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SUSTAINABILITY AND GREEN PRACTICES IN BUSINESS IN DEVELOPING COUNTRIES

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content

EDITORIAL

Sustainability and Green Practices in Business in Developing Countries

Prof. Assoc. Dr. Mateo SPAHO

In recent decades, the concept of sustainability has emerged as a critical paradigm in global discourse, intersecting with environmental, economic, and social development goals.

Rooted in the Brundtland Commission's 1987 definition of sustainable development. "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs", the idea of sustainability has increasingly been integrated into the realm of business operations and corporate strategy (WCED, 1987[1]). This integration has given rise to the notion of "green business practices," referring to organizational policies and activities aimed at minimizing environmental impact, enhancing energy and resource efficiency, and promoting long-term ecological balance. While sustainability efforts in advanced economies have been well-documented and, in some cases, institutionalized, the role and evolution of green practices in business within developing countries have received comparatively less scholarly attention, despite their profound relevance to global sustainability efforts.

The urgency of addressing sustainability in the business practices of developing countries stems from a confluence of factors. On the one hand, developing nations often exhibit rapid urbanization, industrialization, and population growth—dynamics that place significant pressure on natural resources and ecological systems. On the other hand, these countries frequently face structural challenges such as weak regulatory frameworks, limited financial resources, lack of technological capacity, and insufficient institutional support for environmental

[1] WCED (1987). Our Common Future. World Commission on Environment and Development. Oxford University Press.

governance (Sachs, 2015[2]; UNDP, 2020[3]). These conditions create a paradox: while the need for sustainable practices is arguably more acute in developing contexts due to environmental vulnerability and social inequalities, the capacity to implement such practices remains constrained.

Nonetheless, a growing body of literature highlights the gradual emergence of sustainability and green practices across sectors in the developing world. From small-scale agriculture adopting climate-smart techniques, to manufacturing firms introducing energy-efficient production methods, to service providers reducing waste and embracing circular economy models, examples of green innovation are increasingly observable (World Bank, 2021[4]; UNEP, 2022[5]). The motivations for businesses to adopt these practices are varied and include regulatory compliance, access to international markets, reputational benefits, cost savings, and alignment with global supply chain standards. Moreover, multilateral institutions, non-governmental organizations (NGOs), and international donors have played a pivotal role in promoting green business transformation through funding, capacity building, and knowledge transfer.

At the core of the sustainability discourse in developing countries lies the tension between economic growth and environmental stewardship. Historically, development strategies have prioritized economic expansion and industrial competitiveness, often at the expense of environmental considerations. This growth-first paradigm has led to ecological degradation, biodiversity loss, and climate vulnerability. Yet, there is increasing recognition that sustainable economic development—defined by inclusive growth, environmental resilience, and social equity—is not only possible but necessary. Green business practices can serve as a bridge between these objectives, enabling enterprises to contribute to environmental goals while pursuing economic viability.

In this context, it is crucial to consider the distinct challenges and opportunities that businesses in developing countries face in implementing green practices. One major challenge is the high cost of green technologies and the limited access to finance for small and medium-sized enterprises (SMEs), which form the backbone of most developing economies. Unlike large multinational corporations, SMEs often lack the capital, expertise, and strategic foresight required to invest in long-term sustainability initiatives. Furthermore, weak enforcement of environmental regulations, limited public awareness, and a lack of market incentives diminish the pressure on firms to go green. On the opportunity side, however, the abundance

[2] Sachs, J. D. (2015). The Age of Sustainable Development. Columbia University Press.

[3] UNDP (2020). Human Development Report 2020: The Next Frontier – Human Development and the Anthropocene. United Nations Development Programme.

[4] World Bank (2021). Green, Resilient, and Inclusive Development: World Bank Group Climate Change Action Plan 2021–2025. The World Bank.

[5] UNEP (2022). Sustainability and Circular Economy: Annual Report 2022. United Nations Environment Programme.

of renewable energy sources, the potential for green job creation, and the growing demand for eco-labeled products in global markets provide compelling incentives for sustainable business transformation.

Institutional frameworks and policy environments play a decisive role in shaping the extent to which businesses adopt green practices. In countries where environmental policies are integrated into industrial development strategies, businesses are more likely to embrace sustainability. Policy instruments such as tax incentives, environmental certifications, subsidies for green technology, and public-private partnerships have shown effectiveness in stimulating green entrepreneurship and innovation. International agreements such as the Paris Climate Accord and the Sustainable Development Goals (SDGs) have also placed external pressure on governments and businesses in developing countries to align with sustainability principles. Consequently, national strategies and business models are gradually incorporating environmental goals, even in resource-constrained settings.

Culture and consumer behavior are equally significant in shaping green business practices. In many developing societies, traditional ecological knowledge and community-based resource management offer valuable insights into sustainable living. However, modern consumerism and urban lifestyles have often led to increased consumption, pollution, and waste. Businesses thus face the dual challenge of meeting modern consumer demands while promoting environmentally responsible behavior. Public education campaigns, corporate social responsibility (CSR) programs, and sustainability branding are among the strategies used to raise awareness and build consumer demand for green products and services.

It is also essential to analyze the role of innovation and technology transfer in facilitating sustainable business practices. While technological advancements offer significant potential for reducing environmental footprints, developing countries often rely on imported green technologies, which may not be suitable for local contexts or may be prohibitively expensive. Technology transfer through international cooperation, international partnerships, and inclusive innovation ecosystems is therefore crucial. Adaptation of green technologies to local needs, skills, and infrastructure can enhance their effectiveness and uptake. Moreover, digital technologies—such as mobile platforms, blockchain for supply chain transparency, and remote sensing for environmental monitoring—offer promising avenues for scalable, cost-effective green solutions.

Finally, sustainability in business must be understood not only in terms of environmental outcomes but also in its social and economic dimensions. A holistic approach to green business practice in developing countries necessitates attention to issues such as labor rights, gender equity, poverty reduction, and community empowerment. Enterprises that embed sustainability into their core values and

governance structures can become agents of broader social transformation. Such integration requires a shift from short-term profit maximization to long-term value creation—a shift that is beginning to emerge in certain business sectors, particularly those with strong stakeholder engagement or exposure to international sustainability standards.

In sum, sustainability and green practices in business within developing countries represent a complex and evolving field of inquiry, situated at the intersection of environmental imperatives, developmental goals, and market dynamics. This research seeks to explore the drivers, barriers, and outcomes of green business practices in such contexts, with a focus on identifying best practices, scalable innovations, and effective policy instruments. By critically analyzing the interplay between local realities and global sustainability frameworks, this study contributes to a deeper understanding of how businesses in the developing countries like Albania can play a transformative role in achieving a more sustainable and promising future.

Evaluating the Link Between Agricultural GDP Growth and Employment in Albania

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Abstract

Purpose: *The aim of this article is to analyze the impact of economic growth on employment in the agricultural sector. However, it raises a critical question: Is it legitimate to assume that economic growth in agriculture will lead to a corresponding increase in employment in this sector? Historically, the agricultural sector in Albania—despite being regarded as one of the country's key competitive advantages relative to other countries in the region—continues to face persistent challenges. Consequently, development strategies for this sector have focused primarily on enhancing productivity, with the expectation that such improvements will generate positive effects on employment within agriculture.*

Methodology: *To explore this relationship, the study utilizes annual time series data on GDP and employment in agriculture covering the period from 2000 to 2024. These data are analyzed using regression techniques implemented in the e-views software, through which a "translation" coefficient is estimated. This coefficient serves as a key indicator of the relationship between sectoral economic growth and employment dynamics in agriculture.*

Findings: *Building on the estimated model, a forecast is conducted for the period 2025–2030. Referring to Okun's Law, the results suggest that economic growth in the agricultural sector may, counterintuitively, be accompanied by a decline in employment within the same sector.*

Value: *These findings offer important insights for policymakers, helping them to better anticipate and address structural issues that may emerge as productivity increases in the agricultural sector.*

Keywords: *Agricultural sector, Gross Domestic Product, Employment, Okun's Law.*

Introduction

In many developing economies, agriculture plays a pivotal role in sustaining livelihoods and ensuring food security. Yet, the extent to which growth in this sector translates into employment remains a pressing and underexplored question, particularly in transition economies such as Albania.

This paper finds its initial inspiration in the Solow economic model, highlighting those components most relevant to our analysis. The study then deepens the investigation through the use of Okun's model, employed as a reference framework for linking time series data on GDP and employment levels in the agricultural sector, while also taking into account the particular characteristics of this sector as anticipated by Petty's Law.

From a neoclassical perspective, the main factors driving economic growth are savings, population growth, and technological progress (Solow, 2000). The Solow model demonstrates that the savings rate is one of the most critical determinants of the capital stock's steady state in an economy. The steady state of the capital stock describes a point at which the value of investment equals the value of depreciation. At this point, both the capital stock and output are assumed to remain constant over time.

This point is important because it can be interpreted as a long-term equilibrium for the economy: regardless of the capital level an economy may have at a given moment, over time the capital stock will tend to converge toward its equilibrium value. This observation helps explain the high economic growth rates observed in countries like Japan and Germany after World War II. Even though a significant portion of their capital stock was destroyed, if the savings rate (i.e., the portion of output allocated to saving and investment) remains unchanged, the economy will experience a period of rapid growth until it reaches its steady-state level.

Output increases when more capital is added than is lost through depreciation. Therefore, even if GDP initially declines as a result of a reduction in the capital

stock, the economy is expected to experience higher growth rates in subsequent periods.

The savings rate is crucial in determining the steady-state level of a country's capital stock. A high savings rate leads to a significant accumulation of capital and, consequently, to higher productivity. Conversely, when the savings rate is low, capital accumulation becomes a slow process, and productivity remains limited. The outcome of the Solow growth model suggests that persistent budget deficits are detrimental to long-term economic growth, as they reduce national savings and lead to lower productivity. In conclusion, a high savings rate results in higher levels of productivity in the long run. However, there is only one level of the steady-state capital stock that maximizes consumption, a point referred to as the "Golden Rule."

This point is often viewed as desirable by policymakers, but reaching it entails a trade-off between the consumption of the current generation and that of future generations. An economy that is already at a steady-state capital stock level, which is below that required by the Golden Rule, must increase its savings rate and accept a temporary decline in consumption in order to build up its capital stock and eventually maximize consumption over the long term.

Another important factor affecting GDP per capita is population growth. It has been observed that there is a negative correlation between population growth rates and income levels, although this correlation does not necessarily imply a causal relationship. Population growth has implications for the expansion of total capital and output at the steady state, even though capital per worker and output per worker remain constant. If the rate of population growth increases, then output per worker will decline, and the steady-state level of capital per worker will also decrease.

Thus, in order to sustain or improve high living standards, policymakers closely monitor population growth rates and may intervene if the growth rate is considered unsustainable. It is often noted that low population growth is associated with high income levels. However, there may be other factors linking low population growth with higher income levels, such as higher female labor force participation, greater access to education, and the availability of modern birth control methods.

From a neoclassical perspective, the final fundamental factor influencing real GDP growth is technological progress. In fact, this factor is considered essential in explaining the sustained improvements in living standards over time. Technological progress is incorporated into the model as a factor that causes labor efficiency to increase at a given rate.

In the steady state, the change in the capital stock is equal to the difference between investment and the break-even level of investment (which must compensate for depreciation, population growth, and the rate of technological progress). Therefore, an increase in the savings rate leads to a rising trend in

economic growth until the economy reaches its steady state. Once this point is reached, the growth rate of the economy depends solely on the rate of technological progress.

The unemployment rate is another key macroeconomic variable, as it reflects how efficiently an economy utilizes its resources. Unemployment cannot be reduced to zero, even when the economy operates at full capacity, due to the existence of frictional and structural unemployment. Frictional unemployment is defined as the time spent matching workers to available jobs. This period can vary significantly due to incomplete information about job vacancies, geographical immobility of workers, and wage rigidities.

Sectoral shifts occur frequently in an economy because demand for goods and services changes over time. As a result, workers may need time to adapt to new conditions, leading to transitional unemployment. The natural rate of unemployment is defined as the unemployment rate at which the economy is operating at full capacity. It reflects a low level of unemployment but accounts for frictional factors.

This natural rate of unemployment is sometimes associated with the concept of NAIRU—the Non-Accelerating Inflation Rate of Unemployment. If the actual unemployment rate falls below the NAIRU, inflation is expected to accelerate, as employers offer higher wages to attract workers. Conversely, if the actual unemployment rate is higher than the NAIRU, inflation is likely to remain subdued due to lower wage pressures.

When an economy is operating at full capacity, it is said to be at its natural or potential level of GDP. If actual GDP exceeds the potential level, the output gap becomes positive, and the economy experiences inflationary pressure.

The only way GDP can grow without triggering high inflation is either through a higher capital stock or through improvements in technological processes, both of which shift the production function outward.

The relationship between unemployment and real GDP growth is expected to be negative. Intuitively, this is because employed workers produce goods and services, whereas the unemployed do not contribute to output. Arthur Okun (1962) was the first economist to empirically study the relationship between unemployment and economic growth. Using data from the United States, he analyzed changes in the unemployment rate in relation to percentage changes in real GDP. The resulting graph showed a negative correlation, indicating that increases in unemployment tend to be associated with real GDP growth rates below the long-term norm.

The main objective of this paper is to analyze the impact of economic growth on employment in the agricultural sector in the case of Albania.

The objectives of the study are as follows:

1. To analyze the progress of economic growth in the agricultural sector in Albania during the period 2000–2024, by identifying the trends of agricultural GDP and the factors that have influenced it.
2. To examine the dynamics of employment in the agricultural sector during the same period, also analyzing the number of employed individuals in this sector.
3. To assess the statistical relationship between economic growth in agriculture and the level of employment in this sector, using regression models to measure the strength and direction of this relationship.
4. To identify whether economic growth in the agricultural sector is "jobless growth," or whether it has actually led to an increase in employment.
5. To analyze other factors that may affect this relationship, such as agricultural mechanization, rural migration, agricultural policies, subsidies, etc.
6. To provide policy recommendations for promoting more inclusive economic growth in agriculture that contributes to the creation of more jobs.

To achieve these objectives, the study employs an econometric approach using annual time series data from 2000 to 2024, sourced from INSTAT and the World Bank. A linear regression model is applied through EViews software to analyze the relationship between agricultural GDP and employment, enabling the estimation of key statistical indicators and trends.

To analyze whether there is a relationship between economic growth and employment in the agricultural sector, as well as to assess the level of its impact, linear regression has been used through the EViews software, which enables the estimation of econometric models and the interpretation of relevant statistical indicators. The coefficient resulting from the tests will serve as a key indicator of the relationship between sectoral economic growth and employment dynamics in the agricultural sector.

The research questions of the study are as follows:

1. Is there a statistically significant relationship between economic growth in the agricultural sector and the level of employment in this sector in Albania during the period 2000–2024?
2. What is the strength and direction of the impact of Gross Domestic Product growth in agriculture on the number of employed persons in this sector?
3. Can economic growth in the agricultural sector be considered "jobless growth," or has it led to a real increase in employment?
4. What are the main employment trends in the agricultural sector in Albania during the period 2000–2024?

Agriculture remains a cornerstone of Albania's economy, employing a large share of the labor force and contributing significantly to national GDP. Despite the global trend towards industrialization and service sector growth, agriculture continues to be a key livelihood source for rural populations, making the understanding of its dynamics crucial for inclusive economic development and poverty alleviation. This study contributes to policy debates by clarifying whether agricultural growth translates into meaningful employment opportunities.

The agricultural sector in Albania faces multiple challenges, including rapid mechanization, rural-urban migration, and the effects of climate change, which may decouple GDP growth from employment generation. Understanding these factors is essential for assessing whether growth in agriculture is truly inclusive or characterized by "jobless growth," where productivity gains do not translate into increased labor demand.

Employment growth in agriculture is closely linked to rural development and social stability. In Albania, where a substantial portion of the population lives in rural areas, job creation in this sector has significant implications for reducing poverty, curbing migration to urban centers or abroad, and fostering sustainable development.

While numerous international studies have explored the relationship between agricultural growth and employment, evidence from Albania remains scarce and fragmented. This study aims to fill this gap by providing an empirical analysis specific to the Albanian context, utilizing recent data and advanced econometric techniques.

The findings of this study are expected to provide valuable insights for policymakers and stakeholders, enabling the design of targeted interventions to promote sustainable agricultural growth and employment. By identifying whether growth in this sector leads to meaningful job creation, the study informs strategies for inclusive economic development in Albania.

The paper is structured into three main parts. The first chapter presents a review of the relevant literature, outlining the theoretical and empirical background. The second chapter discusses the theoretical framework and econometric methods employed. The third chapter is dedicated to empirical analysis and interpretation of the results, culminating in policy recommendations.

Literature Review

The role of agriculture in economic development has long been central to debates on structural transformation, particularly in low- and middle-income countries. Classical models, such as that of Lewis (1954), emphasized the reallocation of surplus labor from a low-productivity agricultural sector to a modern industrial

sector, viewing agriculture largely as a transitional phase toward industrialization. However, more recent literature offers a broader and more nuanced understanding of agriculture's contribution to development. Byerlee, de Janvry, and Sadoulet (2009) propose a new paradigm that places agriculture at the heart of development strategies, particularly in countries where large segments of the population remain engaged in farming. According to this perspective, agriculture plays multiple roles: driving economic growth, generating employment, reducing poverty, promoting gender equity, ensuring food security, and contributing to environmental sustainability. These functions are especially relevant in countries like Albania, where the agricultural sector still accounts for a significant share of both GDP and employment. The authors argue that the contribution of agriculture to development depends on how effectively its growth translates into labor absorption and income generation for rural populations—a point that is particularly pertinent when evaluating the link between agricultural GDP growth and employment, as this paper aims to do in the Albanian context.

Economic growth and its impact on employment represent one of the most widely debated topics in economic literature, particularly when examined within the context of specific sectors such as agriculture. The relationship between GDP growth and employment levels has drawn the attention of numerous scholars seeking to determine whether economic growth is consistently accompanied by job creation. In the case of the agricultural sector, the literature is divided between those who argue that agriculture can serve as an initial driver of development and employment, and those who contend that modernization and mechanization diminish its role in job creation, resulting in so-called "jobless growth."

Okun's Law (1962) has traditionally been applied to analyze the relationship between overall economic growth and unemployment, with the key insight being a negative correlation between GDP growth and unemployment rates. While originally focused on the U.S. economy, later research (e.g., Knotek, 2007; Lee, 2000) has shown that the Okun coefficient can vary significantly across countries and time periods. Sector-specific adaptations of Okun's Law have demonstrated that different economic sectors, such as agriculture, services, or industry, may exhibit varying dynamics depending on labor intensity, informality, and productivity trends. The agricultural sector, in particular, is often less sensitive to short-term economic fluctuations due to its dependence on seasonal cycles and climatic conditions. This complexity makes the application of Okun's insights to agriculture both challenging and necessary for deeper understanding.

Petty's Law, which describes the declining share of agriculture in national employment as economies develop, is another important theoretical lens. It underscores the tendency of labor to shift away from agriculture toward more productive sectors, even when agricultural output increases. This structural transformation is a defining feature of economic development and has profound

implications for employment analysis, especially in transition economies like Albania.

