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ALBANIA: ECONOMIC PROSPECTS OF EUROPEAN UNION MEMBERSHIP

Abstract: In this article a study is reported on the effects of a possible European Union membership on Albanian economy. One result of this study was that there indeed exists a measurable positive "EU- effect" on the national economy of the joining country. Comparing pre and post EU membership growth numbers of various Eastern European countries which joined the EU in 2004, a conclusion can be drawn that this membership yielded a clearly observable increase in national economic growth after these countries accessed the EU. Based on different calculations, four scenarios for Albanian future economic development in the case of becoming an EU member state were composed: two pessimistic and two optimistic scenarios. While the pessimistic scenarios still assume a generous 5% annual growth of the economy, in the optimistic scenario this could be a rough 1.5 % higher.

Key words: Albania, European Union, Benefits and Costs of EU-membership, Scenario's.

ALBANIJA: EKONOMSKE PERSPEKTIVE ČLANSTVA U EU

Apstrakt: U ovom članku data je studija o efektima eventualnog članstva albanske ekonomije u Evropskoj uniji. Jedan od rezultata ovog istraživanja bio je da zaista postoji merljiv pozitivan "EU efekat" na nacionalnu ekonomiju zemlje koja se pridružuje EU. Poredeći broj članica EU pre i posle 2004. godine može se izvesti zaključak da bi ovo članstvo dalo jasno povećanje nacionalnog ekonomskog rasta te zemlje, nakon pristupa EU. Na osnovu različitih proračuna, četiri scenarija za albanski budući ekonomski razvoj, u slučaju da postane članica EU, bi bila: dva pesimistična i dva optimistična. Dok pesimistični scenario još uvek podrazumeva godišnji rast ekonomije od 5%, u optimističnom scenariju to bi moglo da bude do 1,5%.

Cljučne reči: Albanija, Evropska unija, prednosti i troškovi članstva u EU, scenario.

1. Introduction

Nowadays the European Union has become a very important player in European societies and greatly influences economic development, national laws and regulations and the daily life of European citizens. The European Union has already expanded to 27 member states and will probably grow further. New enlargement processes are in progress as more Eastern-European countries have expressed the intention to become an EU-member. Amongst them is Albania, a small, relatively poor, former-Soviet country bordering Montenegro, Kosovo, Macedonia and existing EU-member Greece. Undoubtedly, the expectation of rapid economic growth is one of the Albanian government's intentions behind the bid for EU membership.

In this article we want to examine how realistic this expectation is. If Albania enters the European Union, will this affect Albania's growth of GDP? And if so, what will be the size of this effect? It is good to know this, in order to prevent false and too positive expectations about EU membership's influence. Furthermore, various other questions are important to ask; Will welfare increase? Will the deplorable state of Albania's infrastructure be improved? Will more people be able to get a job? And of course, there also might be

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negative consequences of joining the European Union. The abolition of restrictions on working and travelling abroad may lead to emigration of high-skilled workers from Albania to European countries where salaries are higher. Also, competitive position of Albanian companies might be too weak to compete with other European and non-European enterprises, causing bankruptcies and layoffs. With this thesis we will try to shed some light on these uncertainties. It is the answers to these questions and expectations about these uncertainties that we want to provide with this research into economic development possibilities provided that Albania accesses the European Union.

In their book *The Economics of European Integration*, Baldwin and Wyplosz (2009) state that becoming an EU-member has several advantages. Becoming a member means access to a larger market, implying economies of scale. Furthermore they argue that opening the new member state's economy offers opportunities for Foreign Direct Investment (FDI), leading to a better investment climate and more advanced technologies, resulting in a higher output per person, hence economic growth.

Also, Harald Badinger (2001) suggests that economic integration in the European Union has led to - at least - temporary effects. He states that if after 1950 no European integration would have taken place, European GDP per capita would have been at least one fifth lower than today. Further on, Crespo-Cuaresma, Ritzberger-Grünwald and Silgoner (2008) conclude that EU membership also has long-term effects on the economic growth in the accessing country and that the less-developed countries profit the most from this effect. Considering these investigations, a positive effect on Albanian economy when joining the European Union can certainly be expected.

Using econometric analysis Rapacki and Próchniak (2009) show that besides the positive effect of EU membership on the economies of the 10 Central and Eastern European countries (CEE) that joined in 2004, it has had an income-converging effect; the incomes of the CEE-10 grew faster than the existing EU members'. Furthermore, they find a positive and significant relationship between FDI inflow, economic freedom, progress of structural reforms and aid inflow and GDP growth numbers in the CEE-10 countries.

Finally, Niebuhr and Schlitte (2009) find that the abolition of trade barriers and intra-EU borders is particularly beneficial to the new EU member states. This is because existing member states often have more purchasing power from which the new member states can profit in terms of FDI. The other way around, this effect is negligible. Furthermore, Niebuhr and Schlitte argue that the closer located to prosperous existing EU member states, the more a country will profit from EU membership.

