# TABLE OF CONTENTS

TABLE OF CONTENTS ................................................................................................................. 2

ABSTRACT .................................................................................................................................. 4

CHAPTER 1  INTRODUCTION................................................................................................. 5
  1.1 PROBLEM STATEMENT AND MOTIVATION ............................................................... 6
  1.2 PREVIOUS WORK ....................................................................................................... 6
  1.3 METHODOLOGY ......................................................................................................... 7

CHAPTER 2  BACKGROUND................................................................................................... 8
  2.1 ALBANIA..................................................................................................................... 9
  2.2 ALBANIA’S ECONOMIC SITUATION.......................................................................... 10
  2.3 EUROPEAN UNION’S ACTUAL SITUATION ............................................................... 11
  2.4 BID FOR EU MEMBERSHIP ....................................................................................... 12

CHAPTER 3  RESULTS OF EU MEMBERSHIP ........................................................................ 13
  3.1 GENERAL BENEFITS AND DISADVANTAGES OF EU MEMBERSHIP......................... 14
  3.2 ECONOMIC BENEFITS OF EU MEMBERSHIP ............................................................ 16
  3.3 ECONOMIC DISADVANTAGES OF EU MEMBERSHIP................................................ 18

CHAPTER 4  EVIDENCE FROM OTHER EU MEMBER STATES ........................................... 19
  4.1 COMPARABLE COUNTRIES....................................................................................... 20
  4.2 DEVELOPMENT AFTER EU MEMBERSHIP: POLAND............................................. 21
    4.2.1 POLAND’S ECONOMIC EVOLUTION ................................................................ 21
    4.2.2 CHANGES IN TRANSPORT INFRASTRUCTURE QUALITY AND DEMAND .......... 23
  4.3 DEVELOPMENT AFTER EU MEMBERSHIP: HUNGARY............................................. 26
  4.4 FURTHER SELECTION OF COMPARABLE COUNTRIES............................................... 26

CHAPTER 5  QUANTITATIVE RESEARCH ON ECONOMIC DEVELOPMENTS AFTER EU MEMBERSHIP ........................................................................................................................... 28
  5.1 PRESENCE OF A EUROPEAN UNION MEMBERSHIP EFFECT................................... 29
  5.2 ALBANIA’S LOOK-A-LIKE .......................................................................................... 32

CHAPTER 6  PREDICTIONS ON ALBANIA’S FUTURE .............................................................. 34
  6.1 POST-EU ACCESSION DEVELOPMENT: LITHUANIA .............................................. 35
    6.1.1 CONSEQUENCES OF FREE MOVEMENT OF PEOPLE AND CAPITAL ............... 35
    6.1.2 LABOR MARKET DEVELOPMENTS .................................................................... 35
    6.1.3 INFLATION DEVELOPMENT .............................................................................. 36
    6.1.4 INFRASTRUCTURAL DEVELOPMENTS .............................................................. 37
    6.1.5 ECONOMIC GROWTH ....................................................................................... 37
ABSTRACT

In this BSc-thesis, a study of the effects of a possible European Union membership for Albania on its economy was performed. The reasons for Albania, which has already been declared a potential candidate country, to join the EU will probably have an economic nature. Albania, being one of the poorest European countries, could immensely profit from an EU membership as it removes barriers for foreign countries to invest in its economy and available EU development funds can be attracted to finance various projects. Interesting is to what extent a membership of the EU contributes to Albanian welfare and economic growth, if there is a measurable effect at all.

One result of this study was that there indeed is 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, yielded a clearly observable increase in national economic growth after these countries accessed the EU.

Furthermore a literature study of various articles on EU membership’s influence on Eastern European economies contributed to the theorem that becoming an EU member positively affects the national economy. Based on different calculations four scenarios for Albanian future economic development in the case of becoming an EU member state were composed: two pessimistic ones and two optimistic scenarios. Where 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.

Concluding, Albanian economic perspectives are looking good, especially when it is included in the European Union and several development-hindering national issues will be resolved.
1.1 PROBLEM STATEMENT AND MOTIVATION

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 my research I 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 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, Albania’s companies’ competitive position might be (too) weak to compete with other European and non-European enterprises, causing bankruptcies and layoffs. With this thesis I will try to shed some light on these uncertainties. It is the answers to these questions and expectations about these uncertainties that I want to provide with this research into economic development possibilities if Albania accesses the European Union.

1.2 PREVIOUS WORK

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 economic growth effects on 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.

Also, 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 a 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 of 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.

1.3 METHODOLOGY

In order to provide answers to the several mentioned questions, I will take the following steps.

