The Contribution of the Industrial Sector in the Economic Growth of Albania

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Abstract

Purpose: *The goal is to find out if in Albania took place an "Industrial Revolution" who led the country economic growth or if economic growth was a consequence of other components. Since 1998, Albania has experienced a significant economic growth. The GDP grew annually until 2024 almost without stops and recessions. Developed countries are recognized by a first economic analysis through what they produce. The base is a mechanized agriculture, and the biggest part of the workforce is employed in the service sector. The most important feature of a developed country is still a modern industrial sector. Industrial sectors symbolize the engine of economic growth and is a guarantee of economic stability in the medium and long term.*

Methodology: *The intention is to analyze whether the Albanian economic growth of the last twenty-seven years, was constant, continuous and healthy. We would like to see the performance of industrial activity in the country through regression analysis, and we will connect the course of Manufacturing, Mining and Construction to GDP product.*

Findings: *We will notice which of the sub-sectors of the industry and who was the most active and who has had the most difficult problems. It will highlight the weight of the industrial sector on the Albanian national economy and the limits.*

Value: *Finally, we will suggest a series of measures and strategies that tend to enhance the degree of organization and integration among the various sectors of industrial activity.*

Keywords: *Mining, Manufacturing, Construction, Gross Domestic Product, Development*

Introduction

In economics, the term "Economic Development" is referred to the complex process of structural transformation, changing the production structure that marks the transition from a mainly agricultural economy to an economy in which increases the weight of the modern industrial sector. Theories of Economic Development were present in classical economic discipline since Adam Smith but referred generally to the ways in which the countries that passed the stage of industrial take-off (to use the famous expression economist Walt Whitman Rostow) could maintain and manage a balanced and constant.

Economists have been studying the reasons for the growth of services for many years. An early contribution to this line of inquiry was made by A.G.B. Fisher who introduced the concept of primary, secondary, and tertiary industries.

Primary production was defined as agriculture, pastoral production, fishing, forestry, hunting, and mining. Secondary production consisted of manufacturing and construction. Some authors included mining in this category. Finally, tertiary production was composed of transportation, communications, trade, government, finance and personal services.

Fisher suggested that an economy can be characterized with respect to the proportion of its labor force employed in these sectors. He also argued that as income rises demand shifts from the primary to secondary and then to tertiary sectors. Sociologist Daniel Bell described the development of human societies in three general stages.

Preindustrial society. The dominant characteristic of economic activity in pre-industrial society is extractive, that is, agriculture, fishing, forestry, and mining. Life is primarily a game against nature. The level of technology is low or nonexistent; people are dependent on raw muscle power to survive, and therefore the productivity is low. Their success is largely dependent on the elements: the seasons, the rain, and the nature of the soil. Because of low productivity and large population, there is significant underemployment, which is resident in both the agricultural and domestic-service sectors.

Industrial society. The dominant characteristic of economic activity in industrial society is goods production. Economic and social life has become mechanized and more efficient. Machines and the energy that powers them dominate production, replacing muscle power. Productivity has increased tremendously. Division of labor is further extended. Technological advancements lead to new, faster, and more specialized machines that constantly improve productivity and replace more workers. The workplace is where men, women, materials, and machines are organized for efficient production and distribution of goods. It is a world of planning and scheduling in which components for production are brought together at the right time and in the right proportions to speed the flow of goods. The workplace is also a world of organization based on bureaucracy and hierarchy. People are treated as "things" because it is easier to coordinate things than people.

Postindustrial society. The dominant characteristic of economic activity in postindustrial society is service production. What matters now is not muscle or machine power or energy, but information and knowledge. The central character of economic life is the professional. She possesses the kinds of skills and knowledge increasingly demanded in this society. This demand for increased technical knowledge and skills in the workplace makes higher education a prerequisite to entry into post-industrial society and a good life. The quantity and quality of services such as health, education, and recreation that an individual can afford are indicators of his standard of living. Citizens demand more services such as healthcare, education, arts, and so on and the inadequacy of the market mechanism in meeting these demands lead to the growth of government, especially at the state and local level.

In analyzing the link between the industrialization of a country and its economic development, we cannot avoid the theories on economic and industrial growth. In this case it is not worth neglecting the theory of late industrialization Aleksander Gerschenkron. This theory is based on the assumption that the less developed countries can shorten the time of their development through the adoption of leading-edge technologies created beforehand. This position, which is defined as the advantage of backwardness, consists of four laws:

The more a country is backward, the more intense its industrial development is. Development processes in industrial countries lately are much shorter and faster than those that occurred in countries with early industrialization; these, in contrast, took a much longer time to complete technology development and capital accumulation, but also to have the transfer of technology and imports of capital.

Supremacy of heavy industry. Late industrialization is able to develop the chemical industry and heavy industry (steel, metallurgical, engineering etc.) more quickly than those of the most advanced countries; This is because the backward countries, although lacking of skilled labor, are able to establish new technologies through imports, are able to introduce new institutions for investment in large-scale, while the more advanced countries have a hard time to get rid of outdated equipment.

Tendency to centralize production. The trade groups are experiencing a tendency to congregate into large trusts (under monopoly), as capital investments on a large scale require small costs of operation.