In order to provide answers to the questions mentioned, we will take the following steps. Firstly, we will investigate which countries can be taken as an example of Albania. This country already has to be a member of the European Union for a while. When a proper case to compare with Albania has been found, we will examine the progress this country has made after it had joined the European Union. We will compare the economic and social situation before membership with the situation afterwards. This, we will do by analyzing data from different statistical databases and by reading literature on these topics. Furthermore, we will analyze if a clear positive relation between EU membership and economic growth exists, by doing a linear regression analysis. Finally, we will conclude with the presentation of four possible scenarios for future Albanian economic development, based on the experience of other EU members and the result of the analysis of the relationship between EU membership and economic growth.

2. Background

Since 1912, Albania is an independent country after it separated from the Ottoman Empire. In 1939 Italy conquered Albania, but five years later the communists took over the country and a communist era began, lasting to early 1990s. In 1992 Sali Berisha became the first non-communist president after the communist era. Nowadays he is the Prime Minister of Albania and tries to guide Albania to European Union membership.

Albania is one of the smallest countries of Europe and the world. It has a surface of 28,748 km² and is home to approximately 3, 1 million people. The capital, Tirana, has a population of approximately 727,000 people and is also the financial capital of Albania. Located in South Eastern Europe it is bordered by Montenegro, Kosovo, the Republic of Macedonia and Greece. In the west and southwest it has a coast on the Adriatic Sea and the Ionian Sea (Figure 1).



Figure 1: Albania's geographical location. Source: CIA World Factbook

Albania is a parliamentary democracy and qualifies as a transition economy as it is moving from a central, state-planned economy to a free market economy. The country is a member of the United Nations, NATO, Council of Europe and the World Trade Organization. Since January 2003 it is a potential candidate for accession to the EU and on 28 April 2009 it officially applied for EU membership.

Only in the early 1990s Albania escaped from the suppression of Enver Hoxha, who led the country for about four decades, resulting in a totally deprived country. His communist regime had socialized property to an extent no other Eastern European country could match. The first democratic elections in 1992 resulted in a win for the new Democratic Party of Albania (DPA) who returned freedom to the people of Albania. During the time the DPA was in power, macro-economic indicators showed progress, as can be seen in Table 1. However, in 1996 to 1997, economic trouble began as Albania's pyramid scheme crashed.

These schemes were introduced by informal credit companies operating in the grey sector in the early 1990s as reaction to the severe poverty in which Albania lived as the transition of a central economy to a free market economy began. These schemes became very big in comparison to the formal economy (almost half of GDP) and as they collapsed, riot leading to an anarchy and 2,000 deaths (Jarvis, 2000). The crisis mainly had a large impact on the society and short-term economic situation. Long-term economy, however, does not seem to be particularly harmed by this bubble, which let people believe they are richer than they actually were.

Table 1: Macroeconomic indicators for Albania, 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Real GDP growth (%)	-10.0	-28.0	-7.2	9.6	8.3	13.3	9.1	-7.0	8.0	8.0
Annual average inflation (%)	0	35.5	226	85.0	22.5	7.8	12.7	32.1	20.9	0.4
Exchange rate (Lek/US\$-end year)	8.9	24.2	75.0	102.1	94.7	92.8	104.5	148.9	150.6	137.5
Trade balance (Mil. US\$)	-150	-308	-471	-490	-460	-474	-692	-519	-621	-205.5
Unemployment	n.a.	30.0	n.a.	22.0	18.0	13.0	12.4	14.9	17.8	18.3

rate (% -end year)										
Budget deficit (% GDP)	15.3	20.7	15.8	13.7	7.7	8.6	12.3	12.0	8.6	7.4
Minimum official wage (in Lek)	n.a.	n.a.	n.a.	1.200	2.400	3.300	4.400	4.400	5.800	5.800
Average monthly wage* (in Lek)	n.a.	n.a.	n.a.	3.084	4.778	6.406	8.638	9.558	11.509	n.a.
FDI inflows (Mil. US\$)**	n.a.	n.a.	32.0	45.0	65.0	89.0	97.0	42.0	45.0	43.0

(*) indicates the average monthly wage in state sector.

(**) FDI – Foreign Direct Investment

Source: Gërxfhani, 2002

Nowadays, the Albanian economy is relatively stable. GDP growth was 4% in 2009, a bit lower than preceding years where it totalled 6%. Inflation is low and stable. The official economy relies for 15% on remittances from abroad, particularly Italy and Greece, which of course implies a less favorable short-term future since Greece is seized by a severe debt crisis at the moment. The major obstacle to sustainable economic growth, however, is Albania's antiquated infrastructure. Both rail and road networks are neglected. Together with energy shortages, these problems hinder the attraction of foreign investment and the establishment of an attractive business climate. When EU funds can be raised, these problems will probably deserve the most attention as they are the main barriers to economic prosperity.

It is widely believed that being a member of the European Union can yield significant economic benefits as both the domestic market of the new members is opened for other EU members, but also vice versa. Furthermore, EU funds can be raised by EU members to finance large projects which improve the welfare in a country. At last, it will become easier for Albanians to work elsewhere in the EU and earn a better income. A part of it can be remitted to Albanian-based family and friends to support them in their subsistence.

