

# Albania's challenge for access and competitiveness in EU Market:

When good will requires more than legal regulation.

An inside of Albania's efforts to increase the presence of its domestic product in EU markets.

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## **Abstract**

Albania has experienced a difficult transition period, characterized by efforts to establish an economic system oriented towards the free market. Despite the difficulties encountered during the transition process, Albania has made progress in the macroeconomic stability and structural reforms. Nowadays, the economy of our country has become an integral part of initiatives for liberalizing and facilitating trade with countries of the European Union. Active participation in these initiatives increases the possibilities of our economy to be specialized and simultaneously requires commitment towards increasing competitiveness. For each country, foreign trade indicators reflect the level of economic development and mutual profit, which is why the analysis and evaluation of commercial indicators have a special importance. Albania now faces a new challenge of increasing the competitiveness in the international market and the aim of entering the European Union. As it is widely known, foreign trade is a very important factor that affects the growth of a country and reflects the increase of competitive ability.

Foreign trade developments constitute an important component of overall economic developments in general and the external sector in particular. Foreign trade is of particular importance for the economies of small dimensions, such as that of our country. The performance in export of Albanian goods plays an important role in the perspective and sustainable development of the country's economy, as well as in the trade balance in order to be able to face the European competition. The export growth rate in several years is an important indicator on the progress of which, one can judge the stability and sustainability of the economy in general and its ability to compete in the EU market, but it also reflects in a very direct and close way the conjuncture of European common market.

**Keywords:** Albanian Goods, EU Market, Export, Import, Competition.

## Introduction

The market mechanism, although by no means perfect, has proven over time to be the most efficient and reliable distributor of economic resources. It offers perspectives for economic growth and a higher living standard, which cannot be achieved from planned economic systems. This mechanism which has been already adopted in Albania as well, offers customers a wider range of choices that could have been available otherwise. Market-oriented countries have also the chance to join the market economy and take advantage from innovations in technology, from quantum improvements in the speed of information processing, as well as by entering new markets, which is now a characteristic of the rather modern and interdependent world.

Economic globalization and Albania's objective to move towards the European market are factors that lead to a more open market and help in reducing or even removing obstacles. Free trade agreements that have been signed are just the beginning of the process of integration. In this context, imports and exports between countries are becoming less controlled by the government and are preparing the ground for a higher level of free competition between producers of goods and services. In order to survive this near reality, the Albanian producers should be efficient and evaluate and use continuously the comparative advantages of their country of origin. The SAA process involves a number of activities and relationships between the country concerned and the European Union, as well as a gradual adoption of EU legislation from the signatory country. Essentially, this process involves placing a series of bilateral agreements between the signatory country and the EU, in relation to inter alia, custom tariffs for industry and agriculture, intellectual property rights and the standardization and certification procedures.

Free trade area between Albania and the Community has opened the Albanian market towards the exports of the Community, aiming at consolidating the Albanian economy, consumer protection and business promotion. This arrangement is asymmetric in favor of Albania, so the facilities provided by it will be obtained primarily from Albania and later by the EU. Although the Albanian economy, businesses and goods are rising, this growth is due to the fact that the basis of calculation is very low. Albania offers to businesses unexploited natural resources, liberal rules for trade and investment, proximity to European markets, numerous sectors in privatization and concession, low labor costs, educated workforce and technically trained staff, raw materials with very competitive prices, strategic geographical position and the ability of Albanians to speak different foreign languages. However, these advantages are already starting to be used by businesses because of the infrastructure and functioning of the market towards the European Union.

### **The main problems faced by the production for export**

While private sector enterprises in Albania has undergone a significant development experience, most of the operators are unable to cope with the challenges of increasing competition in the EU market, due to inadequate production capacity, low product quality, insufficient marketing efforts, lack of managerial capacity and skills to position their products in the EU market. The effects of the crisis seem to have added a list of internal obstacles encountered in the export of goods. The economic structure which relies on products that have an agricultural basis and raw materials does not favor the export of products with a high added value. Other reasons that maintain to low levels the Albanian goods export value, lie in the fact that after privatization the Albanian industry has not yet caught pace of modernization and technological developments, the low scale economy, low information system, but also that it lacks the abilities suitable for business management and international networking.