Irrelevance of the logical relationship between capitalist development of agriculture and industrial development. In the industrial countries lately, there is not necessarily a logical correlation between development in the capitalist sense of agriculture and industrial development; in other words, industrialization can reach maximum heights of development, but agricultural capitalism may remain in a state of backwardness. This is because the motor for development is not agriculture (as it was in countries with early industrialization), but banks or Governments.

Beyond theories exposed and other theories that for obvious reasons we could list, we will try to see if Albania has benefited by late Industrialization in recent years, according to the Gerschenkron theories.

The aim of this paper is to analyze the role and contribution of the industrial sector to the economic growth of Albania, placing this analysis within the context of economic development theories—particularly the theory of late industrialization by Alexander Gerschenkron. The study seeks to examine whether, and to what extent, Albania has benefited from the features of late industrialization and to identify the current challenges affecting the performance of its industrial sector.

Some of the research objectives are to identify the structural changes in the Albanian economy in recent decades, with a focus on the shift from an agricultural economy to one with an increasing industrial weight. Another objective is to assess the contribution of the industrial sector to Albania's Gross Domestic Product (GDP) growth. At the same time would be interesting to examine whether Albania has followed or fulfilled the elements of late industrialization as described in Gerschenkron's model.

Research questions of the paper are:

- Has Albania undergone an "Industrial Revolution" that significantly contributed to its economic growth, or has growth been primarily driven by other sectors?
- To what extent has economic growth in Albania since 1998 been continuous, stable, and sustainable from an industrial development perspective?
- What has been the contribution of key industrial sub-sectors—Manufacturing, Mining, and Construction—to Albania's GDP over the last 27 years?
- What policy measures and strategic approaches can be implemented to improve integration, coordination, and efficiency across Albania's industrial sectors?

Literature review

Nicholas Kaldor (1967) argues for the central role of manufacturing and industrialization as the main engine of economic growth. The book explaines theoretical observations on how economies grow, particularly the role of sectoral dynamics in shaping long-term development outcomes. Manufacturing is uniquely positioned to drive economic growth due to its ability to generate increasing returns to scale and to stimulate demand in other sectors through inter-sectoral linkages (both backward and forward). Industrialization absorb surplus labor from traditional, low-productivity sectors (especially agriculture) and promote technological change, innovation, and structural transformation. Kaldor observed that countries with higher rates of industrial expansion tend to have faster overall economic growth, suggesting that manufacturing should be the strategic focus for development policy.

The rise of services (especially digital services) has challenged the assumption that only manufacturing can drive growth. Premature deindustrialization (Rodrik, 2016) has shown that some countries lose their manufacturing base too early, without fully benefiting from its growth potential. However, many modern development economists (e.g., Ha-Joon Chang, Szirmai) still agree with Kaldor's core insights—industrialization remains essential for sustainable development, especially for low- and middle-income countries.

W. Arthur Lewis's (1954) offers a dual-sector model of economic development. The paper seeks to explain how developing countries can achieve sustained growth and transformation by shifting labor from a low-productivity traditional sector (usually agriculture) to a high-productivity modern sector (usually industry or manufacturing). This framework forms a theoretical basis for many development strategies in post-colonial and low-income countries. Traditional (Subsistence) Sector or primarily agricultural, rural, and labor-intensive is characterized by low productivity, low wages, and excess or surplus labor. On the other hand modern (Capitalist/Industrial) sector includes industry, manufacturing, and urban-based enterprises. Characterized by higher productivity, higher wages, and capital accumulation.

Dani Rodrik (2007) explores the critical role of industrial development in economic growth and structural transformation, particularly in the context of developing countries. His goal is to distill a set of "stylized facts" about the relationship between industry and development. Manufacturing matters because it is technologically dynamic, enabling productivity growth. It has strong spillovers to other sectors, it provides employment opportunities for low-skilled workers and it shows "unconditional convergence" — meaning that labor productivity in manufacturing tends to converge across countries, regardless of initial income levels (unlike services or agriculture). Stylized facts about how industrial development typically unfolds:

- No country has become wealthy without a strong industrial base.
- Periods of rapid economic growth are also periods of fast industrial growth.
- Developing countries can "plug into" global value chains and improve manufacturing productivity quickly.

While the service sector is growing in many economies, it does not offer the same scale of productivity growth or employment absorption as manufacturing.

The state has a role to play, in facilitating investment, coordinating between firms and sectors, providing infrastructure, skills, and innovation support, encouraging exports and learning-by-doing. Institutions, capabilities, and context matter.

Adam Szirmai (2012) underlines that industrialization serves as a powerful engine of economic growth, particularly in developing countries. Using a comprehensive dataset covering the period 1950 to 2005, he appointed that the share of manufacturing in GDP and growth in manufacturing value added are positively correlated with GDP per capita growth. In low-income countries, the impact of industrialization on growth is even stronger than in advanced economies. Manufacturing Encourages Technological Progress and Innovation Export Potential and Global Integration.

He also notes that some late-industrializing countries faced significant challenges due to weak institutions, political instability and lack of investment in human capital and infrastructure. Global competition makes it harder to build domestic industries. Investing in infrastructure, education, and technological capability to support industrial competitiveness. Industrialization remains a key driver of productivity, income growth, technological upgrading, and global competitiveness, especially for developing countries seeking to catch up.