3. Bid for EU-membership

The relationship between Albania and the European Union is relatively new. It is noted that in 1992 the first trade agreement between the EU and Albania is established. In 1999 Albania profits from Autonomous Trade Preferences with the EU. Additionally, in January 2003 Albania really makes the first step to EU membership by starting negotiations on a Stabilization and Association Agreement (SAA) with the European Union. The SAA is an important part of the SAP, the Stabilization and Association Process. The SAA's objective is to support a well-functioning democracy, respect of law rules, regional cooperation and economic development (Hoffmann, 2005).

The establishment of a Free Trade Area between the Western Balkans, of which Albania is a part, and the European Union is a goal of the SAA. Furthermore the SAA involves targets to comply new member states with EU standards, EU's democratic principles and EU free market principles. When the demands in the SAA are met by the candidate country, the SAA is ratified by all EU member states and the candidate country is a step closer to EU membership. For Albania, this happened on April 1st 2009 when the SAA officially entered into force after Greece was the last country to ratify the agreement on February 26th 2009.

This fact was followed by Albania's official request for EU membership on April 28th of the same year, making Albania an official "potential candidate country". Following the acquisition of this official title, the Council of the EU ordered the European Commission (EC) to investigate Albania's readiness to access the EU. The EC did so by sending a questionnaire to Albania's government on December 16th 2009. On April 14th 2010 the Albanian government returned the answers, which has been so far the last officially known step in the process of Albania's accession to the EU. On May 11th 2010 Albania and the Stabilization and Association Council (SAC) had a second meeting in which Albania's progress in meeting EU criteria was discussed.

The Council was happy to see that important steps were taken in the process of judicial reform, visa liberalization and the fight against corruption. Very important, the Council saw positive economic developments.

According to the SAC, Albania is a step closer to a functioning market economy, but there are still shortcomings on the area of real estate registration and orderly market exit procedures. Despite the financial crisis which tormented the economy across the globe, Albania's economic growth, stability and predictability remained fairly constant in 2009, however the SAC emphasized that long term macroeconomic stability has to be assured. Further improvements that were recognized by the SAC include Albania's efforts to make its economy capable of withstanding competition within the EU and improving its transport and energy infrastructure (Press release Stabilization and Association Council, May 11th 2010).

4. Benefits and costs of EU-membership

A distinction can be made between general benefits and disadvantages of EU membership on one side and economic benefits and drawbacks on the other side. However, it is clear that evaluating the results of EU membership mainly comes down to reviewing the economic consequences of EU membership. Apparently, the economic results of EU membership are the most important results in the eyes of the people. This might be explained by the fact that the state of the economy is a real influencing factor on people's daily life. Jobs and income seem to be decisive in the general public's opinion of the European Union.

When reviewing the non-economic advantages of EU membership, three advantages stand out (Europa NU):

- 1) Ability to travel freely within the European Union only with a proof of identity;
- 2) Possibility to pay in different countries with one and the same currency: the Euro;
- 3) Protection of the consumer in different fields. For example: better information on products in supermarkets and protection of traveler's rights in the civil aviation industry.

(1) When a country accesses the European Union it is a logical step to join the Schengen Area, which implies that within the borders of the Schengen Area people can travel freely with only a proof of identity. Since customs controls are abolished it is much easier, not only for citizens but certainly also for trade companies, to travel within these countries. The abolition of controls at the countries' borders saves a lot of time and a lot of paperwork, leading to significant advantages and lower transportation costs.

(2) The times that one needed to go to the bank to exchange its national currency for the currency of the country of destination when one wanted to travel, for example to go on a holiday, are over. Big envelopes packed with cash to be able to pay abroad are not necessary anymore. With the introduction of the euro one can easily pay abroad with their "own" currency, making it lots easier to compare prices. Here again, this advantage is certainly also valid for companies as exchange costs are deleted and trading with foreign companies becomes like trading with national companies.

(3) An important goal of the European Union is to protect its 450 million consumers. The EU aims to ensure that products in supermarkets, but also outside supermarkets, are safe and healthy. If, in an unfortunate case, a product shows defects, the consumer has to be paid compensation. By obliging producers to deliver complete and correct information on their products, consumers are better aware of the specifications of a product. The European Union has formulated five basic rights with respect to the protection of consumers:

- The right to protection of health and safety
- The right to protection of economic interests
- The right to compensation
- The right to information and education
- The right to representation

An EU membership also brings drawbacks for an EU member. An example of a possible drawback is found in the principle of free movement of labor and capital. As discussed above this might have positive consequences, but it could also lead to an exodus of a country's most skilled and most mobile workers as they can earn a better income elsewhere in the European Union. Besides the obvious economic consequences

this also leads to demographic change and a “brain drain” in the new member state. Such loss of intellectual people makes it more difficult to educate new generations. Of course, this impacts both economy and society.

