

Albania: The Rebuilding and Stabilization of a Country

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Introduction

Since the fall of the communist regime in Albania in 1991 and the subsequent multi-party democratic elections, the country has been attempting to follow a path that includes further democratization, greater freedom for the people, and numerous reforms intended to stimulate the growth of the economy and bring the laws and policies of Albania into alignment with those of the western world. So far, the road has been incredibly rocky, filled with numerous obstacles and setbacks that have slowed the pace of progress and reforms greatly. This is due largely in part to the aftereffects of the communist regime that had previously ruled the country. The specter of Communism continues to overshadow and play a large role in the politics and policies of the country, thus impeding much of the progress that needs to be made in order to continue Albania's transformation into a democracy with guaranteed freedom for its citizens.

The purpose of this paper is to look at the numerous political, economic, and social difficulties that Albania has experienced in the transition to democracy and the pursuit of greater international cooperation, especially with regards to the European Union. The paper will begin by giving a brief historical overview of the communist regime and its rule of the country from 1944 to 1991. The numerous political developments and the instability of governmental institutions within Albania between the first multiparty elections and the present will then be examined. This includes the numerous governments and individuals that came to power during this time, along with the various events that resulted from their use of power. The next section will discuss the status of Albania's economy and the various growths and declines it experienced during the same time period. The paper will then move on to examine how the various political,

economical, and societal problems were addressed, and at what problems still remain to be addressed in order to ensure the continued democratization and the stability of the government. The problems with governmental and judicial corruption that have continually plagued official institutions will also be discussed in this section. The lack of much of the basic infrastructure needed for a functioning market economy, which has served to hinder the task of rebuilding, will also be investigated, along with the current progress of multifaceted reforms that Albania has applied in an attempt to move towards westernization and garner the support of the international community. The further reforms that Albania needs to implement that have been set forth by the international community will also be discussed. Although Albania has suffered numerous setbacks since the first multiparty elections in 1991, the country has made noticeable progress in moving towards democratization and greater cooperation with the European Union, most noticeably in the areas of economic growth and political reform.

Brief Historical Background

In order to get a full view of the difficulties facing Albania in its path to stability and democratization, one must first look at the events that occurred during the rule of the Communist Party, which are important precursors to the current situation of the country. The policies and actions of the Communist Party are directly responsible for the poverty of Albania and the country's continued political and economic instability. The political party itself has continued to be an active party with a significant number of members, and due to this, many of the former senior Communist Party members have been reelected to positions of power in the new democratic government.

The Communist Party came to power in Albania on November 29, 1944, shortly after the foreign forces that had been occupying the country between 1939 and 1943 withdrew. The leader of the party was a man by the name of Enver Hoxha. Few could have expected that by the end of the communist reign in 1989, the isolationist policies of his regime, and his brutal tactics would leave the country in ruins. Hoxha was incredibly xenophobic and paranoid, building concrete pill-boxes in the name of defense every few yards along the borders of Albania.¹ His regime was one of the cruelest and most repressive regimes in Europe. It is estimated by the Tirana National Historical Museum that by his death, he had jailed over 17,900 political enemies, killed 5,157, and exiled a further 30,383.² Those numbers also do not include the hundreds of thousands of Albanians that ended up fleeing the country to escape the oppression.

During the early rule of the Communist Party, Albania attempted to develop economic and political ties with the Communists in Moscow. Foreign ties and support with a fellow communist nation were necessary for Albania due to its relative political isolation and its dependence on outside imports of raw materials. The Soviet Union was obviously the best choice for Albania at the time, due to the significant resources and influence that the U.S.S.R. had. Albania's ties with Moscow fell apart though when the U.S.S.R. resumed their country's ties with Yugoslavia, which regarded Albania with animosity and had been pushing for the annexation of Albania into Yugoslavia. Albania broke ties with the Soviet Union, and instead turned to China as an ally. China's assistance to Albania was very important, because through this assistance the Communist

¹ Misha Glenny, *The Balkans: Nationalism, War, and the Great Powers, 1804-1999* (London: Penguin Books, 1999), 560.

² Alexandra Boulat, "Albanians: A People Undone," *National Geographic Magazine*, February 2001, 57.

Party was able to continue development of their economy and infrastructure. There were constant tensions in their relationship, but China supported the development of Albania up until 1978, when China began relations with the U.S. and Yugoslavia, and cut off all economic aid to Albania. This hurt the economic development of Albania enormously. Without foreign aid, Albania and its markets withered. Understandably, the lack of foreign assistance to Albania and the government's refusal to open up to the outside world would ultimately carry a large part of the responsible for the ruined economy. During this period of intense isolation, after its break from relations with China and earlier the Soviet Union, the Albanian economy continued to recede further. Due to Hoxha's paranoia and distrust of the outside world, Albania remained isolated and without outside support. The building of industry was largely stopped because materials and machinery could no longer be procured. During this time, Albania relied on a policy of "maximum self-sufficiency", in which it placed heavy emphasis on the manpower of the country, and on the use of natural resources and products that the country was able to produce, such as cereal, oil, and electricity.³ By the time of Enver Hoxha's death in 1985, the country's debt to China alone was estimated to be between three and five billion dollars.⁴

With Hoxha's death, a successor by the name of Ramiz Alia was appointed to lead the government. Along with his leadership, he inherited the remains of a devastated economy and severely underdeveloped infrastructure. The horrible conditions in Albania can be seen as one of the main reasons that the country was finally able to transition to a

³ Miranda Vickers, *The Albanians* (New York: St. Martin's Press, 1995), 202.

