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**“Political, Economic and Social  
Challenges of the Balkan Countries  
in the Process of European  
Integration”**

**icos**

**Second International Conference on European Studies**



Epoka University Publication

# **EPOKA UNIVERSITY**

**The 2nd International Conference on European Studies  
(ICES 2009)**

*"Political, Economic and Social Challenges of the Balkan  
Countries in the Process of European Integration"*

## **PROCEEDINGS BOOK**

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## ***PREFACE***

Since the fall of the Berlin Wall all the Balkan countries have turned their direction toward the EU and NATO. During these two decades there have occurred very drastic changes in this region. Yugoslavia has been dissolved giving birth to eight different countries, for some of which the surgical “intervention” has been needed.

Albania the country enclosed in the iron cage for five decades has reached a previously unbelievable place in the international arena with its NATO membership in April 2009. Romania and Bulgaria within one and half decades of the fall of the Communism in Eastern Europe, realized their NATO and EU membership dreams.

Turkey, the biggest country within the region and a senior NATO member, has long been seeking EU membership gates by undertaking reforms. Greece, as the oldest EU member in the region, has played a very decisive role in the integration process of the region.

Balkan nationalism and intrastate conflicts which have been always present in this region, have slowed down the process of integration. Corruption and governance deficits, although in decrease, have been other factors hindering the way to EU membership.

In these developments Epoka University, in cooperation with Istanbul University, organized the Second International Conference on European Studies to assist the continuing processes towards integration and to bring solutions or suggestions to several problematic issues facing the Balkan countries.

It is my hope that the articles in the ICES'09 Proceedings will help further this goal.

**Dr. Ferdinand GJANA**

Vice - Rector and Chairman of ICES'09

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## **European Perspective of Kosovo**

### **1. Relations Kosovo-EU**

Kosovo's relations with the EU continued to intensify the darting steps, especially from June 1999, when Kosovo came under the supervision and administration of UNMIK, where the mission of the United Nations Interim in Kosovo was based on Resolution 1244 Security Council of the United Nations. As of this moment, the European Union has been an integral part of the effort to build new relations with Kosovo.<sup>1</sup> The EU as a united terse as its motto is "united in diversity" has given a great contribution to institution building and support economic, political, and this reinforces the continuity is increasingly in the years ongoing. European Union, together with member states, especially triggered by the European Commission played a role in the construction and permanent development of Kosovo, and this fact becomes more bested that offer more constructive and help Kosovo.<sup>2</sup> Over 2 billion euros in aid, are provided to assist the processes in Kosovo by the European Commission from 1999 until the declaration of independence, it initially focused on support actions for emergency assistance and reconstruction in Kosovo, after stabilization of the EU, Concentrate on encouraging the development of stable institutions and sustainable economic development to ensure a European future for Kosovo.<sup>3</sup>

Relations began concretize especially on the opening of 17 offices since 1999 by member states of the EU, which have representative offices in Kosovo and more established connection, relation are several thousand other soldiers from EU countries serve as a member of the forces in Kosovo (KFOR) led by NATO. These strengthened the relationship of a large number of nongovernmental organizations from EU member states that have been and are active in direct relations with Kosovo it clearly shows the strong ties between the EU and Kosovo. Seeing the number of these ever-increasing commitments to the EU, which gradually in a continuous process of taking

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<sup>1</sup> See in: (Rapporture-Joost Lagendijk, Report on the future of Kosovo and the roulette of the EU (2006/2267 (INI), 22 February 2007, p. 5-7, Adopted by the European Parliament on 29 March 2007.

<sup>2</sup> Mishael Alfons: "Of Standards and Status"-The Role of the European Union in Kosovo: From UNSCR 1244 to the Futuer Status Talks. SÜDOSTEUROPA, 54. Jg; 03/2006, pp. 1.

<sup>3</sup> Tomas Sezmler-Marie-Janine Calic-Tomak-Dusam Reljic-Peter Schmidt: The UE Presenc in a Post-Status Kosovo", SÜDOSTEUROPA, 55. Jahrgang, 2007. Oldenbourg pp. 145.

the main role in promoting reforms and meeting the standards as the basis for the future of Kosovo, and implied commitment to the further towards European cooperative perspective. Special aim of the EU is investing a fair stability in Kosovo and the region.<sup>4</sup> This relationship provide an environment of clear and stable along with the permanent states of the EU, which were within UNMIK, the Contact Group and Security Council as guarantor of Kosovo. By the lack of status of Kosovo was impossible to have direct official relations with Brussels as the countries of the former Yugoslavia, but this does not mean that the European Union has left out interest for this country, still without clarifying De Jure its status, Kosovo had several relationships and joint working continuously with the European Union. In 1998-99 the EU played an important role in resolving the Kosovo crisis it was a relationship of high political and military always growing. A connection with the EU, is using the Euro currency, Kosovo after the final split from Serbia after its currency was not as currency in the country entered circulatory Mark,<sup>5</sup> as the German currency, and after replacing it with the euro, together with Kosovo the EU states, into using the euro, so Kosovo was introduced in the Euro<sup>6</sup> zone and bring it forward a step closer towards the EU.<sup>7</sup> This alloy give a guarantee, as Mike Todd said: "Kosovo is a much more secure than some other countries" this currency relationship was the fact that is also present a number of European and international personnel who use this currency, the other aspect is the fact that almost no home in Kosovo, which is not related in a way with a state of the EU,<sup>8</sup> a large number of immigrants who move, work and live in exile, from which a much of the money mainly euros transferred to Kosovo all these constituted a terse relations with the EU.<sup>9</sup>

The introduction of Kosovo in the Euro zone is a strengthening of relations of Kosovo to help build a strong and sustainable financial, particularly in combating

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<sup>4</sup> Tomas Sezmler-Marie-Janine Calic-Tomak-Dusam Reljic-Peter Schmidt: "SÜDOSTEUROPA, The UE Presenc in a Post-Status Kosovo", 55. Jahrgang, 2007. Oldenbourg pp. 147.

<sup>5</sup> Euro-European currency is the appointment of which is introduced into circulation on 1 January 1999 as a coin bank and on 1 July 2002 as the currency for all transactions within the EU, which to date duchesse replaced by money in the national Euro. See in: Vlatko Mileta "lecture of the European Union", Prishtina, 2006, pp. 83-86.

<sup>6</sup> On 2 September 1999 the German currency (Mark), becomes the official currency in Kosovo.

<sup>7</sup> How incises in this issue towards the introduction of Kosovo in Germany since the Euro zone was up before introduction of the euro as the main currency used was the German currency (Mark) and the many causes of time necessary.

<sup>8</sup> Rexhep Hoti: "Kosova përballë vetvetes", Akademia Diplomatike Shqiptare. Prishtinë, 2004 pp. 107.

<sup>9</sup> Tomas Sezmler-Marie-Janine Calic-Tomak-Dusam Reljic-Peter Schmidt: "SÜDOST EUROPA, The UE Presenc in a Post-Status Kosovo", 55. Jahrgang , pp. 158.

negative phenomena as before black, informal economy, organized crime, corruption, etc. This increase transparency in a sense that is a condition for foreign investment, introducing Kosovo. Kosovo euro zone boost optimism that brings a positivistic to incubi and undercut the long road towards the EU and increased relations in the future. Approximation of relations with other Kosovo and the EU do, especially the presence of various directly in Kosovo:

1. The presence of humanitarian aid Office (ECHO)
2. The presence of the European Agency for Reconstruction (EAR)<sup>10</sup>
3. The EU in Kosovo through UNMIK
4. The current EU mission that began with the new schedule as knowledge that Ahtisaari

#### **EULEX mission.**<sup>11</sup>

These forms make it more sustainable and more vital cooperation between Kosovo and the EU, Brussels and attitudes were always more concerned for the future of Kosovo. Especially after define statues Kosovo, which opened the routes without return how to address issues crucial to walk further steps towards the EU.<sup>12</sup> This new reality of Kosovo relations intensify cooperation in areas other districts customs, fiscal, technical issues, information, training through various instruments such as TAIEX,<sup>13</sup> (as a training plan). Kosovo after the declaration of independence on 17 February 2008, the EU as terse presented as a great achievement, relations with Kosovo and stability in the Western Balkans. Relationship between these entities is considered day by day more and more and now has all cooperation with the European Union increasingly on strengthening these mardhnjeve. Relations are scroll and joint collaborative projects with the EU, this determination clearly shows that these linked such projects will have long-term constructive and Kosovo.<sup>14</sup> These relations will not yen at the end of them

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<sup>10</sup> EAR, was founded in 1999 by the European Council just because of Kosovo after the war had consequences that, with headquarters in Thessaloniki, Greece, and with operational centers in Prishtina, Belgrade, Podgorica and Skopje.

<sup>11</sup>See in: The Ahtisaari package signed by the EU, in which the European will play the main role in Kosovo after the Status.

<sup>12</sup> Lisen Bashkurti: "Evropa, Ballkani dhe Sfida e Kosovës", Tiranë, Geer 2006, pp. 59.

<sup>13</sup> European Commission Liaison Office in Kosovo. See in: Michail Raith: "Project Stability in Time of Crisis-The European Union's Responsibility towards the Western Balkans", SÜDOSTEUROPA, Mitteilungen, 2008, pp. 9.

<sup>14</sup> Through membership Instrument Pre (IPA), which was founded in early 2007, the purpose of which was dimming the Western Balkan countries including Kosovo and in this plan has

for a long time, even given the long road we have money towards the EU, and be understood as the necessity of strengthening mate these relationship in order for Kosovo to be on mutual cooperation and more understandable and more as a necessity of long-term future of Kosovo. Finally the arrival of the EULEX mission in Kosovo is clearly testifies cooperation towards the culmination of the relationship with the EU.

## **2. The Stabilization and Association (Tracking Mechanism)**

The recent Kosovo have followed a series of positive activities by the EU, such as helpful, standardizes and accuse. Kosovo is the last state in the region which has not yet connected formal agreement with the European Union although it has very good relations, because he still had no clear its status, until 17 February 2008, and where eventually independence. With the adoption of the constitution and laws need to be provided with the final status, Kosovo meets the necessary conditions for making the Feasibility Study and the start of negotiations for Stabilization and Association Agreement with Brussels. Okay this is the overall stability is preserved and has continued to cooperate activities with the wider international community, the European Union in general and the European Commission within the framework of the Tracking Mechanism of the Stabilization and Association Process.<sup>15</sup> Absence as an independent state was not an obstacle to linking Stabilization and Association Agreement. But before the war of 1999, with the deployment of the SAP process by the EU for the Western Balkan countries, aimed at approximation and perspective of this region towards the EU. This was an agreement for SAP to meet the Copenhagen criteria, for other than Kosovo, which would remain behind with the processes of SAP in comparison with neighboring countries.

Since it was not proclaimed independence of Kosovo to have implied that it could not link the Stabilization and Association Agreement with the EU, but also from the absence in 2002, has benefited from financial assistance and policy advice through participation in the Tracking Mechanism the mechanism and Association (MPSA), a

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benefited over 124 million intended to help in the field of rule of law, and economic administration.

<sup>15</sup> European Commission proposes to achieve a feasibility study for Kosovo, to assess how Kosovo can best exploit the regional and European integration. The Commission also proposes to intensify the regular political dialogue between the technical and the Kosovo authorities and the Commission. In the progress report on Kosovo, the Commission estimates that some progress has been achieved in addressing the key European Partnership priorities. See in: [www.delprn.ec.europa.eu](http://www.delprn.ec.europa.eu). 5 November 2008.

reinforcement else came from the European Commission in 2003 that inaugural a matter of alternative Asocim Stabilization Process for Kosovo, in particular a kind of mechanism so, mechanisms Tracking (Tracking Mechanism). Where thought to enter Kosovo soon to have a mechanism, a form towards meeting the SAA (Stabilization and Association Tracking Mechanism) in the framework of the EU. This was originally a kind of insurance and showing the behavior of those states do not recognize Kosovo.<sup>16</sup> Following the introduction of Kosovo in the euro zone,<sup>17</sup> the European Union as a step was to inaugurate the so-called Tracking mechanism for Kosovo, a step that was very important and necessary by the fact that Kosovo was outside any procedure that the EU was about that time with Union (Serbia-Montenegro). Kosovo is independent Stabilization and Association Process. In Kosovo, the main processes away go through offices that operate in Kosovo through the office as the so-called Tracking mechanism for Kosovo. The aim of the first (Tracking Mechanism) to STM-s (Tracking Mechanism for Stabilization-Association),<sup>18</sup> a period consisted of meetings between the European Commission, UNMIK and Kosovo institutions appropriate, the meetings had to do with doing these evaluations of along Kosovo, about the achievements of the ongoing situation in Kosovo. In June 2004, the Council of Ministers of the European Union has approved the first European Partnership with Serbia and Montenegro, including Kosovo, as set out by Resolution 1244 the UN KS. A new relates this kind meetings was that of January 2006, where Council has approved a new partnership which is adapted to the progress made during this time in Kosovo. Also among this year, held a second meeting of the EU involved in the SPA and the Progress Report in August 2006, where UNMIK and the Kosovo Government, together adoption share plan for Kosovo, implementation of the Plan for Partnerships with Europe. This was about as a direct connection between the EU and Kosovo; where as the single point was the issue of the future status process accuses and cooperation with the EU. In the case of Kosovo, European Partnership also dealt eight Standards for Kosovo.<sup>19</sup> In response to the

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<sup>16</sup> Look at: EU Spilt could u undermine Kosovo. In –International Herald Tribune-20 February 2008

<sup>17</sup>Kosovo became part of this area in 2002, as a user of the euro currency using today's 15 member countries, representing 2 / 3 of the population of the EU.

<sup>18</sup> This kind of mechanism to allow Kosovo to decide Relations of the EU structures, as well as a close collaboration with the legislation in the field of convenience standards of the EU, to see: Blerim Reka /Artalbrahimi: "European Studies" Tetovo 2004, pp. 270th

<sup>19</sup> These standards were: functioning democratic institutions; rule of law; the free movement of people; superglue and the return of minority interim; economy; property rights; dialogue with Belgrade and the KPC. See in: Michael Raith: "Project Stability in Time of Crisis-The European Union's Responsibility towards the Western Balkans", SÜDOSTEUROPA, Mitteilungen, 2008, pp. 32.

identification of priorities, national authorities require you to draft the Action Plan of European Partnership, which includes actions that the authorities intended to take to achieve those priorities, and as such it offers an agenda with which to measure progress. Monitoring of the European Partnership provided through annual reports to the European Commission for SAP and the Stabilization and Association Tracking Mechanism. Lot of work that has been made in Kosovo's long road towards integration in the European Union is establishing the Tracking Mechanism of the Stabilization and Association Agreement (SAA)<sup>20</sup> as an office in Kosovo, which has the EU in Kosovo, this is determined a away relations with Kosovo, through this office (SAA-s) done in the field of legislation co Kosovo since the issuance of laws to comply with European laws that in future not to have any problem in this area, this is a walking time and money necessary special and priorities towards speeding up the positive processes in Kosovo compared to other neighboring countries, which are a step ahead in these processes. In the framework of this field are working in Kosovo, international expert in collaboration with local experts who have the fitness to do so as standardized with the EU. Also before this time in 2004 the office was established for European Integration, the importance of this office in Kosovo is that it is conducting several activities such as:

- Formulation of proposals for advancing the activities of the Government with the aim of approximating the norms and standards with those of the EU;
- Will oversee the development and implementation of the program of the government in general approximation of the relevant standards of the EU;
- I will submit recommendations within the plan of the Standards for Kosovo and the Stabilization and Association Tracking Mechanism for coordination between the ministries and authorities as necessary together with UNMIK;
- To assist the process of implementing standards for Kosovo in order to achieve compliance with the standards and the necessity of the EU, that all of these peregrine more closely and participate in the signing of the accuse.

The future of Kosovo has been linked to Europe without regard to the postponement of the status that you had made Kosovo status since before the people of Kosovo remain consonant with European society, this is consistent with the EU to start to

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<sup>20</sup> This Agreement was reserved for the five countries of Southeast Europe as Croatia, BIH, Macedonia, Serbia and Albania, to see: Vlatko Mileta "lecture of the European Union" Prishtina, 2006. pp. 203.

ensure that when the framework was issued constitutional,<sup>21</sup> and whether Kosovo will not have such a compliance with the EU, this would cause division between Kosovo and the rest of the region and would have a negative debate further towards processes for Kosovo. We should be more dedicated to meeting these assistance that the EU has given Kosovo because these also depend on respect for the principles of SAP. When all of Europe is located here, while Kosovo is currently as surveyed directly with the EU institutions in the region through which to make institutions more attractive co-operation with the Kosovo institutions as the EU-s action:

- European Commission Liaison Office;
- Personal Representative of the Secretary-General;
- High Representative;
- The European Agency in the framework of UNMIK;
- Representatives of the member states of the EU.

That all these factors are a much needed impetus and reference, further advice, SAP Tracking Mechanism of the (STM), and the continued assistance of the PISG (Provisional Institutions of Self Government),<sup>22</sup> were key elements to benefit from SAP-s support was an UNMIK and the PISG with expertise Commission and with political guidance for the approximation with the EU, contributed to institution building and administrative reforms, increasing understood the basic principles and goals of European policy, which STM holds regular meetings to assess progress political, economic, institutional reforms and compatibility with the conditionality of the SAP, who are experts of the European Commission to formulate recommendations for actions to future. How important step and is necessary for the Stabilization and Association Agreement that Kosovo still has none in agreement that this will be a time to meet the many preconditions of the conditions to the signing of this agreement which, as the agreement is the new generation of the EU, as a process which was inaugurated in May 1999, for Western Balkan countries in order to begin to adopt their legislation with the European Union and seeks to meet the criteria that the European Union. This agreement was devoted to these countries in order that they stability within their state in order that they be prepared to asocial the EU. Given that this agreement provided:

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<sup>21</sup> This Agreement was reserved for the five countries of Southeast Europe as Croatia, BIH, Macedonia, Serbia and Albania, to see: Vlatko Mileta "lecture of the European Union" Prishtina, 2006. pp. 203.

<sup>22</sup> See in: Rexhep Hoti: "Kosova përball vetvetes" Prishtinë, 2004, pp. 201-206.

- Road to Europe, the Western Balkan countries;
- These agreements gone towards more direct official connection with the EU in;
- This Agreement includes economic aid, and financial cooperation with the EU in the Kosovo involving;
- Includes Political dialogue and Trade;
- Put a free trade zone, which brings a direct connection with the economic;
- Set an average of legislation and practice of the EU, which is competitive with the country should harmonized this field;
- leading cooperation in the field of justice and home affairs.

This agreement was devoted to each state individually it cope with the challenges of the future with a view to harmonizing the objectives of the same political and economic urges the European Union. It is very important to note that the Stabilization and Association Agreement, as says the chief of the International Civilian Office (ICO) in Kosovo Pitter Faith: "It is a relationship of deep contracture within the EU to deal with the mutual rights and obligations"<sup>23</sup>, is no guarantee that each state which connects this agreement, will necessarily become members of the EU, in particular, but this much depends on the political will and economic capabilities that should meet every candidate who connects this agreement is understandable. Also it is not a promise for integration. It puts emphasis on the stabilization of the situation in the countries concerned, to reach further in establishing a special relationship with the European Union. However, in a manner similar to European agreements signed in the early years with 90 Eastern European<sup>24</sup> states, which are far more members of the EU, it encourages embracing the core values of the European Union from the Western Balkan countries as:

- Democracy and rule of law;
- Protection of human rights;
- Respect for national minorities;<sup>25</sup>
- market economy and justice.

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<sup>23</sup>See in: Infopress 3. 12. 2008, pp. 3.

<sup>24</sup> As such the candidate countries: Estonia, Lithuania, Latvia, Malta, Poland, Slovakia, Czech Republic, Slovenia, Hungary and Cyprus which these states were admitted in 2004 that block called as the Eastern enlargement. See in: Skender Berisha: "European economic integration" Prishtina, 2005, pp. 85th

<sup>25</sup> One of the controversial issues during the drafting of the Ahtisaari package were minorities and their role in Kosovo, so the best guarantees, and gives rights to honor the best potential in

Given that this agreement aims to promote economic development of the country, supported by parallel assistance programs designed to help these countries meet obligations of the agreement.<sup>26</sup> Order allowing common access to both processes. This document defines all measures that the Kosovo institutions intend to take to achieve the priorities set by the European Partnership and to meet the Standards for Kosovo, so are many prerequisites and conditions to be hardship sacrifice, and may time. To ensure that Kosovo to participate fully in SAP and allow Serbia to walk its steps, has been established the Stabilization and Association Tracking Mechanism (SAP), as a special tool for Kosovo for not behind in the process. The European integration process for Kosovo aims to asocial more closely with the European Union with a view to possible membership. In this respect, Kosovo participates in the SAP, which is the policy framework of the EU Western Balkan states. SAP longtime represents a commitment of the EU in the region, as the political efforts and financial assistance. When SAP allows each country in question that his steps to move towards further integration in the EU. STM is a forum for dialogue between Kosovo and the European Union and has so far shown that it is a valuable tool to help the Kosovo authorities in guiding the reforms and asserted that Kosovo. Kosovo in order to fully benefit from the various instruments the SAP. Can say that these steps that Kosovo had to go manure has moved in the best possible given the limited area and who had supervised Kosovo as a state to build a crossroads orientates Stabilization and Association Agreement. Kosovo is currently in phase before writing Stabilization and Association Agreement, but none here as the flowerbed and ASE short time to final this process, to come to this moment, when previously Kosovo must make a application for membership of the EU Council, which request the latter would then be a decision after analyzing the progress made, through which authorizes the European Commission to bring an expert in cooperation with the Kosovo institutions to study the feasibility <sup>27</sup>, and his realization that as a package observers will come to the conclusion Conclusions or up in filling the full package. This study will take several months and after this signal gives the Council the Commission to begin negotiations

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Europe and this more good or not observed in neighboring countries, see in: Document of Ahtisaari's Package. May, 2007.

<sup>26</sup> Lisen Bashkurti: "Evropa, Ballkani dhe Sfida e Kosovës", Tiranë, 2006 pp. 45.

<sup>27</sup> In the autumn of 2009, the Commission will present a feasibility study that will assess the ways for promotion of political development and socio-economic Kosovo, and to assess how Kosovo could best advance, as part of region towards greater integration within the region and the EU. Study Fusibility mean level of training and meeting all the conditions for opening negotiations on the SAA, see the: Paskal Milo: "The European Union, idea, Integration, Identity and Future" Tirana, 2002, pp. 279th

for a Stabilization and Association. After all this remain a street full of orders and cut cuisine that should move up as the European destination. It's another thing favorite way clear that this is the last complication and decision to enter the EU, seeing the region (Croatia)<sup>28</sup>, with longtime of this period be understood clearly that such a thing as is not close to Kosovo. After all these jobs that the yen will not slim and light to these preconditions remained the terms mentioned. Kosovo must be a determination as to the most unique work that will be in the hands of her and you realize you watch in more detail and commitment towards common goals as the European family. These conditions are not so easy and desired, but are conditional can not that you overlook one another without finishing the like is that we are within the EU.

### 3. EU Mission in Kosovo

The European Union is the largest provider of humanitarian aid and development in the region. Missions have shown that its been able to prevent conflicts that bring a prosperity in the region. Missions of the EU are in the political and economic interests as a model of successful extender<sup>29</sup>, which is applying in Kosovo, now as long as Kosovo is going through these missions from the change, with more influence in the democratic world, these missions were, and continue be for the good of Kosovo. As a country with a large number of organizations were missioner as special the specific oftentimes Kosovo that the international community and Kosovo's European call as (sui generis), the missions are almost so. Since Kosovo is among the most late, which is turned out by the war, with consequences too great as the loss of people, deportation, destruction of housing infrastructure, politico-economic infrastructure, and legislative, these realities of Kosovo in a lined new reality starting commitments in all areas for the consolidation of Kosovo as a functional state, thereby protecting universal human freedoms, through the democracy that is continually building and concretize Kosovo. Therefore, the missions of this kind were necessary. With these missions, the EU in Kosovo had intended to complete the works within a period as short as they build democratization in terse Kosovo as long as it would be necessary to be present until the finalization of these issues. The EU mission was intended as the implementation of standards that were dedicated to Kosovo, the main purpose of these standards were finalizing Kosovo's status. Such were the interests of the Contact

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<sup>28</sup> Croatia submitted its application for EU membership on 23 February 2003 and since one expects its membership in the European family.

<sup>29</sup> The Commission has drawn up detailed conclusions on Kosovo in particular his statement on enlargement. See in: Enlargement Strategy and Main Challenges 2007-2008. 2007 Progress Report on Kosovo under RKSOKB 1244, Brussels, 6.11.2007, pp. 4.

Group and EU has common positions on how to emerge from this situation (status quo).<sup>30</sup> The EU mission was interested in socio-economic helped laughter where Kosovo will be walked as a selling within the region towards a modern state. Objective or objectives of the EU mission was to help Kosovo with the help of agencies that will do in the future to submit crappy-independence ethnic rights in Kosovo, the customs service, important goal was the preservation of order and law especially respect for communities, the fight against corruption, organized crime. With these missions, the EU had intended monitoring and assistance directly to the administrative aspects, politico-economic sphere in Kosovo, and standardization of these aspects with those of the EU.<sup>31</sup> All EU presenting an interest on the creation of social and economic policy in Kosovo and regional perspective. Achievements should focus on presentations that have more realistic as the only truly real in order to open prospects in the future towards the EU.<sup>32</sup> The EU has made and makes great contribution to Kosovo only recently been given (about 2 billion euros, yen will be available within the years 2007-2010), which was dedicated to the Kosovo capital. The work of the EU in Kosovo was a swing among the largest that has ever taken as a mission EULEX, Kosovo during talks with the Government, however present an international presence of regular communication, cultural and regional.<sup>33</sup> of 2007 was presented a plan of the European Commission, the expansion of the EU was based on the Ahtisaari plan as a final proposal for Kosovo, which plans above looking by the ICO<sup>34</sup>, these reports were in the liaison between the European and U.S.<sup>35</sup> Another goal the EU mission, involving the justice sector, in combating organized crime, not the services rules controlling how efficient customs that all these areas together were the priority of the EU mission, who had in other places that had these problems after status many states, the EU agenda within the mission,<sup>36</sup> where Kosovo will be assisted financially with large sums

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<sup>30</sup> Kosovo was in a state of almost net that after the introduction of UNMIK to implement the standards. See in: Michail Raith: "Project Stability in Time of Crisis-The European Union's Responsibility towards the Western Balkans", SÜDOSTEUROPA, Mitteilungen, 2008, pp. 28

<sup>31</sup> Documentation: European Council Documentation on Kosovo, 16 February 2008, pp. 91.

<sup>32</sup> Tomas Sezmler-Marie-Janine Calic-Tomak-Dusam Reljic-Peter Schmidt: "SÜDOSTEUROPA, The UE Presenc in a Post-Status Kosovo", 55. Jahargang, 2007. Oldenbourg, pp. 162.

<sup>33</sup> Dokumentation: Europian Cuncil Documentation on Kosovo, 16 February 2008, pp. 90.

<sup>34</sup> The ICO, as international civil presence will be guaranteed by the International Civilian Office, where early this agency will be a representative of the EU, he must bear responsibility as special representatives of the EU, as chief of this office is elected Piter Fejt Germany.

<sup>35</sup> Thomas-Marie-Sezmler Ioannina Calic-Tomak-Dusam Reljic-Peter Schmidt: "SÜDOSTEUROPA, The EU Presence in a Post-Status Kosovo," 55. Jahargang, 2007. Oldenbourg, pp. 155th

<sup>36</sup> UNMIK, UNMIK's Impact on the Kosovo Economy: Spending Effect 1999-2006 and potential effects on Downsizing, Prishtina, July 2006, pp. 74th

in the future. Likewise the EU has a kind of two-year plan that involved involvement, as greater security in Kosovo towards the EU, and other documents which had adopted this vision. In early 2007, the EU has set a mission for.

Kosovo aid named (IPA)<sup>37</sup>, designed to help the Western Balkan countries included in this plan Kosovo. EAR is also gradually help programs which participate in this plan and where you introduced the Kosovo side. The plan of this strategy was intended during 2008 to 2010, Kosovo will benefit from 261 million euros as the budget by agency prior to membership of the IPA-s. These funds are aimed at building technical services institutions and social ties. Given that in the past, the European Council in collaboration with IPA had helped countries Romania and Bulgaria before entering the EU agreed a lot about head resident for 23 euros, while for the people of Kosovo at this very early cut cure UNMIK<sup>38</sup>, had arrived in Kosovo have stated this mission during the early stages of expansion of this mission. Now this standard is multiple and ever-increasing forgiven assistance and contribution of the EU. Development was also part of the work called as the fourth pillar (Fourth Pillar)<sup>39</sup>, the administration of UNMIK, which is conveyance, it day by day towards the EU.<sup>40</sup> The mission of the European Union will be in Kosovo until Kosovo fully integrated in the European Union, says as the International Civilian Representative, Pieter Faith: "We had a close cooperation so far and am confident that this cooperation will continue in the future". The future of the EU mission in Kosovo is a political and legal guarantee, together with European states to sign a basic process for the future of the EU as a presence in Kosovo. It is known that from 3 April 2007, when Ahtisaari presents final plan for Kosovo in the Security Council, recommended in this document was Kosovo, which should be granted independence. Even Mr. Package Ahtisaari which also signed the EU states, which agreement emerged clearly the role of the European who will

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<sup>37</sup> IPA, as Instrument pre-accession transistor, is intended to assist Kosovo in overcoming challenges towards EU integration, and in implementing necessary reforms as (the strengthening of key institutions) towards the progress of SAP in laying the foundations criteria Copenhagen. See in: Council Regulation (EC) No 1085/2006 of 17 July 2006, Official Journal L210, pp. 82.

<sup>38</sup>This was very low in the extreme and 10 euros for head resident at the time of arrival that this mission, see in: UNMIK, UNMIK-s Impact on the Kosovo Economy: Spending Effect 1999-2006 and potential effects on Downsizing, Prishtina, July 2006, pp. 75th

<sup>39</sup> These are: Pillar I, the police and justice, Pillar II Civil Administration under the direct control of the UN, and as a role above looked, U.S., and Pillar III is concerned with democracy and institution building, under the direction of the OSCE of.

<sup>40</sup> UNMIK, UNMIK-s Impact on the Kosovo Economy: Spending Effect on 1999-2006 and potential Downsizing, Prishtina, July 2006, pp. 74th

play the main role in Kosovo after the Status of new was presented in this plan.<sup>41</sup> This strategy of the EU mission eventually fixes the future of the EU in Kosovo. With this strategy the EU has entered into an era of democratic missionary, the mission for Kosovo that will be gold for way signals that this mission. The presence of this mission will bring the rhythms of regional states as competitive to the EU, this mission will be promontory main shuttles all the processes towards the European table.

#### 4. EULEX mission in Kosovo

Efforts around establishing EULEX mission in Kosovo had that intensity from the first half of 2007, when he was presented a plan on starting a mission in Kosovo, the plan and initiate Javier Solana plan which supports the European Parliament in same time agreed with Solana's position<sup>42</sup>. In the fall 2007 international diplomats began talks held in Brussels, about finding alternative routes to Kosovo and independence more quickly to her. And that this was achieved with a common commitment. Immediately after the declaration of independence on 17 February 2008 in Kosovo, one of the main themes of the meeting was Questa expansion of the EULEX Mission in Kosovo, and about the mandate that will have this mission, that this goal will be (and strengthening the rule of law in Kosovo),<sup>43</sup> this mission should be an urgent necessity for the extension, its entire territory of Kosovo to help Kosovo security sector and the judiciary.<sup>44</sup> That this was clarified, with the guarantee package that Ahtisaari mission will consist on two thousand police and international judges which is a very important moment for Kosovo. EULEX mission, had plans to clear the present as a certainty in the sector terse, as in the elimination of negative economic phenomena in Kosovo. By quart on a genuine support of the EU, this project was in accordance with the European Commission, where together they had plans to use an instrument to for all within the Western Balkans, where the order within Kosovo to include these countries<sup>45</sup>. Brussels was making a preparation that would give Kosovo in the future a wider irradiation. This was certainly a help and not apart from the Kosovo region, but also in terse. EULEX mission was to help Kosovo point objective the legitimacy of

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<sup>41</sup> Thomas-Marie-Sezmler Ioannina Calic-Tomak-Dusam Reljic-Peter Schmidt: "SÜDOSTEUROPA, The EU Presence in a Post-Status Kosovo," 55. Jahrgang, 2007. Oldenbourg pp. 151.

<sup>42</sup> See in: Joost Lagendijk (Reporter), Report on the future of Kosovo end the Role of the EU, 2006, 2267 (INI), 22 February 2007, pp. 7.

<sup>43</sup> EULEX mission is also Rezoluten1244 how to extend and intervenes in Kosovo. See in: Resolution 1244.

<sup>44</sup> See in: Document package Ahtisarit Marti.

<sup>45</sup> Here we are with neighboring countries. See in: Council of the European Union: Council conclusions on Kosovo, 18 February, p. 2008. 1.

presenting a potential donor, as the interest and benefit bring cognitive<sup>46</sup>, Kosovo and throughout the region. It should not be forgotten Assistant big UNMIK had made during his term, but these powers of UNMIK now be transferred to EULEX, after which the status of these dilemmas were uncertain how long this time before the deployment of EULEX it<sup>47</sup> was theater that many debates about this issue after the status of these dilemmas were evidently almost terse about the role and weight that would have this mission. Further talks UNMIK were not so far in signing the EU-s EULEX which relied on this authority and the Government of Kosovo on Kosovo's future. It was a lack of EULEX who by Pristine was not very clear where this mission appear at a time that hard talks with Belgrade and Kosovo Serbs. About the introduction of a hegemony in northern Kosovo where Serbia was based on a parallel structure in Kosovo, a plan which was decided by Prime Minister Kostunica as a true plan for Kosovo.<sup>48</sup> Top 16 Short 2008 the European Council held a meeting districts law that rules the European EULEX mission in Kosovo, the European Council meetings have compromises districts to discuss the future presence in Kosovo. One of the primary priorities of the EU was the future of Kosovo and Western Balkans towards a family stress perspective of EU and European integration in the region. Is a gap of fulfilling aspects democratic, multiethnic, and ranks in the fulfillment of law. Where these contributions will be a fulfillment of social yen in the region terse. The basis of this agreement was the basis of fulfilling the EU presence in Kosovo.<sup>49</sup> EU Mission to the rule of law in Kosovo (EULEX), is the largest civilian mission that was established under the Policy ever European Security and Defense. The main goal of this mission is to help the Kosovo authorities in the field of rule of law, particularly the police, judiciary and customs.<sup>50</sup> EULEX is a technical mission which, will overseas, monitors and advises keeping certain areas of a small number of executive powers. This civilian

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<sup>46</sup> We, like Kosovo, we are ready to join and to start implementing the political process and the political status of President Ahtisaari for Kosovo's future. and the decision on recognition of Kosovo's independence as soon as possible is a necessary step not only by the leaders of the European Union but also by other world leaders.

<sup>47</sup> Tim Judah: Kosovo: Who is in Charge? In: Balkan Insight, 26 February 2008.

<sup>48</sup> The aim of the European Union was that the EULEX mission in Kosovo based on the entire territory of Kosovo, to see: Michail Raith: "Project Stability in Time of Crisis-The European Union's Responsibility towards the Western Balkans" SÜDOSTEUROPA, Mitteilungen , 2008, pp. 13.

<sup>49</sup> Documentation: European Documentation Council on Kosovo, 16 February 2008, pp. 90th

<sup>50</sup>All three of these areas and bring security guarantees Kosovo, which areas of EULEX soon will take control in the whole territory, see: Michail Raith: "Project Stability in Time of Crisis-The European Union's Responsibility towards the Western Balkans" SÜDOSTEUROPA, Mitteilungen, 2008, pp. 12.

mission is as the most important of the EU, which shows commitment to Kosovo, which brings a positive perspective for all of Kosovo, and that put of EULEX in Kosovo, the EU is taking the leading region because Kosovo is in the Balkans and this must be within Europe as terse<sup>51</sup>. The EU had to submit a plan within the state of Kosovo that these gaps, EULEX will be meeting directly with Brussels in the monitoring of these problems. Concessions that were made by Ahtisari<sup>52</sup> were plans in cooperation with Brussels were directly and coordination. By the EU, these concessions were numerous and subtle to the Kosovo issue<sup>53</sup>. Prishtina was also based on these statements to the implementation of the package Ahtisari where the future of Kosovo will be clear in meeting its obligations and respect for minorities. However, the EULEX mission, there were some limits set in the presentation of several processes related to certain procedures to be followed in maintaining law and order. EULEX mission would take decisions after the 120 day deadline as a transitional phase, the basis of UNMIK, to the completion of phase transition, where the EU would step in to help Kosovo institutions essentially had to do with how the system with regular state. Fulfilling this mission in 1900 brought on police officer by the EU court, prosecutors, customs official, and approximately about 1100 local staff who would be based in central Kosovo, this run features bring the crusher 300, within the limits where the purpose of these would be the preservation of state borders. EU in the future will present a political general in Kosovo headed by Commissioner Yves de Kermabon,<sup>54</sup> which will be presenting as a representative of civil office in Brussels which will be reported on the situation in Kosovo. Community safety and the EU-s political will to exert under the responsibility of the EU Council, the political and strategic control of this mission. EULEX mandate is to preserve order and law and order, to achieve coverage within a period of 6 months which will be used on 205 million euros. Presentation of special representatives of the EU Pitter Fait appointees was special in that union a special appearance in Kosovo (EUSR) in Kosovo from 4 February 2008 that the mandate would last until 28 February 2009, which would present an offer which The EU will accept and will assist in the political process and its coordination with the EU. The office, which was more detailed monitoring purpose, districts main conclusions after status. When deployed in general and ICO EUSR in Kosovo will be some yen 75

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<sup>51</sup> Kosova Sot: Wednesday, December 17, 2008.

<sup>52</sup>Ahtisari presented a plan for decentralization in acceptance of the Serb community and its ties with Belgrade. However, this was about a level of clean with the Prishtina authorities as scheduled.

<sup>53</sup> See in: "Born under a bad Sing", Financial Time-to-15 February 2008.

<sup>54</sup> Scope of the EU made a good choice of appointees P. German Faith that was special representative and Frenchman Yves de Kermabon, as a general and representative of EULX it. They both presented and had a key insight about the expansion of EULEX in Kosovo.

international offices, and 200 local staff based in Prishtina and a representative office in Mitrovica, which together will monitor the situation in Kosovo. EU plans its along helped with Solana at the EU to be more active with a coherent and successful in Kosovo.<sup>55</sup>

Mission of EULEX will functionalize in Kosovo and in the north in base peaceful dialogue and not violence on the basis of this is obvious since its establishment. The aim of the EU is to decide EULEX in<sup>56</sup> the entire territory of Kosovo that would serve in terse people in further improving the processes based on the state of Kosovo

One of the challenges and work general in the future will remain the rule of law, police and customs in a way that all the yen even before the arrival of law, EULEX, clearly shows this together with Kosovo institutions to which areas would be common challenge. The role and legal basis of the main EULEX, will be monitoring and main supporters of the rule of law which would be a repair reporting directly to Brussels, which will be a way for European help for Kosovo.

Kosovo will benefit from the EULEX, given that first bring Kosovo closer to the EU; secondly, the presence of EULEX in the north of Kosovo will enable the mission to monitor closely the behavior of Serbia and the who will address the problems to really bring the sides, these sides are positive that the state of Kosovo best faceted and scan in generality by the EU mission. Granted in the field of judge bring contribution the arrival of judge and procurer the EULEX to help build a judicial system by European standards of construction which has to face many challenges to ensure the trial procedures and the correct way towards the judges independent in respect full pale rights and protection of victims regardless of nationality that all equal before the law of the yen. Now finally after many attempts to discuss extension of this mission in northern Kosovo this mission refrained promises about the functioning and monitoring of this part of Kosovo, a political installer as pacific and correct to the parties, seem challenge bed manager from structures nationalist Serbian criminal for order to have as little bring incidence violent to focus on different opinion not the proper functioning of this mission, but one this now, it is clear that from the first moments of arrival The EULEX Kosovo things are walking in the direction of the overall peace and security. Future of EULEX, brought a non-desired news for crime, corruption, bad use public Funds and those who have abused the law in Kosovo, as this mission will make efforts to eliminate these phenomena eventually in cooperation with institutions of the Republic Kosovo, this cooperation will be a reinforcement of the guarantee and coordinated way in the European away. EULEX mission is plant

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<sup>55</sup> Documentation: European Documentation Council on Kosovo, 16. February 2008, pp. 91.

<sup>56</sup> Legal Basis of EULEX is Joint Action 2008/124/CFSP of the Council dated 4th February. 2008.

European fare better, so that we as a nation we are dedicated to European get out efficiency how fast and long. One thing is now clear between processes of EULEX is to prepare the way Kosovo as the European table wants this mission open road even more quickly signing the SAA process, which in future will also be followed with the status candidate with the EU integration. The presence of this mission is the best prepares the people of Kosovo for maintaining proper equilibrist, is huge builds bridges across CINET will walk terse in Kosovo and the region to the EU, we can say that EULEX is gravities processes Kosovo right EU.

## 5. European perspective of Kosovo

The European Union is bring perspective long, but prosperities longtime regarding political developments in Kosovo and throughout the region, given that in the future as the reference point will be Brussels for Kosovo here clarified and strengthened even more this perspective building link bridges with the EU. Support from the EU, the financial issues was a clear reflection of the continuation and willingness to helping Kosovo in the future to more closely approaching the European table. The future of Kosovo in the EU also can be a model of how to achieve independence of a state as was the case with Kosovo.<sup>57</sup> The EU had a clear expedite for international leaders, after the election of Kosovo's status, this was an important role regional organizations in Europe, in perspective and ensuring the unity of the state and processes in the implementation of European standards and participation in Kosovo. Since 2005, Kai Eeide,<sup>58</sup> presented a report about the role and prospect of the EU in Kosovo in the future, and this need it's add up representatives of the EU, which presented many arguments in the same time continue appearances European Community, in cooperation with the U.S. in Kosovo<sup>59</sup>.

The role of the EU, presented willingness to above see role of Kosovo by the UNHCR in 1244, to be full involvement in the implementation of the future status. Presence high levels of the Council, CFSP (Secretary General, Secretary of the Council and European Commission), where they presented three reports on Kosovo: "The role of the future of the EU and its contribution in Kosovo." They first proposed that, "The future of the international presence, offices and international importance by the EU",

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<sup>57</sup> Michail Raith: "Project Stability in Time of Crisis-The European Union's Responsibility towards the Western Balkans" SÜDOSTEUROPA, Mitteilungen, 2008, pp. 18.

<sup>58</sup> Kai Eide, special envoy of UN in Kosovo, report submitted to the Secretary-General Kofi Annan said that the time has come for the opening of the Kosovo status process. Mr Eide's report, was based to Mr Annan suggested the Security Council to authorize negotiations on Kosovo's final status. See in: [www.albasoul.com/vjeter/modules.php.20.10.2008](http://www.albasoul.com/vjeter/modules.php.20.10.2008).

<sup>59</sup> Eide: A Comprehensive Review of the situation in Kosovo, op. cit (above nr.44) pp. 16.

the arguments continued military presence, which was under the leadership of NATO's leadership within the ESDP (Protection Policy the European Security), and the task of the EU, the following will be the protection of minorities, law and order.<sup>60</sup> In the second report, by Solana and Rehn, the EU after Kosovo Status as one of the most important issues was the idea preserving law and order, residual developments in the arena and instruments of ESDP.<sup>61</sup> Point the third, presented "implementation of the status settlement, law and order and fiscal problems in the economy," the powers in the future international presence for Kosovo, with some intervention and cooperation with the state of Kosovo. This was a way of presenting international, bilateral cooperation, the special presence of the EU, would help the operator of the ESDP, in the protection of rules and order. Offices of the Commission in Kosovo to take proceedings by the European Commission in Kosovo. Aid organizations by the European Commission and World Bank, in choosing the status of Kosovo would represent a development in Europe. Changes to the foreign policy institutions of the EU, played a role in the process and the situation after the eventual status under the presence of the EU. The EU is bringing important role in stabilizing the region through political means and security (ESDP). So even sees Javier Solana: "The EU is considered as an obligation to provide the Western Balkan countries closer to the prospects for EU membership and in their"<sup>62</sup> The future of Kosovo now shifts towards the EU of. Kosovo can say that separates the European perspective of Western Balkan countries. Concentration ever growing presence of the EU is bringing infirmity Kosovo. Kosovo is in a good way towards European perspectives, who is making progress in transforming the reform initiatives, the European right.

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<sup>60</sup> See in: Council of the European Union, Olli Rehn and Solana Javier. Brussels 14. June. 2005, pp. 2.

<sup>61</sup>The ESDP (European Security Policy Protect) whose aim is to protect the future of Kosovo in the future, to see: Concil of the European Union, Olli Rehn end Javier Solana. EU Commissioner for Enlargement on the future EU Role and Contribution in Kosovo, Brussels. 19. December 2005 pp. 2-4.

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### **European Integration and the United States: Shared Prosperity and Shared Crises**

The United States and Europe are inextricably tied together – and increasingly so. These ties are not only economic, but also profoundly cultural. The shared history of the United States and Europe has also made clear that not only is the prosperity of the two sides of the Atlantic mutually dependent, but so is their security. American economic crises have almost always been linked to crises in Europe and, of course, European crises are usually inseparable from those in the U.S. These crises have not only been connected to the usual economic cycles and transformations, but also to security threats. The worst breakdowns in security, large-scale wars that have pulled in both sides of the Atlantic, have also provoked economic crises. Major wars are very costly, and the two world wars of the twentieth century instigated severe transatlantic economic challenges that could only be solved through American financial intervention with European coordination. The same could be said of the long Cold War. So, each new crisis has made it evident that solutions must be Euro-Atlantic, all the more so as the transatlantic economy has become increasingly interdependent and dense.

### **Markets, Open Trade, and Economic Integration**

For the most part the solutions preferred by Americans have given prominence to market forces and open trade. When it has been necessary for the state to step in, it is considered a temporary expedient until markets and trade are once again stabilized. After the return to the open market, vestiges of state intervention have nevertheless been maintained and institutionalized in an attempt to bring increased economic predictability and improved social justice. Even though there has been an increased formalization of transatlantic economic relations, Americans are still tempted to rely primarily on the private sector and civil society. For instance, in 1995 The Transatlantic Business Dialogue (TABD) was created as an informal process whereby European and American companies and business associations will develop joint EU-US trade policy recommendations, working together with the European Commission and US Administration. The TABD is a coalition of U.S. and European CEOs, largely from transnational corporations, whose goal is to boost transatlantic trade and investment through the removal of barriers caused by regulatory differences. It has become a

transatlantic business association which advises the newly created Transatlantic Economic Council (TEC).

For the last six decades in particular, the keystone of the American approach to shared crises with Europe, which is the flip side of shared interests, has been the pursuit of European integration. The United States has consistently supported European economic and political integration, even though Americans have at the same time held ambivalent attitudes towards the European Union. Americans have for all of their history, even in the colonial period and the early history of the republic, been closely connected to Europe. Americans have also tended to view European integration from the perspective of their own history of economic and political integration -- and therefore have basically viewed European integration favorably.

In the early years following World War II Americans saw European integration not only in economic terms, but also as an historic effort to ensure peace, stability and democracy. Successive American administrations encouraged European economic integration through such policies as the Marshall Plan in order to help create the conditions for prosperity that would serve as a bulwark against communism. American business leaders also viewed the prospect of a large, open European market based on liberal economic principles as a promising and fruitful investment opportunity. American policymakers considered that the material well-being of the United States was deeply connected to the prosperity of Europe, just as the security of the United States was seen as intimately connected to European security. On the other hand, Washington has been concerned about the effects of European integration whenever it generates independent European policy initiatives that are not always in concordance with American views and interests, or when it threatens substantial US business projects and markets.

Americans and Europeans have differed on the nature of the threats facing the transatlantic community as well as the means to address them, but the Euro-Atlantic community has remained solid. So solid that their crises, and their solutions to them, cannot be disentangled. For the most part, Americans have remained supportive of the widening and deepening of European integration, even though they have had differing relations with particular countries, for example the "special relationship" with Great Britain, their peculiar and turbulent history with Germany, and their contentious but usually amicable history with France. Despite tensions, the transatlantic link is still a strong and influential component of international affairs, reinforced by a myriad of institutions -- above all the EU and NATO.

## **The Long History of the Euro-Atlantic Economy**

The lessons drawn by Americans of their shared crises with Europe go deep into the past. This is because America's economic relations with Europe have a very long history, and a very close history. In fact these relations are older than the United States as an independent nation. In the 17th and 18th centuries the commercial and financial relations of the American British colonies were closer with European economic centers than was trade between the colonies themselves. Boston, Massachusetts was economically closer to London than it was to Charleston, South Carolina, for example – and very far from French New Orleans (Bruchey, 1965). Without the financial aid and loans provided by the French king, the Spanish government and loans from Dutch banks, it is not even likely that the United States would have achieved its independence at the end of the 18<sup>th</sup> century (Dull, 1985). The War of Independence itself was largely provoked by disputes over the regulation of trade with Europe. A very old lesson is that trade disputes and commercial conflict can evolve into deadly armed conflict. Of course armed conflict is not simply trade relations carried out by more violent means, but can become a deadly element in an unstable chemistry of other contentious issues.

The US Constitution itself is an answer to this dangerous possibility. Adopted in 1787, it created a stronger central federal government than had the previous Articles of Confederation. A stronger national government was necessary not only for the common defense, but for a stronger economy. In effect, in 1787 a unified common market was established, with no internal tariffs or taxes on interstate commerce, facilitating peaceful trade and mutual prosperity among formerly independent colonies. As in the European Union today, the extent of federal power was much debated, with Alexander Hamilton, the first Secretary of the Treasury, taking a very broad view of central power. He succeeded in building a respected national credit based on a national debt held by the wealthy (and of course by many political leaders), who would then have an interest in supporting a healthy and powerful central government (Chernow 2004; Ellis, 2002). The national debt at the time, owed largely to Europeans, was funded by tariffs on imported goods. In fact, until the beginning of the 20th century government was mostly funded by income from tariffs on trade. Some of the most bitter political fights in the early history of the republic centered on the economic role of the federal government, especially regarding the desirability of a national central bank (North, 1961). These disputes were finally settled by the creation of central institutions. It should be recalled that the United States only gave itself a permanent central bank in 1913, the current Federal Reserve System, along with a national currency, Federal Reserve notes – the current American dollar. The need to finance an increasingly important central federal government required the adoption of a national personal income tax in the same year.

## **Europe: The Mirror of America**

This brief overview is relevant to American views of European integration because American observers of Europe tend to view European attempts at integration as mirroring the American experience. Americans view the drawing together of Europe through the lens of their own experience, and therefore view an economically and politically integrated Europe favorably, because they view their own history of integration favorably. Americans looked fondly upon the first steps of the fledgling European Communities in the 1950s as opening the prospect for the creation of a “United States of Europe,” somewhat akin to the United States of America. Jean Monnet, the “Father of Europe,” was viewed very sympathetically, especially because “Mr. Europe” liked to speak of the establishment of a “sort of second America” and even named his action group for European integration the “Action Committee for the United States of Europe.” While many influential American policymakers did indeed envision transplanting the US federal system to Europe, Europeans remained skeptical, even though the vision was appealing (Winand, 1993). But this positive view of European integration is not only an idealistic projection onto Europe of the American experience; it is also fundamentally connected to American interests, in particular economic and business interests. A lesson could be drawn from the present crisis. A more integrated Europe, even a federal Europe, would be able to react in a more timely fashion. Bank bail-outs require a swift political response. It may also be easier for a single head of state to instill confidence than a myriad of diverse and even antagonistic political leaders. In reference to the euro zone it is not clear at all where this response might come from. By the time European ministers have traveled for a meeting in Brussels, let alone reached or implemented a decision, the financial markets would have long drastically melted. On the other hand, a larger unified market means that banks become bigger and bigger, even too big to let fail -- but so big they are difficult if not impossible to save when they are in trouble.

## **Transatlantic Integration: The Central Lesson**

The American economy has always been integrated with the European economy. American prosperity has always been intimately connected to European prosperity – and increasingly so as transatlantic relations become denser and denser with globalization. The evolution of American policy toward Europe has been a steady formalization and institutionalization of the relationship, with the goal of making it

increasingly open, but nevertheless regulated. This has not prevented competition of American business enterprises with European companies – far from it. But the competition has been contained by an increasingly complex regulatory system. It also does not mean that governments have abstained from trying to give their companies advantages. They certainly have. But here also the overall trend has been one of establishing rules to mediate and control the interventions of states in an increasingly interdependent world. With the decline of tariffs, capital controls and transport costs, interaction between the US and European economies has intensified through means of free trade and open markets.

The growth of cross-border banking, securities trading and other kinds of capital flows has made financial markets on both sides increasingly indistinguishable. Policies on one side of the Atlantic have growing repercussions on the other – be these central bank decisions over interest rates, legislative decisions about budgets, or government regulatory policies. This has brought Euro-Atlantic economies together, but has also multiplied competition and conflict. As Barry Eichengreen (1996) puts it, US producers and policymakers have complained about EU farm subsidies and food product standards (such as hormone treated meat), while Europeans object to US restrictions on trade and investment in the financial, telecommunications and transport sectors. When US anti-trust authorities decide whether or not to let Boeing and McDonell-Douglas merge, they are little concerned about the impact on Airbus Industrie. When the member states of the European Union decide to form a monetary union, they do so with little regard for the reserve currency status and exchange rate of the dollar. And despite this, Eichengreen remarks, the policy makers on the two sides of the Atlantic continue to work toward common goals. Even while pursuing regional initiatives like the enlargement and deepening of the European Union, ratification of the North American Free Trade Agreement, US and European governments have continued to press for the expansion and liberalization of the multilateral trading system. He points out that it was US and European support that ultimately pushed the Uruguay Round to its successful conclusion. And US and European governments supported one another's efforts to secure improved market access in Japan and other developing countries. Europeans and Americans collaborate in the G7, the G8, the G-20, the Bank for International Settlements, the World Bank and the IMF (to name just a few multilateral organizations) to support stabilization and liberalization.

A revealing way of demonstrating the long history of *de facto* as well as institutionalized transatlantic integration is to notice how crises in the American economy have almost always had a European connection (Kindleberger, 1978). The United States as an independent nation suffered its first recession in the years between 1797 and 1800, and it is interesting to note that it was caused primarily by

the deflationary policy of the Bank of England. As the American national market grew, it remained closely tied to European markets. By the second half of the nineteenth century as America industrialized, its prosperity increasingly depended on its commercial and financial ties with Europe. It was largely British capital, for example, that financed railroad building in the United States. But this required that the federal government provide free land and other assistance to the railroad companies. This is only one example in the long history of mutual support and dependence of the American government and American and European business enterprises. For example, the 1870s recession, known as the Panic of 1873, was caused primarily by economic problems in Europe. This trouble brought about the failure of the American bank Jay Cooke & Company, which at that time was the largest in the United States. The next crisis, the panic of 1893 was brought about by the failure of the United States Reading Railroad. The failure prompted European investors to withdraw their investments, and left the US financial system in tatters. As just one more example among many that could be cited, the recession of 1926, which lasted 13 months, was precipitated by a British coal miners' strike that turned into a general strike that weakened the British economy and impacted on the American economy. Of course, the Great Depression was world-wide in scope and dramatically demonstrated the interdependence of all economies, and not just the transatlantic economy.

These are a few examples of the intertwining of European and American economic crises. What generations of American economic policymakers came to learn from these incidents was that all forms of protectionism (whether they are tariffs, quotas, currency controls, or other non-tariff barriers) were all prejudicial to American prosperity. Furthermore, as the post-World War I Dawes and Young Plans showed, and the post-World War II Marshall Plan demonstrated, Americans were prepared to move capital in large doses to fragile post-war European economies in order to restart shared transatlantic prosperity. But along with their capital, Americans also exported to Europe their regulatory institutions and their approaches to economic recovery (Hogan, 1986). American solutions were adopted by Europeans because both sides of the Atlantic had in reality become a vast single economy – which helps to explain why American foreign policy has always fundamentally supported European integration, even though there have always also been commercial disputes and business antagonism.

### **Transatlantic Financial Flows**

Although France, Germany and the United States had become capital exporters by the end of the 19th century, the foremost supplier of capital was Great Britain. The City of London increased its foreign holdings more than five times between 1870 and 1914. By

1914, over one quarter of British wealth was invested in foreign government securities and foreign railroads. As with Canada and Australia, the economic impacts on the United States were far-reaching and profound. The capital imports financed an infrastructure of urban centers, port facilities and transportation networks that laid the basis for American economic development. As railroads were constructed, the interior of the American continent was opened and linked to world commerce, mostly European. The First World War brought to a close this era of international finance. The intensity and duration of the war obliged the major European belligerents to reduce and even liquidate their overseas investments in order to pay for the efforts of their armies (Gilpin, 1987). Even though after the Great War the United States did withdraw into *political* isolation with the rejection by the Senate of the League of Nations, American *economic* involvement with the rest of the world, in particular Europe continued to expand (Williams, 1954).

The American financial community began to recognize the increased importance of the United States to the European and world economies. As a result of this new distribution of power, American financiers took on a major role in funding of German reparations payments to France and other countries. This was the goal of the Dawes and Young Plans. The liquidity made available was a crucial factor in the stimulation of European economic activity in the 1920s. Priming the German economy so that it could produce the wealth necessary to paying reparations to the victors provided the allied powers the means to reimburse the heavy loans they had taken from American banks to underwrite their war efforts. A significant part of German diplomatic efforts in this period was devoted to reducing and rescheduling reparations payments (Jacobson, 1972). This recycling of dollars was beneficial to the American banks in particular, but also to the transatlantic economy as a whole. But the Dawes Plan also made the German economy dependent on foreign markets and other economies, and therefore vulnerable to economic dysfunctions in the U.S. This system collapsed with the onset of the Great Depression. One enduring consequence of the Young Plan was the provision for creating the current Bank for International Settlements. The BIS is another example of keeping an institution in place after it has served an immediate need in a preceding crisis.

The next era of international finance was introduced at the end of World War II, and here the transatlantic relationship was further integrated and strengthened. But whereas capital flows had previously consisted almost entirely of private funds, after the Second World War official foreign aid, grants, also became a central element of financial flows to Europe. Of course private capital still played a significant role. The multinational corporation was regarded not only as an instrument of global economic development, but also as a mechanism to spread the institutions and ideology of the American free enterprise system. Beginning with the Marshall Plan, many saw the

multinational corporation as a way to strengthen foreign economies and thereby contain communism by demonstrating the superiority of American technology, capital, and managerial know-how. The aim was to outperform and therefore delegitimize central planning and state ownership. But despite the preference given to private enterprise, American government aid grew in importance. The United States' aid sent to Western Europe through the Marshall Plan is estimated to have amounted to 4.5 percent of American GDP between 1949 and 1952 (Gilpin, 1987, p. 311). It should also not be forgotten that the first mission of the International Bank for Reconstruction and Development, the World Bank, was the economic reinvigoration of Europe.

### **The Marshall Plan**

The Marshall Plan is viewed at the most successful episode in the history of the Cold War containment of the Soviet Union and communism in Europe. The aid to Europe used the economic and financial strength of the United States to turn back an ideological and political threat, so it was meant as more than an effort to support the economic reconstruction of Europe. Today the Marshall plan would be characterized as a shining example of the potency of soft power. American officials hoped to refashion Western Europe into another version of the integrated single-market and mixed capitalist economy that already existed in the United States. So, the Marshall Plan was an extension of American domestic attributes and foreign-policy goals stretching back into American history. In the immediate memory of the plan's policy makers were the institutions of the New Deal and the policies of the period between the two world wars. As Michael J. Hogan (1987) shows, the object was to make Western Europe into the sort of liberal economy that had taken shape in the United States. In addition to making trade multilateral, making currencies convertible, and allowing free-market forces to integrate economies, American policymakers urged their transatlantic counterparts to organize European trade commissions, monetary boards, and other instruments of capitalist economic planning and regulation that were familiar to them in the United States. American aid was used to introduce European leaders to Keynesian strategies of fiscal and monetary management. It also aimed to Americanize European production, marketing and engineering methods. It was hoped that such mechanisms and networks would make it possible for Europeans to sustain their recovery and lead to high living standards. It was believed that a large, internal market, similar to the one that existed in the United States, would generate economies of scale and higher rates of productivity, merging into an open multilateral system that would also be beneficial to American business. Hogan (1987) argues that through these and related initiatives, American leaders tried to forge a Western

European community in which political considerations would give way to technocratic solutions, downplaying redistributive political struggles in favor of a quest for shared abundance – all with an emphasis on public-private power sharing.

However, Americans were never able to *impose* their preferred approach. Collaboration between policymakers in Washington and the European capitals required compromises on all sides. In particular, the British tried to build a North Atlantic, rather than a European, economic and security system. This threw the burden of European integration onto the French, who could be rather contentious allies of the Americans. Even so, there was a shared goal of building a liberal system large enough and coherent enough to include Germany. This would make it possible to reconcile German economic recovery and future power with France's security. So, the Marshall Plan established the basis for the kind of community that would serve as a rampart against Soviets, while at the same time setting up the conditions for economic growth and social peace in Western Europe that would undermine their communist parties. In short, the post-World War II approach was to project American institutions and its grand bargain between capital, labor and the state onto Europe. As the historian of US national security policy John Lewis Gaddis (1987; 2005) shows, the American strategists wanted by these means to rebuild European political self-confidence as a shield against communist expansion.

### **Special Relationships**

Americans learned that pursuing and supporting European integration could not be done by neglecting special bi-lateral relations that had been developed over centuries. This is particularly the case with America's unique relations with the British -- what is frequently labeled the "special relationship." The Anglo-American relation is largely based on a long shared history and a cultural connection grounded in culture, sentiments and language, even though the Americans in their early history struggled politically and even military against the British Empire – and remained suspicious and resentful of their British cousins into the twentieth century. Actually, the concept of "special relationship" is rather recent, growing out of the period of collaboration between the British and Americans during the Second World War. During the Cold War the special relationship grew to such an extent that it "seemed almost a fact of nature" (Dumbrell, 2006).

From the point of view of the British, the US-UK relationship has been seen as one of "three circles of influence" for Britain – the other two being the relationship with the Commonwealth and with Europe. Naturally, the concept of circles of influence comes from the thinking of policy elites. The elites on the American side of the Atlantic have cherished, at least until recently, a self-consciously "Anglo"

orientation. Indeed, up to the late twentieth century the US foreign policy establishment came mostly from sectors of the country with a deep British cultural influence. In the middle of the century less than half the US population was of British stock. By the year 2000, only about one in ten of the population claimed any British ancestry. Nevertheless, polls show that Americans and British, regardless of origin, have very favorable opinions of each other (Dumbrell, 2006, p. 27). However, for many Americans today, “Englishness” has tended to evoke images of a kind of haughtiness in rags – a refusal to admit that the days of British imperial power are over. So today it is closer to the truth to say the idea of a special relationship is probably considered more import to the British than to the Yankees.

Of course the relations Americans have had with other European nations have also been unique in their own ways, but never to the point of considering the relationship as “special.” For example, Germans and their culture have played an important role in America since its earliest beginnings (Ekovich 1992; 2001). Germans are not strangers to Americans, but have lived beside them, mixed with them and have nourished American culture in many ways. Much of American trade in the nineteenth century, especially in cereals, was with the regions of the European continent that would become Germany. In the United States, Germany has not evoked the same sentiments of insecurity that it has for European nations. And even though Germany has been perceived as a big, powerful nation, Americans have been able to reassure themselves that the United States is even bigger and more powerful. These underlying sentiments, situated deeply in the American psyche, have made it very easy for Americans, whether the general population, intellectuals or policy-makers, to accept without inordinate anxiety, and even a good measure of joy, a strong, prosperous and unified Germany -- particularly a Germany transformed by an open-market economy and democratic political institutions. This goes a long way toward explaining why Americans of all types received the news of the fall of the Berlin Wall with warm feelings of good will for Germans. In fact, Americans may have felt more at ease and joyful with the crumbling of the wall than the Germans themselves. Since the end of World War II, American policy consistently advocated German unity and the integration into Europe of a prosperous and powerful united Germany – but of course on the condition that it also be capitalist and democratic.

### **Transatlantic Security and Military Integration**

It should not be overlooked that Europe was integrated militarily as well as economically. After two world wars drew the United States into the defense of liberal democracy in Europe, American leaders were more convinced than ever that the security of Europe was intimately connected to their own security and well-being. This

was a lesson learned after a lot of bloodshed. The foundation of shared military security was built with the transatlantic alliance, NATO. American leaders saw European economic and defense integration as part of a larger dense web of transatlantic institutions remaking post-World War II Europe. After the failure of the European Defense Community (EDC) in the 1950s, Americans decided to shoulder most of the burden of defense themselves, while encouraging economic integration and its consequent prosperity as an alternate route to security. Stanley Sloan has noted the enduring nature of the fundamental transatlantic arrangement: the United States guaranteeing continued involvement in European security in return for a European commitment to integrate itself for both external defense and internal stability. So, advancing and deepening the two-centuries-old economic relationship would bolster security also by leading to thickened political and social links rendering war between Germany and its neighbors unthinkable once and for all.

Americans supported European integration because US officials believed that this process would bind together former enemies and prevent another European “civil war.” Of course there are those who see the American attitude towards Europe in the post-World War II period as a combination of both benevolence and hegemony (Brimmer, 2007). However, regardless of attempts at political domination the United States today frequently calls upon its European allies to share, in differing degrees according to capabilities, its interests in international affairs. But this has not always been successful. For example, the deepest and sharpest difference with American policy was the intervention in Iraq in 2003. Secretary of Defense Donald Rumsfeld’s remark about “old Europe” and “new Europe” brought to light a schism in the sensitivities of European nations. Rumsfeld gave voice to an assumption that the countries of Eastern and Central Europe would be more likely to support US policy because the Americans had been strong defenders, stronger than some parts of “old” Western Europe, of their right to be free of Soviet dominance during the Cold War. However, the overall relationship to all of Europe has proven deeper than this temporary division and has evolved from one of “primacy” in the immediate post-World War II period to one of “partnership” more recently – of course with the American partner remaining the most powerful (Toje, 2008).

Americans have a tendency to measure their European allies by their ability to join the United States in its actions on the global stage. This sometimes leads to skepticism about Europeans’ ability to cooperate, and has also lead to occasional fears that Europe is trying to go its on way and exclude the United States. This was certainly the case with the recent debate regarding the European Security and Defense Policy (ESDP) and the Common Foreign and Security Policy (CFSP). There was a worry that Europeans were “re-nationalizing” their security, a historic nightmare. Americans wondered why the EU could not deal with security issues in conjunction with NATO

without creating a competing European security apparatus. This concern has pretty much been dissipated, but there is still a recognition that NATO and the EU need to develop closer and better relations. Despite efforts by many in NATO and the EU, the relationship between the two institutions requires improvement. As NATO Secretary General Jaap De Hoop Scheffer believes (2007), the two most important Euro-Atlantic institutions could do a better job of working together. He said in January 2007 that "...when one looks at how diverse and complex the challenges to our security have become today, it is astounding how narrow the bandwidth of cooperation between NATO and the Union has remained. Despite many attempts to bring the two institutions closer together, there is still a remarkable distance between them." This is all the more important in the eyes of the general as today's threats make it clear that the military and non-military dimensions of security must go hand in hand. Of course, improving EU-NATO cooperation reinforces the EU in American eyes, especially to the extent that it does not disconnect Europe from the United States.

## **Conclusion**

The deep and historically long relations of the United States with Europe have become increasingly dense and institutionalized over the past 250 years. It would not be an outrageous exaggeration to claim that the United States is fundamentally a European country, a very powerful European country, the inheritor of European values and shared interests, even though fewer and fewer Americans have distant cousins on the other side of the Atlantic. This long shared history goes a long way to helping to understand the support Americans have given to European integration as the central solution to a long history of shared crises. They have frequently viewed their own history in the light of European history, and have viewed European efforts at integration from the perspective of their own economic and political integration. American policymakers, especially since the end of World War II, have considered European integration as beneficial to Europe and have encouraged it as long as it is tied to the American liberal economy. American prosperity has been built along with European prosperity, just as American security has been linked to European security. This is not to say that the Americans and the Europeans are always in accord, but policy differences, even passionate and heated differences have not undermined the solidarity of the Euro-Atlantic democratic world. In general, European economic and political integration has been good for the United States, as it has also been good for Europe. This is the fundamental lesson.

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## **The Enlargement Policy of EU and Relations with Turkey**

### **Introduction:**

The Asia, Middle East and the West have all played unique role in shaping the direction of Turkey's foreign policy. The Asianness bears the characteristics of feudalism and nobadic life style and this influences many aspects of life ranging from culinary culture, uncomprosing and hostile attitudes of people towards each other. The Middle Eastern aspect is dominated mainly by Islamic elements. Efforts to put pressures on Muslims living in other parts of the world cause reactions among the Turkish public opinion. The Western influence has the most decisive influence in Turkey. Turkey is the only Muslim state in the world implementing a policy of secularization. The Turkish elites started the Westernization process nearly 100 years earlier (1839) than the elites of the colonized countries. There are differences between the elites and the people in this regard. The foreign policy is shaped by Westernized elites. Turkish Republic was established following the disintegration of the Ottoman Empire and many characteristics of the Republic was inherited from the Empire. In a similar fashion to the Ottoman Empire which was able to utilize the Balance of Powers to its benefit, Turkey was able to benefit from status quo oriented and a balanced foreign policy approach<sup>1</sup>.

The Republic of Turkey founded after the WWI accepted the Western model for secularization . This status quo oriented approach of Turkey rejecting irredentist policies can be summarized by the words of Atatürk `peace at home, peace in the world` While Turkey pursued a pro-Western policy it strived towards a balance between West and its opponents<sup>2</sup>.

### **I- Turkey- EU Relations In Cold War Era**

In the aftermath of the Second World War (the WWII), Europeans focused on establishing mechanisms for cooperation in an attempt to prevent the devastating

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<sup>1</sup> For the characteristics and principles of the Turkish foreign policy see: Baskın Oran (ed), (2006), *Türk Dış Politikası: Kurtuluş Savaşından Bugüne Olgular, Belgeler, Yorumlar, Cilt 1: 1919-1980*, İletişim Yayınları: İstanbul, 2006.

<sup>2</sup> Mehmet Günlübol-Ömer Kürkçüoğlu, (Mart 1985), "Atatürk Dönemi Türk Dış Politikasına Genel Bir Bakış", AAMD, I(2 ), 462.

consequences of another war. Less than ten years after the WWII, the Coal and Steel Community brought together six countries: Germany, France, Italy, the Netherlands, Belgium, and Luxemburg established the European Coal and Steel Community (ECSC) by signing the Paris Agreement in 1951<sup>3</sup>. In 1957, the same countries signed the Rome Treaty which established the European Economic Community and European Atomic Agency.

The economic integration has become an important component of EU integration process. Turkey whose efforts at modernization was modelled on the West opted to become member of Western organisations during the Republican era. Turkey maintained its policy of Westernisation after the WWII. Subsequently, during the Cold war period Turkey established a close alliance with the West and became founding member of the UN, member of NATO, Council of Europe, OECD and WEU. The main elements of Turkey's foreign policy in terms of freedom, democracy and human rights overlaps with that of its European partners<sup>4</sup>.

Achievement of economic development was an important reason behind Turkish modernization movement. Moreover Turkey saw establishing economic relations with Turkey as a natural extension of its political relations with the Western Europe. In addition to expectations based on the belief that EEC membership would boost economic development process another main reason why Turkey applied for associate membership on 31 July 1959 was due to its desire not to be left behind Greece. After consultations with Turkey, Ankara Association Agreement was signed between Turkey and the member states on 12 September 1963<sup>5</sup>.

Ankara Agreement was aimed at narrowing the gap between between the economy of Turkey and that of EEC member states in an attempt to prepare Turkey was eventual membership. The Article 28 of the agreement stipulated that in case Turkey fulfilled all the conditions the issue of membership would be reviewed by the

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<sup>3</sup>Lejeune, Ine and W. Van Denberghe C. Canedy (2004), *"The Enlargement of the European Union: A Guide For The Entrepreneur"* John Wiley & Sons Ltd., England, 1.

<sup>4</sup>Ömer Kürkçüoğlu,(1978), " Türk Demokrasisinin Kuruluş ve İşleyişinde Dış Etkenler (1946'dan bu yana)" A.Ü.S.B.F. Dergisi, 33(1-4), 213-247; Enver Bozkurt, M. Ozcan ve A. Köktaş, (2004), Avrupa Birliği Hukuku, Asil Yay. Ankara, 344 .

<sup>5</sup> Rıdvan Karluk (1996), Avrupa Birliği ve Türkiye, İstanbul Menkul Kıymetler Borsası, İstanbul, 392; Enver Bozkurt, M. Ozcan ve A. Köktaş, 2004: 344; Ceren Uysal, 2001: 140-153.

member states<sup>6</sup>. Ankara Agreement envisaged three phases for Turkey-EEC Association<sup>7</sup>:

- 1) Preparatory Period: During this period the Community fulfilled its unilateral responsibilities towards Turkey and tried to prepare Turkey for Customs Union lasted until 1972. Easing of the import conditions from Turkey on certain agricultural products and the first Protocol led to an increase in share of Turkey's trade with the Community during 1964-1972.
- 2) Transition Period: This period which started in 1973 aimed at establishing a Customs Union for industrial products. Apart from some exceptions, the EU banned all customs taxes and restrictions on Turkish industrial products and it was envisaged that Turkey would gradually lift customs duties on Community originating industrial products within a period of 12 years. This period was set to be 22 for sensitive products that were subject to protection.
- 3) Final Period: This period was defined by Article 5 of the Agreement as the period of customs union between Turkey and the Community and envisaged coordination of economic policies between the parties.

The power to manage the partnership regime was given to the Association Council by the Ankara Agreement.

## **II. EU Enlargement In Post Cold War Era and Relations With Turkey**

Enlargement is one of the EU's most important tools due to the EU's strategic interests in stability, security, and conflict prevention. It is also very essential for improving links with vital transport and energy routes and increasing the EU's weight in the World<sup>8</sup>. The applications of Central and Eastern European states for membership following their transition to market economy in early 1990s led to debates regarding widening and deepening of the EU. During this period several decisions were taken at EU Summits with regard to Turkey.

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<sup>6</sup> Tuğrul, Arat,(1995), "Avrupa Birliği İle Türkiye Arasındaki İlişkiler ve Gümrük Birliğinin Yeri", Ankara Üniversitesi Hukuk Fakültesi Dergisi, XLIV,( 1-4), 589 ,  
<http://dergiler.ankara.edu.tr/dergiler/38/298/2742.pdf>.

<sup>7</sup> Enver Bozkurt, M. Ozcan ve A. Köktaş, (2004), Avrupa Birliği Hukuku, Asil Yay. Ankara, 348-351; Ceren Uysal, 2001: 140-153.

<sup>8</sup> "Communication From The Commission To The Council And The European Parliament, Enlargement Strategy And Main Challenges 2008-2009",  
[Http://Ec.Europa.Eu/Enlargement/Pdf/Press\\_Corner/Key Documents/Reports\\_Nov\\_2008/Strategy\\_Paper\\_incl\\_Country\\_Conclu\\_En.Pdf](Http://Ec.Europa.Eu/Enlargement/Pdf/Press_Corner/Key_Documents/Reports_Nov_2008/Strategy_Paper_incl_Country_Conclu_En.Pdf).

-Maastricht Summit(9-10 Decemebr 1991): Three preconditions were emphasized for membership: applicant country must be European, have a democratic regime and respect human rights.

-Lisbon summit(25-27 June 1992): The applications of Cyprus, Malta and Turkey were assesed and Turkey's right for full memership based on Ankara Agreement was emphasized.

-Copenhagen Summit (21-22 June 1993): This Summit mentioned that central and eastern European states could become members as soon as they complete the political and economic requirements. The Copenhagen criteria was announces and a decision was taken that cooperation with Turkey would be based on Customs Union.

-Cannes Summit(26-27 June 1995):For the first time non EU states were invited. With regard to Turkey only the issue of the completion of Customs Union was mentioned.

- Dublin Summit(13-14 December 1996): Central and Eastern European states, Cyprus and Malta were invited to this meeting. The Aegian question was mentioned for the first time. The Summit also pointed out for the need to improve human rights standards.

-Luxemburg Summit(12-13 December 1997): Three main issues were taken by the Summit were : EU's policies in the new century and the reforms that should be undertaken by the EU, enlargement and the financial framework to be used for 2000-2006 period. Compliance with Copenhagen Criteria became a basic condition of EU membership in the forthcoming period.

A decision was taken during the Summit to launch membership negotiatons with Czech Republic, Estonia, Hungary, Poland. Slovenia and Greek Cypriot Administration on April 1998. It was also decided to establish closer relations with the second group of states Bulgaria, Romania, Lithuania, Latvia within the association agreements.

Paragraph 31-36 of the Summit declaration covered Turkey. The Summit has significance for Turkey-EU relations as it refers to Article 28 of Ankara Agreement. For the first time a Summit had declared that Turkey's membership application would be reviewed following the fulfillment of its obligations under Ankara Agerement. Turkey was also invited to the European Council meeting. Together with other applicants. It was seen that Turkey-EU relations would proceed on the basis of Ankara Agreement rather than on the basis of Turkey's application in 1987. However Turkey interpreted this as discrimination and refused to attend the European conferances. The EU had asked for improvement of human rights situation, respect for minorities, settlement of disputes with Greece through the International Court of Justice (ICJ) and the settlement of Cyprus issue on the basis of UN decisions.

At the Summit, negotiation timetable of all applicant countries was announced except that of Turkey. Central and Eastern European states together with Cyprus and Malta was envisaged to be full members. It is not difficult to discern that only Turkey's application was made subject to Copenhagen criteria.

In the aftermath of the December 1997 Council Summit decisions, Commission started to submit reports to the Council and the Parliament on a regular basis. The reports on Turkey are mostly follow up reports based on previous reports on Turkey. In its report, Commission

- Briefly explain the relations between the EU and Turkey.
- Analyses Turkey's position in terms of political criteria for membership.
- Analyses Turkey's position in terms of economic criteria for membership.
- Reviews Turkey's ability to undertake its obligations for membership<sup>9</sup>.

At the Cardiff Summit held on 15-16 June 1998 paragraph 68 of the Presidency's declaration covers Turkey. It calls for a European strategy for Turkey and calls upon Turkey to continue with the approximation of its laws with the EU acquis<sup>10</sup>.

Turkey submitted a document entitled " Strategy for the Development of Relations between Turkey and the EU" to the Commission on 22 July 1998. Commission included Turkey in its first regular report prepared for the 12 candidate states( 4 November 1998) . The second regular report announced on October 1999 assessed the latest developments in Turkey in terms of Copenhagen criteria. The report mentioned deficiencies in the field of human rights and the protection of minorities, the continuing practice of torture, repression of right of expression. While the report mentioned that Turkey was in a more favourable position in economic terms, it pointed out that with the condition that once Turkey acquires all elements of a market economy, provided macroeconomic stability and implements a legal and structural reforms, it will be able to cope with competitive pressures and market forces within the EU.

At the European Council's Helsinki meeting (10-11 December 1999), Turkey was accepted as a candidate for EU membership<sup>11</sup>. Turkey was accepted as a candidate in After the Helsinki Summit in 1999, Turkey realized important political reforms in the field of human rights and fundamental freedoms and also made legal and

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<sup>9</sup>[http://projeler.meb.gov.tr/pkm1/dokumanlar/duzenli\\_ilerleme\\_raporlari/2007ilerlemeraporu\\_tr\\_.pdf](http://projeler.meb.gov.tr/pkm1/dokumanlar/duzenli_ilerleme_raporlari/2007ilerlemeraporu_tr_.pdf).

<sup>10</sup> Enver Bozkurt, M. Ozcan ve A. Köktaş, 2004: 371.

<sup>11</sup>[http://www.belgenet.com/arsiv/ab/helsinki\\_sonuc.html](http://www.belgenet.com/arsiv/ab/helsinki_sonuc.html).

administrative reforms. Particularly the Turkish Penal Code close to EU standards with all relevant changes in legislation limits freedom of thought and expression<sup>12</sup>.

### **III. Deveopments In The Aftermath Of The Copenhagen Summi t(Dec 2002)**

In Copenhagen Summit(December 2002), is decided to start accession negotiations without delay if Turkey fulfills the Copenhagen criteria. Also it was indicated that current participation strategy that related to supporting Turkey on the path to EU membership. The commission were invited to intencify the process of review of legislations. And also declared that the EU- Turkey Customs Union will be extend and deep. Financial aid to Turkey will significantly be increased in the pre acesion process.

In December 2002, in accordance with the results of Copenhagen Summit, EU Commission prepared the report and recommendation and released "Effect Assesment Study" that includes possible effects of Turkey's EU membership in the future.

Comission's report, Turkey's adaptation process for EU was considered compherensively and it was recommended that starting the negotiations with Turkey by pointing out the criterias have been adequately performed. In addition to this, the Commisson can submit to suspend the negotiations in case of permanently and seriously violation of democracy, human rights, respect of fundemental rights and freedom. Otherwise in duration of negotiation, The Council will oversee whether the conformity and implamentation of the statute will be pleasurable and will identify the criterias concerning temporarily closing and in case of necessity opening of the each debated tittle. The Negotiation is an uncertain process and it is impossible that estimating the result previously.

In the Effect Assesment Study, it is expressed that the EU membership of Turkey will contribute to issues as law, internal affairs, economy, budget, internal market, agriculture and fishing industry on the whole the Union. Consequently,at December 17th 2004 Brussels Summit of the EU Presidents and Prime Ministers which has importance on the relationship Turkey and EU, it is determined that the membership negotiations with Turkey will be started on October 13rd 2005. After the summit, EU Comission is employed to prepare two main document named "Framework of the Negotiations Document" and "Declaration on Political and Cultural Dialogue ( Civil Society Dialogue)".

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<sup>12</sup>Avrupa Birliđi Uyum Yasa Paketleri, T.C: Avrupa Birliđi Genel Sekreterliđi, Ankara 2007; Türkiye'de Siyasi ReformUyum Paketleri ve Güncel Geliřmeler, T.C: Avrupa Birliđi Genel Sekreterliđi, Ankara 2007.

On June 29th 2005 the Commission published the declaration "Civil Society Dialogue Between Applicant Countries and EU" to remove mutual preconceived opinion and the lack of information between Turkey and EU Countries. The aims of the Civil society dialogue are developing of collaboration opportunities in Turkey and in EU Countries by means of further nongovernmental organisations, universities and mass media institutions and bringing Turkey about benefitting from the union's programmes incrementally.

It is decided to starting of the accession negotiations with Turkey being approved the Framework of the Negotiations Document by the EU Foreign Ministers on 3 October 2006. In the Intergovernmental Conference dated 12 June 2006, de facto negotiations was started and finished titled "Science and Research" which is the first negotiation session.

In the decision dated 29 November 2006 EU Commission recommended that not to open the negotiations to Intergovernmental Conference on the articles including policy issue related to restrictions of Turkey devoted to Cyprus Republic ( 8 issues; "Free Movement of Goods", "Business establishment Right and Employment Offer liberty", "Financial Duties", "Agriculture and Rural Country Development", "Fishing Industry", "Transmission Policy", "Customs Union" and "External Relations") and not to close any session temporarily till verification of Commission that Turkey completed the obligations, expressing that Turkey not to put into practice the Additional Protocol to Ankara Treaty. The suggestion of Commission is approved at Summit of the EU Presidents and Prime Ministers dated 14-15 December 2006. At the same time, with assumption presidency of Germany, after January 2007 accession negotiations accelerated again and negotiations opened on the issue "Industrial and Enterprise Policy" at the Intergovernmental Conference dated 29 March 2007. Also in the presidency term of Portugal , negotiations was started on the subjects Trans-Europe Networks and Conservation of the Consumer and Welfare in the Intergovernmental Conference which was organized on December 19th 2007. In decisions which is taken by Foreign Ministers of EU Countries and is approved by Presidents and Prime Ministers on December 10th during negotiations, it is emphasized that loyalty of EU to expansion process which include also Turkey by means of cast back to 2006 and 2007 Expansion Strategy Documents. In 2008 Progress Report it is stated that Turkey performed the negotiations on 8 issues. Taxation issue was opened to negotiate at the intergovernmental conference in Brussels on June 30th 2009. Consequently, in negotiation process which continued beginning from October 2005, 11 titles of 35 was opened to negotiate. The negotiations on Science and Research issues was closed temporarily during the sessions on Enterprise and Industry Policy, Statistic, Financial Control, Trans-Europe Networks, Conservation of the Consumer and Welfare,

Intellectual ownership Law, Enterprise Law, Knowledge society and Mass Media, Free Movement of Monetary Fund and Taxation.

#### IV. Turkey's New Foreign Policy and Its EU Dimension

Turkey has a very strategic importance to the EU in the areas of energy security, conflict prevention and regional security in the Southern Caucasus and the Middle East. The Country's engagement with the EU and the pace of accession negotiations, makes Turkey a stronger force for the stability in the region<sup>13</sup>.

The Justice and Development (JD) Party (Turkish: *Adalet ve Kalkınma Partisi*) which gained the respect of its neighbours due to the launch of accession negotiations with the EU has built up upon the regional policy inherited from the past and considered this policy among one of the most important successes of the government.

The policy of having no or zero problems with the neighbours pursued by the President Gul and Prime Minister Erdogan is associated with the Foreign Minister Ahmet Davudoglu and aims to reverse the former policy thinking of finding a scapegoat for internal problems through maximum cooperation. In addition to mediating between Syria and Israel Turkey made an important contribution to regional peace by supporting a trilateral process with Pakistan and Afghanistan, helped to resolve the Presidential election crisis of Lebanon in 2008, promoting the Caucasus Stability and Cooperation Platform and contributing to EU mission in Balkans and NATO's mission in Afghanistan at the military and command level, Turkey has also become an observer in Gulf Cooperation Council and African Union and became the President of 57-member OIC in its first democratic elections. Turkey's goal-oriented efforts reached its peak when 151 countries voted for Turkey's election as the permanent member of the UN Security Council for 2009-2010<sup>14</sup>.

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<sup>13</sup> Communication From The Commission To The Council And The European Parliament, Enlargement Strategy And Main Challenges 2008-2009", [http://ec.europa.eu/enlargement/pdf/press\\_corner/key\\_documents/reports\\_nov\\_2008/strategy\\_paper\\_incl\\_country\\_conclu\\_en.pdf](http://ec.europa.eu/enlargement/pdf/press_corner/key_documents/reports_nov_2008/strategy_paper_incl_country_conclu_en.pdf); Müftüler-Baç, Meltem (2006) Türkiye ve Avrupa Birliği ilişkilerine güvenlik boyutundan bir bakış. Monograph. TESEV Yayınları, İstanbul.

<sup>14</sup> "Turkey in Europe: Breaking The Vicious Circle, Second report of the Independent Commission on Turkey", September 2009, The second Report of Independent Commission on Turkey, [http://www.independentcommissiononturkey.org/pdfs/2009\\_english.pdf](http://www.independentcommissiononturkey.org/pdfs/2009_english.pdf). (The Independent Commission on Turkey formed by important experts such as; Martti Ahtisaari (Former President of Finland, Nobel Peace Prize Laureate 2008), Kurt Biedenkopf, Emma Bonino, Hans van den Broek, Bronisław Geremek, Anthony Giddens, Marcelino Oreja Aguirre, Michel Rocard, Albert Rohan (Rapporteur).

Once Turkey speeded up its efforts to comply with Copenhagen criteria since 2002. Turkey-EU relations which experienced fluctuations for many years moved to a more solid ground with the introduction of time-table for negotiations.

Turkey's relations with EU was effected negatively after 2004. One of this reason is that the Greek Cypriot Authority was accepted for EU membership as the "legal representative" of the whole island in 2004. The Union requested from Turkey to comply with the previous legal documents regarding the Customs Union, namely the Additional Protocol, and to open its ports to the 10 new EU member countries including the Greek side of the island. Eventually in 2006, the EU decided to block eight negotiating areas from further discussion and Turkey-EU relations entered a "vicious circle"<sup>15</sup>. The other factor which is effective in Turkey-EU relations is European public opinion. So, in December 2004 the European Council declared that Turkey should be treated to the same as any other candidate countries, but Germany's Merkel in Germany and Sarkozy in France insisted on a "privileged partnership" for Turkey during the election campaigns<sup>16</sup>.

Since 1 July 2009 Sweden assumed the rotating Presidency of the EU. It is a well known fact that Sweden as a leading member of the pro-Enlargement camp has been lending open support to Turkey<sup>17</sup>. Turkey has opened 11 chapters out of 35 policy areas after four years of accession talks. But the process of opening and provisionally closing its negotiating chapters has been halted because of Cyprus question.

## Conclusion

Significant changes took place in the world political and economic conjuncture since 1963, the date of signing of the Ankara Agreement which constituted the main reference point in Turkey-EU relations. Changes such as the membership of 10 Central and Eastern European states following the dissolution of the Soviet Union and the transition of the former Eastern block countries to market economy has had a profound impact on Turkey-EU relations. And in May 2009, The EU marked the fifth anniversary of the 2004 enlargement.

Turkey has marked a sad more than a half century from the first official announcement of its application to join the EU, which was then called the European Economic Community. Although the agreement which mentioned the membership

<sup>15</sup> [http://www.independentcommissiononturkey.org/pdfs/2009\\_english.pdf](http://www.independentcommissiononturkey.org/pdfs/2009_english.pdf).

<sup>16</sup> Mustafa Kutlay, "The Cyprus Question and the Future of Turkey-EU Relations", <http://www.turkishweekly.net/columnist/3187/the-cyprus-question-and-the-future-of-turkey-eu-relations.html>.

<sup>17</sup> Star, 4 September 2009; Mustafa Kutlay, (30 Haziran 2009), "İsveç'in AB Dönem Başkanlığı ve Türkiye İçin Önemi", <http://www.usakgundem.com>.

prospects for Turkey, it took almost 40 years for Turkey to acquire a formal candidate status. The EU recognized Turkey formally as a candidate at the 1999 Helsinki Council summit but six more years to inaugurate the actual talks on the conditions to join the EU in 2005<sup>18</sup>.

Notwithstanding this, the real decisive factor in Turkey-EU relations is whether Turkey will undertake concrete steps as a sign of its commitment to the EU process and the EU will be able to proceed on the principle of *pacta sunt servanda* and work on a fair and objective basis. And the upcoming Presidency of Spain in January 2010 and its positive attitude vis a vis Turkey, the forthcoming era points out to a period characterised by mutual gains.

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<sup>18</sup>Lucia Kubosova, "Turkey Marks 50 Years As EU Suitor", [Http://Euobserver.Com/15/28515](http://Euobserver.Com/15/28515).

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**EU Policy on Migration Management and Its Impact for the Western Balkans:  
The 'Case of Albania'**

**Abstract**

The paper analyses the EU policy on migration management and its impact for countries of origin of migrants, with a specific focus to the case of Albania. It examines the efforts of Albania to align its migration policies and legislation with the obligations stemming from the Stabilisation and Association Agreement (SAA) and the European Partnership document for Albania. In particular, the paper analyses the Readmission Agreement EC-Albania, as an instrument concluded pursuant to the SAA requirements, its impact for Albania and its level of implementation 3 years after entry into force for readmission of own nationals and one year after entry into force of the third country nationals clause.

**Keywords:** Migration management, illegal migration, readmission agreement.

**Introduction**

Migration management has been one of the main objectives of the EU policies since the Amsterdam Treaty and the Tampere European Council. While initially the central concern was the fight against illegal immigration through strengthening of the external borders and a harmonized visa policy, EU gradually embarked on an overall immigration policy which combined previous acts with measures for tackling the root causes of migration. This approach was endorsed by the European Council in the Seville meeting when it affirmed that "an integrated, comprehensive and balanced approach to tackle the *root causes* of illegal immigration must remain the EU constant long term objective'.<sup>1</sup> It further emphasized that "any future cooperation, association or equivalent agreement that EU or the EC concludes with any country should include a clause on joint management of migration flows and on a *compulsory readmission* in the event of illegal immigration'.<sup>2</sup> Cooperation with the third countries becomes a

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<sup>1</sup> See Conclusions of the European Council, Seville, 21 and 22 June 2002. See also Communication from the Commission integrating migration issues in the European Union's relations with third countries COM (2002) 703, final.

<sup>2</sup> Ibid.

*condition sine qua non* for the success these objectives. Thus, in its Communication to Council and European Parliament in 2002, the Commission highlighted the importance for integrating migration issues in the **external policy** of the Community in order to foster its objectives for addressing root causes of migration and conclusion of *readmission agreements*.

The above approach was followed during the negotiations for the Stabilization and Association Agreements with Western Balkans, and in particular with Albania. As the top country in Europe for the migration rate, with up to 27.5% or 860.485 emigrants abroad<sup>3</sup>, Albania has been targeted by EC as a priority country to fight illegal migration and address root causes of migration through a holistic intervention. Within this framework, Albania became the first country in WB which drafted a Strategy on Migration that provides a clear link between emigration and development. The elaboration of this strategy 'required' by EC was supported financially under the EC CARDS Programme. It follows the EU policies on migration management and provides measures that range from fight against illegal migration to enhancing legal channels of emigration, diaspora and development, brain gain and business promotion. While the Strategy aimed at addressing root causes of migration, thus to keep potential migrants home, EC conditioned SAA with the conclusion of another instrument- the multilateral Readmission Agreement. Albania became also the first country in Europe to sign a RA with EC.

The objective of the proposed paper is to analyze the actual impact of the EU migration policies for the countries of origin, focusing on the 'case of Albania'. The paper will pay specific attention to Albania, as the first country in the region targeted by EC for conclusion of a RA. It will analyze the impact of the RA regarding changes of the national legislative framework, the modalities and the number of returned migrants. The article will examine RA given the fact that its conclusion started as a clear obligation under SAP for Albania, as opposed to the general reaction of the Albanian public who was against it. For easy reference, the paper has been divided into two main sections: in the first section it states briefly the European policy in immigration and its impact for Albania; while the second section examines the RA, both from the perspective of EU and Albania. The analysis concludes with recommendations for future action both by EC and Albania, which can be taken in consideration (if and where relevant) also by other WB.

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<sup>3</sup> See IOM (2008), *Migration in Albania*, A Country Profile, p.15.

## 2. European policy on immigration and its impact on Albania

### 2.1 Developments within EU migration policies

Development of a common policy on migration management has been considered as indispensable in the EU level<sup>4</sup>, given the fact that all Member States (MS) have been significantly affected by international migration. Economic and demographic features of the latter are determinant factors in drafting of such policy, due to the reported need for labor force/migrants in Europe which can go up to 56 millions until the year 2050.<sup>5</sup>

The demand for labor force by MS has been associated with uncontrolled increase of the number of immigrants in EU, which, quite often goes beyond the labor market needs. Poverty and high unemployment rates in the countries of origin are among reasons that oblige migrants to pay large amounts of money to organized criminal networks to cross the borders illegally. Smuggling of irregular migrants has since many years turned into a very lucrative and well organized criminal business, which is in the same time very difficult to be tackled by MS individually. Thus, necessarily EU policies have been addressing both dimensions: management of migration flows/legal migration to meet the needs for labor force on one side and fight against irregular migration on the other. The policies and actions against illegal migration initially have been mainly *repressive*, aiming at strengthening border control, establishment of a harmonized visa policy and strengthening of the penalties against smugglers, which have been followed by a gradual consolidation of a common return policy. In 2002, EC adopted the Green Paper on a Community Return Policy on Illegal Residence which states that *"a sustainable and common return policy of the Community is indispensable for a successful management of migration flows (being legal or illegal) and asylum"*.<sup>6</sup>This document was followed by the Return Action Plan (November 2002) and the Communication from the Commission on 'Policy priorities in the fight against illegal immigration of third-country nationals'(2006) (COM/2006/0402 final). The latter emphasizes *inter alia* the need for strengthening the cooperation with third countries and conclusion of *readmission agreements* in

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<sup>4</sup> Reiterated in the Presidency Conclusions on the Tampere European Council, 15-16 October 2009, European Council Meeting in Laeken (2001), Seville European Council (2002), Thessaloniki European Council(2003), and the Brussels European Council (2004) followed by the Hague Programme.

<sup>5</sup> Website of European Parliament citing the study (2007) on "Europe's Demographic Future" at <http://www.europarl.europa.eu/sides/getDoc.do?language=EN&type=IMPRESS&reference=20080107STO17493>.

<sup>6</sup> Shih "Green Paper on a Community Return Policy on illegal residents COM (2002) 175, final.

particular with WB. In line with these political objectives, the Directive “On common standards and procedures in MS for returning illegally staying third-country nationals (2008/115/EC)”<sup>7</sup> was adopted in 2008 after several years of discussions.

In addition to the repressive actions, EU gradually embarked into a *preventive* approach, which focuses at fighting root causes of illegal immigration through establishing a real partnership with countries of origin. It can be traced back at the Tampere European Council and in Seville Conclusions<sup>8</sup> followed by the Commission’s Communication “Integrating migration issues in the EU external relations with third countries” (COM/2002/0703 final) which constituted the first attempt at clarifying the link between migration and development. The latter served as the basis for the Commission’s Communication ‘ Migration and development: some concrete orientations” (COM (2005) 390) which points out concrete orientations on fostering the development of the countries of origin through increasing remittances flows, facilitating the involvement of Diaspora in the development of countries of origin; facilitating brain circulation and limiting brain drain. These political objectives were reinforced by the *Hague Programme and its implementing Action Plan*, which *inter alia* require strengthening of the borders, fight against illegal migration, conclusion of RA with countries of origin on one side, and strengthening of partnership and provision of technical and financial assistance to enhance their capacities for migration management on the other.

## 2.2 EU migration policies and Albania

In line with its overall political developments on immigration issues, EU framed its relations with Western Balkans, which share one common feature: EU perspective. The main tool to draw the region closer to such a perspective was the Stabilisation and Association Process (SAP), which was launched as a regional approach in May 1999. The negotiations for the Albanian SAA started in 2003. The draft-SAA (as of 2003 version) included the obligation for management of migration, border control and obligation for conclusion of a Readmission Agreement (art.80 of the draft.SAA). However, being the top country in Europe for migration rate and considered a transit route for illegal migration, Albania has been targeted by EU as a priority country to fight irregular migration prior to the launch of SAP. The Action Plan for Albania (1999), envisaged *inter alia* that EU should: finance initiatives for prevention of immigration

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<sup>7</sup> This directive is an amended version of the 2005 Proposal for a Return Directive.

<sup>8</sup> See Conclusions of the European Council, Seville, 21 and 22 June 2002 which reiterate that “an integrated, comprehensive and balanced approach to tackle the root causes of illegal immigration must remain the EU constant long term objective”.

flows (from Albania), pressure Albania to combat illegal trafficking of migrants, *force readmission agreements in the context of SAA*. Albania was targeted for the second time within a list of 9 countries of priority such as China, Russia, Turkey, Libya, Morocco, Tunisia for intensifying the dialogue and cooperation for joint migration management.<sup>9</sup>

Within the framework of the European Partnership approach for WB, EU adopted the first Partnership with Albania in 2004. The document, *inter alia* requires Albania to manage migration flows, strengthen border control, conclude RA with EC<sup>10</sup>. The revised partnership document of 2008 highlights, *inter alia*, the obligation for implementation of the EC-Albania Readmission Agreement and of the National Strategy on Migration.<sup>11</sup>

Aiming the EU perspective, Albania has committed itself in complying with the above obligations, while EC has provided financial and technical support.<sup>12</sup> Thus, Albania approved the National Strategy on Migration (2004) and its Action Plan (2005) which were made possible only through the financial support of EC under the CARDS programme. The strategy has been conceived as a holistic document in addressing all migration dimensions. Its consists of 3 main pillars: fight against illegal migration, linking emigration of Albanians with the development of Albania and elaboration of an appropriate legal and institutional framework. However, as per the 2008 EC Progress Report the implementation of the Strategy has been slow.<sup>13</sup>

EC approached Albania for negotiating the Readmission Agreement in 2003, after obtaining its mandate in November 2002. The negotiations started immediately in May 2003 and concluded with the signature of the RA in April 2005. While SAA was signed one year later in 2006 and entered into force in January 2009.

The progress made by Albania is monitored by EC on yearly basis; the success or failure has a direct impact on the liberalization of the visa regime and the

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<sup>9</sup> See Albanian National Strategy on Migration (2005), pg. 17.

<sup>10</sup> The 2004 Document has been revised in 2006 and 2008 in accordance with progress made. See European Partnership Document, <http://www.mie.gov.al/?fq=brenda&d=3&gj=gj1&kid=111>.

<sup>11</sup> See respectively pg.17 and 25 of the 2008 Partnership Document, *ibid*.

<sup>12</sup> Through its financial assistance programme- Phare, Cards, AENEAS, EC has provided during 1991-2007, 1.3 billion euros for Albania. While for the 2008-2010 there has been foreseen 245 million euro.

<sup>13</sup> See 2008 EC Progress Report for Albania. See also Report on the implementation of National Strategy on Migration, 2007 elaborated from European Institute of Tirana which provides that out of 63 measures for implementation within 2006, only 27% were implemented or started the implementation process. See pg.19 of the document at [www.soros.al/nosa/en/migration\\_strategy.pdf](http://www.soros.al/nosa/en/migration_strategy.pdf)

application for EU membership. The last EC Progress Report of 2008 points out on the *visa, migration and border control* that: *Albania overall continues to partially meet the obligations on border control, some progress has been made on migration management, implementation of the national strategy is ongoing, albeit slowly. Border and migration staff cuts could limit Albanian's capacity to meet its obligation under Readmission Agreement. Overall illegal migration remains a significant problem, especially at Albania-Greek border. Albania continues to partially meet its targets on migration.*

### 3. Analyses of EC-Albania Readmission Agreement

#### 3.1 Background

Entry into force of the RA EC- Albania in May 2006 was considered a *historical step*, not only in the formulation of an EC common policy on readmission, but also in the development of a new cooperation of the EC with the Western Balkans.<sup>14</sup> Albania was the first European country that concluded such an agreement with EC, paving the way to other agreements with the rest of WB countries.

The RA EC- Albania is considered a new instrument in the fight against illegal migration, because of its two specific features: multilateral character and inclusion of the third country nationals' (TCN) clause. Prior to it, Albania had concluded RA with individual MS<sup>15</sup>, however, the EC-Albania RA provided unified return/readmission procedures in the EU level and contained the third country nationals' clause, which was the most problematic point (Achilles' hill) during the negotiations.

Contrary to what was expected, the entry into force of the RA was not followed by any substantial change in the numbers and return procedures. The highest number of returnees continues to be that of Albanians expelled from Greece; however, their return/readmission is not in line with the procedures foreseen in the agreement, despite the fact that Greece is one of the MS for which the agreement is binding. Similarly, the return of TCN has not been affected by the entry into force of the TCN's clause in May 2008. This should not be taken as an indication that the

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<sup>14</sup> Statement of the European Commission, Directorate-General Justice, Freedom and Security, published at the IOM Publication 'Return and Readmission- Experience of selected EU member states', 2006.

<sup>15</sup> Prior to the RA with EC, Albania had concluded 11 bilateral RAs, some of them with the traditional and new MS, such as with Italy of 1997, Belgium (2001), Hungary (2001), Bulgaria (2002), Germany (2002), Romania (2002) or with other European countries such as Switzerland (2000), Croatia(2003).

situation will continue to be the same in the future. Prior to analyzing the reasons for the lack of implementation, it is worth to mention the rationale for concluding such an agreement both on EU and Albanian perspective.

### 3.2. The role of RA on the perspective of EU

Readmission is the last component of the consolidated repressive set of measures used by EU to fight illegal migration. Other traditional components envisaged by EU Acquis are strengthening the border control, a harmonized visa policy, strengthening of the criminal penalties against illegal residence/employment, trafficking and smuggling of migrants. However, these measures would be without effect in practice, if not followed with the return of irregular migrants. An important development within EU on this issue is the approval of the Directive on 'Common standards and procedures of the MS for return of irregular third country nationals' (2008/115/EC) which unified the return procedures by MS, through envisaging common standards and procedures. It should be highlighted that the Directive's standards are considered minimalist, thus, MS should minimally respect those standards, while ensuring higher ones, if relevant. In this framework, Albania, in its efforts to approximate with EU legislation, should duly take in consideration the provisions of the Directive. The Directive stipulates that a TCN shall be removed pursuant to a removal order issued after individual examination of the case, with due consideration of the best interest of the child, family life, health conditions or any other special need of irregular migrant, in full compliance with human rights law.<sup>16</sup> It provides for voluntary return as preferred option.<sup>17</sup> In case the immigrant does not leave voluntarily within the specified period or for interests of national security or public policies, he/she is returned immediately in the country of origin.<sup>18</sup>

Despite this framework, MS often face difficulties in carrying out removal, mainly due to the lack of documentation of the irregular migrant. In such situations, MS are in front of two alternatives: 1) to detain the irregular migrant in a closed reception center, until the conditions for return are fulfilled; or, 2) to allow him/her to move freely in the territory, regardless of irregular status. The latter is problematic, as first of all, there is the risk of absconding, in case the authorities manage to obtain the relevant documentation. Secondly, there is the risk of creating the perception that

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<sup>16</sup> See arts.3, 5, 7, 10 and 12 of the Return Directive.

<sup>17</sup> Art. 7, Ibid.

