

# Economic Relations between Italy and Albania 1993 – 2000

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## Abstract

The history of economic relations between Italy and Albania is a typical example of asymmetric relationship between two countries with geographic proximity but with very different dimensions. The importance of this bond is essential for Albania, as Italy is our greatest economic and trade partner, but also from the Italian perspective these relationships have a greater weight than we might expect given the size of the Albanian economy, due to geographical proximity and preferential relations between the two countries. The relations with Albania are included in the broader context of the Italian policy in the entire Balkan region as these countries transition towards free market economic system is of great importance for the European integration processes. Since 2000, the economic cooperation has grown, but its features (trade balance deficit, restricted investment areas, à façon industries, etc.) still persist. This paper intends to highlight the strengths and drawbacks of Italian – Albanian economic relations in its early stages from 1990 to 2000.

**Keywords:** economic cooperation, assistance, exports, delocalization, Direct Foreign Investments, *façon* industries, legal frame

## Albanian-Italian economic relations from the '90s

From the early 90s, Italy has supported Albania through a variety of projects, programs, technical assistance, economic, financial and direct investments, while from 2000 more structural interventions have been promoted. The Italian presence in Albania since 1991 has been displayed in four phases:

- A first phase (1991 -1993) of emergency aid, mainly in humanitarian assistance;
- A phase of assistance for the establishment and strengthening of institutions and liberalization processes at the beginning of democratic transition (1993-1997);
- A second stage of emergency (1997 - 1999) as a result of the crisis following the bankruptcy of pyramid financial schemes in Albania;
- A fourth stage (from 2000 onwards) during which has been attempted to put into effect a long-term strategy under the Public Investment Plan of the Albanian Government<sup>1</sup> and Law No. 84/2001, approved by the Italian Parliament<sup>2</sup>.

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<sup>1</sup> Përmbledhje legjislativore për investimet e huaja, Qendra e Publikimeve Zyrtare, Tiranë, Nëntor 2008, f.8

<sup>2</sup> Gazzetta Ufficiale n. 76 del 31 marzo 2001

The humanitarian emergency phase was initially faced by the Italian aid consisting in food and other goods of first necessity for 143 billion liras. From 1991-1993 the distribution of these aid was managed within the framework of the Pelicani International Mission operating under Italian direction, while in the first meeting of the Joint Commission for Italian - Albanian Cooperation (held in Rome on 17-18 November 1992), headed by the respective ministers of foreign affairs, both sides tried to launch a structured cooperative programming. In the minutes of the Rome Bipartisan Commission Meeting both delegations agreed on a three-year Development Plan (1992 - 1994) with a view from emergency assistance to “interventions for promoting an autonomous economic development based on free market economy”<sup>3</sup>. The 1992-1994 program included developmental initiatives mainly in infrastructure, agriculture, construction, institutional development, with a total value of 218.5 billion liras. There were also created four special working groups to develop cooperation strategies in the sectors of development, economy, culture and immigration.

### Cooperation structural characteristics

With the Protocol of Understanding in December 1997<sup>4</sup>, Cooperazione Italiana allo Sviluppo<sup>5</sup> set a new cooperation strategy. This Protocol joined a Statement on Intergovernmental Cooperation and a Development Program from 1998 to 2000. Interventions were in harmony with the general guidelines for economic and social development as defined by the Albanian side with all international donors and establish institutional consolidation as a key priority, promoting small and medium enterprises and strategic infrastructures (energy, transport, hydro network) health, education and vocational training. The financed projects totaled a value of 180 billion liras in long term loans and 30 billion liras in donations, figures that would rise in the following years.

