

**WHEN DOES THE TRANSITION END?  
THEORY AGAINST REALITY IN THE CASE OF  
ALBANIA**

*Comments by Prof. Dr. Genc RULI*

- That the transition from communism is largely over, can be seen in the fact that the great debate on its historical interpretation has already begun

However this is a general observation because different countries 12 years after transition beginning are in different distances from the end point.

The denomination "countries in transition" is not used anymore for countries like Poland, the Czech Republic, Hungary and Slovenia, using "countries in post-transition" instead. Some countries like the Baltic States are considered "countries of successful transition"; others like Russia and some former Soviet Union republics are considered countries of "failed", transition, while Balkan countries are considered of "difficult", "late" or "interrupted" transition.

- Starting from the mid-nineties many transition countries (especially those of the Central and Southeastern Europe) were faced with a new historical perspective: that of joining the European Union. In the later years which were characterized by the European Union enlargement towards the post-communist world, the transition agenda was mixed with that of integration, often the latter becoming more of a priority and desirable for these countries. Different countries are now classified according to the progress they have achieved towards the European Union integration rather than their transitional stage. The transition countries that are expected to join the European Union in 2004 were recently accorded the status of "functioning market economies". Therefore it is accepted that these countries have successfully completed the package of transforming reforms of the post-communist transition.

Should we think under these new circumstances that the transition process would be over when a country becomes a European Union candidate member or a full member? These two processes only coincide in time but are not reciprocally tied, other than the fact that a European Union member status cannot be given to a country that has not ended the post-communist transition yet. The strategy of the accession into the European Union is not fully attuned with the strategies of transition and development, in a series of issues they lack complementarities, and in some cases they even antagonize each other.

- Theoretically, transition is defined as the historical process during which former communist societies undertake radical transformations of the political and economical socialist regime into that of pluralist democracy and market economy. Therefore in the economic aspect during transition the economy is no longer socialist, but not yet fully capitalist.

European Union integration is political and economic membership in the most developed countries group, those of Western Europe that are distinct for their high level of liberal democracy and the largely functional markets and highly competitive economies.

Theoretically and practically the transition process ends when the economic system ceases to transform (from one system to the other) and finally "freezes" into the projected model. After this moment the economic system of the country is no longer in a "transition" system but becomes a "normal" free market system. The ensuing economic policies are no longer transition policies but development and modernization ones.

- At the beginning of the nineties researchers and analysts predicted an optimal deadline of ten years for the completion of the economic transformations and about four-five years for the political transformations.

In practice the transition resulted in an extremely complex process characterized by large variations in different countries' performances. Transition results and progress were greatly affected by the specific initial conditions of each country as well as the model followed and the consistency in implementing the reforms.

- In many countries the transition process was mixed with events of non-transitional nature such as civil wars, interethnic conflicts or nation-state building.
- While transitional countries cannot be considered poor, in too many aspects, many of them (including the Balkan countries therefore Albania) faced the type of problems that are poor countries' characteristics such as weak institutions, increasing inequality, and an incompetent political elite.

Therefore the symptoms of underdevelopment appearing during the transition have brought about a "de-modernization" of our societies which is expressed in the following traits:

- De-industrialization (re-agrarization) of national economies
- Significant presence of informal institutions (pre-modern)
- The weakening of social capital (deepened polarization of wealth, wild urbanization, high corruption, marginalization of social groups, and crime rates rise)
- Impoverishment of the human capital (the deterioration of the educational system, the worsening of the health services and social safety net, "brain-drain" etc.)

The policies that need to be undertaken to face these problems are pure development policies and not transitional ones. Therefore countries like ours must face a dauntingly complex process rather than simply a transition process.