Another much discussed drawback of accession to the European Union is the loss of independence of the member state in different areas. For example, rules and regulations regarding the legal system, immigration policy and production prescriptions severely influence a new member state’s society and can lead to a feeling of impotence against the EU government. Of course uniformity of rules and laws lead to efficiency and the deletion of barriers to cooperation, but can also conflict with old, deeply rooted national laws, rules and beliefs. This inevitably leads to resistance and requires a lot of efforts of the EU to mitigate negative thoughts and feelings about the European Union.

As already stated, the EU-benefits that stand out are the economic ones. According to Baldwin and Wyplosz (2009) key economic benefits are:

- 1) Growth effects and factor market integration
- 2) Economic integration and labor market flexibility
- 3) A larger market size, implying economies of scale

(1) Baldwin and Wyplosz argue that European integration leads to a better allocation and a larger formation of capital, which can be divided into three categories: physical capital, human capital and knowledge capital. Critical for long-term growth is the accumulation of knowledge capital, implying technical progress. Summarizing the effect of European integration, Baldwin and Wyplosz state: European integration has an allocation effect, leading to improved efficiency, leading to a better investment climate, leading to more investment in machines, skills and/or technology, which finally leads to higher output per person. However, Baldwin and Wyplosz make a reservation saying that there is not yet enough serious statistical evidence for the assumed relation between integration of markets and long-term economic growth. Especially the new member states, which of course Albania is trying to be part of, will be a showcase in testing this relationship. How the economies of recently joined states have performed after their accession to the EU will be examined in the next sections.

(2) Another important positive effect of European integration is economic integration and labor market flexibility. The effect of labor market flexibility, however, is more a potential effect as they note that we cannot speak of a European labor market as of today and instead all labor markets in Europe are on its own. Different national legislations, practices and a very limited migration between Europe are the causes for this phenomenon. In 2008, the unemployment-ratio was 31% which makes clear there is still a lot room for improvement here. If we want to achieve perfect labor mobility, barriers to migration will have to be abolished. This, of course, requires a lot of cooperation on the European level, but is not impossible.

(3) Finally, a larger market size, leading to economies of scale is an important profit of European integration according to Baldwin and Wyplosz. Removing intra-European barriers has led to the formation of one large European market. As a result of this, European companies can enter whatever European market they like, leading to an increase in competition. More competition leads to lower prices and thus lower profits. Lower profits caused the total number of firms in Europe to fall, leaving fewer, larger firms. These firms can therefore exploit economies of scale and become or stay profitable or break even, despite lower profit margins.

These three factors are contributing to the belief that the integration of markets within the European Union has positive economic effects on economies in its member states and lead to more welfare among its citizens. However, drawbacks of European and economic integration can also be signaled. There also possible drawbacks attached to the membership, both for the applicant state as for the existing EU member states. Possible problems and disadvantages that could arise with respect to the new member state are:

- 1) Huge migration flows
- 2) Problems meeting EU standards and systems
- 3) Legacy of the former economic system

(1) The formation of one single European market and the abolition of internal borders can lead to large migration flows. As already stated in section 4 this is a possible outcome of the disappearance of national

borders. However, as stated later in section 4 the fear of high migration flows has proven wrongly as of today. This is mainly the case because older and richer EU member states have tried to erect new barriers to suppress such migration flows, but also because for instance national pension systems withhold people from migrating in order to earn a bit more. Finally, existing differences in national legislations, customs and practices discourage many people to seek their luck abroad. However, as the EU is still evolving, more and more differences among member states might disappear which eventually could proof EU-critics were right.

(2) The European Union has large amounts of prescriptions, regulations, legislations and standards to which member states have to adjust. Examples are standards in food hygiene and labor regulations. Furthermore, environmental standards are becoming increasingly important as the debate on climate change goes on. Such standards can prove to be very costly and will inevitably lead to higher prices or tax increases for consumers. This can lead to setbacks in purchasing power and per capita income which of course are exactly the opposites of the intended results of EU membership.

(3) Eastern-European countries, including Albania, will find themselves falling behind other European economies and will face difficult events in order to catch up with the rest. Neglected production factors and infrastructure will demand a lot of attention and investment in order to cope with European competition. Therefore, the chance of bankruptcies and increasing unemployment surely exists.

5. EU-membership effect on GDP

To assess if a clear positive or negative “EU-effect” exists, Real GDP data (in national currency) from several “2004 East-European EU members” was analyzed through a simple linear regression analysis. The model, which has been applied on the Czech Republic, Hungary, Estonia, Latvia, Lithuania, Poland and the Slovak Republic, is as follows:

$$E(\text{Real GDP}_i) = \beta_0 + \beta_1 \cdot \text{Dummy} \quad (1)$$

With i for the respective country and the Dummy variable indicating 0 for the years 2000 – 2004 and 1 for the years 2005 – 2009. The results are presented in Table 2. These results show a clear, significant positive relationship between EU membership and real GDP. With the R^2 s ranging from 0,73 to 0,83 and the t-values for the dummy variable ranging from 4,67 to 6,28 and the significance of the t-value well under $\alpha = 0,05$ the results are very clear and statistically significant. Hence, it can be concluded that joining the European Union has had a positive effect on Real GDP of the accessing countries.