Despite the improvements in these areas, priority needs to be given to the education system, especially in those areas that support investment in sophisticated industries, along with improving the infrastructure, which still represents a high cost for businesses by not favoring their competitiveness.<sup>1</sup> But the effects of the global economic crisis have made the reduction of demand in major EU markets and the restriction of grants lending to be the negative factors for Albanian exports.

### **The presence of Albanian goods in European Markets**

Since early 1990's, Albania had a trade deficit, where the exports of its goods have represented no more than 25% of its imports. Almost 80% of exports result on behalf of the corporations that work as subcontractors for European corporations which have used the low cost of labor in Albania. Albanian exports to Europe are still low from quotas given as grant under preferential trade agreement. Albania's main trading partners in Europe are Italy, Greece and Germany. Lack of competition of Albanian products, low level of production, poor infrastructure, inadequate procedures for crossing the border, lack of promotional activities and a weak institutional capacity have been the factors that have caused the increase of trade deficit. Year after year this deficit has begun to decrease although at a slower pace, due to the growth of exports and the greater efforts of Albanian companies to compete in the domestic market, especially against European import products. The production of goods for export has gone through a considerable increase, being a positive sign that was accompanied by an increase in investment as well as a revival and strengthening of the Albanian economy. The facts emphasize once more that liberalization policies and the several economic reforms undertaken can change the pace from negative to positive, which indicate the progress of our country's economy but also its influence from external factors.

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<sup>1</sup> Enlarging the EU: The Trade Balance Effects by Pavlos Karadeloglou, (2002), Palgrave Macmillan Publisher, pg 29.

Some of the indicators are presented below:

In February 2012, 14.144 mln leks of goods/wares were exported, with an increase of 5.2 percent compared to January 2012 and a decrease of 29.5 percent compared to February 2011. 36.035 mln leks of goods/wares were imported with an increase of 2.8 percent compared to January 2012 and a decrease of 0.3 percent compared to February 2011. This month the trade deficit was 21.891 million lek, marking an increase of 1.4 percent compared with the previous month and an increase of 35.9 percent compared to February 2011.

Trade with EU countries is 70.1 percent. Main trading partners remain Italy and Greece. Trade with Italy is 39.4 percent, while with Greece is 9.7 percent. Some of our trading partners with which export and import has increased are: in export Spain, Switzerland, etc, and in import, Austria, Italy, Switzerland, etc.<sup>2</sup>