⁴ Miranda Vickers and James Pettifer, *Albania: From Anarchy to a Balkan Identity* (New York: New York University Press, 1997), 14.

multiparty democracy. Faced with the terrible conditions and the massive political changes that were sweeping across Central and Eastern Europe, Alia was basically forced to begin reforms in the country in 1990. As the crisis worsened, he realized that even more drastic measures would need to be taken. Alia eventually permitted multiparty elections, and the first elections were held on March 31, 1991. Though the elections were a step towards democratization, the multiparty elections did not have as great of an effect as was hoped for.

Political Instability and Problems

With the fall of the communist government in Albania in 1991, the country was finally in a position to begin to recover from the brutal regime that had been in control of the country since November of 1944. This regime had pursued a policy of isolation and brutal repression, which caused Albania to become the poorest country in Europe by the time the government turned over power. From the beginning though, it was obvious that recovery would be slow, but no one could have expected that in a period of less than ten years, the government would be replaced over four times, and would go through two interim governments, or that both the government and the economy would collapse entirely in 1997, leading to a short civil war. With the first multiparty elections though, there was a slight optimism...a hope that things truly were changing for the better. Unfortunately, that was not how things would initially turn out. Continued struggles for power, corrupt officials, and petty bickering between the parties in power would continue to remain a central theme during most of the first seven years, and would largely stall any visible progress.

The first multiparty elections were held in Albania in 1991. The Party of Labor (PLA), which had previously been the Communist Party, were the winners of the majority with 169 seats out of a total of 250 in the legislative assembly.⁵ With the victory of the former Communist Party, it immediately became apparent that promised reforms would be slow in coming, or even forgotten altogether. Despite the overwhelming success of the PLA, it was a multiparty election, so for the first time in decades, there was more than one political party represented in the government. The Democratic Party (DPA) won 75 seats, making it the second largest party.⁶ Causing further disappointment, Ramiz Alia, the former communist leader of the country, was then appointed President of Albania by the ruling PLA.

At this point, it cannot be stressed enough just how devastated the economy of Albania was. This devastation would ultimately result in the toppling of the infant democratic government. By 1992 Albania's GDP alone is estimated to have dropped over 40% from the 1989 level, though GDP analyses are difficult due to a lack of accurate information.⁷ With the continuing failure of the country's economy, strikes were led by a large number of workers that eventually toppled the weak government. A new 'Government of National Stability' was appointed to lead, and Vilson Ahmeti, the prime minister of the government, declared that fresh elections were to be held in March of 1992.⁸ For the new elections, the PLA subsequently changed their name again; this time to the Socialist Party of Albania (SPA). In the new elections, the Democratic Party won

⁵ United States Congress, Commission on Security and Cooperation in Europe, *The Elections in Albania, March-April 1991* (Washington D.C.: 2001), 29.

⁶ Ibid.

⁷ Albanian Center for Economic Research, *Common Country Assessment – Albania* (Tirana: Klevis-AS & albPAPER, 2002), 13.

⁸ Vickers 230.

with 62 percent of the votes. The main aims of the government ruled by the democratic party were to “respect human rights, establishment of a judicial system based on the rule of law and the introduction of free market forces into the ailing Albanian economy.”⁹ During the next few years there was actually a growth of GDP, which will be discussed later, but most of it stemmed from the corrupt activities of the government, the criminal activities of organized crime, and the remittances of numerous Albanians that were working abroad. The common Albanian would very likely not have seen any of benefits from this growth of the economy. During this time, the government was noticeably moving to centralize power, as opposed to the desired decentralization that had been hoped for with new democratic elections. The President of Albania, Sali Berisha, attempted to draft a new constitution to replace the one that had been implemented by the interim government in 1992. This constitution was designed to give him much greater powers than had been allowed under the previous constitution.

Elections were held again in 1996. During these elections, the new constitution proposed by Sali Berisha was ultimately defeated. If the proposed constitution had been passed, it would have been a large step backwards for Albania in the process of democratization by consolidating a much larger amount political power into a single individual. Despite their proposed constitution being defeated, the DPA, along with the corrupt Sali Berisha, continued to remain in power, as it had again won a majority of the seats in the legislative assembly. For this election though, there were numerous irregularities in the voting, and the international observers confirmed that the voting had

⁹ United States Congress 13.

not conformed to international standards.¹⁰ In the period after the elections, the government was still visibly suffering from continued instability, some of which was caused by the questions regarding the illegitimacy of the current government in power due to the irregularities in the elections. This instability became apparent in January of 1997, when, due to the failure of widespread pyramid schemes, the government collapsed entirely. Protesting citizens who had lost their life savings angrily stormed army barracks and looted weapons of all types. During the course of the civil uprising over 1,500 people were killed.¹¹

The international community recognized almost immediately the danger that the chaos in Albania posed to the stability of other countries in the Balkan region. Around 1200 peacekeepers from various European countries were sent in to try and keep order. After hostilities had died down enough around mid-1997, an interim government was instated until new elections could be held. In 1998, the Socialist Party won the majority of seats in elections and took over control of the government. In a show of defiance, Sali Berisha, who had been refusing to step down, waited just hours before the new government was to take power before finally gave in. The collapse of the previous government (run by the DPA) in 1997 allowed this newly elected government to take a step towards democratic stability and create a new constitution that laid down the basis for a democratic system. The constitution also specifically guaranteed democratic freedoms, such as the freedom of expression and religion, a multiparty system, and the

¹⁰ Vickers 243.

¹¹ Boulat 55.

protection of minorities and their rights.¹² The rights that were guaranteed in the new constitution were an important step forward in gaining international support for Albania's continuing difficulties. It was also important, in that it showed proof that the government was beginning to show progress in creating and nurturing a free democracy that was guaranteed by a ratified constitution. These rights that had been seriously neglected by the earlier governments were now, at least on paper, a step forward in bringing justice and stability to the country.

