

Besa Shahini, Petrit Dollani

Costs and Benefits of European Integration — The Albanian Case

1. Albania's efforts toward European integration path: negotiations, challenges and achieved successes

One of the main strategic goals of the policy of the Government of Albania is its integration into the European Union. This was clearly demonstrated in April 2008, when Albania applied for being an EU potential candidate country. By 26th November 2009, Albania has received an EC Questionnaire which included over 1500 questions regarding the legal system, the constitution, laws and regulations, statistics, foreign affairs, infrastructure, government subsidies to different branches of the economy, and many more. The deadline for Albanian ministries to submit the answers to these questions is five months period, and it is by the early May 2010 that the completed questionnaire, essential to EU candidate membership, has to arrive in Brussels.

Based on the answers, the European Commission will form its Opinion, in which it will present its views and give recommendations about the ability of Albania to become a candidate for EU membership. Since it will take the EC seven to eight months to prepare the Opinion, it is expected to

be presented to the EU Council in the spring of 2011. The Council will then decide whether it will grant Albania an official candidate status and begin negotiations on admission.

The European Commission has always encouraged the Albanian government to continue the implementation of the Stabilisation and Association Agreement and Interim Trade Agreement.

Signed in the year 2006, the main purpose of the Agreement was to give guidance for gradual amalgamation with the EU. The agreement provided a basis for economic, political, juridical, diplomatic, humanitarian and military co-operation, granting Albania a status similar to that of associated membership, allowing a high degree of integration with the EU even before the actual membership is attained. The uniqueness of this agreement is in the fact that the acceptance to the EU is based on individual merits of Albania, meaning that the readiness of Albania to become an EU member is based on the individual capacity of Albania to make all the necessary adjustments required to meet the two groups of criteria, the Copenhagen and Maastricht criteria, for becoming an EU member state.

The crucial objective of the Copenhagen criteria is helping the candidate country

during the first stage of reaching the European Monetary Union.

During this first stage, the candidate country needs to undertake preliminary reforms, creating conditions that would support the development of the fundamental legal, political, administrative and economic criteria, all of which are mentioned in *acquis communautaire*, and conform to the institutional framework of the EU. Once these conditions are set, and the country has become an EU member, the next stage involves joining the EMU and accepting euro as common currency. Maastricht criteria help the candidate country during this stage by giving guidance on how to create stable macroeconomic conditions, and maintain them for at least two years, which would then allow the country to successfully implement the common currency.

Being the only precise and quantitative criteria, they are being used as measurement tools of the level of success of the candidate country in accomplishing the criteria for becoming a full EU member.

The first criterion involves showing a price stability performance. This is done by obtaining a sustainable average rate of **inflation (1)** that does not exceed more than 1.5 percentage points that of the three best performing member states. Also, the member state should have an average nominal long-term **interest rate (2)** not exceeding more than 2 percentage points that of the three best performing member states and should present normal fluctuation margins following the exchange-rate mechanism of the EMS, without severe tensions. The **general government deficit** of a member state should not exceed 3% of GDP, or should be falling substantially, and the **gross general government debt** should not exceed 60% of GDP at market prices (3).

According to the Stabilisation and Association report on Albania behind the year 2008, Albania has improved in the last few

years and does not lag much behind other neighbours, in terms of main macroeconomic indicators, and in some aspects even has certain advantages.

Using the exchange rate as nominal anchor, Albania has achieved a considerably high level of price stability, with inflation (in retail prices) of only 2.9% (while in 2001 the level of inflation was 3.5%).

A modest improvement has been made in terms of producer prices (prices fell by an average of 0.4%), and the real growth of GDP is remaining at very good level of 6%.

Nevertheless, Albania faces serious problems: high unemployment of 13.2% in 2007, deficit in the trade balance (26.8% of GDP in 2007), public debt of 53% in 2007 (which fell from 56% in 2006 and 53% in 2007), external debt to GDP ratio fell to 24.8% at the end of 2007 (down from 25.1% in 2006) and above all the foreign direct investments reached 5.9% of GDP in 2007 (up from 3.5% in 2006).

In terms of microeconomic indicators, what Albania lags behind in is the implementation of certain microeconomic elements of the *acquis communautaire* which are essential for the normal functioning of the economy: legal system, financial system, competition policy, the private sector share.