<sup>18</sup> Art.7,8, Ibid. The removal order is followed by the 'entry ban' which forbids the migrant to enter any MS within a period (in principle) of 5 years. <sup>18</sup>

illegal residence is not problematic in EU, which, in turn, becomes a *'pull factor'* for further irregular migrants' flows. In this situation, MS have mainly followed the first alternative, detention of the migrant in a closed Reception Center. Detention is very expensive for the MS, thus, it should be considered only as the least worst available option.<sup>19</sup>

Detention is prevention of liberty, as such is can be only allowed under the conditions and pursuant to the procedures envisaged by law.<sup>20</sup> The Return Directive envisages that: *unless other sufficient but less coercive measures can be applied effectively in a specific case, MS may only keep in detention a third country national (TCN) who is subject of return decision to prepare the return and/or carry out removal in particular when there is the risk of absconding or the TCN hampers the preparation of the removal process.*<sup>21</sup> The detention shall be carried out pursuant to an official administrative or judicial written order and the right to appeal against the order shall be provided.<sup>22</sup> One of the most debatable issues addressed by the Directive- length of detention- has been envisaged for 6 months, with possibility of extension with further 12 months.<sup>23</sup> Given the fact that detention is not considered as a criminal sentence, but rather as a measure to facilitate the return of migrant, the Directive provides that as a rule, it shall take place in special centers established for this purpose.<sup>24</sup> Establishment of such centers, creation of adequate accommodation, running and daily maintenance is a huge financial burden for the MS. Thus, irregular migration is associated with high costs, both for the individual and the state. Expensive for the individual as illegal border crossing or illegal stay is generally facilitated by smugglers, who in return require high fees from immigrants. It is

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<sup>19</sup> In many cases, the MS offer amnesty for irregular migrants, but only when there is need for labor force.

<sup>20</sup> See art. Art. 9 of the International Covenant on Civil and Political Rights. European Convention on Human Rights envisages that *'No one shall be deprived of his liberty save in the following cases and in accordance with a procedure prescribed by law... (f) the lawful arrest or detention of a person to prevent his effecting an unauthorized entry into the country or of a person against whom action is being taken with a view to deportation or extradition (art.5)*

<sup>21</sup> Art. 15 of the Return Directive.

<sup>22</sup> Ibid.

<sup>23</sup> Only if and when the TCN does not cooperate for obtaining the necessary documents. Ibid.

<sup>24</sup> Art. 16 of the Return Directive. In case MS can not afford such centers, irregular migrants can be detained in prisons, the TCN in detention shall be separated by ordinary prisoners. Minors shall be detained only as a last resort for the shortest appropriate period of time (art.17 of the Return Directive). During detention, irregular migrants shall have the right to meet their legal representatives or family members; as well as to be informed in a language that she/he understands on the rights and obligations.

expensive for MS as the measures for the return of illegal migrant are all financial and human resources consuming; all the procedures, starting from the bureaucratic elements of individual examination of the case, removal order, actual removal, which mainly takes place through special charters, and in particular detention in specific centers for migrants, is more and more becoming a huge public burden for the MS. In this way, it is in the interest of the MS to return irregular migrants as soon as possible to eliminate the costs. Here comes to play the Readmission Agreement, whose very essence is to facilitate the return process.

RA is important for an effective return of irregular migrants, given the fact that the right of a state to return illegal migrants in their country of origin and transit is without any practical relevance if there is not a corresponding obligation of the country of origin or transit to accept own citizens or TCN who have used the said country as a transit for EU MS. But, *is it legal for a state to refuse entry into the territory of his citizens if it has not concluded any RA with returning country? Can a state actually refuse entry to own citizens?*

International law, in particular international human rights law envisages that states can not refuse entry in the territory to their citizens. Universal Declaration of Human Rights (UDHR), ICCPR, ECHR state that: *"No one shall be arbitrarily deprived of the right to enter the territory of the state of which country he is a national".*<sup>25</sup> It is believed that the obligation to readmit own citizens has obtained the status of international custom and prevails to all other obligations that states have towards each other.<sup>26</sup>

However, in practice the return of irregular migrants is associated with many difficulties. Countries of origin not necessarily accept returnees due to lack of relevant documentation that can prove the citizenship of the migrant. In such cases, the authorities of the MS are obliged to cooperate with the diplomatic/consular representatives of the country of origin to enable the identification of the person. Due to the long bureaucratic procedures (while the immigrant is held in the detention centers) or in other limited cases, due to lack of cooperation by the countries of origin, MS try to avoid these barriers through negotiating RAs, which envisage obligations, cooperation modalities and return procedures for both the parties in the agreement. Thus, in essence, the RA 'was born' by the lack of spontaneous reaction of the countries of origin towards the requests for identification of irregular migrant, and subsequently, refusal to readmit own citizens. In this context, it can be said that Readmission has become an issue closely linked with the level of cooperation among the countries. It is meant to facilitate the communication between MS (sending

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<sup>25</sup> See art. 3, Prot. 4 of ECHR. See also art. 13 of UDHR, Art. 12 of ICCPR.

<sup>26</sup> IOM, Essentials on Migration Management, IOM, 2004, p. 35.

countries) and countries of origin for an effective implementation of removal, which in turn, reduces costs of illegal migration for countries of destination.

As such, EU has treated conclusion of the Readmission Agreement as one of the priorities of its foreign policy. One important development in this area is the movement from bilateral agreement in multilateral agreements concluded by the European Commission. In so far, EC has concluded multilateral readmission agreements with several countries of origin such as Hong Kong (2001), Sri Lanka (2002), Macao (2003) Albania(2005), Russia (2006), Ukraine (2006), Moldova (2007) Ukraine(2007) Macedonia (2007), Montenegro(2007), Serbia (2007) B&H (2007) and is under negotiations with Algeria, China, Morocco, Pakistan, Turkey.

### 3.3 Readmission Agreement from the perspective of Albania

While it is clear why the returning countries, in particular EU MS are interested for conclusion of RA, it can not be said the same for the countries of origin. In many cases, countries of origin are reluctant to conclude such agreements, claiming that it is not in the interest of their citizens. However, the more migration is becoming an international phenomena, the more it is becoming difficult to find countries that are only of origin or only of destination; the same country can be both returning and readmitting irregular migrants, as such, it is interested to facilitate the return process in a reciprocal way. In the case of WB, there is one more specific factor: WB aspire the European perspective, which is conditional *inter alia* with the migration management and conclusion of RA as an integral part of the EU external policy.

In the case of Albania, the conclusion of the RA was stipulated in the article 80 of draft- SAA: *The parties agree for conclusion of an agreement... that stipulates concrete obligations... for readmission, including readmission of third country nationals and stateless persons.*<sup>27</sup>

In the final version of SAA, the Readmission is foreseen in article 81, which actually sanctions the article 2 and 5 of the RA.<sup>28</sup>

The negotiations for the RA were carried out in parallel with those for SAA. Despite the objective of the Albanian team to finalize the two agreements in the

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<sup>27</sup> Draft –SAA, prior to final version.

<sup>28</sup> Art.81 of the SAA reiterates the very essence of the EC-Albania RA. See for a full text of the SAA at : [ec.europa.eu/enlargement/pdf/albania/st08164.06\\_en.pdf](http://ec.europa.eu/enlargement/pdf/albania/st08164.06_en.pdf) It envisages that: Parties agree that, upon request and without further formalities, Albania and the Member States: shall readmit any of their nationals illegally present on their territories; shall readmit nationals of third countries and stateless persons illegally present on their territories and having entered the territory of Albania via or from a Member State, or having entered the territory of a Member State via or from Albania.

same time, it became obvious that it was impossible due to the complexity of the SAA. In the end, the RA was concluded one year earlier than the SAA.

Ratification of RA was fiercely opposed by the public opinion.<sup>29</sup> The written media highlighted the massive potential return of Albanian emigrants from EU MS, given the fact that many of them were with irregular status. However, the governmental representatives in most of the cases pointed out that conclusion of the RA was an obligation of the SAA, non reversible and non-negotiable. It was further reiterated that the conclusion of RA would subsequently lead to visa facilitation and liberalization.<sup>30</sup> However, regardless of the interest and the requests of the Albanian part for negotiating in parallel a Visa Facilitation Agreement (VFA), the EC team made it clear that they did not have the authority to negotiate visa facilitation or liberalization. Their mandate could only allow the Commission to conclude RA.<sup>31</sup> It is worth to mention here that during a certain phase of the negotiations of SAA, the Albanian authorities started to articulate a 'visa liberalization agreement', instead of visa facilitation agreement. Even though, as of 2008, visa liberalization is the main objective of the GOA, clearly this was not the situation of the 2006. However this is an indication that there was confusion as to the distinction of the two instruments.<sup>32</sup> The VFA, by its name, aims at facilitating the procedures for some categories of citizens, depending on the success of negotiations by the interested parties, in some cases it includes a clause for speeding up the process of issuing the visas or facilitates the process for issuing multi-entry or long term visas. This was actually what happened with the EC-Albania VFA. Even though an analysis of the implementation of this agreement is not objective of this article, it is important to mention that regardless of the objective, in practice the VFA is not fully functioning.<sup>33</sup> The procedures and difficulties for obtaining visas remain almost the same, with Albania being the top country for visa refusal in the WB.<sup>34</sup>

Several scholars have identified that the link between the process of visa facilitation regime and conclusion of the RA is articulated in some strategic documents such as the Hague Programme (2004) which *'invites the Council and the Commission to*

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<sup>29</sup> IOM, Return and Readmission- The case of Albania, 2006, p.25

<sup>30</sup> Ibid, p.23.

<sup>31</sup> Ibid.

<sup>32</sup> Declaration of former Minister of European Integration, Ms. Trashani in 2006 for requesting visa liberalization regime during the 10<sup>th</sup> round of SAA negotiations.

<sup>33</sup> See Albanian European Movement Study <http://www.emal.org/?fq=brenda&m=shfaqart&aid=95>

<sup>34</sup> Ibid.

*examine, with a view to developing a common approach, whether in the context of the EC readmission policy it would be opportune to facilitate, on a case by case basis, the issuance of short-stay visas to third-country nationals, where possible and on a basis of reciprocity, as part of a real partnership in external relations, including migration-related issues*<sup>35</sup>; or in the action plan implementing Hague Programme ( 2005) where the Commission recommends that *'Specific recommendations for negotiating directives on visa facilitation on a case by case basis with third countries in the context of the EC readmission policy, where possible and on the basis of reciprocity, with a view to developing a real partnership on migration management issues (2005-2009)'*.<sup>36</sup>

In fact, most of the countries, such as Macao, Hong Kong that negotiated RA before Albania had been exempted from visa requirements, while Russia considered it as a prerequisite for continuing negotiations on RA, while Albania was an exceptional case. Philippe DeBruycker mentions that even if Albanian team insisted further, it is more likely that the Commission would not have accepted such approach, because by that time, the political and technical structures of the Commission where discussing on changing the perception on the conditional relation between RA and VFA.<sup>37</sup> However, the hesitation of the Commission for negotiation of the VFA in parallel with RA in the case of Albania was an exception. The VFA concluded two years after the EC-Albania RA was not only for Albania, as the first WB state that ratified RA, but was part of a regional approach, which included all the WB countries. The Commission negotiated in parallel two agreements-RA and VFA- for other WB such as Bosnia Herzegovina, Montenegro, Serbia, Macedonia. The result of the Commission's negotiations finalized in September 18, 2007 was the conclusion of nine agreements, five VFA and only four RA. This is due to the fact that the RA with Albania was signed since two years. The situation was similar with Moldova, Ukraine, Georgia, which, following Russia's example conditioned the EC with conclusion of the two agreements in the same time- RA and VFA<sup>38</sup>. Thus, regardless of the (temporary) arguments of the Commission that RA is not a condition for the facilitation of the visa regime, the practice, before and after 'the case of Albania', clearly indicates that RA are followed with VFA.

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<sup>35</sup> Hague Programme, p. 18. See also DeBruycker, Philippe: Obtaining Visa Facilitation for the EU: the Case of Albania, Workshop on National Strategy on Migration, 2005 and Trauner and Kruse, EC Visa Facilitation and Readmission Agreements, 2008.

<sup>36</sup> Action plan implementing Hague Programme, p.11. .

<sup>37</sup> Ibid.

<sup>38</sup> Trauner and Kruse, EC Visa Facilitation and Readmission Agreements, 2008

### 3.4. Analyses of EC- Albania Readmission Agreement

The RA stipulates the obligation of the parties to readmit own citizens and TCN in some specific conditions. The agreement, as a framework instrument provides also the mechanisms and procedures for the readmission of the above categories. For purposes of this article, the obligations of Albania for readmission of nationals and TCN will be analyzed as the ones of MS are identical/ reciprocal.

#### Readmission of nationals

The key provision of RA is its article 2- *Readmission of nationals which stipulates: 'Albania shall readmit, upon application by a MS and without further formalities other than those provided for in this Agreement, all persons who do not, or who no longer, fulfill the conditions in force for entry into, presence in, or residence on, the territory of the requesting Member State provided that it is proved, or may be validly assumed on the basis of prima facie evidence furnished, that they are nationals of Albania'*. This paragraph has three main elements which must be analyzed: subjects, proofs and application by the MS.

#### Subjects:

Article 2 of the RA stipulates the obligation to readmit, through RA procedures only irregular migrants stopped into the territory and not those in the borders. At least, this is the interpretation provided by both parties of the agreement.<sup>39</sup> The rationale for this, is that, irregular migrants caught in the external borders can be immediately sent back, once entry is refused, thus, it is not necessary to follow long bureaucratic procedures which can go up to a minimum of 14 days as per RA. This is one of the arguments used by Greece, which points out that returnees are stopped at the borders and not in the territory, thus, no need for prior application, in accordance with the RA.<sup>40</sup> Article 2 further stipulates that for the purpose of the agreement, subject of readmission are also those persons who have been deprived of citizenship

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<sup>39</sup> See Arn "Manual for application on Readmission Agreement between the EC and RoA", published by IOM, 2006, p.15. This is the interpretation used by Albanian and Greek authorities during the meetings of the Committee on Readmission, established under the IOM implemented project AENEAS Project "Implementing Readmission Agreement EC-Albania" (2006-2008). See Conclusions of the Albanian Readmission Committee, published by IOM 2008.

<sup>40</sup> Information received by the Director of Immigration Sector, MoI, Albania, during the workshop "Observance of Human rights of returning emigrants' 11.06.2009, Tirana International Hotel.

or have renounced Albanian citizenship, unless, they have been promised citizenship by the MS.<sup>41</sup> It has been discussed whether the Albanian nationals that have been residing in the MS for more than one year are subject of RA procedures, pursuant to article 10 of the RA.<sup>42</sup> One interpretation is that Art.10 which stipulates the time limits for application of return and readmission procedures excludes those who have been residing for more than one year.<sup>43</sup> However, it is not clear whether this interpretation has been accepted by the MS<sup>44</sup>. Art.10 exempts from RA procedures 'third country nationals or stateless persons that have been residing for more than one year in the MS'.<sup>45</sup> It is true that within EU migration terminology Albanians are 'third country nationals', however, for the purposes of the RA between EC and Albania, TCN are only persons who are neither Albanian nationals nor of any EU member state. As such, for purpose of this agreement, the time limit of one year can not be argued for own nationals. However, it is yet to be expected how this will be implemented in practice.

### Proofs:

*RA considers as proofs for citizenship not only the original documents such as passports, seaman documents, ID cards, citizenship certificates or any other official document that mentions the citizenship of the person (the so called, undisputed documents as indicators of the ID of a persons), but also 'prima facie' evidence. Such documents are photocopies of any of the original document mentioned above, driving license or its photocopies, birth certificate or its photocopy, company identity cards or its photocopy, statements by witnesses or the concerned person and his/her language, any other document which can help in concluding on his/her identity. The **language**, considered as a prima facie proof is quite problematic in practice, given the fact that a good part of the irregular migrants from Kosovo, Macedonia who may be Albanian speaker can be returned in Albania on the basis of such proof.*

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<sup>41</sup> Article 2.1 of the RA.

<sup>42</sup> Art.10 of RA.

<sup>43</sup> From the declaration of N.Ndoci in the Workshop "Observance of the human rights of returning emigrants", 11.6.2009, Tirana International Hotel.

<sup>44</sup> This issue has not also been addressed by the Commentary-Training Manual on EC-Albania RA prepared by Fernand Arn, 2006.

<sup>45</sup> Art.10 of RA.

### ***Application for Readmission:***

RA stipulates that “Albania shall readmit, upon application by a MS and without further formalities other than those provided for in this Agreement... (art.2). Thus, the procedural condition to be followed is the *application* from the MS. Since the entry into force of the RA, the number of applications following RA have been 0.01% according to the Department of Border and Migration, in the Albanian Interior Ministry.<sup>46</sup> While the number of returned Albanian migrants for the year 2008 is approximately 66109 persons or 173 Albanian migrants per day.<sup>47</sup> The highest number of returnees is from border crossing points with Greece, in particular Kapshtica and Kakavija.

### ***What impact has in practice the prior application for readmission by MS?***

#### ***Enables Albanian authorities to take adequate measures for readmission process***

The high number of returnees has created frequently problems for Albanian border police in charge of readmission. The returned emigrants, in particular from Greece have been subject of long and tiring procedures which go up to 7 days, and once in the borders, have to wait sometimes for more then 10 hours until the finalization of the readmission procedures from Albanian border police. As per Albanian legislation, returned migrants can not be stopped for more than 10 hours by the police, but, in cases of large number of returnees (up to 170 persons) and an interviewing process of a minimum of 10 minutes for a person, the waiting period can go far beyond the allowed time limits. If Albanian police is notified duly in advance through application as stipulated by the agreement, it could take measures by reallocating extra staff, so as proceed quickly. This is not possible, when the MS just ‘leaves the returnees in the borders, with an accompanying list’ without prior notification/application.

#### ***Enables Albanian authorities to take special measures for the minors***

A considerable number of returnees are unaccompanied minors<sup>48</sup>, which, according to the Albanian legislation are subject to special protection. Thus, they can not be

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<sup>46</sup> According to the declaration of the Border and Migration Department in the Joint Readmission Committee, December 2008.

<sup>47</sup> Statistics obtained at the BM department, 2008.

<sup>48</sup> Fatmir Memaj, Study on the Profile of Returning Migrants, 2008 reports a daily average number of 34 returned minors.

interviewed without the presence of their family members or legal custodian. However, in practice, the presence of the family member or the legal custodian is not possible due to two main reasons: a) given the fact that the return of the minor is not carried out following an application by the MS, Albanian border police is not aware of the presence of minors, and thus, can not inform in advance the parents to be present during the interviewing process; b) if the border police officer, during the interview notices that the returnee is minor and obtains information on how to contact his/her parents, in most of the cases, the parents or legal custodian can not come immediately due to the long distance. The police officers may suspend the interview until the arrival of the parents, but this could go for more than the allowed timeframe of 10 hours. This creates further problems with the accommodation of the minor, as there is not a special room/accommodation facility for minors in the border crossing points. Prior application by MS would have a significant impact on this situation, as border police would have adequate time to inform the family members on the returnee.

#### **Eliminates the cases of return in error**

Quite often, due to the lack of documentation, the language is the only 'prima facie' proof of the citizenship of a person. As such, there have been cases of citizens of Kosovo, Macedonia or any other country in the region who have been returned in Albania instead of their country of origin, due to the Albanian language. Prior application, as stipulated by the RA, enables elimination of such mistakes, which create extra costs for both the returning and readmitting country.

#### **Eliminates the cases of abuse with the identity of the citizens**

One of the problems that accompanies the phenomena of irregular migration is misuse/ abuse with the identity of another person. Irregular migrants, who most of the time lack identity documents, when stopped by police often provide another identity, in several cases the identity of a real person. Pursuant to the EU acquis, irregular migrants that are returned by MS are subject to an entry ban which is up to 5 years. This means that if the returnee applies for a visa in one of the Schengen countries, the visa is refused in any of the MS. However, in practice, many Albanian citizens who have never been in any EU MS have suffered from this penalty, when have applied for a visa, due to misuse of their identity. If the return of irregular migrants is carried out with prior application for return, Albanian authorities, responsible for verifying the identity of the returnee can trace whether it is a case of a misuse of the identity of the person. If that is the case, the MS is informed to double

check the identity of the migrant and suspend the ban under the false identity, as it would unjustly deprive another citizen from the right to move freely.

***Why EU MS do not comply with the obligations of the RA while returning Albanian citizens?***

According to RA, the application for readmission can be in two ways: firstly, in the form of a *request/application* submitted to the Albanian authorities, who are obliged to respond within 14 days from the application. In case they do not respond within the said timeframes, they are bound to readmit the returnee once he/she is at the borders.<sup>49</sup>

Secondly, it is in the form of a *written communication*, whereby the sending authorities only inform their Albanian counterparts on the returning process, without need for approval, in the cases when the returnee has a passport or a valid travel document. It goes without saying that when the returnee has valid travel documentation, there is no need for further formalities.<sup>50</sup> This procedure is faster and very convenient for the sending country.

The *request for readmission* should indicate the generalities of the migrant, the proof of nationality, and if relevant, whether the person needs special care, i.e. in case of a minor. Such information facilitates the readmission process for Albanian police as they are able to take all the necessary measures in advance. However, it seems that for the MS the obligations and procedures envisaged by RA are not convenient, despite the fact that MS were actually fostering conclusion of such agreement. One of the arguments brought forward by the MS is the lack of implementing protocols, pursuant to article 19 (1) of RA which stipulates that: *Albania and a Member State may draw up implementing Protocols which shall cover rules on (a) designation of the competent authorities, border crossing points and exchange of contact points; (b) conditions for escorted returns, including the transit of third-country nationals and stateless persons under escort; (c) means and documents additional to those listed in the Annexes 1 to 4 to this Agreement.*

This article uses the term “*may*” draw up implementing protocols, thus, if the parties consider it as necessary to conclude, however, lack of implementing protocol does not render the RA inapplicable. RA is a self-executing document, as it stipulates clearly the modalities and procedures of return and readmission. The rationale behind article 19 was to provide the parties with further tools to facilitate the process through detailing the procedures in accordance with their specific needs for a

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<sup>49</sup> Art.2 of RA.

<sup>50</sup> Art. 14 of RA.

successful cooperation; i.e. while Albania and Germany can not use return by land, the implementing protocol can further specify different conditions for escorting of returnees as compared with Greece, where the preferred return mode would be via land. The parties could also design specific hours or specific border crossing points for return, relevant to their needs or appoint specific contact points. However, the lack of the implementing protocol does not impair the implementation of the RA, as the RA itself does not envisage the protocol as a *conditio sine qua non* for its implementation.

Another argument articulated lately is that full compliance with the obligations of RA does not facilitate but slows down the return process, which in turn, penalizes the Albanian irregular migrants whose period of detention would be extended.<sup>51</sup> It is true that if we refer to the number of the returnees, i.e. from Greece, the main returning MS, with a daily average of 160 irregular migrants for the year 2008, the *application for readmission* would create difficulties for sending authorities. However, it can be argued that if the Greek authorities were to comply with the provisions of RA, it is quite likely that the daily average would be far less for several reasons:

1. Irregular migrants stopped at the borders do not fall under the RA, as opposed to those stopped in the territory. Thus, the former would be immediately returned in the border, without any prior application. In this way, the fluxes of migrants stopped at the borders and those in the territory, which are subject to RA would be clearly divided. In so far, Greek authorities do not make any differentiation as to the return procedures or treatment.

2. The subject of readmission would enjoy the guarantees envisaged by the EU return Directive, which *inter alia* provides the issuance of the removal order, information of the returnee on the reasons for removal, appeal possibilities etc. In practice, the majority of returnees from Greece do not enjoy the minimal guarantees envisaged by the Directive, as immediately after the *prima facie proof*- mainly *Albanian language*, when the migrant does not have any documentation, he/she is immediately send in the police commissariat and removed from the territory without any possibility for appeal or legal assistance<sup>52</sup>. Thus, any Albanian irregular migrant, regardless of his/her residence is treated as 'stopped at the borders' by the Greek authorities. Speculations have also been on the nature of the 'sweeping operations'<sup>53</sup> for the Albanian irregular migrants, which could be argued as 'collective expulsion' given the fact that in those operations the irregular migrants are stopped at the spot-

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<sup>51</sup> As per the IOM's representative comment in the workshop on "Observance of human rights of returned migrants" organized in 11 June 2009, Tirana, Albania.

<sup>52</sup> As per the interviews conducted by F.Memaj "Profile of returned migrants", 2008.

<sup>53</sup> Ibid.

in the street, work or any public place frequented by irregular migrants, and are immediately sent with buses in the borders, without following the procedures specified by the return Directive, in particular the obligation for an individual examination of the case for each returnee.

3. Even if the number of the irregular migrant's subject of readmission would still be very high, Greek authorities could at least follow the *written communication* as a procedure, and not the prior application, so as to avoid delays and bureaucracy. This option would be beneficial for both parties, given the fact as neighboring countries sharing land borders, the travel document is not necessary for the return, as it is the case for return from many EU MS due to transiting in different airports. An advanced notification could only provide the generalities of the returnees, specific needs, if relevant, the border crossing point and the time of return (without having to wait 14 days envisaged in RA).

It can be argued that EU MS do not comply with RA due to a continued commodity provided by the Albanian readmission authorities. Albania has never refused readmission of own citizens even without prior notification or application; in several cases it has readmitted TCN with the argument of the returning party that the migrant is Albanian, regardless of inadequate proofs. Hence, it can be further argued that the reason why Albania was the first European country targeted by EU for conclusion of a RA, was not to facilitate the return of nationals but rather the facilitation of the return of TCN.

***Can Albania refuse readmission of citizens if the MS do not follow the procedures stipulated by RA?***

Albanian legislation does not include a provision similar to the one found in article 3 Protocol 4 of the ECHR regarding the 'arbitrary deprivation of entry of nationals in the country'. Article 38 of the Constitution envisages only right of free movement within the territory and the right to go abroad. However, as Albania has ratified the ECHR, it is bound by its provisions. Thus, Albania can not refuse the entry of Albanian citizens in the territory. However, possession of a document indicating the citizenship is a necessity, as the ECHR refers specifically to the 'nationals'. Thus, the application from MS providing adequate proof of the citizenship of returnees is crucial. Furthermore, RA is a legal document, a 'solemn commitment' by the parties for complying with its obligations, as such, there is not any reason to refrain from complying with it, given that EU itself required and conditioned conclusion of such agreement within SAP.

## Readmission of third country nationals

The most debatable point of the RA was the ‘third country nationals’ clause”. As mentioned in the previous section of this article, this is one of the new features of this agreement as compared to previous bilateral ones that Albania had concluded with Member States. As it stands currently, RA envisages that: *Albania shall readmit, upon application by a Member State and without further formalities other than those provided for in this Agreement, all third-country nationals or stateless persons who do not, or who no longer, fulfill the conditions in force for entry into, presence in, or residence on, the territory of the requesting Member State provided that it is proved, or may be validly assumed on the basis of prima facie evidence furnished, that such persons (a) hold or at the time of entry held a valid visa or residence authorization issued by Albania; or (b) entered the territory of the Member States after having stayed on, or transited through, the territory of Albania.*

**Subject** of this clause are the TCN that have transited through Albania for EU MS. However, the clause does not cover the TCN who, prior to or after entering EU MS, have been issued a residence permit or visa to the said MS<sup>54</sup>. Also, pursuant to article 10 of the RA, MS can not return in Albania any TCN one year after they *have gained knowledge that a third-country national or a stateless person does not, or does no longer fulfill the conditions in force for entry, presence or residence.* (art.10)

**Application** by MS is a condition *sine qua non* readmission of TCN, which means that Albania can not readmit any TCN without prior application. While Albania readmits Albanian nationals contrary to procedures foreseen by the RA, this can not be the case for TCN. The (ECHR) obligation to allow entry to its territory to the citizens is an obligation towards the citizens and not towards the sending county. As such, it can not be extended to the TCN. Albania should not readmit any TCN, without prior application by MS, in accordance with the RA provisions, regardless of the lack of implementing protocol.

The TCN readmitted who do not have legal /valid documentation are detained pursuant to the Albanian Law on Foreigners (LoF)<sup>55</sup> in the closed reception center, until the finalization of preparations for removing them back in the country of origin or any country that is ready to accept them. While the minors, pursuant to said law, can be stopped only in the social centers established for this purpose. The maximum length of detention stipulated by the LoF is 6 months.

It should be highlighted that the new LoF was approved after several years of discussion and work by the relevant structures. Adoption of such law was raised as

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<sup>54</sup> See Article 3.2 of RA.

<sup>55</sup> LoF approved in July 2008, entered into force in December 2008.

obligation in most of the EC progress reports for Albania and was part of the SAA. Its drafting process followed the developments in this area on the EU acquis. In this perspective, the initial period of detention of 6 months is pursuant to the Proposal for the Return Directive (by the time the law was being drafted the Directive was not approved yet). However, given the practical difficulties in returning irregular migrants, and in particular the experience of MS which quite often are obliged to extend the detention period LoF envisages the possibility of extending the detention period up to 12 months. However the wording of the law is not clear whether the period of extension is 12 months, which means in total the detention can go up to 18 months or, the whole detention period can go up to 12 months, 6 of them initial period of detention and other 6 months extension. If we take in consideration the EU Return Directive, MS can extend the detention period for further 12 months. Whatever was the objective of the legislator, it needs to be genuinely interpreted or clearly specified in the respective bylaws, so as to avoid discrepancy and subjective interpretation/implementation by detention authorities of this delicate legal provision.

LoF stipulates that the detained migrants have the right of humane and dignified treatment, health care, legal assistance, and translator, the right to appeal the order of detention or on the conditions of detention. However, the actual conditions of detained migrants are quite different from legal provisions. Irregular migrants are detained in a separate building of the Center for Victims of Trafficking in Albania (Linza), given the fact that the building envisaged for this purpose is not finalized, even though it was expected to be functional in 2008.<sup>56</sup> The construction of the center is financed by the EC, within its holistic approach for financially supporting countries of origin to meet standards on migration management. A serious problem remains also the accommodation of the unaccompanied minors, who pursuant to LoF should be kept in social centers, but as of September 2009, there is not any such center.

Detention of migrants in the building within the Center for Victims of Trafficking is problematic due to its confidentiality nature. Irregular migrants can not have visits by friends, family members of legal advisor. Another concern is the lack of translators. Most of irregular migrants in Albania are citizens of countries such as Afghanistan, Nepal, India, which are considered to have a rare language for Albania and it is quite impossible to find a translator for those languages. Lack of means of communication definitely impairs the proper enjoyment of rights of immigrant.

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<sup>56</sup> Construction of the closed reception center was financed by EU in order to assist Albania with adequate infrastructure for implementing the TCN clause, after its entry into force in may 2008.

Actually, if the immigrant is not informed on his/ her rights and duties, their existence is mainly virtual rather than concrete.

The legal framework does not clarify what happens with the TCN with the expiration of the allowed detention timeframe. Due to the difficulties for return in their country of origin, it is the risk that Albania falls in the so called 'readmission trap', in particular if the number of returnees will be increased. It should be pointed out that since the entry into force of the third country nationals clause, in May 2008, the number of returns from MS has not been increased significantly. However it is more likely that this number will be increased in the future, and the risk of the readmission trap will be present. In such conditions, Albania must start negotiations for concluding RA with countries of origin, however the chances are failure limited. We say limited, as these are countries with whom, EC itself has in a way or another failed to conclude, regardless of its diplomatic leverage. That is the reason why member states will return TCN in Albania, the country of transit and not directly in the country of origin.

#### **4. Conclusions**

Readmission agreement is indeed a very important tool in the fight against irregular migration as it facilitates the cooperation between the returning country and that of origin or transit on one side and guarantees respect of human rights and a dignified treatment of irregular migrant during return process on the other. Through clear and transparent procedures, it enables the parties to organize and plan in advance the return/readmission process. However, the impact of the EC-Albania RA is not clear for the return of the own nationals. Three years after its entry into force, MS continue to return migrants using the same *modus operandi* as before conclusion of such agreement.

Contrary to the initial public opinion in Albania, observance of RA provisions from MS would facilitate the work of Albanian authorities during the readmission process, which in turn would result in a better treatment of returnee, in particular in case of 'massive' returns from Greece which is the main returning country. Albania should increase the pressure in the Joint Readmission Committee established to monitor the implementation of the RA, with participation of Albania and MS, in particular given the fact that it was EU which conditioned the conclusion of this agreement.

**Pacta sunt servanda.**

It is recommended that Joint Readmission Committee commissions a study on whether at the current stage, full compliance with RA is feasible for member states, and provide guidelines in case a more flexible approach would be needed. If that would be the case, Joint Committee should emphasise the obligation of the MSs for a prior notification on the generalities of the returnees, as a less formal obligation on their side.

Regarding the readmission of TCN, currently there is not any increase in the number of returnees, which might be also due to the hesitation of MS to return in Albania as long as there is not an adequate reception facility. However, the readmission trap remains a serious concern as Albania lacks the diplomatic leverage to foster conclusion of RA with the countries with whom, EC has failed. We say this, as if EC would have concluded RA with third countries, it would not return their nationals in Albania, the country of transit, but in the country of origin. Thus, the challenge for Albania authorities is the conclusion of RA with countries of origin, in order to avoid the risk that Albania becomes the surrogate destination of the irregular migrants.

The conditions of detention are not adequate and in compliance with the legal requirements, due to the lack of a specific closed reception centers. As such, immediate measures should be taken in order to start the functioning of the envisaged building for this purpose. In parallel, Albanian institutions should start the recruitment and training of the staff of the closed reception center and draft the framework regulation of center.

Immediate measures should be taken for identification of the translators through a public call/advertisement, and if no one can be found in the country, support should be sought with international organizations or counterparts in EU to obtain written translation at least of the regulation of the center, rights and duties of the detainees.

Albania should also allocate relevant budget for translation and medical services for detained migrants as well as for the running/daily maintenance of the center, once it is functional. In this framework, it should consider application for financial support from EU in the framework of EU Programms of Assistance for third countries so as to partially alleviate the financial burden from the (tight) state budget.

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## **Political Communication and Journalism in the Balkans**

### **About journalism in general**

The process of informing is becoming one of the fundamental social processes, and the true, fast, accurate and complete information is a foundation of the democratic society and the political participation. The method of creating information has become a subject of the academic interest and social practice as individuals from various spheres, such as politics, business and culture are affected by it. Journalism in Macedonia can not be yet called an established profession. Namely, in Macedonia, as opposed to the U.S. for instance, anyone can be a journalist, regardless of his or her education. There are interdisciplinary studies in journalism at the Law Faculty in Skopje, which have been existing for the last 30 years, but for which there is relatively little interest.

These trends have made important the professional training of journalists in order to be able to interpret social reality. Journalists have realized that it is essential to have a continuous journalist training through innovation of knowledge and a constructive practice in media. Journalism is less and less tied to talent and skill, and more to formal education. Many journalists do not have formal education. The journalist power and dignity of profession is directly correlated to the intensity of media's influence in modern society as well as the possibility to manipulate public opinion - a possibility which is not vested in any other profession, not even in the government itself. Citizens nowadays (readers, viewers, listeners) are much more exposed to journalist interpretation of reality, than to factors that one-sidedly convey individual positions.

The shape of this profession is changing and with it is also changing the status and the evaluation of journalism in social frameworks. Journalists have become an influential, privileged and untouchable elite. There are various interpretations and theories that differ based on the idea of the role of journalism in society as well as on the quality and type of accountability that journalists have. Despite the fact that often journalism is accused of impairing the consensus which is necessary for the functioning of democracy, it still secures a forum for the different and opposing opinions. This is a result of the development and the use of new technologies in modern journalism (the intellectual level of the audience and the importance of media

in society). The theories that demystify the social role of journalism differ in two main aspects. According to one aspect journalism has a passive role (gatekeeping), while the advocates of the second aspect see journalism as an active factor and a spokesperson of the socially neglected groups – it investigates and reveals scandals and problems. It also sees journalism as a bridge between the socially neglected groups, as a pedagogue and a scout.

Historically, journalism has had its own development path, a “ripening” of the profession, its establishment and the introduction of professional criteria. Certain criteria and standards of conduct are being introduced in journalism, even if it is not to the extent being done in other professions (doctors, architects, etc.) This impulse for progress comes from within the profession, from its ethical essence, from professional associations and from the relevant departments at universities.

Most young people are attracted to take up journalism based on two fundamental values of journalism – freedom and the impulse for truth and objectivity. The ideal for truthfulness and objectivity has always been a complex concept. In the history of world journalism there are examples of many journalist sacrifices for accurate information and honesty in reporting. Often it is believed that the strive for the truth in reporting is a utopist attempt. Objectivity in journalism is not an individual concept, but a category tied to many related concepts: empirics, experiment, methodology, perception, positivism, and subjectivity. Such an explanation of objectivity actualizes the problem of journalist methodology and research. This is mainly related to the research work of the journalist whose aim is to detect the cause-consequence relations in social events.

With the development of media two types of journalism can be identified: reporting and interpretative. Today we can mostly speak about interpretative journalism. The reporting journalism presents events, answering to the questions: who, what, where, when and how, whereas interpretative journalist places events within the coordinates for the causal-consequential importance, i.e. it offers answers to the questions why and what next. The journalist is a professional who describes and analyses events (occurrences, individuals) as a result of gathering of all available facts in an effort to allow the audience to better interpret them. The interpretative method of elaboration of the subject is in correlation with the contemporary need the information to have depth and to be complete. A prerequisite for such information is to find the hidden facts through journalistic research. Such journalism is a barrier against manipulation. The need for research in journalism is a result of the need for interpretation of events, which in turn is a result of the increasingly large presence of media in society and in the crisis situations (wars, economic crises, social restructuring, etc.) Today the event is not only observed as an isolated, individual case, but as a link in a chain that connects the causes and consequences.

Interpretative journalism is “reporting by the use of facts, which without a comment sheds light and explains the event” (Ellmore R. T.,1992).

The journalist is required to have a high level of intellectualism, wide general education and specialist knowledge in certain areas (sports, culture, politics, ecology, medicine, etc.).

Taking into consideration the history and communication factors of interpretative reporting, it can be clearly seen how modern information is becoming more in-depth, fuller and ideologically neutral as well as its genesis. Uneducated journalist cannot be competent enough for the area for which they have been assigned in the editorial and are unable to use the methodology of journalist research. In order for the journalists to use journalist methodology it is essential that they know at least the fundamentals of theory and the most and often used research techniques and procedures, which are best elaborated in the methodology of social sciences, particularly in the methodology of social research. The studying of these methods must be incorporated into the process of journalist education. This will contribute to the acquiring of intellectual criteria and analytical skills. Especially important is the studying of the techniques for gathering information. The strategy for gathering information is “a product of the same spirit which connects methods of research in history, the method of work of intelligence agencies and the scientific method. The journalist research method - the search for facts related to current events that can be verified, is expressed through having initiative, observation and in-depth research – digging”.<sup>2</sup>

The public today is all the time more educated and it imposes the need of impartial and highly educated journalist. The high intellectual level of the audience, the educated and active journalists and the development of public journalism<sup>2</sup> put pressure on the false and partial reporting and are the main factors that condition the need for quality and interpretative information based on facts and argumentation. Such quality of information can only be a result of a new type of journalism that has appeared at the end of the 20<sup>th</sup> century, and in which base is the educated and research oriented journalist-specialist, who apart from the timely, full, and accurate information can also offer an explanation, i.e. an in-depth analysis, which in turn is a prerequisite for a straightforward and accurate conclusion.

## **2. Political communication and media – Information trends in te Balkans**

At present, the criteria for the democratic equality is untouched and clean zone for communication between those who ruled and the ones who are ruled. In the hands of the ruled ones the only shield and corrector to the authority remains the public opinion. Political communications are mainly institutionalized through media. Analogically, in the political analytics debates regarding the misuse of the political

communications are directed in two ways: firstly the structuring of media systems, and secondly, the misuse communications through ways and technique with which public opinion and understanding of the citizens are formed and creating with the aimed of taking over and main the authority.

In the first case there are two media systems: American and European ones. In the American model, the co called corporate oligopolism, there is no presence of state media. The public debate is a market merchandize which interesting enough for someone to buy it. I

In the European model of the media organization the degree of control depends on the type of political system. In practice, the state media are mainly on the hands those who ruled the state. The Republic of Macedonia belongs to these model where the political public traditionally is no treated as a market. Here, the political socialization in which, at present the media are key factor, is different.

In the second half of the 80s and in the 90s, the Balkan states were faced with serious economic and political challenges whose impact altered the logic of social living. These changes were simultaneous with some other crucial changes taking place at the world level. While the so-called Eastern Block was faced with radical social changes, the global changes that the world faced were, above all, of a technical and technological nature, the repercussions of which had their great impact in the area of communications. The development of remarkably fast communication systems in the 1990s introduced a different quality of information and of mutual understanding, in addition to a greater world- wide interdependence which in turn led to a swift globalization (economic, political and cultural).

After World War II, the Balkan countries, with the exception of Greece, lived in what was commonly known as the communist block. During this period the majority of the Balkan countries underwent a process of fast emancipation that increased the literacy rates of the population to a significant level compared to the European average. Hence the Balkan countries had a very specific historic experience that differed from the experience of the other European countries. The Cold War division of the world into two blocks continued until the end of the 1980's. This fact traced the path of development and of specific perception of the rest of the world. The historical experience of the Balkan states, the collective memory and life under the specific political system (that produced extensive closure) resulted in formation of stereotypes and prejudices in the perception and understanding of the world. The mobility of people was very low, and in some countries it was almost impossible. People received information about the latest world developments through the media owned by the state. In other words, the state had a complete monopoly over the diffused information. The media were often viewed as a means for disseminating socialist culture and values.

This already established perception of the world, as well as the dominant social psychology in the Balkans, began to change as a result of the changes in the socio-political systems, but also under the influence of the new means of information which was made possible by the new media: the satellite and cable TV, the Internet, the video and videotext as well as the computerization.

These technical and technological changes have contributed to new types of communication flows, bringing about changes in the social relations. The theory (it is also partially confirmed by research), points out the social power of media as well as the significant role played by the media in the distribution of information, the creation of public opinion and the global power of suggestion. The sociologists refer to the contemporary society as information society in which the information and its diffusion have a central meaning. The term *information society* associates mostly with the new media (product of the technological revolution) and the new means of transmission. When we talk about information societies we think of the societies in the developed countries where the computer and telecommunication technologies are widely accessible, a great number of people are employed in the information sector, the average spending on information products is remarkably high and the number of analysts of the information tendencies is growing. How many of the Balkan states participate in these tendencies?

The events that happened in the Balkans at the end of the 1980's and the beginning of the 1990's give us a rare opportunity to observe the role of media in the contemporary socio-political developments. The media were the key promoters of national identity, national consciousness and cultural identity. The political changes that happened in the media sector were expected to provide freedom of information and competition by means of pluralism. One of the first tasks was to transform the centralized media and their monopoly role. In the Balkan countries and most of Eastern Europe the state- owned media took over the role of national media. That was the case with the Republic of Macedonia as well.

The analysts of the media sector in the Balkans noticed two parallel processes: first, the creation of national media and second, the transnationalisation, due to the simultaneous presence of the processes of technological change and convergence. One of the common characteristics of the Balkan countries and Eastern Europe appears to be the lack of legal regulation in the media sector. The new media share some new characteristics that facilitate the development of a new way of communication deprived of the old features such as unilaterality, simultaneous distribution to the mass audience and the absence of interactivity.

In this respect, most of the communist Balkan countries, including Macedonia, are still challenged by the construction of a new media system, both in terms of technical modernization and in terms of legal definition of its media system. Hence,

here arise the problems of media monopolization, cultural protection, human resources, etc. The legal regulation of media represents a problem at global level as well. The legal regulation is hindered by certain economic factors and the fast technological innovations. One of the major problems regarding the media regulation is the monopolization of media. It worries the theoreticians of democracy because it threatens the competition and the quality of political communication. These are the two main guarantees of a democratic system. Some of the possible solutions to the problem of monopolization suggest recognizing the domination of only few media corporations and preventing the creation of new monopolies as well as establishing a stable and attractive public sector which would be the key factor in preventing the creation of new media corporations.

The media manipulation and its emancipatory role are the two main factors that impose the need of establishing a high quality legal framework in the media sector. Manipulation is an extremely harmful tool because it distorts reality by omitting the relevant facts that are necessary for having a complete understanding of the issue or by misinterpreting the present facts. The objective is to mislead the audience in order to achieve certain political or economic goals. According to Rainer Geissler there are two types of manipulation: in the first case certain élites or a class of people occupy the mass media, in the second case a mass political culture is being produced by means of the market- economic mechanisms (maximizing the recipients).

The emancipatory role of media is crucial for the contemporary world. In the contemporary societies the number of young people who expand their knowledge via Internet is constantly growing. Books begin to loose their popularity. In the future the media will continue to have the most important role in education. "With its ideologically death subjects as well as difficult and boring courses schools can not compete with the mass culture and its shining idols. But when they understand that and they try to imitate the mass culture and its way of presentation the schools only trivialize their subjects without making it less boring" (Mils, 1951). Yet, many sociologists warn that mass media direct their attention towards attractive and interesting issues from our lives neglecting those that are less attractive but nevertheless very important.

The developed European countries have already taken into consideration the great influence of media while preparing their teaching programs. They include subjects whose main objective is to develop the student's capacity and responsibility for critical understanding of the messages delivered by the media. Unlike the developed European countries where there is a long tradition in scientific and academic following of up to date media and information trends, it should be highlighted that the first departments in Macedonia were opened after the year 2000,

mainly at newly established private universities. Thus there is a great need in literature, staff as well as in research projects, exchange of students, etc.

A good media system and a thoroughly organized media policy is crucial for the integration processes in the Balkan societies. The introduction of cable and satellite TV imposed the issue of the diasporic or transnational audiences within the sector of the international public opinion. The diasporic audiences are composed of members of national minorities or communities that live in one country (ex: the Indian community in Great Britain, the Turkish community in Germany, the Moroccan community in Spain, the Albanian community in Italy, the Hungarian minority in Romania, the Macedonian minority in Greece and Bulgaria, etc...) Researches conducted in the Republic of Macedonia (Panova. 2000, 52-53) demonstrate that ethnic communities in Macedonia primarily follow satellite programs of their kin countries, followed by their interest in privately owned TV stations on ethnic grounds. The third in popularity are the commercial Macedonian TV stations, and the last is the Macedonian National Television. When it comes to diasporic audiences the same occurs in the countries of Western Europe, an example of which is the Turkish community in Germany. Such technological revolutions (satellite TV) in the area of communications (the possibility of diasporic communities to follow programs of their country of origin) seriously influences their attitudes as a political subject and a participant in the current politics of the country in which they live. In the Balkan region, where the use of cable and satellite TV is widely spread, the video and audiocassettes are not as important as in Iran, where vast part of the population lives in media isolation.

When we talk about new media the latest novelty is the multimediality. Multimediality represents an intersection of computers, telecommunications and media. "Four technological trends have contributed to these developments: first, the constant improvement in the capabilities of computers, together with declining costs; second, digitization of data, making possible the integration of computer and telecommunications technologies; third, satellite communications development; and fourth, fibre optics, which allow many different messages to travel down a single small cable. The dramatic communications explosion of recent years shows no signs of slowing down" (Giddens 2006, 594).

In this domain, the digitalization (the transfer of electronic signals by transforming them into binary signals) is one of the greatest technological achievements after the discovery of cable and satellite TV. The main characteristics of multimediality are: interactive use, integration of different types of media and digital technology. According to the way the personal computer is being used the multimediality can be classified into two forms: open and closed. When the user is connected to a telecommunications network through infrastructural network we have open multimediality, referred to as Internet.

“The Internet originated during the Cold War period that preceded 1989. The “Net” developed out of a system used in the Pentagon, the headquarters of the American military, from 1969. This system was firstly named the ARPA net, after the Pentagon’s Advanced Research Projects Agency. The aim was limited. The ARPA sought to allow scientists working on military contracts in different parts of America to pool their resources and to share the expensive equipment they were using” (Giddens 2006, 594).

The web was discovered in 1990 by a software engineer who worked at a Swiss physics lab and it was popularized by an undergraduate student at the University of Illinois.

The discovery of Internet was a real boom in the information sector and it led to great social transformations. This sophisticated communication network is owned by nobody and it is available to everyone. The greatest advantage of Internet is its capacity to develop a dynamic interactive communication. People from different parts of the world communicate with each other via this network<sup>57</sup>. This communication develops in accordance with the personal needs, interests and affinity. The possibilities offered by this revolutionary discovery are various: information diffusion, education, self- promotion and shopping. In addition the Internet absorbs the conventional forms of communication such as: conferences, congresses, round tables and other types of debates. It is feared that the Internet could wipe out the other media in their original form. However, it is still difficult to predict what the impact of Internet would be. For example, the discovery of radio and TV, which was considered a great advancement compared to the press, did not cause the disappearance of the last.

The theoreticians consider the Internet the basis of the new global order that appeared during the last years of the 20<sup>th</sup> century. The Internet is spread rapidly and spontaneously. The diffusion and use of Internet depends on money. Therefore, according to available data, the Internet is still, more or less, a privilege of the developed countries. One of the main conditions for the expansion of the Internet is the number of personal computers in use. Whether a family will own a computer and an Internet connection depends on its financial status. This correlation between the standard of living and the quality of information reveals that Macedonia, Albania and Bosnia and Herzegovina are among the countries in Europe with the least use of the Internet. In most of the Balkan countries the old media (such as newspapers, radio and TV) are still holding a dominant position in the information process. The change of

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<sup>57</sup> According to some researches the number of Internet users is approximately 35 million people. It is estimated that the annual Internet traffic growth rates in the period 1985- 1998 were close to 200%.

the socio- political system led to a free information flow and media pluralism, though with a disputable quality.

In this context the Balkan people know very little about the socioeconomic and political circumstances in their neighboring countries which has negative implications on the economic cooperation. The lack of information and true understanding of the other leads to the creation of stereotypes and prejudices which affects negatively the cultural cooperation not only in the Balkans but in the entire world as well. To a great extent it is the result of the development of the so called agency journalism (journalism that depends on news agencies). Very few of the Balkan media have a developed correspondent network; therefore most of them depend on the news distributed by the large global news agencies. These gigantic transnational corporations dictate the quantity and quality of information as well as the structure of the news system in the world. "The big four western news agencies, Associated Press (AP), United Press International (UPI), Reuters and Agence France- Press (AFP) are the heart of the world's news systems, pumping basic information from their headquarters to newsrooms throughout the world, whether English speaking or not" (Herbert 2000, 13).

It is estimated that internationally there are approximately 200 top journalists who enjoy the confidence of the establishment. They hold the monopoly over the information regarding the international diplomatic relations and they regularly attend all international events as reporters. As a result of their professionalism these journalists very often are given the role of advisors.

Due to the high costs, it is financially impossible for one media (radio, TV or newspaper) to have its own correspondent network that will cover the whole international arena.

The national agencies perform the key role in the distribution of news in each country and they are followed by the four transnational agencies. The national agencies serve as a filter which prevents the information aggression imposed by these gigantic world agencies.

When it comes to media and the dominant social opinions the issue of media and cultural imperialism or globalization can not be omitted. A global media order has already been established. If we scan the real situation we will notice a network of corporations in which the different media aspects (press, film, TV, publishing activity, music) are combined in order to form global communication corporations that possess the greatest part of the global flow of images and information. Some of the theoreticians criticize the current situation and talk about cultural imperialism. This refers above all to the invasion of Western culture, meaning the American cultural domination.

Regarding media and entertainment, the social psychologists talk about the narcotizing disfunction of media. This refers to the loss of critical consciousness as well as the decrease in productive social engagement of people under the influence of media. This is achieved by giving too much space and time to cheap entertainment. Via the process of commercialization, media become a means for moving people away from the real life problems such as: economy, politics, social responsibility, etc...

The globalization of youth culture happens at very fast speed. The key role in this process is performed by the TV station MTV which is specialized in music television. This TV station appeared in 1981 in the US and it begun working in Europe in 1987.

In 1980's the European countries begun implementing quota (for non-European media contents) in order to protect themselves from the American influence. The sociologist McQuail (McQuail 1994) believes that there should not be any concern regarding the influence of the transnational media, especially in the case of Europe, because the cultural influence comes from a culture which is historically fond of Europe. In the Balkans this type of protection is still not debated in debates and it is completely absent in the audiovisual politics.

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**The Financial Crisis, Its Dimensions and Consequences in the World and the  
Albanian Economy****Abstract**

The goal of this paper is to give a complete overview of the global financial crisis consequences in the Albanian economy. It is a fact that the world crisis has affected our economy by trembling the factors and equilibriums that have supported economic growth. These factors have been reflected in the reduction of the level of consumption, of exports and investments, bringing to a deceleration of the economic activity and a greater pressure over fiscal indices, such as budgetary incomes and budget deficit.

The decline in the inflow of foreign currency funds has also been associated to the worsening of the balance of payments indices and to the augmentation of depreciative pressures over the foreign exchange rate.

**Key Words:** global crisis, economic growth, trade deficit, exchange rate.

**What is a financial crisis**

The term financial crisis can be used to describe a "*series of situations in which some institutions or financial assets lose immediately a large part of their value*"<sup>1</sup>. Many economists have been offering their theories on how a crisis starts and develops, what are its causes and effects and how can it be prevented. But, unfortunately they have not yet come to a consensus as far as these issues are concerned and as a consequence the measures to prevent such situations are still lacking nowadays.

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<sup>1</sup> A.Boriçi, Diploma Thesis" The global financial crisis and its effects in the world and the Albanian economy" (September, 2009), pp 6

## A historical overview

The American crisis, the crisis of the most powerful nation of the world, has been recently placed in the first pages of the pan world media, being considered the issue of the day not only by the US, but by the world as a whole. The belief that the American economy, as a consolidated and solid economy, could not face such a critical situation was trembled. The crisis of the year 1929, the so called "Great Depression", was almost forgotten until the US faced recession again in the year 2008. In that period the value of the stocks in the NYSE fell from 80 to 50 billion US dollars within certain hours. In the year 1933, when the crisis was about to end, the Dow Jones index was at the same value as that of the year 1900. On the 29<sup>th</sup> of October 1929 the NYSE faced what was called the "The black Tuesday", which signed the beginning of an unseen crisis in the New World. The drastic decline in the prices of stocks in NYSE lasted almost a month, but only after certain years NYSE was able to reach the prior to crisis levels.

It is imperative for the American society and the world economy as a whole that specialized and long analyses be conducted in order to explain in details the actual global crisis. The causes of it must be well known, because this is the only way to prevent other economic disasters in the future.

However, the crisis that first showed in the real estate sector (construction, buying and selling of real estate) originates in the American financial system, as well as in the way the American economy is financed<sup>2</sup>. According to some authors, the stock exchange is the one of the main financing resources for the American economy, taking into account too the drawbacks of this financing. On the other hand, from a general overview of the actual world recession, tendencies to limit the trade economy and the free enterprise can be distinguished, which bring to the question if a higher intervention of the government in the economy is necessary.

The free market is being considered the main responsible for the actual crisis, while the real cause of it has in fact been the intervention of the US government. The involvement of the later took two forms<sup>3</sup>:

- The first one was through the use of the Federal Reserve, which decreased the rate of interest from 6.5% to 1% in the January of 2001 and hold that level until the June of 2003, stimulating a massive wave of lending.
- The second form has been the use of two companies sponsored by the government, Fannie Mae and Freddie Mac, to offer assurance for house loans.

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<sup>2</sup>Nuro A., <http://tsh.albemigrant.com/?c=120&a=1562>

<sup>3</sup>Nurellari A., <http://arkivi.peshkupauje.com/kriza-ekonomike-dhe-rruga-e-trete/2008/10/21/>

## How did the financial crisis “tsunami” expand?

In June of 2004 the Federal Reserve decided to restrain monetary policy by increasing interest rates by 1% to reach the level of 5.25%. This increase continued until the August of 2007. The drop of the houses' prices put into difficulties many banks which have offered loans or loan guarantees to buy houses the market value of which was now lower than the value of the credit used to finance them. Events took the following path:

- On the 6<sup>th</sup> of June 2007 the first victim in the American real estate market, the well-known American Foundation Home Mortgage failed.
- On the 9<sup>th</sup> of June 2007, BNP Paris stopped its three investing funds, of a value of 2 billion euros, because their market “disappeared”<sup>4</sup>.
- In March of 2008 J.P. Morgan Chase, one of the strongest American banking and commercial institutions, bought the shares of another company, one of the most aggressive Wall Street institutions, Bears Stearns, which was also risking failure. Each share cost 10 dollars. Transaction financing was possible because the American government had offered the guarantee for a 30 billion US dollars credit acquired b J.P Chase Morgan.
- In September of the same year American government bought the two mortgage companies Fannie Mae and Freddie Mac which otherwise would have lost until 5000 billion dollars. A part from these events the crisis progress could not be stopped<sup>5</sup>.

The Treasury Department and the FED refused to continue the intervention with the excuse that this would cost billions of dollars to the American taxpayers. Immediately after this statement the investing bank Lehman Brothers declared its failure based on the Code 11 of the Failure Law. Its debt to the American creditors amounted to a value of about 610 billion dollars. Other banks chose other ways. Merrill Lynch for example saved the failure by being sold to the Bank of America at the amount of 50 billion dollars. To save the insurance company AIG the Treasury Department offered to it a loan of around 85 billion dollars. If this loan is not paid on time the government has the right to sell the company assets through an auction<sup>6</sup>.

However the biggest intervention of the government took place during the last week of September 2008, when the administration of the ex-president George W. Bush gave an absolute authority to the Treasury Department to buy all the assets and

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<sup>4</sup> Selmani B., [http://myweb.tiscali.co.uk/kosovo/kriza\\_financiare\\_2008.html](http://myweb.tiscali.co.uk/kosovo/kriza_financiare_2008.html)

<sup>5</sup> U.Lushi, <http://qafirarnaut.wordpress.com/2008/10/01/cfare-po-ndodhe-ne-tregjet-financiare-boterore/>

<sup>6</sup> Ivi.

mortgages owned by banks which altogether would amount to the value of 700 billion dollars. This guarantee provided by the American government would then increase the level of the US national debt to the value of 11.3 trillion dollars, making it difficult for this government macroeconomic maneuvering. The deficit of the American government for this year was projected to reach the value of 500 billion dollars, but undertaking this project increased this figure to the level of 700 billion dollars. In simpler terms this expense for the American government is about the same as the cost of Iraq occupation and will cost around 2000 dollars to each American citizen<sup>7</sup>.

### **The expansion of the crisis and its consequences in other countries**

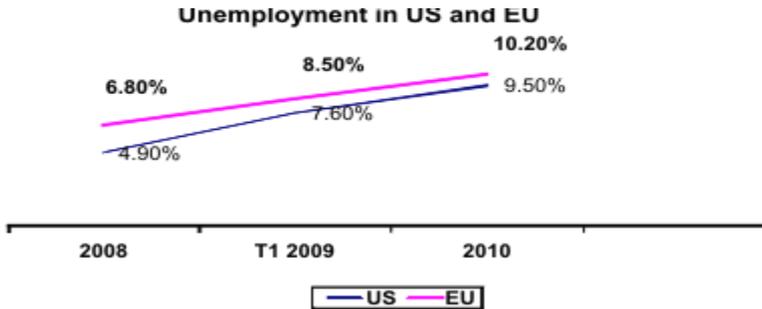
Because of very high indices of the American economy and of the high degree of the integration between international financial systems in the world, financial crisis expanded very quickly in other countries as well. The fast evolution of the crisis and the lack of trust on the international markets resulted in the decrease of liquidity and the increase of interest rates in these markets, where for example, LIBOR and EURIBOR experienced continuous growth. As a consequence a considerable number of banks faced big financial difficulties which itself influenced negatively in the level of trust in the markets. Within a very short time problems in the financial sector did reflect in the real economy sector. The economic deceleration in the US was associated with the decline in the level of this country's exports and imports, which than affected directly the economies of certain other countries. The increase in the level of unemployment and the decrease of the purchasing power were consequences of the recession that expanded over the world. After the US these indices experienced drastic decline in other developed countries too.

The economic recession in the developed world caused a decrease in the industrial production of about 12%, directly influencing the unemployment degree enhancement. 5.1 million job places were lost in the US, mainly in the services sector, in the processing and in the construction industry. In the EU countries too unemployment rate increased, reaching the level of 8% by the end of 2008, compared to a 6.8% rate in the previous year. According to some forecasts by the end of 2010 the unemployment rate in the US and in the EU will be respectively 9.5% and 10.2%<sup>8</sup>.

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<sup>7</sup> Ivi.

<sup>8</sup> Annual Report of Kosovo Central Bank ,  
<http://www.bqkkos.org/Publications/BQK%20Raporti%20Vjetor%202008.pdf>

**Figure 1.**


*Resource:BoA (2008)*

### IMF forecast

International Monetary Fund, in its document of “World Economic Forecast, Crisis and Revitalization” of April 2009, emphasizes that world economic growth for the year 2009 is expected to be 1.3 % negative. The growth rate in the economies of the developed countries will be limited to around 3.8% (for the first time from the Second World War), while developing economies will grow by only 1.6%. Besides this situation not very positive a regeneration of the world economy is expected by the year 2010, when economies are expected to grow in average by 2%. On the other hand, in the Euro zone the growth is expected to be 0.4% during 2010, while our economy is expected to grow by 0.7%.

Recession will influence public finance as well. The primary deficit is expected to increase from 2% of GDP in 2008 to the level of 4.5% during 2010<sup>9</sup>.

Following, using a table and a chart, will be presented the evolution of the GDP level and inflation level during the years 2007-2008 and the forecast for the years 2009-2010

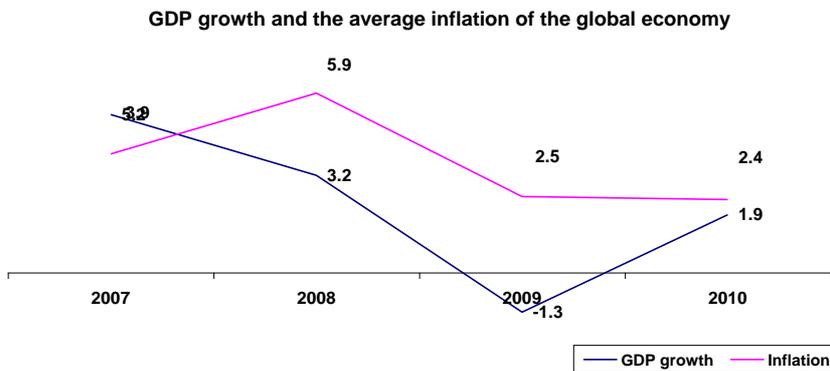
	GDP Growth			Forecast	Annual average Inflation			Forecast
	2007	2008	2009	2010	2007	2008	2009	2010
GLOBAL ECONOMY	5.2	3.2	-1.3	1.9	3.9	5.9	2.5	2.4
Developed Countries	2.7	0.9	-3.8	0	2.2	3.4	-0.2	0.3

<sup>9</sup> Report of the Financial Stability, Bank of Albania,  
[http://www.bankofalbania.org/web/Raporti\\_i\\_Stabilitetit\\_Financiar\\_2008\\_5462\\_1.php](http://www.bankofalbania.org/web/Raporti_i_Stabilitetit_Financiar_2008_5462_1.php)

USA	2	1.1	-2.8	0	2.9	3.8	-0.9	-0.1
Japon	2.4	-0.6	-6.2	0.5	0	1.4	-1	-0.6
Eurozone	2.7	0.9	-4.2	-0.4	2.1	3.3	0.4	0.6
Great Bretagne	3	0.7	-4.1	-0.4	2.3	3.6	1.5	0.8
Developing Countries	8.3	6.1	1.6	4	6.4	9.3	5.7	4.7
Central Est Europe	5.4	2.9	-3.7	0.8	6.1	8	4.6	4.2
China	13	9	6.5	7.5	4.8	5.9	0.1	0.7
India	9.3	7.3	4.5	5.6	6.4	8.3	6.3	4
Brazil	5.7	5.1	-1.3	2.2	3.6	5.7	4.8	4
Meksiko	3.3	1.3	-3.7	1	4	5.1	4.8	3.4

**Table 1.** Resource: BoA, 2009

**Figure 2.**



Resource:BoA (2008)

### Effects of the crisis in the Albanian economy

The year 2008 was positive for the economic growth of Albania, which was estimated to have surpassed the yearly level of 6%. Economic growth was supported by considerable fiscal and monetary stimulus, in the context of the budgetary expenses and financial sector credit support. However, the effects of the international financial crisis started to be felt in Albania to by the last quarter of 2008. They were reflected in

the developments of the balance of payments, in the deceleration of the credit growth and in the reduction of optimism through businesses and individuals for the economic developments in the near future<sup>10</sup>.

The negative effects reflected in the Albanian economy by the end of 2008 enlarged during the year 2009. The impact of the world crisis was felt mainly in the strong deceleration of the economic growth as well as in the decline of the incomes.

At these conditions it is necessary to review the level of public expenses in order to adjust them to the income generation. These way better conditions would be created to preserve budget deficit at the expected level of 4.2% of GDP.

During the year 2009 exports have experienced a higher decrease as compared to imports. A significant decrease was also registered in the level of remittances. As a result of the higher degree of unemployment in the countries were they live and work, Albanian emigrants are continuously sending less foreign currency to their home country.

The value of the ALL (Albanian LEK) and the level of prices in the Albanian market have also been affected by the world recession. "The Supervision Council of the Bank of Albania in its meeting of July 29<sup>th</sup>, 2009, after getting informed about the later economic and financial developments within and outside the country and after the careful analysis of the trust indices, expectations of the banking system and the specialists forecasts about inflationist developments in the future 8 quarters, decided to keep unchanged the basic interest rate"<sup>11</sup>.

Following will be provided three charts showing the evolution through the years of three main Albanian macroeconomic indicators, GDP, foreign exchange rate and inflation rate. It is difficult to forecast the economic growth of Albania during 2009, according to the IMF this growth is expected to be somewhere around 0.4%, while according to the Ministry of Finances it might reach the 4.8% level<sup>12</sup>.

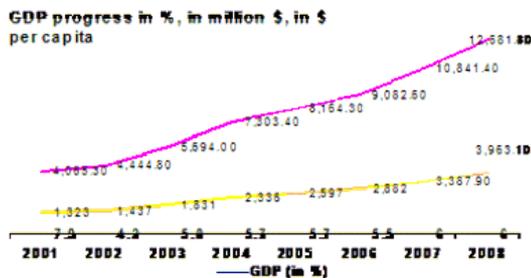


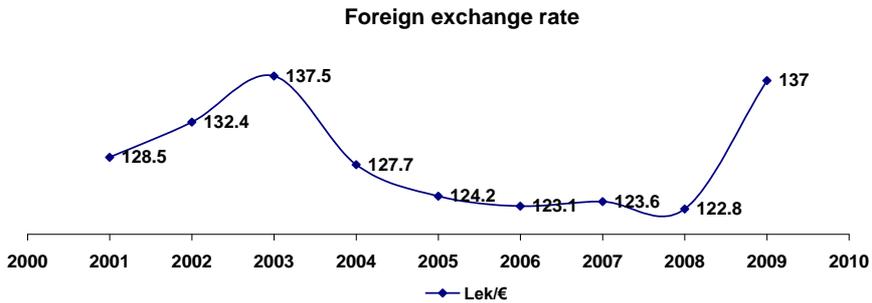
Figure 3

Resource: Bank of Albania (2008)

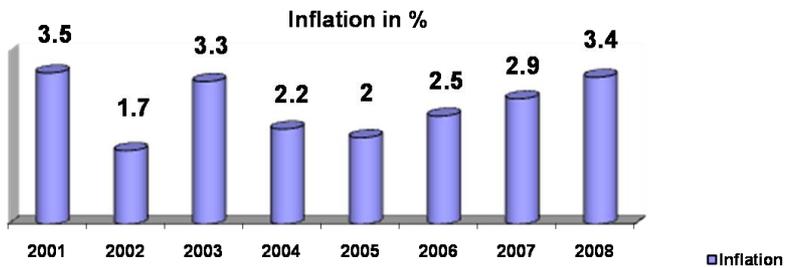
<sup>10</sup> Bank of Albania, Annual Report 2008.

<sup>11</sup> Bank of Albania, 2009.

<sup>12</sup> <http://www.top-channel.tv/artikull.php?id=159930>

**Figure 4.**


*Resource: Bank of Albania (2008)*

**Figure 5.**


*Resource: Bank of Albania (2008)*

### Foreign trade

By the end of 2008, the deficit in the current account reached the level of 14.9% of the GDP, from the 10.4% at the end of 2007 which is equal to a 55% increase. The value of this deficit has been deepening during the fourth quarter of the year, because of the decrease in the level of exports and emigrants' remittances. The decrease in the net current transfers has been estimated to be around 213 million Euros. The difference between imports and exports, in other words the trade deficit, was calculated to be 27.9% of GDP in 2008, compared to 26.6% in 2007. The main factor for the worsening of this index has been the increase in the level of goods trade deficit by 301 million Euros<sup>13</sup>.

<sup>13</sup> [http://www.bankofalbania.org/web/Annual Raport\\_new\\_2611\\_1.php](http://www.bankofalbania.org/web/Annual%20Raport_new_2611_1.php)

This tendency is continuing this year too. The value of exports for the first two months of the year was 14 billion and 151 million ALLs or about 2.2 billion ALLs lower than that of the first two months of 2008. Imports have been decreasing too from a 64 billion ALLs for the first two months of 2008 to 61 billion ALLs for the first two months of 2009<sup>14</sup>.

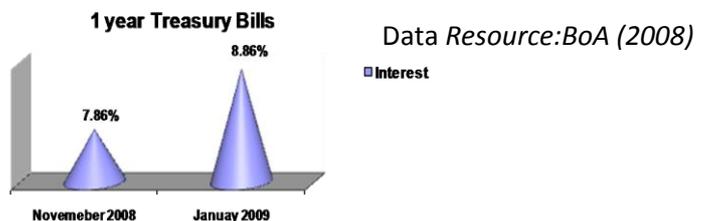
The General Directory of Customs has reported that during the first two months of 2009 the amount of the realized incomes was 1.8 billion LEKs lower than the amount planned for this period<sup>15</sup>. Official data reveal that from 16 billion and 267 million ALLs planned to be collected during this period (in the form of customs duties, VAT and other taxes) only 14 billion and 422 million ALLs were actually collected. This means that only 89% of the planned got realized<sup>16</sup>.

### The Albanian financial market

The banks and the Albanian financial system witnessed that they were not directly related to the foreign financial markets. Lack of liquidity was not noticed at the beginning. Also, during the past year the lending process did not decelerate. The Bank of Albania asked to second level banks to keep high the level of credit to the Albanian economy.

Treasury Bills interest rates continued to grow even during 2009. In January of this year the one year Treasury Bills interest rate reached the level 8.86%. However, the proclaimed amount in the auction was not achieved. The same thing happened with the 6 months Treasury Bills, whose interest rate reached the level 7.46%. Compared to November 2008, the one year Treasury Bills interest rate increased by 1 %.

**Figure 6**



<sup>14</sup> Uruçi E. & Begani A., The impact of the actual global crisis in the Albanian economy and business, International Scientific Conference, 25<sup>th</sup> -27<sup>th</sup> September 2009, Belgrade, Serbia

<sup>15</sup> Ivi.

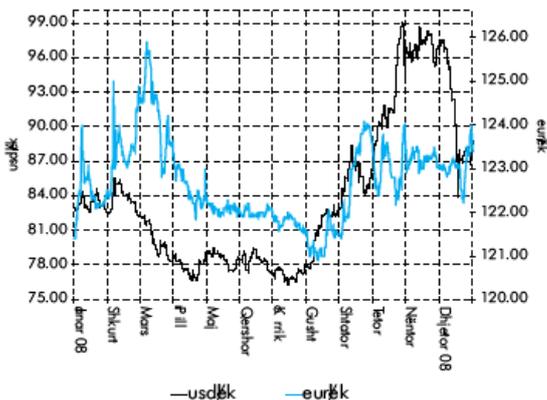
<sup>16</sup> Ivi.

This continuous increase in the interest rate of the Treasury Bills witnesses that banks continue to have liquidity difficulties and the demand of the government for money has not yet been accomplished<sup>17</sup>.

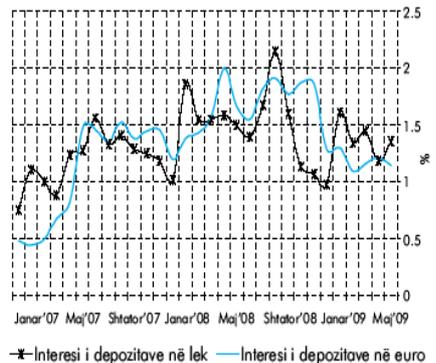
### The foreign exchange market

In general, during the year 2008, the progress in the value of the ALL has been reflecting the stability of the country's macroeconomic indicators, the positive difference of interest rates in various foreign currencies, the developments in the international currency exchange market and the temporary movements in the demand and the supply for foreign currency in the internal market. Following is presented a chart showing change in the value of the ALL vs. the USD and the Euro during the year 2008, followed by another chart showing interest rates for deposits in ALLs and in Euros.

**Figure 7. EX rate fluctuations (2008)**



**Figure 8. Deposit interest rates (ALL vs. Euro)**



Resource:BoA (2008)

<sup>17</sup> E.Uruçi & A.Begani, The impact of the actual global crisis in the Albanian economy and business, International Scientific Conference, 25<sup>th</sup> -27<sup>th</sup> September 2009, Belgrade, Serbia

## The Euro dilemmas

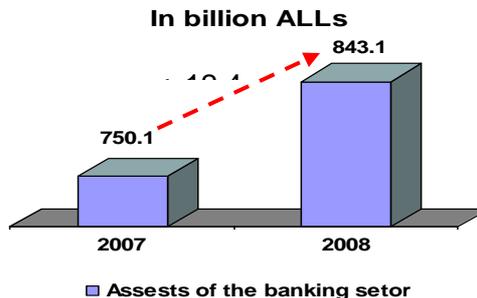
The analysis of the foreign exchange rate during the summer's season of the last 5 years has usually evidenced the depreciation of the Euro vs. our currency. This has been explained with the inflow of foreign currencies in Albania through emigrants' remittances and the increase in the number of tourists during this period. In the new situation created by the world recession, by the end of 2008 and during 2009, was noticed a stability of the European currency vs. the ALL. This is related to the decrease in the level of foreign trade of Albania and to the return of emigrants from the countries where they previously worked. Another factor that caused this situation was also the decline in the number of foreign tourists in Albania.

The current deficit, about 15%, represents itself another red light that can influence negatively to the value of the ALL, together with the increase in the interest rates and difficulties in attracting investments<sup>18</sup>.

## The banking system, deposits and loans

The year 2008 signed an increase in the banking system activity, which is evidenced in the total level of assets in the system reaching the value of 843.1 billion ALLs or 12.4% higher than that of the previous year.

**Figure 9.**

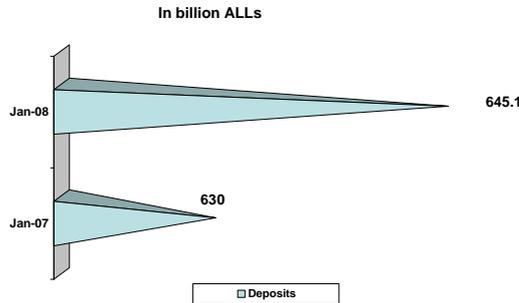


*Data Resource:BoA, 2008*

<sup>18</sup> Sh.Cani, Qeveria, indiference vrastare ndaj krizes, Shqip Newspaper, The Economy Session, may 20 2009, pp 6

Besides the many problems faced by the economy of our country, the year 2008 has also been characterized by a 36% increase in the sector as compared to 2007. Clients deposits as well increased by 2.4% in comparison to the year 2007.

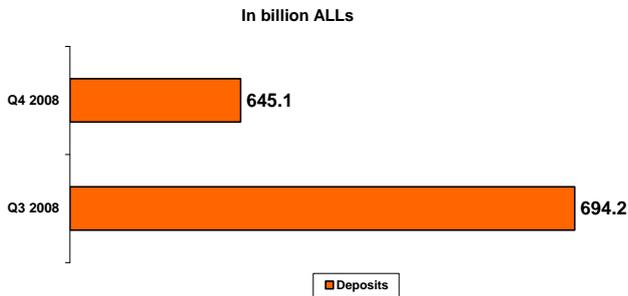
**Figure 10.**



*Data Resource:BoA, 2008*

It must be emphasized that by the end of 2008, the weight of public deposits versus the total fell for the first time after some years, as a result of deposits withdrawals. It is estimated that during this period 49.1 billion ALLs were withdrawn or about 7% of the value of deposits in the third quarter.

**Figure 11.**



*Data Resource:BoA, 2008*

By the end of 2008, the major part of the assets in the banking sector consisted of the credit portfolio, which accounted for 47.6 % of the total or 3.5 percentage points higher than the level of this indicator by the end of the third

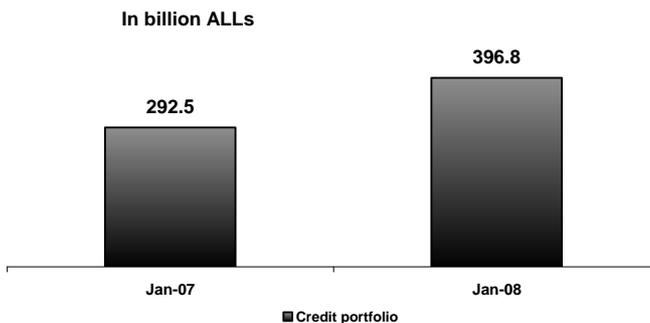
quarter. The weight of the credit portfolio within the total assets of the banking sector has been continuously increasing since the end of the year.

But the reduction in the fund resources of the banks and the increase in the level of insecurity caused a deceleration in the credit growth rates. However, during the first months of 2009 the credit to our economy has been increasing again. Also the banking system has signaled that the credit conditions will not be restrained more during the last two quarters of 2009. The demand of the private sector for credit in ALLs has been faced with a continuous willingness by the banks to satisfy it, as result of the liquidity situation stabilization and of the release of the monetary conditions at the beginning of 2009<sup>19</sup>.

The credit portfolio reached the value of 396.8 billion ALLs, which is equal to 37% of GDP. Compared to the same period of the previous year this balance evidence a 36% increase equal to a value of 104.3 billion ALLs.

According to the Bank of Albania survey: "Banks are expecting an increase in the interest rates for foreign currency loans, which will be agreed in the third quarter of 2009. The net percentage of the banks that share this expectation is 12.3%, compared to the percentage of banks expecting increase in interest rates for credit in ALLs, which is only 4.7%"<sup>20</sup>.

**Figure 12.**



*Data Resource:BoA, 2008*

According to the EBRD, Albania may be faced with the second wave of the crisis as result of the increase in the bad debt and of businesses financial difficulties. According to its experts all countries that were characterized by high economic growth rates are now facing demand and foreign direct investments decline. This situation

<sup>19</sup> Bank of Albania, 2009.

<sup>20</sup> "Panorama" Newspaper , August, 2<sup>nd</sup> 2009, pp. 6

needs an immediate intervention of the government and the major measures suggested include<sup>21</sup>:

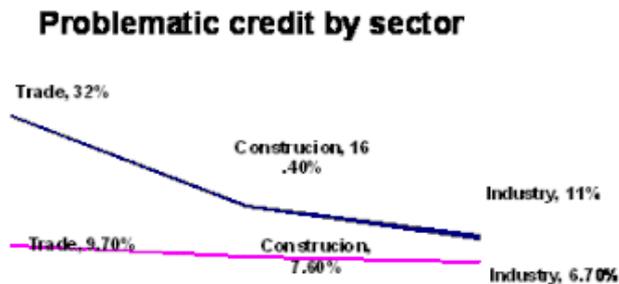
- Reconstruction of the private debt,
- Reduction of the risk from the foreign exchange, and
- Improvement of banks balances through their capitalization.

The Bank of Albania itself has declared that the volume of problematic loans as increased, meaning that the quality of the credit portfolio has diminished. The trade sector is considered to be the most problematic as far as credit repayment is concerned.

In the fourth quarter of 2008, the sectors which account for the biggest part of the problematic credit include<sup>22</sup>:

- The trade sector, which accounts for about 32% of the total problematic credit (was 9.7 %),
  - The construction sector, with 16.4% of the total (was 7.6 %).
- The industry sector, with around 11% (was 6.7 %)

**Figure 13.**



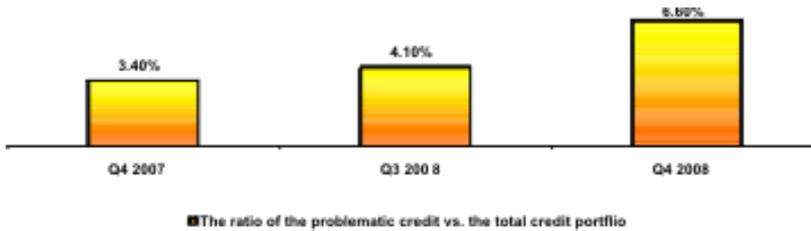
Data Resource: BoA, 2009.

The ratio of the problematic credit versus the total, on a gross basis, has been changed as follows through the fourth quarter of 2007 and the third and fourth quarter of 2008 <sup>23</sup>.

<sup>21</sup> "Panorama" Newspaper, July 28<sup>th</sup>, 2009, pp 6

<sup>22</sup> "Panorama" Newspaper, July 29<sup>th</sup>, 2009, pp 17

<sup>23</sup> "Panorama", Newspaper, July 29<sup>th</sup>, 2009, pp 17



**Figure 14.**

Data Resource: BoA, 2009.

By the end of 2008, 78.3% of the credit portfolio was considered “standard”, i.e. that can be repaid regularly, and only 1.3% of it was considered “lost credit”, for which banks have started procedures of recovering through the execution of the collateral.<sup>24</sup>

### Construction sector

During 2007 and 2008 the number of constructions and sales in the construction sector has been decelerating. Many companies report to have difficulties in collecting their funds. Actually, construction business in Albania will work and invest much less than before because there is lack of liquidity and the total activity is expected to fall to the 60% of their capacities. The major reasons for this situation are:

- The reduction in the level of credit offered by the banks
- The deceleration of the economic growth and reduction of remittances<sup>25</sup>.

The future does not seem optimistic too, specifically for the housing market. Less credit offered by the banks will be followed by a lower demand for houses purchases, because around 80% of these transactions are financed by mortgage loans. This sector accounts for 13% of the GDP, taking an important place in our economy<sup>26</sup>.

### Conclusions

- The world recession has affected Albanian economy by trembling the factors and equilibriums that have supported its economic growth.

<sup>24</sup> Same as above

<sup>25</sup> E.Uruçi & A.Begani, The of the actual global crisis in the Albanian economy and business, International Scientific Conference, 25<sup>th</sup> -27<sup>th</sup> September 2009, Belgrade, Serbia

<sup>26</sup> Same as above.

- These effects have been reflected in the decline of consumption, exports and investments, resulting in the deceleration of the economic activity and pressuring over the fiscal indicators, such as the budgetary incomes and budget deficit.
  - The decrease of the foreign currency inflows has been associated with the worsening of the balance of payments indices and the depreciation of the ALL versus the most important currencies.
  - Also the slow increase of the credit and of the monetary supply as well as the slow progress in the budgetary incomes is a sign that the rhythm of economic growth in Albanian has been falling.
  - In these conditions it is necessary for the government to intervene in order to alleviate the negative effects of the crisis. It is important for the economic activity to be revived and in this context the government should play its role
  - Stimulating export activities would be a good start. Providing legal, financial and promotional support to businesses working in this sector would help enhance the inflow of Made in Albania products in the foreign markets and face more successfully international competition.
  - Also the creation of a favorable political and legal environment would help attract more foreign direct investments, which in turn would bring foreign currency to Albania and therefore would help reduce the balance of payments deficit and the risk of ALL depreciation.
  - On the other hand, businesses themselves should be more careful in planning and managing their activities, by emphasizing more on long-term instead of short-term profits.
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13. *Panorama (2009), Newspaper, July 28<sup>th</sup>, 2009, pp 17.*
14. *Panorama (2009), Newspaper, July 29<sup>th</sup>, 2009, pp 6.*
15. *Panorama (2009), Newspaper , August, 2<sup>nd</sup> 2009, pp. 6*

**Jeta HANI and Kadishe LIMANI**

**Does Macedonia Have to Abandon Its Fixed Exchange Rate of the Denar or Devalue It?**

**Introduction**

We are in the world economic crisis' swirl and the economies in transition are intervening in order to protect their currencies from devaluation, concretely Macedonia. Our research treats the issue if, in the actual crisis conditions, Macedonia has to keep its fixed exchange rate of denar or to pass into another exchange rate regime. The research also treats the alternative if Macedonia has to do an eventual devaluation of denar, in order to protect its economy from the actual world crisis.

Because of its fixed exchange rate regime of denar, it is recommended a restrictive monetary policy in order to be ignored the possible risk of loaning as a result of giving loans without cover up from the banks of the second level. This can cause serious damages in the banking system of Macedonia. A restrictive monetary policy also means an increase of interest rates in short terms which will have effects in decreasing the credits. This policy, in one hand, will affect negatively the components of Aggregate Demand (decreasing them), but will generate positive effects in keeping safe the banking system of Macedonia from any influence of the crisis, in the other hand. Macedonia, through a fixed exchange rate of denar, will eliminate the possible importation of inflation from other countries. One of the elements that influences in the current account is the possibility of speculation as a result of possible fluctuations of inflation and interest rates. Based on the Balance of Payments and the effects of global financial crisis on the most important macroeconomic indicators we conclude that Macedonia needs to continue keeping its currency exchange rate fixed.

An eventual devaluation of denar can cause deterioration of the denars' fluctuation and worsening the situation of the commercial banks. In a case of increasing the need for denar for daily purposes, the public and enterprises will replace their deposits in foreign currencies for denars with a high exchange rate. Obviously, this affects negatively the banks' liquidity of denar. The only positive effect of the eventual devaluation can be the fact that Macedonia will have cheaper exports. But keeping in mind the fact that the world financial crises has attacked also the most important importers of Macedonia, EU countries ( up to 50% of foreign trade Macedonia realizes with these countries), this cheapening of the Macedonian exports will not have a significant effect in the current account.

## **The exchange rate policy in The Republic of Macedonia and other economies in transition**

Since the beginning of the years 1970 with the collapse of the Bretton Woods system, the determination of the process of the exchange rate for the countries in development has been substantially different than the industrial countries. The majority of the industrial countries have followed a policy of variation management, in which the trade forces determine the exchange rate, even though with a frequent intervention of The Central Bank. As contrast, the majority of the countries in development didn't relinquish the policy of determination of the exchange rate of their currency. So, for the countries in development the exchange rate has remained a political instrument.

The regimen of the fixed exchange rate is a kind of system, where the government or the monetary observer authority holds the convertibility of their coin in a fixed exchange rate. A coin is convertible if the Central Bank will buy or sell that amount of coins that the citizens want to exchange in a fixed exchange rate.

**In the system of a fixed exchange rate, the monetary authority interferes to maintain unchanged the exchange rate. If the cost of the coin increases, the monetary authority can sell native currency or decrease the interest rates.**

The fixed exchange rate has its advantages and disadvantages. Firstly, one of the advantages of this exchange rate stands in the way that it creates stability for the enterprises and families because it encourages investments and trade. Throughout these fixed rates, the varieties of the currency rate are eliminated and as a result it also eliminates competitive ability of the native enterprises. The enterprises are safer with their capital investments as a result of the stability of the interest rates.

Secondly, the fixed exchange rates can act as limiters of the native inflation. This happens because they eliminate the possibility for an inflation to be imported from other countries. **Finally**, the fixed exchange rates prevent speculations, because there is no need since the system is fixed. One of the elements that influence the Current accounting is the possibility of speculations as a result of the possibilities for variation of the inflation and interest rates.

However the fixed exchange rates have their disadvantages. The main critic is that the government should have sufficient stocks to maintain the fixed price of their coin. At the same time, the enterprises of a country can be noncompetitive if the exchange rate is fixed too high. An exchange rate above the world level would

decrease the competitive ability of native enterprises and as a result the decrease of exports and increase of imports, causing a chain reaction. On the other behalf, the monetary authority should interfere in exchange rate, where it could happen that it could undertake policies that damage the native economy. For example, *to maintain a fixed rate, the government can increase the interest rates and as a result can decrease the demand in the country.*

The volume of imports increases when native currency is valued. This makes foreign goods cheaper in compartment to those native. That's why the offer of native currency connects in a positive way with the exchange rate when it is measured with the first method and the opposite for the second method.

### Is Macedonia immune from the crisis?

Considering that Europe has officially entered **recession**, which means increase of unemployment and the creation of many problems for our country (problems that will be pointed out later during the structural analysis of the balance sheet of payments of RM):

- **Firstly**, the demand for Macedonian exports will decrease as a result of the general demand decrease;
- **Secondly**, foreign investments will be restrained, and the interest for privatization by European investors will decrease;
- **Thirdly**, will the increase of unemployment, the income of emigrants will be afflicted negatively reducing their entrances in the country;
- **Fourthly**, the predicted EU funds for the non-member countries (like our country) will decrease in the projects for aid, infrastructure, public services etc.
- **Fifthly**, there will be implications in the variation of all basic macroeconomic indicators such as economic increase, exchange rate, monetary offer, inflation, interest rate, unemployment, the deficit of the KORRENT and budgetary accounting, profit of the enterprises, etc.
- **Sixthly**, it will influence the increase of financial cost of the debt, if the Government will enter the market for long-term funding in currency;
- **Seventhly**, there is risk of imported inflation in a second phase.

*The country should observe the possibility to increase currency stocks for an unexpected stroke of the coin by the devaluation to limit the damages in the economy.* The calls for investments encouraged in the most inappropriate conjuncture should not be allowed, because it will end with unserious investors, in sale of the national

values with low prices etc. *Experience tells us that if the interfere and feedback by the authorities is late, the cost that the country will confront will be higher.*

## **II.How does the monetary policy influences the Macedonian economy ?**

### **IS-LM Model**

In this model, „IS,, shows the different combinations of incomes and interest rates where the market of goods is in equilibrium; „LM,, shows the combinations of interest rates and incomes where the market of money is in equilibrium.<sup>1</sup> Since in economy every study begins with assumptions, we cannot depart from this fact also in our analysis of the “IS-LM” model, as a key element to receive a desired answer (How does the monetary and fiscal policy influence the economy of RM?).

We suppose that the government has specified as objectif to stabilize the revenues in the point  $Y^*$  and this could be achieved with expansive fiscal policy and restrictive monetary policy. The equilibrium in point E1 where LM 1 and IS 1 intersect, implies high interest rates and low level of investments and consumption of the private sector in PBB where that kind of policy is followed.

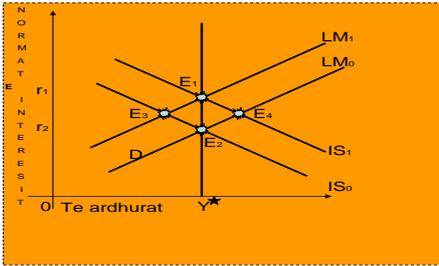
*Seeing on behalv of the other side, with a expansive monetary policy and restrictive fiscal policy, the equilibrium in point E2 which implies an intersect of LMO and ISo is still accomplishing the targeted revenue ( $Y^*$ ) but with lower rates of interest  $r_0$ . the participation of investments and consumption in the private sector of PBB will be higher than in point E1. If the government chooses restrictive monetary policy and restrictive fiscal policy it will result with a restrictive policy exertion which in the graphic is the point E3*

*If the government chooses expansive monetary policy and expansive fiscal policy it will result with a expansive policy exertion wich in the graphic is the point E4, and*

The possible alternatives (points E1, E2, E3 and E4) in the graphic suggest that it ideal to follow a restrictive fiscal policy and a expansive monetary policy point (E2), but momentarily by the economists it is applied and recommended point E1 to confront the crisis that is argumented and analysed in the last session of the Central Bank.

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<sup>1</sup> “Economics for Managers”, Paul Farnham, pg.303-333; “The Economy Today”, Bradley Schiller, pg.80-100; “The return of depression economics and the crisis 2008”, Paul Krugman, pg. 47-52.



### Comment:

On behalf of the economists it is recommended a restrictive monetary policy and expansive fiscal policy to confront the crisis. We talk about point E1 in the above graphic. Momentarily the country is in deflation, where even the deflation itself imposes costs in economy (lack of liquidity in market). In the situation where there is general decrease of the level of prices there can be a decrease of profits of businesses, decrease of earnings, and also increase of unemployment. In this case the borrowers loose and lenders gain.<sup>2</sup>

According to economists, even though deflation is more suitable for the clients rather than inflation, since for the same amount of money they can buy more goods, for the producers it can be devastating because it decreases their revenues. The longer and frequent presence of deflation can have negative effects for the whole economy and in these frames even for its consumers.<sup>3</sup>

To confront the crisis the government took several measures that were announced on 22 April 2009, and that: restriction of hiring in public administration, a delay in increase of earnings of 10%, a decrease in public expenses in some sectors, and a strict control of the managers compensations in public enterprises.<sup>4</sup> But in the other side the government is taking stimulating measures for the development of the industrial branches in the country. The minister of economy Fatmir Besimi said that the Government with 90.000 Euro has subsidied the food industry, the wood industry,

<sup>2</sup> "Economics for Managers", Paul G. Farnham, Georgia State University, Upper Saddle River, New Jersey 07458, pg.303-333.

<sup>3</sup> <http://alsat-m.tv/ekonomi/index.9.html>

<sup>4</sup> <http://alsat-m.tv/ekonomi/15661.html>

textile and wine.<sup>5</sup> According to the EU representative Andrea Forti, the key to development of the industry in Macedonia is the promotion of entrepreneurship.<sup>6</sup>

Actually CBRM is following a restrictive monetary policy, where today this is also considered as reasonable on behalf of the economic experts even though in the beginning of November the Parliamentary Commission requested point E4 to be followed (expansive monetary and fiscal policy). This kind of request in reality presents a paradox because it confronts the objective of the Government (maintaining the earnings in a stable level  $Y^*$ ). The Government cannot ask CBRM to follow an expansive monetary policy when the world is facing a financial-economic crisis, where an increase in the monetary offer will cause the decrease of the interest rates which will cause the increase of credit-lending while having no cover backup. In this moment it seems that in the times of global economic crisis, the devaluation of denar (caused by the increase in monetary offer) will be antiproductive with negativity rather than positive results. A positive effect by this devaluation would be the expensive imports and cheaper exports (increase of competitiveness). However in today's entrepreneurship conditions and surrounded by a huge number of controversies and the world's economic crisis, there aren't many possibilities that these positive changes will last for a longer period and for them to have a meaningful effect for the Current Accounting of the country.

On the other side, threats by the negative effects of the devaluation in today's conditions can be proven and identified easily. So, during a devaluation of the denar, the buying force of denar tools which the citizens and the enterprises own will decrease the percentage of the devaluation, when they will want to buy goods whose price is specified with a foreign currency clause (for example apartments, cars, etc). This means that their demand will continue to decrease, with which will appear negative phenomena in the real sector (decrease of production, increase of unemployed, and vigorous trends of deflation, and with this recession of the economy).

The eventual devaluation will cause a big problem for the families and for the enterprises that are obliged with credit in banks based on the agreement that contains a clause of foreign currency. In this case, everyone that should secure more denaric tools to pay back their credits, which will influence even more negatively in the demand, and with this even in the economic increase. An additional problem for the enterprises will be how to secure denaric tools to purchase foreign currencies with which they have to pay financial credits and goods that they have taken outside

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<sup>5</sup> <http://alsat-m.tv/ekonomi/15661.html>

<sup>6</sup> <http://alsat-m.tv/ekonomi/15661.html>

the country in the previous period, and which have to be paid in this year or the next, years that are considered years stoke by the global economic crisis.<sup>7</sup>

The devaluation will even risk the realization the budget of Republic of Macedonia. For the return without payment of the credits taken previously outside the country and for the payment of annuities euro and obligations which expire in this year or the next, in the budget there should be separated denaric tools for the purchase of the needed foreign currencies with which would make the payment of the credits. This will put in risk the realization of this years activities planed by the Government of Macedonia, especially the realization of the activities by the capital investors.

The devaluation can cause a wosening in the liquidity of the denar and of the commercial banks. In case of increase of the need for denare for everyday needs, the citizens and enterprises will replace the deposits of foreign currencies for denars with a higher exchange rate. This normaly has a negative effect in the liquidity of the denar in the banks, and with this even in the union of credits for the economical sector.<sup>8</sup> The banks that in the previous period have created debts towards the foreigners will have to divide a higher amount of denars to purchase foreign currencies for the payment of credits, which will worsen their denaric liquidity. Meanwhile, for the percentage of the eventual devaluation of the denar, the founders of a part of the banks have to secure additional financial means, denars, to secure the socalled adequate capital of their banks. This, off course, will decrease the liquidity of the founders and will make the banks capital more expensive. All this will cause increase the interest fee of the banks, will decrease the support of the developmental activities of the enterprises and lower consumption of the citizens.

According to this the eventual devaluation today, is obvious that will be something painfull. Thas why, the answer to the question whether the denar should devaluate in the existing economic conditions of the country, is NO. The regime of the fixed exchange rate can remain as it is for a predicted future, especially since the flow of international capital is limited.

### **The last session of the Council of the Central Bank**

In the last session, The Council of Central Bank of RM debated the reports of the four trimesters of 2008. The report determined that the last trimester of 2008 is the one where the economy of Macedonia started to feel the consequences of the global

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<sup>7</sup> Tome Nenovski, professor, author of the article, "Devaluation yes or no"?, pg.1, 2

<sup>8</sup> Petar Goshev (Governator of Central Bank of Macedonia), <http://alsat-m.tv/ekonomi/15709.html>

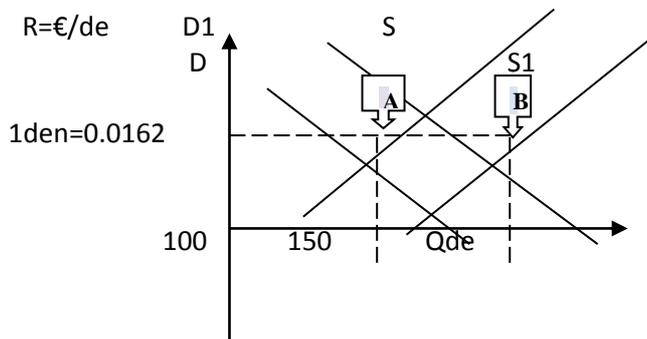
economic crisis, and that in the foreign market and investments. The same trend has continued even in the first trimester of the 2009, giving a small decrease in the exports opposite the imports of the goods.

The market deficit continues to keep high levels, which in the conditions of a high insecurity as consequences of the world crisis in the economy of the country and the decrease of the internal flow of the capital from abroad and the increase of the demand for foreign assets. These kinds of transactions increase the offer of the native currency which creates pressure for the devaluation of the native currency. This kind of pressure was overcome by the Central Bank of RM except for the interference in the currency trade, reacted even with the increase of the main rates of interest from 7% to 9% in the end of March 2009. So the economic growth for 2009, for which the last projections were from 3% to 4,4% was reviewed by FMN to be -0.4%, with a significant decrease of the expected internal demand in the second trimester of the same year. The expected inflation rate for 2009 is 0.6%, which is a lower level from the one projected previously.<sup>9</sup>

### Comment:

Through an example and a hypothesized graphic we will argue how BPRM intereres in the currency market to maintain stable the exchange rate while taking into consideration the pressure that is usually upon the native currency:

We suppose that BPRM wants to maintain the exchange rate in 1 den=0.01626 euro (expressed with the direct method) or 1euro=61.5 denar (indirect method). We have to mention that the demand for native currency ( $D_e$ ) is connected negatively with the exchange rate when it is measured with the direct method but the offer for native currency ( $S_e$ ) is connected positively with the exchange rate. In this example we will manipulate with the exchange rate measured with the first method (direct).



<sup>9</sup> <http://www.nbrm.gov.mk/default-en.asp?ItemID=D8A490DBD776A24AA976262C2D2D2966>

The displacement of  $S_0$  in  $S_1$  is a result of the increase of the offer of the native currency and the displacement of  $D_0$  in  $D_1$  is a result of the selling of the currency stocks (realized by BPRM to maintain fixed the exchange rate). The equilibrium of the balance sheet of payments is remade by this political action:

$$BP = (X - M) + K + RA = (100 - 150) + 0 + 50 = 0$$

### Short term analysis of exchanging rate

*As far as in the long term period is the export-import of goods and services the one that assigns the exchange rates, in the short term period are the incomes on the investments (norms of interests) that represent the assignment factor of the exchanging rate.*<sup>10</sup>

According to the modern theory of market assets, the exchanging rate expresses the prize of deposits in local currency in terms of bank's deposits in foreign currency. The most important factor that affects the demand for deposits in denar and deposits in Euro is the **expected return in these deposits (actives) compare to each other**. When this return is higher for deposits in denar then for these deposits it will increase, whilst for deposits in dollars will decrease. So, if supposing that the deposit in Euro has an interest of 1.5% it is expected that Euro will be assessed 0.13%, than the expected return of deposits in Euro ( $IRR^e_{euro}$ ) will be 1.63%.

The condition of parity of the interest's norm, which confirms that the internal norm of interest is equal with foreign norm of interest minus the expected assessment of local currency. This condition can be expressed in another way: the internal norm of interest is equal with the foreign norm of interest plus the expected assessment of the foreign currency.

$$I_{den} = I_{euro} - (E_{t+1} - E_t) / E_t, \text{ this condition supports the fact that deposits}$$

$$IRR^e_{den} = IRR^e_{euro}$$

are in complete substitution with each other and also represents the condition of market currency balance.

We start the analysis with how the expected returns for deposits in Denar and Euro change with changing of the exchanging rate.

1. Expected returns for the deposits in denars ( $IRR^e_{den}$ )- always are equal to the interest rate of these deposits despite of the exchange rate. Thus, the curve of

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<sup>10</sup> "Currency market and international institutions", lecture of Prof. Dr. Sulo Haderi at postgraduate programm (finances) at SEE University, Tetove, September 2008.

expected returns for the deposits in denars, which we denote as  $IRR^e_{den}$ , will be vertical.

2. Expected returns for the deposits in dollars-  $IRR^e_{euro} = i_{euro} - (E^e_{t+1} - E_t) / E_t$ .<sup>11</sup>

In 2007 the interest rate of the deposits in euro is 1.2% and the expected exchange rate for 2008 is  $E^e_{t+1} = 0.0163224267 \text{ euro/den}$ , (we suppose that in this exchange rate the currency market is in equilibrium). Whereas the current exchange rate (2007) is  $E_t = 0.0163441957$ , as result, the expected devaluation of the denar will be:

$$(0.0163224267 - 0.0163441957) / 0.0163441957 = -0.001332 * 100 = -0.1332\%$$

1. In this way, the expected return for the deposits in euro expressed in denars will be  $1.2\% + 0.1332\% = 1.3332\%$ . Since it is expected a devaluation of the domestic currency, the demand for the deposits in euro will increase, where:  $IRR^e_{euro} > IRR^e_{denar}$ , ( $1.3\% > 1.2\%$ ). The following graph presents the curve of expected returns in euro, which we denote as  $IRR^e_{euro}$ . It's slope is positive, which shows that with the expected devaluation of the denar /euro, the expected returns of the deposits in euro will decrease in order to fulfill the condition of the interest rate parity (Point A).
2. Keeping in mind the effects of global-financial crisis in the end of 2008-continuation of 2009 the monetar authority doesn't allow a further devaluation of the denar.
3. Assume the pressure that the denar had and still has for a further devaluation is  $E_t = 0.0163031871$  dhe  $E^e_{t+1} = 0.0163224267 \text{ euro/den}$ .

**Balance in the market currency.** – the meeting point of the two above curves shows the point of balance where the expected returns for the two kinds of deposits are equal, so the condition of parity norm of interest is fulfilled and we also have the balance of currency market.

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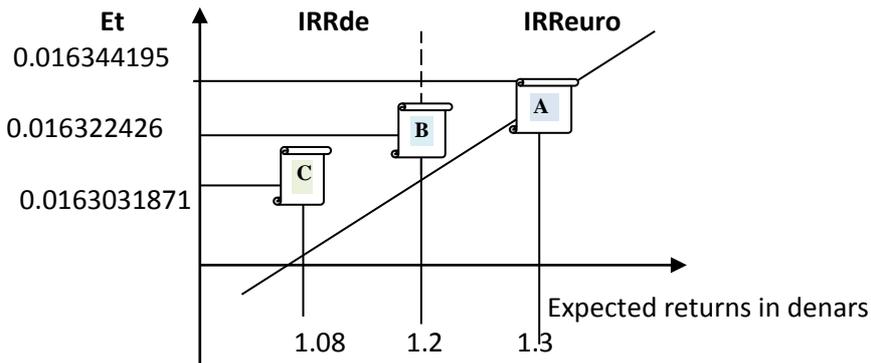
<sup>11</sup> These rates are calculated as average of all interest rates for deposits in euro ( for the 12 months of the year 2007 and 2008) ;

<http://www.nbrm.gov.mk/defaulten.asp?ItemID=5E3B5CA79135FE49B0E5121BBAA68CC9>;

National Bank of the Republic of Macedonia

Statistics Department

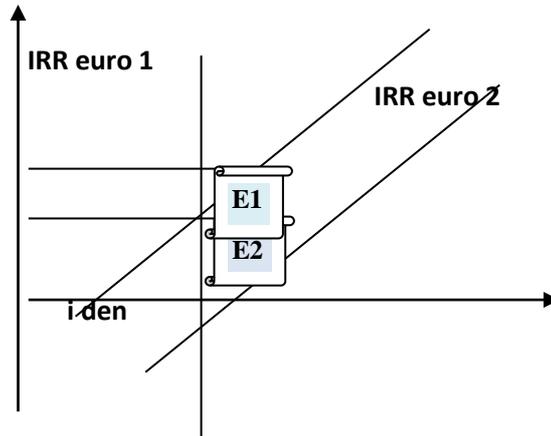
Monetary Statistics Division



**Comment:** To analyze the mechanism of suitability towards balance, we took the year of 2007,  $E_t = 0.0163441957 \text{ euro/denar}$ , over the one of balance. As it can be seen on figure, the expected returns for deposits in Euro (point A) are mere than the deposits in denars (point B). As long as the two kinds of deposits are both preferable people would like to sell the deposits in denars in order to by deposits in Euro offering denars in changing with Euros (offering deposits in denars changing with deposits in Euro). So, exactly this happened in 2008 in RM, where the surplus of offers of deposits of denars made the exchanging rate of denar with Euro to go down until the balance of expected returns of the two deposits (parity conditions of norms of interest).