Abdelgawwad and Kamal (2023) examined the impact of agricultural investment and employment on the growth of Egypt's agricultural sector over the period 1991–2021, employing the ARDL model to explore both short- and long-term relationships. Their findings reveal that both variables exert a significant and stable influence on agricultural GDP. In the long run, agricultural employment and investment are key determinants, with a 1% increase in employment leading to a 3.73% rise in agricultural GDP. The authors advocate for increased public and private investment, enhanced human capital development, and expanded support services for farmers as essential drivers of agricultural and rural development.

Similarly, Timmer (2002) analyzed the role of agriculture in Congo Brazzaville's economic growth using ARDL models. The study concluded that agriculture significantly contributes to short-term economic growth, although its long-term influence diminishes unless supported by macroeconomic policies and diversification strategies. These findings reflect the dual role of agriculture as both a growth driver and a sector in transition.

Studies in transition and developing economies further highlight the complexity of the agriculture-employment-growth nexus. Miluka et al. (2010), focusing on Albania, emphasized the role of agriculture as a labor buffer, absorbing rural labor when non-farm job opportunities are limited. However, this often translates into low-productivity employment and hidden unemployment. Fuglie (2010) showed that mechanization, while boosting output, tends to reduce labor demand, especially among low-skilled workers.

In the Western Balkans, agriculture continues to serve as a major source of employment, especially in rural areas. However, rapid mechanization, aging rural populations, and rural-to-urban migration have altered the labor dynamics of the sector. As a result, agricultural growth in the region may not necessarily lead to proportional increases in employment. The World Bank (2021) stresses that inclusive agricultural growth requires targeted rural policies, land reform, improved infrastructure, and access to credit and extension services. These interventions can help ensure that productivity gains do not come at the cost of labor displacement.

Technological advancement has played a critical role in shaping the employment elasticity of agricultural growth. According to Fuglie (2010), technological change in agriculture has historically improved yields and efficiency, but not always employment. In fact, technology-driven productivity gains often reduce the need for labor, particularly in labor-intensive sub-sectors like crop harvesting.

While numerous international studies have explored the relationship between agricultural growth and employment, evidence from Albania remains scarce and fragmented. The few studies available tend to focus either on household income

or poverty reduction, with limited empirical research examining the employment elasticity of agricultural GDP growth. This study aims to fill this gap by providing a comprehensive analysis specific to Albania, utilizing updated time series data and rigorous econometric models. In doing so, it contributes to a better understanding of whether agricultural growth in Albania is inclusive and employment-generating, or if it exhibits characteristics of jobless growth.

This literature review has established a foundation for analyzing the employment effects of agricultural growth by integrating theoretical perspectives with cross-country evidence and regional challenges. It highlights the need for more granular, country-specific research—a gap this paper seeks to address through empirical analysis of the Albanian case.

Theoretical Framework of Okun's Law

Okun's Law represents a fundamental macroeconomic relationship linking changes in unemployment to fluctuations in real output (GDP). Initially formulated by Arthur Okun in the early 1960s, the law quantifies the inverse relationship between the unemployment rate and real GDP growth. The empirical relationship is commonly expressed as:

$$w(U^* - U) = (Y - Y^*) / Y^* \quad (1)$$

where:

- Y is the actual real GDP,
- U the actual unemployment rate,
- w is the Okun coefficient measuring the sensitivity of output to unemployment deviations.

The asterisk (*) denotes the potential or natural level of the respective variable,

- Y^* is the potential (natural) level of real GDP,
- U^* is the natural rate of unemployment,

This equation states that for every percentage point that unemployment falls below its natural rate, real GDP exceeds its potential level by 2%. In Okun's original empirical study for the United States,, Okun empirically estimated that approximately 2. This means that a one percentage point increase in unemployment leads to roughly a 2% decline in real GDP relative to its potential. Thus, Okun's Law provides a useful rule of thumb to quantify the output cost of unemployment fluctuations in an economy.

Since U^* and are Y^* are difficult to observe directly, researchers often use a reduced-form version of Okun's Law to estimate the relationship empirically, focusing on growth rates rather than levels.

To derive the growth rate formulation, we can expand equation (1) as follows:

$$wU^* - wU = Y / Y^* - Y^* / Y^* \quad (2)$$

We now derive equation (2) with respect to all variables. For the purpose of simplifying our analysis, we will consider Y^* (potential GDP) as a constant, assuming that potential output does not change in the short term. As a result, we obtain the following:

$$wdU^* - wdU - dY / Y^* - dY^* / Y^* \quad (3)$$

Gjithashtu do të supozojmë se ndryshimi i normës natyrore të papunësisë është $dU^*=0$. Me këtë supozim dhe riorganizim do të kemi se:

$$dY / Y^* = -wdU + dY^* / Y^* \quad (4)$$

Meqënëse norma potenciale e rritjes së PBB-së reale është përgjithësisht pranë normës reale të rritjes, si pasojë mund të bëjmë përafrimin e dY^*/Y me dY / Y. Ky modifikim mund të shfuqizohet në periudhën afatshkurtër, por në periudhën afatgjatë ajo është e qëndrueshme. Kështu që do të kemi:

$$dY / Y = -wdU + dY^* / Y^* \quad (5)$$

This equation highlights that the actual growth rate of real GDP is equal to the potential growth rate of GDP minus the product of the Okun coefficient and the change in the unemployment rate.

Using the Least Squares Method, Okun obtained an empirical value of w=2 dhe dY*/ Y*=3. and an estimated potential GDP growth rate by 3%. This implies that the potential growth rate of GDP is approximately 3 percentage points, and a 1 percentage point increase in the unemployment rate would result in a 2 percentage point decline in real GDP growth.

Originally, Okun's Law connected GDP growth to reductions in unemployment. However, in our study, rather than focusing on unemployment, we aim to examine the relationship between economic growth and employment growth. This methodological adjustment stems from significant inconsistencies in unemployment data reported by INSTAT (the Albanian Institute of Statistics). For example, at the end of 2014, administrative records from INSTAT indicated an unemployment rate of no more than 14%. Meanwhile, the Labour Force Survey,

conducted quarterly, reported an unemployment rate of 18%. Furthermore, if we were to calculate unemployment based on the active population seeking employment and the number of employed individuals from INSTAT's administrative sources, the unemployment rate could reach up to 26%.

Due to this instability and uncertainty in unemployment statistics, we are compelled to use the number of employed persons instead, as these data are comparatively clearer and relatively more reliable.

A common feature of economic development—observed both in capitalist and socialist countries—has been the relative decline in agricultural employment and the corresponding increase in industrial and tertiary sector employment. This trend is known as Petty's Law. According to this law, economic development unfolds in three distinct phases:

1. In the initial phase, agricultural employment dominates and continues to grow, albeit at a slower pace than employment in non-agricultural sectors.
2. In an intermediate phase of stagnation, employment in agriculture begins to decline significantly relative to employment in industry and services.
3. In the final phase, agricultural employment decreases sharply while industrial and service sector employment expands rapidly.

In France, the first phase lasted until the mid-20th century, the second phase continued until the end of World War II, and the third phase began thereafter. A similar evolution occurred in the United Kingdom. In the United States, agricultural employment increased slowly until the end of the 19th century, remained stable until the onset of the Great Depression, and then began a clear downward trend starting around 1935.

Where does Albania stand in this trajectory?

It would be reasonable to assume that GDP growth in Albania's agricultural sector—rather than leading to an increase in agricultural employment—may in fact cause a decline in employment due to the adoption of new technologies and mechanization. This shift reflects the broader transformation experienced by other economies as they progressed through the stages described by Petty's Law.

Okun's Law is a well-studied concept in macroeconomics and has been widely used to understand the relationship between unemployment and economic growth. Okun (1962) was the first to formulate this relationship, while more recent studies have examined variations in the Okun coefficient over time and across different countries (Ball & Mankiw, 2002). For example, Ball and Mankiw (2002) argue that the Okun coefficient can vary depending on the economic context,

influenced by factors such as monetary policy and labor market structure. In cases where unemployment statistics are inaccurate or unreliable (as often happens in developing countries), the use of employment indicators can be a more stable alternative for analysis (Klas & Gordon, 2004). This is because employment figures are often easier to measure. In developing countries, where informality is high, official unemployment rates are often underestimated, making employment the main indicator of labor market conditions (Fields, 2011). The agricultural sector in Albania continues to play an important role in the national economy, accounting for a significant share of GDP and employment (INSTAT, 2023). According to the latest data, the agricultural sector's share of GDP is about 20%, while approximately 40% of the active labor force works in this sector. Modernization and mechanization are bringing changes to the employment structure, with a tendency towards a decline in agricultural employment, reflecting the structural transformation of the Albanian economy. Petty's Law describes the inter-sectoral transformation of employment during economic development, where the share of agricultural employment decreases while that in industry and services increases (Timmer, 1988). This regularity has been observed in many countries and is important for understanding the challenges and opportunities presented by the agricultural sector in Albania's transformation process. According to Timmer (1988), transition countries like Albania experience different phases of this process, where growth in agricultural GDP is not always accompanied by growth in agricultural employment due to technology and mechanization. Studying the relationship between agricultural GDP growth and employment is very important for formulating development policies in Albania. Understanding this relationship helps identify ways to stimulate economic growth by creating jobs in the rural sector and promoting sustainable development (World Bank, 2021). Moreover, effective policies should address challenges such as mechanization, rural migration, and adaptation to climate change, which directly affect employment dynamics in agriculture. This study aims to contribute to the existing literature by providing an empirical analysis of the relationship between agricultural GDP growth and employment in Albania, using reliable employment data. The econometric methods used, including ARDL models, will help test Okun's Law in this specific context, offering valuable insights for policymakers and development researchers.

Model Analysis

In the case of Albania, the analysis is based on annual data. This choice is primarily due to the lack of high-frequency, sector-disaggregated data for the Albanian economy. Sectoral data with quarterly frequency are only available from 2005 onward. Therefore, we have opted to use annual data on GDP and the number of

employed individuals in the agricultural sector, covering the period from 2000 to the present.

This approach is also consistent with the methodology adopted by Knoester (1986), Paldam (1987), and Musa (1997), who employed annual data in their estimations of Okun's Law. Given the data constraints and the objective of this study, the use of annual time series is considered both appropriate and methodologically sound.

TABLE 1: Trends of the number of employed persons and GDP (in million ALL) in the agriculture sector.

Year	Agriculture Employment	GDP Agriculture
2000	761000	114718
2001	526337	119492
2002	526290	126105
2003	533639	138662
2004	542152	141642
2005	542179	141842
2006	542000	144623
2007	541860	156522
2008	496100	170957
2009	501427	178721
2010	496036	206669
2011	503854	220418
2012	525384	235173
2013	500529	257223
2014	479538	270290
2015	468755	272274
2016	454454	285654
2017	432435	286765
2018	434478	299051
2019	413140	310628
2020	411551	311176
2021	408600	330312
2022	401223	362246
2023	396002	383434
2024	392143	310628

Source: INSTAT

From 2000 to 2024, Albania's agricultural sector underwent a gradual but clear structural transformation. At the beginning of this period, agriculture employed a substantial portion of the workforce, with over 760,000 people working in the sector in 2000. However, employment declined sharply in the early 2000s (dropping by nearly 30% between 2000 and 2001) and continued to fall steadily in the following years. By 2024, the number of people employed in agriculture had nearly halved, falling to around 392,000.

Despite the declining number of workers, the sector's economic output steadily increased. Agricultural GDP more than tripled, rising from approximately 114 billion ALL in 2000 to a peak of over 383 billion ALL in 2023. This growth in output, alongside shrinking employment, reflects rising productivity and modernization within the sector. Advances in technology, improved farming techniques, and structural reforms likely contributed to this shift, allowing fewer workers to generate more economic value.

However, in 2024, agricultural GDP experienced a notable decline, falling back to the 2019 level. This drop may suggest temporary disruptions or underlying vulnerabilities, such as climate-related challenges, price fluctuations, or global market pressures.

Overall, the data highlights a transition from labor-intensive to more capital- and technology-intensive agricultural production in Albania, in line with broader economic development patterns. While this transformation has improved productivity, it also underscores the importance of managing rural employment and ensuring that those exiting agriculture find opportunities in other sectors of the economy. The contraction of the agricultural sector has also been driven by increased emigration from rural areas to Northern and Western Europe, particularly following the end of the COVID-19 pandemic.

TABLE NR.2: Agriculture sector: GDP and employment growth in percentage terms

Year	Agriculture Employment	GDP Agriculture	Employment change	GDP change
2001	526337	119492	-30.84%	4.16%
2002	526290	126105	-0.01%	5.53%
2003	533639	138662	1.40%	9.96%
2004	542152	141642	1.60%	2.15%
2005	542179	141842	0.00%	0.14%
2006	542000	144623	-0.03%	1.96%
2007	541860	156522	-0.03%	8.23%
2008	496100	170957	-8.44%	9.22%
2009	501427	178721	1.07%	4.54%
2010	496036	206669	-1.08%	15.64%
2011	503854	220418	1.58%	6.65%

2012	525384	235173	4.27%	6.69%
2013	500529	257223	-4.73%	9.38%
2014	479537	270290	-4.19%	5.08%
2015	468755	272274	-2.25%	0.73%
2016	454454	285654	-3.05%	4.91%
2017	432435	286765	-4.85%	0.39%
2018	434478	299051	0.47%	4.28%
2019	413140	310628	-4.91%	3.87%
2020	411551	311176	-0.38%	0.18%
2021	408600	330312	-0.72%	6.15%
2022	401222	362246	-1.81%	9.67%
2023	396001	383434	-1.30%	5.85%
2024	392142	397998	-0.97%	3.80%

Source: INSTAT, Author

Between 2001 and 2024, Albania's agriculture sector experienced contrasting trends in employment and economic output, pointing toward a long-term process of structural transformation and productivity gains.

In terms of employment, the sector saw a consistent decline over the two decades. The most dramatic drop occurred in 2001, when agricultural employment fell by nearly 31% compared to the previous year. This likely reflects methodological adjustments or significant labor shifts during the early post-transition period. While the pace of decline slowed in subsequent years, the downward trend remained evident. Minor positive fluctuations in employment—such as in 2003 (1.4%), 2004 (1.6%), and 2012 (4.27%)—were exceptions rather than the norm. Overall, from 2001 to 2024, agricultural employment shrank substantially, indicating a gradual withdrawal of labor from the sector, possibly due to mechanization, migration, and better opportunities in urban and non-agricultural areas.

In contrast, agricultural GDP generally followed an upward trajectory. Although annual growth rates varied, the sector recorded positive GDP growth in nearly every year, with particularly strong performances in 2010 (15.64%), 2008 (9.22%), and 2022 (9.67%). This steady rise in output, despite falling labor input, suggests increased productivity per worker and greater efficiency in agricultural practices.

Occasional dips in employment did not always align with output declines. For instance, in 2010, despite a 1.08% drop in employment, agricultural GDP grew by over 15%, reflecting strong performance potentially linked to favorable climatic conditions or improved market conditions. Similarly, even in years like 2023 and 2024, when employment declined slightly, GDP continued to grow by 5.85% and 3.8% respectively.

The contrast between shrinking employment and growing GDP points to an important dynamic: the modernization and capital-intensification of Albanian agriculture. As fewer people work the land, technological adoption and efficiency gains have enabled the sector to maintain, and even expand, its economic contribution.

While fewer Albanians are working in agriculture, the sector has become significantly more productive, contributing steadily to economic growth, even amid demographic and structural shifts.

Methodology

To identify the translation coefficient of Gross Domestic Product (GDP) in the agricultural sector, the statistical software EViews was used, applying the Least Squares Method. The two variables analyzed in the regression model are Gross Domestic Product (denoted by the acronym GDP) and employment in the agricultural sector (denoted by the acronym E).

In this analysis, the dependent variable is the number of employed individuals, while the independent variable is the GDP of the agricultural sector over the time period from 2000 to 2024. The next step involves interpreting the statistical results, focusing on the estimation of the model parameters as provided by the software output.

The model proposed in this paper is represented by the following equation:

$$Y_t = \beta_0 + \beta_1 X_t + \varepsilon_t$$

In the model, Yt (the dependent variable) represents the number of employed individuals in the agricultural sector in period ttt, while Xt (the independent variable) denotes the value of Gross Domestic Product at constant prices for the same period.

The first regression links these two variables using their original, untransformed values. The results of the analysis suggest that the relationship between them appears to be largely random, and from a statistical standpoint, the significance level is relatively weak, as the p-value exceeds 5%, although it does not reach the 10% threshold.

1st regression

Dependent Variable: E
Method: Least Squares
Sample: 2000 2024
Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	661346.6	64914.51	10.18796	0.0000
PBB	-0.684506	0.350360	-1.953720	0.0744

R-squared	0.241324	Mean dependent var	538502.6
Adjusted R-squared	0.178101	S.D. dependent var	66598.01
S.E. of regression	60376.87	Akaike info criterion	24.98616
Sum squared resid	4.37E+10	Schëarz criterion	25.07746
Log likelihood	-172.9031	Hannan-Quinn criter.	24.97771
F-statistic	3.817022	Durbin-Watson stat	1.304380
Prob(F-statistic)	0.074443		

The first regression yields a slope coefficient of –0.6845, with a p-value of 0.0744. This leads us to fail to reject the null hypothesis at a 5% level of significance ($\alpha = 0.05$), indicating that the variable is not statistically significant.

The second regression, however, produces more satisfactory results in the context of Okun's Law, as it is based on the logarithmic transformation of both variables. Taking the natural logarithm of the variables serves to linearize the relationship between the evolution of real GDP and labor market variables. The log-log specification also enables more accurate modeling when dealing with positively skewed distributions and when the dependent variable is expressed in rates or percentages.

According to the results of the second regression, a 1% increase in Gross Domestic Product leads to a 0.236% decrease in employment in the agricultural sector.

2nd regression

Dependent Variable: LE
Method: Least Squares
Sample: 2000 2024
Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	16.03574	1.203878	13.32007	0.0000
LPBB	-0.235782	0.099750	-2.363739	0.0358

R-squared	0.317688	Mean dependent var	13.19068
Adjusted R-squared	0.260829	S.D. dependent var	0.107180
S.E. of regression	0.092148	Akaike info criterion	-1.799277
Sum squared resid	0.101895	Schëarz criterion	-1.707983
Log likelihood	14.59494	Hannan-Quinn criter.	-1.807727
F-statistic	5.587262	Durbin-Ëatson stat	1.393826
Prob(F-statistic)	0.035807		

The second regression involves the logarithmic transformation of both variables. The analysis shows that the probability (p-value) associated with the independent variable (GDP) is 0.0358, which is less than 5%. This indicates that the variable is statistically significant and plays an important role in explaining the dependent variable—in this case, employment in the agricultural sector. The regression results also reveal an inverse relationship between the two variables.

Furthermore, the F-statistic is reported as 5.587262, with a corresponding prob(F-statistic) = 0.0358, again below the 5% threshold. This confirms that the model as a whole is statistically significant, implying that the dependent variable, employment (LE), is meaningfully influenced by the independent variable, log GDP (LPBB).