Table 2: Linear regression output for model (1)

	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Slovakia
β_0 (Std. Error)	2311884.800 (82607.693)	111113.200 (5109.465)	1.473*10 ⁷ (368721.580)	5514.800 (296.687)	53113.600 (2914.384)	778386.200 (28773.407)	1021613.400 (59520.183)
β_1 (Std. Error)	641135.000 (116824.920)	44829.400 (7225.875)	2847665.400 (521451.059)	2636.200 (419.579)	22783.400 (4121.561)	196272.400 (40691.743)	393219.600 (84174.250)
t_0	27.986	21.747	39.953	18.588	18.225	27.052	17.164
t_1	5.488	6.204	5.461	6.283	5.528	4.823	4.671
P-value β_0	0.000	0.000	0.000	0.000	0.000	0.000	0.000
P-value β_1	0.001	0.000	0.001	0.000	0.001	0.001	0.002
R^2	0.790	0.828	0.788	0.793	0.793	0.744	0.732

Source: Own calculations, based on IMF statistics

Now that the presumption that a positive EU-effect on the joining country’s GDP exists, has also been statistically proven, we will focus on the most Albania-resembling country. After all, the best forecasts on Albania’s (economic) future can be made based on the country which is most similar to Albania. In order to determine which country this is, Table 3 has been composed, comparing the economic situation in the year 2004 of the “Eastern-European 2004 countries” to that of Albania now. Real GDP per capita, population, the

unemployment rate and the rate of inflation, important and frequently used indicators, have been applied to do so. With these four indicators a comparison has been made. With respect to the real GDP and the population number, the natural logarithm has been taken in order to make a reasonable comparison to other countries. In the case of the rate of unemployment the percentage of unemployed people with respect to the total labor force has been used and in the case of inflation, simply the rate of inflation has been used. From these numbers the respective numbers of Albania have been compared and summed up to calculate the smallest summation of absolute differences compared to Albania.

As becomes clearly visible in Table 3, Lithuania shows the smallest absolute differences with respect to the four chosen indicators, compared to Albania. Both countries' unemployment rate is similar while both countries also have a comparable, quite low rate of inflation. Concluding, the most reasonable comparison to Albania seems to be Lithuania, based on four major (partly economic) indicators. Hence, we will go into greater detail regarding Lithuania's economic and social development after it accessed the EU, in order to make as accurate predictions as possible for Albania.

Table 3: Socio-economic comparison between Albania and Eastern European EU economies

	Czech Republic ('04)	Estonia ('04)	Hungary ('04)	Latvia ('04)	Lithuania ('04)	Poland ('04)	Slovakia ('04)	Slovenia ('04)	Albania ('10)
Real GDP (in)	16	16	16	16	16	16	16	17	15
Population (in)	16	14	16	15	15	17	15	15	15
Unemployment (%)	8.3	9.7	6.1	10.4	11.4	19.0	18.2	6.3	12.0
Inflation (%)	2.8	3.0	6.8	6.2	1.2	3.5	7.5	3.6	2.9
Difference country - Albania	5.8	4.4	11.8	5.9	3.3	10.6	11.8	8.4	0.0

Source: own calculations based on IMF, Eurostat, Index Mundi

6. Predictions on Albania's future

In this section we will examine Lithuania's economic and social development after it had joined the European Union. These developments are then projected on Albania's present situation and used to make predictions on its future economic growth and social circumstances.

As it became a member of the European Union, Lithuania, just like the other EU member states, was granted open access to European markets and its inhabitants were now allowed to travel and work freely inside the EU borders. The consequences of this newly acquired freedom were investigated by Thomas Davulis from the University of Vilnius. He concludes that the Lithuanians took the chance of working abroad immediately, resulting in a clear emigration flow. It is not sure if the emigration of Lithuanian workers to other EU countries is permanent or temporary, but Lithuania already faces a lack of labor force, which of course negatively influences economic development. This needs in turn to be tackled by attracting other migrants. Steps to facilitate this migration have already been made by the Lithuanian government.

Although the Lithuanian unemployment rate was very low in the years 2005-2008, directly after EU accession, it skyrocketed afterwards (Table 4). In March 2009, Lithuania ranked third on Eurostat's list of European Union countries with the highest unemployment rate (15,5%), after Spain (17,4%) and Latvia (16,1%). Of course, the exasperating economic crisis that hit the entire world economy played a significant

role in the increase of the unemployment rate, but Lithuania jumped from a very low rate of unemployment to one of Europe's highest.

