolio in Republic of Macedonia has drastically changed since 2006. In 2005 FDI was 77 million euro whereas in 2006 they have increased to 345 million euro, or approximately 4,5 times. The reason for such enormous increase is due to government measures for FDI's stimulation and the following can be listed as most important: tax policy, elimination and decreasing fiscal barriers, simplifying the process of administrative functionality, exemption from income tax in the first ten years, twice the lower personal income tax in the first five years, exemption from reinvested profit, VAT and customs, free infrastructure to the area, co-financing of a part of the expenses in accordance with legislation etc.

It is important to improve the business climate so as to implement these benefits. Republic of Macedonia takes measures which are directly aimed towards improving the conditions of development and emphasizing the economic growth. It is done by:

- Improving business climate in order to create conditions for increasing the investment's quantum,
- Setting up an institutional frame for attracting foreign investments with financial and staff grouping of the Agency for foreign investments and assigning two ministers to attract foreign investments,
- Promotional world media campaign,
- Assigning economic promoters in different countries in order to give priority to Republic of Macedonia as a country with great advantage in investment,
- Education of diplomacy and diplomatic-consular offices responsible for economic activities,

- Developing strategy for attracting foreign investments highlighting the comparative advantages, setting up target sectors and developing marketing plans,
- Preparation and realization of sector studies with highlighted advantages in financing the car industry, agribusiness, tourism, information technology and pharmacy.
- Highlighting benefits for investing in four free economic zones : Skopje, Skopje 2, Tetovo and Stip.
- Signing agreements for eliminating double taxation as well as investment protection etc.
- Many worldwide well known companies have expressed their interest for funding in Republic of Macedonia such as: Johnson Controls, Johnson Matthey, Societe Generale, Mobilko Austria, Hypo Alpe Adria Leasing, SAVA re-insurance, Triglav Insurance,
- Lactalis-France, Milestone, IBS Israel, Gazit Globe Osrael, Porsche Bank, Central Cooperative Bank and so on.
- Although government shows effort and willingness to attract foreign investments nevertheless they seem to pass us by. There are several factors that should not be neglected:
  - A setback in NATO and EU integration processes,
  - Variable climate of interethnic relations,
  - Lack of strong foreign banks in banks' portfolio of the country,
  - Exit from mafia structures of the transition period,
  - Independent judiciary and guarantee for no drastic changes in legislation during operations as well as guarantee that changing the government will not reduce business process unless it shows criminal behavior,

According to a report from The World Bank, Doing Business, Republic of Macedonia was one of the world greatest reform countries for 2007, 2008 and 2009.

Between 2007 and 2010 FDI in Macedonia exceeded 1,2 billion euro and the most of these investments are implemented in financial intermediation, processing sector, construction sector, trade and so on. The biggest investors are: Austria, Slovenia, France, Greece, The USA and Russia.

According to the latest report from The World Bank in terms of business climate Doing Business 2011, Skopje, Bitola and Tetovo are among best business destinations in Southeast Europe.

### **Quantitative and Graphical Analysis**

The presented data refer to the value of foreign direct investments in Republic of Macedonia, the number of employees in enterprises with foreign investments, financial results, classification according to the activity in the period from 2003 till 2011.

The results from this research are used for analytically observing the dynamics of FDI's movement. They are of great importance in terms of the development of economic movement in the country, including the transfer of contemporary technology, perfecting the manufacture process, better utilization of manufacture capacity, as well as contemporary organization of work.

Units of observation in the research for foreign direct investment and other types of international economic cooperation (IEC) are business entities which are registered as business entities with foreign and mixed profit, active business entities that have submitted annual account to the Central Register for the time before the reporting year and the data from Central Depository for securities and purchased shares on the stock by non-residents.

### Definitions used in the analysis

Foreign direct investment (FDI) are investment in our business subjects from legal and physical entities from abroad with which we carry out long-term interest and the foreign investor owns at least 10% from the total value of the business subject.

Employees – the term “employee” means every person who has signed a contract with the business subject and local units in private and other kind of ownership (social, state, cooperative and mixed ownership), regardless the type of employment (definite or indefinite employment), as well as whether they have full time or part-time employment.

Financial report – NET profit/loss for the financial year, at an annual expense is a final balance report of regular and additional activities of business subject.

Foreign direct investments in Republic of Macedonia expressed in million euros

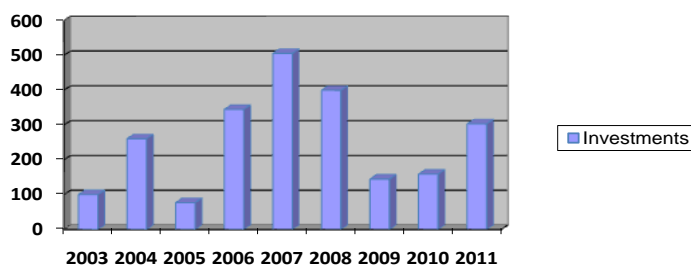
| Year  | FDI in million euro | % in terms of total investment |
|-------|---------------------|--------------------------------|
| 2003  | 100,4               | 4,37                           |
| 2004  | 260,7               | 11,35                          |
| 2005  | 77,2                | 3,36                           |
| 2006  | 344,8               | 15,012                         |
| 2007  | 506,0               | 22,03                          |
| 2008  | 399,9               | 17,41                          |
| 2009  | 145,0               | 6,31                           |
| 2010  | 159,1               | 6,92                           |
| 2011  | 303,5               | 13,21                          |
| Total | 2296,6              |                                |

In the analyzed period from 2003 to 2011, foreign direct investments (FDI) in Republic of Macedonia are a total of 2296,6 million euro. The majority of the FDI's were in 2007 with 506 million euro or 22,03%, and the less of FDI were in 2005 with 77,2 million euro or 3,36%.

The group of developed countries has the most of FDI's in the period 2003-2011 and about 735 million euro belongs to the countries of the EU.

According to the yearly analyses in the countries, in 2003 the majority of FDI's were from Liechtenstein, in 2004 the Netherlands got the primate, in 2005 it went to Saint Vincent and Grenadine, in 2006 and 2007 Austria, Greece in 2008, the Netherlands in 2009 and 2010.

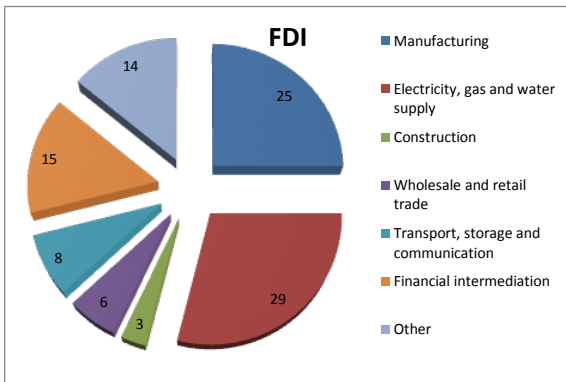
The value of Netherlands' investment is the biggest in 2009 and 2010, 523,56 million euros in 2009 and 554,43 million euro in 2010.



As it is shown in the graphical and tabular chart the largest inflow of foreign direct investments has been noticed in 2006, 2007 and 2008. The trend of investing suffers changes in terms of reducing for the years 2009 and 2010 so that later in 2011 continues in direction of increasing which lasts till the first half of 2012.

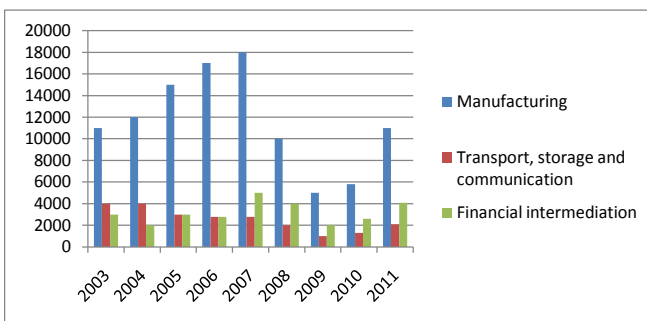
### Foreign direct investments by the activity of investing, 2003-2011





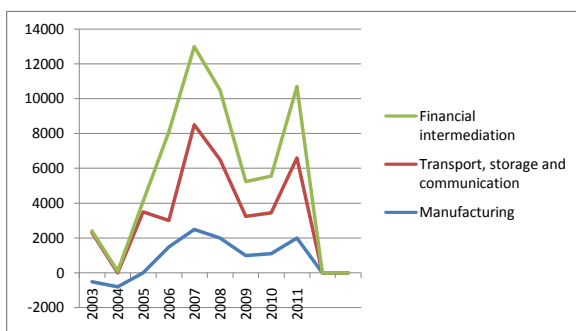
FDIs according to their financial activities between 2003-2011 have the biggest value in power supply with 29% from total FDIs. Next are: manufacturing industry 25%, financial intermediation 15%, traffic, storage and connections 8%, wholesale and retail 6%, construction 3% and other 14%.

The number of employees in the business entities with foreign direct investment for selected activities 2003-2011 in thousands



Based on the largest FDIs, we make a graphic display of the number of employees from the first three most attractive activities which are: manufacturing industry, traffic and financial intermediation.

Financial results of the business entities with foreign direct investments for selected activities, 2003-2011



The analysis of the achieved financial result shows that the best financial result from FDI investments is noticed in financial intermediation and after that traffic, storage and communication, manufacturing industry come.

## Conclusion

Investment policy as a general element from global economic policy observes the factors that are directly connected to the process of economic development, imperatively including investment activities. Foreign direct investment plays the role of one of the most significant instruments that are used in the process of economic reforms, market economy, reconstruction process, and most of all achieving macroeconomic stability and positive growth rate. However, FDI's structure works in a distinct way in terms of economic development and all other positivity which have a convergent influence on the elements of economic policy.

We can draw a conclusion from FDI's analyses of Republic of Macedonia that there is a positive climate for attracting FDI. They have had a constant growth in attractive economic branches. If the trend of attracting FDIs continues as well as the interest of investors, we can hope for great economic growth that causes array of positive repercussions in the whole process of living.

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## THE CONSEQUENCES OF THE WORLD ECONOMIC CRISIS ON THE MACEDONIAN FINANCIAL AND REAL ESTATE SECTOR

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### Abstract

*The world economy in recent years has suffered its biggest blow, even from the time of global depression, impact that severely damaged the developed and developing countries around the world. The world financial crisis, at first, has emerged in the U.S., as a mortgage crisis wherefrom, has spread to other parts of the world and in Macedonia, as well, evolving into severe economy crisis, reflected through drastic decline in GDPs worldwide, and occurrence of world recession. To analyze the impact of the global financial crisis, on the Macedonian banking sector, it is necessary, first to analyze the structure of the financial markets and intermediaries in the Republic of Macedonia, through the aspect ratios of good and bad loans, the ratio of financial intermediation, the linkage of the Macedonian banks with global investment banks, ratios of capital adequacy of the banks, the usage of structured credit financial instruments or derivatives and the development of secondary capital markets in the Republic of Macedonia. Finally, it is necessary to analyze the impact of the global economic crisis on the Macedonian real estate sector through the structure of foreign trade, the structure of Macedonian import and export, and the rates of unemployment and production. The basic purpose of this paper is to present and explain the impact of global financial and economic crisis on the Republic of Macedonia, and to suggest some alternative solutions to overcome the negative consequences.*

**Keywords:** *Global financial crisis, credit rating agencies, global economic crisis, financial derivatives, mortgage crisis, collateralized debt obligations ( CDO ), capital adequacy, trade deficit, financial intermediation*

### The Impact of the World Economic Crisis on the World Economy

The global financial and economic in 2008 was consequence to several factors, such are: the mortgage crisis in the USA, the relaxed monetary policy of the FED, the failed rating of the credit rating agencies for the securitized securities, and the policy of large budget deficits, made by the G10 countries. The prime reason for the crisis, certainly was the shooting of inflated real estate bubble<sup>251</sup> in the U.S. and the lost of value of the issued securitized securities, known as collateralized debt

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<sup>251</sup> Financial bubble is a condition that occurs when a financial asset is overpriced, and as a result of that, it comes to a sharp fall in prices of such assets.

obligations (CDOs)<sup>252</sup>. At the same time, the insurance company, BNP Paribus<sup>253</sup> has written off the claims of several investment banks, which was signal for insolvency in the secured segments of the markets. Soon large number of banks, either has bankrupted, or has been nationalized by the state.

**Table 1. Top 10 underwriters of CDO<sup>254</sup>**

| Underwriter     | 2002      | 2003      | 2004       | 2005       | 2006       | 2007       | Total      |
|-----------------|-----------|-----------|------------|------------|------------|------------|------------|
| Merrill Lynch   | 0         | 3         | 20         | 22         | 33         | 18         | 107        |
| Citigroup       | 3         | 7         | 13         | 14         | 27         | 14         | 80         |
| Credit Suisse   | 10        | 7         | 8          | 9          | 14         | 6          | 64         |
| Goldman Sachs   | 3         | 2         | 6          | 17         | 24         | 7          | 62         |
| Bear Stearns    | 5         | 2         | 5          | 13         | 11         | 15         | 60         |
| Wachovia        | 5         | 6         | 9          | 16         | 11         | 5          | 52         |
| Deutsche Bank   | 6         | 3         | 7          | 10         | 16         | 5          | 50         |
| UBS             | 5         | 2         | 5          | 10         | 16         | 6          | 46         |
| Lehman Brothers | 3         | 4         | 3          | 6          | 5          | 6          | 35         |
| Bank of America | 2         | 2         | 4          | 9          | 10         | 2          | 32         |
| <b>TOTAL</b>    | <b>47</b> | <b>44</b> | <b>101</b> | <b>153</b> | <b>217</b> | <b>135</b> | <b>697</b> |

The global financial and economic crisis had disastrous consequences on world economy.

Through the transmission mechanism and the efficiency of the financial markets, the crisis first emerged in the U.S. and then has spread to other countries in the world, abroad. At first, the investment and other banks, with financial derivatives in its assets and liabilities portfolio, were targeted. At the same time and the world stock markets, where were traded these instruments, marked a downfall, as a result of that, the stock prices of the market firms and banks has significantly decreased

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252 CDOs are structured securities issued in several "tranches", issued by a special entity and collateralized with some type of debt, usually bonds or loans.

253 Prof. Dr. Taki Fiti, "Phenomenology of the economic crisis", Economic Faculty, Skopje, 2009, Page 247

254 Anna Katherine Barnett, "The story of CDO market meltdown", Harvard college, 2009 , page 26

and fell below their real value. This undervaluing of the stocks, certainly should be a reason more, for investors to enter the market and buy the shares, with intention, in future to sell them, where the increased demand might lead to a rise in stock prices and overcoming the financial crisis, yet it was not the case due the pessimistic expectations of the investors, that prices in the future could continue to fall, and that the crisis has not reached its epix. On the other hand, this pessimism of the investors, has further contributed to the immersion of the crisis and the emergence of the global recession.

One of the top investment banks, which did not withstand the impact of the crisis was Lehman Brothers, which at that time was the fourth largest, investment bank in the U.S. with a long tradition and a solid credit rating. However in the 2008, Lehman Brothers suffered huge losses due to the subprime crisis in the USA. The bank loses were result of the long position 255of low-ranking collateralized debt obligations256 by bank. In the first and second quarter of the 2008, the bank reported losses of approximately 5.6 billion dollars and was forced to sell its assets of total value of 6 billion assets257. As a result of such movements, the shares of Lehman Brothers have fallen sharply, which let down all the expectations, that the crisis has past. The collapse of Lehman Brothers, and shortly after, The Bear Sterns258, has led to the freezing of the credit markets in the USA, and losing the confidence of the economic agents in financial markets.

At that time, several large banks abroad the U.S., have had financial and liquidity problems. For example, Belgian bank Fortis, was saved by the state to fail, also Hypo Real, was saved, as a result of the German government interventions. As we can see, the period after the crisis was characterized by frequent government interventions, that were opposite with the principles of the market economy, but these banks were too big to fall, so the effects from their rescuing is greater than the consequences of their bankruptcy.

However, the financial crisis was just the beginning, because due to loss of investor confidence, the collapse of financial institutions, the falling stock prices, the reduced lending by commercial banks, there has been a large reduction in liquidity in the economy, and the decline in world production and demand, which in extreme traits, has lead to the emergence of a global economic crisis and the emergence of recession worldwide259. Although a large number of countries, particularly developing countries, were not affected by the financial crisis, however, the

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255 A long position involves buying securities with intention for future selling, because the future price is expected to be higher.

256 Securitized securities based on previously issued mortgage loans.

257 [http://en.wikipedia.org/wiki/Lehman\\_Brothers](http://en.wikipedia.org/wiki/Lehman_Brothers)

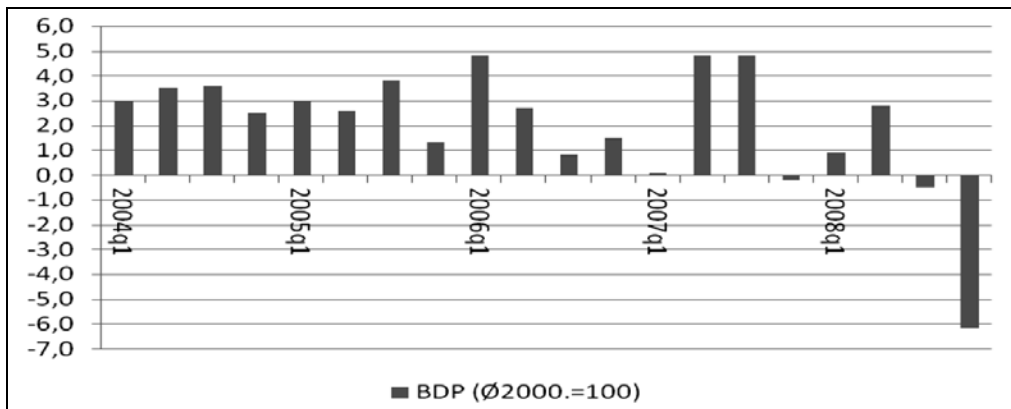
258 U.S. investment bank that went bankrupt as a result of the global financial crisis

259 Recession by definition is phase, when the GDP of a country has negative growth, two quarters in a row. However recession implies a state of reduced production and demand in a particular country or worldwide.

economic crisis was imminent for all the countries because of capital and trade and interdependence of the developing countries from developed countries.

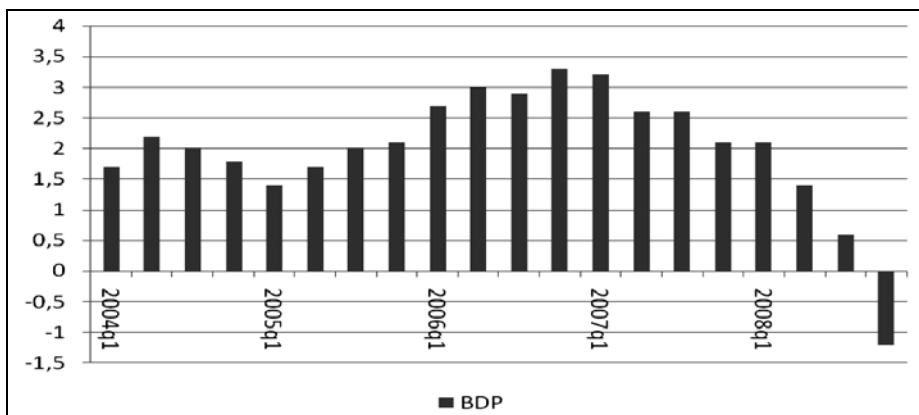
Within the occurrence of the global economic crisis, capital investment ceased to be on the relation developed - developing countries, as previously were, now there was qualitatively dislocation on the relation developed - developed countries, due to loss of the investors confidence, which negatively affected the growth developing countries. The crisis has reduced the demand for foreign products, so that all the countries have focused primarily on the domestic production.

Chart number 1.index of growth of the real GDP in the U.S. by quarters 2004-2008<sup>260</sup>



Through the transmission mechanism of the foreign account, the crisis has passed in the euro zone, and in Macedonia, as well.

Chart number 2.the index of growth of real GDP in the euro zone, by quarters<sup>261</sup>

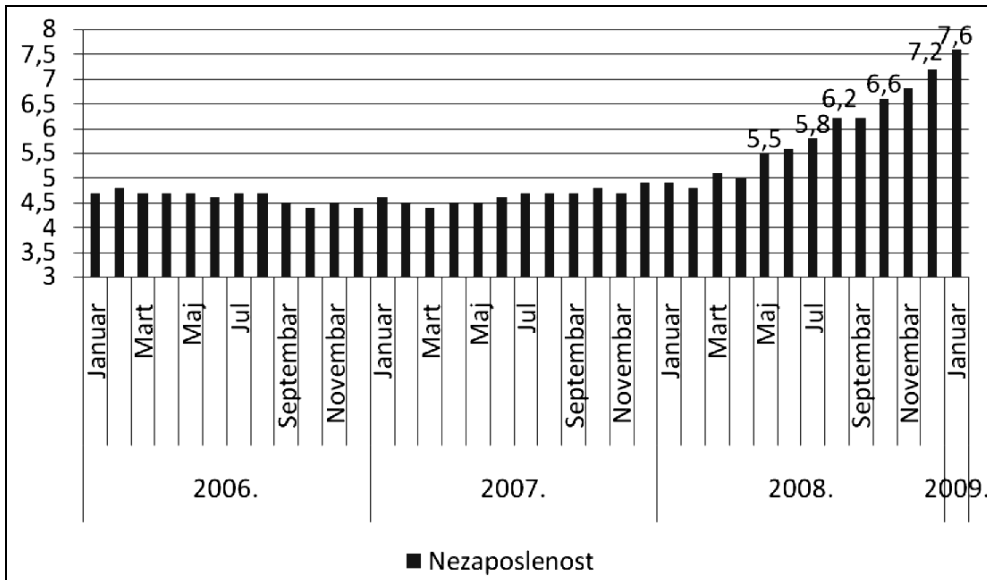


260 Stephen Dragutinovic, "World economic crisis and the consequences on Serbian economy" Institute faculty of economics, finance and administration, page.33

261 Stephen Dragutinovic, "World economic crisis and the consequences on Serbian economy" Institute faculty of economics, finance and administration, page.35

Recession, as it is known, generates many negative consequences, that are destroying the world economy, but the biggest problem is, of course, the increased unemployment by laying off workers and closing factories due the declined demand, and increased costs for production.

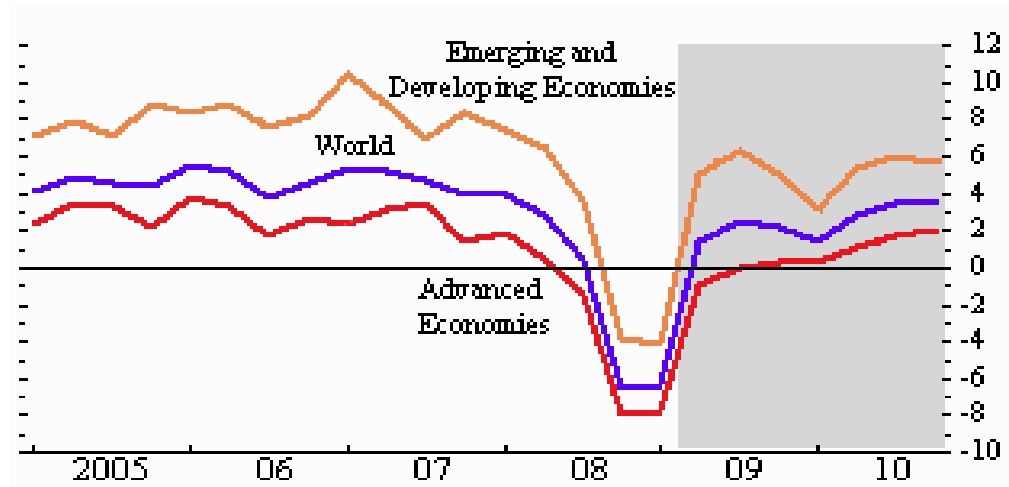
Chart number 3..The unemployment rate in the United States, 2006-2009<sup>262</sup>



The unemployment, however, is increased in the post-crisis period, so in the U.S. in 2011, it was 9.8%, a record high for this country-the world economy leader. The unemployment in this period in the Euro zone was approximately 8-9%. Summing all these indicators, we can conclude that the world in 2008 has descended into a great depression.

<sup>262</sup> <http://www.tradingeconomics.com/Economics/Unemployment-rate.aspx?Symbol=USD>  
05.03.2009



Chart number 4. Global GDP growth<sup>263</sup>

The monetary policy was expansive, and led by the United States, in order to increase the lending processes, so in this period, there was global declining in the reference interest rates worldwide. The interest rate of the FED has declined from 5.25% in September 2007, to 0 and 0.25% in December 2008, and still was not enough for producing growth of the economy, mainly because of the negative expectations of the economic agents. We shall conclude that the most effective measure for reduction of the recession, were the active Government measures focused primarily on increasing the aggregate demand and supply of the economy. The most useful measures were:

- bank nationalization,
- buying parts from banks,
- granting export companies,
- credit subsidies
- increased public and private investment

### **The Consequences of the Global Economic Crisis on the Macedonian Financial Sector**

The banking system has retained the role of the most developed financial sector in the Macedonian economy. Total assets of the banking sector on 31.12. grew with 7.1%, in comparison from last year. The reasons for the dominant role of the banks were:

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<sup>263</sup> Prof. Dr. Abdulmenaf Bexheti "Anti-crisis measures in Macedonia and their effects-are they enough?" March 2010, page 8

- the traditional role of the banks as major financiers of the Republic of Macedonia
- poor development of the financial markets
- deregulation and competition in the banking sector
- high profitability of banks.

The global financial and economic crisis had a different impact on the Macedonian financial and real sector. The Macedonian financial and banking sector was not directly affected by the global financial crisis, but could not avoid the negative effects of the global recession movements, that were spilled on the domestic real sector, and through reduced production and consumption on the banking sector, as well. The stable position of the banking sector was result due to its closeness to international financial markets, lack of exposure to "toxic financial products," its strong capital and liquid position, caution in taking risks, and effective prudential measures taken by the National Bank of Macedonia (NBRM). Although the world crisis has been spread on the relation: financial - real sector, in Republic of Macedonia, an opposite case had happened, so the crisis occurred, because of the recession that limited and reduced the lending and financing, afterwards.

In the first half of 2009, the uncertain environment, the rising trade deficit and the decline in the capital inflows, significantly has slowed the growth of the banking system, worsening the profitability of banks, at the same time. In such a circumstances where the majority of the total debt is depended in foreign currency component, the reliability of the debtors from the stability of the exchange rate is the key. Also, in recession conditions, the greater is the sensitivity of the banks from the changes in the interest rates, so the interest rate risk is eminent, which, along with foreign currency risk, represented a major challenge for the Macedonian financial sector during the crisis. On this occasion, we should mention that credit risks have increased, in this period as a result of worsening the loan portfolio of the banks.

**Table 2. Credit risk in Macedonia (in millions)264**

|                       | 2009    | 2010    |
|-----------------------|---------|---------|
| Total credit exposure | 263,353 | 276,409 |
| calculated losses     | 17,090  | 17,996  |
| average risk          | 6,49    | 6,51    |

As we can see from this table, in the period after the crisis, it comes to an increase in credit risks as a result of bad investments and loans.

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264 Source NBRM,

**Table 3. liquidity rates of the Macedonian financial sector<sup>265</sup>**

| Показател  | 11.2009 | 12.2009 |
|--|---------|---------|
| Liquid assets / Total assets                             | 28,8%   | 29,5%   |
| Liquid assets / Total liabilities                        | 35,8%   | 37,5%   |
| Liquid assets / Short-term liabilities                   | 34,4%   | 35,9%   |
| Liquid assets / Total deposits of non-financial entities | 53,3%   | 53,7%   |
| Liquid assets / Total deposits population                | 91,6%   | 92,5%   |

During the occurrence of the crisis, the stability of the financial sector is perceived, through the increasing of the liquidity ratios of the banks. Durability and stability of the banks are best perceived by the high ratio of capital adequacy, or by the high capacity for responding to credit shocks.

**Table 3.The capital adequacy ratio of the Republic of Macedonia in 2009<sup>266</sup>**

| No. | Description   | Total   |
|-----|---|---------|
| I   | Assets weighted by credit risk                            |         |
| 1   | Balance sheet assets weighted by credit risk              | 177.369 |
| 2   | off-balance sheet assets weighted by credit risk          | 25.307  |
| 3   | weighted assets credit risk ( 1 + 2 )                     | 202.676 |
| 4   | capital requirements to cover credit risk ( 8% from no.3) | 16.214  |
| II  | weighted assets currency risk                             |         |
| 5   | aggregate foreign exchange position                       | 11.735  |
| 6   | net position in gold                                      | 0       |
| 7   | assets weighted according to currency risk ( 5 + 6 )      | 11.735  |

<sup>265</sup> Source NBRM

<sup>266</sup> Source NBRM

|     |   |         |
|-----|---|---------|
| 8   | capital needed to cover the currency risk ( 8 % from no.7 ) | 939     |
| III | Risk-weighted assets (3+7)                                  | 214.411 |
| 9   | capital required to cover risks ( 4 + 8 )                   | 17.153  |
| IV  | Own funds   | 35.115  |
| V   | capital adequacy rate( IV / III )                           | 16,38%  |

The first attack by the crisis in 2009, has created great pressure on the Macedonian denar because of the high Euroization of the financial obligations in the country, where has emerged some serious pressures and risks on the financial stability, which can be seen, through increased buying of Euros, reduced volume of capital flows and the existence of an imbalance of foreign exchange market, which created some conditions devaluation rate. This situation was even greater, if we known to the Macedonian denar is pegged to the euro and the trade deficit is very high and the reserves are limited.

### **The Consequences of the Global Economic Crisis on the Macedonian Real Sector**

The effects of the global economic crisis were observed on the Macedonian economy, a little later, with some delay, unlike the other developed countries. The reasons for this relative lag, were primarily the resistance of the financial sector from the financial crisis in Macedonia (where the financial crisis could create economic and social crisis), and the minor importance role of Macedonia, in the international trade and capital transfers. The Republic of Macedonia is relatively small and open economy, which is primarily import dependent country, with relatively high trade deficit. The high deficit, in recession times, represents the biggest problem of the Macedonian economy, particularly in terms of reduced trade, reduced exports and imports, and fixed exchange rate policy.

**Table 1. Macedonian export 2009-2011, by country (in mil. USD).<sup>267</sup>**

| Country     | 2009   | 2010   | 2011     |
|-------------|--------|--------|----------|
| Deutschland | 455,86 | 712,42 | 1.241,87 |
| Serbia      | 337,81 | 271,82 | 333,37   |
| Greece      | 291,65 | 246,20 | 215,22   |
| Italy       | 218,28 | 235,36 | 289,75   |
| Croatia     | 152,74 | 123,73 | 139,62   |

As we can see from this table, Macedonian export targets the countries in the Euro zone ( like Germany, Italy, Greece), and also the Western-Balkan countries. The same orientation and structure is characteristic for the import component, as well.

**Table 2. Macedonian import 2009-2011 year (in mil. USD)<sup>268</sup>**

| Country     | 2009   | 2010   | 2011   |
|-------------|--------|--------|--------|
| Deutschland | 521,68 | 613,48 | 728,89 |
| Serbia      | 441,86 | 448,93 | 566,28 |
| Greece      | 397,99 | 419,44 | 497,85 |
| Italy       | 368,51 | 335,21 | 418,82 |
| Croatia     | 118,40 | 113,29 | 133,12 |

Unlike the financial crisis, the economic crisis emerged in the Republic of Macedonia, either, through the import channel, or by reducing demand for Macedonian products by foreign partners, mostly from Germany, Greece and Italy. Under these conditions, with relatively low national demand, the aggregate demand is reduced to very low level, generating the appearance of recession and depression trends.

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<sup>267</sup> Source NBRM

<sup>268</sup> Source NBRM

**Table 3. The structure of the Macedonian exports (in mil. USD)<sup>269</sup>**

| Branch                              | Export in 2012 година |
|-------------------------------------|-----------------------|
| Food products                       | 373,24                |
| Leather products, tobacco and paper | 1213,23               |
| Clothing, footwear and sanitary     | 834,55                |
| Transport equipment                 | 352,61                |
| Chemical products                   | 747,14                |

As can be seen from this table, the biggest problem in Macedonia's export is the structure of the export, in a high share of unfinished basic products that do not generate growth in normal conditions, especially in recession. For these reasons some measures are required, to stimulate the exporters, on the one hand, and measures for the restructuring of Macedonian production, in order to reduce the impact of the recession for the future. In Macedonia, the most affected branches were the metal industry, and the leather goods branches, which due to reduced export demand, have had suffered huge losses, and had to lay off many workers. Macedonia's unemployment rate in 2011 was 31.4%, which is result of the Macedonian transition problems and the lack of practice in educational processes. In recession times, we can expect this rate to rise further, why are urgently needed measures, to stimulate the small and medium enterprises and developing programs for self-employment by the government.

#### **Fiscal and Monetary Measures for Reducing the Consequences of the Crisis on the Macedonian Economy**

To overcome the crisis, developed and developing countries used expansion mix of fiscal and monetary measures aimed for raising aggregate demand and also to revive production and consumption, as well. In economic theory, it is known that the monetary and the fiscal policy are substitutes, so in order of overcoming the recession negative effects, expansionary fiscal policy is effective, because the expansionary monetary policy in long terms, only manages to increase the level of the prices, within no change in output or manufacturing. Fiscal studies in Eastern Europe and Central Asia prove that with good management fiscal policies are inciters of the growth.<sup>270</sup>

At the Republic of Macedonia, in the period after the crisis, the Government has adopted several packages of anti-crisis measures aimed primarily at increasing the

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<sup>269</sup> Source NBRM

<sup>270</sup> Prof. Dr. Abdulmenaf Bexheti "Anti crisis measures in Macedonia and their effects-are they enough?" March 2010, page 23

liquidity of the economy, supporting small and medium enterprises and reducing the fiscal burden on companies.

The first package of anti-crisis measures was elaborated in 2008 and included measures of estimated 20 billion MKD worth. The first package of anti-crisis measures have been adopted since 2008 in the amount of 330 million Euros, and were targeting the enterprises with impaired liquidity and accumulated problems of the past.<sup>271</sup>

The second package of anti-crisis measures were, in the form of a multiannual program for the implementation of infrastructural measures, with total amount of 8 billion Euros. There were projects of road and rail infrastructure, energy sector, construction and sports objects. The reason for introducing this package of measures is securing economic growth amid the crisis, reducing the recession.

The third package of anti-crisis measures had approximately 70 anti-crisis measures targeting three segments:<sup>272</sup>

- a.) supplementary budget - review projections in accordance with the new situation,
- b.) credit support to enterprises - using a credit line of the European Investment Bank in the amount of 100 million Euros in loans and guarantees,
- c) other measures to support enterprises to support export subsidies and reducing costs.

The fourth package had measures for:<sup>273</sup>

- Limiting the interest rate for the first year to 6%, limiting the maximum interest rate of the second year to 7.5%.
- Change the amount of individual loans intended for end users (micro to 40,000 Euros to 400,000 Euros small, medium to 3.5 million Euros),
- Segregation of the date of payment of liabilities on gross - wages and contributions to the liabilities for taxes and VAT from 15th to 25th in the current month;
- Facilitating the criteria for receiving financial assistance under the Program for financial support for agriculture in 2010 for use of funds,
- Reducing the fee for the privatization of the construction of legal entities by 30%.
- Introducing credit line to support micro, small and medium enterprises with guarantee scheme by MBPR, with total assets of 15 million Euros.

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271 Prof Dr Sreten Miladinovski, M.A. Aleksandar Dejanovski ,”The impact of the global economy crisis over Macedonian economy”, " Global Security and the challenges of the 21st Century” - Conference, 2012, page 8

272 Prof Dr Sreten Miladinovski, M.A. Aleksandar Dejanovski ,”The impact of the global economy crisis over Macedonian economy”, Global Security and the challenges of the 21st Century” - Conference, 2012, page 9

273 <http://arhiva.vlada.mk/?q=book/export/html/5118>

At the same time, the National Bank of Macedonia in order to maintain the stability of the Macedonian denar the Bank, did sales of foreign currency in the exchange market, in the first half of 2009, tightening the monetary policy by increasing the benchmark interest rate of 7% to 9% in 2009 and by increasing the reserve requirement. Some instruments are presented in the next table.

**Table 4. Some monetary instruments used by the NBRM in 2009 yr**

| Type of measure  | Number of banks | Number of savings |
|--|-----------------|-------------------|
| down meetings of the Board to monitor information technology   | 1               | 0                 |
| Improving the system for monitoring credit risks   | 1               | 0                 |
| evaluation systems for managing liquidity risk by the Board of Risk Management   | 1               | 0                 |
| Improving the system for monitoring the risk from money laundering   | 1               | 0                 |
| The borrowing bank to reach the amount of liquid assets, with which to provide adequate coverage percentage of total liabilities and continuously maintains that level | 1               | 0                 |
| The borrowing bank to submit to the NBRM calculations of total liabilities and total liquid assets from the previous day, every day                                    | 1               | 0                 |
| prohibition of granting loans and other forms of credit exposure to entities other than credit exposures secured by first-rate instruments                             | 1               | 0                 |
| The borrowing bank is obligated to notify NBRM of any change of internal policies for managing credit risk   | 1               | 0                 |
| withdrawal of consent for acquisition of shares in the bank  | 1               | 0                 |
| reporting NBRM on the status of court proceedings are conducted against the bank   | 1               | 0                 |

The fiscal and the monetary measures contributed to stabilizing the Macedonian financial sector and mitigate the recession effects. But, there are some debates, and



confrontations, about the effects of this monetary and fiscal measures. Professor Abdulmenaf Bedzeti<sup>274</sup>, has analyzed the governments anti-crisis measures, giving the following conclusions:<sup>275</sup>

- in almost all of these measures there is an expressed form of relativization of the same, through different variations- systematic and spontaneous, that usually in a shortage of fiscal culture and fiscal discipline, exceptions are turned into the rules of behavior.
- the biggest part of fiscal measures for fiscal “saving” were forced due to the significant underperformance of public incomes ( above all VAT and excise) and were not designed as anti-cyclical fiscal measures or “cyclical regulated budget balance” that would have positive impact on the economical cycle of Macedonian economy;
- delayed fiscal measures – at great number of measures undertaken fiscal obligation already exists and is difficult to return the budget users
- reducing with greater intensity of the already insufficient (structural) developmental component of the budget – capital expenditures are reduced over 18%
- usually “tightening the belt” in the post-election period and in the second half was not proved to be real in the realization.

Summing all the effects, we can conclude that, in order to overcome the consequences of the economic crisis on Macedonian economy, the best macroeconomic combination is expanded fiscal and not-so tight monetary policy. The expanded fiscal expenditures should target long-term investment projects, that are natural generators of development. The NBRM should decline the interest rate in order to stimulate the investors, as well.

The best recommendations for the future macroeconomic policy are:<sup>276</sup>

- Permanently to follow the economic situation - with sustainable analysis – cohesively with coordination and synergy to bring measures on the basis of information , analysis and research of all relevant institutions
- The economic cycles of Macedonian economy need cyclical “regulated fiscal balance” explicitly based on the fiscal possibilities of the country
- Capital strategic investments can not be selected without consistent application of cost and benefit Analysis.

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<sup>275</sup> Prof. Dr. Abdulmenaf Bexheti "Anti-crisis measures in Macedonia and their effects-are they enough?" March 2010, page 28

<sup>276</sup> Prof. Dr. Abdulmenaf Bexheti "Anti-crisis measures in Macedonia and their effects-are they enough?" March 2010, page 29

- Until the consolidation of economy – without exceptions of determination to “take off” from the budget all expenditures that are not productive for Macedonian economy and that can be postponed to “better times” and are exerting pressure on the paid balance of the country.

- To re-examine until is too late, without need the firm attitude “against the engagement with IMF”- we will dearly pay the loans from the commercial capital market. The industry is in need of at least three times more financial capital than the “EIB Program”.

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## **TRANS-ADRIATIC PIPELINE PROJECT AND ITS POTENTIAL EFFECTS ON ALBANIA**

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### **Abstract**

*The aim of this paper is to explain the exploration and the production of natural gas in Albania, which has an important impact on the country's economy. The development of the natural gas sector in Albania is one of the priorities set out in the National Strategy of Energy. The research on this paper is based on regulatory authority of the energy sector and on our actual data and survey made on Albanian citizens according to socio-economic judgments about the Trans-Adriatic pipeline project (TAP).*

*In the first part of this paper, it will be explained that the development of natural gas production process in Albania. The natural gas production in Albania started in 1968 at Divjaka gas field with an annual domestic production of 70 million Nm<sup>3</sup>. Up to 1990 this resource was used to furnish different industries as the fertilizer industry, the oil industry, electricity industry and residential sector. Actually it serves only for the oil industry.*

*As Albania is the only country in Europe which is not connected to the international gas network, in the second part of this paper, It will be explained how Albania is creating a network to international gas supply. Emphasis will be on the TAP project and the Albanian citizens' perceptions on socio-economic reasoning about this project. TAP is an important project because it will link Albania with other Balkan, European and Asian countries and our analyses will be on Albanian people's perceptions about this project. Collected data analyzed by SPSS package programme.*

**Key words:** *Trans-Adriatic Pipeline Project, Albanian Economy, Development of Natural Gas, Transportation of Natural Gas.*

### **Introduction**

At the beginning of '90s, Albania initiated its difficult path of transforming its economy, from a centralized one toward a free market economy. Along this period Albania started to restructure its macroeconomic environment. As the (Ministry of Economy, Trade and Energy, 2011) stated that the need for reforms was very high in all the economic sectors. During the last decade the Albanian economy has seen a

solid progress. The processes of economic transformation and restructuring, and macroeconomic policies pursued in the last 10 years resulted in one of the highest growth rates in the region.

Albania, a formerly closed, centrally-planned state, is making the difficult transition to a more modern open-market economy. According to (CIA World Factbook 2012) macroeconomic growth averaged around 6% between 2004-08, but declined to about 3% in 2009-11. Inflation is low and stable. The government has taken measures to curb violent crime, and recently adopted a fiscal reform package aimed at reducing the large gray economy and attracting foreign investment. Remittances, a significant catalyst for economic growth declined from 12-15% of GDP before the 2008 financial crisis to 8% of GDP in 2010, mostly from Albanians residing in Greece and Italy. The agricultural sector, which accounts for almost half of employment but only about one-fifth of GDP, is limited primarily to small family operations and subsistence farming because of lack of modern equipment, unclear property rights, and the prevalence of small, inefficient plots of land. Energy shortages because of a reliance on hydropower - 98% of the electrical power produced in Albania - and antiquated and inadequate infrastructure contribute to Albania's poor business environment and lack of success in attracting new foreign investment needed to expand the country's export base. FDI is among the lowest in the region, but the government has embarked on an ambitious program to improve the business climate through fiscal and legislative reforms. The completion of a new thermal power plant near Vlore has helped diversify generation capacity, and plans to upgrade transmission lines between Albania and Montenegro and Kosovo would help relieve the energy shortages. Also, with help from EU funds, the government is taking steps to improve the poor national road and rail network, a long-standing barrier to sustained economic growth. The country will continue to face challenges from increasing public debt, approaching its statutory limit of 60% of GDP. Strong trade, remittance, and banking sector ties with Greece and Italy make Albania vulnerable to spillover effects of the global financial crisis.

Albanian energetic system is based on the production of energy by hydro plants with a capacity of production 1,450MW and an annual average of 4,200GWh (CEZ Shperndarje sh.a, 2012). They are furnished by the largest rivers of Albania. The one and only user of this hydro plants is Albanian Energetic Corporation (KESH), a public sector which sells the energy to CEZ. CEZ is the only distributor of electrical energy in Albania.

Hydro plants are the primary energy supplier in Albania. Actually Albania is probably the only country in the region which does not use other sources for energy production and consumption. Crude oil and electric power are the primary sources of energy production. Hydro covers 97.1% energy production by source and fossil fuel covers 2.9% electricity production by source. While in total consumption crude oil, electric power, fire wood and lignite are the only sources (CIA World Factbook, 2012).

As the oil reserves and in many parts of the world are being depleted and hydro energy is always in danger due to dry, the availability of a viable alternative such as

natural gas is becoming increasingly important. Increased exploitation of natural gas, offers a means of reducing the country's dependence on oil and water and providing plenty of energy for use in people's houses and in industry. It will help the Albanian economy to cope with the depletion of the world's oil reserves. It will also help Albania save its hydro reserves as changes in climate due to global warming are coming. Based on limited publicly available information it seems that a very minor part of natural gas requirements is met through domestic natural gas production.

