THE INTERNATIONAL COMPETITIVENESS OF ECONOMIES IN TRANSITION
THE UNTAPPED POTENTIAL: A CHALLENGE FOR BUSINESS AND GOVERNMENT

ALBANIA

NATIONAL COMPETITIVENESS ISSUES,
CONSTRAINTS AND STRATEGIC IMPLICATIONS

Sofía, Bulgaria – November 2003
Introduction

Globalization is changing the context in which the Albania government, the institutions and the business world will have to operate. Products and companies are competing with imports on the domestic market as well as for export shares in the global market and for Foreign Direct Investments. If Albania wants to benefit from globalization and wants to play a role in the regional and the European markets, the structures of the policymaking systems as well as those of public and private services, not to forget production and marketing systems of the industry need to be adjusted.

That's why the incorporation of the export competitiveness issue in the overall development strategy is of great importance. Improved export performance consists not only of increasing market shares but also of diversifying the export basket and sustaining higher rates of export growth over time. Albania should focus on how to achieve a long-term competitiveness, which points the ability to adjust to the changes in the international markets over time in line with international standards.

Another equally important perspective that should be bought to the fore is the concept of systemic competitiveness, based on the principle of public-private partnership as key element to enhance export capacity to compete. That includes a network of operational and functional linkages among the government, business community, private and public organizations, operating effectively under a thoroughly prepared export promotion strategy.

Current foreign trade performance

This year has registered a higher trade volume (reaching a 11.2 % growth rate) due to a higher degree of openness of the economy. The problematic issue is the rising trade deficit by 1% compared to the year 2001 reaching the value of 26.7% of the GDP due to a higher growth rate of imports compared to that of the exports. This shows a low degree of competitiveness of the domestic production in the international markets.

The export structure is mainly characterized by re-exports of sub-contracting in the light industries (mainly shoes and textiles), which represented 66.6 % of total exports and an increase of 9.2% in 2002. Export earnings from domestic produce and processing only account for about __ of overall export income growing by only 4 % compared to 8% growth rate in the previous year. The product structure of exports from domestic production and processing is dominated by: metal products, the product group of food, beverages, vegetable products, leather and mineral products. The European Union remains the largest trade partner for Albania (about 92.1 % of total exports). Its main trade partners are Italy, Greece and Germany. Trade with Southeast European countries have been recorded at 3.9 % of total exports, with Yugoslavia and Macedonia as main trade partners. Imports for 2002 registered the value of $1.490 millions, with an increase of 11.7 % towards 2001.

Determinants of the current competitiveness of the Albanian industry

Strengths

- Good reputation as business partner in selected sectors (e.g. garments and herbs)
- Favorable natural conditions (e.g. for early and late vegetables, tourism, mining)
- Proximity to the EU markets for technology transfer, sub-contracting, FDI and exports
- Relatively educated and technically trained workforce (e.g. manufacture of garments)
- Existing facilities for storage and/or processing
- Existing infrastructure for ferry/sea transport,
• Liberal regulations for foreign direct investments
• Low labor costs
• Under exploited possibilities for cost reduction and capacity utilization.

Weaknesses
• Summary of weaknesses
• Inadequate and partly obsolete technology
• Limited financial resources for investment and operational costs
• Limited access to information on modern production technologies and markets
• Insufficient knowledge on modern methods of production
• Low labor and capital productivity
• High unit production cost
• Low product quality lagging behind international standards
• Insufficient profitability of products and companies
• Inadequate skills for strategic management of companies and marketing
• Inadequate entrepreneurial culture with regard to market and export-orientation.

Export potentials
In spite of the currently weak general competitiveness, there exists a potential for exports as is reflected by a few companies that already export their products successfully. Future assistance can build on these experiences so that the efforts can take root to improve and widen the export base.

<table>
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<th>Product ranges with export potentials</th>
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<td>Agriculture and Agro-industrial sectors</td>
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<td>• medicinal plants and herbs (opportunities in the short-term)</td>
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<tr>
<td>• early and late season fruits and vegetables (opportunities in the short and medium term)</td>
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<tr>
<td>• preserved products such as olives, olive oil, canned tomatoes</td>
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<tr>
<td>• fresh fish and processed fish products</td>
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<td>• BULMETRA</td>
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<tr>
<td>Further sectors</td>
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<tr>
<td>• Garments and footwear (it is recommended to consolidate sub-contracting and further improve international competitiveness)</td>
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<tr>
<td>• Wood products (consolidation of sub-contracting and further development)</td>
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<tr>
<td>• Tourism (in the long term after improvement of infrastructure and service capacities)</td>
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It must be noted, however that Albania competes against other countries in the region or even worldwide, some of which have similar natural resources, or offer similarly low labor costs, have higher labor productivity to offer or have better infrastructure. Also, some have larger internal markets in which emerging suppliers can gain experience.

Aiming at the EU market, Albania is a latecomer and, above all, enters a market that is highly competitive and very demanding with regard to quality, reliability and efficiency of supply. At the same time, there are potential markets in Eastern European countries emerging, which have traditionally imported Albania products, and in which they still have a good image.
Nevertheless, these markets are also changing, and Albanian exporters will have to adapt to the new market conditions and the international competition in these markets as well. Albanian exporters would face also the challenge of greater competition in the regional market as a result of Free Trade Agreements signed with the respective countries under the Memorandum of Understanding for Trade Liberalization and Facilitation.

**Strategic implications**

It is imperative drawing an export promoting strategy able to define the export promotion objectives, roles of the main stakeholders involved, discuss the efficiency and the effectiveness through stakeholder networking and finally propose the relevant policies.