It is important to note that, during this time, the Albanian government also began turning to international institutions in an attempt to create further stability within Albania. As was already touched upon, the adoption of the new constitution in 1998 helped Albania to gain much needed support from an important player in the international community; the European Union. In 1999 Albania signed the Stabilisation¹³ and Association Process (SAP) with the European Union.¹⁴ The Stabilisation and Association Process was designed to assist Albania by giving it a framework of reforms the country should follow and providing suggestions for the various areas that needed improvement in order to bring those areas up to European standards. Through the SAP, Albania would receive incentives from the European Union for successfully implementing European standards in areas such as such as autonomous trade measures, and economic and financial assistance.¹⁵ The signing of the SAP with the European Union can also be seen as a stepping-stone for Albania which began to open doors for the country in the

¹² European Union, *Albania – Stabilisation and Association Report 2003* (Brussels: European Union, March 26, 2003), 4

¹³ Note: British spelling used.

¹⁴ *The EU's Relations with South East Europe (Western Balkans) – Albania: The European Contribution* (Brussels: European Union, June 2001), also available from http://europa.eu.int/comm/external_relations/see/albania/index.htm; Internet; accessed 3 May 2003.

¹⁵ European Union, *Albania – A Future with Europe* (Brussels: European Union, 2000), 5.

international community, as the SAP was a further indication of Albania's desire to begin involving itself within the various institutions of the international community. This led to Albania becoming a full member of the World Trade Organization (WTO) in September of 2000.¹⁶

A common destabilizing factor in Albanian politics since the first multiparty elections has been the petty bickering and power struggles of the various political parties. With the new step forward in international cooperation, it began to appear that Albania was finally moving forward in enacting reforms and creating a more stable government. Indeed, progress was being made in the economic realm, but unfortunately, the attitudes and behavior of the political parties did not change with the 1998 elections or the implementation of a new constitution. The paper will now look at what occurred after these elections, which demonstrates the continuing inability of the political parties to adequately address the problems within Albania. The continued polarization of Albanian politics continues to be incredibly detrimental to achieving notable stability.

Frustrated with the Socialist Party having won the elections, the DPA party began to stage boycotts of parliamentary votes in an attempt to weaken or even collapse the government. These sporadic attempts to destabilize the government continued to occur up until the next elections. The struggle for political power between the Socialist Party and the Democratic Party became even more pronounced before and after the 2001 elections. The constant internal strife and attempted manipulations within the political system by the political parties continued to be a major destabilizing factor. During the election campaign, the Socialist Party attempted to manipulate the elections in their favor by

¹⁶ *Stabilisation and Association Report 2003* 10

registering 19 of their candidates in areas where they were sure to win as independents. By doing so, they hoped to gain a bigger proportion of mandates in the 40 seats that are allocated based directly on the percentage of votes for a political party. Naturally, the Democratic Party responded by registering all 93 of their candidates, except Sali Berisha, as independents.¹⁷ However, in a sign that the government had actually been accomplishing something with regards to the implementation of democratic institutions, the central election commission, the KQZ (Komisioni Qendrori Zgjedhjeve), released a set of qualifications required to run as an independent candidate. Unfortunately, it was too late to reclassify the candidates, so on the ballots those candidates who actually had ties with a political party were listed as “independent (SPA)” or “independent (DPA).”¹⁸ The elections resulted in the Socialist Party managing to stay in power, winning 85 out of the 140 seats available, and the Democratic Party won a total of 53 seats, and as evidence of the polarization that was going on, the northern region of the country had voted almost exclusively for the DPA, whereas the southern region voted for the SPA.¹⁹

After the elections, it became apparent that the struggles for power were not just between opposing parties, but were also beginning to take place within the parties themselves. For the most part, the serious conflicts were restricted to the ruling SPA, but these conflicts had wide-ranging consequences. Shortly after the elections, Fatos Nano, the chairman of the Socialist Party, began to use some of the members of his party to rally against the Prime Minister, Ilir Meta, and his cabinet. Meta saw this as an attempt by Nano to garner support for a possible Presidential candidacy. This feud between the

¹⁷ Michael Schmidt-Neke, “Die Normalität als Ereignis – Die Parlamentswahlen in Albanien 2001,” *Südosteuropa: Zeitschrift für Gegenwartforschung* 7-9 (2001): 332

¹⁸ Ibid.

¹⁹ Ibid. 337

two eventually reached the point of name calling, with Meta referring to Nano's supporters as the "Stalinist and mafia group of Nano," and Nano criticizing Meta's "fascistic methods of preserving power."²⁰ Berisha then used this conflict within the SPA to begin demanding new elections and a revision of the voting results of 2001.

The conflict caused a blockade/stoppage of almost all work within the Albanian National Assembly. The European Union was essential in resolving this conflict, and showed enormous patience in doing so. In an attempt to play the role of mediator in the conflict, the European Parliament invited the Albanian leaders to attend a EU-Commission, led by Doris Pack, on southeast Europe on January 24, 2002. The Albanian leaders accomplished nothing; they astonished those present by using the forum for the sole purpose of airing of their "*schmutzige Wäsche*,"²¹ without ever discussing any of the immediate reforms required to solve the situation. Shortly afterwards, the European parliament agreed to step in again, and managed to broker a deal between the political parties that led to the election of Alfred Moisiu as President.²² This agreement required a large amount of involvement and the use of drastic measures on the part of the European Union. As a means to pressure Albania into addressing the problem, the IMF withheld \$30 million in support money from Albania, even though the country needed it drastically to pay for the import of foreign electricity.²³

From what has been examined above, it is obvious that the most volatile aspect within Albania continues to be the political system and its parties. The continuing

²⁰ Peter Schubert, "Reflexionen zur Politischen Kultur in Albanien," *Südosteuropa: Zeitschrift für Gegenwartforschung* 10-12 (2001): 461.