The development of the natural gas sector in Albania is one of the priorities set out in the National Strategy of Energy. For this reason, Global Legal Group Study (2009) explains the way Albania could be connected to the international gas network. The supply of Albania with gas is foreseen to be achieved through international gas networks, for which there are three existing options: (i) serve as a terminal of the regional pipeline with Russian natural gas from Macedonia or Greece; (ii) serve as a transit point for the gas pipeline designated for the supply of Western Europe, through Italy, with natural gas coming from Caspian region via the "Transadriatic" or otherwise known as the "TAP"; or (iii) serve as a terminal for liquefied natural gas in the Adriatic coast. The TAP has been considered to be the optimal solution for Albania and is valued as the most efficient gas pipeline from the 4 project corridors of supply to Southeast Europe. It includes the option of developing the storage of natural gas in Albania, which shall increase the security of supply of gas. The TAP project represents a rational solution with an important impact for the economic development of our country. It represents a major project in energy infrastructure of Albania by contributing to the gasification of our country, and considered to be a huge contribution towards security of energy supply for the country.

TAP is seen as a big investment for Albania. It will not only supply Albania with natural gas, but it gives to Albania the opportunity to be a strategic country to supply later the European regions and be the missing link of this pipeline network. This way Albania will solve the energy shortage problem and her dependence on hydro sources and entering a new path of economic development.

### **Transportation of Gas via Pipelines**

Pipelines are an ancient technology that has served many different civilizations in different regions. They were and still are part of the development and progress of society. Many of the ancient applications of pipeline transportation are still being applied in a contemporary way. When asked about transportation in general, people usually think about road transport, railroad transport, aviation or shipping. Pipeline transport will be the last mode of transport on their mind.

First of all we will explain shortly the history of pipelines, then we will show the coverage and importance of the most known pipelines.

According to Thomas (2010), The first pipelines date back to 3000 BC in Mesopotamia, Egypt and China. They were primarily used to supply water but were all made out of different materials. In Mesopotamia pipelines were made out of clay, in Egypt out of copper and in China out of bamboo. The Romans were the first to build a gigantic pipeline network that could transport water all around their city. In the Middle Ages the technologies and developments discovered by the Romans were disregarded. There were no comparable water networks like in ancient Rome (Thomas, 2010, p.2).

Later on, in the 15th century iron pipelines were introduced. Thanks to these iron pipelines and newly developed pumping system a decent European water network arose in the 16th and 17th century. Late in the 19th century, the first pipelines were built to transport crude oil efficiently. After World War 2 the oil pipeline systems received another development boost because the alternative modes of oil transport appeared to be too vulnerable to enemy attacks. Pipelines underwent some sophisticated technological changes and can nowadays transport more than just water or oil (Thomas, 2010, p.2).

Some Pipeline Projects in the World:

### **Trans Alaska Pipeline System**

The most well-known pipeline is the Trans Alaska Pipeline System (TAPS) (Thomas, 2010). The recent research on this pipeline (Joint Pipeline Office, 2011) has shown that 800-mile-long Trans Alaska Pipeline System contributes approximately 13% of the nation's domestic oil production, reducing dependence on foreign reserves. Beginning in Prudhoe Bay on Alaska's North Slope, TAPS stretches through rugged and beautiful terrain to Valdez, the northernmost ice-free port in North America. The Trans-Alaska Pipeline System includes the trans-Alaska crude-oil pipeline, 11 pump stations, several hundred miles of feeder pipelines, and the Valdez Marine Terminal. The pipeline was built between 1974 and 1977 after the 1973 oil crisis caused a sharp rise in oil prices in the United States. The Alaskan Pipeline only transports oil, and consequently it safeguards against the removal of metals, agricultural products, and other natural resources that could be developed. The task of building the pipeline had to address a wide range of difficulties, stemming mainly from the extreme cold and the difficult, isolated terrain. More than half of the pipeline runs above ground – an engineering decision due to Alaska's prevalent permafrost terrain. TAPS' visibility as it crosses Alaska's remarkable terrain has made it one of the world's most photographed pipelines.

### **North European Gas Pipeline**

The North European Gas Pipeline (NEGP) is one of the largest subsea gas pipeline projects in the world and is designed to provide EU member states with 55 billion cubic meters natural gas from Russia annually, which will be about 8% of the predicted total gas consumption in the EU in 2015 (Sven and Jürgen, 2007). The recent research (Götz ,2005) has shown that the project comprises 900 km of pipelines on Russian territory to connect to the existing long-distance pipeline system and approximately 1200 km sea-bed pipeline running from Wyborg to Greifswalt. The gas will feed into the German grid, from where it can be transported to the UK. Several off-branches are planned, to Finland, Kaliningrad and Sweden. Costs are estimated at \$2-\$6 billion, depending on the specific construction plans.

### **Nabucco**

The research (Katinka, 2010) explains that Nabucco—a 3,300 km pipeline planned from Turkey’s eastern border through Bulgaria, Romania, Hungary, and into Austria—is the flagship project of the EU’s fledgling energy security policy. Stull (2010) has shown that it could eventually bring 31 billion cubic meters (bcm) of Caspian and perhaps Middle Eastern gas to Europe each year. It is at the heart of the European Union’s “southern corridor” strategy, which aims to connect the European energy market to these gas-rich regions. Nabucco would lessen the EU’s dependence on Russian gas, contribute to stronger ties between the European Union and the countries in its eastern neighborhood and prove that the European Union and Turkey can work together at a time when the accession process seems to be running out of steam. Nabucco is the only pipeline project that could give Israel access to the European market – the largest interconnected gas market in the world.

### **Baku Tbilisi Ceyhan**

This research (BP Caspian,n.d.) has shown that at a length of 1,768km, the Baku Tbilisi Ceyhan (BTC) Pipeline is one of the great engineering endeavors of the new millennium. The BTC oil export pipeline transports crude oil from offshore oil fields in the Caspian Sea to the Turkish coast of the Mediterranean to Ceyhan from where the crude is further shipped via tankers to European markets. Running through Azerbaijan and Georgia to a terminal facility at Ceyhan on the Turkish Mediterranean coast, the pipeline has the capacity to transport one million barrels of crude oil. All the oil transported will be exported to Western markets. The BTC pipeline offers an inherently safer means of transporting oil over long distances.

### **Blue Stream**

Gazprom research (2003) explains that the Blue Stream gas pipeline is designed to deliver Russian natural gas to Turkey across the Black Sea by passing third countries. Blue Stream supplements the gas transmission corridor running from

Russia to Turkey via Ukraine, Moldova, Romania and Bulgaria. Eni (2009) found that Blue Stream is undoubtedly one of the most challenging project of its type ever attempted because of the difficulties in terms of design, construction, organization and logistics. The pipeline costs \$3.4bn and will carry, at full capacity, 16 billion cubic meters of natural gas from Russia to Turkey. The study of Offshore industry (n.d.) shows that the pipeline consists of three main parts. The route comprises a 222-mile section in Russia, a 235-mile section on the bottom of the Black Sea and a further 300-mile link from Samsun to Ankara. The Blue Stream pipeline is the world's deepest undersea pipeline.

There are some strengths and weaknesses of the pipelines which are mentioned by Thomas's study (Thomas, 2010). The most important strength is that the environment where it is build is very friendly. This means that the place of the pipelines is somewhere away from the populated areas. This fact brings some other strengths like low visual cost and little noise pollution. These pipelines are safe, do not need much space and have enormous transport capacity.

As weaknesses of pipelines, it can be mentioned that in these pipelines limited number of substances can be transported (for ex: oil pipeline, water pipeline or gas pipeline) and there is a limited capacity of these substances. Another weakness of the pipelines is that different pipeline systems are used for different substance groups.

Pipeline transport, besides the fact that it causes little noise and air pollution and in most cases no visual cost, has even more benefits. It is also a reliable, durable, safe and weatherproof, profitable, energy friendly and cost-efficient mode of transport that does not need much room to operate. A pipeline as a mode of transport for conveying liquids, gases, slurry, goods or other substances and materials is very reliable because once the time and date of the order have been registered, it is guaranteed that the package will arrive at its destination. The high delivery speed of a pipeline system is a huge benefit for many companies. It is self-evident that a pipeline system has to be durable in order to be profitable since the cost price of a pipeline system is enormously high. Most pipelines are laid underground and the above ground pipelines are situated in remote areas, creating a safety barrier in both situations. This makes pipeline transport a safe mode of transport with little accidents or deaths. Additionally, a pipeline is designed to withstand the extreme weather conditions that it may encounter, making it even safer.

Many pipeline systems make it possible for the consumer to use the transported product whenever consumer wants. The prerequisite is that there has to be enough capacity available to deliver to everyone and to cope with fluctuations in demand.

### **Trans Adriatic pipeline Project**

BP Caspian (n.d) shows that in 1999 Shah Deniz, one of the world's largest gas-condensate field was discovered. It has a capacity of over 30 trillion cubic feet- 1 trillion cubic meters of gas in place. It is founded in Caspian Sea and has started its



operations in 2006. It has proved a secure and reliable supplier of gas to Azerbaijan, Georgia and Turkey via pipeline projects. Its newest project is Trans Adriatic Pipeline project.

Trans Adriatic Pipeline project is a proposed pipeline which will transport natural gas from Greece to Albania and further to Italy and Western Europe. It will be supplied from Caspian region, Shah Deniz field and will be transported till here through existing pipelines. Using the data given by Profazio (2011), TAP is a 520 km pipeline from which 380 km will be covered in Albanian territory. TAP will be realized through the collaboration of three international energy consortiums, EGL, Statoil and German E.ON Ruhrgas. TAP offers security for the gas transportation through Shah Deniz field to European regions. As the gas furnishing increases, TAP will be able to transport 10 mmk gas more in a year increasing its capacity to 20 mmk, also depending on the demand. TAP will be financed from safe shareholders and will not require subventions from the countries it will be passing. It will require a cost of 1.5 milliard Euro.

For Albania it brings a lot of benefits. Nepravishta (2011) explains that it represents an essential choice for the economic development of Albania. This is a big investment for Albania which may attract the attention of other foreign investors. This project offers many jobs for unemployers which will lead to economic growth for Albania. This project gives to Albania the best opportunity of integration into European Union.

It will be a solution for the problems of energy furnishing Albania is facing, which may lead to political stability. Many families in Albania are suffering problems of energy shortage and this pipeline project seems to be the right solution for solving these problems. On the other side it may soften the political problems Albania has been facing.

TAP is a major project for the energetic infrastructure. In nowadays, Albanian energetic infrastructure is represented by hydro reserve power supply which does not fulfill the customer needs. Albania is importing energy at high costs. TAP will supply enough natural gas which will satisfy Albanian customer needs. TAP also gives the opportunity to be linked to other pipeline systems in the region.

The project also includes the option to develop natural gas storage facilities in Albania, which in turn would further contribute to increasing security of supply in southeast Europe. Albanian territory is very rich with fuel and gas reserves but they are not being used since Albania does not have a good energetic infrastructure and TAP is evaluating the option to develop underground storage in Albania.

As TAP is called the missing point of pipeline projects in Europe, it will fill the void and be the best contact link ,with the shortest length to supply Greece, Albania and European regions. TAP will make an important contribution to the new gas supply corridor to Europe: the Southern Gas Corridor.

The governments of Italy, Greece and Albania confirmed their political support for the Trans Adriatic Pipeline (TAP) project by signing a Memorandum of Understanding (MoU) on 2012-09-27.

### Analysis

We applied a survey in 3 cities (Tirana, Durres, Elbasan) in Albania to gather Albanian People's opinion about TAP. Sample is selected by convenience sampling method and 400 people replied the survey. After collecting data we organize them in SPSS 20 and then evaluate people's opinion on TAP by frequencies and percentages.

### Demographic Indicators

Demographic indicators of the sample, such as gender, age group, education level, job types and income level, are given below.

**Table 1. Gender**

|            | Frequency | Percent |
|------------|-----------|---------|
| Valid Male | 176       | 44,1    |
| Female     | 223       | 55,9    |
| Total      | 399       | 100,0   |

44 % of the sample is male and 56% of the sample is female.

**Table 2. Age**

| Age         | Frequency | Percent |
|-------------|-----------|---------|
| Valid 18-24 | 122       | 30,6    |
| 25-39       | 108       | 27,1    |
| 40-64       | 139       | 34,8    |
| 65+         | 30        | 7,5     |
| Total       | 399       | 100,0   |

Most frequently observed age group is between 40-64 by 34.8%. Less frequently age group is observed as older than 65 by 7.6%.

**Table 3. Education level**

|                | Education        | Frequency | Percent |
|----------------|------------------|-----------|---------|
| Valid          | Primary School   | 28        | 7,0     |
|                | Secondary School | 173       | 43,4    |
|                | University       | 197       | 49,4    |
|                | Total            | 398       | 99,7    |
| Missing System |                  | 1         | ,3      |
| Total          |                  | 399       | 100,0   |

University graduate group is the first group that has more share in the sample by approx. 50%.

**Table 4. Job Frequency**

|       | Job            | Frequency | Percent |
|-------|----------------|-----------|---------|
| Valid | Private Sector | 65        | 16,3    |
|       | Student        | 83        | 20,8    |
|       | Public Sector  | 72        | 18,0    |
|       | Self-employed  | 24        | 6,0     |
|       | Housewife      | 60        | 15,0    |
|       | Retired        | 26        | 6,5     |
|       | Unemployed     | 69        | 17,3    |
| Total |                | 399       | 100,0   |

Comparing by the other groups, it is shown that retired and Self-employed groups are less share in the sample, 6.5% and 6% respectively.

**Table 7. Income Level (Monthly)**

| Income        | Frequency | Percent |
|---------------|-----------|---------|
| Valid 1000+   | 23        | 5,8     |
| 200-499       | 92        | 23,1    |
| 500-999       | 27        | 6,8     |
| less than 200 | 61        | 15,3    |
| None of them  | 196       | 49,1    |
| Total         | 399       | 100,0   |

Almost an half of the people declared they have no income, they are mainly unemployed group and then students and housewives.

### **Evaluation Of Tap**

People joined with survey are asked to evaluate TAP from some perspectives like, enhancement of economy, improvement in energy problems of families living Albania, contribution to politic problems in Balkan and integration of Albania to Balkan and Europe.

Research Questions:

Question 1) Do you know what is TAP?

Firstly people asked whether they know TAP or not and results are given in Table 8, below

**Table 8. TAP know**

|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 214       | 53,6    |
| Yes      | 185       | 46,4    |
| Total    | 399       | 100,0   |

The share of people who know TAP is slightly less than people who do not know TAP, their proportion in the sample are 53.6 % and 46.4 % respectively.

Question2) Do you think that this project will help Albania economically?

People asked to give their opinion about TAP will help Albania economically or not, and results are given in Table 9, below

**Table 9. Albania economy**

|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 64        | 16,0    |
| No idea  | 42        | 10,5    |
| Yes      | 293       | 73,4    |
| Total    | 399       | 100,0   |

Majority of people (73.4%) affirmed that TAP will enhance Albania economy. Only 16% of them think TAP will not enhance it.

Question 3: Do you think that this project will help in problems that some Albanian families face with energy?

It is asked that to people whether TAP will help Albanian families' energy problem and results are given in Table 10 below.

**Table 10. Energy problem Albania**

|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 121       | 30,3    |
| No idea  | 6         | 1,5     |
| Yes      | 272       | 68,2    |
| Total    | 399       | 100,0   |

Majority of people (68.2%) think that TAP will help families 'energy problem in Albania. On the other hand 30.3% of them do not think TAP will help energy problem of families.

Question 4: Do you think that this project will help in solution of political problems of Balkans?

It is asked that to people whether TAP will help in solution of political problems of Balkans, and results are given in Table 11 below.

**Table 11. Politic problems in Balkan**

|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 126       | 31,6    |
| No idea  | 96        | 24,1    |
| Yes      | 177       | 44,4    |
| Total    | 399       | 100,0   |

44.4 % of people say “Yes”, TAP will help in solution of politic problems in Balkan. But people who say “No” is also quite high by 31.6%. 24.1% of people did not declare any positive or negative opinion by saying “No idea”.

Questions:

5- Does this project help in the integration of Albania into Balkan Economy?

6- Do you believe that this project will help Albania to integrate into Europe?

Answers that are given to these two questions show us people’s opinion about integration of Albania to its region and Europe. Integration to Europe is very important for Albania. Results are given in Table 12 and Table 13 respectively, below.

**Table 12. Integration to Balkan**

|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 88        | 22,1    |
| No idea  | 74        | 18,5    |
| Yes      | 237       | 59,4    |
| Total    | 399       | 100,0   |

**Table 13. Integration to Europe**

|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 112       | 28,1    |
| No idea  | 1         | ,3      |
| Yes      | 286       | 71,7    |

**Table 12. Integration to Balkan**

|       |         | Frequency | Percent |
|-------|---------|-----------|---------|
| Valid | No      | 88        | 22,1    |
|       | No idea | 74        | 18,5    |
|       | Yes     | 237       | 59,4    |
|       | Total   | 399       | 100,0   |

Majority of people think that TAP will enhance to integration of Albania to Balkans (59,4%) and Europe (71.7 %). But their belief in integration to Europe is higher than Balkan. It can be assumed as normal because TAP will connect Greece, Albania and Italy. At the same time Albania is assumed as it will be a part of European Union.

### Conclusion

By the results of the research we can say that for Albania, a country in transition, the need for economic decisions in energetic is very high. The history of pipeline projects has shown that such an investment may be a solution for recovering energetic system and increasing economic growth of the country.

The survey applied in Albanian citizens shows that people have positive percieveeness about TAP. For example, Majority of people (73.4%) affirmed that TAP will enhance Albania economy. Then, 68.2% of people think that TAP will help families 'energy problem in Albania. And, 44.4 % of people think TAP will help in solution of politic problems in Balkan.

Another important findings are related with integration of Albania into Balkan and Europe. Majority of people think that TAP will enhance to integration of Albania to Balkans (59, 4%) and Europe (71.7 %). They believe in that TAP will provide an opportunity in integration to Europe as their final goal being a member of European Union. It will support to achieve this goal.

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## LEAD-LAG RELATIONSHIP BETWEEN ISE 30 SPOT AND FUTURES MARKETS

Serhat YANIK\* & Yusuf AYTURK\*

### Abstract

*The lead-lag relationship between spot and futures markets indicates which market leads to the other. Determining the direction of this casual relationship between spot and futures market carries important information for traders since leading of one market to another enables an arbitrage opportunity. This paper investigates the lead-lag relationship between spot and futures markets in Turkey. The most liquid stock index futures contracts traded in Turkish Derivatives Exchange (TurkDEX) are Istanbul Stock Exchange (ISE) 30 index futures contracts, because of this reason, the lead-lag relationship between ISE 30 index and ISE 30 index futures is examined by using daily observations for sample period February 2005 – March 2011. The results indicate that spot market plays a price discovery role for futures market, implying that spot prices contain useful information about future prices for ISE 30 index. These findings are helpful to financial managers and traders dealing with Turkish stock index futures.*

**Keywords:** *Stock index futures, ISE 30 index, Lead-lag relationship, Error correction model.*

### Introduction

Especially after 1980s, there has been rapid fluctuation in interest rates, exchange rates and stock prices. High volatility and risk in financial markets have caused an increasing demand for hedging instruments which are structured to avoid risk by transferring it from one to another. One of the most widely used hedging instruments is futures contracts. A futures contract is a standardized agreement between two different parties to buy or sell a standardized quantity and quality of a specified underlying asset at a predetermined future date at a price agreed today. There are several types of futures contracts written on different underlying assets such as currencies, securities, financial instruments and indices. Stock market indices are the underlying assets of stock index futures contracts. Brooks et al. (2001) point out that stock index futures have attractive features for investors who want to trade on an index portfolio. Traders frequently take opposite positions in both spot and futures markets to avoid market risk. In other words, stock index futures can be used to hedge a well-diversified equity portfolio. Kawaller et al. (1987) classify the usage of stock market index futures into three categories. First

one is hedging, which involves buying or selling of index futures in the anticipation of an intended spot market trade. Second is arbitrage, which involves the simultaneous buying and selling of stocks and futures in order to capture change in relative price following a perceived mispricing opportunity. The last one is trading, which involves the active use of futures to speculatively take advantage of expected broad market price changing (Kawaller et al., 1987, p.1311).

Futures prices of stock indices and theoretical relationship between a stock index futures and stock index can be explained by the cost of carry model. Fair value of a futures contract is calculated by this model. It is given by

$$F_t = S_t e^{(r-d)(T-t)} \quad (1)$$

where  $F_t$  is the stock index futures contract price at time  $t$ ,  $S_t$  is the value of the underlying index,  $r$  is the continuously compounded risk free rate of return,  $d$  is the continuously compounded dividend yield on the underlying asset and  $T$  is the time where futures expires so that  $(T - t)$  is the time left to maturity. Taking natural logarithms of both sides:

$$\ln F_t = \ln S_t + (r-d)(T-t) \quad (2)$$

This equation implies that there is one-to-one relation between the natural logarithms of spot and futures prices. The difference between two is the cost of carry,  $(r - d)(T - t)$ , which is the difference between risk free rate of return foregone and the dividend yield until the expiration date of the futures contract. Tse (1995) states that in theory, when we assume that the capital market is efficient and frictionless, the changes in stock market index value and the changes in the same index futures price should be perfectly contemporaneously correlated and not cross-autocorrelated. However, it has been found in many studies that the changes in futures price can be significantly different from those of the spot index occurring at the same time (Tse, 1995, p.553).

Stoll and Whaley (1990) summarize reasons for violation of cost-of-carry model. First of all, the infrequent trading of stocks within the index is one of the most important reasons. Second reason is that transaction costs are different between spot and futures markets and this difference tends to induce noise in the relation. A third reason for violation of the cost-of-carry relation is time delays in the computation and reporting of the stock index value (Stoll and Whaley, 1990, p.444-445) If the changes in futures price can be significantly different from those of the spot index occurring at the same time, an index arbitrage opportunity is appeared. If  $F_t > S_t e^{(r-d)(T-t)}$ , profits can be made by buying the stocks of the underlying index at the spot price and shorting futures contract. If  $F_t < S_t e^{(r-d)(T-t)}$ , profits can be made by doing the reverse – that is, shorting the stocks of the underlying index in spot market and taking a long position in futures contracts. The results of empirical studies on lead-lag relation between futures and spot prices are very crucial, because if one market leads another, this relationship arises an arbitrage opportunity for traders. However, as arbitrageurs take investing positions to exploit this profit, they

will ensure that the equilibrium relationship stated by cost-of-carry model is satisfied over time.

In Turkey, Turkish Derivatives Exchange (TurkDEX) was established in 2002. There are several contracts traded in TurkDEX, these are index futures, currency futures, interest rate futures, commodity futures and precious metal futures. Although Turkish equity market is one of the most important emerging markets, futures contracts based on a stock market index are started to trade on 4th of February 2005. Compared to ISE 100 index futures contracts, the trading volume and number of contracts for ISE 30 index are considerably higher. Because ISE 30 index futures have higher trading volume and number of contracts, in this study, investigation of the lead-lag relation between spot and futures markets for ISE 30 index is preferred rather than indicator ISE 100 index.

Increasing importance of using index futures to avoid risk since 1980s leads an increase in investigation of the relationship between spot and futures prices. Especially the investigation of price discovery function of spot or futures markets has received much attention from scholars, traders and regulators. Both futures and spot markets of a financial asset react to almost the same information set, but for trader and investors it is important to detect which market reacts first. The main purpose of this study is to investigate whether futures prices lead the spot prices for ISE 30. This paper contributes to very limited literature of Turkish derivatives exchange by examining different time periods. There are two unique contributions of this study to the literature on lead-lag relation between spot and futures prices. Firstly, this paper reinvestigates the lead-lag relationship between Turkish stock index and stock index futures prices using a recent data set of longer period. This paper also examines the consistence of lead-lag relationship between Turkish stock index and index futures prices using two different sub-periods, a pre-crisis and a post-crisis period. In section 2, a literature review is introduced. In section 3, basic information about Turkish Derivatives Exchange (TurkDEX) and the data set is given. In section 4, research methodology and results of the analysis are presented. In section 5, there are some implications for traders and the paper ends with a conclusion.

## **Literature Review**

The literature indicates that the lead-lag relation between stock index spot and futures prices can be in three different forms; these are leading of futures to spot, bidirectional relation and leading of spot to futures. Most widely observed form is that futures prices lead the spot prices, especially in developed markets. In their study, Kawaller et al. (1987) examine the intraday lead-lag relationship between S&P 500 futures and the S&P 500 spot index using minute-to-minute data. By conducting least-squares regression analysis they find that the lead from futures to spot prices statistically significant and extends for between twenty and forty-five minutes. Herbst et al. (1987) empirically examine the lead-lag relation between index futures prices and cash indices for both Value Line and S&P 500 for the

period September 1982 – June 1983. They find that futures prices tend to lead cash indices of both Value Line and S&P 500 for the sample period implying that knowledge of the lead can provide a profitable trading advantage for investors. Tse (1995) examines the lead-lag relation between the spot index and futures prices of Nikkei Stock Average by using daily data for the period December 1988 – April 1993. He finds that lagged changes in the futures price affect the short-term adjustment in the spot index, but not vice versa through the error correction model.

Brooks et al. (2001) investigate the lead-lag relationship between the FTSE 100 index and index futures prices by using 10-min observations from June 1996 – June 1997. They find that lagged changes in the futures price can help to predict changes in the spot price. After they find this predictive ability of futures price, they also test a trading strategy to search for systematic profitable trading opportunities. While their model forecasts produce significantly higher returns than a passive benchmark, same model cannot unable to outperform the benchmark after allowing for transaction costs. Kavussanos et al. (2008) search for the lead-lag relationship in daily returns between spot and futures price series in the FTSE/ATHEX-20 and FTSE/ATHEX Mid-40 markets for the period 2000 – 2003. They find that there is bi-directional lead-lag relationship between spot and futures market. However, they conclude that futures lead the spot index returns by responding more rapidly to economic events than stock prices. Recently, Tse and Chan (2010) examine the lead-lag interaction between futures and spot markets of the S&P500 using the threshold regression model on intraday data. They find that the lead effect of the futures market over the cash market is stronger when there is more market-wide information. Kayali and Celik (2010) investigate the price discovery among ISE 30 index spot, ISE 30 index futures and an Exchange Traded Fund on ISE index for the period April 2009 – July 2010. They find that futures prices lead both spot market and exchange traded fund prices of ISE 30 index.

Kawaller et al. (1987) emphasize that transaction costs is less expensive for a stock index futures contract than for a stock index spot trading, and transaction costs is one of the most important determinants of enhancing efficiency in any financial market. Futures markets with lower transaction costs are more efficient compared to spot markets. Because of this reason, futures markets tend to lead the underlying spot markets. Furthermore, Herbst et al. (1987) state that selling or buying of a single index futures contract is much easier than the individual stocks of the same index in a short period of time. Therefore, traders can reacts to the new information by taking position in stock index futures contracts rather than spot markets implying that stock index futures reflect the effect of new information somewhat sooner than spot stocks market indices (Herbst et al., 1987, p.375). Stoll and Whaley (1990) assert that if investors have strong expectations about the direction of the market as a whole, they may trade in index futures contracts rather than individual stocks because they can use higher degree of leverage and transactions costs are lower in futures markets. As a result of such trading, futures prices move firstly, and then stock prices move when index arbitrage responds to the deviations from the cost-of-carry relationship between spot and futures markets (Stoll and Whaley, 1990,

p.445). Tse and Chan (2010) find that the short-selling restrictions in the spot market reduce the effect of the spot index as the leading variable.

Floros (2009) examines the price discovery between futures and spot markets in South Africa over the period 2002 – 2006. He conduct a cointegration test, a Vector Error Correction model, a Granger causality test and an Error Correction model with TGARCH errors. The results of this study show that FTSE/JSE Top 40 stock index futures and spot markets are cointegrated. Granger casuality, VECM and ECM-TGARCH (1,1) results suggest a bidirectional casuality (feedback) between spot and futures prices. Chan et al. (1991) examine the intraday relationship between price changes and price change volatility in the stock index and stock index futures markets by using the S&P 500 stock index and stock index futures data set from 1984 to 1989. The results of this study is consistent with the hypothesis that new market information disseminates in both the futures and stock markets and that both markets serve important price discovery roles (Chan et al., 1991, p.682). Turkington and Walsh (1999) study the interactions between Australian futures and spot markets by using high frequency (5 minutes) data. They find strong evidence of bidirectional casuality (feedback) between spot and futures prices. Pradhan and Bhat (2009) explain why bidirectional relation between spot and futures markets exists by referring to the findings of Chan et al. (1991). If traders have firm-specific information, they firstly buy or sell individual stocks listed in an index in spot market rather than a futures contract in futures market to make a profit by using this information. But when they have market-wide information, they firstly tend to buy or sell index futures contracts to make a profit by using this information. In the first situation, spot market leads futures market; in the latter futures prices lead the spot prices. Therefore, if firm-specific information arrives constantly and if it is important, a strong bidirectional or feedback lead-lag relationship between spot and futures markets would be evident (Pradhan and Bhat, 2009, p.84).

Wahab and Lashgrai (1993) reexamine empirically the daily price change relation between stock index and stock index futures markets for S&P500 index and FTSE100 index. They find that the lead from spot-to-futures is probably stronger when viewed relative to the lead from futures-to-spot, on a daily basis. Kasman and Kasman (2008) check the existence of a long-run equilibrium relationship and casual relationship between spot and futures prices of ISE 30 index for the period February 2005 – October 2007. They find that there is evidence of cointegration between spot and futures prices of ISE 30 index and they also find that spot prices lead the futures prices for ISE 30 index for the sample period. Pradhan and Bhat (2009) investigate price discovery, information and forecasting in Nifty futures markets for the period 2000 – 2007. They conduct Johansen's Vector Error Correction Model to find any causal relationship between spot and futures prices. They find that spot market leads the futures market which means spot prices tend to reflect new information more rapidly than future prices. Finding a leading price discovery role of spot markets is not consistent with the majority of the literature about lead-lag relationship between spot and futures prices. However, if important firm-specific information arrives sooner than market-wide information, spot prices would lead futures prices.

## Data Description

Turkish Derivatives Exchange (TurkDEX) was established in 2002 and TurkDEX is the only derivatives exchange in Turkey. Derivative contracts of assets, liabilities and indicators are traded in a competitive and secure environment of TurkDEX and it has a totally electronic trading platform. Trading of futures contracts in TurkDEX started in February 2005.

A single trading session without a lunch break is held between 9.15 a.m. and 5.35 p.m. In a normal session, transactions are executed based on the price and time priority rule and continuous auctioning. The non-trading period is between 8.45 a.m. and 9.15 a.m. during this period, the system keeps running but order entries and trade executions are not permitted. The last 10 minutes of the normal session is called the “closing period”. Settlement prices for the regular trading day shall be announced at 5.45 p.m. Margin calls shall be issued in the Takasbank Derivatives System (TVIS) screen of the concerned members after the announcement of the settlement prices. The time period between 5.45 p.m. on the transaction day (T+0) and 2.30 p.m. on the following Exchange Day (T+1) is called the “clearing period” (TurkDEX, [www.turkdex.org.tr](http://www.turkdex.org.tr), Invest in Turkey; Invest in TurkDEX, March 2011, p.20).

TurkDEX futures contracts are mainly “mini-sized” contracts which are cash settled. There are several futures contracts traded in TurkDEX. These are equity index futures (ISE-30, ISE-100 and ISE 30-100 Index Spread), interest rate futures (T-Benchmark Government Bond), currency futures (USD/Turkish Lira, EURO/Turkish Lira and EURO/US Dollar Cross Currency) and commodities (Wheat Futures, Cotton Futures, Gold Futures and US Dollar/Ounce Gold Futures) as of April 2011. Among equity index futures, most liquid futures contract is the TurkDEX-ISE 30 Equity Futures. Therefore, in this paper the relation between spot and futures price levels of ISE 30 index is investigated.

There are some advantages of TurkDEX-ISE 30 Equity Futures for investors and investing environment in Turkey. It offers hedging of investors’ equity exposure with a single transaction; and best of all it is tax free. ISE-30 equity index futures provide the means of going short in equities easily. It is also a low-cost alternative to spot market due to leverage effect. Small contract size is attractive for all investors (contract size is around \$5,000) and lastly trading activity at TurkDEX stimulated the OTC market and index equity options trading soared after the introduction of index futures (TurkDEX, [www.turkdex.org.tr](http://www.turkdex.org.tr), 2011).

In this study, natural logarithms (ln) of spot and futures daily closing prices of ISE 30 index are used for the entire sample period February 2005 – March 2011. Spot prices of ISE 30 index (price index, not return index) are obtained from ISE website and ISE 30 index futures prices are obtained from TurkDEX website. Table 1 indicates descriptive statistics for natural logarithms of spot and futures prices. Mean, maximum and minimum prices of spot and futures market is too close to each other. Standard deviation of futures prices is slightly higher than spot prices. Jarque-Bera statistics imply that both prices and ln values of prices are not normally

distributed, while skewness values are close to zero and kurtosis values are close to three.

**Table 1: Summary Statistics of ISE 30 spot and futures prices for the Period February 2005 – March 2011**

Number of Observations: 1549

| Statistics  | In S     | In F     | Spot Prices<br>(S) | Futures Prices<br>(F) |
|-------------|----------|----------|--------------------|-----------------------|
| Mean        | 10.8635  | 10.8626  | 54289.49           | 54278.51              |
| Median      | 10.8797  | 10.8804  | 53088.43           | 53125.00              |
| Maximum     | 11.4214  | 11.4325  | 91249.88           | 92275.00              |
| Minimum     | 10.2059  | 10.2091  | 27062.22           | 27150.00              |
| Std. Dev.   | 0.2813   | 0.2839   | 14858.28           | 15007.95              |
| Skewness    | -0.2073  | -0.1961  | 0.2934             | 0.3035                |
| Kurtosis    | 2.2240   | 2.2049   | 2.3205             | 2.3162                |
| Jarque-Bera | 49.9537* | 50.7300* | 52.0175*           | 53.9598*              |

\* These values are statistically significant at 5% level.

### Research Methodology and Results of the Analysis

The casual relationship between spot and futures prices can be one-way or bidirectional. In the literature, studies investigating lead-lag relation between spot and futures markets find that futures prices lead spot prices especially in developed markets. However, in Turkey, a previous study by Kasman and Kasman (2008) indicates that spot and futures prices of ISE 30 index are cointegrated and spot prices lead futures prices. In order to reinvestigate the casual relationship between spot and futures prices and direction of causality, we conduct Granger causality test. A Vector Autoregressive Model (VAR) model can be used to test the direction of the causality.

$$\ln F_t = \lambda_0 + \sum_{k=1}^n \lambda_k \ln F_{t-k} + \sum_{k=1}^n \alpha_k \ln S_{t-k} \quad (3)$$



$$\ln S_t = \Psi_0 + \sum_{k=1}^n \Psi_k \ln F_{t-k} + \sum_{k=1}^n \varphi_k \ln S_{t-k} \quad (4)$$

where k represents the lag order. In Granger causality test, it is very critical to determine appropriate lag length because this test is very sensitive to the lag order selection. We determine the lag order by using several VAR lag order selection criteria including sequential modified LR test, final prediction error, Akaike information criterion, Schwarz information criterion, Hannan-Quinn information criterion. The results of VAR lag order selection criteria tests are reported in Table 2.

| Lag | Log L    | LR        | FPE       | AIC       | SC        | HQ        |
|-----|----------|-----------|-----------|-----------|-----------|-----------|
| 0   | 4383.62  | NA        | 1.15e-05  | -5.6941   | -5.68717  | -5.6915   |
| 1   | 9179.14  | 9572.3390 | 2.28e-08  | -11.9209  | -11.9001  | -11.9131  |
| 2   | 9248.87  | 139.0193  | 2.09e-08  | -12.0063  | -11.9716  | -11.9934  |
| 3   | 9267.40* | 36.8919*  | 2.05e-08* | -12.0252* | -11.9767* | -12.0071* |
| 4   | 9270.94  | 7.0427    | 2.06e-08  | -12.0246  | -11.9622  | -12.0014  |
| 5   | 9275.20  | 8.4606    | 2.05e-08  | -12.0250  | -11.9486  | -11.9966  |
| 6   | 9278.19  | 5.9112    | 2.06e-08  | -12.0236  | -11.9334  | -11.9901  |
| 7   | 9281.38  | 6.3188    | 2.06e-08  | -12.0226  | -11.9185  | -11.9839  |
| 8   | 9284.46  | 6.0922    | 2.06e-08  | -12.0214  | -11.9034  | -11.9775  |
| 9   | 9286.47  | 3.9716    | 2.07e-08  | -12.0188  | -11.8870  | -11.9698  |
| 10  | 9288.90  | 4.7919    | 2.07e-08  | -12.0168  | -11.8711  | -11.9626  |

\* indicates lag order selected by the criterion  
 LR: sequential modified LdR test statistic (each test at 5% level)  
 FPE: Final prediction error  
 AIC: Akaike information criterion  
 SC: Schwarz information criterion  
 HQ: Hannan-Quinn information criterion

All of the lag order selection criteria indicate that VAR (3) model should be preferred for testing Granger causality. Table 3 reports the results of Granger

causality tests for ln values of spot and futures prices. The results indicate that ln values of spot prices cause ln values of futures prices at 5 per cent significant level, but ln values of futures prices do not cause ln values of spot prices for the period February 2005 – March 2011. The results imply that spot market leads the futures market in the long-term. This causal relationship from spot prices to futures prices is consistent with the previous studies of Kasman and Kasman (2008) for ISE 30 index, but, these results are different from the findings of Kayali and Celik (2010) stating that futures market leads the spot market for ISE 30 index and the result is not consistent with the literature on the lead-lag relation between futures and spot markets in especially developed countries.

**Table 3: Granger Causality Test Results**

Number of Observations: 1546

| Dependent Variables | ChiSquare Statistics |          |
|---------------------|----------------------|----------|
|                     | ln S                 | ln F     |
| ln F                | 35.2279*             | -        |
| ln S                | -                    | 7.6997ns |

\* : significant at 5 per cent.

ns : not significant

The market efficiency implies that the spot and futures prices should never deviate too much, which represents a strongly possible cointegrating relationship (Brooks et al. 2001, p.36). In this study, the Engle and Granger (1987) single equation technique is preferred to the Johansen (1988) systems method, because there are only two variables, the spot and futures prices and hence there can be at most one cointegrating vector. If there is a cointegrating relationship between the spot and futures prices, the cointegrating regression equation would be given by

$$\ln F_t = \gamma_0 + \gamma_1 \ln S_t \quad (5)$$

Granger causality test indicates that spot prices lead the futures prices, because of this reason, the dependent variable is natural logarithms of futures prices and independent variable is natural logarithms of spot prices. Cointegration between ISE 30 spot index and ISE 30 index futures prices requires both price series to be integrated of same order and a linear combination of the two series is stationary. We employ the standard Augmented Dickey Fuller (ADF) tests to test for nonstationarity. ADF unit root test results are reported in Table 4 indicating that ln values of futures and spot prices are integrated of order 1, that is (I(1)).

**Table 4: ADF Unit Root Test Results**

| Variables | with trend/without trend | ADF Statistics |                  |
|-----------|--------------------------|----------------|------------------|
|           |                          | Level          | First Difference |
| ln S      | with trend               | -1.7206ns      | -37.1784*        |
|           | without trend            | -1.3650ns      | -37.1903*        |
| ln F      | with trend               | -1.7164ns      | -37.3933*        |
|           | without trend            | -1.3581ns      | -37.4053*        |

\* : significant at 1 per cent.

ns : not significant at 1, 5 or 10 per cent.

After detecting I(1), We can use the Engle-Granger (1987) two-step approach for testing cointegration between the ln values of the spot and futures prices of ISE 30 index. If there is a cointegration between the ln values of the spot and futures prices of ISE 30 index, then the Granger representation theorem states that there is a corresponding Error Correction Model (ECM). For the spot and futures prices of ISE 30 index, the ECM can be written as

$$\Delta \ln F_t = \beta_0 + \delta z_{t-1} + \sum_{i=1}^r \beta_i \Delta \ln S_{t-i} + \sum_{j=1}^s \alpha_j \Delta \ln F_{t-j} + \varepsilon_t \quad (6)$$

where  $\hat{z}_t$  are from the first stage regression of ln values (the equilibrium correction term), they are the residuals of OLS estimation of equation (5). In the next step, the Engle-Granger methodology for testing cointegration between spot and futures prices of ISE 30 requires to estimate a regression of the ln values of spot and futures prices and also in a cointegration relationship, residuals of the model ( $\hat{z}_t$ ) would be stationary. Table 5 indicates the results from estimating equation (5). Regression results indicates that  $\gamma_1$  coefficient is 1.0084 and it is statistically significant at 1 per cent level implying that there is a very strong relationship, one-to-one, between ln Ft and ln St, as it is expected. The cointegration regression residuals are tested to determine whether spot and futures prices are actually cointegrated. Table 6 shows the results of ADF unit root tests for residuals of  $\hat{z}_t$  in cointegration equation. We reject the null hypothesis of a unit root in residuals, and we therefore can conclude that there exists a cointegrating relationship between spot and futures prices of ISE 30 index for the entire sample period February 2002 – March 2011.

**Table 5: Test for Cointegration**

$$\ln F_t = \gamma_0 + \gamma_1 \ln S_t$$

| Coefficient estimated | Coefficient value | t-ratio   |
|-----------------------|-------------------|-----------|
| $\gamma_0$            | -0.091862         | -7.7227*  |
| $\gamma_1$            | 1.008369          | 921.2342* |

\* : significant at 1 per cent.

**Table 6: ADF Test of Cointegration Errors**

| Variables | with trend/without trend | ADF Statistics (Level) |
|-----------|--------------------------|------------------------|
| ln Ft     | without trend            | -8.174721*             |
|           | with trend               | -8.394494*             |

\* : significant at 1 per cent.

In the last step of Engle-Granger (1987) methodology, Error Correction Model is estimated as stated in Table 7. One lag of  $\ln F_t$  and  $\ln S_t$  is selected as the optimum number of lags for inclusion in the ECM based on Schwarz information criterion. The results of ECM model indicate that all regressors are significant except the constant coefficient, implying that changes in futures prices of ISE 30 index depend on the cointegration error terms, and lagged changes in the spot and futures prices of the index. The coefficients of  $\ln S_{t-1}$  and  $\ln F_{t-1}$  have different signs. Positive coefficient of  $\ln S_{t-1}$  (0.1895, statistically significant at 1 per cent level) indicates that the future prices move in the same direction of the previous movement of the spot price, meaning that there is a price discovery role of the spot prices for the futures prices. In other words, spot prices of ISE 30 index lead the futures prices of ISE 30 index. On the other hand, negative coefficient of  $\ln F_{t-1}$  (-0.1272, statistically significant at only 10 per cent level) shows that the current price change in futures market is negatively related with previous price changes in futures market. The coefficient of error correction terms ( $\delta$ ) is negative and statistically significant. This coefficient suggests that if futures price is larger than the equilibrium price at time  $t-1$ , then it is expected to be corrected in the next period.

**Table 7: Estimated Error Correction Model**

$$\Delta \ln F_t = \beta_0 + \delta \hat{z}_{t-1} + \beta_1 \Delta \ln S_{t-1} + \alpha_1 \Delta \ln F_{t-1} + \varepsilon_t$$

| Coefficient estimated | Coefficient value | t-ratio    |
|-----------------------|-------------------|------------|
| $\beta_0$             | 0.000468          | 0.9199 ns  |
| $\delta$              | -0.177344         | -3.9599 *  |
| $\beta_1$             | 0.189529          | 2.7780 *   |
| $\alpha_1$            | -0.127187         | -1.8797*** |

\* : significant at 1 per cent.  
 \*\* : significant at 5 per cent.  
 \*\*\* : significant at 10 per cent.  
 ns : not significant at 1, 5 or 10 per cent.

Kasman and Kasman (2008) investigate the lead-lag relationship for two years, Kayali and Celik (2010) use a data set of one year period. They searched for lead-lag relation by considering limited time periods. After we conduct the analysis for the entire sample period of February 2005 – March 2011, in order to robust the results and test the consistency of the relation between spot and futures prices of ISE 30 index, we also investigate two different sub-periods, a period before the financial crisis, February 2005 – July 2008 and a post-crisis period, January 2009 – March 2011. Table 8 indicates descriptive statistics for two sub-periods. Mean, maximum and minimum natural logarithms of spot and futures prices are too close to each other for two sub-periods. Jarque-Bera statistics indicate that natural logarithms of spot and prices are not normally distributed.

**Table 8: Summary Statistics of ISE 30 spot and futures prices for Sub-periods**

| Term       | 07/02/2005 – 31/07/2008     |         | 01/01/2009 – 31/03/2011     |         |
|------------|-----------------------------|---------|-----------------------------|---------|
|            | Number of Observations: 883 |         | Number of Observations: 565 |         |
| Statistics | ln S1                       | ln F1   | ln S2                       | ln F2   |
| Mean       | 10.8034                     | 10.8005 | 11.0092                     | 11.0097 |
| Median     | 10.8208                     | 10.8232 | 11.1083                     | 11.1035 |
| Maximum    | 11.2195                     | 11.2302 | 11.4214                     | 11.4325 |
| Minimum    | 10.3063                     | 10.3031 | 10.2849                     | 10.2768 |
| Std. Dev.  | 0.2141                      | 0.21797 | 0.3105                      | 0.3129  |

|             |          |          |          |          |
|-------------|----------|----------|----------|----------|
| Skewness    | -0.4059  | -0.36735 | -0.9394  | -0.9404  |
| Kurtosis    | 2.6101   | 2.58623  | 2.7123   | 2.7188   |
| Jarque-Bera | 29.8400* | 26.1590* | 85.0409* | 85.1464* |

\* These values are statistically significant at 5% level.