Amsden's core argument (2001) is that late development is not a passive process of market-driven growth, but rather one shaped by strategic state intervention, institution-building, and industrial policy. Amsden challenges the idea that successful development requires following the same liberal-market path as the early industrializers. Late-industrializing countries used different tools, including state guidance, targeted subsidies, protectionism, and state-owned enterprises.

Amsden highlights the importance of the "developmental state"—governments that actively shape economic outcomes by coordinating investment, promoting export-oriented manufacturing, using selective incentives (like credit and tax breaks) and enforcing reciprocal control mechanisms.

In this framework, industrial policy is not about picking winners randomly, but about strategically building national champions and enforcing accountability beyond the "Washington Consensus" made of (free trade, deregulation, privatization, and ,inimal state involvement)

Tregenna F. (2009) makes an important contribution to understanding how deindustrialization differs across countries and contexts. Her findings challenge the idea that deindustrialization is always benign or inevitable. Instead, she shows that when it happens too early, it can undermine the development process. This calls for a renewed focus on industrial policy, particularly in economies that have not yet built a strong manufacturing base.

Ejaz Ghani and Homi Kharas (2010), presents an in-depth examination of how South Asian countries (especially India, Bangladesh, Pakistan, and Sri Lanka) are experiencing rapid economic growth driven by services, rather than the traditional path of industrial-led development. Manufacturing is not the only viable engine for structural transformation in developing economies anymore.

Technological change, human capital development, and global outsourcing have allowed certain services (like IT, finance, and business processing) to become scalable, tradable, and productivity-enhancing, just like manufacturing once was. Growth in tradable services (e.g., software, finance, business process outsourcing or BPO), Use of digital infrastructure to scale services, High potential for productivity gains in modern services, Export growth through cross-border digital delivery (e.g., India's IT sector). This model is in contrast to the classical structural transformation model, where countries shift from agriculture to manufacturing, then to services.

For transition economies such as Albania that theory is very important. Albania may not compete in heavy manufacturing but can develop niche service sectors, such as Tourism and hospitality, Business process outsourcing (BPO), ICT and digital services, Financial services and remote consulting. To achieve this, Albania would need stronger digital infrastructure, investment in human capital and policies to support innovation and digital entrepreneurship.

Gollin, Jedwab, and Vollrath (2016) challenge the classical assumption in development economics that urbanization is inherently tied to industrialization. The authors show that many developing countries, especially in sub-Saharan Africa and parts of South Asia, are urbanizing without a corresponding industrial boom. This phenomenon raises critical questions about the quality, sustainability, and inclusiveness of growth in these countries. Today, many countries are urbanizing without a manufacturing base. The authors document a rise in what they call "consumption cities" rather than "production cities." They show that in many resource-rich or aid-dependent countries, cities have grown rapidly, but not due to structural economic transformation. Public spending fueled by natural resource revenues (e.g., oil, minerals) attracts people to cities through construction and public services. Informal sectors expand to absorb urban migrants, often without productivity gains.Rural push factors (poverty, climate shocks, low agricultural productivity) drive

If Albania's urbanization is not accompanied by productive investment in tradable sectors, then its cities may resemble consumption cities, risking jobless growth, inequality, and urban congestion. Policymakers should be aware that not all urban growth is beneficial, and urban productivity must be a key objective, especially through support for light manufacturing, tech-enabled services, and value-added exports.

According to Felipe, J., Mehta, A., & Rhee, C. (2014) **industrialization is not development unless it generates large-scale, productive employment**, especially for low- and medium-skilled workers. They analyze the global trend of **declining manufacturing employment shares**, even in fast-growing economies and warn that **modern manufacturing may no longer serve as a mass employer**, due to **automation, productivity gains, and capital intensity**. While manufacturing still contributes to GDP, its role in creating jobs, especially low-skill, labor-intensive employment, has declined significantly in most developing countries.

The authors argue that manufacturing still matters for export earnings, productivity and technological upgrading. However, for development to be inclusive and poverty-reducing, it must generate jobs, especially for women, youth, rural migrants and low-educated populations the focus should shift from sector-based strategies (e.g., "just promote manufacturing") to job-centered strategies. It's not just manufacturing that matters, it's the jobs that count.

Methodology and results

The methodology in this study consists of analyzing twenty-seven years, beginning from 1998 to 2024. Will be weighed the contributions of sub-sectors of the industry, starting with the manufacturing, construction and mining activities. The data is compared to the annual gross domestic product to highlight their weight in the total economy. For each of these sub-sectors, analysis of correlation and regression will be carried out to distinguish whether the evolution of these sectors was like the gross domestic product one or if these sub sectors experienced a particular dynamic of autonomy from the rest of the economy. This analysis is carried out to understand what areas were towing of productive activities and those who followed the natural tendency of the economy. These analyses are through the SPSS program.