For such kind of devaluation the CBRM sold local currency in exchange for Euro. The last quarter of the 2008 and the other coming quarters of the 2009 are characterized by keeping the exchanging rate within the assigned borders. So, to avoid further devaluation of the denar CBRM intervenes in the currency market by selling Euro in exchange for denars until the balance of expected returns for the two deposits is reached. In less developed countries, like our country the dominating factor for the daily changings of the exchanging rates is the change in expected exchanging rates for the future period ( $E^e_{t+1}$ ). The expected fall of the exchanging rate drives to devaluation of local currency (denar) the curve of expected returns for deposits in Euro will be removed to the right.

IRR den



## V. Overview of the balance sheet of payments of RM

### V.1. What does the balance sheet of payments present?

*The balance sheet of payment is a system of accounts that serves for the registration of all transactions that are based in the movement of goods or funds between countries with the other part of the world. So, BoP presents economical and financial actions of a country with the rest of the world:*

- His trade in goods, services,
- Puchase and selling of financial fortunes,
- Other important transactions, as foreign aids, payment for damages etc.

Transactions that are registered in BoP, based on their economic nature are classified in three groups:

- *The first Group* involves transactions that have as object goods, services and revenues between residents and nonresidents.
- *The second Group*, financial transactions that are rights/obligations of residents and nonresidents.
- *The third Group* is refered to the balance elements that maintain equilbrity in both sides of the balance sheet of payments.

**The first and the third group of trasactions combine in a socalled Current account, and the second group appears in the capital and financial account.**

The main principle for the recoring of transactions in the balance sheet of payments is the one of the double system registration. all the payments of nonresidents ar called entrances or registrations in credit and are market with the sign

(+), meanwhile payments from residents are called exits or registrations in debit and are marked with the sign (-).

**V.2. Structural analysis of the Balance of Payments in Macedonia (in millions of euro)<sup>12</sup>**

	v.2006	2007	2008	2006 %	2007 %	2008 %
GDP	5.082	5.782	6.507	100	100	100
I. Current Account	-44,92	-414,83	-851,16	-0,88	-7,17	-13,08
1. Goods, neto	-1.020,43	-1.174,82	-1.736,67	-20,08	-20,32	-26,69
a) Exports	1.902,65	2.441,45	2.684,20	37,44	42,23	41,25
b) Imports	-2.923,08	-3.616,27	-4.420,87	-57,52	-62,54	-67,94
2. Services, neto	22,15	25,54	-0,04	0,44	0,44	0,000614
3. Incomes, neto	-28,44	-277,67	-93,39	-0,56	-4,80	-1,44
4. Current Transfers, neto	981,80	1.012,11	978,94	19,32	17,50	15,04
a) Official	58,73	23,94	47,92	1,16	0,41	0,74
b) Private	923,07	988,17	931,02	18,16	17,09	14,30
II. Capital and financial Accounting	37,97	447,64	852,62	0,74	7,74	13,10
<i>Capital Accounting</i>	-0,82	3,68	-12,84	-0,02	0,06	-0,20
1. Capital transfers, neto	-0,82	1,23	-1,64	-0,02	0,02	-0,03
a) Official	0,00	0,00	0,00	0,00	0,00	0,00

b) Private	-0,82	1,23	-1,64	-0,02	0,02	-0,03
2. Purchases, nonfinancial assets	0,00	2,45	-11,20	0,00	0,04	-0,17
<i>Financial Asstes</i>	38,79	443,96	865,46	0,76	7,68	13,30
3. <i>Direct investments</i>	344,65	506,85	422,02	6,78	8,77	6,49
4. Portfolio investments	73,13	114,39	-50,64	1,44	1,98	-0,78
5. <i>Other investments</i>	-81,39	-75,52	442,44	-1,60	-1,31	6,80
a) Commercial loans	2,92	-28,98	24,62	0,06	-0,50	0,38
b) Loans, neto	-22,28	-128,70	172,44	-0,44	-2,23	2,65
c) Currencies and deposits, neto	-83,74	5,93	207,44	-1,65	0,10	3,19
• Monetary authorities	-5,74	-0,17	16,04	-0,11	-0,003	0,25
• Comercial Banks	-10,42	68,45	234,62	-0,21	1,18	3,61
• Individuals, neto	-67,59	-62,34	-43,21	-1,33	-1,08	-0,66
d) Others, neto	21,71	76,22	37,94	0,43	1,32	0,58
6. <i>Official reserves, bruto</i> (- = increase) / 3	-297,60	-101,76	51,64	-5,86	-1,76	0,79
III. Errors and oblivion	6,94	-32,81	-1,47	0,13	-0,57	-0,02

<sup>1</sup> Source, the link:

<http://www.nbrm.gov.mk/default-en.asp?ItemID=16C5679A8986CE4391D1F76413410999->

### **The Current account:**

The negative state and the movements in the market balance sheet in our country have been the main reason for the growing deficit and of the Current account in the balance sheet of payments, which was 13.08% of GDP of Macedonia in 2008. In this result has influenced the decreasing trend of the private transfers – revenues from abroad, not from the goods sold abroad but from the nonresidents. In the conference for organized export by the American agency USAID, the experts and businessmen of the government requested suventions for the textile industry, agriculture with the purpose of growth of the export of the products in the foreign countries. According to the expert analysis if measures aren't taken fast, the country will have to confront with high consequences in economy as a result of spending the foreign currencies stocks. "Since dhe export in 2009 has marked a decreas of 30%, this means that the foreign currencis stocks are melting to maintain an currency equilibrium, and if this trend continues in the future the situation may be extremily bad", declared Irena Kikerkova, economic expert.

The Minister of economy Fatmir Besimi said that the executive power is working in increasing the export of the native products in the foreign countries. "Since this period is nontypical because of the economic crisis, one of the biggest markets of Macedonia is the EU market and from there we have implications in the volume of our export", declared Fatmir Besimi, Minister of Economy.<sup>13</sup>

### **Capital and financial account:**

The inappropriate movements of the Current balance sheet haven't been followed with meaningful movements in the capital-financial balance sheet of the country. The revenues of the foreign currencies on an abroad basis, direct foreign investments, selling of the countries fortune to foreign investors and the like, have a meaningful importance after the deficit of the Current account in the balance sheet of payments of the country.<sup>14</sup> In these kinds of conditions, for the first time after a long time, in Macedonia there is that kind of a situation where the offer has a big importance staning behind the demand of the foreign currencies. The Central Bank of Macedonia, while securing the fixed exchange rate of the denar, in year 2008 according to the data in the balance sheet of payments intervned with 51.64 milion euro's and in last trimester of 2008 intervned with 194.79 milion euro's to maintain in equilibrium the currency market and in the first two months of 2009 has intervned permanently in the currency market making unusual expenses (in comparament with

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<sup>13</sup> <http://alsat-m.tv/ekonomi/15459.html>

<sup>14</sup> Tome Nenovski, professr, author of the article: "Devaluation yes or no?", pg. 2;

the previous periods in many years) to tie the offer with the demand for currency and in this way to keep stable the exchange rate of the denar. The expense of nearly 300 million euro's from the foreign currencies stocks in the last five months for securing the fixed exchange rate of the denar is one of the victims.

This question rises: How can the native authorities overcome the lack of foreign currencies stock to secure the fixed exchange rate of the denar (or to guarantee the stability of the denar)?

According to the economic expert Abdylmenaf Bexheti, the government with or without its will it has to sign an arrangement with the International Monetary Fund. "If we can't secure additional means, the country lacks 500-600 million euro's, and if we don't find other resources with similar conditions as those of FMN and The World Bank, it is required that the government does that and I think it will do it. I wouldn't say that until now it has tacticized, they thought that it wouldn't be necessary because the arrangements with FMN also mean active supervision of the economic policy, and not only consumption of financial means", highlighted Abdylmenaf Bexheti.<sup>15</sup>

The Ministry of Finance took in market papers with value which would be sold with foreign currencies' clause with which it plans to cash in 16 million euros. This will mean that these papers with value will be guaranteed with euro's, a new instrument which it seems that the Ministry of Finance was obliged to implement, because of the speculations that the value of denar may decrease.<sup>16</sup>

Except budgetary bonds which are produced by the Ministry of Finance, in the financial market of Macedonia are present bonds of the Bank which are produced by the Central Bank in Macedonia. The rise during the past months between these two institutions that who will sell more bonds, influenced in the increase of the interest fees of the bonds in almost 9%, but the interest fees that these two institutions specify, influence directly in the forming of the interest fees of commercial banks.

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<sup>15</sup> Interview with the expert of economy in Macedonia, Abdylmenaf Bexheti

<sup>16</sup> "Lajm", daily newspaper, Macedonia, 13-14 June, nr.1237;pg. 6

## Conclusion

According to our analysis of the Balance of Payments, we conclude that the present currency crisis is caused from the speculative attacks of the denar, compounded with the emphasized deficit of the current accounting and other problems of the macroeconomic stability.

The regime of the fixed exchange rate of Macedonia, for a predictable future, should stay as it is. The Central Bank of Macedonia should intervene in the currency market to support the denar even though it is necessary to use foreign reserves of exchange. A stable exchange rate ensures to Macedonia a low inflation and an economic growth.

NO – to the devaluation of the denar. An eventual devaluation can cause worsening of the liquidity of the denar of commercial banks. Thus, there will increase the need for denars, where the citizens and enterprises will replace the deposits in foreign currency for denars with a high exchange rate. This has negative impact in the denars' liquidity of the banks. A situation which at the actual conditions of the crisis Macedonia doesn't need at all.

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Department of Economics,  
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Measurement of economic freedoms and cross-country comparisons based on economic freedom performance has become increasingly popular in recent years. There seems to be a strong positive correlation between economic freedom and the major welfare indicators. Many Balkan nations are either on the way to, or planning to join the EU in a foreseeable future. Economic freedom indices may play a crucial role in shaping the future plans of the Balkans in the context of preparation efforts. This paper looks briefly at the history of EU-Balkan relations and the performance of the Balkan countries in terms of economic freedoms.

**Key words:** economic freedoms, index of economic freedom, Balkans.

**European Union and Balkans****A Brief History of the Relations Between European Union and the Balkan Countries**

Although throughout the Cold War period, the Balkan region was an isolated peninsula, with the collapse of the communist regimes in Eastern Europe and with the strong aim of enlargement of EU that followed the Maastricht Treaty, integration of the Balkans into the EU appeared as a necessity. Today The Balkan Region is an indispensable part of the European area.

EU declared that "the future of the Balkans is strongly associated with the European Union". According to the Thessaloniki Agenda for the Western Balkans that was held in 19-20 June 2003, the Copenhagen European Council in December 2002

confirmed the European perspective of the countries of the Western Balkans, as potential candidates, and underlined its determination to support their efforts to move closer to the European Union. The European Council in March 2003 reiterated that the future of the Western Balkans is within the European Union and pledged the Union's full support to the endeavors of the countries of the region to consolidate democracy, stability and to promote economic development (EU Council, 2003).

So far Macedonia and Croatia have become candidate countries (Croatia has already started negotiations); Albania and Montenegro have signed Stabilization and Association Agreements (SAAs), an important step in the accession process; and Serbia, along with Bosnia and Herzegovina, has initialed a draft SAA with the European Commission.

However, its incorporation into the New European Architecture has proved particularly problematic with negative consequences for the whole of the European space and the evolution of European integration (Demetropoulou, 2002:87). The EU would consider the Western Balkan states for membership, but it will be on condition that if they reached EU standards. The EU was motivated by the usual economic considerations connected to enlargement and also a desire to increase regional stability. In pursuit of those objectives the EU adopted a strategy based on conditionality, tailored country strategies and regional co-operation (Brown and Attenborough, 2007:7). Conditionality is the principle which makes accession dependent on meeting EU standards. This aims to protect the integrity of the internal market and promote reform in potential candidate countries.

### **Main Conditions for the Balkan Countries on the Road to the EU**

The EU's strategy for the Western Balkans contained a number of key elements which are to be fulfilled and dealt with by potential candidate countries. These responsibilities are specified by the Stabilization and Association Agreement which represents a far-reaching contractual relationship between the EU and each Western Balkan country, entailing mutual rights and obligations. Such an association has high political value. It is based on the gradual implementation of a free trade area and reforms designed to achieve the adoption of EU standards with the aim of moving closer to the EU.

The Stabilization and Association Agreements are tools which provide, much as the Europe Agreements did for the candidate countries in Central Europe, the formal mechanisms and agreed benchmarks which allow the EU to work with each country to bring them closer to the standards which apply in the EU.

The Stabilization and Association Agreements focus on respect for key democratic principles and the core elements at the heart of the EU single market.

Through a free trade area with the EU and the associated disciplines (competition and state aid rules, intellectual property etc) and benefits (e.g. rights of establishment), this process will allow the economies of the region to begin to integrate with that of the European Union. For those areas where the agreements do not impose specific obligations relating to the EU acquires, there are provisions for detailed co-operation and discussion with the EU which again have the purpose of helping each country move closer to EU standards.

EU gives the economic conditions a big importance and treats economic prosperity as essential for long-term stability in the Balkan Region. Although some important progress has been made in all Western Balkan countries to obtain macroeconomic stabilization, implementing modern market economy have a slow process, requiring persistent efforts over a wide front of structural reforms. The transition to free functioning market economies from centrally planned needs further reform efforts in many areas of the economy, by taking into consideration sustainable development objectives.

As it can be understood from the above explanations, Western Balkan Countries are considered in every aspect a complementary territory of the European Union and it is much likely to be integrated to EU in the near future. In the light of The Stabilization and Association Agreements, Thessaloniki Agenda, and Western Balkan Integration and the EU report issued in 2008 by World Bank, some main economic shortcomings that the region countries have to overcome can be showed as in the below table:

**Table 1.1.** Conditions to Be Fulfilled By the Balkan Countries

<b>Source:</b> Balkan	<ul style="list-style-type: none"> <li>• Macroeconomic Stability</li> <li>• Prudent Fiscal Policies</li> <li>• Stable Monetary Policies</li> <li>• Increasing Competitiveness</li> <li>• Reducing High Level of Unemployment</li> <li>• Implementing an Appropriate Tax Policy</li> <li>• Fostering Human Development and Labor Market Participation</li> <li>• Placing Transparency and Accountability in Public Sector</li> <li>• To Create a Good Business Environment</li> <li>• Simplifying the Bureaucratic Proceedings for FDI</li> <li>• Liberalizing Trade and Developing Free Trade with the Region</li> <li>• Anti Corruption Legislation</li> <li>• Reduce State Intervention in the Economy</li> </ul>	Western
<b>Economic Conditions</b>		

Integration and the EU, World Bank (2008) and EU Conditionality in the Balkans (2002).

The above counted items are the main challenges yet for the Balkan Countries that have to be struggled to reach the directives of the Stabilization and Association Treatment of the EU. With these economic conditions and targets for the Balkans, we may make an evaluation of their efforts on this troubled long journey that they have done so far. Due to the fact that their contents are quite similar, it would be fruitful to follow a recently released “The Index of Economic Freedom 2009” by the Heritage Foundation to make comparison between the conditions that have been put forward for the Balkan Countries to fulfill and the actual level they have reached today.<sup>1</sup>

## **EU Conditionality and the Criteria of Economic Freedom**

### **What Does Economic Freedom Mean?**

There are various definitions of the economic freedom, but there is no single and unique definition yet as accepted universally. One major approach to economic freedom comes from the libertarian tradition which is a school of economics emphasizes the importance of markets and the limited role of governments or even abolition of the state. Today the term is most commonly associated with a classical liberal thought (or free market), and defined as the freedom to produce, trade and consume any goods and services acquired without the use of force, fraud or theft.

According to Adam Smith, who is the founder of the Classical Economic Thought and so called “founding father of the modern economics,” competition leads to proper pricing in the economy and there is an “invisible hand” managing the market effectively. Hence he strongly opposed any government intervention into business affairs. Trade restrictions, minimum wage laws, and product regulation were all viewed as detrimental to a nation's economic health.

According to the Heritage Foundation, that releases the “Index of Economic Freedom” on a yearly base, is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please, with that freedom both protected by the state and unconstrained by the state. In economically free societies,

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<sup>1</sup> There is another index called “Economic Freedom of the World” prepared by the Fraser Institute. It uses a slightly different methodology and indicators to measure and compare the economic freedom performance of the countries. Interestingly enough, the two indices reach similar conclusions. For details about Economic Freedom of the World Index, see Gwartney et.al. (2008).

governments allow labor, capital and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself.

### **The Index of Economic Freedom**

The annual report, published by the Heritage Foundation, analyzes and grades the performance of countries on the basis of the following key criteria: business, investment, trade, fiscal and monetary environment, as well as the size of the government, perceived corruption and respect of property and labor rights. In this sense, these criteria show resemblance to the points of EUs Stabilization and Association conditions. In this regard, one can argue that the economic freedom indicators can be taken as a “road map” for a successful preparation process for the Balkan nations. The higher the performance of a country the easier and smoother the adjustment process on the road to join the EU.

The 2009 Index of Economic Freedom covers 183 countries and measures 10 separate components of economic freedom. Each one of the 10 economic freedoms is graded using a scale from 0 to 100, with 100 representing the maximum freedom. A score of 100 signifies an economic environment or set of policies that is most conducive to economic freedom. For example in the case of a country with zero tariffs and zero non-tariff barriers will have a trade freedom score of 100. The data covers the second half of the 2007 through the first half of the 2008. Some component scores are not the exact data for its year and based on historical information. For example, the monetary freedom component is a three-year weighted average rate of inflation.

Consistently, if the overall score of a country is between 100 and 80 the country is considered to be free, countries with score 79.9-70 are defined mostly free, countries with score 69.9-60 moderately free, countries with score 59.9-50 mostly unfree and countries with score between 49.9-0 are described as Repressed.

### **Economic Freedom Performance of the Balkan Countries**

Table 2 below summarizes the economic freedom performance of the nine Balkan nations: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Montenegro, Serbia, and Turkey. The ten areas in which degree of freedom is measured are as follows: business, trade, fiscal freedom, government size, monetary freedom, investment, financial freedom, property rights, freedom from corruption, and labor freedom.

The first column gives the overall rank of a given country in the world while the second column shows the regional rank. Bulgaria takes the top position with a rank of 56 out of 183 countries followed by Albania and Turkey with a rank of 62 and 75, respectively. Macedonia, Greece and Montenegro share middle positions with an overall rank of 78, 81, and 94, respectively. The last three Balkan countries with the lowest economic freedom scores are Serbia, Croatia, and Bosnia and Herzegovina. Over a 0-100 scale, the performance of Balkan countries range between 64.6 (Bulgaria) and 53.1 (Bosnia and Herzegovina). Based on the Index of Economic Freedom classification, top 5 Balkan countries fall into “moderately free” category: Bulgaria, Albania, Turkey, Macedonia, and Greece. The last four countries are categorized as “mostly unfree” category since their score range between 59.9-50. As a general observation, one can see from Table 2 that 6 out of 9 countries slightly improved their performance compared to 2008, Bosnia and Herzegovina being the only exception.<sup>2</sup>

When looking at the details of the individual countries, **Bulgaria** seems to be most successful at fiscal and trade freedoms with a score of 86.2 and 85.8 respectively. Business, labor and monetary freedom scores are quite good (over 70). Bulgaria’s least scores are associated with freedom from corruption (41) and property rights (30).

**Albania** seems to be highly good at fiscal freedom with a score of around 93 out of 100, followed by monetary freedom, trade freedom and government size with scores ranging in the upper 70’s. Similar to Bulgaria, Albania has the lowest performance in property rights and freedom from corruption.

**Turkey** is most successful at trade freedom (86.6) and government size (83.4), followed by fiscal, monetary, and business freedom. The most problematic area for the case of Turkey seems to be freedom from corruption where Turkey has the same score with Bulgaria (41).

Fiscal freedom and monetary freedom are the two areas where **Macedonia** has the highest performance with upper 80’s, followed by trade freedom. Macedonia’s lowest scores belong to property rights and corruption, where its scores are very close to Albania.

Greece has only one area with a score above 80: trade freedom, followed by monetary freedom and business freedom with scores of upper 70’s. Interestingly, Greece has very close performance with regard to investment freedom, financial freedom, property rights, government size, and freedom from corruption.

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<sup>2</sup> There are no data available for Montenegro and Serbia so that comparison is not possible.

**Montenegro** is most successful at fiscal freedom (89.1), least successful at freedom from corruption. **Serbia** follows the same path with similar scores in both areas.

**Croatia** has the highest score at trade freedom (87.6), followed by monetary freedom (79) and fiscal freedom. The country has the lowest scores at government size and property rights (30).

Lastly, **Bosnia and Herzegovina** has the highest performance at monetary freedom (79), followed by trade and fiscal freedom. Property rights seem to be extremely problematic in this country.

Overall, trade freedom and fiscal freedom scores are generally high in all countries, where property rights and corruption are the most problematic areas.

**Table 2.** Economic Freedom in the Balkans

World Rank	Region Rank	Country	Overall Score	Change From	Business Freedom	Trade Freedom	Fiscal Freedom	Government Size	Monetary	Investment	Financial	Property Rights	Corruption (Freedom From)
56	26	Bulgaria	64.6 41	0.9 78.4	73.5	85.8	86.2	58.7	72.8	60	60	30	
62	27	Albania	63.7 29	1.3 47.2	67.0	75.8	92.8	75.6	79.6	70	70	30	
75	31	Turkey	61.6 41	1.6 40.3	69.9	86.6	73.2	83.4	71.1	50	50	50	
78	33	Macedonia	61.2 33	0.2 59.8	58.2	81.6	89.4	65.1	85.4	50	60	30	
81	34	Greece	60.8 46	0.2 61.2	78.7	80.8	66.5	46.3	78.8	50	50	50	
94	36	Montenegro	58.2 33	n/a 57.2	68.7	80.2	89.1	45.3	78.9	40	50	40	

<b>109 37</b>	<b>Serbia</b>	<b>56.6</b> n/a 56.0 78 85.9 46.3 65.8 40 50 40 34 70.0
<b>116 38</b>	<b>Croatia</b>	<b>55.1</b> 1.0 59.9 87.6 68.7 31.7 79.0 50 60 30 41 43.4
<b>134 40</b>	<b>Bosnia and Herzegovina</b>	<b>53.1</b> -0.8 59.9 77.2 71.8 37.6 79.0 50 60 10 33 52.1

**Source:** Index of Economic Freedom 2009, Heritage Foundation

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### **Balkan Multiculturalism: Example to Itself & to the EU**

#### **Track**

Balkan countries have the potential core for economic and political development: Living by cohabitation in peace with tolerance and mutual respect. If the Balkan people relearn to live together, they could catch the wind of achieving for political and economical escalation. And again if Balkan countries can achieve it, as they succeeded it in their own history, this Balkan multiculturalism can be also a sample for the EU's multicultural aim.

#### **Abstract**

Almost all countries in the Balkan area are the multicultural samples with their heterogenic mosaic. This heterogeneity has become the reason of social togetherness and economical development in its history. According to old-fashion scholars economic development is the reason of socio-cultural togetherness; but the fact is, socio-cultural and political integrity is the reason of economic development. Then the economic development with the socio-cultural integrity brings welfare and regional peace. If this hypothesis is right, Balkans has the core value for the economic development, welfare and social togetherness and also EU's multicultural purpose.

**Key Words:** Multiculturalism, Balkan & EU, tolerance, cohabitation.

#### **Introduction**

Balkan multicultural mentality is one of the best samples for the world and also it could be a richness and positive contribution for the realization of the EU's multiculturalistic claims and being a global actor in the world arena. Almost all countries in the Balkan area are the multicultural examples with their heterogenic mosaic. This heterogeneity has become the reason of social togetherness and economical development when it was used on the right path in its history. According to old-fashion scholars economic development is the reason of socio-cultural togetherness;

but the fact is, socio-cultural and political integrity is the reason of economic development. Then the economic development with the socio-cultural integrity brings welfare and regional peace. If this hypothesis is right, Balkans has the core value for the economic development, welfare and social togetherness. Balkan history has the full of this kind of experiences and special individuals such as Sokollu, the Prime Minister of Ottomans, built a lot of bridges, fountains and caravanserais in several Balkan countries. The architecture of a city or a region is the coat of richness, culture and mentality of that region. At a glance it is said that Balkan area had very rich tolerance, togetherness and economic development in its history.

Today, although there are a lot of cities which were established according to the ethnic and religious differences, there are tens of cities with the full of heterogeneity in the same time. It is the reality even today that Bosnians, Macedonians, Turks, Albanians, Roms, Catholics, Orthodoxies and Muslims live as neighbors in the same city, even in the same street in Skopje, Ohri, Varna, Burgas, Prizren and so on. In general, if this mentioned heterogeneity is used as yeast for a mutual understanding, respect and tolerance, it is going to be a positive economic, social and political accelerator. However if modern separatist ideologies, such as nationalism, micro-nationalism, tribalism and ethno-religionism enter to the region, suddenly the region transforms (and will be transformed) to the habitat of negative social escalations and conflicts. This reality has the same potential danger for the other regions of the EU and the world.

Ethnic and religious separatism had been pressed by rigid ideology of communism in region, like Enver Hoca and Tito did. But the pressure is an artificial path and the temporary solution for the limited time. Normal and long-lasting (permanent) steps of the multiculturalism are establishing mutual recognizing, acceptance, respect and natural habitat and then building a consensus on the strong main basement among the people. Yugoslavia, Albania and Bulgaria had not given even the right of religion, which is the need for the human being, to the people of the region in their recent communist histories. This rigidity of communism and nationalism and also intolerance brought the end of these regimes. Jivkov's Bulgarian regime which had not given the right of being Muslim or Turk, collapsed down in 1989. Again Milosevic's speech which was full of ethno-religious unilateralism in Kosovo Square in 1989 became the reason of dismantling of Yugoslavia into seven countries of today.

This recent historical background and bad experiences should become a guider and a teaching course for the new governments and states in the region and also for the EU. Bulgaria has succeeded it and adopted its own heterogeneity within its own structure after 1991. Right and Freedom Movement was established as an ethnic party at the beginning, but today it has transformed to a national party by

taking 3% non-Turkish votes in the last general elections. Macedonia had ignored Albanian minority in 1991 Constitution and the country has transformed to the bloody ethnic region suddenly. After recognizing ethnic minorities representing in Ohrid Framework Agreement in 2001, tension could be gotten down by the mediation of the US, EU and secretly Turkey. Bosnia Herzegovina has still been going on the flue path because of shortness of Dayton Peace Agreement about establishing a normal state and ignoring Bosnians' systemic rights within the new system.

Balkan countries have the potential core for economic and political development: Living by cohabitation in peace with mutual tolerance and respect. If the Balkan people live together, they could catch the wind of achieving for political and economical escalation. If Balkan countries can achieve it again, as they succeeded it in their history<sup>1</sup>, Balkan multiculturalism can be a sample for the EU's multicultural aim.

### **Balkan's multiculturalism, tolerance and cohabitation: history & today**

In the Balkans, different religions, sects, ethnicities and cultures lived together, not side by side but one inside the other and nested, for several centuries. These differences were seen as a richness and cultural mosaic for a long time during the Rome and Ottomans sovereignties. During the nationalism and declining times, the whole Balkan area drastically transformed to a bloody region. Even Tito had established autonomy in respect of ethnicities and then a stable political system could be ensured during the communism. During the Balkan history, Bogomolism and Islam became the core of cohabitation and tolerance; church, synagogue and mosque were built side by side and used the joint walls for 500 years.

Ottoman Empire system enabled the regulations of various interethnic, religious, and linguistic issues, promoting the concept of interethnic tolerance and patience. Ottoman case is a kind of proto- multiculturalism which bases cultural rights upon collectivity, a group, a community, rather than upon an individual as has been the case in the contemporary society and in the authentic concept of multiculturalism.<sup>2</sup> Even today, in the modern Greek political system, the notion of "being Greek" springs forth as a true heir of the Ottoman "millet" system. The claim that the "millet" system is alive today in Greece should not be surprising because the millet system is a wider

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<sup>1</sup> Cüneyt Yenigün (2008), "Autochthon Turkish Existence in the Balkans", First International Balkan Congress Proceedings, 24-25 April 2008, Tekirdağ, 517-518.

<sup>2</sup> Misho Doknanovich (2007), "The Origins of Multiculturalism in Macedonia", Hikmet, 9, June 2007/1, 9-10.

concept with the evident of ideological and legal results in the manner in which immigrants or even Greek citizens are presently classified.<sup>3</sup>

Balkan history presents a very important regional specific fact: If a power struggles to erase the “others”, it loses; if a power struggles to establish a greater ethnic state by ignoring the others it gets smaller. “Big Croatia” Greater Macedonia and Greater Serbia aims resulted in accordance with this fact. Assimilation or ethnic cleansing strivings make a “boomerang impact” in this heterogenic region. Integration, cohabitation and mutual respect strivings of the states awards the sovereign powers with the legitimacy.

Assimilation struggle → getting smaller  
 Integration struggle → legitimacy

Czech and Slovak people and states could separate easily, because there was no heterogeneity in the region; they were living in de facto divided regions. But almost all Balkan regions were and are exactly heterogenic and it is impossible to separate the cities and regions one by one. That's way there is no way for division for the region, otherwise region transforms to city and tribal states; but unique way is multiculturalism and tolerance like its history.

Even today Balkan peoples have the cores values of multiculturalism and mutual respect. “If a person speaks one language he is a one person; if a person speaks two languages he is accounted as two persons” according to a Middle East culture. Balkan individuals generally speak three languages because of multiculturalistic feature of the region. This is valuable richness for the Balkans. Again individual respect to the others still continues on the streets in heterogenic Balkans. According to a public survey, this was taken in Macedonia, Albania, Bosnia Herzegovina and Kosovo in 2005, “backbiting” is seen one of the four worst things among the Balkan Muslims. Again according to the conclusion of this survey, the most important thing is the freedom of religion (41 %) in the region. (Second important thing is the solving economical issues. [17,2 %]).<sup>4</sup>

Today there is a kind of “Balkan culture and folklore”<sup>5</sup> and especially “Balkan identity” which differs the region from the rest of Europe in the region. It is normal

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<sup>3</sup> Lambros Baltiotis (2007), “Minorities in Greece: State Policies and Administrative Practices”, Minority Issues in Balkans and the EU Conference Proceedings, May 16th 2007, Istanbul, 120-121.

<sup>4</sup> Musa Musai (2005), “Balkan Müslümanlarında Din, Kimlik Bütünleşmesi” Hikmet (6), 2005/2, 34, 44.

<sup>5</sup> Nikolai Vukov (2008), “Deciphering Shared Heritage”, First Balkan Congress Proceedings, Tekirdağ, 78.

and acceptable specific feature of the region in according to geopolitics. For example Sweden, Norway and Denmark claim today “they are not European but “Nordics” or “Nordic European”. In the region for example, “Bosnian” terminology was not recognized officially until 1993<sup>6</sup> (during the war), because Bosnians and especially Aliya Izzetbegovic has struggled to establish a kind of upper-identity in Bosnia-Herzegovina to solve the ethnic issue. This was very perfect formulation for whole Balkan region too. Upper identity: Balkan culture, “Balkanic”. Lower identity: ethnic or religious differences.

### **EU's Dilemma on Multiculturalism & Multi-Religionism**

EU presents “hope of the peace” to the region, but this hope is already existed in Balkan's own history. In addition to EU's assistance, Balkan states and peoples especially should turn back their own spirit of civilization of multiculturalism. Because as Fukuyama claims, democracy could be consolidated ideologically, institutionally and at the level of civil society, but the culture of a country can be the most resistant factor for democratic consolidation.<sup>7</sup> People should find their own richness and develop their own democracy, in addition to EU's help to the region.

EU has been striving to become global/universal actor in the last two decades. To do this purpose, it is struggling to increase power by all means and to establish a permanent consensus among the people of its members. Sovereignty has two components: Rude power and legitimacy. Legitimacy is the most important factor for the EU's incredibility nowadays. EU has to show more effort to increase respect and tolerance to the other cultures and religions, to ensure the credibility and trust in the EU-27 area and also in the Balkans. Micro-nationalism and anti-Islamism has been increasing especially in the eastern members of the EU. This is the one of the most important handicaps of being a global actor of the EU. Ethnic or ethno-religious issues, such as Bask and Catalan issues in Spain, Northern Ireland issue in the United Kingdom, Sicily issue in Italy, Corsica issue in France, are on the way of the resolving by the assistance of the EU's supranationalism within the EU-27 area, but it cannot be said that the EU is ready for the multi-religious tolerance for the outsiders. The problem of accession of the countries of Muslim population majority is the flue point for the EU. On the process of enlargement, EU has long lasting pains to open its

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<sup>6</sup> Aydın Babuna, (2008), “Boşnaklar ve Kimlikler. Değişiklik ve Süreklilik”, First International Balkan Congress Proceedings, 24-25 April 2008, Tekirdağ, 44.

<sup>7</sup> Şaban Tanıyıcı (2008), “EU's Copenhagen Political Criteria and Political Culture of tyhe Western Balkan Countries: Are They Compatibale?” International Conference on Balkan Studies Proceedings, Tiran, 89.

borders to the Muslim countries. This indecisiveness yield some allegations of “12 stars of the EU represent the Jesus’ apostles”; or “EU is a kind of religionic union”.

Today around 12-16 million muslim live in EU-27 area. But still according to some European scholars “differences and plurality, especially of a religious kind, have historically been more destructive than constructive. Differences have to find a place within an overall political, social and legal consensus.”<sup>8</sup> Again for the plural constructive contribution for Europe, experts wish to point to Ottoman Empire and Islamic Spain at certain periods.<sup>9</sup> Although United Kingdom and Austria have accepted Islam as official religion, EU is very reluctant (or EU moves very slowly) to accept muslim populated countries such as Turkey, Bosnia- Herzegovina, Albania to the union. Europe has just started to get acquainted with tolerance multiculturalism and multi-religionism terms in the last 20 years, because history of Europe is full of nation-state and religionic wars. “National identity”, “national interest” and “nation-state” terms were born in Europe. Today’s Belgium is on the way of Valon and Flamenc separatism and the EU has been struggling to find a unifying point for supranationalist phase, like Ottomans and Habsburgs. If the EU wants to be a global and powerful actor in the world arena, it has to produce effective projects against xenophobia, anti-islamism and tribalism issues and has to solve them by tolerance, mutual respect, and multi-religionic approaches.

In addition to EU’s flounders to solve its internal issues, it has been assisting the Balkan area’s consolidation of democracy, minority and human rights and development of multiculturalism. For this purpose, EU Commission insists on EU candidate countries in the region to establish and develop:

- Human and minority rights,
- Stabilized democratic institutions,
- Political movement standards and
- Independent media<sup>10</sup>

These are the some liabilities for the candidate countries to consolidate the democracy in accordance with Stability and Association Agreements (SAA)<sup>11</sup>. On the one hand the SAA give a carrot of membership in the future to the candidates; on the

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<sup>8</sup> Jorgen Nielsen (2001) Muslims in Western Europe, 2nd edition, Edinburg, Edinburg University Press, 169.

<sup>9</sup> Jorgen, *ibid*, 168.

<sup>10</sup> EU Commission (2007), “The Stabilization and Association Process and CARDS Assistance” 2000-2006, 3.

<sup>11</sup> Cüneyt Yenigün, (2008), “EU’s Role on the Western Balkan Democratization”, International Conference on the Balkan Studies Proceedings, 7-8 November 2008, Tiran, 106.

other hand establish a kind of hierarchical relations<sup>12</sup> between the candidates and the EU. This should be perceived by the candidates, not a negative pressure, but a positive guiding.

Actually Balkan people perceive that the EU's guider and the membership of the EU is positive development. According to Gallup Balkan Monitor survey in 2008, Balkan people were asked whether membership of the EU would be a good or a bad thing, nine out of 10 respondents from Kosovo answered positively (89 %). In Albania, more than eight in 10 respondents were upbeat about their country's membership of the EU (83%), and less than one in 10 interviewees gave a neutral response. 66% of Macedonians, 58 % of Serbians, 57 of Montenegrins, 48 % of Bosnians highly support the EU membership.<sup>13</sup>

### **Conclusion and key elements: mutual respect and trust**

Emerging multiculturalism must give deep attention also phenomenon of communities' loyalty to the state, the respect of the laws and duties that the state imposes generally for all citizens, regardless of their religious, political or ethnic affiliations. The Balkan model must clearly define the elements for linking the minority groups with the Balkan societies which undoubtedly, should originate from the history of cohabitation, common traditions, common citizenship and finally common future.<sup>14</sup>

Turks and Balkan peoples have learned multiculturalism together in their history. During the 14 - 18. centuries while Europe was shaking with the religious and ethnic wars, Balkans was living in multicultural and multi-religious peace. It could be explicitly said that Balkans was the origin and the center of multiculturalism and tolerance in Europe. Again it became a sample of cohabitation to the East and the West. This culture overshadowed in the Balkans during the 1990's nationalistic winds, and now the region is looking for a permanent peace among its nations again. It is pay-back time of Turkey and the EU to assist Balkans' regaining of multicultural spirit.

EU struggles to be a multicultural and multi-religious union by pursuing and updating Ottoman's multicultural administration. Balkan countries had come and lived together under the Ottoman's supranational administration in history and today they are struggling to come together under the EU's administration on the way of

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<sup>12</sup> David Chandler, (2008), "EU State Building: Securing the Liberal Peace Through EU Enlargement", *Stratejik Öngörü* (12), 10-11.

<sup>13</sup> Gallup Balkan Monitor (2008), *Insights and Perceptions: Voices of the Balkans, 2008 Summary of Findings*, 14-15.

<sup>14</sup> Doknanovich, *ibid*, 16-17.

supranationalism. EU should assist Balkans, but it is not enough for the region. Balkans should strive to establish democracy in accordance with its multi-culture and historical background; because democracy cannot be exported, but can consolidate by the effort of own people. Balkans have a lot of bridges which connect and tie two cultures, religions and languages like Drina Bridge in Visegrad, Mostar Bridge in Mostar, Stonebridge in Skopje. Like these bridges, Balkans again has to struggle to establish bridges between the different cultures. Balkans has necessary components, richness and historical background to do it. Formulation is:

Tolerance → Common Trust / Moral → Socio-Political Peace → Economic development & EU membership

Regional governments and people are responsible actors to achieve the democratization. Governments should desire it and put into force some courageous steps on bureaucratic and institutional developments. Ohrid Framework Agreement in Macedonia, Bulgaria and Rights and Freedom Movement are good samples of cohabitation and peace. For the minority issues, kin-states should also suggest minorities to integrate their host states in the region. In the same time governments should work on decentralization steps which are the most important component of a democracy.

Governmental and non-governmental organizations should be increased and they should be active. Today's the biggest and the most active governmental society group is TİKA in the region. It is orchestrating tens of projects today, from the historical constructions to music festivals, from surveys to social initiatives, to develop common culture and good relations between minorities and the Balkan states.

The number of civil society groups (CSGs) should be increased, developed and activated. Today the CSGs are counted as a new power or component of a democracy. There was no CSGs in communist era in the region, that's why the old generation is very cold to them; but new generation has started to establish this kind of foundations as a good sign. For example in Turkey there are more than 300 foundations and associations only related with the Balkans.<sup>15</sup>

Think-tanks should be increased and they should work and study on erasing xenophobia, tribalism and separatist nationalism and misinformation about the "others". Still in some countries there is misinformation in primary school books and history books about the history and the "others" identification.

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<sup>15</sup> Özcan Pehlivanoğlu, (2008) "Rumeli, Balkan ve Trakya Sivil Toplum Örgütleri", First International Balkan Congress Proceedings, Tekirdağ, 404.

Media is the fifth power in democracies right now. Media should play positive and constructive role for the multiculturalism in the region.

Political parties and pressure groups are also responsible for construct of friendship with the “others” among the people. It should not be forgotten that rigid nationalist and hegemonic approaches and entities have lost every time in this region. But peaceful policies both become the reason of the getting power of that party, and also establish socio-politic and economic development.

EU project has started after millions of people killing in World War II. Balkans has also live very bad and sinful wars in the recent history, but in compare with the World Wars these are seen as regional wars. Balkan states and peoples should not grudge against each other. They have to enter EU’s peaceful umbrella, but before that, they have to solve antagonistic issues psychologically. When Balkans and Turkey becomes the member of the EU, this will enrich also EU in terms of multiculturalism and multi-religionism.

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## **The Prolonged Transition – an Obstacle for Macedonia’s Integration in Euro-Atlantic Structures**

### **Introduction**

This paper deals with different aspects of transition and the ways to overcome it. Different challenges countries in transition face take place in this respect, particularly in the Republic of Macedonia. Theoretical approaches and practical aspects of the impact and consequences of the prolonged transition are given in this paper, as well as the possibilities of escaping from this situation caused by the process of transition.

Transition, as a process of radical changes in social structures, by changing the economic structure of the society, for a short time changes the material position and the social status of people. It is already known that the transition period is manifested with the overall transformation of people’s social lives and their living circumstances. As a multidisciplinary phenomenon, the transition in society has always been presented as a focus of great importance by scientific workers. Lots of scientists and scholars such as J.K. Galbraith, Karl Paper, Alvin Toffler, F. Fukuyama, A. Heywood, David Easton, etc., have considered transition as a social change from the industrial to the information-postindustrial level.

In this respect, A. Toffler, analyzing all social changes which were influenced by the industrial revolution in the second half of the 17<sup>th</sup> century, has created a brand new reality and a new analytical method about the world, as well as the human attitude towards nature.<sup>1</sup>

According to A. Touraine, human society, besides its reproduction abilities and those for adapting to changes, possesses abilities by which it can changes directions and define new goals and rules. He notes that society as a system recognizes changes and balances, assuming that the society’s work and deeds against

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<sup>1</sup> A.Tofler 1983 "Treci Talas", Beograd, str, 124

itself occurs within special economic and cultural circumstances, i.e. the society does not create its own identity in an inter-subjective way, but through self-reflective interaction with the environment.<sup>2</sup>

The human represents nature but he represents himself as well as a creature. According to K. Marks, the human being as a natural creature has partially natural and vital strength which exist in the form of lusts. These natural characteristics which are possessed by people and their behavior against nature are reasons enough to explain the changes in the society.

Problems that are related to human behavior against nature are global in their nature since the scientific technologic revolution and the economic development in contemporary societies directed the world to an extreme level of dependency.

Social innovations have always been an object of interest to a large number of theorists before and after the old philosophic thought, but this interest increased in intensity in the modern society.

Different theories deal with social changes as phenomena which appear at certain times having a certain form and shape.

The evolution theory, according to Talkot Parson, reviews social evolution as a continuation of the biological evolution, emphasizing that mechanisms and development factors are the ones that change.

Other ideologists, so called evolutionists, defend the idea according to which the environment influences the development of social changes.

The great Arab thinker, Ibn Haldun in his work "Prolegimena" explains the history of Arab nation and its neighbors, emphasizing that every country and nation develops, changes and eventually disappears.<sup>3</sup> According to him, the social life represents a natural invention of a historic process. Also, the author speaks about the social dimension of tradition which has the form of hierarchy of functions which joins people together as if they were a living organism. He is one of the so called geographic materialists, according to whom social life is a natural show in certain geographic and climatic circumstances. Ibn Haldun's conception about social changes rests upon sociologic analyses where one can see the relation between social phenomena. The interpretation of social changes should begin with objective and material factors.

We can conclude that Ibn Haldun analyzes the evolution laws and biological contexts of people's and societies.

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<sup>2</sup> A. Touraine "Sociologija drustvenih pokreta", Beograd, Radnicka Stampa, 1983 str.110

<sup>3</sup> Ali Dida "Filet e sociologjisë", Tetove 1997, f.79

Neshet Toku, "Sociologjia e Ibën Haldunit", Shkup 2006, Logos-a, f-24.

According to Ali Dida, Ibn Haldun's *avangarda* ideas about the society require special analyses and attention, since he is considered the predecessor of the sociological thought.

It is evident that social changes depend on many factors, one of the most important of which is the demographic factor.<sup>4</sup>

The impact of demographic factor upon social changes can be found in many antique authors and modern ones, under the conception of "demographic explosion". The first more serious attempts for a general analysis of the population growth as a social occurrence were made by the well known English theorist Thomas Malthus in his work "An essay on the principle of population" in 1789.

The Malthus's theory on social changes was highly criticized by a large number of theorists such as David Ricardo, J.M. Keynes, K. Marks, etc.<sup>5</sup> Today, this theory is again taking a deserved place within scientific debates and is constantly actualized as a result of the enormous population growth, especially in third world countries. In these regions there is a lack of food, the poverty is high, one fourth of world population shares the fate of the poor and hungry. According to Anthony Giddens, the population growth in the third millennium is again requiring the Malthusian approach, even though the number of those who subdue to the original idea is very small.

A.Giddens thinks that the explosion in third world countries surpasses the production abilities of these countries.<sup>6</sup> This social appearance is upsetting for a fourth of the world population. Scientific circumstances all over the world upon this problem pose great importance on it, since this situation does not exclude Europe too.

The poverty in EU countries not only is worrying, but alarming in some places. About 60 million people or 18% of the population live on the verge of poverty and this shows that this social occurrence is present in all parts of modern society.<sup>7</sup> If we add to these data the vision of contemporary radical phenomena which were happening in the countries of Central and Eastern Europe and Central Asia by the end of the 20<sup>th</sup> century, we will have a clear view of events and problems that covered world population. This can be best illustrated if we consider present times where there are extremely difficult circumstances due to the global financial crisis. The fight with the crisis has become quite challenging for Europe, whereas the transition countries are the most struck by it.

The situation in these countries is not only a product of economic factors but of social changes that happened as a result of different political processes.

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<sup>4</sup> Ali Dida "Fillet e sociologjisë", Tetovë 1997, f.80

<sup>5</sup> Vlado Dimoski – Ideje, Beograd nr.4-5, 1998 fq.109

<sup>6</sup> A.Giddens "Sociologjia", Tiranë 2002 f.560

<sup>7</sup> Hemerijk Anton "Models", Oxford University Press, 2002, p.186

To date scientific analyses show that the fall of totalitarian regimes and the rise of political pluralism have had the greatest impact on social changes in Central and Eastern Europe. The countries in this region were facing enormous political-social and economic problems, including poverty and undisguised unemployment.

### **Social changes in Central and Eastern Europe**

The second half of the 20<sup>th</sup> century is manifested through an open discontent articulated in the form of revolutionary changes, in almost all spheres of life. The culmination of these social problems in Central and Eastern European countries was the fall of Berlin Wall, in 1989, as well as the start of development of democratic societies with lots of changes and casualties.

The last years of the 20<sup>th</sup> century in Central and Eastern Europe, according to Etem Aziri, were revolutionary years, the end of the Cold War, the withdrawal of the Iron Curtain and the beginning of democratic processes in order to build the civil society.

Not only analysts but centers of power in western countries are expressing their interest in social changes, offering material and staff support with the aim of overcoming the difficulties countries in transition are facing with.<sup>8</sup> There are differences among scientists as well about the way of building sustainable democracies.

On the other hand, we can say that there is an agreement as regards the Rikard Lang's opinion, according to whom it is impossible to make a miracle and establish a state with the rule of law and good market economy out of a country in transition.<sup>9</sup>

The process of transition is long, with lots of surprises and with already determined deformations and social issues such as unemployment, industrial production minimization, triple inflation and a lot of other changes which remind us of the Great Depression in the 1930s. The transition process in ex-communist countries has been manifested through enormous difficulties, more than in the period of the transformation of the society in post-totalitarian regimes in Spain and Portugal. Besides the similarities among these groupings, there also many differences, starting with differences in time and space (territory). Anyway, one of the most important changes is the support by European Union countries, without the help of which the overcoming of these problems would have been impossible in countries in transition. The transformation and development of democratic society would be an illusion

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<sup>8</sup> Etem Aziri "Organizimi politik i Shqiptarëve në Maqedoni", Shkup, 2004 f.11

<sup>9</sup> Rikard Lang, "Kencepcija i strategija Razvoja" Zagreb 1989, str.33

during the 1970s for the populations in Greece, Portugal and Spain. We should particularly mention the material and moral support that was offered to them by EU countries for their accession into the Euro-Atlantic structures and institutions.

The role of the USA after WWII together with Western European countries, expressed through the Marshall Plan, according to Werner Weidenfeld, should be taken by developed countries of Western Europe and help the countries in transition in Eastern Europe<sup>10</sup>, especially those of Western Balkans.<sup>11</sup>

Social changes in Central and Eastern European countries, especially in the Balkans, are in step with other changes which are a sub-product of time and place where those transition and transformation processes are taking place. How serious and sustainable the offered model is, can be illustrated through the case of Republic of Macedonia during its transition period. The model of neighborhood help and support can be applied in Macedonia, since a country of only two million inhabitants has all the qualities to be analyzed, beginning with the social re-stratification to the development and perspectives that are provided by the process of democratization.

### **The process of transition in Macedonia**

The process of transition in Macedonia can closely be related to the model of the German sociologist, Ralf Dahrendorf, according to whom the transformation from a planned-centralized economy to a free market economy assumes the change of political institutions within six months, the change of economic relationships within six years, the transformation of human behavior, attitudes and values within 60 years.<sup>12</sup>

This model would be applied in Macedonia, contributing towards the prolonged transition time but on condition of not wasting time in unnecessary re-compositions of the state administration.

The local analysts as well as international ones warned about a permanent crisis or a conflicting situation in Macedonia, beginning with its independence on 8 September 1991. But, Macedonia managed to gain its independence peacefully without nay bloodshed, which was not the case with other parts of former Yugoslavia. The policy of two-facedness during the government of the former president Kiro Gligorov and his scion Branko Crvenkovski, two politicians closely connected to

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<sup>10</sup> Verner, Vajdenfld (ED) Demokracia dhe ekonomia e tregut në Europën Lindore, Strategji për Europën, Argeta-LMG, Tiranë, 1999, f.49

<sup>11</sup> Verner, Vajdenfld (ED) Demokracia dhe ekonomia e tregut në Europën Lindore, Strategji për Europën, Argeta-LMG, Tiranë, 1999, f.49

<sup>12</sup> NISPA cee-Instituti Otvoreno opstestvo Makedonija, Skopje, 2005, fq. 7.

Serbian decision making centers, would produce consequences in the Albanian – Macedonian relationships.

Kiro Gligorov, Stojan Andov, Vasil Tupurkovski, academician Vllado Kambovski, holders of high positions in the structures of federal state until the dissolution of Yugoslavia, replaced their residences but not their activities. Kiro Gligorov was the first president of the newly formed state; Stojan Andov was the first president of the multi-party assembly in Macedonia. One can see that there are no Albanians in any of the above-mentioned positions – they were always considered as second-hand people – their positions could no go above vice-presidents (let's mention the vice-president of the first Parliament during 1990-1994, Xheladin Murati, who was accompanied by two other Macedonian co-vice-presidents; 1992-1994, vice-prime minister Beqir Zhuta, again accompanied by two other Macedonian co-vice-prime ministers, and without any Albanian counselors in the presidential cabinet).

Macedonia continued to be a stretched arm of Serbia, serving as an alternative way for export of goods from Serbia and contributing to the mitigation of consequences and the effects of the international embargo. This caused Macedonia to remain dependent on Serbia, a fact that would follow this country up to date. Many Albanian, Macedonian and international analysts note that Macedonia is still led by the Serbian politics. If we refer to Macedonian analytical resources, we will see that the latest approach during the compilation of the so called “Macedonian Encyclopedia” was made in accordance with Serbian projections. Furthermore, Macedonian analysts themselves (such as the former Prime Minister Ljubco Georgievski and the former Foreign Affairs minister, Prof. Dr. Ljubomir Frckovski) do not hesitate to call this kind of encyclopedia – a product of perverted opinions from the SASA<sup>13</sup> (read: Serbian Academy of Sciences and Arts). But, it is worth mentioning that since the beginning of the creation of this republic, many things went wrong. In this context, the initiative of building new state institutions continued with the same politics, by different means and under different circumstances. State institutions presented a continuation of the monist system of the Socialist Republic of Macedonia.

### **Macedonia's Euro-Atlantic Integration**

In modern societies, political-judicial changes and economic-social ones are followed by a Euro-Atlantic process as a recipe that has decisive impact on democracy and world peace. The third millennium began with the so called “third wave in democracy”. In particular, this democratic spirit covered Eastern Europe, a very tense region and isolated from modern trends.

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<sup>13</sup> Televizioni Alsat M, Emisioni “Rruga drejt”, Shkup, 1 tetor 2009

“The democratic transition can be considered a completed process when there is good synchronization with democratic procedures in which state powers are determined, when the government takes power through free elections and when the executive, legislative and judicial powers generated by the new democracy *de jure* does not share the power with other bodies”.<sup>14</sup>

- The harmonization of laws in Macedonia with the European Union Law is one of the fundamental preconditions for full EU membership;
- The fulfillment of political criteria is a requirement for Macedonia's integration into NATO and the EU;
- The bases of political criteria.

What in fact do these political criteria consist of?

The answer can be found by having a glance at fundamental documents of the EU and NATO, from the Treaty of Maastricht in 1992 to the Declaration of Alliance on Security in the Bucharest summit in 2008.<sup>15</sup>

Those political criteria could be included into these sections:

- 1) Democracy
- 2) The Principle of Rights
- 3) Human rights

The regional cooperation of Macedonia in the war against corruption is a part of standards for accession into the EU and NATO.

After the fall of the Berlin Wall, democracy in Western Balkans and Central – Eastern Europe has often been experienced as a great uneasiness.

We should point out that Macedonia was the first country in Western Balkans that signed the Association-Stabilization Agreement with the EU, on April 9<sup>th</sup> 2001 which fully came into force three years later, but still did not manage to proceed in that way. Even though Macedonia applied in 2004 for accessing the EU, it has not received a starting date for negotiations. Macedonia has already handed in the questionnaire, but the waiting anxiety is still going on. All these problems are conditioned by two issues: the name contest with Greece and the internal circumstances in terms of the non-implementation of the Ohrid Framework Agreement.

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<sup>14</sup> Juan J. Linz and Alfred Stephan, “Problems of Democratic Transition and Consolidation- Southern Europe, South America and Post Communist Europe”, the Johns Hopkins University press, 1996. pp.3.

<sup>15</sup> Shih më gjërësisht Vlatko Mileta, Lidija Sehuliq “Victory”, Prishtinë 2006-f 184 dhe e përditshmja Koha. 04.04.2009 fq11

Macedonia is one of the rare countries in transition, where the segment of the state departization as a condition for democracy and civic pluralism has turned into strong-partisan stronghold. The partisan state from the former mono-party system has merely turned into a pluro-partisan state, depending on which party or coalition is governing the country, since they are going to switch places after a while, depending on election results – put it simple, the state gains new owners of it.<sup>16</sup>

The society with partisan domination is hidden in the civil society. According to experts, after each parliamentary election there are partisan changes in about 10 thousand public changes, in all sectors in the administration.

In countries such as the USA or Germany, after presidential or parliamentary elections, there are about 400 – 4,000 political or public functions that are replaced. Furthermore, some of the officials are not given the sack; they are just moved to some other positions, e.g. business, universities, science, culture, diplomacy, etc.<sup>17</sup>

### **Inequality and the so called “Oasis of Peace”**

The Macedonian Constitution of 1991 determined the Macedonian population as dominant in its preamble, i.e. it defined the state as unitary. The Macedonian language and its Cyrillic alphabet are declared as official; the Macedonian Orthodox Church was also separated from other religious institutions in Macedonia. According to Robert Hayden from the University of Michigan, this phenomenon is known as “constitutional nationalism”.

During the 1991-2000, the Macedonian state was hybrid, something between a national state (based on the form and the aspect of public administration and usage of languages) and civic state being governed by mixed national structures. But, the representation Albanians has always been peripheral without any important role in decision and policy making.

“The inequality at a national, confessional, and cultural level presented a danger for the development and perspectives of these societies. In fact, the lack of a just and principal approach against the national, confessional and cultural composition, especially in the two biggest socialist states, the former USSR and Tito’s Yugoslavia, reflected its destructive effects not only in these two countries but on socialism as a process”.<sup>18</sup>

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<sup>16</sup> Dimitar Mirçev “ Shteti i së Drejtës dhe Reformat në AP, rasti Maqedoni” UEJL-Tetovë 2008-fq 119

<sup>17</sup> Mirçev “ Shteti Juridik” UEJL-Tetovë 2008-fq 123

<sup>18</sup> Etem Aziri “Ndarja e pushtetit dhe zbatimi i marrëveshjes kornizë të Ohrit” Fridrich Ebert Stiftung, Shkup 2008 fq 51-52.

Therefore, Macedonia too, which gained its independence without war and conflicts, did show readiness and sincerity for establishing a civic state which would reflect the multinational, multireligious and multicultural character of the state. Albanian political parties made it clear a long time ago that they would not allow for Albanians to remain “renters at their own homes”.

But, unfortunately, regardless of all efforts, “the first decade of the pluralistic life in Macedonia is qualified by the tendency of domination and positioning”.<sup>19</sup> After all, the images of disregard which was growing over these tendencies would become quite evident. “Unfortunately, soon after the first pluralistic elections, there were some dysfunctional relations that were created at a political level which implied the institutional and non-institutional tendency of domination by the Macedonian side as well as the tendency of partisan (not national) positioning of Albanians...”<sup>20</sup>

It is worth mentioning that the Macedonian Constitution of 1991 which was establishing the new state was not voted by the Albanian MPs because of the lack of its real offer. Exactly this constitution would become a crisis generator in the relationships between Macedonians and Albanians in the so called “Oasis of Peace” (a notion that was unjustly advertised by the former president Gligorov), because of the unjust treatment of Albanians, leaving them as a national minority.

Recently, the struggle with the non-accomplishment of duties that come out from the Ohrid Framework Agreement is a clear indicator about the obstacles for integrative aspirations of Macedonia. “If the Ohrid Framework Agreement is considered as a document of democratic consensus between the two biggest ethnicities, then the lack of sustainable analyses about the conflict of 2001 would mean further hostage of Albanian – Macedonian relationships, and this means that it will negatively affect the democratic development and the integration of Macedonia in Euro-Atlantic structures”.<sup>21</sup>

### **Consensual democracy**

The American political scientist with a Dutch origin, Lijphart, in his famous work “Democracy in pluralist societies” warned about the disadvantages of majority democracies in multi-ethnic states about 20 years before the bloody ethnic conflicts in

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<sup>19</sup> Etem Aziri “Ndarja e pushtetit dhe zbatimi i marrëveshjes kornizë të Ohrit” Fridrich Ebert Stiftung, Shkup 2008 fq 56

<sup>20</sup> Etem Aziri “Ndarja e pushtetit dhe zbatimi i marrëveshjes kornizë të Ohrit” Fridrich Ebert Stiftung, Shkup 2008 fq 56

<sup>21</sup> Etem Aziri “Ndarja e pushtetit dhe zbatimi i marrëveshjes kornizë të Ohrit” Fridrich Ebert Stiftung, Shkup 2008 fq 60

Balkans. Not only is this kind of democracy unjust but it is also dangerous, since smaller ethnic groups are denied in terms of government participation. Lijphart's theory of consensual democracy is based upon the history of war and peace in Belgium and Switzerland as well as conflicts between Catholics and Protestants in the Netherlands. Lijphart studied the political systems of these countries emphasizing the ways of dealing with religious conflicts and establishing the consensual model of power exchange known as Agreed Democracy. This theory is based on the limitation of the majority prevalence in multiethnic societies and differs from liberal democracy and the democracy of majority in these elements:

- 1) A government which is based upon a broad coalition of parties – the most important elements of a pluralist society
- 2) Reciprocal rights for veto and protection of vital minority interests
- 3) Proportionality as a basic measure for determining the political representation and distribution of means
- 4) High level of autonomy for segments in resolving internal issues (decentralization, which should not be understood only as an “ethnic” decentralization).<sup>22</sup>

After the signing of the Ohrid Agreement, Macedonia, according to Florian Bieber from the University of Kent, has become a consensual minimalist system since it does not fulfill all aspects of consensualism.

“The biggest step that Macedonia should undertake is the achievement of consensus”, the Euro-ambassador Ervan Fuere would say.<sup>23</sup>

“The Ohrid Agreement according to analysts and scholars is treated and understood as a unique model for establishing a political consensus, a full agreement within the society with regard to the consensual and unitary order of the state”.<sup>24</sup>

During the first decade since its independence (1991-2001), Macedonia became an area of social-political changes with a/an (uncontrolled) dose of partial inter-ethnic conflicts.

The political pluralism before the conflict of 2001 was characterized by the political struggle between the “small majority” and the “big minority”.

Here are some data about the 2002 census in Macedonia:

1.297.981 - Macedonians	64%
509.083 - Albanians	25.2%

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<sup>22</sup> Arend Lijphart “Demokracia në shoqëritë pluraliste”, Shkup, 1994, fq. 59-101

<sup>23</sup> “Zaman”, mars 2009, Shkup, fq. 26

<sup>24</sup> Farimah Daftary “Conflict Resolution in FYR Macedonia: Power sharing or the ‘civic approach’,” Helsinki Monitor, Vol.12,12,No.4 (2001) fq. 291-312

77.959 - Turks	3.9%
53.879 - Roma	2.6%
35.939 - Serbs	1.8%
17.018 – Bosnians	0.8%
Other	1%. <sup>25</sup>

The Macedonian Constitution from 1991 was the major cause of the armed conflict and it was modified in 2001 by signing the Ohrid Framework Agreement which ended the armed inter-ethnic conflict and established peace.

Even after the conflict Macedonia continued to struggle with problems, having gone through a very long period of transition which caused radical changes in the society. These changes are evident in every sphere of life but they have negatively affected the lives of people according to data taken from different public surveys and questionnaires. According to an analysis performed in March 2009 by the South East European University – Tetovo (Macedonia) and UNDP – Skopje (Macedonia), it has been concluded that even the high social stratum in Macedonia is not contented with the current situation and is not optimistic about the future.<sup>26</sup>

The state is struggling with different problems that have arisen due to the extremely long transition period with lots of structural strikes which have given way to desperation generated by the negative international political environment, including the delays in the resolution of the name dispute with Greece as well as the slow advancement towards the accession to NATO and the EU. At the same time we should mention the inter-ethnic and security issues the resolution of which represents one of the main factors for creating a positive climate in terms of Macedonia's integration in Euro-Atlantic processes.

According to research data from the Center for Ethnical and Security Issues at the St. Cyril and Methodius University in Skopje during the 2004-2006 period, we can conclude that the Macedonian society is ethnically separated.<sup>27</sup>

There are lots of arguments about ethnical divisions in Macedonia, and we are going to mention some of the achieved results by the above-mentioned research where the author offers evidence in favor of the drawn conclusion. The two biggest communities in Macedonia have opposing approaches in relation to the Ohrid Framework

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<sup>25</sup> [www.stat.gov.mk](http://www.stat.gov.mk)

<sup>26</sup> Analyses based on citizens' opinions (regional Development, local government and quality of life in FYROM, March 2009 Tetovo, p.29 – 38.

<sup>27</sup> Petar Atanasov, Партнери во Мир и превенција Регионална стабилност преку човекова безбедност, одбрани текстови од Конференција за Превенција и човекова безбедност 2005-2007, стр 87, Скопје 2008.

Agreement. Macedonians see it from a very negative viewpoint whereas Albanians are in favor of that agreement since it is a solid foundation for the promotion of their rights and status.

When talking about the relationship between the two biggest communities in Macedonia, we should point out that there also some vital issues for which both sides agree. One of them is the issue of security and stability in this country. The agreement can be best seen in people's reaction to the question about the issue upon which Macedonia's stability relies.<sup>28</sup> Even though there are slight differences in terms of the impact of the living standards and the accession to the EU, they are still the most important things in Macedonia's reality.

There have been many analyses carried out which illustrate the citizens' opinion about Macedonia's accession in to the EU and NATO, and we can see that the percentage of those in favor of these integrative processes is quite high. In this respect we can mention the scientific research that is being realized by CRPA at SEEU in Tetovo.<sup>29</sup>

### **The chances of Macedonia's accession to the EU and NATO**

This issue has become a discussion topic for quite a long time now and there have been different optimistic and pessimistic viewpoints, depending on the authors and the circles where these issues are discussed. All the preparations for Macedonia's integration into the EU and NATO have been made in a timely manner by the state representatives and this can be illustrated by the National Strategy.<sup>30</sup> It is a very important and long-lasting strategy for Macedonia which includes the steps and measures that are to be undertaken by the state itself. It represents a final product of the engagement of different experts, including the symbolic participation of Albanian ones.

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<sup>28</sup> Petar Atanasov, Партнери во Мир и превенција Регионална стабилност преку човекова безбедност, одбрани текстови од Конференција за Превенција и човекова безбедност 2005-2007, стр 88, Скопје 2008. From the overall number of the surveyed, 63% think that the stability in Macedonia depends on the greater living standards; 18% think that it depends on Macedonia's integration into the EU. These figures among the Albanian population are 47% and 24% respectively.

<sup>29</sup> CRPA – SEEUTetovo 2008, Report – project "Euro-Atlantic Perspectives of Macedonia, problems, challenges and the new reality after the failure of the Bucharest Summit in 2008.

<sup>30</sup> www.sei.gov.mk , национална стратегија за интеграција на Р.М во Европска Унија, септември 2004 Скопје.

Even though there is consensus about the implementation of this national strategy, there are still differences in ways and approaches towards it depending on the government structures that are leading the country. It is normal to have different government compositions, but they should proceed with what has been done by the previous government and not start everything from the beginning or even move things backwards.

Unfortunately, regardless of the political wing that has come to power, Albanians have also been marginalized, being left therefore on the edge of euro-integrative processes in Macedonia.

In order to achieve better results for this country, the Government should:

- determine a more active role of the Albanian factor in the overall integrative processes that Macedonia is going through;
- continuance of the dialogue among important political subjects under the patronage of the President of the country;
- conclusion of reforms in public administration and jurisdiction;
- fight against corruption;
- creation of a more favorable business environment;
- extension of the democratization of the elective process (without violence and manipulations)
- overall democratization of the society.

All of these contribute toward Macedonia's aspirations to become a member of the great family of NATO and the EU. The first chance of entering NATO was missed, separating in this way from the Adriatic group of states to access NATO, due to a stubborn policy which leads towards isolationism. It is time to overcome the challenges by following the example of Croatia and Slovenia which managed to find a solution to a similar dispute through compromise, or the political consensus achieved among political parties in Albania at the time of its accession to NATO. From all what was said, we come to conclusion that the only prosperous way for Macedonia is its soonest accession to NATO and the EU, which, we should not forget, is conditioned by the fulfillment of certain requirements and standards. One of those was the decision made by the Macedonian Parliament about the adoption of the Law on Public Administration, which was the most important for the EU. But, even though there was an inter-party consensus between a part of the opposition and the parliamentary majority, there are still considerable differences to be overcome in terms of its implementation. This is mainly because of the extreme partization of the administration and the deceleration of public administration reforms.

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### **Rural Development Policies in European Union Membership Process: Evaluation in case of Turkey and Albania**

#### **Abstract**

This study examines situation of Turkey and Albanian rural areas and problems areas in the context of EU integration. The new policy instruments and their using to adopt CAP reforms in these countries were discussed in the study. Furthermore, Instrument for Pre-Accession Assistance (IPA) funds was review for both countries. As a result these funds will be carried out just four sector, milk, meat, chicken, and fruit-vegetable and aqua products for 2007-2013 period (290 million Euro) in Turkey. Albania look like as a potential member of EU, the limited efficiency of Albanian agriculture, the output and income generated from agriculture is low, as compared to EU standards. To promote EU standards, 1323 million Euro (the share of IPA is 4.6 % of total amount) will be used for 2008-2010 for integration to EU by Albania.

#### **Introduction**

In generally, "Development" can be defined such as increasing of communities' prosperity in each country. Also, the function of development in rural areas includes several kinds of services; it contains a process that have not only economical concept but also from education to health, infrastructure services, agricultural production, creating new additional income possibilities and to be organized.

In recent years, it is commonly seen regional disparities in every part of World, especially in developing countries and even different part of the same country, which some of them are Turkey and Albania. Especially, this situation based on agricultural sector's value added to national economies and rural areas' situation in these countries. In Turkey, the share of rural population in total population, which was 75% in 1927, fell 40.9% in 1990, 35% in 2000 and 24% in 2007. On the other hand the portion of agricultural sector in general employments is yet very high (26.4% in 2007). Agricultural sector has a unique importance because 67.5% of these people, live in rural areas, make agricultural activities. In Albania the share rural population in total population in 1990 was 65% and about 50% in 2009. After 1990, the social and economical liberalization in Albania is causing and will continue to cause the migration of the population. Thus these countries' rural areas have serious problems such as losing labor force, migration of young population from rural to urban, also decreasing of agricultural productivity.

In Turkey, though the major portion of the population is engaged in agricultural activities, distribution of national income has been impaired unfavorably against rural sections due to their low lot in GDP. Since the continuation of divisions of agricultural territories via inheritance, the decrease in sizes of agricultural enterprises, and the occurrence of further problems in agricultural fields (infrastructure, education, health, organizational structure etc.), poverty has become a current issue in both countries. According to criteria of Organization for Economic Cooperation and Development, in Turkey, 14.8 % of population living in rural section, and 14.2 % of households in rural section are below poverty limit. (Pamuk, 2002). In 2002, 36.6 % of population living rural areas are below poverty limit (TURKSTAT, 2002). Furthermore it seems the same situation and in Albania, people that live in rural areas are the below poverty limit, in rural areas (especially in mountain areas). Different surveys indicate a large reduction in poverty in rural areas between 2005 and 2008. The rapid reduction in rural poverty means that poverty may no longer be essentially a rural problem. Broad areas of Albania continue to witness declining poverty rates. The Central areas have had the largest reduction in poverty rates since 2005. However, the data indicate a noticeable slowdown in the rate of poverty reduction in Mountain Areas, where the incidence continues to be the high

In last years, Regional and Rural Development Projects have come on the scene as a new model in rural development studies for last 20-25 years. National and international organizations gave place in their development programs. The majority of these projects aimed to reduce regional disparities basically. However there are also projects funded by International Organizations such as the World Bank, FAO, UNICEF, IFAD and EU.

Moreover, the beginning of relations between the EU and Turkey dates back to 1950s. It is foreseen that rural areas in Europe and in Turkey will be radically changed during the next decades. With EU enlargement allied to the fundamental reform of the CAP (Lux., June 2003) and the further changes that will continue after a WTO agreement. It will be essential to have a proper balance between economic, social, environmental and sustainable development of rural areas in both Europe and Turkey which is the major challenge for the future (Allen and others, 2006). Especially, after 2000s there are new policy instruments have been carrying out in Turkey thanks to Turkey's candidacy process to EU by policy makers. The main aim of these implementations is reorganization of Turkish agriculture, increasing of agriculture competitive and ensuring sustainable rural development in rural sections.

On the other hand, Albania shares the same process on IPA – The Instrument for Pre-accession Assistance- like Turkey too. In the framework of regional and European integration, since 1990 many agreements have been signed by Albania with European Union. In 1999, Albania gets the trade regime of the autonomous measures with EU, while in September 2000, Albania becomes member of World Trade Organization (WTO). In 2001 Albania signed The Free Trade Agreement (FTA) with all regional countries. In June 2006 the Stability and Association Agreement was signed with EU, which came into force on December 1st, 2006, CEFTA, which came into force in May, 2007. (Ministry of Economy, Trade and Energy, 1990-2007).

The signing of stability and association agreement marks the beginning of a new phase of prospect in corporation with EU and certainly deepening the integration process of Albania. We believe the membership of Albania in WTO and FTA, signed with regional countries and EU is in general the most important challenges for Albanian economy and in particular for Albanian agricultural sector. Nowadays the trend of economy is to increase exports and to decrease imports. In the recent years some of imported agricultural products have been replaced with Albanian agricultural products, produced or processed in the country.

Another objective is encouraging farmers to increase the investments in their own farms.

Taking part of Turkey and Albania as member in these international organizations: FAO; IFAD; CIHEAM; OIE; EPPO; ISTA; FEZ, IPGRI, OECD, is a good chance to profit from different projects that offer them. It makes easy these countries to integrate to European Community.

These agreements and programs release new perspectives about rural development and emphasis on multifunctional of rural areas. Recently, as a potential candidate country, Albania receives assistance under components I and II. The Multi-Annual Indicative Planning Document (MIPD) 2008-2010 for Albania under IPA allocates to Albania a total amount of EUR 245.1 million. Of this amount 88 % will be

directed to projects under IPA component I; the rest will fund Cross Border Cooperation projects.

In both countries (Turkey and Albania), rural areas must face new challenges such as further reform of the CAP during the next years, further liberalization of world trade for agricultural products, demographic changes (migration, etc.), need for investment in knowledge and innovation, the continuous reduction in the number of full time farmers and in the numbers directly employed on farms.

To integrate to EU, facing new challenges summarized above, some policy priorities should be shared by these countries; reduce rural unemployment, improve income situation, improve agriculture efficiency and competitiveness, promote rural tourism, improve rural infrastructure and services, devote greater resources to training and preparation for employment, encourage opportunities for young people to rejuvenate rural society, need to promote women's role in rural society, adequate provision of healthcare and social security services.

## **Rural areas and rural development policies in turkey and Albania**

### ***General Overview of Agriculture Sector and Rural Areas***

In general, Turkey can demonstrate some distinctive features in its development: an overall growing economy with frequent periods of economic crisis; a growing population with great disparities of income and capabilities, especially between urban and rural areas and different sectors of the economy; a rich endowment of natural resources strained by over consumption and poor management and more so concentrated in the agricultural sector and rural areas. The recent trends of the overall economy and its overall structural features manifest themselves in strong, distinctive and polarized ways, influencing the structure and evolution of the current socio-economic context. These trends are important for rural development policies as they have a major impact on rural areas.

Development disparities between urban and rural areas still prevail as a result of modernization efforts, industrialization and socio-economic transformation in the social and economic development process of Turkey to date. In this process, rural areas failed to catch up with the rapid development of the urban areas. Two of the basic reasons are the structural transformation of Turkish economy in favor of industry and service sectors and the migration between regions and from the rural to urban areas (IPARD Program, 2007).

The drivers of economic growth have been the manufacturing and service sector. Agriculture's share of GDP has been declining in relative terms (- 60, 5% in the last 25 years) although it has actually grown in absolute values. In 2007, average

income per capita in Turkish economy is 9.333 \$ and also 2.433 \$ in agriculture sector (26.1 % of general level). The sector shares (%) of GDP for are shown in below. According to table, two sectors have played an important role in economic growth and are relevant for agricultural and rural development: the food industry and tourism.

**Table 1.** The sector shares (%) of GDP for the period 1980-2006

<b>Sectors</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Agriculture	26,1	17,5	14,1	11,2	10,3	9,2
Industry	19,3	25,5	23,3	24,9	25,4	25,6
Services	54,6	57,0	62,6	63,9	64,4	65,2
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Source: TURKSTAT, various years

Agriculture sector has still important share of GDP in Albania, in spite of declining its share latest years. Industry and services sectors has 81,1 % of GDP and it shows that the share of agriculture will be less than recent value in future years (Table 2).

**Table 2.** The sector shares (%) of GDP for the period 1980-2006

<b>Sectors</b>	<b>1996</b>	<b>2000</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Agriculture	36.5	25.5	22.3	20.6	19,4	18,9
Industry	15	16.0	23.9	24.4	25,4	23,9
Services	48.5	58.5	53.8	55.0	55.2	57,2
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Source: ALBANIAN INSTAT, various years

Population movement is one of the most important indicator in rural areas in each country. Furthermore, it is seen second element, a growing population and fast urbanization. The "village" population (people living in settlements below 2.000 residents) has been considered historically as coinciding with rural population. In the long-term, two distinct phases may be observed in the rural-urban distribution (shown in table 3 below): the first from 1927 to 1950 in which Turkish society remains an agrarian one, with three quarters of the population living in rural areas and maintaining its share notwithstanding population growth, and a second phase, after the 1950's, in which a process of significant urbanization takes place and shifts the

balance of the Turkish population, which now lives predominantly in cities of over 2.000 (64,9%) inhabitants.

In Albania, as we see in the table the share of rural population in total population, which was 79.5% in 1950, fell 63.9 % in 1990, 58.8 in 2000 and 51.3 in 2008, explained with the emigration of population from rural areas to the cities (Table 4).

**Table 3.** Rural-urban distribution of the population

<b>Census Year</b>	<b>Village Population (million)</b>	<b>Share of Village Population (%)</b>	<b>City Population (million)</b>	<b>Share of City Population (%)</b>	<b>Total (million)</b>
1927	10,3	75,8	3,3	24,2	13,6
1950	15,7	75,0	5,2	25,0	20,9
1960	18,9	68,1	8,9	31,9	27,8
1970	21,9	61,6	13,7	38,4	35,6
1980	25,1	56,1	19,6	43,9	44,7
1990	23,2	41,0	33,3	59,0	56,5
<b>2000</b>	23,8	35,1	44,0	64,9	67,8

Source: TURKSTAT, 2000 General Population Census

**Table 4.** Rural-urban distribution of the population

<b>Census Year</b>	<b>Village Population (million)</b>	<b>Share of Village Population (%)</b>	<b>City Population (million)</b>	<b>Share of City Population (%)</b>	<b>Total (million)</b>
1950	966.2	79.5	249.0	20.5	1215.2
1960	1133.0	70.5	474.3	29.5	1607.3
1970	1455.9	68,2	479.7	31,8	2135,6
1980	1773.2	66.4	897.3	33.6	2670.5
1990	2079.9	63.9	1176.0	36.1	3255.9
2000	1798.9	58.8	1259.6	41.2	3058.5
<b>2008</b>	1629.0	51.3	1541.0	48.7	3170.0

Source: ALBANIANSTAT, General Population Census

In the framework of EU membership, it is seen main differences on agro data between EU and Turkey. This situation shows that Turkey has some difficulties on integration to CAP because of amount of agr. population, in spite of this rate is 5-7 %

in EU-25, the same figure is still very high (29.5 %) in Turkey. The same situation can be seen easily for agriculture enterprises, agr. employment too.

**Table 5. Some Basic Indicators in EU and Turkey**

<b>Indicators</b>	<b>Albania</b>	<b>Turkey</b>	<b>EU-15</b>	<b>EU-25</b>
Surface (million ha)	2,9	78	332	402
Agriculture Land (million ha)	1.1	39	134	169
Num. of enterprise (million)	-	2.4	7.4	13
Population (million)	3,1	80	372	452
Agr. Share in employment (%)	58,5	26.4	5.0	6.0
Agr. Share in GDP (%)	21*	7.7	1.9	1.8
Agriculture Population (%)	-	29.5	3.0-4,0	5.0-7,0

Source: TURKSTAT, Various Indicators, various years (2007), INSTAT, 2005

### **Regional and Rural Development Policies in Turkey**

Turkey is one of countries that gave a special importance on issue early times, its studies go back 1930s. At the first, it was main purpose ensuring food security on this issue. Regarding of all these progress explained above, it has been given a particular significance to some extent since the initial years of planned development period to rural areas. Preceding the planned term, these studies were limited with coming into effect of Village Law, earliest economics congress, earliest village congress, abolition of tithes (Aşar tax), establishment of Village Institutes, getting titles to the lands; however, during the period of planned term, thanks to the model village approach, many-sided arrangements of rural sections, programs for society development, city-village model, and the projects of regional and rural development these studies have evolved (Gülçubuk, 2008). A great many development projects supported by foreign financing system like IFAD and national government were carried out in Turkey to eliminate local differences between the prosperity levels, to improve the living conditions of rural people, to impede the migration, and to minimize the problems causing cultural discrepancies. Among them the South Eastern Anatolian Project (GAP) is the largest one, also Eastern Anatolian Project (DAP) and Eastern Black Sea Development Project (DOKAP) are the main implementing regional development projects.

The principal rural development projects, completed recently or still on the process; Rural Development Project in Çorum-Çankırı (1976-1984), Rural Development Project in Erzurum (1984-1989), Rural Development Project in Ordu-Giresun (1996-2004), Rural Development Project in Bingöl-Muş (1990-1999), Rural Development Project in Sivas-Erzincan -Tunceli (1993-2006), Rural Development Project in Yozgat (1991-2001).

### **Integration to Europe (Turkey's and Albanian potential candidacy to eu) and rural development**

In EU countries, since its launch in 1991 the Leader Program has encouraged active involvement of local communities in Rural Development. Turkey started to adopt in rural development programs EU programs since mid 1990's by LEADER programs. Furthermore, in the beginning of 2000s there were made some legislative arrangements. in the EU membership process, there have been made new expansions against rural section in Turkey such as acceptance of EU regulation by Turkish Government (21 March 2001), against economic and social adaptation in EU, a national development plan, include 2004-2006 period, was accepted (22 December 2003/61). On the other hand, administration system reform studies have been accepted (23.07.2004 /5216), and also NUTS regulation made (22 September 2002/4720). According to this regulation, the regions were divided in three groups, in first group, there are 12, in second group, there are 26 and third group there are 81 regions (provinces). Therefore, regional development programs prepared for 12 regions, which are in second group, have been accepted by EU. Finally, regional development agencies, 26 numbers, have been established in Turkey (25.1.2006/5449) (Berk and Yasar, 2008).

In order to form a basis for a Rural Development plan and to establish the strategy for the rural areas in Turkey, the national Rural Development strategy has been prepared and it was adopted by the Supreme Planning Council and published in the Official Gazette (04.02.2006). The national rural development strategy has been prepared in conformity with the national development plans and within the view of harmonization for the EU's rural development policy. The strategy document constitutes a specialized guideline for rural development in which the quantified analysis of the rural situation, development opportunities, results of previous implementations, required strategies and priorities, have been identified (Allen and others 2006).

Recently, in order to make use of the IPARD funds. Turkey prepared a Rural Development Plan (IPARD Plan) for the years from 2007 to 2013 which will form the basis for financing the rural development measures under the IPARD and establish an

implementing / paying agency (IPARD Agency). Total amount of this fund for Turkey is 290,5 million € for 2007-2013 periods. This plan was accepted by EU (19 December 2007) and includes just four sector, milk, meat, chicken, and fruit-vegetable and aqua products.

**Table 6. Instrument** for Pre-Accession Assistance Rural Development Fund of Turkey

Years	2007	2008	2009	2010	Total (Million Euro)
Payment Amount	20,7	53,0	85,5	131,3	290,5

Source: Ministry of Agriculture and Rural Affairs ([www.tarim.gov.tr](http://www.tarim.gov.tr)), 2009

It is still continuing establishing of IPARD Agency in Turkey. Because of administrative mistakes these funds couldn't be used desired level until now. In this step it is applied for accreditation process to EU. It is planning to be used these funds in 2010 efficiently.

**Table 7. Instrument** for Pre-Accession Assistance (IPA) of Albania

EC Assistance to Albania (1991-2007) in million €	
IPA	61
CARDS	330
Phare	635
Macro-financial assistance	150
ECHO	142
EIDHR	5
Total	1323

Source: Multi-annual indicative planning document for Albania 2008-2010

In the part of Albania, the strategic objective of pre-accession assistance IPA to Albania is to support the country in moving towards membership of the European Union. The objectives identified in the MIPD 2008-2010 respond to the European Partnership priorities, the 2007 Progress Report and the SAA/Interim Agreement requirements. Assistance will also support the implementation of Albania's 2007 National Strategy for Development and Integration, the 2007-2012 National Plan for the Approximation of the Legislation and the Stabilization and Association Agreement, as well as other relevant strategies in areas related to the EU integration process.

In this framework, Turkey and Albania has similar kind of agricultural problems to integrate CAP such as scale problems in agriculture. In turkey, high dependency of rural employment and income sources on agricultural activities is seen

as a main problem area. Specifically, the problems can be seen such as small scale and fragmented agricultural holdings, Inadequacy of agricultural training and extension services, and cooperation, standards and quality problems of agro products, inefficiency of marketing activities, insufficiency of capital and financial resources, situation of forest villages, low education level and low schooling ratio of female students, inadequacy of data required analyzing economic and social structures of rural areas. On the other hand, in Albania, it is based mainly on small farms (less than 1,2 hectares and divided into 3-4 plots in Albania). This division is a great obstacle for a sustainable development of Albanian and Turkish agriculture. Secondly, it is seen socio-economic difficulties on agricultural production, difficulties with regard to adapting the old mentality of farmers to the new circumstances of the market economy like production of traditional crops, not participating of agricultural education and extension programs desired level. Also, it is seen the difficulties in storage and distribution of agricultural products and low level of development of agro-processing industry in the both country. Also, there are some poor infrastructure and road network problems too. All of these problems can be seen a problem areas for integration to CAP. To solve this integration problem, EU funds like IPA have been tried to be used efficiently recent years.

## **Results and discussion**

The integration to CAP needs new challenges for both countries. In this process, it is seen new opportunities to solve rural areas' problem to be facilitated of integration to EU. Turkey and Albania have basic advantages because of their position. These countries follow new policy instruments in rural areas thanks to EU funds such as IPA. Turkey has liberal market system since 1980s on the contrary of Albania. So Turkey has specific integration problems. IPA plays important role to integrate Turkish agriculture to CAP and adopted new rural development concept in Turkish rural areas. This concept consist of development trends of non-agriculture sectors, increasing consumer consciousness and demand for healthy, quality and organic products, development of food industry on the basis of domestic and foreign demand, increasing of demand of rural tourism, EU membership process and harmonization, accessibility to international resources-funds, enhanced opportunities to access foreign markets, progress in production, communication and information technologies, development in urban economies, stronger functional relations between urban and rural areas, increasing concern for the empowerment of local governments and improvement of public administration (SPO,2006 ).

Albania is still trying to adopt liberal market system in agriculture. So mainly it needs land reform including land distribution and registration. IPA and other EU funds

can be used to make strong agro-land and registration system. Limited agro-investment possibilities (2 % of budget), level of agricultural production, insufficient of using new technologies, application of quality management systems are other problem area for integration to CAP and EU standards. To facilitate integration, it should be increased fund for investment in agriculture by IPA. To increase agricultural production and farm incomes, farmers should co-operate with each other because of the surface of lands are too small and so they can't implement new technologies efficiently. Also, they need improve and strengthen veterinary and fitosanitary services, to strengthen food control and food security rules.

Necessary requirement for the integration of the Albanian society is the application of standards for quality management. Many Albanian companies are on the way of certification ISO, HACCP, CE. In the same time, it needs that business should to improve the marketing of its products.

Mainly, it is seen adaptation problem to liberalization in Albania. This situation forces the country critical making decisions on ownership of agricultural land, registration system, monitoring and evaluation of agro products from land to consumer, and also future challenges under new conditions of WTO and CAP reforms. On the other hand, in spite of liberal policies implemented latest years in Turkish agriculture, Turkey needs reorganization of rural areas and rural development concept with new instruments to increase productivity thanks to EU membership.

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### **The European Union Strategy towards the South European states: the Case of Political Transformation in Serbia**

Serbia, as a part of SFRY, at the end of 80<sup>th</sup> of the XX century was a leader of integration processes; but in a result of its collapse and civil wars, also out of the long-lasting process of confrontation with the Milosevic's regime, these advantages were lost and the process of institutional reforms was retarded.

The failure of the EU peaceful initiatives during the Yugoslavian conflict settlement in 90<sup>th</sup> led to the development and implementation fundamentally new strategy of stabilization – SAP – economic and political stabilization of the whole region in time.

The democratic opposition in Serbia took the course on integration into the EU from the very beginning (2000) but during long time it wasn't able to implement the radical reforms.

In such conditions the EU' tactics of categorical demands to admit new status of Kosovo and cooperate with Hague in aggregate with economic and financial support of institutional reforms and speeding up the process of the SAP signing, afforded. Such cynical "stick and carrot policy" from the side of EU fortunately was crowned with success.

**Key Words:** Serbia, European Union, political transformation, European integration

The region of central and southern Europe has always played a special role in the course of global development. In many ways geopolitical problem of Serbia's position in European transformational processes has a long and extremely ambiguous history; just remember the word of St Sava's "The East thought that we were West, while the West considered us to be East". Serbia, always remaining a European state, both territorially and geographically, but has never actually been in Europe Union.

As in the past, today the issue of European integration is connected with the complexity and uncertainty of "Serbian question" which has a 200 year history: how to combine the process of modernization and unification of "Serbism". In 2008, after the self-declaration of independence of Kosovo this dilemma transformed into the equally urgent problem - the problem of preservation of state integrity and national

identity of the Serbs. A long period of crisis and dissolution of SFRY, complicated by a civil war, turned Serbia from a leader of European integration of the end of the 80s into an outsider. An extended period of time of democratic revolution to a larger extent retarded institutional reforms as well as the essential transformation of social structure and political system of the country.

### **Transformation of internal politics in Serbia in 1990-2000.**

At the end of the 1980s under the conditions of acute political crisis in Yugoslavia, the process of establishing of multi-party system began: new parties were organized in Slovenia and then in the other republics. However only in Serbia, (as opposed to any other former Yugoslav republics and the majority of Eastern European countries), communists managed to preserve their exclusive domain in power in the multi party system for quite a long period of time - right until the beginning of the 21st century. This very specificity gives us an opportunity to regard the political processes in Serbia as phenomenon of extended in time known as the "velvet revolution". For a decade from the introduction of multi party system and to the "small October revolution" there was Slobodan Milosevic's personal rule regime with elements of a parliamentary system. Whereas in the countries of central and Eastern Europe the democratic opposition managed to come to power using national doctrines, S. Milosevic in Serbia under the slogan of "anti-bureaucratic revolution" managed to do so that the "old regime" played a role of a new one and created a paradoxical situation from a political point of view: the party, ruling for 40 years, managed to become a power and an opposition at one time by means of new, as it was called "refined" leadership. New Serbian administration leadership deprived the opposition of its ideological identity by proclaiming the protection of "serbism" its first objective.

The most important event in the political live of Serbia of that period was the formation of the united opposition party - Democratic Party in 1990. DP leaders represented various political trends: from convinced liberals and supporters of western model of modernization of Yugoslavia (D. Micunovic and Z. Djindjic) and democrats -traditionalists (V. Kostunica, K. Cavoski, N. Milosevic) to radical nationalists (V. Sesel). This very heterogeneity determined contradictions in administration and constant organizational changes. Centrist and ideologically heterogeneous DP turned to be subjected to rifts; problems of national policy and uniting into broader coalitions turned out to be the reason why both leftists and rightists separated from it. As a result three trends were formed in the Serbian political arena: socialist (the Socialist Party of Serbia, the Yugoslav Left - IYUL (July)), liberal-democratic (the Democratic Party of Serbia, Serbian Renewal movement) and nationalistic (the Serbian Radical Party).

At the same time the conflict between two leading democratic parties DP and DPS was escalating: more and more they disagreed on the strategy of political transformation of the society and the national question. Not least important was the personal rivalry for leadership in a democratic camp between two leaders - V.Kostunica and Z. Djindjic.

During the war all the parties except DP and DSP took up extremely nationalistic positions, blaming Milosevic for treason and insisting on "unification of all Serbian lands". However the same national and patriotic program was proposed by the leading SPS. In that way Serbian pluralism was a dilemma of communist and anticommunist nationalism.

The 78-day war of NATO against Yugoslavia turned out to be the determinant - the turning point in confrontation of S. Milosevic's regime with democratic opposition. The attempt of the regime to represent itself as a "winner" in the war made it unpopular with all levels of Serbian society. At the same time the opposition forces united and a new coalition called "The Democratic opposition of Serbia" was created. The cause for consolidation of all oppositional forces and their unification with mass non-partisan protest was the preparation for 2000 elections.

In reality Z. Djindjic was a creator and a manager of the election campaign DOS which resulted in S.Milosevic's overthrow. The mass youth nongovernmental organization "Repulse" became an important ally of the coalition in the election campaign. Not less important reason of the triumph of opposition were blunders of the ruling regime. The Parliament of Yugoslavia made a number of amendments to the Constitution of the FR of Yugoslavia on the 6<sup>th</sup> July, 2000. Outwardly democratic changes, per se, purposed other objects. By means of these changes the Parliament actually cleared S. Milosevic the way to (absolute) power.

It was Z. Djindjic who saw a chance for Serbian opposition in this decision made by his opponent. At the same time he managed to preserve the unity of opposition. It turned to be possible by Z. Djindjic's tactical ploy. He understood that his own candidature was unacceptable and proposed an uncompromising figure of the DPS leader V.Kostunica as a candidate for the FR of Yugoslavia Presidency. All this predetermined the success of DOS in Presidential and Parliamentary elections of the 24<sup>th</sup> September 2000 and gave an opportunity to head the mass protest movement on the 5<sup>th</sup> October, 2000, which, as a result of the so-called "October revolution", led to the overthrow of S.Milosevic regime. However, becoming the leading coalition in the country, the Democratic opposition of Serbia was a priori doomed to the renewal of ideological and personal disagreements which characterized the inter-party relations in the late 1990's. Moreover, they only intensified at the beginning of the 21<sup>st</sup> century, when integration into the global society became a necessity.

### **Political in-fighting in Serbia and its relationship with the EU in 2000- 2006 rr.**

Straight after V. Kostunica was pronounced the winner in presidential elections, the EU rescinded most of the sanctions imposed on Yugoslavia and decided to extend the measures for liberalization of trade for Serbia. The EU also set a course for Serbia's progressive integration into its organization. For the first time in the last 10 years representatives of Belgrade took part in a summit of the heads of state and government of the region held in October 2000, in Skopje (Macedonia) and this became a legitimization of new "democratic" Yugoslavia. During the conference the FR of Yugoslavia officially acceded to the Stability Pact for the countries of South Eastern Europe.

Within the terms of regional cooperation between Serbia and Montenegro in April 2003, Serbia and Montenegro joined the Black Sea Economic Cooperation, in August – the international Danube Commission and the Regional Transportation and Energy System. Direct working contacts between the EU working bodies and the FR of Yugoslavia were made in June 2001. During the period between July 2002 and January 2005 about 10 meetings between the representatives of the European Commission and the administration of the FR of Yugoslavia (from February 2003 – Serbia and Montenegro) were held, in the course of which the fields subjected to reformation were marked.

The Thessaloniki Summit was a powerful impetus to the development of the regional cooperation. Despite the acute situation in domestic policy in Serbia and contradictions between different groups of democrats, the course to euro integration became the long-term guiding line in the policy of Z. Zhivkovic's transitional government (2003) as well as of V. Kostunica's coalition government (2004-2007).

According to the decisions made at the Thessaloniki Summit, the government of the Republic of Serbia adopted a Plan of actions for bringing the national legal system in balance with the acts of the EU in July 2003. "The Office of the Government of Serbia for the joining the EU", formed on the 8<sup>th</sup> March, 2004 became the main administrative body for coordination of work in the course of joining the EU.

The major achievement in the work of Serbian government and the parliament of Serbia for the joining was the development and adoption of the National strategy of Serbia for joining the EU by Serbia and Montenegro in May 2005. In spring 2005 the EU took a favorable view of institutional reforms in Serbia and Montenegro and was ready to start direct negotiations for signing the Stabilization and Association Agreement in autumn 2005. In the statement on the Stabilization and Association Agreement among other things it was marked that cooperation between

Serbia and Montenegro and the International Criminal Tribunal for the former Yugoslavia developed rapidly.

However, already in spring 2006 the situation in the relationship between Serbia and the EU changed drastically: in the agenda not so much the problems of institutional transformation came to the fore as the most important issues concerning home political stability: the problem of cooperation with the International Criminal Tribunal for the former Yugoslavia and the question of the status of the autonomous province of Kosovo and Metohija. It was in many respects connected with the situation in home policy of Serbia.

On the back of the fierce opposition of DP and DPS the active process of growth of the Serbian Radical Party took place. It can be explained by the fact that the Serbian Radical Party, gradually but quicker and smoother than the Socialist Party of Serbia, transformed from the extremist-radical party to the populist-conservative one and became the party of discontent and protest vote. To some extent the leaders of the Democratic Party are responsible for that as they thought there was an electoral community of the democratic bloc and the most important task is to redistribute these votes for its own benefit. As a result there was Kostunica's weakening as well as the extension of influence of the radicals.

The results of the elections in Serbia in December 2003 and then the formation of Kostunica's government in March 2004, supported by socialists, caused quite negative reaction of the West and laid foundation to the constant search for the variants of direct influence upon the political landscape in Serbia. From this moment on, V. Kostunica's coalition governments (2004-May 2008) became opponents to Brussels and a factor which hindered the process of integration of Serbia.

Strengthening of interparty resistance in spring 2006 led to a stalemate: Kostunica's Cabinet actually blocked the process of judicial reform and reform of force structures. In response DP leaders paralyzed the work of Parliament. It instigated the outside forces to take decisive actions: leaders of the EU placed their stake on the open pressure on Serbia. The Solicitor General of the International Criminal Tribunal for the former Yugoslavia K. Del Ponte instigated an accusation of Serbia of the rejection to cooperate with ICTY in General Radko Mladic's search and extradition. At the beginning of May 2006 it caused the formal interruption in negotiations for signing the Stabilization and Association Agreement. Announcement about the interruption in negotiations between the EU and Serbia on the 3<sup>rd</sup> May 2006 let M. Djukanovic (the president of Montenegro) get nominal majority in 0,3 % in favour of separation. Having finished the process of the disintegration of Yugoslavia on its republican borders, the EU made it clear that it will go any length to the partition of Serbia. Separation of Montenegro and formal extinction of the FR of Yugoslavia brought legitimacy of Serbian sovereignty over Kosovo into a question as the United Nations

Security Council Resolution 1244 provided that Kosovo was a sovereign part of a federal state.

It is obvious that one of the motives of the actions of the EU aimed at breakdown of talks with Serbia was striving for changing the home political landscape in the country. Brussels was persuaded to activate the pressure on the political elite of the country and to use the method of “carrot and sticks” for the reformation of the political arena of Serbia. It happened because of the single-line perception of political processes in Serbia by org-men of the EU and their confidence that center-right coalition headed by V. Kostunica turns the Euro integration process into the alternative of preserving the territorial integrity and national identity of the country by its policy.

### **Means and methods of the EU influence on political landscape in Serbia in 2006-2008.**

Breakdown of negotiations for the signing of the Stabilization and Association Agreement at the beginning of May 2006 and the transition of the western partners to forced politics about R. Karadjic’s extradition to the International Criminal Tribunal for the former Yugoslavia and about the status of Kosovo caused another political crisis in Serbia which lasted up to the spring of 2008.

During the run in the office the cabinets of the DP (2001-2003) and then during the run of power of V. Kostunica’s coalition cabinet in 2004-beginning of 2006 the countries of the ES retarded the activity of the ICTY. They were afraid of destabilization of internal affairs in Serbia and the ultimate rupture of liberal-conservative coalition, which, in their opinion, opened the way to power for V. Kostunica’s populist bloc and V. Sesel’s radical bloc. However in spring 2006 when the rupture of unsteady coalition of V. Kostunica and Tadic’s supporters turned out to be a reality and the process of reformation of judicial system and system of force structures stopped, the question of R. Mladic and R. Karadjic’s extradition became the most effective and sophisticated means of pressure on Belgrade. The radical turn to cooperation with the ICTY, especially R. Karadjic’s extradition to the Hague, happened only after the victory of democrats in the parliament elections and b. Tadic took control over the force structures and first of all over the key one – the Agency of Information and Security.

After the victory of “the october revolution” new democratic forces of Belgrade made every possible effort to implement the Kumanov Agreement and the United Nations Security Council Resolution 1244 of 1999 could improve the constructive dialog with the representatives of the international forces in Kosovo and the Contact group and to launch the complicated process of quest for a compromise

on the basis of the formula “at first-standards – then status”. By common effort they managed to localize the spread of the conflict in the southern parts of Serbia in March 2001, which by the Kumanov Agreement were turned to so-called “buffer zone” of Preshev valley.

However the deadlock in the process of Kosovo regulation contributed to the fact that by the end of 2002 Belgrade came to a conclusion that the battle for standards and creation of multiethnic Kosovo had failed and now it was essential to force onto the final defining of Kosovo’s status in a direct dialog with Washington, Moscow and Brussels on the basis of its partition. The document called “the Strategy for Kosovo and Metohija” adopted by Serbian government at the end of December, 2002 presupposed constitutionalization of Serbian community in the administrative system of Kosovo and Metohija in the so-called “Dayton variant” by formula “more that autonomy, less than republic”.

New correlation of forces in Belgrade formed after Z. Djindjic’s assassination on the 12<sup>th</sup> of March 2003, immediately influenced the process of negotiations on the status of Kosovo. Internal fight for power in Serbia between the supporters of different Serbian parties in Serbian enclaves led to the full loss of initiative in the process of negotiations by Belgrade, which allowed the international community, first of all, the USA, the EU and the UN took the initiative in the final work on the status of Kosovo. Total failure of the policy “at first-standards – then status” afforded General Secretary of the UN K. Annan ground to make a decision about the beginning of direct negotiations about the future status of Kosovo. The further course of negotiations about the status of Kosovo under the aegis of M. Ahtisaari, which began in February 2006, became a preparation to the proclamation of independence of Kosovo, which was reflected in Ahtisaari plan, manifested in January 2007. Breakdown of negotiations about SPS, and the deadlock of negotiations about the status of Kosovo in autumn 2006 ignited another political crisis in Serbia.

Despite the fact that the new Constitution of Serbia was adopted in October 2006 which proclaimed the province of Kosovo and Metohija a constituent part of Serbian territory, the strain in relationship of Tadic’s and Kostunica’s supporters was at its height. Special [parliamentary elections held on the 20<sup>th</sup> January 2007 could not help to overcome the crisis: the process of formation of the government lasted 4 months and was finished on the 15<sup>th</sup> of May 2007 with formation of V.Kostunica’s coalition cabinet with the Democratic Party, conservative-traditionalist bloc of the Democratic Party of Serbia, V. Ilic’s «New serbia» and the party called «Group 17 plus».

Though the principle of work of coalition government was based on five agreements established during the negotiations – retaining of Kosovo as a part of Serbia, Euro integration, fighting against corruption and organized crime,

intensification of social and economic policy and cooperation of Serbia with the ICTY – the crisis was not overcome: the final political landscape was formed as a result of the parliament elections in January- the beginning of February 2008 as well as the result of snap parliament elections of the 11<sup>th</sup> of May, 2008 which took place against the backdrop of acute political crisis, caused by the declaration of Kosovo independence on the 17<sup>th</sup> February 2008.

In many respects the unexpected victory of the coalition “For European Serbia” in the parliament elections of the 11<sup>th</sup> May, 2008 and the following formation of coalition government of democrats with socialists and their electoral bloc partners was a result of principal changes of Serbian public sentiments towards the pro-European vote and of the competent tactics used by the Democratic Party. B.Tadic managed not only to sign the Stabilization and Association Agreement with the EU on the 28<sup>th</sup> April 2008, but also 2 days before the elections he managed to reach the approval of the Oil and Gas Agreement with Russia, signed by the government on the 25<sup>th</sup> January 2008. By doing this he managed to decrease the original clash of Serbian national consciousness – either with the West, or with Russia, by opposing this traditional choice to the formula – both with the West and with Russia.

**Orjeta JAUPAJ and Bashkim LUSHAJ**

**An Evaluation of Chapter 14 of EU Acquis Communautaire Energy Acquis, Albanian Law Approximation and Challenges**

**Abstract**

As it is known, the pre-accession period should be maximally used to provide concrete evidence of the country's ability to respond to the EU membership requirements.

The current paper aims at analyzing the approximation of Albanian Legislation with Energy *acquis*, which represents the body of all energy related EU law, regulations and policies and the challenge Albania faces to its implementation.

We really hope to raise the awareness of governmental institutions and the public regarding the tendencies and trends of EU policies in the field of energy.

**Key words:** Energy, biofuels, environment, Albania

**Introduction**

Albania's EU integration process represents perhaps one of the most debated matters in the national public and political discourse. On 18 February 2008, the Council adopted a new European partnership with Albania. The Stabilisation and Association Agreement (SAA) was signed on 12 June 2006, which entered into force on 1 April 2009. Eventually, Albania submitted its application for EU membership on 28 April 2009.

Following the entry into force of the Stabilization and Association Agreement, Albania entered a new and more advanced stage in its EU integration process. The successful transition towards the attainment of the final goal requires therefore better capacities to respond to membership obligations and certainly a firmer commitment to consolidate the governance system, democratic institutions and economic performance.

As a matter of fact, sound administrative capacities to implement the EU legislation (Madrid criteria) constitute one of the core criteria that a country has to fulfill in order to join the European Union. In its "Guide to the Main Administrative Structures Required for Implementing the *Acquis*" (May 2005), **the European Commission** suggests that "a candidate country preparing for accession to the EU

must bring its institutions, management capacity and administrative and judicial systems up to Union standards with a view to implementing the *acquis* effectively or, as the case may be, being able to implement it effectively in good time before accession”.

Furthermore, Albania’s efforts to join the European Union (EU) are presently coordinated by the Ministry of European Integration (MEI), which was established in 2004. Point 1 of the 2004 decision establishing the Ministry reads that “MEI’s mission involves technical management and coordination of Albania’s EU integration process through approximation of legislation, design of integration policies, coordination of financial assistance and informing the public about this process”.