We determine the optimum lag order, by using several VAR lag order selection criteria including sequential modified LR test, final prediction error, Akaike information criterion, Schwarz information criterion, Hannan-Quinn information criterion. For the first sub-period, all of the lag order selection criteria indicates that VAR (3) model should be preferred for testing Granger causality. For post-crisis period, the results of several lag order selection criteria indicate different optimum lag orders. Based on Schwarz information criterion, we select VAR (2) model for post-crisis period.

**Table 9: Granger Causality Test Results**

Panel A: Granger Causality Test Results for the pre-crisis period

Number of Observations: 880

| Dependent Variables | ChiSquare Statistics |            |
|---------------------|----------------------|------------|
|                     | ln S1                | ln F1      |
| ln F1               | 35.08482*            | -          |
| ln S1               | -                    | 0.871414ns |

\* : significant at 1 per cent.

ns : not significant 1, 5 or 10 per cent.

Panel B: Granger Causality Test Results for the post-crisis period

Number of Observations: 563

| Dependent Variables | ChiSquare Statistics |            |
|---------------------|----------------------|------------|
|                     | ln S2                | ln F2      |
| ln F2               | 11.30454*            | -          |
| ln S2               | -                    | 5.941250ns |

\* : significant at 5 per cent.

ns : not significant at 1 or 5 per cent

Table 9 reports the results of Granger causality tests for before and after the financial crisis sub-periods. The results indicate that natural logarithms of spot prices significantly cause futures prices during both of two sub-periods in the long-term. Results of different sub-periods are consistent with the results of the entire sample period implying that casual relationship between ISE 30 spot and futures

market is stable and do not change although we test this relationship for different time periods. Consistency of this relation gives very crucial information to traders, because when they detect such a relationship between spot and futures markets and they expect that this relation is not changing, they can easily buy or sell ISE 30 futures contracts in futures markets with respect to the change in value of ISE 30 stock index.

Cointegration equations are estimated for pre-crisis and post-crisis periods after ADF tests for integration of order 1 (I(1)). Results of ADF unit root tests indicate that for both sub-periods, ln values of spot and futures prices are integrated at first order, they are I(1).

**Table 10: ADF Unit Root Test Results**

Panel A: ADF Unit Root Test Results for the pre-crisis period

| Variables | with trend/without trend | ADF Statistics |                  |
|-----------|--------------------------|----------------|------------------|
|           |                          | Level          | First Difference |
| ln S1     | with trend               | 1.7081 ns      | -29.1574*        |
|           | without trend            | -1.7316 ns     | -29.1573*        |
| ln F1     | with trend               | -1.6850 ns     | -30.0116*        |
|           | without trend            | -1.6584 ns     | -30.0177*        |

Panel B: ADF Unit Root Test Results for the post-crisis period

| Variables | with trend/without trend | ADF Statistics |                  |
|-----------|--------------------------|----------------|------------------|
|           |                          | Level          | First Difference |
| ln S2     | with trend               | -1.1306 ns     | -23.1386*        |
|           | without trend            | -1.5537 ns     | -23.1169*        |
| ln F2     | with trend               | -1.1021 ns     | -23.3176*        |
|           | without trend            | -1.5184 ns     | -23.3011*        |

\* : significant at 1 per cent.

ns : not significant at 1, 5 or 10 per cent.

Again, we use two-step approach of Engle-Granger (1987). Estimations of cointegration regression equations are presented in Table 11. One-to-one relationship between spot and futures markets can be seen from  $\gamma_1$  coefficients for both sub-periods. These coefficients are too close to one and statistically significant. In the first step of Engle-Granger (1987) methodology, the cointegration regression residuals are tested to determine whether spot and futures prices are actually cointegrated.

**Table 11: Tests for Cointegration**

$$\ln F_t = \gamma_0 + \gamma_1 \ln S_t$$

| Panel A: Test Results for the pre-crisis period  |                   |            |
|--|-------------------|------------|
| Coefficient estimated                            | Coefficient value | t-ratio    |
| $\gamma_0$                                       | -0.175949         | -7.6469*   |
| $\gamma_1$                                       | 1.016010          | 477.1365 * |
| Panel B: Test Results for the post-crisis period |                   |            |
| Coefficient estimated                            | Coefficient value | t-ratio    |
| $\gamma_0$                                       | -0.083068         | -8.5855*   |
| $\gamma_1$                                       | 1.007589          | 1146.952*  |

\* : significant at 1 per cent.

Table 12 shows the results of ADF unit root tests for residuals of  $\hat{e}_t$  in cointegration equation for sub-periods. We reject the null hypothesis of a unit root in residuals, and I therefore can conclude that there exists a cointegrating relationship between spot and futures prices of ISE 30 index for both of two sub-periods.

**Table 12: ADF Unit Root Tests of Cointegration Errors**

| Panel A: Test Results for the pre-crisis period  |                          |                        |
|--|--------------------------|------------------------|
| Variables  | with trend/without trend | ADF Statistics (Level) |
| $\hat{e}_t$                                      | with trend               | -6.6167*               |
|  | without trend            | -6.2088*               |
| Panel B: Test Results for the post-crisis period |                          |                        |
| Variables  | with trend/without trend | ADF Statistics (Level) |
| $\hat{e}_t$                                      | with trend               | -5.4076*               |
|  | without trend            | -5.4221*               |

\* : significant at 1 per cent.

Error Correction Model is estimated for sub-periods as stated in Table 13. For pre-crisis sub-period, one lag of  $\ln F_t$  and  $\ln S_t$  and for post-crisis sub-period differently five lag of  $\ln F_t$  and  $\ln S_t$  is selected as the optimum number of lags for inclusion in the ECM based on Schwarz information criterion.

For pre-crisis period, the results of ECM indicates that all regressors are significant except the constant coefficient, implying that changes in futures prices of ISE 30 index depend on the cointegration error terms, and lagged changes in the spot and



futures prices of the same index. The coefficients of  $\ln St-1$  and  $\ln Ft-1$  have different signs. Positive coefficient of  $\ln St-1$  (0.293948, statistically significant at 1 per cent level) indicates that the future prices move in the same direction of the previous movement of the spot price, meaning that there is a price discovery role of the spot prices for the futures prices. In other words, spot prices of ISE 30 index lead the futures prices of ISE 30 index. On the other hand, negative coefficient of  $\ln Ft-1$  (-0.285162, statistically significant at only 1 per cent level) shows that the current price change in futures market is negatively related with previous price changes in futures market. The coefficient of error correction terms ( $\delta$ ) is negative and statistically significant. This coefficient suggests that if futures price is larger than the equilibrium price at time  $t - 1$ , then it is expected to be corrected in the next period.

The results of ECM for post-crisis sub-period, show that all regressors are statistically significant. The coefficients of  $\ln St-5$  and  $\ln Ft-5$  have different signs. Positive coefficient of  $\ln St-5$  implies that spot prices of ISE 30 index lead the futures prices of ISE 30 index. On the other hand, negative coefficient of  $\ln Ft-5$  shows that the current price change in futures market is negatively related with previous price changes in futures market. The coefficient of error correction terms ( $\delta$ ) is negative and statistically significant, suggesting that if futures price is larger than the equilibrium price at time  $t - 1$ , then it is expected to be corrected in the next period.

The results of Error Correction Model for pre-crisis and post-crisis sub-periods are consistent with entire sample period. The findings from sub-periods robust the lead-lag relation between spot and futures prices for ISE 30 index.

**Table 13: Estimated Error Correction Model**

Panel A: Test Results for the pre-crisis period

$$\Delta \ln F_t = \beta_0 + \delta z_{t-1} + \beta_1 \Delta \ln S_{t-1} + \alpha_1 \Delta \ln F_{t-1} + \varepsilon_t$$

| Coefficient estimated | Coefficient value | t-ratio   |
|-----------------------|-------------------|-----------|
| $\beta_0$             | 0.000455          | 0.7167 ns |
| $\delta$              | -0.145395         | -2.9011 * |
| $\beta_1$             | 0.293948          | 3.8125 *  |
| $\alpha_1$            | -0.285162         | -3.6954 * |

Panel B: Test Results for the post-crisis period

$$\Delta \ln F_t = \beta_0 + \delta z_{t-1} + \beta_1 \Delta \ln S_{t-5} + \alpha_1 \Delta \ln F_{t-5} + \varepsilon_t$$

| Coefficient estimated | Coefficient value | t-ratio   |
|-----------------------|-------------------|-----------|
| $\beta_0$             | 0.001387          | 1.8828*** |
| $\delta$              | -0.313866         | -2.6200 * |

|            |   |            |
|------------|---|------------|
| $\beta_1$  | 0.345882                                  | 2.3974 **  |
| $\alpha_1$ | -0.339326                                 | -2.4192 ** |
| <hr/>      |   |            |
| *          | : significant at 1 per cent.              |            |
| **         | : significant at 5 per cent.              |            |
| ***        | : significant at 10 per cent.             |            |
| ns         | : not significant at 1, 5 or 10 per cent. |            |
| <hr/>      |   |            |

### Conclusion

In this paper, the lead-lag relation between ISE 30 spot and futures markets is investigated by testing Granger causality between spot and futures prices and by following Granger-Engle two-step methodology for the sample period February 2005 – March 2011. The results for the entire sample indicate that spot prices lead futures prices for ISE 30 index. We also analyze the same relation by applying the same tests for different sub-periods, a pre-crisis and a post-crisis period. The results of sub-periods are consistent my findings for the entire sample. For two different sub-periods, ISE 30 spot prices lead ISE 30 futures prices.

Detecting a leading price discovery role of spot markets is not consistent with the majority of the literature about lead-lag relationship between spot and futures prices. However, if important firm-specific information arrives sooner than market-wide information, spot prices would lead futures prices. Derivative instruments are more complex in their nature compared to basic financial instruments such as stocks, treasury-bills or corporate bonds. In Turkey, although futures contracts have been traded for more than 6 years, still many investors are confused about the operational rules of this new market. Rules, risk and return which investors confront are totally different in derivatives markets from spot markets. Investors may not grasp the risk and return relationship in futures markets totally. There is also a high leverage in futures market. Because of these reasons, investors hesitate to trade in futures market which affects the relationship between spot and futures markets in Turkey. In this situation, in Turkey, traditional spot markets have the price discovery role over futures market. Consistency of price discovery role of spot prices gives very crucial information to traders, because when they detect such a relationship between spot and futures markets and they expect that this relation is not changing, they can easily buy or sell ISE 30 futures contracts in futures markets with respect to the change in value of ISE 30 stock index.

Our data set have an important drawback which we could not access intraday high frequency data of ISE 30 futures index from TurkDEX website. Recently lead-lag relation between spot and futures markets has been investigated by using high frequency data. In further studies about lead-lag relation between ISE 30 spot and futures markets in Turkey, high frequency (for example 5 minutes) data should be used.

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# **BUSINESS ADMINISTRATION**

## A COMPARATIVE STUDY ON TURKISH AND ALBANIAN CONSUMERS ETHNOCENTRISM LEVELS

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### Abstract

*As retail companies around the globe expand their international operations, consumers are introduced to numerous products. Therefore, the factors affecting their purchase intention have become diversified. One of the prominent factors in this process is Consumer Ethnocentrism which helps to evaluate the consumer choice of local or foreign products.*

*This paper explores the role of demographic factors on purchase intention of domestic and foreign products. Therefore, the correlation between consumer ethnocentrism and demographic factors is examined.*

*First, the concepts of “consumer ethnocentrism”, “purchase intention” and “measurement of consumer ethnocentrism” are defined. In the empirical section, in terms of consumer ethnocentrism levels and the effect of the demographic characteristics in Turkey and Albania is compared. “Consumer Ethnocentrism Tendencies Scale”, improved by Shimp and Sharma, is used to measure the level of consumer ethnocentrism. As a result, its relationship with several demographic factors is observed.*

**Keywords:** *Consumer Ethnocentrism, Demographic Factors, Consumer Behavior, CETSCALE*

### Introduction

In the course of history, a lot of changes and developments took place which affected mankind seriously. Especially the technological developments affect life styles and therefore life standards change dramatically.

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Accessibility in consumption habits is a crucial factor. In the recent past, village people had difficulties in accessing the products city people consume but as the developments in communication and logistics show, accessing the products became boundless and limitless. Internet is one of the key factors in achieving this. Consumer can access the products easily through online stores and products are easily delivered to consumers with the developing logistic networks. Therefore, inaccessibility is not a handicap in consumer choices. As consumers access foreign made products easily the choices between foreign -made products and domestic products may vary. Consumer choices in choosing domestic products vary from country to country. The purpose of this paper is to identify the ethnocentrism levels of the consumers in Albania and Turkey, to define the relationships between their ethnocentrism levels and to analyze the demographic variables between them. In this perspective, in order to measure Consumer Ethnocentrism levels CETSCALE (Consumer Ethnocentrism Tendencies Scale) is used which is developed in 1987 by Shimp and Sharma.

In this research, the scale is translated into native languages of each country from English and distributed to the participants. The reason why these countries are included in the survey is that they have historical ties, close geographical position and commercial activities which still exists today. This paper also gives important clues to academics and businesses.

### **Literature Review**

Ethnocentrism as a concept of consumption has been originally used by Terence A. Shimp. "The concept is used here to represent consumers' beliefs in the superiority of their own country's products. This perception is postulated to transcend mere economic and functional considerations, and, instead, to have a more noble foundation rooted in morality. That is, consumer ethnocentrism is intended to capture the notion that some consumers believe it is somehow wrong to purchase foreign-made products, because it will hurt the domestic economy, cause the loss of jobs, and, in short, because, from their point of view, it is plainly unpatriotic (Shimp, 1984).

Consumer ethnocentrism as a term is used in consumer attitudes research concerning foreign-made products. Shimp and Sharma defines the concept with these words in 1987. "We use the term "consumer ethnocentrism" to represent the beliefs held by American consumers about the appropriateness, indeed morality, of purchasing foreign-made products."(Shimp and Sharma, 1987)

This concept has become valid with the easy accession of consumers to products and affected consumer choices. So, the academic data on ethnocentrism increased with these developments. Shimp and Sharma started ethnocentrism research in the U.S.A and developed CETSCALE scale.

The validity of the CETSCALE gained international recognition in 1991 with the study Netemeyer, Durvasula and Lichtenstein did in U.S.A, Germany, Japan and France (Netemeyer, Durvasula and Lichtenstein, 1991).

Later the validity and one –dimensional quality of the scale is further tested with the studies made in France, Japan, West Germany, Malta, Russia, England, Greece, Belgium, China, Hungary, Poland, the Netherlands and Canada.”(Aysuna and Altuna 2008).

In this study, the relationship between consumer ethnocentrism and demographical characteristics is analyzed. The findings pertaining to recent studies are shown in Table1.

**Table 1: Literature Review Relationship Between Demographics And Consumer Ethnocentrism**

| <b>AUTHORS</b>  | <b>YEAR</b> | <b>COUNTRY</b>   | <b>FINDINGS<br/>Relationship to Consumer Ethnocentrism</b>  |
|---|-------------|------------------|---|
| Robert SCHOOLER   | 1971        | US               | Age: Negative relationship  |
| Marjorie WALL<br>Louise A.<br>HESLOP                    | 1986        | Canada           | Gender: Women more ethnocentric   |
| Chin Tiong TAN<br>John U. FARLEY                        | 1987        | Singapore        | Income: Positive relationship   |
| C. Min HAN  | 1988        | US               | Age: Positive relationship<br>Gender: Women more ethnocentric<br>Education: No relationship<br>Income: No relationship  |
| Subhash SHARMA<br>Terence A.<br>SHIMP<br>Jeongshin SHIN | 1995        | Korea            | Age: No relationship<br>Gender: Women more ethnocentric<br>Education: Negative relationship<br>Income: Negative relationship  |
| Linda K. GOOD<br>Patricia<br>HUDDLESTON                 | 1995        | Poland<br>Russia | Age: Positive relationship<br>Gender: Women more ethnocentric (for Poland)<br>Gender: No relationship (for Russia)<br>Education: Negative relationship<br>Income: Negative relationship |
| Albert CARUANA  | 1996        | Malta            | Age: Positive relationship<br>Gender: No relationship<br>Education: Negative relationship<br>Income: No relationship  |



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|   |      |  |  |
|---|------|--|--|
| James A. NIELSEN<br>Mark T. SPENCE  | 1997 | US   | Age: Positive relationship<br>Gender: Women more ethnocentric  |
| E.R. Bruning  | 1997 | Canada   | Gender: Women more ethnocentric<br>Income: Negative relationship   |
| Terrence H. WITKOWSKI   | 1998 | Mexico<br>Hungry                               | Age: Positive relationship<br>Education: Negative relationship (Only Mexican)<br>Income: No relationship<br>Living foreign country: No relationship<br>Foreign Language: Negative relationship (Only Mexican)  |
| Jill Gabrielle KLEIN<br>Richard ETTENSON  | 1999 | US   | Age: Positive relationship<br>Gender: Women more ethnocentric<br>Education: Negative relationship<br>Income: Negative relationship   |
| Irena VIDA<br>Ann FAIRHURST   | 1999 | Czech Republic<br>Estonia<br>Hungary<br>Poland | Age: Positive relationship<br>Gender: Women more ethnocentric  |
| John J. WATSON<br>Katrina WRIGHT  | 2000 | New Zealand                                    | Gender: Women more ethnocentric<br>Age: Positive relationship<br>Education: Negative relationship<br>Income: Negative relationship   |
| George BALBANIS<br>Adamantios DIAMANTOPOULOS<br>Rene Dentiste MUELLER<br>T.C. Melewar | 2001 | Turkey<br>Czech Republic                       | Age: Positive relationship (for Turkey)<br>Age: No relationship (for Czech Republic)<br>Gender: Women more ethnocentric (for Turkey)<br>Gender: No relationship (for Czech Republic)<br>Education: Negative relationship (for Turkey)<br>Education: No relationship (for Czech Republic)<br>Income: Negative relationship (for Turkey)<br>Income: Positive relationship (for Czech Republic) |
| Kojo SAFFU<br>John Hugh WALKER  | 2005 | Canada<br>Russia                               | Gender: "Women more ethnocentric" is rejected<br>Education: "Negative relationship" is rejected  |

As seen in Table 1 the studies concerning the relationship between consumer ethnocentrism and demography show different results. Especially, Balbanis and et.al. show in their study in 2001 that there are differences in two countries.

CETSCALE scale is indispensable for the companies to define their marketing perspectives as it provides data for the marketing purposes. According to Nielsen and Spence CETSCALE results in countries that have higher scores show tendency to domestic products compared to foreign-made products (Nielsen and Spence, 1997). As a result, different strategies are adopted by businesses due to target marketing, market positioning and market segmentation processes.

In countries with high ethnocentrism levels the emphasis should be on the quality and the characteristics of the product rather than the origin. When businesses which can not compete in terms of product quality and price advantage in foreign markets, want to enter foreign markets, they should stay away from countries with high ethnocentrism levels. Because to exist in these countries require product appeal when compared to domestic products.

In market segmentation processes demographic qualities of the consumers are foregrounded. In this study, the relationship between the demographic qualities and ethnocentrism levels of the consumers are analyzed and consumers in Albania and in Turkey are foregrounded. As a result, suggestions are also made for businesses that want to be active in Albania and Turkey.

**Research Methodology**

The aim of this paper is to define the ethnocentrism levels of Albanian and Turkish consumers and to compare it with the consumers’ demographic data. In order to achieve this, a two- part survey is conducted between Turkish and Albanian consumers. This survey is conducted simultaneously in Istanbul – Turkey and in Tiran – Albania in August 2012. In both samples, convenience sampling method is used and 222 samples from Turkey, 168 samples from Albania are obtained ready for data processing. (sample’s characteristics can be seen on Table 2) Due to limitations of money and time, can not reached more participant.

**Table 2: Sample’s Characteristics**

|        | Group    | Frequency |         | Percent |         |
|--------|----------|-----------|---------|---------|---------|
|        |          | Turkey    | Albania | Turkey  | Albania |
| Gender | Male     | 160       | 73      | 72,1    | 43,5    |
|        | Female   | 62        | 94      | 27,9    | 56      |
| Age    | 18-24    | 35        | 46      | 15,8    | 27,4    |
|        | 25-31    | 65        | 44      | 29,3    | 26,2    |
|        | 32-38    | 46        | 30      | 20,7    | 17,9    |
|        | 39 above | 74        | 48      | 33,3    | 28,6    |

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|                                  |                         |     |     |      |      |
|----------------------------------|-------------------------|-----|-----|------|------|
| Marital Status                   | Married                 | 144 | 87  | 64,9 | 51,8 |
|                                  | Single                  | 78  | 80  | 35,1 | 47,6 |
| Education Level                  | Primary                 | 34  | 10  | 15,3 | 6,0  |
|                                  | High school             | 69  | 40  | 31,1 | 23,8 |
|                                  | University              | 108 | 92  | 48,6 | 54,8 |
|                                  | Master&Ph.D             | 11  | 26  | 5,0  | 15,5 |
| Profession                       | Worker                  | 12  | 6   | 5,4  | 3,6  |
|                                  | Shopkeeper              | 51  | 6   | 23,0 | 3,6  |
|                                  | Retired                 | 14  | 10  | 6,3  | 6    |
|                                  | Housewife               | 11  | 1   | 5,0  | 0,6  |
|                                  | Unemployed              | 0   | 31  | ,0   | 18,5 |
|                                  | Student                 | 22  | 21  | 9,9  | 12,5 |
|                                  | Public Servant          | 18  | 31  | 8,1  | 11,9 |
|                                  | Private Sector Employee | 81  | 56  | 36,5 | 33,3 |
|                                  | Other                   | 10  | 17  | 4,5  | 10,1 |
| Living abroad country experience | No                      | 199 | 116 | 89,6 | 69   |
|                                  | Yes                     | 22  | 51  | 9,9  | 30,4 |
| Foreign Language                 | No                      | 121 | 46  | 54,5 | 27,4 |
|                                  | Yes                     | 100 | 121 | 45,0 | 72   |
| Socio-Economic Status            | Low-income level        | 46  | 43  | 20,7 | 25,6 |
|                                  | Middle income level     | 128 | 103 | 57,7 | 61,3 |
|                                  | High income level       | 45  | 21  | 20,3 | 12,5 |
| Income(monthly)*                 | Less than 500           | 16  | 94  | 7,2  | 56,0 |
|                                  | 501-1000                | 34  | 35  | 15,3 | 20,8 |
|                                  | 1001-1500               | 36  | 7   | 16,2 | 4,2  |
|                                  | 1501-2000               | 44  | 5   | 19,8 | 3,0  |

|            |    |   |      |     |
|------------|----|---|------|-----|
| 2001-2500  | 27 | 4 | 12,2 | 2,4 |
| 2501-3000  | 17 | 1 | 7,7  | ,6  |
| 3001-3500  | 12 | 0 | 5,4  | ,0  |
| 3501-4000  | 10 | 0 | 4,5  | 0   |
| 4001 above | 20 | 1 | 9,0  | 0,6 |

\* In Turkey, TL was used as the unit of currency. In Albania, Euro was used as the unit of currency. €1 was equal to approximately 2,32 TL.

### Research Design

In the first part of the survey, CETSCALE is used developed by Shimp and Sharma in 1987. In that scale, 17 scale variables (between 1= I strongly disagree, 5= I strongly agree scale) are used. In the second part, there are 9 questions to test the demographic information of the consumers. These questions are age, (only this variable was measured by an open-ended question), income, gender, socio-economic status, educational background, marital status, foreign language background , living in abroad experience and profession. Survey forms are translated into native languages of the consumers and verified by back -translation. They are tested with 30 pilot surveys and analyzed in terms of misunderstood questions. Then surveys are finalized. In accordance with the aim of the survey, the differences between the ethnocentrism levels of the two countries are measured with independent sample t-test, and relationships between demographic data and ethnocentrism is analyzed with “correlation analysis”.

### Findings

To test the internal consistency of the data, reliability analysis was conducted for both countries separately. The Cronbach’s Alpha score achieved for the CETSCALE for Turkey was  $\alpha=0.907$  and for Albania was  $\alpha=0.901$ . Findings of the reliability analysis is similar to previous studies. For example, the study that Shimp and Sharma did in 1989 the Cronbach’s alpha was 0,94, is compared with Good and Huddleston’s study in 1995, where reliability was 0,95; Caruana’s study in 1996 where reliability was 0,96, Witkowski’s in 1998 where reliability was 0,92 and Balbanis et.al. in 2001 where reliability was 0,90.

**Table 3: Distribution of CETSCALE Items**

| ..... =Turkey/Turkish or<br>Albania/Albanian |  | TURKISH  |                       | ALBANIAN |                       |
|--|--|----------|-----------------------|----------|-----------------------|
|  |  | Mea<br>n | Std.<br>Deviatio<br>n | Mea<br>n | Std.<br>Deviatio<br>n |
| 1  | ..... people should always buy<br>.....-made products instead of imports.                                    | 3,52     | 1,234                 | 3,22     | 1,283                 |
| 2  | Only those products that are unavailable in<br>the ..... should be imported.                                 | 3,79     | 1,170                 | 3,55     | 1,223                 |
| 3  | Buy .....-made products. Keep<br>..... working.  | 3,95     | 1,097                 | 3,68     | 1,123                 |
| 4  | ..... products, first, last and foremost.  | 3,88     | 1,097                 | 3,31     | 1,220                 |
| 5  | Purchasing foreign-made products is un-<br>.....   | 2,17     | 1,193                 | 2,83     | 1,349                 |
| 6  | It is not right to purchase foreign products.  | 2,34     | 1,151                 | 2,65     | 1,285                 |
| 7  | A real ..... should always buy<br>.....-made products.   | 2,37     | 1,327                 | 2,60     | 1,310                 |
| 8  | We should purchase products<br>manufactured in ..... instead of letting<br>other countries get rich off us.  | 3,35     | 1,270                 | 2,77     | 1,276                 |
| 9  | It is always best to purchase .....<br>products.   | 3,12     | 1,267                 | 3,13     | 1,151                 |
| 10   | There should be very little trading<br>purchasing of goods from other countries<br>unless out of necessity.  | 3,52     | 1,102                 | 3,50     | 1,158                 |
| 11   | .....s should not buy foreign products,<br>because this hurts ..... business and<br>causes unemployment.     | 3,08     | 1,084                 | 3,12     | 1,266                 |
| 12   | Curbs should be put on all imports.  | 2,60     | 1,154                 | 3,69     | 1,140                 |
| 13   | It may cost me in the long run but I prefer<br>to support ..... products.                                    | 3,38     | 1,056                 | 3,28     | 1,174                 |
| 14   | Foreigners should be allowed to put their<br>products on our markets. (Recode)                               | 2,70     | 1,017                 | 2,43     | 1,103                 |
| 15   | Foreign products should be taxed heavily<br>to reduce their entry into the .....                             | 3,15     | 1,154                 | 3,09     | 1,340                 |
| 16   | We should buy from foreign countries only<br>those products that we cannot obtain within<br>our own country. | 3,60     | 1,134                 | 3,52     | 1,183                 |
| 17   | ..... consumers who purchase<br>products made in other countries are   | 2,57     | 1,196                 | 2,82     | 1,236                 |

|   |             |  |             |  |
|---|-------------|--|-------------|--|
| responsible for putting their fellow<br>.....s out of work. |             |  |             |  |
| <i>Mean for CETSCALE</i>                                    | <b>3,12</b> |  | <b>3,13</b> |  |

The distribution of the responses that Turkish and Albanian consumers give to CETSCALE questions are shown in Table 3. When Table 3 is analyzed, it is seen that Turkish and Albanian consumers give parallel answers with each other. In other words, Turkish and Albanian consumers have similar approaches to foreign made products.

**Table 4: Independent Sample T-Test Results (Ethnocentrism)**

|                              | Independent |                 | Mean            |                   |
|------------------------------|-------------|-----------------|-----------------|-------------------|
|                              | t           | Sig. (2-tailed) | Turkey (n= 210) | Albania (n = 162) |
| <b>CETSCALE (mean score)</b> | -,175       | ,861            | <b>3,12</b>     | <b>3,13</b>       |

As seen in Table 4, when Turkish and Albanian consumers' ethnocentrism levels are compared there is not a meaningful difference statistically between two. The neutral point of the scale gives results near to 3 which means that approaches to foreign made products and domestic products are similar.

**Table 5: Correlations Between CETSCALE and Demographics**

|         |                          |                         | gender | income | living foreign country | foreign language | marital status | education level | socio economic status |
|---------|--------------------------|-------------------------|--------|--------|------------------------|------------------|----------------|-----------------|-----------------------|
| TURKEY  | <b>Mean for CETSCALE</b> | Correlation Coefficient | ,080   | -,056  | -,031                  | -,087            | <b>,129*</b>   | <b>-,270**</b>  | -,091                 |
|         |                          | Sig. (2-tailed)         | ,163   | ,268   | ,589                   | ,131             | <b>,024</b>    | <b>,000</b>     | ,098                  |
|         |                          | N                       | 210    | 204    | 209                    | 209              | 210            | 210             | 207                   |
| ALBANIA | <b>Mean for CETSCALE</b> | Correlation Coefficient | ,045   | -,041  | -,034                  | <b>-,140*</b>    | ,042           | -,048           | ,061                  |
|         |                          | Sig. (2-tailed)         | ,491   | ,534   | ,603                   | <b>,032</b>      | ,521           | ,434            | ,333                  |
|         |                          | N                       | 161    | 145    | 161                    | 161              | 162            | 162             | 161                   |

At this table, Kendall's Tau-b Correlation was conducted at 0,05 significance level.

As seen in Table 5, when Turkish and Albanian consumers' ethnocentrism levels and demographic variables are compared, it can be said that there are different forms of consumption in both countries. In Turkish consumers, demographic

variables and ethnocentrism levels gave only statistically meaningful results in terms of education and marital status. There is no significant relationship at 0.05 level between gender, income, living abroad, foreign language background, and socio-economic level. The relationship between educational background and ethnocentrism levels are negative. As a result, Turkish consumers ethnocentrism levels decrease when they are more educated. There is a positive correlation between marital status and ethnocentrism levels. Therefore, married Turkish consumers have high ethnocentrism levels when compared to single consumers.

When Albanian findings are considered, there is a negative significant relationship between foreign language background and ethnocentrism levels. In other words, there is not a significant relationship at 0,05 level between ethnocentrism levels and gender, income, living abroad , educational background and socio-economic levels . Albanian consumers who have foreign language background have low ethnocentrism levels.

As seen in Table 1, there are different results in different studies. Also, it can be seen relevant results pertaining to negative correlation between educational background and consumer ethnocentrism also in Sharma et.al in 1995, Good and Huddleston in 1995, Caruana in 1996, Witkowski in 1998, Klein and Ettenson in 1999 , Watson and Wright in 2000 and Balbanis et. al. in 2001.

The relationship between foreign language background and consumer ethnocentrism levels are not analyzed thoroughly in former studies. It can be seen a similar negative correlation in Witkowski (1998-Mexico) as we did in Albanian consumer ethnocentrism and foreign language background.

**Table 6: Correlations Between CETSCALE and Age**

|  |                     | Age<br>TURKEY | Age<br>ALBANIA |
|--|---------------------|---------------|----------------|
| <b>Mean for CETSCALE</b>   | Pearson Correlation | <b>,191**</b> | ,116           |
|  | Sig. (2-tailed)     | <b>,006</b>   | ,140           |
|  | N                   | 208           | 162            |
| **. Correlation is significant at the 0.01 level (2-tailed).<br>Pearson correlation was conducted. |                     |               |                |

In CETSCALE surveys one of the most analyzed data is age. The findings about age are shown in Table 6. According to this, there is a positive correlation between Turkish consumers age and ethnocentrism levels. But there is no positive correlation in Albanian consumers. As Turkish consumers age they have high ethnocentrism levels. As also seen in Table 1 Schoole (1971) found a negative

correlation between age and ethnocentrism levels. Sharma, Shimp and Shin (1995) and Balbanis et.al (2001) in Czech Republic found no correlation between them.

### **Conclusion**

When data is considered in this research, what international businesses should invest on Turkish and Albanian consumers is analyzed. The perceptions that Turkish consumers have for foreign made products differ when they grow older with a high level of ethnocentrism. Therefore; they prefer domestic products more when compared to young generation. Singles have a positive perception of foreign made products when compared to married couples. With higher education levels, the lower is ethnocentrism levels which means a positive perception of foreign made products. .

When the Albanian data is analyzed, there is a correlation between demographic data and foreign language background. In this case, people who have foreign language background have low ethnocentrism levels when compared to people who do not have. In other words, people with foreign language background have positive perceptions of foreign made products.

Businesses in their international marketing strategy, try to develop successful market segmentation and positioning strategies. When international businesses want to trade in Turkey or Albania they should consider the ethnocentrism levels of the consumers. In this paper, the findings can be helpful to develop their strategies. When market segmentation strategies are considered, international firms can make segmentation according to age, marital status and educational background in Turkey. The positioning can be done according to young people, singles and for people who have high levels of education. For the aged, married and low-income consumers positioning can be done by putting the country of origin in the background. Foregrounding the characteristics of the product can bring businesses success in that market.

For businesses to invest in Albania, market segmentation can be done according to foreign language background. In positioning the origin of the product can be foregrounded to address people with foreign language background, for those who do not have that background the emphasis can be on the characteristics of the product.

When generally speaking for two countries, the consumers in two countries approach to domestic products and foreign made products equally. In this case, the successful marketing for international businesses is due to characteristics of the product and its competitiveness. According to consumer oriented marketing mix communication is indispensable between consumers and businesses for marketing. Businesses when deciding on advertising, promotion, personal selling, public relations issues should take into consideration the consumer attitudes toward foreign made products. It will affect their marketing success on international grounds.



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## CUSTOMER PERCEPTION OF FOREIGN PRODUCTS: AN ANALYSIS OF COUNTRY OF ORIGIN EFFECT IN ALBANIAN MARKET

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### Abstract

*The Country-Of-Origin (COO) effect is among most important parts in international marketing field. Even though the impacts of COO on the consumer behavior have been studied for last decades, its impacts are still among scholars' interest fields. Albania is a particular instance to examine this topic in order to see current situation after the communism term.*

*The main objective of this research is to examine the country-of-origin effect of Albanian consumers' on product preferences, reactions, and willingness to buy or not in Albanian market. We would see the consumers' approaches to local and import products. Furthermore this research will provide with an idea about the countries whose products are the most preferred and respected in the Albanian market. On the other hand, it will also show the opinion of Albanian consumers' approach toward their own local products. We will adapt ethnocentrism scale (CETSCALE), developed in USA and applied in some western countries to conduct the survey and measure consumer attitudes.*

**KeyWords:** *Country of Origin (COO), Customer Perception, COO effect*

### Introduction

Over the past several decades, the effect of a product's country of origin on buyer perception and evaluation has been one of the most widely studied phenomena in international business, marketing and consumer behavior (Berentzen at.all, 2008, Kaynak and Kara, 2002). Since article of Schooler 'Product Bias in Central American Comman Market' in 1965 several hundred studies have been made on that field (Tigli et all, 2010, Biswas et all, 2011). Table I shows some of recent studies that have been done for consumer attitudes towards different product and country of origin perceptions.

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The Country-of-Origin of product gives lots of different ideas to customers regarding the product. Also it reminds that origin country's economy, lifestyle, and products' quality perception. In today's market structure COO provides unique competition advantage to global firms. Positive COO Effect makes customers prefer global companies' products rather than domestic products.

| Study   | Country     | Findings  |
|---|-------------|---|
| Dikčius, Stankevičienė<br>(2010)                      | Lithuania   | Perception of country of origin among Lithuanians and emigrants from Lithuania  |
| Jason Ryan<br>(2008)                                  | Finland     | The Finnish country-of-origin effect: The quest to create a distinctive identity in a crowded and competitive international marketplace |
| Ponnam Abhilash<br>Subhadip Roy<br>(2009)             | India       | Indian Consumers' Perception of Country of Origin on Organizational Capabilities  |
| H Kabir<br>Kohinoor Biswas<br>MKH Chowdhury<br>(2011) | Bangladesh  | Effects of Price and Country of Origin on Consumer Product Quality Perceptions: An Empirical Study in Bangladesh                        |
| Ken Chinen<br>Yang Sun (2011)                         | U.S , China | Effects of Country-of-Origin on Buying Behavior:A Study of the Attitudes of United States Consumers to Chinese-brand Automobiles        |
| E. M. Rodriguez, B. Lupin and M. V. Lacaze (2011)     | Argentina   | Consumers' Perceptions about Food Quality Attributes and Their Incidence in Argentinean Organic Choices                                 |
| Erdener Kaynak<br>Ali Kara (2002)                     | Turkey      | Consumer perceptions on foreign products: An analysis on product-country images and ethnocentrism                                       |

Table 1: Adapted from Kaynak and Kara (2002)

Over the last 17 years, Albania has experienced remarkable political, social and economic development in the transition from a closed, centralized economy to an open-market economy. The transformation process occurred during a period of economic and political unrest and led to social and demographic changes accompanied by large flows of people within and out of the country (Doka, 2005:24). Lots of Albanian people immigrated mostly to Italy and Greece. That case is also understandable from the country's trade reports. Trade with Italy and Greece continues to represent the largest share of EU trade, with a combined 41.1% of imports and 58.3% of exports in 2011. On the other hand, Turkey, China, and Germany are among other major trading partners. In the same year Albania totally, exported close to \$2 billion and imported \$5.39 billion; exports averaged 15% of GDP and imports 41% of GDP (www.state.gov).

Therefore, this study is designed to examine the COO perception and evaluation of consumers and the growing of consumer market in Albania have attracted a great attention of international companies since the transformation towards free-market economy.

## **Literature Review**

COO is defined as the "country where the corporate headquarters of the company marketing the product or brand is located" (Johansson et al.1985). COO is a multi-dimensional construct that causes a wide range of well-known responses (Lim and Darley, 1997). These cognitive responses can be separated into two discrete components (Han and Terpstra, 1988): The first one is informational: COO provides cues to consumers regarding the quality, dependability, and value for money of the product, when more specific information is not readily available. The other component tells about that COO effect relates directly to one's group affiliations, national loyalty, and reinforces one's sense of national identity. Consumers' perceptions of the ongoing risk with the perception of quality and value for money are too much important because they affect the consumers' choice of product. Country image is also efficient factor on consumer decisions. Nagashima (1970) first defined the term country image as "the picture, the reputation, and the stereotype that businessmen and consumers attach to products of a specific country."

According to Hong and Wyer (1989), when consumers are presented with the COO cue and other cues such as price and brand, the effects of COO can be observed in two ways: the halo effect and the summary construct. If consumers are not familiar with the products of a country, the country image acts as a "halo" that directly affects consumers' beliefs about these products. In contrast, when consumers are familiar with a country's products, a summary construct model operates in which consumers infer a country's image from its product information. Moreover, Papadopoulos and Heslop (1993) point out that, country's image influences a consumer's purchase decision. Especially, when the country of manufacturing

image appears negative, a consumer might have a negative image of that country's product. Therefore, the country-of-origin image plays a very important role when a consumer makes a purchase decision.

According to Cordell (1993), has considered COO as a risk property; consumers may experience more risk in purchasing products from countries with a poor image or they may choose just to purchase product in a country with a better image. The stream of research on COO has largely originated from the work of Schooler (1965). There are three types of studies on COO: (1) studies dealing with consumers' perceptions about various countries; (2) studies examining the impact of country image on consumers' product evaluations and purchases; and, (3) studies investigating partitioned COO on consumers' product evaluations (Chowdhury and Ahmed, 2009). In this study we tried to find out the effect of type 1 in Albanian market and view of Albanian people's their own country's products. We used ethnocentrism scale to measure Albanian people's approach to their country's domestic products.

### **Coo Effect on Purchase Intention and Consumer Ethnocentrism**

In a real purchasing situation, consumers are likely to have additional information and access to other cues such as the actual physical product, brand name, price, warranty, etc. in such a situation, the impact of any one single cue such as COO may diminish significantly. Verlegh and Steenkamp (1999) also report a significant decrease in the effect of COO in multiple cue studies compared to single cue studies. Thus, the quantitative reviews of the empirical results of previous studies clearly show that COO's effect reduces significantly in the presence of other cues. COO plays an important role in product evaluation, the effect tends to become weaker as one moves from perception of product quality to attitude formation and to behavioral intention.

Sumner (1906) defined ethnocentrism as "the technical name for this view of things in which one's own group is the center of everything, and all others are scaled and rated with reference to it" (Neuliep and McCroskey, 1997). According to Kaynak and Kara (2002) "consumer ethnocentrism proposes that nationalistic emotions affect attitudes about products and purchase intentions and ultimate purchases. In particular, consumer ethnocentrism implies that purchasing imported products is wrong, not only because it is unpatriotic, but also because it is harmful to the economy and results in loss of jobs in industries threatened by imports. Contrast to that idea Wang and Chen (2004) mention that consumers from a developed country tend to appreciate more favorably domestic products over imported ones, whereas the reverse has been observed in developing countries, where consumers perceive foreign products as superior compared to their domestic counterparts.

Consumer ethnocentrism is expected to co-vary with age, gender, educational level, and income and these demographic characteristics are not conceptually independent

of the socio-psychological constructs (Sharma et al, 1995). Moreover, the impact of consumer ethnocentrism depends on the level of development of the consumers' home country. According to Balabanis and Diamantopoulos (2004) consumer ethnocentrism is sometimes negatively related to preferences for foreign products, yet it is mostly unrelated, leading to the conclusion that, overall, consumer ethnocentrism is a more consistent predictor of preferences for domestic products rather than for foreign products. Consumer-ethnocentric tendency is an important individual-level construct and holds valuable implications for a better understanding of COO dynamics.

### Methodology

In this study we tried to find out Albanian consumers' perceptions about various countries and the view of them to their country's domestic products. Face-to-face survey method was used for data collection. All data collected in Tirana that is capital and biggest city of Albania. 177 participants' questionnaires were accepted for analyzing, 6 participants' questionnaires were eliminated. There were no restrictions of responders' educational, income and age levels.

Firstly, we had asked ethnocentrism scale questions to participants, the scale is used for lots of different studies (Kaynak and Kara, 2002, Balabanis and Diamantopoulos, 2004, Sharma et al, 1995, Herche, 1990). Secondly, we tried to measure Albanian consumers' perceptions about various countries. For this part we adapted Kaynak and Kara's (2002) study's questions. Totally we asked to participants 38 questions. 17 of them were about ethnocentrism questions, 16 of them were about Albanian consumers' perception about various countries image and 5 were about demographic questions. To analyze the data we used SPSS 18.0 statistic program.

### Data Analyses and Discussions

The results of data sample characteristics are shown in table 2.

Table 2. Sample Characteristics

| Sample Characteristics               | %    |   |
|--------------------------------------|------|---|
| <b>Gender:</b> Male; 79              | 44.6 | <b><u>Marital Status:</u></b><br>Single; 79 |
| Female; 98                           | 55.4 |   |
| 44.6                                 |      | Married; 43                                 |
| 24.3                                 |      |   |
| <b><u>Age:</u></b> 18 or younger; 24 | 13.6 | Married 1 child; 19                         |
| 10.7                                 |      |   |

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|                           |      |                                |     |
|---------------------------|------|--------------------------------|-----|
| 19-30; 86                 | 48.6 | Married 2 children; 15         | 8.5 |
| 31-40; 34                 | 19.2 | Married 3 children or more; 21 |     |
| 11.9                      |      |                                |     |
| 41-50; 14                 | 7.9  |                                |     |
| 51 and older; 19          | 10.7 |                                |     |
| <b>Education:</b>         |      | <b>Mounty Income</b>           |     |
| Less than high school; 38 | 21.5 | 50.000 Leke or less; 116       |     |
| 65.5                      |      |                                |     |
| High school&College; 65   | 36.7 | 50.001-100.000 Leke; 44        |     |
| 24.9                      |      |                                |     |
| Bachelor; 56              | 31.6 | 100.001-200.000 Leke; 12       |     |
| 6.8                       |      |                                |     |
| Post Graduated; 18        | 10.2 | 200.001 Leke or more; 5        |     |
| 2.8                       |      |                                |     |

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Reliability analyzes of the whole data conducted by Cronbach  $\alpha$  method obtained a 0.943 result. Table 3 shows reliability and means of the CETSCALE items.