²¹ Author's translation: dirty laundry.

²² Patrick Moore, "The International Community and Albania," *Südosteuropa Mitteilungen* 5-6 (2002): 22

²³ Schubert 463.

assistance and aid from the European Union averted disaster within Albania numerous times. The individuals within the parties continue to care more about preserving their position in power and securing personal benefits than actually accomplishing something beneficial to the country. Perhaps one of the best descriptions of Albania's political culture is by Peter Schubert in his article "Reflexionen zur Politischen Kultur in Albanien":

Albanien bleibt 11 Jahre nach Beginn der Transformation im Zustand einer gesellschaftlichen Fermentation. Ohne eine harmonische Verbindung aller Aspekte politischer, wirtschaftlicher, sozialer und kultureller Entwicklung die Transformation gebremst oder sogar zurückgeschraubt werden kann.²⁴

However, there were some notable reforms that served to strengthen the democratic institutions in Albania, such as the KQZ. The leaders of Albania also managed to implement a new constitution that guaranteed the rights of Albania citizens. The reforms implemented by Albania were key to gaining further international support and assistance, which helped to preserve the government of Albania and lessen its destabilization. The reforms that were implemented after 1998 also were largely focused on the economy, and in that respect, they were effective at creating and maintaining growth. With that in mind, the paper will now move on to discuss the economic evolution of Albania.

Albania's Economy: Its Struggle from 1989-2000

When the communist regime of Albania eventually lost power, the country was financially a disaster. In the ensuing attempt to rebuild the severely damaged economy, it

²⁴ Ibid. 471. Author's translation: 11 years after the beginning of the transformation, Albania is still in a state of societal fermentation. Without a harmonic bond of all aspects of political, economic, social, and cultural development, the transformation can be slowed down or even cut back.

has continually suffered many blows and setbacks. Like the government of Albania, the economy continues to be plagued by widespread instability (several times as a direct result of the government). This section will focus mainly on the constantly fluctuating state of the Albanian economy between the years of 1989 and 2000. It will also examine the major problems that occurred during this time, the various reasons for these problems, and the effect that they have had on the development and progress of Albania as a whole. These issues are important because, in part, they help to explain why Albania has been one of the slowest recovering east European states.

Albanian's policy of isolation under Hoxha's rule had taken its toll on the country's economy, which was in shambles. The average GDP growth for the period of 1981 to 1991 was estimated to be negative .5 percent.²⁵ Though Hoxha's successor, Ramiz Alia, attempted some minor reforms in an attempt to repair the failing country, the damage was too great. The year of 1989 was especially bad for the economy. The agricultural side of the economy had almost collapsed due to a continuing draught in the Balkans. Food shortages were widespread at this time, which even led to protests in the Albanian city of Shkoder, which was incredibly unexpected when one considers the repression enforced by the government at the time. The new governments in the eastern European countries had nullified what few trade agreements they had with Albania, which left it without much needed spare parts for the industrial side of their economy. Due to obsolete and failing Chinese equipment, and the lack of spare parts, industrial production was only functioning at an estimated fifty to sixty percent of full capacity.²⁶

²⁵ *Albania at a Glance* (World Bank, 17 Sept. 2002), 1, available from http://www.worldbank.org/data/countrydata/aag/alb_aag.pdf; Internet; accessed 18 May 2003.

²⁶ Vickers and Pettifer 25.

By the time that free elections were held in Albania in 1991, it had become the poorest country in all of Europe.

Things got off to a very rocky start for the economy of Albania. It is important to look at this early transition period in Albania because it largely set the pace of progress for the next few years. It also served to quickly change the outlook of many who had been led to believe that democracy would bring prosperity and stability to the country. Despite a new multiparty government having been elected, the Albanian economy continued to fail. The economy had been much too damaged in the past to be able to turn it around in such a short amount of time. The situation in Albania proceeded to worsen, despite the attempts of the new government to stop the downward spiral of the economy. Inflation alone during this period was estimated to be around 225 percent.²⁷ This led to widespread strike by around 300,000 workers who were demanding pay raises of over 100 percent to try and match the rising inflation. This had the effect of further destabilizing the newly formed government, and eventually to bring about new elections in 1992. This new government attempted to learn from the mistakes of those previously in power. It provided pay raises of fifteen to eighteen percent for state workers in an effort to ensure stability, whereas the earlier government had largely ignored the demands of the civil workers. Something good was achieved through the ongoing crisis, as the needs of people forced Albania to tentatively engage in some of its first interactions with various international institutions. These interactions were limited, in that they did not indicate overall a move towards greater cooperation; rather they merely signified a beginning step that was done in response to a hardship. Perhaps most beneficial to

²⁷ Philipp C. Rother, *Inflation in Albania*, IMF Working Paper 00/207 (Washington, D.C.: IMF, December 2000), 5.

Albania was that the government was able to sign a trade and cooperation agreement with the European Union, which allowed them to begin receiving assistance through the PHARE program.²⁸ This program provided their country with €110 million of aid in 1992 alone. Due to the continuing food shortages, Albania was also able to procure \$150 million in food aid from the Group of 24 industrialized nations.²⁹ This food aid was instrumental in preventing massive starvations due to the state of disrepair of the agricultural sector and the very poor harvests of what land was cultivated, due to the continuing draught in the Balkan region.

