

## **A LONG-TERM ECONOMIC MODEL: CASE OF ALBANIA**

*Enriko Ceko, PhD*

Universiteti Planetar i Tiranes

---

### **Abstract**

Purpose of the research is to give an economic model for Albania based on its human and natural resources, a model which guarantees economic growth, sustainable development and a path towards integration of the country in the Balkan region and beyond.

Approach used is based on relations between sectors of the Albanian economy and relations of Albanian economy with those of countries around and the European economy, aiming providing of products and services for local consumption and exports, for a better balance between exports and imports, as a tool for GDP increase.

Seven economic models have been identified until now. The model which fits the best under Albanian conditions is the one that support economic development defining sectors where human, natural and financial resources should be focused. To build such a model between sectors the most suitable activities to be followed should be selected. This could be done with methods that take under the consideration three variables: production, savings and labour. According to the conditions of our country and available resources, economic development have more chances to flow in the road of trade economy towards sustainable development. Inside this system, Albanian economy has the chances to be a successful one in the road of perfecting anglosaxon model, inside this model, the most suitable segment for the current conditions and for the future is: exploitation/production from soil/underground of raw materials – agricultural and rural development – agribusiness – finished goods manufacturing – processing goods for consumption – construction/building materials – textile industry aiming foreign markets/qualitative luxury products – energy capacity increase – wholesale and related sectors development – widening transport capacities – development of relaxed businesses – tourism development – development of insurance and banking sector – IT investments – health services improvement – development of consultancy sector – strength of education system.

The major result and implications is that following that economic model increases chances for improving life quality of Albanians and helping local economy to gain competitive advantages, towards the path of European integration

---

**Keywords:** Economic model, sustainable development, economic sectors

### **Introduction**

After nearly 20 years of a mixed road of development, a period that came after about 40 years of a command economy, where the relationship between economic sectors were determined, the time has come to think seriously how to contoured Albanian economy for its medium and long-term performance, under conditions where the main driving force in the economy and the magic wand that can make economic miracle is only the market (1).

Besides tha fact the macroeconomic indicators are under the control (GDP increase about 3 – 4%, inflation under control 2 – 4% , unemployment about 13%, public debt under 60%, budget debt about 3 – 5%, all figures in last 10 years, etc), recently the Albanian economy has encountered difficulties, economic growth is slowing, the economy felt the effects of the international economic crisis and remittances are shrinking (2). Most of businesses, mainly SME's, which are the spirit of local economy, are feeling difficulties in inventories reduction and cash flow management, while main sectors which suffer problems are agriculture, minings, industries, financial markets, etc.

Under such conditions an economic model is needed.

### **Main problems of Albanian economy**

1.1 Performance of the overall economy and its sectors is particularly important for all of us. Realistic view of the economy's performance created when a full analysis is performed, and this ultimately has to do with three elements:

- The level of national production
- The level of employment
- The level of inflation.

These are the parameters used to analyze the direction of the economy and to make the assessment about the standard of living (3).

1.2 Taking a positive scenario assumes that (a) production in Albania in the medium and long-term will increase (which is true in the short term), (b) the level of employment in the medium and long term in Albania will grow and (c) for the medium and long-term

inflation in Albania will remain controllable (which is met with success so far), the main issues to be resolved remain:

1. Rudimentary development and slow expansion of economic sectors
2. The lack of linkages between sectors of the economy
3. The high level of informality
4. Lack of quantitative and qualitative penetration in international markets.

1.3 The four basic elements that must be considered to focus the human, natural and financial in terms of economic development are

- The economic system
- The model
- The sectors
- The methods (1).

The issue of Albanian economic system is resolved by the transition to a market economy system.

### **Main economic models**

About models as per today, seven of them can be identified easily. They are:

1. Anglo-Saxon model (less regulation, lower taxes, business services)
2. State capitalism model (state monopoly on major products, social services, the legal framework for the functioning of the private sector - France, Italy, etc)
3. German Model (innovation, training for employees, close relationship between the financial sector and industry - Germany, Scandinavian countries etc)
4. Corporate model (employment, services to citizens, economic growth, social development - some Asian countries)
5. Latin American model (lack of production specialization, lack of investments, no diversity, no correlation between the sectors of the economy, less training, without social fusion)
6. African model (underdeveloped agriculture, small farms, poor land owners)
7. Chinese model (industrial espionage, export of semi-final and final products, mass use of natural and human resources, local currency devaluation to promote exports) (1)

### **Sectors of the economy**

To support economic development within the defined model, sectors to be focused should be targeted, related to human, natural and financial resources concentration.

The sectors are:

3.1 Primary sector of the economy - ground and underground extraction of raw materials, basic materials, basic raw food and some other products based on raw materials, agriculture, mining, forestry, grazing, hunting, fishing, extraction of raw materials for construction, processing and packaging of raw materials, etc. In Albania, this sector has started to move towards the market and that this trend agriculture sector is significant. All the elements that make up this sector need support, as this creates the preconditions for a support to other sectors of the economy, mainly the secondary sector, increasing the chances of a successfully penetration on international markets with local products (5, 6).

3.2 Secondary sector of the economy - the production of final goods, processing to produce consumer goods, construction, metal processing, production of machinery and equipment, textile products, chemical industry and engineering, energy capacity, large manufacturers of alcoholic beverages and packaging, etc. (5, 6), is a sector where without exception all industries are under a conceptual stalemate, even though there is an increase in production of final goods, growing generally has been accompanied with low and / or lack of quality. In this sector of the economy has plenty of room for new entry into the market, as space is still unexplored.