**Table 3. The CETSCALE Reliability and Mean Results**

| <b>Num<br/>ber</b> | <b>QUESTIONS</b>  | <b>Relia<br/>bility<br/>*</b> | <b>Mean<br/>**</b> |
|--------------------|---|-------------------------------|--------------------|
| <b>1</b>           | Albanian people should always buy Albanian product instead of   | 0.938                         | 2.73               |
| <b>2</b>           | Only those product that are unavailable in Albania should be  | 0.940                         | 3.28               |
| <b>3</b>           | Buy Albanian product. Keep Albania working.   | 0.940                         | 3.43               |
| <b>4</b>           | Albanian product first, last and foremost.  | 0.938                         | 3.10               |
| <b>5</b>           | Purchasing foreign-made product is un-Albanian  | 0.939                         | 2.97               |
| <b>6</b>           | It is not right to purchase foreign products, because it puts Albanian  | 0.940                         | 2.98               |
| <b>7</b>           | A real Albanian should always buy Albanian products.  | 0.940                         | 2.86               |
| <b>8</b>           | We should purchase products manufactured in Albania instead of  | 0.941                         | 3.25               |
| <b>9</b>           | It is always best to purchase Albanian products.  | 0.938                         | 2.97               |
| <b>10</b>          | There should be very little trading or purchasing of goods from other   | 0.938                         | 3.08               |
| <b>11</b>          | Albania should not buy foreign products, because this hurts   | 0.938                         | 2.71               |
| <b>12</b>          | Curbs should be put on all imports.   | 0.940                         | 2.55               |
| <b>13</b>          | It may cost me in the long run but I prefer to support Albanian   | 0.943                         | 3.40               |
| <b>14</b>          | Foreigners should not be allowed to put their products in our market.   | 0.940                         | 2.60               |
| <b>15</b>          | Foreign products should be taxed heavily to reduce their entry into   | 0.938                         | 2.46               |
| <b>16</b>          | We should buy more foreign countries only those products that we  | 0.940                         | 3.31               |
| <b>17</b>          | Albanian consumers who purchase products made in other countries<br>are responsible for putting their fellow Albanian out of the work | 0.938                         | 2.49               |



\*Cronbach Alpha results (Alpha if item deleted)

\*\*Mean values of items, respond format is five-point Likert type scale.

Also we examined meaningful relations between first question of CETSCALE, that is ‘Albanian people should always buy Albanian product instead of import’, and demographic characteristic thorough one way ANOVA method. We found out a meaningful relationship between ‘preferring local products’ and demographic variables. We can write the hypotheses on ‘preferring local products’ and related variables, as follows;

**H1:** There is a significant relationship between ‘preferring local products’ and education level

**H2:** There is a significant relationship between ‘preferring local products’ and age

**H3:** There is a significant relationship between ‘preferring local products’ and income level

**H4:** There is a significant relationship between ‘preferring local products’ and marital status

**H5:** There is a significant relationship between ‘preferring local products’ and gender

**Table 4. Hypotheses Significance & Decision**

| <b>Variables (Hypothesis)</b>                            | <b>Significance</b> | <b>Decisions</b> |
|--|---------------------|------------------|
| <b>H1:</b> Preferring local products and education level | 0.018               | <b>Accepted</b>  |
| <b>H2:</b> Preferring local products and age             | 0.041               | <b>Accepted</b>  |
| <b>H3:</b> Preferring local products and income level    | 0.813               | <b>Rejected</b>  |
| <b>H4:</b> Preferring local products and marital status  | 0.005               | <b>Accepted</b>  |
| <b>H5:</b> Preferring local products and gender          | 0.951               | <b>Rejected</b>  |

H3 and H5 hypotheses’ significance level are  $p \leq 0.05$ . Due to their p value these hypotheses are rejected. But H1, H2 and H4 hypotheses are accepted. After examining the results we find out significant relation between preferring local product and education level. For instance, the participants whose education level is less than high school education level support that idea ‘Albanian people should always buy Albanian product instead of import’ with 3.08 mean values. Moreover, high school level educated category’s mean values are 2.97 and bachelor category’s mean values are 2.30. On the other hand, even though post graduated level educated participants’ mean values (2.44) are more than bachelor category and less than high school category. Accordingly to ANOVA results, after 31 years old, preferring local product perception is increasing significantly. The mean values are as follows; 18 years old and younger; 2.63, 19-30; 2.49, 31-40; 2.76, 41-50; 3.36 and 51 and more; 3.42. There is another considerable relationship between preferring local products

and marital status like age. In common with the age, preferring local product perception is increasing on married with children category. The mean values are like that; single; 2.48, married; 2.44, married 1 child; 3.05, married 2 child; 3.40, married 3 child or more; 3.48.

**Table 5: Country Preference Mean Values**

| Perception Strongly Disagree 1...2....3....4....5 Strongly Agree          |             |       |             |        |             |        |
|---|-------------|-------|-------------|--------|-------------|--------|
| COUNTRIES   | Turkey      | China | Italy       | Greece | Germany     | France |
| 18. Are expensive   | <b>2.54</b> | 2.02  | <b>3.47</b> | 3.00   | <b>3.89</b> | 3.62   |
| 19. Are reasonable priced considered quality                              | <b>3.23</b> | 3.45  | <b>3.51</b> | 3.03   | <b>3.79</b> | 3.41   |
| 20.This country supplies more luxury items than necessities               | <b>2.32</b> | 2.16  | <b>3.08</b> | 2.95   | <b>3.39</b> | 3.49   |
| 21.Their products are more tailor-made rather than mass produced          | <b>2.79</b> | 2.49  | <b>3.27</b> | 3.29   | <b>3.94</b> | 3.66   |
| 22.Are reliable   | <b>3.05</b> | 2.48  | <b>3.54</b> | 3.27   | <b>4.01</b> | 3.84   |
| 23.Are technically advanced   | <b>3.02</b> | 3.33  | <b>3.31</b> | 2.88   | <b>3.89</b> | 3.66   |
| 24.Are cheap imitation of better brand                                    | <b>3.45</b> | 3.51  | <b>2.89</b> | 2.60   | <b>2.50</b> | 2.37   |
| 25.Are very durable and made of good material                             | <b>2.95</b> | 2.47  | <b>3.65</b> | 3.37   | <b>3.82</b> | 3.87   |
| 26.Give a bad performance   | <b>3.24</b> | 3.50  | <b>2.70</b> | 3.08   | <b>2.23</b> | 2.23   |
| 27.Are supported by a good maintenance service                            | <b>2.88</b> | 2.95  | <b>3.56</b> | 2.84   | <b>3.85</b> | 3.66   |
| 28.These goods have low prestige, so I do not tell others that I buy them | <b>3.42</b> | 3.57  | <b>2.85</b> | 2.96   | <b>2.16</b> | 2.29   |
| 29.Are much advertised  | <b>3.12</b> | 3.73  | <b>3.44</b> | 2.92   | <b>3.33</b> | 3.18   |
| 30.Have a well-recognized brand name                                      | <b>2.81</b> | 2.93  | <b>3.60</b> | 3.03   | <b>3.93</b> | 3.77   |
| 31.Provide a wide choice of size and model                                | <b>3.21</b> | 3.70  | <b>3.50</b> | 2.94   | <b>3.68</b> | 3.19   |
| 32.Have a good style and appearance                                       | <b>3.12</b> | 2.80  | <b>3.60</b> | 3.20   | <b>3.85</b> | 3.87   |

Aside from above questions, we asked to participants that question ‘If you will choose to buy foreign product, which country’s product you would like to buy mostly’. The participants put in ordered their country preferences. You can see the results in table 6.

**Table 6: Country Preference Put in Order List**

| Preference   | Turkey      |            | Greece     |            | China      |            | Italy      |            | Germany    |            | France     |            |
|--------------|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|              | Frequencies | %          | Freq.      | %          | Freq.      | %          | Freq.      | %          | Freq.      | %          | Freq.      | %          |
| 1            | 17          | 9.6        | 18         | 10.2       | 33         | 18.6       | 31         | 17.5       | 63         | 35.6       | 15         | 8.5        |
| 2            | 35          | 19.8       | 47         | 26.6       | 21         | 11.9       | 47         | 26.6       | 14         | 7.9        | 12         | 6.8        |
| 3            | 25          | 14.1       | 25         | 14.1       | 28         | 15.8       | 31         | 17.5       | 35         | 19.8       | 34         | 19.2       |
| 4            | 20          | 11.3       | 19         | 10.7       | 21         | 11.9       | 4          | 2.3        | 30         | 16.9       | 83         | 46.9       |
| 5            | 58          | 32.8       | 33         | 18.6       | 27         | 15.3       | 31         | 17.5       | 16         | 9.0        | 11         | 6.2        |
| 6            | 22          | 12.4       | 35         | 19.8       | 47         | 26.6       | 33         | 18.6       | 19         | 10.7       | 22         | 12.4       |
| <b>Total</b> | <b>177</b>  | <b>100</b> | <b>177</b> | <b>100</b> | <b>177</b> | <b>100</b> | <b>177</b> | <b>100</b> | <b>177</b> | <b>100</b> | <b>177</b> | <b>100</b> |

**Conclusion**

According to results, ethnocentrism approach is not strong in Albania market. But there is a potential. Associated with the economic growth in Albanian market, ethnocentric approaches can be stronger than today. Especially, middle age and older people believe importance of consuming local products. In term of international trade, Turkey, Italy, Greece, China and Germany have important role as mentioned in theoretical part. After investigating mean values, that shows

country image perception in Albanian people, we can say that Germany has most reputable country image, Italy and France tag along behind. Greece and Turkey have medium level country image in Albania. Even though Chinese made products have important potential in the market, country image is lower, other countries as well.

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**EXAMINATION OF THE DIFFERENCES BETWEEN VARIOUS BALKAN IMMIGRANTS' AND TURKISH CONSUMERS' ATTITUDES TOWARDS MARKETING ACTIVITIES FROM THE PERSPECTIVE OF CONSUMERISM**

Gökhan YOLAÇ\*

**Abstract**

*With the collapse of the Eastern Bloc, some significant changes in the the consumer behavior patterns may be observed in these Balkan countries. The consumer culture in these countries has changed as in the Western countries as the number of the products has remarkably increased in these markets. This increase in the number of the products and services that the Balkan consumers are encountered with has also led to an increase and development in the variety of the marketing activities. As in the Western societies, consumption has become one of the crucial constructs of the personal and social identity in these societies as well.*

*All these developments and changes in the Balkan markets bring the concept of consumerism in mind. Consumerism defined as “an organized movement of citizens and government to strengthen the rights and powers of buyers in relation to sellers” is an important movement in developed countries.*

*In this study it is aimed to explore the attitudes of different Balkan immigrants living in Istanbul, Turkey towards marketing activities (consumerism).*

**Keywords:** *Consumerism, Balkan Immigrants, Consumer Behavior*

**Introduction**

Consumerism played an important role on the decision-makers in the business world in the 1990s and the 2000s. Today the role is on the increase, too. The fact that the laws concerning consumerism are increasing to cover more in scope has great effects on the marketing activities of the businesses. Businesses have a variety of new responsibilities owing to the consumer rights and interests protected by the law. This study will look at the literature on the concept of consumerism to include definitions and explanations thereof.

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## Literature Review

Consumerism was unknown to a great extent until the efforts made by the president Kennedy in order to protect the consumer rights or the study done about it by Rachel Carson and Ralph Nader (Day and Aaker, 1997). Kennedy considered the consumer rights as the security right, the right to have information, the right to choose and the right to be informed (Ede and Calcich, 1999).

On the one hand, the rights in question remolded the corporate strategies of many businesses and the buying habits of the consumers and on the other hand, they protected the consumer rights. Therefore, consumerism can be regarded as a force to maintain stability in society by fighting against the bad effects of the markets (Middleton, 1998).

In general, consumerism consists of a number of activities carried out by the government, businesses and free organizations. These activities are designed to protect individuals from the practices of both the government and the businesses, and to prevent the consumer rights from being violated. From this point of view, consumerism emphasizes the direct relation between the consumer and the business. In other words, it is a bi-directional concept based on the relation between the consumer and the business (Day and Aaker, 1970).

The concept of consumerism can be discussed in two ways. First, protecting consumers and the environment and introducing consumer rights, and second, encouraging consumers to buy more (Kucuk, 2002).

First and foremost, consumerism was defined by Kotler (1972). He defined consumerism as a consumer movement in order for consumers to enhance their rights and powers against sellers. Kotler divided the factors which contributed to the rise and development of consumerism into 6 categories. These are as follows (Kotler, 1972):

- the factors fostering consumerism structurally and the events taking place in society. For instance, increase in the level of income and education, increase in the complexity of the technological and marketing activities, increase in the standard of living, increase in the awareness of life quality, alertness to environmental pollution, increase in the awareness of environmental pollution, etc.
- the structural hardships. For instance, inflation, pollution, faulty products, misleading ads, etc.
- the changes in the general belief of the society. For instance, social criticism leveled by prominent writers, the effect of consumer organizations on the society, etc.
- the hastening factors. For instance, the consumers expressing dissatisfaction about the practices and activities of the businesses, etc.
- the use of resources to start up. For instance, the contribution made to the activities of consumerism by such powers as media, etc.

- social control. For instance, political systems enforcing laws contrary to the consumer expectations, etc.

Kaufman and Channon (1973), and Straver (1977) divided consumerism into 4 stages. These are as follows:

- the initial stage of consumerism movement (crusading),
- the stage where consumerism began to increase, recognized and embraced by all (popular movement),
- the stage where consumerism grew organizational and managerial (organizational/managerial),
- the stage of bureaucracy where there were governmental laws and regulations

There are different countries at the different stages of consumerism. There are a variety of criteria by which countries are measured to determine which stage a country is at. The quality and the quantity of information given to consumers, the scope and the degree of the protecting laws, the authorized units of the governments, and the public funds allocated to the education of consumers are just a few to cite as part of the basic criteria (Varadarajan and Thirunarayana, 1990).

### **Previous Studies Relating to Consumerism**

Barksdale and Darden did the first or pioneering study into the attitudes of consumers toward marketing (Barksdale and Darden, 1972). They repeated a lot of similar studies in the 1970s. They measured consumer attitudes against consumer responsibilities, governmental regulations, consumerism, and marketing mix. Then, Gaski and Etzel altered the Barksdale Scale and developed the “Index of Consumer Sentiment Toward Marketing (ICSM)” Scale (Gaski and Etzel, 1986).

Many studies were carried out in developing countries as well as developed countries. (Chan, Yau, and Chan, 1990), ( Chan and Cui, 2004). Barksdale and Perreault found that the consumer attitudes toward producer-sellers were negative during the years 1971-1979 (Barksdale and Perreault,1980). Hustad and Pesemier (1973), Lundstrom and Lamont (1976) reached similar findings for the same period.

The studies into consumer attitudes toward the elements of marketing mix showed that there were significant changes in consumer attitudes (Lysonski, Durvasula and Watson, 2003). In particular, Gaski and Etzel showed these changes clearly through a study covering the years 1984-2001 (Gaski and Etzel, 2005).

The swift advances in globalization made it compulsory to make international comparisons among countries in measuring consumer attitudes toward marketing. Many studies produced different results concerning consumer attitudes in different countries (Varadarajan and Thirunarayana, 1990), (Wee and Chan, 1989).

Barksdale and his friends studied consumer attitudes toward marketing as compared to the developmental stages of consumerism (Barksdale etc., 1982). The researchers placed the countries into the different stages of consumerism in a study conducted in 6 countries including Israel, England, Australia, the USA, Canada and Norway.



In the end, they couldn't find certain or convincing evidence into the fact that the differences at the developmental stages of consumerism affected consumer attitudes toward marketing.

**Methodology**

The objective of the study is to relate the Balkan immigrants living in Turkey to the attitude of the Turkish consumers toward marketing in terms of consumerism. A study was conducted using a questionnaire in Istanbul during July and August through the convenient sampling method. Out of the 173 questionnaire forms, 28 were eliminated due to the missing or incorrect answers. Of the remaining 145 forms, 70 were immigrants and 75 were Turkish consumers. The distribution of the sampling is as in Table 1.

**Table 1: Sample's Characteristics**

|                        |                      | Frequency |            | Percent |            |
|------------------------|----------------------|-----------|------------|---------|------------|
| Group                  |                      | Turkish   | Immigrants | Turkish | Immigrants |
| <b>Gender</b>          | <i>Male</i>          | 20        | 20         | 26,7    | 28,6       |
|                        | <i>Female</i>        | 55        | 50         | 73,3    | 71,4       |
| <b>Age</b>             | 18-24                | 24        | 4          | 32,0    | 5,7        |
|                        | 25-31                | 16        | 14         | 21,3    | 20,0       |
|                        | 32-38                | 15        | 20         | 20,0    | 28,6       |
|                        | 39 above             | 20        | 32         | 26,7    | 45,7       |
| <b>Marital Status</b>  | <i>Married</i>       | 29        | 43         | 38,7    | 61,4       |
|                        | <i>Single</i>        | 46        | 27         | 61,3    | 38,6       |
| <b>Education Level</b> | High school or below | 23        | 25         | 30,7    | 35,7       |
|                        | University or above  | 52        | 45         | 69,3    | 64,3       |
| <b>Occupation</b>      | Employee             | 1         | 1          | 1,3     | 1,4        |
|                        | Shopowner            | 0         | 2          | 0       | 0          |
|                        | Retired              | 2         | 1          | 2,7     | 2,9        |
|                        | Housewife            | 1         | 0          | 1,3     | 0          |
|                        | Unemployed           | 1         | 0          | 1,3     | 0          |

|                         |   |    |    |      |      |
|-------------------------|---|----|----|------|------|
|                         | Student                                 | 18 | 2  | 24,0 | 2,9  |
|                         | Employee<br>in the<br>public<br>sector  | 8  | 8  | 10,7 | 11,4 |
|                         | Employee<br>in the<br>private<br>sector | 37 | 49 | 49,3 | 70,0 |
|                         | Others                                  | 7  | 7  | 9,3  | 10   |
| <b>Income(monthly)*</b> | Low<br>income                           | 26 | 6  | 34,7 | 8,6  |
|                         | Average<br>income                       | 41 | 49 | 54,7 | 70,0 |
|                         | High<br>income                          | 8  | 15 | 10,7 | 21,4 |
|                         |   |    |    |      |      |

### Research Design

The study had a questionnaire form consisting of two parts. In the first part, the scale “Consumer Attitudes Toward Marketing and Consumerism” developed by Barksdale and Darden (1972) was used. The scale which had 40 variables was translated into Turkish by the teaching staff at the department of Production Management and Marketing at the Faculty of Political Sciences at Istanbul University. As part of the translation strategy, the statements considered inconvenient for the Turkish working structure and culture were adapted accordingly. Three statements unable to do so were taken out of the scale. The remaining 37 statements were tested through back translation. The statements on the questionnaire form were measured on the likert scale ( on a range of 1=completely disagree and 5= completely agree). In the second part of the questionnaire, there were such questions as occupation, education, income, marital status, age (open-ended) and gender measuring the demographic attributes of the consumers.

The “independent sample t-test” was used to determine if there was a difference between two different consumer groups concerning their attitudes toward marketing activities.

**Findings**

To test the internal consistency of the data, reliability analysis was conducted for consumer groups separately. The Cronbach’s Alpha score achieved for the scale for the Turkish consumers was  $\alpha=0.814$  and for immigrant’s was  $\alpha=0.774$ . The findings of the reliability analysis can be said to be satisfactory for both consumer groups.

**Table 2: Distribution of Statements& Independent Sample T-Test Results**

|  | Immigrants  |           | Turkish     |           | .sig |
|--|-------------|-----------|-------------|-----------|------|
|  | Mean        | Std. Dev. | Mean        | Std. Dev. |      |
| <b>Statements- Attitudes Towards Philosophy of Business</b>  |             |           |             |           |      |
| Most manufacturers operate on the philosophy that the "consumer" is always right                                     | 2,84        | 1,124     | 2,96        | 1,108     | ,529 |
| Despite what is frequently said, "let the buyer beware" is the guiding philosophy of most manufacturers.             | 3,35        | ,963      | 3,24        | 1,011     | ,477 |
| Competition ensures that consumers pay fair prices.  | 3,40        | ,938      | 3,44        | 1,081     | ,813 |
| Manufacturers seldom shirk their responsibility to the consumer  | 2,81        | ,937      | 2,69        | ,900      | ,429 |
| Most manufacturers are more interested in making profits than serving consumers.                                     | 4,02        | ,947      | 4,13        | ,990      | ,517 |
| <i>Mean for Attitudes Towards Philosophy of Business</i>   | <b>3,29</b> |           | <b>3,29</b> |           |      |
| <b>Statements- Product Quality</b>   |             |           |             |           |      |
| In general, manufacturers make an effort to design products to fit the needs of consumers.                           | 3,57        | 0,88      | 3,69        | 0,80      | ,384 |
| Over the past several years, the quality of most products has not improved.  | 3,07        | 0,94      | 3,11        | 0,99      | ,827 |
| From the consumer's point of view, style changes are not as important as improvements in product quality.            | 3,54        | 0,97      | 3,39        | 1,05      | ,356 |
| Manufacturers do not deliberately design products which will wear out as quickly as possible.                        | 3,01        | 1,08      | 3,12        | 1,17      | ,575 |
| Manufacturers often withhold important product improvements from the market in order to protect their own interests. | 3,53        | 1,15      | 3,83        | 1,01      | ,098 |
| The wide variety of competing products makes intelligent buying decisions more difficult.                            | 3,30        | 0,84      | 3,39        | 0,94      | ,561 |
| <i>Mean for Product Quality</i>  | <b>3,34</b> |           | <b>3,42</b> |           |      |
| <b>Statements- Advertising</b>   |             |           |             |           |      |
| Most product advertising is believable.  | 2,83        | 1,09      | 2,68        | 1,19      | ,435 |
| Manufacturers' advertisement are reliable  | 2,60        | 0,98      | 2,33        | 1,03      | ,114 |

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|  |             |      |             |      |      |
|--|-------------|------|-------------|------|------|
| sources of information about the quality and performance of products   |             |      |             |      |      |
| Generally, advertised products are more dependable than unadvertised ones.   | 2,60        | 0,98 | 2,51        | 0,99 | ,571 |
| Manufacturers' advertisement usually present a true picture of the product advertised  | 2,40        | 0,81 | 2,35        | 0,89 | ,707 |
| <b>Mean for Advertising</b>  | <b>2,61</b> |      | <b>2,47</b> |      |      |
| <b>Statements- Other Marketing Activities</b>  |             |      |             |      |      |
| Generally speaking, the products required by the average family are easily available at convenient places.                         | 4,24        | 0,55 | 4,40        | 0,70 | ,136 |
| In general, the quality of repair and maintenance service provided by manufacturers and dealers is getting better.                 | 3,24        | 0,84 | 3,32        | 0,87 | ,589 |
| Generally, products guarantees are backed by the manufacturers who make them.  | 3,44        | 0,90 | 3,48        | 0,92 | ,806 |
| The games and contests that manufacturers sponsor to encourage people to buy their products are usually dishonest.                 | 2,93        | 1,01 | 2,69        | 1,00 | ,161 |
| <b>Mean for Other Marketing Activities</b>   | <b>3,46</b> |      | <b>3,47</b> |      |      |
| <b>Statements – Consumer Responsibilities</b>  |             |      |             |      |      |
| The problems of consumers are less serious now than in the past.   | 3,46        | 0,93 | 3,53        | 1,07 | ,649 |
| The information needed to become a well-informed consumer is readily available to most people.                                     | 3,50        | 0,88 | 3,63        | 1,02 | ,427 |
| The average consumer is willing to pay higher prices for products that will cause less environmental pollution.                    | 2,76        | 1,03 | 2,48        | 0,96 | ,096 |
| The problems of the consumer relatively unimportant when compared with the other questions and issues faced by the average family. | 3,14        | 1,08 | 3,19        | 1,12 | ,811 |
| Many of the mistakes that consumers make in buying products are the result of their own carelessness or ignorance.                 | 2,73        | 1,01 | 2,65        | 0,97 | ,647 |
| Consumers often try to take advantage of manufacturers and dealers by making claims that are not justified.                        | 2,50        | 0,91 | 2,49        | 0,99 | ,967 |
| For most types of products, consumers do not find it worthwhile to shop around to find the best buy.                               | 3,61        | 0,86 | 3,65        | 0,97 | ,798 |
| Concern for the environment does not influence the product choices made by most consumers.   | 2,67        | 0,93 | 2,71        | 1,02 | ,829 |

|  |             |      |             |      |      |
|--|-------------|------|-------------|------|------|
| <i>Mean for Consumer Responsibilities</i>  | <b>3,05</b> |      | <b>3,04</b> |      |      |
| <b>Statements – Consumerism</b>  |             |      |             |      |      |
| Manufacturers seem to be more sensitive to consumer complaints now than they were in the past.   | 3,39        | 0,87 | 3,44        | 0,99 | ,727 |
| When consumers have problems with products they have purchased, it is usually easy to get them corrected.  | 3,21        | 0,96 | 3,20        | 1,07 | ,933 |
| Most business firms make a sincere effort to adjust complaints fairly.   | 2,84        | 0,99 | 2,87        | 1,06 | ,889 |
| From the consumer's viewpoint, the procedures followed by most manufacturers in handling complaints and settling grievances of consumers are not satisfactory. | 2,79        | 0,96 | 2,61        | 0,94 | ,278 |
| Consumerism or the consumer crusade has not been an important factor in changing business practices and procedures.  | 3,59        | 0,86 | 3,75        | 1,05 | ,317 |
| The exploitation of consumers by business firms deserves more attention than it receives.  | 4,06        | 1,02 | 4,13        | 0,98 | ,647 |
| <i>Mean for Consumerism</i>  | <b>3,31</b> |      | <b>3,33</b> |      |      |
| <b>Statements – Government Regulation</b>  |             |      |             |      |      |
| The government should test competing brands of products and make the results of these test available ro consumers.   | 4,06        | 1,08 | 4,12        | 0,97 | ,712 |
| The government should set minimum standards of quality for all products sold to consumers.   | 4,20        | 0,88 | 4,29        | 0,88 | ,524 |
| The government should exercise more responsibility for regulating the advertising, sales and marketing activities of manufacturers.                            | 4,09        | 0,81 | 4,08        | 1,01 | ,970 |
| A Federal Department of Consumer Protection is not needed to protect and promote the interests of consumers.   | 4,27        | 0,85 | 4,47        | 0,83 | ,163 |
| <i>Mean for Government Regulations</i>   | <b>4,15</b> |      | <b>4,24</b> |      |      |

In Table 2, the distribution of the consumer responses and the results of the independent sample t-test can be seen. There is no statistical difference at the significance level of 0.05 concerning the marketing activities between the Turkish citizens who are Balkan immigrants or not in Turkey. Therefore, the attitude of the consumers brought up in a culture of a different country and resident in Turkey, and of Turkish consumers toward marketing activities is quite similar.

When the answers of the consumers are looked at, it can be observed that both groups evaluated the variables relating to the government regulations with a quite

high mean in the marketing activities. So, the regulatory role of the government can be said to be of importance to both Turkish and immigrant consumers in trade. On the other hand, when looked at the means of the variables under the heading of advertising, it can be said that the consumers in both groups are negative in attitude. In this respect, the businesses active in the area at hand should take into account the element of credibility in advertisement campaigns as means of communication and be more careful with advertising activities.

In general, the heading of consumer responsibilities was found to be close to the neutral point of the scale. In other words, it can be asserted that consumers are not at the desired level in terms of awareness and responsibilities. In parallel to the developmental stage of the countries where the consumers live, it is possible to say that they still haven't developed a desired level of awareness in close relation to the concept of consumerism. In terms of the means observed, it can be said that the consumers have started to develop a positive attitude toward the variables under the heading of consumerism and other marketing activities.

### **Conclusion**

The concept of consumerism defined in this study as a consumer movement in order for buyers to enhance their rights and powers against sellers was studied taking into account the Turkish consumers who are Balkan immigrants or not.

The results have shown that the attitudes of the consumers brought up in a culture of a different country and resident in Turkey, and of Turkish consumers toward marketing activities is quite similar. For this reason, the Turkish consumers and the Turks from the Balkan countries can be said to share a common set of cultural values in their attitudes toward marketing activities. On the other hand, the results don't look surprising given that the Turkish immigrants live in Turkey. In other words, the immigrants can be said to have adapted themselves to the Turkish culture in their attitudes toward marketing activities. Nevertheless, businesses planning to operate in the area may need to have detailed accounts of the shared cultural pattern in the Balkan countries.

The study is not able to produce generalizable results as it has such restrictions as the sampling size and the use of one of the non-probability sampling techniques. However, the study can be expanded to include consumer samples with or without a shared cultural background in different Balkan countries as of further studies. In addition, the developmental process of consumerism can be studied on a basis of sampling using the scale in certain periods with the same consumer groups.

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## RESOURCE CONSTRAINT PROBLEMS FACED ON CONSTRUCTION PROJECTS AND PROPOSAL FOR BALKAN CONSTRUCTION SECTOR

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### Abstract

*Considering project plans to affect cash flows of construction projects will be aimed necessarily to use constraint resources providing a maximum financial benefit as a research study. Resource-constrained project scheduling is the most appropriate method of planning of a project activities use limited resources without destroying their precedence relationships. The aim of this study is to propose a solution to the problem of the time value of cash flows under resource-constrained project scheduling. For this purpose, cash flows and their net present value graphics of a solid waste transfer station construction project were established under different scenarios. Dividing into phases of time-based scheduling and resource-constrained scheduling were compared giving some examples for model and algorithms analyzing cash flows and maximum net present value problems, time based scheduling and resource-based scheduling of a solid waste transfer station construction project was formed. The generated planning were evaluated under different scenarios and examined for different objective functions. The data obtained from the each scenario were presented with their graphics. These data were described by comparing the results obtained. The initiation of this study is caused importantly by the applications of irregular and unmethodical understanding of planning techniques applied in Turkish construction sector. As a result of this study, scenarios using constrained resources forced less the budget limits, but it was observed that it formed lower net present value than the scenarios which do not have resource constrained in equal time intervals. This study is proposed to discuss Balkan construction sector projects with the problems of the time values of cash flows under resource-constrained scheduling.*

**Keywords:** *Resource-constrained Scheduling, Planning, Construction Management, Net Present Value, Cash Flow*

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## **Introduction**

Sequencing the activities of a construction project on a time scale in a sense developing the plan is the initial circumstance for determining the cost and completion time of a construction investment. The growing complexity of the projects and increasingly competitive environment requires to obtain the most effective and efficient planning. Planning techniques ensued with Gantt/Bar Chart during the 1920 and has increased the significance by the revelation of network planning technique as CPM (Critical Path Method) in the 1955s. Chronologically resource allocation, resource-constrained, profit maximization and net present value problems were researched under the title of project planning on behalf of developing the most effective plans.

Given the fact that cash flows of the construction project are affected by the project plans, to develop a plan which aims to use the constrained resources to ensure maximum financial benefits. In this study, it is studied this important issue and the interaction between project planning problem and net present value factor and cash flows are included.

The aim of this study is to examine the resource utilization, cash flows and net present value at the project planning and to propose the project planning problem for Balkan construction sector with analyzing different scenarios including cases that have constrained resources in a solid waste transfer station construction project in Turkey. For this purpose, each scenario's cash flow and net present value included in this study was diagramed and studied the conformity of the objective functions (budget limits, maximum net present value, e.t.) (Dursun, 2010).

## **Case Study of Solid Waste Transfer Station (Swts) Construction Project**

In order to plan a construction project, work breakdown structure (WBS) which is defined "the progressive hierarchical breakdown of the project into smaller pieces to the lowest practical level" should be prepared (Halphin and Senior, 2011). As shown in Table 1, case study of solid waste transfer station construction project was divided into 17 activities to plan the project. The logic relationship of the (precedence and immediately precedence relationships) activities were determined. The activities were sequenced by precedence relationships on the process of network diagram taking into consideration to supplemental-specifications mentioned below. Supplemental-specifications; Fences and gates of the jobsite will be the first activity, the fire hydrants must be built after water supply, galvanized girder will be placed after the electricity supply, weighbridge will be installed after the installation of galvanized girder, the superstructure construction works of asphalt and concrete sidewalks will be built after the construction of rainwater canals, asphalt and concrete sidewalks must be built in order to start landscaping, installation of prefabricated staff building is the predecessor activity of installation the waste press building,

To start with considering the scheduling, durations have been appointed to the activities. Resource (workman) assignment was determined according to the duration of the activity. Resource costs and payments were added to Table 1 to be used in financial analyses which would be held in further chapter of the study (Dursun, 2010).

**Table 1: SWTS Construction Project Activity List**

| Activity | Description   | Duration | Workman/Day | Immediately Precedence Activity (IPA) | Workman*Day | Workman*Day Cost | Direct Cost | Payment    |
|----------|---|----------|-------------|---------------------------------------|-------------|------------------|-------------|------------|
| A        | Peeling the soil  | 5        | 4           | I                                     | 20          | 25,00 €          | 500,00 €    | 625,00 €   |
| B        | Excavation works  | 2        | 2           | A                                     | 4           | 25,00 €          | 100,00 €    | 125,00 €   |
| C        | Compaction works  | 2        | 3           | B                                     | 6           | 25,00 €          | 150,00 €    | 187,50 €   |
| D        | Earth-moving operation                                  | 7        | 5           | B                                     | 35          | 25,00 €          | 875,00 €    | 1.093,75 € |
| E        | Subbase construction for asphalt and concrete sidewalks | 2        | 5           | A                                     | 10          | 25,00 €          | 250,00 €    | 312,50 €   |
| F        | Asphalt paving and compaction for sidewalks             | 2        | 5           | E                                     | 10          | 25,00 €          | 250,00 €    | 312,50 €   |
| G        | Concrete works for sidewalks                            | 5        | 5           | E,H                                   | 25          | 25,00 €          | 625,00 €    | 781,25 €   |
| H        | Rainwater canal construction                            | 10       | 3           | I                                     | 30          | 25,00 €          | 750,00 €    | 937,50 €   |
| I        | Installation of fences and gates                        | 5        | 3           | -                                     | 15          | 25,00 €          | 375,00 €    | 468,75 €   |

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|   |  |    |   |     |    |         |            |            |
|---|--|----|---|-----|----|---------|------------|------------|
| J | Placement of galvanized girder               | 4  | 4 | M   | 16 | 25,00 € | 400,00 €   | 500,00 €   |
| K | Installation of prefabricated staff building | 15 | 4 | B   | 60 | 25,00 € | 1.500,00 € | 1.875,00 € |
| L | Installation of waste press building         | 12 | 6 | C   | 72 | 25,00 € | 1.800,00 € | 2.250,00 € |
| M | Electric works                               | 10 | 5 | I   | 50 | 25,00 € | 1.250,00 € | 1.562,50 € |
| N | Installation of weighbridge                  | 5  | 5 | J   | 25 | 25,00 € | 625,00 €   | 781,25 €   |
| O | Landscaping                                  | 3  | 3 | F,G | 9  | 25,00 € | 225,00 €   | 281,25 €   |
| P | Water supply                                 | 5  | 4 | I   | 20 | 25,00 € | 500,00 €   | 625,00 €   |
| R | Establishment of fire hydrants               | 5  | 2 | P   | 10 | 25,00 € | 250,00 €   | 312,50 €   |

As shown Figure 1, it was calculated the activities early start, early finish, late start, late finish durations and total and free floats by forward and backward calculation due to critical path method (CPM). The project completion date was 27 days according to the network diagram as seen Figure 1.

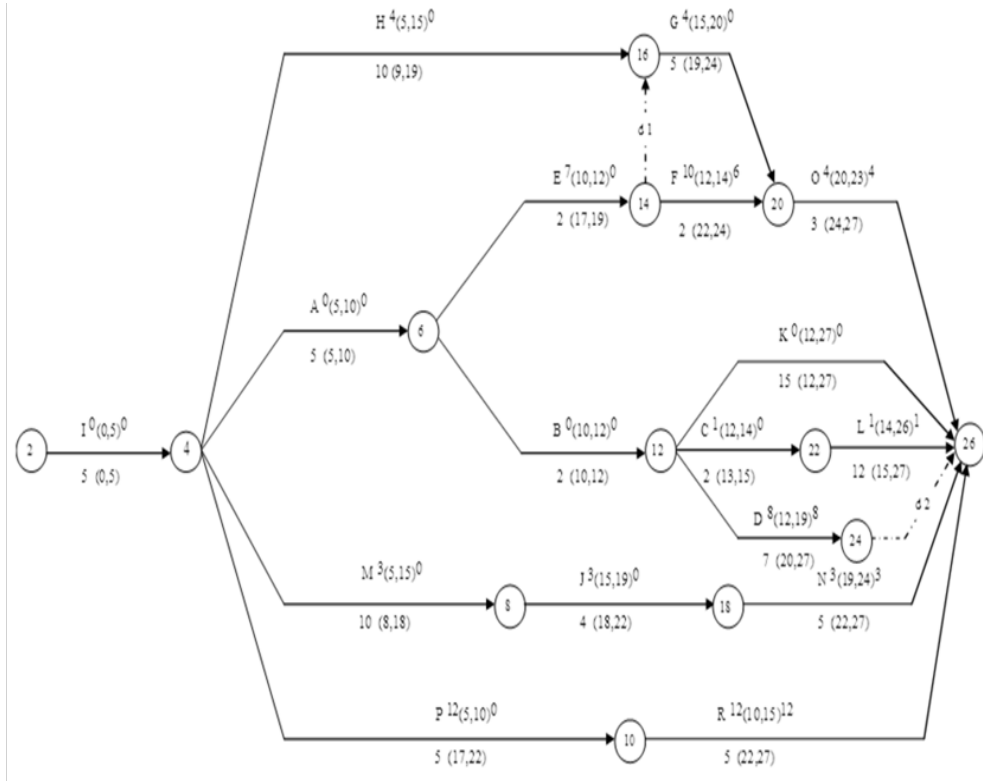


Figure 1: SWTS Construction Project Network Diagram

### Resource Constrained Planning Of Solid Waste Transfer Station (Swts) Construction Project

Based on time-based scheduling, as shown in Figure 2, the maximum daily workman resource of the project was 27. Assuming that the project has a constrained resource with the number of 20 workmen without changing the project deadline of 27 days, the activities was shifted using its floats and it was shown in Figure 3.

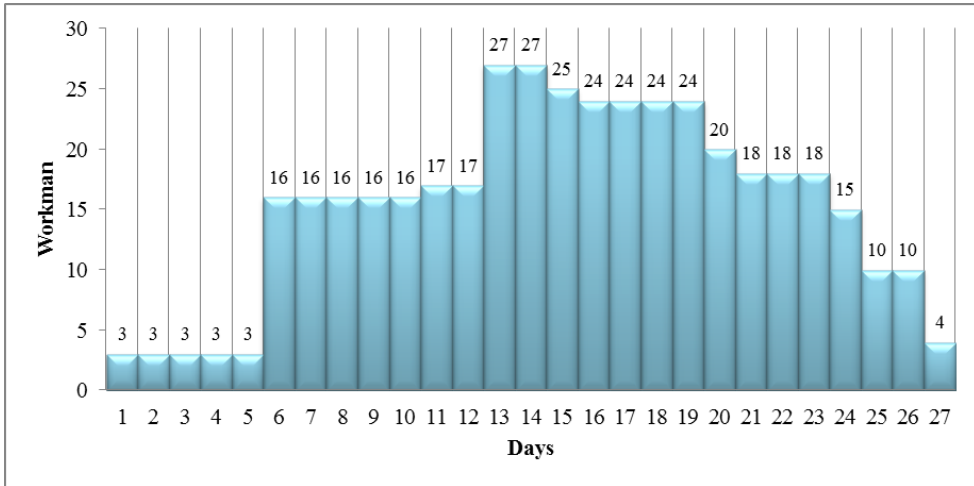


Figure 2: Time-Based Scheduling Resource Allocation

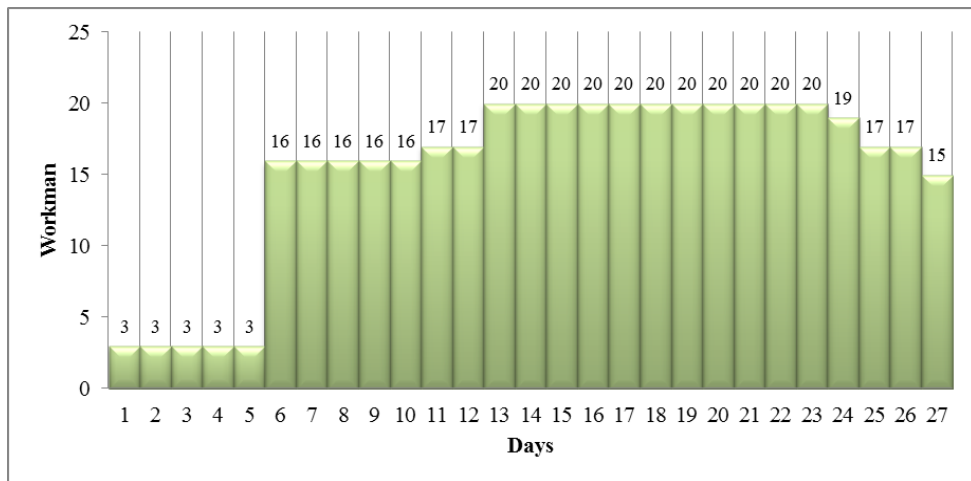


Figure 3: Resource-Constrained Scheduling Resource Allocation

In case of resource-constrained scheduling, the completion days of the project activities was shown in Table 2.

**Table 2: Activity Completion Time Due To Time-Based and Resource-Constrained Scheduling**

| Activity | Time-Based Scheduling Activity Completion Time (TBSACT) | Resource-Constrained Activity Completion Time (RCACT) |
|----------|---|---|
| A        | 10  | 10  |
| B        | 12  | 12  |
| C        | 14  | 14  |
| D        | 19  | 27  |
| E        | 12  | 12  |
| F        | 14  | 14  |
| G        | 20  | 20  |
| H        | 15  | 15  |
| I        | 5   | 5   |
| J        | 19  | 19  |
| K        | 27  | 27  |
| L        | 26  | 27  |
| M        | 15  | 15  |
| N        | 24  | 24  |
| O        | 23  | 23  |
| P        | 10  | 10  |
| R        | 15  | 27  |

**Financial Analysis of Solid Waste Transfer Station (SWTS) Construction Project Below Different Scenarios**

In this chapter, solid waste transfer station construction project was examined under different scenarios in cases of time-based scheduling and resource-constrained scheduling. First of all, cash flows were calculated and then analysis of net present value was obtained using cash flow calculations. According to the assumption that the annual nominal interest rate was 20% and time unit was day. Equation 1 was utilized in the analysis of the net present value.

$$P = F / \left(1 + \frac{r}{365}\right)^{365n} \tag{1}$$

**Phase-1 (Time-Based Scheduling Using Single Resource)**

Based on the network diagram shown in Figure 1, cash flows and net present value analysis calculations of the solid waste transfer station construction project were established under three different scenarios. The following conditions were common for the Scenario 1, Scenario2 and Scenario 3; Cash outflow of the project was daily workmen cost, and progress payment that calculated on a weekly basis was cash inflow. The amount of the progress payment was calculated by adding the profit of

25% on the workmen cost up to the progress payment period. The periods of progress payment were 7<sup>th</sup>, 14<sup>th</sup>, 21<sup>st</sup>, and 27<sup>th</sup> days. As shown in Table 1, daily workman cost was 25€, hence the price of workman was calculated as the 25% profitable 31,25€. The amount of cash outflow was calculated as multiplied by the total daily workman unit with workman cost (25€). Only the completed activities subsidized during the progress payment period in Scenario 2. The progress payment of the project would be paid lump sum after the delivery of the project in Scenario 3.

### **Phase-2 ( Single and Resource-Constrained Usage Scheduling )**

Cash flows and net present value analysis of the scheduling status to the three different scenarios by using the resource-constrained scheduling resource allocation as shown in Figure 3. The conditions of phase-1 were common for Scenario-4, Scenario-5 and Scenario-6 of Phase 2. Only the completed activities subsidized during the progress payment period in Scenario 5. The progress payment of the project would be paid lump sum after the delivery of the project in Scenario 6.

### **Phase-3 (Time-Based Scheduling Using Double Resource)**

Phase-1 was based on only single resource utilization. In Phase-3, workman resources as well as a new material resource in the name of “R” were assigned to the activities of the project. Thus, more scenarios were enabled. Material resource called “R” was directly proportional to the workman resource and 2 per R resource was assigned to the one workman. The following conditions were common for the scenarios; Resource R procurement was at the beginning of the project in Scenario 7, 9, 11 and 13. Resource R procurement was on a daily basis in Scenario 8, 10, and 12. The periods of progress payment were 7<sup>th</sup>, 14<sup>th</sup>, 21<sup>st</sup>, and 27<sup>th</sup> days in Scenario 7, 8, and 13. Only the completed activities subsidized during the progress payment period in Scenario 11 and 12. The progress payment of the project would be paid lump sum after the delivery of the project in Scenario 9, 10 and 13. Only one unit price was the price of the workman and “R” resource. The workman and “R” resource unit prices were calculated by adding 25% profit. Cash outflow of the project was daily workmen cost and “R” resource cost, and progress payment that calculated on a weekly basis was cash inflow. The workman unit cost was 25 € and “R” resource unit cost 5 € 2 per R resource was assigned to the one workman so that total cost was 35 € The unit price was 43,75 € by adding 25% profit on the total cost.