The dire situation in Albania prompted some of the first major reforms by the new government. The International Monetary Fund (IMF) stepped in to help the Bank of Albania, which is in charge of monetary policy in Albania. Under guidance of the IMF a “Stand-by” program was implemented. The goal of this program was to use monetary and political policies and tools to control the amount of currency in circulation and to help stabilize the skyrocketing inflation.³⁰ In an attempt to stabilize and stimulate the economy, the government of Albania began passing land privatization legislation. This legislation did not achieve the desired effect, but instead was entirely opposite of what the government had hoped for. Their land privatization measures led to the indiscriminate claiming of land by the Albanian people. This, combined with the ongoing draught, further exacerbated the food shortage problem. Panic, looting, and rioting set in when it was announced in the winter of 1992 that food supplies were exhausted and would only

²⁸ *The EU's Relations*

²⁹ Vickers 229.

³⁰ Dr. R.H. Schmidt and Dr. Valentine Marinov, “Finanzsysteme in Osteuropa-Fallstudie Albanien,“ *Finanzsysteme in Osteuropa*, Winter 2002, available from http://www.finance.uni-frankfurt.de/schmidt/Lehre/02_WS/FSOst/presentationen/Thema12.pdf; Internet; accessed 4 April 2003.

be sufficient for one more week, however, the foreign food aid from the international community managed to help the country avoid widespread starvation, and the monetary policies implemented with help from the IMF did play a role in helping to curb the inflation and circulation problems.

These new reforms and outside help from the international community between 1993 and 1997 is another important phase in Albania's development over the past decade that needs to be looked at. With the new monetary policies in place, and aid coming in from the international community, it began to appear as if the economy of Albania was finally responding to the new government. In 1993, the country's economy began to actually experience a growth in GDP. This marked the first time since 1980 that the country had experienced any growth in their overall GDP. Despite the governmental instability, the GDP of Albania grew by an impressive eleven percent. Unfortunately, the growth of the GDP was largely superficial, in that the growth was not based in industry or the constant production of goods. The trend of GDP growth continued with 1994 experiencing a growth of seven percent, and 1995 a growth of six percent. Along with the rise in GDP, inflation had also been greatly decreased to around seven percent a year. As was discovered later, the truth behind the growth was that much of the increase in the GDP came about through the institutionalized corruption of Sali Berisha, the president of Albania at that time. The economic growth also came from two other groups that were not static and whose contributions were highly prone to fluctuations. One of the groups that contributed to the growth during this period was Albanians living abroad. A hefty portion of the growth was a result of remittances from the 300,000 migrant Albanian workers in Greece. The second group was one that contributed to the growth of the GDP

unofficially. This group consisted of a large number of organized professional extortionists who charged twelve to thirty percent interest to clients per month, and also smuggled guns, fuel, drugs, and even people into the country. Many of the people and goods were subsequently trafficked to other European countries, and the weapons were largely sold to the warring factions of Yugoslavia for a hefty profit in violation of the UN sanctions.³¹ In fact, the embargos on Yugoslavia actually served to strengthen and further development underground crime/mafia structures in Albania, as Yugoslavia and its warring factions were forced to turn to illegal sources to purchase what they required.³² These two key sources of GDP growth help to show that at this point in time, the economy was still very unstable and was functioning almost exclusively on the support of remittances, underground crime, and international aid. It is also important to note that the criminal group was not an isolated problem. Corruption and underground crime continued to be widespread, as can be seen by the very large contribution it made to the overall GDP of Albania up until the fall of pyramid schemes.

Because of the precarious nature of the growth of the economy, the economic success that Albania had been experiencing disappeared almost overnight. The country experienced another major setback when the economy unexpectedly collapsed in 1997, when widespread pyramid banking schemes began to fail.³³ This was perhaps the turning point, after which one can see the government and economy of Albania actually beginning to be reformed. When the pyramid schemes began to fail there were enormous

³¹ Nikolaos A. Stavrou, "Albania's Rocky Road to Democracy: The Impact on Relations With Greece," in *Greece and The New Balkans*, ed. Van Coufoudakis, Harry J. Psomiades, Andre Gerolymatos (New York: Pella Publishing Company, 1999), 357.

³² Johanna Deimel, "Der Stabilitätspakt für Südosteuropa: Ansatz und Aktueller Stand beim Regionaltisch und den drei Arbeitstischen," *Südosteuropa Mitteilungen* 1 (2001): 117.

³³ For further information on the pyramid schemes in Albania see: Jarvis, Chris. "The Rise and Fall of the Pyramid Schemes in Albania." IMF Working Paper 99/98. IMF, Washington, D.C., July 1999.

consequences, as just about every family in Albania had invested a significant amount of money in one pyramid scheme or another. In order to ensure a continuing stream of new deposits into their funds, those who were in charge of the schemes had been paying out incredible interest rates of between eight and thirty-five percent.³⁴ These spectacular interest rates had convinced many people to deposit all of their life savings, and in some cases they sold personal possessions or even their home in order to invest in the schemes. It is important to note that the political parties had, for a large part, been supporting the pyramid schemes. Because of their popularity and the fact that it was an election year, none of the candidates were willing to criticize them, and for their silence, both parties received substantial financial support.³⁵ In the elections, some of the members of the Democratic Party even used the argument that “nur unter ihren Regierung sei der Kapitalismus garantiert und könnten die Pyramiden weiter arbeiten.”³⁶ Overall there was a loss of about \$1.3 billion in private savings when the pyramid schemes finally did collapse.³⁷ The Albanian currency, the Lek, depreciated by over forty percent in 1997 as the economy and the state apparatus came to a standstill.³⁸ The widespread unrest caused by the failure of the pyramid schemes led to the collapse of the Albanian government, and the country fell into a state of anarchy for a period, as was discussed earlier.