The result is an average growth rate of 5.38%, which is used as a baseline for forecasting in subsequent years.

It is important to note that the exact value of future agricultural GDP growth is not crucial for the following analysis. What matters is the inverse relationship observed between economic growth and employment in the agricultural sector. Specifically, if the growth rate of the agricultural sector falls below 5.38%, the decline in employment will be more gradual. Conversely, if agricultural growth exceeds 5.38%, the decline in employment is expected to occur at a faster pace.

TABLE 3: Forecasting changes in agricolture GDP and employment, in Albania.

Year	Agriculture Employment	GDP Agriculture	Employment change	GDP change
2001	526337	119492	-30.84%	4.16%
2002	526290	126105	-0.01%	5.53%
2003	533639	138662	1.40%	9.96%
2004	542152	141642	1.60%	2.15%
2005	542179	141842	0.00%	0.14%
2006	542000	144623	-0.03%	1.96%
2007	541860	156522	-0.03%	8.23%
2008	496100	170957	-8.44%	9.22%
2009	501427	178721	1.07%	4.54%
2010	496036	206669	-1.08%	15.64%
2011	503854	220418	1.58%	6.65%
2012	525384	235173	4.27%	6.69%
2013	500529	257223	-4.73%	9.38%
2014	479538	270290	-4.19%	5.08%
2015	468755	272274	-2.25%	0.73%
2016	454454	285654	-3.05%	4.91%
2017	432435	286765	-4.85%	0.39%
2018	434478	299051	0.47%	4.28%
2019	413140	310628	-4.91%	3.87%
2020	411551	311176	-0.38%	0.18%
2021	408600	330312	-0.72%	6.15%
2022	401223	362246	-1.81%	9.67%
2023	396002	383434	-1.30%	5.85%
2024	392143	397998	-0.97%	3.80%
2025	387166	419410	-1.27%	5.38%
2026	382255	441975	-1.27%	5.38%
2027	377406	465753	-1.27%	5.38%
2028	372618	490810	-1.27%	5.38%
2029	367891	517216	-1.27%	5.38%
2030	363224	545042	-1.27%	5.38%

Source: Instat, Author

According to the above projection, if the agriculture sector grows by 5.38%, it is expected that the number of employed persons will decrease by approximately 40,000 units during the period 2025–2030.

The theoretical trend suggests that when a country experiences economic growth, this is typically accompanied by a decline in employment levels in the agricultural sector. As demonstrated in the case of Albania, this dynamic clearly holds true. Viewed from a long-term perspective, between 2000 and 2024, the sector's GDP increased by 3.3 times in current prices, while the number of employed persons decreased by about 370,000, or -45%. This downward trend clearly confirms the relevance of Petty's Law, which suggests that as economies develop, the share of labor in agriculture declines.

However, this projection assumes that there will be no change in the other variables affecting employment (ceteris paribus). These variables include potential technological shocks, long-term and intensified efforts to combat informality, as well as significant climatic or geological changes within the territory of Albania.

Limitations

While regression analysis can provide useful insights into the relationship between agricultural GDP and employment, several limitations must be considered:

- Regression can identify correlations but cannot definitively establish causality. Changes in agricultural GDP and employment may both be influenced by external factors not captured in the model, leading to spurious relationships.
- The regression may omit important variables that influence either agricultural GDP or employment, such as technological advancements, policy changes, migration flows, climate variability, or capital investments. Excluding these variables can bias the estimated relationship between GDP and employment.
- Agricultural employment data often suffer from underreporting or inconsistencies, especially regarding informal or seasonal workers. Similarly, GDP figures may be affected by estimation errors or revisions. Such measurement errors can weaken the reliability of the regression results.
- Time series data on GDP and employment may exhibit trends, cycles, or structural breaks due to economic reforms, shocks, or crises (e.g., financial crises or pandemics). Ignoring these features can lead to misleading regression outcomes and poor model fit.
- Employment and GDP might be simultaneously determined; for instance, higher GDP could affect employment, and employment levels can influence GDP. This simultaneity can cause endogeneity, violating regression assumptions and leading to biased estimates unless properly addressed.

- Regression results typically represent average effects and do not account for heterogeneity across regions, types of agriculture, or worker characteristics (e.g., gender, age, skill levels), which may affect the interpretation and policy relevance.

Conclusions and Recommendations

Since the late 1990s, the number of individuals employed in the agricultural sector in Albania has declined gradually and consistently, while Gross Domestic Product (GDP) in the same sector has followed a steadily increasing trend. There is little reason to believe that these trends will not continue into the future.

The preceding analysis has demonstrated the inverse relationship between economic growth and employment in the agricultural sector, a dynamic that is clearly observable in the case of Albania. The regression results indicate that for every 1% increase in agricultural GDP, employment in the sector declines by approximately 0.236%. Based on this trend, it is projected that by 2030, at least 40,000 workers will have exited employment in agriculture.

The positive news of economic growth in the agricultural sector should prompt policymakers to simultaneously focus on identifying alternative employment opportunities for individuals who will no longer be engaged in agricultural labor. Albania is likely to face serious employment challenges in the coming years—not only due to the influx of young people entering the labor market and the currently unemployed, but also as a result of the displacement of a portion of the agricultural workforce.

Some Albanian economists and policymakers naively assume that increasing productivity in the agricultural sector will automatically lead to higher employment within the same sector. This belief is also reflected in official policy documents and media statements. Such assumptions underscore the superficial nature of previous development strategies regarding both the agricultural sector and the associated employment policies.

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Between Efficiency and Accountability: A Survey-Based Analysis of Albania's Territorial Reform Outcomes

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Abstract

This study evaluates the outcomes of Albania's 2015 Administrative and Territorial Reform (ATR), which aimed to improve public service delivery, enhance local autonomy, and align local governance with European standards. The reform reduced the number of local government units from 373 to 61 municipalities, expanding their responsibilities and territorial coverage. However, nearly a decade later, concerns persist regarding the effectiveness and equity of service provision.

Using a structured questionnaire distributed to 248 citizens across five counties—Tirana, Shkodra, Vlora, Elbasan, and Gjirokastra—the study assesses perceptions of municipal service delivery in infrastructure, social services, education and culture, economic development, and security. Results indicate widespread dissatisfaction: 89% of respondents preferred the quality of services before the reform. Key issues include poor infrastructure maintenance, limited access to public transport, inadequate social services, and weak municipal support for local economic activity. In rural areas, 15% of citizens report receiving no infrastructure services at all.

The study also highlights persistent gaps in fiscal decentralization, with municipal budgets remaining stagnant at around 1% of GDP, constraining local capacity to implement new functions effectively. Citizens also exhibit low awareness of administrative roles, reflecting a disconnection between local institutions and communities.

These findings suggest that the ATR has fallen short of its intended goals, weakening institutional proximity and reducing accountability. The study calls for a reassessment of Albania's decentralization strategy and territorial organization to better reflect citizen needs and institutional capabilities.

Keywords: *Territorial reform, Local Governance, Albania, Citizen Perception, Decentralization*

Theoretical background

The 2015 Administrative and Territorial Reform (ATR) represents one of the most significant transformations of Albania's local governance framework since the country's democratic transition in the early 1990s. Prior to the reform, Albania was characterized by a highly fragmented administrative structure consisting of 373 local government units, many of which lacked the institutional, fiscal, and human capacities to provide even basic public services. This fragmentation hindered development planning, deepened urban–rural disparities, and limited access to quality services in peripheral areas. The ATR, legislated through Law No. 115/2014 and subsequently operationalized by Law No. 139/2015 "On Local Self-Government", reduced the number of municipalities to 61 with the aim of promoting economies of scale, improving service delivery, and strengthening local democracy. The reform was designed in alignment with broader decentralization and EU integration objectives, as outlined in the National Cross-Cutting Strategy for Decentralization and Local Governance (2015–2020). It sought to establish municipalities as primary governance units with increased responsibilities over infrastructure, education, health, economic development, and social protection. International development partners such as the European Union, UNDP, and the Swiss Cooperation supported the reform process, emphasizing its strategic role in achieving subsidiarity, increasing citizen participation, and reducing regional inequalities. As such, the ATR marked a shift from formal decentralization toward functional and fiscal empowerment of local governments, positioning municipalities as central actors in Albania's democratic consolidation and public administration modernization efforts.

The 2015 Administrative and Territorial Reform (ATR) in Albania marked a critical juncture in the country's effort to modernize its local governance system.

By reducing the number of local government units from 373 to 61 municipalities, the reform aimed to achieve economies of scale, improve the efficiency and quality of public services, and reinforce fiscal and administrative decentralization. Enshrined in Law No. 139/2015 "On Local Self-Government" and guided by the National Cross-Sector Strategy for Decentralization and Local Governance 2015–2020, the reform aimed to modernize Albania's local governance model by aligning municipal responsibilities with European principles of good governance, subsidiarity, and fiscal transparency. Law No. 139/2015 redefined the legal and functional framework for municipalities, granting them a broader mandate in key public service domains such as local infrastructure, education, social protection, environmental management, and local economic development. The law emphasizes citizen-centered governance by mandating inclusive decision-making processes, participatory budgeting, and institutional accountability at the local level.

The accompanying strategy—developed with support from international partners—outlined a comprehensive roadmap to strengthen local administrative and fiscal capacity, reduce vertical and horizontal fragmentation, and promote balanced regional development. It explicitly linked Albania's decentralization efforts to the requirements of the European Charter of Local Self-Government and the broader EU accession framework, which prioritizes effective multi-level governance, citizen participation, and subsidiarity. The strategy also identified measurable objectives related to public service delivery standards, intergovernmental coordination, fiscal autonomy, and civic engagement. Together, the legal and strategic foundations of the ATR signaled a shift from a highly centralized and fragmented governance system toward a more integrated, capable, and accountable model of local administration—intended not only to address internal inefficiencies but also to harmonize Albania's governance architecture with European norms and best practices.

From a theoretical perspective, decentralization is expected to enhance public sector performance by bringing decision-making closer to citizens, fostering greater accountability, and improving resource allocation through local knowledge (Tiebout, 1956; Oates, 1972). The literature distinguishes between administrative, political, and fiscal decentralization, with each dimension contributing differently to outcomes such as service delivery, citizen participation, and development equity (Rondinelli, 1981; Smoke, 2003). However, in transitional and post-authoritarian settings, decentralization processes often encounter challenges such as institutional fragmentation, weak capacity at the local level, and a lack of genuine fiscal autonomy (Shah & Thompson, 2004; Faguet, 2014).

Empirical research in Eastern Europe and the Western Balkans shows that reforms aimed at decentralization frequently struggle with implementation gaps. While legal frameworks may provide for expanded local competences,

municipalities often lack the financial resources, human capital, and administrative tools to perform their functions effectively (Kopecký et al., 2008; Keuffer & Ladner, 2018).

Recent studies have reinforced these findings in the Albanian and Balkan context. Ciro, Toska, and Gjiknuri (2021) noted that although Albania's municipal budgets increased from 1.8% of GDP in 2015 to 3.1% in 2019, municipalities remain financially dependent and struggle to fulfill their expanded mandates. The Institute for Democracy and Mediation (2022) emphasized persistent gaps in legal clarity, weak intergovernmental coordination, and regional disparities in service delivery. Moreover, NALAS (2024) highlighted that Albania still lags behind its regional peers in subnational revenue mobilization and local fiscal autonomy. Comparative assessments by UNDP (2021) and the European Commission echo similar concerns about the limited effectiveness of functional decentralization and the need to match legal reforms with implementation capabilities.

Together, these studies underscore systemic gaps: continued dependency on central funding, weak local capacities, coordination bottlenecks, and persistent urban–rural divides. For example, NALAS (2024) shows that while the average share of subnational revenues as a percentage of GDP in the EU is around 10%, Albania and several Western Balkan countries remain below 3%, highlighting a considerable fiscal autonomy deficit. Moreover, in countries like North Macedonia and Bosnia and Herzegovina, similar decentralization efforts have faced setbacks due to political instability and fragmented intergovernmental relations, demonstrating that Albania's challenges are not isolated but reflect broader regional trends. These findings corroborate observations in this study regarding limited fiscal decentralization, weak institutional proximity, and citizen dissatisfaction post-ATR—reinforcing the urgency of reforms aimed at strengthening local autonomy and accountability. continued dependency on central funding, weak local capacities, coordination bottlenecks, and persistent urban–rural divides. They corroborate observations in this study regarding limited fiscal decentralization, weak institutional proximity, and citizen dissatisfaction post-ATR—reinforcing the urgency of reforms aimed at strengthening local autonomy and accountability.

This study investigates the extent to which the objectives of the ATR have translated into tangible improvements in municipal service delivery from the perspective of citizens. Using a structured survey instrument administered to 248 respondents across five representative counties—Tirana, Shkodra, Vlora, Elbasan, and Gjirokastra—the study evaluates satisfaction levels across four macro-areas of municipal responsibility: infrastructure, social services, education and culture, and economic development and security. The design of the survey instrument is grounded in the legal mandate for municipal functions, as defined in Law 139/2015. Each section of the questionnaire was directly mapped to specific categories of municipal responsibility outlined in the law, such as infrastructure services (e.g.,

roads, waste management), social care, education and cultural programming, and local economic development. This structure ensured that each function was translated into at least one question, allowing the research to assess how well municipalities are fulfilling their statutory duties from the citizen's perspective.

By combining empirical data with policy analysis, the study examines whether the consolidation of municipalities has enhanced local service provision or whether it has exacerbated gaps—particularly between urban and rural areas. It also explores the relationship between perceived service quality and administrative proximity, testing the hypothesis that territorial enlargement has weakened the visibility and responsiveness of local governments in peripheral areas.

The findings offer both a diagnostic and a normative contribution. First, they provide a snapshot of service delivery challenges nearly a decade after the ATR's implementation. Second, they contribute to the scholarly debate on the effectiveness of territorial consolidation reforms in improving governance outcomes in emerging democracies. Ultimately, the research aims to inform ongoing discussions on decentralization, subsidiarity, and the redesign of Albania's administrative map by drawing on theoretical frameworks that emphasize the importance of aligning local governance structures with citizen proximity, fiscal autonomy, and service responsiveness. These frameworks, rooted in public choice and fiscal federalism theories, highlight the need for decentralization processes to be accompanied by adequate institutional and financial capacity at the local level to ensure meaningful improvements in governance outcomes. in light of citizen preferences and institutional capacity.

Methodology

In order to measure the perception of the citizens for the services that must be provided by the municipalities, according to law no. 139/2015, was design a questionnaire with 22 questions. About 21 of them are related to the 42 municipal services that the local government should offer and the last question refers to the personal assessment of citizens for the quality of services provided before and after the Administrative and Territorial reform of 2015. From the number of questionnaires distributed, 248 of them were collected with answers.

The questions set in the questionnaire were compiled taking into account the competences and services that the municipalities must offer to the community by law.

The designed questionnaire is divided into five parts. The first part refers to the tasks of maintaining and building infrastructure in the territory. The second part is related to the social services that municipalities must provide to citizens. In the third part, are highlighted the competences that the local government has in the

education field and culture and the fourth part reveals what the local government can do to improve the economic and security situation of its own territory. The fifth and last part aims to get the opinion of the citizens about their current situation (if they receive better services and feel the local government closer to them now) or were they more satisfied with the Administrative and Territorial division before 2015 Reform.

The questionnaire consisted of 23 items, organized into five thematic sections: (1) Infrastructure; (2) Social Services; (3) Education and Culture; (4) Economic Development; and (5) Public Safety. These areas directly reflect the functional responsibilities assigned to municipalities under Law No. 139/2015 "On Local Self-Government," ensuring a tight alignment between statutory obligations and empirical assessment. Each function was operationalized into one or more survey questions, enabling the study to evaluate whether municipal service delivery meets legal expectations from the perspective of end-users.

The survey design employed a mixed-methods approach, integrating three types of questions:

Likert-scale items to assess satisfaction levels (ranging from "Very Unsatisfied" to "Very Satisfied"), Binary (Yes/No) items to evaluate the existence or absence of specific public services in the respondent's locality, Open-ended prompts to collect qualitative feedback and provide contextual nuance.

This structure was chosen to balance quantitative comparability with qualitative insight. The Likert-scale items enabled the aggregation of satisfaction trends across regions, while binary questions identified service delivery gaps. The open-ended responses offered additional interpretive depth, revealing patterns of administrative visibility, trust, and perceived institutional effectiveness. The selection of items also drew upon prior empirical studies on local governance in the Western Balkans. Reports from NALAS (2024) and UNDP (2021) emphasized the importance of evaluating citizen trust and perception of service delivery as reliable proxies for local government performance. By echoing this approach, the current study contributes to a broader regional literature while maintaining specificity to Albania's institutional and legal framework. The design of the questionnaire was strategically aligned with the legal responsibilities conferred to municipalities by Law No. 139/2015. Each of the four macro-areas—infrastructure, social services, education and culture, and economic development and safety—reflects a set of concrete functions for which local governments are directly responsible. These categories were not arbitrarily chosen; rather, they are grounded in the national legislative framework, ensuring that the study assesses local government performance precisely where their mandates are clearest and most enforceable.

For instance, the infrastructure section includes items related to road maintenance, street lighting, and flood protection—functions explicitly outlined in Article 22 of Law 139/2015. Similarly, social services and economic development

are addressed in Articles 24 and 26, which assign to municipalities the responsibility for local welfare programs, business support, and territorial development. Each question in the survey corresponds to one or more of these legal functions, allowing the research to systematically assess whether municipalities are meeting their legal obligations from the citizen's perspective.

Furthermore, embedding the questions in statutory categories allowed the study to explore more than satisfaction alone—it provided insights into compliance gaps, implementation barriers, and policy misalignments. This framing ensures that the analysis is not merely descriptive but can inform legal and policy reforms by identifying where institutional responsibilities fail to translate into practice.

In light of public choice theory and fiscal federalism, this operational structure is especially relevant. Both theories emphasize the necessity of local institutions being both visible and responsive to citizens. By empirically testing whether enlarged municipalities have preserved that visibility and accountability, the study situates itself within a growing literature on the limits of top-down decentralization in transition economies and provides evidence-based suggestions for recalibrating Albania's decentralization trajectory.

To ensure a representative and meaningful evaluation of citizen perceptions regarding municipal service delivery post-ATR, the questionnaire process was conducted in five counties of Albania: Shkodra, Vlora, Tirana, Elbasan, and Gjirokastra. These counties were strategically selected based on several key criteria to capture the diversity of territorial, demographic, and socioeconomic characteristics present across the country. First, population density was considered to include both densely populated urban areas, such as Tirana, and more sparsely populated rural regions, such as Gjirokastra. This allows the study to examine how the reform has impacted service delivery in areas with differing population pressures and infrastructural demands. Second, the selection aimed to achieve balanced representation between urban and rural municipalities, as this distinction is critical in understanding the equity of service provision—a core objective of the 2015 reform. For instance, Elbasan and Shkodra encompass both urban centers and large peripheral rural zones, making them ideal for assessing disparities in access and responsiveness. Third, the geographic distribution of the selected counties—spanning northern (Shkodra), central (Tirana, Elbasan), southern (Vlora), and southeastern (Gjirokastra) Albania—ensures national territorial coverage and enhances the generalizability of the findings. This geographic spread also allows for an exploration of how administrative distance from the central government may influence perceptions of service quality and institutional proximity. Lastly, the selected counties reflect a range of economic profiles and governance capacities, from the capital city of Tirana, with its higher fiscal and administrative resources, to smaller municipalities that face persistent budgetary and staffing constraints. This diversity offers a robust basis for comparison and helps identify structural

and contextual factors that may shape reform outcomes differently across regions.