Some of the core competencies and functions of the Ministry of Integration involve:

- the coordination and monitoring of the Stabilization and Association Process (SAP);
- coordination and monitoring of the process of addressing the SAP objectives and obligations;
- coordination, monitoring and implementation of the process of approximation with EU *acquis communautaire*;

In addition, the Albanian Government has also established specialized European Integration Units (EIU) in all line ministries to act as focal points for EU-related assistance, reporting and monitoring. The Decision of the Council of Ministers No. 179, dated 22/2/2006 outlines the responsibilities of these units, which inter alia involve:

- internal coordination, ensuring direct links and cooperation with the MEI and other line ministries regarding the obligations the country has assumed with the SAP;
- internal institutional coordination with the MEI and other line ministries regarding the approximation of legislation and reporting on legal acts adopting the *acquis communautaire* under TAIEX;

Despite the continuous improvements in the country, the Stabilization and Association progress reports still underline a number of shortcomings in specific areas related to **legal gaps** and/or **blurred implementation** performance (Vurmo, 2008).

This study does not intend to fill all the gaps regarding the capacities to respond to membership obligations. It focuses mainly on some of the most essential components of the Energy Acquis as part of Chapter 15 of EU *Acquis Communautaire*. It also tends to provide an analytical examination of the afore-mentioned Chapter focusing on renewable energy and energy efficiency, Albanian Law approximation with the last EU Directives, which promotes such implementation, and Challenges in Albania’s EU integration process – experience and future prospects. Obviously, the current study

hopes to increase the sensitivity on the process and to generate continuous debate and far-reaching analysis on this topic.

### **The climate change and EU policies toward clean energy**

Where does the environment leave off and society begin? That is the question that concerns the whole world for some decades now. In a world expanding production and consumption and driving greenhouse gas emissions, it is unclear where the climate ends and the economy begins. Climate change, brought about by increasing atmospheric concentrations of carbon dioxide and other heat-trapping greenhouse gases, has been described by David King (2004), the UK's Chief Scientist, as "the most severe problem that we are facing today - more serious even than the threat of terrorism". The watershed event that brought the question of global warming, which began with the advent of the industrial revolution and fossil fuel consumption, to the forefront in the scientific community, was the publication of Revelle's data in 1957, which quantified the geologically unprecedented build-up of atmospheric CO<sub>2</sub>. Revelle characterized the potential risk of global climate change this way:

"Human beings are carrying out a large scale geophysical experiment of a kind that could not have happened in the past nor be produced in the future. Within a few centuries, we are returning to the atmosphere and the oceans the concentrated organic carbon stored in sedimentary rocks over hundreds of millions of years."

Indeed, Revelle's concise statement of the risks at play in global climate change remains the best framing of the issue available for policy makers today.

Today the world is becoming more conscious of the risks of global climate change and the policies toward the clean energy are projected as the key to resolve it. Alternative, carbon neutral energy technologies and the so-called renewable energy technologies are considered as crucial towards the reduction of greenhouse gas emissions. This includes wind, marine energy, small hydropower, solar energy, geothermal energy and energy from waste, and biomass energy (FREDS 2005a). The burning of fossil fuels (conventional source of energy) is thought to be the primary cause of increased carbon dioxide concentrations, thought to be responsible on a global scale for up to 80% of annual emissions.

On the other hand, scarcity of traditional energy resources (fossil fuels) nowadays remains one of the main concerns of governments all over the world. It is estimated that coal resources, if utilized in accordance with current rates, would last

for 167 years, gas resources for 67 years and fossil oil resources for only 41 years (World Coal Institute 2007). In "World oil production and peaking outlook" Kopelaar (2005) asserts that "Oil production is expected to peak at some time in the near future, although there is considerable debate as to exactly when this will occur". As such, the solution lies in utilizing renewable energy sources as well as increasing energy efficiency, which minimizes energy transmission losses and promotes energy efficient usage.

Over the last decades, there has been a worldwide unprecedented explosion of new concepts, theories, facts, and techniques that were followed by consequently Action Plans, Policies, and Legal Frameworks, to achieve the main objectives of the policymakers towards the security of supply and sustainability of energy and to tackle the global climate change, in order to promote the so-called renewable energy technologies and new approaches to promote the energy efficiency both considered as key solutions.

On a European Scale, the Renewable Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market was the first initiative to put mandatory targets for the Member States in order to promote the renewable energy production, which set a target of 22.1% renewable electricity by 2010. This initiative was followed in 2003 by the Biofuel Directive 2003/30/EC where the EU set an indicative target of a 5.75% biofuel share of the transport fuel market by 2010 (EC 2003).

The European Commission, on the other hand, has consequently communicated guides to help Member States implement such targets. It is worth mentioning here Biomass Action Plan launched in December 2005, followed by a EU Strategy for Biofuels in February 2006, Renewable Energy Road Map in January 2007 and in November 2008, the Commission issued a major Green Paper "Towards a secure, sustainable and competitive European energy network" [COM(2008)782].

In December 2008, the European Parliament adopted the Climate Change Package with an aim to achieve:

- a 20% reduction in greenhouse gas emissions,
- a 20% improvement in energy efficiency,
- and a 20% share for renewables in the EU energy mix.
- 

Finally on 23 April 2009 the European Parliament and the Council adopted the Directive 2009/28/EC on the promotion of the use of energy from renewable sources. This new renewable energy Directive lays down mandatory national targets to be achieved by EU-27 through promoting the use of renewable energy in the electricity, heating and cooling, and transport sectors in order to ensure that renewable energy makes up at least 20% of the EU's total energy consumption by 2020. The agreement

foresees also that renewable energy, such as biofuels, electricity and hydrogen produced from renewable sources, account for at least 10% of the EU's total fuel consumption in all forms of transport by 2020

### Albania's position in this new era of changes

#### a) Current energy situation in Albania

Energy consumption in 2005, according to Energy Strategy 2006-2020, was estimated as follows: fossil fuels topped the list with 1269 ktoe, followed by electric energy with 551.7 ktoe, with woody fuels at the bottom with 235 ktoe (AKBN, 2007). Figure 1 indicates the distribution in percentages of energy supply in Albania as provided by above-mentioned data. In fact, Internal Energy Agency (2006) provides approximately the same results for Albania. Such statistics indicate that total energy consumption consist of 213 ktoe more and the consumption of fossil fuels appears to be with 263 ktoe more. Tables 1 and 2 indicate the Energy Balance for Albania *in thousand tonnes of oil equivalent (ktoe) on a net calorific value basis* (IEA, 2006)

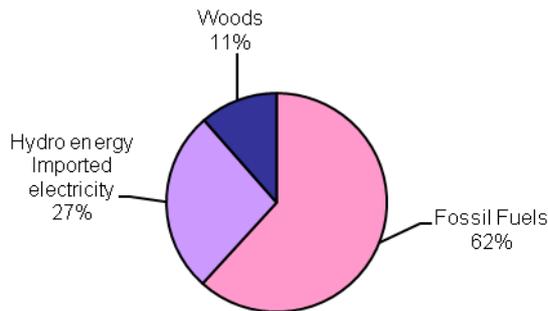


Fig. 1: Distribution in percentages of energy supply sources in Albania

SUPPLY	Co al and Pe at	Cru de Oil	Petrole um Produ ct s	Gas	Nucle ar	Hydr o	Geother mal, Solar, etc.	Combust ible Renewa bles and Waste	Electric ity	Heat	Tot al

Production	22	500	0	14	0	430	2	230	0	0	1198
Imports	3	0	1014	0	0	0	0		53	0	1070
Exports	0	0	0	0	0	0	0	0	0	0	0
Stock Changes	0	0	0	0	0	0	0	0	0	0	0
<b>Total supply</b>	<b>25</b>	<b>500</b>	<b>1014</b>	<b>14</b>	<b>0</b>	<b>430</b>	<b>2</b>	<b>230</b>	<b>53</b>	<b>0</b>	<b>2268</b>
<b>Consumption</b>	<b>18</b>	<b>0</b>	<b>1437</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>227</b>	<b>236</b>	<b>1</b>	<b>1919</b>

**Tabela 1:** 2006 Energy Balance for Albania *in thousand tonnes of oil equivalent (ktoe) on a net calorific value basis: energy supply (International Energy Agency, 2006)*

**Tabela 2:** 2006 Energy Balance for Albania *in thousand tonnes of oil equivalent (ktoe) on a net calorific value basis: energy consumption (International Energy Agency, 2006)*

CONSUMPTION	Coal and Peat	Crude Oil	Petroleum Products	Gas	Nuclear	Hydro	Geothermal, Solar, etc.	Combustible Renewables and Waste	Electricity	Heat
TFC	18	0	1437	0	0	0	0	227	236	
Industry sector	14	0	187	0	0	0	0	10	62	
Transport sector	0	0	754	0	0	0	0	0	0	
Other sectors	4	0	337	0	0	0	0	217	174	
Non-Energy Use	0	0	159	0	0	0	0	0	0	

According to AKBN, 99% of energy production in our country is secured by large hydropower dams (AKBN, 2007). In fact, concentrated production of energy is regarded nowadays as a policy which does not abide by EU directives/*acquis* towards a sustainable development. Electric energy generation by means of HEC poses serious risks such as:

*Risk of ensuring continuous energy supply*

Currently, the risk of energy supply cuts by means of such large providers has become even more evident.

*Considerable loss while being transmitted*

Lack of diversified generating sources plays a considerable role in technical losses, while energy is being transmitted, amounting to a staggering 25.5%. Introduction of distribution sources does play a primary role in allocating active and reactive fluxes of energy. As such, such distribution sources lead to the reduction of energy loss as energy sources are placed close to consumers. (Boškov E, Gubina A. F. et al).

*Environmental impact*

The environmental impact of large hydropower dams is well-known nowadays as the construction of dams and reservoirs implies hydrographic changes which, as a result, have a negative effect on biodiversity itself.

To put it differently, electric energy production by means of a small number of large HEC in Albania has created a situation when the amount of energy that could be generated can't possibly be anticipated and it eventually leads to heavy transmission losses. As a result, Albania remains an electric energy importer. Statistically speaking, 22% of electric energy consumed in Albania is imported (IEA 2006).

Nevertheless, as previously stated, fossil fuels top the list of energy consumption in Albania. Rapid development of the transportation sector (which consumes 55% of fossil fuels) has led to considerable consumption of crude oil byproducts such as (diesel and gasoline). The annual average rate of oil byproducts consumption has been estimated **6.2%** (AKBN, 2007). In fact, the data provided by IEA match the above-mentioned rate. It is also worth mentioning that the majority of fossil fuels consumed in Albania have been secured by imports (table1).

As such, it is evident that energy situation in Albania requires immediate and efficient actions by means of well-established and reliable policies based on EU experience and directives in order to realize the two main objectives of energy *acquis*, that is, security of supply and sustainability.

**b) Legal framework in Albania and its implementation.**

Law No. 7072 dated 22.05.2003 "For electric energy sector", article 38, provides for awarding the privileged electric energy production status on the part of

ERE (as the Albanian Regulatory Authority) to the producer who secures electric energy by means of renewable energy sources with an installed capacity of up to 25 MW, and, in the case of energy hydroelectric sources, with a capacity of up to 10 MW. As for self producers, the above-mentioned law provides for its electric energy surplus as in cases when renewable energy sources and its installed capacity do not exceed 10 MW.

The privileged producer shall enjoy, pursuant to this law, complimentary treatment by transmission system operator. Likewise, article 39 provides that, electric energy producers with a capacity exceeding 100 MW shall produce 2% of its general energy production by means of renewable energy for electro-energetic system or shall buy equal amounts from renewable certified sources.

However, the current law fails to set national targets with regard to energy production from renewable sources. In addition, there exist no mechanism, whatsoever, to promote the production of energy from renewable sources.

It was only in February 2008 when the Albanian Assembly passed the law No.9876 "For production, transmission, and trading of bio-fuels and other renewable fuels for transportation". This law provides that Council of Ministers shall annually determine the minimal amount of renewable bio-fuels and other renewable fuels to be utilized in the successive year in the transport sector. Annual minimal amount to be launched as of 2010 shall not consist of less than 3%, whereas as of 2015 onward; the same amount shall not consist of less than 10. As for bio-fuels, targets tend to be clear yet delayed.

So, how about the current situation of renewable energy production in Albania and existing mechanism and policies to overcome the current 0% rate of clean energy? (table 1). How about the administrative and legal actions to be taken by Albania in order to implement the targets assigned by EU to all member states, which has eventually become mandatory even for candidate countries?

As argued earlier on, the mandatory targets laid down by the new renewable energy Directive 2009/28/EC to be met by EU-27 through promoting the use of renewable energy are really ambitious: at least 20% of the EU's total energy consumption by 2020 and at least 10% of the EU's total fuel consumption in all forms of transport by 2020.

In respect with the total energy consumption, Albania consumes 11% renewable energy from woody fuel combustion so 10 % target for the renewable energy consumption (heat and electricity) seems reachable (figure 1). Nevertheless, utilization of timber remains beyond control and has led to a state of deforestation. A comprehensive study with regard to consumption of timber in Albania titled "Analysis of markets and Marketing of forest based products" (Development Researcher network, 2003) reveals that Albania annually utilizes 2.75million m<sup>3</sup> whereas the

annual capability of forest based products according to national forestry census/inventory of 2004 was 1.15 million m<sup>3</sup>, which means that annual timber deficit consists of 1.6 million m<sup>3</sup> or, in other words, 58% beyond the current capability. Such a result hints at the degradation of forest-based sources and contradicts with sustainable forest development. Timber surfaces in Albania and its climate-soil conditions shall normally cover the needs for timber. However, under current conditions, in order to meet the needs, interventions in the way of converting timber energy into heat are required. The conversion of biomass to heat in modern heat systems today is very efficient, with most of the energy being converted to heat compared with low efficiency current stoves utilized for heating. The combustion in modern pellet boilers can reach more than 90% of efficiency (AEBIOM 2008).

This means that directing public money to support a change of the actual heating system toward the modern pellet boilers would have positive impacts in several directions:

- Energy efficiency
- Improved security of supply.
- Sustainable Forestry development (thus improving the implementation of environmental *acquis*)
- Incentives for the regional economy including job creation. (by means of establishing factories specialized in the production of pellets utilized for heating in similar systems of pellet boilers).

What is more, Albania possesses large potentials even for the production of energy from other renewable sources such as solar and wind power and small HPPs. The development of well-studied policies would diversify the network in order to increase transmission efficiency generated in the system.

This study mainly focuses on the target of producing at least 10% total fuel consumption in all forms of transport by 2020 which remains the most serious current challenge towards the implementation of energy *acquis* as the EU objectives tend to be very ambitious at a time when the production of biofuels in Albania has not been set in motion yet. So the problems lying ahead involve:

Firstly, the target of 3% provided for by law No.9876, which enters into force in 2010, remains too low when compared with the target of 10% set by EU for Member States. It should also be taken into account that, on European level, an indicative target of a 5.75% biofuel share of the transport fuel market has been set since 2003. Thus, it is self-evident that Law No.9876 does not abide by the actual ambitious objectives of EU; at least as far as 2010-2015 period is concerned. Secondly, the way the above-mentioned targets will be implemented pose a serious concern as the law will enter into force in 2010. The current law becomes even more important if it is taken into account that 70% of fossil fuels in Albania are imported (table 1). Such a

situation renders Albania prone to current oil crisis. In fact, this tendency puts at risk not only the security of supply but it also might bring about price fluctuation.

Thirdly, what is the environmental impact of the use of biofuels compared to conventional ones? Can Albania implement the environmental *acquis* as well as Energy *acquis* or would the situation get worse? Tirana is estimated to be one of the most polluted cities in the world, behind New Delhi and Beijing. In its website, the European Commission states that: "As Albania gears up to join the European Union, pollution troubles get in the way. Albania is facing a humanitarian catastrophe due to growing pollution, 10 times above the tolerance level set by the World Health Organizations (WHO)" (European Commission <http://ec.europa.eu/enlargement>).

In the issue of ill-informed policies in the environmental ambit of Albania, the question remains if the replacement of fossil fuels with bio-generated ones would improve or worsen the actual situation. Therefore, the questions to be answered remain: what might be the immediate results of the implementation of the above mentioned directive? Does such a directive contribute to Albania's adoption of the environmental *acquis*, and thus consequently to the success of the Stabilisation-Association process or does it have an adverse effect?

### **Biofuels compared with Conventional fuels, their environmental impacts**

The main purpose of the current study remains the revision of literature with information on life cycle air pollutant emissions as well as combustion emissions. Interpreting published data on emissions from transport fuels including biofuels is not without problem. Variability is often quite high and studies that present only average values often do not provide an indication of the significance of the results. An attempt has also been made in this review to present data which are likely to be relevant to Albania.

### **Biodiesel**

#### **1. Light Duty Vehicles**

Table 3 summarizes the results of some recent European studies on changes in biodiesel emissions for light duty vehicles relative to fossil diesel. Although there is much variability in the data, as demonstrated in Table 3, there seems to be a general trend in light duty vehicles towards slightly increased NO<sub>x</sub> emissions relative to fossil diesel, but decreased HC, PM and CO emissions (Scottish Executive Environment and Rural Affairs Department, 2006).

Ref.	Fuel	Ref. fuel	Drive Cycle	NO <sub>x</sub>	HC	PM	CO	Aldehydes
Krahl et al. 2003	100% RME	Low S Diesel	ECE49	+ 6%	- 56%	+16%	-44%	-40% (total)
Aako 2000	30% RME	EN590 Diesel	FTP 75	-2 +/- 5%	-12.5%	-14 +/- 10%	+5.5%	Form: +25% Ace: +6%
Aako 2000	30% UVO ME	EN590 Diesel	FTP 75	-3 +/- 5%	-30%	-25 +/- 12%	-22%	Form: +12% Ace: -14%
Concawe 2005	5% RME	Low S Diesel	NEDC	-2 +/- 2.5%	-10 +/- 25%	-4.5 +/- 5%	-10 +/- 15%	-

Acronyms: RME – Rape Methyl Ester; UVO ME – Used Vegetable Oil Methyl Ester; cat. – catalyst; Form. – Formaldehyde; Ace – Acetaldehyde;

**Table 3:** Illustrative Changes in Biodiesel Exhaust Emissions from Light Duty Vehicles Relative to Mineral Diesel (Scottish Executive Environment and Rural Affairs Department, 2006).

## 2. Heavy Duty Vehicles

A major review of the exhaust emissions of biodiesel from heavy duty vehicles was published in 2002 (EPA 2002), but many of the studies reviewed used soybean biodiesel.

The generic results of the study, without taking into consideration engine standards, were as follows:

$$[\text{NOx}] = [\text{NOx}]_{\text{MO}} + 0.1[\text{biodiesel}] \quad \text{i.e. for 20\% biodiesel there is a 2\% increase in NOx}$$

$$[\text{PM}] = [\text{PM}]_{\text{MO}} - 0.5[\text{biodiesel}], \quad \text{i.e. for 20\% biodiesel there is a 10\% decrease in PM}$$

$$[\text{HC}] = [\text{HC}]_{\text{MO}} - 0.9[\text{biodiesel}], \quad \text{i.e. for 20\% biodiesel there is a 18\% decrease in HC}$$

$$[\text{CO}] = [\text{CO}]_{\text{MO}} - 0.5[\text{biodiesel}], \quad \text{i.e. for 20\% biodiesel there is a 10\% decrease in CO}$$

Table 4 gives the % change in emissions reported by two European studies for heavy duty vehicles running on various biodiesel blends in relation to mineral diesel. These findings are broadly in line with the EPA study results, although it is clear that there is much variability in the data.

Ref.	Fuel	Ref. fuel	Standard	Drive Cycle	NO <sub>x</sub>	HC	PM	CO
Aako 2000	100% RME	EN 590 Diesel	Euro II w/ cat.	FTP 75	+12 +/- 3%	-47 +/- 5%	-82 +/- 10%	-3 +/- 5%
Aako 2000	30% RME	EN 590 Diesel	Euro II w/ cat.	FTP 75	-3 +/- 4%	-2 +/- 8%	-32 +/- 7%	+6 +/- 5%
Aako 2000	30% UVO ME	EN590 Diesel	Euro II w/cat.	FTP 75	-1 +/- 6%	-6 +/- 6%	-46 +/- 21%	-3 +/- 4%
Concawe 2005	5% RME	Low S Diesel	Euro III w/ cat.	NEDC	+1 +/- 12%	+10 %	-10 +/- 10%	+15 +/- 20%

**Table 4:** Changes in Pollutant Emissions from Biodiesel Combustion in Relation to Mineral Diesel (Scottish Executive Environment and Rural Affairs Department, 2006).

## Bioethanol

Perhaps the most relevant data for bioethanol emissions are given from an AEA Technology study carried out in 2002. The main conclusions of this study, which compared emissions from an E10 splash blended ethanol/gasoline mixture with petrol, are shown in Table 5. It is evident from the table that, as with biodiesel emissions, there is much variability associated with emissions from bioethanol, although there does appear to be a consistent **decrease in PM emissions** and considerable increase in acetaldehyde emissions.

Pollutant	Size	Error
FC	No consistent change	+/- 4%
NO <sub>x</sub>	No consistent change	+/- 50%
PM	-46%	+/- 13%
HC	No consistent change	+/- 20%
CO	-21%	+/- 24%
Acetaldehyde	+500%	+/- 300%
1,3 butadiene	+28%	+/- 24%
particle number emissions	-50%	+/- 25%

**Table 5:** Illustrative Change in Emissions (%) of E10 Bioethanol Blend in Relation to Petrol.

(Scottish Executive Environment and Rural Affairs Department, 2006).

Another review on bioethanol emissions was produced by TNO for the GAVE (Gaseous and Liquid Climate Neutral Energy Carriers) Programme. In general terms, these results are in agreement with those from the earlier AEA Technology report, even though no numerical values were provided in the report.

The conclusions of the GAVE review (Senter Novem 2005a), quoted verbatim below, can be seen as representing the best available knowledge regarding air pollutant emissions from bioethanol:

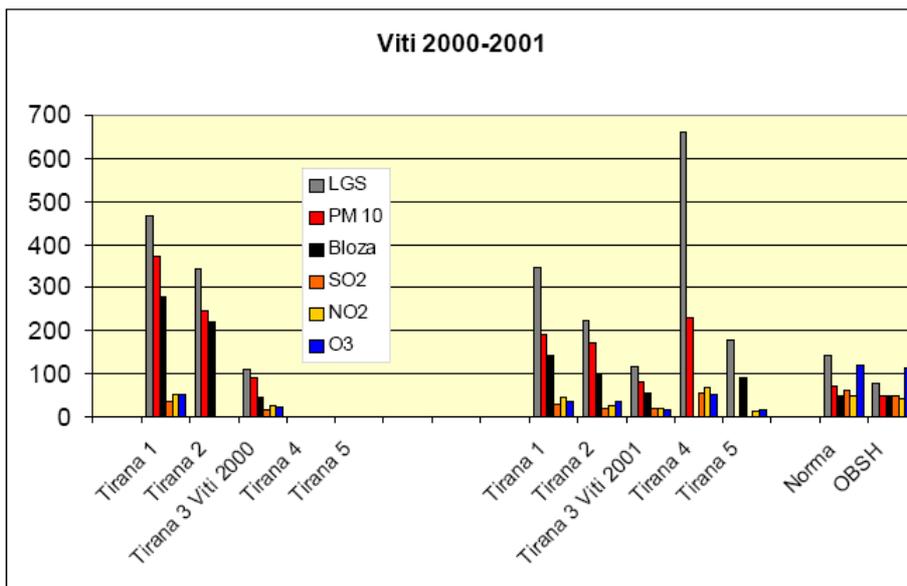
*The use of ethanol in both petrol and diesel engines reduces PM emissions. For the other regulated pollutants (CO, HC and NOX) less consistent results are reported. The effect of ethanol on these pollutants can be positive, negative or negligible.*

*A few studies have examined the potential of high ethanol blends to achieve future emissions standards with modified vehicles. These studies were generally successful, which suggests that attainment of future standards should be expected for high ethanol blends, provided that engine modifications are being made. In this respect, a potentially significant advantage is noted in using ethanol in spark ignition direct injection (SIDI) engines because of a reduction in soot and PM formation.*

### **Albanian air quality data**

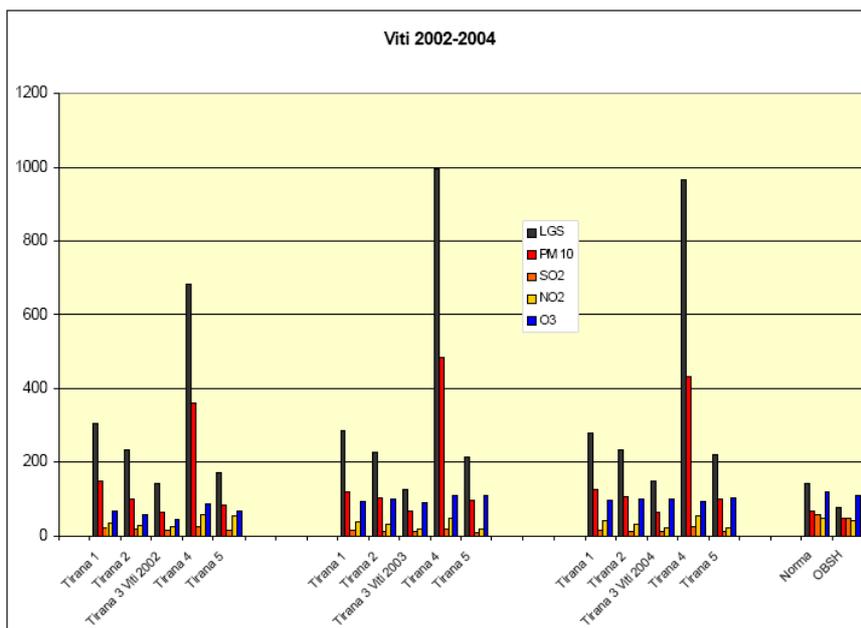
In a specific study on Tirana air quality made by Deliu A, Ndroqi M (2005) the following results has been drawn:

The particulate matter results to be the most prominent component many times above the tolerance level set by the World Health Organizations (WHO) (**graphic 1**). Soot level also happens to be above the acceptable norms. In fact, soot generally comprises 25-40% of urban dust. Other indexes, on the other hand, tend to be below the acceptable norms as industrial gases such as SO<sub>2</sub> have undergone reductions due to decrease of industrial activity in cities after 1990s. As for 2002-2004, the increase of NO<sub>2</sub> and O<sub>3</sub> seems evident as well as the rapid rise of Pb concentration. Nevertheless, they still fall under acceptable norms (Deliu A, Ndroqi M, 2005).



**Grafiku 1:** Tirana air quality years 2000-2002

Source: Deliu A, Ndroqi M.(2005)



**Grafiku 2:** Tirana air quality years 2002-2004

Source: Deliu A, Ndroqi M.(2005)

## Conclusions

Thus, as previously stated, the Albanian Legislation in the field of energy ought to be revised and involve economic mechanisms as well in order to implement and support the legislation.

**Firstly**, it results that the Albanian legislation has not set targets for the total of renewable energy related to the total energy consumption in the country. Nevertheless, the 10% target of total renewable energy is currently being met in Albania. This energy is a conversion of wood energy into heat but such a conversion fails to convert efficiently, so there is much of lost energy. Meanwhile, the forests are in a degrading state. Therefore, it is crucial to put into motion mechanisms aiming at increasing the efficiency of biomass energy conversion to heat in order to decrease the amount of fire woods utilized for heating as well as promoting other renewable forms in Albania such as solar power and wind power, which offer large potentialities.

**Secondly** a 3% target of the Albanian's total fuel consumption in all forms of transport by 2015 has been set too lately and remains too low as compared with the recent 10% target of EU for its Member States. On the other hand, Albania's actual consumption of renewable sources in all forms of transport remains zero and there exist no incentives or mechanism to promote such sources and as a result launch alternative energy production.

**Thirdly**, the comparison of above-mentioned results with regard to release of various air polluting components from the burning of biofuels both for bio-diesel and ethanol, as compared to fossil fuels, reveals very low levels of particulate matter (PM). Meanwhile, in Albania it is exactly the particulate matter PM which poses the main threat as it tops the world list. Even the levels of Nox and So2 released by biofuels in some studies seem to be higher; however the studies carried out by Deliu A. and Ndroqi M. (2005) reveal that such components in Albania tend to be below the standards set by WHO. Therefore, even if such values increased, it wouldn't pose any risk for Albanian air quality.

As such, introduction of bio-generated fuels for transport sector is a must as it would bring about the following positive impacts:

- Implementation of Energy *acquis*
- Implementation of Environmental *acquis*
- Improvement of Health quality
- More security in transport fuels supply
- Sustainable development

To reach such objectives, a well studied Action Plan promoting liquid biofuels production in Albania is required. Besides, apart from renewable energy targets, the government should introduce support mechanisms; integrate RES policies with the

other clean development mechanisms such as: energy and CO2 Taxes, tradable emissions permits, economic incentives, tradable green certificates and renewable energy or power auctions, and should well coordinate the regulation of such instruments.

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## **Europeanization Process and Bilateral Relations in the Balkans: Turkey and Albania**

### **Abstract**

The amicable relations between Turkey and Albania were taken further after the Cold War, mostly in the context of Europeanization efforts. The aspiration to become part of the European structures drove Albania even closer to Turkey. Throughout the last two decades, Turkey offered its support to Albania in political, economic and military fields on the road to European integration, which in turn had a favorable impact on regional stability. The cooperative nature of relations is likely to continue to manifest itself in bilateral exchanges as far as efforts of integration are concerned.

**Key Words:** Turkey, Albania, EU, Europeanization.

*“We embrace the Albanian nation, regard them as our brothers, and do not see them distant from us. We would definitely like it to become strong as a state and nation, to progress, and to assume a position in the Balkans which it deserves; particularly as a strong, sovereign and secure state.” Mustafa Kemal Atatürk, 1934.*<sup>1</sup>

### **1. Introduction**

The longstanding relations between the peoples of Turkey and Albania date back to the Ottoman times, which continued to exist in the Republican era. Turkey had presence in Albania even under Communism although relations remained limited due to being on opposite camps. After the Cold War, the country that had the highest profile in Albania was Turkey.<sup>2</sup>

This paper argues that the most important characteristic of post-Cold War relations was that, despite the existing close ties, what drove Albania and Turkey even closer were Albania's inclination to become part of the European structures and its relevant appeals to Turkey in the said process. Viewed through the larger lens, Turkish

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<sup>1</sup> For the original version of the citation, see Şimşir (2001: 14).

<sup>2</sup> Vickers and Pettifer (1997: 221).

– Albanian relations is a befitting case for seeing how European integration efforts not only stood as a final goal for both, but also functioned as a means to add onto regional stability subsequently.

As the empirical data display, a large part of post-Cold War relations took place in the context of either the EU or NATO bids of Albania. Turkey does not have any intention of acting as an accelerator or a facilitator of/in Albania's EU process but of offering its experience on this challenging road. The conjuncture in the Balkans - including Albania - and the EU are still unfolding, which make it difficult to make long term estimates. Within this framework this paper will unfold in sections providing historical data on relations, theoretical approaches, Turkish and Albanian experiences regarding the EU, post-Cold War relations in political, economic and military fields, to conclude by confirming the "natural allies" nature of relations, strengthened by Europeanization efforts.

## 2. A Brief Historical Background of Turkish – Albanian Relations

The relations between Turkey and Albania began in the 14<sup>th</sup> century, when the Ottoman domination of the Balkans began. As the Ottoman forces proceeded towards Albania, they would face resistance by strong feudal lords, the strongest of whom was Balša II. Only after the latter's defeat were the feudal lords, who accepted obedience to the Ottoman rule, recognized as vassal administrators. Having fallen into a decline in authority following the Battle of Ankara (1402), the Ottomans would now see Venice seize control in the area. In 1404, Mehmet I restored authority within the Ottoman State, occupied Albania, put an end to vassal system and re-introduced Ottoman control in the area. One of the most successful opponents against the Ottomans was Gjergj Kastrioti Skenderbeg between 1443 – 1468. The Ottoman campaigns were hindered by the forces of Skenderbeg, whose death in 1468 would gradually put an end to resistance movements. Subsequently, the Ottomans conquered Albania and made it a part of the Empire. The Albanian population began converting to Islam and assumed administrative, military and political positions in state service, including offices of grand viziers, viziers, and *pashaliks*. Nearly thirty grand viziers in the Ottoman court were of Albanian origin, which included the famous Köprülü family. During the *Tanzimat* era, there were uprisings among the Albanians against reforms.<sup>3</sup>

After years of unrest and local uprisings in the Empire, amidst the Balkan War in 1912, the Albanian nationalists united under the leadership of İsmail Kemal and

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<sup>3</sup> Akman (2006: 153 – 156); Özgür (2007a: 314 – 335); Özgür (2007b: 337 – 347); and Atmaca (2007:350- 372).

declared independence on 28 November 1912 in Avlonia. The following day, the first Albanian government would be established. The independence of Albania was recognized at the London Conference of 1913. However, all this would not bring a quick peace as the country fell into domestic turmoil because of the refusal by the northern Albanians to recognize the government in Avlonia. During World War I, Albania witnessed occupation by the Serbs, Greeks, Italians and French. In the ensuing years, as both the Ottoman state and Albania found themselves in a situation whereby they had to ward off foreign occupation and domestic unrest, diplomatic relations between the two states could not be established. After the proclamation of the Republic in Turkey in 1923, former Prime Minister Ahmet Zogu sent a telegraph to Mustafa Kemal, which was followed by a Treaty of Friendship, and the Treaty of Residence and Citizenship between Turkey and Albania the same year. These treaties were followed by the opening of the Turkish Consulate in Avlonia in July 1925 and the Turkish Embassy in Tirana in 1926. Yet, the quick blow in relations came when Ahmet Zogu declared his kingdom in 1928 – a time when the leaders of the national liberation movement in Turkey were sensitive about the newly established Turkish Republic - which would be exacerbated by aggressive news reports portraying Zogu as a prospective example before Mustafa Kemal. While such reports might have been flattery for Albanians, they were absolutely not for Turks who saw the Republic as a delicate victory. Following this, the Turkish ambassador to Tirana Tahir Lütfi Bey was withdrawn, to leave his office vacant for six years. Similarly, Albania closed its embassy in Ankara - on grounds of budgetary matters. At the height of this hostility, Mustafa Kemal was able to reverse the tide in 1931 at the 2<sup>nd</sup> Balkan Conference in İstanbul by giving conciliatory messages to all Balkan states, including Albania. This friendly period did not last either. When Italy occupied Albania in 1939, Turkish embassy was closed - to remain closed for the following 20 years – although relations survived at the consulate level. By 1943, the Germans replaced the Italians in Albania. The Turkish Consulate continued to function even during the Nazi occupation. The leader of one of the resistance movements in Albania, Enver Hoxha, took over control of Tirana in November 1944 and closed the Turkish Consulate the following year, which was not closed even during the Nazi occupation.

By mid-1950s, now as representatives of a Communist state, Albanian officials expressed their inclination to restore relations. With the opening of the Turkish embassy in 1958, relations resumed but were not taken further at least until 1965, due mainly to the fact that Turkey had to deal with the domestic reverberations of the 1960 coup. The only concrete outcome of efforts of rapprochement during these years was the health agreement signed between the two states in 1964. By 1965, there were positive developments in bilateral relations for two reasons. As a country that had territory-related problems with Greece, Albania voted in favor of Turkey

regarding the Cyprus issue at the United Nations (UN) this year, a move welcomed by Ankara. Moreover, since Albania had been isolated since 1961 due to cold relations with the Soviet Union and felt threatened by its immediate neighbors Greece and Yugoslavia, it looked to Turkey for support to which Turkey subsequently reciprocated with an official visit in Tirana in 1966. In general, relations after 1966 displayed a dim picture which was to be revived with the end of the communist regime in Albania.<sup>4</sup>

On the eve of the fall of Communism, Albania's relations with Turkey improved to the extent of causing one Albanian journalist to describe the state of affairs as "something of a renaissance"<sup>5</sup>, making reference to the agreement on air transport and others on cooperation and exchange, which were not welcome by Greece. By 1988, the official visit in Tirana by former Foreign Minister Mesut Yilmaz was regarded as a milestone in bilateral relations as being the first high level contact since the Communist era. It is also noteworthy that although Enver Hoxha was generally marked as the figure to have developed friendly relations with Turkey, it was Ramiz Alia who was given more credit for having given an impetus to bilateral ties. The unproblematic relations were confirmed during this visit.<sup>6</sup>

### **3. Theoretical Framework: (Neo)Functionalism, Integration Theory, Federalism and Intergovernmentalism**

As two countries that had pre-cognizance of each other due to common history, Albania and Turkey entered a new period after 1992. Thinking hypothetically, although relations between the two states could still develop, they would not have assumed a natural allies relationship if it were not for the European integration efforts of Albania which drove it closer to Turkey. In this sense, the examination of European integration and its implications on our case study by briefly touching upon the relevant theoretical framework will be instrumental in our comprehension of the subject matter. By definition, "Europeanization" can be described, in its simplest form, as the process of becoming integrated into European structures, institutions, and systems. How this was (and is) brought to pass since the post-war era in the European Union (EU) poses itself as a question, the answer of which was offered in the streams of thought concerning global governance.

In this context, functionalism, as the most important approach to international institutions in the twentieth century since globalization issues are mostly based on functionalist ideas, is the first to mention. "Functionalism looks to the

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<sup>4</sup> Şimşir (2001:14 – 50).

<sup>5</sup> Zanga (1984).

<sup>6</sup> Zanga (1988)

creation of a new world order in which sovereign state takes a back seat"<sup>7</sup> and submits its powers to institutions which will carry out the necessary functions. Functionalism asserts that a peace system could be built from the bottom up through a kind of cooperation that reduces sovereignty capacities of states.<sup>8</sup> As the powers of state are transferred to institutions, the state will exercise less functions and cooperation will be obtained with each organization carrying out its own function.

On the other hand, integration theory focuses on the creation of new states on the regional basis, which could lead to the establishment of a world state. In this sense, the most referred to regional political and economic entity comes to fore as the EU, which is thought to act as a possible prelude to a single world state.<sup>9</sup> As the EU has gone through stages until it evolved to what it is today, integrationists conceive it to be a befitting test case for their arguments concerning a prospective evolution into a single world state. Furthermore, federalism views the EU as an evolving federation which already displays federal features. The end-result is intended to be a federal Europe. Federalist arguments regarding the EU cite the court, common market, common currency, common polices, etc.<sup>10</sup> Apart from these approaches, intergovernmentalism takes the view that states in organizations are the main actors, that the integration process is driven by interstate relations and predicts the EU to evolve into an intergovernmentalist organization in the future.<sup>11</sup>

These theoretical reflections indeed came into the picture in Europe out of a common aspiration which was to build a federal Europe, with necessary institutions, one that would be free of wars. What we are currently witnessing today in the Balkans could be viewed as something similar, as an action replay of post-war times, to that aspiration in essence. Temporal and spatial conditions in the region have changed remarkably in the past two decades; yet the aspiration for seeking peace, stability and welfare in the larger European network remains. The regional states are inclined to see their future in the European institutions and the latter already named its price: conditionalities that have to be fulfilled for full membership. Although Turkey has been longer engaged in the EU bid than Albania, both countries are fully exposed to the challenges and positive prospects concerning membership. How this European zeal took to the stage in the relations between Turkey and Albania in the post-Cold War era follows after a brief chronicle of the relations of both countries with the EU.

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<sup>7</sup> Brown (1997: 133).

<sup>8</sup> For the argument which is summarized as "form follows function" and "peace in parts", see Brown (1997: 130).

<sup>9</sup> Brown (1997: 133 – 134).

<sup>10</sup> Bogdani and Loughlin (2007: 15).

<sup>11</sup> Bogdani and Loughlin (2007: 16 – 17); and Brown (1997: 136).

#### 4. Turkey and Albania: An Eu History

The debut of Albania's relations with the EU was the Agreement on Trade and Cooperation in 1992, signed with a view to fostering economy and democratization in Albania. This agreement and other trade-related ones signed after this agreement aim at helping Albania carve a space for its exports in the larger European market.<sup>12</sup> By 1995, Albania officially applied for the opening of negotiations for a possible full membership with the EU. The following year, although the Council of Ministers asked the Commission to prepare a proposal for further strengthening relations with Albania, this would be hindered by untoward political and economic crises in the ensuing years.<sup>13</sup> The EU granted Albania certain preferential tariffs for promoting economic cooperation in 1998. The talks for accession had been initiated in 2003 and were finalized with the Stabilization and Association Act (SAA) in 2006. Apart from the agreements, the EU also extended assistance in form of aids and grants to Albania as a "Poland and Hungary: Assistance for Reconstruction of Their Economies" (PHARE) partner state since 1992. This program is directed at public administration and institutional reform, local community development, infrastructure development and agricultural development.<sup>14</sup> As is the case with other countries, the road to a possible accession is an onerous process, from which Albania is also having its share since 1992.

Turkey officially applied to the European Economic Community (EEC), which was the predecessor of the EU, in 1959 and relations began with the Association Agreement (Ankara Agreement) in 1963. The Ankara Agreement arranged Turkey's relations with the EEC in three consecutive periods: preparatory (1964 – 1970), transition (1973 – 1995) and completion (1996 - ) phases. The first period ended in 1970. The Additional Protocol setting forth the rules of transition period became effective in 1973 and highlighted the lifting of customs duties, financial liabilities and quotas as well as the related schedule and rules. The document envisaged Turkey to fulfill the requirements of the Customs Union in 22 years. By 1978, Turkey suspended its obligations in the framework of Article 60 of the Additional Protocol, to be followed by the complete freezing of relations when Greece was accepted as a full member in 1981. The first official contact with the EEC took place in 1986. Turkey applied for full membership in 1987 and since then has taken many efforts for achieving this final goal. After the completion of the transition phase, the Customs Union Decision was

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<sup>12</sup> Abazi, (2008: 245).

<sup>13</sup> Bogdani and Loughlin (2007: 116).

<sup>14</sup> Abazi (2008: 245 – 247).

adopted during which Turkey eliminated customs duties for EU industrial goods and refined food products. Turkey was not mentioned at the 1997 Luxembourg Summit as one of the prospective candidates; however this was reversed at the 1999 Helsinki Summit which gave relations an impetus. The EU - Turkey Accession Partnership was adopted and Turkey's National Program for the Adoption of the *Acquis Communautaire* was submitted to the EU Commission in 2001. In 2004, the European Council decided to open membership talks with Turkey, which materialized in 2005.<sup>15</sup> Turkey's relationship with the EU is a complicated one with many headings and sub-headings, which gets altered with the incoming and outgoing political figures on both sides, and changing conjunctures. Turkey's Europeanization experience is the most peculiar one in terms of its duration and character. Temporally speaking, there is no other country that has waited for half a century for the completion of full membership procedures. As for the characteristics of this *sui generis* candidacy, there is no other state that has faced such a loaded package of requirements. Still, Ankara's resolve for the realization of full membership is likely to continue.

## 5. Turkey and Albania in The Post-Cold War Era

### 5.1. Mutual Considerations

There is no single accurate estimate or calculation as to the future form of EU. But it is no prophecy to argue that the EU will continue to evolve as it has done to date. It is not known whether it will end up as a federal, intergovernmental or single world state as relevant theories suggest, however its posture as the main means of Europeanization and as an aspired political body are seen in many ways, including its deepening effect on bilateral relations in the Balkans and our concern relates to how it was reflected on Turkish – Albanian relations in the post-Cold War era.

As the most isolated communist state of the 1970s, Albania found itself in an even weaker and more fragile environment in the aftermath of the Cold War. The pressing foreign policy issues for Albania were the Kosovo issue, the Albanian minority in Macedonia, the territorial problem with Greece related to Northern Epirus, and the issue of illegal Albanian minority in Greece. It also had to deal with serious economic problems. Given the hostile relations between Yugoslavia and Greece at the time and what former President Sali Berisha called "blood relations" referring to many Albanian migrants in Turkey, Turkey was a natural ally for Albania.<sup>16</sup> On the other hand, by

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<sup>15</sup> Ülger (2003: 213 – 215); Canbolat (2004: 209); and Delegation of the European Commission to Turkey, [http://www.avrupa.info.tr/AB\\_ve\\_Turkiye/Tarihcesi.html](http://www.avrupa.info.tr/AB_ve_Turkiye/Tarihcesi.html)

<sup>16</sup> Uzgel (2001a: 54); and Xhudo (1996: 50).

chance or calculation, Turkey's political and military cooperation with Albania followed a pattern similar to the one pursued by the U.S. in the same era and the fact that U.S. and Turkish strategic interests overlapped in Albania facilitated the improvement of bilateral relations.<sup>17</sup>

Nevertheless, it can be argued that bilateral relations were shaped to a great extent with Albania's main foreign policy goal of Europeanization and Turkey's due reciprocation. From the Albanian viewpoint, first and foremost, the reasons for appealing to Turkey on its road to the EU mainly rested on the shared history between the two states. The close relations also include what former President Sali Berisha described as "blood relations"<sup>18</sup> referring to the Albanians who migrated to Turkey over the years. There is a strong Balkan émigré population in Turkey which includes the Albanians and is influential in Turkey's policies towards the region.

Second, Turkey has more experience in the EU advent. As a country which has gained much experience in political, economic, military, technical, social, educational and other fields in integration process, Turkey has from the beginning offered its support to Albania. Turkey and Albania view EU membership as a common final goal and in this connection Turkey showed its willingness to proceed together to achieve this common objective. For instance, the Government Program (2001) explicitly stated the need to prioritize relations with the EU in relations with Albania, (and the U.S.) as a support for democracy in Albania.<sup>19</sup> Furthermore, given its pre-cognizance of the region and its past with the regional states, Turkey can also be instrumental in offering the EU support in its policies towards the Balkans, including Albania.

Third, as a member of NATO, Turkey was an important actor in the Balkans and a valued natural ally for Albania. Membership in NATO is the second most important foreign policy goal for Albania. In fact, Albania was the first former Warsaw Pact member to apply for membership in NATO in 1992. Albania's proximity to conflicts in the Balkans, exacerbated by its weak military posture, prompted it to look for protectors in its vicinity and "Turkey offered it the best chance to gain such protection given that Turkey is part of NATO and has one of the ... modern militaries in the area."<sup>20</sup>

Fourth, the unproblematic relations until then between the two states were another push for seeing Turkey as a partner in the efforts of integration. Although relations remained in certain margins due to ideological borders during the Cold War,

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<sup>17</sup> Uzgel (2001a: 55).

<sup>18</sup> Xhudo (1997: 50).

<sup>19</sup> Yilmaz (2001: 115).

<sup>20</sup> Xhudo (1997: 50). Albania was the first former Communist state to receive arms from the U.S. and granted the use of its harbors to the U.S. Navy; see Uzgel (2001a: 54).

the post-Cold War era proved a time for gearing up the traditional friendship, which was confirmed most recently at the official farewell of the outgoing Turkish ambassador to Tirana.<sup>21</sup>

Fifth, the recent memory of urgent economic aid had been a positive test case for both countries after the collapse of Communism in Albania, which was much appreciated by Albania. To give two examples, in 1990, Albania asked for electricity supply of 150 million kW from *Türkiye Elektrik Kurumu* (TEK - Turkish Electricity Institution) when President Turgut Özal and his counterpart Ramiz Alia had contacts in late September.<sup>22</sup> Turkey also took efforts to support Albania in its transition from the outdated closed economy to liberal market economy. The humanitarian aid extended by Turkey to Albania in 1991 and 1992 amounted to \$ 21,9 million which ranked second after Italian aid.<sup>23</sup>

In reciprocating Albania's appeal, Turkey's overall considerations were shaped mainly by historical ties and common heritage. In Balkans policy of Turkey, one of the anchorage groups in the region has come to be Albanians (along with the Bosnians) since the Ottoman times. Currently, Albania is still viewed as the barometer of Turkey's Balkan policy – alongside with Bosnia which is viewed as the barometer of Turkey in the region. If Turkey fails to provide support to Albania for its stability and security in the Balkans, it cannot be as influential as it would aspire to be in the Balkans.<sup>24</sup>

Second, Turkey also takes into account that it is not just a Balkan country but belongs to the other immediate regions of the Middle East, Caucasus and the Eastern Mediterranean, which are in an interdependence relationship with each other. In order for Turkey to devise an influential policy towards the Balkans, it will need to observe global and regional balances. The most important aspect that differentiates Turkey from the rest of the regional countries is that it simultaneously belongs to these regions; no other Balkan state has a policy maneuver space as large. There is interdependence between these regions which, if explored efficiently, would be beneficial for Turkey.<sup>25</sup>

Third, Turkey is aware of the necessity of closely following the balances within the Balkans for conducting an active and effective diplomacy in the region, and that includes Albania. In this respect, Turkey's priority in the Balkans should be to help

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<sup>21</sup> "Premier Berisha Receives H. E. Suphan Erkula, Outgoing Turkish Ambassador in Tirana", *Republika e Shqipërisë, Këshilli i Ministrave, Departementi i Enformacionit*.

<sup>22</sup> 25 September 1990, *Milliyet*; and 29 September 1990, *Güneş*.

<sup>23</sup> *Xhudo* (1997: 50).

<sup>24</sup> Davutoğlu (2008: 316 – 318).

<sup>25</sup> Davutoğlu (2008: 318).

Albania consolidate its security and to implement a comprehensive cooperation scheme. Although from the official viewpoint Greece is not seen as a rival of Turkey in the Balkans, the reverberations of the pyramid scheme crisis in 1997 said otherwise, which produced a maneuver space for Greece to move ahead as an influential actor. Likewise, Albanian officials looked to Greece for help in the initial days of the Kosovo crisis, which was self-explanatory in that sense.<sup>26</sup> If Albania is going to continue to be viewed as the barometer for Turkey's Balkan policy, Turkey should pursue policies which mind balances.

Fourth, Turkey attaches importance to devising comprehensive policies, and being part of these policies towards the region as a whole, aware of the contradictions and risks. In such a framework, Turkey is aware of the significance of undertaking active roles in regional platforms.<sup>27</sup> Projects which could bolster relations with Albania in various fields can be proposed as part of future policies.

Fifth, being part of policies towards the region, Turkey acknowledges the important role of the strategic means that it has access to, i. e., NATO.<sup>28</sup> NATO also regards the military cooperation between Turkey and Albania as a stabilizing factor in the volatile region of the Balkans.<sup>29</sup> This was why, for instance, as early as 1990, the two states inked a military cooperation agreement and Turkey became the first country to send a full time military attaché to Tirana.<sup>30</sup>

These mutual concerns are by no means exhaustive or listed in order of importance. However, they can provide a background in seeing how they have found a space in bilateral relations embedded in Europeanization efforts of Albania. How they materialized in practice shall be seen in political/diplomatic, economic and military fields, respectively.

## **5.2. Politics And Diplomacy**

The abovementioned appeal made by Albania in 1990 did not merely concern economic venue; it also extended to urgent diplomatic and humanitarian support in respect of which Turkey supported Albania's bid for European organizations, extended diplomatic, military, police, and judicial assistance, and accepted Albanian students in Turkish universities.<sup>31</sup>

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<sup>26</sup> Davutoğlu (2008: 319 – 320).

<sup>27</sup> Davutoğlu (2008: 320).

<sup>28</sup> Davutoğlu (2008: 321 – 322).

<sup>29</sup> Uzel (2001a: 55).

<sup>30</sup> Vickers and Pettifer (1997: 217).

<sup>31</sup> Kut (2002: 102).

Turkey also played an important role in Albania's entrance into the Black Sea Economic Cooperation (BSEC). As a secular country, Albania became a member of the Organization of Islamic Conference (OIC) in 1992 despite opposition from certain factions in the country.<sup>32</sup> The OIC membership of Albania made the country the only other European country apart from Turkey. The opponents of this membership maintained that this membership would distance Albania from Europe. However, the Berisha government saw it as a positive development for Albania because it was a secular country like Turkey. It has been argued that among the reasons for joining the OIC was also seeing it as a source for economic support.<sup>33</sup>

Turkey and Albania signed the Agreement on Friendship and Cooperation during Demirel's visit in Albania in June 1992<sup>34</sup> and Turkey stated that it would extend a \$ 50 million humanitarian and technical aid to Albania.<sup>35</sup> The two states also signed the public safety cooperation protocol in early August 1992.<sup>36</sup> Such an improvement in bilateral relations made former Greek Foreign Minister Andonis Samaras define Albania as part of the alleged "Muslim Axis" led by Turkey in the same year.<sup>37</sup> It is well known that this active approach towards the region during Özal's term of office caused Greece fear Turkey, thinking that it might want to play the "Muslim card" in the region. However, it was simply an indication of Turkey's willingness for being part of the conjuncture in the region.

In 1992, Özal gave a speech at the Albanian parliament in which he gave recommendations. Özal advised the Albanian officials to draw up a 15-year plan, to focus on tourism and service sectors, and to improve relations with Macedonia.<sup>38</sup> In the same year, Albanian officials stated that they would like to build a more systematized cooperation with Turkey and described the main shortcomings in the relations: inadequate levels of coordination concerning the issues envisaged in bilateral agreements; 1) lack of a sound coordination of the implementation of decisions jointly taken, 2) ignoring follow-up of the implementation of decisions taken, 3) lack of tactical studies between the two countries.<sup>39</sup> Despite such conditions, efforts continued to improve relations. In 1993, former Albanian Prime Minister Alexander Meksi paid an official visit to Turkey. The following year, Sali Berisha visited Turkey

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<sup>32</sup> Uzgel (2001b: 503).

<sup>33</sup> Xhudo (1997: 52).

<sup>34</sup> 1 June 1992, *Hürriyet*; and 1 June 1992, *Sabah*.

<sup>35</sup> Demirtaş-Coşkun (2001: 87).

<sup>36</sup> 7 August 1992, *Cumhuriyet*.

<sup>37</sup> Kut (2002: 102).

<sup>38</sup> 20 February 1993, *Hürriyet*.

<sup>39</sup> Yılmaz (2001: 108).

and asked for support in the economic and security fields as well as support for Albania's NATO bid and for peaceful solution of the problems in Kosovo.<sup>40</sup>

However, relations lost momentum by 1995 when Greece began translating its hostile approach into a friendly one in respect of regional states. Greece and Albania settled their bilateral disputes concerning the rights of the Greek minority in Albania and the situation of illegal Albanian workers in Greece. Greece lifted its veto concerning the EU aid to Albania and the beginning of mutual visits between the two states added on to the positive atmosphere. Moreover, Greece succeeded in pulling Albania to its side by extending economic aid in 1997.<sup>41</sup>

In 1997, a financial crisis swayed the country into chaos and serious internal conflict. In face of thousands of demonstrators filling the streets and demanding the compensation of their money siphoned by the bankers, Albania asked for international support to quell the riots. The Berisha government faced the most difficult period of its six years in power by then as it had to deal with criticism from both the victims and the opposition.<sup>42</sup>

Although Turkey participated in the international force with 800 troops within the UN framework with Resolution 1101, it was seen that it ranked after Italy and France which contributed with 2,500 and 1,000 troops, respectively.<sup>43</sup> The almost inherent discord in relations with Greece was observed once again when Greece objected to the location of deployment of Turkish troops in Albania. Greece did not want the Turkish troops to be deployed in the south of the country where Greek minority lived. Former Greek Defense Minister Chohalopoulos stated that they were not of the opinion that Turkey was directly affected by the developments in Albania and that the situation in Albania must not constitute a reason for Turkey's hegemonic tendencies. The Greek Defense Minister did not refrain from saying that any change in the status quo in respect of Turkey's relations with its neighbors would be an element of bargain in Turkey's entrance in the EU.<sup>44</sup> However, almost a year later, in February 1998, during former President Recep Mevdani's visit in Ankara, it was stated that relations between Albania and Turkey were of an exemplary nature. President Demirel expressed his content to see Albania strengthen its democracy after the difficult experience in 1997.<sup>45</sup> It was to be observed in the ensuing years that Albania was

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<sup>40</sup> Yılmaz (2001: 109).

<sup>41</sup> Yılmaz (2001: 112).

<sup>42</sup> "Başkan'ın Büyük Savaşı", 3 February 1997, *Milliyet*. Albania's faced a serious crisis due to what was called the pyramid schemes after the collapse of communism; see Elbirt (2006).

<sup>43</sup> "Arnavutluk'la İlgili Son Haberler (2)", 27 May 1997, *Türkiye*.

<sup>44</sup> "Mehmetçik'e İtiraz" 7 April 1997, *Milliyet*.

<sup>45</sup> "Türkiye – Arnavutluk Sorunsuz İki Ülke" 13 February 1998, *Siyah Beyaz*; and "Balkanlardaki Örnek İşbirliği" 13 February 1998, *Milliyet*.

closer to Greece than to Turkey. However, the crisis to draw Albania closer to Turkey broke out in Kosovo in March 1998 when Milosevic's latent Greater Serbia designs came to the surface once again, concerning which the two states acted on parallel policy lines.

Post-Kosovo relations continued particularly with a view to ensuring economic and military cooperation. President Demirel paid an official visit to Albania and Macedonia in April 1999. Central to the agenda of this visit were the Kosovo problem, stability in Albania, and the situation of the refugees.<sup>46</sup> In 2000, Turkish and Albanian presidents and prime ministers with those other regional states participated in the Southeast European Cooperation Process (SEECP) Heads of State and Government Summit. In early 2000, Prime Minister Bülent Ecevit paid an official visit to Albania. Shortly afterwards, President Demirel went to Albania to discuss issues on Kosovo and other regional and international issues of mutual concern. The third high-level visit in the same year took place by Albanian Prime Minister Ilir Meta's visit which was primarily on economic field.<sup>47</sup>

In September 2005, Turkey and Albania signed an agreement on Turkish Armed Forces' assistance to the Albanian Army concerning the allocation of military equipment of \$ 2,5 million to contribute to the restructuring of the Albanian military and integration into NATO. Turkey also assists Albania in the field of logistics and police training.<sup>48</sup>

The coalition government formed by Sali Berisha secured the highest number of votes in the July 2005 elections and received the vote of confidence in early September 2005. Both Turkey and Albania are cognizant of friendly bilateral relations.

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<sup>46</sup> Yılmaz (2001: 112).

<sup>47</sup> Yılmaz (2001: 112 – 114); at the turn of the century, Albania was among the most important foreign policy titles in Ankara, seen clearly in the 2001 Government Program: 1) following a policy to support democracy and market economy in Albania; 2) solution and internationalization of the 'Albanian issue' on grounds of respect for commitment arising from international documents; 3) prioritizing relations with the U.S.A. and Western European states with respect to Albania; 4) following the process of integration in Europe as well as integrating into European political and economic organizations; 5) prioritizing relations with Germany and Italy; 6) making every effort to stop the policy of pressure and cruelty on the Albanian minority in former Yugoslavia to help them enjoy the right to legitimate political will; 7) recognizing Macedonia on the condition of respect for the rights and free movement of Albanians in Macedonia; and 8) making efforts to help Kosovo to be recognized and working for the peaceful solution of the problem.

<sup>48</sup> "Ankara Hosts Albanian Chief of Staff for Second Time in 2005", 14 December 2005, *Turkish Daily News*.

Turkey is likely to increase its investments and continue to extend military assistance to Albania.

### 5.3. Economy

Turkey's economic relations with Albania began with the Agreement on Trade and the Agreement on Economic, Commercial, Industrial and Technical Cooperation through the end of the Cold War, as late as 1988, since the country was isolated for a long time during the Cold War under Enver Hoxha's regime. The legal framework of economic relations in the post-Cold War era was based on the Agreement on Mutual Promotion and Protection of Investments (1996) and the Agreement for the Prevention of Double Taxation (1998). The first round of talks concerning Free Trade Agreement was held in 2003. Turkey's exports to Albania were \$ 160 million in 2004 while its imports were \$ 15,528 million. Main items in Turkish exports include iron – steel, aluminum, cereal, flour, electrical items, salt, sulfur, cement, rubber, cacao, and iron – steel products while its imports include the same items.<sup>49</sup>

In accordance with Law no. 7638 adopted in 1992, foreign companies in Albania were granted the rights given to Albanian companies, in the scope of which they could rent facilities and properties for 99 years. Among the investments of Turkish businessmen are shoe factory, shops, restaurants, and dental clinics. *Kürüm Iron – Steel Joint Stock Company* rented the iron and steel enterprises in Elbasan Valley for a 20-year period and started production. In the mining sector, *Ber-Öner* received the right to explore and operate mine reserves in copper-dense regions in Albania. *Everest* has made an investment of \$ 2 million for polyethylene packing production. The companies operating in the construction sector are *Tepe Construction Joint Stock Company*, *Be-Ha-Şe*, *Enka*, *Tümaş Joint Stock Company*, *GİNTAŞ*, *Mak-Yol*, *MNG*, which have undertaken projects on highway construction, building restoration, military facility construction, and mass housing. As for banking, a *Ziraat Bank* branch was planned to open in Tirana with an investment of \$ 3 million. However, the project had to be suspended due to the crisis in 1997 and the political instability that followed. *Kentbank* bought shares of the privatized Albanian National Commercial Bank in 2000. The Albanian Central Bank and Turkish Banking Regulation and Supervision Agency (*BDDK*) concluded Bilateral Cooperation Agreement with a view to reaching accurate information regarding the transaction of banks and finance institutions in their country, to build an institutional framework which would facilitate cooperation in cross-border supervision, and to share institutional experience and

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<sup>49</sup> "Türkiye – Arnavutluk Ticari ve Ekonomik İlişkileri"; and "Arnavutluk'ta Ekonomik Gelişmeler".

technological training. Other possibilities of investment include telecommunication, medicine, energy, oil, natural gas, tobacco, tourism, mining, chemical industry, food processing, packaging, cement industry, insurance, and transportation.<sup>50</sup>

By and large, economic relations with Albania displayed an improving trend until 1997. After 1997, Albania's relations with Greece improved when the Socialist Party intensified relations with the country.<sup>51</sup> Most recently, Albanian authorities decided to sell 76 % of Albanian state phone company *Albtelecom Sh.A* to the Turkish consortium made up of *Türk Telekom* and *Çalık Enerji Telekomünikasyon A.Ş.*<sup>52</sup>

As is the case with other Balkan states, there are certain problems in bilateral economic relations with Albania. Letter of credit procedures are delayed due to lack of cash in local banks, problems in money transfer between cities, and complications in the state-owned bank procedures. Second, Turkish companies expect the existing customs legislation to be amended as soon as possible. Third, Turkish companies which export goods by land transportation reach Albania late and thus lose price advantages, due to lack of infrastructure in Bulgaria, Macedonia, and Albania. Fourth, lack of electricity has negative impact upon foreign investors. Foreign companies are obliged to pay customs duties. This creates unjust competition and makes the marketing of Turkish products more difficult. Finally, the lack of any efforts to compensate for the loss of Turkish companies resulting from the domestic turmoil in 1997 is yet another factor that hinders improvement in economic cooperation.<sup>53</sup>

### 5.3. Military

Bilateral military relations between Turkey and Albania began in early 1990s. Albania started defense cooperation almost simultaneously with Turkey and with the U.S.A. The first significant meeting at the ministerial level took place in Ankara in July 1992 during which the parties signed a Defense Cooperation Pact. As Minister of Defense Nevzat Ayaz stated, the agreement focused on enhancing cooperation in military education and technology. During his visit to Turkey, Albanian Defense Minister Safet Zhulali was allowed to visit Turkish military facilities such as factories, command centers and bases, to which at the time only NATO members were allowed access. In turn, Turkish naval vessel *Fevzi Çakmak* visited the Albanian Port of Durres in August 1992, the first such visit by a Turkish naval vessel to Albania since the days of the

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<sup>50</sup> "Türkiye – Arnavutluk Ticari ve Ekonomik İlişkileri"; and "Türkiye – Arnavutluk Ekonomik, Ticari, Sanayi ve Teknik İşbirliği Karma Komisyonu Altıncı Dönem Toplantısı Protokolü".

<sup>51</sup> Ünal (1998).

<sup>52</sup> "Turkish Consortium Acquires Albanian Albtelecom", 28 May 2005, *Turkish Daily News*.

<sup>53</sup> "Türkiye – Arnavutluk Ticari ve Ekonomik İlişkileri".

Ottoman Empire.<sup>54</sup> The two states concluded the Defense Technology and Military Training Cooperation<sup>55</sup> and Albania also asked for arms aid October 1993.<sup>56</sup>

In July 1996, a Turkish contingent of 40 soldiers left for Albania to take part in the Peaceful Eagle 96 military exercise conducted under the auspices of NATO's PfP program. Along with the Turkish contingent, headed by Lieutenant Colonel İhsan Balabanlı, troops from Albania, the U.S.A., Italy, Macedonia, Bulgaria and Romania took part in the military exercise. The use of light weapons, first aid training, mine sweeping, reconnaissance and security drills were practiced.<sup>57</sup> A month later, a delegation of Albanian military officers headed by Major General Armando Vincani, the Deputy Chief of General Staff, came to Turkey for a meeting to exchange views on military issues,<sup>58</sup> after which it was stated that Turkey and Albania would hold a joint military exercise in the Adriatic Sea off the coast of Albania in August. The Chief of General Staff stated that three Albanian warships, including a minesweeper and two torpedo ships and Turkish *Turgut Reis*, one of the best frigates in the Turkish Navy, were scheduled to participate in the exercise. The training included naval operations, on board fire fighting techniques and rescue operations, which were monitored by foreign attachés in Albania and officers from NATO.<sup>59</sup>

In early 1997, a crisis broke out in the country when a series of fraudulent investment schemes collapsed resulting in thousands of citizens' loss of their savings. By April 1997, the parliament approved sending troops to Albania while Albanian Deputy Foreign Minister Albert Rakipi was engaged in talks during his two-day visit in Ankara. During the unrest, militants armed with weapons looted military barracks, estimated at some 200,000 guns, seized control of much of southern Albania. Turkey feared that as the rebels refused to hand over the guns, the weaponry could be carried over to Macedonia and Bulgaria. Therefore, it followed the developments closely and conducted an intensive diplomacy in cooperation with Italy.<sup>60</sup> After the Turkish troops' duration of 3-month stay ended in late July, the Turkish soldiers returned to Turkey.<sup>61</sup>

During Albanian Defense Minister Luan Haydarağa's visit to Ankara, the Haydarağa and his counterpart İsmet Sezgin signed an agreement for a \$5 million

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<sup>54</sup> Dakovic and Miseljic (2001).

<sup>55</sup> Demirtaş – Coşkun (2001: 87).

<sup>56</sup> 6 October 1993, *Cumhuriyet*.

<sup>57</sup> "Turkish Troops Take Part in Military Exercise", 15 July 1996, *Turkish Daily News*.

<sup>58</sup> "Albanian Military Delegation in Turkey", 21 August 1996, *Turkish Daily News*.

<sup>59</sup> "Turkey and Albania to Hold Joint Naval Exercise", 24 August 1996, *Turkish Daily News*.

<sup>60</sup> "Turkish Parliament Approves Troops For Albania", 11 April 1997, *Turkish Daily News*.

<sup>61</sup> "Turkish Troops in Albania Will Return Home", 26 July 1997, *Turkish Daily News*.

Turkish grant to Albania.<sup>62</sup> For the second time, two weeks after the Albanian Defense Minister's visit, Turkish parliament unanimously authorized the deployment of Turkish troops to Albania when the conflict in Kosovo escalated. It was left to the Cabinet to decide the needs, size, location, and time of the deployment. The move would also allow the deployment of soldiers for possible international peace-keeping missions in Albania. A small group of soldiers went to the southern Albanian town of Vlora to protect a Turkish technical team engaged in repairing a military shipyard, port, and army barracks. There were also voices in the parliament suggesting Turkey should also send Red Crescent aid for Kosovar Albanian refugees.<sup>63</sup>

By August 1998, an amphibious Turkish division was scheduled to set out for Albania to take part in a NATO exercise which would also be attended by the members of the Partnership for Peace (PfP). The Chief of Staff related statement mentioned eleven NATO states; Belgium, Canada, France, Germany, Greece, Italy, the Netherlands, Spain, Turkey, the U.S.A. and Britain and three PfP countries, Albania, Russia, Lithuania in the Cooperative Assembly 98 exercises. The maneuvers were carried out in Albanian and Macedonian territories and were based on a scenario to end regional conflicts peacefully. Land, air, and naval forces of the participating countries were involved in search-and-rescue (SAR) missions, medical evacuation (MEDEVAC), and airdrop operations. Apart from the amphibious division, Turkey sent four F-16s, a transport plane, a frigate, and logistic support.<sup>64</sup> The following year, part of a 126-strong Turkish military unit left for Tirana, along with a number of vehicles and assorted equipment, in mid-May to join a special NATO force deployed in Albania to take part in the distribution of humanitarian aid to the Kosovar refugees who fled former Yugoslavia.<sup>65</sup>

In 2002, former National Defense Minister Sabahattin Çakmakoglu met his Albanian counterpart Luan Rama in Tirana. Çakmakoglu stated that Turkey would contribute to the modernization of Albania in the military field.<sup>66</sup> The harvest of this visit was reaped during the visit of Chief of Staff General Hüseyin Kıvrıkoğlu to Albania where he met several dignitaries and officials, both political and military. During the visit, Kıvrıkoğlu was received by Albanian president Recep Mejdani who said relations between the two states fostered stability and peace in the region and drew attention to the restoration of Kuçova airport. Kıvrıkoğlu signed a logistic application protocol with Rama. The protocol establishes the provision of \$2,5 million assistance to help

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<sup>62</sup> "Albanian Defense Minister in Turkey", 11 July 1998, *Turkish Daily News*.

<sup>63</sup> "Parliament Approves Sending Troops to Albania", 25 July 1998, *Turkish Daily News*.

<sup>64</sup> "Turkey to Take Part in NATO Exercise in Albania", 8 August 1998, *Turkish Daily News*.

<sup>65</sup> "First Group of Turkish Soldiers Leaves For Albania", 17 May 1999, *Turkish Daily News*.

<sup>66</sup> "Çakmakoglu Visits Albania", 22 June 2002, *Turkish Daily News*.

the Albanian Army reach NATO standards. Kıvrıkoğlu also discussed with Albanian Chief of General Staff Pillumb Kazimi who Kazimi stated that Albania would send units to assist the Turkish Army's mission in Afghanistan.<sup>67</sup>

Turkish Armed Forces offer Albanian military personnel education and training activities in military colleges, Gülhane Military Medical Academy, military academies, military high schools, branch schools, and language schools.<sup>68</sup> Turkey also trained Albanian Special Forces Battalion. Turkish ammunition company Mechanical and Chemical Industry Corporation (*Makina ve Kimya Endüstrisi Kurumu*) bought out and modernized the biggest ammunition plant in Albania. Turkey also supplied radar systems for the surveillance of the Albanian air space and of telecommunication equipment.<sup>69</sup>

On 1 April 2009, Albania eventually achieved one of its most important foreign policy goals towards becoming integrated in Euro-Atlantic structures and became a member of NATO. The military cooperation recorded to this date between the two states would be unthinkable two decades ago. However, it can be argued that the reinforcement of relations owes much to military cooperation, due mostly to inspiring mutual confidence in a particularly conflict-ridden region as the Balkans.

## 6. Concluding Remarks

Turkey and Albania have traditionally had friendly relations. These amicable relations were taken further after the Cold War; this time in the context of Europeanization efforts. The future characteristic to be assumed by the EU remains unknown for the time being; be that as it may, there is common belief that regional states see their future in the still evolving EU. Turkey has reiterated its support in many ways for Albania to this end. Albania became a member of the OIC backed by Turkey, received Turkish aid in cash and in kind, was given policy recommendations from Turkish officials in the immediate aftermath of the Cold War, acted on parallel policy lines during the Kosovo crisis. With a view to helping Albania embark into liberal market economy, the basis of economic relations were established in early 1990s with legal arrangements which were taken further through investments in infrastructure construction, banking, finance, telecommunication, and other fields although relations in this venue still need further attention by both sides. The cooperative nature of military relations manifest itself in the frequent high-level visits, offering military education to Albanian military personnel, carrying out joint exercises, extending

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<sup>67</sup> "Kıvrıkoğlu Visit Fosters Military Ties With Albania", 6 July 2002, *Turkish Daily News*.

<sup>68</sup> "Participation of PfP Courses".

<sup>69</sup> Mustafa Aksaç, *Turkey's Military Efforts for Peace in the Balkans*, pp.100-103.

military assistance to Albania at times of crises, modernization of Albanian army; all of which were directed at helping Albania become a member of NATO which eventually materialized this year.

The overall impact of these policies and practices was not only to reinforce individual ties but also to add onto regional stability in the larger network of the Balkans. As such, Europeanization in the region has a dual effect, which turns out to be beneficial at both levels. The first tangible outcome in this sense was Albania's membership of NATO last April. Turkey is likely to continue to lend support for Albania in its EU bid, also, if requested, to the EU in their enlargement process in the Balkans as an actor cognizant of the region. The directions the future relations are likely to take, provided that the regional states – including Albania – become full members of the EU before Turkey, is yet another question that deserves investigation in its own right. However, we can at least argue that it will depend on changing and interdependent political and economic conjunctures in Turkey, the Balkans and the EU.

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### **An Analysis Of General Situation Of Auditing And Auditing Profession In Turkish Insurance Sector During European Union Pre-Accession Period Of Turkey**

#### **Abstract**

Nowadays, to search the accuracy of the information given in financial statements that are declared to public related to the operations and transactions companies perform and their conformity to legal regulations has become more and more important. To express in other words auditing has become an crucial task recently.

It is certain that Turkish Insurance sector, especially during the globalization period of Turkey has developed internationally and the sector is taking part in the fast changing and renovation process that is brought by the globalization.

Accordingly, with the help of global standarts that are formed by International Association of Insurance Supervisors (IAIS) related to insurance sector public auditing; we aim to clarify the meaning of terms and conditions along with the institutions on public auditing, independent auditing and internal auditing in insurance sector both in European Union and in Turkey.

The aim of our study is to examine and to discuss the professional standarts that an auditing company performing the independent audit of financial statements of insurance companies and their authorized auditors should have. In addition we will study general auditing and the development of auditing as a profession. In particular, we will discuss the international accreditation of local auditors and the Turkish perception and understanding of European Union for this subject.

**Key Words:** European Union, Insurance Sector, Auditing

## 1. Introduction

Recently, especially increasing number of corruption cases and the development of economic life and its growing complexity has increased the need for reliable knowledge. In developed economies, the information that is declared to the public by corporations related to themselves is usually checked and verified by some independent auditors.

The procedure of decision making about the accuracy and reliability of the information that is announced to the public and to the shareholders constitutes the subject of "auditing and independent external auditing". During the process of auditing the independent expert and the so called auditor has a very important role. The auditor, is the one who carries out, directs and finalizes the process of auditing. The supporting of foreign capital in Turkey and by this means the increasing investment of multinational companies in Turkey, the development of international trade, increasing international financing opportunities, and increasing number of Turkish companies that are operating abroad has created a suitable environment for the development of auditing profession in Turkey. When Turkish companies started to look for financial resources from international capital markets, they have been required to present verified and confirmed financial reports of the company; such type of requests obliged companies to have reliable auditing procedures. As a result of above mentioned developments, in Turkey, auditing process and auditing system, which were not legally established by legal authorities before, has started to arise in the country's economic body by the push of economic conditions.

It is obvious that, Turkish Insurance sector has developed internationally during the global integration process of Turkey and takes part certainly in the fast changing atmosphere brought by globalization.

Accordingly, with the help of global standarts that are formed by International Association of Insurance Supervisors (IAIS) related to insurance sector public auditing; we aim to clarify the meaning of terms and conditions along with the institutions on public auditing, independent auditing and internal auditing in insurance sector both in European Union and in Turkey.

As it is known, every country regulates its national standarts within the framework of its own rules. However, in certain sectors, standarts have to be adapted with those of other countries. Nowadays, in Turkey, which is in pre-accession period to the European Union, it is absolutely necessary that audit and the profession of auditing should be adapted to international standarts.

In parallel to the the developments cited above, the auditing operations in Turkish Insurance sector, will be examined in this study both from internation perspective or

from a perspective of particular cases in the light of European Union standards by considering national developments. We will also try to figure out the ways for increasing efficiency on related sector and profession.

## 2. Generally Accepted Auditing Standards

Auditing standards were first published in 1947 by American Institute of Chartered Public Accountants: AICPA as "Generally Accepted Auditing Standards" and these standards were adopted by many countries. Auditing Standards Board revised cited standards and published them as "Statement on Auditing Standards" after the year 1972.<sup>1</sup> That statement was a reinterpretation of the standards published in 1947 and although there have been some amendments in the auditing application principles, those standards achieved to stay up-to-date until today. Generally accepted standards published by AICPA which is a good guide for auditors in analyzing financial statements consists of three chapters: 1- General Standards, 2-Working Scope Standards, 3- Reporting Standards.<sup>2</sup> However, within the scope of study we will concentrate on "General Standards" due to recent important developments in independent acting standard and also we will deal with only "General Standards" cause in EU Directive No:8, merely general standards are cited.

First section of Generally Accepted Auditing Standards was devoted to general standards. These standards draw a general framework for professional auditors about their characteristics, behaviours and professional education. For this reason "general standards" are often called personal standards. The standards covered in this section are education, professional proficiency, acting independently, professional self discipline and attention.<sup>3</sup>

## 3. International Auditing Standards:

The first international auditing standards were published by IAPC-International Auditing Practices Committee in 1991, which operates under the control of IFAC-International Federation of Accountants and which was renamed as "International

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<sup>1</sup> Carmichael, R. ve Willingham, J. Auditing Concepts and Methods, A guide to Current Auditing Theory and Practice, 5th Edition, Mc Graw-Hill,1989,p.15.

<sup>2</sup> Alvin A. Arens, James K. Loebbecke, *Auditing an Integrated Approach*, Prentice Hall, Eighth Edition, 2000, s.29.

<sup>3</sup> Şerafettin Sevim, Eskişehir Anatolian University Journal of F.A.S.S., "Muhasebe Raporlarının Yasal Denetimini Yürütmekten Sorumlu Kişilere Yetki Verilmesine Yönelik AT Sekizinci Yönergesinde Belirtilen Mesleki Standartlar ile 3568 Sayılı Yasa ve İlgili Mevzuattaki Mesleki Standartların Karşılaştırılması",1990, V.VIII, S.1-2,p.198.

Auditing and Assurance Standards Board-IAASB in 2002"<sup>4</sup>. In 1994, all the standards were completed, brought together as a set and published together with their codes<sup>5</sup>. PIOB (Public Interest Oversight Board) which was established in 2005, within the reforming period of IFAC is responsible for auditing all the institutions operating under the body of IFAC and their standardization activities, in addition PIOB is responsible for providing them to make decisions for the benefit of public interest and for constructing their decision making processes<sup>6</sup>. There are certain institutions that are operating under IFAC body and which are being audited by PIOB and these institutions deal with standard determination. Those structures are listed below:

**-International Accounting Education Standards Board (IAESB):** This committee which is operating under IFAC body has constructed international professional education standards which will constitute a benchmark in auditing and accounting profession. The purpose of the standards is to standardize every stage that starts with becoming a candidate accountant and lasts with completion of active workinglife as a professional.<sup>7</sup>

**-International Public Sector Accounting Standards Board (IPSASB):** This committee focuses on financial reporting and auditing of national, regional and local public institutions, within this scope it constitutes various standards for the purpose of ameliorating public financial reporting system, it organizes education and research programs<sup>8</sup>.

**-International Ethics Standards Board for Accountants (IESBA):** develops ethical standards and guidance for use by professional accountants. It encourages member bodies to adopt high standards of ethics for their members and promotes good ethical practices globally. The IESBA also fosters international debate on ethical issues faced by accountants.<sup>9</sup>

**-International Auditing and Assurance Standards Board (IAASB):** This Committee serves the public interest by: setting, independently and under its own authority, high quality standards dealing with auditing, review, other assurance, quality control and related services, and facilitating the convergence of national and international standards. This contributes to

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<sup>4</sup> [www.icaew.co.uk/library/index.cfm](http://www.icaew.co.uk/library/index.cfm)

<sup>5</sup> Dönmez Adnan, P. Başak Berberoğlu, Ayten Ersoy, Mediterranean University, Journal of F.A.S.S., " Comparison of Turkish Independent External Auditing Standards with US Generally Accepted Auditing Standards and EU 8<sup>th</sup> Directive and also with International Auditing Standards" ,2005, V.9, p.59.

<sup>6</sup> For detailed; [www.ifac.org](http://www.ifac.org)

<sup>7</sup> [www.ifac.org/Education](http://www.ifac.org/Education)

<sup>8</sup> [www.ifac.org/PublicSector](http://www.ifac.org/PublicSector)

<sup>9</sup> [www.ifac.org/Ethics](http://www.ifac.org/Ethics)

enhanced quality and uniformity of practice in these areas throughout the world, and strengthened public confidence in financial reporting<sup>10</sup>.

#### 4. International Standards In Internal Auditing

Although the history of internal auditing profession does not go back long, internal auditing has gained considerable importance since 1940's<sup>11</sup>. After those years, various developments in business life caused an authority transfer towards professionals and internal auditing concept developed fast and at the beginning of 1941 Internal Auditing Institution gained a corporate identity. By the time, American Internal Auditing Institution accepted ethics rules, developed certain standards for professional internal auditing applications, constructed a programme for permanent education, established common information network and prepared a certificate and examination programme for people to be recognized as certified internal auditor<sup>12</sup>.

The Institution for Internal Auditors, a quite important international professional association performing activities on the development of auditing profession published "Scope of Professional Applications" which is accepted as a global guide for the profession of internal auditing. The set of pre-requested conditions for a complete activity of internal auditing consists of the following clauses<sup>13</sup>:

- International Ethical Rules
- Standards for Internal Auditing Professional Application Standards (Qualification Standards and Performance Standards<sup>14</sup>)
- Practice Suggestions
- Development and Practice Aids
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#### 5. International Standards In The Field Of Public Auditing In Insurance Sector

It is essential to audit institutions or companies in order to check their activities to see if they operate in accordance with legal regulations or in pursuance of public interest. Unfortunately there is not any global rules or regulation related to public auditing to be valid for all the countries. However, 1994 International Association of Insurance Supervisors (IAIS) was established for the purpose of developing global standards

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<sup>10</sup> [www.ifac.org/IAASB](http://www.ifac.org/IAASB)

<sup>11</sup> Gürbüz, *ibid*, p.74.

<sup>12</sup> Taylor-Glezen., *ibid*, p.1970. For a More Comprehensive, See: [www.tide.org.tr](http://www.tide.org.tr) ve [www.theiia.org](http://www.theiia.org) .

<sup>13</sup> [www.theiia.org/?doc\\_id=1499](http://www.theiia.org/?doc_id=1499)

<sup>14</sup> For a More Comprehensive, See TİDE, *International Internal Audit Standart Professional Framework*, TİDE Publications No:3, İstanbul, p.3-4.

relating to public auditing and public auditors; setting regulations for public auditors in insurance sector; and of promoting co-operation among them. IAIS is setting international and globally accepted standards to guide actors in the sector.<sup>15</sup>

## 6. Requested Standards For European Union

Adaptation of the EU regulation in auditing sector has a considerable importance for domestic market in EU. For this reason, auditing subjects are executed by General Directorate of Internal Market under the heading of "Corporate Law". Some studies are conducted in the Union in independent auditing sector under the body of European Federation of Accountants with the aim of adapting the global standards that are set by IAASB. In addition European Commission builds various regulations on the cited issue. No common author has been set forth for public auditing. On the other hand, internal auditing standards have not been adapted yet.<sup>16</sup>

The institutions and foundations setting external and internal auditing standards in European Union are as follows:

- **The Internal Market and Services Directorate General (DG MARKT)**: is one of the Directorates General and specialised services which make up the European Commission. Its main role is to coordinate the Commission's policy on the European Single Market and to seek the removal of unjustified obstacles to trade, in particular in the field of services and financial markets. It established Audit Regulatory Committee (AuRC) and European Group of Auditors' Oversight Bodies (EGAOB to have technical support while executing its operations.

Due to the new Sarbanes-Oxley Law launched by the USA to regain the trust of investors that had been lost during the post-Enron period and due to recent financial reporting problems in Europe, as a part of European Commission's initiatives related to enforce its corporate governance, it has become crucial to revise the priorities of legal auditing. For this reason European Commission presented to the Parliament The Commission's Communication of 21 May 2003 on "Modernising Company Law and Enhancing Corporate Governance in the European Union" modernizing the 8<sup>th</sup> Company Law Directive.<sup>17</sup>

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<sup>15</sup> [www.iaisweb.org](http://www.iaisweb.org)

<sup>16</sup> Suna Oksay & Onur Acar, *Audit in EU and Turkey Insurance Sectors*, TSRŞB Publications No:9, İstanbul, p.103.

<sup>17</sup> *Communication From The Commission To The Council and The European Parliament Reinforcing The Statutory Audit In The EU*, Official Journal of the European Union, C 236, 2.10.2003, p. 2, [http://europa.eu.int/eurlex/pri/en/oj/dat/2003/c\\_23620031002en0020013.pdf](http://europa.eu.int/eurlex/pri/en/oj/dat/2003/c_23620031002en0020013.pdf)

- **Federation of European Accountants (FEE):** The Federation operation in a wide range of sectors covering the interests of European accounting profession. Among these are auditing, banking, insurance and capital markets, ethical taxation, corporate law and environmental problems. Above mentioned activities of FEE are executed by work groups.

It was cited in the report that was published by FEE in June 1998 that national auditing standards in the Union are very parallel to international auditing standards. In another report published in June 2000 it was indicated that the way of writing of audit reports differs among members within the Union. Another report of de federation published in May 2002, starting from 1<sup>st</sup> January 2005, it was recommended to follow International Financial Reporting Standards (IFRS) in accounting field and International Standards of Auditing (ISA) in the field of auditing. In addition, it has become compulsory upon 1606/2002 numbered bylaw and 2006/43/EC numbered directive for publicly open companies to prepare their consolidated financial statements in accordance with IFRS and to perform their auditing in accordance with ISA.

FEE strongly believes that international standards have an important role in eliminating auditing process differences among EU member countries and other countries. In this respect, FEE supports, in its press release published in 2006 in Brussels, the 26<sup>th</sup> article of the directive 2006/43/EC which sets forth auditing of all companies in compliance with international standards and FEE desires to follow the auditing standards set by IAASB in all over Europe.

The European Confederation of Institutes of Internal Auditing (ECIIA) is the professional representation of 32 national Institutes of Internal Audit in the wider European region. ECIIA's objective is to support the position of internal control professionals in the EU and ECIIA's member countries and to promote the application of the global Institute of Internal Auditing (IIA) Standards and Code of Ethics to all Internal Audit activity in the public and the private sector<sup>18</sup>.

## 7. Overview Of European Union Regulations In Insurance Sector

In European Union, The Internal Market and Services Directorate General (DG MARKET) is the responsible authority for preparing and supervising the directives regulating the insurance sector.

Insurance unit, on the other hand is the responsible entity for legal regulations related to life insurance and other insurances. Among these regulations there is no unique framework layout for public auditing of insurance sector. However, in various directives citing life insurance and other insurance issues, there exists certain

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<sup>18</sup> <http://www.eciia.org/eciia/overview/profile.html>:10.08.2009

principles on auditing of insurance sector including the cooperations among national auditing authorities. These are:

- 2002/83/EC Life Insurance Directive
- 73/239/EEC, 88/357/EEC and 92749/EEC Directives for Other Insurances
- 98/78/EC Additional Insurance Auditing Directive
- 2000/64/EC Information Exchange Directive

In spite of the fact that International Financial Reporting Standards has started to be applied in accounting field in European Union, adaptation studies in independent auditing issues still continue. European regulations relating to EU independent auditing legislation which is closely related to independent auditing of insurance sector and which is handled under the title of "corporate law" are as follows:

- 78/660/EEC 4<sup>th</sup> Corporate Law Directive (Article 51)
- 83/349/EEC 7<sup>th</sup> Corporate Law Directive (Article 37)
- 84/253/EEC 8<sup>th</sup> Corporate Law Directive (Mülga)
- COM 1996/338 The Role, Position and Responsibility of legal auditor in EU (Green Book)
- OJ-C 143 dated Quality Assurance for legal auditing: Minimum Requirements Declaration
- 2002/590/EC Recommendation Decision related to independence of legal auditors in EU
- 2006/43/EC 4<sup>th</sup> and 7<sup>th</sup> Directive related to legal auditing of annual accounts and consolidated accounts, modifying Corporate Law and removing 8<sup>th</sup> Corporate Law Directive

In European Union in insurance sector there is no unique framework layout for public auditing of insurance sector. But ECIIA, is conducting studies to apply the internal auditing standards set by IIA in all over Europe.

## **8. Legal Regulations Related To Auditing And The Profession Of Auditing In Turkey**

Latest developments in the world and especially company scandals experienced in USA and in Europe stimulated regulatory institutions in Turkey and they launched new regulation in the light of recent developments.

Institutions guiding and supervising auditing and the profession of auditing in Turkey are as follows:

- Ministry of Finance
- Capital Markets Board (SPK)
- Banking Regulation and Supervisory Board (BDDK)
- Chamber of Accountants and Financial Consultants (TURMOB)
- Accounting and Auditing Standards Board of Turkey (TMUDESK)

- Auditing Standards Board of Turkey (TÜDESK)
- Accounting Standards Board of Turkey (TMSK)
- Association of Independent Auditing
- Undersecretariat of Treasury

We will now summarize briefly the regulations made in Turkey within the operational scope of the authorities cited above.

After the years 1970's due to the reasons such as increasing level of international relations of Turkish companies, increasing investments of foreign enterprises, and increasing opportunities of Turkish firms for borrowing abroad, independent auditing has become a compulsory issue to focus on<sup>19</sup>.

The first legal act on independent external auditing was enacted in 1987 about auditing of banks. In parallel to this development, Central Bank of Turkey published in 24<sup>th</sup> December 1987, "Declaration on Independent Auditing" explaining the essential framework for bank audits executed by independent auditing institutions<sup>20</sup>.

Following the auditing issues of the banks, compulsory auditing of affiliated joint venture companies under supervision of Capital Markets Board of Turkey (CMBT) pursued the process. CMBT, published "Independent External Auditing Code in Capital Markets" for the purpose of regulating the auditing of joint venture companies under its supervision, on 13<sup>th</sup> December 1987. Independent auditing institutions were established according to this code. CMBT, set forth general rules related to auditing and to the profession of auditing, auditing standards, general principles and rules of financial reporting in various declaration that it published afterwards. (Series: X, Declarations No:1-19). In parallel to Sarbanes-Oxley Law which had been published to prevent auditing scandals that arose in those days, CMBT published 02.11.2002 dated Declaration No: 19, Series:X "Declaration on assuring the independence of Auditors". With this declaration, some of the articles of Declaration Series:X No: 16 was changed and some new articles were added.

Turkey, has already started accession negotiations with European Union. In this direction, Turkey, promised in the Letter of Intent dated 30.07.2002 presented to IMF that CMBT will apply International Financial Reporting Standards in Turkey. For the purpose of achieving this goal CMBT published 15.11.2003 dated series:XI No: 25 "Declaration on Accounting Standards in Capital Markets and Series:XI No: 27 "Declaration on Modification of Accounting Standards in Capital

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<sup>19</sup> Y. Göksel, "The Difficulties in Finalcial Statement Analysis in Turkey", Journal of Accounting, 1992, V.31,p.13.

<sup>20</sup> B. Akgül, *Turkish Audit Instutions*, Türkmen Publishing, Ankara, 2000, p.5.

Markets". These declarations provided conformity with international financial reporting standards and starting from 01.01.2005, it became compulsory to apply these declarations in Turkey for all the companies quoted in Istanbul Stock Exchange, all trust companies, all broker companies, portfolio management companies and their affiliated companies or their sharing companies or their partner companies.<sup>21</sup>

Although above mentioned standard is not directly related with independent external auditing, it is very important for independent auditing cause it will help to adapt to international financial reporting standards. Application of international financial reporting standards in all over the country will help to reduce the discrepancies in financial statements, will provide preparation of tables with more attention and gain a transparent structure. New applications will in addition simplify independent auditing and will help to conduct auditing in an easy and simple procedure. In addition, in terms of preparation of statements and financial table it will provide a common basis to make comparisons easily and this also will increase the credibility of the auditing done. Furthermore, it is obvious that from all the points cited above internationally accredited financial reports will facilitate global integration of Turkish financial system to the rest of the world.

## **9. Independent Auditing In Turkey Within The Scope Of Turkish Law No: 3568**

One of the important developments in Turkey in the field of auditing is the law of "Accountants, Public Accountants and Certified Auditors" number 3568 published on 13<sup>th</sup> June 1989, some other codes and declarations following mentioned law.<sup>22</sup> According to this law in Turkey there exists three types of profession such as Accountants, Public Accountants and Auditing. Additionally in the law, different members of those professional fields who are executing accounting transactions and who are conducting the auditing of operational results are defined separately.

## **10. Regulations On Auditing Standards In Turkey**

As implied before, legal status of auditing principles and rules in Turkey starts first with declarations published in 1988 by Capital Markets Board of Turkey (CMBT). Those regulations was accepted for the purpose of validating the auditing done by companies under Capital Markets Board's supervision within the scope of capital

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<sup>21</sup> Dönmez et al, *ibid*, p.62.

<sup>22</sup> Akgül, *ibid*.p.5.

markets legislation. Most of the principles and rules regarding independent auditing in capital markets appears in Declaration Number: 16 Series:X.<sup>23</sup>

Some certain auditing standards are also mentioned inside the “Code on Working Procedure and Principles of Accountants, Public Accountants and Certified Auditors” which had been prepared according to the article number 50 of the law of “Accountants, Public Accountants and Certified Auditors” number 3568 accepted on 1<sup>st</sup> June 1989.

The duty of developing accounting and auditing standards was given to Accounting and Auditing Standards Board of Turkey (TMUDESK) by Chamber of Accountants, Public Accountants and Certified Auditors (TÜRMOB) on 9<sup>th</sup> February 1994. The aim of TMUDESK is to define national accounting and auditing standards considering international standards and publish them.<sup>24</sup> However, the duty of setting accounting standards of TMUDESK was transferred to Accounting Standards Board of Turkey which was recently founded by an amendment of Article 27 of the law dated 15.12.1999 numbered 4487. At the moment, although mentioned board achieved to make a considerable progress on its studies for setting new standards in the field of accounting, it has not published any standard yet.

One of the most important developments in auditing issues in Turkey is the establishment of “Auditing Standards Board of Turkey” (TÜDESK) on 22<sup>nd</sup> January 2003. TÜDESK was established by TÜRMOB with an aim of determining and publishing international standards to provide that auditing processes are done properly and in a disciplined manner.

The first activity of TÜDESK was to translate into Turkish International Auditing Standards which had been published by International Auditing and Assurance Standards Board functioning under the supervision of IFAC. The translation text of International Auditing Standards realized by TÜDESK was published by TÜRMOB.<sup>25</sup>

- **Professional Education and Proficiency Standard:** These standards are explained in the 4<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> articles of “Declaration on Independent Auditing in Capital Markets” published by Capital Markets Board of Turkey.

- **Independent Acting Standard:** The issue of independence has always been handled under a separate heading in both generally accepted auditing standards and professional ethic regulations. The issue is defined by Capital Markets Board of Turkey such as: “Having an understanding that will assure to conduct one’s professional activities in an unbiased and honest way.” (Series: X, No:16 Declaration: M.10.

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<sup>23</sup> C.,Küçüksözen, Z., Sayar, , “Independent Audit Report Standards in Share Market”, Journal of Accounting and Audit Views, 2002, Y.I:2, V.6, p.51.

<sup>24</sup> [www.turmob.org.tr/TMUDESK](http://www.turmob.org.tr/TMUDESK)

<sup>25</sup> TÜRMOB News, 2004, p.1.

Besides, on the article number 11 of the “Declaration on Independent Auditing in Capital Markets”, circumstances causing elimination of independency is listed. On the article number 13 of the same declaration a list of jobs which is forbidden for Independent Auditing Firms was indicated.

In parallel to regulations and precautions taken following the Sarbanes-Oxley Law, Capital Markets Board of Turkey published “Declaration on Assurance of Auditor Independence” Series: X, Number: 19. Three clauses were added to the first article of the declaration to this declaration and to the 11<sup>th</sup> article of the “Declaration on Independent Auditing (Series :X, Number: 16) of Capital Markets Board of Turkey containing the circumstances taking away auditor’s independence in conformity with the regulations in Sarbanes-Oxley Law. Within first clause the jobs which can not be performed by the auditors of independent institutions under paid or unpaid conditions was indicated clearly. In the second clause added to the 11<sup>th</sup> article, within the scope of the “Accountants, Public Accountants and Certified Auditors Law”, it is said that “the activities of controlling the suitability of financial statements and tax declarations, approving them, making written declarations and preparing reports on the issue are excluded from the activities prohibited in 1<sup>st</sup> article. As for the 3<sup>rd</sup> clause, it is indicated that a consulting firm which directly or indirectly hold by an independent auditing company can not give any consultancy service during the period in which auditing firm is conducting independent auditing. To this scope, consultancy services of independent auditing company’s real or corporate shareholders are included. The aim of this 3<sup>rd</sup> clause is to remove interest conflicts.<sup>26</sup>

- **Professional Attention and Care Standard:** Issues handled as professional attention in generally accepted auditing standards, is handled under the scope of “professional attention and neutrality” in the regulations of Capital Markets Board of Turkey. Explanations regarding professional attention and neutrality is explained in the article number 12 of the “Declaration on Independent Auditing in Capital Markets.”<sup>27</sup>. Regarding professional attention and neutrality standard, in the 6<sup>th</sup> article of the regulatory statute cited above, it is said: “ Professional members of the field, stay away from conflicts of interest during execution of their studies and they show the most attention and neutrality while performing their duties”

- **Planning and Observation Standard:** Planning is explained in the 25<sup>th</sup> article of the Declaration on the Independent Auditing in Capital Markets, while observation and coordination principles are explained on the 27<sup>th</sup> article of the same regulation. While it is clearly indicated in the 25<sup>th</sup> article that auditing activities should be planned efficiently, in the 27<sup>th</sup> article scope of the responsibilities of the chief auditor is drawn.

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<sup>26</sup> Dönmez et al, *ibid.* p.65.

<sup>27</sup> Dönmez et al, *ibid.* p.67.

There are also some brief explanations about planning and observation standards in the 53<sup>rd</sup> and 54<sup>th</sup> articles of the Code on Working Procedure and Principles of Accountants, Public Accountants and Certified Auditors.

- **Information Taking Standard about Internal Control System:** Explanations about the inspection of internal control system takes place in the article 28 of the Declaration on Independent External Auditing in Capital Markets. In the mentioned article definition of the internal control system is stated. Within the same article it is said that, in order to determine the auditing technics that the auditor will use, the timing and scope of the auditing, the auditor has to evaluate and check whether the internal system works efficiently or not (Series: X, No: 16 Declaration : m.28). On the other hand there is no explanation on this standard in the law number 3568.

- **Evidence Gathering Standard:** The 29<sup>th</sup>, 30<sup>th</sup>, and 31<sup>st</sup> articles of the Declaration on Independent Auditing in Capital Markets are about evidence gathering standard. 29<sup>th</sup> article is about the proof gathering of auditor during auditing process; 30<sup>th</sup> article is about the purposes of proof gathering; 31<sup>st</sup> article is about the auditing techniques that will be helpful while proof gathering. Proof gathering is not mentioned separately in the Law Number 3568.

- **Conformity with Generally Accepted Accounting Principles Standard:** This standard requires explaining in the audit report whether the financial statements are in conformity with GAAP. Explanations on this standard take place in the Declaration on Independent Auditing in Capital Markets, in article 36/a. The standard states that if some deviations from GAAP are found, the effect of these deviations on financial statements should be calculated properly and should be written in the auditing report.

- **Permanence on Generally Accepted Accounting Principles Standard:** Explanations on this standard take place in the Declaration on Independent Auditing in Capital Markets, in article 36/b. Within the scope of this article, it is indicated that the independent auditing report should state whether the accounting policy applications are coherent with the previous year. If there is any accounting policy change the report should explain it completely. Regarding this standard, in the 44<sup>th</sup> article of the Declaration on Principles and Rules about Financial Statements and Reports in Capital Markets it is said that "Applying accounting policies consistently is compulsory." (Series: XI, No:1 CMBT Declaration m.44)

- **Adequacy of Explanations in Financial Statements Standard:** Explanations on this standard take place in the Declaration on Independent Auditing in Capital Markets, in article 36/c. In this article it is cited that "any financial statement which is not appropriate for the complete explanation concept of generally accepted accounting concepts should be indicated in the report including its reasons".

- **Announcement of Opinion Standard:** Article 34 of the Declaration on Independent Auditing in Capital Markets is about auditing reports and announcement of opinion.

Besides in the 39<sup>th</sup> article of the cited declaration various circumstances that may affect the auditor's opinion are stated. On the other hand, within the 58<sup>th</sup> and 59<sup>th</sup> articles of the "Code on Working Procedure and Principles of Accountants, Public Accountants and Certified Auditors" under the Law Number 3568, there are some explanations about this standard. While article number 58 talks about the form of the audit report, article number 59 explains types of audit reports and opinion announcements.<sup>28</sup>

### **Evaluation Of Turkish Regulations In Terms Of Insurance Sector**

Real financial position of Turkish insurance companies has to known for both correct insurance preferences of individuals, and for providing investors to invest on insurance companies and also for construting partnerships with foreign insurance companies.<sup>29</sup> At this stage, accuracy of financial statements and the information on the financial statements of insurance companies comes into discussion.<sup>30</sup> Auditing of insurance sector and insurance companies, especially is done for the purpose of protecting the interest of insurees and for providing the positive contribution of insurance funds to the whole economy. With the aim of preventing weaking of financial power of insurance and reinsurance companies in order not to endanger insurees' rights and benefits, some capital adequacy regulations are set in the sector. For this point of view, public auditing assures obedience of insurance companies to the regulations and penalizations of the ones who does not follow the regulations.

Institutions conducting public auditing in Turkey are as follows<sup>31</sup>:

-Undersecretariat of Tresasury (General Directorate of Insurance Sector, Directorate of Insurance Auditing Board).

-Ministry of Finance Auditing Organs (Directorate of Financial Supervision Board, Directorate of Account Experts Board, Directorate of Income Management Board, Directorate of Income Inspectors Board, Directorate of Taxes)

When we look at the regulations on the insurance sector in Turkey, we see that "guide tariff period" and "tariff auditing period" have already ended which was applied until the end of the 1980's. Some certain standards were broght to the sector with regulations of uniform chart of account and one style financial statements and these regulations enabled more accurate comparison of the companies in the sector.

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<sup>28</sup> Dönmez et al., *ibid*, p.68.

<sup>29</sup> [www.finanskulup.org.tr/html/makale/erdem\\_esenkaya.html](http://www.finanskulup.org.tr/html/makale/erdem_esenkaya.html)

<sup>30</sup> Esenkaya,İ.E.,*ibid*.,p.134.

<sup>31</sup> Suna Oksay, Onur Acar, *ibid*, s.127.

Public auditing over insurance and reinsurance companies in Turkey is executed by permission system accompanied by physical inspection system. Routine audits done by Insurance Auditing Board over insurance companies are financial position auditing, guarantee auditing, legislation auditing, damage auditing, and auditing of mathematical provisions.

When it comes to independent auditing in insurance sector, in addition to independent auditing authorities cited before, is performed according to legal regulations published by Undersecretariat of Treasury.

As for setting the legislation of internal auditing in insurance sector, there is not only one authority as it is the case for independent auditing as well. For this reason legislation developed by General Directorate of Insurance Sector under Undersecretariat of Treasury, is used as a guide for internal auditing in insurance sector. However, benefiting from standards published by Turkish Institution of Internal Auditing will help to increase the quality level of internal auditing in insurance sector, although cited standards has no legal sanction.<sup>32</sup>

Some other studies in the sector on the discussed issue are as follows:<sup>33</sup>

- Code on settlement of independent auditing in insurance and reinsurance companies (Official Newspaper of the Government dated 08.09.2003)
- Code on the principles of independent insurance sector auditing (Official Newspaper of the Government dated 08.09.2003)
- Code on the Accounting System of Insurance Companies (Official Newspaper of the Government dated 31.12.2004)
- Circular on Internal Auditing Systems of Insurance and Reinsurance Companies (2004)
- Circular on Data Processing Systems of Insurance and Reinsurance Companies
- Insurance Auditing Board – Auditing Guide (2002)
- Insurance Auditing Board - Electronical Pursuit of Damage Compensation Performance and Agency Systems of Insurance Companies (2004)
- Insurance Auditing Board – Data Backup Systems of Insurance Companies and Disaster Management (2005)

Although important studies were completed on auditing and supervision in the sector, there some other important tasks to be done. The most important part of these tasks

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<sup>32</sup> Özlem Aykaç, Internal Audit and Regulations in Insurance Sectors in During European Union Pre-Accession Period of Turkey, *1. National Insurance Symposium Proceedings*, 24 May 2005, p. 453.

<sup>33</sup> İbrahim Taşbaşı, Audit and Supervision in Insurance Sector, *1. National Insurance Symposium Proceedings*, 24 May 2005, p. 407.

is to bring into force a new consistent and compatible legislation which will have concrete legal sanctions as soon as possible.

Despite of the fact that in EU, a specific directive was accepted regarding reinsurance sector in the year 2006, in Turkey no special act has been accepted for reinsurance transactions.

In the routine report of European Commission, it was cited that the legislative conformity of Turkish insurance sector is limited and that there is not any remarkable improvement for this issue.

Certain subjects to develop and critiques made on the subject listed in the report can be summarized as follows:

- Lack of legislative conformity in general
- Restrictions on the presentation of service in insurance sector
- Lack of complete independence of insurance auditing and supervision from political authorities.
- Restrictions on foreign investment in the sector.
- Reinsurance Monopoly in confliction with EU legislation or protection privileged position of certain companies
- Essentials of rate setting
- Lack of law on insurance auditing which is in conformity with EU legislation

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## **11. Conclusion**

When we examine insurance sector, problems faced and probable problems in the sector are mostly structural problems. In order to find a solution for structural problems modifying legislation is compulsory but this is not sufficient enough. It is also essential to realize the necessary groundwork supporting legal changes. In addition following points need to be achieved urgently:

- Providing economic stability and stable economic growth rate
- A new legal system which will facilitate to solve conflicts in a short time
- Starting to apply internationally accepted standards and adaptation of national standards to global standards.
- Professional ethic, proficiency, continuous education and informing
- Providing auditor independence
- Assuring common trust by increasing transparency

When we look at the EU, the regulations made and precautions taken in the Union are multinational whereas adaptations are national. From this point of view it can be said that Turkey is not on the losing part.