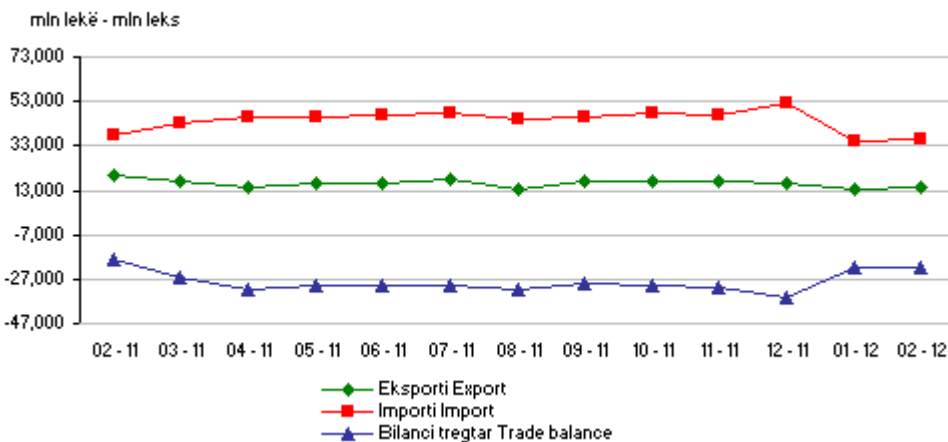


Fig. 1 - Commercial Exchanges Albania-EU Countries

The comparison with the previous month for some groups of goods/wares shows that: Export for the group of “Chemical and plastic products” increased with 22.5 percent, “Leather and leather manufactures” increased with 16.1 percent, “Textile and footwear” increased with 10.3 percent, Exports of “Food, beverages and tobacco” decreased 5.3 percent, Import of “Chemical and plastic products” increased with 25.7 percent, “Wood and paper products” increased with 21.1 percent, “Textiles and footwear” increased with 15 percent, Import of Minerals, fuels, electricity” decreased with 14.7 percent. In February 2012, the import of excise goods reached 6.730 mln leks or 18.7 percent of the total import. Compared with January 2012, imports of goods with excise increased with 59.6 percent. The largest share of these imported goods, 71.3 percent, is occupied by petroleum products.

<sup>2</sup> Data from the Institute of Statistics (INSTAT)

## Albania's Export Potential

Albania has potentials in agriculture, processing, tourism and the sectors of oil and gas that are based on natural resources, low cost labor, proximity to European markets and coverage of regional markets with unexploited potentials. However, some Albanian products are uncompetitive in the domestic market as well as in the external one, and the first aspect of a trade promotion policy should be to increase the level of competitiveness of Albanian companies. Currently, if Albania would only work towards the growth of exports, it would not be able to produce enough to satisfy the domestic market. Therefore, based on its competitive advantages the biggest need is to increase the Albanian agricultural production with quality and quantity, and the sectors of mining and processing. The Albanian companies need technical assistance to enhance the competitiveness of their products in the domestic market as well as in the external one. Their main weaknesses are the small size, machinery and old equipment, lack of own capital and foreign capital, lack of managerial and marketing knowledge, lack of information on the conditions of international markets for procurement and sales, as well as the lack of contacts with international markets.

In this situation, measures taken by the government and businesses to promote exports have functioned as a catalyst to enhance competitiveness, by helping to introduce modern production methods of management and marketing, increasing quality of products and introducing new methods of marketing and distribution. Albania is trying to compete with a number of European countries in domestic markets, as well as in those of export, by offering similar or better products, a general economic framework that enhances trade and investment as well as resources or advantages in competitiveness. In addition, fast and necessary measures are being taken in order to improve the competitiveness of Albanian companies, because in a globalized economy the time factor is critical in order to have economic success. In the case of exporting Albanian goods, import markets in the EU are characterized by a quite high competitiveness in terms of quality, price, packaging and services.<sup>3</sup> Other factors that have great influence on the level of competitiveness are market rules, administrative constraints, lack of financial and business services and quality of infrastructure. As a result, Albania needs an effective and comprehensive system to promote together with export, the competitiveness of its industry.

As the market matures, competition increases, the consumer wants more and more quality, the markets open, products' life cycles change and companies, especially large and medium, cannot remain indifferent to these developments. Modern management practices, commitment to quality, improvement of relations with employees, are becoming more and more evident and indispensable for the successful progress of a business. This proves that the number of companies that implement ISO standard

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<sup>3</sup> Council Regulation (EC) No 260/2009 of 26 February 2009 on the common rules for imports.

has increased: currently it is approaching the number 200 from 7 that were several years ago. Practices such as Corporate Governance or Corporate Social Responsibility are not unknown, but they are increasingly being embraced by pioneer businesses. The use of advanced technology systems in of management is continuously becoming more applicable. A number of companies are seeking to expand current markets and there is evidence of successful cases of investments in neighboring countries, especially in Kosovo and Macedonia, while expansion plans of Albanian entrepreneurs are becoming more ambitious, targeting also other countries. The efforts to export in the European Union markets fall in the same line. On the other hand, of course, it is understandable that one cannot speak of such standards in small businesses, which still continue to sell without the bill and where the level of fiscal evasion remains very high. There is no doubt that the level of informal economy is very high and this constitutes a major problem. What is evident however is the level of maturity that is reaching a large proportion of domestic companies that in the future is expected to be even higher.