### **Phase-4 (Double and Resource - Constrained Usage Scheduling)**

In the previous phase, cash flow and net present value calculations were analyzed on the basis of time-based scheduling. In this phase, cash flow and net present value calculations were analyzed based on resource-constrained. The following conditions were common for the scenarios; Resource R procurement was at the beginning of the project in Scenario 14, 16, 18, and 20. The periods of progress payment were 7<sup>th</sup>, 14<sup>th</sup>, 21<sup>st</sup>, and 27<sup>th</sup> days in Scenario 14, 15, 18, 19, 20. Resource R procurement was on a daily basis in Scenario 15, 17, and 19. Only one unit price was the price of the workman and “R” resource. The workman and “R” resource unit prices were



calculated by adding 25% profit. Only the completed activities subsidized during the progress payment period in Scenario 18, and 19. Cash outflow of the project was daily workmen cost and “R” resource cost, and progress payment that calculated on a weekly basis was cash inflow. The workman unit cost was 25 € and “R” resource unit cost 5 € per R resource was assigned to the one workman so that total cost was 35 €. The unit price was 43,75 € by adding 25% profit on the total cost.

**Phase-5 (Scheduling By Resource Combination Options)**

It may be considered that utilization of resources can change an activity duration and cost in construction projects. Such as there is cost and time differences between performing excavation works by 10 workmen and with using an excavator. In this phase the resource options were available as described in Table 3. Utilizing different resources was possible for the activities of A and K. The resources called “R<sub>3</sub>” and “R<sub>4</sub>” were assigned to the activities different from the previous phases. The cost of these resources were respectively 40 € and 50 €. In addition, according to the assumption in this phase for the scenarios, given the fact that the project was completed earlier from the completion date of 27, it was rewarded %0,3 per day completed in early days. In case of delaying of the project, %0,3 per day penalty for the delay was given in scenarios. %0,3 of the cost of the project was calculated approximately 55 €

**Table 3: Resource Combinations**

| Activity | Resource Combination | Resource 1 (R <sub>1</sub> = Workman) | Resource 2 (R <sub>2</sub> = R) | Resource 3 (R <sub>3</sub> ) | Resource 4 (R <sub>4</sub> ) | Daily Cost (€) | Total Cost (€) | Daily Payment (€) | Total Payment (€) |
|----------|----------------------|---------------------------------------|---------------------------------|------------------------------|------------------------------|----------------|----------------|-------------------|-------------------|
| A        | Base                 | 4                                     | 8                               | -                            | -                            | 140            | 700            | 175               | 875               |
|          | Option 1             | 2                                     | 8                               | -                            | -                            | 90             | 630            | 175               | 875               |
|          | Option 2             | 3                                     | 8                               | 1                            | 1                            | 205            | 820            | 175               | 875               |
|          | Option 3             | 3                                     | 8                               | 2                            | 2                            | 295            | 885            | 175               | 875               |
| B        | Base                 | 2                                     | 4                               |                              |                              | 70             | 140            | 87,5              | 175               |
| C        | Base                 | 3                                     | 6                               |                              |                              | 105            | 210            | 131,25            | 262,5             |
| D        | Base                 | 5                                     | 10                              |                              |                              | 175            | 1225           | 218,75            | 1531,25           |
| E        | Base                 | 5                                     | 10                              |                              |                              | 175            | 350            | 218,75            | 437,5             |
| F        | Base                 | 5                                     | 10                              |                              |                              | 175            | 350            | 218,75            | 437,5             |
| G        | Base                 | 5                                     | 10                              |                              |                              | 175            | 875            | 218,75            | 1093,75           |
| H        | Base                 | 3                                     | 6                               |                              |                              | 105            | 1050           | 131,25            | 1312,5            |

|   |          |   |    |   |   |     |          |            |             |
|---|----------|---|----|---|---|-----|----------|------------|-------------|
| I | Base     | 3 | 6  |   |   | 105 | 525      | 131,2<br>5 | 656,25      |
| J | Base     | 4 | 8  |   |   | 140 | 560      | 175        | 700         |
| K | Base     | 4 | 8  | - | - | 140 | 210<br>0 | 175        | 2625        |
|   | Option 1 | 3 | 8  | - | - | 115 | 195<br>5 | 175        | 2625        |
|   | Option 2 | 2 | 8  | 2 | 1 | 220 | 242<br>0 | 175        | 2625        |
|   | Option 3 | 3 | 8  | 3 | 2 | 335 | 301<br>5 | 175        | 2625        |
| L | Base     | 6 | 12 |   |   | 210 | 252<br>0 | 262,5      | 3150        |
| M | Base     | 5 | 10 |   |   | 175 | 175<br>0 | 218,7<br>5 | 2187,5      |
| N | Base     | 5 | 10 |   |   | 175 | 875      | 218,7<br>5 | 1093,7<br>5 |
| O | Base     | 3 | 6  |   |   | 105 | 315      | 131,2<br>5 | 393,75      |
| P | Base     | 4 | 8  |   |   | 140 | 700      | 175        | 875         |
| R | Base     | 2 | 4  |   |   | 70  | 350      | 87,5       | 437,5       |

### Conclusion

In this study, the interaction between resource constrained problems and limited budget cases were researched and presented proposals for solutions by taking into consideration of resource utilization, cash flows and net present value under the theme of project planning. It was examined 35 different scenarios under 5 different planning phase. Cash flows and net present value graphics belonging all of the scenarios were established. By utilizing the generated graphics compliance with budget constraints, the objective of maximum net present value and project time constraint were examined for all scenarios due to case studies. Scenarios which were examined according to aforementioned objective function, obtained results were indicated in the tables below.

As shown in Table 4, green font color of Scenario-1, Scenario-4 and Scenario-5 for Case A ensured the objective function, red colored Scenario-2, Scenario-3 and Scenario-6 indicated a violation of objective function. Pairing with the cases of A, B and C, green fill color indicated the best scheduling phase.

**Table 4: The Analyses of Phases**

| Case      |             | A                               | B                            | C                                  | D                                   |
|-----------|-------------|---------------------------------|------------------------------|------------------------------------|-------------------------------------|
| Objective |             | Maximum Credit Limit (-5.500 €) | Final Period Maximum NPV (€) | Maximum Project Duration (27 Days) | With the evaluation all A,B,C cases |
| Phase-1   | Scenario-1  | -3106,25                        | 2564,65                      | 27                                 |                                     |
|           | Scenario-2  | -5983,75                        | 2539,83                      | 27                                 |                                     |
|           | Scenario-3  | -10425                          | 2502,51                      | 27                                 |                                     |
| Phase-2   | Scenario-4  | -2756,25                        | 2564,07                      | 27                                 |                                     |
|           | Scenario-5  | -5068,75                        | 2539,84                      | 27                                 |                                     |
|           | Scenario-6  | -10425                          | 2507,09                      | 27                                 |                                     |
| Case      |             | A                               | B                            | C                                  | D                                   |
| Objective |             | Maximum Credit Limit (-7.500 €) | Final Period Maximum NPV (€) | Maximum Project Duration (27 Days) | With the evaluation all A,B,C cases |
| Phase-3   | Scenario-7  | -6688,75                        | 3555,26                      | 27                                 |                                     |
|           | Scenario-8  | -4348,75                        | 3590,29                      | 27                                 |                                     |
|           | Scenario-9  | -14595                          | 3468,48                      | 27                                 |                                     |
|           | Scenario-10 | -14595                          | 3503,51                      | 27                                 |                                     |
|           | Scenario-11 | -9001,25                        | 3520,73                      | 27                                 |                                     |
|           | Scenario-12 | -8251,25                        | 3555,76                      | 27                                 |                                     |
|           | Scenario-13 | -5345,75                        | 3587,05                      | 27                                 |                                     |
| Phase-4   | Scenario-14 | -6338,75                        | 3552,83                      | 27                                 |                                     |
|           | Scenario-15 | -3858,75                        | 3589,69                      | 27                                 |                                     |
|           | Scenario-16 | -14595                          | 3473,06                      | 27                                 |                                     |
|           | Scenario-17 | -14595                          | 3509,92                      | 27                                 |                                     |
|           | Scenario-18 | -8176,25                        | 3518,92                      | 27                                 |                                     |
|           | Scenario-19 | -7096,25                        | 3555,78                      | 27                                 |                                     |
|           | Scenario-20 | -5345                           | 3586,62                      | 27                                 |                                     |
| Case      |             | A                               | B                            | C                                  | D                                   |

| Objective |             | Maximum Credit Limit (-7.500 €) | Final Period Maximum NPV (€) | Maximum Project Duration (27 Days) | With the evaluation all A,B,C cases |
|-----------|-------------|---------------------------------|------------------------------|------------------------------------|-------------------------------------|
| Phase-5   | Base A, K-1 | -4298,75                        | 3568,75                      | 26                                 |                                     |
|           | Base A, K-2 | -4683,75                        | 3383,75                      | 26                                 |                                     |
|           | Base A, K-3 | -5383,75                        | 3123,75                      | 26                                 |                                     |
|           | A-1, Base K | -3193,75                        | 3763,5                       | 29                                 |                                     |
|           | A-1, K-1    | -3088,75                        | 3937,5                       | 31                                 |                                     |
|           | A-1, K-2    | -3753,75                        | 3343,75                      | 28                                 |                                     |
|           | A-1, K-3    | -4558,75                        | 3083,75                      | 28                                 |                                     |
|           | A-2, Base K | -4993,75                        | 3583,75                      | 26                                 |                                     |
|           | A-2, K-1    | 4993,75                         | 3193,75                      | 28                                 |                                     |
|           | A-2, K-2    | -5233,75                        | 3318,75                      | 25                                 |                                     |
|           | A-2, K-3    | 5713,75                         | 3058,75                      | 25                                 |                                     |
|           | A-3, Base K | -5583,75                        | 3573,75                      | 25                                 |                                     |
|           | A-3, K-1    | 5483,75                         | 3608,75                      | 27                                 |                                     |
|           | A-3, K-2    | -5903,75                        | 3308,75                      | 24                                 |                                     |
| A-3, K-3  | -6363,75    | 3048,75                         | 24                           |                                    |                                     |

According to the results of this study, Phase-1 and Phase-3 were compared to Phase-2 and Phase-4 that use the resource-constrained scenarios and Phase-2 and Phase-4 forced the credit limits less than Phase-1 and Phase-3, however Phase-2 and Phase-4 composed less net present value in equal time periods. When approximating the resource costs to the resource utilization times during the planning phase, net present value increased. Net present value increased and credit limits less forced, when positive cash flows approached to the initial period.

### Acknowledgement

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**THE EFFECT OF SALES PROMOTIONS ON BRAND PREFERENCE:  
A CASE OF ALBANIAN GSM COMPANIES**

Yuksel KOKSAL\* & Oelda SPAHIU\*

**Abstract**

*Sales promotions have been growth since 1960 and today it has become one of the main factors in the marketing promotion mix. This method is increased in a huge number of companies around the world which are realizing the importance of promotional strategy. As a marketing tool, the primary objective of sales promotions is to create an immediate need by adding an extra incentive to buy the product. Furthermore the promotion strategies desire to transform people from general customer to loyal customer.*

*Albanian GSM companies rely on sales promotions in order to attract customers and motivate them to buy their products. Due to economic and climate conditions of the country, GSM companies usually disturb umbrellas and different products as sales promotions. The purpose of this study is to better understand how sales promotions are used in Albanian market and to analyze of the efficiency of promotion products on brand preference for GSM companies.*

**Keywords:** *Sales Promotions, Non-Monitored Sales Promotions, Product Preference*

**Introduction**

In today's competitive market structure, sales promotions are among main tools of marketing components. It is essential means for brands not only to reach new consumers but also in switching exist customers to loyal customers. The major purpose of sales promotions is influence consumers by sales activities and direct them toward to buy brand's products or services. Sales promotion refers to many kinds of incentives and techniques directed towards consumers and traders with the intention to produce immediate or short-term sales effects.

In Albanian market, there are 4 GSM companies. Two of them international company; Vodafone (England origin) AMC (Greece Cosmote companies' brand)

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and others (Eagle Mobile and Plus) established in Albania. GSM companies are very active in non-monitored sales promotions as well as monitored sales promotions. We are focused on non-monetary promotions, which mean that products will be given to the customer as gifts, not to be paid from them. Mainly promotional products, those are manufactured by companies, are pens, bags, umbrellas, big cafeteria umbrellas, free cards, heats, clocks, calendars, notebooks, cubs, lighter etc. In the moment of giving those gifts, the product is associated with a brochure, in order to distribute not only the product but also the information about the brand.

In Albanian streets, you can see GSM companies promotional products everywhere, especially in rainy times. Its efficiency was a mystery for marketers. Therefore we focused to that topic and intended to investigate its efficiency in Albanian market.

### Literature Review

Sales Promotion is defined as “*marketing activities usually specific to a time period, place or customer group, which encourage a direct response from consumer or marketing intermediaries, through the offer of additional benefits*” (Peattie and Peattie, 1994). Also it is known as short-term incentives to encourage the purchase or sale of product or a service (Kotler and Armstrong, 2012). The word of promotion is also used specifically to refer to a particular activity that is intended to promote the business, product or service. As a marketing tool, the primary objective of sales promotions is to create an immediate need by adding an extra incentive to buy the product (Rao, 2009).

Furthermore reviews of the short term price promotions have agreed on that sales promotions have dramatic up and down effect on sales results (Kendrick, 1998). On the other hand there has been considerable interest in the effect of sales promotion on different dimensions such as consumers’ price perceptions, brand choice, brand switching behavior, evaluation of brand equity, and effect on brand perception and so on. One of the purposes of a consumer promotion is to elicit a direct impact on the purchase behavior of the firm’s customers. Amongst the elements of marketing mix, sales promotions have long-term influence on brand equity (Manalel et al, 2007).

Sales promotions positively and negatively influence consumers through three different routes (Raghubir et.al, 2004);

- Changing the economic utility associated with a product purchase *-the economic route.*
- Influencing consumer’s beliefs about the brand or industry—*the informative route.*
- Affecting the feelings and emotions aroused in the consumer—*the affective route.*

Promotions are action orientated, particularly as they often tempt the buyer to buy or at least to try a product or services. These kinds of promotions often provide the final shove that moves a customer towards buying a particular product or services (Smith, 2001).

Sales promotions, premiums, incentives and motivation schemes are used for products and services in customer, business-to-business and industrial market. Even if there have been different instance classifications, there are three main promotion categories (Kotler and Armstrong, 2012, Teunter, 2002, Smith, 2001):

1. Consumer promotions (samples, coupons, cash refunds, cents-off deals, premiums, Point-Of-Purchase promotions).
2. Trade promotion (discounts, allowance, free goods, specialty advertising items such as, free pens, pencils, calendars etc.).
3. Business or Retailer promotions (contentions and trade shows, sales contests, rewarding customers, motivating sales people).

Consumer promotions are offered by manufacturers directly to consumers. Retailer promotions are offered by retailers to consumers. Trade promotions are offered by manufacturers to retailers or other trade entities (Teunter, 2002).

### **Promotional Products (Free Goods)**

Promotional products are used as gifts, prizes, or even awards. Basically, promotional products are designed and printed with the companies name or logo. This is done in order to enable the public to make recognition about the brand. The attractive merchandise of promotional products is created regard to the campaigns which are communication-based and marketing based events.

Promotional products help to set up relationship between brand and customers. It creates a positive effect and satisfaction on customer by products usefulness. The creation positive effect on customers is a big achievement in competitive market structure. The positive effect of promotional products provides unique competitive advantage to company.

Non-price promotions not only provide hedonic pleasure but also bring some computable economic savings to consumers (Liao, 2006). In addition, consumers like promotions. They provide utilitarian benefits such as monetary savings, increased quality (higher quality products become attainable), and convenience, as well as hedonistic benefits such as entertainment, exploration, and self-expression (Teunter, 2002).

Effective planning of the promotional elements of the marketing communication mix requires an appreciation of how the communication process works. This process is summarized in the following questions (Lancaster et al, 2003):

- Who says what?



- In what channel?
- To whom?
- And with what effect?

Companies must combine the different communication tools into a coordinated promotion mix. The appropriate use of sales promotion and the overall blend of different promotional tools are influenced by promotional mix strategy. Two broad promotion mix strategies to choose from are defined in literature as a push strategy and a pull strategy or a combination of both. In a push strategy, promotion is directed to channel members in order to push the offering to customers (Lindholm, 2008).

### **Methodology**

In this research, face-to-face survey method was used for data collection. 266 people participated in the survey from Tirana Albania. There were no restrictions of responders' educational, income and age levels.

The effect of sales promotions on brand preference was measured on 4 factors as follows; 'attitude toward promotions', 'monetary sales promotions', 'non-monetary sales promotions (free goods)' and 'brand preference' with '5' point Likert-type scale and 20 questions. '1' is indicating 'strongly disagree' and '5' indicating 'strongly agree'. The questionnaire also includes participants' demographic information. The data was collected in city centers and shopping malls. After collecting the surveys the data was coded and examined. 6 of the questionnaires were eliminated and 260 questionnaires analyzed. We used SPSS 18.0 to conduct exploratory factor analyses (EFA) to obtain the assumed factor structure.

### **Data Analyses and Findings**

Firstly, we examined sample characteristics, then reliability of the data by Cronbach's alfa value and exploratory factor analyses results. The results of data sample characteristics are shown in table 1.

Table 1. Sample Characteristics

| Sample Characteristics       | %    |                                |      |
|------------------------------|------|--------------------------------|------|
| <b>Gender:</b> Male; 124     | 47.7 | <b>Marital Status:</b>         |      |
| Female; 136                  | 52.3 | Single; 68                     |      |
| 26.2                         |      | Married; 36                    |      |
| 13.8                         |      |                                |      |
| <b>Age:</b> 18 or younger; 8 | 3.1  | Married 1 child; 60            |      |
| 23.1                         |      |                                |      |
| 19-30; 82                    | 31.5 | Married 2 children; 54         | 20.8 |
| 31-40; 98                    | 37.7 | Married 3 children or more; 42 |      |
| 16.2                         |      |                                |      |
| 41-50; 54                    | 20.8 |                                |      |
| 51 and older; 18             | 6.9  |                                |      |
| <b>Education:</b>            |      | <b>Mounty Income</b>           |      |
| Less than high school; 21    | 8.1  | 50.000 Leke or less; 199       |      |
| 76.5                         |      |                                |      |
| High school&College; 93      | 35.8 | 50.001-100.000 Leke; 49        |      |
| 18.8                         |      |                                |      |
| Bachelor; 92                 | 35.4 | 100.001-200.000 Leke; 11       |      |
| 4.2                          |      |                                |      |
| Post Graduated; 54           | 20.8 | 200.001 Leke or more; 1        |      |
| 0.4                          |      |                                |      |

Reliability analyzes of the whole data conducted by Cronbach  $\alpha$  method obtained a 0.830 result. The exploratory factor analyses conducted on four main factor and 20 factor items and results were found out by Principal Component Analysis method. Meanwhile the Varimax method was adapted with Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. The results proved reliability of analysis.

**KMO and Bartlett's Test**

|  |                    |          |
|--|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |                    | .859     |
| Bartlett's Test of Sphericity                    | Approx. Chi-Square | 2126.370 |
|  | Df                 | 171      |
|  | Sig.               | .000     |

**Table 2: (EFA) Principle Component Analysis Results**

| <b>A: Attitude</b><br>toward sales<br>promotions | <b>M: Monetary</b><br>Sales Promotions | <b>N: Non-</b><br>Monetary<br>Sales promotions | <b>B: Brand</b><br>Preference |
|--|--|--|-------------------------------|
| A3   | M3                                     | N2   | B3                            |
| A2   | M2                                     | N1   | B4                            |
| A1   | M1                                     | N4   | B5                            |
| A4   | A6                                     |  | B2                            |
| A5   | M4                                     |  | N3                            |
|  |  |  | B1                            |
| <b>% 14.28</b>                                   | <b>% 13.14</b>                         | <b>% 8.25</b>                                  | <b>% 24.73</b>                |

As a result of the Principal Component Analysis, we have 4 components which have greater than one as an eigen value. At total 60.41 % of variance is explained by these 4 components, B (brand preference) explained 24.73 % of variance alone, 14.28 % of variance is explained by A (attitude), 13.14 explained by M (monetary sales promotions), and 8.25 is explained by N (non-monetary sales promotions), respectively.

After examining the components it is seen that the variables (questions in the survey) which were in the same factor group before the principal component analysis (PCA), are almost in the same group after the PCA except A6 and N3 items. A6 is grouped under the M (monetary sales promotions) and N3 is grouped under the B (brand preference) component. Normally A factor 6, N factor 5, M factor 4 and B factor had 5 items. Due to that reasons brand preference (B) factor has been 6 and monetary sales promotions (M) factor has been 5 items. In this case N3 item's name will be change as B6 and A6 item's name will be change as M5 in the 'factor loading table'. N5 item has been removed from the scale because of its

incompliance to grouping. Component factors and its item loadings are shown on table 3.

Table 3: Factor Loadings of EFA

| Factors and underlying items<br>Loading  | Item |
|--|------|
| <b>A3-</b> Receiving a promotional deal with a product purchase makes me<br>0.722<br>Feel like I am a good shopper     |      |
| <b>A2-</b> When I purchase a brand that is offering a special promotion,<br>0.676<br>I feel that it is a good buy      |      |
| <b>A1-</b> I am every time positive to promotional products<br>0.646   |      |
| <b>A4-</b> When I decide to buy something, I always look for promotion that<br>0.602<br>brands offer to the customer   |      |
| <b>A5-</b> Compared to other people, I am very likely to purchase brands that<br>0.585<br>come with promotional offers |      |
| <b>M3-</b> I have a positive attitude toward Cents-off deals<br>0.752  |      |
| <b>M2-</b> Beyond the money I save, buying brands on deal makes me happy<br>0.739                                      |      |
| <b>M1-</b> I enjoy buying a brand that is “on deal”<br>0.645   |      |
| <b>M5-</b> I feel like a successful shopper when I purchase products that<br>0.561<br>offers special promotions        |      |

**M4-** When I take advantage of a ‘buy-one-get-one-free’ offer, I feel good  
0.531

**N2-** Having a free gift from a brand gives me a sense of joy  
0.800

**N1-** I love brands’ special promotional products  
0.515

**N4-** I like brands that use more gifts than other competitors  
0.433

**B3-** A brand would be my first choice because of having its promotions.  
0.839

**B4-** I would prefer brand that provides promotional advantages forever  
0.793

**B5-** I choice brands in my shopping as their promotional applications  
0.767

**B2-** Free promotional products impress my mind regarding brand preferences  
0.766

**B6-** In my life I use some brands’ promotional products.  
0.710

**B1-** I would prefer brand if I had its free gift  
0.627

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Extraction Method: Principal Component Analysis.  
Rotation Method: Varimax with Kaiser Normalization.

Also, we asked to participants some questions regarding to have free gift from their own GSM companies. For example, the question ‘Did you have any free gift from your current GSM Company?’ answered positively by 66.5 percent of participants (173 people). Just 33.5 percent participants didn’t have any promotional product from their own GSM companies (87 people). Another important question, that shows importance of promotional activities, was that ‘If yes having free gifts from your GSM company, did it impact your decision positively?’. 78.6 percent of participants accepted positive role of free gifts to choice their GSM service provider company (158 people). 21.4 percent of participants rejected positive role of promotional products to choice GSM company (43 people).

Moreover, we examined meaningful relations between ‘promotional products’ effect on choosing’ and participants; education, marital status, income levels and ages thorough chi-square method. We found out a meaningful relationship between ‘promotional products’ and these variables. We can write the hypotheses on promotional products and related variables, as follows;

**H1:** There is a significant relationship between promotional products and education level  
**H2:** There is a significant relationship between promotional products and marital status

**H3:** There is a significant relationship between promotional products and income level

**H4:** There is a significant relationship between promotional products and age.

**Table 4. Hypotheses Significance & Decision**

| <b>Variables (Hypothesis)</b>                       | <b>Significance</b> | <b>Decisions</b> |
|---|---------------------|------------------|
| <b>H1:</b> promotional products and education level | 0.373               | <b>Rejected</b>  |
| <b>H2:</b> promotional products and marital status  | 0.831               | <b>Rejected</b>  |
| <b>H3:</b> promotional products and income level    | 0.013               | <b>Accepted</b>  |
| <b>H4:</b> promotional products and age             | 0.075               | <b>Rejected</b>  |

H1, H2 and H4 hypotheses’ significance levels are  $p \leq 0.05$ . Due to their p values, these hypotheses are rejected. But H3 hypothesis is accepted. After examining the results we can say that the willing to promotional products is increasing accordingly to less and middle income level. For example while % 77.9 of 50.000 leke or less income level participants and % 88.4 of 50.001-100.000 leke income level participants accepted positive role of free gifts to choice their GSM service provider, the proportion for 100.001-200.000 leke income category was just % 37.5.

**Conclusion**

Sales promotions have important role for marketing activities and promotion mix. Monetary or non-monetary sales promotions are very efficient on Albanian consumer regardless of age, educational level and marital status. For instance, in this study 78.6 percent of participants accepted positive role of non-monetary (free gifts) promotions to choice their GSM service provider company. Consequently, marketing managers should be cautious about combining monetary and non-monetary sales promotions on their marketing campaigns. Finally, findings imply that managers should pay attention to find out right sales promotion activities and harmonize them to attract consumers toward their brand.

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## ENERGY FROM CAUCASUS TO BALKANS

A.M GASHIMOV\* & Ahmet NAYIR\*

### Abstract

*Energy is the most important element for people to continue their lives, to run their businesses, to operate their vehicles, and to grow their countries. Balkan countries gained their independence not so long ago. The infrastructure in these countries including energy transportation and power plants are not new and they need to be renewed with cutting edge new technologies. Balkan countries such as Albania, Bulgaria, Bosnia & Herzegovina, Croatia, Greece, Macedonia, Romania, Montenegro, and Serbia are not energy-rich countries in terms of energy resources and power generation technologies. On the other hand, Balkan countries are on the passage of energy corridor from energy rich Caspian and middle- east countries to west European countries. This advantage brings opportunities to built low- cost and reliable energy plants. As a result, the medium will be more attractive for new investments to come as long as the countries properly utilize Energy Transmission Lines (ETP).*

**Keywords:** *Balkan Countries, energy, Energy Transmission Lines*

### Introduction

Energy is the most needed substance for humans to meet their requirements and lead a high standard life style. Being one of the important dynamics of countries` socio- economic development, “energy” plays an important role for the countries with scarce natural resources; these countries import majority of their needed energy from abroad. The fair transmission as well as the internal consumption of energy throughout the global market is vital. European Union (EU) considers bilateral cooperation with Balkan countries because of their geographic positions as a gateway to the main energy basis in south- east countries. Having secured relations with these countries means that sustainable energy flow to EU countries will be established.

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Balkan countries won their independence not so long ago. The infrastructure in these countries including energy transportation and power plants is not new and needs to be renewed with cutting edge new technologies. The region had wars, troubles, and economic crises in the past. The countries have shown economic growth after their independence especially after the support of EU. The countries have historical and cultural relations with Turkey; similarly the economic relations have been steadily increasing between each other [1].

All in all, it can be suggested that statistical data of the 2000s be taken into account in evaluating the energy consumption of the Balkan countries [2]. According to the obtained statistical data, recent energy consumption of the Balkan countries has been increased to 10 quadrillion of British Temperature Unit (BTU) on average. Also, the energy consumption of 2000-2004 is 8 quadrillion BTU; it rises to 10 quadrillion BTU after 2006; it is reported that energy consumption of the Balkans has increased slightly below the global average.

**Table 1. Total Energy Consumptions by Balkan Countries (Quadrillion BTU)**

|            | 2000        | 2001        | 2002        | 2003        | 2004        | 2005        | 2006        | 2007        | 2008        | 2009        |
|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Albania    | 0,096<br>19 | 0,091<br>6  | 0,095<br>16 | 0,114<br>49 | 0,116<br>51 | 0,120<br>92 | 0,118<br>52 | 0,1031<br>9 | 0,109<br>63 | 0,124<br>63 |
| BIH        | 0,223<br>58 | 0,221<br>12 | 0,231<br>6  | 0,227<br>36 | 0,253<br>38 | 0,272<br>17 | 0,283<br>8  | 0,2758<br>3 | 0,297<br>11 | 0,303<br>8  |
| Bulgaria   | 0,867<br>72 | 0,904<br>17 | 0,874<br>59 | 0,886<br>54 | 0,874<br>73 | 0,914<br>86 | 0,936<br>61 | 0,8388<br>8 | 0,814<br>78 | 0,745<br>93 |
| Croatia    | 0,375<br>6  | 0,384<br>11 | 0,373<br>78 | 0,393<br>11 | 0,408<br>16 | 0,404<br>18 | 0,415<br>22 | 0,3959<br>6 | 0,406<br>71 | 0,399<br>14 |
| Greece     | 1,337<br>68 | 1,354<br>91 | 1,359<br>23 | 1,436<br>84 | 1,426<br>52 | 1,434<br>61 | 1,477<br>76 | 1,4988<br>2 | 1,469<br>76 | 1,413<br>46 |
| Macedonia  | 0,115<br>05 | 0,106<br>37 | 0,106<br>6  | 0,117<br>28 | 0,119<br>39 | 0,122<br>09 | 0,120<br>84 | 0,1196<br>4 | 0,119<br>76 | 0,117<br>94 |
| Montenegro | --          | --          | --          | --          | --          | --          | 0,034<br>79 | 0,0358      | 0,036<br>25 | 0,041<br>48 |
| Romania    | 1,586<br>11 | 1,715<br>49 | 1,683<br>69 | 1,630<br>78 | 1,689<br>34 | 1,711<br>26 | 1,721<br>53 | 1,7054<br>9 | 1,681<br>85 | 1,454<br>31 |
| Serbia     | --          | --          | --          | --          | --          | --          | 0,740<br>51 | 0,7278      | 0,704<br>93 | 0,707<br>2  |
| Slovenia   | 0,292<br>79 | 0,298<br>91 | 0,301<br>99 | 0,300<br>92 | 0,314<br>11 | 0,317<br>82 | 0,317<br>55 | 0,3142<br>2 | 0,337<br>19 | 0,327<br>21 |
| Turkey     | 3,162<br>62 | 2,893<br>67 | 3,145<br>8  | 3,317<br>22 | 3,511<br>86 | 3,734<br>18 | 4,070<br>64 | 4,3921<br>1 | 4,289<br>65 | 4,038<br>3  |

|              |             |             |             |             |       |             |              |              |              |            |
|--------------|-------------|-------------|-------------|-------------|-------|-------------|--------------|--------------|--------------|------------|
| TOTAL AMOUNT | 8,057<br>34 | 7,970<br>35 | 8,172<br>44 | 8,424<br>54 | 8,714 | 9,032<br>09 | 10,23<br>777 | 10,407<br>74 | 10,26<br>762 | 9,673<br>4 |
|--------------|-------------|-------------|-------------|-------------|-------|-------------|--------------|--------------|--------------|------------|

Source: <http://eia.gov> (international energy statistics, Online on 12 September 2012)

### Production/Consumption Balance In The Balkan Countries

As shown in Figure 1, When energy balance of the Balkan Countries were analyzed, it is understood that they can only produce 45.2% of the energy that they consume, which means that they are totally depend on foreign resources to compensate for the 54.8% energy shortfall. It is necessary to stress out this significant overall evaluation, however it is not enough, as energy dependency of the Balkan countries were analyzed, it is observed that it varies between 70% and 30%. In terms of energy supplies, Greece is dependent on foreign resources to make up for its energy shortfall of 71.4%; Turkey 69.5%, Croatia 55.4%, Slovenia 52.3%, Albania 48.5%, Serbia 33.8%, Romania 21.7% and Bosnia-Herzegovina 18.7%. The dependency of Turkey and Greece on foreign resources by approximately 70% is a significant issue since energy consumption of these two countries is almost equal to the amount the rest of the countries consume.

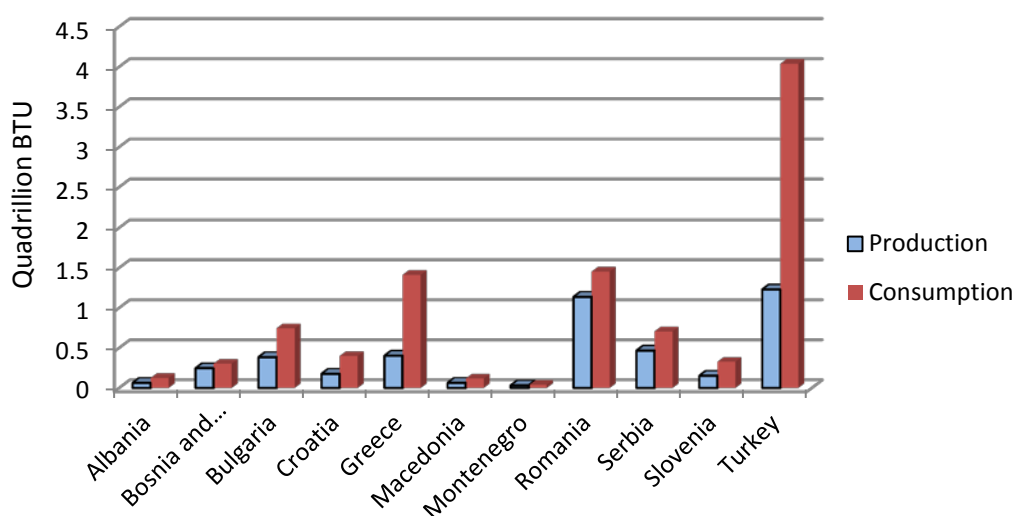


Figure:1- Production/Consumption Balance by Balkan Countries (2009)

When total energy consumption of the countries is reckoned, it is seen that Turkey stands in the first place; thanks to the fact that its population is higher than the others. However, energy consumption per capita should be taken into consideration to better evaluate the energy consumption figures of a country. When considered from this perspective, Slovenia stands atop with its 3417 kgoe per capita; Greece is the second with 2609 kgoe, and Bulgaria is the third country with an energy consumption of 2305 kgoe per capita. Energy consumption of Serbia and Croatia is higher than the average of the Balkan countries. Albania is at the bottom of the list with 538 kgoe per capita. Turkey remains above Albania, Montenegro and Macedonia with an energy consumption of 1359 kgoe per capita, which is below the average. Even Romania, as the holder of highest oil reserves in the Balkans, stays below the average.

When energy sources are considered one by one, it can be concluded that majority of Balkan countries are self-sufficient in terms of coal production/consumption balance. The coal production rate in the Balkan countries is 87.9% of the total consumption; it is 52.4% in Albania and 72.5% in Turkey, which comprise the lowest values in comparison with the average. The capability of Bulgaria, Macedonia, Romania, Serbia and Slovenia to meet the consumption need with domestic production stays around the average. The countries whose coal production meets the consumption or whose productions more than their consumption are Bosnia-Herzegovina, Greece and Monte Negro. Croatia is the only country in the region dependent on its own sourcing to meet its need for coal.

According to Figure 2, considering the oil production/consumption balance, the average is seen to be very low (13.4%), and the percentages are either zero or almost zero in most countries except Romania. Even in Romania, the largest amount of oil is pumped out among the Balkan Countries, oil production meets only 48.1% of the total consumption. Albania is the second producer with a capacity to meet 40.6% of the consumption with its own means. The ratios are 22.9% for Croatia, 17.8% for Serbia, and 0% to 3% for the others. The overall evaluation reveals that the Balkan countries are highly dependent on foreign oil resources which account for 86.6%.

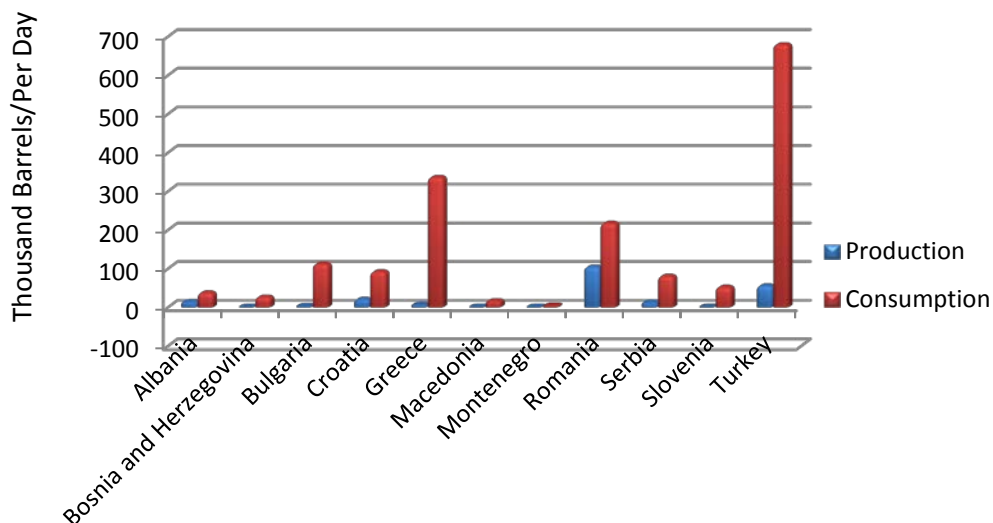


Figure:2- Oil Production and Consumption by Balkan Countries (2009)

Figures on Balkan countries' capability to produce natural gas are quite similar to those concerning oil production. Average production is 21.5%. While Romania meets 82.3% of the consumption with its domestic production, this ratio is 66.7% in Croatia and Albania. Serbia has the highest ratio among the remaining countries with 19%. Although the other countries produce some amount of natural gas, the available rates are mostly stays below 2%. Bosnia-Herzegovina, Macedonia and Montenegro have no natural gas production.

When an overall evaluation is conducted in the energy resources scale, Balkan countries' dependency on foreign resources is 12.1% for coal, 86.6% for oil and 78.5% for natural gas, which shows that they are heavily dependent on foreign countries in terms of energy generation. It can be suggested that probable problems likely to range from international affairs to economic issues. Continuous, reliable and economic procurement of the needed energy have negative effects on the development process of the Balkan countries.

### Pipeline Projects

The primary target in the energy policy is to provide the security of energy supplies, safety of transportation and to ensure price stability. In addition, it is aimed to decrease the cost of the required energy, and to deliver demanded quantity and quality to the markets[3,4,5,6].

As being in the middle of the Caucasus, the Middle East and the Balkans, Turkey acts such a natural bridge between Europe and other importers. Because of having

historical, cultural and economic ties to the regional countries, its geographical location, internal sources and growing population, Turkey is a significant energy importer and has a strategic importance in the region.

Providing the safety of energy supply in the region, EU has taken important steps to create assistance programs based on economy domain stability and energy security in the Caspian region: TACIS (Technical Aid to the Commonwealth of Independent States), TRACECA (Transport Corridor Europe- Caucasus- Asia) and INOGATE (Interstate Oil and Gas Transport to Europe).

The EU is the most intensive energy- consuming part of the world, in turn, due to insufficiency of its own sources, the EU wants to meet energy needs by using the advantage of geographical proximity to Euroasian countries that have a significant portion of energy sources in the world.

The EU wants to create secure transport corridors where the pipelines pass through. Although, the EU supported the projects TRACECA, TACIS, INOGATE and the other projects which are also supported by the United States, when compared to other global forces, the EU is far to create a strong policy on the region these days.

The only way to get the Caspian and Central Asian energy resources for Europe is through Turkey and the Balkan countries which proves the strategic importance of these countries, and also, in terms of opening up to the Western markets, it has a great importance for the Caspian region countries. Turkey is a strategic transit country and the Balkan countries are becoming energy markets. Therefore, it is very important for Turkey and the Balkans to develop wide range of energy transportation projects in terms of providing diverse import of oil and natural gas resources, ensuring safety and continuity. Hence, to reduce the dependence on Russia partially, supplying natural gas from the Middle East and Central Asia through Turkey (as a more secure country) and allowing the Balkans to serve the EU's policy of energy supply are crucial. Therefore, this energy corridor has a extremely important place for the diversity principle of the EU. Especially, East European and Balkan countries are much more dependent on Russia than the other EU member countries. From this perspective, the EU intends to implement an important and strategic decision in the policy of energy safety with Nabucco gas pipeline.

### **Nabucco**

- With the Nabucco project signed on 13th of July, 2009, 3,300 km pipeline planned from Turkey's eastern border through Bulgaria, Romania, Hungary, and into Austria. It brings 31 billion cubic meters (bcm) gas to Europe each year.

- This project is to ensure Europe's safety of energy supply through multiple pipelines and an important pillar of creating a single Eurasia energy market strategy.
- Due to entrepreneurial role of Turkey, the East- West Energy Corridor described as the 21st Century Silk Road has provided the delivery of the rich carbon-hydrogen resources of the Caspian Basin to the Western markets directly.
- Pipeline projects linking the Caucasus and Central Asia to Europe are main factors in terms of integration with the West.
- It is foreseen that secure and commercially profitable pipelines will provide a significant contribution to bring stability and prosperity in the region.



Figure 3. Overview of nabucco pipeline

### Baku Tbilisi Ceyhan

Baku-Tbilisi-Ceyhan (BTC) is one of the most important crude oil pipelines and began to carry oil since June 4, 2006.

- It transports crude oil from offshore oil fields in the Caspian Sea to the Turkish coast of the Mediterranean from where the crude is further shipped via tankers to European markets.
- It runs through Azerbaijan and Georgia to Turkey territory (At a length of 1,768km.)
- The pipeline has the capacity to transport one million barrels of crude oil.
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Figure 4. Overview of Baku-Tbilisi-Ceyhan (BTC)

### **Trans Adriatic Pipeline (TAP) Project:**

Trans Adriatic Pipeline project is proposed pipeline which will transport natural gas from Greece to Albania and further to Italy and Western Europe. It will be supplied from Caspian region, Shah Deniz field and will be transported till here through existing pipelines[7].

TAP is a 520 km pipeline from which 380 km will be covered in Albanian territory. It will be realized through a collaboration between 3 international energy consortiums EGL , Statoil and E.ON Ruhrgas.

TAP will be financed from safe shareholders and will not require subventions from the countries it will be passing.

- TAP will be able to transport 10 mmk gas more in a year, increasing its capacity to 20 mmk.
- It will require a cost of 1.5 milliard Euro.
- The governments of Italy, Greece and Albania confirmed their political support for the TAP project by signing a Memorandum of Understanding (MoU) on Thursday evening, 2012-09-27.



*Figure 5. Overview of Trans Adriatic Pipeline project*

## **Conclusion**

The provided statistical data analysis revealed that Balkan countries should make better and more use of domestic energy resources to avoid adverse effects of actual and probable fluctuations in the international energy market since they are highly dependent on foreign resources. Balkan countries possess available resources to avoid or minimize the negative effects of the fluctuations in the international energy market. Balkan countries, may operate as a bridging country to Caspian Region, which have a considerable number of energy resources. Therefore they will produce energy in large amounts in return Europe, has inadequate energy resources, will always be in need of huge amount of energy.

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## ENVIRONMENTAL PERFORMANCES OF BALKAN COUNTRIES AND TURKEY: A COMPARISON THROUGH THE ENVIRONMENTAL PERFORMANCE INDEX

Esra Nemli ÇALISKAN\*

### Abstract

*Sustainable development is a multidimensional concept relating to both environmental and social issues. The concept of sustainable development is the result of the growing awareness of the global links between mounting environmental problems, socio-economic issues to do with poverty and inequality and concerns about a healthy future for humanity. There are various indices worldwide focusing on assessing the environmental dimension of sustainability. These indices try to measure and compare the environmental performances of world countries. Since the 1992 Rio Earth Summit, governments are trying to demonstrate improved environmental performance through quantitative metrics across a range of pollution control and natural resource management challenges.*

*Environmental performance index (EPI) compiles environmental data of almost all of the world countries, therefore it is a useful tool to make cross-country comparisons. The purpose of this paper, after a literature review on the country environmental performance and its indicators, is to compare the environmental performances of Balkan countries and Turkey through their EPI scores. Findings will contribute future environmental policy decisions of these countries.*

**Keywords:** *Sustainable development, Enviromental Performance Index, Balkan Countries, Turkey*

### Introduction

Many notions now incorporated within the concept of sustainable development can be traced back through the 1980 World Conservation Strategy and the 1972 Stockholm Conference on the Human Environment to the early days of the international conservation movement. (Board on Sustainable Development, 1999) Today's understanding of the links between environment and development,

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however, stems from the 1987 Brundtland report, *Our Common Future*. The classic definition of sustainable development, ‘meeting the needs of present without compromising the ability of future generations to meet their needs’, was produced by the Brundtland report (WCED, 1987). The idea of sustainable development was given additional impetus at the 1992 United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro. It has rapidly spread and is now a central theme in the missions of countless international organizations and national institutions.

In the extensive discussion and use of the concept since “*Our Common Future*”, there has been a growing recognition of three essential aspects of sustainable development (Harris, Wise, Gallagher, 2001)

- **Economic** - An economically sustainable system must be able to produce goods and services on a continuing basis, to maintain manageable levels of government and external debt, and to avoid extreme sectoral imbalances that damage agricultural or industrial production.
- **Environmental** - An environmentally sustainable system must maintain a stable resource base, avoiding overexploitation of renewable resource systems or environmental sink functions and depleting nonrenewable resources only to the extent that investment is made in adequate substitutes. This includes maintenance of biodiversity, atmospheric stability, and other ecosystem functions not ordinarily classed as economic resources.
- **Social** - A socially sustainable system must achieve fairness in distribution and opportunity, adequate provision of social services, including health and education, gender equity, and political accountability and participation.