In Turkey, it can be claimed that preparation of standards about independent external auditing by separate laws instead of professional bodies as done in developed countries prevents the quick development of the profession. We believe that it is essential for Turkey to construct a unique professional body to prepare to start to apply nationally accepted auditing standards which is in conformity with EU standards and with international standards with the help of internationally accepted standards.

Turkey, which is in preaccession period to the EU, should make necessary regulations to comply with EU Directives. Furthermore, international accreditation of Turkish auditing professionals is an important task during preaccession period. EU candidacy should be seen as a big opportunity for the recognition and validity of auditing profession in Turkey, as well. In today's market structure in Turkey, biggest market share in auditing profession belongs to foreign companies. During EU negotiations, studies should focus on international accreditation.

When we take into account the long negotiation process of Turkey, to talk about transition period is a very optimistic view. For this reason to realize adaptation step by step and completely without any missing point as soon as possible is very important. This activity is crucial because besides the new regulations to come up, adaptation of the market to these new regulations is another important point.

In the globalization period, Turkish insurance sector should define the problems it faces, detect reasons for the problems and find ways to solve these problems as soon as possible in order to achieve to survive in global competition environment. Necessary precautions should be taken for the aim of increasing Turkish Insurance Sector's competition power during EU preaccession period and sector agent should fully support all the new regulations to be made.

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**Ict And Albanian Public Administration Reform****Abstract**

European integration, along with rapid and sustainable growth, remains overarching goals for Albania. Public administration is a great asset of our country because it is the main pillar of the integration reforms. Therefore, further consolidation of public administration in Albania will be a priority of the government's performance during this governing term. The purpose of this paper is to study different stages of public administration reform in Albania and the use of ICTs during this process. Different international institutions and projects support GoA' efforts to reduce corruption and improve performance in the key areas of public administration. This paper points out some of the problems that state administration struggles in all kind of democracies and several constraints that limit the use of ICT in public sector reforms in Albania.

**Key words:** Public administration reform, ICT, e-service, European integration

**Concepts And Definitions****1.1 What is "public administration"?**

*Public administration* refers to:

1. The *aggregate machinery* (policies, rules, procedures, systems, organizational structures, personnel, etc.) funded by the state budget and in charge

of the management and direction of the affairs of the executive government, and its interaction with other stakeholders in the state, society and external environment.

2. The *management* and implementation of the whole set of government activities dealing with the implementation of laws, regulations and decisions of the government and the management related to the provision of public services.

*Public administration* can be broadly described as the development, implementation and study of branches of government policy. The pursuit of the public good by enhancing civil society, ensuring a well-run, fair, and effective public service are some of the goals of the field.

*Public Administration* is concerned with the management of public programs, which interact with the residents of the community or region. Those who work in it should share a commitment to offer public service. Negative reactions toward the system and its officials will often use the term "bureaucracy" (i.e. government by the desk holders), with connotations of an inflexible and unresponsive hierarchy that is unconcerned or ill-equipped in its fulfillment of public duties.

*Public administration* is carried out by public servants who work in public departments and agencies, at all levels of government, and perform a wide range of tasks. Public administrators collect and analyze data (statistics), monitor budgets, draft legislation, develop policy, and execute legally mandated government activities. Public administrators serve in many roles: ranging from "front-line" positions serving the public (e.g., peace officers, parole officers, border guards); administrators (e.g., auditors); analysts (e.g., policy analysts); and managers and executives of government branches and agencies.

*Public administration* is also an academic field. In comparison with related fields such as political science, public administration is relatively new, having emerged in the 19th century. Multidisciplinary in character, it draws on theories and concepts from political science, economics, sociology, administrative law, management, and a range of related fields. The goals of the field of public administration are related to the democratic values of improving equality, justice, security, efficiency, effectiveness of public services usually in a non-profit, non-taxable venue; business administration, on the other hand, is primarily concerned with taxable profit. For a field built on concepts (accountability, governance, decentralization, clientele), these concepts are often ill-defined and typologies often ignore certain aspects of these concepts (Dubois & Fattore 2009).<sup>1</sup>

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<sup>1</sup> Dubois, Hans F. W.; Fattore, Giovanni (2009). *International Journal of Public Administration*. Volume 32, Issue 8 January 2009 , pages 704 - 727

### 1.1. A historical review of “public administration” concept

Classic scholars including Plato, Aristotle, Vishnu Gupta (Kautilya) and Machiavelli are the basis of subsequent generations of public administration. Until the birth of a national state, the governors principally emphasized moral and political human nature, as well as the on the organization of the governing bodies.

Lorenz von Stein, an 1855 German professor from Vienna, is considered the founder of the science of public administration in many parts of the world. In the time of Von Stein, public administration was considered a form of administrative law, but Von Stein believed this concept too restrictive. Von Stein taught:

- Public administration relies on many pre-established disciplines such as sociology, political science, administrative law and public finance. Further, public administration is an integrating science.
- Public administrators need be concerned with both theory and practice. Practical considerations are at the forefront of the field, but theory is the basis of best practices.
- Public administration is a science because knowledge is generated and evaluated according to the scientific method.

In the United States, Woodrow Wilson is considered the father of public administration. He first formally recognized public administration in an 1887 article entitled "The Study of Administration." The future president wrote that "it is the object of administrative study to discover, first, what government can properly and successfully do, and, secondly, how it can do these proper things with the utmost possible efficiency and at the least possible cost either of money or of energy."<sup>2</sup> Wilson was more influential to the science of public administration than Von Stein, primarily due to the article he wrote in 1887 in which he advocated four concepts:

- Separation of politics and administration
- Comparative analysis of political and private organizations
- Improving efficiency with business-like practices and attitudes toward daily operations
- Improving the effectiveness of public service through management and by training civil servants, merit-based assessment

The separation of politics and administration has been the subject of lasting debate. The separation of politics and administration advocated by Wilson continues to play a significant role in public administration today.

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<sup>2</sup> Wilson, Woodrow, "The Study of Administration," *Political Science Quarterly* 2 (June 1887)

Several theorists bridged the gap between strictly private and public sector management. Luther Gulick negotiated a generic theory of organization. Max Weber exploring sociologist, explored the ideal bureaucracy in *The Protestant Ethic and the Spirit of Capitalism* (Denhardt 2000, 27). He claimed that bureaucracies are organizations that manage resources for citizens (Weber in Shafritz and Ott, 2001, 73).

New public administration theories have emerged over the latter half of the twentieth century. New frameworks increasingly acknowledge that government is seen by citizens through administrators, front line, service deliverers. These are the employees that execute decisions by elected officials. What was called New Public Management was proposed by David Osborne and Ted Gaebler<sup>3</sup>. The new model advocated the use of private sector innovation, resources, and organizational ideas to improve the public sector. During the Clinton Administration (1992-2000), Vice President Al Gore adopted and reformed federal agencies accordingly. New public management there by became prevalent throughout the US bureaucracy.

There has been a rigorous critique and emphasis upon implicit problems with new public management. First, a reliance upon competition and market forces assumes that individual self interest will effectively bring about an equitable social and economic reality for citizens. Henry Mintzberg's protests, "I am not a mere customer of my government, thank you." (cited by Dendhardt 2001, 77). "I expect something more than arm's length trading and something less than the encouragement to consume." (Denhardt 152 citing Mintzberg 1992, 77). "Do we really want our governments...hawking products?" While greater government efficiency, an individual emphasis, and lower cost operations of new public management may be initially attractive, Mintzberg and Denhardt highlight many incompatibilities of such values with justice, equity, security, and other important government values.

Further, encouraging an entrepreneurial spirit in administrators carries the benefits of innovation and productivity. These benefits are balanced by necessary costs. An entrepreneurial attitude tends to be accompanied by a willingness to bend the rules, reduced level of accountability, and a motivation to take risk with public resources are potentially costly (Denhardt 152-153). Despite what might appear to be a destructive criticism of a new model for public service delivery, Denhardt advocates new public service, one that carefully navigates the intricate differences between public and private organizations.

Some critics argue that the New Public Management concept of Americans as "customers" rather than "citizens" is an unacceptable abuse. That is, customers are a means to an end, profit, rather than part of the policy making process. Citizens are in fact the proprietors of government (the owners), opposed to merely the customers of

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<sup>3</sup> Public Administration Review, Vol. 56, No. 3 (May – Jun., 1996), pp. 247–255

a business (the patrons). In New Public Management, people are viewed as economic units not democratic participants. Nevertheless, the model is still widely accepted at all levels of government.

In the late 1990s, Janet and Robert Denhardt proposed a new public service model<sup>4</sup>. This model's chief contribution is a focus on Americans as "citizens" rather than "customers". Accordingly, the citizen is expected to participate in government and take an active role throughout the policy process. No longer are the proprietors considered an end to a mean. While this remains feasible at the federal, state & local levels, where the concept of citizenship is commonly wedded, the emergence of 'transnational administration' with the growing number of international organizations and 'transnational executive networks' complicates the prospects for citizen engagement.<sup>5</sup>

The critics of NPM claim that a successor to NPM is digital era governance, focusing on themes of reintegrating government responsibilities, needs-based holism (executing duties in cursive ways), and digitalization (exploiting the transformational capabilities of modern IT and digital storage).

## 1.2. Why is public administration reform – PAR so important?

State administration in all kind of democracies struggles with the same kind of problems: how to ensure an efficient, effective, legitimate, responsible, accountable, professional and fair public service. From our state administration we normally expect to be all of this or maybe even more, but at the same time we could be very unhappy if we have to admit trade off. The fact is that state administration constantly grows and needs more and higher means for its working. This is especially characteristic and problematic for the state administration in which the effectiveness of its working could not be directly measured in majority cases.

Public Administration Reform (PAR) can be very comprehensive and include process changes in areas such as organizational structures, decentralization, personnel management, public finance, results-based management, regulatory reforms etc. It can also refer to targeted reforms such as the revision of the civil service statute.

Increasing concern for PAR in developing countries derives from three main intellectual threads.

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<sup>4</sup> Denhardt , Robert B. and Janet Vinzant Denhardt (2000). "The New Public Service: Serving Rather than Steering." *Public Administration Review* 60(6)

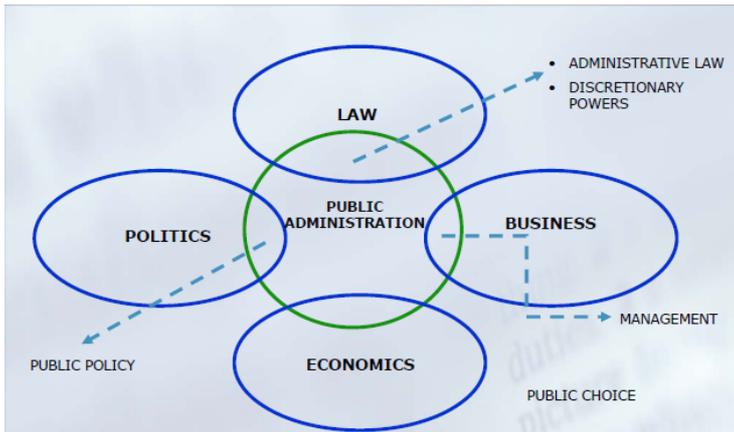
<sup>5</sup> Diane Stone, (2008) 'Global Public Policy, Transnational Policy Communities and their Networks,' *Journal of Policy Sciences*.

- A. New public management (NPM)** - a number of Anglo-Saxon countries (the UK, New Zealand, Australia, the United States and Canada) starting in the early 1980s, began implementing wide ranging reform programs that provided both the model and the experience that could be applied in developing countries. NPM seeks to roll back the role of the state by applying private sector management principles to government organizations. The enthusiastic dissemination of this model to developing countries was seen by some as a new attempt to colonize development administration with a standardized, western approach to PAR. Nevertheless, the language of NPM, and the principles of client focus, decentralization, the separation of policy making from implementation, and the use of private partners for service delivery continues to inform current thinking about PAR.
- B. Structural adjustment reforms** - in the mid 1980s, efforts at reforming the public administration in developing countries, supported by the IFIs, focused on reducing overall costs of the government, mainly through privatization of state owned enterprises and reduction of the wage bill to bring government spending down to sustainable levels and free resources for other uses more beneficial to the overall economy. However, most of the public sector reforms supported through the SAPs have met with considerable resistance (not least because in many countries the public sector is the principal source of formal employment), and their implementation has rarely been successful
- C. Transition from central planning to market economy, and from single party systems to multi-party democracies** - The fall of the Soviet Union has persuaded governments of previously socialist countries to transform their economies to adhere more to market principles often linked to political reforms. In the 1990s, a large number of economies, especially in Central and Eastern Europe (but also in countries in South-East Asia) began this transition. This implied the reorientation of the system of public administration. This is also the case of Albania.

### 1.3. Recent trends in Public Administration Reform

“A useful working definition of Administrative Reform is the *induced, permanent improvement in administration*”. (Wallis, 1993)

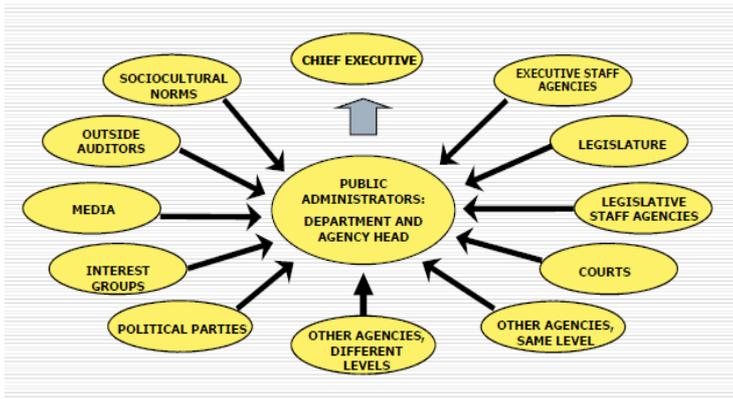
### Interdisciplinary Interface of Public Administration



In spite of the influential neo-liberal arguments of the 1980s and 1990s which sought to roll back the state, recent surveys find that citizens want state institutions that are democratic, efficient in the use of public resources, effective in delivering public goods, but also strong and capable of standing up to powerful global forces. People want the state and its public administration to act as a social and economic promoter, capable of ensuring equitable distribution of opportunities, sustainable management of resources and equitable access to opportunities (political, economic, social and cultural). An established public administration has been, arguably, far more vital to economic development in historical fact than either free elections or parliaments. In the LDCs and post conflict countries in particular, underdeveloped private sectors require the public administration to play a major role in the delivery of services and the provision of much needed economic infrastructure. But, most important of all, an established non-partisan civil service is vital to democracy as it makes it possible to have a peaceful and orderly political succession, and thus genuine pluralism.

In recent years public sector management is increasingly seen as more than just modernizing state institutions and reducing civil service costs. It is also about fostering dynamic partnerships with the civil society and the private sector, to improve the quality of service delivery, enhance social responsibilities and ensure the broad participation of citizens in decision-making and feedback on public service performance.

### **Public Administration in a Democracy**



(Rosenbloom, Kravchuck, 2005)

Above figure presents a conceptual framework that sees public administration taking the central role or stage in a broader political system (the conversion process in the systems model).

- the model emphasizes the interrelated nature of the parts and how change in an external environment (cultural, economic, political, social) causes change in the structures and internal processes of public administration.
- these changes, in turn, influence the outputs of the bureaucracy; that is, what goods, services, policy programs, rules, and regulations are implemented by bureaucracy.

As in any system, a feedback loop develops in which the outputs affect the environment, which causes further change and often new demands from the environment to continue, increase or decrease, modify, or occasionally even cease a public policy or program.

## 1. Use Of Ict In Public Administration

### 2.1. e-Public Administration next big challenge of eEurope

The European governments have embarked on important reforms for their public administrations. Public Administration Reforms (PAR) contributes to a sustainable development, with particular reference to countries in transition. Therefore, socio-economic development, strategic planning, sound public finance and external assistance management, anti-corruption, powered by an increased use of Information and Communication Technology (ICT) for development, represent major national

priorities. ICT has shown a lot of promise in delivering many public administration reforms. Through its use, it changes the way Public Administrations performs its functions, helps reduce operational costs and at the same time increase efficiency in the delivery of government services. The primary driving force behind the creation and development of electronic public administration was to increase the efficiency of institutional operation first and consequently that of governance. In recent years, e-administration, which mainly served the purpose of efficiency, became an economic and socio-political tool, which enabled the creation of the service provider state and, at the same time, outlined the system of requirements of the development of modern government operations for EU Member States.

New applications for increasing the efficiency of the Public Administration are:

- Development of Government-to-Government (G2G) applications
- e-Government system across all governmental institutions
- ICTs supporting public administration re-engineering

Information and Communication Technologies (ICT) provides increasingly powerful process tools that can be deployed to address traditional development problems in innovative ways. ICT does not consist solely of electronic- and micro-chip-based e-governance solutions, but these predominate in most discussions of ICT in the context of PAR. Such information technologies as Wide Area Networks and the Internet, can transform government interactions with citizens, businesses, and other parts of government. However, the focus needs to be less on the technology *per se* and more on the transformation and reorganization of functions and interactions that it permits. By locating service centers closer to clients, customers and partners, e-governance can facilitate better, user-friendly service delivery, improved and economical links with business, and more efficient and rigorous management of government business. Innovative examples, even in otherwise technologically under-developed areas, have proven successful. In addition to enhancing relations with the public, e-government can also improve the internal working of an administration. Introducing Management Information Systems within government departments, for example, can result in improved personnel management, cost reductions and improvements in service delivery and government procurement, better management of technical assistance funds and projects, and increased revenue collection. However, e-government in so far as it is conceived of largely in terms of IT systems, tools and infrastructure does not automatically result in the streamlining and re-organization of government functions and transformation of roles and responsibilities which need to be part of a larger transformation process.

The EU countries' e-government work, which they have started in 2001, has made as height advancement as nearly half of all accentuated government services are fully online by today. Besides increasing digitalization, the current task for the coming years is to develop the skills of citizens and enterprises in applying e-administration building on the available technological foundation, as well as to increase e-administration service efficiency and to establish pan-European operation. The success of online administration depends on the extent of that citizens are able and wish to take advantage of the opportunities afforded by electronic administration. Thus, it is especially important that a user-friendly service provision portfolio be created: one which takes client needs into account and goes beyond traditional administration. In order to integrate users, following unified strategic principles, as of 2007 Member States have set a higher online sophistication level of operation, which constitutes a fundamentally new approach to public administration operation with a view to the fact that, in accordance with this approach, services have to be provided to citizens in a pro-active fashion. The foundation and success measurement of the level of development of implementation are therefore familiarity with the citizen needs, and, from the point of view of the players of public administration, the application of a pro-active service provision approach based on ICT tools. Even though the application of technological developments and online services do significantly improve the quality of service provided to clients, they solely do not ensure client-oriented service and do not mean improvement in efficiency. In the case of client-oriented service, the realization of certain services often require the cooperation of several institutions. It is often the case in Albania - even in places where client relations are adequately digitalized - that behind the modern, digitalized front office systems there are outdated, institutional systems that do not cooperate with one another. A solution to such problems is to update service processes, to create the interoperability of back-office systems, and to standardize related data and technology. The system of shared, integrated services, situated above sectorized subsystems, which covers the entire public administration domain and aims to increase efficiency on a national level. The unified infrastructure of customer services, human resource management, finances and electronic administration and document management, as well as the further development of e-administration services based on a unified framework, are not just crucial in terms of aspects of national efficiency, but are also basic requirements of the establishment of the pan-European level of service.

## 2.2 e-Public Administration Reform' stages in Albania

European and Euro-Atlantic integration, along with rapid and sustainable growth, remain overarching goals for Albania. That is why a main reason for the extra building and adjustment of the Albanian state administration arises from the need to join the European Union. If we want to be adopted into this community as a broad system, then it is absolutely clear that we have to understand and adjust our administration systems to the size that they would be able to be included into the broader administration integration's. We do not have any other choices at this point while the inappropriate results and the under adaptability on this field mean also the incapability to join to this community. We should conclude that also Albania is forced to execute the modernization of its state administration with the opening into that world and with the inclusion to the west European integration, with the economic globalization and with the growth of the international competition and with the internal pressure elements as the demands for more qualitative services. Successful structural and functional restructuring of Albanian state administration would directly contribute to its greater effectiveness that is also the main fundamental goal of Albanian process of the modernization of the state administration.

Albania is trying on the IT infrastructure required to achieve this end. Information and communication technologies (ICT) are necessary, but not the only sufficient condition. ICT can play a key role in facilitating access to the public information and the delivery of public services. The potential of ICT is not only to improve the efficiency of public administrations' internal operations but also to support the interaction between public administration, citizens and business sector. Electronic government will bring administration closer to citizens and businesses. Other important elements of e-government are electronic democracy, electronic accessibility of government information and improvement of informational management.

In April 2008, Albania was officially invited to join NATO and became a full-fledged member in April 2009. The Stabilization and Association Agreement (SAA), signed with the EU in June 2006, was ratified by all EU member states in January 2009 and entered into force in April 2009.

ICTs for Government & e-government have a direct impact in the future of the country. They will help local and central governance, by bringing more transparency in governance, responsibility and effectiveness. Moreover, they will support the participation of citizens to increase their role in decision making processes. The increase of governance level and the improvement of governmental services will create a strong foundation for a good cooperation among governmental institutions and between governmental institutions and citizens.

In September 2006, the Government of Albania entered into a two-year \$13.85 million Partnership with the United States Millennium Challenge Corporation and USAID. Millennium Challenge Albania Threshold Agreement project, administered by USAID, aims to reduce corruption and improve performance in three key areas of public administration:

- 1. Tax administration**
- 2. Public procurement**
- 3. Business registration.**

The project addresses the lack of transparency and public scrutiny that have defined many economic activities in Albania in a two-pronged approach that involves process reform through legislative enhancements and IT solutions, as well as country-wide public education campaign, and promotion of civil society watchdog activities. Progress in the following three components of the Millennium Challenge project will advance Albania in achieving the Millennium Development Goals and help the country to qualify for Millennium Challenge Corporation compact status.

- 1. Tax Administration:** Pilot reform efforts in the Tirana Tax Office and Large Taxpayers Office are aimed at upgrading tax collection and customer service, improving transparency and effectiveness, and better informing taxpayers of their rights and responsibilities.

The Millennium Challenge Albania project is working with GoA counterparts to enhance and reform the tax administration both in terms of its organizational structure and the way it operates. The cornerstone of this effort is the drafting of a new law on tax procedures. This draft law entails a substantial overhaul of the existing legislation to lead the way to a significant reorganization of the tax administration to promote efficiency, transparency and service to taxpayers, and fight corruption. The ultimate goal of the reform is to establish through rules and procedures the fundamental mission of the General Department of Taxation (GDT): to collect the *appropriate* amount of tax from all taxpayers.

On June 25, 2008 the tax procedure law, drafted with support from the Project, entered into force. It was approved by the Parliament on May 19, 2008. This process was preceded by an extensive precedent-setting public consultation period, which entailed four roundtables with more than 180 representatives of Albania's taxpayers, lawyers and accountants, organized by the Ministry of Finance with support for the Millennium Challenge Albania project during September and October 2008. The law addresses several concerns raised during these extensive discussions with the

business community and interest groups, as well incorporates recommendations by the IMF and EU harmonization experts.

Some of the major reform initiatives included in the tax procedure law include:

1. A clear and precise functional structure for the General Department of Taxation to allow for robust work processes, evaluations and reviews. The reorganization steers away from the current tax police and investigative model toward one based on taxpayer service and self-assessment.
2. A chapter on Taxpayer Rights, as part of a major emphasis on taxpayer services in guaranteeing procedural protections, tax publications, and tax education.
3. The requirement for GDT to establish an integrated and interconnected tax database system that records liabilities, broken down by tax, interest and penalties, as well as by payments, on a taxpayer by taxpayer basis. The law stipulates that the individual taxpayer ledger data must be accessible to the taxpayer (in a manner similar to the way a person can access his own bank account), while at the same time it specifies safeguards for data accuracy, confidentiality, and database security.
4. Provision of e-tax services, including e-filing and checking tax account statement online, for all taxpayers, as part of e-government practices that reduce taxpayer burden, minimize contact with tax officials and help combat corruption.
5. Elimination of tax police and moving of many investigative activities to modern audit and collection practices, a fundamental shift in the current way of doing business, away from heavy reliance on tax police and investigative tactics, into a professional services administration.
6. The use of risk assessment analysis for taxpayer auditing, which is the most generally accepted practice both in the European Union and internationally, a vast improvement over current legal practices whereby GDT audits 100% of returns, a method that is both inefficient and unlikely to prevent corruption.
7. Introduction of modern collection procedures to deter tax avoidance and reduce the number of tax disputes. Under this law, the tax administration will have the ability to collect the necessary information required to determine whether taxes are owed, apply sophisticated computer programs to detect likely areas of non-compliance, and employ new enforced collection techniques for those who avoid or evade their obligations
8. A fundamental reform of the current appeal system to reduce the cost of resolving tax disputes and enhance taxpayer protections. As a result of these reforms, there will be only two levels of appeal on assessments: one at the administrative level, and the second at the judicial level.

9. An overhaul of the penalty regime consolidating all penalties now found in various substantive laws (other than the customs law) and completely revising the existing penalty regime to bring Albania in line with best practices in the EU and OECD countries.

The new system installed initially as a pilot in the Large Taxpayer Office and the Tirana Tax Office, provides:

- Enhancements of the GDT web site offering services such as download of forms and instructions for taxpayer services;
- e-Filing option for the Value Added Tax returns, the individual income tax, the estimated monthly profit tax and the annual returns, as well as social security and health contributions;
- e-Payment of taxes;
- A case tracking system to allow GDT action management e-tax serves and empowers taxpayers as it allows them to file and pay taxes online, avoiding on a large scale the direct contact with tax officials. The system provides taxpayers with new tools to find out their tax status, and what their rights are as regards taxes. The expected results include streamlined record-keeping and operations, as well as increased taxpayers' awareness and compliance.

2. **Public Procurement:** Activities under this component strive to improve the capacity of the Public Procurement Agency to conduct transparent public procurements, promote active private sector engagement in the process, and increase awareness of the new public procurement legal framework.

The regulatory reform in public procurement was initiated with the introduction of the new public procurement law no. 9643, dated 20.11.2006, which entered in effect in January 1, 2007, and of the new Public Procurements Rules approved by the Council of Minister's decision no.1, dated 10.01.2007. With the amendment of the law in December 2007, the Parliament approved the introduction of framework contracts, as an international best practice to be used for a more efficient purchase of electric power in Albania. With the support of the Millennium Challenge Albania project, PPA has developed the standard tender documents to be used by all contracting authorities. The project also has supported PPA in developing a set of regulations to enable the application of the e-procurement system for the first time in Albania, laid out in the Council of Ministers' Decision no. 659, dated 3.10.2007,

The e-procurement system, built by the Millennium Challenge Albania project, is modeled on EU guidelines, standards, and functional requirements, bringing Albania firmly in line with the goals of the EU 2010 e-Government action, and even placing it ahead of some EU member states in this important area.

- Public procurement through the use of information technology is *easier*, as procedures are sped up and optimized.
- It is *cheaper* as it reduces costs by removing unnecessary paperwork on the part of both Contracting Authorities and Economic Operators, and encouraging competition.
- It is *more transparent* as a result of increased information flow and less human intervention.
- It is also *more accountable* given the tools to track activity and monitor compliance with procurement processes.
- E-procurement, thus, results overall in a "*more efficient and effective use of taxpayers' money*".

The e-procurement system in Albania uses the web-based services approach by means of which all public procurement tender notices are uploaded into the e-procurement website, and economic operators are able to download tender documents free of charge as soon as they are posted, as well as submit their bids online. As part of the e-government services put in place with the support of the Millennium Challenge Albania project, e-procurement is closely interconnected with the National Registration Center and the General Directorate of Taxation IT systems.

**3. Business Registration:** The project is committed to assisting the Government of Albania to implement the new Law on the National Registration Center (NRC) and new business registration procedures which significantly reduce entrepreneurs' time and costs in registering a new business or requiring other business registration services, as well as provide public access to an Electronic Commercial Registry.

One of the major regulatory reform initiatives undertaken by the Ministry of Economy, Trade and Energy (METE), with the support of the Millennium Challenge Albania project, is the reform of business registration procedures, which reduces to one day the time required to register new businesses, and combines all registration steps-including tax registration-in a single procedure, thus combating corruption and increasing efficiency. The new Law on business registration reform was approved by the Government on 14 March 2007, and was enacted by the Parliament on 3 May 2007. In an effort to further facilitate access to business registration services for the business community, in January 2008, the Council of Ministers approved an amendment of the law to enable chambers of commerce to set up NRC service windows. The parliamentary vote on this amendment is expected soon. This business registration reform is a significant step in the overall Government program of

improving the business climate in Albania. It provides several important benefits for Albanian businesses as well as foreign investors:

- Simpler, faster and less costly process of registering a new business
- Simultaneous registration with tax authorities (national and municipal), social and health insurance, as well as the labor inspectorate, using a single application and registration procedure.
- Application windows located throughout Albania, making it possible for a business to do all registration procedures locally.
- Free public access to Commercial Registry information via internet.

The one-stop-shop process for business registration established by the Millennium Challenge Albania project through the opening of the National Registration Center (NRC) is based on IT solutions that ensure:

- an electronic registration process,
- public access to the Electronic Commercial Registry, as well as
- interconnectivity with the e-tax system for tax registration, as well as the e-procurement system to verify the registration status of economic operators.



*E-registration - faster, easier and less costly business registration procedures in Albania*

The e-register system offers all the necessary security safeguards and protection of information, including complete audit trails. It allows businesses to start the registration processes online, and provides the inquirer (who may be local businesses, foreign investors, government agencies and the general public) with the opportunity to search the Commercial Registry for all publicly-available information about any registered business

The second stage of the MCC Albania Threshold Program is a two-year, \$15.7 million agreement between Albania and the United States, funded by the Millennium Challenge Corporation (MCC), and administered by USAID, which aims to strengthen the rule of law, reduce corruption and increase public oversight, thereby improving the business environment in Albania through IT solutions and technical assistance. The MCC Albania Threshold Program II builds upon the successes achieved during stage I of the MCC Albania Threshold Program, which included the establishment of the National Registration Center and the Procurement Advocate office, the enactment of the new tax procedure law, as well as the introduction of three major e-government services: e-registration, e-procurement, and e-filing.

The MCC Albania Threshold Program II supports reforms in the following main areas:

1. **Administrative Court System:** The program works to increase judicial capacity, reduce opportunities for corruption, and build investor confidence by supporting the planned administrative court system. Key initiatives include providing technical assistance, training, IT systems, and equipment to establish a Tirana-based administrative court.
2. **Tax Administration Reform:** The program continues work to modernize tax administration based on the 2008 tax procedures law. Key initiatives include expanding e-filing and taxpayer services, establishing a Criminal Investigative Unit, strengthening the tax audit function, and establishing the Taxpayers Consultative Council.
3. **Business Licensing Reform:** Following the successful model of the National Registration Center, the program supported the establishment and helps the operation of a 'one stop shop' National Licensing Center that allows businesses to submit and track standardized business license applications electronically.
4. **Territorial Planning:** Based on the new Law on Territorial Planning approved in April 2009, the program works to establish a National Planning Registry that will streamline the building planning process and reduce opportunities for corruption in building planning and permitting process.
5. **Private Sector and Civil Society Engagement:** The program supports nonprofit and business associations to contribute in achieving MCCA2 goals by assisting with policy changes, monitoring program-supported reforms, and advocating for improved anti-corruption measures. Efforts continue to educate businesses and the public regarding opportunities and services developed with the program's support.
6. **Anti-corruption Investigative Efforts:** The program helps establish Special Investigative Units in prosecutor's offices in districts outside Tirana to

strengthen efforts to combat corruption-related and economic crimes. This program component is implemented with assistance by the U.S. Department of Justice.

## **Conclusion**

Starting in 2002, UNDP Albania has offered a considerable assistance to the Government of Albania in implementing different ICT projects and preparing the necessary policy framework for supporting and sustaining the ICT projects. The Government constantly has expressed its commitment in partnering for these projects and there has been a constant communication and cooperation between the project and the government. Currently, the Government Electronic Network (GovNet) and E-Services Projects have been completed. GovNet provided a high-speed infrastructure for exchange of information and data among the institutions of central government, whereas the e-services Project assisted the Government of Albania in surveying, designing and deploying a set of pilot ICT-driven information services and offered capacity building for IT staff of line-ministries.

On the other side, the network established and other services applied on top of it require from the Government of Albania a long-term strategy in order to sustain it. The Government should designate adequate financial and human resources in order to address the issues formulated in the National ICT Strategy and more specifically the ones related to network maintenance and operation. Ensuring funding and controlling disbursement of financial resources and ensuring a correct awareness of the costs associated to ICT services will be an immediate need the Government has to face. In addition, the Government has to appoint a special ICT structure that will direct, manage, coordinate and supervise all the ICT projects within the Government and at the same time will have a central role in designing and planning for the network. Specialized IT experts will have to be hired and motivated for working directly in maintaining and operating the network, the e-mail system and many other applications that are and will be implemented on top of the network. The IT staff that has been trained during the implementation of the project should remain at work and given more responsibilities in running the network.

Also, the Government needs to adapt and utilize a generally applicable and accepted standard for good IT security and control practices to support management's needs in determining and monitoring the appropriate level of IT security and control for their organizations, otherwise serious risks will soon appear from improper use of IT equipments and systems. These standards will ensure that users are making effective use of technology and are aware of the risks and responsibilities involved in

using the ICT tools. Government has to recognize that the issues exist and need to be addressed

There are several constraints that limit the use of ICT in public sector reforms in Albania: lack of political will to change, lack of financial resources, lack of government officials' ICT skills, lack of buy-in from the general public, and lack of support from the private sector. To overcome these difficulties, it would be very important to learn from the experiences of other countries in the region.

Albania, then, has much work to do to modernize its public administration. At the same time, there are unequivocal examples demonstrating that such a modernization is not just feasible, but can be carried out effectively where there is sufficient determination on the part of those involved immediately.

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## **Power of the Commission and the Supranationalist Dimension of the Eu**

### **Abstract**

In this work, the power and independence of the Commission are investigated from three perspectives which are the reflection of the supranational dimension of the EU. The first is theoretical perspective that includes two main approaches. The second is the historical (and functional) perspective, and the impact of the member states on the Commission's officials is the third perspective.

By looking from the theoretical perspective, especially through intergovernmentalist approach, it can be seen that, the power of the European Commission has and must have an insignificant role. The member states know that, if they want to obtain integration of the European Union in all fields they will need a powerful, independent and supranational Commission. However, the historical and functional perspective demonstrates that, due to their national interests, the member states are not eager to strengthen the Commission. From the third perspective all the indications show that member states' interests are more important than the European Union's interests according to commissioners.

**Key words:** European Commission, Supranationalism, EU, independent institution

### **1. Introduction**

The structure of the European Union (EU) resembles a familiar national system having a council, a parliament and a court of justice, which are analogues to a national government's executive, legislative and judiciary systems. On the other hand, the other institution of the EU is dissimilar to a national governmental system like the European Commission. The Commission epitomizes supranationalism that lies at the centre of the EU system which is synonymous with the EU itself.<sup>1</sup> In this context, one of the most important debates in European Union is about the effectiveness of the European Commission. In addition, it is also related to the competition of main integration theories: intergovernmentalism and supranationalism (neofunctionalism).

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<sup>1</sup> Desmond Dinan, *Ever Closer Union: An Introduction To European Union*, 2nd Ed., London: Lynne Rienner Publishers, 1999, p. 205.

The idea whether the European Commission is powerful as an independent agent from the member states or not, can be examined from three different perspectives.

The first is a theoretical perspective, which holds that perceptions of two theories differ from each other about the relative position of the Commission. One is Intergovernmentalists that perceive the Commission as relatively insignificant and the other that contradicts to the former one, is the supranationalists, which maintain that the Commission has an independent impact on policy outcomes.<sup>2</sup>

The second perspective is the historical and functional perspective and according to this perspective, the European Commission is an interesting institution due to its exceptional features compared to the other international organisations. This exceptionality was obvious that the Treaty of European Coal and Steel Community (ECSC) had mentioned the Commission (the High Authority) as an independent and supranational decision-making organ. However, the High Authority model has expired on account of both some problems which had been occurred in the beginning of the ECSC Treaty and the failure of the European Defence Corporation EDC in 1954. The High Authority, which had blatantly supranational elements found within it<sup>3</sup>, was excluded from the EEC (European Economic Community) and European Atomic Energy Community (Euratom) Treaties. Its name and functions both were changed.

Nevertheless, in the period of European integration, the Commission has led very important advances and in the last decade, member states have given more importance to the Commission.

The impact of the member states on the Commission's officials is the third perspective. In respect of the attitudes of the Commissioners, policy-making mechanism and the independent structure of the Commission can be affected by the member states.

This work examines the influence of the relations between the member states and the Commission to the Commission's position. From the aforementioned three perspectives, it is to be investigated whether the Commission is only as powerful as the member states allow it to be.

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<sup>2</sup> Morten Egeberg, "The European Commission" in *European Union Politics*, (Edited by Michele Cini), Oxford: Oxford University Press, 2003, pp. 131-147.

<sup>3</sup> Michelle Cini, *The European Commission: Leadership, Organisation and Culture in the EU Administration*, Manchester: Manchester University Press, 1996, p. 36.

## 1. Theoretical Perspective

Theoretical infrastructure of the European integration has two different approaches that the supranationalists want to achieve a completely integrated Europe in all fields such as a state (a new federal state), and on the other side, intergovernmentalists who are defending the national states' interests and they believe that, national governments are the real driving forces in the European project.

Diez and Wiener suggest that the development of integration theory can be divided into three phases.<sup>4</sup> These three phases identified as explanatory, analytical and constructive, respectively, which are meant to identify the emergence, development and, from time to time, dominance of particular theoretical tendencies.

By the first phase roughly lasting from the signing of the Treaty of Rome until the early 1980s, the European integration theory<sup>5</sup> begins proper. In this period two theoretical approaches came to dominate the debate. Both contending theories based on rational actor assumptions, while locating the push and pull for the integration process on different levels. On one side, neofunctionalists<sup>6</sup> with their broad definition of integration<sup>7</sup>, and on the opposite side intergovernmentalists who explained supranational institution-building as the result of rational decision-making within a historical context that was conducive to strong and clearly defined interests of the nation state governments involved.<sup>8</sup>

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<sup>4</sup> Antje Wiener and Thomas Diez (Ed.), 'Introducing the Mosaic of Integration', European Integration Theory, Oxford, New York: Oxford University Press, 2005, pp. 1-21.

<sup>5</sup> Ben Rosamond, *Theories of European Integration*, Basingstoke: Macmillan, 2000.

<sup>6</sup> Neofunctionalists built on functionalism and kept part of its normative agenda, but they also introduced both a stronger emphasis on actors with an interest in, and therefore promoting further integration –primarily the Commission- and an explicit social scientific interest in creating a general theory of regional integration that was applicable beyond the singular case of Europe. See Ernst B. Haas, "International Integration: The European and the Universal Process", *International Organization*, 15(3), 1961, pp. 366-392; *The Uniting of Europe: Political, Social, and Economic Forces 1950-1957*, Stanford: Stanford University Press, 1967.

<sup>7</sup> "Neofunctionalists explained the move away from the anarchic state system and towards supranational institution-building by depicting particular societal and market patterns as pushing for elite behaviour towards common market building". Antje Wiener and Thomas Diez (Eds.), 'Introducing the Mosaic of Integration', European Integration Theory, p. 8.

<sup>8</sup> Antje Wiener and Thomas Diez (Eds.), 'Introducing the Mosaic of Integration', European Integration Theory, p. 8.

In the second phase, comparative and institutionalist approaches came to the foreground of integration theory, following questions of what kind of polity the EU really is and how it operates.<sup>9</sup>

In the third phase the influence of the International Relations Theory has enlarged on the integration theory. International Relations Theory was characterised by the rise of a variety of critical and constructivist approaches. This phase focused on substantial questions about constructing and limiting European integration.<sup>10</sup>

Phase	When?	Main Themes
Explaining integration	1960s onwards	How can integration outcomes be explained? Why does European integration take place?
Analysing governance	1980s onwards	What kind of political system is the EU? How can the political processes within the EU be described? How does the EU's regulatory policy work?
Constructing the EU	1990s onwards	How and with which social and political consequences does integration develop? How are integration and governance conceptualized? How should they be?

<sup>9</sup> A key process analysed was the "Europeanization" of governance rules, institutions, and practices across the EU. Antje Wiener and Thomas Diez (Eds.), 'Introducing the Mosaic of Integration', *European Integration Theory*, p. 9; M. G. Cowles, J. Caporaso, T. Risse (Eds.), *Transforming Europe: Europeanization and Domestic Change*, Ithaca, NY: Cornell University Press, 2001.

<sup>10</sup> It is in answering these questions that the critical and constructivist approaches in International Relations Theory were taken up. See Emmanuel Adler, "Constructivism in International Relations" in W. Carlianes, T. Risse and B. A. Simmons (Eds.), *Handbook of International Relations*, London: Sage, 2002; Alexander Wendt, *Social Theory of International Politics*, Cambridge: Cambridge University Press, 1999; Thomas Christiansen, Knud Erik Jorgensen and Antje Wiener, "The Social Construction of Europe", *Journal of European Public Policy*, Vol. 6, No. 4, 1999, pp. 528-544.

Since the beginning of the European integration, the efforts for formulating a theoretical account have occurred. For instance, Ernst B. Haas explained the initiation of the six West European countries, a new form of supranational co-operation after the Second World War by neo-functional theory.<sup>11</sup> Neo-functionalism with the core concept of *spill over* was mainly concerned with the process of integration more than end-goals, that is, how an integrated Europe would look.<sup>12</sup>

On a number of occasions, the supranationalists argue that the Commission has even had a profound effect on the outcomes of “history-shaping” and frame-setting IGCs (Inter Governmental Conferences) and European Council meetings. In addition, the institutionalists claim that treaty-based frameworks, which are the main focus of intergovernmentalists, need to be translated into practical politics through day-to-day policy making, and the Commission is one of the key actors, when it comes to this sort of crucial follow-up work.<sup>13</sup>

After the mid-1960s, in the face of supranationalists, intergovernmentalism has been situated at the heart of the European integration theory.<sup>14</sup> Intergovernmentalism is drawn from classical theories of International Relations, most notably from realism or neo-realism. It sees and analyses integration as a *zero-sum game* and as an interstate bargaining.

By the 1990s, the debate on the transfer of sovereignty from the member states to Brussels replaced by a new divide between rationalist approaches, such as liberal intergovernmentalism and rational choice institutionalism, and constructivist approaches, which emphasized the potentially transformative potential of the EU.<sup>15</sup> Liberal intergovernmentalism -whose framework of analysis includes domestic and international interactions<sup>16</sup>- is based on assumptions drawn from the *rational actor*

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<sup>11</sup> Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces 1950-1957*.

<sup>12</sup> Mark A. Pollack, “Theorizing The European Union: International Organization, Domestic Polity, or Experiment in New Governance?”, *Annual Review of Political Science*, 8, 2005, pp. 357-398; Carsten Strøby Jensen, “Neo-functionalism”, in *European Union Politics*, (Edited by Michele Cini), Oxford: Oxford University Press, 2003, pp. 80-92.

<sup>13</sup> Morten Egeberg, “The European Commission” in *European Union Politics*, p. 136.

<sup>14</sup> Michele Cini, “Intergovernmentalism”, in *European Union Politics*, (Edited by Michele Cini), Oxford: Oxford University Press, 2003, p. 93.

<sup>15</sup> Mark A. Pollack, “Theorizing The European Union: International Organization, Domestic Polity, or Experiment in New Governance?”, *Annual Review of Political Science*.

<sup>16</sup> Robert D. Putnam, “Diplomacy and Domestic Politics: The Logic of Two-Level Games”, *International Organization*, 42(3), 1988, pp. 427-460; Andrew Moravcsik, “Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach”, *Journal of Common Market Studies*, 31(4), 1993, pp. 473-524; “Liberal Intergovernmentalism and Integration: A Rejoinder”, *Journal of Common Market Studies*, 33(4), 1995, pp. 611-628; The

*model*, that it is influenced by the supposition that states behave rationally. This “means that the actions of states are assumed to be based on utilizing what are judged to be the most appropriate means of achieving their goals”.<sup>17</sup>

According to the intergovernmentalists (especially the liberal intergovernmentalists), the Commission has an important role to play in first pillar policies. Nevertheless, the pretension of liberal intergovernmentalists is the authority it exercises as an agenda setter and overseer of implementation at the national level is merely a derived and delegated authority.<sup>18</sup> “The Commission may facilitate intergovernmental co-operation, but it has no real power basis of its own, as the Commission’s powers are decided upon and framed by the member states within treaty negotiations”.<sup>19</sup>

## 2. The Evolution of the Commission and its Functions

The first European Commission was set up in 1952 with the creation of the ECSC; under the name of High Authority which was a new type of institution responsible for both legislation and execution. Although these were not very fertile in this short period of ECSC and High Authority but it was the basis of the Commission. It resembled the French administration in terms of its structure and technocratic character<sup>20</sup>, and by the establishment of the European Commission in 1958, the functions of High Authority, the executive organ of the ECSC, was changed.

Walter Hallstein was the first president of the Commission (1958-1967) who mainly shaped the existence of the Commission and fulfilled the setting up of Commission departments and the fortification of staff quickly, in order that policy-making could get under way.<sup>21</sup> In the period of 1958-62 the Commission was more concerned with promoting the Community concept than with seeking an unambiguous institutional identity for itself. “It did assert the political nature of its own role and it did try to increase its powers, but it did so within the basis institutional

Choice for Europe: Social Purpose and State Power from Messina to Maastricht, London: UCL Press, 1999; Ben Rosamond, *Theories of European Integration*.

<sup>17</sup> Neill Nugent, “The leadership capacity of the European Commission”, *Journal of European Public Policy*, 2(4), 1995, p. 609.

<sup>18</sup> Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*.

<sup>19</sup> Morten Egeberg, “The European Commission” in *European Union Politics*, p. 135.

<sup>20</sup> S. Mazey, “Conception and Evolution of the High Authority’s Administrative Services (1952-1956): From Supranational Principles to Multinational Practices” in E. Volkmar Heyen (Ed.), *Yearbook of European Administrative History* 4, Early European Community Administration, Baden Baden: Nomos, 1992, p. 43.

<sup>21</sup> Michelle Cini, *The European Commission: Leadership, Organisation and Culture in the EU Administration*, p. 37.

framework laid down by the treaty and failed to propose measures designed to change the institutional system to its own advantage".<sup>22</sup> Although, in the first few years of the Community's existence, despite the most administrative and organisational problems the policy issues continued.

After the establishment of institutional structure, the Commission has started to take shape by stages, in point of its functions and responsibilities. In spite of the changes of its functions in the process (from 1958 up to now), the Commission has always had an important role in the EU.

As an important milestone in the Commission's shaping process, the Luxembourg Compromise of January 1966 brought to an end the so-called "empty chair" crisis that France having refused to take its seat in the Council since July 1965. This appeared to set limits on both, the integration process and the independence and initiative of the Commission. Even if the rhetoric was retained, it introduced a period of disenchantment with supranationalism in practice.<sup>23</sup>

It is described precisely in the Treaty of the European Union and reinforced by the Commission's house rules that the European Commission has a constitutional obligation to set the legislative agenda in the European Union (Article 211, Treaty of the European Union). The Commission, unique among international institutions and unparalleled among executives in national democracies, has exclusive formal competence to initiate and draft EU legislation.<sup>24</sup>

As an organ of the EU, the Commission has several functions and responsibilities. It can be said that the Commission is a think-tank and policy maker/initiator, manager and administrator, defender of the legal order, consensus-builder, mediator and broker, mobiliser, guardian of the legal framework.<sup>25</sup> In another words, the Commission proposing and shaping legislation, administering and implementing Community policy, managing the budget, conducting external relations, policing Community law and pointing the way forward.<sup>26</sup> With regard to the

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<sup>22</sup> Christoph Sasse, "The Internal Functions of the Commission", in Sasse, C., Pouillet, E., Coombes, D. and Deprez, G. (eds), *Decision Making in the European Community*, London: Praeger, 1977, p. 185.

<sup>23</sup> Geoffrey Edwards and David Spence, "The Commission in Perspective", in Edwards, Geoffrey and Spence, David (Ed.), *The European Commission*, London: Cartermill, 1997, p. 1.

<sup>24</sup> Liesbet Hooghe, "Several Roads Lead to International Norms, but Few Via International Socialization: A Case Study of the European Commission", *International Organization*, 59(Fall), 2005, p. 863.

<sup>25</sup> Michelle Cini, *The European Commission: Leadership, Organisation and Culture in the EU Administration*; Neill Nugent, *The European Commission*, London: Palgrave, 2001.

<sup>26</sup> Desmond Dinan, *Ever Closer Union: An Introduction To European Union*, p. 223.

interaction between the member states and the Commission, the following three functions are more important than the others.

i. *Executer*: The Commission is the EU's executive body in spite of it has only limited authority and ability to execute EU policies. This authority can be divided into two parts that are, some of these authorities are given to the Commission by the Council, and some of them are its own authorities. At the beginning it was a discussion matter that the Council would give an authority to the Commission according to which criteria, but the article 145 of Treaty of the EC (Article 202 Treaty of the European Union) put this entitlement in a rule. In order to this article the implementation authority of the rules that are in the Councils' decisions will be given to the Commission as a principle.

The Council took the decision (date 13 July 1987 and number 87/373) unanimously, concerning the Commission's executive authority, which is called "Commitology" in the EU literature. The European Parliament declared its desire to be more active in the implementation process of the decisions which taken by co-decision procedure, when the Maastricht Treaty had come into force. Thereupon, the Commission prepared a proposal in accordance with the *modus vivendi* which was signed on 20th December 1994 between the Council-the Commission and the European Parliament (OJ C 102, 4.4.1996). Consequently the decision dated 13th July 1987 was abolished and the new Commitology decision was taken on 28th June 1999 by number 99/468 (OJ, L 184, 17.7.1999).

Commitology is an important point that exhibits how an authority is divided into three. "When performing its executive functions, the Commission is controlled by the member states through 'comitology'".<sup>27</sup> In other words, the member states do not want to give this authority to the Commission itself.<sup>28</sup>

ii. *Initiator*: In accordance with the article 211 of Treaty of the EU, the Commission prepares the regulations of the Council and the Parliament. This authority is quite important that some writers call the Commission as "engine" in this framework (e.g. Burban 1997). It decides when regulation is necessary and how it should be devised. The Council of Ministers, which represents national governments, and the European Parliament, which is directly elected, may request the Commission to draft an initiative, but the Commission can, and sometimes does, refuse. The Treaty

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<sup>27</sup> Hussein Kassim, "The Institutions of the European Union", in Colin Hay and Anand Menon, *European Politics*, Oxford: Oxford University Press, 2007, p. 192.

<sup>28</sup> Desmond Dinan, *Ever Closer Union: An Introduction To European Union*, p. 227-229.

also instructs the Commission to serve the European interest. It also requires the Commission to be independent from any national government.<sup>29</sup>

iii. *Guardian*: The Commission is responsible for defending the European legal order, ensuring that member states and in some cases, companies and individuals, comply with the European rule of law.<sup>30</sup> This means that under article 226 of Treaty of the EU, the Commission may bring a member state before the European Court of Justice (ECJ) for alleged non-fulfilment of treaty obligations. Member states constantly fail to live up to their commitments, and the Commission betweenwhiles institutes judicial proceedings.<sup>31</sup> Owing to this function of the Commission, some scholars call it a “watchdog (chien de garde)” (e.g. Prof. Pierre Henri Teitgen).<sup>32</sup>

This obligation of the Commission includes two dimensions. The Commission has to detect any kind of implementation deficit as a supervisor at first, and secondly it has to solve this deficit which essentially involves an enforcement mechanism.<sup>33</sup>

The other milestone of the Commission’s evolution is the White Paper (reforming the Commission) which spells out the approach the Commission is taking as it operationalises its reform ambitions and also sets out the key themes that will structure the reform process.<sup>34</sup> According to the White Paper the Commission has to be independent, accountable, efficient, transparent<sup>35</sup> and guided by the highest standards of responsibility.

In its report, the Commission declares its expectations and aims that a strong, independent and effective Commission is essential to the functioning of the European Union as a whole and its standing in the world. Substantial improvement in structures

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<sup>29</sup> Liesbet Hooghe, “Several Roads Lead to International Norms, but Few Via International Socialization: A Case Study of the European Commission”, *International Organization*, p. 863; Neill Nugent, “The Deepening and Widening of the European Community: Recent Evolution, Maastricht and Beyond”, *Journal of Common Market Studies*, 30(3), 1992, 311-328.

<sup>30</sup> Michelle Cini, *The European Commission: Leadership, Organisation and Culture in the EU Administration*, p. 25.

<sup>31</sup> Desmond Dinan, *Ever Closer Union: An Introduction to European Union*, p. 233.

<sup>32</sup> J. L. Burban, *Les institutions européennes*, Paris: Vuibert, 1997; Michelle Cini, *The European Commission: Leadership, Organisation and Culture in the EU Administration*, p. 25-28.

<sup>33</sup> Michelle Cini, *The European Commission: Leadership, Organisation and Culture in the EU Administration*, p. 26.

<sup>34</sup> Morten Egeberg, “The European Commission” in *European Union Politics*, p. 134; Neill Nugent, *The European Commission*, London: Palgrave, 2001, p. 58-60; Hussein Kassim and Dionyssi G. Dimitrakopoulos, “The European Commission and the future of Europe”, *Journal of European Public Policy*, 14(8), 2007, pp. 1249–1270.

<sup>35</sup> See: John Peterson, “Playing the Transparency Game: Consultation and Policy-Making in the European Commission”, *Public Administration*, 73(Autumn), 1995, pp. 473-492.

and in systems is important for fulfilling the tasks established by the Treaties requires. The Commission's effectiveness is inhibited now by working practices, conventions and obligations that have accumulated over decades. "Administrative reform will help the Commission to fulfil its institutional role as motor of European integration. It is thus a political project of central importance for the European Union".<sup>36</sup>

As is seen at times and in different kinds of proposals, drafts or reform projects, the Commission wants to be independent and powerful for working ease, yet the member states always share out the authorities of the Commission with the other institutions as much as possible, albeit they show themselves such as willing for delegation of authority. If they want to obtain integration of the European Union in all fields the member states will need a powerful, independent and supranational Commission. Due to their national interests, they do not enable to strengthen the Commission.

### **3. The Relationship between the Officials and the Member States**

By looking at the attitudes of commissioners/officials, the impact of the member states and the Commission can be understood, whether they decide neutrally during the preparation of proposals or they are under pressure and affected by the member states. There are some important studies and surveys which investigate the behaviours of commissioners, especially during the controversial commission proposals, which demonstrate the strong and enduring coalitions between member states (national governments) and the officials of the Commission.<sup>37</sup> Commissioners' country role informs their actions more so than their duties (as a commissioner) or ideological affiliations.<sup>38</sup>

The commission has been variously theorized as a supranational actor with decision-making processes that are insulated from the interplay of national interests

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<sup>36</sup> European Commission, *Reforming the Commission*, Consultative Document, Communication from Mr Kinnock in agreement with the President and Ms Schreyer, CG3 (2000) 1/17, 18 January, Brussels: European Commission, 2000, p. 5.

<sup>37</sup> Fiona Hayes-Renshaw and Helen Wallace, *The Council of Ministers*, 2nd Ed., London: Macmillan, 2006, p. 227; Neill Nugent, *The Government and Politics of the European Union*, London: Palgrave-Macmillan, 1999, p. 474; Robert Thomson, Jovanka Boerefijn, and Frans N. Stokman, "Actor alignments in European Union decision Making", *European Journal of Political Research*, 43, 2004, pp. 237-261; Vincent Wright, "The National Coordination of European Policy Making", in Jeremy Richardson (Ed.), *European Union: Power and Policy Making*, London: Routledge, 1996, p.152.

<sup>38</sup> Morten Egeberg, "Executive Politics as Usual: Role Behaviour and Conflict Dimensions in the College of European Commissioners", *Journal of European Public Policy*, 13(1), 2006, pp. 1-15.

and as an agent of national interests.<sup>39</sup> On the other side, as noteworthy findings show that, the practice can be different as it is seen from some research.

Liesbet Hooghe<sup>40</sup> examines the supranational and intergovernmental dimensions of the commissioners' positions in her work. According to one of her studies, the effect of national governments on the commission officials and the three factors (prior experience of living abroad, socialization in the workplace, and learning in the political system of their country of origin) may influence them. In one of her work she evaluates the findings consequently:

Top commission officials are embroiled in a fierce struggle among political actors for control over EU authoritative resources. One would expect them to actively defend the power of the commission. If not, one would think that national governments successfully control them as agents serving national interests. However, variation in views among top officials is not easily understood in terms of principal agency. Commission officials are not simply supranational activists or intergovernmental agents. Rather, when they enter their office in the morning, they bring with them views on European integration that have matured as a result of experiences from various institutional contexts.<sup>41</sup>

On the basis of her surveys it can be seen that the senior officials of the Commission are not insulated and they are aware of the fundamental issues that divide Europe's parties, public and governments. As active participants in these debates they interpret, live and help reshape European governance day by day.<sup>42</sup>

A recent survey demonstrates the commissioners' attitudes during the decision process are important as well. Thomson's survey is about the prime

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<sup>39</sup> Robert Thompson, "National Actors in International Organizations the Case of the European Commission", *Comparative Political Studies*, 41(2), 2008, p. 187-188.

<sup>40</sup> Liesbet Hooghe, "Supranational Activists or Intergovernmental Agents? Explaining the Orientations of Senior Commission Officials toward European Integration", *Comparative Political Studies*, 32, 1999, pp. 435-463; "Images of Europe: Orientations to European Integration among Senior Officials of the Commission", *British Journal of Political Science*, 29(2), 1999, pp. 345-367; *The European Commission and the integration of Europe: Images of Governance*, Cambridge: Cambridge University Press, 2001; "Several Roads Lead to International Norms, but Few Via International Socialization: A Case Study of the European Commission", *International Organization*, 59(Fall), 2005, pp. 861-898.

<sup>41</sup> Liesbet Hooghe, "Supranational Activists or Intergovernmental Agents? Explaining the Orientations of Senior Commission Officials toward European Integration", *Comparative Political Studies*, p. 460-461.

<sup>42</sup> Liesbet Hooghe, "Images of Europe: Orientations to European Integration among Senior Officials of the Commission", *British Journal of Political Science*.

responsibility of commissioners in 70 controversial commission proposals introduced during the Santer and Prodi Commissions. He reaches three results after the investigation:

*...First, the division of policy responsibilities among commissioners has a significant impact on the level of agreement between the commission and member states' positions... Second, this finding implies that commissioners' country affiliations are an important guide to their behavior. This contrasts with the view of commissioners as being insulated from national pressures... Third, decision rules in the council condition the commission's policy positions. When the unanimity rule applies in the council, the commission must appeal to all member states because all states must prefer or be indifferent between the commission's proposal and the disagreement outcome.<sup>43</sup>*

The above results indicate that, according to commissioners, member states' interests are more important than the European Union's interests.

#### **4. Conclusion**

From a theoretical perspective, two different approaches can be seen formulating the European integration process. Supranationalists look at the EU as idealists, which the popularity of this theory increases when the integration process succeeds – e.g. period of the ECSC, EURATOM and EEC's establishment during the 1950s and early 1960s. On the contrary, when the national interests differ from European goals, as it was from the 1960s through the early 1980s, intergovernmentalism comes into importance by its realist approach and since the "empty chair" crisis, intergovernmentalism has gained more supporters. The analysis (the level-of-analysis) of the intergovernmentalism is an important factor for its attractiveness in this point that, it analyses both national and international dimensions of the integration.

Thus, the Commission, as a supranational organ, cannot be independent from member states in the issues that are based on interstate bargaining. On the other hand, all member states do not have the same ideas and considerations about European integration. The UK wants not a very strong European Union, whilst Germany wills a strong integration. On this point, member states might not desire a powerful and independent commission.

Secondly, in the evolution of the Commission the member states have not allowed the Commission to have sole authority. Despite the recent progresses in the

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<sup>43</sup> Robert Thompson, "National Actors in International Organizations the Case of the European Commission", *Comparative Political Studies*, p. 187-188.

Lisbon Agenda (Reform Treaty), they have always shared out its authorities and rights to the other organs.

From the third perspective, it can be seen that, both the member states always struggle for taking advantages in the Commission, particularly during the controversial proposals, by lobbying and the officials take decisions accordance with their national identities. Therefore the Commission's neutrality and independence suffers.

Finally, this essay demonstrates that, by looking from three perspectives, in spite of its important and independent functions, the Commission is affected by the member states strongly and it is only has been as powerful as the member states have allowed it to be, so far.

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**Kujtim MORINA**

**Corruption and the functioning of public administration as challenges  
for European integration of Albania**

**Abstract**

This article describes and analyses the phenomenon of corruption and the functioning of public administration in Albania, which are considered among the key challenges in the process of European integration. Albania has made significant progress to adapt its legislation to EU standards in the field of anti-corruption but the enforcement of this legislation and the strengthening of rule of law still remain big challenges.

There are some noteworthy positive steps taken by the Albanian government during the last two years, such as the reform in the procedures of admissions to the public universities, the new procedure on e-procurement, the decentralised procedure for the registration of new business entities and efforts to reduce fiscal evasion.

However, all the Albanian governments, including the current one, have failed to implement civil service law. The established Department of Public Administration and the Civil Service Commission have been constantly under the pressure and influence of the executive.

**Keywords:** Albania, corruption, public administration, European integration

**Biography of the author:**

Kujtim Morina was born on 1972. Currently, he is Chairperson of the Forum for European Integration in Albania. He graduated from University of Tirana in Maths (1994), from University of Shkodra in Law (2004) and holds Master's degree on European studies from university of Graz (2008). From 1999 to February 2009, he has worked with international organizations in Kukes, such as UNHCR, CARE and OSCE.  
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**I. Preconditions for European Integration and the Rule of Law**

Transparency International defines corruption as "the abuse of entrusted power for private gain". All the citizens of the countries affected by high corruption are very

well aware of the consequences of this social plague and its negative impact in their lives. Whether the above definition is accurate or not, we will get far more involved in establishing mechanisms against corruption than in finding a more accurate definition.

Combating corruption and strengthening public administration in Albania are challenges and preconditions for European integration and the rule of law. Albania signed the Stabilisation and Association Agreement (SAA) with the EU on 12 June 2006 and became member of NATO on 4 April 2009 at the Strasbourg-Kohl Summit. The articles of the SAA which are directly related to corruption and public administration are the following ones:

- i. Article 78 on reinforcement of institutions and rule of law.
- ii. Article 85 on fighting corruption both in the private and public sector in particular linked to non-transparent administrative procedures and against fiscal fraud.
- iii. Article 111 on efficient and accountable public administration, the implementation of transparent and impartial recruitment procedures and human resources management at the central and local levels.

The combating of corruption and improving the capacities of public administration have been among the main recommendations made by EU institutions and other international actors. These issues are considered short-term priorities under the chapter of political requirements for democracy and the rule of law, as defined by the European Partnership with Albania<sup>1</sup>.

According to all surveys conducted so far with Albanian citizens, corruption is very high. Allegedly, the officials who come to power through politically motivated appointments justify corruption practises and abuse of power with the fact that after the next power rotation they will not be in these positions anymore, regardless of their work performance. The experience after 90's has indicated that the most severe punitive measure against state employees accused of corruption has been their job dismissal. Then they undisturbed run their private businesses, to resume again official positions when their political party comes to power again. As Bogdani and Loughlin note in their book on European integration "In Albania, corruption has become so systemic and routine that is almost impossible to get anything done without it. What is worse, corruption has become an accepted fact, a moral norm as something you do not have to be ashamed of"<sup>2</sup>.

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<sup>1</sup> Council Decision 2008/210/EC of 18 February 2008 on the principles and conditions contained in the European Partnership with Albania and repealing Decision 2006/54/EC, 4.

<sup>2</sup> Mirela Bogdani and John Loughlin, Albania and the European Union, European Integration and the Prospect of Accession, Dajti 2000, Tirana 2004, 58-59.

The public sectors most affected by corruption are the health sector, the judiciary, police, property agencies, licensing and registration services and utilities.

A 2009 Survey of the Institute for Development Research and Alternatives (IDRA) provides a grey panorama of the public perception of corruption in Albania. "The general public perception that corruption among public officials is a widespread phenomenon has not changed over the years. It remains solidly high. However, there is a decrease in the number of respondents who said that corruption among public officials is "widespread" from 57% in 2008 to 50.5% in 2009"<sup>3</sup>.

A Report of Transparency International published in September 2008 assesses that Albania has made significant improvement with regard to the fight against corruption compared to 2007. "In Albania, where the CPI [Corruption Perceptions Index] score rose from 2.9 in 2007 to 3.4 in 2008, the current government has been vocal about anti-corruption reforms ... which appear to be showing initial results. An official task force created to fight corruption and economic crime has increased the number of officials prosecuted and sentenced for corruption, also building confidence among the public that corruption can be punished in Albania."<sup>4</sup> However, it seems that corruption is still high, though it is more camouflaged among the public officials.

The Civil Service Law and Labour Code regulate the status of the public administration employees. The majority of the state employees still remain subject of the Labour Code. Starting from 2003 the Albanian government has applied some formal recruitment procedures based on the civil service law, but it is obvious that this is just to legitimate the employed staff on a politically motivated basis and informal relations as openly accepted by high state officials. Moreover, the performance appraisal system is quite sporadic, promotion or demotion on duty and disciplinary measures do not respect in many cases the laws and sub-legal acts. "Personnel are not competent and properly trained and are subject to high turnover. The "political bureaucrats" prevail over the model of Weberian rational administration"<sup>5</sup>.

The strengthening of state institutions and the rule of law is still in a critical stage in Albania. Apparently, there is political will to make reforms, but in practice the law is not fully enforced and informal relations are still highly influential.

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<sup>3</sup> Institute for Development Research and Alternatives (IDRA), Corruption in Albania: Perceptions and Experience, Survey 2009, Feb 2009, 11.

<sup>4</sup> Transparency International, the global coalition against corruption. Persistently high corruption in low-income countries amounts to an "ongoing humanitarian disaster", Berlin, 23 September 2008, 23.

<sup>5</sup> Mirela Bogdani and John Loughlin, Albania and the European Union, European Integration and the Prospect of Accession, Dajti 2000, Tirana 2004, 51

## ii. Combating Corruption

It seems that Albania has made good progress with regard to the harmonising of its legislation in the field of anti-corruption with EU and international standards. So far, Albania has ratified:

- i. the Criminal Law Convention on Corruption with the additional Protocol<sup>6</sup>,
- ii. the Civil Law Convention on Corruption<sup>7</sup>,
- iii. the United Nations Convention against Corruption<sup>8</sup>,
- iv. the European Convention on the Transfer of Proceedings in Criminal Matters and its additional Protocol<sup>9</sup>,
- v. the European Convention on Mutual Assistance in Criminal Matters and its second additional Protocol<sup>10</sup>,
- vi. the International Convention on Mutual Administrative Assistance for the Prevention, Investigation and Repression of Customs Offences<sup>11</sup>,
- vii. the European Convention on the International Validity of Criminal Judgements<sup>12</sup>,
- viii. the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime<sup>13</sup>.

Starting from 2000, Albania has established a series of state institutions responsible to fight corruption and strengthen the public administration. Such institutions include the High Inspectorate of Declaration and Audit of Assets, the People's Advocate, the Civil Service Commission, the General Directorate on the Prevention of

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<sup>6</sup> Albania ratified Criminal Law Convention on Corruption with the law no 8778, date 26.04.2001. and its Additional Protocol with the law no 9245, date 24.06.2004.

<sup>7</sup> Albania ratified Civil Law Convention on Corruption with the law no 8635, date 07.06.2000.

<sup>8</sup> Albania ratified UN Convention against Corruption with the law no 9492, date 13.03.2006.

<sup>9</sup> Albania ratified European Convention on the Transfer of Proceedings in Criminal Matters and its additional protocol on 04.04.2000 which entered into force on 07.05.2000

<sup>10</sup> Albania ratified European Convention on Mutual Legal Assistance in Criminal Matters and its additional protocol with the law no 8498, date 06.10.1999 and ratified its second protocol with the law no 8863, date 18.04.2002.

<sup>11</sup> Albania ratified International Convention on Mutual Administrative Assistance for the Prevention, Investigation and Repression of Customs Offences on 26.03.2001

<sup>12</sup> Albania ratified European Convention on the International Validity of Criminal Judgements on 31.10.2001

<sup>13</sup> Albania ratified the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime with the law no 8646, date 20.07.2000

Money Laundering and the Competition Authority. There were consolidated other institutions which used to exist before 2000, like Department of Public Administration, State Supreme Audit and Internal Audit Units. However, the institutional capabilities are still limited and the performance of these institutions needs significant improvement. The Progress Report of the European Commission on Albania for 2008 appraised the further efforts of the Albanian government against corruption as compared to 2007: "Perception of corruption has improved; nonetheless, corruption remains a particularly serious problem in Albania ...The government has had some success in the fight against petty corruption and bribery. A number of low to middle-level officials were dismissed for bribery ... However, a more systematic approach is needed to tackle corruption overall, particularly widespread bribery in the judiciary, police, health and customs sectors"<sup>14</sup>.

The SAA establishes that the parties shall cooperate on fighting and preventing criminal and illegal activities, such as corruption, both in private and public sectors, in particular linked to non-transparent practices and fiscal fraud (Art 85)<sup>15</sup>. The double invoicing in the private sector is a phenomenon in Albania that has resulted in high fiscal evasion. Despite the measures taken by the Albanian government during the recent years which consist in imposing referential prices for specific commercial goods, adopting a fiscal package which includes laws on tax procedures<sup>16</sup> and laws on national taxes<sup>17</sup> and the support provided by USAID on the enforcement of the amended legislation, this has not fully prevented this phenomenon.

### a) Strategies

The National Plan for the Implementation of the Stabilisation and Association Agreement (NPISAA) 2007-2012 gives in detail the measures to be taken by the Albanian government to fulfil the conditions of the SAA. The Ministry of Integration is the main institution coordinating and monitoring the National Plan. The other ministries and central state institutions are to report at the beginning of every month on the implementation of this Plan to this ministry. The NPISAA dedicates a special

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<sup>14</sup>Commission of the European Communities, Albania 2008 Progress Report, Brussels 05.11.2008, COM (2008) 674, 10-11.

<sup>15</sup>Council of the European Union, 8164/06, COWEB 76, Stabilisation and Association Agreement between the European Communities and their member states of the one part and the Republic of Albania of the other part, Brussels 22.05.2006, 80

<sup>16</sup> Law no 9920, date 19.05.2008 ' On the tax procedures in the Republic of Albania"

<sup>17</sup> Law no 9975, date 28.07.2008 " On the national taxes"

chapter to the fight against corruption and defines the legal and institutional framework, addressing priorities and the responsible state organs.

The National Strategy for Development and Integration 2007-2013 (NSDI) identifies challenges, vision and strategic priorities and policies in the anti-corruption field and public administration. "In the medium term (2007-2010)

- i. the recommendations made in the 2005 evaluation report by the Council of Europe Group of States Against Corruption will be followed up;
- ii. legislation will be approximated with all the standards enshrined in the conventions against corruption of the Council of Europe and the United Nations;
- iii. administrative barriers will be gradually reduced;
- iv. and the power to discover and punish corruption cases will be strengthened<sup>18</sup>.

The Anti-Corruption Strategy 2008-2013 provides its focal points in the sector reforms such as: strengthening of the internal audit in the public sector; consolidation of standards in the business sector; consolidation of the civil service; reformation of the public procurement system; reform in the health and education sectors as well as the tax and customs administration; decentralization of the public services and fight against corruption at the local level<sup>19</sup>.

## b) Institutions

There are several state institution in Albania responsible to fight corruption, which cover different areas of responsibility.

The Anti-Corruption Task Force<sup>20</sup> is led by the Prime Minister and is composed of members of the Council of Ministers and representatives of the dependent institutions that cover mainly the management of public finances, control and audit. The main functions of the Anti-Corruption Task Force are: to determine strategic priorities and concrete measures to fight and prevent corruption; to ensure inter-institutional cooperation for the fight against corruption and the

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<sup>18</sup> Republic of Albania, Council of Ministers, National Strategy for Development and Integration 2007-2013, March 2008, 13

<sup>19</sup> Republic of Albania, Council of Ministers, Cross-Cutting Strategy for prevention, fight on corruption and transparent governance 2008-2013, October 2008, 6, "The Strategy, with its priorities and reforms, shall be based on the general platform of a comprehensive and integrated approach on the fight against corruption, with a balanced combination of prevention, investigation, penalization and public participation".

<sup>20</sup>The decision no 794, date 19.12.2005 of the Council of Ministers "On the establishing of Anti-Corruption Task Force.

implementation of good governance programmes. According to a decision<sup>21</sup> of the Council of Ministers, the Anti-Corruption Task Force should be convened every two months. The Internal Administrative Control and Anti-Corruption Department<sup>22</sup> is an internal control mechanism for the Council of Ministers and its subordinated institutions. The Department verifies and exercises audits on all the ministries, central institutions subordinated to the Prime Minister office and Ministries, the Prefect, and business companies with full or partial state capital. The General Secretary of Council of Ministers approves the audit plans and its consequent changes. The respective minister or the head of the institution under the Prime Minister's office has to inform the Prime Minister on the enforcement of the recommended measures within 10 days of receipt of the Department's report.

In fact, the Department has kept a low profile and, as has been mentioned above, it is responsible only for the auditing of the central state institutions. There does not exist a special website of this Department, only a short description and the relevant staff of it are included in the Council of Minister's website and no statistical information or reports are made public. Some toll free numbers for the citizens to denounce corruption made available by the Council of Ministers by the end of 2005 and onwards (0800 0808 and 0800 0909) were initially attractive to the public, but there is no statistical information on the results of these operations.

Following the approval of the new law on the state police<sup>23</sup>, the Economic Crime Units were transformed in Economic and Financial Crime Units established at the regional level. The new law provides for special investigative methods on criminal and financial investigations to be carried out by police officers. The Economic Crime Units had poor results in fighting criminal activities in this sector and suffer lack of capabilities as well. One of the reasons for their poor performance is the lack of proper qualifications and practical skills of the staff to detect economic and financial crimes. The police officers working in the economic and financial crimes unit need more specialised training. Many of them especially in the regional police directorates of the rural districts do not have economical or financial education backgrounds.

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<sup>21</sup>The decision no 794, date 19.12.2005 of the Council of Ministers "On the establishing of Anti-Corruption Task Force.

<sup>22</sup>The Decision no 94, date 15.02.2006 on the approval of regulations for the functions and procedures of the Internal Administrative Control and Anti-corruption Department, The mission of this Department is to make the administrative investigation of the law enforcement and denunciations on abusive, corruptive and arbitrary practises, to identify the staff of the public administration which, with their action or inaction have committed violation of laws and sub-legal acts, to make recommendations on certain issues, including the disciplinary measures against the persons responsible of these violations.

<sup>23</sup>Law no 9749, date 04.06.2007 "On the State Police"

A Special Anti-Corruption and Economic Crime Unit (Joint Investigation Unit) reporting to the General Prosecutor's Office became operational in September 2007 with the assistance of the European Commission and the United States. This Unit was established following a Cooperation Agreement among the General Prosecutor's Office, the Ministry of Interior, the Ministry of Finance and the National Intelligence Service. Currently, the office facilities of the Unit are located in the Tirana Prosecution Office. It has a staff of over 30 employees, including prosecutors, judicial police officers, tax and customs officers and investigators. The duties and responsibilities of the Unit include the prevention, investigation and prosecution of about 50 penal offences related to corruption, abuse of power, falsification of documents, money laundering, fiscal evasion, etc. On 17th October 2008, the Government of the United States and the Government of Albania signed a second bilateral agreement to implement the "Stage II" Millennium Challenge Corporation Threshold Programme, which among others foresees the creation of Joint Investigation Units in six cities to investigate corruption cases<sup>24</sup>.

The public opinion has not been happy with the fight against corruption and organised crime from the Prosecution Office. Taking advantage of this situation, the right wing majority immediately after coming into power in 2005 sought the dismissal of the General Prosecutor, but it did not find the consensus of the opposition, which claimed that the majority wanted to change the head of this independent institution to appoint their affiliated person. After the dismissal of the General Prosecutor by the Albanian Parliament in December 2007, which was made without the consensus of the opposition, there has been some discussion as to whether the head of this institution should be appointed by the legislative or the executive power<sup>25</sup>. Currently, the right wing government majority is not happy with the performance of the General Prosecutor in charge, claiming that it did not start criminal prosecution against any Socialist Party official accused of corruption in the previous government, but it is targeting only the officials of this government.

The functioning of the Courts for Serious Crimes in the first and second instance, including Prosecution Office for Serious Crimes established in 2004 in Tirana, is a step in the right direction that has produced some results, but needs to be further consolidated.

During the recent years, the reformation of the judiciary system has been considered an imperative, given that this is perceived as one of the most corrupt

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<sup>24</sup>USAID in Albania, Millennium Challenge Corporation Albania Threshold Agreement, 2008, at [http://albania.usaid.gov/gj2/41/category/MCC\\_Albania\\_Threshold\\_Agreement.htm](http://albania.usaid.gov/gj2/41/category/MCC_Albania_Threshold_Agreement.htm).

<sup>25</sup>According to the Constitution of Albania, the President of the Republic with the consent of the Assembly appoints the General Prosecutor.

sectors. The opposition has offered consensus for the approval of some laws, such as the law for the organization of the judiciary power<sup>26</sup>, the law on the organization and functioning of High Council of Justice<sup>27</sup> (HJC). After 2006, HJC came up with high profile measures and decisions aiming at the increase of transparency of the judicial system and the fight against corruption. Worth mentioning the ongoing recruitment procedures for 22 chief judges of the first instance and appellate courts<sup>28</sup> in compliance with the new law on judicial power which provides the limitation of their mandate, approval of the decision on the professional and ethics appraisal system of the judges<sup>29</sup>, taking operational measures to make more transparent the recruitment procedures of judges under its jurisdiction and disciplinary measures as well. "For the first time in the history of judicial power, the HCJ will start to apply debate, transparency and justification of its deliberations through reasoned and written decisions for the appointment of chief judges. HCJ assess that only voting procedure is not sufficient for a transparent process"<sup>30</sup>. The executive has been active in this process through the Ministry of Justice. However, HCJ has drawn the attention of the public for some legislative initiatives of the government in the judicial sector without sufficient consultation by the HCJ. The article of the new law on the judicial power which grant extra competencies to the chancellors on the appointment and dismissal of the judicial secretary and administrative personnel was appealed by the national association of judges to the Constitutional Court which abrogated it as unconstitutional<sup>31</sup>. The co-existence and operating of the Inspectorate of the HCJ and the inspection teams of the Ministry of Justice has been deemed as overlapping of competencies and sometimes encroachment of the executive in the independent judicial system.

The High Inspectorate for Declaration and Audit of Assets (HIDAA) established in 2003 is the main responsible authority for the implementation of the law on the

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<sup>26</sup>Law no 9877, date 18.02.2008 for the organization of the judiciary power in the Republic of Albania

<sup>27</sup>Law no 8811, date 17.05.2001 amended with the law no 9448, date 05.12.2005 on the organization and functioning of High Council of Justice.

<sup>28</sup>High Council of Justice, "Vacant positions for 22 chief judges, reasoned and motivated decisions for the appointment of chief judges, Supreme Court accept the request of HCJ for the 'suspension' of GABA case", press release, date 28.03.2008, [www.kld.al](http://www.kld.al).

<sup>29</sup>Decision 193/2, date 11.05.2006 amended with the decision 207/2, date 07.02.2007 of the High Council of Justice.

<sup>30</sup>High Council of Justice, press release, date 28.03.2008, [www.kld.al](http://www.kld.al).

<sup>31</sup>Constitutional Court, decision no 20, date 09.07.2009 on the civil lawsuit of the national association of judges on abrogation of the articles 37/2 and 38/a and b of the law no 9877, date 18.02.2008 on the organization of judicial power.

declaration and audit of assets of elected persons and certain public officials<sup>32</sup> and the law on prevention of conflict of interests in the exercise of public functions<sup>33</sup>. According to statistical information provided by HIDAA, the overall number of subjects (elected persons, public officials on duty and former public officials) that have declared their private interests is increased constantly. "On 18 June 2009, HIDAA filed criminal charges against 6 officials for refusal to submit the declaration of private interests which is half of the number of the subjects charged last year (11). This action was taken following the administrative measure of fine imposed on 27 subjects who did not fulfil their legal obligation in May 2009"<sup>34</sup>. However, the refusal to make declaration form is not a serious problem in Albania rather than the tendency to conceal the real properties in the submitted declaration forms. The fact that a considerable part of business properties are not registered makes more difficult to detect the assets owned by the public officials. The law on declaration and audit of assets does not foresee the further steps to be taken by HIDAA in case the relevant institutions do not take the required measures against the staff that has refused to make the declaration of private interests. The 2009 Corruption in Albania IDRA Survey ranks HIDAA among the least helpful institutions on the contribution to fight corruption together with the religious leaders and central government<sup>35</sup>.

Regarding the state institutions mandatory to fight corruption in Albania, could be considered two options; either to establish a new special state institution against corruption or to grant more competencies to the Department of Internal Administrative Control and Anti-Corruption. The latter has not produced the expected results in the way that is functioning currently. Also, the further strengthening of the Special Corruption and Economic Crime Unit under the Prosecution Office is an indispensable factor for the investigation and prosecution of financial and corruption-related crimes.

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<sup>32</sup>Law no 9049, date 10.04.2003 " On the declaration and audit of assets, financial obligations of elected persons and certain public officials" amended with the law no 9367, date 07.04.2005, law no 9475, date 09.02.2006 and with law no 9529, date 11.05.2006.

<sup>33</sup>Law no 9367, date 07.04.2005 on the prevention of conflicts of interests in the exercise of public functions amended with law no 9475, date 09.02.2006 and law no 9529, date 11.05.2006.

<sup>34</sup>High Inspectorate for Declaration and Audit of Assets, press release, 18 June 2009, at [www.hidaa.gov.al](http://www.hidaa.gov.al).

<sup>35</sup> Institute for Development Research and Alternatives (IDRA), Corruption in Albania, Perceptions and Experience, Survey 2009, Feb 2009, 13.

### III. Improving Capabilities of Public Administration

#### a- Background information

The Labour Code<sup>36</sup> still governs the work relations for the most part of the public administration in Albania. Generally, there are no written employment contracts provided for the public administration subject to the Labour Code and it is considered that the incumbents are hired permanently until there is a violation of this law. It makes politically-based appointments easier following every power rotation. Since 2000 the left wing government started to apply some formal procedures for the recruitment of the staff based on the civil service law. The process was not transparent and was overwhelmed by the lack of trust and favouring the candidates affiliated with the government. The right-wing government that came in power after 2005 took the advantage of restructuring many state institutions to release from duty a number of state employees allegedly affiliated to the left wing and hired new staff on a politically motivated basis offering them initially a temporary contract in order to apply the formal recruitment procedures later. The restructuring of state institutions that foresees removal from the civil service of the redundant staff as provided in article 23 of the Civil Service Law<sup>37</sup> was the legal ground to change the staff in the public administration. The changes in the public administration after 2005 affected senior positions and often the middle level staff in almost all the central and local institutions. This is reflected in the Albania 2008 Progress Report of the European Commission. "Appointments have continued along party lines in contravention of the Civil Service Law. The authority of the DPA [Department of Public Administration] requires strengthening in order to implement the official recruitment, job classification and promotion criteria consistently. Full enforcement of the Civil Service Law and adoption of the Strategy for public administration reform will be key to progress in this regard"<sup>38</sup>.

The trust of the public in state institutions is still very low. It requires a strong political will together with deep reforms to change this opinion that has been created during the whole transition period in Albania for about 20 years. In general, it is remarked that the governments start reforms in their first year of governance and then get stuck for different reasons, such as corruption, lack of consensus with the opposition, weak public administration etc. "Albanian citizens' trust in institutions

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<sup>36</sup>Labour Code of Republic of Albania approved with the law no 7961, date 29.04.1995

<sup>37</sup>Law No. 8549, date 11.11.1999 on the status of the civil servant.

<sup>38</sup>Commission of the European Communities, Albania 2008 Progress Report, Brussels 05.11.2008, COM(2008)674, 8

continues to be very low. On average, the score of the trust for all institutions is 44.3 points [on a 0-100 scale where 0 means “No trust at all” and 100 means “Trust a lot”]. The Property Restitution and Compensation Agency (28.5), trade unions (33.5) and political parties (33.7) are the least trusted institutions in 2009<sup>39</sup>.

“The public administration sector will be strengthened and consolidated in accordance with the public service principles, on the basis of meritocracy and performance. The government will improve professional qualifications in this sector through an open and competitive process of recruitment, career advancement and motivation and civil servants’ professional training ... The civil servant status will encompass the majority of the public administration bodies<sup>40</sup>”. So far, these commitments provided in the NPISAA have still remained theory and are not enforced in practice. Also, the National Strategy for Development and Integration envisions the modernisation of the public administration as one of the strategic goals. “The public administration will be able to confront the challenges of developing and integrating the country, based on meritocracy and professionalism: there will be full compliance with the Civil Service Law<sup>41</sup>”.

Formally, the vacant positions are continuously advertised on the website of the Department of Public Administration and names of some hired staff appear on the daily national newspapers following the recruitment procedures. However, there is no doubt that there is no transparent or competitive recruitment procedure in place, but just the granting of civil service positions to the staff already employed on a political basis or based on informal relations. Career advancement and motivation are not based on the regular performance appraisal of the staff but on other non-transparent criteria.

## **b- Legal Framework**

The current legislation pertaining public administration is at a satisfactory level, the main problem consists in its enforcement.

The law on the status of civil servants<sup>42</sup> approved at the end of 1999 laid down some good foundations for strengthening the public administration under its jurisdiction. The work relations for some categories of state employees are regulated

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<sup>39</sup> IDRA, Corruption in Albania, Perceptions and Experience, Survey 2009, 14

<sup>40</sup> Republic of Albania, Council of Ministers, The National Plan for the Implementation of Stabilisation and Association Agreement 2007-2012, Tirana, September 2007, 17

<sup>41</sup> Republic of Albania, Council of Ministers, National Strategy for Development and Integration 2007-2013, March 2008, 13

<sup>42</sup>The law no 8549, dated 11.11.1999 ‘On the status of the civil servant’

by certain laws like the ones on the state police<sup>43</sup>, diplomatic service<sup>44</sup>, local government authorities<sup>45</sup>, army<sup>46</sup>, state intelligence service<sup>47</sup> etc. The law on the status of civil servants oversees the establishment and functioning of the Civil Service Commission, functioning of the Department for Public Administration, classification of civil servants and hiring in the civil service. The ad hoc committee in charge of conducting the recruitment process is composed of five members, one from the Department of Public Administration, two members of the relevant central or local institution that proposed the filling of the vacant position and two professors from the university or experts in this field. The recruitment procedures for the new staff provides that the direct supervisor to whom that civil servant should report has the right to choose one of the three best-ranked candidates presented by the ad hoc committee. Given that it is not required that the best candidate be employed, it seems a shortcoming of the law on civil servants. However, if this law is correctly applied, then it does not represent a serious problem.

The Code of Administrative Procedures (CAP) stipulates the right to complain through an informal request against an administrative act or refusal to issue this act initially to the direct supervisor or to the institution that has made the violation within thirty days of being informed about the violation<sup>48</sup>. The state institutions including the independent organs have not fully utilised their competence to issue sub-legal acts inherent to the CAP. Probably this is related to the deficiencies in its enforcement. Gent Ibrahim, a legal expert shares the same concern. "It is worth noting that there exists a huge discrepancy between the elevated standards

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<sup>43</sup>Law no 9749, date 04.06.2007 "On the State Police"

<sup>44</sup>Law no 9095, date 03.07.2003 on the foreign service of the Republic of Albania

<sup>45</sup>Law no 8652, date 31.07.2000 on the organization and functioning of local government.

<sup>46</sup>Law no 9210, date 23.03.2004 on the status of military officer of the armed forces in the Republic of Albania and the law no 9171, date 22.01.2004 on the ranks and military career in the armed forces of Republic of Albania.

<sup>47</sup>Law no 8391, date 28.10.1998 on the national intelligence service amended with the law no 8479, date 29.04.1999.

<sup>48</sup>Code of Administrative Procedures of the Republic of Albania approved with the law no 8485, date 12.05. 1999 provides also that citizens have the right to request the revoking, abrogating or amending of an administrative act through a formal request within one month of being informed. CAP establishes the obligation of the relevant institutions to notify the parties to a proceeding, to award a hearing to all parties, to be expeditious (30 working days) in decision-making, to communicate decisions to all parties and to give reasons for administrative decisions.

introduced by the CAP and actual levels of implementation in the ground"<sup>49</sup>. There is a low awareness of citizens on the rights evolved from the CAP, still it is not a regular practise in Albania to address to a lawyer or a legal expert on the legal remedy of a case.

The law on the prevention of conflict of interest<sup>50</sup> was amended twice during 2006. After the right wing government came into office at the end of 2005, the newly appointed directors of the state institutions were conditioned to give up from their owned businesses in order to obtain public functions. The new officials accepted de jure to transfer the ownership of their businesses to their relatives but in fact they continue to manage these businesses. The law on the rules of ethics in the public administration and the law on the prevention of conflicts of interests define the cases for the gifts and favours made to the public officials and the procedure of reporting. Also, the latter prohibits the former official in a period of two years after leaving office to represent any person or organization in a conflict or commercial relationship with the Albanian public administration for the duty that he performed or is in continuation of it.

The law on the right to information over the official documents<sup>51</sup> approved in 1999 provides that the public authority decides whether or not to accept the request for information within 15 days from its submission and informs in writing the interested person. Following this, the state authority should provide requested information to the relevant persons within 40 days from the acceptance of its request. The People's Advocate is the responsible authority for the implementation of this law.

## **b- Institutions**

Department of Public Administration (DPA) is the main responsible state authority for developing civil service policies, organising the recruitment procedures for civil service, restructuring of the central state institutions and issuing general instructions related to performance appraisal, job description, and salary structure. The DPA was

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<sup>49</sup>Gent Ibrahim, Administrative Procedures in Albania; Main features and drawbacks, December 2005, 5, at [www.sigmaweb.org/dataoecd/58/53/35936539.pdf](http://www.sigmaweb.org/dataoecd/58/53/35936539.pdf).

<sup>50</sup>Parliament of Albania, law no 9367, date 07.04.2005 on the prevention of conflicts of interests in the exercise of public functions amended with law no 9475, date 09.02.2006 and law no 9529, date 11.05.2006

<sup>51</sup> Parliament of Albania, law no 8503, date 30.06.1999 on the right to information over the official documents.

initially established within the Prime Minister's office in 1994 by a special decision<sup>52</sup>. Its activity was regulated by the civil service law later in 1999. At the end of 2005, the government transferred DPA from the CoM to the Interior Ministry on the grounds of a better management.

The performance appraisal system of the civil servants and state employees in general is not fully in place yet. The deficiencies in this regard are accepted by the Department of the Public Administration as well. "The supplementary staff or the changes made in the subordinated institutions structures do not correspond to the detailed job descriptions for the changed positions as well as for divisions and clarification of role of each unit. This happens because in most cases, there are missing job descriptions in these institutions"<sup>53</sup>.

The promotion in duty, demotion and other disciplinary measures of civil servants or other state employees, in many cases does not take in consideration regular performance appraisals but is made mainly on other criteria like informal relations, political connections, immediate appraisals and verbal deliberations. The Departments of personnel in each institution needs to be conceived in that way to serve a non-politicized public administration.

The Training Institute of Public Administration (TIPA) was established in June 2000<sup>54</sup> and runs its activities under the direct supervision of the DPA. The structure of the TIPA includes three Departments of General Training, Fiscal Training and Local Governance Training; the latter was established in March 2008<sup>55</sup>. The Institute is funded by the state budget but its programmes are also supported financially by international donors as well. There is noticed an increase of training sessions organized by TIPA over the recent years<sup>56</sup>.

The Civil Service Commission is a supervisory body for the implementation of civil service law addressing complaints of the affected civil servants<sup>57</sup>. The Civil

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<sup>52</sup>Decision no 443 of the Council of Ministers "About the creation of public administration".

<sup>53</sup>Department of Public Administration, 2008 Annual Report, 13.

<sup>54</sup>The decision of Council of Ministers no 315, dated 23.06.2000 " On the creation and functioning of the Institute for Training of Public Administration and training of civil servants"

<sup>55</sup> Order no 19, date 18.02.2008 of the Albanian Prime Minister on the establishing of Local Governance Training Department within ITAP.

<sup>56</sup> Training Institute of Public Administration, 2008 Annual Report, 6, provides that: 72 Training sessions were conducted in 2003 (1225 participants), 84 in 2004 (2100 participants), 146 in 2005 (2360 participants), 113 in 2006 (1791 participants), 270 in 2007 (4489 participants) and 273 in 2008 (5050 participants. [www.itap.gov.al](http://www.itap.gov.al)

<sup>57</sup>Law no 8549, dated 11.11.1999 "On the status of civil servants", 6, the competencies of the CSC are: to resolve individual appeals of decisions concerning hiring in the public services, probationary periods, promotions, literal transfers, appraisals, disciplinary measures and the

Service Commission (CSC) started its functioning with the full staff of 5 members and the Technical Secretariat as an administrative body in February 2001. The CSC members are appointed by the Assembly for a mandate of seven years on the proposal of: two by the Council of Ministers, one by the Supreme State Audit and two by the Local Government Units. The members of the CSC enjoy the same immunity as the members of the High Court. The Commission elects its chairman among its members and reports to the Assembly on annual basis and whenever requested. The CSC membership is not compatible with the membership in the steering organs of the political parties, is employed full time and should not have a second job during his/her mandate.

The political rotations in Albania bring consequently the change of the head of CSC as it was the case in 2007. This has a negative impact on the performance of this institution<sup>58</sup>.

The civil service law does not foresee the measures taken by the CSC against the state institutions, which does not enforce its decisions. "Although the law on the civil service stipulates that the decisions of CSC are binding on the state institutions (article 8), this law does not provide the means to enforce this decision. Despite the efforts made during 2007, the scale of enforcement of CSC decisions has still been low"<sup>59</sup>. A lack of trust in the Civil Service Commission is present; therefore many cases of dismissal are addressed directly to the court. On the other hand, most of the state employees are subject to the Labour Code so they cannot rely on the CSC. According to some information, the establishing of administrative courts, which is expected to happen following the approval of the pertaining law, may cause the Civil Service Commission to close, keeping into account its poor performance during the recent years and possible overlapping of state institutions.

The institutions of Civil Service Commission and Department of Public Administration should be strengthened and freed from political interferences. The

rights of civil servants. CSC monitors the management of the civil service in all the institutions under the scope of this law. When irregularities are uncovered, the CSC shall warn the incumbent institution giving a term up to two months to correct the illegality. The CSC shall resolve the individual appeals within 30 days from the day the complaint was filed.

<sup>58</sup> Civil Service Commission, 2007 Annual Report, Tirane 2008, 3, "During the first half of 2007, a considerable number of the submitted complaints were examined beyond the deadline of 30 days as provided in the law. A deadlock period in the decision making of the CSC happened in the third quarter of the reporting year following the resignation of the Head of CSC and the subsequent actions after this resignation, had a negative impact that resulted in the exceeding the legal deadline of the complaints review", at [www.kshc.gov.al](http://www.kshc.gov.al)

<sup>59</sup> Civil Service Commission, 2007 Annual Report, Tirane 2008, 21

amendment of Civil Service law is required in order to include at the maximum extent, other categories of state employees outside its jurisdiction. Another idea can be to award more autonomous power to the Department of Public Administration.

#### **Iv. Response on the Part of Albania In Combatting Corruption**

Corruption is seen as one of the most serious illnesses of the democratic system in Albania and the public agrees that in addition to the mechanisms against it, criminal prosecution of all public officials involved in corruption is another indispensable solution. Sometimes, it seems that the public has lost confidence in the other sanctions and remedies against the corruption and does not trust the statistical information of the government regarding the number of officials prosecuted for bribery and corruption. There were some opinions that Albania has adopted laws that foresee more severe sentences against corruption than in some other countries but the margin of these sentences for example from fine to seven years imprisonment create possibility for corruption in the judicial sector. This shortcoming was addressed in 2004 through amending the Criminal Code that foresees both imprisonment and fines particularly against the active and passive corruption of public officials, active corruption in the private sector and illegal competition through the exerting of violence<sup>60</sup>.

“A Special Corruption and Economic Crime Unit established within the office of the General Prosecutor have led to the arrest of a number of high-level officials. In September 2007, nine officials were arrested on corruption charges including the Deputy Minister of Public Works, Transport and Telecommunication and the General Director of Roads in connection with key public tenders for the reconstruction of national roadways”<sup>61</sup>. After nine months imprisonment, all the arrested officials of Ministry of Public Works, Transport and Telecommunication were released with the exception of the General Director of Roads. In November 2007, the Secretary General of Ministry of Labour and Social Affairs was arrested together with two other officials in this Ministry on corruption charges in a public tender. Also, several mayors of communes, numerous university professors, medical doctors and tax officials were arrested on bribery charges from 2006 to 2008. The amendments to the Albanian Criminal Code in 2004 foresee derogation for the persons that had promised or

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<sup>60</sup> Criminal Code of the Republic of Albania approved with the law no 7895, 27.01.1995 amended with the law no 9275, date 16.09.2004, articles 186, 189, 245, 245/1, 248, 260,

<sup>61</sup>Freedom House Report on Nations in Transit, 2007 Country Report on Albania, June 2008, 73

offered remunerations or other undue advantage if these persons file criminal charge against their accomplices and assist in the criminal proceeding<sup>62</sup>.

Albania has continuously amended the Criminal Code and Criminal Procedural Code in accordance with UN Convention against Transnational Organised Crime and UN Convention against Corruption. After 2005, there is a noticeable increase of arrest in flagrancy of the public officials for bribery using the interceptions of conversations and communications as provided in the Criminal Procedural Code amended in 2004<sup>63</sup>. However, it did not have the expected outcome on the reduction of corruption and bribes as the public officials started to be more careful and having trust only in reliable persons, which has encouraged the strengthening of strong political clans and their connections. "The Council of Europe and UN Conventions require law enforcement officials to use special investigative techniques that are compatible with the parties' domestic law"<sup>64</sup>. The amended Criminal Procedural Code has foreseen some techniques to detect corruption-related and organized crimes like infiltration of the police agent, interception of communication etc., but the relevant institutions are still short of special equipments and adequately trained staff.

The immunity of the high officials has been another legal barrier to start criminal investigations against them for corruption. The initiative of the government majority after 2005 parliamentary elections to approve a law in which the Members of Parliament would not enjoy immunity status in case of investigations against corruption was not supported by the opposition, the latter were afraid that this initiative was politically motivated against its supporters. During the first half of 2008, the Albanian Parliament decided to lift the immunities of two MPs holding the

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<sup>62</sup>Criminal Code of the Republic of Albania approved with the law no 7895, 27.01.1995 amended with the law no 9275, date 16.09.2004, article 245/2, provides that persons involved in corruption who report their accomplices can benefit reduction up to exemption of the conviction from the court depending on the moment of filing criminal charge and consequences of the penal offence as well.

<sup>63</sup>Criminal Procedural Code of the Republic of Albania approved with the law no 7905, 21.03.1995 and amended with the law no 9187, date 12.02.2004.

<sup>64</sup>Organisation for Economic Co-operation and Development, Corruption-A Glossary of International Criminal Standards, 2007, 69, the techniques to detect corruption cases may include the use of undercover operations that allow a law enforcement agent to infiltrate a criminal organisation to gather evidence. When investigating a close-knit group for an outsider to penetrate or survey or where physical infiltration is unacceptably risky, law enforcement may need to resort to electronic surveillance e.g. interceptions of communications, listening devices, hidden cameras.

functions of Minister of Public Works and Minister of Defence to open the way for the investigations from the Prosecution Office on the tender procedures of Durres-Morine highway under construction and the explosion of military ammunitions depot in Gerdec/Tirana. "Each State Party shall take such measures as may be necessary to establish or maintain, in accordance with its legal system and constitutional principles, an appropriate balance between any immunities or jurisdictional privileges accorded to its public officials and the possibility, when necessary, of effectively investigating, prosecuting and adjudicating offences established in accordance with this Convention"<sup>65</sup>.

Recently, the left-wing opposition has showed some signs to agree the bill on the lifting of immunities of the high rank officials including MPs but the legal experts say that it requires the prior amendment of the Constitution, which is not likely to happen soon. The approval of the new law on Prosecution Office in December 2008 with the consent of the opposition and the legal assistance provided by specialized international agencies in Albania was a step in the right direction.

The anti-corruption rhetoric and some measures taken by the Albanian government after 2005 against corruption are not having the expected results. Along with the criminal proceeding against officials accused of corruption, it needs to apply the administrative measures and sanctions as well.

### **a-Cooperation of the public with the state institutions**

The cooperation of the public with the state institutions is another weak point of the fight against corruption and crime in Albania. A special law in this regard was approved lately in 2006<sup>66</sup> which needs to further be completed by sub-legal acts.

The Department for Witness Protection and Justice Collaborators as a special central institution in the State Police and the Commission for Evaluation of Special Measures of Witness Protection and Justice Collaborators were established following the law on witness protection in Albania approved on 2004<sup>67</sup>. This Commission is headed by the Deputy Minister of Interior and composed by one judge, one prosecutor and another judicial police officer appointed respectively by High Council of Justice, General Prosecutor and General Director of State Police. The law on witness

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<sup>65</sup>United Nations Convention against Corruption adopted by UN General Assembly on 31 October 2003, Resolution 58/4, article 30, paragraph 2.

<sup>66</sup> Law no 9508, date 03.04.2006 ' On the cooperation of the public in the fight against corruption"

<sup>67</sup> Law no 9205, date 15.03.2004 " On the Justice collaborators and witness protection"

protection foresees the temporary protection measures and extraordinary protective measures but given the poor state budget, it is not fully put in place.

Starting from the 1997 unrest in Albania, the intimidations against the witnesses in Albania became a phenomenon. During recent years, the security situation has been improved significantly and such intimidations are not very visible but still existing. The phenomenon of blood feud conflicts and the influence of customary traditional rules, especially in mountainous areas make it difficult to implement the law on witness protection and especially to provide for testimonies in the court because of the following consequences. "Each State Party shall take appropriate measures within its means to provide effective protection from potential retaliation or intimidation for witnesses in criminal proceedings and, as appropriate, for their relatives and other persons close to them"<sup>68</sup>. The law on the cooperation of the public against corruption aims to encourage whistle blowers by denouncing public officials for corrupt behaviour<sup>69</sup>. This law foresees the possibility of a monetary reward to the person who made the denunciation if the provided information is true and the denounced public official is penalised. Also, it requires that the institution that receives the denunciation should respect the principle of confidentiality, ensure the anonymity of the whistle blower and guarantee protection for him/her"<sup>70</sup>.

According to the article 281 of Criminal Procedural Code, the public officials are obliged to submit a written report on a suspected criminal offence to a prosecutor or judicial police officer. The lack of cooperation of the public with the police or justice bodies to report crimes has been a major concern in Albania because of the prejudices coming from the communist system as well. During that period, the persons who reported to the police and secret services against certain people were politically motivated, so the majority of the community got distanced, and they had a very poor reputation. The Albanian society has not given up to such mentality, so in general the people do not report to the relevant authorities for different crimes but consider it as only a state obligation. On the other side, they do not feel sure that the state institutions will keep this information confidential. Until several years ago, many police operations failed because of leaked information from the police ranks. "Each State Party shall consider incorporating into its domestic legal system

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<sup>68</sup>United Nations Convention against Transnational Organised Crime adopted in Palermo, 2000, article 24, paragraph 1.

<sup>69</sup> Law no 9508, date 03.04.2006 ' On the cooperation of the public in the fight against corruption"

<sup>70</sup>Law on the cooperation of the public in the fight against corruption", article 12.

appropriate measures to provide protection against any unjustified treatment for any person who reports in good faith and on reasonable grounds to the competent authorities any facts concerning offences established in accordance with this Convention"<sup>71</sup>.

The establishing of proper mechanisms to encourage citizens in reporting corruption to state authorities and increase cooperation of the public with state institutions through the involvement of civil society representatives would help to identify corruption cases and address them.

### **b- Some examples of good governance reforms**

Some examples of good governance reforms undertaken by Albanian government during the recent years are worth mention.

One of them is the reform in the education sector for the admission in the public universities in 2006. As a result of this reform, the students finalising high school studies can sit exams in their own schools, which are then evaluated by anonymous teams from the Ministry of Education. The students no longer need to travel to Tirana to sit their exams in overcrowded auditoriums with the risk of the exam tests being disclosed for corrupt interests.

Since April 2008, the new procedures and regulations on e-procurement were fully applied and have had a positive impact on the increase of access and transparency to all the tender applicants. Although the number of internet visitors is still not high in Albania (according to some surveys 15%), the practise to get the required forms online helps to create equal opportunities for all applicants and to avoid favourite companies. Direct procurement procedure has finally been prohibited.