However, the state administration does not seem to respond similarly with the same pace to this new phase of business development in Albania. Indeed the former has shown a willingness to formalize the economy and create a sustainable business environment, but the most visible action in this direction has been especially the methodology used by setting references in almost all areas: wages, profit rates, up to the prices that businesses can buy and sell.

### **Efforts to boost exports of Albanian goods to European markets**

Regardless of the above mentioned, the fact that the country has managed to successfully export some products, is a proof that there is an overall potential for export and that a base is set up on which efforts can be made in order to improve and expand the base for exporting. The Albanian economy has begun to exploit properly the internal capacities, due also to the improved energy conditions in the country which has a significant impact on the profitability of all sectors of the economy. Given the situation of exports in recent years, of growth rates, of the performance on some segments of the economy, on imports of machinery and equipments for agriculture and other sectors of the economy, on the public investments that have been made and on many ongoing reforms, on the openness and expansion of European market, the intensification of trade relations, a perspective development and improvement of competitiveness is envisaged.

The largest increase in domestic production has been reached by:

- vegetable products such as medicinal plants, spices and various fresh vegetables;
- animal products like meat, dairy, fish etc,<sup>4</sup>

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<sup>4</sup> Council Directive 2000/29/EC of 8 May 2000 on protective measures against the introduction into the Community of organisms harmful to plants or plant products and against their spread within the Community.

- foods, beverages and tobacco (fruit juices, water)
- building materials (cement, lime)
- various mineral metals (chromium, copper, etc.)
- different types of leather
- wood and its products,
- while in sections of textiles and footwear, the increase belongs to the active processing.<sup>5</sup>

Of course the main impulses for economic growth have come from the private sector, as it happened during the first years of transition and during the economic recovery after the 1997 crisis. But because of the problems mentioned above, the private sector is still not able to use the competitive advantages of Albania, despite the possibility that offers in practice the liberalization of the system of state control.

In the agricultural sector efforts have been made to improve agricultural production in quantity and in quality. In this regard, the modernization of agriculture and introduction of new methods of organic agriculture are notable. Undertaking such activities has raised the possibility of ground operations. Also, at the level of agricultural economy, they have improved and intensified the use of land and its productivity. Important steps have been made to improve knowledge and skills of farmers and to increase their desire to enter into contractual relationships or to form groups for marketing and supplying raw materials. Besides all this, improvements in communication and road infrastructure have significantly increased. In non-agricultural sectors, it may be necessary to stimulate investments, aiming at the modernization of production units. Technical knowledge and marketing are formulated in a special strategy and the infrastructure that has been created offers possibilities for the improvement of goods.<sup>6</sup>

The spread of technology in developing countries such as Albania depends on two key factors: the extent of exposure of companies to foreign knowledge, imports of capital goods and exports of high technology, but also through communication with European markets, and the capacity of local companies to absorb new and advanced technologies. Albanian companies remain less exposed to foreign knowledge in comparison to what they might be exposed in real, and secondly their absorbing skills could significantly be strengthened by specific reforms of the investment climate and from selective effective public intervention to support training and strengthening of companies in order to increase their internal technical and managerial capacity.

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<sup>5</sup> Data from the Chamber of Commerce and Industry

<sup>6</sup> Regulation (EC) No 854/2004 of the European Parliament and of the Council of 29 April 2004 laying down specific rules for the organization of official controls on products of animal origin intended for human consumption.

For developing countries, foreign imports of advanced equipments and machinery are the main source of technological transfer, which enable increased productivity of goods.<sup>7</sup> The long-term advantage of Albanian goods that aim to enter the European markets is its proximity to EU markets. Albania's geographical proximity to the EU eases trade in these markets and fulfills one of the essential requirements of European consumers: fast and flexible delivery.