The collapse of the government did not have entirely bad consequences for the country of Albania. The period after the collapse can be seen as a “clean slate” for

³⁴ Vickers 244.

³⁵ Kurt Gostentschnigg, “Die Pyramiden – Äffare Albaniens Verlauf, Folgen und Lösungen,“ *Südosteuropa: Zeitschrift für Gegenwartsforschung* 3-4 (1998): 119.

³⁶ Ibid. Author’s translation: only under their government would capitalism be guaranteed and the pyramids could continue to function.

³⁷ Albanian Center for Economic Research 14.

³⁸ Volker Treichel, *Stabilization Policies and Structural Reforms in Albania Since 1997—Achievements and Remaining Challenges*, IMF Policy Discussion Paper (Washington, D.C.: IMF February 2002), 4.

Albania. The government had a chance to begin anew, and it is at this point that one begins to see actual improvements and growth within the economy and the critical infrastructures that are necessary for a stable market economy. This is also the point at which Albania begins to become more active in the international community and to implement reforms that are designed to encourage foreign investments. After holding elections and implementing a new constitution in 1998, the GDP began to rise once again to reach an overall growth of eight percent for that year. The GDP for 1999 to 2001 remained constant at between 7.3 and 7.8 percent, with inflation continuing to stabilize in 2001, and along with this an official unemployment rate of 14.4 percent was also recorded in 2001, which was down from 20.7 percent in 1998, though some unofficial reports put it as high as 30%.³⁹

The continued growth of Albania's GDP from 1999 onward was due to a number of reasons. Remittances from a large number of Albanians working abroad continued to be an important factor in the stabilization and the growth of Albania's GDP. In 2001, the total value of officially registered remittances was US\$568 million, which was equal to around 15 percent of Albania's overall GDP.⁴⁰ Because of the stability that Albania was experiencing during this time, the import and export of goods also picked up, with Italy becoming Albanian's largest trading partner. The overall exports value for 2002 was estimated to be \$340 million, while the total imports are estimated at \$1.5 billion. The value of imports has grown much faster than that of exports though, with exports only

³⁹ Albanian Center for Economic Research 91.

⁴⁰ Treichel 7.

growing by \$65 million since 1999, while the import value has grown by approximately \$562 million.⁴¹

The continuing rise of Albania's GDP was due in part to the corresponding rise in foreign aid, investments, and trade, which was ultimately influenced by Albania's signing of an SAP and the reforms that Albania had begun enacting in an attempt to create a stable market economy. In return for the reforms (the progress of which will be discussed later), the European Union began providing macroeconomic assistance to Albania, which included €20 million to help Albania support over 400,000 Kosovo refugees in 1999. The European Union also helped to provide food security programs in 1997 and 1999 during both of Albania's crises in order to help support the stabilization of food supply in Albania.⁴²

For 2002, despite many countries worldwide suffering from a recession, the GDP growth of Albania remained between 4.5 and 5%.⁴³ Perhaps more significant is that it did so during a period of significant political instability and uncertainty. This continued growth of GDP indicates that it was a result of development and investment in critical central areas, such as agriculture and essential infrastructure, which is not as likely to be affected by market downturns. The Economist Intelligence Unit estimates that the GDP will be 6.5% in 2003 and rise to 7% in 2004, and that inflation during this time will be kept between 2 and 2.5%.⁴⁴ This is good news, but it is important to note that fears of instability in both the economy and government of Albania persist. The progress of reforms suggested by the European Union have perceptibly contributed to the growth of

⁴¹ The Economist Intelligence Unit, *Country Report: Albania* (Kent: Patersons Dartford, 2003), 7.

⁴² European Union, *Albania – A Future with Europe* 5.

⁴³ European Union, *Albania – Stabilisation and Association Report 2003* 1.

⁴⁴ The Economist Intelligence Unit 5.

Albania's economy. The continued support of the EU as well as the IMF, as mentioned before, has also been an invaluable asset in maintaining stability within the economy with regards to monetary policy, unemployment, and foreign investment/trade.

Reforms

With the signing of the Stabilization and Association Process, Albania had a framework to begin the process of implementing reforms. It is important to discuss these reforms, because they are perhaps the most visible aspect that can be used to evaluate the progress of democratization and adoption of EU policies within Albania. The reforms prescribed by the European Union touch almost every aspect of the economy, the judicial system, and the political system in Albania. In particular areas, the government has been diligent in passing and applying the prescribed reforms, but in others, such as the reforms designed to fight corruption, the government does not have the resources to enforce the reforms and new laws once they are passed. The reforms are ultimately required in order to bring the country into alignment with the laws and policies that have been adopted by many of the western nations. If Albania desires admission to the EU, which it currently does, it must continue the reforms that have been set out for it.