The Albanian legal system is suffering from serious organisational problems (inefficient procedures, inappropriate administrative capacities for law enforcement, long delays, lack of expertise) and undermining of the rule of law (treatment of refugees and minorities, fight against corruption). The attention to these problems should be given by creating a strategy paper on the reform of the system, which would provide an assessment of the problems and give defined measures on how to carry out the required reforms.

The overall financial and banking system lacks efficient supervision and control. This can be improved by encouraging savings and

developing the system of ensured savings, by continuing the pension and social reforms; all of which should have a positive impact on the pace of the development of both systems.

The increase of competition and growth based on the export of goods and services is one of the main economic priorities of Albania.

In order to improve the current state of Albania and Albanian products, the country needs the reduction of investment capital related expenses, more favourable conditions for raising capital, more support to the development of entrepreneurship (especially to SMEs) and certain favourable sectors (such as tourism, industry, agriculture, etc.), and systematic restructuring of public and private enterprises.

When it comes to the raising of capital, Albania is counting on foreign investments (FDIs). In order to take advantage of such investments, Albania primarily needs to create conditions for attracting foreign investments by providing:

- macroeconomic stability;
- political stability and low non-economic investment risk;
- tax relieves to foreign investors;
- investment in development of technical and market infrastructure;
- stability of legislative regulations and legal framework;
- progress in establishing the integral market economy.

After creating favourable conditions, Albania should direct the FDIs to the development of its favourable sectors, primarily the industry. Also, creating a strategic development plan, which would define aims, measures and responsible institutions that would provide all the legal and technical information to foreign investors, is another essential element that would ensure positive privatisation and safeguard the country from investments that do not correspond with national interests.

How long will it take Albania to fulfil all the set criteria for joining the EU?

Taking important development requirements into consideration, all of which are vital for the normal functioning of the market economy and competitiveness, we think that in order to achieve the level of advanced economies of the Central-East European Countries and become an EU Member State, Albania would ideally need 5–7 years of structural reforms. Albania has selected the strategy of accelerated fulfillment of agreement duties and Free Trade Zone in order to become a full EU member in the shortest possible time. If everything proceeds according to the government's strategic plan, by the end of 2010 Albania should fulfil 80% of the Stabilization Association Agreement requirements, which would then guarantee that by the end of the year 2010 Albania will have received the candidacy of EU membership.

2. How will Albania benefit from integration into the European Union?

Many authors monitoring the integration process have performed numerous cost-benefit analyses, in order to assess the potential effects of the EU eastward enlargement, both to the current EU member states and the potential ones.

In their analyses, they have created their own classifications of the effects of the EU integration. In some analyses, the effects are divided into direct and indirect ones (direct being calculative, since they are quantitatively more precisely determined, and indirect, which are more difficult to quantify), or microeconomic and macroeconomic.

To the current EU member states, the major cost of the enlargement involves heavy expenditures, which puts pressure on the EU budget. Nevertheless, even now,

the EU is profiting from the increased trade with the Balkan countries. As a result of the association agreements only, the share of the EU in the exports and imports of the Balkan countries has already reached respectively 32.5 billion euro and 13.9 billion euro. With the enlargement, it is estimated that the GDP of the candidates will increase the EU's GDP by 3%, and that their relatively cheap and highly skilled labour could further increase the competitiveness of European goods on the world market.

According to the Bertelsmann Foundation's edition from 1998, discussing the costs, benefits and chances of eastern enlargement for European Union, the enlargement brings up a possibility for expansion in the new market, which will increase the sales potential and the purchasing resources for EU companies, it should increase EU's global competitiveness, generate comparative advantages, growing economies of scale, and much more. Besides the economic benefits, other benefits include the provision of the political and social stability in the whole region.

To the potential EU Member State, such as Albania, there are also many benefits.

The **political benefits** include:

Stability and peace in the region — The extension of the zone of peace, stability and prosperity in Europe will enhance the security of all its peoples.

Internal security — The enlargement is expected to improve the internal security of the Union by shifting the common border protection eastwards. This would keep the organised crime, drug-smuggling and illegal migration under control. Likewise, by creating a network of law enforcement agencies throughout the enlarged EU, the fight against organised crime would be best carried out. Visas, used as a control tool by EU consular officials, are not very effective in the fight against organised crime.

Democracy, the rule of law and respect for human rights — The increased cultural

diversity within the EU should help the country to get involved in the interchange of ideas as well as to reach a better understanding and respect of other peoples. Importance of tolerance and values of multicultural society, peaceful conflict resolution, as well as freedom of expression, free flow of information and ideas without the interference of authority will play a fundamental role in the development of a free, stable and democratic society.