A good initiative undertaken by the Ministry of Economy, Trade and Energy and supported from USAID was establishing of the National Registration Centre (NRC)<sup>72</sup> and National Licensing Centre (NLC)<sup>73</sup>. Starting from September 2007, the procedure for registration of new businesses is transferred from a multi-phase process going through the court to an administrative process through one stop shop

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<sup>71</sup>United Nation Convention against Corruption, 2000, article 33

<sup>72</sup> National Registration Centre was established in September 2007 in accordance with the law no 9723, date 03.05.2007 following the initiative of the Albanian government through Ministry of Economy, Trade and Energy (METE) and supported by "Stage I" Millennium Challenge Corporation Threshold Programme (MCCTP) administered by USAID, at [www.qkr.gov.al](http://www.qkr.gov.al).

<sup>73</sup> National Licensing Centre was established in June 2009 in compliance with the law no 10081, date 23. 02.2009. It is a central public institution subordinated to the METE, it was established with the support of "Stage II" MCCTP administered by USAID, at [www.qkl.gov.al](http://www.qkl.gov.al).

at the service windows of the NRC established at the regional level. This reform also encourages e-registration of new businesses. It reduces in one day the approval of the registration of new businesses if the required documents are submitted. Also, it applies the silent consent rule (positive silence) if the applicant is not notified on the suspension of the application within the same day of the documents' submission. The establishing of National Licensing Centre helps to reduce significantly administrative barriers and costs of the business entities in the licensing process through one-stop shop and expedited and transparent procedures. A number of licenses and permits for services in the private sector were liberalized and removed. "Albania's economic freedom score is 63.7, making its economy the 62<sup>nd</sup> freest in the 2009 Index. Its level of economic freedom increased by 1.3 points during the past year and it has improved in three of the 10 freedoms. Comparatively, Albania's freedom level is on par with that of other developing Balkan states like Croatia and Macedonia ... However, Albania's overall score is reduced by weak property rights and pervasive corruption"<sup>74</sup>. Also, 2010 Doing Business Report of the World Bank on Albania recognises the progress made by this country during the recent years with regard to the applied procedures and regulations. "Albania is ranked 82 out of 183 economies (countries) in the ease of doing business"<sup>75</sup>.

In the beginning of 2007, the Albanian government took a decision to modify the tax on the personal incomes from the progressive tax to a flat rate one. Also, the corporate income tax was reduced from 20% to 10% effective January 1, 2008. The aim of these decisions was to increase registration of private sector employees in the social security scheme and reduce the fiscal evasion. This reform started to produce some positive results, however, it needs to make more efforts to reduce significantly the number of employees working in the black market.

The establishment of mechanisms and reforms against corruption produce more results than the penal proceedings of the corrupt officials. The shortening of bureaucratic procedures, rotation of the staff in sensitive positions and the staff assignment in the different tasks that are not predictable to them reduce the potential for bribery.

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<sup>74</sup> Freedom House, 2009 Index of Economic Freedom on Albania, at <http://www.heritage.org/index/country.cfm?id=Albania>

<sup>75</sup> World Bank and International Finance Corporation, Doing Business 2010-Country Profile Albania, 5. In the 2009 Doing Business Report, Albania was ranked 89 out of 181 countries in the ease of doing business.

## V. Fighting against corruption versus strengthening public administration

The issues of fighting against corruption and strengthening of public administration are correlated because it is obvious that they have an impact on each other. Normally, the state employees recruited on politically motivated basis seems more inclined to the corruption practices and feel more protected from the state sanctions. On the other side, precedents of unpunished corruption cases discourage the honest part of the public administration.

Unlike in the anti-corruption field, the Albanian governments so far have not expressed clearly and openly their political will about the full implementation of civil service regulations. Modernization of the public administration is formally incorporated in the approved national strategies but it is not considered as a political priority. The pressure coming from the party militants to get jobs in the public sector, high unemployment and unsustainable private sector particularly in the rural areas might be some reasons to remove this priority from the political agenda of the major political parties. Both the government and the opposition overlook this issue or mention it occasionally in the public speeches being afraid that they risk losing the support from the grassroots level. The implementation of the civil service law is not an open debate among the main political parties but just dismissal of the state employees affiliated to their party.

The conception of being a “civil servant” to serve the community, receiving as a payback a fair salary and not for personal benefits and corruption affairs is not imprinted in the memory of the most state employees in Albania. Nevertheless, a job in the public administration remains a special favour offered to a certain number of people because there is still not an empowered and sustainable private sector. However, the transition period in Albania has been a “gold mine” for a considerable number of former state employees who were deeply involved in corruption and latter left public service unscathed establishing their businesses and still benefiting from their connections with the public administration.

So far, the Albanian politicians have not shown to be fully committed to enforce the civil recruitment procedures, performance appraisal and other relevant regulations because it might endanger their clientelism practices. “In a country like Albania, where unemployment is high, the ability to influence “hiring” in a clientelistic way is a source of great power. In this country where private economic activity is limited and public funds are very important, the scope for patronage is enormous”<sup>76</sup>.

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<sup>76</sup>Mirela Bogdani and John Loughlin, *Albania and the European Union, Tumultuous Journey towards Integration and Accession*, I.B.TAURIS, London 2007, 150

The weak public administration is one of the major deficiencies that is hampering European integration of the country and making life difficult for the citizens. A strong political will, which has been lacking up to now, is essential in order to begin the full enforcement of civil service law and gradually shape a modernised public administration.

The fight against corruption has been declared as a priority during the electoral campaign of 28 June 2009 general elections in Albania by the main parliamentary parties. It reflects a common concern of the broad public. These political platforms need to be vested and transcribed in deep reforms specified in each sector and require strong political will, cooperation among parties and professional capabilities to succeed.

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**The Need For Coordination Of Pension Systems In Balkans**  
with a focus on Albania, Macedonia and Kosovo<sup>1</sup>

**1. Social policy context**

This paper will treat one of the social challenges facing the Western Balkan countries in the process of European integration, the need for coordination of the old age pension systems. Along with the economic cooperation, the social security coordination is an important aspect for the European integration of Balkan countries. After 2000, the social policy has taken a special attention in EU agenda, reflected on the EU assistance projects for Western Balkan, with a regional approach. It was related even with the progress done by the Balkan countries in the process of EU integration. Macedonia is become a candidate for EU membership, whereas Albania after signing the Stabilisation and Association Agreements with the EU, is applying for being a candidate country. Kosovo is enjoying the independence<sup>2</sup> and is in the process of state building, under the international assistance, but at the same time is inspiring for EU integration.

Social policy developments, especially the reformation of pension systems reflect internal transition policies in each country, policy transfer from international organizations after the fall of socialism regimes, and increasingly, the influence of EU integration processes. On the other side, pension system not only reflects the changes of the whole social system, but it is one of the instruments to influence the changes. Especially it can put incentives for the labour market participation for both, males and females, mobility of the labour force, etc.

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<sup>1</sup> Some of the findings from a study on "Sustainability of pension system in Balkan", supported by ERSTE Foundation, 2009.

<sup>2</sup> On 17 February 2008, the Kosovo Parliament adopted the Declaration of Independence.

Building up new pension schemes or remodeling the existing ones to respond the new social and economic realities in the Balkan countries was one of the priorities in the strategic objectives for each country. Social state is sanctioned on the basic legislation – Constitution and the guaranteeing the social rights remains the priority on the strategic objectives. Therefore, the process of decision making in this domain should be balanced between the social needs and economic development priorities.

There are used different approaches and established a variety of pension schemes in Albania, Kosovo, and Macedonia. The Albanian old-age pension system is based on the typical Bismarck model, which is actually under process of reformation even in the origin country of Germany. The Kosovo old-age pension system was built as a quite new system based mainly on the Beveridge model. In the Macedonian system, there are combined two ways of financing the old-age pension schemes developed in the European countries: pay-as-you-go and the capital funded, so it is following more the Swedish model. Why such different approaches when Albania, Kosovo and Macedonia have common general indicators such as: small number of population, relatively young population, more than 50 per cent of the population under 35 years old, high level of unemployment, low GDP per capita, etc.

**Table 1.** General indicators on Western Balkan Countries

	Croati a	Bosnia & Herzegovi na	Serbi a	Monteneg ro	<b>Macedon ia</b>	<b>Kosov o</b>	<b>Albani a</b>
Populations in 2007 (in millions)	4.4	3.8	7.4	0.6	<b>2.0</b>	<b>2.1</b>	<b>3.2</b>
Population in 2030 ( projection in millions )	4.2	3.7	7.5	0.6	<b>2.0</b>	*	<b>3.5</b>
Population/k m <sup>2</sup> of land in 2007	79	75	96	45	79	189	110
Fertility rate in 2006	1.38	1.18	1.43	1.64	<b>1.41</b>	<b>3.21</b>	<b>1.37</b>
Under 35 years old in 2006 (in %)	42.7	47.6	42.3	49.2	<b>50.4</b>	*	<b>58.6</b>
Over 55 years old in 2006	5.7	3.1	6.6	4.2	<b>3.8</b>	*	<b>2.5</b>

(in %)							
GDP (per capita in euro), 2006	7.700	2.542	3.434	2.519	<b>2.432</b>	<b>940</b>	<b>2.099</b>
National debt (in % of GDP), 2006	40.9	21.3	37.0	38.0	<b>37.6</b>	*	<b>59.7</b>
Employment rate, 2006	55.6	35.0	49.9	34.8	39.6	28.7	49.7
Unemployment rate, 2006	11.1	31.1	21.0	30.3	36.0	44.9	14.1
Women's employment rate, 2006	49.4	24.0	40.6	27.6	30.7	11.8	38.8
Average age, 2005	40.6	37.1	36.6	35.1	34.2	*	28.6
Life expectancy, 2006	75.4	74.8	73.2	72.8	73.6	69.0	75.9
Infant mortality, 2006	5.2	7.5	7.4	11.0	11.5	12.0	7.4

\*no data available

Source: Krohnert –Hobmann-Klingholz, Europe's Demographic Future, Berlin Institute for Population and Development, 2008, page 325.

Our societies have the advantage to make use of the EU experiences to construct their modern systems of pensions, as they are opened to the influences of the EU developments. On the other side, Balkan countries are no longer entirely free to prevent each other pension system from competing on its own territory with the system it has built. The social security in Western Balkans traditionally has been closely linked to employment status, both in the previous system and even in the reformed system. With the transition to a market economy the employment status of large sections of the populations changed: from employed in state sector now are unemployed, and are trying to find a way to a kind of self-employment or family business. On the other side, the growth of the informal economies has had a negative impact on the reformed pay-as-you-go social security systems.

The regional approach in analysing the pension system is used based on the fact that Balkan countries are facing the same challenge to build at the same time the democratic regimes, free markets, legal and social states. Despite recent economic

growth, the countries of the Western Balkans have low levels of GDP per capita, compared to European countries. These countries also have great difficulty connecting to the global economy. Deindustrialisation has destroyed jobs and led to high level of SME and self-employment in Macedonia, and even more in Albania. Unemployment, informal economies, low incomes and households who depend heavily on remittance incomes are the common features of these countries.

Low inflows of international capital, low export competitiveness and widespread poverty cannot allow the Albania, Macedonia and Kosovo to face the competitiveness with the global economy in such opened systems. These countries did realize the need for the regional co-operation, which is very crucial for their development. The economic cooperation and relations between the Balkan countries underline the importance of enhancing the free mobility of other productivity factors, such as labor force, which is looking to find a place in the regional market. Free movement of the labor force can be facilitated with the coordination of social security and the guaranteeing the pension rights, wherever the people decide to live during their retirement.

The importance of common issues/challenges and the complexity of pension systems are raising the question for their coordination, using the EU experience in Open Method of Coordination.

## **2. Pension reforms**

Pension system inherited from the former Yugoslavia as well the Albanian pension system were a Defined Benefits system, where retirees receive benefits based on the number of working years as well as on the basis of their salaries. The pensions were fully indexed to wage growth, so that the living standards of the elderly were sometimes better than the living standards of the working age population. Pensions aim was protecting the social status, and their replacement rate varied from 70% to 80% of wage, after 20-40 working years. Retirement ages were less than 60 for men and 55 for women. In addition, special privileges were granted for a wide range of workers, like miners, allowing them to retire earlier, with no reduced amount of benefits. The system was financed on a pay as you go basis (PAYG), mainly centrally administered.

After 1990s, all Western Balkan countries have adopted pension reforms in order to relieve pressure on the state budget from increased social demands. Under the assistance of international organizations, mostly of the World Bank, several countries have introduced partially privatized three pillar pension systems, in the environment of underdeveloped capital markets. The term “three pillar” pension

scheme is connected to the three pillar model advocated by the World Bank in the report *Averting the old age crisis*, published in 1994. The three pillars consist of:

1. A mandated, unfunded and publicly managed defined benefit system.
2. A mandated, funded and privately managed defined contribution system;
3. A voluntary retirement system.

In principle, the reform of pension systems reflects political choices, historical traditions and the specific economic challenges faced by the different countries. In many Western European countries the term second pillar is often associated with the supplementary pension schemes set up under collective labor agreements. In some countries such collective schemes have a semi public character and the affiliation of the employers and employees may be rendered obligatory by law. In other countries the collective schemes are set up on a strictly private basis, while participation is not necessarily obligatory. The main characteristics of the second pillar pensions are:

- obligatory for the participants;
- based upon the capitalization method as opposed to the pay-as-you-go principle;
- managed by funds which operate under private law;
- based upon the defined contribution principle.

Such characteristics are typical for the second pillar pension schemes introduced in Croatia Macedonia and Kosovo, while Albania, Serbia, and Montenegro are still remodeling the existing pension systems.

Due to low employment rates, grey economy and a poor record in contribution collections, the PAYG pension system in Albania, as well as in other countries of the Western Balkans are under severe strain. Even private companies and self-employed operating in the formal economy often pay based on the minimum wage, which means that many people will receive just the minimum pension. Second, it means that Health Funds, Pension Funds and Employment Funds often operate at a deficit and must be supplemented by governments' already stretched budgets, reducing resources for other social expenditures. Despite the fact that pensions are in low levels, the pension expenditures have been expensive absorbing about 9% of GDP in Macedonia, and 5% of GDP in Albania.

Pro-market privatised three-pillar pension reforms have been introduced in Croatia, Macedonia and Kosovo, creating a mandatory individual savings scheme. In this kind of schemes, which is linking benefits with contributions, it will be more difficult for the government to create privileges for special categories, like in the former system, (for example for miner, military forces, etc.). The main challenge for Balkan countries in transition is the 'informal' employment. This is one of the factors for remodeling the pension systems from wage-oriented model to the defined contribution pension system. In the three pillar pension system, it is combined the

pay-as-you-go method of financing with other methods, for developing self-supporting schemes, as well as to share the responsibilities between the state, employers and their employees. The state has to make sure that the insured persons are objectively informed about the consequences of their choices, for example for specific pension funds or investment arrangements.

Public pension schemes have only been subjected to some marginal parametric reforms in Albania, Serbia, and Montenegro. "Given the risks inherent to the three pillar pension systems which have already been introduced in the region, countries which have not yet introduced such schemes - Albania, BiH, Montenegro, and Serbia - may be well advised to pursue further reform, and focus on improving the effectiveness of existing pay-as-you-go pension systems, rather than rushing headlong into the partially privatised systems".<sup>3</sup>

Country	Starting	First pillar	Second Pillar	Third Pillar
Albania	1993 1995	PAYG DB -21.6% Mandatory + Voluntary	Supplementary for senior civil servant and military forces PAYG	Voluntary Private Pensions
Kosovo	2002 2007	Social Pension 40 Euro + 35 = 75 Euro/15 years	Fully Funded 5:5 =10% Mandatory <55	Voluntary Fully Funded pensions
Macedonia	1993 March 2002 January	PAYG DB-12,35% remain in the Mandatory Voluntary	2005 - Fully Funded 6.65% Mandatory – all employed after 1 <sup>st</sup>	Voluntary Fully Funded

<sup>3</sup> EJSS article – Bartlett & Xhumari 2007.

	2008		January 2003 Voluntary -others	
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Increasing the coverage as well as the replacement rate remains the main challenges of the pension system in Balkan. The redistributive element is still stronger, like in the previous regime. Common challenge for all Balkan states is that pension systems to be better suited to the market condition, to increase work incentives; to give priority the insurance principle; comparing with the income redistribution; to encourage payment of the contributions in higher levels, and consequently the higher benefits in return.

Today EU is emphasizing new principles as social solidarity and social inclusion. All the social actors, even the vulnerable groups need to be involved in the policy making process. This idea comes out after a long history of the organizations of the interested groups, which today are ready to come in the game of political process with new ideas to protect the interest of the groups they represent. How it can happen in our societies, where the social awareness is still underdeveloped and the representatives of groups not yet cristalized?

### 3. EU Integration - the need for coordination of pension systems in Balkan

Being **the EU integration as the main priority** for Balkan countries is facilitating the use of the EU experience and objectives on pensions.

Along with the importance of bilateral agreements in social security within Balkan countries, the coordination of the first pillar of the pension system will be very soon in the main agenda of social policy. Which are some of the main characteristics of the first pillar of the old age pensions in some of the Balkan countries?

**Table 2.** Comparative data on the first pillar of the old age pensions, 2007

Countries	Average monthly pensions (€)	Replacement rate (%)	Pension contribution rates (%)	Share of pension expenditure in GDP (%)	Number of beneficiaries/ of the over 65 years old population
Albania	50	43.4 – urban 27 – rural	21.6	5.5	130% of the over 65

<b>Croatia</b>	257	34	20.0	14	n.a yet
<b>Macedonia</b>	38-80%	42	21.2	9.6	n.a yet
<b>Montenegro</b>	91.70	56.7	24.0	17	40,000/ 48.2% of the over 65 83% - male
<b>Serbia</b>	90 70- farmers	61	22.0	10.5	385,000 70% of the over 65 211,000-farmer
<b>Kosovo</b>	45 - basic 85 - with 15 years insurance		10.0 – second pillar	3.5 <sup>4</sup>	100% - there is a basic pension

The social security is an instrument which provide safeguard against the risks of the uncertain economic development, such as temporary or permanent dropping out of the workers from the labour market. *As long as the market is globalized, the instruments such as social security are globalized as well. So, common rules need to be established to guarantee the social rights of the labour force wherever they decide to work and live in their retirement, for today and for tomorrow.*

What is happening in Balkan countries is that they are moving in the adverse direction. If today the EU states are discussing how to coordinate the pension schemes established hundred years ago, the Albania, Macedonia and Kosovo have had similar pension systems during the socialist regimes, and now are reforming it in a diversified way that may create problems for the free movement of people and services, when the Shengen will be established. How is the pension system responding to the free market, free trade, free movement of the labour force and services in the Balkan region, to better accommodated in the flexible environment?

How the pension system is responding to the diversified social structures, demographic and family changes? Should the pension system strengthen the values such as equality through the high redistribution instrument aiming in poverty alleviation, in such countries dominated by self-employment, or it has to function for income replacement based on contributive principle and social justice? If the EU today is looking for new forms of social solidarity, does the redistributive element, as the main feature of the previous socialist system need still to be strengthen? Does the

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<sup>4</sup> Studies on 'Social Protection and Social Inclusion' in the Western Balkan countries:  
[http://ec.europa.eu/employment\\_social/spsi/enlargement\\_en.htm#studies](http://ec.europa.eu/employment_social/spsi/enlargement_en.htm#studies)

pluralistic political system, implemented in the governance of social security through tripartite governing bodies, and the new labour relations are in conformity with such a high level of redistribution in public pension system? The main question is how to organise social protection systems in such a way that they help, in particular, to guarantee that everyone has the resources necessary to live in accordance with human dignity, which mean that active population to pay as much as they can provide incomes necessary for elderly and to have enough for themselves. These are crucial questions for the future developments of the pension systems.

The pension institutions are in the process of remodeling to increase their sustainability and adequacy of benefits, to be flexible in new realities, which are in rapidly changes and to be in conformity with required standards in the process of EU integration. The process of EU Integration of the Balkan countries has put in the agenda social protection and inclusion when pension is one of the priorities. The ILO Convention 102/1952 on the Minimum Standards of Social Protection must be the underline principle on the strategic objectives for the development the sustainable social protection systems. This is another tool for integration of pensions with other social benefits, respecting the rules on coverage and adequacy of benefits.

The focus is the need for coordination of the old age pension systems in Albania, Macedonia and Kosovo, in the process of European integration of such countries. How the European experience is used in the co-ordination of the pension system. The EU integration process of Balkan countries has created the natural environment for more regional cooperation in economy, which is expecting to bring a free movement of the labor force and the need for guaranteeing their social rights.

#### **4. OMC-learning from each other, from the best experiences in region**

The coordination of the first pillar of the pension schemes in the Balkan and the Open Method of Coordination (OMC) may be used to share the best experiences on pensions. The regional economic cooperation, extending opportunities for the Balkan citizens who are moving and working in different countries of the region would require improvement in legal framework of the pension systems, and bilateral agreements between governments and the respective agencies responsible for administration of the pension schemes.

EU aims at preparing candidate and pre-candidate countries in the Open Method of Coordination on social inclusion and, from 2006, social protection.<sup>5</sup> Joint

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<sup>5</sup> European Commission, DG Employment, Social Affairs and Equal Opportunities, Social protection and inclusion policies. Antonia CARPARELLI, Head of Unit EMPL E2: Conference on EU social protection and inclusion strategy, March 4, 2009 Tirana.

Inclusion Memoranda' (JIM) process outlines the principal challenges in relation to tackling poverty and social exclusion, and from 2006, in relation to three main fields: pensions, health and long-term care.

Overarching Objectives are:

- Social cohesion, equality between men and women and equal opportunities for all through *adequate, accessible, financially sustainable, adaptable and efficient social protection systems* and social inclusion policies.
- Effective and mutual interaction between the Lisbon objectives of greater economic growth, more and better jobs and greater social cohesion, and with the EU's Sustainable Development Strategy.
- *Good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.*

In 2002, EU social policy cooperation started with the 10 countries which acceded in 2004. Learning process on both sides is based on the Social Protection & Inclusion Studies.<sup>6</sup>

Relating the 'Pre-Candidate' Countries co-operation on social protection is still in a preparatory phase. A series of seminars on the EU Social Protection and Social Inclusion Process, the latest March 4, 2009 in Tirana, as well as in other countries. Studies on 'Social Protection and Social Inclusion' are supported for all the Western Balkan countries.<sup>7</sup>

The public and even the social partners as well Academia are not enough informed about what the concepts of coordination of social security schemes and overall European social security policy imply and the rights and obligations after the accession.

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<sup>6</sup> The current 3 Candidate countries: Croatia-JIM signed in March 2007, second JIM follow-up period 2009-2010, Turkey -JIM process launched in late 2004, but not yet signed, and the former Yugoslav Republic of Macedonia -accession negotiations have not yet started, JIM process not yet launched.

<sup>7</sup> [http://ec.europa.eu/employment\\_social/spsi/enlargement\\_en.htm#studies](http://ec.europa.eu/employment_social/spsi/enlargement_en.htm#studies), which are used as a point of reference.

In the Regional level –Integrated social protection will increase the choices, to promote access to stable employment and the pension rights connected with it. Social Security Coordination Network in Balkan is started with the Regional Co-ordination Centre on Social Policy in Skopje. It needs much attention to develop and support the comparative studies in the context of the EU integration of the Western Balkan countries. For sure that importance of an integrated approach, of public and private pension schemes, not only to make a decisive impact on the eradication of poverty among elderly population, but also to ensure adequate pensions is the main priority. In this difficult road our countries need to develop transparency with contributors and beneficiaries, more information and awareness of the public on what is going on with reforms of the pension system.

I am emphasizing the application of the OMC in Balkan countries, as an instrument to share and learn from the each other experience, mainly on pension schemes, and more concretely:

What can learn Albania from the experience of other countries in reforming the pension system?

- Building the trust on pension system by reducing the redistributive elements
- Introducing the tax incentives for employer schemes
- Replace abusive support for self-employed in agriculture with productive incentives – the same rules of game
- The state to guarantee for all elderly a minimum income by knowing the insurance periods in service work at home as well as the coefficients for difficult jobs
- The guarantee pension from the compulsory pension scheme at the level of 40% average replacement rate – ILO Convention 102/1952 (Ratified,2005)
- Improve adjusting mechanism to differentiate the benefits according the contributions and maintain the social status, fix in law the time of indexing.
- Sanctioned by law the rights of migrant workers and bilateral agreements
- Encourage the second pillars, may be financed out by the employers
- Introducing insurance/allowance child benefits

What can learn Kosovo?

- Building the trust on the actual pension system, introducing or not a PAYG system for differentiating the pensions according to contributions

- Investing the pension savings in producing & exporting the energy in the country, aiming to increase the economic development and employment.
- Fix by Law the rules of indexing

What can learn Macedonia?

- Sharing the responsibility between the state, employer and the employees in contribution
- Economic Cooperation in Region for Investing the pension savings and increasing the employment
- No conditions (at least five years of insurance) for survivor pensions
- Gender approach – unify the rules

Reaching the strategic long-term social and economic stability, social policy aims *not only social protection of the citizens, but also to influence the development of human potentials*, changing of people's mentality to respect the rule of law. Citizens should learn that democracy is the respect of human rights, and that democracy can be reached with solidarity in the contributive pension system.

The main efforts need to be concentrated on the sustainability of the existing pay-as-you-go system. Decreasing the dependency ratio and increasing the replacement rate, remain the main challenges of the pension system today in Balkan countries. The influence of global market and price liberalisation eventually lead to a lowering of social standards. There is necessary to give shape a credible, effective and modern pension policy which is directly influencing all generations: young generation as contributors, and the old generation as beneficiaries.

Democracy in social policy implies the possibility that certain social interests be ever more broadly represented in the decision-making structures of the social policy. But interests are represented when groups and individuals are aware of them. The public *information* and awareness of all citizens for their rights and responsibilities to the social legislation will encourage the active participation of all actors in building sustainable social security systems. A conclusion from the history of social policy is that has been the pressure of the interested groups and of the social partners, one of the factors of the progress of the social programs. We need only to use this experience in our specific conditions, in our movement from collective consciousness and mechanic solidarity to individualism and organic solidarity. Understanding the social security institutions and the process of their developments is a source of power for everybody, because the way how it is functioning is of the interest for all members of our society.

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**The Energy Community of Southeast Wurope: Finding New Approach for Enhancing  
the Regional Cooperation  
(an alternative to EU Enlargement?)**

The regional integration process is seen positively by the EU as a way to keep the Balkans on the path of development without making them immediately member states. EC used neo-functionalism and the spill-over effect as guiding principles in this process and it created the Energy Community of Southeast Europe. However, a new approach is needed in order to develop this idea properly and that is the neo neo – functionalism. ECSE's course of development depends on many factors that may or may not have positive spill-over into other areas and with that become the stepping stone of deeper regional integration.

**Key words:** Energy Community of Southeast Europe, Western Balkans, Neo functionalism

## **1. Introduction**

Torn by the promises made to the countries of the Western Balkans (further in the text WB) that the door to their entrance in the EU is open and the fatigue caused by the enlargement in 2004 combined with the problems of the adoption of the new treaty, left the EU on a crossroad.

Fighting with its own problems the EU was trying to keep the region on the tracks of further development by finding some solution that does not include immediate membership. In this light the "Solomon" solution was something already done in the EU: creating regional community between the old enemies in some highly technical area that connects them. The EU duplicated the old Coal and Steel Community in the Balkans and in 2005 created the Energy Community of Southeast Europe (further in the text ECSE). This is the first legally binding treaty since the beginning of the 1990's between the countries that were at war in that period.

For creating this kind of community, the EU relied on the well known neo-functional method. Although this method has been criticized a lot and eventually thrown away by all influential thinkers (even by its pioneer Ernest B. Haas) still, many in the Commission are guided by it and believe that it can show results if it is implemented in other regions too.

However, not everyone agrees about the effectiveness of neo-functionalism and rightfully so. As every other theory this one too has its flaws and it is especially questionable if it can be applied at the Balkan circumstances.

The paper will evolve within these lines, while discussing in the end the future possible solutions for enhancing the regional cooperation in the Balkans and the implementation of a new theory called neo neo functionalism.

## 2. The Creation Of The Energy Community Treaty, Its Structure And Duties.

As it was mentioned in the introduction:

*“The guiding ideas for the Commission officials involved in designing the institutional set-up were explicitly taken from the early experiences of European integration and referred to the neofunctionalist model of regional integration... Europe, started the initiative for an integration process in a technical sector, and provided for the institutional capacity for possible spill-over into other policy fields. As one Commission official involved argued: “We try to get everybody to agree on a common position and a common way forward...”<sup>1</sup>*

The signing of the Energy Community Treaty took place in. This Treaty is based on the Thessaloniki Agreement and the Athens Memorandum of Understanding. This memorandum was signed in 2002 and was based on “the principles, which are set out in the Stabilisation and Association process, of cooperation between the European Union and the countries of the region, and of the necessity for co-operation between countries of the region”<sup>2</sup>. With this, the creation of the national energy authority body, national independent regulatory body, transmission system operators and distribution system operators in each country signatory of the Memorandum was set. It was all done with one purpose, to create an integrated regional energy market in which there will be fair competition and fair prices for the customers. The countries that signed this Memorandum also signed the ECSEE and they are:

- EU Member States: Austria, Greece, Hungary, Italy, Slovenia;
- Regional members: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia and Montenegro, Turkey, Kosovo;

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<sup>1</sup> Renner Stefan *“The Energy Community of Southeast Europe: A neo-functionalist project of regional integration”* European Integration Online Papers, 25.02.2009, page 7 of 21.

<sup>2</sup> Memorandum of Understanding on the Regional Electricity Market in South East Europe and its Integration into the European Union Internal Electricity Market (“The Athens Memorandum - 2002”), page 2.

- Observers: Moldova.<sup>3</sup> (before the creating of ECSEE, observers were also Austria, Hungary, Slovenia and Italy which later, when the Energy Community was created, joined the other regional members. Now only Moldova left as an observer country-author's remark)

The obligations coming from the Treaty are "...to unbundle generation, transmission, and distribution, while establishing independent sector regulators and transmission system operators (TSO's)"<sup>4</sup> which was supposed to be finished by 2005. How this process will be developing, will be supervised by the organs created and those are:

1. Ministerial Council
2. Permanent High Level Group
3. Energy Community Regulatory Board (ECRB).
4. Fora.
5. Secretariat.

The instant benefits that can come out of this project are: "...increased reliability in electricity supply; lower operating costs; reduced needs for additional capacity investments, especially in generation; improved opportunities for intra- and interregional trade, including peak load by hydro producers in the region; and lower prices for the end-customers."<sup>5</sup>

Going along these lines, how the pace of development is going and what has the neo-functional method got to do with it, will be discussed in the next part.

### 3. The Role of Neo-Functionalism in the Creation And Development of Ecse.

First an extensive definition of what neo-functionalism represents. It is:

*"A theory of regional integration that places major emphasis on the role of non-state actors – especially, the "secretariat" of the regional organization... regional bureaucrats in league with a shifting set of self-organized interests...exploit the inevitable "spill-overs" and "unintended consequences" that occur when states agree to assign some degree of supra-national responsibility... According to this theory, regional integration is an intrinsically sporadic and conflictual process, but one in which, under conditions of democracy and pluralistic representation, national governments will find themselves increasingly entangled in regional*

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<sup>3</sup> BRIEFING NOTES, Energy Community of South Eastern Europe, page 1.

<sup>4</sup> Kathuria Sanjay, *Western Balkan Integration and the EU, an Agenda for Trade and Growth*, The World Bank, page 101.

<sup>5</sup> Harry G. Broadman, James Anderson, Constantijn A. Claessens, Randi Ryterman, Stefka Slavova, Maria Vagliasindi, and Gallina A Vincelette, *Building Market Institutions in South Eastern Europe, Comparative Prospects for Investment and and Private Sector Development*, The International Bank for Reconstruction and Development/the World Bank, page 210.

*pressures and end up resolving their conflicts by conceding a wider scope and devolving more authority to the regional organizations they have created..."*<sup>6</sup>

The European Union is known for its customs to exports not only goods and services but also policies. This is called *External Governance or Europeanization*<sup>7</sup>. As a highly successful polity and a leading democratic force in the world it is easy to impose its directives in its relations with other non-EU countries that seek for cooperation. That is why on the path to the EU every potential candidate has to adopt the *acquis communautaire* as a most important precondition for becoming a member.

However, the case with the Balkans has been rather complicated. After the promise that the region will not be left out of the enlargement process (Thessaloniki 2003) and after the enlargement fatigue occurred (2004 and 2007), the EU "*first...continues with the pre-accession strategy in a similar mode to that...of...Central and Eastern Europe. Here, however, the Union faces a fundamental commitment deficit without a clear timeframe for a future EU-membership...Secondly...the EU not only offered EU-membership, but insisted on a regional rapprochement of the countries of the former Yugoslavia.*"<sup>8</sup>

Here is where the theory of neo-functionalism comes to stage. Its pioneer is Ernest B. Haas (1958) which upgraded the functionalism of Mitrany (1943). This theory has been the leading one behind the creation of the European Union. It all started with the creation of the European Coal and Steel Community in 1951, where, as known, the old enemies united in a highly technical area with one supranational body overlooking the coal and steel industry. With time the competences spilled over to the other areas (ex. the social and political) and the end result (which by no means will be the final one) is the EU as we have today.

It is clear that the EU is going for the rule "one size fits all" and trying to inflict this theory to the WB with the creation of the Energy Community. What they are hopping to achieve is to start to unite the old enemies in the strictly technical area of the energy production, distribution and policy and hopefully with time "through an

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<sup>6</sup> Schmitter C. Phillipe "*Neo Neo Functionalism*" Wiener, Antje and Thomas Diez, eds. *European Integration Theory*, Oxford: Oxford University Press, July 2002, pages 2 and 3.

<sup>7</sup> Europeanisation in political science has been referred to very generally as 'becoming more European like'. More specifically than this, it has been defined in a number of ways. One of the earliest conceptualisations of the term is by Ladrech (1994, 69) who defines Europeanisation as 'an incremental process of re-orienting the direction and shape of politics to the extent that EC political and economic dynamics become part of the organizational logic of national politics and policy making.'

<sup>8</sup> Renner Stefan 2009, page 5 of 21.

increased level of interaction, social interests and loyalties that hitherto have been directed to the national authorities will shift to supranational authority.”<sup>9</sup>

The issues that arise from the implementation of this theory in the Balkans and why it might not be applicable are few but relevant. First, “...the counties of Southeast Europe did not create their own rules for the regulation of their own energy sectors...but committed themselves to adopt the relevant EU legislation.”<sup>10</sup> Second issue is the power that the Energy Community has as such (including the not yet determined obligations of the Secretariat which is imagined to be replica of the EC). By now the ECSE “...is largely concerned with monitoring and supporting the participating parties in implementing the relevant *acquis communautaire* on energy, environment and competition.”<sup>11</sup> Thirdly, the issue of not having an established court may well decide the future development of this community. It is widely known the importance that the European court of Justice had on the development of the EU. It “...has been a major influencing factor in making the constitution of the EU more supranational by laying down rules.”<sup>12</sup>

Last but not least is the prevailing nationalism and unresolved issues in the Balkans. The future status of Kosovo and the deteriorating situation in Bosnia, the development of Serbia, the issues that Macedonia has are just a few of the major problems left to be dealt with in the time to come. When the world economic crisis and the enlargement fatigue are added to this then the prospect of the ECSE does not look good as it once did.

Since the neo-functionalism does not have satisfactory answers to the issues mentioned above it is time to contemplate other theories that might have a better explanation of where this regional integration is heading towards. One such theory will be discussed in the next chapter.

#### **4. Neo neo functionalism and its application in the ecse case.**

Neo neo functionalism was presented by Philippe C. Schmitter as a correction to the neo-functionalism. This theory does not claim that all regional organizations created will grow into something bigger per se. Its answer to whether “spill-over” into new tasks or level of authority will occur is: it depends! Not that it has to happen or that it will automatically happen. It depends on many conditions that may or may not take place and no one can predict whether they will.

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<sup>9</sup> Hofer D. Stephan 2007, page 4.

<sup>10</sup> Hofer D. Stephan 2007, pages 12 and 13.

<sup>11</sup> Renner Stefan 2009, page 14 of 21.

<sup>12</sup> Structure of the EU 2: Institutions of the Supranational Level II,  
[http://www.dadalos-europe.org/int/grundkurs4/eu-struktur\\_2.htm](http://www.dadalos-europe.org/int/grundkurs4/eu-struktur_2.htm)

What Schmitter is explaining is that every organization has to pass through two types of cycles:

1. Initiating and
2. Priming.

*“During the initiation cycle(s), the probability that a given national actor will push a spillover policy is relatively low...if only because initial insecurity and mistrust of partners is likely to make all negotiators more cautious.. As regional processes begin to have a greater effect, national actors may become more receptive to changing the authority and competences of regional institutions.”<sup>13</sup>*

This is the case because every country is reluctant to give up some of its sovereignty and authority at the beginning and transfer it to an organization which can undermine its position at home and with its neighbors.

Following this, there are three possible ways of development of the ECSE:

1. Greater integration;
2. Collapse;
3. Continued dealing with technicalities which has to end up in one of the previously mentioned stadia.

In which way the organization will develop, as it was mentioned before, is not likely predictable. It can exist just for satisfying the technical needs of the countries' signatories or if one of the actors is 'weakly affected by...the development of regional identity...but highly sensitive to perceptions of inequity on comparative rate of return..."<sup>14</sup> the *spill back strategies* will kick in and the organization will collapse. If on the other hand the priming cycles have kicked in “the most likely strategy to prevail...is the ‘spill over’. Herein lays the core dynamic of neo (and neo-neo-) functionalism – namely, that the regional processes...will dispose national actors to resolve their inevitable dissatisfactions by increasing both the level and the scope of common institutions.”<sup>15</sup>

However, the efforts to prove that these processes most definitely will occur in the case of the ECSE can satisfy the current climate in the region and the EU but it is most certainly a dangerous ground to walk on. “Only regional integration experiments that make it through the priming cycles are likely to transform themselves into something qualitatively different. They will have exhausted the potentialities inherent in functionally integrating their economies and dedicate more and more of their

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<sup>13</sup> Schmitter C. Phillipe, 2002, pages 31 and 32.

<sup>14</sup> Schmitter C. Phillipe, 2002, page 32.

<sup>15</sup> Schmitter C. Phillipe, 2002, pages 32 and 33.

efforts to functionally integrating their polities.”<sup>16</sup> Since the Energy Community, created in 2005, has not come to the stage of the priming cycles (even though the countries are well acquainted with themselves and are quite similar in cultural, economical and political sense), it is highly questionable if it ever will. The levels of distrust are still high (having in mind the conflicts of the 1990's) and even now the will to join the EU is far bigger than the will to cooperate regionally.

## 5. Conclusion.

The Energy Community of Southeast Europe has a great potential to reunite the former enemies just like the Coal and Steel Community did for Western Europe. It was made in the 'halls' of the Commission as some sort of a plan B for the delayed accession but with a clear agenda – to keep the Western Balkans on the path of the reforms.

Its institutions are replica of the EU institutions and the main topic is highly technical area which unites the countries in one market which is crucial and where benefits are rather mutual than individual. The ECSE functioning and good governance will soon have positive effects, which will 'spill-over' into other areas directly or indirectly connected.

This was the plan of the EU. However there are some important obstacles that negate its validity in the said case. The facts that there is no court which can push the integration forward with its precedents, like the EU's case, or that the nationalism and ethnic dividedness are still prevailing in the region work against the confirmation of neo-functionalism in this specific case.

For that reason this paper argued that more appropriate theory for explanation of the ECSE would be the neo neo – functionalism which unlike its older version does not state that the regional community would definitely grow into something bigger and would have positive spill over effects on other areas. The main point here is that it all depends! It has to pass first the initiating cycles to come to the priming cycles where countries are well interconnected and then there is a possibility to discuss deeper regional integration. Since the EU is the only highly complex man-made polity out there, the question of whether this community will develop in the same way remains open.

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## **Knowledge and Innovation policies in the Direction of the European Integration**

### **Abstract**

Knowledge and innovation have become the key to competitiveness and economic success. In the pursuit of economic competitiveness, the ability to achieve success in the market depends from the labor competitiveness and innovation. Europe realizes an innovation policy as a shared vision with the priority of building a knowledge-based economy. Also, one of the most important determinants of the competitiveness of the workforce is the country's education system. Paper explains the EU activities related to achieving a knowledge-based society and a competitive workforce. The national innovation policies of the EU-member countries are being developed within the global and European development directions, but at the same with regard to the specific characteristics of the national economies, especially to the primary drivers of the technological export breakthrough on the global market. After opening remarks, we propose some theoretical starting points. The next part of the article provides some international comparisons and discusses the situation in the Republic of Macedonia. After receipt of some current problems in Macedonia, the paper ends with suggestions for improving the future situation. The two-level model (national innovation policy and knowledge-based society) seems like the most appropriate approach for Macedonia both with regard to the robustness of the tasks that should be performed in the next development phase and to the going in the direction of the new economic and social changes in EU.

**Key words:** knowledge, innovation, competitiveness, the European Union, Macedonia

### **Introduction**

When a society becomes knowledge-based, it faces challenges on a variety of levels. How and why knowledge is produced and shared, where it is produced, how knowledge spillovers affect new knowledge creation and parameters of use, changes in strategic decision making in knowledge-based environments and how public policy can and should adapt all are crucial issues. Today, we are living in a chaotic transition

period to a new age defined by global competition, rampant change, faster flow of information and communication, increasing business complexity, and pervasive globalization. The pace of change has become so rapid that it took a different type of firms to be dominant and marked entirely new era of business. The rapid development of the knowledge sphere of the rich countries today is one of the most notable mega-trends in the evolution of human civilization.

In the new economy, the knowledge component of products and services has increased dramatically in importance and has become the dominant component of customer value. The shift to knowledge as the primary source of value, makes the new economy led by those who manage knowledge effectively – who create find, and combine knowledge into new products and services faster than their competitors. More over, the capability to innovate and to bring innovation successfully to market will be a crucial determinant of the global competitiveness of nations over the coming decade. Undoubtedly, there is growing awareness among policymakers that innovative activity is the main driver of economic progress and well-being as well as a potential factor in meeting global challenges. The actualization of the "knowledge and innovation factor" as a solution to the general problems of economic growth is a very important and controversial subject of economic policy in Macedonia.

This paper aims to provide empirical and theoretical analyses of issues relating to creation and use of knowledge and innovation in the knowledge-based economy. First, we provide some theoretical argumentations. Then, we discuss about knowledge and innovation policy as a main strategic tools for achieving growth and competitiveness in the European Union. Last, but not the least, we investigate the past and current situation on this matter in the Republic of Macedonia and then the paper ends with some suggestions for improving its future situation.

## **v. Theoretical Framework**

Knowledge-based economy is one in which the creation and use of knowledge and ideas or innovation have a crucial role in the acquisition of wealth. Even more significant, Europe realizes an innovation policy as a shared vision with the priority of building a knowledge-based economy. Having this in mind, we present some theoretical argumentations behind this concept. Referring to the overall growth of all countries and especially, in addition to the concern of the growth in the economies in transition, EU suggests that if they want to increase their competitiveness, they should develop their competitive advantages at the national level in order to face with competitive pressures, primarily coming from EU countries (Radosevic, 2003).

The role of innovation in the success of the nation and the industry is best introduced and expressed by the famous economist Michael Porter. Porter used a

diamond shaped diagram as the basis of a framework to illustrate the determinants of national advantage. (Porter 1990, p.73) Porter argues that competition takes place around the creation and assimilation of knowledge and insists that the nation's competitiveness depends on the potential of national industry to innovating and developing. Porter also argues that national success of different countries may be a combination of many factors. He flatly rejects the widespread belief that government policy would like an active exchange rate policy and antimonopoly stimulation of the economy. Instead, he refers to the examples of industries that have succeeded in global level and argues that companies achieve their competitive advantages by innovation activities (Porter 1990, p.74). According to him, the innovation is not only the introduction of new technology (which results in new products), but also it relates to innovation processes and innovation in organizations (eg, new processes within companies). However, he emphasizes that the international dimension - effects of innovation (eg, innovated products) must be placed on the international market. Porter believes that the successful innovations arise when companies are under strong competitive pressures and despite the fact that their innovation activities can run into criticism and great obstacles. The maintenance of competitive advantage is a continuous process of improvement and upgrading because competitors are able to imitate any competitive advantage.

Creation and use of knowledge is the second relevant factor that has important role in the generation of growth and acquisition of wealth in the globalized societies. General knowledge and education system are becoming one of the most significant factors in the present conditions of the world economy. Today, globalization creates a need, the societies to be based on the knowledge. Key determinant of a knowledge-based economy is human capital, or its essential knowledge, expertise and capabilities. In the traditional industries, most of the jobs require the employees to know to do routine tasks. In the knowledge-based economy, fast changes are forcing workers to acquire new knowledge, expertise and abilities and to upgrade them during their whole working life. Also, one of the most important determinants of the competitiveness of the workforce is the country's education system. Education allows the country to shift the scale of development and transfer the production of simple products to complex ones. Educated workers more easily accept the new technologies and also develop their own ones.

Barro, Sala&Martin (1995) showed that the level of education of the workforce (measured by years of schooling) and public sector allocation for education is closely linked to the growth rate of real income per capita. High competent workforce depends from the quality of the education regarding the population. Bassani and Scarpetta (2001) found a high level of cohesion between the increased level of education and economic growth of the country. According to their research,

any additional year of education of the population allows individual countries to increase production per capita for 4-7%.

However, the value of formal education should not be overestimated. Most of the researchers agree that human capital is an important determinant of competitiveness and economic development (return on investment in education is higher than the return of any other investment), but not a guarantee of development as the country with the best human capital does not necessarily achieve the best development results. In general, a large number of people with (outdated) academic education is not a true indicator of the competitiveness of the workforce. Workforce can easily be under-educated or unappropriate-educated or some employees may not possess the knowledge necessary for successful economic competition. In the conditions of rapid technological development, school diplomas and academic degrees do not guarantee economic success of individuals or even society as a whole. So the company can not rely only on those who have completed the educational process or on the labor market as the most important source of new knowledge and skills. It is therefore important to develop long- term educational and training programs and adult education, and ensure the participation of the entire population in it.

In many developing and as well in transition countries, existing systems of education are costly and ineffective, but unfortunately, there is no simple way of improving them. Today employees must be able to create, analyze and transform information, effectively communicate, organize and coordinate business activities. They should develop communication skills and information knowledge as well as ability and willingness to further teaching and training. The biggest challenge for these countries is not only a question of how to gain the hardware, but to provide knowledge and know to use modern technology. Educational systems must not only encourage the acquisition of knowledge and skills related to specific tasks, but rather should be focused on developing the skills of decision making and problem solving, and training for future self-teaching and participation in the education system. The pursuit of competitiveness of the workforce is particularly important to tertiary education because it directly affects the productivity and competitiveness of the national economy and improving life standards (World Bank, 2002). In short, the educational structure of population and employees conformity with the economic needs, is becoming a crucial determinant of competitiveness and economic development.

## **2. Knowledge and Innovation Policy: Main Strategic Tools for Achieving Growth and Competitiveness in the European Union**

In the era of globalization, the growth and development should be achieved through expanding the possibilities of gaining information and using communication technologies, which has led EU to set long-term determinants in order to become the most competitive economy in the world based on knowledge.

The World Bank (World Bank, 2002) proposes many measures in order to assist countries in determining a strategy for transition toward knowledge-based society and economy.

- Economic and institutional systems that provide support for application of existing and acquire new knowledge and enterprise development.
  - Educated and skilled population that successfully creates, shares and uses knowledge.
  - Dynamic information infrastructure to facilitate effective communication, exchange and process information.
  - An effective innovation system of firms, research centers, universities and other organizations that would increase the volume of knowledge in the world, customized and conformity with local needs and facing the creation of new technologies.

The transition to knowledge-based society is the way to join the world of EU global competitors. In 2000, The European Council has adopted the Lisbon Strategy, where the main goals for the next ten years have been set for the purpose of becoming the most competitive and knowledge-based economy in the world, capable of sustainable economic growth, with greater opportunities for employment, better jobs and higher social cohesion.

At the Lisbon summit, it was expressed a strong view that innovation should be the basic mechanism of the transition to a knowledge-based society (Council of European Union, 2002). Therefore, innovation policy has become one of the main strategic tools for achieving the competitiveness of industry and thus for the maintenance and stimulation of economic growth in the EU. The EU approach to the innovation policy has more aspects. The elements of innovation policy refer to the industrial policy and company policy development, where the emphasis is on small and medium-sized enterprises. This position can be seen in the Lisbon strategy (such cases the Official Document Lisbon Summit of the Council of Ministers), in which it is proposed establishment of a European areas of research and innovation, creating a friendly atmosphere for the establishment and development of innovative

enterprises. Likewise, the small and medium-sized enterprises should be the key drivers of the innovation. As a mean of achieving these goals, EU proposes key link by the creation of the innovation network between companies and financial market, research and development, research and education institutions, advisory services and technological market. The important determinant of the strategic opportunity to strengthen innovation in the EU is evident in the next events. During the summit in Barcelona in 2002, the European Council reviewed progress on the basis of the Lisbon strategy, confirmed the commitment to encouraging innovation and called for research activities which has made a significant stimulation of research and development and innovation activities in the EU (European Commission, 2003). In conclusion, the Council has expanded the requirements for the expenditure dedicated to exploring the formulation and development (goal is for 2010, reach about 3% of GDP, with 2 / 3 of investment should come from the private sector).

Furthermore, EU sent a call for strengthening research business research and development through an integrated strategy that covers the increase in competition, better access to capital for more risky ventures, as well as better protection of intellectual property rights and dissemination of technology. The statement of the Commission on innovation policy in 2003, was also an extension based on the conclusions of the Lisbon strategy (European Commission, 2003). The statement calls for a wider definition of the concept of innovation, with the aim that the policy does not omit the less obvious or less well-known forms of innovation activities. It is also required interaction of innovation policy with other policy areas, eg industrial policy, which should increase the success of the innovation policy.

The key factor for industrial competitiveness is actually stated in the 'Industrial policy of innovation in the enlarged Europe' and is highlighted together with the knowledge and entrepreneurship (European Commission, 2003, 2004). The statement says that the European industry must become more innovative by ongoing installation, training and improving their products, processes and services. It is emphasized that the entrepreneurs need to develop innovations. The Green Paper on entrepreneurship innovation is considered one of the key challenges. (European Commission, 2003).

The strategy is focused on competitiveness and cohesion of the EU by increasing the innovation economy and creating more jobs and better jobs. The implementation and achievement of the strategy should be set in a way that suits the conditions at the national level of the relevant countries. It was agreed that the European Council will meet regularly and discuss implementation strategies and propose measures of its improvement. The process of economic growth and social cohesion in the EU was the subject of discussion at meetings of the European Council in Stockholm in 2001, Barcelona 2002 and in Brussels 2003. (European Council, 2004).

The results at the EU-15 level are mostly positive, but there are big differences between the competitive and technologically leading countries (Finland and Sweden) and countries (or regions) that are lagging behind them (such as Greece or Italy, it is not) and who are trying to reach an advanced society. The second group did not easily accept most of the technical and technological changes, so there are serious troubles in the adoption and implementation of changes in all segments of society.

In 2002, the Educational Council has aimed to improve education and workforce competitiveness through the adopted Work Program. The program has three primary goals: improving quality and effectiveness of education and training systems in the EU, access to education and training of the entire population and the opening of a broad education and training classes. To achieve different goals women have proposed various measures such as developing skills for the knowledge society, ensuring the general availability of ICT, massive admission to the scientific and technical studies, building strong European cooperation, etc.

For all of these goals it is necessarily to keep in mind the future needs of the labor market and to achieve the development of knowledge, expertise and abilities of employees and the rest of the population, necessary for a knowledge-based economy. Countries that have properly prepared their people for active participation in the global knowledge and information economy will achieve substantial benefits and so their population. So the goal - the creation of agile and capable workforce that is willing to take risks, self-reflect, process information and solve problems, team work - is becoming a clear and unquestionable. It is unknown only the way to achieve this. In addition, there is no simple model or a model suitable for all countries. In addition to the concern of the growth in the economies in transition, EU suggests that if they want to increase their competitiveness, they should develop their competitive advantages at the national level in order to face with competitive pressures, primarily coming from EU countries (Radosevic, 2003).

### **3. Knowledge and Innovation policy in the Republic of Macedonia**

During the 90s, the strategies for achieving and maintenance of long-term economic growth in the Republic of Macedonia have disregarded the meaning of knowledge development and innovation activities. Public policy innovations appeared only at the end of the 90s, while the institutional research systems development have not yet been completely restructured. Growth and innovation in this economy generally depends on the setting up research and development, the ability to absorb and spread of technology and demand - today and taking advantage of generated elements. This all together forms a conceptual framework of the national innovation capability. Elements of the national innovation capability are (1) absorption is the potential ability to absorb new knowledge and the adoption of imported technologies. (2) exploring

the potential of research and development is not only an important task of generating new knowledge, but also the mechanism for its absorption. (3) expansion is a key mechanism for the collection of economic benefits from investments in research and development and enjoyment to strengthen absorptive capacity. (4) innovation is the key mechanism that initiates the process of creating wealth in the research and development activities, absorption and dissemination (Radosevic, 2003).

In the world of global competence, the winners are already known, those are the economies whose export is the basis for innovations. Republic of Macedonia, already has the status of candidate member for EU integrations- this status explicitly demonstrates that this kind of EU changes are more than necessary. Thus, facing the magnitude of the changes that have taken place in the European countries, it must be mobilized all corresponding institutions concerned with organized approach towards knowledge, information, and innovations as key points of the reorganization of the economy and the society, which is necessary for achieving higher step of the development. Institutionalized research and development decreased during the transition due to declining share of public sector expenditure for research and development in GDP because of the lack of technological improvement in businesses. Funding research and development of the industry varied from region to region, while the intensity of co-operation was given by the industrial structure of the country. Non-industrialization was quite sudden, while there was the increased share of services in the economic structure, crossing the average growth of industrial activities. In general, partial loss of government funds, with weak demand caused the neglect of modernization and restructuring of research and development. Twenty years since the beginning of the Macedonian transition, and still, Macedonia is concerned with the implementation of the reforms that are crucial for appointing to the basic preconditions for market functioning. The indicators of the macroeconomic development, the analysis of the domestic and foreign resources, just confirm the fact that the transitional changes are developing very slowly. This is proved with our struggling behind the European processes, but not only behind them, also struggling behind other EU- member countries in transition.

The most important postulate for turning towards the ongoing changes in the European surrounding is the growth, as a result of the functional market economy. In such an economy, competition must be based on the qualitative factors of growth. " The ability of a country to maintain rapid economic growth during a longer period of time is highly dependent of the effectiveness by which its institutions and policies are supporting the technological transformation and the inventiveness of the companies. " (Popovska, 2007).

The accumulation of problems with the social repercussion, the market environment where the price is still considered as predominant tool for struggle with the competition and the social environment with its insufficient institutional

credibility, have slowed down the development of the Macedonian economy and the implementation of the criteria on which the European market is based. The process of privatization has led to productivity's reorganization, but not to complete owners transformation, which is noted by the abandoning the classical factors of manufacturing and instead keeping the labour intensive one. The Macedonian production is mostly based on the raw materials, who by definition, produce relatively low-added value in the comparison to the research and tehnologically based manufacturing. The investment ability of the Macedonian economy is on the level that corresponds with the need of intensifying of the process of the economic reconstitution. In the gross domestic product, gross investments have participated with 21,4%, and the investments in fixed assets with 17, 8 %.

The creation of innovations is connected with research and development. Nowadays, the linear innovative process is substituted with interactive innovative process that is based on various factors on the side of the supply and demand. Different actors, institutions, and individuals are contributing in and out of the R&D, by all sorts of activities and through different forms of connection. Cooperation is very important in creating innovations. In innovative societies, the innovative process is mostly dependent on "learning economy". Republic of Macedonia marks extensively lowest level of separating R&D in comparison to other EU- memeber countries in transition ( for example, Slovenia, (1%), but compared to the aspirant EU- member Croatia (over 1%). EU has sat the following goal: structural increase in R&D expences in the private sector over 66% in 2010. In EU, the average participation of the business sector is 6,3%( 2000). It is also stricking the struggling behind of R&D expences in the business sector in Macedonia. The largest spending is on universities (60,2%). What is surprising is the fact that in the period between 2003-2004 only 2 small, 21 medium and one large enterprise have had R&D investments. The biggest part of the R&D expences in the private sector falls to the production of chemicals, and chemical products and to the production of farmaceuticals. The potential-human resources engaged in R&D, has adversely structure, too. In 2002, on one million citizens in Macedonia, 4 researchers and 69 with tehnical profile (FTE- full time equivalent ) are registred, while in Croatia the numbers are 1.904 researchers and 440 with tehnical profile. The percentage of the researchers is the highest in high education (6,1 %), and lowest in the bussiness sector (0.4%).

Macedonia lag behind the most of the Central and Eastern European countries and even more the EU in all aspects of national inovation capacity. The level of innovation corresponds with the level of development of the financial system, as well as the degree of competition and macroeconomic stability, or with the share of foreign direct investment. In comparison with the EU-15, Macedonia, expressed some preferred avoidance of risk, lack of finance for research and development, poorly developed links between science or research and business sectors. However, it turned

out that most of the transition countries have the common difficulties in the field of innovation policy. Institutional environment for the implementation of innovation policy is not well coordinated, human and financial resources are scarce, and the potential for companies to absorb knowledge and then apply it is very low. Referring to the new EU member countries (Czech Republic, Slovakia, Hungary and Poland), it is evident that they are the countries with the highest number of patents registered by residents. (Radosevic, 2003).

The scientists and engineers, along with a relatively well-educated workforce, are the two good starting points of the national innovation system in the countries of Central and Eastern Europe and so as well in the Republic of Macedonia. The national innovation system consists of the measures and program policies, technological infrastructure and the institutional mechanisms of political control. (Popovska, 2007)

Knowledge becomes the most required product in the contemporary world. Knowledge production is development and acquiring of new knowledge. Knowledge transmission is education and development through training of the human resources. Knowledge transfer is dissemination of knowledge, that goes through a lot of actors, structures and institutions, and of which connection, the innovative capability of the economy and the society in general, is dependant on. Republic of Macedonia not only demonstrates extremely concerning level of potential production of its own institutions and individuals, but also it is on one of the lowest position according to the representation of modern forms of technology transfer –or among the last countries in the world, taken into the merits of the index of global productivity. Knowledge and innovations hold the "key" for successful performance on the world markets, because only by them, reorganization of the economy can be made in the direction of technological intensive and, by rule, highly competitive sectors. In Macedonia, in the period of 2000-2004, high technologies have participated only with 1% in the export of the manufacturing sector. Such percentage is registered only in the manufacturing sector in Albania. All the other EU members countries in transition note higher percentage (2004): Estonia– 14%, Hungary– 29% (over the EU percentage), Latvia, Leetonia and Slovakia – %, Romania – 3%, Slovenia 6%, Czech Republic-13%, Poland – 3% and Bulgaria 4%, and in Croatia - 4%. This "result" in Macedonian export can not be justified just with the bad economic conditions inherited from the period before the transition, but primarily it is a result of the "slowness syndrome" of the transitional changes, i. e the long process of creating basic preconditions for market functioning. To change this position, it should be implemented the following features: higher education and training, effectiveness of the markets, quality of the services, skilled labour force, financial funds, and technological readiness etc (Popovsk, 2007).

Referring to the general knowledge and education system, we can withdraw the following characteristics. According to OECD (2003), we can specify significant problems of the Macedonian educational system: the lack of emphasis on developing

the ability to analyze issues and solve problems, weak links and areas of education and underdevelopment of life learning education. Although in Macedonia, there are a number of projects regarding the strategy of education, they are still not well implemented or realized, and they are not some significant reforms that have been undertaken on this level.

According to Pecakovska and Lazarevska (2009), "Macedonia has alarmingly low pre-school enrolment rate with serious barriers for expanding pre-school coverage; very high early school leaving (ESL) rates with poor vertical and horizontal transition from one to another education subsystem and ill competence- based curricula reform; disturbingly high percentage of low achievers in reading and low percentage of people with upper secondary education; insufficient tertiary education participation rate with low, but increasing number of MST graduates and very low level of participation of adults in continuous education and training. These attributes suggest continuously poor performance of Macedonian education and training system in the process of accession".

The existing organization of curricula and the way the educational process is placed on provides only passive knowledge and teaching that does not allow Macedonia to acquire highly technical, technological and social knowledge, expertise and skills required in a competitive economy. There is a huge number of compulsory subjects, and a sufficient number of elective as well. Also there is a serious lack of flexibility and low level of local influence on the development of curricula.

The similar is the problem with primary and secondary education, because there is a lack of differentiation. Instructional programs are designed to make the young population to continue their education in high school, and not to continue their education in the craft expert and schools. Teaching programs are inadequate. Therefore, for the most capable and motivated students, most of the subjects are too easy, and for those less capable and less motivated quite difficult.

Number of people who graduated in the last decade increased with 4404 in 2003 year to almost 7835 in 2007 year. The largest increase in the number of graduates was recorded in economic and social sciences. However, still there is a great lack of competent managers, macroeconomists, financial analysts, modern, educated leaders and entrepreneurs, experts on international commodity and financial market, experts on public administration, specialized lawyers for work and social law, tax system, international law. The reason for these problems is probably the lack (or weak) connectivity between the market demand and content of educational programs. (State Statistical office, annual report, 2007)

Macedonian educational system slowly moves from a system with classical discipline and teaching methods to a system that meets the needs of democracy with a globally integrated free market. The new system should include the concepts like problem solving skills, creativity, communication skills and flexibility. The relevant

Macedonian educational institutions must perform specific analysis and implement many changes to their educational system.

An important part of the competitiveness of national economies is actually the level of knowledge and expertise of workers. Macedonia does not have the necessary workforce skills and abilities that must have one modern competitive economy and the education and training systems have not implemented yet the necessary measures to reduce the inefficiencies. Possible EU accession of Macedonia sets further demands to improve the education system. Macedonia workforce must be redirected to the industry and business knowledge-based economic growth and to stimulate innovation, and employees should be able to quickly change jobs, manage them and work environment and to participate in life learning process. Students and employees need to learn to work together, building team spirit, proper social behavior and personal development while allowing inclinations and talents.

## Conclusion

Based on the previous arguments for the purpose of this research and after receipt of some current problems in Macedonia, the paper ends with suggestions for improving the future situation.

- Republic of Macedonia has an unsatisfactory level of production, investment, innovation i.e. technological ability of its economy. The lagging behind the other transition economies implies increased complexity of the tasks which Macedonia has to perform within its efforts for gaining EU- membership status. The fast approaching to the phase where the increased efficiency is essential for the growth and the exports, supposes generation of conditions for a competition with new products, new processes, modern marketing, new managerial approach, by generation of creative ideas gradually transforming themselves into “learning organizations”.
- The educational system should be changed in the way of providing more different educational opportunities to the participants of all ages, reformed curricula and establishing stronger links with the needs of the economy. It is necessary to improve the ability of solving problems, develop teamwork, increase the learning ability, improve the communication and technical skills etc. The reform of the curriculum should include many instruction manuals for the teachers and teaching materials, changing teaching methods and a new way of measuring educational results. In addition, the selection and training for the profession of vocational education should move into more classes and expand the circle of specialization. The educational system should be flexible and practicable to avoid and reduce early school leaving. We should increase

the internal differentiation, finding and providing the informal ways of acquiring knowledge and skills and improve knowledge of foreign languages. The curricula should systematically analyzed and modernized.

- The pedagogical practices in schools and universities should be changed, so it could help to make disciples and students to become more responsible and to increase their initiatives by system of rewarding. They should be directed to new different ways of analyzing and solving problems by implementing more practical work and case studies.
- The educational system should be based on the decentralized management especially in the field of funding, employment, curriculum, assignments etc. Local authorities and universities should gain more autonomy and responsibility, instead of the Ministry of Education. At the same time, schools and local authorities should develop managerial abilities to effective handling the schools. Schools and universities should be accountable for their results, and their results should be measured as an indicator of the success of the reforms. Increased expenditures for education without proper increased accountability will not give the desired results. Therefore, the Ministry should establish the standards, but the schools should be held accountable for educational results and also have freedom to do it. State has an obligation to determine the proper framework for fostering innovation and accountability of tertiary education institutions and it should develop easier entrance faramework for the private educational institutions on the market. The radical changes in curriculum, materials and pedagogical methods in case of Macedonia will have to conduct intensive training of already employed and new teachers to introduce new teaching methods, teaching materials and methodology for testing. Teachers and teaching should be mandatory and they should be trained to improve teaching methods and procedures, using information and communication technology and expanding their knowledge. These training programs should be interactive so that teachers and educators could each other exchange their ideas and experiences.
- The two-level model (national innovation policy and knowledge policies) seems like the most appropriate approach for Macedonia both with regard to the robustness of the tasks that should be performed in the next development phase and to the takes that result from our going in the direction of the new economic and social changes in EU.

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**Onofrio ROMANO**

**Albania and Apulia Contribution to European Identity**

**Abstract**

The contribution focuses on the identity issue with reference to the European integration process. To this aim, the case of the Southern Adriatic area – covering the Italian South-East and South western Balkans (namely Apulia and Albania) – will be highlighted. This region shows many reasons of interest for the whole process of European integration, as it represents a kind of hinge between Western civilization and the East, Europe and the Mediterranean, North and South of the World. Our thesis is that, despite the different traditions, cultural heritage, histories, political dominion etc., the societies facing on the two sides of the lower Adriatic sea share common core attitudes. They were forged on the basis of a similar existential framework: the secular (or century-old?) condition of marginalisation in relation to the hubs of political power. So, the lower Adriatic inhabitants have acquired a particular skill to win the grace of the ruler in office, whoever he was, building, at the same time, a hidden orb in which to preserve their authenticity, their original cultural references. This framework has produced, in the long run, an anti-identitarian people's constitution, i.e. an "anthropology of the absence", consisting of two complementary dimensions: mimicry and the vernacular order. This ensures both the merger of dissimilarities and the preservation of an impregnable singularity. The anthropology of the absence still emerges strongly in relation to the new political focus with which this region relates nowadays: the European Union.

The implemented policies aimed at cohesion and integration of the peripheral regions are here systematically diverted to reproduce life forms consolidated over the centuries, which escape the fundamental canons of the Western-European model of society. But, far from being included as a disease, the attitude developed in the lower Adriatic could represent a useful suggestion for Europe itself, always faced with the problem of its unresolved identity.

**Anomic Europe**

For a long time we have been crushed between the anvil of "imaginary socialism" and the hammer of "real socialism". EU today is likely to melt in the same *impasse*. All kinds of discourse have been produced on the idea of Europe, on its identity dress. Almost all European intellectuals have exercised their imagination on it, devoting at least one book to what Europe could and should be.

Then, on the other hand, at a sidereal distance, “really existing” Europe arises, that of Brussels celestial bureaucracy, which enacts its regulation protocols on every detail of our life, going from the welfare regimes down to the size of bananas. Despite the complete separation of their orbits, the imagined Europe and the real Europe are two sides of the same inconsistency, two expressions of the same impossibility, of the same basic cultural *manque*. Furthermore, both expressions are completely separated from the people, i.e. the really existing society of Europeans.

As Pasquale Serra (2004) points out, if we deeply look at the highest summits of thought concerning Europe, we will almost always face something like anti-Europe theories, in which it is decreed that any sovereign political entity is an obsolescent tool. Europe coincides with a horizon in which all differences are only waiting to melt into a neutral form of universalist atomization.

According to Massimo Cacciari (1994), for example, the “European spirit” is nothing more than the celebration of the endless process of eradication, of unlimited emancipation from any “form”, even those who have ferried modernity (the State, socialism, liberalism, etc.). Europe is the cradle of the West, literally understood as “the land of the sunset” of any communitarian garrison. Balibar (2001; 2003), in the same wake, looks at Europe as the place of “evanescent mediation”, where to experience the endless deconstruction of citizenship in favour of a transnational civilization freed from the “violence” of borders and differences. Antonio Negri (Hardt, Negri 2000) rediscovers Europe as the eligible land where his amorphous multitude will exercise its a-finalized and unlimited constituent power, enemy of every form of sovereignty. Habermas, finally, in his apology of juridical globalism, replaces the European political project with the cosmopolitan right.

More precisely, the vocation to pluralism (of persons, nations, cultures, jurisdictions, institutions, etc.) included in the idea of Europe is the most faithful translation of the identitarian logic of “unlimited accessibility” (Romano 1993), belonging to the code of western modernity. The neutral device aimed at encouraging the unlimited creativity of individuals in the selection and development of their life projects, is the same adopted by Europe in its equidistance from any cultural specificity encompassed, not opting for anyone of them, but just recognizing the right of each one to self promotion, within the limits of respect for the others. This neutral and universalistic (or pluri-versalistic) strategy has an almost inevitable outcome: if, in principle, the exclusive promotion of a single model of existence is banned – in order to ensure the coexistence of all models of life – the policymaker can only engage in a culturally anonymous work of generalized expansion of the system, which basically corresponds to the growth of intangible and material resources that guarantee the access to life’s chances individually chosen. From this device arises the fetishism of economy, i.e. the paroxysm of the unlimited valorization, detached from any cultural orientation.

The cultural dimension, denied by the neutralist device, melts in a folkloric (Latouche 1996) or aesthetic (Cassano 2003) orbit, losing all sovereignty on the social sphere. From the same mechanism stems the “really existing” Europe of the celestial bureaucracies: the abolition of sovereignty (in the name of the golden principle of “unlimited accessibility”) leads to replace politics with governance, with the neutral administration and the technical expertise, separated from any cultural reference.

Thus, the European project is already depleted. The elusiveness of European features threatens also the integration process, especially of those areas which are more remote and less homogeneous with European history. The case of Southern Adriatic, from this point of view, is very interesting. Our ambition is to show that its imperfect integration, far from being an anomaly to be remedied, could give some precious suggestions in order to de-strand Europe from the anomic drying neutralism, restoring it to a great political vision, without sacrificing its pluralistic vocation. The Southern Adriatic also allows us to re-found Europe starting from the real social practices, found on site, and not from abstract intellectual constructions. A Europe based on what it really is and not on what it should be.

## 2. Noman's land

In this brief exploration we will be led by one of Ulysses's masks, the one employed on meeting Polyphemus, the Cyclops. The invention of the pseudonym “Noman”, the cunning of the “disappearing identity”, enable Odysseus to experience the magnificence without succumbing to it, allows him to beat an infinitely more powerful being. The identity simulation, which may be extended to a symbolic abolition of oneself, can be found in many inner suburbs of the Mediterranean. The lower Adriatic (including the Italian south-east and south-western Balkans) is, without any doubt, one of them.

Historically - and not just geographically - it is a very particular area, placed at the crossroads between Eastern and Western civilization, and between Northern efficiency and Southern stasis. Both Apulia and Albania have been for centuries (and, in some ways, they still are) extreme outskirts of flourishing civilizations and grandiloquent empires, dwelling at a sidereal distance from the centres of power. This peripheral condition has produced an anti-identitarian people's construction, i.e. an anthropology of the absence. Based on a double movement: mimicry and the preservation of the vernacular, i.e., of its static circuit of social reproduction.

The mimetic approach is employed to gain the favour of the representatives of History, namely the colonizers in office. The lower Adriatic inhabitant has developed a special ability to wear the signs of conversion to the various historical mainstreams that have crossed its moorlands. Exemplary in this sense is the religious history in Albania. Its pagan lower layer has been oppressively encircled by the

universalistic and monotheistic religions: the Catholic one in the North, the Christian Orthodox in the south, and the Muslim in the Centre. The Albanians have thus alternated their faiths, depending on the best offer of prebends attached to conversion. Already in the eighteenth century, Lady Montagu wrote that in the North of the country, to be sure not to err, villagers went to the mosque on Friday and to church on Sunday (Baldacci 1925). To better tolerate the bitterness of the faith practices, the Albanian Muslims have even come to build an autocephalous sect, the Bektasci, auto-assigning them some discounts on fasting during the Ramadan, the opportunity to freely consume pork meat and alcohol, the lack of central spiritual directions, and so on...

Under the mimetic peel, the lower Adriatic inhabitants have been able to cultivate their own eternity, a lifestyle modelled on a tragic mood, confident in the sense of death and self-annihilation, removed from the historical flow and from the expressive swelling of identity, based on the mere reproduction of life, alien to any form of projectivism, expansionism, development (even in the purely economic sphere).

Two cardinal institutions of the lower-Adriatic anthropology witness this posture: "tarantism" and "revenge". The phenomenon of Tarantism, that originally connotes the area of Salento in Apulia (though similar practices can be found in other orbits of the Mediterranean), fits in a typical logic of *dépense*, allowing the resetting of the substances of removed-remorse (called to epiphany by the bite of the poisonous tarantula) through special collective dancing rites (De Martino 2005). It is a cyclical dynamics of emptying and cleansing of the self, in which the subject disappears to himself, acknowledging his submission to the removed forces. On this horizon, the accumulative, controlling and operating individuality, typical of western civilization, cannot have any citizenship. Revenge fits in the segmental structure of the Albanian anthropological warp and it is codified in its customary law, whose most known transcription is contained in the Kanuni by Lek Dukagjnit (Resta 1997).

A hostile act revenged by the murder of the author obliges all members of the victim's clan to return the courtesy by killing a male member of the murderer's clan. And so on *ad infinitum*, until virtually the mutual extinction of the opponents' clan. The endless cycle of revenge strengthens a special closeness to death, which becomes a constant presence in the Albanian collective body. The inexhaustible pursuit of a break-even point in the accounting of bloodshed (the state of equilibrium in the blood balance) immobilises the community within a static circuit which inhibits the citizenship bond and its expansive potential.

Mimicry and the circular (a-historical) existence seriously undermine the logic of economic exploitation mirroring a twofold strategy for the resolution of the problem of livelihood: the practice of parasitic capture of resource flows from the

colonizing powers (attached to mimicry) and the vernacular self-production (horticultural scale cultivation, harvesting of nature wild fruits, wild animal breeding, etc..) in accordance with the preservation logic of the social reproduction static circuit.

These features are not outdated materials but rather stand out in full force during the end of the Fordist modernity.

The new imperial centre (EU), with which the lower Adriatic area has to relate, through the poisoned gift of the integration and cohesion policies, imposes a development model based on the classic canons of the exploitation of human, material and intangible resources, whose fruits would be later used in the free market competition.

If the lower Adriatic had undertaken this path, today the area would sink in a poverty state. Its competitive position, in fact, would be suspended between the firepower of the big Western companies – whose productivity is supported by unsurpassed research and innovation targets – and the dumping of the productive factors remuneration (work above all) led by the emerging Eastern countries. A deadly flattening, that would have condemned the area to economic marginality and, in social terms, to the abyss of the relative deprivation. A recipe universally distributed aimed at enhancing local production entirely circumvents the problem of the territory placement into the international economic space, hierarchically structured. In this space, the lower Adriatic would have played a gregarious role, that is the storage area of the lower productivity working phases. Beyond all purposes, EU *de facto* imposes its neighbours a kind of *subordinate integration*.

On the contrary, both sides of the lower Adriatic have gained life and consumption standards that, from a purely material point of view, is perfectly aligned with the standards of most developed Western countries. Against EU directives, the area has developed an alternative pattern of cohesion, founded on the canon of *orbital integration*. Participation in the dominant system (and in its benefits) is not insured by the exploitation of tangible and intangible territory resources, but mainly by picking up the resources produced elsewhere, flowing in the globalization circuits. This abduction economy takes on different characters on the two sides: more hidden in Apulia and more visible in Albania.

### **The orbital integration**

In Apulia, the orbital integration was developed, starting from the end of World War II, in the new political landscape of the Democratic Republic. The so-called “phase leap”, classically themed in southern literature, is the first indicator: the Italian Mezzogiorno shifted from a predominantly agricultural economy to a services one, bypassing the manufacturing stage. It is impossible to show the statistical details here,

but it is well known that the services sector is largely oversized if compared to physiological parameters dictated by the agricultural-industrial complex to be served, thus the speculation shadow emerges. Its growth was decisively fuelled by patterns of political achievement, unrelated to market competition (Trigilia 1993). The political mediation has not only directly ferried towards the periphery copious resource flows in a purely welfare logic, but has deeply structured all sectors of the real economy. First of all, agriculture: more and more rarely its output has undertaken market destinations, becoming a mere virtual caution to win public subsidies, which are now the largest part of agricultural income.

Big industrial plants have been dropped from above, eliminating the network of local small firms, but without gaining a real rooting in the socio-economic context and finally crashing against the crisis of the “glorious thirty years”. According to Tonino Perna (1992 and 1994), the specificity of southern dynamism must be found in the extra-profit vocation, that has produced a vast nebula of high productivity economic ventures, placed halfway through the illegal sector and the mere financial speculation.

In this framework, applicable to all the Italian Mezzogiorno, Apulia was marked by some specific connotations. First of all, the criminal hand has acted in less invasive and less structured ways. Here, the political achievement has reached greater efficiency. The resource flows coming from the centre (Rome) have been better catalyzed (due to the consolidation of politically articulated systems of communication between local political staff and national government ranks) and better spent (Romano *et al.* 2003). The economy of the most dynamic areas in the region has been led by sectors dependent on public regulation and investment: constructions, private health care, banking, financial services controlled by representatives of local governments. The market achievement can only be found in the residual areas of the small speculative trade, taking advantage of an ancient trade tradition, that is very difficult to reintegrate in the pattern of modern Western capitalism. The case of the regional capital (Bari) is very significant: at the beginning of the sixties, we saw a promising development of some indigenous manufacturing sectors, especially in mechanics. But this vocation was suddenly frustrated, because the entrepreneurial energies have been taking the road of easier and quicker horizons of enrichment, with the housing industry sack of the city and some other opportunities of political appropriation (Viesti 1998).

The general crisis of the Fordist model, declined in the Italian Mezzogiorno with the “extraordinary intervention” recipe, opened up new scenarios. In the early nineties, the bottom-up approach to development led to bet directly on southern citizens, by financial support to self-entrepreneurship and to small and medium local enterprises operating in the “industrial districts”, and then with the so-called “negotiated planning” policy (territorial pacts, programming contracts, etc.). The great

hopes raised by this prospect are rapidly shifting in growing disappointment. Support tools are more and more detached from their original development goals, becoming functional substitutes of the old resource flows assured by the “extraordinary intervention”, inefficient in encouraging selfdevelopment, but not in streaming resources towards the South (Cerese 2005; Chiarello 2005).

Brussels is the new irradiation centre of resources. Apulia is refining high level planning skills, in order to catalyze the flows, despite their planned destinations. After the huge mistake of selfdevelopment and local development, the usual orbital approach comes back: the only one that allows a real integration to propelling centres of the new empires. The project aimed at transforming the Italian south-east in a privileged hub for eastern goods falls into this newfound speculative perspective: the illusion of becoming independent-producers is definitely abandoned.

Apulia returns to harass the intermediations between those who are the real producers.

The post-communist Albania has taken the abduction route with an unmatched level of dedication.

In one of its latest reports, the World Bank defines “impressive” the cumulative economic growth of the eagle’s country (since 1990), among the most consistent in all the transition countries (WB 2005). In particular, from 1993 to 2004 the average annual growth of GDP was more than 6% (and we must take into account that the period includes the fateful 1997, in which the country experienced a second collapse due to the failure of the financial pyramid schemes). This growth is miraculous, given that it is immediately clear to whoever sets foot in Albania that the country does not produce almost anything. The officially recorded growth is not related to the real economy production (agriculture and industry) but with the emergence of a “surreal economy” (Romano 2004). The weight of agriculture in GDP is around 24% (against 35% recorded in the nineties), the industry is stuck at 9% (we should go back to 1938 to find the same value): before the regime’s fall, industry assured more than 50% of the national income. All efforts made by international bodies (including EU) to support the revitalization of agriculture and industry were vain.

According to the World Bank, the determinants for the impressive growth of Albania are to be found, first of all, in the “reallocation of resources from low productivity sectors like agriculture to high productivity sectors (services, construction)” (WB 2005, p. 1). Pressed by decades of *overcommitment* during real socialism, Albanian people refused further working coercions softly imposed by international agencies to encourage development, undertaking, on the contrary, in sectors with a high productivity or a high speculative rate. Construction, first of all. It is difficult to calculate its contribution to GDP (although officially it is around 9%), since most of the assets remain in a grey area: we must take into account that around the

major urban agglomerations many informal suburbs arose. The contribution of services to GDP shows an exponential growth during the transition and it is now around 60% (INSTAT 2005). The services are physiologically justified as serving production, but it is clear that this is not the case. They are used primarily to manage the orbital flows of the abducted resources.

The official figures, however, make no sense. Albanian economy sails far beyond the recordable production, the formal/real economic circuit. The glaring inconsistency of average wages and salaries compared with the living cost (very close to that of Southern Italy) witnesses a decisive pressure on goods demand, not explainable with the inner production and coming from dimensions not intercepted by the collectors of official data. Most of the Albanians livelihood sources are not recordable by official statistics.

The orbital integration of Albania is based on three major currents of economic extra-version: migrants' remittances, trafficking (legal, illegal, purely financial) of the holding companies that play a role in global affairs, provisions of international donors (Romano 2004).

The weight of remittances on the national economy is difficult to be calculated, since most of the flows escape detection. People living at home now stand around 3,100,000, and only between Greece and Italy approximately one million legal migrants are distributed, who regularly transfer part of their earnings to relatives back home. We can infer that almost the entire population is assisted from outside. There is no family in Albania that does not have at least one member residing abroad. But the resource flows from migrants do not entirely explain the extraordinary growth pace in Albania.

The decisive boost probably comes from the illegal sector, that since the beginning has marked Albanian dynamism. Prostitution, illegal migration and drug-dealing were the ridges along which a sort of primitive accumulation took place in Albania, which has given the *big-push* to the country.

But we must, however, consider that today these trades have put on more respectable clothes. 1997 was in this sense a kind of watershed. In that year, as is known, the dream of proliferation and redistribution of wealth, in which the entire population had been called to participate by the system of financial pyramids, was shattered. Since then, the Albanian criminal clans have abandoned the traditional, rough and aggressive robes to undertake a new respectable style, well-articulated and more refined. Exploiting the resources accumulated in the early years of rampant lawlessness, they have been able to set up complex trusts that invest in global affairs in a wide range of fields, all connoted by the extra-profit motive: hotel chains, construction industry, cruise ships, casinos, shopping centres, major infrastructures etc. Speculation on capital movements is now added. These trusts have their holdings

in Albania and take deep roots here. They name their emissaries in parliament and at all Government levels; they control the press and television networks.

The resource flows from international donors are still generous. In this sector too, Albania has enjoyed a kind of primitive accumulation, heaping up a series of emergencies during the years (until the Kosovo crisis in the late nineties), that have catalyzed the international aid. They are no longer merely care flows. Albanian authorities have done their best to exploit the strategic collocation of the territory in the new, complex geopolitical scenario, building a refined alliances policy with the dominant countries (especially U.S.) and receiving in return substantial prebends. Later, Albanians have acquired remarkable planning skills in order to stabilize relations with the international community. The most striking example is the "business of civil society". In the early nineties, there were almost one thousand NGOs in the country, which are no evidence of a particular democratic spirit. Far from it. NGOs have a peculiar familistic character, they are alien to internal democracy, the leaders appear almost irremovable and interpret the association as their own property (Romano 2000). NGOs are mirror decoys for larks. They represent only a business investment in the new market of sociality. The old social rights are no longer guaranteed by the State (in accordance with the structural adjustment recipes by IMF, World Bank etc.). Therefore they are replaced by international charity intercepted by local NGOs, which have developed over time good skills and good camouflage capacity, apprehending the language of international projects and so acceding to donors resources (which, *ça va sans dire*, will never reach the ultimate declared beneficiaries).

Next to the abduction economy, tied to mimicry vocation, there are several expressions of vernacular preservation. In present Albania we can clearly read both approaches. If the extraversion flows produce a kind of urban orbital economy, vernacular expressions can be found mainly in the informal suburbs and in the self-production and self-consumption practices re-emerging in Albanian rural areas.

Transition Albania was affected by large flows of internal migration from rural areas to major urban centres, under the pressure of land property fragmentation that has deeply undermined the opportunity to build a market-oriented agricultural sector. Around the town borders, large suburbs have sprung up informally, without infrastructure and urbanization works. The inhabitants of these areas survive thanks to remittances, but also thanks to small businesses that benefit from the proximity of the city. Here some solidarity networks re-emerge from a forgotten past. Here a new vernacular society is reborn, focused on a merely social reproduction.

This is much more visible in the countryside, with the small scale production, targeted to mere selfconsumption and to goods exchange along the lines of parenthood/clan reciprocity. Only for the mere survival maintenance. The countryside

inhabitants are far from the formal market, they live now in their own, invisible orbit. A dignified poverty.

The eternal double movement (mimicry and vernacular preservation) is back to work in Southern Adriatic. It ensures the integration at the centre of the system, without obeying to alien lifestyles.

### **Politics comes back**

We do not propose an apology of orbital integration. We do not suggest the case of lower Adriatic as a model. Beyond the embarrassment that it evokes for the content of lawlessness and barbarism, it is above all hardly sustainable in the long run, as emphasized by the World Bank and by most observers. Furthermore, these practices are seriously undermined by the standardization directives imposed by EU and other international bodies. The stabilization pacts become increasingly stringent and do not allow large areas of operation beyond the compulsory development paths. But above all, the lower Adriatic experience does not open new perspectives, nor in any way undermines the dominant patterns, since it is fed by them. The lower Adriatic route also produces huge inequalities, which are only partially absorbed by the reciprocity networks and neo-clanic solidarity. Ulysses- Noman does not disturb the Cyclopes' calm, he just stole them what he needs to survive. Therefore, the temptation to sanctify this marginalised condition is far from us. We have no reason to hope for the eternal reproduction of a world whose enchantment never existed.

Anyway, Southern Adriatic witnesses an alternative way of living. Starting from it, maybe it is possible to build something else, i.e. starting from its political potentials. Is it possible that the coming back of an anthropology of the absence could work as a basis for a socio-political alternative to the mainstream, giving meaning and specificity to the European project?

According to Bauman (1999), the contemporary world is haunted by a major paradox: from an individual point of view, personal freedom of western citizens has never been so widespread, but at the same time all of us are quite convinced that no collective project could determine deep and radical changes in our reality. The forces that forge the world appear to be hidden, not subject to the control of collective political autonomy. Compared with other ages, in which people lived the thrill, the exaltation and also the anguish given by the possibility for a radical, forthcoming and sudden change, today we are, on the contrary, haunted by the feeling that, despite the level of freedom reached, we are no longer able to imagine and implement great projects of transformation, which could overturn current dynamics and forge a world ruled by a different vision. We can only navigate at sight. Politics can only engender very small changes, because its real role is to aid the state machine to fit in the

anonymous flows of reality. Politicians must assure that the ship's course is maintained in the most rational and balanced way.

Why big political projects are no more conceivable? Because we have defined a horizon locked down by inviolable taboos. The infrastructure of human rights, of fundamental individual liberties, the "perpetual veto of autonomist virality" lead to the system lock. Autonomy, in fact, is a viral concept. Once in, you can't limit it with devices not legitimated by the autonomy principle. It spreads as a pandemic, building wide spaces, intangible by collective autonomy, in favour of individuals. It follows that the implementation of any great political vision is structurally prevented by the recognition of the molecular autonomy in defining and pursuing an idea of "good life". The recognition of the micro-liberty becomes a veto to great liberty. The big forces that determine individual lives remain absolutely untouched, as they are considered the prerogative of private will, in the name of viral autonomy, but mainly by virtue of the stigma on sovereign power, the only entity able to limit private greediness and to implement great objectives.

This is the "condominium model". It spreads anywhere: from suburb to town, territorial district, region and so on. The aim is permitting anyone to enjoy his own housing plot, assuring that the common appurtenances are well maintained. Infringing this spatial split is an intolerable abuse.

In order to rediscover the great vision and the great Politics, to experience the Cyclopic, we must restart from the "de-thinking" peripheries, where residents are not involved in the care of themselves, surviving beyond the identitarian logic. Here the exploitation and self-promotion logic gives way to taking, dissipation, *dépense*. Here Politics rediscovers its humus. Only in the desert, the mirage raises, the great vision that all envelops. Availability to radical transformation raises only where people search self-annihilation to give space to vision.

These are not mere abstractions. This political chance is alive nowadays. Two of today most interesting political cases arise in Southern Adriatic: the regional government of Apulia led by President Nichi Vendola and Tirana city (the capital of Albania) led by the mayor Edi Rama. Two weird politicians: a poet and an artist called to play top level roles in local governments.

Beyond any administrative output, it is very interesting to inquire into the deep social expectations they have shaped.

With Vendola, vision came back to the political domain. Without any planning, he has touched the deeper strings of the meridian being. Inexpressible and uncivil feelings. He has given a shape to a clamouring and ineffectual *agora* (far from the spirit of good administration of commons), to a mere abandonment in the bliss of nature, distrustful towards technologic illusion (that promises safe disposal of other's waste and composting of garbage). He has given shape to the creative antieconomies, based on the mere capacity to manage symbols, to sing, to live without working. The

Mezzogiorno, thanks to the oblivion in which it has been left in recent years, has regained its rebellious spirit, its character untamed by the sirens of neutralising rationalism. So, a vision returns to win against the pursuit of objective reality.

Vendola has also won a challenge inside the left, against the “conservative left” who has reduced politics to mere administration, who has married modern rationalism at its twilight, out of time. The left that repeats at all times “that is not possible”, that censors all practices that are not included in the homogenizing protocols of neutral and rational Europe, the omni-parametric left who rejects all visions. Apulia has rebelled to the limitation of horizons, to the diktat that states “a communist gay man (i.e. Vendola) cannot climb to Government”, rediscovering instead that there is no limit to human political creativity. Vendola has been able to give citizenship back to certain scopes ousted for many years by the left.

Vendola has stopped the rush to individual self-promotion, redesigning the possibility to rediscover the “social chain” protection and a new collective subjectivity opposed to anonymous forces that forge the contemporary world.

Rama has been able to upset many development processes started by Tirana. The post-transition anarchic-capitalism has been translated into the spreading of a myriad of kiosks within public gardens along the central boulevards in Tirana. This dictatorship of entrepreneurial singularity, also promoted by the international agencies and reinterpreted in specific ways by Albanian people, has been defeated by a returning sovereign force, embodied by Edi Rama. He has opposed a major political project to the viral autonomy veto, involving the whole citizenship, against individualist *imperium*. Rama has given a shared identity back to the town, creating a clear aesthetic mood, embraced by citizens. This asset has been implemented thanks to some oddness, like the transformation of the old gloomy socialist buildings in polychrome paintings. Rama has coloured Tirana buildings diverting some European grants from their natural destination, thus exploiting the mimetic mindframe of taking and often winning the condominiums’ opposition. In this sense, he has also *de facto*, and not only symbolically, overcome the condominium logic dictatorship, that prohibits the epiphany of the supremacy of the collective body.

Both cases show the possibility to re-build the community on different bases, far from the unlimited individual sovereignty, far from the market-development normalisation promoted by EU. Both cases meet once again the vision that shapes a new communitarian sense, infringing the collective taboo.

This is possible thanks to the rediscovered anthropology of the absence, based on the “Noman” path, that allows the Cyclopic experience. A new community that stands beyond the individual competition, that has its cardinal point in the collective force. A community emancipated by selfpromotion coercion and also by the marginalisation tied to the orbital integration (too compromised with the dominant

forces). The Southern Adriatic offers its potentials to Europe, helping to overcome the Europeism impasses.

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**Determinants of the Female Employment Rate in The European Union in  
Comparison With Non-Europaen Countries  
With a Special Look at The Republic Of Macedonia**

**Abstract**

The purpose of this study is to analyze the determinants of the female employment rate in the European Union where we have used panel analyses of 27 countries members of the European Union from 1995 till 2008. In order to make comparison among countries we have included institutional variables like: maternity leave, child care facilities, college education, female unemployment rate and part-time employment. We expect this variables to have a positive impact on the female employment rate except for the female unemployment rate. At the same time we are taking in consideration the national employment structure in Macedonia compared to the EU countries.

**Key words:** female employment rate, determinants, cross-national comparison, European Union

**Introduction**

Faced with a trend of overall employment decline and demographic changes associated with an ageing of the European labour force, the European Union found itself under pressure to undertake certain action toward increasing the overall employment rate by creation of new jobs, investing in people and technologies and, more specifically, increasing female employment.

Confronted with globalization and the challenges of a new knowledge-driven economy, the European Council held on 23-24 March 2000 in Lisbon came to an agreement for a new strategic goal for the European Union *to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*. Achieving this goal required an **overall strategy** aimed at:

- preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;

- modernizing the European social model, investing in people and combating social exclusion;
- sustaining the healthy economic outlook and favorable growth prospects by applying an appropriate macro-economic policy mix.

This strategy was designed to enable the Union to regain the conditions for full employment, and to strengthen regional cohesion in the European Union. The European Council needed to set a goal for full employment in Europe in an emerging new society which is more adapted to the personal choices of women and men. If the measures set out below were to be successfully implemented against a sound macro-economic background, an *average economic growth rate of around 3%* was thought to be a realistic prospect for the coming years. Among the goals for modernizing the European Social Model by investing in people and building an active welfare system was creation of more and better jobs for Europe as well as substantial reduction of unemployment. ( [www.europa.eu](http://www.europa.eu), summary of legislations).

The European Council considered that the overall aim was to raise the *employment rate from an average of 61% in 2000 to as close as possible to 70% by 2010* and to *increase the percentage of women in employment from an average of 51% in 2000 to more than 60% by 2010*. The new goal required Member States to consider setting national targets for an increased employment rate, which it was argued by enlarging the labor force would reinforce the sustainability of social protection systems ( [www.europa.eu](http://www.europa.eu), summary of legislations)

**Table 1.** The progress of Total and Female employment rate from 2000 till 2008 in percentages

	Employment Rate % overall	Employment rate 55-64 years old %overall	Female Employment Rate 15-64 years old	GDP Growth percentage change on previous year
<b>EU Benchmark</b>	<b>70%</b> (2010 target, Lisbon summit)	<b>50%</b> (2010 target, Stockholm summit)	<b>60%</b> (2010, Lisbon summit)	Base line scenario of 3% per annum, Lisbon summit
1997	60.7	36.4	50.8	2.5
2000	63.4	37.5	54.1	3.9
2001	64.1	38.4	55.0	1.9
2002	64.2	39.8	55.6	1.2
2003	64.5	41.5	56.2	1.2
2004	64.8	42.3	57.0	2.3

2005	65.4	44.2	57.8	1.8
2006	66.2	45.3	58.8	2.9
2007	67.0	46.5	59.7	2.7
2008	67.3	47.4	60.4	0.6

- Source: EUROSTAT- European Commission Statistics

The goals set above were a result of mainly two major trends in the European labour market. The first major trend concerns the changes in the employment pattern and the second trend concerns demographic changes in the European population in general. In the early 1990's under two thirds of the population aged 15 to 64 years of age in the EU 12 were economically active, a ratio of 10 points lower than in the Scandinavian countries and the US. The labour participation rate varied from just 58 per cent in Italy and 59 percent in Spain to 73 percent in the UK and over 80 percent in Denmark. Overall, there has been a tendency of decline in the participation rate of the under 25 years of age reflecting the growth of full-time schooling and training as well as decline in the participation rate among the low – skilled older workers especially for males mainly in Finland, France, The Netherlands and the UK (Adnett, 1996)

Important impact on the labour market, especially the supply side. In the last three decades the working- age population has grown more slowly in Europe than elsewhere, averaging around half the 1.2 percent increase found in the OECD as a whole. Increased life expectancy at birth, as well as fall of fertility rates, have contributed to a rise in the share of older age groups in the population. Life expectancy in the EU has risen by about 5 years for males and nearly 7 years for females since 1960. Over the same period the fertility rate, live birth per 100 women aged 15 to 64 years has fallen from 2.6 to 1.5, with only Ireland having rate above 2. As a result, 15 percent of the European population in the early 1990's were aged 65, with a predicted rise to nearly 20 percent by 2020. Concerning the workforce around 34 percent of the EU labour force will be aged over 45 by 2005, with the ratio exceeding 40 percent in Scandinavia (Adnett, 1996).

Based on the trends in the early 1990's Johnson and Zimmermann (1993) have concluded that the increased ageing in Europe is likely to increase labour cost, reduce labour supply and increase the vintage of human capital. The potential combination of raising the proportion of retired people, falling activity rates and persistent high employment has caused concern about the ability of European economies to finance existing state pension. For that purpose, Austria, France and Germany have made policy changes to discourage early retirement (Adnett, 2007)

While there was tendency for a decline in male participation rates in European labour markets as well as in the USA, female participation rates have been slowly increasing, for all levels of educational attainment, especially amongst those within the prime working-age aged of 25-49 years, the child-bearing and child-rearing age.

In the early 1990's women accounted over 40 percent of the labour force in most European countries. However, the rates of progress toward the European average of 40 percent has been uneven, e.g. around 48% in Sweden, 45 percent in the UK and only 35 percent in Italy. In the early 1990's the southern Member Countries, Greece, Spain and Italy had relatively low rates of female participation but at the same time have had among the highest rates of increase. The steady change in the pattern of employment, i.e. the increased female participation rate during past decades, is partly the result of a significant shift in the demand for female employment, especially after the Great Depression when low-skilled men were substituted with cheap yet educated females. The burst of predominately female employing industries and occupation had their impact as well. However, female decision to supply work is mainly determined by the household formation, fertility and house hold dissolution which as stated above have been subject to radical changes in the past few decades.

### Literature review

In general there are two main approaches employed across studies of female employment across countries. The **first** approach examines the level of female employment itself, focusing on the labour force participation rate and the number of hours worked such as part-time to full-time category. The **second** approach explores the determinants of female employment. While the determinants selected for analysis vary from study to study, they may include one or more of the following three types of variables: (1) individual level ( micro variables, such as number of children in household); (2) institutional level ( macro) variables, such as the size of the welfare state and (3) a combination of individual and institutional level variables. Warnecke, L.T ( 2008). While single-country level studies use micro-level variables, macro-level variables focus on family policies as diverse social, political, institutional and cultural constraints of the average female participation rate.

Institutional determinants became important determinants of female employment after the global economic crisis in the 1970's when high levels of government intervention via social welfare system was needed because of the rampant inflation, unemployment and slow growth. Family policies include parental leave, child benefits and child care subsidies as part of the welfare system in one country. Developed countries have some form of family policy guidelines, but there has been little convergence among advanced industrial societies ( Gauthier 2002, Albert and Standing 2000, Orloff 1993, 1996, Nelson 1994). EU 15 countries are countries with different welfare systems. According to Esping-Andersen's Welfare Regime Typology( 1990) where European employment models are grouped into liberal, Scandinavian ( or social - democratic) and continental models. The new Member States, which still seem in search of an appropriate model, are called "

transition model" models. The same typology has been used by Bosch, Rubery and Lenhendorff (2007) in their report on the recent trend influencing female participation.

### **Maternity and parental leave.**

Parental leave, maternity leave and child leave boost female participation by helping women to reconcile work and family life (Ruhm, 1998). Since in most countries maternity and parental leave are focused on motherhood ( and fatherhood), it is important to note that only paid leave time can truly support the woman's role as mother. Long parental leave, especially not accompanied by job-guarantee may cause difficulties for women to trying to return to the labour market ( Ondrich et al, 1998; Edin and Gustavsson, 2001) at the same time causing negative impact on the salary of return mothers (Ruhm, 1998 and OECD 2002,a) Spain is among the countries with the longest and most generous maternity leave policies in Europe, i.e, 16 weeks, all each paid at 100% of the woman salary up to a maximum level ( Eurostat 2004). However, longer maternity leave supports the position of women as dependent wives by taking maternity leave longer then 16 weeks where participation rate begins to drop ( Juamote 2003). In 1992, the European Commission passed a pregnancy directive, sating that all members countries of the EU must provide a minimum of 14-week paid maternity leave. However, while some countries provide only the minimum 14-week program ( Belgium, Germany, Portugal), other countries provide substantially more generous maternity leave programs eg. United kingdom with 26 weeks, Italy 20 weeks, Denmark and Finland 18 weeks (DiCioccio and Wunnava, 2008)

### **Child care**

The analysis of child care policies impact on female labour supply necessitates consideration of two of dimensions : availability and cost ( Vuri and Del Boca, 2007). Since child care policies differ among European countries (**Esping-Andersen's Welfare Regime Typology,1990**), availability and cost tend to have different impact on female labour supply decision. ( Vuri and Del Boca, 2007). For example, Wronhlich ( 2004) comparing West and East Germany has found significant bur very small effects of child care cost on mother's labour supply while Gustafsson and Stafford (1992) revealed significant relationship only in particular areas of Sweden; Chiuri (2000) found non significant relationship between cost and female labour decision.

However, studies done by Heckman 1974; Blau and Robins 1988; Conelly 1992; Ribar 1995; Averet et al. 1997; Vitanen 2005, have found that child care cost are very significant determinants of the demand for childcare services and employment decision ranging from -0.02, Ribar 1995 to low of - 0.82, Averet at al, 1997. ( Vuri and Del Boca, 2007). A reduction in child care cost increases the

probability of mother's part time employment but has a less significant effect on the probability of working full time.( Del Boca, 1993). The burden of child care cost was mainly eased through childcare provision recommended by the European Commission, which according to Del Boca and Viuri (2007) in the Italian labour market, was above the needed level. There is a common lack of subsidies in the Southern European countries among them Spain. Warnecke, L.T (2008). This lack of subsidies for 0-3 age grouped force mother to take longer parental leave which decreases women's likelihood to return back to the market work leading lower wages and flatter lifetime earning pattern ( Mincer and Polachek 1974).

### **Fertility rate and presence of young children at home ( under 6 years old).**

In many studies, presents of children is taken as strictly exogenous variable in the employment equations which rules out feedback effects. Following the strategy proposed by Carrasco (2001) we relax this assumption and allow for endogeneity. According to Michaud and Tatsiramos (2008) current employment is likely to depend on the number of children in the household which is the result of past fertility decision. Similarly the decision to have a child may depend on current employment

### **Gross Domestic Product per capita**

GDP and employment rate have a positive correlation with another words there is a simultaneity because both have effect to each other. Most of the studies have shown that for each percentage increase in GDP per capita there will be increased in goods and services as well as creation of new vacancies leading to higher overall employment. For example, according to Polozani (2008), if there is an average increase for 10 years of 4.1% in GDP there will be 1.4 percent in employment. It is often assumed that female spouse's primary responsibility is child rearing and household management, especially at the children's younger ages. Such assumption is reinforced by the fact that in the formal labour market male earnings potential exceeds female earnings potential ( even in the 21<sup>st</sup> century). Thus having relatively young children at home becomes de facto constraint for women in pursuing paid employment( Cebula and Coomb, 2007). Accordingly Female participation rate is hypothesized to be a decreasing function of presents of small children at home. According to Troske and Voicu (2009), women with higher education have fewer children and work more before the birth of the first child, but children have larger negative effects on their level of labour market involvement. The coefficient of  $-1.429$  for children aged between 0 and 1, indicates that children lower women's level of labour market involvement by reducing the attractiveness of work relative to non work and the attractiveness of full time and full time part year work relative to part

time. The sign may be relative to females with older than six years old children. (Cebula and Coomb, 2007). The coefficient for older children are still negative in sign but smaller in absolute value indicating that the effect declines as the age of the child. Same conclusion was found by Falzone (2000), where he number of children and having younger ages of children, husband income increase the probability that married women to work part time rather full-time. Tax incentives to split income – and thus work hours-between spouses also positively influence the choice of married women between inactivity and part-time participation ( OECD, 1990).

### **College education**

Females with high or College education expect a relatively higher return with college education which makes it more likely that she will be in the labour force seeking to receive this return. Further more, the absence of significant gender discrimination, greater levels of education attainment theoretically afford females a greater range possibilities and a greater choice of superior ( more “ desirable”) employment, e.g, higher paying jobs, thereby creating an incentive to enter the labour force. Studies by Gerner and Zick ( 1983), Rexroat ( 1990) and Miller and Xiao ( 1999) have found that higher education attainment exercises a positive impact on female labour force participation. According to Troske and Voicu ( 2009), education is the strongest determinant of women’s labour supply. The coefficients of 0.142 and for women with 13 -15 years of education and coefficient of 0.188 respectively, for women with 16 years of education, suggest that women with higher education are relatively more likely to work fulltime.

### **Female unemployment rate**

To control the labour market conditions and the expectation of obtaining gainful employment in 2008 we can include female unemployment rate in 2007 in each member country of the EU 15. This measure provides the marginal female with a more precise likelihood of gaining employment to the extent that there still exist occupations that are predominantly performed by women. To the extent that unfavorable labour market conditions exist in the current period, discouraged females will drop out of the labour force in the next period. Therefore there is a negative relationship between female participation rate and the unemployment rate. ( Cebula and Coomb, 2007). According to Hotchkiss (2006), who has investigated the changes in female participation rate for women aged 25 to 54 in period of 1975 to 2005, weak labour conditions ( i.e higher unemployment rates) provide downward pressure upon the female employment rate.

## Case of Former Yugoslav Republic of Macedonia (FYROM)

Former Yugoslav Republic of Macedonia, as a candidate member of the European Union, has faced the same situation concerning the female employment and above all female social status. Female status has become an increasing problem that started to preoccupy the official state institution that began to undertake steps to regulate this problem by establishing certain legislation.

Women had been marginalized in public, social and political life, paid less for work of equal value and find themselves victims of poverty and unemployment more often than men. The legal status of women had become an increasing problem to the point that had raised the question of equality of both sexes in all spheres of public, political and private life leading to another question of female employment.

For that purpose Republic of Macedonia has started a continuous development processes toward gender equality. However, in the practice there are still obstacles to the implementation of gender equality. In 1997, the Government of Republic of Macedonia established the Gender equality Promotions Unit, within the Ministry of Labor and Social Policy. The aim of this unit is a promotion of women in accordance with international conventions and documents ratified by Republic of Macedonia.