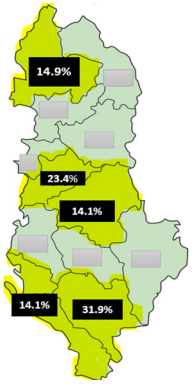
To enrich the qualitative depth of the data and ensure a pluralistic perspective on municipal service delivery, a series of structured and semi-structured meetings were organized with individuals from a broad cross-section of society. These included representatives of local government institutions, who provided insight into administrative challenges and resource constraints, as well as members of non-profit and civil society organizations, whose community-level engagement offered a valuable perspective on grassroots needs and institutional responsiveness. To capture the diversity of citizen experiences, efforts were made to include individuals with varied political preferences, ensuring that feedback was not limited by partisan alignment and could reflect a broader consensus—or divergence—on reform outcomes.

Additionally, the meetings brought together entrepreneurs and business owners, whose input was essential in assessing municipal support for local economic development, an area explicitly covered by the reform mandate. Retired individuals contributed valuable longitudinal perspectives, comparing pre- and post-reform service delivery, while youth participants highlighted generational expectations for local governance, digital accessibility, and future-oriented services. Women's participation was emphasized to explore potential gendered disparities in access to social services and civic engagement opportunities. Finally, individuals from a range of professions—including educators, healthcare workers, farmers, and artisans—provided sector-specific feedback on how well municipalities were meeting their statutory obligations across different service domains.

This inclusive and diversified approach to participant selection not only strengthened the validity of the qualitative data but also aligned with the reform's objective of fostering participatory governance and citizen-centered public administration.

The following map shows the distribution of questionnaires in these counties, as a percentage of the total, for which answers were received.

FIGURE 1 Distribution of questionnaires in 5 districts (by the author)



Data analysis

The empirical foundation of this study is a structured survey instrument administered to 248 respondents across five representative counties—Tirana, Shkodra, Vlora, Elbasan, and Gjirokastra. The goal of the data collection was to assess citizens' perceptions of municipal service delivery nearly a decade after the implementation of the Administrative and Territorial Reform (ATR) in Albania. The selected regions were chosen to ensure geographic, demographic, and economic diversity, capturing both urban and rural perspectives.

Preliminary descriptive statistics were used to quantify general trends in service coverage and satisfaction. For instance, 89% of respondents indicated a preference for the pre-reform system, citing improved institutional proximity and timeliness. Meanwhile, 15% reported receiving no infrastructure services at all, and 56.5% noted the absence of public transport—particularly acute in rural municipalities.

To deepen interpretation, results were examined in light of decentralization frameworks. The observed dissatisfaction and uneven service provision align with regional trends noted in recent literature (Ciro et al., 2021; IDM, 2022; NALAS, 2024), which emphasize that in the absence of adequate fiscal autonomy and institutional capacity, territorial consolidation alone cannot ensure improved governance outcomes. Moreover, findings are consistent with fiscal federalism theory, which asserts that functional decentralization must be accompanied by financial resources and administrative proximity to enhance responsiveness and efficiency (Oates, 1972; Shah & Thompson, 2004).

Overall, the data analysis confirms a persistent disconnect between legal mandates and implementation realities in post-ATR Albania. The structured and legally grounded design of the survey instrument enhances the reliability of these insights, supporting the need for policy adjustments that recalibrate responsibilities, resources, and representational structures in local governance.

The following table shows in percentages the average evaluations that 248 citizens have given in relation to the services that the Local Government should offer. In the five large centers, the respondents assessed that in the macro field of infrastructure services that the municipalities must provide, the qualitative and quantitative level of these is quite low.

TABLE 1 Aggregated results of citizens' impressions in %

No.	Question	Very good	Relatively good	Bad	Very bad	Not offered
	INFRASTRUCTURE	4,4	30,2	34,4	13,1	15,0
1	How do you rate the supply with drinking water	13.7	44.8	34.3	2.8	2.8
2	How do you rate the drains	0.0	18.1	39.9	9.3	30.6
3	How do you rate floods protection infrastructures	5.6	22.2	13.7	5.2	51.2
4	How do you rate the maintenance of roads, public signage, and lighting.	2.8	31.0	45.6	16.9	2.0
5	How do you evaluate public transport	0.8	14.9	20.6	4.8	56.5
6	How do you rate cemetery maintenance	2.0	22.2	39.5	30.6	3.2
7	How do you rate the maintenance of parks, gardens, and public spaces	4.0	27.0	38.3	16.1	12.1
8	How do you rate the waste management service	6.5	36.7	38.7	10.9	1.2
9	How do you rate the maintenance of schools and nurseries	3.6	39.5	37.5	12.9	0.0
10	How do you rate maintenance of the infrastructure of primary health centers	8.1	55.2	23.0	10.5	0.8
11	How do you rate the work of the municipal police	0.8	20.6	47.6	24.2	4.8
	SOCIAL SERVICES	1,0	13.3	42,7	16,5	17,1
12	How do you rate the social aid	0.0	16.9	46.4	19.4	1.2
13	How do you rate the maintenance of community centers and social housing availability	2.0	9.7	39.1	13.7	33.1
	CULTURE & ENVIRONMENT	1,6	15,3	27,8	32,1	21,2
14	How do you rate the cultural heritage buildings maintenance	0.8	17.7	21.8	50.0	7.7
15	How do you rate the care for sports centers and libraries	2.4	12.9	33.9	14.1	34.7
16	What kind of contamination do you feel	Air	Water	Land	Noise	Radio-activity
		8.5	14.1	0.0	1.6	23.8
	ECONOMY & SECURITY	2,4	19,1	24,0	16,6	29,0
17	How do you rate agricultural infrastructure for sewerage, drainage, and irrigation.	2.8	12.5	44.8	32.3	5.6
18	How do you rate municipal markets to sell local products	5.2	16.5	26.6	18.1	31.5
19	Do you have any tax reduction or incentives	0.0	4.0	0.0	0.0	55.6
20	How do you rate fire service	1.6	42.7	25.4	16.9	11.3
21	How do you evaluate the role of municipal administrators in conflict prevention	2.4	19.8	23.0	15.7	41.1
	SUMMARIZE QUESTION					
22	Do you prefer the actual quality of service or the one before the Administrative Reform (2015)	After	11%	Before	89%	

Particularly, less than 35% of respondents were satisfied with these services, while 50% of the total were dissatisfied and 15% stated that they do not receive infrastructure services at all.

Moving on to specifics, we can say that the supply of drinking water has been satisfactory for more than 58% of the respondents, with the condition that we talked about the supply of water while avoiding the possibility of drinking it. Meanwhile, less than 20% of citizens estimated that they had adequate plants for the removal of dirty water. This means that in a large part of the country, the construction of a new infrastructure is needed for the treatment and disposal of polluted water, and although Albania is a country full of lakes and rivers. More than 70% of citizens are completely dissatisfied with the maintenance of flood protection infrastructures.

Even though large sums have been spent on the construction and reconstruction of roads, signage, and public lighting, only one-third of the citizens are satisfied with their quality and level of maintenance. The situation with the provision of the local public transport service is quite negative because more than half of the citizens declare that there is no such service in the places where they live. While only 15% of the total is satisfied with the presence and quality of this service.

The maintenance of public cemeteries was reported to be at unsatisfactory levels across all surveyed administrative units, reflecting a broader pattern of neglect in the management of essential but often overlooked public services. Respondents frequently described cemeteries as overgrown, poorly organized, and lacking basic infrastructure such as lighting, signage, or access paths. In some rural areas, families reported being responsible for the upkeep of burial grounds themselves, in the absence of any municipal intervention. This lack of attention not only raises concerns about public health and safety, but also indicates a failure to uphold cultural and community values associated with respect for the deceased—an issue that holds particular social importance in Albanian tradition.

Similarly, the maintenance of parks, gardens, and public recreational spaces was identified as highly problematic, with widespread dissatisfaction regarding the condition and availability of these amenities. Participants highlighted issues such as broken benches, damaged playgrounds, lack of greenery, insufficient lighting, poor sanitation, and lack of security, making many of these spaces either inaccessible or unsafe—particularly for children, the elderly, and people with disabilities. In several cases, formerly well-maintained community parks have deteriorated significantly since the reform, a trend that many residents attributed to budgetary constraints, limited local staff, and lack of clear administrative accountability.

These findings suggest that while territorial consolidation may have achieved formal administrative efficiency, it has also contributed to a loss of direct oversight and responsiveness in managing local public spaces. The poor state of cemeteries

and green areas reinforces the perception that municipalities have deprioritized smaller-scale services that are nonetheless vital to community well-being and local identity. It underscores the need for better resource allocation, routine maintenance planning, and community participation mechanisms to ensure that public spaces are preserved and improved in line with citizens' expectations and needs.

At the national level, the maintenance of primary health care infrastructure is generally perceived to be at relatively good levels, especially when compared to other municipal services. In most surveyed areas, citizens acknowledged the structural stability and basic functionality of health centers, noting that facilities were operational, accessible, and adequately equipped for routine health services. However, while physical infrastructure was generally considered acceptable, some participants raised concerns regarding limited staffing, short working hours, and a lack of specialized medical services, particularly in remote and rural communities. These limitations suggest that although the buildings themselves are in usable condition, the overall quality and continuity of healthcare provision may still fall short of citizen needs. In contrast, the maintenance of schools and nurseries was rated at moderately acceptable levels, with notable differences observed between urban and rural municipalities. In urban areas, many educational institutions were found to be functional and adequately maintained, although issues such as outdated heating systems, overcrowded classrooms, and insufficient learning materials were occasionally mentioned. In rural areas, however, school facilities were often described as in need of renovation, with some respondents reporting degraded infrastructure, lack of internet connectivity, and poorly maintained outdoor spaces.

These findings reflect uneven municipal performance in managing social infrastructure, influenced by factors such as local budget constraints, geographic disparities, and differing administrative capacities. While the overall condition of health centers, schools, and nurseries may be seen as relatively positive in comparison to services like public transport or waste management, the expectations for service quality and accessibility remain unmet in many localities. The results highlight the importance of pairing physical infrastructure maintenance with investments in staffing, equipment, and service quality, particularly in underserved areas. In a practically unanimous way, citizens reported being aware of the presence of the municipal police in their area; however, their perceptions of its role and effectiveness were overwhelmingly negative. While visibility was not an issue—respondents consistently acknowledged the physical presence of municipal police units in public spaces—nearly 80% of participants stated that they derived no tangible benefit from their presence. Citizens expressed frustration with what they described as a passive or symbolic role played by municipal police officers, noting that they often appeared to serve ceremonial or administrative functions rather

than actively contributing to public order, community safety, or the enforcement of local regulations.

Considering the social services, municipalities must offer them, from a legal point of view, throughout the country, but only 14% of citizens rate these as very good or good, while almost 90% of citizens express an assessment of the maintenance of community centers and the availability of social housing.

It is also clear from the interviewees that the local government has not shown even a priority and has not invested significantly in the maintenance of libraries, sports facilities, and cultural heritage facilities, on the contrary, more than 20% of citizens say that they are not maintained at all. Unfortunately, there are numerous examples in recent years where buildings of special historical, cultural, or environmental importance have been demolished or significantly altered with the explicit consent—or passive approval—of local institutions. These cases are often linked to weak enforcement of heritage protection laws, conflicts of interest, or a lack of coordination between municipal authorities and national oversight bodies. In some instances, protected buildings have been removed to make way for commercial developments, such as shopping centers or residential complexes, under the justification of promoting local economic growth. However, these decisions frequently disregard community sentiment, cultural preservation priorities, and legal safeguards, raising concerns about the integrity and accountability of local governance structures.

This phenomenon reflects a broader governance issue within the post-reform landscape: although municipalities were granted greater authority over spatial planning and land use under Law No. 139/2015, this delegation of power has not always been accompanied by stronger regulatory oversight or transparent decision-making mechanisms. As a result, local institutions have occasionally exercised their expanded powers in ways that prioritize short-term gains over long-term sustainability or cultural heritage preservation. Such actions not only erode public trust but also contribute to a perception that local government is influenced by private interests rather than public value, particularly in urban areas undergoing rapid development.

In the range of municipal services that should serve to the economic activities, some appreciation is expressed only for the fire service, while all the interviewees denounce the total lack of economic policies on the part of the local government to help new businesses or to facilitate productive activities. In this case, the issue of mismanagement or the lack of municipal markets to sell local products can be highlighted and is evident that the local government's neglect of the agricultural infrastructure for sewerage, drainage, and irrigation.

A recurring theme across the interviews and survey responses was the limited awareness and understanding among residents regarding the role and responsibilities of the heads of Administrative Units. Despite these officials serving

as the primary liaison between citizens and the broader municipal structure—especially in rural and peripheral areas—many respondents reported not knowing who their local unit head was, let alone what functions they perform. This lack of recognition is not simply a matter of public disinterest; rather, it reflects deep-rooted communication gaps, insufficient outreach efforts, and a lack of institutional visibility at the sub-municipal level. Under the 2015 Administrative and Territorial Reform, administrative units were designed to preserve a degree of local presence within the larger, consolidated municipalities. Heads of these units were expected to coordinate service delivery, facilitate local participation, and channel citizen concerns to the central municipal administration. However, in practice, these roles appear to have been underutilized or poorly communicated, resulting in a disconnection between local residents and the decentralized governance structures intended to represent them. The absence of clearly defined and actively visible leadership at the administrative unit level also contributes to broader feelings of marginalization, particularly in former communes that now feel overshadowed by urban municipal centers. This weakens the intended goals of the reform, which included enhancing citizen engagement, accountability, and responsiveness through proximity-based governance. Addressing this issue will require not only clearer institutional mandates but also capacity-building, community outreach, and stronger accountability mechanisms to ensure that administrative unit heads are both visible and effective in the eyes of the communities they serve.

About 90% of those asked, beyond their political preferences, settlements in the north or south, villages or cities, are in favor of a review of the Administrative and Territorial reform. In some cases, due to a better clarification of powers between different institutions, or in other cases to change administrative boundaries or to add new municipalities.

In addition to completing the structured questionnaire, citizens were also encouraged to share their individual views on the administrative boundaries of their municipalities and to identify the most pressing problems affecting their local areas. These discussions served as a valuable qualitative complement to the survey data, offering deeper insight into how the 2015 Administrative and Territorial Reform has been experienced at the community level. Many participants expressed concerns about the territorial enlargement of municipalities, noting that the integration of multiple former communes into larger administrative units has often led to a sense of detachment from local institutions.

In several cases, citizens from peripheral villages or rural areas reported feeling "forgotten" or marginalized, as they perceived that the newly consolidated municipal governments prioritized the urban centers while neglecting outlying areas. Participants also voiced a wide range of localized problems, including deteriorating infrastructure, lack of public transportation, poor access to health and social services, limited economic opportunities, and insufficient public

lighting and sanitation services. These issues varied in intensity depending on the region, but common themes emerged around the decline in service quality and the reduced visibility of municipal authorities since the reform. In several municipalities, citizens suggested that the redrawing of boundaries did not sufficiently consider existing economic, cultural, or geographic linkages, which in turn weakened community identity and made coordination across territories more difficult. These open-ended contributions underscore the importance of local knowledge and lived experience in evaluating territorial governance reforms. They also reinforce one of the study's core findings: that administrative efficiency gains must be balanced with citizen proximity and responsiveness to ensure equitable and effective local governance.

Discussion

The findings of this study reveal a significant mismatch between the objectives of Albania's Administrative and Territorial Reform (ATR) and the perceived outcomes among citizens nearly a decade after its implementation. Despite the formal reconfiguration of municipalities and the expansion of their statutory responsibilities, the reform has yet to produce substantial improvements in the quality, accessibility, or equity of local public services. The majority of respondents (89%) report a preference for the pre-2015 administrative structure, citing a stronger presence of institutions, more timely service delivery, and greater responsiveness under the smaller municipal units.

This widespread dissatisfaction is particularly acute in rural and remote areas, where respondents consistently highlight service gaps in essential infrastructure, such as road maintenance, flood protection, and sewage systems. In many cases, citizens report the non-existence of basic services that are theoretically mandated by law, with 15% stating they receive no infrastructure services at all, and up to 56.5% indicating the absence of public transport. These findings suggest that the territorial enlargement of municipalities has diluted institutional proximity and weakened service delivery in peripheral zones, reinforcing concerns raised in the literature about the negative externalities of consolidation without corresponding capacity increases (Faguet, 2014).

In urban centers, while there is modest recognition of improvements in areas such as water supply, waste collection, and primary healthcare infrastructure, these gains are uneven and fail to offset the broader institutional shortcomings. Notably, 80% of respondents viewed the municipal police as ineffective or unhelpful, and less than 15% rated the delivery of social services positively—despite social welfare being one of the key functions transferred to local governments under Law 139/2015. This signals not only issues of capacity but also a disconnect

between legal responsibilities and practical implementation, echoing concerns from progress reports by the EU and Albanian municipal associations.

Another prominent theme emerging from the data is the lack of fiscal decentralization. The reform has not resulted in a substantial increase in local government budgets—remaining around 1% of GDP, the lowest in the region. This limitation has constrained municipalities' ability to invest in infrastructure, maintain public assets, and develop tailored economic or cultural policies. The study also found minimal evidence of fiscal incentives, such as tax reductions for local businesses or support for agricultural productivity, highlighting missed opportunities to foster local economic development through decentralized governance.

Moreover, citizen understanding and awareness of local governance roles remain limited. Many respondents indicated they do not know their local administrators or do not understand the difference between the new administrative leaders and the former local governance figures. This suggests a gap in civic communication and participatory governance, undermining the reform's goal of increasing citizen engagement and accountability.

Overall, the findings support critiques that Albania's ATR, while structurally ambitious, has fallen short in execution—particularly in delivering public services equitably and effectively across diverse territories. These outcomes align with broader patterns observed in decentralization reforms in other post-communist contexts, where legal reforms often outpace administrative and fiscal capacity (Kopecký et al., 2008; Keuffer & Ladner, 2018). The empirical evidence collected through this study underscores the urgency of revisiting Albania's territorial configuration, strengthening local administrative capacity, and ensuring that fiscal decentralization accompanies functional delegation.

Limitations of the Study

While this study offers valuable insights into the perceived effectiveness of municipal service delivery following Albania's 2015 Administrative and Territorial Reform, several limitations should be acknowledged.