Participation in the decision-making process and the formulation of common policies and the *acquis communautaire* — Being a part of the EU, Albania will have the right to participate in the process of decision-making in regard to the EU, as well as to take on an active role in its institutions and the EU pillars (the EC, Common Foreign and Security Policy, and Justice and Home Affairs).

Participation in the future development of the EU dealings with international organisations and negotiations — Since the EU represents all its member states at the international level, by joining the EU Albania will improve its current position and relations with international organisations, such as the WTO, CEFTA, EFTA, CEI, NATO; all of which are of great importance for Albania.

The **economic benefits** include:

Increase of the GDP — The enlargement could increase the growth of the acceding countries, while for the existing members it could increase the level of GDP.

Participation in the globalisation processes and access to the world market — In the globalised world, an adequate expansion of exports is essential for long-term sustainable growth of all economies, especially small ones such as Albanian. Being a small country, with a small market, the capability of Albania to participate actively and successfully in the globalisation processes, to be visible and competitive in the world market

is highly increased with the accession to the EU.

Expansion and secure access to the EU market — The EU is Albania's most important foreign trade partner, with exports up to 81% of its total exports, while the imports from the EU constitute over 78% of total imports into Albania. The removal of trade barriers is of great significance for Albania, since it will allow the country to gain access to the EU market and trade smoothly.

Better prospects for doing business — Enlargement will create a single market with nearly 500 million consumers, which gives better prospects for doing business. Thanks to the common regulatory framework and certification standards applying to all EU members, it will become easier to do business across Europe.

Increased productivity and competitiveness of Albanian enterprises — The rise of productivity is the main precondition of export growth. The biggest problem of Albania is the decline of export competitiveness and the stagnation of exports combined with a growth of imports. Many of the locally produced goods are of poor quality and are poorly marketed. As firms learn to operate on world markets, the terms of trade are likely to improve. Nevertheless, there are enterprises that are showing progress and have reached a certain level of competitiveness thanks to improvements in production and lower costs, such as sectors with quality products. Such enterprises will continue having the most favourable position and will increase export and production after the integration. All the other enterprises have the potential to equally improve once they gain access to technology and know-how of the EU.

Transfer of technology and know-how — With the enlargement, barriers to technology transfer will be eliminated, which will allow an easier share of research and stimulate innovation across the EU. As a re-

sult of the integration, Albania will gain access to technology and the know-how and will be able to improve the productivity and competitiveness of its sectors.

Consumer welfare — Reduction of monopoly strategy of price determination due to the lower import prices and market segmenting will give consumers access to a wider range of goods and services.

Better prospects for education and employment — The EU has already helped the candidate countries such as Albania to improve the educational system, through CARDS programme, and more recently TEMPUS programme. The EU membership will allow Albania to take advantage of other EU's education programmes, such as Socrates, Leonardo da Vinci and Youth. The purpose of all these programmes is to improve the quality of higher education and strengthen its European dimension, by encouraging translational co-operation between universities, fostering mobility of students and teachers, and contributing to improved transparency and academic recognition of qualifications and studies throughout the European Union. This as well includes mobility grants to thousands of students and teachers. Erasmus, the most recognised programme of all in the Socrates group, is intended either for students, to promote their mobility, or for teachers in order to enable them to take part in exchanges, develop joint courses, programme intensive courses and take part in forming thematic networks.

Trade costs reduction — Thanks to the abolishment of tariffs and other barriers to trade, on both the EU as well as Albania's side, Albania will face positive effects on trade. Trade costs reduction will simplify the procedure for goods clearance and ease the trade between Albania and all the member states of the EU.

Free movement of capital, goods and services (Free Trade) and people — Be-

sides the adoption of harmonised standards of certification and testing, which will make it easier to trade, the reduction of trade barriers, which creates free trade, and the free movement of people will all lead to the more significant effect of the regional arrangement.

Growth of Foreign Direct Investments — Thanks to the low level of domestic savings, foreign capital is vital for modernisation and efficient restructuring of the economy. Only after the political risk is decreased and an efficient market is established (once Albania is an EU member), an increased inflow of FDIs into the country can be expected.