Table 4: Unemployment rate (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Estonia	13.6	12.6	10.3	10.0	9.7	7.9	5.9	4.7	5.5	13.8
Latvia	13.7	12.9	12.2	10.5	10.4	8.9	6.8	6.0	7.5	17.1
Lithuania	16.4	16.5	13.5	12.5	11.4	8.3	5.6	4.3	5.8	13.7
Slovenia	6.7	6.2	6.3	6.7	6.3	6.5	6.0	4.9	4.4	5.9
Slovakia	18.8	19.3	18.7	17.6	18.2	16.3	13.4	11.1	9.5	12.0

Source: Eurostat

According to Šakienė (2009), Lithuania's unemployment policy is too lenient. Lithuania is the only European country that pays unemployment benefits 8 days after one has resigned voluntarily. Also the Lithuanian system leaves too many options for abuse and fraud with unemployment benefits. Finally, the Lithuanian system doesn't oblige unemployed people to search for a job during the period of receiving unemployment benefits. When profound reforms are introduced, leading to stricter laws and regulations, unemployment can be tackled much more effectively than in the present system.

Table 5: Total number of job vacancies

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Lithuania	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	7838	7948	19533	26749	22118	5833

Source: Eurostat

Table 5, showing the total number of Lithuanian job vacancies, confirms the image of decreasing unemployment until 2008 and an increase afterwards as it is visible in Table 4. After Lithuania accessed the European Union, the number of job vacancies began to rise carefully in 2005, but stupendously in the years 2006 and 2007, when the economy was booming across Europe. But also here the economic crisis has left its mark, resulting in the lowest number of available jobs in 2009 since EU accession.

According to Kareivaitė and Tamašauskienė (2008), development of inflation in the past years in Lithuania shows two faces: before 2004 and after 2004 (Figure 2). In the years 1999–2004 inflation, based on the Harmonized Consumer Price Index (HCPI), was always below 2% and sometimes even below 0%. After 2004 it began to show significant positive numbers, because of increasing salary expenditures and increasing food prices, partly due to EU converging food prices policies. Also an increasing amount of money in circulation, decreased taxes and an improved living standard contributed to the rapid increase in inflation rate from 2005 (Kareivaitė and Tamašauskienė, 2008). In order to keep the rate of inflation low, state expenditures should be moderated, in contrast with the situation in the last years where Lithuanian government expenditures grew faster than GDP.

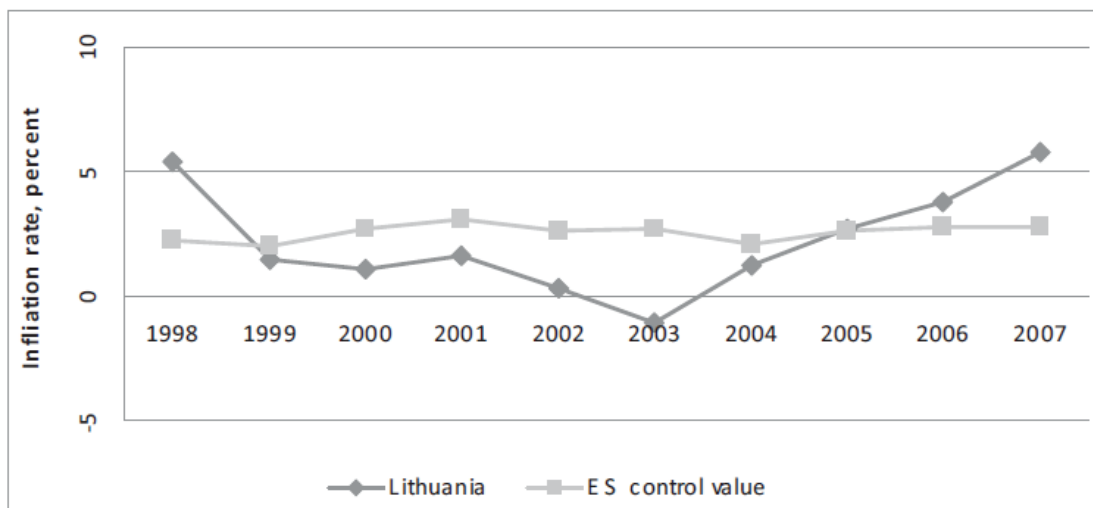


Figure 2: Lithuanian rate of inflation, based on HCPI and EU control value, 1998-2007. Source: Kareivaitė and Tamašauskienė, 2008

Traffic in Lithuania via roads, rails and seaways has become busier and busier since 2004. Lithuania is an important transport hub between Western Europe and Russia. After Lithuania joined the European Union traffic numbers have increased drastically, but Lithuania's infrastructure has failed to cope with this growth. The problem is so serious, that it's argued to be the sole impediment to freight traffic (Ojala et al., 2004).

Furthermore, the neglected state of Polish infrastructure forms a barrier to trade with respect to Lithuania (Kovács, Spens, 2006). Plans to improve the state of Lithuanian infrastructure are being made, however, and will be crucial in the process of economic growth as there is increasing emphasis on supply chain management from European trade partners (Kovács and Spens, 2006). This supply chain management angle requires a better transport network. Plans to convert the Lithuanian part of the Via Baltica, stretching from Warsaw to Tallinn, into a motorway are necessary in achieving economic growth.