In broad terms, the concept of sustainable development is an attempt to combine growing concerns about a range of environmental issues with socio-economic issues. This paper focuses on the environmental dimension of sustainable development. After a literature review on the country environmental performance and its indicators, environmental performances of Balkan countries and Turkey will be compared through their EPI main scores and sub-scores.

### **National Environmental Performance and Assessment**

The environmental crises currently facing the planet are the result of excessive human consumption of natural resources. There is considerable evidence that elevated degradation and loss of habitats and species are compromising ecosystem services that sustain the quality of life for billions of people. (Bradshaw, Giam, Sodhi, 2010) Environmental performance, including the control of pollution and stewardship of natural resources is of growing concern in both advanced and developing economies. Environmental quality plays a major role in quality of life,

with a direct impact on the health and safety of a nation's citizens. (Esty, Porter, 2001)

Since environmental problems rose to prominence in the last third of the twentieth century, they have been a major area of policy for national governments. The assessment of the environmental performance is very important in both developed and developing countries.(Cracolici, Cuffaro, Nijkamp, 2010) A large body of research has explored the explanations for different levels of environmental policy performance among countries. Given the importance of environmental issues and the critical role of the nation-state in addressing them, variations in levels of performance among countries warrant careful study. (Fiorino, 2011)

Continued environmental degradation demands that countries needing solutions be identified urgently so that they can be assisted in environmental conservation and restoration. Identifying those nations whose policies have managed successfully to reduce environmental degradation should be highlighted to motivate other nations to achieve better environmental outcomes for their own long-term prosperity. No single set of measures can adequately describe the multidimensional nature of the environment or fully capture transboundary effects and pollution consequences that accumulate over time.

In the environmental field, a number of initiatives have been launched to develop metrics or indicators of environmental performance. (Esty, Porter, 2005) The past few years have seen an increase in cross-sectional data sets that provide measures of various aspects of environmental management and environmental quality in different countries. International bodies such as the United Nations (UN), the World Bank (WB), the Organisation for Economic Co-operation and Development (OECD) and the Food and Agricultural Organization (FAO) regularly produce and update collections of cross-national environmental statistics. (Duit, Hall, Mikusinski, Angelstam, 2009) Other actors then compile and sometimes transform these data to provide country-level estimates of environmental performance, ecological footprints, and environmental vulnerability. Well-known international "sustainability benchmarking" data collections such as the State of the World reports by the Worldwatch Institute, the Ecological Footprint, and the Environmental Performance Index (EPI) data sets compiled by the World Economic Forum, Yale University, and the Center for International Earth Science Information Network of Columbia University are examples of this approach. The underlying rationale for these indicators is to rank countries according to how far off from a state of hypothetical sustainability they at present are.

### **Environmental Performance Index and Balkan Countries**

Twenty years after the landmark Rio Earth Summit, governments still struggle to demonstrate improved environmental performance through quantitative metrics across a range of pollution control and natural resource management challenges.

With budgetary constraints an issue around the world, governments face increasing pressure to show tangible results from their environmental investments. (EPI, Full Report, 2012)

The toolkit used in this study to compare the environmental performances of Balkan countries is EPI. The Environmental Performance Index (EPI) is a strongly performance-oriented composite index calculated by Yale Center for Environmental Law and Policy of Yale University and Center for International Earth Science Information Network of Columbia University. The Environmental Performance Index (EPI) builds on the Pilot Environmental Performance Index that was published in 2002 and is designed to be a powerful supplement to the environmental targets set forth in the U.N. Millennium Development Goals. The EPI measures progress toward a set of targets of desirable environmental outcomes, taking into account a country's current policies. It is anticipated to be of particular value to decision makers because of its strict input-output framework and short- to medium-term time horizon, which promotes accountability and performance evaluation at the policy level. (Samimi, Ahmadpour, 2011)

The EPI is a measure of performance that identifies broadly accepted targets for a set of indicators and measures how close each country comes to meeting these goals. By means of this distance-to-target approach, the EPI provides policy-relevant benchmarks for pollution control and natural resource management. The issue-by-issue rankings facilitate cross-country comparisons both globally and within relevant peer groups. (World Bank 2008)

As can be seen from Table 1, the 2012 EPI ranks 132 countries on 22 performance indicators in the following ten policy categories: Air Pollution (effects on human health), Water (effects on human health), Environmental Burden of Disease, Air Pollution (ecosystem effects), Water Resources (ecosystem effects) Biodiversity and Habitat, Forestry, Fisheries, Agriculture and Climate Change. These policy categories track performance and progress on two broad policy objectives: Environmental Health and Ecosystem Vitality. (EPI, 2012)

**Table 1: Environmental Performance Index 2012**

|  | <b>Objectives</b>                 | <b>Policy Categories</b>                      | <b>Indicators</b>                 |
|--|-----------------------------------|---|-----------------------------------|
|  | <b>Environmental Health (30%)</b> | Air pollution (effects on human health) (15%) | Indoor air pollution (3.75 %)     |
|  |                                   |   | Particulate matter (3.75 %)       |
|  |                                   | Water (effects on human health) (7.5%)        | Access to drinking water (3.75 %) |
|  |                                   |   | Access to sanitation (3.75 %)     |
|  |                                   | Environmental burden of disease               | Child mortality (16%)             |

|   |                                 |   |  |
|---|---------------------------------|---|--|
| <b>ENVIRONMENTAL PERFORMANCE INDEX 2012</b> |                                 | (7.5%)  |  |
|   | <b>Ecosystem Vitality (70%)</b> | Air pollution (effects on ecosystem) (8.75 %) | Sulfur dioxide emissions per capita (4.38 %)     |
|   |                                 |   | Sulfur dioxide emissions per GDP (4.38 %)        |
|   |                                 | Water (effects on ecosystem) (8.75 %)         | Change in water quantity (8.75 %)                |
|   |                                 | Biodiversity and habitat (17.5%)              | Biome protection (8.75 %)                        |
|   |                                 |   | Marine protection (4.38 %)                       |
|   |                                 |   | Critical habitat protection (4.38 %)             |
|   |                                 | Forests (5.83%)                               | Forest loss (1.94%)                              |
|   |                                 |   | Forest cover change (1.94%)                      |
|   |                                 |   | Growing stock change (1.94%)                     |
|   |                                 | Fisheries (5.83%)                             | Coastal shelf fishing pressure (2.92 %)          |
|   |                                 |   | Fish stocks overexploited (2.92 %)               |
|   |                                 | Agriculture (5.83%)                           | Agricultural subsidies (3.89%)                   |
|   |                                 |   | Pesticide regulation (1.94%)                     |
|   |                                 | Climate change (17.5%)                        | CO2 emissions per capita (6.13%)                 |
|   |                                 |   | CO2 emissions per GDP (6.13%)                    |
|   |                                 |   | CO2 emissions per electricity generation (2.63%) |
|   |                                 |   | Renewable electricity (2.63%)                    |

**Source:** Emerson, J.W., A. Hsu, M.A. Levy, A. de Sherbinin, V. Mara, D.C. Esty, and M. Jaiteh. 2012. *2012 Environmental Performance Index and Pilot Trend*

*Environmental Performance Index*. New Haven: Yale Center for Environmental Law and Policy.

**Table 2 below ranks the top 10 and the bottom 10 countries according to their EPI scores. The Trend EPI (3<sup>rd</sup> column) ranks countries on the change in their environmental performance over the last decade. As a complement to the EPI, the Trend EPI shows who is improving and who is declining over time.**

Table 2: Top and Lowest Ten Performers in 2012 EPI

| Top Ten Performers |                |                | Lowest Ten Performers |                      |                |
|--------------------|----------------|----------------|-----------------------|----------------------|----------------|
| EPI Rank           | Country        | Trend EPI Rank | EPI Rank              | Country              | Trend EPI Rank |
| 1                  | Switzerland    | 89             | 123                   | Libya                | 61             |
| 2                  | Latvia         | 1              | 124                   | Bosnia & Herzegovina | 129            |
| 3                  | Norway         | 84             | 125                   | India                | 95             |
| 4                  | Luxembourg     | 106            | 126                   | Kuwait               | 131            |
| 5                  | Costa Rica     | 113            | 127                   | Yemen                | 29             |
| 6                  | France         | 19             | 128                   | South Africa         | 124            |
| 7                  | Austria        | 71             | 129                   | Kazakhstan           | 126            |
| 8                  | Italy          | 12             | 130                   | Uzbekistan           | 69             |
| 9                  | United Kingdom | 20             | 131                   | Turkmenistan         | 123            |
| 9                  | Sweden         | 63             | 132                   | Iraq                 | 125            |

Source: EPI Website, 2012

As can be seen from Table 2, Switzerland (with an EPI score of 76.69) leads the world in addressing pollution control and natural resource management challenges. Latvia (70.37), Norway (69.92), Luxembourg (69.2), and Costa Rica (69.03) round out the top five positions in the 2012 EPI. These results show that it is possible for some middle-income countries, such as Latvia (per capita GDP \$12,938) and Costa Rica (per capita GDP \$10,238) to achieve impressive environmental outcomes. This

suggests that income alone is not a sole determinant of environmental performance – policy choices and good governance also matter. (EPI, 2012)

At the low end of the 2012 EPI rankings are South Africa (34.55), Kazakhstan (32.94), Uzbekistan (32.24), Turkmenistan (31.75), and Iraq (25.32). These countries are water scarce and face significant sustainability challenges.

The Balkans is an important geopolitical and cultural region of southeastern Europe. Relations with Balkan countries is a priority for Turkey from the perspectives of geographical location, economy and culture as well as historic and human links. Basic elements of Turkey’s policy towards the Balkans consist of developing good relations with the Balkan countries, with which Turkey has historic, cultural and humanitarian ties and enhancing the existing atmosphere of regional peace and stability. (TMFA, 2012)

Within the scope of this paper, we will focus on the environmental performances of Balkan countries. The countries which are focus of this paper are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Romania, Slovenia, Serbia and Turkey. Table 3 shows EPI scores, EPI ranks and trend EPI ranks of these countries.

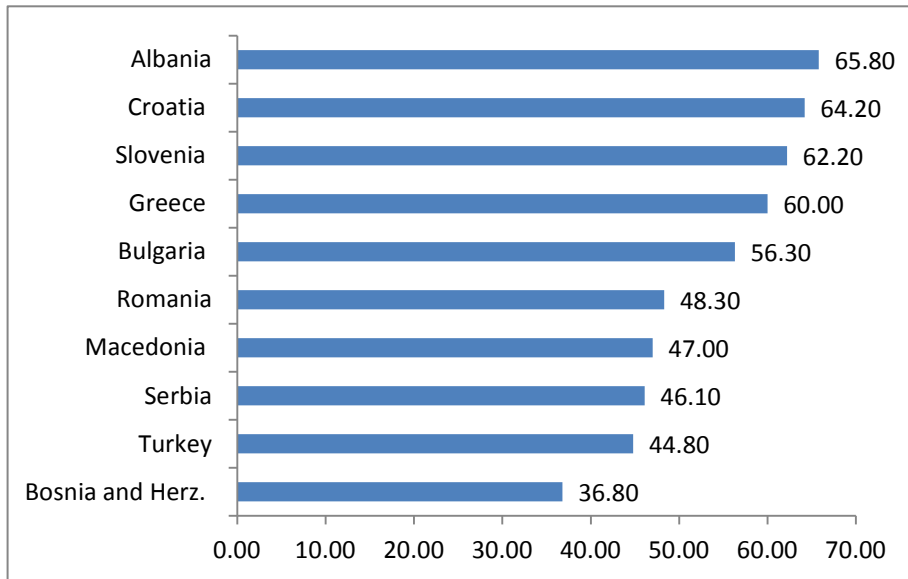
**Table 3: EPI Scores and Ranks of Balkan Countries**

| Country                | EPI Score | EPI Rank | Trend EPI Rank |
|------------------------|-----------|----------|----------------|
| Albania                | 65.8      | 15       | 4              |
| Bosnia and Herzegovina | 36.8      | 124      | 129            |
| Bulgaria               | 56.3      | 53       | 16             |
| Croatia                | 64.2      | 20       | 74             |
| Greece                 | 60        | 33       | 81             |
| Macedonia              | 47        | 97       | 75             |
| Romania                | 48.3      | 88       | 3              |
| Slovenia               | 62.2      | 28       | 51             |
| Serbia                 | 46.1      | 103      | 109            |
| Turkey                 | 44.8      | 109      | 17             |

Source: EPI 2012

Albania has the highest EPI score among Balkan countries, its EPI rank is also high. Moreover Albania ranks 4<sup>th</sup> in Trend EPI rankings. This means that the country is improving its environmental performance over the last decade. Unfortunately Turkey has the lowest EPI score and EPI ranking. Being 17<sup>th</sup> in trend EPI ranking sounds promising. Top and bottom performers of Balkan countries as to the EPI scores can be seen in Figure 1. Albania, Croatia and Slovenia are top three performers and Serbia, Turkey and Bosnia and Herzegovina are bottom three performers according to Figure 1.





*Figure 1: EPI 2012 Scores of Balkan Countries*

Source: EPI 2012

EPI scores of Balkan countries can be examined more in detail as to two different dimensions: environmental health and ecosystem vitality. Environmental health score comprises of 30% of the total EPI score of each country and ecosystem vitality score comprises of 70% of EPI score of each country. According to Figure 2, Greece, Bulgaria and Slovenia score high on environmental health dimension, on the other hand, Turkey, Bosnia and Herzegovina and Romania have the lowest scores.

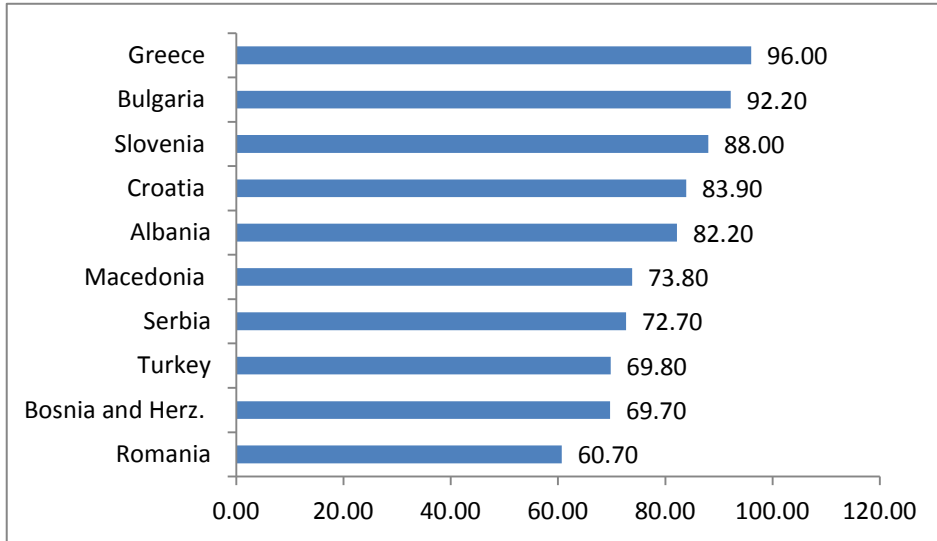


Figure 2: Environmental Health Score of Balkan Countries (30% of EPI Score)  
Source: EPI 2012

Table 4 shows the scores of Balkan countries on three sub-dimensions environmental health.

Table 4: The Sub-Scores of Balkan Countries on Environmental Health Dimension

| Country                | ENVIRONMENTAL HEALTH DIMENSION   |                                 |                                    |
|------------------------|----------------------------------|---------------------------------|------------------------------------|
|                        | Air<br>(Effects on Human Health) | Environmental Burden of Disease | Water<br>(Effects on Human Health) |
| Albania                | 100                              | 78.2                            | 72.3                               |
| Bosnia and Herzegovina | 55.2                             | 75.4                            | 72.7                               |
| Bulgaria               | 100.0                            | 84.3                            | 100.0                              |
| Croatia                | 65.1                             | 92.9                            | 84.6                               |
| Greece                 | 100                              | 98                              | 88.1                               |
| Macedonia              | 57.3                             | 82.4                            | 73.1                               |
| Romania                | 60.6                             | 77.5                            | 27                                 |
| Slovenia               | 67.8                             | 96.2                            | 92.1                               |
| Serbia                 | 57.7                             | 82.4                            | 68.3                               |
| Turkey                 | 64.8                             | 74.1                            | 66.1                               |

Source: EPI 2012

When we look at the ecosystem vitality dimension, Albania, Croatia and Slovenia score high on this dimension, on the other hand, Serbia, Turkey and Bosnia and Herzegovina have the lowest scores. (Figure 3)

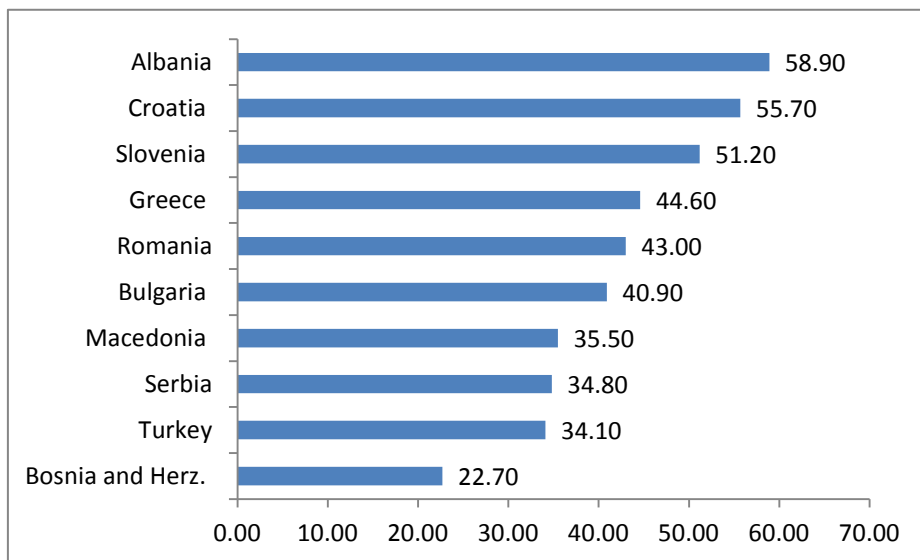


Figure 3: Environmental Vitality Score of Balkan Countries (70% of EPI Score)

Source: EPI 2012

Table 5 below shows the scores of Balkan countries on seven sub-dimensions of ecosystem vitality.

Table 5: The Sub-Scores of Balkan Countries on Ecosystem Vitality Dimension

| Ecosystem Vitality Dimension |             |      |                                |                |           |         |                 |
|------------------------------|-------------|------|--------------------------------|----------------|-----------|---------|-----------------|
| Country                      | Agriculture | Air  | Biodiversity Country & Habitat | Climate Change | Fisheries | Forests | Water Resources |
| Albania                      | 66.7        | 57.5 | 61.7                           | 85.8           | 17.4      | 58.3    | 23.2            |
| Bosnia and Herzegovina       | 0           | 6.7  | 2.9                            | 34.2           | 6.6       | 73.0    | 47.3            |
| Bulgaria                     | 60.1        | 0.0  | 57.2                           | 29.6           | 48        | 100.0   | 14.9            |
| Croatia                      | 58.1        | 39.6 | 74.5                           | 46.3           | 24.9      | 95.3    | 45.7            |
| Greece                       | 42.1        | 23.5 | 79.7                           | 30.1           | 31.9      | 85.4    | 7.9             |
| Macedonia                    | 44.3        | 20.4 | 28.2                           | 34.3           | -         | 98.1    | 19.8            |

|          |      |      |      |      |      |      |      |
|----------|------|------|------|------|------|------|------|
| Romania  | 51.6 | 21.4 | 45.3 | 41.8 | 39.7 | 93.2 | 25.7 |
| Slovenia | 46.0 | 37.3 | 76.9 | 35.2 | 8.1  | 98.1 | 46.6 |
| Serbia   | 68.2 | 0    | 35   | 20.1 | -    | 100  | 32.6 |
| Turkey   | 42.8 | 30.6 | 20.2 | 42.7 | 25.0 | 91.5 | 10.0 |

Source: EPI 2012

## Discussion

Sustainable development being one of the most important concepts on the world agenda is an attempt to combine growing concerns about a range of environmental issues with socio-economic issues. There are various indices worldwide focusing on assessing the environmental dimension of sustainability. These indices try to measure and compare the environmental performances of world countries. Environmental performance index (EPI) is one of them. It compiles environmental data of almost all of the world countries, facilitating cross-country comparisons.

The Balkans is a geopolitical and cultural region of southeastern Europe. There are close relationships between Balkan countries and Turkey. Since the Balkans are in the process of economic transformation, they need to be more cautious in order to keep the balance between the environment, economy and the society.

Within the scope of this paper, we focused on the environmental performances of Balkan countries and Turkey. These Balkan countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Romania, Slovenia and Serbia. EPI 2012 scores, ranks and trend EPI ranks of these countries were presented and reviewed in the paper. In general, Albania has high rankings on most of the dimensions. All of the Balkan countries and Turkey need to improve their national environmental performance for a more sustainable world.

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## URBAN AREAS AND SUSTAINABLE DEVELOPMENT

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### Abstract

*Sustainable development is a term that was first used before the public in a document "Our Common Future" prepared by a commission of The United Nations Environmental Programme. It envisages the aims and methods of development and industrialization being in harmony with the physical facilities of the Earth. Thus, preventing excessive extravagancy, it aims at a steady developmental process for the people of the world, and securing resources that will allow development in the world of the future generations. There are different definitions for "sustainable development". In terms of economic means, it can be defined as "the best management of scarce resources". It can also be interpreted as "maximizing the net benefits of our economic development". Another definition might be "using our resources without reducing the income of the future generations". Rapid increase in population and urbanization in this century has led to some imbalances in the ecosystem, which is composed of a system based on the interconnection between the human and nature. Rapid growth of urbanization and thus the negative developments taking place in the structure of urban population is one of the major causes of air pollution. The city has the nature of influencing the environment directly and negatively as a result of the increasing urban population. Especially, the urban population settlement on agricultural lands and the destruction of urban and fertile areas in terms of natural resources and so forth have led to the negative environmental developments.*

**Keywords:** *Sustainable development, urbanization, Our Common Future, Rapid increase in population*

### Urbanization

Urbanization which can be defined as the increase in city number and the people who live in, appears as the reason of environmental problems. Cities which gained speed with industrial revolution and previously in industrial countries and has later quickly developed in whole world, seem problematic areas as city.<sup>277</sup> As city

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277 Kemal Görmez, "Environmental Problems and Turkey," Broadened 2. Edition, Gazi Bureau Publishing House, Ankara-1997.

develops in demographic, physical and economical perspectives affects all environmental conditions.<sup>278</sup>

Rapid population growth and urbanization in which century we live, led some imbalances to appear in the system where human and nature relates namely in ecosystem. Production and distribution of nourishment ingredients which increasing urban population requires, rapid growth of transportation vehicles, negative effects on natural environment of industrialization and technological developments caused to gain current significance to various problems which summed under 'environmental problems'.<sup>279</sup>

As people living in cities increase and this increase especially in big cities transformed into population pile, urban problems not only harms to environment but also lead to social and political depressions. To solve urban population's accommodation, working, consumption problems meeting needs as health, education, culture, transportation, water, energy causes problem, since lack of sources problems couldn't be overcome. Cities has become low life quality places and extremely loaded to environment because of unsystematic settlement.<sup>280</sup>

Rapid urbanization and depending to it some negative developments where occur in the urban settlement, is one of the most significant reasons of air pollution. Among the factors which can be arranged under this group, the increase of urban population, gaining unsuitable character to topographic and meteorologic conditions of urban area usage has great importance.

As a result of these two sub-elements "being active; lack of green areas, heating systems" not being developed according to developing conditions, increase in transportation vehicles especially in number of motorized vehicle and insufficiencies in waste refining are the truly

leading elements to air pollution.<sup>281</sup> Right along with urbanization's having a few functions which naturally simplify human life there are also various problems which living together brings. These are with their general headlines: unsystematic construction and squattership, lack of infrastructure, noise, air pollution, traffic, solid wastes, supplying healthy drinking water, sewer system, transportation and etc. along with eminent problems some spiritual problems appear such as unjust income distribution, appearing of ordinariness in human life and etc.<sup>282</sup>

Along with negative effects of globalization on environment, the documents and arrangements which were prepared by international organizations as a result of

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278 Eyüp G. İsbir, "Urbanization and it's Problems," Developed 2. Edition, Ankara-1991.

279 Ruşen Keleş, "Urbanization Policy," İmge Bookhouse Press, 3. Edition, Ankara, 1996.

280 Ruşen Keleş, Can Hamamcı, "Ecology," İmge Bookhouse Press, Ankara-1997.

281 Kmal Görmez, "Çevre Sorunları ve Türkiye," Genişletilmiş 2. Baskı, Gazi Büro Yayınevi, Ankara-1997, s.18

282 İsmail Gökdayı, "The Future of Environment: Approaches and Policies," Foundation of Environment in Turkey Press, Ankara-1997.

globalization has got features that will minimize the damage which globalization give. In this context, ex-Rio and post-Rio documents are important in globalization and sustainable development points.<sup>283</sup>

Although, urbanization and environmental problems started in 19th century and became common in the in 20th century, will probably make the most important problem which 21th century societies will have to solve. In other words, post-modern world will have to solve which modern world has produced. In this process ,environmentalist movements' attitude and behaviours take up an important place on economy, technology and social values.<sup>284</sup>

### **Sustainable Development**

Sustainable development or continual and balanced development concept appeared as a new expression of the balance which was wanted to be established among economy, society and environment since 1970 years. It seemed that the idiom first used in reports which called 'world protection strategy' which was prepared by Association of Nature and Natural Resources Protection (IUNAC). Concept was started using commonly in the whole world when a report called 'our common future' was published in 1987 which was prepared by United Nations Environment and Development Commission.<sup>285</sup>

Sustainable development appear as one of the most favorite concepts of environment discussion. Actually is seen no idea has occurred about how the concept should be defined. Different people make different definitions suitable to points which they would like to defend. When looked to mainlines if current 'economic growth' tempo will cause to decrease in prosperity level which measured as consumption potential for each person both in marketed goods and environment goods isn't accepted as sustainable. When concept is looked from environment perspective, required conditions for sustainable development are 'continuity of natural capital stock' if said more openly, is brought up as 'natural resources are because of non-negative changes in their stocks' like the recipient environments' left over accepting capacity, forests, water biological mass, land biological mass, land onground, underground waters and the quality of them, owed land and quality of it.<sup>286</sup>

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283 Uğur Yıldırım, Şerif Öner, "Reflection Sustainable Development Approaches to Turkey : Sustainable Development in GAP and Local Agenda 21," Modern local Administrations, Volume 12, Number 4, October 2003, p. 6-27

284 İsmail Ceritli, "Politicalization Process of Environmental Movement," C.U. Social Sciences Journal, Volume 25, Number: 2, 2001.

285 Ruşen Keleş, Can Hamamcı, Mentioned work., p. 138

286 Çelik Arıoba, "Environmental Economy, Development Economy," Human- Environment –Society within (Prepared to Publication by Ruşen Keleş) İmge Bookhouse Press, 2. Edition, Ankara-1997.



One of the well-known definitions of sustainable development is stated in 'Our Common Future' report: development which meets today's needs by not making concession from talent of meeting needs of generations in the future. Under this definition, lies the justice idea in the point of uses and social, economic and environmental costs. But, although definitions which brought recently to sustainable development had an human centered element actually makes the environment to be considered.<sup>287</sup>

This approach, envisages reviewing with a bilateral ethical supposition of relations among society, environment and economy. To realize a synchronic cooperation with our moderns with future generations time dependant cooperation. It should be made clear that, in this context, the aim of sustainable development is to determine development strategy. The question which should be asked on economy is how to realize development by not taking possibilities of future generations to meet their needs.<sup>288</sup>

When we come to sustainable urban concept here along with making up cities which reply better than today's cities for human needs, it defines that urban system should be developed in a manner which will not obstruct future generations' needs. Conceptualizing the idea of sustainable cities in this manner, suits to conceptual content of sustainable development strategy. In this context, the content aims of sustainable cities thought can be inferred from general information on sustainable development.<sup>289</sup>

Sustainability has also got a social side. To protect people's variety, we need to let them realize their personality especially by health and education. Even, it is possible to say that investment done to people's health and education is an important factor especially in global rivalry era. To sustain this kind of investment, it is required to continue the investment for education, health and other social services. Sustainability at the same time is the supporting capacity of human beings' each other, means overcoming loneliness senses which will lead human potential's getting smaller and be lost.<sup>290</sup>

To apply sustainable development model, it is open that there are imbalances among countries in important level on resource, energy and sanction. This dimension of the subject was dealt with in Johannesburg summit, in a manner which takes this general inference into consideration. In the summit, discrepancies between developed and developing countries continuously and dynamically, the necessity of international cooperation, international neighbourhood was emphasized. As for, in

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287 Teslim Şekur, "Sustainable Development and Cities of Developing Countries," Habitat II City Summit, İstanbul 96, International Scientific Meetings, June 3-12 1996, İstanbul Municipality Department of Cultural and Social Affairs, Volume 2, İstanbul-1997.

288 Ruşen Keleş, Can Hamamcı, Mentioned work., p. 138

289 Hasan Ertürk, "Sustainable Cities," New Turkey Journal, Habitat II Private Number, 96/8.

290 Population and Life Quality Independent Commission, "Care to Future," Foundation of Environment in Turkey Press, Ankara-1997.

this frame, the significance of cooperation in both developed and developing countries on especially finance, technology transfer, foreign loans, trade etc. is emphasized from sustainable development continuity view.<sup>291</sup>

Sustainable development, since the concept has appeared is defined as the development style which doesn't undervalue the talents of future generation to serve own needs. This definition also appears, as the most important concept on development, needs and future generations. Here, growth expresses the greatness of economic system and physical spread. As for development makes clear a qualified concept, like development which has social, economic, cultural dimensions. Sustainable development, expresses to be respectful to nature's capacity of protection of productivity. So in providing sustainability of urban life and natural sources carrying capacity is one of the significant concepts.<sup>292</sup>

### **Sustainable Development and Problems in Modern Cities**

One of the qualities, which define twentieth century is 'urban revolution' fact. Today, almost half of the world population live in cities while it is estimated that in the first quarter of twenty first century two third of world population will be living in cities. Urbanization, carries an unavoidable process quality for all societies which aim development. Because urbanization is an unseparated part of development, it carries an accelerating element quality. As being focal points of development, population, production and consumption pressures on cities, make these areas where environmental problems focus on. Especially, in cities where socioeconomic decisions aren't taken according to ecological problems, both the life quality of today's generation decreases and the possibilities to leave future generations 'liveable' city are restricted. In this context to gain cities 'sustainable cities' quality makes up an important space. In other words, the solution of urban problems to reach aim and targets of sustainable development in a country take up an important space.<sup>293</sup>

In sustainable cities, population growth level and the quality of human resources take up an important space. That's why, in cities both population growth is controlled and qualified development should be provided by improvements in education, health services, nutrition, accommodation. In this context, population problem in cities included the aim of people's using their own resources justly. In this point, right along with solving unemployment problem in cities employment problems gain significance, work guarantee should be provided. Negativity will be removed on land resources in these cities, nutrition security of people should be

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291 Uğur Yıldırım, Şerif Öner, Mentioned article., p. 6-27

292 İŞGED, "İstanbul Bağcılar District Urbanization Dynamics," Research Report, (Prep. Aykut Karaman, Dilek Erden Erbey, Ebru Firdin Özgür) May 2007, İstanbul.

293 Kemal Görmez, "Çevre Sorunları ve Türkiye," Genişletilmiş 2. Baskı, Gazi Büro Yayınevi, Ankara-1997, s.18

provided. Out of this, ecological planning which perceives cities as an ecosystem should be dealt with in each process of city planning.<sup>294</sup>

To meet human needs and sustain economic growth energy makes up an fundamental input. But energy with it's today's usage makes up an important obstacle to realize sustainable cities thought. Energy which is based on unrenovable and dirtying creates an intense dirtying and spoiling pressure on urban ecosystems. That's why basic transformations are required in getting and using energy. Both energy saving applications should be inclined and action plans are required which develops renewable and clean energy technologies.

Actually, sustainable development concept is a newly developing concept and its theoretic basis isn't clearly determined yet. The efforts to determine these basis, is often mentioned with environment concept. Discussions about environment, can economic growth can be provided with a clean environment or environment's being damaged is unavoidable? is focused around the question. In the short term, it is a fact that countries which postpone the environmental concerns has developed quicker. As for in the long and middle term, it doesn't seem possible. Even in developed countries damaged environment slows down economic growth. In this point sustainable development be the most urgent thing and is a precaution which is put forward to provided development congenial with environment.<sup>295</sup>

### **Waste Problem in Sustainable Cities**

For sustainable cities, consumption society understanding should be quitted which is a life style beyond ecological possibilities of city ecosystems. In this context, technologies and arrangements are required in cities which will increase productivity in resource use, decrease wastes, encourage reuse and evaluation. As a first rule of waste management, 'obstructing waste production' means, at the same time resources' protection. This management, is an important part of sustainable development, which is thought to be realized with combination of environmental, economic and social aims. The most important topic which sustainable waste management should succeed, is to provide passing circular use by quitting 'one-sided linear' use of resources with social sectors. As for this: depends on minimizing and obstructing of wastes where they are lost in burning facilities, storing areas; reaching the highest level in recycling ratios and changing with possible ones to reuse instead of materials whose reuse is impossible. Passing circular process from linear process in production, resource use, requires sustainable management of wastes. Alternative usages of recycled materials and reuse gains importance here. The aim, is using each waste in a useful purpose.

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294 Hasan Ertürk, Mentioned article., p. 177

295 Muharrem Es, "Technology, Development ve Environment," Social Policy Conferances, 41-42. Book, p.289-301, İstanbul-1998

Concluding circular movement with final consumption, is a process for continuation of sustainability in application. Also, in this process reusing of wastes and recycling is required. The policy, strategy and programs to be developed in gathering, processing and assessing of wastes are shortly 'sustainable waste management system' is a requirement in sensitive management of wastes.<sup>296</sup>

In sustainable cities, environmental values such as air, water are seen as 'free goods' in industrial production, obstructing applications are needed of them not to be used rudely. In the beginning of these applications, pollution taxes come as an economic tool. On the other side, industrial establishments can be directed to protective investments for environment with subventions.<sup>297</sup>

### **Sustainability and Transportation Problem**

An important problem for sustainable cities is negativity that in-city transportation creates. Parallel with energy increase in in-city transportation pollution increases more, this fact has reached to point which threatens human life. That's why by making mass transportation taken pains, providing secure bike and pedestrian way the need for motorized vehicles should be decreased. Moreover, to decrease transportation demand in cities, regionalizing understanding should be changed, transformed in a manner which will fuse home and work places. So, it will be possible to make cities for people instead of just organizing for cars' movement. This situation has got much more critical significance in developing countries' city development. The problem which hasn't taken enough consideration, is mass transportation net's growing properly. This net itself creates the problem. Local administrations and most of municipalities accept that they can't meet mass transportation demand. Private buses and minibuses are real alternatives. But, fees are kept low neither public sector nor private sector can't gain required capital to fix and care their vehicles. High air and noise pollution, are responsible for standart decrease in car care. To solve this problem was experienced as failed single-double metal tag car design in Lagos and successful way fee application in Sinagapore. The best example for completed transportation management and planning is probably in Curitiba in Brazil. In the beginning of 1970s a transportation plan was accepted in Curitiba to encourage linear growth from urban centers to five structural axis direction. Within these axis, in one side there existed a central way which had an express bus lane, one sided road systems for in-out city traffic and closed roads.

Completing land use with road system makes up the heart of this plan. Before development and hardening laws are made about land use and intense lands are bought which located through structural axis. Throughout these axis, business development providing with housing was encouraged which had higher intensity. At

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296. Hamit Palabıyık, "Management of Urban Solid Wastes: Perspectives on Recycling and Sustainability," Turkish Management Journal, Mart-1999, Number 422. p. 73-74

297 Hasan Ertürk, Mentioned article., p. 177

the same time, road hierarchy, structural axleness, prior roads, gathering avenues, combining avenues were launched.

In 1974, most flexible and appropriate mass transport was made in existing road net by launching express buses on roads which were special to buses of structural axis. After a while, by starting ring services among districts all common centered axis was combined each other around the city subordinate lined bus was included to directions and different bus system launched. On structural axis, middle scaled terminals was established in each 2 kilometres and big bus terminals in each final destination. In each terminal, services was established as post office, bank and shop. This innovative mass transportation programs are indispensable to solve transport problems of cities in developing countries by completing land use in Curitiba with mass transportation system.<sup>298</sup>

One of the fundamental conditions for sustainable cities, is realizing applications which will add public's transportation to management and strengthen local administrations. That's why, institutional and legal structures of local administrations should be made suitable to sustainability aims. On the other side, arrangements are required to be done which will inform public on actions related with their joining to management. Moreover, along with methods, which will develop public's joining to management, methods are required which will broaden application right to management and court.

Institutional and legal structures of local administrations of developing countries aren't enough for these purposes. In addition to this, it gets hard of managing urban centers' problems which grow quickly and broadly affect urbanization's direction, led energy intense and matter intense cities to appear, dependent of export, loaded to national economy and payment balance. As central governments could do little in this situation they had to do a lot and couldn't do well none. As human and fiscal resources divided to many works, on the other side local administrations couldn't gain experience and expertise, acquire the believability and authority to struggle with local problems.

To be the key institution of development city administrations should be strengthened in political, institutional and fiscal points, should reach more of capital which was created in city. Cities should adapt and reach more. It is only possible, if cities adapt with problems and use various tools to struggle with them. And these tools are, deed cadastral, land use control and sharing tax.<sup>299</sup>

Right along with environment factor which is the most significant factor affecting sustainable development, is getting energy security and using resource actively are also important. The effect of energy sector to climate change, is a significant factor affecting plans which is made to provide sustainable development. When comparisons are made on environment production chains of all energy types should

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298 Teslim, Şekur, Mentioned article, p.100-101

299 World Environment ve Development Commission, "Our Common Future," Foundation of Environmental Problems in Tukey Press, Ankara-1987. p.303-304

be evaluated. Productive management of resources are key elements in sustainable development of energy sector.<sup>300</sup>

## Evaluation

In the base of sustainable development, there lies protection and development of resources. Resources continually should be evaluated by protecting, especially supporting of renewable resources by not exceeding the limits comprises the core development philosophy.<sup>301</sup>

Sustainable development. can be defined as developing and increasing of life quality harmonious and balanced with ecosystems which supports fundamentally for continuing of existence and human being is part of. Fundamental components of sustainable development; economical feasibility, social equality and environmental sustainability.<sup>302</sup>

Environment- development relation's being continually discussed topic made sustainable development concept seriously current issue. When development heavily perceived as industry, environment pollution, is almost unavoidable. Development which is done by not taking environment into consideration may be a problem after a while.<sup>303</sup>

To provide sustainability on individual and social development to be realized synchronous with environmental values there are important attempts by international community since 1972 started in Stockholm, get quicker with Rio (1992) and came up to Johannessburg (2002) and initiated by UN.<sup>304</sup>

In our day, which the development is first condition for all communities, development's negatively affecting resources and environment, being failed in sustaining development and managing environment, caused environment-development relations to be reinterrogated. The close relationship between development and environment, is undeniable, production factors are entirely met from environment. To make development sustainable, depends on sustainability of resources.<sup>305 306</sup>

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300 Turkish Atom Energy Authority, "Nuclear Energy and Environment/ Sustainable Development," (Prep. Serpil Aktürk, Ayşen Tongal), Technology Journal, Ankara, May-2004

301 Mehmet Çaklıcıoğlu, "Sustainable Tourism for Sustainable Development," <http://www.kentli.org/makale/kalkinma.htm> (reached in 02.07.2012)

302 Kemal Görmez, "Çevre Sorunları ve Türkiye," Genişletilmiş 2. Baskı, Gazi Büro Yayınevi, Ankara-1997, s.18As

303 Uğur Yıldırım, Şerif Öner, Mentioned article., p. 6-27

304 Uğur Yıldırım, Şerif Öner, Mentioned article., p 6-27

305 Kemal Görmez, "Çevre Sorunları ve Türkiye," Genişletilmiş 2. Baskı, Gazi Büro Yayınevi, Ankara-1997, s.18As

306 İsmail Gökdayı, Mentioned work.,, p. 166

On one side sustainable development depends on material and resources on the other side to the culture. In general meaning, ending extravagance and consuming resources by dirtying is

an absolute necessity. Using resources in a balanced way is obligatory where future generations also has a share. In this point, resource usage based on understanding the aim of creation and structure of thing is the only solution rather than technologic and economic criteria.

Creative measures and policies to convey sustainable cities opinion into application which makes up an important ring of sustainable development, strategy should be in a reaching way of meeting potential of mankind's today and future requirement. That's why, a transformation process is needed in resource using, directing investments, orientation of technology and changing instutional structures.

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# **TOURISM**

## EVALUATING TOURISM SECTOR IN ALBANIA BY THE VIEW OF THE UNIVERSITY STUDENTS

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### Abstract

*It is clear that there are different studies conducted on the tourism sector of different countries. In contrast, it is quite difficult to find out similar studies that conducted on Albanian tourism sector that is revealed by the literature review of this study. This is one of the main motivations of this study.*

*The purpose of this study is to measure the views and perception of university students on the issue on the basis of empirical data which have been collected for this study. The researchers asked about 24 questions to universities' students. Before conducting the survey, the study had chosen two private and five state run universities from different cities of Albania. The survey conducted by surveyor who had been thought how to conduct survey. These surveyors asked those some 423 students to fill in the survey's questions. After they answered the questions, the surveys had been collected by those surveyors. To investigate which factors have more importance on development of tourism sector including Infrastructure, Transportation, Diversity of Tourism, Promotion, Service Quality and Price.*

*The study are adopting the hypothesis that mean factor ratings are same between male and female, universities and employment status.*

*This study has employed a quantitative method. Within this method, in order to analyse the data Oneway Anova Tests is applied. Based on the analysis all factors that has been asked are found as important, however, their contribution level to the tourism development are different. Among factors contributing to tourism, Promotion is considered to have different level of contribution according to different universities' students, while evaluation of factors on other demographic indicators is seen similar within significance level 0.05.*

**Keywords:** *Tourism, Albanian Economy, Albanian Tourism Sector, Multivariate Statistical Techniques.*

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## Introduction

Tourism sector is one of the major sectors in the service sector of any country. The service sector proportion in an economy shows and gives an inference about the development of countries. Generally this proportion is over than 60-65 % in developed economies. Among the other sectors in services, like transportation, banking and others, tourism has also importance place to affect the economy.

Concerning Albania, it seems that this service sector might have considerable amount of weight in her economy on the one hand. On the other hand, there is a difficulty to notify any development in tourism sector such as infrastructure, transportation, number of facilities, diversity of tourism, promotion and advertisement, service quality and price which are considered the key factors in the tourism sector.

The research addresses these key factors in two ways. The first one is how students think of these and what their current conditions. The second is what students' perspective about their future developments. For these, empirical data will be collected and analysed. Later on, the study will discuss these findings and analyses in order to reach a clear conclusion in term of understanding of business and political science.

The study will have a literature review on tourism in general and particular attention will be given to Albania. However, it is important to note that there is no great deal of information on Albania on aforementioned topic of the study. This is one of the reasons why the study will try to fill the gap and contributing very important information to this area of study.

The objective of this study is twofold. One is to understand view of students of Albania who will be running the country on tourism and related issues. The second is to have a clear idea what Albania has to offer in this particular sector in term of those aforementioned key sectors. In order to achieve to these, the study need to test its hypothesis. These are given below:

Hypothesis (Null):

*H1: Mean factor ratings are same between male and female.*

*H2: Mean factor ratings are same between students' universities.*

*H3: Mean factor ratings are same between employment statuses.*

The paper will start with background information about Albania and her economic condition including tourism and related sectors. After this part completed, the study will commence on literature review. Where the study will provide what have been studied and what needs to be studied. Then the study will move on analysing the empirical data using statistical techniques which lead the research to start with the result of these analyses. The result and discussion part will be next in this study. Finally, the study will be drawn a conclusion from the paper that include whether there is need to conduct further research on this issue.

## **Background Information**

Albania is a Balkan country in south-eastern Europe with neighbouring countries as Greece, Kosovo, Macedonia and Montenegro. It also borders the Adriatic Sea and Ionian Sea in the west. Albania has diverse natural beauty, archaeological sites and fascinating history and the culture which provides a glimpse of Mediterranean civilization from the Bronze Age.

Tourism is considered as one of the most important sector of an economy. It is considered as one of the fastest growing sector in the world economy. Especially, it has been used as a locomotive for the regional and national development. The Albanian tourism sector has started making a significant contribution to the economy of the country by the beginning of the 20th century. Nevertheless, it is still a new sector which needs an investment and significant initiatives from the both public and private parties in order to develop tourism industry in Albania. Thus, we can say that tourism sector in Albania offers infinite potential to investors to take an advantage of unexplored opportunities in tourism sector, and helping to develop this industry into a key driver in the country's economy.