In the first analysis we take into account, the GDP together without the contribution of Construction Industry. Already the Industrial sector has a very high correlation to GDP. Thus, we can understand that the industrial sector has helped to economic growth to a similar extent to the growth of GDP for the past 27 years. On the other hand, we can affirm that the economic growth was not caused by the industrial sector in Albania because this sector does not stand out compared to the general trends of the economy and continues to represent still a small slice inside of GDP. The contribution of manufacturing and mining to GDP increased from 6.9% in 1998 to 10.9% in 2013. The industry sector (which includes manufacturing, mining, energy, and construction) has fluctuated between 10.5% and 12% of GDP in recent years. Within this, manufacturing remains the largest sub-sector, followed by mining and quarrying. The manufacturing sector alone contributed around 6.5% to 7% of GDP in 2022–2023. Mining and quarrying accounted for approximately 1.5% to 2% of GDP during the same period, largely due to chromite and oil extraction.

Even though the contribution of the industrial sector has been growing in Albania, it had a role and a point of start extremely small. Then we can already say that Albania has not experienced an “economic boom” resulting from the production sector, despite its growth.

Descriptive Statistics

Mean	Std. Deviation	N
884112.31	321982.030	27
81499.19	41479.255	27

Correlations

		GDP	Indust.
Pearson Correlation	GDP	1.000	.985
	Indust.	.985	1.000

Referring to the analysis above we can appreciate a proper level of regression R ^ 2 very high (0.968) indicating the similarity of the paths of the industrial sector to the GDP of the whole. In all analysis, Durbin Watson is quite far away from his excellent (2). This indicates the presence of an autocorrelation between data.

TABLE NR 1: Industry component in Albania G.D.P.

Year	Current GDP	Industry	Ind/GDP
1998	393070	32079	8.2%
1999	453512	36433	8.0%
2000	516207	41116	8.0%
2001	583125	43474	7.5%

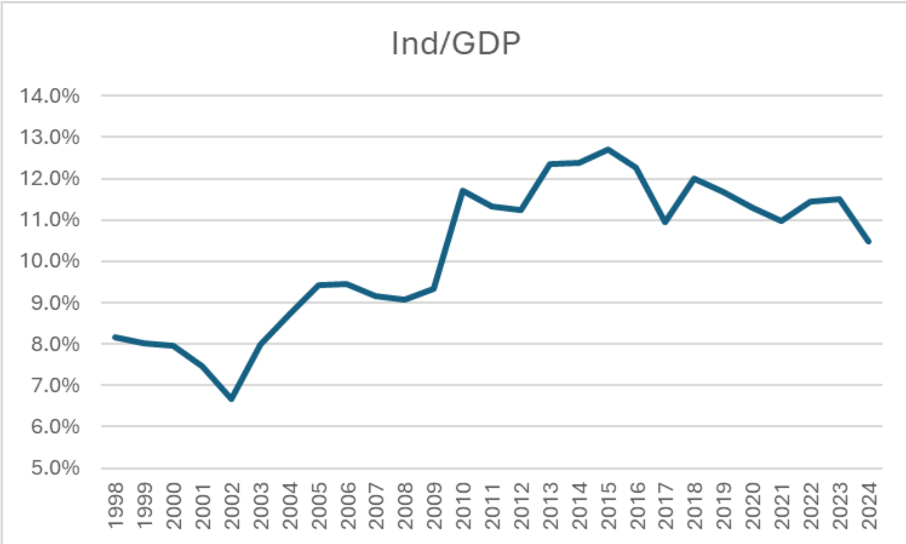
2002	633933	42248	6.7%
2003	700712	55998	8.0%
2004	760445	66430	8.7%
2005	824595	77753	9.4%
2006	897698	84953	9.5%
2007	1005281	92094	9.2%
2008	1112317	101020	9.1%
2009	1171606	109257	9.3%
2010	1256235	146950	11.7%
2011	1308998	148115	11.3%
2012	1324877	148884	11.2%
2013	1352247	166949	12.3%
2014	1402496	173482	12.4%
2015	1444802	183362	12.7%
2016	1488303	182461	12.3%
2017	1579056	173003	11.0%
2018	1660820	199383	12.0%
2019	1712037	200188	11.7%
2020	1655984	186946	11.3%
2021	1866672	205024	11.0%
2022	2149742	246259	11.5%
2023	2364276	272256	11.5%
2024	2517820	263811	10.5%

Source: Instat 2024

Table nr1. Shows four different periods in last 27 years of Albanian economy. From 1998 to 2003, the industry-to-GDP ratio hovered around 6.7% to 8.2%. This period reflects post-transition challenges, including the restructuring of former state-owned enterprises, low investment levels, and limited industrial diversification. Industrial growth was modest, and GDP was still driven primarily by agriculture and remittances.

The second period shows a gradual strengthening of industry (2004–2010). A steady increase in the industry's GDP share is observed, reaching 11.7% in 2010. This reflects Foreign Direct Investment in sectors like energy and mining, the growth of export-oriented manufacturing (e.g., textiles, footwear) and rising construction and materials production. By 2010, industry had become a solid pillar of the Albanian economy, contributing significantly to GDP growth.

FIGURE NR 1. Industry component in Albanian GDP



Source: Instat 2024

The third period starts at 2011 to 2015. The industry share peaked at 12.7% in 2015, the highest in the entire series. This period reflects robust industrial output, likely driven by a strong construction boom, growth in energy and extractive industries and the export expansion following EU trade integration.