From a general viewpoint, the perspective of export of goods appears optimistic given the many different factors that affect directly and indirectly the increase of export of goods entering the European market, such as:

- General economic country development policies and commitments to an increasingly liberal trade policy with Europe.
- Existence of export development strategy and of a structure appropriate for its implementation.
- Improved financial and banking system and increase lending capacity in the economy.
- Increased public investment in roads and rail infrastructure, in water and telephone services etc.
- Steadily increase the domestic and foreign investments in the economy, especially in the light foods industry and that of minerals and metals.
- Government commitment to facilitate and remove administrative barriers for the benefit of business development in general.
- Government commitment to solving the problem of ownership, which opens the prospect of large investments in the economy.

Also, a very important factor that has affected the increase of exports to the European market is the fact that many Albanian businesses have standardized their goods and products according to European standards. This has improved the image of Albania as a potential exporter.<sup>8</sup>

### **Policies and strategic directions for promoting the export of Albanian goods in the European market.**

The struggle of market is very difficult and especially for our goods of export. In this context, the orientation of Albanian producers to move towards product specialization is of primary importance. The promotion of Albanian products "Made in Albania" is the strategic goal of fostering the Albanian goods to European market. As a result of the removal of custom duties, there is an impact on domestic companies and the

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<sup>7</sup> Economic Impact of EU Membership on Entrants: New Methods and Issues by Richard E. Baldwin and Aymo Brunetti, (2010), Kluwer Academic Publisher, pg 47.

<sup>8</sup> Research Study of the Ministry of Economic, Trade and Energy



imports of European goods have dominated the export of Albanian goods. This has led the competition from EU countries to increase pressure for investment in technology and a more aggressive local business strategy, which in the long run will lead to increased competitiveness of Albanian industries. The improvement of the business climate in general, the reduction of tax burden, the investments in infrastructure, are all important factors for the support of these advantages and this combined with increased management quality and human skills for a more efficient business performance mainly in exporting, aims to bring positive results.

The policy of promoting Albanian goods for entering the European market, in order to cope with new trends of removing trade barriers and competitiveness of the EU countries, aims to perceive objectively the internationalization process of companies and be prepared to undertake the challenges of an open economy towards EU competitiveness. The internationalization of enterprises is one of the most difficult choices because it implies a series of risks that will need to operate in an open economy where competitive forces and factors are completely different from those of the Albanian market. The encouragement of the production of Albanian goods aiming at the European market has also to do with the increase of productivity of Albanian companies, exploiting its competitive advantages and making the Albanian economy competitive and comparable with EU countries.

## **Conclusions**

- Albanian goods and exports of domestic products have been dominated in the early years by a few stock products and manufacturing unit inherited from the economy of the previous system. In recent years, as a result of reforms, privatization and the need to restructure the economy, the production of goods in our economy has increased, especially in items for export.
- The trend of recent years has been the increase of trade deficit. The ratio of export to GDP or otherwise called the percentage of export, has declined compared with previous years. This trade deficit proves financial difficulties in the balance of external payments, which means that our economy must sell some assets or cut its financial grants from other countries. There are two possible ways that can be used to mitigate this disproportion between export and import: increasing and promoting the growth of our goods to European markets and in country production of some products that are imported and that the Albanian economy has real opportunity to remove from the list of imports.
- The trends of Albanian goods are growing in European markets, mainly in items of the domestic economy, in construction materials, leather, herbs, minerals, etc.

- The not so good relationship between exports and imports are of serious consequences in the development of the economy in general. Also, the sale of assets of the economy has its limits, donations are temporary and the incomes from immigrants are decreasing. So, from this viewpoint, we can say that the trade deficit will continue to grow and it will become an obstacle for further development of the economy as a whole.
- The promotion of Albanian goods production for domestic and European markets is undoubtedly a very powerful mechanism of structural adjustment, which has its effect on the balance of payments. In the context of Albania's economic policy, the development of exports is considered a key factor for improving the macroeconomic indicators, particularly from the viewpoint of improving the trade balance and creating jobs.
- For Albania, the attraction of foreign direct investment can be a rational way to develop the existing potential for the production of export goods, to provide new capacities, for securing immediate entry into the market and for creating dynamic competitive advantages. They can play an important role in supporting the production oriented towards European markets. Also, the adoption of Medium Term Development Strategy of Small and Medium Enterprises is crucial to improving the competitive ability of the Albanian industry, which is 95 percent, composed of very small, small and medium enterprises.
- To attract more foreign investment and to modernize the production units of this sector, some incentives have been implemented and tax policies for investment in machinery in the manufacturing sector have improved, by reducing or removing VAT of the machinery for the activity of companies operating in the production field.
- In the agriculture sector, the immediate goal is to improve agricultural production in quantity and in quality. As such, farming methods have begun to modernize and organic products to increase. In today's trend of European markets the "bio" products are easily competitive. This requires concrete actions such as: facilitating investments to improve the productivity of the land in use, improvement of knowledge and skills of farmers and promote the desire to form groups for marketing and input supply.