3.3 Tertiary sector of the economy, mainly services - wholesale and retail, transportation, distribution and logistics, business pleasure and relaxation, restaurants, various civic services, media, tourism, insurance, banking, health care, legal services, consulting in not very special level, etc (5, 6), although there is a tendency to increase the range and supply of services, remains far behind in relation to flexibility to customers, customer behavior and the provision of new services, previously unknown to the Albanian consumers, mentioning here the existence of a very high degree of informality and the "gray" that exists in this sector.

3.4 The fourth sector of the economy - intellectual activities, governmental decisions in low and middle levels, culture, libraries, research, education, information technology, consulting in a more specialized level, etc (5, 6) is a virtually unexplored sector in Albania.

3.5 The fifth sector of the economy - higher levels of decision-making, execution decisions, high level bureaucrats officials, great scientists, etc (5, 6), is a sector that requires maximum clarity in decision-making, requiring a rapidly adaptation to the new conditions created in local and regional markets, accompanied with guarantee of democratic principles, clear vision, etc.

### **Methods of selecting segments of the economy**

4.1 To build a segment of development among these sectors appropriate activities should be selected with several methods, among which the most viable have resulted:

1. Black-Scholes
2. Heckscher-Ohlin
3. Int-Insert
4. IS / LM
5. Mundell-Fleming
6. RBC IS / MP
7. Solow Growth
8. Leontief
9. Wonderland
10. Etc

4.2 Which are based on three variables:

- Labor
- Investments
- Savings (7).

4.3 Given the conditions of our country and available human and natural resources, economic development has all the chances to move along market economy towards sustainable development.

### **Economic model, case of Albania**

5.1 Within this system, the Albanian economy is likely to be successful in the way of perfection of Anglo-Saxon model (also combining the best aspects of other models), and within this model selecting the appropriate economic segment for the current and long-term development. The segment is: extrusion and production of raw materials from underground and soil - rapid development of agriculture and agribusiness - final goods production - processing to produce consumer goods - construction and building materials - textile industry aimed at international markets with high quality and luxury products - energy capacity increase - development of wholesale and retail sector - transport capacity expansion - development of pleasures and relaxation business - tourism development - expansion of insurance and banking sector – increase investment in information technologies - health care improvement - development and expansion of the consultancy sector - strengthening the education system, etc. In this segment, at a given moment, some activities will be prioritized and some others activities will be prioritized in another time, according to internal and

external conditions of doing business, which requires flexibility, finding and use of comparative and competitive advantages, management strategic alternative plans, etc.

5.2 This segment development should be complemented by other non-core activities such as forest management, grazing, hunting, fishing, metal processing, manufacture of machinery and equipment, chemical industry and engineering, logistics distribution, various civic services, media, research science etc, which can not be key activities because they require maximum support, in order to realize a natural fusion between them and the main economic activities. This segment within this form suits the best with available and current development of natural and human resources in the country. This market segment, which offers diversification, can become competitive in the region and beyond. The model is simple, based on local resources and cooperation with international markets, allows regeneration of natural resources and enables a transparent fight against corruption, the core of the failure of economic models not only in our country.

5.3 This model makes definition of economic advantages the country, where the main is competitive advantage. As a matter of the fact, Albania has no remarkable economic advantages, but there are sufficient preconditions for having comparative competitive advantages, prerequisites that in the short term can be organized and managed to bring genuine economic advantages, and this model is a suitable one to determine and display the advantages (2).

### **Conclusion**

1. The time has come to think seriously how to contoured Albanian economy for its medium and long-term performance, under conditions where the main driving force in the economy and the magic wand that can make economic miracle is only the market. Recent years the Albanian economy has encountered difficulties, economic growth is slowing, the economy felt the effects of the international economic crisis and remittances are shrinking.
2. The main issues to be resolved for Albanian economy remain, (a) rudimentary development and slow expansion of economic sectors, (b) the lack of linkages between sectors of the economy, (c) the high level of informality and (d) lack of quantitative and qualitative penetration in international markets. The Albanian economy is likely to be successful in the way of perfection of Anglo-Saxon model (also combining the best aspects of other models), and within this model selecting the appropriate economic segment for the current and long-term development.

3. The segment is: extrusion and production of raw materials from underground and soil - rapid development of agriculture and agribusiness - final goods production - processing to produce consumer goods - construction and building materials - textile industry aimed at international markets with high quality and luxury products - energy capacity increase - development of wholesale and retail sector - transport capacity expansion - development of pleasures and relaxation business - tourism development - expansion of insurance and banking sector – increase investment in information technologies - health care improvement - development and expansion of the consultancy sector - strengthening the education system, etc.
4. This development segment should be complemented by other non-core activities such as forest management, grazing, hunting, fishing, metal processing, manufacture of machinery and equipment, chemical industry and engineering, logistics distribution, various civic services, media, research science etc, which can not be key activities because they require maximum support, in order to realize a natural fusion between them and the main economic activities.

### **References:**

- Ceko Enriko. Where Albanian economy is going?. Newspaper “Shqip“ 11 July 2008
- Ceko Enriko. So far from the world with economic model. Newspaper “Shqip“ 30 March 2010
- Ceko Enriko. What about fueling “a little bit“ the economy? Newspaper “Shqip“, 17 May 2008
- Ceko Enriko. Does Albania have competitive advantages? Newspaper “Shqip“, 1 May 2008
- Kenessey Zoltan. The Primary, Secondary, Tertiary and Quaternary Sectors of the Economy. The Review of Income and Wealth. Retrieved 20 April 2012
- Rosenberg Matt, Sectors of the Economy". 17 January, 2007, Retrieved 20 April 2012  
[http://en.wikipedia.org/wiki/Economic\\_model](http://en.wikipedia.org/wiki/Economic_model)