According to the data given in Table.2, activity rates, male and female employment rates between 1996 and 2005 were very unequal. While the male rate reached 41.2% in 2005, only 26.6% of women of working age were employed, and rates were particularly low for older women.

**Table 2.**  
*Employment Rate*  
%

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total employment rate	37.4	34.4	35.9	35.9	35.8	38.6	35.8	34.5	32.8	33.9
Female employment rate	27.4	24.4	26.3	27.1	27.2	30.9	28.1	27.7	25.4	26.6
Male employment rate	47.5	44.6	45.4	44.6	44.7	46.3	43.5	41.3	40.2	41.2

Analyzing the structure of employment by level of education, age and ethnicity we can come to the following conclusion. The employment rates according to level of education show that the lowest rates are found among those having primary education or less, while the highest are for people whose education was of

university level. There are significant disparities which have been increasing over time, the total for people without education went down from 13.4% in 2001 to 6.7% in 2005.

According to age, particularly for the younger and the older age groups the activity rates for workers aged 15-19 decreased from 18.4% (61.6%) in 1999 to 14.5% (50.9%) in 2005; for workers aged 65 and above from 9.0% to 4.8% between 2001 and 2005, while the activity rates for workers between 45 and 64 years of age have increased slightly over the same period.

In respect of ethnic minorities, by the LFS 2000 labour force survey: the participation rate of women of ethnic Albanian origin was 11.3%, compared with 51.1% for ethnic Macedonians (national report), and with 62.3% for men of ethnic Albanian origin. Other ethnic groups, such as the Roma, display a significant gender gap as well. Data from the 2002 census show major differences in ethnic groups' participation rates: the Macedonians display the highest rate, of 58%, followed by the Vlachs (54.7%), the Roma (54.2%), the Serbians (47.3%), and the Turks (44.3%). Ethnic Albanians have the lowest participation rate (37.9%), due to the extremely low level of activity among Albanian women, as already highlighted. There are, however, other factors that influence women's labour force participation rates, and these must be addressed if we are to achieve the goal of gender equality in access to paid work.

Even though the legal status of women has improved over the last thirty years, effectively equality in employment is still far from being reality. According to ETF Country plan 2009, activity and female employment rates are still very low compared to EU averages (50.4% and 32.3%, respectively, for females aged 15-64 in 2007). The gap between employment rates of men and women is high and amounted to 16.5% in 2007. Females are also more affected by unemployment than males: surveyed female unemployment amounted to 35.8% in 2007. This pattern of female employment can be attributed to the nature of most of the jobs available, but also the stereotyping in the choice of the education or job profile, the traditional role of men and women in society, lack of facilities for the care of children or elderly people, as well as gender-biased recruitment practices by employers.

**Table.3** Recent data on the female employment rate

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Employment rate (15-64), female: proportion of the female population aged 15-64 that is in employment <sup>1)</sup>	29.3	30.9	30.9	34.5	32.0	31.3	28.9	30.1	30.7	32.3	32.9
Employment rate (15+), female: proportion of the female population aged 15+ that is in employment <sup>2)</sup>	26.3	27.2	27.1	30.9	28.1	27.7	25.4	26.6	27.0	28.4	28.8

- Employment rate- participation of the number of employed in the working age population, aged 15 years and over  
(according to the recommendations of International Labour Organization - ILO)
- Employment rate - participation of the number of employed in the working age population, aged 15 - 64 years  
(according to the recommendations of Europe Statistical Bureau - EUROSTAT)
- Source: Labour Force Survey, State Statistical Office of Macedonia

With respect to the employment rate, Republic of Macedonia should be focused on qualitative and quantitative reforms of the employment structure according to the gender equality issue by providing equal access to education for both men and women, their education, emancipation and enhancement of the interests of women for the economic, social and political life and elimination of all barriers which obstacle women representations in social life.

### Descriptive statistics and model specification for European Countries

In this study we empirically test the effect of selected institutional variables on a country's female employment rate by conducting a dynamic panel estimation. Dynamic panel data models estimate the effects on some observed outcome of other variables of interest, which may be exogenous or potentially endogenous, conditional on both unobserved individual heterogeneity and one or more lags of the dependent variable<sup>1</sup>.

Dynamic panel estimation is needed when the sample has few time periods and many cross-section units. At the same time the dependent variable depends on its own past values while the independent variables may be endogenous or predetermined Roodman

(2006). Accordingly, a panel data of 25 out of 27 EU countries are going to be used in time period of 13 years starting from 1995 until 2008.

$$\begin{aligned}
 \text{Female employment rate}_{i,t} = & \alpha_i + \beta_1 \text{employment rate}_{i,t-1} + \beta_2 \text{maternity leave}_{i,t} \\
 & + \beta_3 \text{childcare facilities}_{i,t} + \beta_4 \text{fertility rate}_{i,t} + \beta_5 \text{college education}_{i,t} + \beta_6 \text{female} \\
 & \text{unemployment rate}_{i,t} + \beta_7 \text{part-time employment}_{i,t} + \mathcal{E}_{i,t}
 \end{aligned}$$

The chosen variables in the model given above have been considered in the literature as possible determinants of the female employment rate. The dependent variable is the Female Employment Rate as a percentage of the total female population over 15 years age and up to 64 years age.

The independent variables are as follows:

**Maternity leave** – maternity leave is defined as the number of paid weeks a women is entitled in case of normal birth. This variable is expected to have a positive effect upon the female participation rate. However, long parental leave may have negative effect because women with longer leave are less likely to return to work ( Juamote,2003).

**Child care facilities** – because of lack of data and at the same time differences in definitions of child care facilities across countries, in this analysis a proxy variable is going to be used, the participation rate of 4 year old children in pre-school education. This indicator presents the percentage of the 4 year olds who are enrolled in education-oriented pre-primary institutions which provide education-oriented care for young children. They can either be schools or non-school settings, which generally come under authorities or ministries other than those responsible for education. It is expected to have a positive sign. .

**Fertility rate** – the fertility rate is defined as the mean number of live children born to a women during her lifetime. Traditionally, high fertility rate has a negative impact upon female employment. However, due to institutional changes in form of subsidies, child care programs, possibility of part-time working, the sign of the effect might have changed past decades.

It is important to recognize the mutual dependence between the labour supply of married women and fertility, i.e. the endogeneity in either life cycle models or static models of female labour supply. Even though children can be exogenous to the hours of work decision for married women, according to Xie (1997) children are endogenous to the female participation decision where children under six have dramatic negative impact on female employment. Therefore a negative relationship can be expected.

**College education** - In order to estimate the effect of education upon female employment, a percentage of educated female tertiary education is used, irrespective of fields of education such as mathematics, science, computing, engineering, manufacturing and construction.

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<sup>1</sup>The basic characteristics of the linear dynamic panel model are displayed in the following equation:  $Y_{it} = \beta Y_{i,t-1} + (\alpha_i + \mathcal{E}_{it})$ . It is a first-order dynamic panel model, because the explanatory variables on the right-hand side include the first lag of the dependent variable ( $Y_{i,t-1}$ ) where the group-specific random effect ( $\alpha_i$ ) control for all unobserved effects on the dependent variable that are unique to the country and

Greater levels of educational attainment theoretically afford females a greater range of employment possibilities and a greater choice of superior (more “desirable”) employment, e.g. higher paying jobs, thereby creating an incentive to enter the labour force. Therefore we can expect a positive relationship between the percentage of female population with college education and female employment (Gerner and Zick, 1983, Rextorat, 1990, and Miller and Xiao, 1999)

do not vary over time i.e captures specific ignorance about country  $i$  and an error that varies all over countries and time ( $\mathcal{E}_{it}$ ) capturing the general ignorance of the determinants of  $Y_{it}$

**Female unemployment rate** – The female unemployed rate is female unemployed persons as a percentage of the female labour force based on International Labour Office definition. Unemployed persons comprise persons aged 15 to 74 who are without work and have been actively seeking work. This variable captures the labour market conditions and the expectation of obtaining gainful employment. Unfavorable market conditions, i.e. a high female unemployment rate negatively influences the female employment rate, therefore we can expect negative sign in front of the coefficient.

**Table 4.** Descriptive statistics

<i>Variables</i>	<i>Abbreviation</i>	<i>Standard deviation</i>	<i>Mean value</i>	<i>Min</i>	<i>Max</i>
<b>Maternity leave</b>	matleave	8.499553	19.40882	13	52
<b>Child care facilities</b>	chcare	19.63134	78.06901	29.7	100
<b>Fertility rate</b>	fertrate	.2396408	1.481935	1.09	2.13
<b>College education</b>	educ	10.59246	25.88935	2.8	54.2
<b>Female unemployment rate</b>	unemrate	4.745048	9.234056	2.2	30.8
<b>Part-time employment Rate</b>	Part-em	16.14076	23.42764	2.7	75.2
<b>Gross Domestic Product</b>	gdp	2.367503	2.367503	-4.582	12.233

In order to obtain more valid result we have also include time dummy variable in the model which will capture and place the effect of universal shocks ( business cycle effects, demand shock etc.) from the idiosyncratic error term in to the systematic part of the model. According to Roodman (2006), contemporaneous correlation, as a result of universal time-related shocks, is causing cross-individual correlation in the error term thus offering a model that is not reliable.

In the (Arellano-Bover/Blundel-Bond regression), a system-GMM approach, apart from the dependent variable three other variables were used as endogenous: **childcare, fertility rate and GDP per capita**. The error component regression model controls for unobservable characteristics including the tradition, employer preferences i.e stereotype ,work-live balance policies and so on. According to the literature, there is high possibility for the tradition to be correlated with the some of the independent variables in the employment rate, e.g. in highly traditional counties, where the bread –wiener model is dominant the less possibility for supporting the female partner in the family to enter the working market, the higher the female unemployment rate, higher fertility rate. However, in such cases the random effect estimators are bias and inconsistent which require a GMM estimation.<sup>3</sup>

According to Green(2002) and Verbeek (2000), the main advantages of GMM is that it does not require distributional assumption of normality and it allows for heteroscedasticity which can be over come by the means of “robust estimator”. However, GMM does require **NO** autocorrelation in the error term. If for any reason  $\varepsilon_{i,t-1}$  is correlated with  $\varepsilon_{i,t-2}$ ,  $\varepsilon_{i,t-3}$ , etc., then the lagged error terms are not

independent of the instruments, which by definition can not be valid. Therefore, before interpretation of the system GMM estimation, two tests for instrumental validity have been used (1) test for first- and –second order serial correlation among the residuals (  $m1+m2$  statistics)<sup>1</sup> and (2) the Sargan test of over-identifying restrictions.

**Table 5.** Interpretation of diagnostic tests for Arrelano and Bover System GMM

MODEL	Number of instruments	m2 statistics: Ho→ no 2 <sup>nd</sup> order serial correlation m1statistics: Ho→ no 1 <sup>st</sup> order serial correlation	t-stat 5%/10% c.v	Sargan test= Hansen J Statistics: Ho: correlations are sufficiently close to 0; valid instruments
All variables treated as endogenous	Max-183		2.3167 0.0205 0.1061 0.2687	M1: Ho rejected M2: Ho not rejected Ho not rejected- prob > chi2 =0.1928
All variables as endogenous with 2nd lag in level and 1st lag differences	Min-86		1.9278 0.0539 1.6056 0.1084	M1 Ho rejected M2: Ho not rejected Ho not rejected- Prob > chi2 =1.000
All variables endogenous with 3th lag in level and 2nd lag differences (1instrument more)	111		2.271 0.0231 1.1937 0.2326	M1:Ho rejected M2: Honot rejected Ho not rejected- Prob > chi2 =0.0563
All variables endogenous with 4 <sup>th</sup> lag in level and 3 lag differences (2 instruments more)	135		2.2837 0.0224 1.1487 0.2507	M1:Ho rejected M2: Ho not rejected Ho not rejected- Prob > chi2 =0.2050

<sup>3</sup> GMM is a general method of estimating population parameters from a data sample where OLS and instrumental estimations are special cases. GMM is assuming population conditions expressed in terms of expectations, i.e,  $E(\epsilon_t, x_t) = 0$  which is a

restriction on the covariance between the error term and the independent variable known as conditions. GMM allows use of set of instruments per variable with in the data which give a great possibility for resolving endogeneity problems within the model. (see **GMM estimation of Dynamic panel model**)

<sup>4</sup> Arrelano and Bond (1991) GMM estimation require  $E[\Delta \varepsilon_{it}, \Delta \varepsilon_{i,t-2}] = 0$  i.e, no second-order serial correlation in the error term of the first differenced equation, where **m2** statistics test the maintained hypothesis ( $H_0$ ) in the equation above. The **m1** statistics has a subsidiary role by providing information on the robustness of m2 statistics. The m2 statistics is unreliable i.e, it may fail to reject- if the error term in levels follow a random walk. Thus, if there is first – order serial correlation in the first differenced error term where  $0 < \rho < 1$ , the random walk in the first –order errors is excluded. Therefore, the m1+m2 statistics require first -order serial correlation and **NO** second -order serial correlation.

According to the first way of testing instrumental validity, i.e test for first- and – second order of serial correlation among the residuals, in all cases the t-statistics for m2 was high where we accept the null for **No** 2<sup>nd</sup>-order autocorrelation in the differenced error terms. At the same time we do reject the null of m1 statistics for 1<sup>st</sup> –order autocorrelation in the differenced error terms.

Concerning Sargan/Hansen test, as second test for instrument validity, to low and two high p-values can be indicative of weak instruments Roodman (2007). Also there is the problem of “ too many” instruments where the Sargan test grows weaker the more instruments were test and unable to reject the null of instrument validity. In this study, p values obtained in most of the cases were above the apparently very high rule of thumb a threshold of  $p=0.25$ . According to the statistics presented in the table only the forth case of estimation provided p value near to the rule of thumb suggested by Rodman,  $p = 0.2050$  . Even we do accept the null of valid instruments we still had to deal with the problem of two many instruments.

There is no clear guidance from the literature on how many instruments are “too many” (Roodman, 2009), although `>xtabond2<` does give a warning when the number of instruments is larger then the number of cross-sectional units. One of the ways to limit the instrument count is by collapsing them, i.e creating instruments for each variable only. At the same time there has been a growing evidence that that panel data is likely to exhibit cross- sectional dependence which may arise due to spatial dependencies, economic distances, common shocks” thereby causing errors to be “ correlated across the entire cross section” ( Sarafidis, et al., 2006). The evidence of 2<sup>nd</sup> no order serial correlation might implies possibility of no heterogeneous error cross sectional dependence.

**Table 6.** The Difference – in Hansan test(= C-statistics)

C-statistics	Chi2	p value	Ho: instrument validity
Hansen test of over identified restriction	Chi2=4.52	Prob>chi2=1.000	Not rejected
Difference in Hansen test of exogeneity of instruments	Chi2=5.17	Prob>chi2=0.819	Not rejected
Comparison of both tests	Chi2=0.65	Prob>chi=1.000	Not rejected

- The p values given above were compared to the conservative threshold suggested by Roodman which is  $p=0.25$

According to the statistics presented in table the system GMM instruments for levels are valid, in which case we can accept the "steady-state" assumption required for system estimation and there is no undue problem with cross-sectional dependence. Based on the diagnostic test, where we did not have 1<sup>st</sup> order correlation and have 2<sup>nd</sup> order correlation, at the same time valid instruments (Sargan/Hansen) we can say that this is a sensible mode. At the conventional 5% critical value all of the coefficients were statistically individually significant, apart from the coefficient of the lagged dependent variable. All of the signs in front of the coefficients are as expected i.e, there is high level of persistency between lagged dependent variable and dependent variable in level as well as a negative relationship between female employment rate and increase in female unemployment, long maternity leave and high fertility rate .

**Table 7.** Interpretation of the model

SYSTEM MODEL		
Regressors	Coefficient with Robust SE	Economic interpretation
Employment rate (Lagged)	0.96*	On average, the female employment rate in current period 96% depends form the employment rat in period from the last period t-1, ceteris paribus.(high level of persistency)
Child care facilities	0.07	On average, 1% increase in 4 year olds in pre-school education in current period, will

		increase the employment rate by 7%, ceteris paribus
Fertility rate	-0.59	On average, increased average of birth in current period, will decrease the employment rate by 59%, ceteris paribus
Maternity leave	-.0013	On, average, 1week increase in maternity leave in the current period will decrease employment rate by 1,3%, ceteris paribus
Education	0.10	On average, 1% increase in the female tertiary graduates will increase employment rate by 10%,ceteris paribus.
Female unemployment rate	-0.04	On average, 1% increase in the female unemployment rate will decrease the employment rate by 4%, ceteris paribus
Part-time employment	0.05	On average, 1% increase in the female part-time employment will increase female employment rate by 5%, ceteris paribus
GDP	0.23	On average 1% growth in GDP will lead to 23% increase in the female employment rate
Constant term	3.71	The constant term has no theoretical meaning

- The coefficients with asterisk is statistically insignificant.

## Conclusion

In this paper we have investigated the question of what determines the female employment rate in the European Union where a sample of 25 countries was used in period of 13 years starting from 1995. We have employed a system GMM model where the preferred model consist 4th lag in levels and 3th lag in differences. The main findings can be summarized as follows.

Current employment rate is highly influenced i.e determined by the previous year employment rate. According to this study the employment rate 96% depends from the rate  $t-1$  which suggest a high level of persistency. Apart from the previous employment rate fertility rate and Gross Domestic Product growth and tertiary education also have great influence upon the employment rate. In this sample high birth rate have substantial impact on the employment rate causing almost 60% drop in the employment rate. Even though child care facilities and maternity leave had smaller impact upon the employment rate, in many countries e.g UK where there has been increase capacity in childcare facilities the employment rate had increase

substantially while the length of maternity leave could have negative impact like in this case but rather small.

Compared to European countries education is also one of the most important determinants of the employment rate in FYROM. According to level of education show that the lowest rates are found among those having primary education or less, while the highest are for people whose education was of university level. Apart from the education also the tradition has very large impact upon the employment rate.

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**Macroeconomic Challenges for Macedonia toward European Union and European Monetary Union membership – Copenhagen and Maastricht Criteria**

**Abstract**

In this paper we have analyzed the major macroeconomic challenges that Macedonia might face for becoming part of European Union countries, which are related to the capacity of Macedonian economy for meeting the prerequisites specified by European Commission in Copenhagen and Maastricht. In the context of Copenhagen criteria, using data from European Bank for Reconstruction and Development, we have analyzed the ability of Macedonian economy to cope with competitive pressures within EU structure. For this purpose, the main challenges of Macedonia toward EU membership are: strengthening the competition, strengthening of suitable capacity of human capital in the country, strengthening of non – bank financial institutions, reduce the shadow economy and built up a better infrastructure. The challenges that Macedonia has to solve will certainly result in progress related to market economy functionality and better prerequisites for strengthening private sector competitiveness. In the context of Maastricht criteria, using data from International Financial Statistics (IFS), National Bank of the Republic of Macedonia (NBRM) and State Statistical Office of RM, the study is focused on the Treaty provisions with regard to development in prices, fiscal balances and debt ratio, exchange rates and long term interest rates. In this respect, economic developments in Macedonia are reviewed from a backward – looking perspective, covering in principle the past ten years. Economic convergence of Macedonia as a country under review in this paper is, also, examined in the context of the regular two – year cycle, which is in line with the requirements of article 122 (2), in conjunction with the article 121 (1) of the Treaty of the European Commission. In order to capture the convergence criteria, in the context of the influence of the real exchange rate, the study attempts to explore the pass through effect of exchange rate on inflation. We use quarterly data from 1998 to 2008

and employed Vector Autoregression and Granger Causality test of exchange rate on inflation. The results show that changes in exchange rate 'are causing' changes in the producer prices and retail prices, thus confirming the high import dependability of the domestic production.

**Key Words:** Economic Convergence, Macedonia, European Union, European Monetary Union

## Introduction

Enlargement is one of the most powerful policy tool of European Union. Its function is to provide stability and security for integrated nations. The present enlargement agenda covers Western Balkan Countries, such as FYR Macedonia, Bosnia and Herzegovina and Turkey. The integration motives of these countries are based on their willingness to participate in European financial resources, thus enabling these economies to provide financial recourses from integrated markets. In this paper we have analyzed the major economic challenges of Macedonian economy toward European Union (EU) and European Monetary Union (EMU) membership. These analyses are based on the capacity of Macedonian economy to meet the respective, Copenhagen and Maastricht membership criteria. Therefore, within the framework of EMU membership the analysis of economic performance of Macedonia are highly hypothetical, since the country is not a member of the European Union and it is far away from fulfilling all legal issues to join EU soon. However, in our paper, we offer the first preliminary assessment concerning monetary integration. The duration of Macedonian integration into EU structure, depends on the extent to which the country is capable to fulfill the economic criteria.

The paper is structured as follow. After the introduction, we analyze the economic criteria for EU and EMU membership. Within this part, a comparative analysis, in regards to Macedonian approximation toward European Union with other candidate countries is analyzed. For this purpose, using transition indices from European Bank of Reconstruction and Development (EBRD), we have examined the key economic criteria, which are in line with Copenhagen requirements. To examine the economic convergence between Macedonia and EMU's Maastricht criteria, the study is focused on the analysis, based on the Treaty provisions with regard to development in prices, fiscal balances and debt ratio, exchange rates and long term interest rates. In the context of the methodology, the paper was prepared to a great extent in accordance with the Methodology of Regular Reports of the European Commission and Annual Convergence Reports of the European Central Bank (ECB). Additionally, in order to capture the convergence criteria, in the context of the

influence of the real exchange rate, the study attempts to explore the pass through effect of exchange rate on inflation, which is developed in section four. The last part of the paper encompasses conclusions, as well as the policy recommendations for Macedonia with the objective toward meeting the membership criteria, identified by the European Commission in Copenhagen and Maastricht.

## 2.1 European Union and the Copenhagen Criteria

The Enlargement of the European Union is a very significant mechanism in order to integrate the European Union. Therefore, there have been many enlargement events since 1970s until the latest in January 2007, where, Bulgaria and Romania joined the Union. However, after every enlargement occurred, the question of the possibility of other countries around the continent of Europe which have a good relationship with the EU to join the European Union has been raised up. .

For candidate countries, to become an EU member, they must complete the Copenhagen Criteria<sup>1</sup>, which defines the rules for a country to be eligible for becoming EU member. These criteria imply the functioning of market economy, the existence of democratic institutions, able to preserve democratic governance and human rights, and that the state accept the obligations and intent with the EU. Because of these criteria, many candidate countries find difficulty to access the European Union. Therefore, to be more understandable, before one country could join the European Union, it has to meet the following criteria as fully stated, the Copenhagen Criteria<sup>2</sup>

As concern to economic criteria for membership into European Union and European Monetary Union, they are static and do not speak much of economic quality and there is a lack of academic explanation (Efendic A, 2005). These criteria, do not discuss the effect of fulfillment on different countries, having in mind the fact that no country has the same economic environment. Economic criteria defined in Copenhagen, can be viewed through the following sub criteria<sup>3</sup>

1. *Equilibrium between demand and supply is established by the free interplay of market forces; prices, as well as trade, are liberalized;*

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<sup>1</sup>Pusca, Anga. European Union: Challenges and Promises of the new Enlargement. New York: IDEA and CEU press. 2004, pp.31-32

<sup>2</sup>Glenn, John K. EU Enlargement. In: Cini, Michelle (eds) European Union Politics. New York: Oxford University Press. 2003, pp. 216

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2. *Significant barriers to market entry (establishment of new firms) and exit (bankruptcies) are absent;*
3. *The legal system, including the regulation of property rights, is in place; laws and contracts can be enforced;*
4. *Macroeconomic stability has been achieved including adequate price stability and sustainable public finances and external accounts;*
5. *Broad consensus exists about the essentials of economic policy;*
6. *The financial sector is sufficiently well developed to channel savings towards productive investment.*
7. *The existence of a functioning market economy, with a sufficient degree of macroeconomic stability for economic agents to make decisions in a climate of stability and predictability;*
8. *A sufficient amount, at appropriate costs, of human and physical capital, including infrastructure, education and research, and future developments in this field;*
9. *The extent to which government policy and legislation affect competitiveness through trade policy, competition policy, state aids, support for SMEs;*
10. *The degree and the pace of trade integration a country achieved with the Union before enlargement. This applies both to the volume and the nature of goods already traded with Member States;*

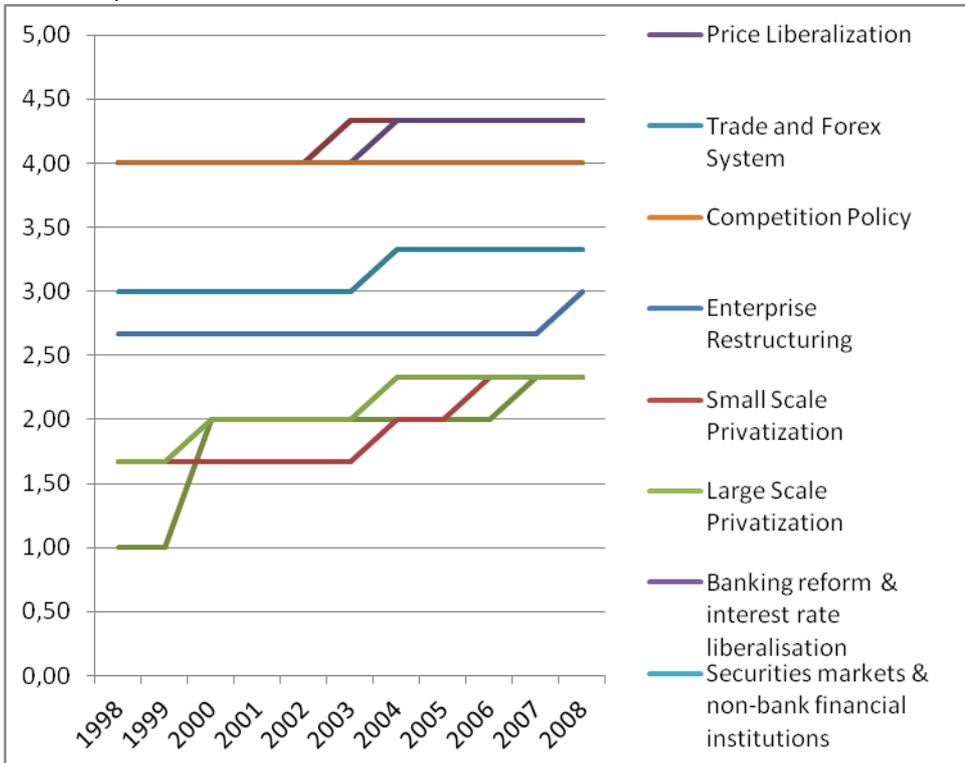
In order to understand the economic criteria, we have to raise the question, whether these criteria are useful for national economies, or are they a wasted opportunity to implement their own national strategies. However, for a candidate countries, on their way to EU membership, one of the challenges, is the achievement of real convergence, which means that the income per capita and the living standard of the candidate country under observation, should come closer to the average of less developed EU members (Efendic, A, 2005), thus providing long run economic benefit for national economy, in a sense of providing long term sustainable and stable growth in the conditions of macroeconomic stability. On the other hand, non fulfillment of economic criteria for EU membership by candidate country is a wasted opportunity for the country on its way toward EU membership and is a sign of poor economic performance from national economy point of view.

## **2.2 Macedonia in the context of Copenhagen criteria for EU membership**

The economic criteria for EU membership are related with the long run achievement of real convergence, which analyses the catch up process of candidate countries and integrated countries, with regard to income per capita and standard of living of the

country under observation. Real convergence can only be achieved in conditions of macroeconomic stability. Achievement of economic criteria specified by the Treaty of European Commission, represents support for transitional supports. For this purpose, the analysis of economic criteria for EU membership, in this paper, will be based on transition indices, using data from European Bank for Reconstruction and Development. The Copenhagen criteria are related to the ability of Macedonia to fulfill the conditions with regard to well functioning market economy. For this purpose, we have used the transition index for the period (1998 – 2008).

Within the framework of transition indices, price liberalization indices range from 1 to 4, with 0.3 decimal points added or subtracted for + and – rating representing the lowest and the highest degree of price liberalization for a country under review. As can be seen from the graph, Macedonia does fulfill the conditions of price liberalization and at the same time can be compared with other integrated countries, within EU structure



**Chart 1: Transition Indices for Macedonia, 2008 (Source: EBRD, 2008)**

*Equilibrium between demand and supply is established by the free interplay of market forces; prices, as well as trade are liberalized.* According to National Strategy of

Macedonia for European Integration, with regard to price liberalization policy, Macedonians plan is to determine the futures price policy based on two elements 1) The number of products and services whose prices are controlled should continue to fall and 2) future liberalization of currently controlled prices should be announce in advance, with detailed time schedule for their adjustment. This will increase the transparency level, with regard to prices, thus decreasing the imperfect information between economic agents. The expected result, to be achieved from this policy, is reduction of expected inflationary effects and increases the competitiveness in the real sector. This is especially true for energy prices.

With regard to foreign trade liberalization, according to transition indicators, Macedonia recorded excellent results, where the respective indexes, are both, 4.33, showing that Macedonian economy is being opened in the trade area, which has been achieved through establishing a free trade zone in the region in accordance with the Stability Pact. The favorable movement on the foreign exchange market, that lead to increase of trade liberalization, during the year of 2006, was due to the gradual liberalization of the capital account, the admission to Central European Free Trade Agreement (CEFTA), the acquiring of the status of candidate country for joining EU and the higher credit rating, as well as the aggressive policy of the Government for attracting foreign capital in the country (tax reduction, international promotion of the country). These conditions improved the economic cooperation of Macedonia with the countries of EU structure, thus increasing the liberalization degree of foreign trade of Macedonia.

*The legal system, including the regulation of property rights, laws and contracts that can be enforced* is the criterion that is certainly a huge challenge for Macedonia in the future regarding the implementation of necessary reforms in relation to improving the current situation in the country. "Being aware of the fact that appropriate legislation is a necessary condition for an efficient transition from a centrally-planned to a market economy, all countries in the region started at the very outset of transition with a comprehensive reform of their legal and regulatory systems. In this regard, Macedonia has adopted

Years	Large scale privatization	Small scale privatization	Enterprise restructuring	Price liberalization	Trade & Forex system	Competition Policy	Banking reform & interest rate liberalization	Securities markets & non-bank financial institutions	Overall Infrastructure Reform

							n		
<b>1998</b>	3,00	4,00	2,00	4,00	4,00	1,00	2,67	1,67	1,67
<b>1999</b>	3,00	4,00	2,00	4,00	4,00	1,00	2,67	1,67	1,67
<b>2000</b>	3,00	4,00	2,33	4,00	4,00	2,00	2,67	1,67	2,00
<b>2001</b>	3,00	4,00	2,33	4,00	4,00	2,00	2,67	1,67	2,00
<b>2002</b>	3,00	4,00	2,33	4,00	4,00	2,00	2,67	1,67	2,00
<b>2003</b>	3,00	4,00	2,33	4,00	4,33	2,00	2,67	1,67	2,00
<b>2004</b>	3,33	4,00	2,33	4,33	4,33	2,00	2,67	2,00	2,33
<b>2005</b>	3,33	4,00	2,33	4,33	4,33	2,00	2,67	2,00	2,33
<b>2006</b>	3,33	4,00	2,67	4,33	4,33	2,00	2,67	2,33	2,33
<b>2007</b>	3,33	4,00	2,67	4,33	4,33	2,33	2,67	2,33	2,33
<b>Average</b>	3,15	4,00	2,36	4,15	4,18	1,87	2,71	1,91	2,09

**Table 1. EBRD Transition indices for Macedonia (Source: EBRD Transition Report, 2008)**

We observe that Macedonia registers a relatively good index in the area of small scale privatization (4.00), while conditions on large scale privatization are much worse. The biggest problems, for Macedonia are in the competition policy area, where the average index for the period 1998 – 2008 is 1,87. Also the average indexes of overall infrastructure reform (2.09), securities markets and non bank financial institutions (1,91), and banking sector and interest rate liberalization (2,71) do not show good functionality indicator for Macedonian market economy.

### **2.3 Macedonia, candidate countries for EU membership and new integrated countries**

For the period under review 1998 – 2008, Macedonia recorded the best results in terms of price liberalization, trade and forex liberalization, small scale privatization

EBRD index (1- 4)	Macedonia	Bulgaria	Romania	Average of new EU members (B+R)	Albania	Bosnia and Herzegovina	Croatia	Average of the candidate countries (A + B + C)

and to some extent in the area of large scale privatization. These results are showing that Macedonia intends to increase the openness degree, in order to benefit from the financial resources of integrated countries

Average 1998 – 2008

Price liberalization	4,15	4,24	4,33	4,25	4,00	4,00	4,00	4,00
Trade and Forex System	4,18	4,33	4,33	4,33	4,27	3,39	4,27	3,97
Small – scale privatisation	4,00	3,66	3,63	3,64	4,00	2,72	4,33	3,68
Large – scale privatisation	3,15	3,69	3,33	3,51	2,90	2,42	3,18	2,83
Enterprise restructuring	2,36	2,51	2,21	2,36	2,09	1,85	2,82	2,25
Competition Policy	1,87	2,48	2,42	2,45	1,82	1,24	2,39	1,81
Overall Infrastructure reform	2,09	2,84	3,09	2,96	1,93	2,08	2,72	2,24
Banking reform and interest rate liberalization	2,71	3,30	2,89	3,09	2,45	2,51	3,60	2,85
Securities Markets and Non Bank Financial Institution	1,91	2,33	2,27	2,31	1,67	1,42	2,63	1,90
<b>Average</b>	2,40	2,67	2,59	2,62	2,28	1,96	2,72	2,32

Source: *Transition report 2008*, EBRD, London

**Table 2: EBRD indices for Macedonia, candidate countries and new member**

**countries. Source: own calculation, using data from EBRD**

According to transition indices, we observe that biggest problems, for Macedonia are in the competition policy area, where its average index for the period under review is 1,87. This index is also the smallest one in comparison to respective average individual indexes of candidate countries. Also the average indexes of overall infrastructure reform (2,09), securities markets and non bank financial institutions (1,91), and banking sector and interest rate liberalization (2,71) do not show good functionality indicator for Macedonian market economy. However, when considering the Macedonian capability to cope with competitive pressures, it is important for this analysis to compare the Macedonian indices with respective indices for both, transition countries that have become full members and candidate countries aiming to become members of EU.

1. The average value of Macedonian index of 2,40 is lower than the average value of new EU members index (2,62), and higher than the average value of candidate countries index (2.32), meaning that, the lag of Macedonian transition indices amounts to a total of 8.3%, in comparison to the average value of new EU members index. On the other hand, with respect to candidate countries, Macedonia has an advantage in terms of transition indices. Its average value is higher for 3.3%, than the average value of candidate countries indices.
2. In comparison to the average indices of the candidate countries, Macedonia has the best result in the area of price liberalization and trade and foreign exchange market, thus reaching the EU standard. Macedonia has also good results in the value of the index measuring small scale privatization. Macedonian results on small scale privatization (4.00), are somewhat better than the average of new EU entrants (3.64), with the lag being the smallest compared to candidate countries, such as Croatia (4.33). As concern to the case of large scale privatization, Macedonia lags well behind new EU entrants, and has recorded positive advantage with respect to candidate countries.

### **Macedonia in the context of Maastricht Criteria**

The framework for analysis of economic convergence between Macedonia and EMU Maastricht criteria is based on the Treaty provisions and their application by the

European Central Bank (ECB) with regard to developments in prices, fiscal balances and debt ratios, exchange rate and long – term interest rates, together with other relevant factors. Second, it is also based on a range of additional backward and forward – looking economic indicators which remain useful for examining the sustainability of convergence in greater details. The analysis of economic convergence for Macedonia is built on principles set out in reports published by the European Central Bank (ECB).

The Convergence criteria have to be met on the basis of actual data. Moreover, it is emphasized that convergence must be achieved on a lasting basis and not just at given point in time. In this respect, economic developments in Macedonia are reviewed from a backward - looking perspective, covering, in principle, the past ten years. Economic convergence of Macedonia as a country under review in this paper is, also, examined in the context of the regular two – year cycle, which is in line with the requirements of article 122 (2), in conjunction with the article 121 (1) of the Treaty of the European Commission. This helps to better determine the extent to which current achievements are the result of genuine structural adjustment, which in turn should lead to a better assessment of the sustainability of economic convergence. The examination of economic convergence for Macedonia is assessed in line with the provisions of article 121 of the Treaty. The cut – off date for the statistics included in this convergence paper is 18 April 2008. The statistical data used in the application of convergence criteria have been provided by European Commission (see also the statistical annex and the tables and charts), National Bank of the Republic of Macedonia (NBRM), European Bank for Reconstruction and Development (EBRD) and International Financial Statistics (IFS). For monthly data on exchange rates, the period considered in this report ends in March 2008. Data for fiscal balances cover the period up to 2008.

In order to accede the European Monetary Union Macedonia has to proof nominal and real convergence, in line with the five convergence criteria. The nominal and real convergence criteria include.

1. The criterion on price stability – uniformly low and stable inflation is the fundamental criterion. Inflation rate must not exceed by more than 1.5 percentage points that of, at most, the three best performing Member States in terms of price stability.
2. Uniformly low and stable long-term interest rates is the second criteria. An inflation-prone country could possible squeeze down inflation temporarily, on the last year before admission – for example, freezing regulated prices – only to relax the effort afterwards. In order to weed out cheaters, a second criterion requires that the long term interest rates must not exceed the average rates observed in the three lowest inflation rate countries by more

than 2 percentage points. The economic rationale is: Long-term interest rates reflect markets' assessment of long-term inflation.

3. A stable exchange rate, derived from uniformly low and stable inflation rates is the third criteria. The examination of exchange rate stability against the euro focuses on the exchange rate being close to the ERM II central rate, while also taking into account factors that may have led to an appreciation, which is in line with the approach taken in the past.
4. The ratio of the planned or actual government deficit to GDP, or the annual flow of public sector debt must not exceed the reference value of 3% of GDP value.
5. The ratio of government debt to GDP, or the total stock of public sector debt, national debt, must not exceed the reference value of 60% of GDP value. Moreover there is an interesting link between the public finance criteria four and five regarding to real GDP growth. Hence, it connects both real and nominal convergence of the economy.

## 2.1 Descriptive Assessment: Examination of Economic Convergence

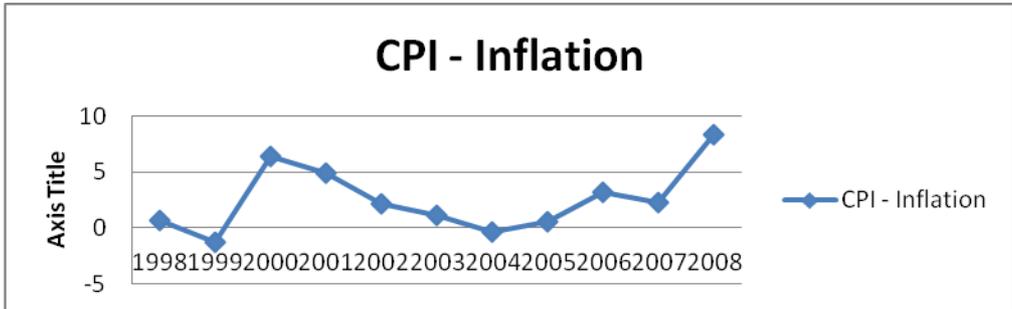
### 3.1.1 Price Developments

Regarding the price stability criteria, during the period April 2006 – May 2007, Macedonia had annual average inflation rate below the reference value (2.6%), whereas during the period April 2007 – May 2008, the country registered annual average inflation rate of 4.4% which was above the reference value of 3.2%.

HICP Inflation for Macedonia				
	September 2003 to August 2004	April 2005 to March 2006	April 2006 to March 2007	April 2007 to March 2008
HICP Inflation*	0,8	0,9	2,6	4,4
Reference Value**	2,4	2,6	3	3,2
Euro Area***	2,5	2,3	2,1	2,5
Source: State Statistical Office of Republic of Macedonia (SSO) and Eurostat				

**Table 3: Inflation in Macedonia, during the reference periods, measured by Harmonized Index of Consumer Prices**

Looking back over the last past ten years, inflation rate measured by consumer price index has been rather volatile, averaging 1.82 on an annual basis, over the period 1998 to 2008. Looking at recent developments, CPI inflation followed a downward trend from 2001 to 2004. The process of disinflation during the years of 2001 – 2004 reflected a number of important policy choices, most notably the orientation of monetary policy towards the achievement of price stability, which is the primary objective of monetary policy.



**Chart 2 – CPI – Inflation for the Republic of Macedonia**  
**Source: National Bank of the Republic of Macedonia. NBRM**

During the period from 2004 to 2008, inflation rate in Macedonia, registered upward trend. In 2008 the CPI inflation rate was 8.3% which is above the convergence criteria. The main factors underlying behind this increase in inflation were higher food and energy prices, adjustments in excise duties and strong demand pressures, which, in turn, are generating price and wage pressures (NBRM Annual Report, 2008).

Looking ahead, the latest available inflation forecasts from major international institutions range from 2.7 to 5.2 for 2009. Risks to these inflation projections are on the upside and are associated with larger – than – expected increases in energy, food and administered prices.

Inflation Forecasts	
Average Annual Inflation Forecasts for 2009	
EBRD (Nov 2008)	3,5
European Union (April 2008)	2,7
IMF (October 2008)	3

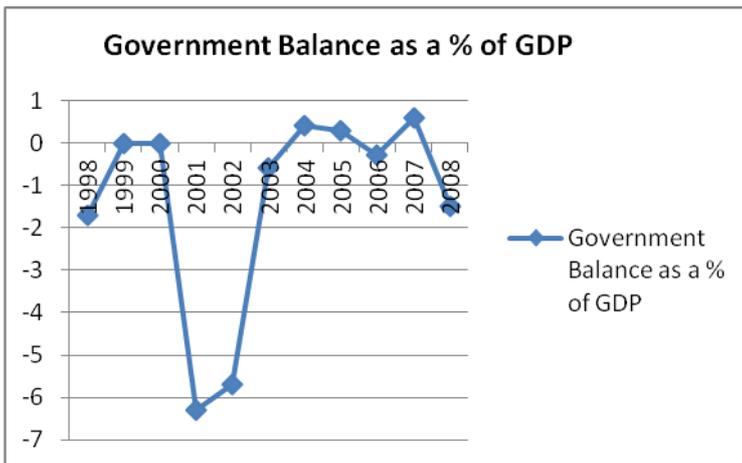
United Nations (DESA)* (October 2008)	5
Economic Intelligence Unit (August 2008)	5,2
Viena Institute (June 2008)	3
Department of Economics and Social Affairs (DESA)	
Source: EBRD - Transition Report 2008	

**Table 4: Inflation forecasts**

However, the catching – up process is also likely to have a bearing on inflation over the coming years, given that GDP per capita and price levels are still significantly lower in Macedonia than in the euro area. However, it is difficult to assess the exact size of this impact. The inflation stabilization shall be mainly expected in 2009.

### 3.1.2 Fiscal Developments

Macedonia is not subject to an EU council decision on the existence of an excessive deficit. With regard to the budgetary performance, Macedonia has a fiscal deficit to GDP ratio below the convergence criteria of 3% specified in the treaty. The amount in the reference year of 2007 was 0.6% to GDP, whereas in 2008 it declined further down to -1.5% to GDP.



**Chart 3: Government Balance as a % of GDP**

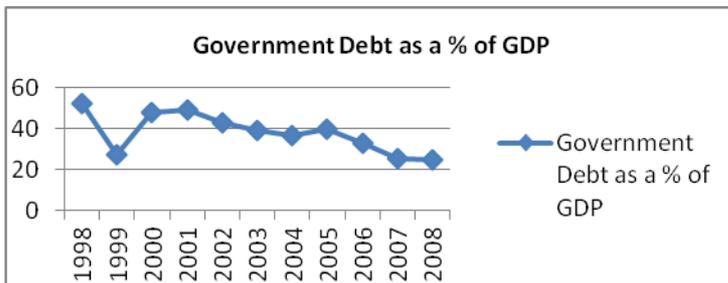
Source: National Bank of Republic of Macedonia

General Government Fiscal Position (as a % of GDP)	200	200	200	200	200	200	200
	2	3	4	5	6	7	8
General Government surplus (+)/Deficit (-) (EBRD)	-5,7	-0,6	0,4	0,3	-0,3	0,6	-1,5
Reference value (Convergence Reports 2002 - 2007)	-3	-3	-3	-3	-3	-3	-3
General Government Gross Debt (EBRD)	42,9	39,0	36,6	39,5	32,9	25,5	25,6
Reference value (Convergence Reports 2002 - 2007)	60	60	60	60	60	60	60

Source: EBRD, Convergence Reports 2003,2004,2005,2006,2007

**Table 5: Fiscal Developments over the reference periods**

As concern to the Macedonian general government debt to GDP, the results are not so worrying. Macedonian government debt to GDP was above the reference value during the period from 1998 up to 2003, and this ratio has declined since 2004, up to 2008, registering amounts below the reference value. In 2007 this amount was 52% whereas in 2008 it increased slightly to 53%.



**Chart 4: Government debt as a % of GDP for the period 1998 - 2008**  
Source: National Bank of Republic of Macedonia (NBRM)

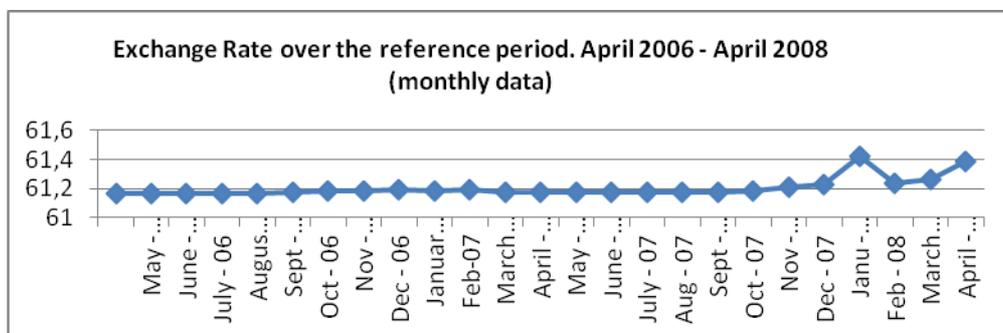
### 3.1.3 Exchange Rate Developments

Regarding the exchange rate criterion, Macedonian currency does not participate in ERM2, but trades under fixed exchange rate regime.

<b>Exchange Rate Developments over the reference period</b>	April 2006	April 2008
Membership of the Exchange Rate Mechanism (ERM II)	No	No
Average Exchange Rate, 2007, 2008, MKD / EUR	61,1625	61,3856
Source: NBRM		

**Table 6: Exchange Rate over the reference period**

Overall, in the two years reference period, from 19 April 2006 to 18 April 2008, the Macedonian denar was not subject to significant depreciation pressures, thus confirming the objective of NBRM to maintain price stability.



**Chart 5: Exchange Rate over the reference period**

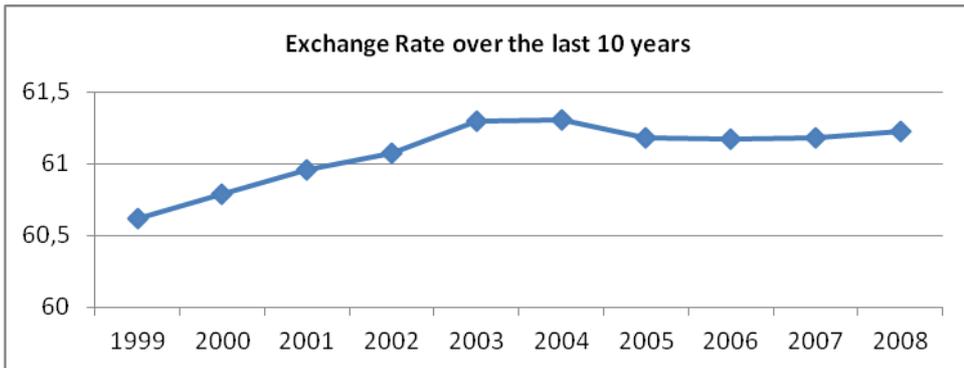
Source: NBRM

The Macedonian exchange rate targeting strategy is considered as an effective instrument for maintaining price stability. In 2003 the exchange rate regime in Macedonia was managed float. According to Article 18 of the Foreign Exchange Act in Macedonia, the exchange rate of the Denar was established freely on the basis of demand and supply of foreign exchange at the foreign exchange market.

Years	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
DEN/EUR	60,6	60,7	60,9	61,0	61,2	61,3	61,1	61,1	61,1	61,2
R	2	9	6	7	9	1	8	7	8	2
Source: NBRM										

**Table 7. Exchange Rate over the last ten years**

Nevertheless, the Denar exchange rate against the Euro serves as the intermediate target of monetary policy, so money supply and interest rates are dictated by the exchange rate target, which since mid-1997 has been set at 61 Denars to one euro and more or less maintained at that level (Daviddi and Uvalic, 2003). Effectively, therefore, the central bank has been maintaining a stable Denar exchange rate against the euro (Bisev and Petkovski, 2003). Accordingly, to stable Denar exchange rate, the NBRM in 2004 maintained stable and low interest rates, thus enabling it to participate in the foreign exchange market through foreign exchange transactions of NBRM.



**Chart 6 Exchange Rate over the last ten years**

**Source: NBRM**

In 2008, the world financial turmoil that damaged the global market reflected also on the domestic economy causing macroeconomic disturbances in the state. Therefore, the strategy of monetary policy, due to these circumstances, was carried out to enhanced inflation pressures and constant deepening of external misbalance. In the first months of 2008, due to the increase on general price level, i.e increase of world price of food and oil, created pressures on the foreign exchange market. (NBRM, Annual Report, 2008)

In 2009, the strategy of de facto fixed exchange rate will continue to apply for the purpose of maintaining the price stability as final monetary objective. Having in mind the expected reduction of domestic demand, due to lower domestic investment, and lower inflows of private transfers in the economy in view of the global economic crisis, the stabilization of the foreign exchange rate market is expected to be the biggest and the most serious challenge in the 2009 monetary policy.

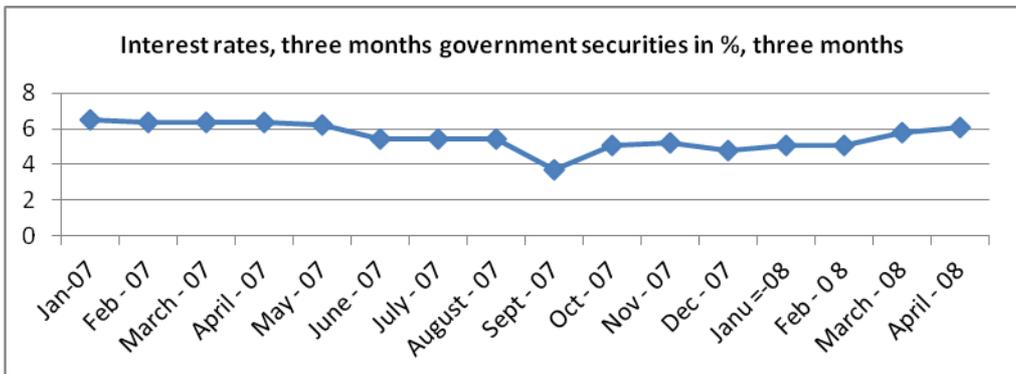
### **3.1.4 Interest rate developments**

As concern the convergence of long term interest rate, Macedonia is below the reference value, starting from the April 2007 up to March 2008.

Long Term Interest Rate	April 2006 to March 2007	April 2007 to March 2008
Three months government securities in %, three months	6,25833	5,3
Reference Value (Convergence Reports), April 2007, April 2008)	6,4	6,5
Euro Area (Convergence Reports), April 2007, April 2008)	4	4,3
Source: NBRM, Convergence Reports, own calculation		

**Table 8: Interest Rate developments over the reference period**

However, to achieve a high degree of convergence, Macedonia needs also to have good results in terms of GDP growth, substantial decrease of unemployment rates, low current account deficit and reasonable inward from FDI –, which points to the need to ensure the sustainability of external position.



**Chart 7 Interest Rate over the reference period**

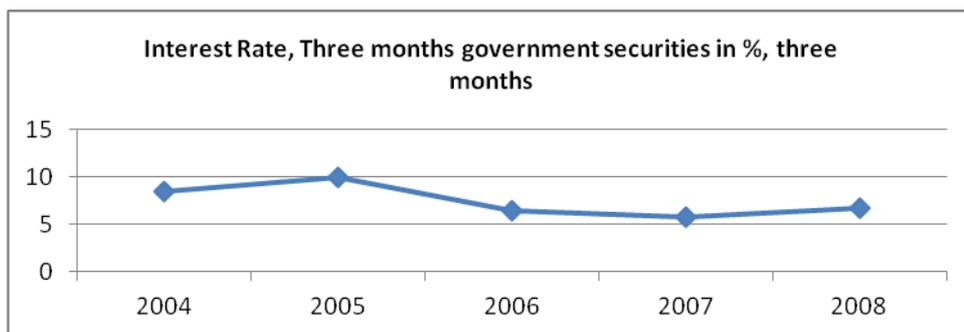
In 2007, the interest rate of NBRM was in the sign of monetary policy relaxation, in conditions of favorable movements on the foreign exchange market and constant increase in the liquidity on this basis, as well as prudent fiscal policy.

Long Term Interest Rate,	2004	2005	2006	2007	2008
Three months government securities in %, three months	8,491667	9,941667	6,4	5,757	6,725

Source: NBRM

**Table 9: Interest Rate developments over the last five years, Source: NBRM**

Thus the reference interest rate of NBRM during the year was constantly decreasing, reflecting on the interest rates on the Money Market and the Treasury bills market. The decline was also registered with the banks' lending interest rate, with simultaneous increase in the deposit interest rate resulting in narrowing of the banks' interest rate spread.



**Chart 8 Interest Rate over the last 5 years**

Source: NBRM

In 2008, the interest rates of the NBRM were market by the monetary policy tightening, while the interest rate policy of the banks was mainly focused towards savings stimulation (NBRM, Annual Report, 2008). Namely, in conditions of uncertain economic environment, increased inflation pressures, growing deficit on the current account, strong credit growth in the first several months of the year, as well as expectations for more relaxed fiscal policy (which were realized to great extent in the last quarter of the year), the NBRM carried out gradual increase in the reference interest rate in the first half of 2008 (NBRM, Annual Report, 2008).

### 3.1.5 Other relevant factors

With regard to real GDP growth rate (table 15), Macedonia registered upward trend of this indicator, especially starting from the year of 2003 up to 2008, where its amount was 5.3%. Before this period, the highest level of Macedonian real GDP growth rate was registered in the year 2000, at about 4.5%. This result was attributed mainly to

privatization of state owned companies and a good position of international community investments, into the country's banking system and insurance companies.

Regarding the data on GDP per capita (Table 15), one can conclude that Macedonian GDP per capita has registered a constant increase, representing a relatively good indicator of the level of Macedonian standards of living. However this indicator is significantly lower, compared to the average of EU 27, meaning that Macedonian standard of living is lower than the standard of living in the EU countries (Eurostat, 2008).

#### **4 Empirical Assessment: The Pass through Effect of Exchange Rate on producer prices and retail prices.**

##### **4.1 Definition of Exchange Rate Pass Through**

The pass through effect of the exchange rate on inflation considers the influence of the changes in the nominal exchange rate of the inflation through import prices. The changes of the exchange rate have a direct influence on the import prices, thus influencing afterwards the general inflation level (Besimi, 2004). Changes in import prices are, nevertheless, to some extent passed on to producer and consumer prices. We are, therefore, in this paper using a broader definition of exchange rate pass-through, which is seen as the change in domestic prices that can be attributed to a prior change in the nominal exchange rate.

##### **4.2 Econometric Modeling of Exchange Rate Pass Through Effect on domestic prices for the period for the period January 1998 – December 2008**

In order to define the influence of the exchange rate on the prices, i.e. inflation, an empiric analysis is required. Having in mind the lack of longer time series and given the period of transition characterized by larger structural changes, and also the impossibility for preparing more complex analysis containing structural models, or co-integration models, for the needs the following analysis will be provided: Vector Auto regression, correlation between the changes in the exchange rate and the prices and granger causality of the variables.

This part presents econometric analysis of the pass through effect of exchange rate on Inflation in Macedonia, for the period January 1998 – December 2008. We use the EU/DEN rate of exchange to represent the exchange rate. We, furthermore, include all stages of the distribution chain, i.e. retail prices and producer prices. All the prices are in the form of price indices. The data source is International

Financial Statistics and National Bank of the Republic of Macedonia. All the data, apart from the exchange rate data, is, furthermore, seasonally adjusted, and all the time series are in logarithmic form.

In order to make a more formal analysis of the pass through effect of exchange rate on inflation we apply the methodology of Vector Autoregression (VAR). This methodology enables us to analyze the movements of certain economic categories through time series, while at the same time avoids the problem of endogeneity of variables which is present at the structural econometric models. (Gujarati D, 2003). The analyzed period is January 1999 – December 2008.

OLS estimation of a single equation in the unrestricted VAR. Dependent variables are listed on the first row. 117 observations used for estimation from 1999M4 to 2008M12			
	DLNDENEU	DLNRP	DLNPPI
DLNDENEU(-1)	-.7228	.41896	.4500E-4
	<b>(-8.0857)</b>	<b>(-3.12)</b>	<b>(-2.034123)</b>
DLNDENEU(-2)	-.32566	.33085	-.6727E-3
	<b>(-3.7097)</b>	<b>( 2.12643)</b>	<b>(-3.51954)</b>
DLNRP (-1)	-.0013872	-.67227	-.0019764
	( -.004)	<b>(-7.5306)</b>	(-.44746)
DLNRP (-2)	.010192	-.33930	.0040175
	( .033871)	<b>(-3.7824)</b>	(.90516)
DLNPPI (-1)	2,43	-1,2102	-.66053
	( .38058)	(-.63750)	<b>(-7.0320)</b>
DLNPPI (-2)	-46520	-12513	-.34500
	(-.71151)	(-.64201)	<b>(-3.5774)</b>
R-Squared	.38	.34	.33
R-Bar-Squared	.35	.31	.30
S.E. of Regression	.84	.25	.01
F-stat.F( 5, 111)	13.8433[.000]	11.4046[.000]	11.1733[.000]
Mean of dep. Var.	.7861E-4	-.5998E-4	-.1034E-3
S.D. of Dep. Var	10472	.31	.014863
Residual Sum of Square	783578	69633	.01
Equation Log-likelihood	-1425638	-.95698	3507699

Akaike Info. Criterion	-1485638	-69570	3447699
Schwarz Bayesian Criterion	-1568503	-152435	3364834
DW-statistic	21716	21617	20218
System Log-likelihood	2081482	2081482	2081482

**Table 10: Vector Auto regression (VAR). Prepared in software application: Microfit 4.0**

In the specification of the model (table 10), we started with a period of 3 time lags (3 months), while the results showed that statistically significant are only the changes in the first and the second time lag. Therefore, the VAR results are based on only two lags of each endogenous variable. The model set in this manner gives satisfied explanation for the relation between the inflation and the changes in the exchange rate, which is evident from the R square<sup>4</sup>. The pass through effect of the exchange rate is significant, with regard to the changes in the prices of the industrial producers and to the retail prices (which points to high import dependability of the domestic production). Thus, according to the model, it is assumed that 1% depreciation of the Denar against the Euro in the analyzed period, ceterus paribus, will on average act toward significant increase in the prices in the forthcoming month by 0,41 % and 0,45% respectively in the prices of the retail prices and prices of industrial producers, in the first lag. While in the second lag, the influence of 1% exchange rate depreciation will, on average, act toward the increase in the respective prices, in the forthcoming month, by 0,33 and 0,67%, respectively, in the prices of retail prices and the prices of industrial producers.

### Granger Causality and Wald Test

In order to define the influence of the exchange rate on the prices, i.e. inflation, we employed a Granger causality analysis (table 12), which should point out which occurrence proceeds the other, and vice versa, i.e. whether the prices follow the changes of exchange rate, or vice versa, the exchange rate is stable because of price stability.

Equation	Excluded	chi2	df	Prob > chi2
DLNDENEU	LNPPPI	.1053	2	0.949
DLNDENEU	LNRP	2.4242	2	0.298
DLNDENEU	ALL	2.7582	4	0.599
DLNPPPI	LNDENEU	2.4031	2	0.301

<sup>4</sup> Actually, it is assumed that the model explains only 10% and 4% of the change in the prices of the producers of industrial products and of the retail prices, respectively

DLNPPI	LNRP	1.5648	2	0.457
DLNPPI	ALL	3.7379	4	0.443
DLNRP	LNDENEU	2.9255	2	0.232
DLNRP	LNPPPI	2.4281	2	0.297
DLNRP	ALL	5.2926	4	0.259

**Table 11 Granger Causality Wald test. Prepared in software application. STATA 10.0**

A Wald test is commonly used to test Granger Causality. Each row on the Wald table (Table 11), reports a Wald test that the coefficients on the lags of the variable in the “excluded” column are zero for the variable in the “equation” column. For example, the large  $p$  – value of 0.949 in the first row is evidence that the coefficients on the lags of producer prices (LNPPPI) are jointly zero in the equation for exchange rate (LNDENEU), indicating that there is insufficient evidence to reject the null hypothesis of Granger Causality, that producer prices (LNPPPI) does not Granger causes exchange rate (LNDENEU). On the other hand, the small  $p$  value of 0.2948 in the second row favors the hypothesis that coefficients on the lags of retail prices (LNRP) are not jointly zero in the equation for exchange rate (LNDENEU), meaning that, at 10% level of significance, there is sufficient evidence to reject the null hypothesis of Granger causality that retail prices LNRP does not Granger causes exchange rate. (LNDENEU). The small  $p$  values in column 4 and 7, indicate that, at 5% level of significance, one can reject the null hypothesis that changes in exchange rate (LNDENEU) do not proceed (or “do not Granger cause”) changes in producer prices (LNPPPI) and retail prices (LNRP). In other words, the tests shows that changes in exchange rate “are causing” changes in the producer prices and retail prices.

## 5 Conclusion

With regard to Copenhagen criteria, Macedonia shows good result in terms of price liberalization and foreign trade liberalization. This makes Macedonian economy more functional and comparable with candidate countries and new candidate countries. The indices of Large Scale privatization and small scale privatization, are somewhat better than the average of new countries, within EU structure, with the lag being the smallest compared to candidate countries. This makes Macedonian economy capable for coping with competitive pressure, within EU structure.

With regard to Maastricht criteria, compared with the situation for all EU countries described in the official Convergence Reports by the ECB and EU-Commission published in 2008, we conclude our analysis for the situation in Macedonia as follows: Macedonia made some progress with economic convergence, but there remain important challenges, particularly in the form of rising inflation,

long-term interest rates and exchange- rate stability and in particular lowering unemployment. In this paper, it should be kept in mind that many tests for Macedonia are highly hypothetical, because the country is not a member of the European Union and it is far away from fulfilling all legal issues to join the EU soon. However, we offer in our paper the first preliminary assessment concerning monetary integration. For the reader it is important to keep in mind that issue.

## Appendix

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008
Consumer Price, Annual Average (%) (EBRD)	5,8	5,5	1,8	1,2	-0,4	0,5	3,2	2,3	8,4
Producer Prices, Annual Average (EBRD)	8,9	2	-0,9	-0,3	0,9	3,2	4,5	2,5	na
GDP deflator (EBRD)	100	103,61		107,45	108,9	108	132,908	139,674	149,446
<b>Related Indicators</b>									
Real GDP growth rate (EUROSTAT)	4,5	-4,5	0,9	2,8	4,1	4,1	4	5,1	5,5
GDP per capita in Purchasing Power Standard (EU27 = 100) (EUROSTAT)	27	25,2	25	25,6	26,6	28,5	29,4	30,3	30,7
Unemployment rate % of labour force (IFS)	32,250	30,520	31,94	36,69	37,150	37,3	36,00	34,92	33,21
Labor productivity, whole economy (GDP/Total Employment) (IFS)	356,86	312,6	336,58	356,37	386,6	386	382,8	380,2	380,0

Nominal Effective Exchange Rate	99,99	103,34	105,59	110,33	113,41	114	114,8	116,3	117,
Money Supply (M4) (in millions of national currency - denar) - (IFS)	na	na		81802					

**Table 13: Measures of Inflation and related indicators**

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### **The Business Challenges Of Entrepreneurship In Transition Economies**

#### **Abstract:**

Increase in globalization and internationalization in markets has created a complex business environment for all size firms in open market and also in transition economies. We see that there are more obstacles for entrepreneurs in transition. The purpose of this research is to examine the leading business constraints of entrepreneurship such as institutional environment and market (taxation and regulations, financing, policy instability, inflation, corruption, infrastructure, anti-competitive practice, marketing and managerial practices and bureaucracy) in transition economies. This study aims to integrate theoretical field with the empirical statistical data. The theoretical and empirical data were collected from literature and institutions based on statistical data, indexes and indicators to examine the business challenges. Therefore we use the global competitiveness index which is measuring nine pillars of competitiveness (institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication and innovation). We also use governance indicator. We define governance broadly as the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. The six dimensions of governance corresponding to this definition that we measure are: 1. *Voice and Accountability (VA)* – measuring perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression,

freedom of association, and a free media. 2. *Political Stability and Absence of Violence (PV)* – measuring perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. 3. *Government Effectiveness (GE)* – measuring perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. 4. *Regulatory Quality (RQ)* – measuring perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. 5. *Rule of Law (RL)* – measuring perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. 6. *Control of Corruption (CC)* – measuring perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. BEEPS (Business Environment and Enterprise Performance Survey), CPI (Corruption Perception Index) and WBES (World Business Environmental Survey) will be used to examine challenges. The WBES team sought to accomplish the following objectives: To provide feed back from enterprises on the state of the private sector; To measure the quality of governance and public services including the extent of corruption; To provide better information on constraints to private sector growth, from the enterprise perspective; To sensitize client governments to the importance of listening to firms and using this information to critically assess policies; To establish the basis for internationally comparable indicators which can track changes in the business environment over time, thus allowing an assessment of the impact of market oriented reforms on private enterprises; To stimulate systematic public-private dialogue on business perceptions and the agenda for reform. By the help of those data we will determine the institutional environment, markets and organizational strategies for entrepreneurs in transition economies. As a conclusion we will make proposals for the entrepreneurs in the process of European integration.

**Keywords:** Entrepreneurship, Business Challenges, Transition Economies, Global Indicators

## 1.Introduction

As globalisation reshapes the international economic landscape and technological change creates greater uncertainty in the world economy, the dynamism of

entrepreneurship is believed to be able to help to meet the new economic, social and environmental challenges. Governments increasingly consider entrepreneurship and innovation to be the cornerstones of a competitive national economy, and in most countries entrepreneurship policies are in fact closely connected to innovation policies, with which they share many characteristics and challenges. Entrepreneurship is increasingly recognised as an important driver of economic growth, productivity, innovation and employment, and it is widely accepted as a key aspect of economic dynamism (Ahmad and Seymour, 2008). The purpose of this research is to examine the leading business constraints of entrepreneurship such as institutional environment and market (taxation and regulations, financing, policy instability, inflation, corruption, infrastructure, anti-competitive practice, marketing and managerial practices and bureaucracy) in transition economies. This study analysis *Transition Economies*; CEE plus CIS. *Central and Eastern (CEE)*: Albania, Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Slovenia, and Turkey. *Commonwealth of Independent States (CIS)*: Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Lithuania, Moldova, Russia, Ukraine, and Uzbekistan. To determine the business challenges of entrepreneurship in Transition Economies we use the global competitiveness index (GCI), governance indicators (GI), Business Environment and Enterprise Performance Survey (BEEPS), Corruption Perception Index (CPI) and World Business Environmental Survey (WBES). After examining obstacles we will develop suggestions to entrepreneurs in Transition Economies.

## 2.The Importance and Dynamics of Entrepreneurship

Why is entrepreneurship important? First, *entrepreneurship contributes to job creation and growth*; it is increasingly new and small firms, rather than large ones, that are the major providers of new jobs. Second, *entrepreneurship is crucial to competitiveness*; new entrepreneurial initiatives, either starting a new firm or reorienting an existing one (e.g. after the transfer of a business to a new owner), boost productivity. They increase competitive pressure, forcing other firms to react by improving efficiency or introducing innovation. Increased efficiency and innovation within firms, whether in organisation, processes, products, services or markets, enhances the competitive strength of an economy as a whole. This process offers consumers benefits through greater choice and lower prices. Third, *entrepreneurship unlocks personal potential*; an occupation is not just a way to earn money. People have other criteria in their career choices, such as security, level of independence, variety of tasks and interest in their work. Higher income levels may prompt people to fulfil 'higher needs', such as self-realisation and independence, through

entrepreneurship. Fourth, *entrepreneurship and societal interests*; entrepreneurs are the drivers of the market economy and their achievements provide societies with wealth, jobs and diversity of choice for consumers (Brussels, 2003).

Some authors state that entrepreneurship is about identifying and acting upon (*enterprising human activity*) opportunities that *create value* (be that economic, cultural or social). Typically, entrepreneurial activities require the leveraging of resources and capabilities through *innovation*, but the opportunities themselves always relate to the identification of either new products, processes or markets. This point to the following definitions of the entrepreneur, entrepreneurship, and entrepreneurial activity; *entrepreneurs* are those persons (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets. *Entrepreneurial activity* is the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets. *Entrepreneurship* is the phenomena associated with entrepreneurial activity. The definitions suggest that any indicator should include reference to the value created by entrepreneurial activity, the changes in resources, capabilities and opportunities confronting an entrepreneur, and the business and wider environments that will impact activity. The definitions are proposed to guide the collection and interrogation of data sets (Ahmad and Seymour, 2008).

According to other definition entrepreneurship is about people, their choices and actions in starting, taking over or running a business, or their involvement in a firm's strategic decision-making. Entrepreneurs are a heterogeneous group and come from all walks of life. In Table 1 a number of themes emerge including the risk-taking role of entrepreneurs (Aidis,2003); the role of innovation or the creation of something new (whether that be a process, product, market or firm); the arbitrage role of the entrepreneur; and the process of change, emergence, and creation (Aidis, 2003; Bruyat & Julian, 2000; Hartmann, 1959; Schumpeter, 1934; Weber, 1947), with activity differentiated from the relatively 'static' management (*Leitung*) (Hartmann, 1959).

**Table 1:** A Superficial Review of Extant Definitions

<i>Essence of definition</i>	<i>Publication</i>
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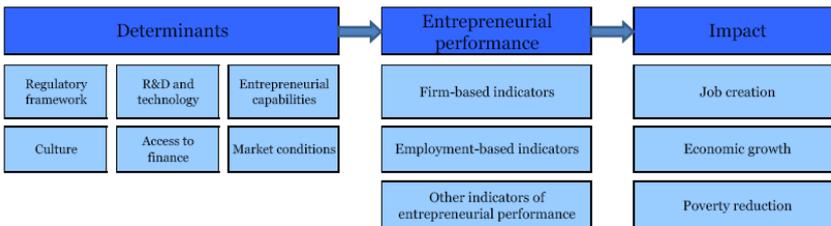
<p>Entrepreneurs buy at certain prices in the present and sell at uncertain prices in the future. The entrepreneur is a bearer of uncertainty.</p>	<p>(Cantillon, 1755/1931)</p>
<p>Entrepreneurs are 'pro-jectors'.</p>	<p>(Defoe, 1887/2001)</p>
<p>Entrepreneurs attempt to predict and act upon change within markets. The entrepreneur bears the uncertainty of market dynamics.</p>	<p>(Knight, 1921, 1942)</p>
<p>The entrepreneur is the person who maintains immunity from control of rational bureaucratic knowledge.</p>	<p>(Weber, 1947)</p>
<p>The entrepreneur is the innovator who implements change within markets through the carrying out of new combinations. These can take several forms:</p> <ul style="list-style-type: none"> <li>· the introduction of a new good or quality thereof,</li> <li>· the introduction of a new method of production,</li> <li>· the opening of a new market,</li> <li>· the conquest of a new source of supply of new materials or parts, and</li> <li>· the carrying out of the new organisation of any industry.</li> </ul>	<p>(Schumpeter, 1934)</p>
<p>The entrepreneur is always a speculator. He deals with the uncertain conditions of the future. His success or failure depends on the correctness of his anticipation of uncertain events. If he fails in his understanding of things to come he is doomed...</p>	<p>(von Mises, 1949/1996)</p>
<p>The entrepreneur is co-ordinator and arbitrageur.</p>	<p>(Walras, 1954)</p>
<p>Entrepreneurial activity involves identifying opportunities within the economic system.</p>	<p>(Penrose, 1959/1980)</p>
<p>The entrepreneur recognises and acts upon profit opportunities, essentially an arbitrageur.</p>	<p>(Kirzner, 1973)</p>
<p>Entrepreneurship is the act of innovation involving endowing existing resources with new wealth-producing capacity.</p>	<p>(Drucker, 1985)</p>

<p>The essential act of entrepreneurship is new entry. New entry can be accomplished by entering new or established markets with new or existing goods or services. New entry is the act of launching a new venture, either by a start-up firm, through an existing firm, or via 'internal corporate venturing'.</p>	<p>(Lumpkin &amp; Dess, 1996)</p>
<p>The field of entrepreneurship involves the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them.</p>	<p>(Shane &amp; Venkataraman, 2000)</p>
<p>Entrepreneurship is a context dependent social process through which individuals and teams create wealth by bringing together and unique packages of resources to exploit marketplace opportunities.</p>	<p>(Ireland, Hitt, &amp; Sirmon, 2003)</p>
<p>Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organisation.</p>	<p>(Commission of the European Communities, 2003)</p>

**Source:** Aidis, R. (2003), "Entrepreneurship and Transition Economies", TI 2003-015/2, Tinbergen Institute Discussion Paper, 1-31.

### 3. Categories for Entrepreneurship Indicators

An enterprise is a legal entity possessing the right to conduct business on its own. The OECD's Entrepreneurship Indicators Project has built a framework for addressing and measuring entrepreneurship was seen in Figure 1 (Ahmad and Hoffman, 2007).



**Figure 1:**

Topic categories for entrepreneurship indicators

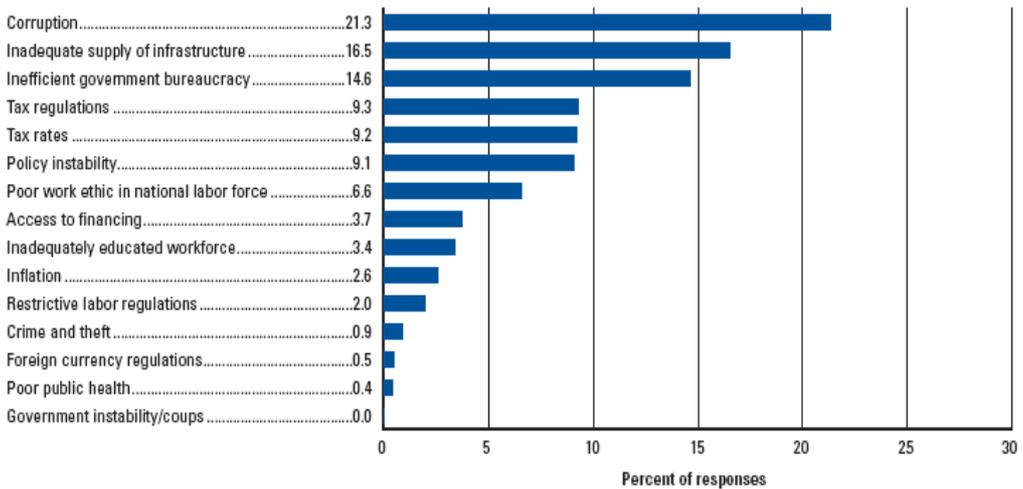
**Source:** Ahmad, N. and A. Hoffman (2007), *A Framework for Addressing and Measuring Entrepreneurship*. Paris: OECD Entrepreneurship Indicators Steering Group. OECD's project describes and presents a framework that reflects both the determinants, outputs and most importantly manifestations (performance indicators) of entrepreneurship. (Ahmad and Seymour, 2008). In our study we use indicators and indexes which cover *institutional environment and market* (taxation and regulations, financing, policy instability, inflation, corruption, infrastructure, anti-competitive practice, marketing and managerial practices and bureaucracy) in transition economies. Those indicators and indexes are Corruption Perception Index (CPI), Global Competitiveness Indicators (GCI), Governance Indicator (GI), Business Environment and Enterprise Performance Survey (BEEPS) and World Business Environmental Survey (WBES).

#### 4. Transition Economies

In our study we will examine CEE and CIS countries as a Transition Economies. *Central and Eastern (CEE)*: Albania, Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Slovenia, and Turkey. *Commonwealth of Independent States (CIS)*: Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Lithuania, Moldova, Russia, Ukraine, and Uzbekistan. *Transition Economies* = CEE plus CIS (Batra, Kaufmann and Stone, 2003).

#### 5. The Business Challenges For Entrepreneurs in Transition Economies

The performance of the transition economies has fallen short of expectations for several reasons: Advanced western economies did unusually well in the 1990s, which raised the bar for perceptions of economic success; the economic problems associated with the transition were widely underestimated; and policymakers made a number of questionable choices (Svejnar, 2001:2). In figure 2 we see the most problematic factors for doing business in Transition Economies. These factors are corruption, infrastructure, bureaucracy, tax regulations and rates, policy instability, poor work ethic, financing, inadequately educated workforce, inflation etc (Kaufman, 2005).



Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

**Figure 2:** The most problematic factors for doing business in Transition Economies (The Case of Albania)

**Source:** Kaufmann Daniel (2005), *Myths and Realities of Governance and Corruption*, World Bank 2005

The most important challenges are corruption, infrastructure, bureaucracy, taxation and financing. The other types of barriers for entrepreneurs (especially SME's) are: Learning foreign environment, Doing market analysis abroad, Purchasing legal consulting services, Translation of documents, Adaptation of products to foreign markets, Travel expenses, Higher business and financial risk, Higher business and financial risk, Establishing foreign distribution and marketing networks, Accessing information other markets, Lack of information, Knowledge and experience in international markets, Understanding overseas markets, Identifying foreign business opportunities, Inability to contact potential overseas customers, Distance of foreign markets, Transmitting information across geographic space, Regulatory requirements on product standards, Intellectual property rights protection, National competition policies, Legislative and regulatory frameworks, Telecommunications infrastructure, Research and education policies, Entrepreneurship abilities, Managerial abilities (Kaufmann, 2005).

SMEs types of entrepreneurship in transitional economies have had limited experience in international trade. During the central planning period large enterprises were favoured over SMEs. There were restrictions to private SMEs and their

international trading activities. Therefore, SMEs were not much exposed to foreign competition or exporting activities before making the transition to market economies. In addition, SMEs in transitional economies face higher transaction costs and have more limited access to credit and other inputs. As a result, they have greater difficulty penetrating export markets (Kaufmann, 2005). The barriers encountered by SME at different stages are then classified into formal, informal, environmental and other categories (based on institutional theory). The authors find that as the transition stage moves into the advanced stage, SME owners become increasingly more concerned with human resource (labour) and skill development (training) than at the initial stages seen in Table 2 (Aidis, 2003:31).

**Table 2:** The SME Barriers at Different Transition Stages

STAGE 1	STAGE 2	← Stages 2 & 3 →	STAGE 3
<b>FORMAL:</b> Taxes, Policy instability/uncertainty, Legal regulations			
<ul style="list-style-type: none"> <li>• Customs and trade regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Frequent changes to laws and government</li> <li>• Business registration business</li> </ul>	<ul style="list-style-type: none"> <li>• Gov't non-transparency</li> <li>• Commercial law</li> <li>• Social security payments</li> </ul>	<ul style="list-style-type: none"> <li>• Too many licenses</li> <li>• Accounting standards</li> <li>• Information</li> <li>• Need for specific consulting advice (marketing, financial, psychological)</li> <li>• Lack of state support</li> </ul>
<b>INFORMAL:</b>			
<ul style="list-style-type: none"> <li>• Macroeconomic stability</li> <li>• Inflation</li> </ul>	<ul style="list-style-type: none"> <li>• Gov't Attitude</li> <li>• Organised crime and mafia</li> <li>• Anti - corruption measures</li> <li>• Business security</li> <li>• Lack of positive attitude</li> </ul>	<ul style="list-style-type: none"> <li>• Corruption</li> <li>• Bureaucracy</li> <li>• Payment behaviour of clients</li> </ul>	<ul style="list-style-type: none"> <li>• Too many tax inspections</li> <li>• Implementation of regulations</li> <li>• Motivation / quality ethics of the workforce</li> </ul>
<ul style="list-style-type: none"> <li>• Physical infrastructure</li> <li>• Low product demand</li> <li>• High input prices</li> <li>• Suppliers</li> <li>• High interest rates</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure</li> <li>• Unfair competition</li> <li>• Premises rental costs</li> <li>• Wage costs</li> <li>• Business training</li> </ul>	<ul style="list-style-type: none"> <li>• Shortage of qualified workers</li> <li>• Strong competition</li> <li>• Lack of investment/finance</li> </ul>	
<b>OTHER</b>			
			<ul style="list-style-type: none"> <li>• Business growth into new markets</li> </ul>

**Source:** Aidis, R. (2003), "Entrepreneurship and Transition Economies", TI 2003-015/2, Tinbergen Institute Discussion Paper, 1-31.

There is an increased need to develop internal business capabilities to deal with increasing competition as well as business growth such as specific consulting and business training programmes. Three formal constraints: *taxes, policy instability and legal regulations* form a barrier for business development throughout the transition stages. *Access to finance* also continues to be a barrier to businesses throughout the three transition stages but it seems that the types of financing needed is affected by transition stage. In the primary or secondary stages the emphasis lies on the need for micro-credit and short and long term bank loans, the more advanced stages necessitate more sophisticated financing such as venture capital and stock listings (Aidis. 2003). As Pissarides (2004) has indicated, it is important for financing opportunities to adapt to the requirements of SME owners as transition progresses, allowing for more complex forms of financing including venture capitalists in more advanced stages. However, there are different viewpoints as to the sequence of funding and institutional building needed for SME development (Aidis, 2003:16). *Insufficient knowledge about Internet applications* is an important barrier to the adoption of e-business practices among SMEs For Slovenia, Poland, Romania and Cyprus. Research indicates that many SME managers consider the Internet is useful but mostly for the operations of big companies. As a result, they do not see compelling reasons for e-business adoption in SMEs (Damaskopoulos and Evergiou, 2003:138). Ukrainian business environment is not favorable for the innovations. High taxes and corruption create non-favorable conditions for innovations in SMEs. Many companies reported taxation and legislation among the main barriers to innovations (Egorov and Voytovich, 2001:1455).

The business barriers classified into five part. These are institutional barriers: Bureaucracy, Too many licences, Accounting standards. Political instability, Frequent changes in laws and regulations, Frequent changes in government, Non-transparency of laws/regulations, Operation of commercial law, Operation of the financial system, Inadequate measures against corruption. Internal barriers: Large severance pay, High labour costs, High dismissal costs. External barriers: Late payment, High social security payments, High profits tax. Financial barriers: Cost of credit, High collateral requirements, Bank charges. Insufficient finance for expansion, High burden of taxes/contributions, Insufficient demand. Social barriers: Lack of state support, Lack of support from LA, Lack of support from Chamber (Barlett and Bucklic, 2001:193-195). Under the light of surveys conducted by EBRD and World Bank; taxes, financing and policy instability can be observed in the top four obstacles in the transitional countries (Estrin et al,2005).

The survey asked respondents to rate how problematic were a set of general constraints for the growth and operation of their firm. Table 3 presents the ranking of responses for the world, by regional groups and by individual region to the following

question: "Please judge on a four-point scale how problematic are the following factors for the operation and growth of your firm." Four constraints stand out (based on a simple average for the overall world sample): taxes and regulations, financing, policy uncertainty/instability and inflation. Indeed, if we were to focus on a simple average for the overall world sample, the following constraints stand out: taxes and regulations, financing, policy uncertainty/instability, and inflation (Batra et al., 2003).

**Table 3: Leading Constraints**

	Leading Constraint	Second constraint	Third constraint	Fourth Constraint
World	Taxes and Regulations	Financing	Policy Instability	Inflation
OECD & Newly Industrialized East Asia (including China)	Taxes and Regulations	Financing	Policy Instability	Inflation
Transition Europe	Taxes and Regulations	Financing	Inflation	Policy Instability
Developing countries (Africa, MENA, East Asia Developing, South Asia, Latin America)	Corruption	Inflation	Financing	Policy Instability/ Infrastructure (tie)
Africa	Financing	Corruption	Infrastructure	Inflation
MENA	Policy Instability	Corruption	Inflation	Exchange Rate
East Asia NIC/China	Financing	Inflation	Anti-competitive practices	Policy Instability
East Asia Developing	Street Crime	Corruption	Inflation/Exchange Rate/Organized Crime (tie)	Infrastructure
South Asia	Corruption/Policy Instability (tie)	Policy Instability	Inflation	Street Crime
Latin America	Taxes and Regulations	Policy Instability	Street Crime	Financing
OECD	Taxes and Regulations	Financing	Policy Instability	Inflation
CIS	Taxes and Regulations	Financing	Policy Instability	Inflation
CEE	Taxes and Regulations/Inflation (tie)	Financing	Policy Instability	Financing

**Source:** Batra, Geeta, Daniel Kaufmann and Andrew H. W. Stone (2003), *The Firms Speak: What the World Business Environment Survey Tells Us about Constraints on Private Sector Development*, World Bank October, 2003, p.5

Yet such worldwide average results mask crucial differences across regions, and particularly between industrialized and developing countries. For OECD, newly industrialized East Asian countries, and transition economies, the leading obstacles identified by the firms where indeed taxes and regulations, financing, policy instability, and inflation. However, for developing regions as a group (Africa; Latin America and the Caribbean, LAC; Middle East/North Africa, MENA; South Asia; and East Asia) the leading constraint is corruption, followed by inflation, financing, policy instability, and infrastructure. Surprisingly, in Transition Europe (CIS and CEE), although corruption is quite prevalent in the region and an important problem for about half the firms, it is not among the top four constraints (Batra et al., 2003).

The second leading general constraint (Table 4) for the global sample is financing firms in Central and Eastern Europe are most likely to identify it as seriously

constraining, followed by those in CIS countries, and then those in Africa, South Asia and Latin America. Globally, while financing is identified as the second leading constraint by small and medium enterprises, it ranks as fourth for large enterprises (Batra et al., 2003). Svetlicic et al (2007) has supported this findings. Their study examined differences in outward foreign direct investment (FDI) activity between small and medium-size enterprises (SMEs) and large enterprises in five Central European economies (CEEs). In conclusion they have found that the access to finanacal resources is more difficult for SME's than large firms.

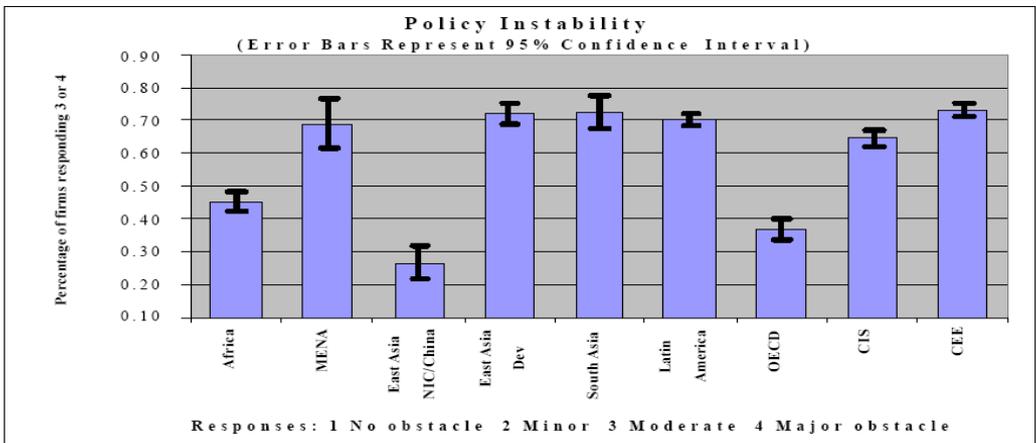
**Table 4:** Financing Constraints (percent of firms rating constraint “major” or “moderate”)

Financing Constraints	Africa	MENA	East Africa NIC/China	East Asia Developing	South Asia	Latin America	OECD	CIS	CEE
High interest rates	83.5	67.4	40.3	72.5	83.9	87.6	47.8	80.6	79.5
Lack access to long term loan	n.a.	n.a.	31.2	52.0	65.1	63.1	20.0	58.7	67.0
Collateral requirements	51.9	45.2	30.1	43.6	58.5	65.1	35.7	49.7	52.2
Bank paperwork	47.1	51.6	29.9	34.6	56.6	63.0	38.9	52.9	48.3
Inadequate credit info on clients	51.7	46.3	27.0	48.4	46.7	46.1	23.5	40.1	41.6
Special connections	38.2	33.3	26.3	39.6	44.5	46.5	26.5	35.1	43.1
Banks lack money to lend	28.4	33.0	20.6	52.2	35.1	39.1	14.3	37.4	46.8
Access to specialized export finance	44.9	39.8	15.1	33.7	36.4	34.7	16.5	35.5	38.8
Access to non-bank equity	43.1	36.2	13.0	32.6	34.9	35.6	18.1	38.3	42.0
Access to lease finance	38.2	29.3	13.1	34.9	32.9	34.1	19.3	32.7	48.9
Access to foreign banks	43.6	29.3	11.7	41.5	33.9	35.0	11.1	35.3	40.4
Corruption of bank officials	23.5	27.4	19.0	45.1	28.9	18.6	5.7	24.3	29.3

**Source:** Batra, Geeta, Daniel Kaufmann and Andrew H. W. Stone (2003), *The Firms Speak: What the World Business Environment Survey Tells Us about Constraints on Private Sector Development*, World Bank October, 2003, p.5

The fourth leading constraint is policy uncertainty and instability (Batra et al., 2003). Meyer et al (2005) argued that according to the foreign investors; instability and uncertainty are major obstacles related to new rules and regulation. Firms' views of this constraint vary widely by region (Figure 3). At one extreme, more than 70 percent of firms in South Asia, Central and Eastern Europe and Developing East Asia report policy instability as seriously constraining, with firms in Latin America, MENA, and CIS close behind. By contrast, only 26 percent of firms in East Asia NIC and China identified this constraint as “major” or “moderate”, and also only 37 percent of firms in OECD countries did so (Batra et al., 2003).

Firms differ by region in the particular dimension of policy instability that troubles them. Over 70 percent of firms in CEE, over 60 percent of firms in CIS countries and Developing East Asia, and about half of firms in LAC find *economic and financial policies* unpredictable. In CEE and Africa, nearly three quarters of firms rated *changes in rules, laws and regulations* affecting them as being unpredictable, while two-thirds of firms did so in CIS. With regard to *advance notification of changes in laws and policies* affecting them, 68 percent of firms in CEE, 60 percent of CIS firms, and 57 percent Latin American firms responding reported that they were “seldom” or “never” notified in advance of changes affecting them. Finally, there is a question of whether *government considers businesses’ views* in the formulation of legal and policy changes. In Transition Europe, MENA and Latin America the majority of firms suggest that this is relatively rare (Batra et al., 2003).



**Figure 3:** Policy Instability by Region (percent of firms responding 3 or 4 seriously constraining)

**Source:** Batra, Geeta, Daniel Kaufmann and Andrew H. W. Stone (2003), *The Firms Speak: What the World Business Environment Survey Tells Us about Constraints on Private Sector Development*, World Bank October, 2003.

Corruption is identified as a serious constraint by over 70 percent of firms in South Asia and nearly as many in Developing East Asia and MENA (Figure 4). Sixty-four percent of firms in Africa, almost 60 percent of those in Latin America and about half in the CIS and Central and Eastern Europe report it a serious impediment. This contrasts with the much lower share (about 20 percent) of firms in NIC East Asia/China<sup>5</sup> and in OECD countries that rate it as a “major” or “moderate” obstacle.

Further, in many of the developing countries, the majority of firms reported that it was common “in their line of business to have to pay some irregular ‘additional payments’ to get things done”. The data on firms’ reported percentage of total revenue paid every year in bribes clearly and positively correlate with the data on the degree to which firms find corruption constraining.

<i>Region</i>	<i>Irregular additional payments Made to government officials "to get things done"</i>	<i>Advance knowledge of amount of additional payment</i>	<i>Service delivered as agreed if additional payment made<sup>6</sup></i>	<i>If payment made to one official, another govt official will request payment for same service</i>	<i>If government official acts against rules, can go to superior and get correct treatment without recourse to unofficial payment</i>
South Asia	65	50	83	46	32
East Asia Developing	62	60	76	60	26
Africa	52	not asked	33	not asked	not asked
MENA	36	not asked	53	not asked	not asked
CEE	33	48	73	28	36
CIS	29	46	75	35	38
Latin America	28	70	32	70	69
OECD	12	26	62	17	45
East Asia NIC/China	11	22	42	10	25
Total	13	53	59	45	45

**Figure 4:** Indicators of Corruption by Region (percent of firms that responded “always,” “mostly,” or “frequently,” as opposed to “sometimes,” “seldom,” or “never”)

**Source:** Batra, Geeta, Daniel Kaufmann and Andrew H. W. Stone (2003), *The Firms Speak: What the World Business Environment Survey Tells Us about Constraints on Private Sector Development*, World Bank October, 2003.

An important manifestation of weak governance is the extent to which registered firms operate unofficially. Related to this is the degree to which firms comply with tax laws. While there are variations from region to region, about half the firms in the global sample indicated that they report no more than 80 percent of their revenues (Batra et al., 2003).

## 6. The Impact of EU Accession

Eight transition countries became members of the EU in May 2004 (Estonia, Latvia, Lithuania, Hungary, Czech R., Slovak R., Poland and Slovenia). A number of authors argue that EU accession will be a win-win situation for both the existing member countries as well as the new accession countries (Mayhew 1999; EIU 2003; Knaack and Jager 2003). To be sure, EU market integration will increase overall business possibilities. Depending on the size of business, EU accession effect closely

entrepreneurship operations. In table 5, we summarize a number of opportunities and threats corresponding to EU membership for SMEs type of entrepreneurship.

**Table 5:** EU Membership Opportunities and Threats for SME Development

Issue	Opportunities	Threats
Exports	New export opportunities*	Competition increased in domestic markets**
Economies of scale	Cost reduction and efficient production	Price wars and crowding out of small suppliers*
Opening borders and market integration	Removal of barriers and restriction in the movement of goods, services, labour and capital*  Improve cross-border trade*	Costs: Harmonisation of technical standards and compliance costs*  Enforcement: Having the laws in place means little if they are not effectively enforced*  Need new skills in specialized management*
Further removal of physical barriers for trade and movement i.e. customs procedures	Reduction of transaction costs for businesses*	SMEs incur highest adjustment costs and will have to accumulate additional investment
Increased mobility for EU citizens	Liberalisation of airlines increases access for tourism*	Decrease in labour pool due to 'brain drain' to higher wage EU countries*
Harmonisation of regulations	Improved overall business environment*	Greater burden: environmental protection; workplace health; May inflate operating costs rather than reduce them*
Higher living standards	Increased consumption*	Higher costs of production* Labour-cost advantage quickly eroded

**Source:** Aidis, R. (2003), *“Entrepreneurship and Transition Economies”*, TI 2003-015/2, Tinbergen Institute Discussion Paper, 1-31.

EU accession lead to opening border, market integration and new export opportunities which bring in turn unexpected competitive pressures in domestic markets. Local SMEs are likely to be promoted less than large sized enterprises and multinationals by EU market changes. Therefore SMEs will need new management skills and new technical standards which will increase their costs, investment in higher product and process standards. Adoption of new laws may seem attractive however corrupt behaviors could affect the uneven implementation and enforcement of these laws (Aidis, R., 2003). Trade, investment patterns and infrastructure developments provide better opportunities for connection between Southeast Europe with the EU. Although Southeast Europa has poor rail and road transport infrastructure due to history of political disintegration, most of Balkan countries transportation connection to the EU is much better than other countries in the region. Therefore infrastructure

investments will be beneficial to ensure crossborder co-operation and nurture conditions for increased economic growth and political integration (IBEU, 2004).

Subject to the integration to EU, higher living standards will reduce the new member country's low labour cost advantage and increased mobility within the member countries will encourage qualified workers to work in old EU members where the wages are higher. For example Lithuania encounter a shortage of qualified workers for the construction and service sectors. In general, without government intervention, the winners in EU integration will be large enterprises and the losers will disproportionately be SMEs. However, internal firm-level development also plays a decisive role. As Smallbone and Rogut comment (Aidis, R., 2003):

*... firms that are already proactively managed, and with an existing presence in foreign markets, are in the best position to take advantage of any new foreign market opportunities. In comparison, firms that are focused on regional or domestic markets niches, and in which managers are complacent or dismissive about any market integration effects impacting on their businesses, may be in for a shock.*

## 7. Examining Entrepreneurship in Transition Economies: Indicators and Indexes

### The Business Environment and Enterprise Performance Survey (BEEPS)

The Business Environment and Enterprise Performance Survey (BEEPS) is based on the firm level data which measure the corruption experience of firms. BEEPS was designed to unbundle corruption so different types of corruption transactions are determined which have dissimilar causes and results. A comparison is made on the both the extent and type of corruption experienced by foreign versus domestic firms, as well as among different types of foreign firms by means of BEEPS. Two types of corruption; state capture and public procurement kickbacks are focused by the researchers of survey. **State capture:** defined as the extent to which firms make illicit private payments to public officials in order to influence the formation of laws, rules, regulations or decrees by state institutions, and **Public procurement kickbacks:** defined as illicit private payments to public officials to secure public procurement contracts (Hellman, Jones and Kaufmann, 2002).

The BEEPS survey provides the first empirical measures of state capture. Firms were asked to disaggregate the types of bribery in which "firms like yours" have been engaged. Those that report having made private payments to public officials for the purpose of influencing the

content of laws, decrees or regulations are designated as *captor firms*. Similarly, firms were asked if they had made private payments to public officials to obtain public procurement contracts, though this question was only asked of the subset of firms that already identified themselves as having trade with the state. Thus, a group of *kickback firms* can be identified from the larger sample. Table 6 presents the data on the share of captor firms and kickback firms in each country.

**Table 6:** Measuring the Types and Level of Corruption in Transition Economies

Country	Share of Captor Firms <sup>2</sup>	Share of Kickback Firms <sup>3</sup>	Average Share of Annual Firm Revenues Paid in Bribes <sup>1</sup>
Albania	11	51	4.0
Armenia	7	26	4.6
Azerbaijan	24	52	5.7
Belarus	2	5	1.3
Bulgaria	11	13	2.1
Croatia	10	26	1.1
Czech Republic	7	43	2.5
Estonia	5	28	1.6
Georgia	8	18	4.3
Hungary	4	15	1.7
Kazakhstan	6	21	3.1
Kyrgyzstan	7	19	5.3
Latvia	14	22	1.4
Lithuania	14	15	2.8
Moldova	12	9	4.0
Poland	9	32	1.6
Romania	13	39	3.2
Russia	9	22	2.8
Slovakia	12	35	2.5
Slovenia	10	27	1.4
Ukraine	12	33	4.4
Uzbekistan	2	24	4.4
Overall	9.5	26	3.0

**Source:** Hellman Joel S., Geraint Jones and Daniel Kaufmann (2002), *Far From Home: Do Foreign Investors Import Higher Standards of Governance in Transition Economies?* [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=386900](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=386900)

The data in table 6 allow us to see that the highest share of captor firms is in Azerbaijan; on the other hand, the lowest share takes place in Uzbekistan; the highest share of kickback firms is in Albania; on the other side, Belarus has the lowest level. In addition, table 6 provides a measure of the average share of bribe payments by firms as a share of their annual revenue. Once again Azerbaijan firms come first in average share of annual firm revenues paid bribes.

## 7.2. The World Business Environment Survey (WBES)

The World Bank's World Business Environment Survey (WBES) suggests what is required to develop the business environment, based on what businesses themselves say about conditions they need to grow and the obstacles they struggle. A standard core enterprise survey was applied in a roughly parallel way in all 80 countries throughout the world, (at least 100 firms were surveyed in each country) plus the West Bank and Gaza to evaluate business conditions in a large, crossregional set of member countries, by the World Bank Group and partner institutions. It uses a uniform methodology and parallel parameters for sample structure. The conditions WBES sought to assess include: *the conditions for private enterprise growth, focusing on local economic policy, governance, regulatory, infrastructure and financial barriers, and services to businesses*. The survey represents an important step toward standardizing evaluations of the conditions for private investment in developing and transition countries around the world. The survey enables to make *regional comparisons of investment climate and business environment conditions*. The WBES explores how a variety of firm characteristics, such as size and type of ownership, affect their experience and perceptions of constraints. Using a multivariate regression approach gives us insights into the influence of firm characteristics on their response to key potential obstacles to business operation and growth, to control for country effects (Batra, Kaufmann and Stone, 2003).

WBES prevents universal generalizations. It suggests enormous variance different kinds of constraints. Even though two countries may have important regulatory or governance restrictions, the elements may be rather different in each country; hence, generalization should be avoided.

**Table 7: Effect of Firm Characteristics on Obstacle Severity: Results of Least Square Estimates**

Dependent variable	Explanatory variables							
	Small Size Firm	Medium Size Firm	Firms with foreign ownership	Firms with government control	Firms that export	Located in Large city	Located in Small city	N
Finance <sup>a</sup>	0.222* (0.034)	0.159* (0.031)	-0.329* (0.030)	0.105* (0.036)	0.065* (0.025)	0.021 (0.029)	0.055 (0.034)	9211
Taxes and regulations	0.071* (0.026)	0.080* (0.026)	-0.096* (0.025)	-0.169* (0.029)	0.005 (0.021)	0.002 (0.025)	0.018 (0.028)	9384
Inflation <sup>a</sup>	0.173* (0.030)	0.096* (0.027)	-0.084* (0.027)	-0.076* (0.032)	-0.053** (0.022)	-0.032 (0.027)	0.011 (0.030)	9111
Exchange rate <sup>a</sup>	0.089* (0.033)	0.031 (0.030)	0.058** (0.028)	-0.108* (0.036)	0.116* (0.025)	0.021 (0.029)	0.089* (0.034)	8990
Corruption <sup>a</sup>	0.205* (0.034)	0.112* (0.031)	-0.054 (0.031)	-0.165* (0.037)	0.003 (0.025)	0.016 (0.031)	0.029 (0.036)	8359
Tax Administration <sup>b</sup>	0.053 (0.032)	0.063** (0.029)	-0.057** (0.028)	-0.175* (0.034)	0.012 (0.023)	0.011 (0.028)	0.071** (0.032)	9479
Infrastructure <sup>b,c</sup>	-0.082 (0.032)	-0.022 (0.029)	0.007 (0.028)	-0.128* (0.033)	-0.018 (0.023)	0.019 (0.027)	0.047 (0.032)	9119
Policy instability	0.041 (0.032)	0.035 (0.029)	-0.018 (0.029)	-0.113* (0.034)	0.012 (0.023)	-0.033 (0.028)	-0.004 (0.032)	9016
High Taxes <sup>b</sup>	0.074* (0.027)	0.085* (0.029)	-0.093* (0.026)	-0.238* (0.031)	-0.004 (0.021)	0.017 (0.026)	0.028 (0.029)	9695
Street Crime	0.188* (0.033)	0.074* (0.030)	-0.077* (0.029)	-0.109* (0.035)	-0.077* (0.024)	-0.003 (0.029)	-0.016 (0.034)	8801
Bribes as % of sales <sup>a</sup>	0.254* (0.059)	0.159* (0.055)	-0.077 (0.050)	-0.257* (0.072)	-0.075 (0.042)	0.014 (0.048)	0.055 (0.056)	5234

\* significant at 1% level; \*\* significant at 5% level; \*\*\* significant at 10% level.

**Source:** Batra, Geeta, Daniel Kaufmann and Andrew H. W. Stone (2003), *The Firms Speak: What the World Business Environment Survey Tells Us about Constraints on Private Sector Development*, World Bank October, 2003

This survey also discourages universal generalizations. Rather, it's value lies precisely in shedding light on the enormous *variance* in the nature and severity of different types of constraints *across countries and regions*, as well as *between firms of different characteristics*.

This variance implies that the global generalizations regarding the severity of a particular constraint are of limited value. It also suggests the importance of "unbundling" generic clusters of constraints. Although two countries may have severe regulatory or governance constraints, for example, the components may be quite different in each country. The detail afforded by the survey also suggests that

generalizations about firm size and formality may benefit from a nuanced analysis of actual conditions (Batra, Kaufmann and Stone, 2003).

### 7.3. Governance Indicator

Governance Indicators (GI) have been developed to define in depth and measure governance. Covering more than 200 countries, these GI are based on more than 350 variables and obtained from dozens of institutions worldwide, including the survey. The Governance Indicators capture six key dimensions of institutional quality or governance, and measure, through two indicators each, the political, economic, and institutional dimensions of governance described above. The following six dimensions are (Kaufmann, 2005): *Voice and accountability*—measuring political, civil and human rights. *Political instability and violence*—measuring the likelihood of violent threats to, or changes in, government, including terrorism. *Government effectiveness*—measuring the competence of the bureaucracy and the quality of public service delivery. *Regulatory burden*—measuring the incidence of market-unfriendly policies. *Rule of law*—measuring the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. *Control of corruption*—measuring the exercise of public power for private gain, including both petty and grand corruption, and state capture. These indicators have been available since 1996, and we released the last installment for 209 countries, with data up to the end of 2004.