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*What is Albania's present transition stage?*

- Judging from the entire transition reforms' progress indicators, it could be said that Albania has an average progress level (compared with the whole group of transitional countries). The macro-economic situation has been stable for long periods of time; the economy's privatization scale is high, over 75 percent of the market is almost fully liberalized; the growth rates over the last ten years have been generally high; the economy's trade openness has shown positive trends; the building of the market institutions is partially completed.
- It is generally accepted that the transition process goes through three reform stages:

*The first stage* involves macroeconomic stabilization policies and also many systemic reforms that mark the beginning of passage towards the market economy.

*The second stage* is the transition's consolidation and management, with an emphasis on institutional and legal reforms that strengthen the market economy's foundations. This phase necessarily requires a competent administration and a strong government.

*The third stage* in the future will aim at rapid growth and convergence (“catching up”).

Today Albania lies somewhere in the middle of the processes of the second stage. Considering the year 1995 as the passage year from the first phase to the second, we note a prolonged stay at this stage and a slow and spasmodic progress in its reforms.

Thus if we agree to accept that Albania has today a market economy, we could not assert that our market economy is "functional." Important weaknesses such as the lack of financial discipline, low transparency and stability of the regulatory framework, inadequate implementation of market rules, an inefficient public administration, an unacceptable judicial system are some the indicators that steer us to this conclusion.

The Albanian economy is still vulnerable, unsustainable and characterized by:

- Unstable external deficit
- High fiscal deficit and soon to be unaffordable
- Problematic agricultural sector
- High unemployment levels and an inflexible labor market
- Insufficient credibility of the banking sector and a generally weak and undeveloped financial market
- Slow and inefficient privatization
- Weak social safety net

The marginal cost of delays the structural and institutional reforms rises with time. Therefore the challenge of expediting the reforms today is many times bigger nowadays than a few years ago.

- An important issue contributing to the Albanian transition debate that I would have liked to touch upon is that of economic growth and expected trends.
- The high growth rate is an important factor in supporting and facilitating transition reforms but especially during the third stage to ensure the country's economy modernization and convergence (“catching up”).
- As such the economic growth must be reform-generated, sustainable and long term.
- Which are some of the traits that had characterized the Albanian economic growth:
  - Our economy's growth rates have been especially high (over 8 percent during the period 1993-1996 and 1999-2000).
  - But part of this growth is not the direct effect of reforms, but of the large gap created by the drastic production falls during 1988-1992 and again during 1997-1998.
  - This growth is also partially due to external financial flows (which may have affected the GDP by 20 percent)
  - At least up to two years ago the high growth dynamics came from a specific advantage of Albania: being an agrarian country (in economic development theory this is called the "advantage of backwardness"). The agricultural sector was developed fast during the last decade promoted only by its liberalization and privatization. The effects of this advantage today have worn out, so much so that the agrarian sector may soon become an impeding factor to the country's growth if it does not go through a deep land reform and is not affected by important investments in technology.
  - The economic growth during transition was generally achieved by the “de novo” private sector rather than the inherited state sector (private sector contributes to 70 percent of the GDP). It must be said that the new private sector, albeit dynamic, is being developed through an atomized structure (small and very small enterprises) and with a strong informal component, which renders the capital accumulation and market institutionalization difficult.
  - The domestic savings and investments rates are still low and coupled with inefficient and non-productive capital allocations. We are far from the optimal capital accumulation standards and especially in the capital and labor productivity.

Therefore it is not difficult to understand that the economic growth achieved during these transitional years, independent of its high rates, is far from being a sustainable long-term growth. Achieving that requires significant increases in capital goods, introduction of new modern technologies, re-industrialization of the national economy and investments in human capital.

If the country will not achieve sustainable growth in a mid-term (five-seven years) it risks remaining imprisoned in the bad path dependency and fall prey to chronic underdevelopment crises.

- It must be accepted that at this point the Albanian economy (and all regional economies) lack the necessary sufficient potential to ensure rapid growth and achieve convergence (“catching up”) with Western Europe.

Good economic policies (often lacking) are a fundamental precondition for future success, but not the only sufficient factor. Concrete integration perspective in the European Union and a substantial financial assistance are determinant. The goal of integration in the European Union is more important than the entry itself.