Firstly, I 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, I will examine the progress this country has made after it had joined the European Union. I will compare the economic and social situation before membership with the situation afterwards. This, I will do by analyzing data from different statistical databases and by reading literature on these topics. Furthermore, I will analyze if a clear positive relation between EU membership and economic growth exists, by doing a linear regression analysis. Finally, I conclude with the composition 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.
2.1 ALBANIA

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 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, exists of approximately 727,000 people and is also the financial capital of Albania. Located in South Eastern Europe (see figure 2.1 and 2.2) 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 2.1: Albania's geographical location. Source: CIA World Factbook](image)

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.

Albania 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.
2.2 ALBANIA’S ECONOMIC SITUATION

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 started to give back 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 2.1. However, in 1996 to 1997, economic trouble began as Albania’s pyramid scheme’s 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, rioting leading to anarchy and 2,000 deaths was the result. (Jarvis, 2000)

This crisis mainly had a large impact on 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 2.1: Macroeconomic indicators for Albania, 1990-1999

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</thead>
<tbody>
<tr>
<td>Real GDP growth (%)</td>
<td>-10.0</td>
<td>-28.0</td>
<td>-7.2</td>
<td>9.6</td>
<td>8.3</td>
<td>13.3</td>
<td>9.1</td>
<td>-7.0</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Annual average inflation (%)</td>
<td>0</td>
<td>35.5</td>
<td>226</td>
<td>85.0</td>
<td>22.5</td>
<td>7.8</td>
<td>12.7</td>
<td>32.1</td>
<td>20.9</td>
<td>0.4</td>
</tr>
<tr>
<td>Exchange rate (Lez/US$-end year)</td>
<td>8.9</td>
<td>24.2</td>
<td>75.0</td>
<td>102.1</td>
<td>94.7</td>
<td>92.8</td>
<td>104.5</td>
<td>148.9</td>
<td>150.6</td>
<td>137.5</td>
</tr>
<tr>
<td>Trade balance (Mil. US$)</td>
<td>-150</td>
<td>-308</td>
<td>-471</td>
<td>-490</td>
<td>-460</td>
<td>-474</td>
<td>-692</td>
<td>-519</td>
<td>-621</td>
<td>-205.5</td>
</tr>
<tr>
<td>Unemployment rate (% - end year)</td>
<td>--</td>
<td>30.0</td>
<td>--</td>
<td>22.0</td>
<td>18.0</td>
<td>13.0</td>
<td>12.4</td>
<td>14.9</td>
<td>17.8</td>
<td>18.3</td>
</tr>
<tr>
<td>Budget deficit (% GDP)</td>
<td>15.3</td>
<td>20.7</td>
<td>15.8</td>
<td>13.7</td>
<td>7.7</td>
<td>8.6</td>
<td>12.3</td>
<td>12.0</td>
<td>8.6</td>
<td>7.4</td>
</tr>
<tr>
<td>Minimum official wage (in Lez)</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>1.200</td>
<td>2.400</td>
<td>3.300</td>
<td>4.400</td>
<td>4.400</td>
<td>5.800</td>
<td>5.800</td>
</tr>
<tr>
<td>FDI inflows (Mil. US$)**</td>
<td>--</td>
<td>--</td>
<td>32.0</td>
<td>43.0</td>
<td>65.0</td>
<td>89.0</td>
<td>97.0</td>
<td>42.0</td>
<td>45.0</td>
<td>43.0</td>
</tr>
</tbody>
</table>

(*) indicates the average monthly wage in state sector
(*** FDI - Foreign Direct Investment

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 favourable short-term future as 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 exist in a state of
neglect. 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.

2.3 EUROPEAN UNION’S ACTUAL SITUATION

The European Union nowadays is a cluster of on almost every area cooperating European countries. In 2002, the Euro was introduced as common currency. The goal of the European Union is to finally delete all intra-European borders and to act as one country, with one common currency, the Euro.

In 1952 the “Inner Six”, existing of The Netherlands, Belgium, Luxemburg, West-Germany, France and Italy, founded the European Coal and Steel Community (ECSC). The ECSC was succeeded by the European Union, which now comprises of twenty-seven countries with Bulgaria and Romania as newest members, accessing in 2007.

It is 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.
2.4 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 and 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 (Wikipedia, 2010). 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, rule of law, 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’s 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 is the last officially known step in the process of Albania’s accession to the EU as of today.