To delve further in the analysis, we need to check the link between the Extractive Industry and the effects that this variable has on GDP. From Figure 1 we can see that it accounted for a small fraction of GDP in 1998, even though Albania is a country rich in minerals and oil. Only after 2009 can we distinguish a steady growth in the mining industry. His connection with the GDP seems to be weaker than the entire industrial sector. The factors that influenced the Growth of mining equipment were the approval of the laws on "concessions" in 2007 and the beginning of the exploitation of oil deposits in Patos-Marinez zone from 2009 onwards. This positive development, however, was not followed by the strengthening of the manufacturing industry in rapport to GDP, which has had an extremely slow process of growth over the years.

The fourth period shows a relative decline amid Service-Led growth (2016–2024) Post-2015, the industrial share shows a gradual decline, dropping from 12.3% in 2016 to 10.5% in 2024, despite consistent growth in absolute industry output. This decline is not due to industrial contraction, but rather a Faster growth in other sectors, especially services, tourism, ICT, and finance, a matured industrial base, with limited job creation and slower expansion compared to earlier years.

In 2024, the industry contributed ALL 263.8 billion, or 10.5% of GDP, down from 11.5% the previous two years. This suggests that while industry remains important, it is losing relative ground other growth-driving sectors. The decline in the share could also reflect structural shifts toward a service-oriented economy, following global trends in middle-income countries.

Descriptive Statistics

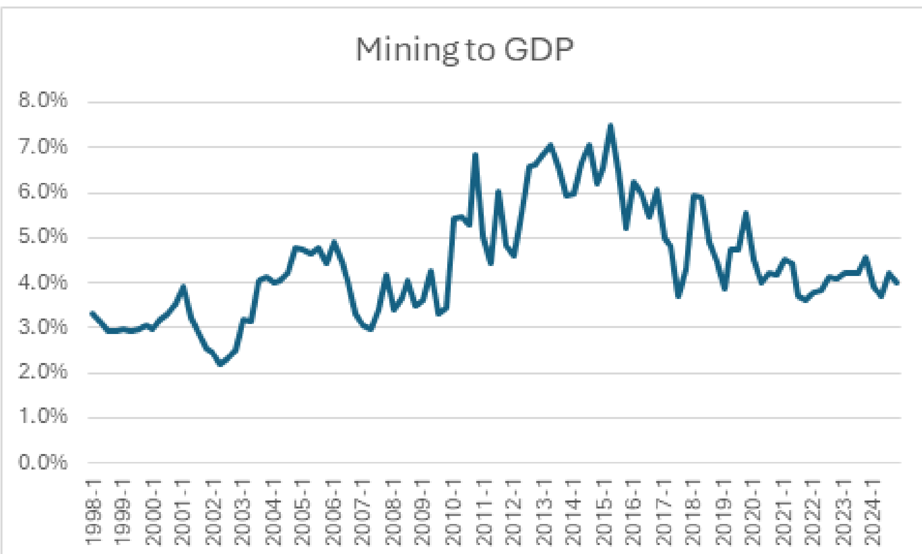
	Mean	Std. Deviation	N
GDP	884112.31	321982.030	27
Mining	10521.38	9381.240	27

Correlations

		GDP	Mining
Pearson Correlation	GDP	1.000	.859
	Mining	.859	1.000

The link seems to be relatively weak through the test of Pearson correlation (0.859) and in the regression R ^ 2 (0718) adjusted, because this sector had been extremely unstable and characterized by strong volatility over the years. This link is not necessarily bad news because this sector performed better than the rest of the economy. No coincidence that his contribution in the GDP increased from 0.8% in 2007 to 2.5% of GDP in 2013.

FIGURE NR 2. Mining component in Albanian GDP



During the period 1998–2003 the mining sector contributed between 2.5% and 3.5% of GDP. A slight dip around 2001 suggests either declining output or stronger GDP growth in other sectors. This reflects the post-communist transition period, where much of Albania's mining infrastructure was outdated or underutilized. The contribution increased to around 4–5%, with some moderate volatility after 2004. This period saw reforms and foreign investment, particularly in chromium and oil extraction. However, dependency on global commodity prices made mining revenues susceptible to external shocks.

Between 2010 – 2015 there is the golden period for the mining sector, with its share reaching up to 7–7.5% of GDP. High global demand and prices for chromium, copper, and oil, major investments in resource extraction and exports. Improvement in infrastructure and legislation attracted private operators.

From 2016 to 2020 the mining-to-GDP ratio declined to around 4% cause of the falling global commodity prices after 2015, exhaustion of easily accessible reserves, stricter environmental regulations or limited expansion and a growing competition from other sectors like services and construction.

The contribution has stabilized in the 3.5%–4.0% range after 2020. Likely sustained by ongoing production in key mines, but without major expansions.

The downside regression shows the result between Manufacture and Albanian GDP in last 27 years.