First, the geographic scope of the survey was limited to five counties—Tirana, Shkodra, Vlora, Elbasan, and Gjirokastra—which, although selected to represent urban–rural diversity and regional variation, may not fully capture the heterogeneity of experiences across all 61 municipalities. The findings, therefore, cannot be generalized to the entire country without caution. Second, the sample size of 248 respondents, while adequate for exploratory analysis, may constrain the statistical power of disaggregated comparisons by demographic group, municipality size, or administrative unit. The lack of probability sampling techniques also limits the

ability to estimate margins of error or confidently generalize results beyond the surveyed population. Third, this study relies primarily on self-reported perceptions of service delivery, which may be influenced by subjective biases, political attitudes, or limited awareness of institutional mandates. Although the survey was designed to mirror legal responsibilities under Law No. 139/2015, respondents' assessments may not always correspond to objective performance metrics. Fourth, temporal limitations must be considered. The survey reflects perceptions at a single point in time (2023), nearly a decade after the reform. It does not capture dynamic changes in service delivery or institutional performance that may have occurred before or after data collection.

Finally, the study focuses primarily on the demand side—citizen experience and perception—without incorporating perspectives from municipal officials, service providers, or central government actors. Future mixed-stakeholder studies would provide a more holistic view of the reform's implementation and bottlenecks.

Despite these limitations, the study provides an important citizen-centered snapshot of local governance performance under Albania's decentralization framework and serves as a foundation for further empirical investigation.

Conclusions

The Administrative-Territorial Reform has not met its objectives, as the new legislation is not fully implemented and the process of absorbing new functions and increasing the quality of services has not been successfully implemented. This is also evident from the responses of the citizens, as 20% of them stated that they do not receive services that in theory should be offered to them. In most municipalities, there is also a low level of effectiveness in the collection of their own revenues and in the use of available funds. The new legislation has not brought an increase in the municipal budget (thus the essence of decentralization). The level of budget is the same as before the territorial-administrative reform, that is, no less than 1% of GDP is allocated from the central budget. This level is the lowest in the region, preventing municipalities from increasing the quality of services and exercising their powers in full discretion.

About 65% of the respondents express themselves negatively in relation to the quality of municipal services and demand a wider and more distributed presence of institutions that provide services to citizens. However, based on the questionnaires, it turns out that citizens positively evaluate the gradual improvement of infrastructure, especially in urban centers, starting with water supply, the maintenance of public buildings and the primary health service.

Complaints and criticisms expand, especially in rural territories in cases where the presence of the local government is not visible and where the minimum infrastructural elements for living are missing.

The fields for which the citizens expressed themselves completely negatively were those related to the social assistance and services that the local government should offer to vulnerable social groups. Specifically, less than 15% of citizens positively evaluate the provision of social assistance, the distribution of social housing or the presence of community centers.

Over 80% of citizens note that the maintenance of cultural objects such as libraries, forts, old religious objects, sports centers, etc., are not well maintained or are maintained in an unprofessional manner. Also, only 22% of the citizens believe that the municipalities play a positive role in the economic development of the territory and in increasing the feeling of security towards the citizens.

Recommendations for Further Studies

While this study provides valuable insights into citizen perceptions of municipal service delivery in post-reform Albania, it also opens several avenues for future research. First, future studies should consider expanding the geographic scope to include all 61 municipalities, enabling a more representative and statistically robust understanding of national-level trends. Such an expansion would allow for comparisons between municipalities of different sizes, fiscal capacities, and levels of urbanization, deepening our understanding of how context-specific variables mediate the effects of territorial reform.

Second, studies would provide important insights into whether the patterns identified here are persistent, cyclical, or evolving. By tracking the same municipalities over time, researchers could analyze whether ongoing capacity-building efforts, changes in intergovernmental finance, or new policy interventions lead to measurable improvements in local service delivery and citizen satisfaction.

Third, future research should explore the perspectives of local officials, administrators, and service providers, offering a supply-side view of the challenges faced in implementing decentralized mandates. Combining citizen perceptions with institutional diagnostics would provide a more comprehensive evaluation of reform outcomes and implementation bottlenecks.

Additionally, comparative studies with neighboring Western Balkan countries—such as North Macedonia, Montenegro, or Serbia—could help situate Albania's reform trajectory within a broader regional context. Identifying shared challenges and divergent outcomes could inform more effective, context-sensitive decentralization strategies.

Finally, there is room for methodological innovation. Incorporating spatial data, service coverage mapping, or digital participation metrics could enhance the empirical grounding of future evaluations. Such approaches would also support real-time monitoring tools for policymakers tasked with designing and adjusting territorial and fiscal decentralization frameworks.

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Behavioral Finance and Investment Decision-making: A Multifaced Analysis of Cognitive Biases, Risk Perception, and Market Dynamics[1]

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Abstract

This thesis examines the intricate relationship between cognitive biases, risk perception, and market dynamics within the context of investor decision-making. It challenges the traditional notion of rational financial behavior by integrating insights from behavioral finance, highlighting how psychological and emotional factors systematically influence individual and institutional investment choices. Through an analysis of key cognitive biases - including overconfidence, anchoring, and herding—and their impact on risk perception, the study reveals how these biases contribute to suboptimal decisions, market inefficiencies, and systemic risks. The divergence between perceived and objective risk, often driven by emotional responses such as fear and greed, is shown to significantly affect investment behavior and heighten market volatility. A mixed-methods approach is used, combining empirical case studies (e.g., the 2008 financial crisis, COVID-19 shock) with statistical analysis to assess sentiment, volatility, and price dynamics. The findings align strongly with behavioral finance theories, suggesting that sentiment has only a weak and inconsistent influence on objective market indicators, reinforcing the need for deeper psychological modeling. The study also explores the integration of behavioral finance into financial models, regulatory frameworks, and technological tools such as AI

[1] This article is part of my Diploma thesis, mentored by Prof. Selami Xhepa.

and robo-advisors. Ultimately, it argues that incorporating behavioral insights into policy and practice is essential for enhancing market efficiency, improving investor decision-making, and creating a more stable financial ecosystem.

***Keywords**: Behavioral Finance, market dynamics, sentiment, volatility, EHM.*

Introduction

Customary finance's long-held beliefs about investors as logical beings who act only for maximizing of their utility are being challenged by the emerging discipline from behavioral finance, which has emerged as a model shift. Behavioral finance has its roots in psychology and economics, as well as aims to clarify how a few social influences, emotions, and cognitive biases routinely affect financial decision-making. This effect frequently results in deviations from rationality. Given their true role specifically in causing irrational trading behaviors, asset bubbles, and also market inefficiencies, these deviations still have a rather important effect now on financial markets. One of the truly foundational contributions to this field comes from the really revolutionary work of Kahneman and Tversky (1979)[2], who introduced prospect theory as a way for explaining decision-making that is under risk. Unlike the expected utility theory, which assumes that people evaluate choices purely based on objective outcomes along with probabilities, prospect theory reveals that people evaluate outcomes relative to a certain reference point. People are often exhibiting loss dislike too—a stronger reaction to losses than gains. This idea is especially useful to see the reasons investors may keep losing stocks too long instead of being rational, or sell winning stocks fast, a trait called the disposition effect. Behavioral biases such as anchoring, herding, and also overconfidence make investing decisions even more difficult. For example, overconfidence causes investors to overestimate their overall capacity to perceive dangers or forecast market moves. This frequently leads to excessive trading, in addition to poor portfolio performance (Barber & Odean, 2001)[3]. On the other side, herding behavior encourages investors toward following the lead from others, resulting within momentum-driven market patterns that deviate from fundamental valuations. Likewise, decision-making can be distorted by anchoring bias, which occurs when people place an excessive amount of weight on an initial piece of information, especially in markets that are moving quickly at present. The influence of behavioral finance extends beyond individual investors to institutional

[2] Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica, 47*(2), 263-291. https://doi.org/10.2307/1914185

[3] Barber, B. M., & Odean, T. (2001). Boys will be boys: Gender, overconfidence, and common stock investment. *Quarterly Journal of Economics, 116*(1), 261-292. http://www.jstor.org/stable/2696449

decision-making, as well as overall market dynamics. Advanced institutional investors are not immune at all to certain cognitive biases, as evidenced further by their susceptibility to certain trends and overall crowd behavior during such market crises. For instance, Shiller's (2000)[4] analysis concerning speculative bubbles highlights how collective irrational exuberance among market participants can truly inflate asset prices far beyond their intrinsic values. This was seen during both the dot-com bubble and also the 2008 financial crisis. Such events underscore the complete necessity of further integrating behavioral understandings deeply into both micro and also macroeconomic financial models. A further important aspect of behavioral finance is risk view. It additionally influences how investors evaluate possible profits and losses. Perceived risk is frequently affected by psychological elements like fear as well as familiarity, in contrast to the objective risk metrics used in customary banking. For instance, even when market fundamentals indicate otherwise, occurrences such as market collapses or political instability can raise risk views as well as then lead to overly cautious investing behavior. This clear divergence of perceived and actual risk underscores some limitations with customary models for catching behavioral dimensions from decision-making. Behavioral finance has also opened up some new avenues for further developing some tools and strategies targeted at reducing all of the negative effects from cognitive biases. For example, the rise of many robo-advisors seeks to reduce human error. Algorithmic trading seeks to reduce human error by relying on data-directed decision-making. However, the effectiveness of such resources stays a topic of current study, since their formulas could accidentally get prejudices that exist within past info or within the coding itself. Beyond its usual practical applications, behavioral finance has deep implications within regulatory and policy frameworks. A comprehension of the psychological underpinnings that exist with market behavior can inform better-designed regulations. Such regulations may prevent excessive risk-taking or speculative bubbles. For instance, the specific introduction of circuit breakers along with other different market mechanisms has been largely influenced through understandings from behavioral finance, particularly targeted at thoroughly curbing panic selling during certain periods of highly heightened market volatility.

The objective within this thesis is to explore into the multidimensional relationship of behavioral finance and investment decision-making, focusing on the interplay of cognitive biases, risk view, and market dynamics. By digging into all of these linked themes, this research truly seeks to contribute to a greater comprehension of precisely how behavioral factors shape financial decisions. It has implications for both academic theory as well as practical applications**.** Through a thorough analysis from empirical studies, on theoretical frameworks, and of market case studies, this work aims for to close the divide between behavioral

[4] Shiller, R. J. (2000). *Irrational exuberance.* Princeton University Press.

understandings and their real-world effect on investment practices. The particular study of behavioral finance provides such a critical lens through which to then view all the complexities of financial decision-making. It rigorously challenges the general idea of investor rationality as well as highlights the important psychological and social drivers that often thoroughly dominate market behavior. Since markets grow increasingly linked and complex, the relevance of behavioral finance continues to expand. The continuing expansion offers quite valuable understandings into the human dimensions of economics and finance.

Literature review

In "The End of Behavioural Finance," **Richard H. Thaler** argues that behavioural finance, once considered a fringe or marginal field within economics and finance, has matured and established itself as an essential and permanent part of economic thought. Standard financial theories, such as the Efficient Market Hypothesis (EMH), assume that markets are efficient and that investors always act rationally.However, extensive empirical evidence shows persistent anomalies and market behaviours that deviate from these assumptions—such as overreaction, underreaction, excessive trading, and asset bubbles. These anomalies cannot be satisfactorily explained by traditional models that ignore psychological factors. Thaler argues that behavioral finance has moved beyond anecdotal observations and isolated cases to a rigorous, theory-driven field supported by empirical research. Behavioral finance is no longer a temporary or controversial detour from mainstream finance, it is an integral part of economic science that complements and enriches traditional theories.

Barberis, N., & Thaler, R. (2003) explain **behavioral anomalies** that challenge the traditional Efficient Market Hypothesis (EMH). Investors often trade more frequently than rational models predict, leading to lower returns. Markets sometimes overreact or underreact to news, causing predictable price patterns. Investors tend to sell winning stocks too early and hold losing stocks too long, contrary to rational profit-maximizing behavior.Stock returns exhibit momentum in the short term and reversal over longer periods, inconsistent with purely random price movements.

Robert J. Shiller (2000) explores the psychological and social forces behind dramatic financial market booms and busts. Shiller questions the classical Efficient Market Hypothesis (EMH), which claims markets always price assets rationally based on available information. He presents evidence that stock prices and other asset markets can deviate substantially and persistently from fundamental values. These deviations are not random errors but are often fueled by psychological and social factors.The term "irrational exuberance," famously used by then-Federal

Reserve Chair Alan Greenspan and popularized by Shiller, refers to investor enthusiasm that inflates asset prices beyond reasonable valuations.Shiller shows that investor decisions are influenced by emotions like fear and greed, herding behavior, and social contagion. Media, popular narratives, and cultural beliefs can amplify optimism or pessimism, leading to speculative bubbles. A major contribution of the book is extending behavioral analysis beyond stock markets to include housing markets, where price swings also show signs of irrational exuberance. Is foundational to understand behavioral finance and remains highly relevant in understanding market dynamics and preventing future crises.

Baker, M., & Wurgler, J. (2007) define investor sentiment is a broad psychological concept reflecting optimism, pessimism, fear, or euphoria among market participants. It encompasses feelings that may not be directly tied to fundamental economic or financial indicators. High investor sentiment often leads to overvaluation, creating asset price bubbles while low sentiment can cause undervaluation and stops growth opportunities for companies. Stocks that are difficult to arbitrage or value, such as small-cap, young, or growth stocks, are more susceptible to sentiment-driven mispricing. Their studies documents empirical evidence that sentiment can predict future stock returns. Understanding investor sentiment is crucial for both regulators and market participants.

Lo, A. W. (2005) affirms that although the EMH posits that financial markets are perfectly efficient, meaning that asset prices instantly and fully reflect all available information. However, numerous anomalies and market phenomena, such as bubbles, crashes, and persistent mispricings, challenge this view. Despite its successes, Behavioral Finance struggles to provide a unified, predictive model of market behavior. Lo proposes the Adaptive Markets Hypothesis as a new framework that incorporates evolutionary principles into financial market dynamics. The AMH suggests that market efficiency is not static or absolute but varies over time depending on the interactions of market participants and their environment. Investors adapt to changing market conditions through learning and evolutionary processes, similar to biological organisms adapting to their environment. Market efficiency is thus context-dependent and dynamic rather than a fixed condition. During times of stress, innovation, or when new investors enter the market, inefficiencies and behavioural biases can dominate. This leads to phases of mispricing, bubbles, and crashes, but over time, competition drives the market back toward efficiency. AMH suggests that no single investment strategy is always optimal; what works well in one environment may fail in another. It encourages development of adaptive trading algorithms and risk management systems that respond to evolving conditions.

According to **Kumar, A., & Goyal, A. (2015)** market sentiment affects stock returns. Their study focuses on both short-term and long-term effects of sentiment on the pricing of stocks, using data from the Indian stock market. The

paper contributes to the growing literature in behavioral finance that challenges traditional notions of rational, efficient markets. The authors argue that investor sentiment plays a significant role in driving asset prices, particularly when fundamentals are ambiguous or when markets are less efficient. Sentiment effects are stronger for certain categories of stocks like Small-cap and illiquid stocks are more affected by sentiment than large, liquid, and well-followed firms. High-volatility and growth stocks are more sentiment-sensitive than stable, value stocks. This finding is consistent with the idea that stocks that are harder to value or arbitrage are more vulnerable to mispricing due to irrational investor behavior. Sentiment-driven mispricing is persistent returns can be predicted based on past sentiment, particularly in the short to medium term.The findings align with behavioral theories that highlight the limitations of investor rationality. Emotions like fear and greed, along with psychological biases (overconfidence, representativeness), distort investor judgment, leading to market inefficiencies. The study strengthens the case that investor psychology should be an integral part of asset pricing models.

Methodology

Main Research Question

How do such cognitive biases, with risk view, and specific market dynamics all collectively influence investment decision-making and wider financial market behavior?

Sub-questions

1) What are the key cognitive biases and psychological factors affecting investor behavior, and how do they impact investment decisions?
2) How does the perception of risk diverge from objective risk measures, and what role does this divergence play in shaping investor strategies and market trends?
3) How can behavioral finance principles be integrated into financial models, regulatory frameworks, and technological tools to improve investment decision-making and market efficiency?

Hypotheses

1. A greater comprehension of these biases can substantially aid in designing interventions and strategies to reduce their adverse effects.

2. **Sentiment and objective risk are almost perfectly unrelated, pointing that psychological factors play a relevant and important role in shaping investor behavior, strategies, and short-term market trends**
3. The implementation of behavioral finance principles into existing financial models, regulatory systems and innovations it can truly impact in a positive way market efficiency and investor decision-making

Theoretical Discussion and Research Evidence

Overconfidence Bias

Definition and Effect: Overconfidence means having too much faith in someone's skills to forecast or handle results from investments. Overconfident investors frequently underestimate risks and overestimate their knowledge or forecasting skills. This often results in excessive trading and diminished portfolio performance (Barber & Odean, 2001). This behavior specifically weakens the various benefits of diversification as well as can readily lead to overexposure to just high-risk assets or really concentrated positions.

Case Study Evidence: During the dot-com bubble (1995-2000), overconfidence was rampant as investors became excessively optimistic about the growth potential of technology companies. Barber and Odean (2001)[5] found that overconfident individuals, especially men, traded excessively during this period, resulting in lower net returns due to high transaction costs and poor market timing.

Risk Perception vs. Objective Risk

Risk perception, which frequently deviates from objective metrics like volatility or standard deviation, is in effect a subjective assessment of the degree as well as probability of risk. Kahneman and Tversky (1979)[6] have quite clearly demonstrated about this distinction. They showed it through their well-known prospect theory, which strongly argues people weigh risk relative to a reference point, not absolutely. As a result, people tend to react asymmetrically to wins and also to defeats, with losses frequently being seen as having a greater effect and impact

[5] Lo, A. W. (2017). Adaptive Markets: Financial Evolution at the Speed of Thought. Princeton University Press

[6] Kahneman, D., & Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. *Econometrica, 47*(2), 263-291. https://doi.org/10.2307/1914185

Market Dynamics

Behavioral biases can have an effect on individual investors as they do also on the overall dynamics within the market. Shiller (2000)[7] stressed just how irrational exuberance contributes to speculative bubbles, in which prices do increase sharply above their natural values as a result of quite common optimism. A clear illustration of how cognitive biases as well as market trends can effectively result in systemic risk is the housing bubble in advance of the 2008 financial crisis. Institutional investors are occasionally viewed as more logical. Still, they remain susceptible to certain biases. Research has demonstrated clearly that even quite experienced fund managers engage in herding behavior, especially when the market is stressed.

Data

How do such cognitive biases, with risk view, and specific market dynamics all collectively influence investment decision-making and wider financial market behavior?

Methodology

I will use a mixed-methods approach. This approach will integrate qualitative understandings with quantitative analysis. This approach will enable me to grasp the interplay between many cognitive biases, risk view, as well as market dynamics at both theoretical and practical levels.

Method

I will conduct a systematic literature review to synthesize key findings from previous studies on cognitive biases, risk perception, and market dynamics.

Moreover, to assess the extent to which market behavior deviates from rational expectations, an event study was conducted using historical stock market data. Six major financial events were selected, and abnormal returns were calculated using a rolling market return model. A one sample t-test was applied to determine whether abnormal returns significantly deviated from zero, indicating irrational market reactions.

[7] Shiller, R. J. (2000). *Irrational exuberance.* Princeton University Press.