In summary the main problems for the development of exports are:

- The identification of competitive advantages and their development.
- Encouraging foreign direct investment.
- Development of the production base in the country.

Albania with its geographical position, natural resources, relief, climate and a domestic market relatively small, has all chances to become a potential exporter in European markets. The mitigation of the energy crisis through sectorial policies will have a very positive affect towards the economic development in the country and eliminate those detrimental aspects, such as in the case of wholesale importation of electromechanical tools like generators, electro motors, etc. In addition, the replacement of fuel processed with crude oil that can be processed by the local processing industry, can give a very positive effect in alleviating the deficit. Simultaneously supporting policies for these sectors are necessary. A coordination of the work of state institutions dealing with sectorial policies, with their coordination, the exchange rate decision, which in fact form the core of a strategy for increasing the production of goods for export, has created favorable ground for positive developments on the trade balance. In order to minimize as much s possible as well as to improve the ratio of export-import, immediate solutions are required along with long-term sustainable measures:

- Studies should be carried out for establishing collection centers based in different areas where the marketing for the goods should be made in these centers which can be used for collection, manipulation, and standardization and packaging as well.
- Encourage and support initiatives that would enable the use of other energy alternatives, especially solar energy, based also on the results of some other countries such as Greece, France, Spain, etc.
- To promote the importation of crude oil, where there is considerable processing capacity, which among other things, would minimize the trade deficit and reduce the production cost per unit product.
- To support the production sector of raw materials for construction, knowing that such items are highly required in the domestic market but are also potentials for export, especially in European markets.

In order to contribute to the further work in improving the trade balance, many structures of government and business must ensure to:

- Provide analytical and consistent data for each product that is produced for European markets.
- Identify manufacturers and wholesalers, dealing with export of various domestic products.
- Identify products that are potentially exportable, but that still have not managed to find markets.
- Identify local products and producers who need temporary protection on the importation of these products.

- Identify products, which can be removed from imports, which our economy can produce in the country.
- Carry out information and propaganda for the agricultural-livestock products and for those of the light and food industry which are tasty and biologically pure products that are highly in demand from European markets.
- Provide information and data on prices, on demands, on companies and foreign markets rules.

The further development of Albanian industry goods that are oriented towards European markets will depend on the successful strengthening of respective political, institutional, technical and administrative capacities. In view of the overall economic development of Albania, the complementary position and the effects of synergy should be used. Therefore, the emphasis will be on the effective cooperation among all stakeholders and effective coordination of donor contributions. Taking into consideration the competitive advantages of Albanian goods referred to particular the low cost educated workforce, proximity to European markets, the recovery of regional markets, natural resources, quite liberal trade policies and the unexploited potential in agriculture, food industry and mining sector, in the light industry and services, the replacement of imports by exports, is expected to play an increasingly important role in the future economic development of Albania.

The drawn conclusions emphasize the fact that Albania should adopt, occasionally, a strategic and international behavior for increasing the nationwide efforts for entering Albanian goods in the European market. In determining this behavior, all potential actors both internal and external, should be maximally involved. The main role pertains to the Albanian Government and simultaneously to its partner, the business. Following the principles of this 'strategic behavior', the government through a comprehensive process, should draft new development strategies for the development of various fields and at the same time ensure maximum coordination between them.

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