Descriptive Statistics

	Mean	Std. Deviation	N
GDP	884112.31	321982.030	27
Manufact.	70977.69	33420.081	27

Correlations

		GDP	Manufact.
Pearson Correlation	GDP	1.000	.982
	Manufact.	.982	1.000

The manufacturers have had rather a way almost identical to the evolution of GDP with a proper square adjusted regression R ^ 2 (0961). In comparison to 1998, when Albania started its activities production after its internal uprising, the growth of the manufacturing sector as a contribution to GDP and was just 2.2%, from 6.2% in 1999 to 8.4% in 2013. We can say that in the past sixteen years, this sector demonstrates clearly its fragility and is the "weak link" in the Albanian economy. This weakness indicates a poor ability to produce and to be competitive in technologically and massive advanced markets. The size of the

Industrial Sector is typical of the economies of underdeveloped countries or in the best case of those countries where development has schizophrenic traits (with a dual personality) where relatively developed areas live together with other one's arrears and embryonic.

As for the first area we intend Construction Sector, which is the sector that tripled its dimensions and ratio to GDP rising from 4.7% in 1999 to 13.4% in 2008. The Construction Sector is currently returned to a stage that can be called as a "maturation" stage. Its contribution to GDP was 7.4% during 2013. The very high volatility of this sector indicates strong autonomy compared to GDP and Industrial sector trends. Because of that, the link between GDP and Construction is quite lowered with an Adjusted R ^ 2 (0.630) despite the correlation level remaining quite high.

The last regression shows the linkage between the Construction sector and the GDP.

Descriptive Statistics

Mean	Std. Deviation	N
884112.31	321982.030	16
92256.38	39807.327	16

Correlations

		GDP	Constr.
Pearson Correlation	GDP	1.000	.809
	Constr.	.809	1.000

The final regression analyzes the industry as a whole (manufacturing + mining + construction). The size of the industry compared to the Gross Domestic Product over the years moved from 11.6% for 1998 where the data are the most discouraging, to 22.9% for 2006, falling back towards 18.3% of GDP in 2013. These percentages indicate that the industrialization of the country is a process still not concluded and that the industrial activities brought a minor contribution to the national economy growth. The industrial sector in Albania marked growth rates like those of GDP. If from one side of the Construction strengthened the industrial sector from 2000 to 2008, on the other hand, the Manufacturing industry in those years remained anemic. The moment at the end of the first decade of the twenty-first century, the mining industry had a strong impulse and growth, but the Construction sector was in danger of collapsing. The result was a rebalancing of the industrial sector in line with the GDP evolution. The limit and the real challenge still not won by Albania in these sixteen years regard the manufacturing industry. This sector is the backbone of the production activities and the source of major technological developments and intangible assets.

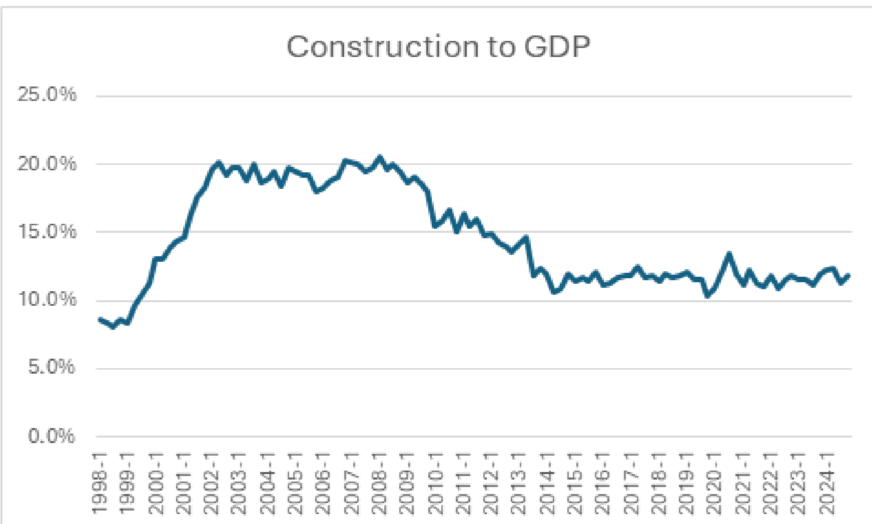
In the early transition period, construction's share was relatively low but steadily growing. The increase reflects early urban development, housing reconstruction, and post-conflict recovery investments, especially after the 1997 crisis.

A significant boom in construction is visible, with the sector's share rising to over 20% of GDP—peaking around 2007–2009. This boom was likely driven by Real estate development (particularly in Tirana and coastal cities), Foreign direct investment, Remittances fueling housing demand and public infrastructure projects (roads, airports, energy facilities). At this point, construction became one of the largest contributors to GDP.

After the global financial crisis and Albania's internal debt-driven slowdown, the construction share fell sharply, from ~19% in 2010 to just above 10% in 2015. That happened cause of market saturation in urban real estate, reduced remittance flows post-2008, reduced public investment and declining external financing for large projects.

From 2016 onward, the construction sector has stabilized, fluctuating between 10% and 12% of GDP. This reflects continued, but controlled private sector construction, tourism-related investments (hotels, resorts), reconstruction efforts after the 2019 earthquake and pandemic recovery measures and the new public-private partnerships (PPPs) in infrastructure.

FIGURE 3: Costruction to GDP ratio.



Source: Instat 2024

Discussions and Limitations

The industrial sector in Albania comprising manufacturing, mining, energy, and construction has historically played a critical role in supporting economic growth and structural transformation. Although its share in GDP has fluctuated over the years, industry remains a key contributor to national output, employment, exports, and investment.