Access to a variety of pre-accession funds (PHARE, CARDS, SAPARD, TEMPUS, ISPA) — In 2001–2007, just within the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) Programme, a total of 282.1 million euro were spent on assisting Albania in its reform and modernisation efforts, focusing more and more on accession-related matters. The Multi-Annual Indicative Planning Document (MIPD) 2007–2009 for Albania under IPA was adopted in May 2007 and Albania will receive a total amount of 212.9 million euro.

Access to a variety of funds once being an EU member (Structural Fund, Cohesion Fund, and CAP) — These funds are used by less developed members. Since Albania will be classified as a potential net user of the EU budget, this will bring an additional financial assistance to the country.

Improvement of environmental standards — The enlargement will expand the cross-border environmental and nuclear security of Europe through the adoption of the respective community provisions by the new members. By adopting EU's environmental standards, Albania will be able to protect its environment.

Overall increase in the standard of living — As the new members adopt EU policies for protection of the environment and the fight against crime, drugs and illegal immigration, as well as policies tackling social aspects, there will be a better quality of life for citizens. Generally, integration with near, open, big and more developed economy may lead to a faster growth and an increase in the standard of living.

Other benefits include price stability, establishment of an efficient market economy, growth and development based on comparative advantages and benchmarking of institutions.

3. Costs (disadvantages) of Albanian integration into the European Union

Nevertheless, the **costs of the integration process** are the first thing the candidate countries are faced with.

In order to meet the criteria set by the EU, the country such as Albania is faced with the following costs:

Costs for restructuring of economy — Being once a non-market, centrally-controlled economy, Albania is faced with a demanding job of restructuring its economy in order to operate as an open market economy. This involves high costs.

Costs for alimentering funds and budget of the EU — Once Albania becomes an EU member, it will have to participate in alimentering to the budgetary funds (Structural Fund, Cohesion Fund, CAP) and a variety of pre-accession funds (PHARE, CARDS, SAPARD, TEMPUS, IPA).

Costs of harmonising regulations — As one of the requirements for accession, Albania needs to harmonise its regulations with the EU regulations. This involves, above all, the creation of public administration

bodies, new institutions, training of human resources and dissemination of information.

Costs for modernisation of production and industrial potentials — Decrease of prices of EU products, caused by increased productivity, and lower insurance, marketing and banking costs, increase of demand for EU products on Albanian market and increase of imports. The largest lags in Albanian production originate in low technology level, inadequate management and business philosophy, and unresolved property issues. Therefore, in order to become competitive, it is essential for Albania to improve the current situation, modernise the production processes and enhance the industrial potentials; all of which require high costs.

Costs of standards in the area of environment protection — Despite common perceptions of Central and Eastern Europe as environmentally backward, the bulk of Europe's natural wealth and bio-diversity in fact lies in the eastern part of the continent. Nevertheless, enforcement of environmental legislation was particularly weak during the socialist period, so there are substantial gaps in both social and environmental standards. The implementation of such legislation is considered the most difficult to implement out of all the EU legal obligations and places major burdens on the administrative capacity of implementing agencies and local administrations.

Reduction in production and unemployment growth — Thanks to the opening to foreign competition and the acceptance of EU rules, which prevent the preferential treatment of domestic providers in works and supply contracts, it is predicted that the country is likely to face a drop in production and unemployment growth.

Costs of social programme for employees who lose their jobs — This is one of the side effects of the opening to foreign competition, discussed in the previous point. Since there are substantial gaps in social standards

between the EU and accession countries, Albania is faced with the same problem as with the implementation of environmental legislation: there are high costs due to the insufficient administrative capacity. The government has to develop an active employment policy to alleviate the acute unemployment problem. Particular emphasis is placed on the bundling of re-training and reemployment measure for workers affected by the restructuring/privatisation of state-owned enterprises and the redundancies in the public sector, as well as on various support measures for the unemployed (including the promotion of entrepreneurship and specific support measures for young people, women, war veterans and long-term unemployed). The government has to rationalise social welfare policies and establish a new legislative framework to protect labour rights. A priority is the reform of the pension and social security systems, with a view to providing better social protection, especially for the most vulnerable groups.

Sectoral costs — The reform of the sectors affected by the new competition, such as companies which cannot endure the new competition, demands a lot of financing. The reform of the health sector, whose aim is to restructure health care institutions, reform the financing of and payment for services, modernise the delivery of health care services, and increase investment in medical equipment and the training of professionals, involves high costs. The educational system is another sector that will further need to be developed to suit the EU environment, in order to better match the educational and training system and labour market needs.