**Table 8:** Significant Changes in Governance Worldwide in Short-term, 1998–2004

Selected countries based on aggregate indicators for 209 countries	
<b>Voice and accountability</b>	
Significantly worsened.....	Central African Republic, Nepal, Ivory Coast, Haiti, Zimbabwe, Russia, Kyrgyz Republic, Eritrea, Pakistan, Belarus, Solomon Islands, Venezuela, Kazakhstan, Bangladesh, Ecuador, Iran, Gabon
Significantly improved.....	Chile, Kenya, Bahrain, Gambia, Algeria, Mexico, Senegal, Peru, Turkey, Slovak Republic, Nigeria, Indonesia, Ghana, Croatia, Bosnia and Herzegovina, Sierra Leone, Serbia
<b>Regulatory quality</b>	
Significantly worsened.....	Zimbabwe, Venezuela, Ivory Coast, Ethiopia, Bangladesh, Pakistan, Philippines, Lebanon, Egypt, Zambia, Myanmar, Guinea, Eritrea, Bolivia, Peru, Tunisia, Honduras, Guatemala, Ecuador, Kazakhstan, Cameroon, Cuba
Significantly improved.....	Cape Verde, Armenia, Tajikistan, Azerbaijan, Bosnia and Herzegovina, Serbia, Estonia, Zaire DRC, Equatorial Guinea, Iceland, Lithuania, Slovak Republic, Iraq
<b>Rule of law</b>	
Significantly worsened.....	Zimbabwe, Argentina, Ivory Coast, Ethiopia, Moldova, Cuba, Venezuela, Nepal, Haiti, Lebanon, Papua New Guinea, Dominican Republic, Myanmar, Eritrea
Significantly improved.....	Mozambique, Slovak Republic, Estonia, Latvia, Lithuania, Madagascar
<b>Control of corruption</b>	
Significantly worsened.....	Zimbabwe, Bangladesh, Eritrea, Ivory Coast, Swaziland, Ethiopia, Equatorial Guinea, Central African Republic, Sudan, Moldova
Significantly improved.....	Tanzania, Madagascar, Croatia, Serbia, Colombia, Bulgaria, Estonia, Latvia, Slovak Republic

**Source:** Kaufmann Daniel (2005), *Myths and Realities of Governance and Corruption*, World Bank 2005.

#### 7.4. The Global Competitiveness Indexes

After several years of rapid and almost unhampered growth, the global economic landscape is changing. Rising food and energy prices, a major international financial crisis, and the related slowdown in the world's leading economies are confronting policymakers with new economic management challenges. Today's volatility underscores the importance of a competitiveness supporting economic environment that can help national economies to weather these types of shocks in order to ensure solid economic performance going into the future. A nation's level of competitiveness reflects the extent to which it is able to provide rising prosperity to its citizens. Since 1979, the World Economic Forum's annual *Global Competitiveness Reports* have examined the many factors enabling national economies to achieve sustained economic growth and long-term prosperity. Their goal over the years has been to provide benchmarking tools for business leaders and policymakers to identify obstacles to improved competitiveness, stimulating discussion on strategies to overcome them. For the past several years, the World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI), a highly comprehensive index for measuring national competitiveness, which captures the microeconomic and macroeconomic foundations of national competitiveness (Schwab and Porter, 2008).

Schwab and Porter (2008) define *competitiveness* as *the set of institutions, policies, and factors that determine the level of productivity of a country*. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. The productivity level also determines the rates of return obtained by investments in an economy. Because the rates of return are the fundamental drivers of the growth rates of the economy, a more competitive economy is one that is likely to grow faster over the medium to long run. The concept of competitiveness thus involves static and dynamic components: although the productivity of a country clearly determines its ability to sustain a high *level* of income, it is also one of the central determinants of the returns to investment, which is one of the key factors explaining an economy's *growth potential*.

The determinants of competitiveness are many and complex. For hundreds of years, economists have tried to understand what determines the wealth of nations. This

attempt has ranged from Adam Smith's focus on specialization and the division of labor to neoclassical economists' emphasis on investment in physical capital and infrastructure, and, more recently, to interest in other mechanisms such as education and training, technological progress (whether created within the country or adopted from abroad), macroeconomic stability, good governance, the rule of law, transparent and well-functioning institutions, firm sophistication, demand conditions, market size, and many others. Schwab and Porter (2008) group all these components into *12 pillars of economic competitiveness*: These are **Basic requirements** (Institutions, Infrastructure, Macroeconomic stability, Health and primary education), **Efficiency enhancers** (Higher education and training, Goods market efficiency, Labor market efficiency, Financial market sophistication, Technological readiness, Market size), **Innovation and sophistication factors** (Business sophistication, Innovation). In table 9 we see global competitiveness index rankings and 2007-2008 comparisons.

**Table 9: Global Competitiveness Index rankings and 2007–2008 comparisons**

Country/Economy	GCI 2008–2009		GCI 2008–2009 rank (among 2007 countries)*	GCI 2007–2008 rank	Country/Economy	GCI 2008–2009		GCI 2008–2009 rank (among 2007 countries)*	GCI 2007–2008 rank
	Rank	Score				Rank	Score		
United States	1	5.74	1	1	Azerbaijan	69	4.10	68	66
Switzerland	2	5.61	2	2	Vietnam	70	4.10	69	68
Denmark	3	5.58	3	3	Philippines	71	4.09	70	71
Sweden	4	5.53	4	4	Ukraine	72	4.09	71	73
Singapore	5	5.53	5	7	Morocco	73	4.08	72	64
Finland	6	5.50	6	6	Colombia	74	4.05	73	69
Germany	7	5.46	7	5	Uruguay	75	4.04	74	75
Netherlands	8	5.41	8	10	Bulgaria	76	4.03	75	79
Japan	9	5.38	9	8	Sri Lanka	77	4.02	76	70
Canada	10	5.37	10	13	Syria	78	3.99	77	80
Hong Kong SAR	11	5.33	11	12	El Salvador	79	3.99	78	67
United Kingdom	12	5.30	12	9	Namibia	80	3.99	79	89
Korea, Rep.	13	5.28	13	11	Egypt	81	3.98	80	77
Austria	14	5.23	14	15	Honduras	82	3.98	81	83
Norway	15	5.22	15	16	Peru	83	3.95	82	86
France	16	5.22	16	18	Guatemala	84	3.94	83	87
Taiwan, China	17	5.22	17	14	Serbia	85	3.90	84	91
Australia	18	5.20	18	19	Jamaica	86	3.89	85	78
Belgium	19	5.14	19	20	Gambia, The	87	3.88	86	102
Iceland	20	5.05	20	23	Argentina	88	3.87	87	85
Malaysia	21	5.04	21	21	Macedonia, FYR	89	3.87	88	94
Ireland	22	4.99	22	22	Georgia	90	3.86	89	90
Israel	23	4.97	23	17	Libya	91	3.85	90	88
New Zealand	24	4.93	24	24	Trinidad and Tobago	92	3.85	91	84
Luxembourg	25	4.85	25	25	Kenya	93	3.84	92	99
Qatar	26	4.83	26	31	Nigeria	94	3.81	93	95
Saudi Arabia	27	4.72	27	35	Moldova	95	3.75	94	97
Chile	28	4.72	28	26	Senegal	96	3.73	95	100
Spain	29	4.72	29	29	Armenia	97	3.73	96	93
China	30	4.70	30	34	Dominican Republic	98	3.72	97	96
United Arab Emirates	31	4.68	31	37	Algeria	99	3.71	98	81
Estonia	32	4.67	32	27	Mongolia	100	3.65	99	101
Czech Republic	33	4.62	33	33	Pakistan	101	3.65	100	92
Thailand	34	4.60	34	28	Ghana	102	3.62	n/a	n/a
Kuwait	35	4.58	35	30	Suriname	103	3.58	101	113
Tunisia	36	4.58	36	32	Ecuador	104	3.58	102	103
Bahrain	37	4.57	37	43	Venezuela	105	3.56	103	98
Oman	38	4.55	38	42	Benin	106	3.56	104	108
Brunei Darussalam	39	4.54	n/a	n/a	Bosnia and Herzegovina	107	3.56	105	106
Cyprus	40	4.53	39	55	Albania	108	3.55	106	109
Puerto Rico	41	4.51	40	36	Cambodia	109	3.53	107	110
Slovenia	42	4.50	41	39	Côte d'Ivoire	110	3.51	n/a	n/a
Portugal	43	4.47	42	40	Bangladesh	111	3.51	108	107
Lithuania	44	4.45	43	38	Zambia	112	3.49	109	122
South Africa	45	4.41	44	44	Tanzania	113	3.49	110	104
Slovak Republic	46	4.40	45	41	Cameroon	114	3.48	111	116
Barbados	47	4.40	46	50	Guyana	115	3.47	112	126
Jordan	48	4.37	47	49	Tajikistan	116	3.46	113	117
Italy	49	4.35	48	46	Mali	117	3.43	114	115
India	50	4.33	49	48	Bolivia	118	3.42	115	105
Russian Federation	51	4.31	50	58	Malawi	119	3.42	n/a	n/a
Malta	52	4.31	51	56	Nicaragua	120	3.41	116	111
Poland	53	4.28	52	51	Ethiopia	121	3.41	117	123
Latvia	54	4.26	53	45	Kyrgyz Republic	122	3.40	118	119
Indonesia	55	4.25	54	54	Lesotho	123	3.40	119	124
Botswana	56	4.25	55	76	Paraguay	124	3.40	120	121
Mauritius	57	4.25	56	60	Madagascar	125	3.38	121	118
Panama	58	4.24	57	59	Nepal	126	3.37	122	114
Costa Rica	59	4.23	58	63	Burkina Faso	127	3.36	123	112
Mexico	60	4.23	59	52	Uganda	128	3.35	124	120
Croatia	61	4.22	60	57	Timor-Leste	129	3.15	125	127
Hungary	62	4.22	61	47	Mozambique	130	3.15	126	128
Turkey	63	4.15	62	53	Mauritania	131	3.14	127	125
Brazil	64	4.13	63	72	Burundi	132	2.98	128	130
Montenegro	65	4.11	64	82	Zimbabwe	133	2.88	129	129
Kazakhstan	66	4.11	65	61	Chad	134	2.85	130	131
Greece	67	4.11	66	65					
Romania	68	4.10	67	74					

\* One country that was included last year is not shown because of the lack of Survey data (Uzbekistan). This explains why the lowest rank in this column

Source: Schwab, Klaus and Michael E. Porter (2008) *The Global Competitiveness Report*  
*The Global Competitiveness Report* (2008 World Economic Forum)

## 7.5. Corruption Perceptions Index (CPI)

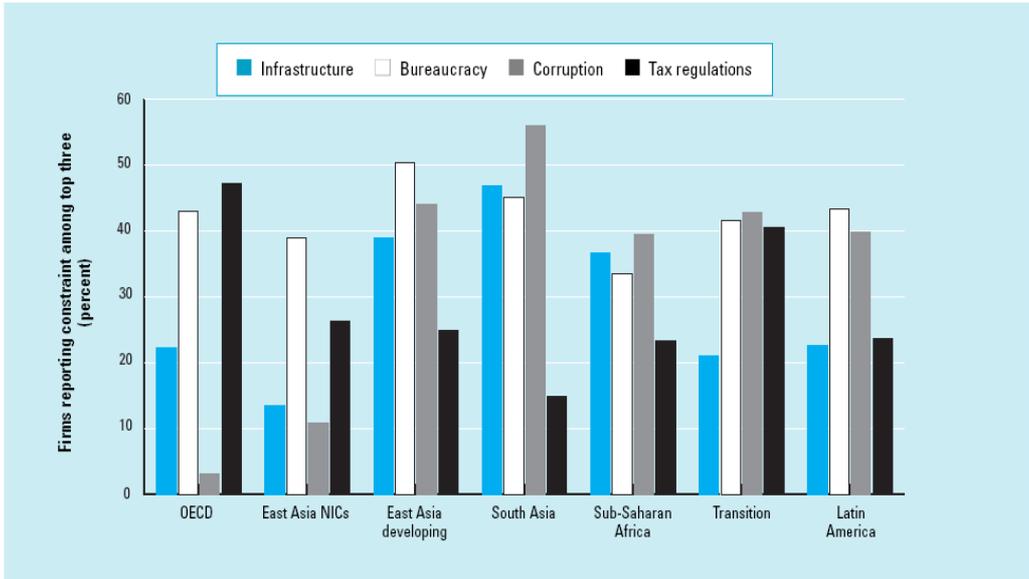
A country or territory's *CPI Score* indicates the degree of public sector corruption as perceived by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt). In table 10 we see Corruption Perception Index of Transition Economies.

**Table 10:** 2008 Corruption Perceptions Index of Transition Economies (out of 180)

Country Rank	Country /Territory CPI	CPI Score 2008	Standard Deviation	Confidence Intervals*	Surveys Used**
26	Slovenia	<b>6.7</b>	0.5	6.5 – 7.0	8
27	Estonia	<b>6.6</b>	0.7	6.2 – 6.9	8
45	Czech Republic	<b>5.2</b>	1.4	.8 - 5.9	8
47	Hungary	<b>5.1</b>	0.6	4.8 - 5.4	8
52	Slovakia	<b>5.0</b>	0.7	4.5 - 5.3	8
58	Turkey	<b>4.6</b>	0.9	4.1 - 5.1	7
58	Lithuania	<b>4.6</b>	1	4.1 - 5.2	8
58	Poland	<b>4.6</b>	1	4.0 - 5.2	8
62	Croatia	<b>4.4</b>	0.7	4.0 - 4.8	8
67	Georgia	<b>3.9</b>	1.2	3.2 - 4.6	7
70	Romania	<b>3.8</b>	0.8	3.4 - 4.2	8
72	Bulgaria	<b>3.6</b>	1.1	3.0 - 4.3	8
72	Macedonia	<b>3.6</b>	1.1	2.9 - 4.3	6
85	Montenegro	<b>3.4</b>	1	2.5 - 4.0	5
85	Albania	<b>3.4</b>	0.1	3.3 - 3.4	5
92	Bosnia and Herzegovina	<b>3.2</b>	0.6	2.9 - 3.5	7
109	Armenia	<b>2.9</b>	0.4	2.6 - 3.1	7
109	Moldova	<b>2.9</b>	1.1	2.4 - 3.7	7
134	Ukraine	<b>2.5</b>	0.5	2.2 - 2.8	8
145	Kazakhstan	<b>2.2</b>	0.7	1.8 - 2.7	6
147	Russia	<b>2.1</b>	0.6	1.9 - 2.5	8
151	Belarus	<b>2.0</b>	0.7	1.6 - 2.5	5
158	Azerbaijan	<b>1.9</b>	0.4	1.7 - 2.1	8
166	Uzbekistan	<b>1.8</b>	0.7	1.5 - 2.2	8
166	Kyrgyzstan	<b>1.8</b>	0.2	1.7 - 1.9	7

**Source:** Lambsdorff, 2008 ([transparency.org/surveys/#cpi](http://transparency.org/surveys/#cpi) or [www.icgg.org](http://www.icgg.org))

Slovenia, Estonia, Czech Republic, Hungary and Slovakia' CPI score are above 5.0. Azerbaijan, Uzbekistan and Kyrgyzstan' CPI score are below 2.0. We can say that corruption is an important constraint for entrepreneurs in transition economies. In figure 6 we see some key constraints to business, by region.



**Figure 6:** Some key constraints to business, by region: Responses from firms in Survey 2005

**Source:** Kaufmann Daniel (2005), *Myths and Realities of Governance and Corruption*, World Bank 2005

According to figure 6 *Corruption* is the most important constraint in transition. The other important constraints are *bureaucracy and tax regulation and then infrastructure*.

**Conclusion**

Institutional environment and market conditions are important for entrepreneurs all over the world. In our study we try to determine the most important constraints for entrepreneurs in Transition Economies by using indicators and indexes. We see that bureaucracy, tax regulation, financing, infrastructure and corruption is the most important constraints in transition. Our researches show that all size of entrepreneurship (SMEs, Multinational, National Enterprise etc.) is important to

growth of the transition economies. Beside this business owner characteristics is important as well as environment and the role of the state for entrepreneurs in transition.

The role of government will be of crucial importance in the transition economies. Government will be required to put in place the necessary market oriented structures and institutions that will facilitate the establishment, nurturing and growth of SMEs. Bureaucratic regulations and corruption need to be tackled as a matter of urgency. Government and its agencies will be increasingly required to play a facilitatory rather than production role within the economy, one that embraces the market, private ownership and entrepreneurialism. Increased participation of SMEs in the global economy will also be essential and in this regard policy should aim at: encouraging the upgrading of skills and technology; providing information on market opportunities; facilitating access to small business finance; facilitating networking amongst SMEs and, where appropriate with large domestically owned enterprises as well as TNCs. The obstacles facing SMEs in the transition economies are immense, but the process of globalization will require their improved competitiveness and product quality if they are to survive let alone fully participate and benefit from it (Kaufman, 2005).

It is expected that the harmonisation of regulations will improve the overall business environment but it can also result in additional compliance costs. SMEs tend to have lower absorption capacity, therefore increased regulatory costs result in increased prices for consumers thus reducing overall competitiveness. Some EU regulations will have less impact on SMEs such as environmental protection which will primarily impact large-scale manufacturers especially those producing chemicals, metals, machinery and equipment. However, increased workplace health standards will have a broader impact on all enterprises regardless of size.

There is an increased need to develop internal business capabilities to deal with increasing competition as well as business growth such as specific consulting and business training programmes. The obvious policy conclusion is that governments wanting to promote the outward internationalization of SMEs should: Deregulate economic infrastructure and simplify administrative procedures for doing business abroad; Provide information on conditions for doing business abroad on a regular basis, offering online platforms for small businesses in foreign countries and institutions; Improve SMEs' access to financial resources and adjust internationalization support programs to SMEs' needs; Simplify accounting systems and create financial and fiscal frameworks that alleviate the difficulties faced by SMEs and encourage innovative activities; Improve cooperation between business and research and educational institutions to stimulate spillovers and a more adaptive education system; Introduce educational methods and programs that enhance

innovation and entrepreneurship and develop holistic internationalization training programs; Initiate R&D support instruments, such as tax rebates, research grants, and the provision of infrastructure; Promote technology transfer by launching networks between large companies, SMEs, and research organizations; Facilitate an adoption of e-commerce and e-government; Provide assistance, training, and consultant services to managers and smallbusiness owners. (Svetlicic, Jaklic and Burger, 2007: 54-55). SMEs need to develop their creativity, adaptability and their orientation to capitalising on market opportunities, meeting customer satisfaction, taking advantage of the weaknesses of rivals, and developing supplier-oriented relationships. Flexibility, innovativeness, and continuous performance improvement within a cluster are factors that are becoming the elements of a new strategic approach to building a competitive advantage and developing SMEs.

Managerial responses also important in EU integration for Transition. Partly from normative standpoint but also based on actual behavior the following managerial responses do address: Be innovative, open to new concepts, accept a risk; React quickly to the market need for western and western-like product; Apply frugal marketing, don't commit resources without assessing the expected outcome of one's activities; Keep prices moderate-the affluent segment in TE is limited in scope. Don't allow prices to fluctuate excessively; Consider market niches-especially for smaller companies looking for improved margins; Diversify sources of supply to enhance the selection in terms of quality and quantity and build a wider base of providers. Purchasing is also a part of marketing; Build image, develop an active brand policy. Stay close to your customer base; Maintain consistency with respect product/service quality, nature of operations, marketing style; Develop exporting and implement marketing adaptations it requires; Use consultant to save time and resources (Sternquist and Paliwoda, 1996).

In general, without government intervention, the winners in EU integration will be large enterprises and the losers will disproportionately be SMEs.

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**Benefitting of Turkey from Financial Assistances of the eu: Difficulties and Successes****Abstract**

As a candidate country, Turkey has benefited from the EU Assistance under IPA for the period 2007-2013. Number of projects implemented in Turkey was totally 2 312, so far. It is a fact that applicants (NGOs, Government Institutions, SMEs) face some problems during the preparing and implementation of the projects. Therefore, the aim of this study is to share experiences of Turkey with other countries, explain distribution of assistance component by component, and give examples from successful implications in practice.

Keywords: EU, Grant, Project, Turkey

**1. Introduction**

Turkey was one of the first countries, in 1959, to seek close cooperation with the European Economic Community (EEC). This cooperation was realised in the framework of the Ankara Agreement that was signed in 1963 (Anonymous, 2009a). After 23 years of "association agreement", Turkey applied for full membership of the European Community (EC) in 1987 and signed a Customs Union agreement with the EC in 1995 (Akca, 1996). Application of Turkey for membership to the European Union (EU) was accepted by the European Council in Helsinki in 1999. Turkey started to negotiations with the EU in 2005.

The EU finances every year thousands of projects from social services to enterprise support and regional development. All projects have a single objective: preparation for the EU membership (Anonymous, 2009b). Many projects were implemented in Turkey under the EU Assistances. Municipalities, Associations,

Chambers, Unions, Universities and SMEs have faced some difficulties related to projects (preparation, implementation, etc). Therefore, the aim of this study is to share experiences of Turkey with other countries, explain distribution of assistance component by component, and give examples from successful implications.

## 2. Financial Assistance Of The Eu And Turkey

Before joining the EU, a country must have a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU (EC, 2009). Until 2002 Turkey had received support under the MEDA programme and through two regulations to support the customs union and economic and social development. For the period to 1999 the key aim of assistance to Turkey had been to accompany the process of structural reform, as for other Mediterranean partners. Following the Helsinki European Council in 1999, a pre-accession orientation was introduced to the financial assistance programmes with Turkey. Assistance continued to be available for structural adjustment, in co-ordination with the international financial institutions, but assistance also began to focus on institution building, investment, and supporting the participation of Turkey in Community programmes and agencies (CFCU, 2009). Cumulative EU Assistance to Turkey for the period 2000-2006 is summarised in Table 1.

**Table 1.** Overview of EU Assistance to Turkey 2000-2006

	Cumulated EU Assistance (€)
Political Criteria	115 432 505
Energy	11 404 000
Telecommunications	3 460 000
Social Policy	36 931 075
Transport	12 603 000
Environment	45 350 000
Internal Market	28 920 295
Agriculture	119 427 100
JLS	30 904 750
Economic Social Cohesion	461 969 294
Community Programmes & CSD	218 161 722
Public Administration	33 594 325
Customs	44 490 954
Other	72 871 000
<b>Total Allocations</b>	<b>1 235 520 000</b>

Source: ABGS (2008).

Since 2007, all the EU assistance to the countries now with a prospect of EU membership has been brought under a single heading, the Instrument for Pre-Accession Assistance (IPA). This brings a new focus to EU assistance for enlargement (EC, 2009). IPA replaces the 2000-2006 pre-accession financial instruments PHARE, ISPA, SAPARD, the Turkish pre-accession instrument, and the financial instrument for the Western Balkans, CARDS (Europa Media, 2006). The beneficiary countries are divided into two categories, depending on their status as either candidate countries (Turkey, Croatia, the former Yugoslav Republic of Macedonia) under the accession process or potential candidate countries (Albania, Bosnia and Herzegovina, Montenegro, Serbia, and Kosovo) under the stabilisation and association process. IPA is made up of 5 Components, each covering priorities defined according to the needs of the beneficiary countries. Two components (transition assistance and institution-building, cross-border cooperation) concern all beneficiary countries. The other three components (regional development, human resources development, rural development) are aimed at candidate countries only (Europa, 2009). The total pre-accession funding for the current financial framework (2007-2013) is € 11.5 billion. Allocations per country, decided so far for the period 2007–2012, are shown in Table 2.

**Table 2:** EU Financial Assistance under IPA in 2007-2012 (€ million)

	2007	2008	2009	2010	2011	2012	2007-2012
Turkey	497.2	538.7	566.4	653.7	781.9	899.5	3 937.4
Croatia	141.2	146.0	151.2	154.2	157.2	160.4	910.2
Macedonia	58.5	70.2	81.8	92.3	98.7	105.8	507.3
Serbia	189.7	190.9	194.8	198.7	202.7	206.8	1 183.6
Montenegro	31.4	32.6	33.3	34.0	34.7	35.4	201.4
Kosovo	68.3	184.7	106.1	67.3	68.7	70.0	565.1
Bosnia and Herzegovina	62.1	74.8	89.1	106.0	108.1	110.2	550.3
Albania	61.0	70.7	81.2	93.2	95.0	96.9	498.0
Multi-country support	109.0	135.7	160.0	157.7	160.8	164.2	887.4
Total	1 218.4	1 444.3	1 463.9	1 557.1	1 707.8	1 849.2	9 240.7

EU Financial support for Turkey is increasing rapidly year by year. The funds are available in institutional development, cross border cooperation, regional development, development of human resources and rural development (Table 3).

**Table 3:** IPA 2007-2010: Turkey Allocations according to Components

Components	2007	2008	2009	2010	2011	2012
Transition Assistance and Institution Building	256.7	256.1	233.2	211.3	230.6	250.9
Cross-border Cooperation	2.1	2.9	9.4	9.6	9.8	9.9
Regional Development	167.5	173.8	182.7	238.1	291.4	350.8
Human Resources Development	50.2	52.9	55.6	63.4	77.6	89.9
Rural Development	20.7	53.0	85.5	131.3	172.5	197.9
Total	497.2	538.7	566.4	653.7	781.9	899.4

Table 4 shows performance ranks of the bodies that implemented projects. Although no grant may exceed 50 % of the total budget of the Project, more than one-fourth (28.29%) of the projects were carried out by SMEs. Municipality ranks the first in terms of grant amount.

**Table 4:** Performance Ranks by Bodies

Bodies	Number of Contracts	%	Grant Amount (€)	%
SMEs	654	28.29	47 767 998.55	16.69
Associations	341	12.75	22 864 342.42	7.99
Municipalities	291	12.59	88 954 261.97	31.08
Chambers	245	10.60	21 621 672.99	7.56
Foundations	145	6.27	13 193 492.47	4.61
Unions	95	4.11	8 915 097.73	3.12
Villages Service Unions	76	3.29	21 209 560.35	7.41
Universities	73	3.16	11 790 188.04	4.12
Others	68	2.94	7 178 457.09	2.51
Cooperatives	66	2.85	5 126 019.66	1.79
Farmer Groups	65	2.81	5 311 118.70	1.86
Special Provincial Administration	50	2.16	15 546 737.78	5.43
Colleges	38	1.64	3 771 978.42	1.32
Villages	35	1.51	5 001 661.91	1.75

Trade Unions	33	1.43	3 717 152.01	1.30
Vocational High Schools	21	0.91	1 454 950.59	0.51
Public Bodies	12	0.52	2 615 333.86	0.91
Primary Schools	4	0.17	131 433.41	0.05
Total	2312	100.00	286 171 457.95	100.00

Source: MFIB (2009).

The EU supports reforms and development in key sectors and EU funds are allocated on a project basis. Among the large range of immediate beneficiaries are ministries and other governmental organizations, municipalities, civil society, small and medium size enterprises (SMEs), the unemployed and vulnerable groups, school children and farmers (Anonymous, 2007). Number of projects implemented in Turkey are totally 2 312. Detailed information about these projects is given in Table 5.

**Table 5:** Grant Contracts Signed Between CFCU and Applicants in Turkey

	Number	Duration (month)	EU Funds (€)	Co-Financing (€)	Grant Amount (€)
Nuts II (AKKM)	510	9.48	64 294 978.95	20 620 844.32	84 915 823.27
Bridges of Knowledge	28	10.61	2 061 340.65	---	2 061 340.65
Eastern Anatolia Development	309	10.70	29 047 351.96	---	29 047 351.96
Eastern Black Sea Development	213	11.24	18 000 000.00	6 000 000.00	24 000 000.00
GAP Flood Mitigation	37	13.22	11 799 999.87	3 199 999.96	14 999 999.83
ISKUR-2002	245	10.41	23 967 487.22	7 989 162.67	31 956 649.89
ISKUR-2006	101	11.40	11 996 116.03	3 998 705.23	15 994 821.26
Cultural Rights	25	8.80	1 462 633.38	---	1 462 633.38
Cross Border Cooperation-2003	9	9.67	456 190.20	---	456 190.20
Cross Border Cooperation-2004	13	9.00	462 646.11	---	462 646.11
Cross Border Cooperation-2005	13	9.15	454 242.63	---	454 242.63
Cross Border Cooperation-2006	17	9.59	620 666.90	---	620 666.90

CSD Programme	119	15.24	19 294 805.56	---	19 294 805.56
CSD (EU-Turkey Chambers)	22	11.68	2 248 788.39	---	2 248 788.39
Supporting Civil Society	47	5.53	399 997.69	---	399 997.69
Strengthening Civil Society-2004	34	5.44	675 356.24	---	675 356.24
Strengthening Civil Society	21	7.33	499 836.23	---	499 836.23
Nuts II (SKE)	396	9.61	36 205 649.61	12 068 549.13	48 274 198.74
Social Dialogue	26	9.08	1 672 732.67	---	1 672 732.67
NGO-2003	11	11.45	483 719.16	---	483 719.16
NGO-2005	93	10.68	5 277 641.30	---	5 277 641.30
Sustainable Development	23	9.43	912 015.89	---	912 015.89
TOTAL	2 312	10.28	232 294 196.64	53 877 261.31	286 171 457.95

Source: MFIB (2009).

### 3. Conclusion

Benefits of the EU grant projects:

- EU grant schemes can be an opportunity for an organisation that does not have enough finance but willing to implement a project directed to its aims (solution of problems, creating awareness, human resource development, etc).
- In the past, some projects implemented by SMEs and NGOs were failed due to weak control system of the government. However, EU financed projects are controlled strictly by the CFCU and Delegation of the European Commission to Turkey. This led to efficiency of the projects.
- If aims of public, private and NGOs are to be successful, they should prepare detailed project and submit it to authorities. This reality was understood by everybody.
- Coordination between NGOs and government organisations is weak in Turkey. EU grant projects provide a platform for NGOs and public institutions to work together.
- Some organisations in Turkey have prepared common projects with foreign partners in the EU. This leads to knowledge transfer, establishment of

Friendship Bridge among countries, organising socio-cultural activities together, recognising and accepting each other even if they have different religious and cultural features, etc.

Difficulties faced by project implementation bodies are as follows:

- *Not having enough technical knowledge about how to prepare and implement an EU grant project:* Especially majority of the NGOs established in less developed regions have difficulties when they decide to carry out a grant scheme. Therefore, majority of them are in the control of private consultancy agencies. This can be an obstacle for NGOs when private consultancy agents decide type, budget, and duration of the project. Although field of activity of NGOs are different each other, consultancy agents prepare a project and sell it to many NGOs without taking into account their working area. When NGOs submit a wrong project subject that is not written in its certificate (articles), it is not accepted by the contract authority (CFCU). Another problem is that NGOs must pay money to them for project preparation. This is an obstacle for NGOs because they are non-profit organisations.
- *Strict rules and intense work:* If an organisation does not have a qualified project team, achievement of project activities is sometimes difficult. Documents related to project activities must be prepared in Turkish/English. Technical and financial reports (bimonthly, midterm and final) should be submitted to authorities regularly.
- *Being against the EU:* Some people are against the EU and its financial support. They think that EU supports NGOs to break peace of the country. This idea is common especially among radical people (chauvinist, socialist, etc).

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**The Balkan Countries in the Process of European Integration:  
Is there a Convergence Process?****Abstract**

Balkan countries have been rapidly changing since 1990's. In spite of some Balkan countries (such as Turkey and Greece) were relatively stable in 1990s, there was war in Serbia, Montenegro, Croatia, Bosnia-Herzegovina, and Macedonia. Some former socialist countries (Bulgaria, Slovenia and Romania) and Greece became full member of EU, after the rugged process. The others have been struggling for this aim. In this process, all Balkan countries have some political, economic and social challenges. The aim of this paper is to investigate whether or not economic convergence among Balkan countries in the process of European Integration in the period of 1997-2007. To test convergence, we use approach of Barro and Sala-i Martin. Our study indicates that there is no convergence among Balkan countries in the process of European Integration in the period of 1997-2007.

**Key words:** Balkan Countries, European Integration, Convergence, Divergence.

**Introduction**

Balkan countries have been rapidly changing since 1990's. In spite of some Balkan countries (such as Turkey and Greece) were relatively stable in 1990s, there was war in Serbia, Montenegro, Croatia, Bosnia Herzegovina, and Macedonia. Some former socialist countries (Bulgaria, Slovenia and Romania) and Greece became full member of EU, after the rugged process. The others have been struggling for this aim. In this process, all Balkan countries have some political, economic and social challenges. We

are interest in economic challenges about Balkan countries, especially deal with level of per capita income of these countries in this study.

Mostly Balkan countries have low per capita GDP (Gross Domestic Product). For example Albania has \$1677 per capita GDP in 2007; Bosnia and Herzegovina has \$2044; Bulgaria has \$2401; Macedonia has \$2061; Montenegro has \$2269; Romania has \$2595 and Serbia has \$1780. Exclusively Greece (\$15052), Croatia (\$5794), Slovenia (\$13333) and Turkey (\$5053) have relatively bigger than aforementioned countries' per capita GDP. It is normally expected that EU (European Union) membership process support to improving per capita GDP. In the next stages, we search this expectation about Balkan countries.

This paper is organized as follows: the next section describes concept of convergence. Section 3 explains literatures about convergence. Section 4 introduces the data set. Section 5 gives estimation results about beta (absolute and conditional) convergence and sigma convergence. The last section provides some concluding remarks.

### **What is convergence?**

Convergence concept is defined as poorer economies tend to grow at faster rates than richer economies. According to this concept all economies should in the long run converge in terms of per capita income and productivity. It is supposed that developing countries have the potential to grow at a faster rate than developed countries.

The issue of economic convergence at national and regional level has been worked by a lot of researchers in recent years. There are two concepts of convergence as  $\beta$ -convergence and  $\delta$  convergence. The seminal articles of Barro and Sala-i-Martin (1991, 1992, and 1995) and Mankiw *et al.* (1992) and then numerous studies have investigated  $\beta$ -convergence and  $\delta$ -convergence between different countries and regions.

$\beta$ -convergence is being investigated in two parts. These are absolute  $\beta$ -convergence and conditional  $\beta$ -convergence. If all economies are structurally identical and have access to the same technology, they are characterized by the same steady state, and differ only by their initial conditions. This is the hypothesis of absolute  $\beta$ -convergence. The concept of conditional  $\beta$ -convergence is used when the assumption of similar steady-states is relaxed. Note that if economies of countries have very different steady states, this concept is compatible with a persistent high degree of inequality among countries.

At the same time, there is  $\beta$ -convergence in a cross-section of economies if we find a negative relation between the growth rate of income per capita and the initial level of

income. If poor economies (or regions) tend to grow faster than rich countries (or regions), there is absolute  $\beta$ -convergence. The concept of conditional  $\beta$ -convergence is used when the assumption of similar steady-states is relaxed (Sala-i Martin 1996-a).

$\delta$ -convergence can be defined as follows: A group of economies (or regions/provinces) are converging in the sense of  $\delta$  if the dispersion of their real per capita GDP levels tends to decrease over time. This form uses two different types of variables: Standard deviation and the coefficient of variation of the log of per capita income (Rey and Montouri 1999). The existence of  $\beta$ -convergence will tend to generate  $\delta$ -convergence (Sala-i Martin 1996-b). We can say that  $\beta$ -convergence is necessary but not enough for  $\delta$ -convergence.

Because of the aim of this study estimates whether existence of  $\beta$ -convergence, we shows only details belong to  $\beta$ -convergence.  $\beta$ -convergence is represented as follows:

$$\ln \left( \frac{y_{i,t+T}}{y_{i,t}} \right) = \alpha + \beta \ln(y_{i,t}) + \varepsilon_{i,t}$$

where  $y_{i,t}$  is the per capita income of country (or region/province)  $i$  at year  $t$ ,  $\alpha$  is constant and  $\beta$  is coefficient. If  $\beta$  has negative sign, this situation shows convergence. The growth rate between period  $t$  and  $t + T$  is the dependent variable and the log of per capita income in the initial  $t$  period is the independent variable.

Estimating  $\beta < 0$  from the above cited equation, we can conclude that less developed economies show faster economic growth rate. Thus,

$$\text{If } \beta < 0 \begin{cases} y=0 \Rightarrow \text{Absolute convergence} \\ y \neq 0 \Rightarrow \text{Conditional convergence} \end{cases}$$

According to absolute convergence concept, it is accepted that whole countries have same conditions as technologic level, institutional structure and saving rate. But conditional convergence approach includes new variables (for example, in our study: urban population as % of total, foreign direct investment net inflows as % of GDP) that reflect differences between economies.

We examine conditional convergence and explanatory variables are inserted on the right hand side of the equation (1). We investigate the period of 1995-2001 following the empirical works of Barro and Sala-i-Martin (1991, 1992, and 1995) and we use equation (2):

$$\ln \left( \frac{y_{i,t+T}}{y_{i,t}} \right) = \alpha + \beta_0 \ln(y_{i,t}) + \beta_1 U_{(i,t)} + \beta_2 F_{(i,t)} + \varepsilon_{i,t}$$

where  $U_{(i,t)}$  is the urban population (as % of total) in the country  $i$  at year  $t$ ,  $F_{(i,t)}$  is the foreign direct investment (FDI) net inflows (% of GDP) in country  $i$  at year  $t$ .

## Literature

Chatterji (1992) showed that there are two mutually exclusive convergence clubs—one for the 'rich' and one for the 'poor' where the division between rich and poor is endogenously determined. Neven and Gouyette (1995) estimated convergence in output per head across regions in the European Community, for the period 1975-1990. Their study indicates that the distinction between the north and the south of the European Community is likely to be more relevant in the analysis of growth patterns than the distinction between the centre and the periphery. Furthermore the population of the southern regions responds much more slowly to wage and unemployment differences.

Quah (1996) occur that geographical factors are found to matter more than national – macro ones; but both are important for explaining inequality dynamics in regional convergence process of Europe. Barro et al. (1995) found that samples of open economies, such as the US states, converge only slightly faster than samples of more closed economies, such as the OECD countries. Bernard and Jones (1996) investigated the sources of aggregate labor productivity movements and convergence in the U.S. states from 1963 to 1989. Carlino and Mills (1996) obtained evidence for convergence for the U.S. states and regions during the 1929 to 1990 period after allowing for a break in the rate at which the various states and regions were converging in 1946. An important finding of this research is that the US states and regions achieved per capita earnings convergence by 1946. Chatterji and Dewhurst (1996) examined to test whether the counties and regions are converging in terms of GDP per capita in movements in the gross domestic product (GDP) per capita of English and Welsh counties and Scottish regions for the period 1977 to 1991 and for six sub-periods.

Rey and Montouri (1999) provided new insights as to the throughout the system of states, thereby complicating nature of regional income convergence patterns in the transitional dynamics of the overall convergence US period 1929-1994. Their study presented the first detailed evidence on the role of spatial effects in a regional income

convergence study. Bazo *et al.* (1999) applied  $\beta$  and  $\delta$  convergence approach to the analysis of regional dynamics and convergence in the European Union (EU).

Soukiazis and Castro (2005) test convergence in living standards, productivity, investment and unemployment among the European countries by using panel data estimation techniques. Their study shows that the Maastricht rules and the Stability and Growth Pact have not been as significant as the European authorities would expect and even in cases where the Maastricht criteria had positive effects, these were modest. Mora *et al.* (2005) offer an optimum definition of convergence clubs. Their results show that European regions with high specialization in low-tech industries in 1985 present non-significant conditional convergence, whereas regions with lower specialization and situated further from the core experience higher rates. Markandya *et al.* (2006) investigate the relationship between the energy intensity in 12 transition countries of Eastern Europe and that in the EU15 countries.

Le Gallo and Dall'erba (2006) suggested a general framework that allows testing simultaneously for temporal heterogeneity, spatial heterogeneity and spatial autocorrelation in  $\beta$ -convergence models and their study based on a sample of 145 European regions over the 1980-1999 periods. The estimation results indicate the formation of a convergence club between the peripheral regions of the European Union.

Ramajo *et al.* (2008) estimated that by using a spatial econometric perspective, the speed of convergence for a sample of 163 regions of the European Union (EU) over the period 1981–1996. Their estimations indicate that over the analyzed period, there was a faster conditional convergence in relative income levels of the regions belonging to Cohesion countries (5.3%) than in the rest of the regions of the EU (3.3%). Kocenda *et al.* (2008) empirically examine the fiscal convergence of the recent ten European Union (EU) members using the Maastricht fiscal convergence criteria. The findings show poor fiscal performance in the European Union in general, suggesting that monetary unions do not necessarily encourage fiscal convergence for its members.

Pfaffermayr (2009) contrasts the spatial Solow model and Verdoorn's model on regional growth processes for 212 European regions covering the period 1980–2002. Estimation results this investigation demonstrate that in both models the speed of convergence also depends on the remoteness and the income gaps of all regions.

### **Description of data set**

Our dataset comes from the World Bank<sup>1</sup> WDI (World Development Indicators) Online. WDI (World Development Indicators) Online represents for each Balkan country the level of per capita income over 1997-2007, urban population (as % of

total) of the country in 1997 and foreign direct investment (FDI) net inflows (% of GDP) of a country's in 1997. This period that we use (1997-2007) is limited by data availability. Our study includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Montenegro, Romania, Serbia, Slovenia, and Turkey. But Kosovo is excluded in this study.

We select two variables (urban population and foreign direct investment) as explanatory variables. In the integration process to market economy, many countries are competing with each other to take more foreign direct investment. On the other hand, after Socialist system, it is being waited that urban population is increase.

## Empirical results

### *Beta Convergence*

To test absolute  $\beta$  convergence, regressions are estimated between the rate of growth of per capita income between 1997-2007 in the countries and the logarithm of their initial (1997) level of per capita income. Table 1 shows summary of the absolute beta convergence regression.

**Table 1:** Summary of the convergence regression (\*) for the period of 1997-2007

	1997-2007
Coefficient	-0.006
t-value	-1.262
R square	0.15
Significant	0.239
(*)Results are through OLS - SPSS	

Empirical results indicate that the sign of  $\beta$  coefficient is negative, but it is statistically not significant during the period of 1997-2007. It means that divergence process stopped among Balkan Countries, however there is not any convergence process in this period.

The urban population (as % of total) of the country in 1997 and foreign direct investment (FDI) net inflows (% of GDP) of a country's in 1997 have been used as explanatory variables and introduced on the right hand side of the convergence equation. Adding explanatory variables did not make any differences for the evidence on convergence in regression 1 (see Table 2).

Urban population (as % of total) has negative coefficients but it is very close to zero. Foreign direct investment (FDI) net inflows (% of GDP) has positive coefficient. Therefore, the results of conditional convergence analysis show the absence of convergence between Balkan Countries.

**Table 2:** Convergence regressions (1997-2007) (\*)

	<b>Regression 1 (Absolute Beta Conv.)</b>	<b>Regression 2 (Conditional Beta Conv. with explain. variables)</b>
<b>Constant</b>	0.089 (0.043)	0.103 (0.037)
<b>Log of initial per capita</b>	-0.006 (0.239)	-0.003 (0.547)
<b>Urban</b>		-0.0008 (0.174)
<b>FDI</b>		0.002 (0.397)
<b>R square</b>	0.150	0.381

(\*) The significant values are in parentheses. Results are through OLS (Ordinary Least Squares) – SPSS.

<sup>1</sup> www.worldbank.org, The World Bank Group

### **Sigma Convergence**

$\beta$ -convergence is necessary but not enough for  $\delta$ -convergence. In the results of regression analysis, we haven't found any evidence for  $\beta$  convergence (absolute or conditional). These results have been also giving a signal for absence of  $\delta$  convergence in this period.

Standard deviation and variance is use to test whether or not sigma convergence. Theoretically increasing of standard deviation over time is showing that exist of divergence. If values of standard deviation are decreasing over time, there is convergence process.

**Table 3:** Descriptive Statistics for per capita GDP in the period of 1997-2009(\*)

Years	N	Mean	Std. Deviation	Variance
1997	11	3329.17	3290.66	10828461.73
1998	11	3437.94	3385.69	11462903.92
1999	11	3473.66	3538.36	12520021.03

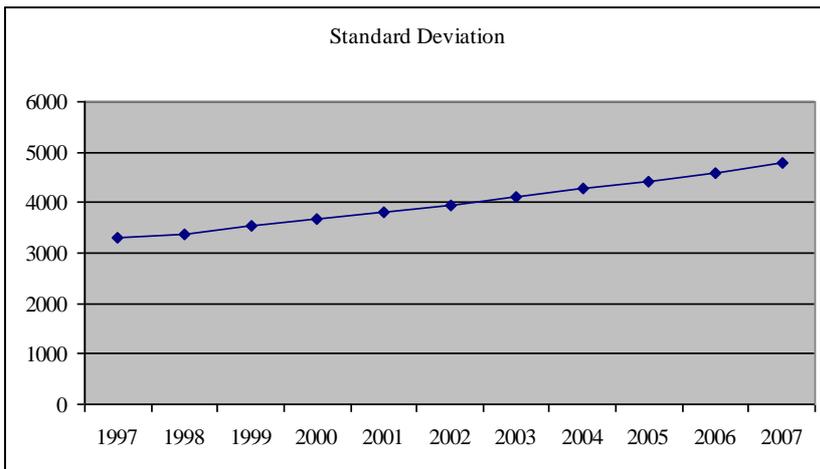
2000	11	3629.42	3685.08	13579871.53
2001	11	3719.46	3815.14	14555312.44
2002	11	3870.03	3955.10	15642863.96
2003	11	4028.48	4108.33	16878385.23
2004	11	4240.27	4265.95	18198412.99
2005	11	4432.07	4414.71	19489720.31
2006	11	4664.83	4598.64	21147541.93
2007	11	4914.78	4794.05	22982945.93

(\*)Results are through SPSS.

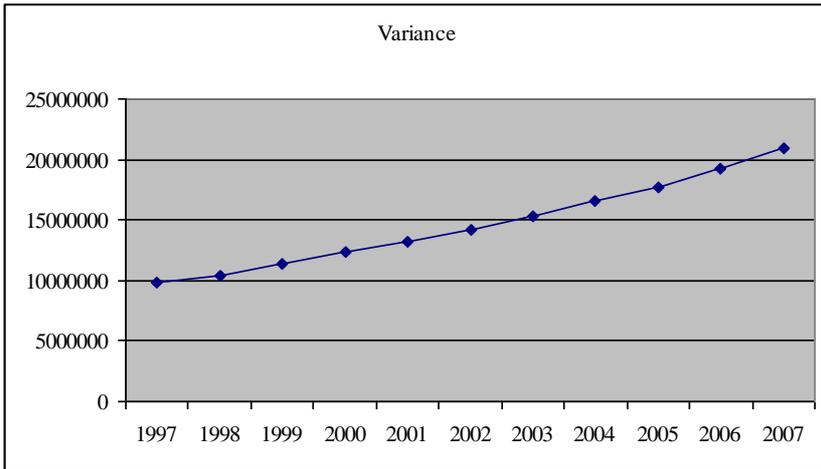
Standard deviation value is (3290) in initial year, but its value is (4794) in the last year. According to Table 3, the values of standard deviation are increasing over time. Consequently there is divergence process in this period. We obtain similar results with beta convergence in Table 3 and Figure 1.

In addition to this, Figure 2 shows the values of variance that coherent result with standard deviation. It also shows divergence.

**Figure 1:** Standard Deviation in the period of 1997-2007



**Figure 2:** Variance in the period of 1997-2007



### Concluding remarks

The main purpose of this study was to find whether or not convergence process among Balkan Countries in the process of European Integration in the period of 1997-2007.

Our results indicated that the sign of  $\beta$  coefficient was negative, but it was statistically not significant during the period of 1997-2007. According to these results, divergence process stopped among Balkan Countries, however there was not any absolute convergence process in this period. The results of conditional convergence analysis showed the absence of convergence among Balkan Countries.

Besides the values of standard deviation are increasing over time. For this reason, we stated that there was divergence process in this period.

Consequently, we found that EU membership process hasn't been positively affecting Balkan countries in terms of improvement of per capita GDP for the period of 1997-2007.

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## **The Labor Market Impact of Albanian Emigration to the EU after Full Membership: A Survey of Theoretical and Empirical Literature**

### **Abstract**

In literature and surveys, the issue of economic impacts and consequences of potential immigration from non-EU countries like Albania to the EU labor market have been much debated especially in the EU side. According to the theories of migration, a major incentive to migrate is a real income or wage differentials between regions or countries. Also, the economic impact of immigration on wages and employment levels will obviously differ with the skill levels of migrants. If migrants mainly are unskilled and native workers skilled, like in the case of emigration from Albania to the EU especially to the neighbors and main receiving countries of Greece and Italy, we can easily say that Albanian and the EU workers are complements because of Albanian immigrants and the EU native workers are not substitutes in production. So, an increase in the number of Albanian immigrants raises the marginal product of the EU natives, shifting up the demand curve for the EU native-born workers. This increase in the EU native productivity raises the EU native wages. Moreover, some EU natives now see the higher wage rate as an additional incentive to enter the labor market, and the EU native employment also rises. On the other side, the empirical literature on this issue does not agree on the size of the potential immigrants from Albania to the EU labor market. Although, it is not clear what the sources were or the methods used to arrive at these estimates, there is reason to believe that the figures for the main countries such as Greece and Italy are very probable. According to the historical background size of the Albanian migrants to the especially Greece and Italy the size of migration after accession is estimated between 600 thousands and 1.1 million.

**Key words:** immigration, Albania, the European Union, labor market, wages and employment

### **1. Introduction**

The subject of potential migration flows from Albania and its effects on the EU labor market after free movement of labor is a considerable issue in Albania-EU future full membership process. In 1997 Albania was included in EU's 'Regional Approach'

programme, predecessor to today's 'Stabilisation and Association Process' (SAP) (European Council, 1997; 1999). Under the terms of the SAP, the EU offers Albania the possibility of future EU membership (European Council, 2000: Art. 69).

On 12 June 2006, Albania signed in Luxembourg the Stabilisation and Association Agreement (SAA) and the Interim Agreement with the EU. As of December 2006, the Interim Agreement for trade and related issues has come into force. According to the European Commission, the implementation of the Interim Agreement has been successful. The Government of Albania has prepared and is implementing the National Plan for the Implementation of the Stabilization and Association Agreement as the main monitoring instrument of the political, economic, legal and institutional reforms and is considered an integral part of the National Strategy for Development and Integration.

The SAA is the instrument which will enable gradual integration of Albania into the European Union. The Agreement creates the necessary framework for strengthening the rule of law, increase its effectiveness, and assist institutional and economic reforms with the aim to raise the standards of living for all citizens. Through this Agreement, Albania aims to attain the standards that will guarantee its status as a candidate state and subsequently association with the European Union.

The SAA envisages the principle of national treatment, according to which an Albanian worker, legally employed in the territory of an EU member state, must be treated equally to the citizens of this EU member state with respect to working conditions, remuneration or dismissal. Further, the spouse and children of a legally employed worker in the territory of an EU member state, when they reside legally in this state, have the right to education and labor market access in this member state during the period of that worker's authorized stay of employment. However, access to employment for Albanian workers in the European market is limited because they remain at the willingness of the EU member states, which recognize free movement of worker through bilateral agreements, which they sign with Albania (IMF, 2008).

The issue of the impact of emigration from Albania to the EU after free movement of labor on the EU countries' labor markets is now being heatedly debated in Albania-EU membership process. In fact, the entrance into the EU means the removal of all barriers to free movement of labor. According to the European opinion polls, the European labor market may be flooded with millions of unskilled non-EU workers. If substantial and uncontrolled, these immigration flows could lead to important disturbances in the EU labor market. The direction of migration flows will also be impacted on by the location of existing Albanian migrants especially in Greece and Italy.

Each of the EU annual reports goes deep into the technical details of inadequate legislation and procedures not yet conforming to EU norms. What is however lacking is empirical data on the evolution of migratory movements. One feature common to all reports is a blatant EU-centrism, completely neglecting the side-effects of migratory movements on the EU's partner country Albania. 'Progress' is defined more or less in terms of the permeability of Albania's borders and corresponding EU-style legislation, essentially disregarding the context of its implementation. Often there is a resort to vague statements leading to similarly vague suggestions: "Albania appears to have made progress regarding the control of illegal migration/trafficking towards the EU [...], but events [...] in early January demonstrate that further efforts are needed [...] However, border management continues to require substantial improvement" (European Commission, 2005: 35).

In this paper, we try to answer some current questions on this immigration impacts in the light of theory and empirical literature as follows: Will accession to the EU generate uncontrolled massive migration flows of Albanian migrants to the EU countries? How the wages and employment opportunities of the EU native workers will respond to migration from Albania to the EU labor market? Are high wage level and skilled the EU workforce and Albania's low skilled unemployed workforce perfect substitutions or complements? And, who will benefit and who will lose from immigration or will both sides win? This paper summarizes what we know about the impact of potential emigration flows from Albania on the EU labor market after free movement of labor and it also presents a survey of theoretical and empirical literature on this issue.

## **2. Reasons to Migrate and the Labor Market Impact of Immigration: Theoretical Approach**

### **2.1. Decision to Migrate**

#### **(a) The neoclassical approach**

The neoclassical approach to migration analysis can be traced back to Smith (Smith, 1776) and Ravenstein (Ravenstein, 1889:214-301). The basic assumption of this model is that individuals maximize their utility subject to a budget constraint. The central argument evolves around wages. Hicks proposed that "differences in net economic advantages, chiefly differences in wages, are the main causes of migration" (Hicks, 1932:76). Migration mainly occurs because of geographical differences in the demand and supply of labor markets. Regions with a shortage of labor relative to capital are characterized by a high equilibrium wage, whereas regions with a large supply of labor relative to capital are faced with low equilibrium wages. This wage differential causes a migration flow from low wage to high wage regions.

In response to this migration flow, the supply of labor in the high wage region increases; subsequently, the wage in this region falls. Similarly, due to migration, the supply of labor in the low wage region decreases and the wages in this region rise. The migration flow ends as soon as the wage differential between the two regions reflects the costs of movement from the low wage to the high wage region. As a result, the model argues, labor migration emerges from actual wage differentials between regions, i.e. the larger the wage differential the larger the migration flow (Bauer and Zimmermann, 1999:13).

### (b) Geographic migration as a human capital investment

Sjaastad introduced the human capital model to migration research (Sjaastad, 1962:80-93). This model, which probably became the most influential and widely used approach, treats migration as an investment decision of an individual. Practically all modern analysis of migration decisions uses this hypothesis as the point of departure and views the migration of workers as a form of human capital investment (Borjas, 2008:322). Workers calculate the value of the employment opportunities available in each of the alternative labor markets, net out the costs of making the potential move, and choose whichever option maximizes the net present value of lifetime earnings.

Depending on their skill levels, individuals calculate the present discounted value of expected returns of their human capital in every region, including the home location. Migration occurs, if the returns, net of the discounted costs of movement, are larger in a potential destination region than the returns in the country of origin. The costs of movement not only include money costs like travel expenses, differences in the costs of living, and foregone earnings while moving, but also psychological costs arising, for example, from the separation from family and friends. It should be noted that every individual evaluates the returns and costs in a different way, depending on personal characteristics such as age, gender, and schooling (Bauer and Zimmermann, 1999:15).

We can calculate net present value of migration using this equation (McConnell *et al.*, 2003:279; Ehrenberg and Smith, 2009:325; Borjas, 2008:322):

$$V_P = \sum_{n=1}^N \frac{E_2 - E_1}{(1+i)^n} - \sum_{n=1}^N \frac{C}{(1+i)^n} - Z$$

$V_P$  = present value of net benefits

$E_2$  = earnings from new job in year n

$E_1$  = earnings from existing job in year n

N = length of time expected on new job

i = interest rate

n = year in which benefits and costs accrue

C = direct and indirect monetary costs resulting from move in the year n

Z = net psychic costs (psychic costs - psychic gains)

In equation, if  $Vp$  is greater than zero, implying that the expected earnings gain exceeds the combined monetary and net psychic investment costs, the person will migrate. If, conversely,  $Vp$  is smaller than zero, the person will remain in his or her present job and location. All else being equal, the greater the annual earnings differential ( $E_2 - E_1$ ) between the two jobs, the higher will be the present value of the net benefits ( $Vp$ ), and the more likely it will be that an individual will migrate.

### (c) Family migration

In the theories discussed above, migration theory focuses on treating migration as a problem of individual decision-making. A different approach challenges many of the foregone conclusions by postulating that families or households typically make migration decisions. Mincer examines the influence of an increased labor force participation of wives on the migration decision of families (Mincer, 1978:749-773). Household size and the number of working family members increase the sources of costs and benefits from migration. Those family members who do not move on their own initiative often have to face reduced earnings and employment possibilities in the labor market of the destination country. Therefore, a family will only migrate, if the gains of one family member internalize the losses of the other family members. Mincer, shows that increases in the labor force participation rates of women lead to increased interdependence of the partner's migration decision, which results in both less migration and more marital instability. Increased marital instability, in turn, encourages migration as well as an increase in women's labor force participation. Furthermore, migration should decrease with increasing family size (Bauer and Zimmermann, 1999:17-18; Borjas, 2008:329; Ehrenberg and Smith, 2009:332).

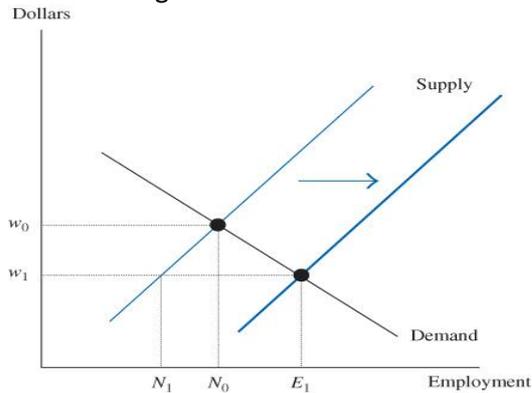
## 2.2. The labor market impact of immigration

### (a) A simple model of the labor market impact of immigration

The simplest model of immigration assumes that immigrants and natives are perfect substitutes in production. In other words, immigrants and natives have the same types of skills and are competing for the same types of jobs (Ehrenberg and Smith, 2009:340-342; Borjas, 2008:181-184; McConnell et al., 2003:287-293; Borjas, 1995:3-22; Borjas, 1994:1667-1717).

The impact of immigration on this labor market in the short run (with capital held fixed) is illustrated in *Figure 1*. As immigrants enter the labor market, the supply curve shifts out, increasing total employment from  $N_0$  to  $E_1$  and reducing wages from  $W_0$  to  $W_1$ . Note that fewer native-born workers are willing to work at this lower wage, so the employment of native workers actually falls, from  $N_0$  to  $N_1$ . In a sense,

immigrants “take jobs away” from natives by reducing the native wage and convincing some native workers that it is no longer worthwhile to work.

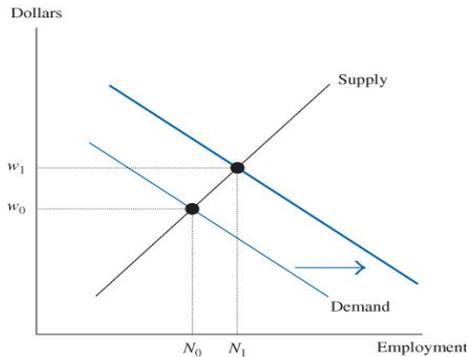


**Figure 1:** *The Short-Run Impact of Immigration When Immigrants and Natives Are Perfect Substitutes*

The short run impact of immigration when native workers and immigrants are perfect substitutes, therefore, is unambiguous. As long as the demand curve is downward sloping and capital is fixed, an increase in immigration will move the economy down the demand curve, reducing the wage and employment of native-born workers.

Of course, the assumption that native workers and immigrants are perfect substitutes is questionable. It may be that immigrant and native workers are not competing for the same type of jobs. For instance, immigrants may be particularly adept at some types of labor-intensive agricultural production. This frees up the more skilled native workforce to perform tasks that make better use of their human capital. The presence of immigrants increases native productivity because natives can now specialize in tasks that are better suited to their skills. Immigrants and natives thus complement each other in the labor market.

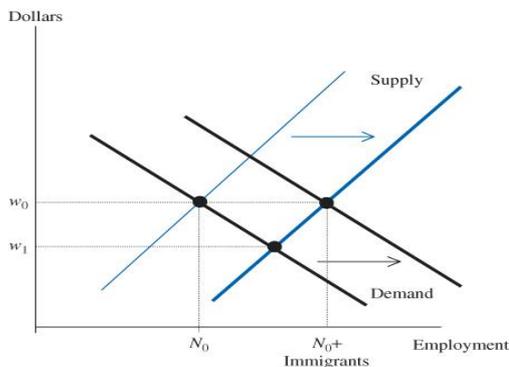
If two groups are complement in production, an increase in the number of immigrants raises the marginal product of natives, shifting up the demand curve for native-born workers. As Figure 2 shows, this increase in native productivity raises the native wage from  $w_0$  to  $w_1$ . Moreover, some natives who previously did not find it profitable to work now see the higher wage rate as an additional incentive to enter the labor market, and native employment also rises from  $N_0$  to  $N_1$ .



**Figure 2:** *The Short-Run Impact of Immigration When Immigrants and Natives Are Complements*

In the short run, say that immigrants and natives are perfect substitution, the supply curve shifts to the right and the wage falls to  $W_1$ . Immigration initially shifts out the supply curve. As a result, the wage falls and over time, capital expands as firms take advantage of the cheaper workforce, shifting out the labor demand curve.

In the long run, the demand curve also shifts to the right and it must shift by a sufficient amount to bring the labor market back to its pre-immigration equilibrium. In the end, the wage is again equal to  $W_0$ . Note that, at this wage, the same number of native workers is employed as was employed prior to the immigrant influx. The long-run effects of immigration when immigrants and natives are perfect substitutes are illustrated in *Figure 3*.



**Figure 3:** *The Long-Run Impact of Immigration When Immigrants and Natives Are Perfect Substitutes*

### (b) The economic benefits from immigration

Immigrants may have an adverse impact on the job opportunities of the native workers whose skills resemble those of the immigrants. Immigrants can also make an important contribution to the receiving country. To assess the net economic impact of immigration, it must be calculated the magnitude of these contributions (Ehrenberg and Smith, 2009:340-342; Borjas, 2008:193-195; McConnell et al., 2003:287-293; Borjas, 1995:3-22; Borjas, 1994:1667-1717).

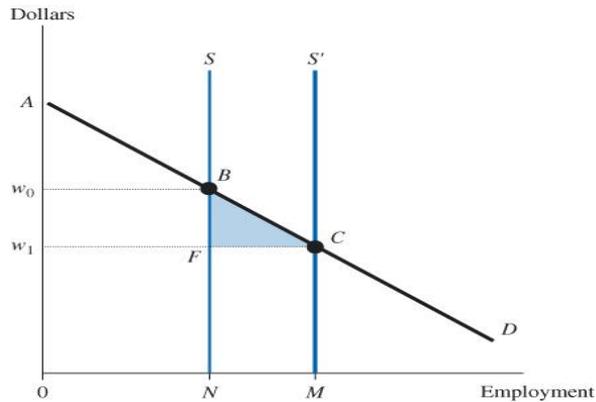
Consider the short-run supply-demand analysis presented in Figure 4. The supply curve of labor is given by  $S$  and the demand curve for labor is given by  $D$ . For simplicity, we assume that the labor supply curve is inelastic, so that there are  $N$  native-born workers. Competitive market equilibrium implies that the  $N$  native workers are employed at a wage of  $W_0$ .

The labor demand curve is given by the value of marginal product schedule, so that each point on the demand curve tells us the contribution of the last worker hired. As a result, the area under the demand curve gives the total product of all workers hired. Hence, the area in trapezoid  $ABNO$  measures the value of national income prior to immigration.

What happens to national income when immigrants enter the country? If we assume that immigrants and natives are perfect substitutes in production, the supply curve shifts to  $S'$  and the market wage falls to  $W_1$ . National income is now given by the area in the trapezoid  $ACMO$ . The figure shows that the total wage bill paid to immigrants is given by the area in the rectangle  $FCMN$ , so that the increase in national income accruing to natives is given by the area in the triangle  $BCF$ . This triangle is the *immigration surplus* and measures the increase in national income that occurs as a result of immigration and that accrues to natives.

Why does an immigration surplus arise? Because the market wage equals the productivity of the last immigrant hired. As a result, immigrants increase national income by more than what it costs to employ them.

The analysis in Figure 4 implies that if the demand curve is perfectly elastic (so that immigrants had no impact on the native wage rate), immigrants would be paid their entire value of marginal product and natives would gain nothing from immigration. Therefore, the immigration surplus exists only if native wage rates fall when immigrants enter the country. Therefore, immigration redistributes income from labor to capital. In terms of Figure 3, native workers lose the area in the rectangle  $W_0BFW_1$ , and this quantity plus the immigration surplus accrue to employers. Although native workers get a lower wage, these losses are more than offset by the increase in income accruing to native-owned firms.



**Figure4:** *The Immigration Surplus*

How to calculate immigration surplus? Recall that the formula for the area of the triangle is one-half times the base times the height. *Figure 4* then implies that the value of the immigration surplus is given by

$$\text{Immigration surplus} = \frac{1}{2} \times (W_0 - W_1) \times (M - N)$$

This formula can be rewritten so as to obtain the immigration surplus as a fraction of national income. After rearranging the term in the equation, we get

$$\frac{\text{Immigration surplus}}{\text{National Income}} = \frac{1}{2} \times (\% \text{ change in native wage rate}) \times (\% \text{ change in employment}) \times (\% \text{ labor's share of national income})$$

Where labor's share of national income is the fraction of national income that accrues to workers<sup>1</sup>.

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<sup>1</sup> For example, immigrants have increased labor supply by about 10 percent in the United States. A 10 percent immigrant-induced increase in supply lowers the wage by about 3 to 4 percent. Finally, it is well known that labor's share of national income is on the order of 0.7. This implies that immigration increases the real income of natives by only about 0.13 percent (or  $0.5 \times 0.035 \times 0.10 \times 0.7$ ). The gross domestic product (GDP) of the United States is around \$12 trillion, so the economic gains from immigration are about \$15 billion per year (Borjas, 1995, 3-22).

This estimate of the immigration surplus is a short-run estimate. In the long run, neither the rate of return to capital nor the wage is affected by immigration. As a result, the long-run immigration surplus must be equal to zero. Immigrants increase GDP in the long run, but the entire increase in national income is paid to immigrants for their services. Ironically, in a constant-returns-to-scale economy, the economic benefits from immigration can only arise when workers in the receiving country are hurt by immigration. Equally important, the larger the adverse wage effects, the greater the economic benefits (Borjas, 2008:195-196).

### **3. Emigration from Albania to the EU: A Survey of Theoretical and Empirical Literature**

#### **(a) A brief historical background of Albanian migration**

As widely documented in previous studies (Carletto *et al.* 2004; INSTAT 2004; King *et al.* 2005; King and Vullnetari 2003), Albania is a country on the move, with massive levels of both internal and international migration (Azzari and Carletto 2009: 2-3). When the communist government eventually fell, the end of the controls on internal and external migration and the collapse of the centrally planned economy unleashed a demographic shift at an unprecedented pace, as individuals and entire households started migrating to the cities or leaving the country altogether. By many accounts, within a decade the number of Albanians abroad swelled to at least 600,000 individuals (King and Vullnetari 2003) or as high as 800,000 (Barjaba 2000). More recent estimates increase the figure to over 1 million (Government of Albania 2005).

After the collapsing of communist system, migration flows can be broken down into the 1991-1992 stream, which was wholly uncontrolled, when approximately 300,000 Albanians left the country; the 1992-1996 stream, when a similar number migrated, most illegally, despite the temporary improvement of the economy and better border controls; and the 1996-1997 stream, immediately after the collapse of various pyramid schemes, which wiped out the savings of hundreds of thousands of people. In the national unrest that followed, a combination of unemployment, poverty, and economic hardships led to the migration of around 70,000 people within a few months. Finally, since 1998, a gradual improvement in economic, political, and social conditions and favorable immigration policies in two key receiving countries, Greece and Italy, have increased legal migration and reduced illegal flows (Barjaba, 2004; Vullnetari, 2007).

**(b)The size and structure of current immigration flows from Albania to the EU:  
Related data**

Albanian contemporary migration is taking place under very different circumstances than the other sending countries of migration. In particular, its massive concentration over a short period of time as the country moved almost overnight from total closure to large-scale out-migration, marks Albanian migration as a significant and unique case. Albanian migration movement described as 'a new migration order' and a 'laboratory for the study of migration and development'. Taking into account these circumstances and special features, post-1990 Albanian emigration is a 'new' type of international migration.

Based on research and studies carried out throughout the first post communist decade, Barjaba first suggested an 'Albanian model' of emigration in 2000. This model has the following features: it is *intense* (a rate of emigration much higher than any other Eastern bloc country); it is largely *economically driven* – a form of '*survival migration*'; it has *a high degree of irregularity*, with many undocumented migrants; it displays lots of *to-and-fro movement*, especially with Greece; and it is *dynamic and rapidly evolving*, especially as regards new destinations and routes of migration (Vullnetari 2007: 40).

By the present day, approximately 25 percent of the total population, or over 35 percent of the labor force, has emigrated. The country has approximately 900,000 emigrants, now residing mainly in Greece (600,000), Italy (200,000), and most of the remainder in other Western European countries, the US, and Canada. Albania's migration flow has, since the early 1990s, been five times higher than the average migration flow in developing countries.

In 2000 the Albanian Department of Emigration within the Albanian Ministry of Labour and Social Affairs estimated that, by 1999, there were 800,000 Albanians living abroad (Barjaba 2000). The majority of them, 500,000, were in Greece, 200,000 were in Italy, and the remaining 100,000 in other European countries and in North America. These figures combined documented and an estimate of undocumented migrants: in Italy documented migrants were in the majority; in Greece, until recently, most Albanians were undocumented. Some of the figures presented were likely to be underestimates, given the mobility of Albanian migrants, especially within Europe, and the rapid evolution of new migration channels and routes in recent years. Although it is not clear how these estimates were calculated, they are the most cited that apply to this period (1990-99), and they have remained largely unchallenged.

A second and – in a sense – more reliable source of data on emigration was provided by the results of the 2001 Albanian Census (INSTAT 2002). The Census revealed an estimated net loss due to emigration of more than 600,000 between

1989-2001, calculated by the census residual method (calculating net emigration as the residual of inter-censal population change, minus the net difference between births and deaths). This figure, however, excluded short-term migration of less than one year's duration, and thus, much emigration to Greece, which is temporary.

Country	1999	2005
Greece	500,000	600,000
Italy	200,000	250,000
USA	12,000	150,000
UK	5,000	50,000
Germany	12,000	15,000
Canada	5,000	11,500
Belgium	2,500	5,000
Turkey	1,000	5,000
France	2,000	2,000
Austria	2,000	2,000
Switzerland	1,000	1,500
Netherlands	?	1,000
<b>TOTAL</b>	<b>742,500</b>	<b>1,093,000</b>

More recently, the Government of Albania has published revised estimates, which put the number of Albanians abroad at over one million by 2005 (Government of Albania 2005: 36). Although, it is not clear what the sources were or the methods used to arrive at these estimates, there is reason to believe that the figures for the main countries such as Greece and Italy are very probable.

	<i>non-migrants</i>	<i>migrants</i>
<i>Individual characteristics</i> % of		
females	0.69	0.35
age	36.6	31.5
years of schooling	9.8	10.1
<i>Education levels</i>		
adult years of education max	9.23	8.36

adult years of education

11.08

10.12

**Table 1:** Estimates of Albanians living abroad

*Source: Barjaba (2000) and Government of Albania (2005).*

The data in *table 1* show a clear increase of 350,000 in the number of Albanians living abroad between 1999 and 2005. It might be the case that they emigrated during these years, but not necessarily. Not knowing how these figures have been calculated makes it difficult to draw such conclusions. One thing is for certain: they and the document they appeared in – the National Strategy on Migration – indicate an increased awareness on the side of the Government of Albania about the issue of emigration. Besides an increase in numbers, these figures also indicate a shift in the relative importance of various destination countries. Although Greece and Italy remain the main receiving countries, other destinations such as the USA, the UK and Canada have become attractive to an increasing number of Albanian emigrants. (Vullnetari, 2007: 35-36). The flows of (current) migrants have fluctuated considerably, more than doubling in the aftermath of the collapse of the notorious pyramid scheme in 1997, peaking in 2000 at about 50,000 new migrants per year, and steadily decreasing after that (Azzarri and Carletto 2009: 4).

The potential for migration from Albania remains high due to such push factors as unemployment and poverty. Around 30 percent of Albanians are currently below the poverty line, and half of them live in extreme poverty, subsisting on less than \$1 per day. The unemployment rate remains high, despite a recent slow decline. In addition, illnesses are a major concern and access to medical care is scarce, especially in rural areas. Four out five poor people live in rural areas, and the poverty rate among young people is higher than average. Approximately 40 percent of the poor live in larger and younger households. These mostly economic hardships have at different points combined with episodes of political instability to boost migration flows. This was especially true in the period 1997-1998, when labor migration was coupled with forced migration (Barjaba 2004).

Table 2 gives further evidence on some of the contrasts already noted, and introduces new variables into the analysis. Permanent migrants are generally younger, male and slightly more educated than the average adult left behind. They are also more likely to come from female- and single-headed households. As expected, migrants come from larger households (in 1990) which, largely as a result of migration, are now significantly smaller. Similarly, households with migrants are on average less educated, partly as a result of the migration of the more educated members in the household. Also, migrant households are significantly older, following the migration of the younger members in the family. Finally, households with a migrant are also wealthier, as illustrated by the different poverty indicators, although clearly the causality direction is ambiguous.

As of education levels of Albanian migrants, the larger numbers of less educated individuals are migrating in recent years. Interestingly, female migrants are on average more educated than men, particularly in the 1990s; the gap narrows somewhat after 2000. The breakdown of the education trends by main destination and place of origin of the migrants reveals some interesting differences. The general downward trend in educational levels does not concern the flow of permanent migrants moving from Tirana and going to destinations beyond Greece and Italy. For this particular group of migrants only, educational levels of migrants have remained stable over the years, at levels significantly above the rest going to Greece and Italy, and originating from other parts of Albania (Azzarri and Carletto 2009: 8-9).

**Table 2: Characteristics and education levels of permanent migrants**

	<i>non-migrants</i>	<i>migrants</i>
<i>Individual characteristics %</i>		
of females	0.69	0.35
age	36.6	31.5
years of schooling	9.8	10.1
<i>Education levels</i>		
adult years of education max	9.23	8.36
adult years of education	11.08	10.12

*Source: Azzarri and Carletto 2009.*

### **(c)Evaluation of potential immigration impact on the labor market in the EU: wages and employment levels**

According to the theories of migration which we argued above, a major incentive to migrate is a real income or wage differentials between regions or countries. It has been clearly said that there are very important wage differentials between Albania and its neighbor EU countries of Greece and Italy. Average real wages in Albania are low and highly attractive to migrate to high real wage levels of EU countries. Also, we have to point out that the economic impact of immigration on wages and employment levels will obviously differ with the skill level of migrants. If migrants mainly are unskilled and native workers mainly skilled, like in the case of emigration from Albania to the EU especially Greece and Italy, we can say that native and immigrant workers in the production are not substitutes. According to the data which show much of Albanian migrants are unskilled, we can easily say that Albania and the EU workers are complements. In other words, Albanian immigrant workers and native the EU workers have not the same types of skills and are not competing for the same types of jobs because of Albanian immigrants workers are mainly unskilled or lower skilled while the EU native workers are mainly high or upper skilled.

As we mentioned above, Albanian immigrants and the EU native workers are complement in production, an increase in the number of Albanian immigrants raises the marginal product of the EU natives, shifting up the demand curve for the EU native-born workers. This increase in the EU native productivity raises the EU native wages. Moreover, some EU natives who previously did not find it profitable to work now see the higher wage rate as an additional incentive to enter the labor market, and the EU native employment also rises. On the other hand, the migration of highly skilled workers cannot be regarded as an unwanted phenomenon for Europe, while Albania could face a significant loss of efficiency or human capital.

In this subject, we can only state that because of Albanian and the EU workers are complements, so the impact of immigration on wages and employment condition in the EU labor market will be same direction. An increase in the number of immigrants raises the marginal product of natives, shifting up the demand curve for native-born workers. This increase in native productivity raises the native wage. On the other words, the potential size of migration from Albania to the EU labor market especially to Greece and Italy will increase the wages of native workers in the EU and also, some natives who previously did not find it profitable to work now see the higher wage rate as an additional incentive to enter the labor market, and native employment will rise.

#### 4. Conclusion

EU state policies that affect Albanian migration are currently mainly inspired by a philosophy of stopping, controlling, and reducing migration flows, as opposed to favoring and liberalizing channels of legal migration. These policies are feeding a legal and institutional asymmetry in the global migration system, since they have resulted in an increase in illegal channels and flows of migration. In sending countries such as Albania, labor migration is considered an economic and social phenomenon, while in receiving countries it is considered a risk to public safety. Due to the EU's increasingly restrictionist policies, the flow of regular immigrants from Albania to Italy and Greece is currently declining (Barjaba 2004).

The effect of migration on wages and employment levels could differ with the skill levels of the migrants and labor demand in the EU, especially in receiving countries of Greece and Italy. Theoretically, if migrants mainly are unskilled and native workers mainly skilled, like in the case of emigration from Albania to the EU Member States, we can say easily Albanian and the EU workers are complements. So, an increase in the number of Albanian immigrants raises the marginal product of the EU natives, shifting up the demand curve for the EU native-born workers. This increase in the EU native productivity raises the EU native wages. Moreover, some EU natives who previously did not find it profitable to work now see the higher wage rate as an additional incentive to enter the labor market, and the EU native employment also rises.

On the other side, it is very difficult empirically to forecast the level as well as the structure of this additional migration after accession. The literature on this issue does not agree on the size of the potential immigrants from Albania to the EU labor market. Although, it is not clear what the sources were or the methods used to arrive at these estimates, there is reason to believe that the figures for the main countries such as Greece and Italy are very probable. According to the historical background size of the Albanian migrants to the especially Greece and Italy the size of migration after accession is estimated between 600 thousands and 1.1 million. Such migration could contribute to mitigating the possible reduction of the growth potential of the EU due to its ageing population. There are perceptions that a possible substantial and uncontrolled increase in migration to the EU could lead to serious disturbances in the labor markets of some of the present EU States especially in Greece and Italy. In addition to the general conditions for economic growth and employment, the actual migration flows are influenced by pull factors such as wage differentials between Albania and the receiving countries but also by push factors, such as the labor market situation in Albania itself.

As a result, considering this number of potential migrants, we can easily say that the public fears concerning the occupation of the European labor markets especially in Greece and Italy by the Albanian immigrants seems to be exaggerated. We can clearly state that estimations show the potential number or size of migration after possible accession of Albania to the EU. Unfortunately, these estimations do not show the impact of this potential size of migrants on the EU labor market like especially the effects of immigration on wages and employment opportunities. Up to now in literature we do not have any empirical study or result which gives the impact of this size of potential migration on wages or employment opportunities of native workers in the EU labor market.

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### **USA and European Security and Defence Policy**

#### **Abstract**

American political leaders and security experts are ambivalent about the European Union's project to build a European Security and Defence Policy (ESDP) to the extent that they are paying any attention to it at all. For the past half century, US political leaders have expressed support, with varying degrees of enthusiasm, for a more cohesive Europe that could act, effectively and confidently, as America's partner on the European continent and in the wider world. Yet when Europeans have actually moved to establish truly 'common' foreign security and Defence policies, they have often been faced with American concerns that such coherence may become inward-looking and exclusive or based on 'lowest common-denominator' consensus-building within the EU, and thus weaken the primacy of the NATO Alliance or impede US leadership and freedom of manoeuvre. This ambivalence is reflected in the official attitude of both the Clinton and Bush Administration toward ESDP, which has been that of conditional support. The Clinton Administration's support was conditioned by what Secretary of State Madeleine Albright termed the 'three D's': no *discrimination* against non-EU NAT members, no *decoupling* of European and North American security, and no *duplication* of NATO's operational planning system or its command structure. 'No duplication' was never defined, nor was it ever intended to mean that the EU should not develop certain capabilities that already existed in the Alliance; indeed many of the Clinton Administration's efforts, such as the NATO Defence Capability Initiative, sought to prod the Europeans into developing precisely such capabilities. This distinction has been lost on many analysts.<sup>i</sup>

#### **The U.S-Europe relations and the Defence Capabilities**

The U.S. possesses a unique military capability including nuclear weaponry, enjoys the most powerful economy for the time being, and it has worldwide interests. For many nations the U.S. are the world policeman and the guarantor of their security either in a bi-national relationship or as part of a multinational framework or alliance. For other

nations, the U.S. represents a hegemon with global self-centred interests. In regard to Western Europe, the U.S. significance is multidimensional. First, the U.S. has twice sorted out European triggered World Wars. Second, the U.S. saved the majority of the Western European countries from the NAZI-regime. Third, the U.S., in its capacity as the backbone of NATO, guaranteed Western Europe's survival during the Cold War. Fourth, the U.S. sponsored the German reunification, and last and not least, the U.S. took action in the Balkan Wars during the 1990s when Europe was not willing and prepared to tidy up its own backyard. As a consequence, U.S. interest in Europe and the related EU development is quite high. Due to the historical experience of the 20<sup>th</sup> century the U.S. interest in Europe can be described as scepticism about European maturity and the related possible consequence for the U.S. to have to sort out European affairs once again.

On the other hand, U.S. global interests cannot be secured in the highly unstable and unpredictable environment of today's world without support of allies. Even for a superpower, the global challenges at hand and in the future are too big and too complex to be addressed and successfully resolved unilaterally. Unified in its core beliefs and values and based on a common European stamped cultural heritage, the U.S. and Europe are natural allies. Thus, the U.S. interest in a stable, reliant, and mature Europe should be self-evident.

A third aspect of U.S.–EU relations is dominated by the growing power of the EU, which may eventually present a challenge to the global hegemon, the USA. This multi-faceted, complex relationship between the U.S. and the EU, however, causes severe problems in today's political arena. Looking at the 2004 Republican Party Platform,<sup>ii</sup> the European Union is mentioned in contrary to the European friendly 2000 Republican Party Platform<sup>iii</sup> only once. "We hail the President's success in achieving unprecedented cooperation with Europe at NATO, through the European Union, and with individual nations in combating terrorism and proliferation of weapons of mass destruction, building peace and democracy in Afghanistan and Iraq, and advancing the cause of freedom, democracy, and opportunity throughout the broader Middle East and North Africa."<sup>iv</sup> Although it is crystal clear that a party platform is not the substitute for actual political action of the Bush Administration, it clearly points towards possible trajectories of actual U.S. government work. From a European perspective, thus, there could not be clearer evidence that the current U.S. Administration does not see the necessity of close U.S.- European cooperation. In mentioning discrete European nations as they contribute to the U.S. security related interests in the world, especially the U.S. Global War on

Terrorism and the Iraq war, an impression arises that one aim of this administration might be to divide the European nations and thus destabilize the EU in order to retain political influence on selected European countries.<sup>v</sup> Reasons for that behaviour could be the frustration about insufficient European political and military support in the ramping up phase of the ongoing Iraq war and in its execution and the related post-war operations or, as some European media and politicians' state, imperial hubris. Whatever the true reasons for that approach to Europe may be, the U.S. has to make a deliberate and conscious choice how to proceed in future in U.S.–EU relations.

### ***An Important Concern Remains Military Gap***

Capability gaps have been a constant irritant throughout NATO's history, most acutely during crises and conflicts. During various Cold War crises, including those centered on Berlin and Cuba and on NATO nuclear force modernization, the most prominent capability gap resided in European dependence on U.S. nuclear forces and commitments. While the Alliance remains a collective Defence organization, in post-Soviet, post-Cold War conditions its main operational tasks have included embargo and no-fly-zone enforcement, humanitarian relief, large-scale interventions (*Deliberate Force* in 1995 and *Allied Force* in 1999), and peacekeeping (in Bosnia since 1995 and in Kosovo since 1999). Americans resent European “dependents” telling the United States how to run Alliance operations, while Europeans resent dependence on U.S. capabilities. The U.S. resentment has never been great enough to place the Alliance's future in jeopardy, and the European resentment has never been great enough to motivate European governments to substantially improve their capabilities through increased spending and other measures. In its current and prospective form, however, the gap could lead to unhealthy divisions of labour, new resentments and burden-sharing debates, industrial “fortress” competitions, a weakening of Alliance cohesion, and/or marginalization of the Alliance.

As far as unhealthy divisions of labour are concerned, two hypothetical risks are often highlighted: that the Europeans might find themselves increasingly responsible for manpower-intensive operations with a high risk of casualties, while the Americans would carry out the high-technology lower-risk standoff precision attacks and intelligence functions; and that the EU would take on the low-end crisis management and peacekeeping tasks, while the Americans would conduct the more

demanding interventions and thus bear the main responsibility for collective Defence.<sup>vi</sup>

In short, the gap has significant implications for the conduct of military operations and for transatlantic relations. There is no shortage of U.S. members of Congress willing to accuse the Europeans of being “free-riders” and to deplore NATO arrangements that seem to subsidize America's economic competitors. In *Operation Allied Force*, the irritations in some U.S. political-military circles regarding NATO's “consensus” decision-making system, which requires unanimity, were summed up in Lt. Gen. Short's declarations: “It's my evaluation that NATO cannot go to war in the air against a competent enemy without the United States. If that's the case, and we're going to provide 70 percent of the effort... then we need to have more than one of 19 votes.” In General Short's view, the United States should have told its allies: “We will take the Alliance to war and we will win this thing for you, but the price to be paid is we call the tune.”<sup>vii</sup> Of course, from the perspective of some Europeans, the United States did call the tune. As a number of other chapters in this volume discuss, the post-Kosovo EU decisions to seek a Defence dimension, including the December 1999 Helsinki “headline goal” may be attributed in part to European frustrations during the Kosovo War with U.S. political dominance, which stemmed directly from U.S. preponderance in military capabilities.

Once the U.S. Secretary of Defence, on the advice of the Chairman of the Joint Chiefs, declared that a particular regional commander in chief (CINC) was a “supported CINC,” the military assets would start flowing in that direction. The finite character of U.S. capabilities and the risk of U.S. attention being focused elsewhere (considerably increased since September 11, 2001) have been recognized intermittently during NATO's history, for instance, during the Korean War and the Vietnam War. It was also recognized in the years immediately after the fall of the Shah in Iran and the Soviet invasion of Afghanistan in 1979, when the United States was so preoccupied with southwest Asia that the allies became aware that some U.S. forces were “dual-hatted” that is, committed to serve as reinforcements in both Europe and the Persian Gulf. Furthermore, as the French have pointed out over the decades, despite the fact that the United States has remained faithful to NATO for over 50 years, the future course of U.S. politics is unpredictable.

According to some European observers, particularly in France, *de facto* US constraints (via the NAC) on European access to commonly funded NATO assets could

become a point of contention in European-U.S. relations. Simplifying access by abandoning NATO's consensus principle seems improbable, however. If this principle was abandoned, an "easy-access" arrangement for the EU could erode Alliance cohesion and lead to potentially risky situations for instance, European-led operations utilizing NATO assets without the full endorsement of all the allies. If the contingency became an Article V case (i.e., if it threatened the security of one or more members of NATO and therefore constituted a basis for action under the mutual-Defence pledge in the North Atlantic Treaty), the European allies would in all probability expect U.S. support. However, if the United States is expected to be present for the "crash landings," it will understandably want to be in for the "take-offs" as well.

### ***Reduction of Military Gap May Be Difficult***

Efforts to build an ESDI in NATO or an ESDP in the EU have been pursued under various labels for the past half-century. Basic obstacles have proved difficult to surmount: a lack of political cohesion and unity in Europe, an absence of a shared vision of strategic requirements and (on the part of several NATO European governments) an unwillingness to spend more than minimal levels on military capabilities.

The reversal of current trends toward reducing Defence spending in most EU countries depends on at least three factors: economic growth, threat perceptions, and the prominence of social priorities other than national Defence. Whether economic growth will lead to increased Defence spending depends in large part on the other two factors. As far as threat perceptions are concerned, it is worth recalling that the EU's Petersberg Tasks like non-Article V missions in NATO are not vital matters of national or collective Defence, but optional interventions. Such interventions do not provide compelling grounds for increased Defence budgets in most NATO countries. Moreover, anecdotal evidence suggests that threat perceptions in the EU are not as acute as those in the United States, which helps to explain European non-comprehension of the U.S. interest in National Missile Defence (NMD). Thus, increases in Western European Defence spending are unlikely. As far as social priorities other than national Defence are concerned, the increased demand for pensions and health care is likely to constrain Defence spending in all NATO countries. According to Paul Hazell, the Director from 1992 to 1998 of the SACLANT:

*“In spite of the fact that NATO Defence spending through 2005 is likely to be relatively stable, thereafter the prospects look grim. All NATO nations will come under increasing pressure to fund the retirement and social security/health costs of a growing number of post-World War II ‘baby-boomers.’ At best, Defence budgets will remain level; at worst they could fall to 1 percent of Gross Domestic Product. From 2005 to 2020, when the pressures on Defence budgets will peak, the need to replace major assets that were built at the height of the Cold War will become paramount. Because of the reduced budget levels, and the continuing growth in unit costs due to technical sophistication and falling production, the build rate for new ships and submarines may fall to 25 percent of Cold War levels. This will have a massive impact on fleet numbers, and could reduce the U.S. Navy to 150-200 ships.”<sup>viii</sup>*

The French economist Claude Lachaux has argued that demographic and economic factors these “stubborn facts” are likely to constrain West European Defence spending more than that of the United States. The first fact Lachaux has emphasized is the changing demography of Western Europe: the decline in birth rates and the decline in the number of workers relative to the growing numbers of retired people receiving government pensions. According to his analysis, the growing pension and health care demands of ageing populations will make it difficult for European governments to increase spending on Defence: “How will governments be able to obtain funds from their parliaments for high-tech armaments if the elected representatives of an aged population are only disposed to vote for funds for high-tech medicine?”<sup>ix</sup> Other studies have reached similar conclusions about the implications of demographic change.<sup>x</sup> Lachaux's second stubborn fact is the cumulative U.S. advantage in spending a greater proportion of GNP on Defence and in pursuing greater efficiencies, with less duplication and more attention to procurement, new operational requirements and military R&D. In view of the fact that the U.S. federal budget appears well enough balanced to permit Social Security reforms and real increases in Defence spending in the coming years, while balanced budgets in Europe “appear, for a long time ahead, to be a dream,” Lachaux has forecast that the United States will continue to make a greater Defence effort than its European allies.

Finally, Lachaux has highlighted the enlargement of NATO and the EU, in conjunction with Balkan reconstruction efforts. Such endeavors also burden the economies of the EU countries and promise to limit the funds available for military

capabilities improvements. Unless the Europeans can surmount such stubborn facts, Lachaux has concluded, "Their speeches on European Security and Defence Identity will pass for pure rhetoric." In short, continued declines in Defence spending in NATO Europe are in prospect, except perhaps for Greece, Turkey, and the United Kingdom. Since 1992, NATO European Defence spending has dropped 22 percent in real terms.<sup>xi</sup> While US Defence spending declined by 37 percent in real terms from 1985 to 2000, the United States nonetheless retained many of its capability advantages. An increase in U.S. Defence spending in real terms began in fiscal year 2001 and was accelerated in 2002.<sup>xii</sup> Representatives of EU organizations and like-minded European officials and experts frequently assert that the EU will be more effective than NATO in getting its member states to increase Defence spending or, at least, to gain force improvements through more efficient spending. This remains to be seen; a number of European observers expect the pattern of US-European capability asymmetries to remain essentially unchanged, although marginal improvements may be achieved via measures such as a projected pooling of air transport assets by some European countries.

Britain, France, and the United States are the three nations most determined to do something about the U.S.-European capabilities gap. London, Paris, and Washington all want to stimulate their European allies and partners to acquire improved military capabilities. Their motives are different, of course. Most Americans want more capable allies and coalition partners, though some have at times manifested reservations about diminished European dependence on the United States. The British and the French both seek more political and military options under national and/or EU control (and diminished dependence on the United States) and the greater influence in defining NATO strategy that would flow from increased capabilities. The British have played a leading role in this regard since late 1998, when Prime Minister Tony Blair announced, in a major change in British policy, an unprecedented readiness to bring security and Defence matters into the EU. The British nonetheless remain more inclined than the French to think in terms of developing the EU's military potential within a broad NATO framework and in close cooperation with the United States. The French are more apt to think of an EU capability distinct from that of the Alliance and U.S. forces. As in the past, the concept of the EU as an autonomous great power what the French call *l'Europe-puissance*, commands more interest and respect in France than in any other EU

country. Long-standing patterns of capability dependence in transatlantic relations appear likely, however, to be prolonged and may well be deepened by factors affecting the willingness and ability of governments to spend on military forces, such as the low level of threat perceptions in NATO Europe and the imperatives of other social priorities in the EU. London, Paris, and Washington therefore face great challenges in their attempts to get significant improvements in capabilities. The way forward will demand shared determination, transatlantic cooperation and coordination, and increased European Defence spending. This appears to be the only way to narrow the gap.

### ***U.S. Approaches to ESDP***

The Clinton Administration used the concerns towards ESDP to frame and guide its support for a more cohesive and responsive European foreign policy, and above all, for a more capable European Defence. The Kosovo war affirmed to American leaders that not enough European armed forces were ready for the diverse, rapidly evolving challenges of the post-Cold War world. In American eyes, Europe has been sluggish in its efforts to manage the shift away from the massed, terrain-based forces necessary for the Cold War toward more mobile, deployable and sustainable forces and improved lift, logistics and intelligence capabilities. Kosovo underscored European dependence on the U.S. for precision-strike capability, surveillance and intelligence assets, refuelling, lift, and high-end command and control systems. Republican political leaders who were openly sceptical and even scornful of ESDP during the Clinton years have, since joining the Bush Administration, essentially continued the Clinton Administration's approach of conditional support tied to pressure for improved European military capabilities. President Bush basically reiterated the three D's during his first meeting with other NATO Heads of State and Government in Brussels on June 13th 2001:

*"We agreed that NATO and the European Union must work in common purpose. It is in NATO's interest for the European Union to develop a rapid reaction capability. A strong, capable European force integrated with NATO would give us more options for handling crises when NATO, as a whole, chooses not to engage. NATO must be generous in the help it gives the EU. And similarly, the EU must welcome participation by NATO allies who are not members of the EU. And we must not waste scarce resources, duplicating effort or working at cross purposes."<sup>xiii</sup>*

Washington's policies concerning these ESDP initiatives have centred on four themes:

- NATO is the preeminent security organization for Europe;
- the EU will follow the protocols of Berlin Plus;
- NATO has the “right of first refusal” to respond militarily to crises; and
- ESDP developments should not redirect resources from NATO initiatives.

The right of first refusal by NATO to intervene in a crisis continues to be debated, but underscores the theme of NATO's pre-eminence in security concerns. At the Washington Summit in 1999, the Alliance declared that Europe would act where the Alliance as a whole was not engaged.

More complex, though, is the evaluation of ESDP through the lens of French designs to marginalize U.S. influence in NATO and Europe. While not a prominent aspect, this is a fear in Washington that can taint objective review of ESDP developments. However, this tends more to slow down U.S. policy than to dictate it. For example, in the planning for EU mission Concordia to replace the NATO mission in Macedonia, there were differences of opinion between the French and U.S. positions on the chain of command of the operation, its headquarters locations and the use and command of NATO's reserve. Ultimately the elements of Berlin Plus prevailed and both the U.S. and France moved together in agreement. At a different level, the French-led Tevuren Headquarters proposal also alarmed Washington and offered further “proof” of French designs to minimize NATO. This proposal was in direct violation of the agreed Berlin Plus principles and Washington used a lot of horsepower to defeat the proposal. It is likely that the French will not want to marginalize NATO because the consensus rule allows the French to force modifications of U.S. policy in Europe that may be unattainable in a bilateral approach. Thus, the majority of ESDP policy conflicts with NATO will most likely resolve themselves over time.

### ***Factors in Determining U.S. Policy toward ESDP***

While U.S. policy may follow the above themes and champion the supremacy of NATO in security efforts, several factors must be weighed in formulating a response to ESDP developments. First, the early 1990's are still a recent memory for Europeans and will continue to drive their will for a capability external to NATO. Add Rwanda and the Congo which saw comparatively little U.S. involvement and they have more examples of their need to further develop an autonomous capability. Conversely, the U.S. must face a

perception by the Europeans that it is the dominating influence within NATO. However, a widely held belief among U.S. policy makers is that the Europeans expect and want U.S. leadership. It may be more that the Europeans recognize that to get the unique U.S. assets, they must allow for U.S. leadership. Inject a little Gaullism and this situation can be grating on European pride.

Another factor is NATO's decision by consensus, where 21 of its 26 members are also members of the EU with another 2 members expressing a desire to join the EU. The sheer range of issues covered by the EU will invariably cause the 21 NATO and EU member allies to provide give and take within the EU. The U.S. should dissuade but not expect to completely rule out an inevitable "EU Caucus" within NATO. Kori Schake pointed out the potential ills of an EU caucus within NATO:

*The idea of a caucus of member states within NATO could be detrimental both to the Alliance and European Security and Defence Policy (ESDP)... Such division is likely to embolden objections and make non-EU members feel they are being pulled into policies that they had little influence in shaping. A caucus is likely to make the United States defend even more ardently the positions on non-EU NATO states to ensure that they get serious consideration by the European Union. A caucus could make consensus building more difficult if states were unwilling to compromise on elements that represent hard-won EU internal consensus. Finally, it could slow the pace of decisions if Alliance consultations were prevented until EU states agreed to a position to present in NATO counsels.<sup>xiv</sup>*

The UK has long carried the water for U.S. interests within the EU, but it is unrealistic to expect the UK to completely agree with the U.S. on every nuance of policy towards ESDP (as it has not in the past). Prime Minister Tony Blair has walked a fine line between the EU obligations and acting as the indispensable agent for transatlantic relations and participation. However, Blair will not be in power forever and it is inevitable that a policy issue will arise on which neither side could reach a compromise.

Other than the Kosovo operation, NATO's operations have been at the low to mid areas of the range of military operations - with tasks not unlike the Petersburg tasks. Should the EU develop comparable capabilities and structures to NATO and seek operations in Africa, the Middle East or the Caucuses, the Alliance could become insignificant - another subset of the EU like the WEU has become. Such a development would diminish NATO and reduce the U.S.'s overall influence in European affairs.

Another problem besetting NATO is the reluctance of the U.S. to seriously consider using NATO forces in a war-fighting event. Partially due to the mismatch in capabilities, but more due to the fact that the necessity to achieve consensus at the level of political decision making will derive the lowest common denominator approach to war-fighting. Operation Enduring Freedom is a prime example, where the U.S. did not consider a NATO operation, but rather only sought contributions from allies.

Perhaps the U.S. should not worry so much over the development of European capabilities resident in the EU. While some trumpet ESDP progress to date, real progress is questionable. For example, Giegerich and Wallace maintain that the size of the combined deployments by EU members (both NATO and non-NATO) almost make up for the lack of physical achievement of the Headline Goal 2003.<sup>xv</sup> Unfortunately for their argument, a good number were deployed in NATO operations in which the U.S. also participated –therefore bringing in a different and arguably much more robust set of capabilities, national caveats and national rules of engagement. But, to the Europeans' credit, they have shown they can bring the density of infantry forces required to saturate conflict areas for security. In addition, Operation Artemis in the Congo gave a lesson to the EU that strategic transport is a real necessity.<sup>xvi</sup>

As noted previously, both NATO and the EU have pressed European nations to improve capabilities within their organizations. Although the U.S. has recently pushed allies for combat capabilities to support the NRF, items for both high and low end support such as strategic lift and strategic communications are also in short supply and are high cost acquisition items. While calls from both NATO and the EU will help achieve political impetus, the requisite increases in Defence expenditures will also be linked to governmental monetary and social policies. The United Nations Economic Commission for Europe's European Population Forum 2004 shows negative population growth and projections that up to thirty percent of European nations' population will be comprised of pensioners.<sup>xvii</sup> As Walter Head argues, Europe's elderly dependency ratio of the population will exacerbate the “colossal” welfare costs of their nations, thus rendering the European nations unable to develop serious military capability.<sup>xviii</sup> Additionally, an Atlantic Council report argues that Europe's economy will remain stagnant through 2020, because “prosperity can only be maintained by reducing government expenditures, stimulating faster economic growth, and increasing labor utilization.”<sup>xix</sup> Thus the realization of fears that ESDP will enable the EU to become a military peer competitor is at least decades down the road.

Furthermore, NATO Allies who are also EU members generally have the same pool of forces and capabilities that exist for both NATO and the EU. What capabilities are built for one would have to serve the other. Therefore, a NATO operation could siphon off assets necessary for a potential EU operation and vice versa. While the EU may obtain some critical enabler capabilities, it is likely based on budgets to date that those acquired capabilities will be low in number and only enough for a single operation. Given that NATO has a record of long duration missions, those assets may be unavailable to the EU indefinitely. This may lead to a situation where while the Europeans obtain key assets the U.S. has pushed for, but those assets are not made available to NATO just to ensure availability of scarce resources for a EU operation. Although the Europeans generally are wary of any move to relegate the EU to the lower end of the range of military operations, the developments to date suggest that they are naturally inclined to follow this path. The EU has not proclaimed potential operations beyond the lowered Petersburg Tasks. Robert Kagan, in his piece "Power and Weakness," claims that this is the result of a psychological gap between the U.S. and Europe, stating ... the power equation has shifted dramatically: When the United States was weak; it practiced the strategies of indirection, the strategies of weakness; now that the United States is powerful, and it behaves as powerful nations do. When the European great powers were strong, they believed in strength and martial glory. Now, they see the world through the eyes of weaker powers. These very different points of view, weak versus strong, have naturally produced differing strategic judgments, differing assessments of threats and of the proper means of addressing threats, and even differing calculations of interest.<sup>xx</sup> Regardless of the purchase of the Eurofighter with precision-guided munitions, it is likely that ESDP will result in lower end military capabilities. This is not necessarily bad for the U.S. or for NATO. The EU's adjusted goal of rapidly deployable infantry-centric battlegroups by the year 2010 pulls together some of the capabilities the U.S. has been seeking in NATO, such as strategic air and sea lift, air-to-air refueling, and strategic communications. It may be easier for the European nations to receive popular blessing for the necessary Defence budgets if the assets are billed for the EU Headline Goal as opposed to a NATO program. However, the U.S. could see some relief if the Europeans contributed these assets that are in high demand throughout the range of military operations. Additionally, the major resource drain in operations in Iraq and Afghanistan has been battalion and larger troop formations patrolling on the ground in the stability operations phase. These infantry formations are just what the U.S. lacks and what the Headline Goal calls for.

Infantry formations with strategic lift and strategic communications gained by the EU Headline Goal and available for NATO, however, will not alone alleviate the U.S. burden in ongoing theater stability operations in Afghanistan or Iraq and in potential stability operations in the Caucasus or Africa. Afghanistan provides a good example. While political will supported NATO's International Security Assistance Force (ISAF) mission in Afghanistan and the Europeans were ready to provide Provincial Reconstruction Teams (PRTs), the Europeans did not offer critical enablers such as tactical air support for protection, theater lift (fixed and rotary wing) and logistical support. Instead, the Europeans looked to the U.S. to fill the majority of those requirements. The U.S. balked at providing a good portion of these assets because the Europeans (at least collectively) have those assets in their forces and the U.S. was stretched with operations in both Afghanistan and Iraq. When the U.S. held back, the Europeans refused to offer the PRTs.

### **Conclusions**

The U.S. has three policy options toward ESDP:

1. work to undermine ESDP and keep the Europeans committed to NATO as the security organization of choice;
2. let ESDP grow as it may and fight for NATO to retain its competencies;
3. and shape ESDP by developing a partnership between NATO and the EU.

In the first option, it is unlikely the U.S. has the clout to undermine ESDP lower than the Europeans are capable of taking it and would not endear the U.S. to its European Allies. In the second option, ignoring the development of ESDP could undercut any programs and initiatives in NATO as euros, materiel and manpower are focused on various ESDP-related initiatives. The remaining option is to embrace ESDP, work with it, and try to develop a synergy between NATO and the EU.

The U.S. position has been to support ESDP, generally within the confines of Berlin Plus. This policy seems to continue. By allowing the EU to further develop ESDP in a partnership with NATO, the U.S. may have a "partner" for low-end crisis management operations, in which the mission handover models in Macedonia and Bosnia could apply or in an operation employing NATO military and EU economic and civil assets. Additionally, the U.S. may achieve capabilities in NATO that would be otherwise unattainable through steady progress in the Prague Capabilities Commitments.

The predicament in filling the Statement of Requirements and therefore expanding NATO's ISAF mission in Afghanistan should provide three lessons for Washington. First, the U.S. will have to understand the allies' perspective that a NATO operation includes at least a fair share of U.S. participation, a NATO operation is not just a replacement for U.S. forces, and the European allies actually need to participate in crafting the operational designs. Second, the U.S. must continue to press for European investments in items found in the PCC, as the predominance of those items also support Petersburg Task operations. Finally, to offset budgetary reluctance, the U.S. will need to re-examine the technology transfer rules to assist European procurement so operational money is available to deploy what they do have. As the Global War on Terrorism continues, these lessons may prove valuable in getting allies to shoulder more of the burden.

Having an EU with a fully developed expeditionary capability focused on the peacekeeping and lower tasks that also comes with an incorporated civilian component could be an important asset for U.S. foreign policy. The transition in Bosnia from NATO to the EU and the Kosovo's situation provides an illustrative example. The new EU mission in Bosnia brings the EU Police Training Mission, the economic assistance program for development (CARDS) and the military mission all under one policymaking entity. NATO will remain engaged in Bosnia with a Defence reform mission as Bosnia strives toward NATO membership, and use its capabilities to apprehend the major Persons Indicted For War Crimes (PIFWCs). This relieves the U.S. of a long-term peacekeeping mission that may continue until the next generation of Bosnians, Serbs and Croats come to power. According to U.S., this may be a model needed in future hotspots in a post or pre-conflict environment where NATO's high-end capabilities are not necessary.

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