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 important steps were taken in the process of judicial reform, visa liberalization, the fight against corruption and, very important, 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).
3.1 GENERAL BENEFITS AND DISADVANTAGES OF EU MEMBERSHIP

Of course, European Union membership, like every change in an actual situation, comes with benefits on the one side and drawbacks on the other side. Figure 3.1 depicts varying EU-sentiments among EU citizens. In this Eurobarometer issue EU citizens were asked if they thought that their country was better or worse of thanks to EU membership. A trend of positive thoughts about EU membership is visible during the last nine years.

The intention of this chapter is to make a distinction between general benefits and disadvantages of EU membership on one side and economic benefits and drawbacks on the other side. However, during literature research it became clear that when one evaluates the results of EU membership one predominantly reviews 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 really influencing factor on people’s daily life. A good income, a job and money to enjoy the pleasant facets of life seem to be decisive in the opinion on the European Union.

Therefore, the general benefits and disadvantages of EU membership will be discussed together in this paragraph.

![Figure 3.1: National sentiments about the EU. Source: Eurobarometer 72, December 2009](image)

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

1. Ability to travel freely within the European Union with only 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. Customs controls are abolished which makes it a lot easier to travel within these countries, not only for citizens but certainly also for trade companies. 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. When in an unfortunate case a product does show defects, the consumer has to be paid a 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 have 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

Figure 3.2: EU traveler’s rights. Source: European Union
A nice example of the right to compensation is the civil aviation industry 
(figure 3.2).
According to European Regulation 261/2004, depending on the delay of a 
flight within the EU or with a EU-based carrier, it is possible to claim up to €
600,- per person per flight. Civil airliners have to comply with these 
regulations and cannot easily reject such claims anymore. Only in a very clear 
case of “force majeure”, an airliner does not have to pay a compensation.
This certainly is not easy as also technical problems with an airplane are not 
always recognized as force majeure.

Drawbacks of EU membership

However it is pretty much widely agreed that EU membership brings along a 
lot of benefits, of course there are also drawbacks for a new 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 
which of course impacts both economy and society.

Another much discussed drawback of accession to the European Union is the 
loss of independence of the member state on different areas. For example, 
rules and regulations regarding to 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.

3.2 ECONOMIC BENEFITS OF EU MEMBERSHIP

EU membership would not (have) be(en) so desired by many European 
countries if it did not have so many (perceived) benefits. As already stated in 
the previous paragraph, the benefits coming along with EU membership that 
stand out, are the economic ones. This, of course, is the result of the fact that 
a healthy and growing economy is a priority of every government. But what 
actually are the economic benefits of being an EU member state?
According to Baldwin and Wyplosz (2009) key 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
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 chapters.

According to Baldwin and Wyplosz, 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.

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 breaking even, despite lower profit margins.

These three factors are contributing to the believe that the integration of markets within the European Union has positive economic effects on its members states’ economies and lead to more welfare among its citizens. However, drawbacks of European and economic integration can also be signaled.
3.3 ECONOMIC DISADVANTAGES OF EU MEMBERSHIP

Where there are certainly (possible) advantages of EU membership for a European state, 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 (source: biz/ed):

(1) Huge migration flows
(2) Problems meeting EU standards and systems
(3) Legacy of the Soviet economy

(1) The formation of one single European market and the abolition of internal borders can lead to large migration flows. As already stated in paragraph 2.1 this is a possible outcome of the disappearance of national borders. However, as stated in paragraph 2.2 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 proof 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) As a result of years of domination by the Soviet Empire, Eastern-European countries, including of course Albania, will find themselves years 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.
4.1 COMPARABLE COUNTRIES

In order to examine if economic benefits are to be expected if Albania enters the European Union, a comparison between Albania and similar countries with similar economic and social circumstances has to be made. For this, the Eurostat database is a good tool to find countries that found themselves in a similar situation to Albania at the time of entering the EU.

A first guess which countries this would be, proved to be a good guess. I examined some indicators for economic and social state of the EU member states at the time they entered the EU. I did this for Hungary, Poland, Czech Republic, Slovak Republic, Slovenia, Estonia, Latvia and Lithuania. These countries all became member of the EU on May 1st, 2004.

Table 4.1: Real GDP in billions, national currencies and growth percentages, respectively.