Perhaps one of the most noticeable and successful series of reforms is the privatization of industries that had previously been state monopolies, such as the telecommunications company and the oil company, Servcom. Overall, all Small and Medium Sized Enterprises (SMEs) have been privatized, and there are approximately 80 various other large enterprises that still need to be privatized.⁴⁵ The country is also pursuing further financial sector reform by developing a stock market, and by privatizing

⁴⁵ European Union, *Albania – Stabilisation and Association Report 2003* 15.

the largest and last remaining state-held bank in the country, which accounts for over 60 percent of the total banking assets in the country. Along with this has also been legislation by the government designed to further increase competition between the banks by creating further framework for lending. Along with privatization, the Albanian government has passed a new bankruptcy law and a law regarding deposit insurance, both of which were designed to stimulate foreign investment and to further open their markets.⁴⁶

In an attempt to reform the various governmental institutions, including the incredibly weak judicial system and the corruption of many civil workers, the government of Albania has begun programs designed to provide greater education for workers in those areas. The Albanian Parliament has passed many new laws that cover judicial procedures and ethics, but the difficulty lies in disseminating the information to the workers. Also, the education and training of civil workers, especially in rural government institutions, remains a top priority and is very important in the process of decentralization. In an attempt to make civil service careers more attractive, the government also instituted substantial pay raises for many civil servants in 2003. In some cases these were up to 75 percent.⁴⁷ The biggest setback for reforms in the areas above is the overall cost, which the government of Albania has difficulty funding. It is much easier to pass a law designed to implement a reform, but it is much harder for the Albanian government to enforce that law.

Overall, the process of reforms in Albania has been sufficient enough that in January of 2003 Romano Prodi, president of the European Commission, officially opened

⁴⁶ Ibid. 23.

⁴⁷ Ibid. 4.

negotiations with Albania to establish a Stabilization and Association Agreement (SAA), which is a contract that lays out the actions that Albania must take to become an EU member.⁴⁸ This is the first step towards achieving that goal. In his speech to the Albanian parliament, Romano Prodi outlined the purpose and requirements of the SAA:

Under the terms of this Agreement the parties undertake to put a series of principles into practice. These range from respect for human rights to the establishment of a democratic system based on the rule of law and its observance, from the completion of a market economy to the fight against organised crime and unlawful trafficking.⁴⁹

No timeline has been set for the completion of this, because the implementation of the SAA will rely on the willingness of the government of Albania to implement the reforms required and make the changes that the EU deems necessary. The current government, run by the SPA, seems incredibly willing, as their campaign goals for the 2001 elections were membership in both NATO and the EU, as well as further reforms, including the privatization of energy concerns, telecommunications, and the transport sector.⁵⁰

Continuing Instabilities in Albania

This section will discuss the areas that are currently responsible for causing the greatest instability within the economy and the government. The greatest instabilities continue to come from the political climate and the serious lack of major infrastructure, such as roads, water and sewage, and electricity. It is imperative that many of these areas be addressed in the near future if Albania wishes to continue experiencing the growth that

⁴⁸ "Albania comienza negociaciones de ingreso con la UE," Xinhua News Agency, Feb. 1.

⁴⁹ Romano Prodi, "Albania's European destiny," Albanian Parliament, Tirana, January 31, 2003, available from http://europa.eu.int/comm/external_relations/news/prodi/spal03.htm; accessed May 30, 2003.

⁵⁰ Michael Schmidt-Neke 333.

it has in the past few years. There is also a serious problem with corruption in Albania and the relative weakness of the judicial institutions that have difficulties enforcing the laws. All of these problems are significant because they ultimately affect the living standards of every individual living with Albania. These problems are also incompatible with membership in the EU and need to be addressed in the near future if Albania wishes to continue on the path of western integration.

Perhaps the most important sector that could be a formidable barrier to further progress is the political atmosphere. Everything continues to remain incredibly polarized, and the political parties focus more on the acquisition of more political power than on the important issues within Albania. The greatest reason for this is the continued presence of the same political figures, who obviously have their own agenda, which does not necessarily benefit the people of Albania. The Socialist Party, composed largely of members who were an important part of the previous Communist regime, continues to wield power. Their greatest opposition, the Democratic Party, continues to cause political unrest in an attempt to regain power. The actions of both parties focus more on attempting to wrest power from the other's grasp. The parties need to stop wasting all their resources in an attempt to eliminate the other group, and instead turn their attention to the issues that need to be addressed. There has been some minor progress made in this area, but for a large part the political system remains very unstable. The continued assistance of the European Union and other international institutions will be very important in assuring the stability of the government and keeping reforms on schedule. The guidance of the EU on what reforms need to be implemented and what other

problems need to be addressed will be instrumental in Albania's pursuit of EU membership.

Another large issue that continues to cause instability within Albania is the economic infrastructure. Most of all, the government needs to invest in and further develop the electrical sector. In today's industrialized world, an uninterrupted supply of electricity is a requirement for a functioning and stable market economy. Albania's electrical infrastructure has remained terribly underdeveloped. According to the *Stabilisation and Association Report 2002*, there has been little or no investment in the electricity sector since 1986, and the grids used to transmit electricity are outdated and practically obsolete.⁵¹ Although most people do have access to electricity, there is not a sufficient supply and it is actually only available for an average of nine hours a day.⁵² Many Albanians realize the importance that this has on the development of the Albanian economy, especially the mayor of Korca, who, when asked about the serious issues facing his city, remarked, "We must get electric power because the lack of power risk tourism development. The second problem is the supply of electric power. We are a zone with no double connection with the network and the voltage is very low. This negatively affects direct foreign investment."⁵³ The government also needs to invest in further water treatment and roads. Both of these infrastructures are seriously lacking, but not quite on the scale of electricity. Although it will require a large amount of money, Albania stands

⁵¹ European Union, *Albania – Stabilisation and Association Report 2002* (Brussels: European Union, April 4 2002), 27.

⁵² Hermine De Soto et al., *Poverty in Albania: A Qualitative Assessment* (Washington: The World Bank, 2002), 54.

⁵³ Ibid 55.

to gain it back in the growth of the economy once the infrastructure has been developed to a level that is conducive to foreign investment.

