

The Second Coming in Albania

By Sam Vaknin, Ph.D.

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Blessed with Chinese GDP growth rates (7-8% annually in each of the last 3 years) and German inflation (4%, down from 32% in 1997, mostly attributable to increases in energy and housing costs), it is easy to forget Albania's Somali recent past.

In 1997, following the collapse of a series of politically-sanctioned pyramid schemes in which one third of the impoverished population lost its meager life savings, Albania imploded. The mob looted 700,000 guns from the armories of the army and the police and went on a rampage, in bloody scenes replete with warlords, crime, and 1500 dead. It took 5% of GDP to recapitalize Albania's tottering banks and overall GDP dropped by 7% that year. During the two preceding years, Albania has been the IMF's poster boy (as it is again nowadays). Since October 1991, the World Bank has approved 43 projects in the country, committed close to \$570 million and disbursed two thirds of its commitments. This, excluding \$100 million after the 1999 Kosovo crisis and \$50 million for agricultural development.

The European Investment Bank (EIB), the EBRD, the EU, and the Stability Pact have committed billions to the region for infrastructure, crime fighting, and institution building projects. Albania stood to benefit from this infusion and from a future Stabilization and Association Agreement with the EU (similar to Macedonia's and Croatia's). Yet, as Chris Patten (the Commissioner in charge of aid) himself admitted to "The Economist": "The EU'S capacity for making political promises is more impressive than our past record of delivering financial assistance". The aid was bungled and mired in pernicious bureaucratic infighting. The EU's delegation in Tirana was recently implicated in "serious financial irregularities".

The economic picture (if notoriously unreliable official statistics are to be trusted) has been mixed ever since.

The budget deficit hovers around 9% (similar to Macedonia's, Albania's war ravaged neighbor). The (very soft and very long term) external debt is at a nadir of 28% of GDP (though still 150% of exports) and foreign exchange reserves cover more than 4 months of imports. This is reflected in the (export averse) stable exchange rate of the lek. But the overall public debt is much higher (70%) and the domestic component may well be unsustainable. Money supply is still roaring (+12%), interest rates are punishingly high (8% p.a.) though in steep decline, and GDP per capita is less than \$1000. It is still one of Europe's poorest countries (especially its rural north). Most of its GDP growth is in

construction and trade. Health and education are decrepit and deteriorating. And people vote with their feet (emigrate in droves) and wallets (the economy is effectively dollarized).

Privatization receipts which were supposed to amortize public debt did not materialize (though there were some notable successes in 2000, including the completion of the privatization of land and of the important mining sector). Negative sentiment towards emerging economies, Albania's proximity to the Kosovo and Macedonia killing fields, and global recession make this prospect even more elusive. Had it not been for the \$500 million in remittances from 20% of the workforce who are employed in Greece and Italy - Albania would have been in dire straits. Money from Albanian drug dealers, immigrant smugglers, and other unsavory characters still filters in from Prague, Zurich, and the USA. These illicit - but economically crucial - funds may explain the government's foot dragging on the privatization of the omnipresent Savings Bank (83% of all deposits, no loans, owns 85% of all treasury bills, 2% net return on equity) and its reluctance to overhaul the moribund banking system and enact anti money laundering measures. It took crushing pressure by IFI's to force the government to hive off the Savings Bank's pension plan business into Albapost, the local Post Office.

In the intervening years, Albania got its fiscal act together (though its tax base is still minimal) and made meaningful inroads into the informal economy (read: organized crime), not least by dramatically improving its hitherto venal and smuggler-infested customs service. A collateral registry has been introduced and much debated bankruptcy and mediation laws may be enacted next year. Everything, from the operations of the Central Bank to the executive branches is being revamped. Those who remained in Albania are much more invigorated than they have been in a long time.

But the problems are structural. Albania is among the few countries in our post-modern world which rely on agriculture (55%) rather than industry (24%), or services (21%). Only 40% of the population live in cities and female illiteracy is still at 24%. Tourism (especially of the archeological kind) is promising. But there are less than 6 computers and 40 phones per 1000 citizens and less than 40% of the roads are paved (Albanians were forbidden to own private cars until 1985). FDI amounts to a measly \$50 million a year and aid per capita has tripled to c. \$160 since 1997. Pervasive electricity shortages (despite budget draining subsidies of imported energy) hamper economic activity. Albania was rated 100th (out of 174) in the UNDP's Human Development Index and 90th (out of 175) in UNICEF's Report on the State of the World's Children (under-five mortality). Its neighbors ranked 55-73.

The isolationist legacy of the demented and paranoid Enver Hoxha is only partly to blame. Mismanagement, corruption, the criminalization of society, and tribalism are equally at fault in post-Communist Albania. Everyone takes bribes - not surprising when a senior Minister earns less than \$1000 a month (ten times the average salary). A well developed, though fast eroded, social (extended family, village, tribe) safety net ensures that only 20% of the population are under the official poverty line. But these extended ties are one of the reasons for local unemployment (almost 20% of the workforce) - immigrant workers (mostly family members) constitute more than 25% of those employed.