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<tbody>
<tr>
<td>Lithuania</td>
<td>45.737</td>
<td>48.818</td>
<td>52.168</td>
<td>57.514</td>
<td>61.741</td>
<td>65.559</td>
<td>71.780</td>
<td>78.043</td>
<td>81.020</td>
</tr>
<tr>
<td>Poland</td>
<td>744.378</td>
<td>753.360</td>
<td>764.224</td>
<td>793.777</td>
<td>836.202</td>
<td>866.448</td>
<td>920.496</td>
<td>982.858</td>
<td>1.032.041</td>
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<td>Poland</td>
<td>4.253</td>
<td>1.205</td>
<td>1.443</td>
<td>3.887</td>
<td>5.346</td>
<td>5.617</td>
<td>6.227</td>
<td>6.785</td>
<td>5.004</td>
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<tr>
<td>Slovak Republic</td>
<td>31.152</td>
<td>32.237</td>
<td>33.717</td>
<td>36.328</td>
<td>37.106</td>
<td>39.679</td>
<td>42.944</td>
<td>47.497</td>
<td>50.418</td>
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Source: IMF

Table 4.2: Gini coefficients.

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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GEO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>n.a.</td>
<td>25</td>
<td>n.a.</td>
<td>n.a.</td>
<td>26</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Estonia</td>
<td>36</td>
<td>35</td>
<td>35</td>
<td>34</td>
<td>37</td>
<td>34</td>
<td>33</td>
<td>33</td>
<td>31</td>
</tr>
<tr>
<td>Latvia</td>
<td>34</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>36</td>
<td>39</td>
<td>35</td>
<td>36</td>
</tr>
<tr>
<td>Lithuania</td>
<td>31</td>
<td>31</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>36</td>
<td>35</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Hungary</td>
<td>26</td>
<td>25</td>
<td>24</td>
<td>27</td>
<td>n.a.</td>
<td>28</td>
<td>33</td>
<td>26</td>
<td>25</td>
</tr>
<tr>
<td>Poland</td>
<td>30</td>
<td>30</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>36</td>
<td>33</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Slovenia</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>n.a.</td>
<td>24</td>
<td>24</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Slovakia</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>26</td>
<td>28</td>
<td>24</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Eurostat

Tables 4.1 and 4.2 display for the already mentioned Eastern-European countries the real GDP in national currencies and the Gini-coefficient, respectively.

The real GDP gives an indication of financial welfare of a country and the Gini coefficient indicates how income in a country is distributed, which gives an indication of quality and effectiveness of social policies. The indications range from 0, being perfectly equal income distribution, to 100, being perfectly unequal income distribution.
I have chosen these two indicators because they already yield a quite accurate image of a country’s economic and social state. Furthermore, Albanian economic indicators are hard to find, so not every specific statistic is also available for Albania. In the case of GDP and the Gini coefficient, they are. Albanian GDP per capita and Gini coefficient for the years 2000 to 2007 are as follows:

Table 4.3: Albanian real GDP per capita (Lek) and Gini coefficient.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP per</td>
<td>123,090</td>
<td>131,499</td>
<td>136,135</td>
<td>143,132</td>
<td>150,492</td>
<td>158,441</td>
<td>166,237</td>
<td>175,334</td>
</tr>
<tr>
<td>capita (Albanian Lek)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gini coefficient</td>
<td>n.a.</td>
<td>n.a.</td>
<td>28</td>
<td>n.a.</td>
<td>31</td>
<td>33</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: WDI and IMF

As tables 4.2 and 4.3 show, the Gini coefficients of Albania - where available - are fairly similar in 2004 to those of the Eastern-European countries which joined the EU in 2004 while the GDP per capita (note the difference between currencies) is showing a similar positive trend, compared to the other Eastern European countries. So, besides the economic resemblances there are of course cultural, social and historical similarities between Albania and the “East Bloc” countries which together makes it a fairly reasonable thing to compare Albania with these countries.

4.2 DEVELOPMENT AFTER EU MEMBERSHIP: POLAND

4.2.1 POLAND’S ECONOMIC EVOLUTION

In a report (2008) on the effects of Poland’s accession to the EU the Poland Office of the Committee for European Integration (POCEI) draws various conclusions on the observed economic development (figures 4.1 and 4.2) after EU membership was a fact for Poland. Firstly, Poland saw a clearly higher GDP growth rate in 2004, the year of accession. The authors mainly contribute this observation to the positive psychological effect of accession. As late as 2006 also a clear investment growth became visible, leading to a GDP growth exceeding 6%, which had not been so high since 1997. Secondly, 2004 seems to be a turning point in the expenditures on fixed assets and the added value in construction. However, a particular “EU effect” is not so clearly visible in the dynamics of added value in industry and market services. The red line in figure 4.1 indicates the growth of real GDP in Poland. It is clearly visible that post-2004 years show a higher growth of GDP.
Being a new member of the EU with a lot of room for improvement on different areas, Poland qualified for various income flows from different EU funds, including the Common Agricultural Policy (CAP) and the Cohesion Policy. Investing these funds on agricultural development and improvement of transport infrastructure, of course an economic boost was given as well. These EU funds, totaling EUR 8 billion, together accounted for 2% of Polish GDP in 2007.