The selected event dates include:

2007-01-18 (Pre finanacial crisis signals)

One of the clearest early warnings was the rapid rise in U.S. housing prices between 2000 and 2006, driven by speculative buying and easy credit. Key signals included:

- Excessive growth in mortgage lending, particularly to subprime borrowers (those with weak credit histories).
- Adjustable-rate mortgages (ARMs) that began with low "teaser" rates but reset to much higher rates, making them unaffordable.
- Rising household debt-to-income ratios, indicating that consumers were overleveraged.

Wall Street firms increasingly engaged in risky financial engineering. Red flags included:

- The widespread use of mortgage-backed securities (MBS) and collateralized debt obligations (CDOs), which bundled high-risk loans and spread them globally.
- The growth of the shadow banking system, made up of unregulated entities taking on bank-like risks without safeguards.
- High leverage ratios among financial institutions (some exceeding 30:1), leaving them vulnerable to losses.

Declining Lending Standards and Regulation Failures

- Banks and mortgage brokers increasingly lowered lending standards, offering loans without verifying income or employment ("no-doc" loans).
- Credit rating agencies gave high ratings to risky securities, masking the true level of risk.
- Regulatory agencies failed to respond adequately to the growing signs of instability and lacked coordination across markets.

Inverted Yield Curve and Financial Market Stress

- In 2006 and early 2007, the U.S. yield curve inverted, meaning short-term interest rates were higher than long-term rates. Historically, this has been a reliable predictor of recession.
- Rising default rates on subprime mortgages began appearing in 2006 and accelerated in 2007.

- Bear Stearns hedge fund collapse (June 2007) due to exposure to subprime assets was a major early sign of market weakness.

Bank and Investor Behavior

- Rapid growth of credit default swaps (CDS)—insurance-like instruments—created a false sense of security while amplifying systemic risk.
- Investment banks and financial institutions failed to properly assess their own risk exposure, relying on flawed models.
- Many central banks kept interest rates low in the early 2000s, fueling excessive borrowing and asset bubbles.

The 2008 financial crisis was not a black swan event—it was preceded by a series of clear and measurable warning signs. From the unsustainable rise in housing prices and subprime lending to the proliferation of complex financial instruments and a lax regulatory environment, the crisis was rooted in a series of compounding vulnerabilities. Recognizing these signals in real-time remains a key lesson for policymakers, financial institutions, and global markets to prevent future systemic crises.

2008-09-18 (Lehman Brothers bank collapse)

Lehman Brothers failed in September 2008 because of a combination of excessive risk-taking, overexposure to the collapsing housing market, and a loss of investor and creditor confidence. Here's a breakdown of the main reasons for its failure:

Lehman **aggressively invested in subprime mortgage-backed securities**, which were based on home loans given to borrowers with poor credit. When the U.S. housing bubble burst, the value of these securities plummeted. Lehman held tens of billions of dollars in toxic assets that became nearly worthless.

Lehman was **highly leveraged**, with a debt-to-equity ratio of over 30:1. This means it borrowed massive amounts to finance its operations. High leverage made the firm extremely vulnerable to even small declines in asset values.

As **investors lost confidence** in Lehman's balance sheet, the firm faced falling stock prices, widening credit default swap spreads (suggesting rising risk of default) and withdrawal of counterparties and clients. Lehman could not raise capital or find a buyer fast enough to restore trust.

Lehman tried to negotiate a sale to **Barclays** or **Bank of America**, but both deals collapsed. The U.S. government and Federal Reserve refused to provide a bailout, unlike in the case of Bear Stearns and later AIG, partly due to political concerns and lack of collateral.

Lehman used off-balance-sheet accounting tricks (e.g., "Repo 105") to temporarily move debt off its books and appear healthier than it was. Poor internal risk controls meant it underestimated the risks of the housing market and its own assets. Lehman's collapse happened at a time when trust in the entire financial system was deteriorating. The failure triggered panic across global markets, contributing to the 2008 financial crisis.

In clonlusion, Lehman Brothers failed because of risky investments in subprime assets, high leverage, weak oversight, and the inability to secure emergency support. Its bankruptcy was the largest in U.S. history and marked a turning point in the global financial crisis.

2008-10-16 (peak of the global financial crisis)

Global stock markets were collapsing**.** On October 16, 2008, the Dow Jones Industrial Average fell by -733 points (nearly 8%), one of the largest single-day drops in its history at that time. Investors were dumping stocks amid fear of a total financial collapse.

Data from major economies, especially the U.S. and Europe, showed a sharp decline in consumer spending, rising unemployment, and contracting GDP forecasts. Companies issued profit warnings, and massive layoffs were being announced across industries like banking, automotive, and construction.

Governments were intervening aggressively. The U.S. Treasury had just launched the Troubled Asset Relief Program (TARP), a $700 billion bailout fund passed earlier in October to stabilize banks. The UK government had nationalized parts of Royal Bank of Scotland and Lloyds, injecting billions to prevent collapse. European nations were coordinating emergency support for their banking systems.

Despite government actions, credit markets remained frozen. Banks were still unwilling to lend to each other or to businesses. LIBOR rates (interbank lending rates) were abnormally high, reflecting deep mistrust between financial institutions.

Major U.S. automakers (General Motors, Ford) warned of needing emergency funding to survive. AIG (American International Group), the insurance giant, had already received an $85 billion bailout but required even more support.

Oil prices, which had peaked at over $140 per barrel earlier in 2008, had now fallen below $70, as demand forecasts plummeted due to the expected global recession.

2009-01-15 (Post-crisis recovery phase)

On January 15, 2009, the world was entering the early phase of post-crisis recovery, but the economic situation remained extremely fragile. The financial panic had

begun to subside thanks to unprecedented government interventions, yet the real economy was still suffering deeply. Key Events Around January 15, 2009 (Post-Crisis Recovery Phase):

Citigroup in Crisis — Partial Nationalization. On January 15, 2009, Citigroup, one of the largest U.S. banks, announced it would split into two units after massive losses. The bank had received $45 billion in bailout funds from the U.S. government (TARP), but its situation remained precarious.This signaled that even with bailouts, major institutions were still on the edge of collapse.

Continuing Economic Deterioration. The U.S. economy lost over 500,000 jobs in December 2008, and unemployment was climbing toward 7.8% (it would peak at 10% later in 2009). Retail sales data released in mid-January showed a record monthly drop of 2.7% in December — the worst since tracking began.Consumer confidence was near historic lows, and companies were announcing layoffs daily.

Obama Administration Preparing Stimulus Plan President-elect Barack Obama (set to take office on January 20, 2009) was working with Congress to pass a massive fiscal stimulus package (eventually known as the American Recovery and Reinvestment Act, passed in February 2009).The plan included (Infrastructure spending, Tax cuts, Aid to states and unemployment benefits, Green energy investments) the aim to revive demand and prevent a depression.

Global Economic Contraction. Germany, Japan, and the UK were reporting sharp declines in industrial output and GDP. Global trade was contracting rapidly, with exports from China, Germany, and Japan plunging by double digits. Emerging markets were suffering due to falling commodity prices and capital flight.

Although markets were still volatile, the panic of late 2008 was easing. Central banks, including the U.S. Federal Reserve, had slashed interest rates to near zero and launched quantitative easing programs to inject liquidity. January 2009 marked a transition from financial panic to economic crisis. The banking system had been stabilized through bailouts, but the global economy was contracting fast. Recovery would depend heavily on government stimulus, restored consumer confidence, and corporate restructuring.

2020-03-19 (COVID-19 market shock)

On March 19, 2020, global financial markets were deep in crisis due to the COVID-19 pandemic. This date falls within the most volatile week of the COVID-19 market shock, when fear, uncertainty, and liquidity stress caused a historic sell-off across global assets. COVID-19 was officially declared a global pandemic by the World Health Organization on March 11, 2020. By March 19, most major countries — including the U.S., Italy, Spain, China, and the UK — were entering lockdowns or severe restrictions. The global economy was effectively shutting down, causing panic among investors and businesses.

Stock markets were in freefall. The S&P 500 was down more than 30% from its peak in February. The Dow Jones fell below 20,000 points on March 18 — wiping out all gains since Trump's 2017 inauguration. Volatility (VIX index) reached levels higher than during the 2008 crisis.

On March 19 specifically the U.S. markets rebounded slightly, with the Dow rising around 188 points, but overall sentiment remained extremely bearish. Investors rushed to sell even "safe assets" like Treasuries and gold to raise cash — a sign of liquidity panic. There was a global shortage of U.S. dollars as investors and companies scrambled for cash. The U.S. dollar index surged to a near 3-year high, creating severe pressure on emerging markets and international borrowers.

Central Bank Emergency Actions. The Federal Reserve had already slashed interest rates to near zero and launched unlimited quantitative easing. On March 19, the Fed and other major central banks expanded U.S. dollar swap lines to ease global liquidity. The European Central Bank announced a €750 billion Pandemic Emergency Purchase Programme (PEPP) just one day earlier (March 18), signaling a global policy response.

Oil prices were also collapsing, due to the falling demand from lockdowns and reduced travel A price war between Saudi Arabia and Russia. On March 19, Brent crude traded around $27 per barrel, while WTI crude fell toward $20, the lowest in years.

In the U.S., mass layoffs had just started. In the week ending March 21, the U.S. would report 3.3 million initial jobless claims, a historic record at the time. The labor market collapse was beginning, even before the full economic data reflected the damage.

March 19 marked the depth of the COVID-19 financial panic. The health crisis triggered an economic and financial shock that required the fastest and largest policy response in modern history. Though markets would start to recover in late March after massive stimulus, the economic impact would persist for years.

2024-11-14 (Recent market fluctuations)

As of November 14, 2024, financial markets were experiencing heightened volatility driven by a combination of geopolitical tensions, interest rate uncertainty, tech sector correction, and election-related risks. While not a full-blown crisis, investors were reacting to a mix of global and domestic pressures that were shaking confidence in the near-term economic outlook.

U.S. and global stock markets were facing sharp fluctuations. The Nasdaq was under pressure due to a tech stock pullback, particularly in AI and semiconductor companies, after months of rapid growth. Investors were engaging in profit-taking, amid concerns that valuations had become stretched. Some large-cap tech firms

(e.g., Apple, Nvidia, Microsoft) saw notable dips after earnings reports fell short of sky-high expectations.

The Federal Reserve had paused rate hikes in mid-2024, but markets remained uncertain about the timeline for rate cuts. On November 14, Fed officials delivered mixed signals. Some hinted that inflation was still sticky in sectors like housing and services. Others suggested that economic softness may justify a cut in early 2025. Bond yields remained volatile, with the 10-year U.S. Treasury yield fluctuating near 4.6%, reflecting uncertainty in inflation and monetary policy.

The 2024 U.S. presidential election, held just a week earlier (November 5), had delivered no clear result. The vote was extremely close and contested in key swing states. Legal challenges and recounts were underway, raising fears of a repeat of the 2000 Bush-Gore scenario. Markets dislike political uncertainty, and this added to risk aversion among investors.

Heightened Middle East tensions (e.g., Israel-Iran standoff and conflict spillovers in the region) caused spikes in oil prices earlier in the month. China-U.S. relations remained tense, with new export controls and ongoing friction over Taiwan and semiconductor trade. Investors were watching global flashpoints closely, as they affected supply chains, commodities, and defense-related sectors.

In the U.S. Inflation had declined year-over-year but was not yet at the Fed's 2% target. The labor market was softening, with some sectors showing layoffs (especially in tech and finance). In Europe and China growth remained sluggish, with Germany facing a technical recession and China showing signs of weak domestic demand. While not a crisis like in 2008 or 2020, **November 2024** was a period of **market fragility and heightened risk sensitivity**. The combination of macroeconomic, political, and geopolitical uncertainties made investors cautious. The situation could improve with policy clarity, election resolution, and easing tensions—but downside risks remained.

What are the key cognitive biases and psychological factors affecting investor behavior, and how do they impact investment decisions?

Methodology

I will employ a qualitative methodology to identify and analyze the cognitive biases influencing investor behavior. This will be complemented by quantitative analysis to assess their impact on investment outcomes.

Method

I will perform a literature review of key studies on behavioral finance, focusing on cognitive biases like overconfidence, anchoring, and herding.

A content analysis will be carried by evaluating case studies of investor behavior in specific market scenarios, such as the dot-com bubble and the 2008 financial crisis.

I will also apply statistical analysis, to correlate cognitive biases with investment decisions, including asset allocation, trade frequency and risk tolerance.

How does the perception of risk diverge from objective risk measures, and what role does this divergence play in shaping investor strategies and market trends?

Methodology

I will adopt of a quantitative methodology, complemented with qualitative understandings, to explore on the divergence between perceived from actual risk and its implications for investment in strategies.

Method

I will conduct now a comparative analysis by comparing the historical risk measures such as volatility indices with investor sentiment indicators such as various surveys or media analysis so as to identify some divergences.

Moreover specific events will be analysed where perceived risk diverged from actual risk, such as market reactions during the COVID-19 pandemic.

I will use data visualization tools, like graphs, to depict the relationship between perceived risk and market outcomes. These tools provide additional clarity.

How can behavioral finance principles be integrated into financial models, regulatory frameworks, and technological tools to improve investment decision-making and market efficiency?

Methodology

I will adopt a mixed-methods approach that combines qualitative analysis of theoretical frameworks with quantitative evaluation of existing tools and policies.

Will conduct a theoretical analysis to review existing financial models, identifying gaps where behavioral insights could be integrated. I will focus on models such as the CAPM and the Efficient Market Hypothesis.

I will evaluate regulatory frameworks, such as circuit breakers and disclosure rules, to assess their alignment with behavioral principles.

Lastly, I will perform an impact assessment, using methods such as cost-benefit analysis or simulations, to evaluate the effectiveness of integrating behavioral finance principles into existing systems.

Key Findings and Discussion of Results

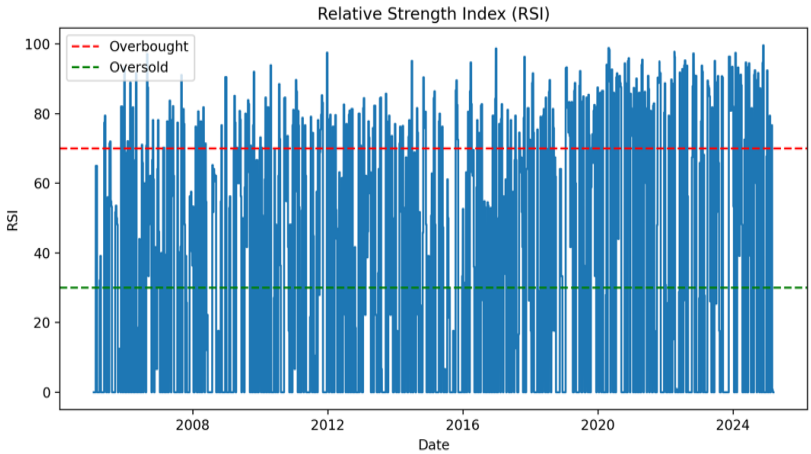
- None of the tested events exhibited statistically meaningful abnormal returns at just a 5% confidence level

Event Date	t-Statistic	p-Value	Statistical Significance
2020-03-19	-0.4855	0.6527	✗ Not significant
2008-10-16	-0.8389	0.4398	✗ Not significant
2007-01-18	-0.7883	0.4746	✗ Not significant
2008-09-18	-1.1357	0.3195	✗ Not significant
2009-01-15	1.2598	0.2968	✗ Not significant
2024-11-14	0.0003	0.9998	✗ Not significant

The lack of statistically meaningful abnormal returns (p-values > 0.05 in t-tests) suggests that major financial events did not result in predictable long-term investment opportunities.

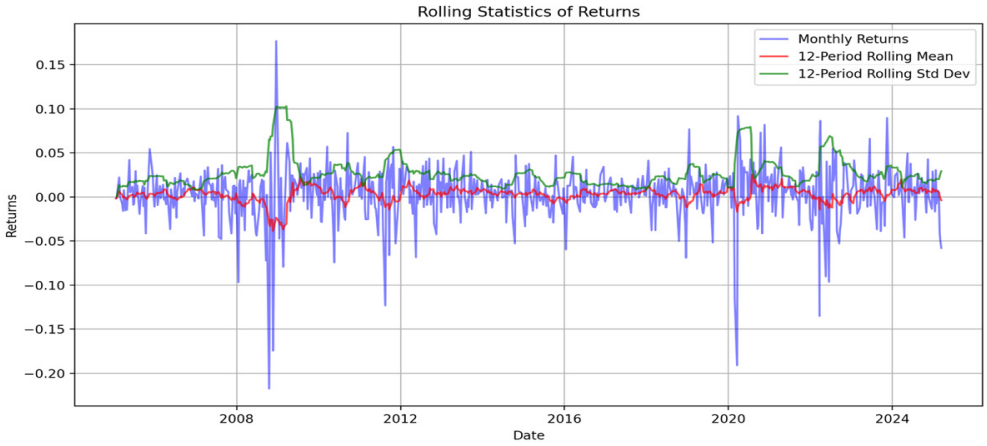
This could specifically indicate overconfidence bias, in which investors may believe that they can effectively predict returns surrounding major events.

- A 99.59 RSI (an extremely overbought level) suggests that momentum trading may have been done by the investors.
- RSI values of precisely 0.00 (oversold) on 2008-10-23 as well as on 2020-03-19 suggest panic selling, and this truly aligns with the loss hatred.

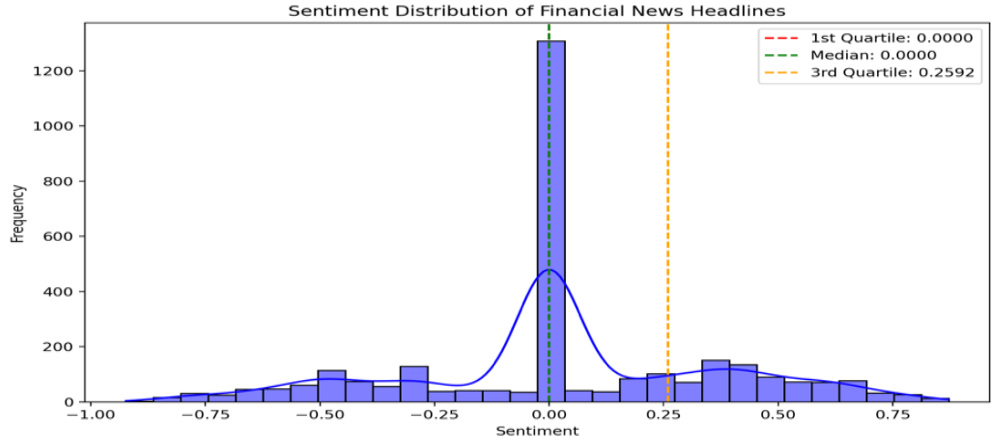


The rolling standard deviation values indicate that volatility was slightly higher in 2020 (0.066990) in comparison to that from 2008 (0.065347).

More volatility certainly suggests a more heightened uncertainty, potentially due to modern media influence as well as real-time market access, despite a slightly smaller return drop in 2020.