Given that the main challenge will be:

- Establish a competitiveness framework,
- Create an export culture and
- Set-up network among all stakeholders in view of turning benefit out of existing potentials and developing new export industries

The export promotion strategy is intended to create a proper policy and institutional framework for sustainable business and trade development. It does not focus on inefficient shortsighted effects but on a long-term impact on the Albanian industry’s performance.

There is a need for a coherent, interdisciplinary and multi-sector approach to implementing export promotion. Thus, the underlying rationale for the strategy is the concept of systemic competitiveness, which is based on the principle of public-private partnership:

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<th>Three pillars of the CONCEPT OF SYSTEMIC COMPETITIVENESS</th>
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<td><strong>Market –oriented production and logistics</strong> at the level of private businesses, i.e. at the micro-economic level (product design, quality and presentation, realistic price calculation, continuity and reliability of supplies etc.).</td>
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<tr>
<td><strong>Business-oriented services</strong> at the institutional level i.e. the level of public and private institutions (consultancy and financial services, research and development technologies, marketing information, etc.).</td>
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<tr>
<td><strong>Business-oriented and administrative framework conditions</strong> at the macro-economic, i.e. the governmental level (legislation, law enforcement, bureaucratic procedures and infrastructure, which facilitate the development of the domestic industry.</td>
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The effectiveness of the partnership between the public and the private sectors will be crucial for the success of export promotion. New roles of governmental, public and private institutions in export promotion have to be defined against the background of current political and economic trends:

- Political liberalization and decentralization
- Reduction of public spending
- Partial retreat of state organizations from service provision
- The need to increase the efficiency services provided to the export industry
**Policy elements : Create enabling framework conditions – a task for government**

Granting high-level governmental commitment giving export promotion a high priority within the overall development policy.

- Develop functional linkages with all stakeholders
- Maintain/improve the macroeconomic framework conditions
- Create a conducive legislative framework
- Let the Albanian industry benefit from international trade liberalization
- Introduce appropriate export incentive schemes

**Establish business-oriented services- a task for public and private service institutions**

Besides improving the administrative services for export promotion and setting-up an appropriate institution for export promotion it’s imperative to **promote the competitiveness and exports of the Albanian industry.**

| Set-up principles of targeted promotion activities (e.g. identify priority target markets and priority sectors; define appropriate export promotion activities), |
| Select key export sectors, analyze company potentials, strengths and weaknesses and identify companies with potential in selected target markets, |
| Facilitate the creation of exporters’ and sector associations and assist to set up appropriate business services, |
| Promote international standard quality control as well as auditing services, |
| Improve the image of Albania as reliable business partner, attractive location for investments and interesting direction for different types of tourists (image building) |

**Set-up a marketing /trade information system**

| Set-up a Marketing and Trade Information Center (MTIC) or decide on integrating this task into an appropriate private sector oriented institution, |
| Improve information management and information sharing techniques within and amongst public and private organizations |
| Encourage the set-up of information infrastructure in public and private sector organization and firms as well in the major cities as at regional and local level, |
| Offer education/ training in information management to public and private organizations as well as to firms |

and also **establish appropriate export credit, insurance and guarantee schemes.**

Designing the strategy is only the first step. Monitoring the process, assessing the impact and refining the strategy during implementation are even more crucial. The success of the implementation of the strategy will highly depend on the establishment of the efficient functional linkages and sustained willingness of all stakeholders to contribute.
CONCLUSIONS AND OUTLOOK

With regard to the current negative trade balance, we see the only alternative for a long term and sustainable economic development in the translation of existing potentials into increasing exports to regional and international markets. Assisting the Albanian industry to become competitive in international markets also is a must prior to the integration into the EU.

A strategy designed and implemented in isolation from other economic and commercial initiatives is unlikely to succeed. Therefore it is proposed to embed the export promotion strategy into an overall Albanian Economic Development Strategy. Within this framework the political intent should be guaranteed to give export promotion a high priority.

The major challenge will be to improve the long-term competitiveness as reflected in the ability to respond to the changing conditions in the business environment and to the increasing competition within the national, regional, and international markets. The strategy is a vehicle for achieving higher industrial growth and creating employment. To increase export performance, a coherent, interdisciplinary and multi-sector approach is needed. Thus, the concept of systemic competitiveness has been chosen as underlying rationale the strategy, based on the principle of sustained public-private partnership in an integrated approach including:

- Market –oriented production and logistics (the role of business community)
- Business-oriented services (the role of public and private organizations)
- Business-oriented legislative and administrative framework conditions (the role of government).

Foreign Direct Investment is a way to develop existing export potentials, acquire new export capacities, obtain immediate access to foreign markets and generate dynamic competitive advantages. Therefore attracting FDI will play an important role in supporting export-oriented manufacturing in Albania. Furthermore, the recently approved SME strategy contributes to improving the performance of the Albanian industry that is mainly composed by small and medium sized enterprises. For these reasons, a holistic approach should be adopted in order to turn benefit out of complementary approaches to SME, FDI and export promotion.

The strategic approach to export promotion strives for close cooperation and collaboration among all stakeholders in order to turn benefit from complementary approaches and synergy effects. Thus, the functional linkages between and contributions of the government, public and private organizations, and business community and donor organizations will be decisive for the success of the strategy.

Main issues that characterize the Albanian approach to export promotion are to:

- Formally integrate export promotion into the overall economic development strategy,
- Institutionalize the public-private partnership in strategy planning, implementation monitoring and refinement,
- Designate an organization to promote exports, which co-ordinate its activities with a network of implementing agencies,
- Improve the legal framework and streamline administrative procedures,
- Promote the Albanian industry in an integrated approach, starting from improving the international competitiveness by promoting SMEs up to investment and export promotion.