The authors of the report on Poland’s economic development after EU membership observe similar positive economic effects in other member states. The four “Cohesion countries” (Spain, Ireland, Portugal and Greece) already witnessed positive economic effects after acceding to the EU, just as the majority of the countries acceding in 2004 did, especially the Czech Republic, Malta, Poland and Slovakia. Hungary, however forms an exception in these findings.
The authors of the report assign Hungary’s failure to keep up with the other new member states to a wrong execution of domestic macroeconomic policy. The authors conclude that there is definitely a positive “EU effect” visible in Poland’s economic development after EU accession. This growth is mainly attributable to an increase in internal demand and investment. The inflow of EU budget funds and an increase in foreign investment raised internal demand and investment, leading to clearly higher GDP growth.

4.2.2 CHANGES IN TRANSPORT INFRASTRUCTURE QUALITY AND DEMAND

In the beginning of the 1990s, both concentration of traffic and trade intensity were very unevenly distributed among the country. Especially, as might be expected, the capital Warsaw was the center of economic activity and trade movements. However, after entering the European Union, a certain spread effect of mainly export activity from Warsaw to the peripheral areas is observable, mainly to Central- and South-Eastern Poland (figure 4.3)
Regions with special economic zones, in particular around Walbrzych, Mielec and Gliwice, showed significant export increases. Also for imports a shift from the former core-region Warsaw to the peripheral areas is observable. Where imports from the region of Poznań decreased, they convincingly increased in the regions of Wrocław, Kraków and the Tricity (Gdańsk, Gdynia and Sopot).

In the period between 2000 and 2005 clear increases in trade were observed in the border-regions. In the Eastern part of Poland exports increased, helped by the new EU membership of the nearby Estonia, Latvia and Lithuania and in Western Poland imports from other countries significantly increased. The post-EU membership period shows increased trade leading to intensified traffic. The busier traffic has led to an increase in domestic demand for changes in transport infrastructure. Because of an increase in metropolisation traffic between these larger areas intensified. Also, suburbanization driven by higher real estate prices in the trade centers is a clear effect of increased trade intensity.

Claiming funds from various EU budgets, including the Cohesion Fund (CF), Sectoral Operational Programme Transport (SOPT) and the Integrated Regional Development Programme (IRDP), Poland managed to tackle various large road projects (figure 4.4). A lack of funds to do so before EU membership was thus solved.
Concluding, Poland has invested significant amounts of money in the quality and supply of transport infrastructure in the years after EU membership. However, because of enormous negligence and small investments in the pre-EU period, Poland is still far behind other EU members, even those who joined in 2004. To illustrate: the rate of motorways with respect to the population is still threefold lower than in the Czech Republic and Hungary and even 15-fold lower than in Slovenia. Also the road network in Poland is not forming a coherent network, in contrast with the mentioned countries. So, progress has been made, but there is still a lot of room for improvement.
4.3 DEVELOPMENT AFTER EU MEMBERSHIP: HUNGARY

Hungary was one of the ten countries to join the European Union in 2004. Unlike Poland, Hungary is having quite mixed feelings about the accession to the European Union. When it joined the EU in May 2004, Hungary witnessed a slight decrease in Gross Domestic Product in the second part of 2004 and the first part of 2005, as is also visible in Chart 2. This was mainly the case because of a slow-down in the European economy, according to Shaleva (2006). However, a significant inflow of foreign direct investment (FDI), increased trade and a larger labor force participation rate made the first two years of Hungary’s EU membership look bright in the end.

Government spending on infrastructure, driven by the acquisition of EU funds to do so, but mainly net exports were the key drivers of GDP growth since 2004. GDP growth totaled 4% in 2005, compared to an average of 1.3% in the Euro-zone. This might be explained by Solow’s law that less developed economies are able to grow faster than more developed countries, according to Shaleva.

A negative side of the story is the fact that unemployment increased in both 2004 and 2005. In 2004 it totaled 6.1%, growing to an average of 7.1% in 2005, lower than the EU-15 and EU-25 averages at that time, but the highest rate in the region.

The reason that Hungary does not seem to be able to keep up with other newly joined members actually has to be sought in the fact that the Socialist government, ruling from 2002 to now, adopted a loose fiscal policy which has led to a large account deficit and erection of obstacles to adopt the Euro. In conclusion, it has to be noted that Hungary’s national fiscal policy hasn’t been adequate as was it’s labor policy. This shows that positive economic effects from EU membership need to be supported by competent national policies in order to be decisive in GDP growth.