According to a Deloitte & Touche report (2000), 90% of worldwide manufacturers believe that a supply chain management point-of-view, whose important part is infrastructural focus, is essential in surviving, whereas only 12% of Lithuanian colleagues shared this opinion (Kovács and Spens, 2006). This calls for an urgent reversal in Lithuanian management policies in order to cope with international demands.

Summarizing Lithuanian post-EU accession developments on various discussed areas, a total picture of national economic development arises. After Lithuania accessed the EU in 2004, it quickly became one of the fastest growing EU economies. From 2003 to 2007 GDP growth was always well above 5%. In 2008, however, the economy slowed down as an omen of the worldwide economic crisis while still achieving some economic growth. In 2009 Lithuania's economy shrank almost 15%, while its budget deficit totaled 8,9% (around 1% in 2005-2007). Private consumption decreased with 19%, where fixed investments plunged an astonishing 39% (Global Property Guide, 2010). These figures depict the worst recession in Europe. It has to be concluded that this exceptional economic crisis has had an enormous impact on Lithuania's transition economy, which was booming after EU membership, but proved to be still very fragile. It shows how much Lithuania is dependent on other European countries and trading with them. But to conclude positively, Lithuania has also showed the ability to achieve significant economic growth in a healthy economic and financial climate. Lithuania will have to weather the storm and wait for better times, while increasing taxes and reducing government expenditures in order to reduce its balance of payments deficit.

Now that has been shown in section 5 that real GDP numbers in the 2004 Eastern-European countries were significantly higher after joining the European Union in 2004 than before, it is interesting to calculate to what extent this difference can be attributed to EU accession.

Table 6: Lithuanian annual real GDP growth in percentages in constant prices of Lithuanian Litas, before and after EU membership.

	1993	1994	1995	1996	1997	1998	1999	2000	
GDP Growth (%)	-16.2	-9.8	1.2	5.1	8.5	7.5	-1.5	3.3	
	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP Growth (%)	6.7	6.9	10.2	7.4	7.8	7.8	9.8	2.8	-15.0

Source: IMF Statistics

Unfortunately, linear regression analysis yielded exaggerated estimates of the size of the EU membership effect. One explanation of this might be that only limited data of the after-EU membership era is available, as Lithuania only entered the EU in 2004. Therefore, another estimation method has to be employed in order to say something about the size of the EU effect on Lithuanian GDP growth.

When taking the average real GDP growth before and after EU accession, for example, one finds an average annual growth percentage of 1.99 % before EU membership, while post-EU membership data show a 3.43 % average annual growth (table 6). Though available data after 2004 is of course more limited than before 2004, a clearly higher average annual growth percentage is observed, despite of the 2009 heavy blow in world economy. It thus seems that EU membership did give an extra boost to Lithuanian economy, resulting in a higher real GDP growth. Of course it remains arbitrary to argue that this boost is equal to 1.5 %. Also and especially in the light of previous figures and literature it seems fair to say that EU membership definitely did something extra for Lithuanian economic development.

Finally, we will project Lithuanian economic development on Albania's current economic situation. We will do this by using four scenarios: an optimistic one with and without a change in labor productivity and a pessimistic one with and without a change in labor productivity. Tables 7 and 8 show the development of the rate of unemployment and the real GDP growth rate in Albania for the last 8 years. The average real GDP growth rate during these 8 years was 5,3%, while unemployment decreased from 17% in 2003 to 12 % in 2010. If one assumes Albania follows suit with Lithuanian economic development after it had joined the EU, which would be the optimistic scenario, things look good for Albania.

Table 7: Albania's unemployment rate since 2003, Source: CIA World Factbook

Year	Unemployment rate
2003	17.00 %
2004	15.80 %
2005	14.80 %
2006	14.30 %
2007	13.80 %
2008	13.20 %
2009	12.50 %
2010	12.00 %

Table 8: Albania's annual real GDP growth rate, Source: CIA World Factbook

Year	GDP - real growth rate
2003	5.00 %
2004	7.00 %
2005	5.60 %
2006	5.50 %

2007	5.00 %
2008	6.00 %
2009	6.10 %
2010	2.10 %

Table 6 shows an increase in Lithuania's average real GDP growth of 1,5% after the country became a member of the European Union. If this is applied to Albanian growth numbers, it means that an average annual GDP growth of 6,8% can be expected when Albania joins the EU. According to the CIA World Factbook, Albania had a GDP of \$ 11,86 billion in 2009. If this is extrapolated for the next five years, this means Albanian GDP would equal almost \$ 16,5 billion in 2014, if it had joined the European Union now. Besides the effect on GDP, the rate of unemployment is also likely to decline. In 2003 and 2004, Lithuania's unemployment rate was fairly similar to that of Albania today (both around 12%). Table 4 shows that this number can fall to values around 5%, which implies the creation of a lot of jobs and a distinct increase in welfare.

To be somewhat more precise, we can predict the size of the labor force, number of employed people and number of unemployed people in the next five years, starting from 2010. This has to be done, based on numbers of the Albanian Institute for Statistics, which unfortunately reach only until 2007. Because we know that unemployment in Albania totaled 12.0% in 2010 (table 7) and the size of the labor force during the last five available years increased with 5.3% annually, we can estimate that with constant productivity and a 6.8% annual growth of real GDP, unemployment equals approximately 5.6% within five years.