There are some basic pre-conditions for tourism development which are widely discussed by international scholars who have conducted their studies on tourism sector. Sustainable Tourism development is acceptable only if the basis for the development process is friendly to environment. For example; Hunter and Green (1995) discussed the sustainable relationship between tourism and an environment. In this study authors argues the environmental quality associated to the tourism success by protecting the world's tourism destination for the future generation by assessing the impact of tourism on environment by constructing models and using international case studies in their illustrations. Similarly, Coccossis and Nijkamp (1995) are also has conducted study on sustainable tourism development. In this study authors also discussed the relationship between tourism and environment. Their studies are comprised of two part; in the first part they examines economic importance of tourism sector where in the second part they presents the tools for policy making with regard to tourism and the environment.

Provision of infrastructure is considered as the backbone of development of any economy. Therefore, anticipated growth of an economy exerts more pressure on the infrastructure facilities in subsectors like energy, transportation, communication and water resources management. These facilities of the infrastructure sector bare two main objectives in the long-term: (1) to support needs of a population in a best way in all meanings, (2) to support the productive sector. According to data gathered by the World Bank in Europe and Central Asia 145 airport projects in transportation sector was carried with private sector participation worldwide between 1991 and 2011, a total of 30 airport infrastructure projects were carried out with the total value of investments of US\$ 11,829 million, where US\$ 2,386 million was only for

construction of terminal and US\$ 9,443 million for runway constructions<sup>307</sup>, in the energy sector 340 projects with the total amount of US\$ 105,023 million<sup>308</sup>, 292 projects in telecommunication<sup>309</sup> sector with the total amount of US\$ 157,601 million and 44 water<sup>310</sup> resources projects amounting for US\$ 3,781 million. Specifically, among these infrastructure investment projects in Europe and Central Asia, in Albania was held 15 projects with total amount of US\$ 2,456 million among which 7 projects in energy for US\$ 720 million, 4 projects in telecom sector for US\$ 1,421, 1 project in transportation sector (airport) for US\$ 308 million and 3 projects in water resources sector for US\$ 8 million<sup>311</sup>. To recall public and private commitment are also one of the most important pre-conditions for the development of tourism. Thus, projects initiated as mentioned above likely demonstration an intention to develop tourism in Albania. Inskeep (1991) have cited the importance of infrastructure and its role for tourism. To take an example of empirical evidences, Kim et al (2000) and McElroy (2003) highlighted the importance of government financed infrastructure for the development of tourism sector. is one of the main determinants or tool for the development of the tourism. More recently, study by Seetanah et al (2011) finds that the infrastructure, income level of tourists, distance, and the relative prices are important ingredients of tourism, and argues that their study presents that the tourists are sensitive to the infrastructure.

The political stability and the security are also one of the important elements for the tourism development. Political stability is a steady condition of the political system, enabling it to function effectively and evolve under the influence of external and internal issues, while maintaining its structure and ability to control the processes of social change (Kaufmann, 2002). This represents legitimacy and the effectiveness of the government and government agencies. Thus, it can be said that the law and regulations are important tools for sustaining tourism development.

## Literature Review

Study by Seetanah et.al (2011) investigates the importance of infrastructure as a factor in destination to tourism development in Mauritius Island by modelling tourist arrivals over the period 1985 – 2006 using panel data estimation techniques and

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307 The World Bank Group, (2012), World Bank, Private Participation in Infrastructure Database, [http://ppi.worldbank.org/explore/ppi\\_exploreSubSector.aspx?SubSectorID=5](http://ppi.worldbank.org/explore/ppi_exploreSubSector.aspx?SubSectorID=5), [accessed date: 05.07.2012]

308 Ibid, [http://ppi.worldbank.org/explore/ppi\\_exploreSector.aspx?sectorID=2](http://ppi.worldbank.org/explore/ppi_exploreSector.aspx?sectorID=2), [accessed date:05.07.2012]

309 Ibid, [http://ppi.worldbank.org/explore/ppi\\_exploreSector.aspx?sectorID=1](http://ppi.worldbank.org/explore/ppi_exploreSector.aspx?sectorID=1), [accessed date:05.07.2012]

310 Ibid, [http://ppi.worldbank.org/explore/ppi\\_exploreSector.aspx?sectorID=4](http://ppi.worldbank.org/explore/ppi_exploreSector.aspx?sectorID=4), [accessed date:05.07.2012]

311 Ibid, [http://ppi.worldbank.org/explore/ppi\\_exploreCountry.aspx?countryID=69](http://ppi.worldbank.org/explore/ppi_exploreCountry.aspx?countryID=69), [accessed date:05.07.2012]

finds that infrastructure has positive impact on tourist arrivals, thus to tourism development. Another study by Seetanah and Khadaroo (2007) investigates the significance of transport infrastructure as a factor of destination development. Thus, transportation is included as part of demand function for the tourism. Khadaroo and Seetanah (2008) again conducted a study to evaluate the importance of transport infrastructure in international tourism. In the study it tried to determine the attractiveness of the tourist destination by gravity model approach and finds that transport infrastructure is a significance determinant in international tourism and it is vary depending on the origin and destination. Differently, Teye (2008) argues that in some places the geographical critical factors like size, climate, population distribution, and distance are important when developing tourism destination. As these factors have major influence on the occupancy level of hotels, land and air transportation.

### **Price**

Crouch (1992) demonstrates the effect of income and price on international tourism. In the research paper author integrates the findings of other authors and investigate whether differences in the studies are account for any of the variability. The result show that the assessment of income elasticity of demand does vary depending on the methodological features of study. Falzon (2012) presents a study where it has been developed a relative price index of each Mediterranean country with respect to its average based on the Hotel package price in the Thomson summer and winter brochures. Accordingly, it is concluded that the Thomsons price presented in the brochures are unified and internally consistent, thus, it can be used as a competitive important indicator for tourism development.

Morley (1994) investigates the use of Consumer Price Index for tourism prices using different methods and data. Author indents to explore if there is a significant correlation between tourism prices and the CPI. In the study, author identifies most expenditure items of tourist in 10 important tourist destination and estimates price series for these items and finds that there is a significant correlation with the CPI and the tourism prices. Thus, concludes that it is reasonable to use CPI as a proxy for tourism prices.

### **Promotion**

Study by Bonnet (1982) where the author considers neglected aspects of marketing and promotion of tourism development in developing countries. Similarly, Dudensig et.al (2011) argues that one of the possible reasons why some tourism-based business struggle is due to the mismatch of needs of business and economic development organizations that assists the local industry. In the study author uses a survey data from tourism promotion and economic development organizations and tourism-based businesses of Pensilvania and West Virginia and compare the perception of actors on the tourism promotion and the business challenges and finds

that the tourism-based business and economic development organizations hold similar perceptions about industry problems. Whereas the promotion agencies underestimate the role of internet in the promotion, and perceive the workforce issues more different than the business.

### **Service Quality**

Service quality is important in tourism sector and its development. Shonk and Chelladurai (2008) measures tourist judgments on service quality using attribute based method. Additionally, linear regression and Sirgy's congruity model were adapted to measure customer satisfaction. In the study it concluded that there exist a linear relationship between tourist judgments and the service quality. Reichel et.al (2000) a presents empirical study of 206 guest and 23 entrepreneurs measuring the service quality using Gronroos's model and finds that there is a gap between expected service dimension and the experienced dimension and recommends appropriate training in management and marketing implications. Moreover, Sharpley, R and Forster, G (2003) argues that due to the competitive market the issue of quality in tourism gained significance as it has been influenced by factors like consumer rights and alleged quality conscious tourists. Authors have conducted a survey to hotel employees and identified key factors that drive towards quality service provision and concludes on the need of management strategies based on the reward and empowerment. Thus, an implications of management presented in the study of Reichel et.al may be supported by this study. Another interesting research Marin-Cejas (2006) measures service quality based on the facilities of airport using linear programming model and intends to identify indirect measure of tourist perceived satisfaction provided by check-in service and uses leisure time for tourist as relevance of this parameter.

### **Research Methods**

Before the study has begun, the researchers thought that it would be important to understand views of universities' students on Albanian tourism sector. The reason is that these students would be running the country in the future. Their views and opinion would be included. Secondly, there was myth that Albania has a great tourism potential that needs to be academically tested.

Having these two objectives in mind, the study needs to have empirical data which have been collected for this study. A survey had been prepared (Appendix I) that included 24 questions in order to investigate which factors have more importance on development of tourism sector including Infrastructure, Transportation, Diversity of Tourism, Promotion, Service Quality and Price.

In Albania, there are 7 public and more than 45 private universities. The most of the students go to public universities. For this reason, the study had chosen two private and five state run universities from different cities of Albania. The survey conducted by surveyors who had been thought how to conduct survey. The research

ethic and research rules including code of conducts were applied during the survey. These surveyors asked prepared and printed questionnaires students who randomly chosen to fill in the survey's questions. Some 423 students have filled in the questionnaires, and then after they answered the questions, the surveys had been collected by those surveyors. The data carefully have been put into the SPSS 17 programme for investigation and analyses.

6 universities are selected, two of them private and 4 of them public among 53 universities in Albania. There are some 423 survey questionnaires that have been collected from these universities' students. Among these survey questionnaires, 15 filled forms from each university are selected by convince sampling method. 81 surveys are found appropriate for study. Descriptive Statistics are given below and One-way Anova method is applied to find whether there are differences between gender, universities and employment status, separately.

This study has employed a quantitative method. Within this method, in order to analyse the data Statistical Techniques, like Anova and Chi-Square Tests model is applied.

### **Analysis**

Survey results are examined in this part of the study by SPSS 17 package programme. Six factors: Infrastructure, Transport, Service Quality, Price, Diversity of Tourism and Promotion (Advertisement) are used to evaluate students' opinion on factors affecting tourism sector development in Albania. Therefore, the results are given below:

### **Descriptive Statistics**

Frequencies and percentages of demographic variables, such as gender, university, and employment status and tourism share (Opinions about Albania's Tourism Share from World Tourism Pie) are given in Table: 1, Table: 2, Table: 3 and Table: 4, respectively. Mean and standard deviation values of factors that affect tourism sector development in Albania are given in Table 5.



**Frequencies of Demographic Variables:**

**Table: 1. Frequencies of Gender**

| Gender | Frequency | Percent |
|--------|-----------|---------|
| Male   | 35        | 43,2    |
| Female | 46        | 56,8    |
| Total  | 81        | 100,0   |

Total 81 students from 6 universities selected for Survey. 35 of them (43.2 %) is Male and 46 of them (56.8 %) is Female.

**Table: 2. Frequencies of University**

| University  | Frequency | Percent |
|-------------|-----------|---------|
| Shkoder     | 14        | 17,3    |
| Tirana      | 14        | 17,3    |
| Vlore       | 14        | 17,3    |
| European    | 13        | 16,0    |
| Polytechnic | 13        | 16,0    |
| Epoka       | 13        | 16,0    |
| Total       | 81        | 100,0   |

Universities in the study are Luigj Gurakuqi in Shkoder (14 students), University of Tirana in Tirana (14 students), İsmail Çmimi in Vlore (14 students), European University in Tirana (13 students), Polytechnic University in Tirana (13 students) and Epoka University in Tirana (13 students). The number of students is similar from each university. However, the respondents are far greater than these numbers. These are randomly selected from the rest according to universities' respondents. So, each university has same weight in this research concerning of numbers of respondents which is important not to separate private and public university.

**Table: 3. Employment**

| Job       | Frequency | Percent |
|-----------|-----------|---------|
| Full-time | 1         | 1,2     |
| Part-time | 13        | 16,0    |
| No        | 67        | 82,7    |
| Total     | 81        | 100,0   |

Only one student has full-time job, 13 students have part-time job, other 67 students have no job. If one considers full and part-time jobs we can say 17.3% of students have a job, but 82.7 % of them have no job.

**Table: 4. Tourism share of Albania**

| Share | Frequency | Percent |
|-------|-----------|---------|
| 1     | 7         | 8,6     |
| 2     | 5         | 6,2     |
| 3     | 15        | 18,5    |
| 4     | 32        | 39,5    |
| 5     | 22        | 27,2    |
| Total | 81        | 100,0   |

When we examine tourism share of Albania from World Tourism Pie; it is seen that 14, 8 % of students say Albania has more than it deserved (1 show much more than it deserved and 2 shows more than it deserved). 66.7 % of students, majority of them, expressed that Albania has less than it deserved (4 and 5 show less than it deserve). 18, 5% of them express that Albania has just it deserved.

**Evaluation of Factors**

6 factors were asked to university students to evaluate their importance in terms of development of tourism sector in Albania. They are asked to give “1” if factor is very important as their opinion, and 2 if it is important, 0 if it is no matter, 3 if it is unimportant, lastly 5 if it is very unimportant. Each of factor’s mean is given below in the Table: 5.

As it is seen from the table, all factors are found as they have importance to develop tourism sector because they have mean values between 1 and 2. On the other hand, infrastructure is found as most important factor (by mean=1.0253) that affects development of tourism. Transportation followed it by mean is 1.2987. In third order Service Quality has more importance by mean is 1.3704, Price, Diversity of Tourism and Promotion follow it by 1.5432, 1.6875, and 1.8734, respectively.

**Table: 5. Mean Importance of Factors**

| Factor Ranks           | N  | Mean   | Std. Deviation |
|------------------------|----|--------|----------------|
| 1-Infrastructure       | 79 | 1,0253 | ,15809         |
| 2-Transport            | 77 | 1,2987 | ,46069         |
| 3-Service Quality      | 64 | 1,3704 | ,64118         |
| 4-Price                | 79 | 1,5432 | ,59265         |
| 5-Diversity of Tourism | 81 | 1,6875 | ,88864         |
| 6-Promotion            | 81 | 1,8734 | ,89682         |

**Comparisons of Factors in Terms of Gender, University and Employment Status**

We applied One-way Anova test to analyse whether meaningful differences are there in terms of factor means or not between subgroups of gender, university and employment status, separately.

**Gender & Factors**

We applied One-way Anova test to analyse whether meaningful differences between male and female opinions about factor importance on development of tourism sector in Albania.

Hypothesis:

*H1: Mean factor ratings are same between male and female.*

In terms of ANOVA results any meaningful differences are seen between male and female due to all factors.

### **University & Factors**

One-way Anova test is applied to analyse whether meaningful differences between 6 different universities' students opinions about factor importance on development of tourism sector in Albania.

Hypothesis:

*H2: Mean factor ratings are same between different university students.*

In terms of ANOVA results only statistically meaningful differences is seen between them due to Promotion factor ( $p=0.024 < p=0.05$ ). In terms of other factors, statistically meaningful differences are not observed. If we extend significance level to 0.10 then statistically meaningful differences has occurred in terms of Price factor ( $p=0.83$ ), too.

### **Employment & Factors**

We applied One-way Anova test to analyse whether meaningful differences between employed and unemployed students' opinions about factor importance on development of tourism sector in Albania. (The full –time observation is only in one case, so we combined it with Part-time group as employed. So we have two groups: Employed and Unemployed).

Hypothesis:

*H3: Mean factor ratings are same between employment status.*

In terms of ANOVA results any meaningful differences are seen between employed and unemployed students due to all factors at significance level 0.05. But if we extend significance level to 0.10 then in two factors (Diversity of Tourism,  $p$  value=0.89 and Price,  $p$  value=0.74) statistically meaningful differences occurred between employed and unemployed students.

### **Results and Discussion**

The research highlights the important factors in Albanian tourism sector. In order to highlight these some further points will be brought up to light.

The sexual origin of the students is coincided with the gender origin of students' population in Albanian universities. So this finding can be assumed the representation of all students in Albanian universities. It is important to note that

female population is greater than male population in Albania as states 'there were 98 males for every 100 females in the country'.<sup>312</sup>

When the study looks at the job, the finding is one student has full-time job, 13 students have part-time job, and other 67 students have no job. This finding has correspondent with the country's labour forces and employment data. For example, one source states that 'in 2004 (2012 statistics has not got great difference), Albania's unemployment rate was officially put at 14.4%, however the actual unemployment rate may be in excess of 30%'.<sup>313</sup> It can be assumed that it is quite normal to see more students who do not have a job and categorised as unemployed during their studentship period.

When we examine tourism share of Albania from World Tourism Pie; it is seen that 14, 8 % of students say Albania has more than it deserved in contrast, 66.7 % of students, majority of them, expressed that Albania has less than it deserved and 18, 5% of them express that Albania has just it deserved.

According to World Travel & Tourism Council 'the direct contribution of Travel & Tourism to GDP in 2011 was ALL 81.4bn (6.2% of GDP). This is forecast to rise by 5.6% to ALL 85.9bn in 2012'.<sup>314</sup> This seems that there is a growing tendency in travel and tourism industry in Albania. Consequently, the finding and literature about this analysis have some common ground in a way that there is a potential which needs to be developed. This can be understood easier if once compare with the country ranking. There are more than 180 countries in the world and Albania secures 48 places in this industry which is quite good.<sup>315</sup>

6 factors were asked to university students to evaluate their importance in terms of development of tourism sector in Albania. The students mentioned that infrastructure is the most important factor that affects development of tourism. Then transportation, service quality price, diversity of tourism and promotion followed respectively.

These findings are important in order to understand the current condition of Albania in terms of tourism. It is clear that infrastructure of Albania in general needs more attention than other areas of investment. It is stated one of the report which was submitted to a government department that 'tourism growth will be driven and supported by conscientious marketing, creative design of products, appropriate

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312 Encyclopedia.com, (2007) 'Worldmark Encyclopaedia of Nations: Albania', in <http://www.encyclopedia.com/topic/Albania.aspx> [accessed on 3 October 2012]

313 Encyclopedia.com, (2007) 'Worldmark Encyclopaedia of Nations: Albania', in <http://www.encyclopedia.com/topic/Albania.aspx> [accessed on 3 October 2012]

314 World Travel & Tourism Council (2012), Travel & Tourism: Economic Impact 2012, Albania, it is also available from: [http://www.wttc.org/site\\_media/uploads/downloads/albania2012.pdf](http://www.wttc.org/site_media/uploads/downloads/albania2012.pdf) [accessed on 3 October 2012], p.3

315 World Travel & Tourism Council (2012), Travel & Tourism: Economic Impact 2012, Albania, it is also available from: [http://www.wttc.org/site\\_media/uploads/downloads/albania2012.pdf](http://www.wttc.org/site_media/uploads/downloads/albania2012.pdf) [accessed on 3 October 2012], p.9

infrastructure, high quality human resources, and a tourism “business climate” with clear rules of the game and appropriate structures to ensure its long-term economic viability’.<sup>316</sup>

### **Conclusions and Further Research Opportunities**

This paper tested its hypothesis namely H1: Mean factor ratings are same between male and female; H2: Mean factor ratings are same between students’ universities; and H3: Mean factor ratings are same between employment statuses. The results of these tests have been stated at the above.

This paper shows that it is quite important to see the future of Albania, concerning tourism sector. Their perceptions and approaches to sector are not only important, but also promising. There is a potential in Albanian tourism sectors which need to be improved, especially in building, road, airport, and other main groundwork.

This research suggests that there is need further study on this topic the proposed study should include people who are working in tourism sector. Those people’s opinions are important to understand which investment is more important than the other. The reason is that, Albania has limited resources that could go to into the tourism sector and that should be invested in the right areas.

Finally, this study opens an academic discussion on Albanian tourism sector that need to improve and become one of main income generation sector in Albanian economy.

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**ECONOMIC SIGNIFICANCE OF TOURISM SECTOR IN BALKAN COUNTRIES AND AN ANALYSIS OF THE TOURISM RELATIONS BETWEEN TURKEY AND BALKAN COUNTRIES**

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**Abstract**

*The Balkan region which has been unstable up to 2000s now host leading markets that make progress and attract attention in global economy from an economic, political, geographical, historical and cultural perspective. Particularly the new reforms and legal arrangements introduced in the Balkan countries within the framework of harmonization efforts with the European Union contributed to the emergence of a new environment of stability and peace. Positive development is observed if the general economic performance of the Balkan countries is analyzed by sectors. According to the tourism data of the World Tourism Organization in 2011, tourism has become popular in recent years in Western Balkans; however, cross-border tourism has been in decline in many parts of the region due to the decrease in the spendable income. In addition, the tourists prefer developing countries; the change in this preference and the impact of the global economic crisis contributed to the rise of domestic and international tourism in the Balkan countries. Turkey's relations with the Balkans which appear to be extension of Turkey in the European continent have improved in a wide range of fields including economy, social affairs, culture and tourism. After introduction of project by Turkish Airlines, "Visa-Free Balkans," in 2011, the Turkish citizens became more interested in having vacation in the Balkans. It is also visible that Balkan countries have diversified their tourism options and that in addition, sea-sand and sun, they have other alternatives to offer including health tourism and faith tourism.*

*In this study, the necessary business enterprises on accommodation, traveling, transportation, food and catering in order to improve this potential and make it*



*tourism supply in Balkan tourism and other relevant countries in international tourism market will be examined first. Subsequent to the examination of the tourism supply, the demand for tourism in these countries will be evaluated in the second part and the profile of the visitors by foreign active-foreign passive and domestic tourism will be drawn. The purpose in these two sections is to examine the tourism sector which contributes extensively to the economic and social development of these countries by focusing on its economic dimension. In the third section, the tourism relations between Balkan states and Turkey which is a remarkable destination in global market and ranked among the first ten countries by number of visitors and international tourism revenues as evidenced by the World Tourism Organization's data through economic, social and cultural dimensions. In the concluding section, some recommendations will be made on how to improve tourism relations between Turkey and Balkan states which already enjoy close ties in economic and cultural spheres.*

**Keywords:** *Balkan, Economy, Tourism, Turkey*

## **Introduction**

In addition to enjoying a common culture and geography, the Balkan states and Turkey also hold similar goals as both seek membership in the European Union and become part of regional integration. Improvement of tourism in the Balkan geography and better use of the tourism potential in these countries is one of these common goals.

To this end, the purpose of the study is to identify the tourism potential in the Balkan region, to put emphasis upon the economic significance of tourism in the development of the region and to review the ties between Turkey and Balkan states in terms of tourism.

The data needed to attain the goals specified in the study has been retrieved via qualitative data collection method.

The countries in the Balkan Peninsula have been identified first; the literature and resources have been scanned in the Istanbul Chamber of Commerce (ICC) and Istanbul Chamber of Industry (ICI) as well as university libraries; the webpages of the relevant institutions have also been analyzed and the economy reports by the relevant ministries on the Balkan countries have been examined.

In the next stage, current data compiled by the World Tourism Organization and the World Travel and Tourism Council has been collected; and information from the national and international statistics institutions has been analyzed to create the relevant tables. The resources and statistical findings have been further interpreted.

## **Balkan Tourism in International Tourism Market**

Tourism sector has been one of the most important and fastest-growing sectors in international economy since mid-20<sup>th</sup> Century thanks to the liberalization in the aftermath of 1980 and the globalization process which facilitated traveling abroad. In addition, it has also been observed in international tourism that competition has become severe in 1980s and 1990s, that growth has become sustainable and that tourism has been ranked first in the list of service sectors.

European continent is the most important tourism destination because 50 % of the tourists in international tourism market prefer European states. Despite economic uncertainty, the World Tourism Organization has estimated that the number of tourists in Europe will increase by 6 % in 2011 and reach to 504 million. In addition, it has also been stressed that the fastest-growing destinations are Asian-Pacific and the Middle East destinations (Tourism Highlights, UNWTO, 2012). The World Travel and Tourism Council notes that Europe has grown by 1.6 % in travel and tourism sector and 3.6 % in investments (WTTC, 2012).

Balkans, geographically close to Europe, have improved their domestic economic and political structures and benefited from the advantages offered by international institutions including the IMF, World Bank and NATO in opening up to the world as a result of the impacts of the domestic and external factors associated with the roles played by the US and the EU in early 2000s. In addition, they have made progress in the fields of economy, social issues, culture and tourism. Through this progress and change, the Balkan countries have become closer to the membership in NATO and the EU and started to represent point of intersection in the international economic setting (USAK 2012).

As part of their membership bid in the EU, the Balkan countries, focusing on the content of the EU Tourism Action Plan, have taken steps in such fields and issues as tourism and environment, rural tourism, cultural tourism, social tourism, youth tourism, vocational and professional training, promotion in third countries, and cross-border operations (İstanbullu Dinçer, 1997).

## **Tourism Supply and Tourism Demand In Balkan Countries**

A review of the data and findings in Table 1 based on the tourism supply sources in Balkan area reveals that the bed capacity has partially increased. In addition to the rise of tourism enterprises in Balkan countries, emergence of diverse types of tourism based on new tourism tendencies has become influential in the types of businesses including emergence of spa facilities, cabins, certified accommodation facilities and farms.

In addition to accommodation enterprises, the number of catering, entertainment and relaxation facilities has also increased. The countries that realized the economic

impact of the growing tourism activities associated with the increase in the supply keep making investments.

**Table 1: Accommodation Enterprises and Bedding Capacities In The Balkan Countries**

| Country                   | Accommodation Facilities |       | Bed Capacity |         |
|---------------------------|--------------------------|-------|--------------|---------|
|                           | 2010                     | 2011  | 2010         | 2011    |
| <u>Albania</u>            | 290                      | ---   | 11793        | ---     |
| <u>Bosnia-Herzegovina</u> | 393                      | ----  | 24,402       | ---     |
| Bulgaria                  | 3533                     | 3540  | 287423       | 283641  |
| Croatia                   | 2 117                    | 2 189 | 909 951      | 934 564 |
| Macedonia, FYR            | 1551                     | ---   | 69102        | 69732   |
| <u>Romania</u>            | 4724                     | 4612  | ---          | ---     |
| Slovenia                  | 1298                     | 1307  | 117947       | 118817  |
| <u>Serbia</u>             | 1833                     | ---   | 27,392       | ---     |
| Montenegro                | ---                      | 310   | ---          | 157697  |
| Kosovo                    | 321                      | 211   | 3624         | 2794    |
| Greece                    | 10.046                   | 9648  | 850.365      | ---     |
| Turkey                    | 3524                     | ---   | 882449       | ---     |

\*provisional figure or data

**Source:** NSI, <http://www.nsi.bg>; Bosnia And Herzegovina Federal Office Of Statistics <http://www.fzs.ba>; Republic Of Macedonia State Statistical Office, <http://www.stat.gov.mk>; Croatian Bureau Of Statistics <http://www.dzs.hr>; Serbian the Ministry of Economy and Regional Development, <http://www.turizam.merr.gov.rs>; The Institute of Statistics (INSTAT), <http://www.instat.gov.al>; Statistical Office of Montenegro (MONSTAT), <http://www.monstat.org>; Statistical Office of the Republic of Serbia, <http://webrzs.stat.gov.rs>; Statistical Office of the Republic of Slovenia, <http://pxweb.stat.si>; Hellenic Statistical Authority (EL.STAT.), <http://www.statistics.gr>; National Institute Of Statistics-Romania, <http://www.insse.ro>; EUROSTAT, <http://epp.eurostat.ec.europa.eu>

Transportation network which plays significant role in the improvement of tourism in a region is not advanced enough in Balkan countries. The collapse of the Yugoslavia Federal Republic, wars, political and economic instabilities are among the factors that could explain the lack of proper transportation in Balkan countries. In terms of transportation infrastructure, quality and efficiency, Balkan countries lag behind the EU average (Türbedar, 2010).

Because it is a transit region for Turkey, the developments in transportation infrastructure of the Balkan region concerns Turkey. However, the transportation

sector has been improving thanks to the EU membership bid. This will further improve trade and promote further tourism activities between the regions and communities.

A review of the data presented on the Balkan tourism in Table 2 compiled based on the 2011 data of UNWTO reveals that the tourism activities have been on rise and that in addition to Turkey, Greece, Croatia and Bulgaria have made serious progress in international tourism movements.

A comparison between world tourism movements and the Balkan country data reveals that the Balkan states have received 68,257,000 out of 983 million tourists in the world; this represents 4.6 % growth. In terms of tourism revenues, the Balkan countries have received \$59,184 million out of \$1,030 billion (UNWTO, 2012). Kosovo, not included in this list, received 551,990 tourists whereas there were 578,349 outgoing tourists. The number of total visitors was 990,000 in 2007 where as it increased by 140,000 in 2008 and reached to 1.5 million in 2009 (T.C. Ekonomi Bakanlığı, 2012 ).

**Table 2: Balkans International Tourist Arrivals and Tourism Receipts**

| Country                        | Arrivals (1000) |        |          | Revenues (US\$ million) |        |         |
|--------------------------------|-----------------|--------|----------|-------------------------|--------|---------|
|                                | 2010            | 2011*  | Change % | 2010                    | 2011   | Share % |
| <u>Albania</u>                 | 2,347           | ---    | ---      | 1,626                   | 1,628  | 0.6     |
| <u>Bosnia-Herzegovina</u>      | 365             | 392    | 7.2      | 594                     | 628    | 0.2     |
| <u>Bulgaria</u>                | 6,047           | 6,324  | 5.4      | 3,637                   | 3,967  | 1.4     |
| <u>Croatia</u>                 | 9,111           | 9,927  | 4.8      | 8,259                   | 9,185  | 3.2     |
| Yugoslav Republic of Macedonia | 262             | 327    | 1.0      | 197                     | 239    | 0.1     |
| <u>Romania</u>                 | 1,343           | 1,515  | 5.3      | 1,140                   | 1,417  | 0.5     |
| Slovenia                       | 1,869           | 2,037  | 2.5      | 2,566                   | 2,708  | 0.9     |
| <u>Serbia</u>                  | 683             | 764    | 5.8      | 798                     | 992    | 0.3     |
| Montenegro                     | 1,088           | 1,201  | 4.2      | 660                     | 777    | 0.3     |
| Greece                         | 15,007          | 16,427 | 0.6      | 12,742                  | 14,623 | 5.1     |
| Turkey                         | 27,000          | 29,343 | 5.9      | 20,807                  | 23,020 | 8.0     |
| Total                          | 65,212          | 68,257 | ---      | 53,026                  | 59,184 | ---     |

\*provisional figure or data.\*\*No data found on Kosovo.

**Source:** Tourism Highlights, UNWTO, 2012.

Tourism demand in Balkan countries displays similarities because of geographical closeness and common culture. However, the tourism attractions and economic power of the countries also become effective.

**Albania:** Despite some ups and downs, the Albanian economy has been growing since 2007. Kosovo people represent 37 % of the foreign visitors in the country, followed by visitors from Macedonia and Montenegro. Statistics show that the 89 % of the visitors travel to this country for a vacation or visit for their friends. The remaining expresses that they travel for business purposes (T.C. Ekonomi Bakanlığı, 2012). In 2011 Travel & Tourism directly supported 51,000 jobs (5, 5% of total employment). Travel & Tourism investment in 2011 was 4.8% of total investment (WTTC, 2012).

**Bosnia-Herzegovina:** It receives visitors mainly from Croatia, Slovenia and Turkey (FZS, 2012). Most of the visitors travel to the country for seaside tourism whereas the demand for winter tourism, spa, cultural places, faith travels and eco-tourism has been on rise (İGEME, 2012). In 2011 Travel & Tourism directly supported 21,000 jobs (1,8% of total employment). Travel & Tourism investment in 2011 was BAM188.0mn, or 4,9% of total investment (WTTC, 2012).

**Bulgaria:** It mainly receives visitors from Germany and Greece and Romania; this is the case because Bulgaria became EU member on 1 January 2007 and opened up its borders to visitors from EU countries without asking visa. In addition, after introduction of a new visa regime, Bulgaria also receives growing number of visitors from Turkey, Serbia and Macedonia (T.C. Ekonomi Bakanlığı, 2012). The visitors express that they prefer Bulgaria for holidays, leisure, recreation, health and medical care, visiting friends and relatives, business and professionals, transport crew (UNWTO, 2012). In 2011 Travel & Tourism directly supported 101,000 jobs (3.3% of total employment). Travel & Tourism investment in 2011 was BGN893.3mn, or 6.1% of total investment (WTTC, 2012).

**Croatia:** Tourism is an important sector that plays role in the restructuring of the economy. 6 % of the people are employed in this sector. 95 % of the bed capacities are held in Adriatic facilities (T.C. Ekonomi Bakanlığı, 2012). Croatia mainly receives visitors from Germany, Slovenia and Italy (DZS, 2012). In 2011 Travel & Tourism directly supported 135,500 jobs (12.3% of total employment). Travel & Tourism investment in 2011 was HRK7, 700.1mn, or 11, 4% of total investment (WTTC, 2012).

**Macedonia:** Due to slow progress in privatization and domestic instability, the tourism potential is not effectively used in the country. But there is growing demand for cultural tourism, winter tourism and mountain tourism (İGEME, 2012). Macedonia mainly receives visitors from Greece, Turkey and Serbia (Republic Of Macedonia State Statistical Office, 2012). In 2011 Travel & Tourism directly supported 7,500 jobs (1, 2% of total employment). Travel & Tourism investment in 2011 was MKD2.3bn, or 1, 9% of total investment (WTTC, 2012).

**Romania:** Located at important crossroads in Europe, Romania attracts visitors thanks to its improved locational attractions including easy transportation via

railway land and airway. The visitors are particularly attracted to nature, mountain tourism, castles, Tuna Delta, Black Sea coast and spas, monasteries (T.C. Ekonomi Bakanlığı, 2012). In 2011 Travel & Tourism directly supported 184,500 jobs (2.2% of total employment). Travel & Tourism investment in 2011 was RON9.4bn, or 7.3% of total investment (WTTC, 2012).

**Slovenia:** with its historical and natural beauties, its coast along Adriatic Sea, skiing and golfing facilities, river cruises and spa opportunities, Slovenia is an important tourism destination (İGEME, 2012). Slovenia mainly receives visitors from Germany, Italy and Austria (Statistical Office of the Republic of Slovenia, 2012). In 2011 Travel & Tourism directly supported 33,000 jobs (3, 9% of total employment). Travel & Tourism investment in 2011 was EUR673.2mn, or 9, 9% of total investment (WTTC 2012).

**Serbia:** Tourism holds 3 % of share in the total GDP of the country. Serbia mainly receives visitors from the US, Montenegro, Bosnia-Herzegovina, Slovenia, Croatia, Germany and Italy; the total revenue in tourism activities was \$787 million. Half of the visitors prefer visiting Belgrade which they describe as a cosmopolitan capital city. Demand for tourism is affected by other attractions in the region including Danube trips, culture tourism, health tourism (T.C. Ekonomi Bakanlığı, 2012). In 2011 Travel & Tourism directly supported 26,000 jobs (1, 5% of total employment). Travel & Tourism investment in 2011 was RSD18.6bn, or 2, 5% of total investment (WTTC, 2012).

**Montenegro:** Tourism holds a special place for the economy. According to WTTC 2010 report, the total share of the tourism services in the gross domestic product will become 26 % by 2020. 30,000, representing 17.4 % of the total workforce, were employed in tourism sector in 2010. (WTTC, 2012). The country is mostly preferred for seaside tourism whereas the inner parts are preferred for winter tourism (İGEME, 2012). In 2011 Travel & Tourism directly supported 11,000 jobs (6.5% of total employment). Travel & Tourism investment in 2011 was EUR164.6mn, or 23.6% of total investment (WTTC, 2012).

**Greece:** Surrounded by sea in three sides, Greece is one of the 20 countries that attract the greatest number of visitors in the world. The number of tourists has sharply declined by 20 % in 2009 to 14.9 million. The direct contribution of the tourism revenues to economy is 7.5 % whereas this contribution becomes 16.5 % thanks to employment opportunities. The majority of the visitors to this country (95 %) are from Europe. Greece mainly receives visitors from Britain, Germany, Italy, France and the Netherlands; the total share of the visitors from these countries is around 60 % (T.C. Ekonomi Bakanlığı, 2012). In 2011 Travel & Tourism directly supported 349,500 jobs (8, 5% of total employment). Travel & Tourism investment in 2011 was EUR4.0bn, or 14, 0% of total investment (WTTC, 2012).

**Kosovo:** It holds great potential for winter tourism. It has a strong potential for skiing, eco-tourism, paragliding, biking and rock-climbing (T.C. Ekonomi

Bakanlığı, 2012). Visitors from Albania, US and Turkey mostly prefer Kosovo as their tourism destination.

For data in Table 3, 133 countries have been examined for 2009 index and 139 for the 2011 index. The findings reveal that with the exception of Greece, all Balkan countries have become more popular as tourism destinations in the world.

**Table 3: Travel and Tourism Index-2011**

| Country                   | RANK |      | SCORE |
|---------------------------|------|------|-------|
|                           | 2009 | 2011 |       |
| <u>Albania</u>            | 90   | 71   | 4.01  |
| <u>Bosnia-Herzegovina</u> | 107  | 97   | 3.63  |
| Bulgaria                  | 50   | 48   | 4.39  |
| <u>Croatia</u>            | 34   | 34   | 4.61  |
| Macedonia, FYR            | 80   | 76   | 3.96  |
| <u>Romania</u>            | 66   | 63   | 4.17  |
| <u>Slovenia</u>           | 35   | 33   | 4.64  |
| <u>Serbia</u>             | 88   | 82   | 3.85  |
| <u>Montenegro</u>         | 52   | 36   | 4.56  |
| Greece                    | 24   | 29   | 4.78  |
| Turkey                    | 56   | 50   | 4.37  |

\*No data found on Kosovo. **Source:** Travel and Tourism Competitiveness Report-2011, World Economic Forum, 2012.

### **Tourism Relations Between Turkey and Balkan Countries**

Turkey and Balkan countries share the same geography and common history as well as culture. For this reason, Balkan region is important to Turkey not only because of its geographic, political and economic closeness and ties but also because of historical, cultural and human resources. The four main issues and pillars in Turkey's Balkan policies shaped by the main principles of regional attention and comprehensiveness include high level political dialog, security for everybody, maximum economic integration and preservation of the multi-ethnic, multicultural and multi-religious social structures. The major political goals include creating spheres of common interests between the countries in the region, facilitating regional cooperation and attaining comprehensive regional integration (T.C. Dışişleri Bakanlığı, 2012). To ensure regional integration, it is essential to promote economic development and stability in the region. The political and economic instruments concluded between Turkey and Balkan countries in 1990s including Trade and Economic Cooperation Agreement, Free Trade Agreement, Promotion of

Investments Agreement have improved the relations between Turkey and Balkan states.

The agreements between Turkey and Balkan countries directly or indirectly affect the tourism sector. For instance, the participants pledged to make a total amount of \$1.9 billion in form of donation to Kosovo in a conference held in Brussels on 12 July 2008. 30 million euros of this amount is sponsored by the Turkish Cooperation and Development Agency (TİKA) (T. C. Ekonomi Bakanlığı, 2012). This cooperation will ensure economic development of Kosovo and promote economic prosperity in the region. And this will eventually influence tourism sector in the region.

The cooperation between Turkey and Balkan countries has been furthered by an agreement between Turkey and Albania concluded on 29 January 1987 which has been renewed on 11 November 1992 in Ankara (TC Ekonomi Bakanlığı, 2012). The Tourism Cooperation Agreement concluded between Turkey and Macedonia in 1993 is another visible example of cooperation. In addition, it has also been observed that there has been visible rise in the tourism investments by the Turkish businessmen. For instance, Dedeman Hotels have entered the Bulgarian market by assuming contractor job of the 4-star Princess Hotels in Sofia and Plovdiv. Dedeman wants to make them 5-star by renovating them and subsequently operate these hotels (İGEME, 2012).

In terms of easier access and transportation, a key part for the tourism destinations, the Turkish Airlines have concluded deals with the relevant actors. For instance, there are direct flights every day between Istanbul and Zagreb; number of joint flights with Croatian Airways has been increased from 3 to 10 in a week. This enables greater number of tourists to have access to tourism destinations in the region.

It is observed that a review of the UNWTO and WTTC data (Table 2) reveals that the tourism movements and activities in Turkey, ranked among top ten countries in world tourism and 50<sup>th</sup> among 139 countries in Travel and Tourism Index (Table 3), have become more important and attractive. This creates further opportunities for cooperation with Balkan countries which are located in the same geography. By cooperation between Turkey and Balkan states, more people will have the opportunity to travel to these countries in the region and have their vacations in Turkey.

## **Conclusion**

Balkan region which has been a venue of conflicts throughout history currently represents a promising market that holds great potential in terms of tourism opportunities. These countries which have moved to a free market economy in the aftermath of the regime changes in 1990s have become fertile grounds for all sorts



of economic activities by virtue of rapid reforms. To this end, the countries in the region have minimized the red-tape procedures, completed their structural and institutional operations and regulated their legal structures and legislations. In addition, they have concluded a number of regional, international and bilateral free trade agreements for the purpose of becoming full members in the EU.

There are a number of steps to be taken for the proper use of this potential and its transformation into material wealth because the countries in the region fall behind the European countries in terms of development and they have to take strong legal, political and economic decisions in order to become more influential in global economy. At this point, the previous stories and cases of economic transformation, the opportunities used and the ongoing crises are illustrative for the emergent economies in the region. Balkan region holds a special place in the current world where the economic center of gravity has shifted; for this reason, the economic stability in the region concerns a broader geography which also includes Turkey. The decision makers of the countries in the region operating in tourism sector need to draft tourism and investment policies and take rapid steps in security, transportation, infrastructure, service and education issues. The state of security, transportation infrastructure and transport tools, central and local administration services, number and quality of secondary and higher education institutions on tourism, state of catering institutions, quality and capacities of the accommodation facilities, travel agency and tour operator services appear to be the fertile areas for cooperation between the countries in the region. Marketing activities and promotions on national and international level that will be held with the participation of the actors of tourism sector and other relevant institutions, as well as governments, local administrations and civil society organizations in order to preserve the tourism assets and raise their image in domestic and international arena, and cooperation activities based on regional synergy will be influential in the promotion of the image of the countries in the region.

The implementation of these effective cooperation activities and their sustainability could be ensured via identification of common goals and targets agreed by all Balkan countries. Rumeli Balkan Federation, all Balkan associations and civil society organizations, institutions focusing on Balkan studies, and other civil society organizations like Turkish Cooperation and Coordination Agency could take joint action and create a Balkan Economic Cooperation organization under Turkey's leadership. A Balkan Tourism Committee could be set up within this organization to pursue studies on the drafting of long term tourism strategies and policies towards Balkan countries. Balkan Tourism Institutes could be established at the universities. An international Balkan tourism association could also be set up to administer the tourism relations between Turkey and Balkan states. The observation of common historical and cultural ties could be paid attention in the drafting of the tourism policies vis-à-vis the Balkan states. Secondly, the Turkish and Ottoman artifacts in Balkan states could be taken under protection; they could be used for tourism purposes and tours could be identified for the visitors who would travel to these countries to see these artifacts. Cooperation projects could be devised and planned

under bilateral agreements between the relevant states or by independent entrepreneurs to identify new types of tourism and to promote these new types. Within sustainable tourism principles, investment and support could be attracted from the international tourism organizations and international financial institutions to promote alternative tourism types (For instance, joint tourism cooperation between Greece and Turkey). In parallel to the EU tourism policies, fairs, exhibitions and festivals should be held to strengthen cultural ties between the people. For instance, as done by the EU in 1990, Balkan Youth Tourism Year could be declared to reinforce brotherhood ties between the young people. Considering that tourism could serve a passport of peace, generation of projects that would eliminate current turmoil and instability in the region should be the main goal of the tourism policies that would be drafted in the Balkan region.

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## SEA TOURISM IN ALBANIA

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### **Abstract**

*The Albania, by its geographical position, favorable climatic conditions and by the undiscovered natural beauty and rich historical background has a significant potential for tourism. The development of tourism in Albania was commenced in 1929, and started by the "Royal Motor Tourist Club". The basic purpose of this organization was the "Visits for Business Purposes". Most of the participants were coming from the neighboring countries. However, due to the management of the Albania's communist government that had dominated the country for many years and the closure of the country had affected adversely on the visitings to the country. However, since the early 1990's and due to changing management and the administration's approach to the outer World had began to open the country to the outside. Thus, each passing year, the interest on the Albania's tourism destinations continued to grow. Today, the tourism activities in the Albania is steadily developing and gaining varieties.*

*The Albania has a total length of 420 km of coastlines, as on the Adriatic in the west and on the Ionian Sea at the southwest and to be lived long and hot summer seasons and with the depending on the existence of rich geographical sources, the tourism activities in the country is becoming a major phenomenon. Especially in the densely populated and economically developed parts of the country, such as the Adriatic coasts area little more developed than the others, in terms of the tourism. The cities in various sizes, such as Durres, Vlora and Saranda are the major touristic destinations considering by the bays, caves, towns and the villages in the Albania. However, the level of the expected developments of the tourism activities has not reached yet, to the wished stages in this country.*

**Keywords:** *The Tourism Potential, Geographical Sources, Destinations and the Touristic Activities.*

## Introduction

The main purpose of this study which is called the "Sea Tourism in Albania" is to seek the general conditions of the sea tourism in Albania and the characteristics of the major touristic destinations and the problems of these destinations and is to provide solutions to submit, for these problems. The visits on the tourism activities is counted neither very new, nor very old in the Albania. Indeed, the development of tourism in the Albania, which was commenced in 1929 primarily and had started with the "Royal Motor Tourist Club" activities. The basic purpose of this organization was to have visits for the business purposes. The most of the participants were coming from Italy, Bulgaria, Romania, and those from the other neighboring countries, such as Greece (Klodiana, 2005). The Albania, up to the years of 1900s, was governed by the Communist Party, which ruled the country almost isolated from the World even though they were in the heart of Europe, because of the political and economic terms and conditions. After this date, depending on the changing management and approaches to the outer World had been formed and were implemented outsourcing policies, however due to the domestic political mixtures within the country the expanding of the touristic visits of the country could not find the floor of realization and development.