4.4 FURTHER SELECTION OF COMPARABLE COUNTRIES

Deducing from the experiences in more detail as described above of Poland and Hungary, I can state that particular factors greatly influence the (magnitude of) economic success of EU membership in the newly joined country. Firstly, mostly there is a certain psychological “EU-effect”, which positively influences the national economy and the mindset of the new member’s inhabitants. Secondly, the attraction of various EU funds, including those from the Cohesion Policy and the Common Agricultural Policy (CAP) can give a serious boost to the economy as investments in regarding sectors are likely to show a distinctive growth. Thirdly, the way of operating the country and its economy by the national government is crucial to the degree of success or failure of EU membership.
In order to come to an as much accurate prediction as possible of the benefits and its magnitude for the Albanian economy when Albania would access the European Union, I will go into more detail on the development of crucial and leading national sectors of recently joined EU members in order to predict consequences of EU accession for Albania’s respective sectors.

Table 4.4: Population per country in millions.

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>3.198</td>
</tr>
<tr>
<td>Estonia</td>
<td>1.338</td>
</tr>
<tr>
<td>Latvia</td>
<td>2.263</td>
</tr>
<tr>
<td>Lithuania</td>
<td>3.367</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>5.411</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2.016</td>
</tr>
</tbody>
</table>

Source: IMF

To make the comparison as fair and accurate as possible, I will restrict my investigation to the smaller Eastern European countries, as Albania is also a small country (population: 3.1 million). To be precise, the countries that will be subject to the investigation are Estonia, Latvia, Lithuania, the Slovak Republic and Slovenia. The average population number of these countries is very close to that of Albania (table 4.4). Furthermore, all of these countries share a fairly similar history with Albania. As explained in paragraph 2.3, the Soviet legacy that these countries still have to deal with, has had a significant impact on their economies, infrastructure and state of different industries. At last, the Baltic countries and to a lesser extent Slovenia have some important ports as an important factor in trade, just like Albania with its location on the Adriatic- and Ionian sea.

Considering all discussed similarities, I conclude that these five countries will provide the best source of comparison to draw conclusions on Albania’s eventual benefits of EU membership.
CHAPTER 5 QUANTITATIVE RESEARCH ON ECONOMIC DEVELOPMENTS AFTER EU MEMBERSHIP
5.1 PRESENCE OF A EUROPEAN UNION MEMBERSHIP EFFECT

To assess if a clear positive or negative “EU-effect” exists, Real GDP data from several “2004 East-European EU members” (see table 4.1) 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:

\[ E(\text{Real GDP}_i) = \beta_0 + \beta_1 \cdot \text{Dummy} \quad (5.1) \]

With \( i \) for the respective country and the Dummy variable indicating a 0 for the years 2000 – 2004 and a 1 for the years 2005 – 2009. The results are as follows:

Table 5.1: Model output for the Czech Republic

<table>
<thead>
<tr>
<th>Model</th>
<th>( R )</th>
<th>( R \text{ Square} )</th>
<th>Adjusted ( R \text{ Square} )</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.889a</td>
<td>.790</td>
<td>.764</td>
<td>184716.417</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Dummy

Coefficients:

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2311884.800</td>
<td>82607.693</td>
<td>27.986</td>
</tr>
<tr>
<td></td>
<td>Dummy</td>
<td>641135.000</td>
<td>116824.920</td>
<td>.889</td>
</tr>
</tbody>
</table>

a. Dependent Variable: GDPCZ

Table 5.2: Model output for Estonia

<table>
<thead>
<tr>
<th>Model</th>
<th>( R )</th>
<th>( R \text{ Square} )</th>
<th>Adjusted ( R \text{ Square} )</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.910a</td>
<td>.828</td>
<td>.806</td>
<td>11425.112</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Dummy
### Hungary

#### Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.888$^a$</td>
<td>.788</td>
<td>.762</td>
<td>824486.517</td>
</tr>
</tbody>
</table>

$a$. Predictors: (Constant), Dummy

### Latvia

#### Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.912$^a$</td>
<td>.831</td>
<td>.810</td>
<td>663.413</td>
</tr>
</tbody>
</table>

$a$. Predictors: (Constant), Dummy

---

### Table 5.3: Model output for Hungary

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>111113,200</td>
<td>5109,465</td>
</tr>
<tr>
<td>Dummy</td>
<td>44829,400</td>
<td>7225,875</td>
</tr>
</tbody>
</table>