Predicting unemployment with an assumed annual 5% increase of labor productivity, yields an unemployment rate of 10.3%. If the global financial crisis leaves more severe marks on World and Albanian economy than expected or national social and economic development policies are not properly implemented, economic growth may be lagging and the "EU effect" might not be as comprehensive as hoped for. The pessimistic scenario thus implies a negligible "EU effect" and a similar economic growth rate compared to pre-EU membership numbers. Table 9 gives a summary.

Table 9: Four scenarios for 2010-2015

	Optimistic scenario, constant productivity	Optimistic scenario, increasing productivity	Pessimistic Scenario, constant productivity	Pessimistic scenario, increasing productivity
Average annual GDP growth	6.8 %	6.8 %	5.3 %	5.3 %
GDP 5 years after EU membership	\$ 16.5 billion	\$ 16.5 billion	\$ 15.4 billion	\$ 15.4 billion
Unemployment rate 5 years after EU membership	± 5.6 %	± 10.3 %	± 12.0 %	± 16.4 %
Number of unemployed people	± 116.000	± 215.000	± 251.000	± 343.000

Source: own calculations.

As table 9 points out, the "EU effect" has a large impact on GDP and unemployment numbers. In section 5 it was already proven that such an effect exists, but of course national governments and policies play a significant role in determining the size of this effect and the efficiency of which for example EU funds are being spent. The more functioning national policies and institutions are, the more the new member state can profit from EU membership.

The importance of a boost in GDP becomes very clear in table 9. Labor productivity is likely to increase as the opening of borders makes investment from abroad and adoption of new technologies more easy, which increases the need for a strong GDP growth in order to create more jobs than will disappear because of efficiency increases. If productivity will annually increase with 5%, an annual real GDP growth of 5.3% will

not be enough to sustain current employment numbers; the current unemployment ratio of 12% will increase to 16.4. The optimistic scenario, assuming a yearly economic growth of 6.8%, will be enough to decrease the rate of unemployment: from 12% to 10.3%.

7. Conclusions

Becoming a member of the European Union is a complex, large step for Albania. The process of becoming a member involves meeting lots of demands, changing national laws and regulations, complying with European standards and restructuring several existing systems. In this process, Albania has already made some important steps, becoming a potential candidate country as of today.

Probably the most important reason for Albania to join the European Union is expected economic prosperity once it becomes a member of the EU. This expectation has shown to be a realistic one. After comparing GDP growth numbers of several countries which joined the EU in 2004 before and after accession to the Union, one can conclude that post-EU membership GDP growth numbers are significantly higher than those of the pre-membership era.

With these numbers in mind, there seems to be no objection to EU membership left, in any case from the new member state's point of view. However, there are several factors which have to be taken into account. For example, as a member of the EU, a country has to open its borders for traffic of people, services and goods from and to other member states. Recent cases have shown that an emigration flow from workers to other member states is far from unthinkable. A scarcity of labor force or a "brain drain" might be the result.

Furthermore, Albanian based companies will face tough competition from other European companies, active in the same industry. While such a free trade area is an opportunity on the one hand, it may pose a threat to underdeveloped or less technological advanced Albanian companies. Also, the Lithuanian case - which seems to be a good case to compare with Albania - has proven that inflation might increase rapidly as European funds are pumped into the new member state. These funds can, in turn, be very helpful in improving the Albanian transport infrastructure, which has been in a neglected state up to now. Improving roads, railways and marine infrastructure has proven to be an essential factor in attracting foreign direct investment, which can give a large boost to the economy.

When composing four scenarios of Albania's economic future if it joins the EU, two optimistic and two more pessimistic ones can be created. If Albania can record similar economic growth as Lithuania did, an average annual GDP growth of 6.8% can be achieved, where the more pessimistic scenarios still assumes an annual growth of 5.3%, which was the average growth during the past 8 years.

This yields a flourishing perspective on Albanian future economic development. However, one has to beware that labor productivity is likely to increase because of an inflow of new technologies, innovations and other efficiency improving measures as borders to the rest of Europe will be opened after EU membership. If one assumes an annual increase of labor productivity of around 5%, a 5.3% annual economic growth will not longer be sufficient to keep the unemployment ratio at the same relatively low level as today. An increase of Albania's economy of 6.8% annually, as the optimistic scenario predicts, will on the other hand be enough to further decrease unemployment towards much more acceptable level.

However, as the case of Hungary has proven, the well-functioning of national policies and institutions is of critical importance in achieving economic growth. The Albanian government will have to be aware of the necessity of a strong GDP growth in order to keep up with productivity increases. Especially in the agricultural sector, which is still a large part of Albania's economy, losses of jobs are to be expected as new technologies and innovations will be introduced. Therefore new jobs and education improvements in order to make redundant people suitable for those jobs will be of critical importance.

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