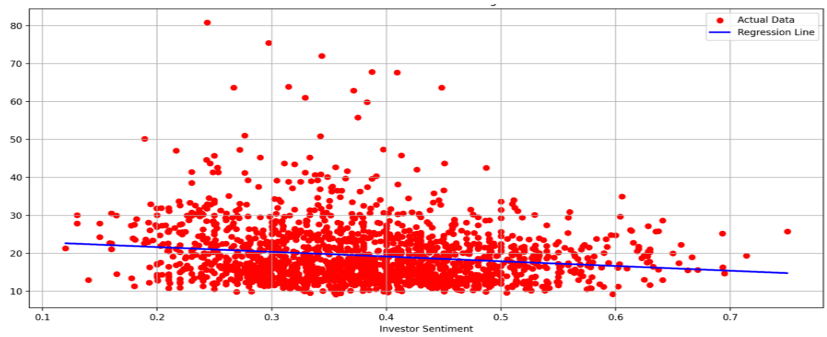
- The weak average sentiment impact (0.0327) suggests that while news sentiment plays a role, its effect is likely temporary rather than structurally altering market behavior.



My data aligns strongly with behavioral finance theories, reinforcing in that markets are not perfectly in efficient ways. Judgments made by investors are molded by skewed risk views, mental errors, and media effects. Grasping these psychological dynamics can improve financial models, regulatory policies, as well as investment strategies.

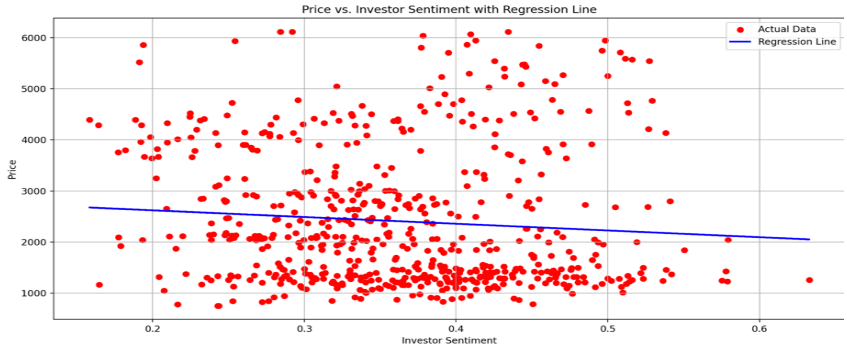
Weak and Negative Pearson Correlation Coefficient Between Sentiment and VIX (-0.158)

The negative correlation and the regression coefficient of -12.46 and r-squared of only **0.025**, this relationship is meek, indicating sentiment does not account much of the variation in VIX. This perfectly aligns with behavioral finance theories suggesting that investors mostly underreact or overreact to volatility signals almost in a random manner, leading to imperfect alignment between sentiment and objective risk measures.



Weak and Negative Correlation Between Sentiment and Price (-0.0848)

A quite insignificant negative coefficient correlation suggests that prices are hardly driven by investor sentiment. With a R-squared coefficient of **only 0.0072**, sentiment explains almost none of the variance in prices, reinforcing the idea, soon to be factual, that perceived risk is shaped by psychological biases rather than actual market conditions.



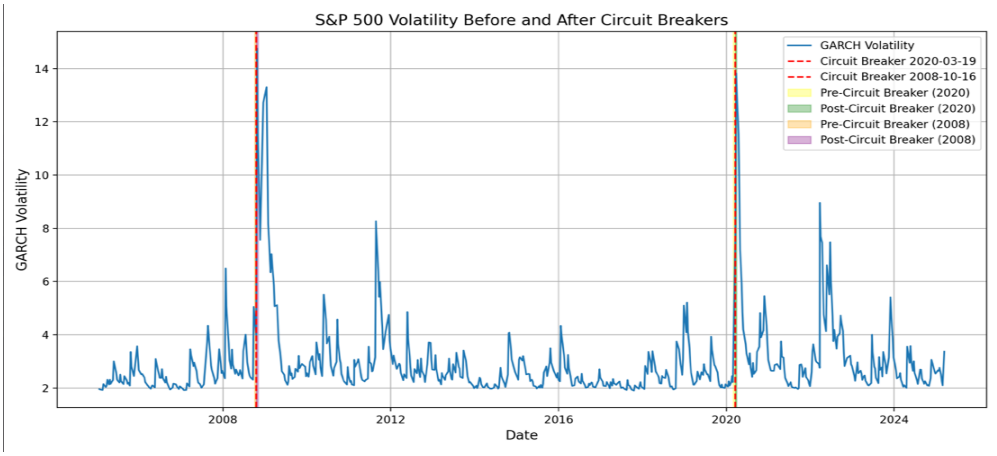
GARCH Key Results

T-statistic = -3.88 → The negative sign suggests that post-circuit breaker volatility is higher than pre-circuit breaker volatility.

P-value = 0.000115 → The difference is statistically significant, meaning it is unlikely to be due to random chance.

Implications

Circuit breakers did not reduce market volatility. Instead, they have contributed to increased uncertainty, causing higher volatility post-event. Circuit breakers create artificial thresholds, leading to delayed but stronger sell-offs once markets reopen due to loss aversion.



Difference-in-Differences (DiD) Analysis

First Regression Interpretation

R-squared = 0.121 → The model explains 12.1% of the variation in price, which suggests there are other factors apart from circuit breakers contributing to the price that are not accounted for.

Statistical significance (P < 0.05) → The effect of the event on the treated group is statistically significant.

Second Regression (Placebo Test)

R-squared = 0.143 → The model explains 14.3% of the variance.

P-value for Placebo Treatment Post = 0.098 (not statistically significant) which suggests that the original DiD results were **not random**

Limitations

While behavioral finance has made significant contributions to understanding financial markets by incorporating psychology and human behavior, academic papers in this field are not without limitations.

Behavioral finance lacks a single, unified theoretical framework comparable to the Efficient Market Hypothesis (EMH). Instead, it consists of a collection of heuristics, biases, and case studies, which can make it fragmented and difficult to generalize.

Many behavioral finance studies are good at explaining past anomalies but struggle with predictive accuracy.Theories are often descriptive rather than prescriptive, and they may not consistently outperform traditional models when forecasting future prices or market movements.

Behavioral models may fit historical data well, as it is in this case, but fail to deliver superior forecasting in real-world conditions.

Psychological variables such as sentiment, overconfidence, or herding are difficult to measure precisely.Researchers often rely on indirect proxies (e.g., mutual fund flows, trading volume, surveys), which may not capture the underlying cognitive or emotional state accurately. These proxies can introduce noise or bias into empirical tests.

Many behavioral effects are context-dependent, varying by Market structure, Country or culture and Time period. This limits the external validity (generalizability) of behavioral finance findings across different markets or eras.

Traditional finance models use clean mathematical assumptions (e.g., utility maximization), while behavioral models are often harder to formalize. Human behavior is complex, nonlinear, and sometimes inconsistent, making it challenging to represent within standard econometric frameworks. This can make behavioral models less elegant or tractable from a mathematical standpoint. Multiple biases often operate simultaneously (e.g., overconfidence, anchoring, and loss aversion), and it is hard to isolate their individual effects. This overlapping of explanations can make behavioral papers appear vague.

Behavioral finance highlights what's wrong with investor behavior but often fails to offer clear guidance on what should be done instead. It can identify irrationality but doesn't always suggest rational corrective actions. Some behavioral finance studies are based on experimental economics or psychology experiments in artificial settings. These may lack ecological validity, meaning their relevance to real-world financial markets is questionable.

Once a behavioral anomaly is widely known, market participants may exploit it, causing the anomaly to disappear. This self-correcting nature of markets means behavioral findings can be short-lived or unstable over time. Despite its insights, behavioral finance is not yet fully integrated into regulatory frameworks or mainstream financial practice.

There's often a gap between theory and implementation in investor education, regulation, or product design.

Conclusion

This thesis has explored into the complexity within the relationship of cognitive biases, risk view, and market dynamics in investor's decision-making. By a thorough examination of the psychological elements that influence investor behavior, for example, overconfidence, anchoring, and herding, it has become a clear view. It is also clear that these biases considerably shape investment outcomes, and they do contribute to market inefficiencies. Cognitive biases that usually are interlinked with emotional as well as social influences, can lead to multiple suboptimal decisions that affect not only individual portfolios but the broader financial markets. The research has also shed some light on the divergence between objective risk measures and the subjective risk perceptions of investors. This divergence, fueled by emotional biases of investors such as fear and greed, often results in actions that heighten market volatility and contribute to phenomena like speculative bubble cycles and market crashes. Understanding the ways in which perceived risk influences investor strategies is crucial for both individual decision-making and broader market stability.

Also integrating behavioral finance principles into financial models, as well as also in the regulatory system, holds much potential for bettering market efficiency. The application of AI and behavioral observations can help in eleminating the negative effects from biases, improve in investor education, and create in more effective regulatory measures. Various strategies, like the many AI predictive models and also sentiment analysis tools, can offer very revolutionary solutions intended to address truly irrational decision-making. Also, many personalized investor training programs support better equipped investors as well as successful investment strategies. In conclusion, this thesis shines upon the critical importance

of incorporating behavioral finance into the study as well as practice of financial markets. Recognizing and dealing with cognitive biases patterns can truly lead to more rational investment decisions. This contributes to greater market stability as well as efficiency. By taking advantage of various revolutionary technologies and refining existing regulatory systems, we can work toward creating a financial ecosystem that is more resilient to the volatility caused by human psychology and irrationality, ultimately creating a more stable and effective global economy.

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Tourism as a Catalyst for Economic Development in Albania: A Pathway to EU Accession

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Abstract

This study investigates the role of tourism as a driver of economic growth and a strategic facilitator of European Union (EU) accession, focusing on the Albanian context. As Albania advances on its path toward EU integration, tourism has become a dynamic sector with the potential to promote sustainable development, support international cooperation, and harmonize national practices with European standards. The research follows a qualitative methodology, drawing exclusively on in-depth, semi-structured interviews conducted with ten tourism sector stakeholders. A purposive sampling method was used to capture diverse viewpoints and relevant expertise. Data were examined through thematic analysis, employing Braun and Clarke's

six-phase framework. Key themes include tourism's impact on economic growth, employment generation, infrastructure expansion, cultural heritage preservation, environmental responsibility, foreign investment attraction, regional development, and modernization of public services. Notably, the results underscore tourism's role in improving Albania's international image and supporting its compliance with EU governance, environmental, and socio-economic benchmarks. Stakeholders consistently recognized tourism's integrative role not only as an economic asset but also as a form of soft power that enhances international relations and institutional legitimacy. The study concludes that tourism should be embedded strategically within Albania's development and EU accession strategies. Policy suggestions include crafting a national tourism-EU integration plan, investing in sustainable infrastructure, launching capacity-building initiatives, and increasing access to EU financial instruments. These findings offer valuable insights for policymakers, practitioners, and researchers, highlighting tourism's multifaceted role in advancing national development, economic reform, and alignment with European integration standards through stakeholder perspectives.

Keywords: *Tourism, Economic Development, Albania, EU Accession.*

Introduction

Tourism has emerged as a vital driver of economic growth in many developing nations, and Albania is no exception. Over the past decade, Albania has experienced a significant surge in tourism, turning the sector into a major contributor to the country's economic development. With its rich cultural heritage, unspoiled natural landscapes, and strategic location in Southeast Europe, Albania is becoming an increasingly attractive destination for international travelers. As Kruja et al. (2012) state, "In Albania, we can develop different types of tourism, seaside tourism, health tourism, tourism for the honeymoon, eco-tourism" (p. 139). This growth in tourism has not only provided an economic boost but has also played a crucial role in aligning the country with European Union (EU) standards.

This study will emphasize the crucial role of tourism as a fundamental pillar of Albania's economy and its substantial contribution to the country's efforts for EU accession. By highlighting how a vibrant tourism sector can stimulate economic growth, generate employment, attract foreign investment, etc. this study will illustrate the importance of tourism in supporting Albania's aspirations for EU membership. Ultimately, the study aims to demonstrate that investing in and developing this sector is essential for securing a prosperous future and enhancing Albania's position on the European stage.

EU Membership Application

Albania applied for EU membership on April 24, 2009. In November 2010, the European Commission reviewed the application and identified 12 key priorities Albania needed to address before starting formal negotiations. These included reforms in public administration, judiciary, organized crime, corruption, and human rights. Albania was recommended for candidate status in 2012 and officially granted it in June 2014.

Annual Progress Reviews

In 2024, the European Commission's annual report on Albania highlighted the country's continued progress towards EU accession, emphasizing its commitment to fundamental reforms. Albania's Reform Agenda aligns closely with the EU enlargement policy framework, focusing on key areas such as the rule of law, anti-corruption, the fight against organized crime, and the protection of fundamental rights. The agenda also supports the stability of democratic institutions, particularly the judiciary, and aims to harmonize national legislation with the EU acquis in sectors like state aid, public procurement, transport, energy, and climate.

A key aspect of Albania's economic growth, and a focal point of this study, is the tourism sector. As one of the main pillars of the Albanian economy, tourism has played a pivotal role in driving economic recovery and promoting sustainable development. Its contributions to GDP, job creation, and infrastructure development are vital in helping Albania meet EU economic standards. This study aims to fill a significant gap in the literature by examining the interplay between tourism development and Albania's EU integration efforts. While previous studies have explored various aspects of EU accession, there is a notable absence of research specifically addressing the role of tourism in this context. This paper will highlight how the growth of the tourism sector not only helps Albania navigate competitive market forces but also reinforces its strategic positioning for EU membership. By focusing on this underexplored relationship, the study offers valuable insights into how tourism can serve as a catalyst for broader economic reforms and integration processes, thereby contributing to the national discourse on EU aspirations.

Literature Review

Tourism and Its Importance for the Economy

Tourism is a multifaceted industry that has grown to become one of the world's largest and most dynamic sectors (Bazargani & Kiliç, 2021). Its impact extends far beyond the typical images of sunbathing on tropical beaches or visiting iconic landmarks (da Mota et al., 2022). The industry serves as a powerful economic driver for both developed and developing nations, contributing significantly to national income, employment, and regional development (Ahmad et al., 2021; Rapo, 2024). Tourism's importance to the economy can be understood through various dimensions: economic growth, job creation, infrastructure development, cultural exchange, and environmental sustainability, foreign investment and trade development, regional development and urbanization, government revenue and public spending, international relations, technological innovation and modernization (Baloch et al., 2023). This section delves into these areas, highlighting how tourism stimulates economies and fosters global connections.

Contribution to Economic Growth

Tourism is a significant contributor to global economic growth (Shi et al., 2020). In 2024, the Travel and Tourism sector made a significant contribution to the global economy, underscoring its vital role in fostering economic growth and development. The sector contributed an impressive US$ 10.9 trillion to the global GDP, accounting for 10% of the entire global economy. This figure encompasses not only the direct impacts of tourism activities but also the indirect and induced effects that ripple through various industries such as transportation, hospitality, retail, and services. Beyond its economic footprint, tourism also serves as a major engine for employment worldwide. In 2024, it supported approximately 357 million jobs globally—equivalent to one in every ten jobs—highlighting its pivotal role in sustaining livelihoods and fostering inclusive growth. The sector also witnessed robust spending patterns, with domestic tourism expenditure reaching US$ 5.3 trillion, marking a 5.4% increase from 2023. International tourism spending surged even more significantly, rising by 11.6% to US$ 1.9 trillion. These statistics collectively emphasize the indispensable role of tourism in driving global economic resilience, employment creation, and cross-border economic exchange (WTTC,2024).

This includes direct contributions from the spending of tourists on services such as accommodation, transportation, food, and entertainment, as well as

the indirect contributions generated through tourism-related investments and government spending (Odunga et al. 2020). In countries heavily reliant on tourism, such as Spain, Italy, Greece, and many Caribbean nations, tourism represents an even larger proportion of their GDP, making it a cornerstone of their economic stability (Lee et al., 2022).

For developing nations, tourism can be a vital source of foreign exchange earnings, which are critical for balancing trade deficits and stabilizing national currencies (Khan et al., 2020). These foreign earnings from international visitors help boost reserves, reduce debt, and strengthen the financial position of a country (Qwader & Alawneh, 2023). In turn, these funds can be reinvested into other areas of the economy, further spurring growth and development.

In 2024, Albania's tourism sector achieved record-breaking growth, welcoming 11.7 million foreign visitors—a 15.2% increase from the previous year. This surge generated €3.8 billion in revenue during the first nine months, significantly boosting the national economy. The influx was driven by travelers from Western Europe, notably Italy, Germany, France, and the UK, as well as increasing numbers from Asia and the Americas. Cultural tourism also flourished, with 1.2 million visitors to historical sites, marking a 34% rise. The government's strategic investments in infrastructure and promotion have positioned Albania as a year-round destination, contributing to its growing appeal on the global tourism map. (Instat, 2025)

Job Creation and Employment

One of tourism's most significant contributions to an economy is its capacity to create jobs (Sofronov, 2017). The tourism industry is labor-intensive and offers employment across a wide range of skill levels—from unskilled labor in hospitality to highly specialized roles in management, marketing, and cultural heritage preservation (Elshaer & Marzouk, 2019). The World Travel and Tourism Council (WTTC,2024) reports that tourism supports around 330 million jobs globally, representing one in ten jobs worldwide. This includes direct employment in hotels, airlines, and restaurants, as well as indirect jobs in sectors such as retail, food production, and construction.

Moreover, tourism provides opportunities for small and medium-sized enterprises (SMEs), which are often the backbone of local economies (Dias et al., 2022). Local businesses such as tour operators, restaurants, and artisans benefit directly from the influx of tourists, helping to stimulate economic activity in rural or less-developed regions (Jaisingh, 2021). As tourism grows, these businesses thrive, contributing to a more inclusive economic environment (Cardoso, 2020).

In regions with limited industrialization or agricultural productivity, such as remote islands or mountainous areas, tourism often provides a vital source

of employment where few other opportunities exist (Bennike, 2024). This helps reduce migration to urban centers by offering local employment options and fostering community development (Cattaneo, 2022). The creation of jobs in tourism, therefore, has a ripple effect, benefiting not only the individuals employed but also their families and wider communities (Jeyacheya & Hampton, 2020).

Infrastructure Development

Tourism drives the development of critical infrastructure, such as transportation, communication systems, water supply, and sanitation facilities (Yan et al., 2022). Governments and private investors often invest heavily in infrastructure to meet the demands of tourists, resulting in broader benefits for local populations (Nguyen, 2021). For instance, the construction of airports, roads, and railways to facilitate travel also improves accessibility for residents, enhancing trade and mobility. Similarly, the development of hotels and resorts often requires improvements in energy, water, and waste management systems that contribute to higher standards of living (Achamad & Yulianah, 2022).

In developing nations, tourism can spur rapid modernization as industry demands more reliable services and infrastructure (Chibaya, 2021). For example, in many African nations, tourism investment has led to the construction of new airports and the improvement of road networks, facilitating better access to both tourists and local communities (Florido-Benítez, 2024). Furthermore, tourism helps to promote digital infrastructure, as the industry increasingly relies on online booking systems, mobile applications, and digital marketing (Maurer, 2021). This creates a tech-savvy environment that supports other industries in the economy as well.