$a$. Dependent Variable: GDPEE

### Table 5.4: Model output for Latvia

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1,473E7</td>
<td>368721,580</td>
</tr>
<tr>
<td>Dummy</td>
<td>2847665,400</td>
<td>521451,059</td>
</tr>
</tbody>
</table>

$a$. Dependent Variable: GDPHU
Table 5.5: Model output for Lithuania

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.890a</td>
<td>.793</td>
<td>.767</td>
<td>6516.760</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), Dummy*

### Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>53113,600</td>
<td>2914,384</td>
<td>18,225</td>
<td>.000</td>
</tr>
<tr>
<td>Dummy</td>
<td>22783,400</td>
<td>4121,561</td>
<td>.890</td>
<td>5,528</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: GDPLT*

Table 5.6: Model output for Poland

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.863a</td>
<td>.744</td>
<td>.712</td>
<td>64339.295</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), Dummy*

### Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>778386,200</td>
<td>28773,407</td>
<td>27,052</td>
<td>.000</td>
</tr>
<tr>
<td>Dummy</td>
<td>196272,400</td>
<td>40691,743</td>
<td>.863</td>
<td>4,823</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: GDPPL*

Table 5.7: Model output for the Slovak Republic

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.855a</td>
<td>.732</td>
<td>.698</td>
<td>133091.176</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), Dummy*
These results show a clear, significant positive relationship between EU membership and Real GDP. With the R²s 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 country.

### 5.2 ALBANIA’S LOOK-A-LIKE

Now that the presumption that a positive EU-effect on the joining country’s GDP exists, has also been statistically proven, one has to 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, I have composed table 5.8, 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, 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, I 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.
6.1 POST-EU ACCESSION DEVELOPMENT: LITHUANIA

As explained in paragraph 5.2, Lithuania, of the Eastern-European countries which joined the EU in 2004, forms the best case to compare Albania with. Therefore, in this chapter I 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.

6.1.1 CONSEQUENCES OF FREE MOVEMENT OF PEOPLE AND CAPITAL

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.

6.1.2 LABOR MARKET DEVELOPMENTS

Although the Lithuanian unemployment rate was very low in the years 2005-2008, directly after EU accession, it skyrocketed afterwards. 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>
<thead>
<tr>
<th>Time</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>13.6</td>
<td>12.6</td>
<td>10.3</td>
<td>10.0</td>
<td>9.7</td>
<td>7.9</td>
<td>5.9</td>
<td>4.7</td>
<td>5.5</td>
<td>13.8</td>
</tr>
<tr>
<td>Latvia</td>
<td>13.7</td>
<td>12.9</td>
<td>12.2</td>
<td>10.5</td>
<td>10.4</td>
<td>8.9</td>
<td>6.8</td>
<td>6.0</td>
<td>7.5</td>
<td>17.1</td>
</tr>
<tr>
<td>Lithuania</td>
<td>16.4</td>
<td>16.5</td>
<td>13.5</td>
<td>12.5</td>
<td>11.4</td>
<td>8.3</td>
<td>5.6</td>
<td>4.3</td>
<td>5.8</td>
<td>13.7</td>
</tr>
<tr>
<td>Slovenia</td>
<td>6.7</td>
<td>6.2</td>
<td>6.3</td>
<td>6.7</td>
<td>6.3</td>
<td>6.5</td>
<td>6.0</td>
<td>4.9</td>
<td>4.4</td>
<td>5.9</td>
</tr>
<tr>
<td>Slovakia</td>
<td>18.8</td>
<td>19.3</td>
<td>18.7</td>
<td>17.6</td>
<td>18.2</td>
<td>16.3</td>
<td>13.4</td>
<td>11.1</td>
<td>9.5</td>
<td>12.0</td>
</tr>
</tbody>
</table>

Source: Eurostat

According to Šakienė (2009), Lithuania’s unemployment policy is too lenient. Lithuania is the only European country already paying unemployment benefits after 8 days 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 6.2: Total number of job vacancies

<table>
<thead>
<tr>
<th>TIME</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>7838</td>
<td>7948</td>
<td>19533</td>
<td>26749</td>
<td>22118</td>
<td>5833</td>
</tr>
</tbody>
</table>

Source: Eurostat

Table 6.2, showing the total number of Lithuanian job vacancies, confirms the image of decreasing unemployment until 2008 and an increase afterwards as is visible in table 6.1. 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.

6.1.3 INFLATION DEVELOPMENT

According to Kareivaitė and Tamašauskienė (2008), development of inflation in the past years in Lithuania shows two faces: before 2004 and after 2004. 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.
6.1.4 INFRASTRUCTURAL DEVELOPMENTS

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, to 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 of which infrastructural focus is an important part, 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.