Since 2000, Albania has experienced an average annual GDP growth of 6% per year, which has been associated with significant increase in economic and particularly trade relations with the neighboring Italy. The comparative study of data on economic indicators that are published periodically by the Italian National Statistics Institute (ISTAT) and the Albanian Institute of Statistics (INSTAT) is of particular interest. Regarding foreign trade, Albania has maintained a deficient profile in the '90s structural exchange of goods and services, partially offset by remittances and foreign direct investment (FDI)<sup>6</sup>. The albanian trading structure shows a concentration

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<sup>3</sup> *Processo verbale della Grande Commissione Mista per la cooperazione italo-albanese*, Roma 17-18 Nov. 1992

<sup>4</sup> *Protocollo d'Intesa tra il Governo della Repubblica Italiana ed il Governo della Repubblica d'Albania per la cooperazione tecnica bilaterale negli anni 1998-99*, full text: [http://italcoopalbania.org/pdf/PROTOCOLLO\\_DINTESA\\_99.pdf](http://italcoopalbania.org/pdf/PROTOCOLLO_DINTESA_99.pdf)

<sup>5</sup> Cooperazione Italiana allo Sviluppo activity is regulated by Law No.49/1987 that established the General Directorate for Development and Cooperation under the authority of the Italian Ministry of Foreign Affairs.

<sup>6</sup> <http://www.instat.gov.al/>

of exports in few commodity groups, where clothing and shoe items are the sectors which comprise more than 60% of annual exports, minerals 10% and processed metals about 5%. Among imports, the main items are machinery and equipment for industrial or personal use (17%) - due to lack of local products, garments and textile products (13%) - driven by imports of raw materials for industries *a façon*<sup>7</sup>.

Italy remains the first trade partner of Albania as it draws about 75% of Albanian exports, while 30% of imports consist of Italian goods<sup>8</sup> and the commercial balance continues to be active in favor of Italy: in 2002, Italian imports from Albania amounted to 339 million euros and exports to 584 million euros. Another characteristic of trade relations between Italy and Albania is the fact that they amplify the Albanian production features. Our country seems to be specialized in a few specific sectors using the relative advantage of geographical proximity and low employment costs.

Exchanges between Italy and Albania are territorially concentrated in specific regions, in both countries. Only the region of Puglia attracts 42% of Albanian exports to Italy and gives 36% of imports. The trade with this Italian region is dominated by the major sectors of Albanian exports: textile goods and processed leather and there is evidence of Apulian entrepreneurs strong decentralization to Albania. The second region is quite distant: Lombardy, with respectively 17% of exports and 13% and peculiarly shows a strong specialization in imports of metals and less of textiles.

Regarding foreign direct investments, the Albanian Institute of Statistics in 2001 reported a figure of 300 million USD. Within the total stock of foreign investment in Albania, Italy's share is almost 50%, where 2/3 of these investments focus on distribution activities, while industry accounts for less than 20% of the investments and services less than 10%. Italian investments in Albania are located along the western plain. They consist in small and medium enterprises distributed in few sectors: 35% in construction, 21% in the *façon* manufacturing sector, 16% in trade and services and 8% in the agro-food industry, investments that have tended to increase with the privatization processes in the Albanian economy<sup>9</sup>.

During the '90s economic relations between Italy and Albania have been characterized by emergency interventions and lack of long-term strategies, due to the severe crises experienced by the Albanian society and economy. After 1999 and especially after the Italian participation in the intervention of NATO forces in Kosovo, there has been a tendency from the Italian Government to build and implement a coordinated strategy in the Western Balkans. In the late '90s Italy has stopped addressing problems exclusively related to migratory flows from the other coast of the Adriatic and has started developing a long-term economic partnerships strategy.

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<sup>7</sup> Lelio Iapadre, Giovanni Mastronardi, *Le Relazioni Economiche tra Albania e Italia in L'Albania verso l'Unione Europea: il ruolo dell'Italia*, Istituto Affari Internazionali, Bari 2006, p. 45

<sup>8</sup> Tabella ISTAT Import Export Saldi con l'Italia, Interscambio Commerciale Italia-Albania, <http://www.istat.it/en/>

<sup>9</sup> Rapporto ICE-MAE, 2005, f. 7

## Strengthening the Legal Frame of Cooperation

Law No. 84/2001<sup>10</sup> of the Italian Parliament (“Provisions for Italian participation in the reconstruction and development of the Balkan Region”) was born with the aim of supporting the reconstruction and development in the Western Balkans to ensure these countries transition from an emergency phase to a more stable phase - that of development. The law also aimed to coordinate the initiatives taken by Italy at a multilateral level, mainly at the European Community after the adoption of the Stability Pact for South Eastern Europe<sup>11</sup>. This law is a special tool to provide a strategic frame of reference in terms of Italian cooperation in the region and its novelty lies in the fact that the support and funding has finally lost its emergency features, focusing on future structural policies<sup>12</sup>.