The creation of a sound financial system is likely to require further consolidation, merger or closure of financial institutions, to build on the increasing confidence of banks and depositors.

Direct subsidies in Albania, mainly concentrated in transport and agriculture, are

relatively low compared to other transition countries. More financing needs to be done.

Growing deficit in trade — due to higher domestic and lower import prices, Albania is faced with a growing deficit in trade. Slow and inefficient restructuring has put a strain on the adaptation of Albanian products to the demand in industrial countries, which resulted in increasing trade deficit. High costs will be required to lower the trade deficit and enhance the competitiveness of Albania's sectors and its enterprises.

Difficult adaptation of agriculture — the potential costs of conforming to the entire body of EU regulations, which involves agriculture, are high. Albania is faced with many problems: underdeveloped market and institutional infrastructure, small average size of estates, difficulties with purchasing and renting grounds, considerable share of uncultured and neglected estates, low technological levels and non-transparent subvention system, just to name a few.

Having in mind all this, many producers are increasingly fearful that they will not be able to compete with the EU's high-quality products.

In order to reach the levels of the EU, Albania needs to modernise its agricultural sector by adopting all of the EU legislation on agriculture, introduce new techniques and machinery, more training, more suitable arable structure, all of which demands high levels of financing.

4. Conclusions and recommendations

Despite the initial costs, the EU enlargement, if well conducted, will bring major benefits both to the existing Union and to the acceding countries. The fact that the enlargement will eventually create an internal market of over 500 million consumers is quite stimulating and brings together both parties

to continue working together and to consolidate economic reform. The EU's regulatory framework will facilitate trade between the member states and attract investments, bringing benefits to all the countries concerned. Besides the economic benefits, the EU enlargement ensures political, legal, social, and environmental benefits.

Some of the challenges that Albania is and will be facing in the future are:

- lack of information and understanding of the process;
- inherited uncoordinated management of the government;
- lack of qualified experts in the public administration;
- generation gap — where old generation of civil servants are incapable for the tasks of the process;
- lack of vision for the development of regions among politicians.

Albania is a small country and as such it must develop an open and export-oriented economy, so that it can actively compete on the EU and international markets. The EU and its member countries are Albania's most important trading partners. The process of association will bring both benefits and costs, whose effects will be short-term and long-term.

Short-term effects could provoke temporary difficulties, since the domestic industry is not sufficiently competitive and the bilateral abolition of tariffs with the EU will result in a faster growth of imports from the Union than exports into the Union. Equally, there will be added costs of adjustment to the EU standards in many fields. However, in a long-term view, the integration into the EU economy should prove highly beneficial for Albania. It will stabilise trade flows, improve competitiveness, lead to industrial specialisation, result in economies of scale, stimulate higher forms of economic co-operation, etc.

The majority of Albanians view the integration process as the only option for real-

ising the country's strategic economic and political development. The process is seen as the only road to the inflow of capital and foreign direct investments, removing customs tariffs and allowing easier access to the EU internal and international markets, as well as to the technological facilities and knowledge essential for the improvement of the entire country.

In order to take advantage of the integration process and protect Albania's own interests of the national economy, a lot of hard work from the government, institu-

tions, companies and citizens is required to surmount the difficulties.

Now that the enlargement is becoming a reality, the country's leaders must educate the public about all the important aspects of the integration process. Also, they should inform about the benefits of the oncoming enlargement in terms of better life-prospects for Albanian people: employment, economic growth, and fair competition in a wider zone of peace, security and justice.

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Summary

Integration is a word very frequently used and probably one of the most fashionable in the present everyday life of the Balkan people. Politicians, artists, intellectuals speak about political, economical, cultural, European Integration as well as spiritual integration. The word integration is widely used, as much as there have been efforts to define or understand it by the general public, besides the fact that integration is perceived as something "good in nature," especially the integration with Western community.

Hence, one of the issues, which everybody agrees on in Albania and in the region is that the accession into the European Union is still the main objective of the region prospect. European integration is perceived as a solution of the major problems during the process of the socio-economic development of the countries of the region.

The authors think that the efforts of the people of the region toward economic and democratic progress should not be simply treated as tools used to be "self-integrated" in the EU, but they rather have to be perceived as positive processes undertaken by each country during transition. Keeping an economic perspective, this paper aims to discuss the qualitative benefits and costs for Albanian economy, in its integration way toward the EU.