6.1.5 ECONOMIC GROWTH

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 always was 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 shrunk 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 depending on other European countries and trading with them Lithuania is. 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.

6.2 DETERMINING THE SIZE OF THE EU MEMBERSHIP EFFECT

Now that has been proven in paragraph 5.1 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 6.3: Lithuanian annual real GDP growth in percentages in constant prices of Lithuanian Litas, before and after EU membership

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (%)</th>
<th>Year</th>
<th>GDP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>-16,2</td>
<td>1999</td>
<td>-1,5</td>
</tr>
<tr>
<td>1994</td>
<td>-9,8</td>
<td>2000</td>
<td>3,3</td>
</tr>
<tr>
<td>1995</td>
<td>1,2</td>
<td>2001</td>
<td>6,7</td>
</tr>
<tr>
<td>1996</td>
<td>5,1</td>
<td>2002</td>
<td>6,9</td>
</tr>
<tr>
<td>1997</td>
<td>8,5</td>
<td>2003</td>
<td>10,2</td>
</tr>
<tr>
<td>1998</td>
<td>7,5</td>
<td>2004</td>
<td>7,4</td>
</tr>
<tr>
<td>1999</td>
<td>-1,5</td>
<td>2005</td>
<td>7,8</td>
</tr>
<tr>
<td>2000</td>
<td>3,3</td>
<td>2006</td>
<td>7,8</td>
</tr>
<tr>
<td>2001</td>
<td>6,7</td>
<td>2007</td>
<td>9,8</td>
</tr>
<tr>
<td>2002</td>
<td>6,9</td>
<td>2008</td>
<td>2,8</td>
</tr>
<tr>
<td>2003</td>
<td>10,2</td>
<td>2009</td>
<td>-15,0</td>
</tr>
</tbody>
</table>

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 (see table 6.3). 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 this boost is equal to 1.5 %, but 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.

6.3 PROSPECTS FOR ALBANIAN ECONOMIC DEVELOPMENT: TWO SCENARIOS

In this final paragraph of the chapter on predictions on Albanian economic development, I will project Lithuanian economic development on Albania’s current economic situation. I will do this using two scenarios: an optimistic one and a pessimistic one. Firstly, I will start with the optimistic scenario.

Figure 6.2: Albania’s unemployment rate since 2003, Source: CIA World Factbook
Figures 6.2 and 6.3 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.

For one thing, table 6.3 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 an average annual GDP growth of 6.8% is to 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, also the rate of unemployment is likely to decline. In 2003 and 2004, Lithuania’s unemployment rate was fairly similar to that of Albania today (both around 12%). Table 6.1 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 until 2007 only. Because we know that unemployment in Albania totaled 12.0% in 2010 (figure 6.2) 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.

If we assume that productivity will increase about 5% annually during these years, however, the demand for labor will of course be less than with assumed constant productivity as then less people can do the same amount of work. Predicting unemployment with an assumed annual 5% increase of labor productivity, yields an unemployment ratio of 10.3%.

On the other hand, if for example the 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.

To quantify these differences, table 6.4 gives a summary.

Table 6.4: Four scenarios for 2010-2015

<table>
<thead>
<tr>
<th></th>
<th>Optimistic scenario, constant productivity</th>
<th>Optimistic scenario, incr. productivity</th>
<th>Pessimistic Scenario, constant productivity</th>
<th>Pessimistic scenario, incr. productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual GDP growth</td>
<td>6.8 %</td>
<td>6.8 %</td>
<td>5.3 %</td>
<td>5.3 %</td>
</tr>
<tr>
<td>GDP 5 years after EU membership</td>
<td>$16.5 billion</td>
<td>$16.5 billion</td>
<td>$15.4 billion</td>
<td>$15.4 billion</td>
</tr>
<tr>
<td>Unemployment rate 5 years after EU membership</td>
<td>± 5.6 %</td>
<td>± 10.3 %</td>
<td>± 12.0 %</td>
<td>± 16.4 %</td>
</tr>
<tr>
<td>Number of unemployed people</td>
<td>± 116.000</td>
<td>± 215.000</td>
<td>± 251.000</td>
<td>± 343.000</td>
</tr>
</tbody>
</table>

Source: own calculations
As table 6.4 points out, the “EU effect” has a large impact on GDP and unemployment numbers. In chapter 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 6.4. 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%.
CHAPTER 7 CONCLUSIONS
7.1 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 to 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 being 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 as of today is in a neglected state. 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 during the past 8 years.

This yields a flourishing perspective on Albanian future economic development. However, one has to beware that labor productivity is like 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 an even 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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