Although the Albanian government has passed many laws designed to bring them in alignment with EU policies, in reality the country is often times unable to enforce the laws that have been passed. This is largely due to the lack of funds and of judicial infrastructure, especially with regards to trained and educated judicial workers at the local level, which is especially critical in fighting the widespread corruption (which is also very evident in the judicial system) that has been nurtured by the inattention and instability of the central government. According to the World Bank, “Albania and FYR Macedonia show extreme weakness in practically every aspect of institutional capability.”⁵⁴ In order to improve the judicial system, the Albanian government needs to provide better training to civil workers in this area. The powerlessness of the judicial system becomes apparent when one considers that of a total 213 cases against people arrested for trafficking (drugs, weapons, people) in the first nine months of 2002, only 37 of those went to trial while the other 176 were dismissed due to judicial errors or failure to collect adequate evidence, and of the 37 convicted, none received a sentence higher than the minimum level in the penal code.⁵⁵

Corruption in Albania is a widespread problem and is especially prevalent in the health care and many parts of the judicial system. In a survey on corruption, almost half of the Albanian firms polled had admitted to bribing officials to get around taxes and

⁵⁴ Daniela Gressani and Saumya Mitra, *Structural Reforms in Southeastern Europe since the Kosovo Conflict* (Washington: The World Bank, 2002), 10.

⁵⁵ European Union, *Albania – Stabilisation and Association Report 2003* 5.

fees.⁵⁶ There have been many laws passed that provide stiffer penalties for corruption, but as was mentioned above, there is currently an insufficient infrastructure to enforce them. In order to change this, the judicial system needs to become more effective, and emphasis needs to be placed on the improvement of the training that civil workers receive. An increase in the wages of civil workers could also help alleviate some of the instances of corruption that occurs in order to supplement wages that are insufficient to provide for one's family.

Another enormous problem in Albania is the poverty. In 1997, the average monthly wage in Albania was \$64.20, whereas in Greece, the poorest EU member, the average daily pay was equivalent to half of that.⁵⁷ A better view can be gained by looking at the purchasing power parity, which compensates for differences in the price of goods, etc. By 2002, the GDP per capita in Albania was only around €1400, causing it to continue to be one of the lowest in Europe. This equates to a purchasing power parity of 3,506. By comparison, Greece had a purchasing power parity of 16,501.⁵⁸ Approximately 46.6 percent of Albanians are living below the poverty line of \$2 per day, and furthermore, approximately 17.4 percent are below the poverty line of \$1 per day.⁵⁹ Unfortunately, this is not a situation that can be quickly remedied. It will take the continued support of the government and further growth of the GDP. The support of the international community has also been important several times in preventing the starvation of a large number of people.

⁵⁶ Albanian Center for Economic Research 76.

⁵⁷ Annette Horn and Siniša Kušić, "Chancen einer Exportorientierten Entwicklungsstrategie in Albanien," *Südosteuropa Mitteilungen* 2 (2001): 54.

⁵⁸ United Nations Development Programme, *Human Development Report 2002* (New York: Oxford University Press, 2002), 163-164

⁵⁹ Dr. Ylli Çabiri and Dr. Lindita Xhillari, *The Albanian Response to the Millennium Development Goals* (Tirana: HDPC, 2002), 12.

The reforms that Albania has implemented and will, hopefully, continue to implement should serve to bring further foreign investment. The low wage of Albanians and the problems with high unemployment could, in a way, be a benefit to the country if it chose to capitalize on it. If the infrastructure of Albania were to be better developed and attracted further foreign investment, Albania would have a specific advantage in the production of work-intensive goods.⁶⁰ Albania has a significant abundance of raw materials, as 10% of the world's deposits of nickel and chrome are in Albania.⁶¹ At this point, the country requires direct foreign investment to develop these areas of industry because the amount of capital needed to take advantage of these resources just does not currently exist in Albania.

Conclusion

Albania is a country that has experienced many setbacks in its pursuit of democratization and reform. It has experienced the collapse of several of its governments, as well as the collapse of its economy. The several governments that have been in power have been able to enact important reforms (with varying degrees of success) such as privatization and laws designed to promote democratic infrastructure. Despite these reforms, Albania is still a very unstable democracy. The common theme throughout Albania's transition in 1991 to now is the instability caused by the actions of the political parties who have been struggling for power. The biggest thing holding Albania back is that the politicians are too involved with their own individual interests. Instead, they need to open their eyes to the wider picture and represent the interests of their constituents.

⁶⁰ Annette Horn and Siniša Kušić 54.

⁶¹ Ibid. 55.

The parties need to preserve the integrity of democracy and avoid resorting to hostilities against the opposition.

It is also important that the government ensures that the rule of law is respected, as is required by the EU. There is a good basis present in Albania, but the law needs to be further extended to all of society through the implementation of necessary infrastructure and adequately trained officials. With widespread enforcement of laws, it will be much easier for the government to combat the corruption and organized crime that is widespread in society and further destabilizes it. On top of all these, it is important that the government further attempts to develop a functioning market economy. The economy will one day need to be strong enough to survive the competition of the other EU countries.

If the government continues to pursue accession to the EU, as it is now, it must be active in implementing the reforms required of it by the EU. The process of passing the reforms set out in the Stabilization and Association Agreement will likely be a long one. Ultimately, the government must eliminate the continuing instability that plagues the institutions, most of which is due to the polarized political atmosphere. This instability, combined with the poverty of the country and the lack of sufficient economic infrastructure, means that the country must first continue to develop both democratically and economically, especially with regards to the internal market. It will most likely be a long road to EU membership, but as Romano Prodi said in his speech to the Albanian Parliament, "I have already said this once but I will say it again. The Union will be at

your side. Today and in the future, dialogue must pave the way for developing a closer, more transparent and more reliable partnership.”⁶²

⁶² Romano Prodi

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