While looking at the historical developments of the visits to the Albania, the visits used to be for the economical reasons in the beginning and was as called the "Business Trips". However, in nowadays and depending on the geographical sources known as "Resting Tourism" that the "sun-sea-sand" is popular within the package holidays. Outside from the resting tourism, the culture, health, business and religious tourism are the other important pillars in the tourism sector.

First of all and as it is known, for a geographical area that to become a tourism destination, depends on the existence of the components of "Attractions, Accessibility and Accommodation". In the name of "Attractiveness" and due to the development of the tourism activities, the Albania, itself may attract visitors from the different parts of the World. However, in the point of access to some of the major tourist destinations, the "Access" and the places for the touristic accommodation, which is in the "Accommodation" issue is constitute the biggest obstacle in the development of tourism activities. Therefore, in the Albania there are no internationally important destinations and areas.

## Methods

The Geographical study as entitled "The Sea Tourism in Albania" has been made in accordance with the basic principles of the Science. During this operation, the basic geography books which are written, in both languages, in English and in Turkish were applied into, as well as the other studies conducted in the past were of a varieties of the implemented sources. Also, of the official websites of the various institutions and organizations in the Albania with the various reports published on the internet, papers, and the articles were encouraged to take benefits from. In the same

way, and of all the opportunities of the Internet and in the light of the data obtained from a variety of sources as tables, maps and graphics which had fitted for the purpose and had been presented within this study.

## Discussion

### An Overview of the Tourism of the Albania

The main goal of the organizations of the "Royal Motor Tourist Club" visits, which was commenced in 1929, were the visits for the business purposes. The visitors were coming to the country from the neighboring countries. However, from the past to the present, the basic starting point of these visitings have been unchanged, but the basic purposes of those who had visited the country had been quite a change. Once the "Business Trips" were leading the tourism and upon the time these business trips stand out by the country's changing economical, political and social shifts and started depending on the "Resting" visits and this has gained importance (Table 1).

Table 1: The visits to the Albania, according to the ratio

| According to purpose of visit | %  |
|-------------------------------|----|
| Resting                       | 82 |
| Business                      | 5  |
| Daily Visits                  | 3  |
| Other Reasons                 | 10 |

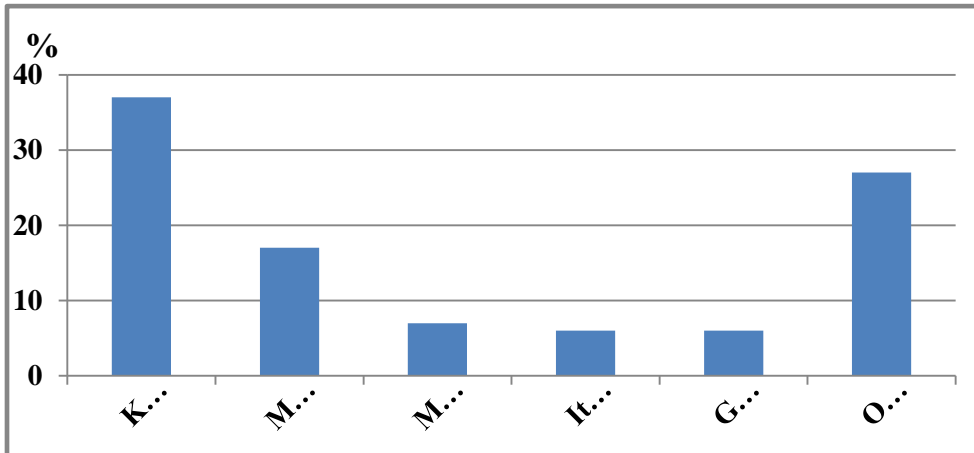
The Source: 2010, The Impact of Tourism Sector in the Economy of Albania, Journal of Studies in Economics and Society

In fact, when we look up at the objectives of arrivals of the visitors who entered the country, to relax was 82%, to work was 5%, other reasons were 10% and those who visited the country on a daily basis was 3% (Uruçi and Boriçi, 2010). In addition, some three million foreign tourists had visited the coasts of the Albania in 2011 (<http://www.lalzitbay.com/wp-content/uploads/downloads/2012/02/Lalzit-Bay-Resort-Buyers-Guide-2012.pdf>).

Despite of the global economic downturn and according to the Albanian National Tourism Bureau's reports the percentage of people who had visited the country had increased by 40% in 2009. On the other hand, the visitors who were coming to the country were entering via Durres, Vlora, Shengjin, Saranda and those are to visit the country from the sea ports. Other types of transportations were used by those who enter the country via the road and the airline. The situation exhibits by the continental perspectives that the rate of visits to the Albania, was quite different

from each other. These visits were, almost, from the Continental Europe. In fact, according to the annual report which was published in 2009 by the “National Tourism Bureau” the 92% of those tourists were coming from Europe, the 5% was from America, the 2% was from Asia and 1% of those was from the other places (Uruçi and Boriçi, 2010).

Graphic 1: The rate of the Albania visitors from country to country



The Source: <http://www.jospfest.com/images/albania.pdf>

As stated above, the 92% of those visitings to the Albania were those from the Continental Europe. However, it is based on a remarkable case that the visits to the country were from the countries which has borders with the Albania and that is in the performance of 67%. In fact, according to the reports of the “National Tourism Bureau”, the 37% of it was from the Kosovo, the 17% was from Macedonia, the 7% was from Montenegro, the 6% was from Italy and Greece and the rates of the attracted tourists is in (Graphic 1). In addition, the number of visitors to the country by the year, in 2010 was 5.577.929persons (<http://www.jospfest.com/images/albania.pdf>). The majority of the visitors who came to the country was for the summer season, including those who visited in June, July and August.

### The Coastal Tourism and Attractions

The physical geographic factors on the development of tourism are the coastal climate, the coastal geomorphology and vegetation, as well as population, settlement and economical activities such as human factors had played a role (Doğaner, 2001). Due to the touristic understanding, a significant portion of the population on the earth goes to the seaside. In the traditional sense, the domestic and foreign tourists are taking the “sun-sea-sand” package holidays as the most popular forms of the holidays and as referred to the most popular destinations are the coasts (Özgüç, 2007).



For the realization of a desirable tourism activity by the leading factor of the climate and other components, especially the structure of the coasts, quality and the geographical resources has very important place, such as the beaches. The Albania is the country with the greatest number of sunny days in Europe after Spain. The sunny days are 250 on the northeast and approximately 325 days on the southwest. In fact, the average temperature values' between the months of May to October is 23-31 °C in the country. From this point on, the view on the basis of the country's climate, is very ideal for coastal tourism. At the north coasts of the Adriatic, the tides are seen clearly, in The Mediterranean, which is submerged under water and is connected to the Atlantic Ocean, by the large massed lands and thus also been separated from the oceans.

The coasts of the Adriatic and the Ionian has different topographical features. The presence of the particularly flat land areas which are suitable for production of the large hotels on the just off the shores of the Adriatic coasts, is an "Access" to the sea and to the beach has a vital importance in this respect. Indeed, some destination areas with the tourism potential on the shores of the Ionian, such as Himara and Saranda has not developed much, because of the difficulties on the "Access" issue. As you know, the all of a sudden deepening, is increasing the risk of drowning in the sea. However, especially the deepening of the Adriatic Sea as to be little by little is creating suitable environment for the families and children. Also, the weak generation of the canopy trees, especially for the coastal tourism is creating insufficient and a negative situation while are on just off the beaches of the Adriatic and the Ionian coasts.

The coasts of the Adriatic Sea and the Ionian Sea by the geomorphological characteristics are different. The Adriatic coasts are characterized by wide sandy beaches and shallow waters. However, the shores of the Adriatic coasts exhibits a different property than the Ionian coasts. Immediately next to the coast, the mountains are arising behind the narrow coastal strip and cliffs and caves that attracts attention.

The Adriatic coasts are the coasts of alluvial plains and reaches to the width of 4-50 km with a length of approximately 250 km. The consisting of a series of small areas of the deltas and the lagoons formed by the river with 9 units. The length of the Ionian Sea is 170 km and begins from the Karaburun, on the edge of the nose, and goes to the south of Greece and ends at the Stilo Island ([http://www.unece.org/fileadmin/DAM/env/epr/epr\\_studies/albania.pdf](http://www.unece.org/fileadmin/DAM/env/epr/epr_studies/albania.pdf)). The Adriatic shores are more inhabited than the Ionian coasts. In addition, there are also differences, in terms of economic and population, between these bi-coastal areas. More than 50% of the population were collected along the capital city of Tirana which is located only 30 km away from the sea. The Adriatic coasts had been collected the 80% of the economical activities and 70% of the agricultural activities on itself. In addition, there is a great improvement in this area on the tourism activities. The Ionian coasts has usually small traditional villages and towns. These areas are particularly important for the Albania on many areas of unspoilt offers on the tourist values (<http://aguas.igme.es/igme/publica/tiac-02/ALBANIA-I.pdf>).

## **The Various Characteristics and Spatial Distribution**

The Albania, due to its tourism potential is in lack of an international scales in the tourism destinations. Indeed, the participants in the tourism activities since the 2001 year, is accounted for 80% of them were the Albanians. The holiday destinations which has potentials, such as the beaches, especially are in central and southern areas with the large geographical and human resources.

The major tourist destinations in the Albania are concentrated at the major cities, the villages and at the towns of which are closer to those cities and to various sized of beaches and caves.

In **Shengjin**, the advanced transportation network which has given the advantage to the fairly large beaches. The “Access” to these beaches is more than opportunities and contributed development to the environment. In addition, the impact of the growth potential of Shengjin’s is the Italian expeditions on a regular basis. The appearance of Shengjin's had diversified geographically with the presence of the pine trees, wetlands, wild pitches and the various local sense.

The Lalzit Gulf, on the shores of the Adriatic is an important tourist destinations. The location is very suitable for transportation. In fact, the airport is in 20 minutes away and also is in 30 minutes away from Tirana, the capital is located in the economic heart of the country. In the same way the city of Durres is close to the Gulfs of Bari and Brindisi of Italy. By the distance, Italy is to be close and therefore playing to an important role in attracting the mass of the Italian tourists. In addition, a variety of activities and opportunities for visitors from throughout the Cape of Rodoni is possible. The main activities are the swimming, diving, sailing, boat tours and boat trips.

In Durres, the artificial irrigation system, which the restructuring process was in 1970 had accelerated the construction and development during those years. This change and development of the Velipoja, Shengjini, Kune, Gjiri Lalzit, Durrresi, Golemi, Mali Robit, Spill, Divjaka, such as Darezeza and Plazhi i Ri Vlorë has led to an increase in the value of touristic beaches (<http://www.albaniantourism.com/>). The Durres beach, located 39 km away from the capital Tirana is the country's most populated and most famous beach. The length of it is 6 km and has a very large coastline. The depth of the sea, is increasing little by little, and thus to create an ideal environment for the children and the families. Here are available hotels, motels, villas, bars, restaurants and discos and have the major touristic facilities as outstanding. Within the last few years, the visitors are coming to Tirana from Kosovo and Macedonia on a daily basis, as well as the visitors from the other places (<http://www.akt.gov.al/index.php?lang=2>).



Map 1: The distribution of the most important sights of the Albanian Coasts

In addition, there are many hotel in Durres that are made by the Albanian investors. Therefore, by setting up some attractive coastal settlements in Durres and a variety of sectors was impaired by the activities of the people. In addition, the beach is being shaped by the second homes which was built up in this sections.

One of the most important beach in the south of the country is the **Mali Robit** beach of Dures. During the summer time it is quite a numbered by the people. It is located 40 minutes away from the capital Tirana. By the geographical view of the pine trees along the coast is a quite impressive exhibit. The Mali Robit's one of the most important feature and when the beaches been reduced by visitors, even the most numbered of visitors of the country's is visiting the Mali Robit. The **Vlora**, by the point of providing a choice of accommodation and other services to quite a lot of visitors. Also an important point at the Vlora is the availability to "access" to the beaches. To here, can be reached on a daily basis by the sea and ferry. In addition, the Tirana airport is in 3 hours away. The Vlora, is located at the junction of the Adriatic and the Ionian seas. The port and thermal power plant which is available will be led to the growth of Vlora.

The main activities in the Ionian coas are the swimming, diving, sailing and the surfing

([http://www.globalbispartners.com/uploads/albainan\\_tourism\\_today.pdf](http://www.globalbispartners.com/uploads/albainan_tourism_today.pdf)).The

**Himarra** town has tourism potential, although is an ancient town located at the foot of the mountain and is a main destination which suffering with the "accommodation and accessing" problems. The touristic tools, such as hotels and restaurants are less in number.

The **Saranda** is a touristic town, because of its geographic feature had the opportunity on diving in the tourism development. The Saranda has small hotels and restaurants, but most of them are far from giving the needs of visitors from the Europe. On the other hand, one of the biggest problem of the Saranda's is to encounter, in terms of tourism opportunities, by limited "Access" to the beaches and the "accommodation" needs is yet remains unresolved. An easy access to Saranda is possible by the ferry-boat from Corfu. Usually there are the shale and gravel beaches in Saranda. Those are the Italian and Greek touristic destinations, especially the high prices of there is making the beaches of Saranda more attractive. The Saranda beaches are artificial, but safe and clean beaches as human elements. It is located 25 minutes away from the beaches of Saranda to **Ksamil** which is famous for its white sand beaches and coastal footprint. Although the important touristic beach **Dhermi** still has the "Access" problem even thought has touristic potential.

To be witness to the "underwater world, flora, fauna, cultural heritage and to see the archeological cultural values and photographing, filming and sport fishing carried out for the purpose of promotional, sporting and educational purposes only and the shore dives, accommodation and hospitality services in the field of tourism" (Yaşar, 2011), is known as the "Water Dives" that the Adriatic and the Ionian coasts (Vlora, Lalzit Bay, Himara, Saranda, the Karaburun Peninsula, Carp Islands), it has a significant potential for such a tourism. In particular, having the clean sea-coast, the sea and the preservation of the rich flora and fauna, with suitable climate (above water temperature, sea surface temperature and wind direction of the impact, etc.) has direct impact on the development of the water diving. The water diving activities is causing for a long summer tourist season. Because, it takes the water diving activities, from the spring to autumn. In addition, along the Adriatic and the

Ionian shores, the Greek, Illyrian and Roman-era historical geography of human resources are places of settlements, in terms of the visitors.

## Results

The Albania has the potential of to have a significant, tourism resources and showing the effects of the communist rulings in the country for many years, and to be almost in the heart of Europe but was away from the Western World and been isolated. Due to the communist management and administration it was a communist country for many years, therefore was a country of wonder and interest. However, after 1990, along with the changing of the understanding and the management policy and the outreach has opened its doors to the outside World and this situation is also reflected in tourism and in the tourism-related sectors.

The Adriatic coasts with its natural resources has many important attractions. Therefore, in the recent years there had been intensive migrations to the shores. Because of the rapid urban migration, the coasts has become an urban area. The arising of the illegal constructions in the coastal areas and the suburbs and via it's rapid population growth is one of the emerging views of the human geography. "In order to withdraw, any person, into tourism activities and encourage him to travel, needs to mobilize the natural, cultural, artistic and technological possibilities in an organized manner. Also, in order to achieve this, the candidate touristic district's natural and human resources should be detected and then to be evaluated within the tourism understanding is necessary" (Akova, 2008). The first of all and for any geographic areas to attract the tourists, depends on the "Appeals, Access and Accommodation" components. The cities on the Albania's Ionian coasts, such as Saranda and Himarra, especially on the attractions and on the touristic destinations, the "Access and Accommodation" are extremely limited in terms of tourism activities and that to be an important problem. Mainly, the problems of accommodation is not just applies for the destinations on the shores of the Ionian, but on the other destinations on the shores of the Adriatic too. In the long, medium and short-terms, in order to eliminate the negative effects on the development of these places to "Access" is to be resolved by using the existing potentials is carrying a vital importance.

The presence of the rich geographical sources (shore structure, quality, generation of a forest canopy just off the beaches and there is a large, clean, and to be safe) and easy arrivals to the beach and the sea and having favorable climatic conditions, lithological structure of the coast, the investment facilities, are important tools for tourism activities on the basis of "Appeal". Despite of these attractions, especially on the Adriatic coasts, this appeal has not been transformed to the European and to the World tourism markets yet. A place of which should become a part of the tourism destination, needs the growth factors that plays a role with the "Appeal and Access to Accommodations". In the recent years and on the shores of the Adriatic, especially in Durres, Vlora, as well as places such as on the shores of the Ionian sea

at the Saranda and Himarra, the accommodation needs for tourists and the touristic needs on the dining, entertainment and so on, is necessary and that in the many hotels, motels, resort villages has the services to be provided too. These investments are made for the needs of the guest accommodations, dining and entertainment but, in spite of those services they are far from the European standards. To reach to the European standards regarding to the tourism activities in Albania and having the number of visitors coming each year increasingly and on behalf of the tourism sector to become the locomotive of the economy, is possible with the policies on the "Time and Place" by the short, medium and long terms advancements and the political stability. In another word and within the framework of the political determination and the economical opportunities and the between regional, national, regional, local and sectoral planning is possible with the "Tourism Development Programs" and those are the tourism industry's opportunities to catch up with the European standards.

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## ELECTORAL ENGINEERING IN ALBANIA SINCE 1991

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### Abstract

*Electoral systems are very important for every country. They are as a link connects the preferences of citizens to the decisions taken by governments. They are important objects of study for anyone interested in the political process.*

*This paper explains the historical background of the Electoral System changes in Albania after the fall of the communism system in 1991. It describes these changes and tries to understand the political reasons that cause the frequent alternation of the different types of electoral systems focusing mostly on two types of them: the Mixed Member Proportional system and the Regional Proportional system.*

*After the fall of communism Albania has experienced frequent changes to its electoral process which means that in the country were introduced several types of electoral systems. The period between 1992-2005 was characterized by the domination of the Mixed Member Proportional system. However, as it was a little ambiguous in its content, it was changed by the electoral reforms of 1996 and especially in 2008 in order to make it apt to both Proportional and Majoritarian types of Mixed Member Systems.*

*This paper will also focus on the present electoral system adopted by the Albanian Parliament in 2008. It is a combination of a majority voting in constituencies, Single Member District System (SMDS) with a proportional system (proportional representation of national lists). It was decisive for the win of the 2009 parliamentary elections by the Democratic Party.*

*Finally, this paper will summarize the several EU recommendations on the electoral system as the European Integration is one of the most important goals of Albania and will try also to give some future perspectives for an ideal Electoral Code to be adopted by a non-consolidated democracy, such as Albania.*

**Keywords:** Albania, electoral engineering, elections, electoral systems.



## Introduction

Elections are one of the key elements of consolidating democracy. They improve participation of citizens in governance, and guarantee government accountability and promote political competition. “The electoral process is the ultimate symbol and act of modern democratic societies. Elections alone do not guarantee democracy” (OPPD<sup>317</sup> 2011, p. 6) but they are fundamental for its existence and functional operation. For that reason, the electoral process is a vital part of democratic governance.

Choosing one electoral system or another depends on several contrasting elements, which in liaison with particular political and historical conjunctures make the results extremely unforeseeable. The type of the electoral systems and its consequences influence also the approaches of the political parties in different ways during the elections (Shahini, 2011). One of the most important aspects of the electoral systems is that they help to determine the number of political parties that one country has, the coalitions, how integrated they are, etc. Elections all around the world are a democratic instrument that determine who will form the government and legitimate the government and its institutions.

Gerxhani & Schram (2009) state that “Most scholars agree that there is an important cultural and linguistic polarization in Albania (p.307). This polarization is geographically based and it divides the country into a northern and a southern region. Historically, the polarization of the Albanian society runs parallel to the existence of two main clans, the Ghegs (northern-based) and the Tosks (southern-based). Pond (2006) stated that “not only differences, but also political tension between the Gheg clans in the north and the Tosk clans in the south was taken by Western analysts for decades as a key element to understand politics during the half century when Communist Albania sealed itself hermetically from the world” (Pond 2006, 189). The dictator Enver Hoxha, almost all the politburo and the majority of his Communist cadres came from the south. Even nowadays there is a feeling of frustration and a desire for 'revenge' of the North systematically marginalized by the communism towards the often and gladly privileged South.

Considering the political agenda around the world Norris (1997) described that during the 1990s, debate about the electoral system moved from margin to mainstream on the political agenda. This shift produced growing awareness that electoral rules are not neutral: the way votes translate into seats means that some groups, parties, and representatives are ruled into the policymaking process, and some are ruled out (Norris 1997, 2).

For Albanian case it was also valid that the electoral system adoption has been discussed and various system has been tried since 1992. One of the main debate

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<sup>317</sup> OPPD is the Office for Promotion of Parliamentary Democracy of the European Parliament in Brussels.

concerns whether Albania should adopt either majoritarian or proportional systems. As Norris stated countries were arguing to adopt whether “majoritarian systems which gives priority to the government effectiveness and accountability, or proportional systems, which promote greater fairness to minority parties and more diversity in social representation” (Norris, 1997, 2).

The choice of a determinate electoral system must seem mechanistic but the constitutional system is formulated to achieve some specific goals. We can certainly say that a good or a bad functioning of an electoral system have direct repercussions on the idea of representative democracy. As Norris pointed out “[i]n this perspective proportional elections can produce indecisive outcomes, unstable regimes, disproportionate power for minor parties in ‘kingmaker’ roles, and a lack of clear-cut accountability and transparency in decision-making” (Norris 1997, 9).

At the contrary, supporters of the proportional system sustain that the electoral system should encourage a conciliation process and an executive with a cohesive coalition. The parties that receive a number of votes above a minimum threshold should be part of the legislature parallel with the proportion they received by the electors. Moreover the composition of parliament should consider the most important social structure of the electorate, in this manner all citizens can represent their interests in the legislative body. According to supporters of proportional systems “[m]ajoritarian systems over-reward the winner, producing ‘an elected dictatorship’ where the government can implement its programmes without the need for consultation and compromise with other parties in a majoritarian parliamentary system” (Norris 1997, 9).

### **Historical background**

As Blendi Çeka pointed out that ‘the main feature of the electoral systems in Albanian case during 20-years of transitional democracy, is their systematic change’ (Çeka 2012, 530). In almost every parliamentary election held in Albania there were ‘either change on electoral system family or changes of electoral formula within the same electoral system’. During the transition to democracy since 1991, Albania experienced different electoral systems from purely majoritarian in 1991, to combined dependent in 1992, 2001, 2005, and combined independent in 1996 and 1997 and to regional proportional in 2009 and 2011. Çeka argues that ‘[w]hat can be noticed in terms of electoral systems volatility, is the shift from majoritarian families towards combined and further more on proportional ones’ (Çeka 2012, 530).

The instability of the electoral system of Albania can be observed even in the size changes of its Parliament especially in the first post-communist decade. It varied from 250 members of parliament in 1991, to 140 in 1992 and 1996, while in 1997 parliamentary elections the number of the MPs was increased to 155. The referendum of 22 November 1998 approved the new Albanian Constitution by

93.5% of voters with a turnout of 50.6% and definitively fixed to 140 the number of MPs (Art. 64 of Albanian Constitution 1998).

The frequent changes of the electoral systems offered to Albania possibility to experience several models of proportional and majoritarian electoral systems ranging from weak to moderate and strong ones. In a certain way the previous experiences have modified the references for the new ones. During the last two decades the several electoral systems applied in Albania have produced a complex relationship among smaller and bigger political parties. Their number has also changed. The most part of the smaller political parties depends on the electoral systems used. In some cases they had a crucial role<sup>318</sup> within the parliament in other cases their role was not significant at all.

The main characteristic of the electoral systems applied in Albania is the consistent majoritarian formulas in each electoral system implemented, except the last legislative elections of 2009. The majoritarian system is reflected in the way political parties system is functioning. The two big parties, the Socialist Party and the Democratic Party, largely dominate the political chessboard since 1991. In addition, during all these period, the logic of the electoral competition is based on the candidates' charisma and their personal reputation (candidate oriented campaign).

The two main parties following the elections of 1991 have been the main voices in any electoral system changes made in the following years. In other words, they have produced systems that have guaranteed most of the time their own interests and prerogatives. Compilation of reforms or Electoral Codes by representatives of political parties and their approval in Parliament (where the representatives from both parties have the absolute majority) has made it possible for any code to have the blessing of the major parties in order to guarantee their interests.

The international organizations monitoring Albanian elections have had an important role with their recommendations. Smaller parties have had a voice only in the process of drafting Election Codes but mostly they were not taken into consideration. As it concerns the civil society, Çeka (2012) argues that "their role in discussions on the Code and the choice of electoral formula has been in the best cases vague or almost inexistent" (Çeka 2012, 534).

## **Electoral Engineering**

Before describing the electoral engineering process in Albania it should be appropriate to give a definition and basic types of electoral systems. According to Gallagher and Mitchell (2005) an electoral system is

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<sup>318</sup> The case of the Socialist Movement for Integration party in the last legislative elections in 2009 is a classical example.

the set of rules that structure how votes are cast at elections for a representative assembly and how these votes are then converted into seats in that assembly. Given a set of votes, an electoral system determines the composition of the parliament (or assembly, council, and so on as the case may be). The electoral system is narrower than what we term electoral regulations, by which we mean the wider set of rules concerning elections (Gallagher and Mitchell 2005, 3).

According to Norris (1997) there are four main types of electoral systems. These can be summarised as follows:

- Majoritarian formulas (including plurality, second ballot, and alternative voting systems. This is the oldest electoral system, dating back at least to the 12th Century and also the simplest;
- Semi-proportional systems provide another option, including the cumulative vote where citizens are given as many votes as representatives, and where votes can be cumulated on a single candidate. Parties put forward as many candidates as they think could win in each constituency. The total number of votes is counted, and then the number of seats divides this total in the constituency to produce a quota;
- Proportional representation (including open and closed party lists using largest remainders and highest averages formula). Proportional electoral systems based on Party Lists in multimember constituencies are widespread throughout Europe, and worldwide;
- Mixed systems (like the Additional Member System combining majoritarian and proportional elements) (Norris 1997, pp. 2-5).

The Albanian Assembly, which was formed by the elections of 1991 controlled by the then governing Labour Party of Albania, had adopted the first post-communist election law in February 1992. This law brought an important change in election system that the Majority system used in 1991 system was changed to Mixed Member system which was used in 1992 elections. Shahini (2011) claims that the system used in 1992 elections wasn't very clear in its features. The electoral reforms of the following years provided more understandable mixed member systems with a combination of features leaning towards both Mixed Member Majoritarian (1996) and Mixed Member Proportional systems (1997, 2000, 2003, and 2005) (Shahini 2011, 8).

In the tables below, adapted by the authors from Shahini (2011), you may find the several electoral system changes in Albania from 1991 to the last electoral reform in December 2008.

Table 1: Electoral Engineering (1991-1997)

| Year             | 1991      | 1992  | 1996  | 1997  |
|------------------|-----------|-------|-------|-------|
| Electoral System | Plurality | Mixed | Mixed | Mixed |

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| System Type         | Majority System    | Member Proportional System                    | Member Majority System                                 | Member Proportional System                             |
|---------------------|--------------------|---|--|--|
| Assembly Size       | 250                | Flexible (140 MPs final result)               | 401  | 515  |
| Number of Districts | n/                 | n/  | n/   | n/   |
| Tiers               | 1-Nominal tier     | 2-Nominal tier 100 SSD, List tier-nation-wide | 2-Nominal tier 115 SSD, List tier-nation-wide          | 2-Nominal tier 115 SSD, List tier-nation-wide)         |
| Allot Structure     | Categorical 1 vote | Categorical 1 vote in nominal tier            | Categorical 2 votes, 1 in nominal tier, 1 in list tier | Categorical 2 votes, 1 in nominal tier, 1 in list tier |

\* Source: Adapted from Shahini 2011, 13.

Table 2: Electoral Engineering (2000-2008)

| Year                  | 2000                             | 2003                             | 2005                             | 2007-08                      |
|-----------------------|----------------------------------|----------------------------------|----------------------------------|------------------------------|
| Electoral System Type | Mixed Member Proportional System | Mixed Member Proportional System | Mixed Member Proportional System | Regional Proportional System |
| Assembly Size         | 140                              | 140                              | 140                              | 140                          |
| Number of Districts   | 100                              | 100                              | 100                              | 120                          |
| Tiers                 | 2-Nominal tier 115               | 2-Nominal tier 115               | 2-Nominal tier 115               | 1-List tier-regional         |

|                         | SSD List tier-nation-wide  | SSD, List tier-nation-wide   | SSD, List tier-nation-wide   | level  |
|-------------------------|--|--|--|--|
| B<br>allot<br>Structure | C<br>ategorica<br>l 2 votes,<br>1 in<br>nominal<br>tier, 1 in<br>list tier | C<br>ategorica<br>l 2 votes,<br>1 in<br>nominal<br>tier, 1 in<br>list tier | 2<br>votes, 1<br>in<br>nominal<br>tier, 1 in<br>list tier<br>(compose<br>d and<br>joint<br>multi<br>name<br>lists) | C<br>ategorica<br>l 1 vote<br>in multi-<br>names |

\* Source: Adapted from Shahini 2011, 13.

Major changes of the 1992 election law influenced the electoral thresholds of coalitions and individual parties and the terms of their suitability for seat distribution in the list tier. How to administrate elections and how structure the electoral commissions were the main points of divergence in the Albanian bipolar system. This electoral reform had a negative effect in politicizing the composition of the electoral administration. Shahini (2011) states that:

The failure to set up an independent non politicized permanent electoral administration has been one of the major pathologies of the electoral systems in Albania. The electoral system of Albania was officially included in the Albanian Constitution approved in 1998 as a Mixed Member Proportional system (...). The post constitution election laws were designed and amended through the electoral reforms that took place in 2000, 2003, 2005, 2007-08 in relation to the article 64 of the constitution (Shahini 2011, 8).

One of the fundamental principles of democracy for the electors is to know the results of their votes. The changes applied to the 2005 election law allowed at the same time, the candidature of the aspirant deputies in closed party lists that were revealed after the voting ends and the relocation of votes casts by the electors between political parties after the elections.

In 2008 the election law was changed again. This time it produced a Regional Proportional system in which the seats would be distributed to the political parties and coalitions on a regional level. The electoral districts correspond to the 12 prefectures (Qarku) of the country. The 2008 modification of the electoral law was a radical change. Combining the legal thresholds with the natural thresholds for a seat per prefecture resulted in the eradication of the small parties even they contributed to the creation of big coalitions. In this context, the Socialist Party won the election with more votes than the Democratic Party at national level but, the

number of seat it gained in the parliament was lower than the Democrat Party (Shahini, 2011).

Considering that the electoral system is included in the Albanian constitution since 1998, the electoral reform of 2008 was accompanied by significant amendments of the constitution. It should be emphasised that all these considerable organizational changes were realised with 'a bi-partisan agreement' (Shahini, 2011) of the Socialist Party and the Democratic Party as the two biggest political parties in Albania. They did this without consulting with the small parties or other political actors or citizens. One of the most important reasons that pushed the Albanian political actors to frequently change the electoral system in the past twenty two years, was to achieve the international standards of free and fair elections. However, fulfilling the expectation of the personal interests of the two major parties, and guaranteeing the victory for the forthcoming elections for the ruling parties can also be considered other reasons for such frequent changes in the electoral system.

Table 3: Election Results for the Coalitions in Parliamentary Elections 2009

| Political party/coalition                                    | Nr of Votes      | % of votes | Seats      |
|--|------------------|------------|------------|
| Independent Alliance for Change (PD, PR, PAA, PAD, PLL, PDI) | 56,000           | 0.05       | 7          |
| Freedom Pole   | 13,150           | 6.93       | 0          |
| Social Alliance for Integration                              | 0                | 1          | 4          |
| Union for Change (PS, PSD, PDS, PBDNJ, G99)                  | 7,660            | 0.82       | 6          |
| Party for Law and Justice                                    | 4,410            | 0.55       | 6          |
|  | 88,768           | 5.33       | 0          |
|  | 0                | 0.32       | 0          |
|  | 4,865            | 0.04       | 0          |
| <b>Total</b>   | <b>1,519,609</b> | <b>100</b> | <b>140</b> |

\* Source: Adapted from Shahini 2011, 12.

Table 4: Election Results for the Individual Parties in Parliamentary Elections 2009

| Political Parties                        | Nr of Votes      | % of votes | Seats      |
|--|------------------|------------|------------|
| Democratic Party (PD)                    | 598,581          | 40.18      | 68         |
| Republican Party (PR)                    | 31,990           | 2.11       | 11         |
| Party for Justice and Integration (PDI)  | 14,477           | 0.95       | 6          |
| Socialist Party (PS)                     | 610,208          | 40.85      | 14         |
| United Human Rights Party (PBDNJ)        | 18,078           | 1.19       | -          |
| Socialist Movement for Integration (LSI) | 84,410           | 5.55       | 1          |
| Others                                   | 147,913          | 9.70       | 0          |
| <b>Total</b>                             | <b>1,519,609</b> | <b>100</b> | <b>140</b> |

\* Source: Adapted from Shahini 2011, 12.

### Changes of the electoral system in Albania

Albania has hardly ever had a democratic political system. In the forty five years of communist dictatorship it was completely isolated. The political regime was one of the most dictatorial in Europe, its economic system was completely socialized. In



the early 1990s, Albania was the last of the Central and Eastern European countries to allow political pluralism and to introduce democratic institutions and market mechanisms.

After the collapse of communism Albania passed from a model of party-state to a multiparty system where many parties compete among themselves for the exercise of political power. In this political competition, the largest and strongest parties were and still are those who correspond to the most important political traditions of the country: the Democratic and the Socialist Party. Traditions that make both DP and SP the principals points of reference for the electors and the main formations of political representation (Gogo 2006).

In the appendix there are presented the results of the seven elections that took place in the post-communist Albania until 2009. At a first glance the dominating presence of the two major parties, the DP and SP can be seen clearly. Those two parties, that led the political system towards a consolidated bipolar system, got more than 75 percent of the total votes. The electorate concentration in them has remained unchanged although the Socialist Movement for Integration has entered into the party system.

The electoral system in Albania has been subject to several changes during the period of democratic transition. All this occurred in the presence of a provisional constitution until 28 November 1998 when the new Albanian Constitution, still in force, approved by referendum. The first democratic elections were held in the majoritarian system inherited from the communist regime.

The first electoral law after the communism approved by the Albanian parliament on 4 February 1992, provided the formation of a parliament composed by 140 members, 100 of them directly elected in accordance to a uninominal list. In each district the candidate who gets 50 percent plus one of valid votes in the first round of elections has won. In the case that no candidate obtains the absolute majority, the first two candidates who received the highest votes in the first round have to race again in the second round.

The goal of this electoral system was to guarantee the maximum possible representation of votes in parliament, but at the same time to avoid a splitting that would have caused difficulty for the formation of a stable government by having a majority in the parliament. This election system was basically a proportional one corrected by majoritarian elements (Omari 2007). The electoral law was approved by a large consensus and its application has been positive, but apparently penalized the smaller parties as the minimum threshold of 4 percent was very difficult to achieve.

The first amendment to the electoral law occurred before the elections of May 1996, where it was maintained the threshold of 4 percent of votes for each party as regards the plurinominal list, while the threshold for coalitions was increased to 8 percent.

Later modifications were made before the anticipated elections of June 1997 where the parliament has approved the following two rules. Firstly, the number of MPs was fixed at 155 seats. The electoral map of the country was divided into 115 uninominal (single member) electoral districts. The 40 remaining seats were distributed through the multi member lists taking account of electoral results obtained by each party. Secondly, the threshold for parliamentary seats in the plurinominal (multi member) list decreases from 4 percent of the vote to 2 percent in the first round of elections.

The modifications of the electoral law led to a change in the electoral system balance. The division of the electoral map in 115 districts has increased the number of MPs elected by the uninominal list, while those elected through the plurinominal lists remained unchanged. All this has caused the strengthening of the majoritarian element so the electoral system changed from a proportional system with majoritarian elements to a majoritarian system with proportional elements. The lowering of the threshold from 4 to 2 percent compensates the minor parties for the damage that they could have with the strengthened of the majoritarian element. In fact in the elections of 29 June 1997 was doubled the number of parties entering in parliament. This has also favored the formation of parliamentary coalitions as the two major parties could not reach to a stable majority for themselves.

### **The actual electoral system**

The Constitution of Albania was amended by the Parliament on 21 April 2008. Some of the amendments repealed the complicated election system that used a combination of proportional representation and single member electoral zones. This system allocated 100 mandates in a plurality election in each electoral zone and an additional 40 mandates based on an electoral subject's share of the national votes. The prior election system had an element of proportionality that attempted to allocate mandates in proportion to a political parties or coalition's national share of the valid votes. Venice Commission (2009) states that

Although the strategies for the 2005 elections were different from the strategies applied in the 2001 parliamentary elections, the goal of obtaining a disproportionate share of the mandates was the same. In both elections the allocation of mandates was controversial and subject to legitimate criticism (Venice Commission 2009, p. 5).

The current electoral system in Albania is a combination of a majority voting in constituencies, Single Member District System with a proportional system. The first provides 100 seats and the second 40 seats in the parliament, so the electoral system is primarily a majoritarian one. Bogdani and Loughlin (2007) describe the electoral system in Albania as "*partitocrazia* (rule by parties)" and its influence as follows:

In Albania, the majoritarian element has tended to perpetuate the alternation in power of the two major political parties (the Socialist Party and the Democratic Party) (...) Furthermore, the Albanian political system resembles the previous Italian system (before the reforms of the 1990s) in that it is a kind of *partitocrazia* (rule by

parties) where people tend to vote for the parties and not for the individuals, and parties dominate all aspects of the system (Bogdani & Loughlin 2007, 44).

In order to ensure free and fair elections, the government party and the opposition established a bi-partisan committee and, with the assistance of the OSCE in Tirana, worked for two years to prepare and adopt a new Electoral Code on a consensual basis and to revise the electoral law. There is also planned that a party must present 140 candidates to be allowed to take part in the poll. If a political party wishes to participate in elections as part of a coalition, it must have at least 70 candidates. Parties not represented in parliament will appoint 70 candidates in the twelve electoral Albanian districts.

Another element of the electoral reform is the abolition of the Central Election Commission (CEC) as an independent institution. The CEC will continue to exist but will be deprived of its plurality by becoming a bipartisan commission in which only the SP and DP will be represented. It also means that other political parties will not be associated at the organization of elections and at the control of polling stations (Moniquet 2008, 4).

The constitutional amendments also strengthen the powers of the Prime Minister over those of the president. The latter in effect will not be able to dissolve the parliament. This ability is now up to the head of government. Furthermore, it is also expected that the election of the president by national representation no longer requires a three-fifths majority of the vote but only 71 deputies out of 140<sup>319</sup> that compose the assembly.

On 19 July 2012 the Albanian MP's voted 127 by 2, in the 140-seat chamber, in favor of constitutional amendments that allow greater transparency in the selection of key electoral commission officials and introduce digital voter identity checks in the capital, Tirana. Parliament also approved a pilot project to computerize the vote count in the district of Fier, the second biggest district in the country that brings 16 MPs to Parliament. The changes, which will apply to the next national elections planned for 2013, follow a key request for electoral reform from the EU, which Albania hopes to join. But they do not address small opposition parties' demands for a national proportional system of representation. The existing system makes it hard for the small parties to enter Parliament, because when they fail to pass a 3 percent threshold in any of the 12 electoral districts their votes in that district go to the two biggest parties.

On the one hand, the reform of the electoral law proves that Albania has made progress on its way to the EU and meets the conditions imposed by the EU and NATO. On the other hand, the new law will probably lead to the elimination of

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<sup>319</sup> The current president Bujar Nishani was narrowly elected on 12 June 2012 with only 73 votes out of 140.

small parties from the political scene and strengthen the domination of the two leading parties

### **Conclusion**

Applied in Albania, the regional proportional electoral system does not appear to be the best suited for the country. The proportional elements introduced does not avoid the injustice of the majoritarian towards small parties, on the contrary, small parties were "trampled" from the major parties when votes were distributed within each coalition. Concretely, the Democratic Party took 68 seats, with a total of 610,463 votes, in an average of 8,977 votes/MP. While the Republican Party, with the 31,990 votes gained only 1 MP and the Environmentalist Agrarian Party with 13,296 votes, none.

To remedy at this injustice, the smaller parties seem to be unanimous proposing a national correction of the electoral system. Given the intransigency of the Prime Minister towards the amendments of the constitution, small parties propose a change to the formula distribution of seats, which is simply a modification of the Electoral Code. So, by changing only the law, the system becomes, in their opinion, the most appropriate. But the question is what is expected from the electoral system? Each system has its advantages and disadvantages. The dilemma to be resolved is whether we want a bipolar political system, or we would give an opportunity of existence to some smaller parties. In any case, the bipolarism of the Albanian political life is a fact that would survive in any system. In order to guarantee the minority representation of some classes as well as social ethnic population, the majoritarian system can be combined with a proportional correction, of course, with a reduced number of the 40 seats in Parliament.

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Appendix

Results of the Legislative elections from 1991 to 2009

% of votes by party and number of seats

| Parties               | 1991          | 1992          | 1996          | 1997          |
|-----------------------|---------------|---------------|---------------|---------------|
| PS*                   | 56.17%<br>169 | 25%<br>38     | 20.37%<br>10  | 52.75%<br>101 |
| PD                    | 38.71%<br>75  | 62%<br>92     | 55.83%<br>102 | 25.7%<br>28   |
| PSD                   | -             | 4.3%<br>7     | -             | 2.49%<br>9    |
| PAD                   | -             | -             | -             | 2.72%<br>2    |
| PR                    | -             | n/a<br>1      | 5.74%<br>3    |               |
| PBDNJ                 | -             | n/a<br>2      | 4.04%<br>3    | 2.84%<br>4    |
| PLL                   | -             | -             | -             | 3.25%<br>2    |
| PBK                   | -             | -             | 4.97%<br>2    |               |
| PDR                   | -             | -             | -             | -             |
| Indep<br>dent         | -             | -             | -             | n/a<br>3      |
| Total<br>seats        | 2<br>50**     | 1<br>40       | 1<br>40       | 1<br>55       |
| Populati<br>on        | 3.<br>255.000 | 3.<br>363.000 | 3.<br>481.000 | 3.<br>510.500 |
| Electors              | 1.<br>984.933 | 2.<br>000.000 | 2.<br>204.002 | 1.<br>947.235 |
| Total<br>votes        | 1.<br>963.568 | 1.<br>830.000 | 1.<br>963.344 | 1.<br>412.929 |
| % of<br>participation | 9<br>8.9%     | 9<br>1.5%     | 8<br>9.1%     | 7<br>2.6%     |

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% of votes by party and number of seats

| Parties            | 2001          | 2005          | 2009#         |
|--------------------|---------------|---------------|---------------|
| PS                 | 73<br>42%     | 39.4%<br>42   | 40.85%<br>65  |
| PD                 | 37.1%<br>46   | 44.1%<br>56   | 40.18%<br>68  |
| PSD                | 4<br>3.6%     | 3.0%<br>7     | 1.76%<br>-    |
| PAD                | 3<br>2.5%     | -             | 0.31%<br>-    |
| PR                 | -             | 3.7%<br>11    | 2.11%<br>1    |
| PBDNJ              | 3<br>2.6%     | 0.4%<br>2     | 1.19%<br>1    |
| LSI                | -             | 2.6%<br>5     | 4.85%<br>4    |
| PDK                | -             | 0.8%<br>2     | -             |
| PDR                | 6<br>6.1%     | 2.1%<br>4     | -             |
| PDI                | -             | -             | 0.95%<br>1    |
| Independent        | 2<br>n/a      | 0.4%<br>1     | -             |
| Others             | 3<br>4.1%     | 3.4%<br>10    | -             |
| Total seats        | 140           | 140           | 140           |
| Population         | 3.600.<br>000 | 3.723.<br>500 | 3.667.<br>000 |
| Electors           | 2.499.<br>238 | 2.850.<br>821 | 2.774.<br>376 |
| Total votes        | 1.373.<br>210 | 1.366.<br>777 | 1.519.<br>176 |
| % of participation | 54.9%         | 47.9%         | 52.6%         |

Source: Ardian Gogo, "Il comportamento elettorale in Albania 1989-2005" (The voting behavior in Albania 1989-2005), Torino University, March 2006.

\* In the 1991 elections the name of the party was PPSH (Labour Party of Albania).

\*\* The remaining 6 seats were gained by the Greek Minority Party named OMONIA.

# 2009 data taken from Shahini, 2011

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