Industrial GDP is both a direct component of total GDP and a multiplier sector that affects other parts of the economy

The linkage manifests through Direct Contribution because Industry directly contributes 10–12% of GDP in recent years. When including construction and energy, this share is even higher.

Industrial activities generate demand for inputs (e.g., transport, finance, raw materials) and supply products used in agriculture, services, and exports—creating intersectoral connections that boost total output.

Although not the largest job creator, industry provides relatively high-wage, formal employment, supporting consumer demand and tax revenues.

Key industrial products (footwear, textiles, minerals, oil, energy) represent a significant portion of Albania's export basket, enhancing foreign exchange earnings and trade balance.

Weaknesses remains high because of the low complexity. Albania's industrial base is still concentrated in low-tech, labor-intensive sectors (e.g., footwear, textiles, raw mineral extraction), with limited value-added or technological spillovers.

The mining sector is commodity-price dependent, and construction is cyclical, making overall GDP more volatile when industry leads growth. Industrial growth in recent years has been capital-intensive, generating less employment than expected, limiting its poverty-reducing impact. It is also clear that there is a lack of industrial policy coordination, R&D investment, and domestic supply chain development—hindering the sector's ability to drive innovation and productivity growth. As regard the regression model, it's difficult to establish direction of causality. Does industrial growth cause overall GDP growth, or does rising GDP lead to more industrial output? A simple regression may capture correlation, not causation.

GDP and industrial output are influenced by other key factors—like investment, labor productivity, trade policy, infrastructure, global demand. If these are omitted from the model, the estimated relationship may be biased or spurious.

Since industrial GDP is a component of total GDP, a regression of GDP growth on its own subcomponents (like industry or services) may involve overlapping or highly correlated variables. This can cause multicollinearity, inflating standard errors and making it difficult to isolate effects.

Time series like GDP and industrial GDP are often non-stationary (they trend over time), which can lead to spurious correlations in ordinary least squares (OLS) regressions.

Problem: Events like the 2008 financial crisis, 2019 earthquake, COVID-19 pandemic, or major policy reforms can cause structural breaks in the relationship.

Albania's economy is open and externally influenced (e.g., EU demand, remittances, foreign investment). External shocks may drive both GDP and industrial output simultaneously, creating spurious internal correlations.

Especially in developing countries, sectoral GDP estimates may have measurement issues or data lags. Regression coefficients may be unreliable due to statistical noise.

The analysis of Albania's economic trajectory over the past two decades reveals a moderate but structurally important linkage between the industrial sector and overall economic growth. While not the dominant engine of GDP growth in recent years, the industrial system—comprising manufacturing, mining, energy, and construction—has consistently contributed between 10% and 13% of GDP, playing a vital role in national development.

From the early 2000s to 2015, industrial expansion—particularly in construction and extractive industries—was a key driver of Albania's GDP growth, supported by rising investment, improved infrastructure, and growing exports. During this period, industry not only boosted output but also created jobs, attracted foreign direct investment, and generated fiscal revenues. The peak in the industrial share of GDP in 2015 (12.7%) marked the high point of this contribution.

However, since 2016, Albania has undergone a gradual structural shift toward a more service-oriented economy, especially in tourism, ICT, and finance. Despite steady growth in absolute industrial output, the relative weight of industry in GDP has slightly declined (to around 10.5% in 2024). This reflects both global trends and domestic challenges, including limited technological upgrading, low productivity in manufacturing, and vulnerability to external shocks in mining and construction.

Nevertheless, the industrial sector remains strategically significant for economic diversification, export resilience, and regional development. Its role as a backbone for infrastructure, energy, and tradable goods ensures that industrial growth has broader spillover effects across the economy.

To enhance this linkage in the future, Albania must shift from low-value and resource-based industrial activities toward high-value-added, green, and innovation-driven industries. Investing in industrial policy, skills, technology, and infrastructure will be essential to revitalize the sector and strengthen its contribution to sustainable and inclusive growth.

From 2015 to 2024, Albania's economic growth has been driven by a combination of internal structural reforms, sectoral expansion, and favorable external conditions. While the industrial sector remained relevant, the drivers of growth have increasingly shifted toward services, construction, and external inflows.

Private sector construction (especially residential and commercial buildings in Tirana, Durrës, and tourism areas) boomed, driven by rising urbanization and demand, high inflows of remittances and informal capital, post-2019 earthquake reconstruction funded by public and donor resources.

Tourism emerged as a leading growth engine, especially after 2018 and a strong post-COVID rebound. Visitor numbers reached record highs by 2023–2024 (up to 12 million tourists). Growth of hospitality, transport, food services, and recreation helped the country to develop other services like telecommunications, finance, ICT outsourcing, and professional services showed steady growth.

Over 1.1 billion EUR/year, remittances supported consumption, construction, and small business activity contributing to the current account balance.

Increased employment in services, construction, and tourism. Wage growth supported domestic demand and consumption, particularly after 2021. Government programs to formalize labor and increase minimum wages improved tax collection and consumption patterns.

Export Growth through manufactured exports (textiles, footwear, processed food) and mineral/energy products remained significant. Energy (hydropower exports), Construction materials (cement, bricks) and a gradual development of agro-processing. That growth was made possible by a closer trade integration with EU markets, especially Italy and Germany.