With a youthful (32) Prime Minister (Ilir Meta, overwhelmingly re-elected this year) who is an economist by profession, Albania is reaching out to its neighbours. As early as 1992 it joined the improbable (and hitherto ineffective) Black Sea Economic Cooperation Pact (with Greece, Turkey and ... Azerbaijan and Armenia!) - which currently lobbies for the re-opening of the Danube River. Albanian cheap exports are competitive only if transported via river. Albania signed recently a series of bilateral agreements with Montenegro regarding transportation on the Bojana river and the Skadar Lake, use of harbors, the extension of railways and roads, and the regulation of aviation rights. Despite the fact that Macedonia is (abnormally for geographical neighbors) not an important trading partner, Albania has responded positively to all the Macedonian initiatives for economic and political integration of the region. It is here, in regional collaboration and synergy, that Albania's future rests. Should the region deteriorate once more into mayhem and worse, Albania would be amongst the first and foremost to suffer. Hence its surprisingly conciliatory stance in the recent crisis in Macedonia. It seems that Albanian politicians have wisely decided to move from a "Great Albania" to a prosperous one.

Sam Vaknin is the author of "Malignant Self Love - Narcissism Revisited" and "After the Rain - How the West Lost the East". He is a columnist in "Central Europe Review", United Press International (UPI) and ebookweb.org and the editor of mental health and Central East Europe categories in The Open Directory, Suite101 and searcheurope.com. Until recently, he served as the Economic Advisor to the Government of Macedonia.

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The Macedonian Lottery

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Every conflict has its economic moments and dimensions. The current conflict in Macedonia perhaps even more so.

The USA and its Western allies regard Macedonia as a bridge between Greece, Bulgaria, Serbia and Albania. Hence the EU's plans for the revival of transport corridors 8 and 10 connecting these countries. If all goes well (and nothing has hitherto), railways will connect Bulgaria to Macedonia and river traffic will flow to Serbia from its southern neighbours. All this is envisioned in the Stability Pact. There are talks of an oil pipeline across Macedonia's territory. A pacified Macedonia is fairly crucial to Serbia's recovery and to the prospects of the whole region to attract FDI.

NATO is afraid of Turkish-Greek clashes in the aftermath of Kosovo and Macedonia. Turkey has increasingly cast itself in its ancient role of "protector of the Balkan Muslims". Greece is the only Orthodox-Christian member of the EU and an old foe of the erstwhile Sick Man of Europe from which it won bloody independence at the beginning of the 19th century. Such clashes are likely to destabilize the southern flank of NATO and block the West's access to Iraq, the Middle East, oil-rich Central Asia, and northern China. This will seriously dent the new "Pacific Orientation" of the Bush Administration.

And what about the actual combatants?

Albanians and Macedonian crime gangs (in cahoots with kleptocratic and venal local politicians) regard Macedonia as a vital route for drugs, stolen cars, smuggled cigarettes and soft drinks, illegal immigrants, white slavery, and weapons dealing. These criminal activities far outweigh the GDP of all the adversary states combined. This conflict is about controlling territory and the economic benefits attendant to such control.

Crime and war provide employment, status, regular income, perks, and livelihood to many denizens of Macedonia, Albania, and Bulgaria. They constitute an outlet for entrepreneurship, however perverted. Fighting for the cause and smuggling often means travel abroad (for instance, on fund raising missions), five star accommodation, and a lavish lifestyle. It also translates into powers of patronage and excesses of self-enrichment.

Moreover, in ossified, socially stratified, ethnically polarized, and economically impoverished societies, war and crime engender social mobility. The likes of Hashim Thaci and Ali Ahmeti often start as rebels and end as part of the cosseted establishment. Many a criminal dabble in politics and business.

Hence the tenacity of both phenomena. Hence the bleak and pessimistic outlook for this

region. The "formal" economies simply cannot compete. Jobs are not created, the educated are often bitterly idle, salaries are minuscule if paid at all, the future is past. Crime and politics (one and the same in the Balkan) are alluring alternatives.

Moreover, the NLA itself is not a monolithic entity. It is more like an umbrella organization with serious and fracturing differences of opinion regarding the ultimate goals the insurrection and the means to obtain these goals. Roughly, it is made up of one third veteran Kosovo fighters, some of them professional soldiers, who also fought in Croatia, or in the Foreign Legion. These people are bitter and disgruntled by what they see as the betrayal of the West in refusing to guarantee an independent Kosovo and the failure of the current Kosovar leadership to integrate them economically into the emerging polity there. Their motives are part emotional and part pecuniary. Another third is made of unemployed, young Albanians, mainly from Macedonia itself. Their fighting is self-interested. They get a monthly salary and perks and, lacking education and skills, they don't have much of a choice outside the killing fields. The rest are diehard, hardcore, idealists who either fervently espouse a Great Albania, or would like to take over Western Macedonian in a "constitutional coup" which will grant them their own police force, municipalities, institutions, universities, budgets, and semi-political structures. The NLA itself is not directly involved in criminal activities, though a few of its members are. But the money that finances it (from the Czech Republic, Switzerland, Germany, and the USA) is tainted by drug dealing, white slavery, illegal immigration, and the smuggling of everything illicit, from cigarettes to stolen cars, to weapons. In this they collaborate with politicians and criminals in Macedonia - both Albanian and Macedonian.

Being a politician in the Balkan is an extremely lucrative proposition. Both Albanian and Macedonian politicians will abandon the peace process if they believe it leads to electoral ruin. Given the current atmosphere, it doesn't pay to be a pacifist. Virulent nationalism is a guaranteed vote winner. The re-election ticket requires xenophobia, ethnic exclusivity, and radicalism. Here lies the future.

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