The Italian active and dynamic presence in the Balkans is in conformity with the guidelines of the international community and the EU to potentially integrate a region where on one side are required further stabilization policies (fight against corruption and organized crime, some nationalist tendencies, etc.) and by the other can be seen some desirable features from the viewpoint of international investors, such as the degree of openness to foreign investment, preferential policies, some features of the labor market etc.

Article 1 of Law 84/2001 sets up a ministerial committee headed by the Prime Minister or his delegate, and composed of ministers of Foreign Affairs, Interior, Treasury, Balance and Economic Planning, Trade, Finance, Defense, Industry, Trade and Craft and Community Policies. The ministerial committee is responsible of determining the overall strategy and priorities by geographic areas and sectors in order to coordinate the implementation of collaborative interventions in the Balkans, also exerting financial decision-making and control on the state of realization of predetermined priorities.

The typologies of provided interventions can be divided into four categories:

- Cooperation for economic development;
- Promotion and support for entrepreneurial activities;
- Decentralized Cooperation and
- Intervention of national special interest<sup>13</sup>.

<sup>10</sup> Gazzetta Ufficiale n.76, 31 Marzo 2001, f.3

<sup>11</sup> Relazione della III Commissione Permanente (Affari Esteri e Comunitari) presentata il 25 novembre 1999

<sup>12</sup> Emilio Cocco e Pietro Paolo Proto, *Le Relazioni Politiche e l'Applicazione degli Strumenti di Cooperazione del Sistema Italia con i Balcani Occidentali in Alla Ricerca del Sistema Italia nei Balcani Occidentali*, Roma, CeMISS, 2007, f.38

<sup>13</sup> Emilio Cocco e Pietro Paolo Proto, *Le Relazioni Politiche e l'Applicazione degli Strumenti di Cooperazione del Sistema Italia con i Balcani Occidentali in Alla Ricerca del Sistema Italia nei Balcani Occidentali*, Roma, CeMISS, 2007

## Conclusions

Even under this important law, Albania was confirmed as a stable partner of Italy and this cooperation should be viewed in a context broader than the bilateral one, as it affects the European future of Albania. At a political level, Italy has set itself the goal to become the privileged partner of the Balkan countries by supporting their integration into the Euro-Atlantic structures. It should be noted that the 90's, comparatively, have represented a period of missed opportunities in the field of Italian-Albanian economic cooperation because of the repetitive Albanian political and economical crisis and the lack of an Italian long term strategy in the Balkan region, accompanied by Italian investors spontaneous tendency to decentralize their activities to North Africa's largest and consolidated markets. This last tendency has partially been reviewed with the strategic legislative changes and bilateral agreements that have taken place after 2001.

There are still significant structural problems to overcome, starting with the supply bottlenecks in the energy sector. Among them, the external growth constraint should not be overlooked, as it is synthesized in a large and growing deficit in the balance of payments. So far the strong trade deficit has been partly financed by remittances from emigrants and other active items attributable to them, but the sustainability of this model is very questionable. The degree of international openness of the Albanian economy has been growing, but still remains lower than that of other similar countries, in particular as regards the propensity to export. The pattern of the Albanian export specialization is highly concentrated both from the sectoral and the geographical point of view and this characteristics accentuate the vulnerability of the economy to shocks of external origin. The ability of Albania to attract foreign investment, although increased, is still below potential. Other Balkan countries have developed more efficient forms of production internationalization, based on the collaboration between foreign companies and local partners. However, in these last years efforts have been made to create greater trade geographical diversification, mainly related to the development of intra-regional ties with other countries in the Balkans, within the greater frame of a possible future entry into the European Union.

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