Major infrastructure projects were taken in place like roads and highways, Airports (Kukës, Vlorë), energy investments (hydropower, interconnections). Supported by EU pre-accession funds, IFIs (World Bank, EBRD), and bilateral donors. New investment in solar and wind energy, particularly in the last three years.

Stable monetary policy maintained by the Bank of Albania (low inflation, controlled interest rates). Public debt management improved under 60% of GDP in 2024 after the 2015–2016 debt spike of 74% of GDP. Gradual improvement in tax collection and digitalization of government services (e.g., e-Albania platform) made possible a lower bureaucracy.

The EU accession process and opening of formal negotiations (from 2020) improved investor confidence and governance reforms. Regulatory approximation, infrastructure alignment, and institutional modernization attracted FDI and donor support.

Measures

In order to promote sustainable economic growth and improve industrial performance, Albania must adopt a series of coordinated measures aimed at strengthening the internal organization of its industrial sectors and fostering integration among them.

Despite recent economic progress, the Albanian industrial sector remains fragmented, undercapitalized, and loosely connected to global value chains. A coherent approach is therefore essential to ensure that industrial activities are not only productive in isolation but also contribute meaningfully to the broader economic fabric of the country.

A key priority is the formulation of a comprehensive National Industrial Strategy that outlines long-term goals, identifies priority sectors, and coordinates the efforts of government institutions, private enterprises, and development partners. Such a strategy would help overcome the current ad hoc and reactive nature of industrial policy and provide a stable framework for decision-making and investment.

One of the most effective ways to enhance integration is through the promotion of vertical and horizontal linkages within and across industrial sectors. Vertical integration, for instance, can be encouraged by facilitating value-added processing in sectors such as mining and agriculture, thereby ensuring that raw materials are not simply exported but transformed domestically. Horizontal integration, on the other hand, can be achieved through the development of industrial clusters, where firms within the same industry or supply chain co-locate and benefit from shared infrastructure, labor pools, and knowledge transfer.

Industrial zones and special economic areas can serve as hubs for such clustering, particularly if supported by adequate infrastructure and governance. These zones not only reduce operational costs but also help firms to collaborate, innovate, and compete more effectively in regional and global markets. Albania's experience with industrial parks remains limited, but the potential remains significant, especially if coupled with regulatory reforms and investment incentives.

The success of industrial integration also depends heavily on the availability of skilled labor and technological capabilities. Therefore, aligning vocational and technical education with the needs of the industrial sector is a crucial step. Public-private partnerships can play a vital role here by linking industry with educational institutions and fostering a culture of innovation. Moreover, incentives for technology adoption and digital transformation can help Albanian firms move up the value chain and reduce dependency on low-cost labor models.

A further barrier to industrial integration in Albania is the limited access to finance, especially for small and medium-sized enterprises (SMEs). Tailored financial instruments, such as credit guarantees, low-interest loans, and EU-funded programs, should be made more accessible to support industrial investment and modernization. These mechanisms would empower firms to expand operations, invest in machinery, and improve production efficiency.

In parallel, exports must be diversified and quality standards improved, so that Albanian industrial products can compete more effectively in international markets. This requires not only logistical support and trade facilitation but also investment in certification, branding, and marketing strategies.

Finally, none of these measures can succeed without a solid institutional foundation. Administrative simplification, inter-agency coordination, and transparent regulatory frameworks are all essential to create an environment where industrial firms can thrive. Strengthening institutional capacity will ensure that reforms are implemented effectively and that industrial development becomes a central pillar of Albania's economic transformation.

In conclusion, enhancing the organization and integration of industrial sectors in Albania requires a multidimensional strategy that addresses structural weaknesses, fosters coordination, and incentivizes innovation. By pursuing these measures, Albania can unlock the potential of its industrial sector and ensure that it becomes a more dynamic and resilient contributor to long-term economic growth.

Conclusions

After the data analysis we can infer that economic growth that Albania had, was not caused by the enlargement of the industrial sector, on the contrary the economic growth wound was towing that sector.

The Industrial sector, although it is becoming more and more strong and stable, over the last sixteen years, achieved success very slowly. Every economic development to be sustainable and stable needs a primary and significant contribution by the industrial sector.

If it is true that not all countries which have a strong industrial sector are rich and developed, it is also true that all the rich countries of medium and large size have an important Industrial System. A strong industrial system constitutes a basic and primary condition, necessary but not sufficient for a developed country. From this point of view, Albania has so far missed the appointment for the development of its industrial apparatus. The positive developments in the field of Construction and Extraction were often a structural economic need and were not put under the lens of national plans for industrial development. Therefore, their evolution was unstable and a hostage of contingent junctures. Currently the country needs a strategy which combines private and public interests to be able to start initiatives in manufacturing and mining.

For example, the extraction of minerals and oil should lead institutions to raise awareness of international private investors under the market economy conditions, to build and renovate facilities for the enrichment of minerals and petroleum refining. These strategies could increase the manufacturing sector Value Added. Other fields related to mechanical, chemical, and gas distribution sectors, and the processing of agricultural products remain virtually unexplored. The Albanian presence in these fields would guarantee to the country professional human capital resources that would support the Industrial Sector growth in a more systematic and less volatile way.

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