Cultural Exchange and Preservation

Tourism also plays a pivotal role in cultural exchange and the preservation of heritage. By bringing people from different backgrounds together, tourism fosters greater understanding and appreciation of diverse cultures, traditions, and histories (Loulanski & Loulanski, 2011). This cross-cultural interaction can lead to the exchange of ideas, skills, and practices that benefit both tourists and host communities (Dillette et al., 2017). For the host country, tourism provides a platform to showcase its cultural identity on a global stage, enhancing national pride and social cohesion (Zhang et al., 2019; Rapo & Kruja, 2024).

In addition to cultural exchange, tourism can contribute to the preservation of heritage sites and cultural traditions (Irandu, 2004). Many countries with rich histories, such as Egypt, Italy, and Greece, rely heavily on tourism for the maintenance and restoration of historical landmarks and cultural sites (Orbaslı

& Woodward, 2009). Revenues generated from entrance fees, guided tours, and cultural festivals are often reinvested into preserving these assets, ensuring that they remain intact for future generations (Kwong & Mohamed, 2018). Additionally, tourism helps keep traditions alive, as it creates a market for local crafts, music, dance, and cuisine, incentivizing the continuation of these cultural practices (Wasela, 2023).

Environmental Sustainability

While tourism is often criticized for its environmental impact, it can also be a driver of sustainable development (Aall, 2014). Eco-tourism and sustainable tourism practices have gained significant attention in recent years, with travelers increasingly seeking experiences that align with environmental conservation and social responsibility (Madanaguli et al., 2022). Many destinations have begun to adopt sustainable practices, such as promoting energy efficiency, waste reduction, and the conservation of natural resources, to appeal to eco-conscious tourists (Al Fahmawee & Jawabreh 2023; Rapo & Zenelaj, 2025).

Moreover, the revenue generated from eco-tourism often supports conservation efforts (Shoo & Songorwa, 2013). For example, in regions like Costa Rica, tourism provides crucial funding for national parks and wildlife reserves, helping to protect endangered species and maintain biodiversity (Zamora & Obando, 2001). These funds also contribute to environmental education programs and community-based conservation initiatives, creating a positive feedback loop where tourism supports both the environment and local communities (Kiss, 2004).

Foreign Investment and Trade Development

Tourism serves as a gateway to foreign investment and trade development (Baidoo, 2018). As tourism flourishes, it often attracts foreign investors who see the economic potential of developing tourism-related infrastructure, such as hotels, restaurants, transportation services, and entertainment facilities (Saner et al., 2019). These investments not only enhance the quality and range of services offered to tourists but also create a multiplier effect on the economy. Foreign direct investment (FDI) in tourism contributes to the development of other sectors, such as real estate, retail, and manufacturing, by increasing demand for goods and services required to support the growing tourist industry (Mihalic, 2002).

Additionally, tourism promotes trade by increasing the demand for locally produced goods. Tourists frequently purchase souvenirs, handicrafts, and other local products during their trips, creating opportunities for local artisans and manufacturers (Gonda, 2021). This not only boosts sales but also opens potential for exporting local goods to international markets. As foreign tourists return home, they often develop a preference for the products and services they experienced

abroad, which can lead to long-term trade relationships and export opportunities (Zhang et al., 2000).

Regional Development and Urbanization

Tourism plays a key role in promoting regional development, especially in rural or underdeveloped areas (Telfer, 2002). By drawing attention to remote or less popular destinations, tourism helps distribute economic benefits across a country, reducing regional disparities (Giaoutzi & Nijkamp, 2006). For instance, while capital cities and popular tourist hubs often receive most visitors, the promotion of rural tourism can help boost local economies by attracting tourists to areas that are otherwise neglected by mainstream development initiatives (Rogerson & Rogerson, 2021). This regional development can spur urbanization as tourism infrastructure improves living conditions and attracts both tourists and locals (Tang et al., 2022). As rural areas become more accessible and appealing, they often undergo a transformation, with better roads, hospitals, schools, and housing developments (Flora, 2018). These improvements not only enhance the quality of life for local residents but also attract new businesses and industries, creating more employment opportunities and diversifying the local economy (Bartik, 2020).

Government Revenue and Public Spending

Governments benefit immensely from tourism through various forms of taxation (Palmer & Riera, 2003). Taxes on tourism-related services, such as accommodation, flights, and food and beverage consumption, contribute significantly to government revenue (Gooroochurn & Sinclair, 2005). In some countries, specific taxes, such as hotel taxes or airport departure fees, are imposed directly on tourists, providing an additional source of income for governments (Bird, 1992). These funds can then be channeled into improving public infrastructure, healthcare, education, and other social services, thus raising the overall standard of living (Agénor & Moreno-Dodson, 2006). Furthermore, the foreign exchange earnings generated through tourism help strengthen the national economy and reduce dependency on external borrowing, allowing governments to invest in long-term development projects (Adepoju et al., 2007).

Enhancing International Relations

Tourism also plays a crucial role in fostering international relations and diplomacy (Negassa, 2024). As tourists travel from one country to another, they form connections and build relationships that contribute to cross-cultural understanding and cooperation (Raymond & Hall, 2008). Tourism serves as a form of soft diplomacy, helping to promote peace and mutual respect between

nations. It creates a platform for dialogue, cultural exchange, and collaboration, which can reduce misunderstandings and promote goodwill (Sharma et al., 2018).

Countries that excel in tourism often enhance their global image and reputation (Unegbu et al., 2023). This can lead to stronger political and economic ties, as nations recognize the value of maintaining positive relations with countries that attract large numbers of tourists (Crouch & Ritchie, 1999). Additionally, hosting international events such as sports competitions, cultural festivals, and business conferences further solidifies a nation's status as a key player in the global tourism industry, enhancing its geopolitical influence (Grix et al., 2021).

Technological Innovation and Modernization

Tourism is a catalyst for technological innovation, particularly in areas such as digital marketing, customer service, and transportation (Fjelstul & Fyall, 2015). As industry evolves, businesses and governments are increasingly adopting new technologies to enhance the tourist experience. From virtual reality (VR) tours and personalized travel itineraries to online booking platforms and mobile apps, technology has transformed how tourists plan and experience their travels (Hsu, 2021). The adoption of technology in tourism not only benefits tourists but also contributes to the modernization of the broader economy (Hojeghan & Esfangareh, 2011). For example, the development of e-tourism platforms requires investments in ICT infrastructure, which can lead to improvements in internet access and digital literacy in local populations (Inversini et al., 2020). These technological advancements can spill over into other sectors, fostering innovation and economic growth beyond tourism itself (Vu & Hartley, 2022).

Methodology

This study employed qualitative research design, relying solely on in-depth interviews to understand the perceived role of tourism in promoting economic growth and facilitating EU accession. The qualitative approach allowed for the exploration of nuanced perspectives, strategies, and experiences of stakeholders directly involved in tourism planning, development, and policymaking. A purposive sampling strategy was used to identify and recruit participants with relevant knowledge and experience in the tourism sector. The sample included:

- Managers and owners of tourism-related businesses (e.g., hotels, travel agencies)
- Representatives from NGOs or associations focused on tourism development
- Policy experts or academics involved in tourism and European integration

The final sample consisted of 10 stakeholders, ensuring a diversity of viewpoints across both the public and private sectors.

Data was collected through semi-structured interviews, which provided a flexible yet focused method of obtaining detailed insights. The interviews were conducted in person or online, depending on participant availability and location, and each lasted between 30 to 60 minutes. The interview questions were developed based on an in-depth review of existing literature related to tourism's role in economic development and EU accession. This review helped identify key thematic areas that guided the structure and focus of the interviews. The main themes that emerged from the literature and shaped the question framework included: contribution to economic growth, job creation and employment, infrastructure development, cultural exchange and preservation, environmental sustainability, foreign investment and trade development, regional development and urbanization, government revenue and public spending, enhancing international relations, and technological innovation and modernization. The interviews were audio-recorded with participant consent, transcribed verbatim, and analyzed using thematic analysis. The analysis process followed the six-phase framework outlined by Braun and Clarke (2006):

1. Familiarization with the data
2. Generating initial codes
3. Searching for themes
4. Reviewing themes
5. Defining and naming themes
6. Producing the report

Recurring patterns and themes were used to identify how stakeholders viewed tourism's contribution to economic development and European integration.

Participants were informed about the purpose of the research, their right to withdraw at any time, and how their data would be used. Informed consent was obtained before each interview. All data were anonymized to protect participant confidentiality. To ensure anonymity and maintain clarity during analysis, a simple coding system was developed. Each interview participant was assigned a unique identifier using the format TS1 to TS10, where "TS" stands for Tourism Stakeholder. These codes were used throughout the transcription and thematic analysis process to refer to individual perspectives without disclosing personal or professional identities. This system facilitated the organization of data, supported pattern recognition, and helped trace thematic insights back to individual responses while preserving confidentiality.

Stakeholder Interview Summary Table

Code	Key Points from Interview
TS1	Tourism has boosted GDP and reduced unemployment. It also helps align national practices with EU accession goals.
TS2	The number of foreign tourists has increased significantly. EU standards improved service quality and infrastructure.
TS3	Cross-border travel has become easier. Tourism is attracting foreign investors and increasing trade partnerships.
TS4	Tourism led to major road and public utility improvements. It also diversified the local economy.
TS5	Cultural heritage preservation has become more prominent due to increased tourism and EU funding opportunities.
TS6	Local businesses have expanded due to tourism demand. Tourism offers a path to regional development.
TS7	Public revenues have increased. These are now reinvested in tourism-related infrastructure and services.
TS8	EU accession is motivating the sector to modernize, digitalize, and innovate in terms of service offerings.
TS9	Tourism strengthens international relations and fosters cultural understanding, essential for EU identity.
TS10	Environmental sustainability is now prioritized due to pressure from EU tourism standards and responsible tourists.

Thematic Analysis

Theme	Description	Supporting Quotes/Ideas
1. Economic Growth and Job Creation	Tourism is seen as a key driver of GDP growth and employment, especially in underdeveloped regions.	"Tourism has boosted GDP and reduced unemployment" (TS1), "Local businesses have expanded due to tourism demand" (TS6)
2. EU Standards and Modernization	Stakeholders associate EU accession with improvements in tourism service quality, digitalization, and legal compliance.	"EU standards improved service quality" (TS2), "Motivating the sector to modernize" (TS8)
3. Infrastructure and Regional Development	Tourism leads to investments in transport, utilities, and public services, particularly in tourist zones.	"Road and public utility improvements" (TS4), "Reinvested in tourism-related infrastructure" (TS7)
4. Cultural Preservation and Exchange	Tourism is seen to preserve and showcase local traditions and culture, which also aligns with EU identity building.	"Cultural heritage preservation more prominent" (TS5), "Fosters cultural understanding" (TS9)
5. Foreign Investment and Trade	The tourism sector attracts foreign investors and boosts cross-border trade and cooperation.	"Tourism is attracting foreign investors" (TS3)
6. Environmental Sustainability	Stakeholders are increasingly aware of sustainable tourism practices as part of EU accession requirements.	"Sustainability prioritized due to EU standards" (TS10)

7. Public Revenue and Spending	Increased tourism leads to higher tax revenues, which are then invested back into tourism development and local communities.	"Public revenues have increased and are reinvested" (TS7)
8. EU Integration Support	Stakeholders view tourism as supportive of the broader EU accession process due to its need for policy alignment and international cooperation.	"Helps align national practices with EU goals" (TS1), "Tourism is a bridge for EU integration" (TS3), "EU identity" (TS9)

Results and Discussion

This section presents the findings derived from interviews with ten tourism stakeholders (coded TS1–TS10), analyzed using thematic analysis. The data revealed eight key themes demonstrating the multifaceted role of tourism as a catalyst for economic growth and as a supportive force in the European Union (EU) accession process.

All stakeholders agreed that tourism plays a vital role in stimulating economic growth. Interviewees noted a rise in both GDP contributions and employment opportunities, particularly in regions heavily reliant on tourism.

"Tourism has boosted GDP and reduced unemployment, especially in seasonal zones." (TS1)

The sector also supports local entrepreneurship, with many small businesses emerging to meet tourist demand.

A recurring theme was the perceived positive influence of EU standards on the modernization of Albania's tourism industry. Stakeholders emphasized improvements in infrastructure, digitalization of services, and the adoption of EU best practices.

"EU standards improved service quality and brought consistency in what tourists expect." (TS2) *"Tourism providers are now digitalizing services to meet EU norms."* (TS8)

This indicates that tourism serves as both a motivator and a testing ground for broader regulatory harmonization during the EU accession process.

Interviewees highlighted tourism's role in prompting investments in infrastructure such as roads, water supply, airports, and public utilities.

"Tourism brought road and public utility upgrades that benefited locals too." (TS4)

These developments not only enhance the visitor experience but also contribute to improved living conditions and economic activity in underserved areas, reinforcing tourism's power as a tool for regional development.

Several stakeholders discussed how tourism has contributed to the safeguarding and revitalization of Albania's cultural assets. Increased funding, often supported through EU programs, has helped maintain heritage sites and traditional practices.

"Cultural heritage preservation has become more prominent due to increased tourism and EU funding opportunities." (TS5)

Moreover, cultural exchange through tourism was seen as a vehicle for strengthening Albania's European identity.

Tourism's ability to attract foreign capital and stimulate trade partnerships emerged as a strong theme. Stakeholders mentioned that a growing tourism sector increases investor confidence and opens doors for international collaboration.

"Tourism is attracting foreign investors and increasing cross-border partnerships." (TS3)

This suggests that tourism can be leveraged not only for internal development but also for external economic integration.

A growing awareness of environmental sustainability was also noted among the stakeholders, especially as a response to EU expectations and the demands of environmentally conscious tourists.

"Environmental sustainability is now prioritized due to pressure from EU tourism standards." (TS10)

This theme reflects a shift toward responsible tourism, which may also be an indicator of readiness to align with EU environmental directives.

Some stakeholders pointed out that tourism-generated revenues are being reinvested into the sector and into community development, creating a positive cycle of growth.

"Tourism increased public revenue, which is now used to improve infrastructure and local services." (TS7)

This demonstrates tourism's fiscal benefits beyond direct business profits.

Finally, tourism was viewed as a facilitator of international engagement and a soft power tool in the EU accession process. Stakeholders believe tourism has helped Albania strengthen diplomatic, cultural, and economic ties with EU countries.

"Tourism fosters international relations and cultural understanding, essential for EU identity." (TS9)

In this context, tourism is not only an economic asset but a strategic component of foreign policy and EU alignment.

The analysis shows that tourism is a multidimensional contributor to Albania's development. It stimulates economic growth, fosters cultural exchange, drives modernization, and aligns with EU accession priorities. By engaging with tourism as a development strategy, Albania not only promotes immediate socio-economic benefits but also progresses on its European integration journey.

Limitations of the Study

This study has several limitations. The small sample size of ten stakeholders may not fully represent the diversity of perspectives within Albania's tourism sector. The qualitative nature of the research relies on subjective interpretations, which may not reflect broader national trends. Additionally, regional differences in

tourism development were not thoroughly explored. As the study focused solely on Albania, the findings may have limited applicability to other countries. Lastly, the absence of quantitative data in this research limits the ability to measure tourism's economic impact in concrete, statistical terms.

Conclusion

This study set out to investigate the role of tourism as a catalyst for economic growth and a strategic contributor to Albania's European Union (EU) accession process. Through qualitative analysis based on in-depth interviews with ten stakeholders from various segments of the tourism sector, the research has uncovered a rich and multidimensional understanding of tourism's significance in the Albanian context. The findings demonstrate that tourism is not only an important economic driver but also a facilitator of broader national transformation across social, cultural, environmental, and political domains. Tourism's economic impact is evident in several key areas. Stakeholders consistently highlighted its role in generating employment opportunities, attracting foreign direct investment, and stimulating infrastructure development especially in regions that might otherwise be economically marginalized. In addition, tourism contributes to national revenue through taxation, supports the growth of small and medium enterprises (SMEs), and fosters local entrepreneurship. These outcomes position tourism as a vital pillar of economic development strategy, particularly for a country like Albania, which is striving to reduce regional disparities and enhance overall competitiveness. Beyond its economic contributions, the study reveals tourism's positive effects on cultural and environmental dimensions. Stakeholders emphasized its role in preserving cultural heritage, promoting local identity, and raising awareness of Albania's historical and natural assets. Furthermore, sustainable tourism practices were identified as essential for safeguarding the environment, highlighting the sector's potential to serve as a model for ecological responsibility and community-based development. Perhaps most significantly, the study positions tourism as a strategic enabler of Albania's EU integration. Participants pointed to the alignment of tourism-related governance, infrastructure, and regulatory frameworks with EU standards as a clear pathway toward fulfilling accession criteria. Tourism was seen to facilitate modernization across public services, environmental policies, and institutional capacities. It also plays a role in promoting regional cooperation and cross-border dialogue, which are critical components of EU accession. Importantly, stakeholders viewed tourism as a form of soft power enhancing Albania's international image, building trust with EU institutions, and demonstrating readiness for integration. These findings emphasize the need to rethink tourism's role within Albania's national

development agenda. Rather than viewing it solely as a leisure-based industry, tourism should be embraced as a transformative sector with far-reaching implications for economic modernization, institutional reform, and societal advancement. For tourism to realize this potential, strategic investments and policy coherence are essential. This includes the formulation of a national tourism strategy explicitly linked to EU integration goals, greater support for sustainable infrastructure projects, and targeted capacity-building initiatives for both public and private sector actors. In conclusion, this study reinforces the argument that tourism is more than a revenue-generating industry; it is a multi-dimensional tool that can support Albania's journey toward EU membership. By leveraging tourism's integrative power, Albania has the opportunity to accelerate its development in a way that is inclusive, sustainable, and aligned with European values and standards. The insights provided here offer a foundation for policymakers, practitioners, and researchers to further explore and harness tourism's full potential in the service of national progress.

Policy Recommendations

Based on the findings, the following recommendations are proposed to further enhance the role of tourism in economic development and EU accession:

1. National Tourism Agency – EU integration
Create the infrastructure to develop and apply a National Tourism strategy that is in alignment with EU Integration Strategy in terms of accession goals, ensuring that infrastructure, legal standards, and sustainability measures.

2. Strengthen Public-Private Partnerships
Encourage collaboration between the government, private sector, and civil society to fund, promote, and manage tourism initiatives that support local economies and meet international standards.

3. Promote Sustainable and Responsible Tourism
Introduce incentives for tourism businesses that adopt environmentally friendly practices and support the conservation of natural and cultural heritage.

4. Enhance Infrastructure in Underdeveloped Regions
Prioritize investments in transportation, digital connectivity, and public utilities in regions with high tourism potential but low development, fostering balanced regional growth.

5. Boost Training and Capacity Building
Support educational and vocational programs for tourism professionals to ensure that service quality meets EU standards and enhances the visitor experience.

6. Facilitate Access to EU Funding Opportunities
Assist local stakeholders in accessing EU grants and programs related to tourism, culture, environment, and regional development.

7. Use Tourism as a Diplomatic Tool
Leverage tourism-related cultural exchanges, events, and collaborations to strengthen international relations and promote Albania's European identity on the global stage.

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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%

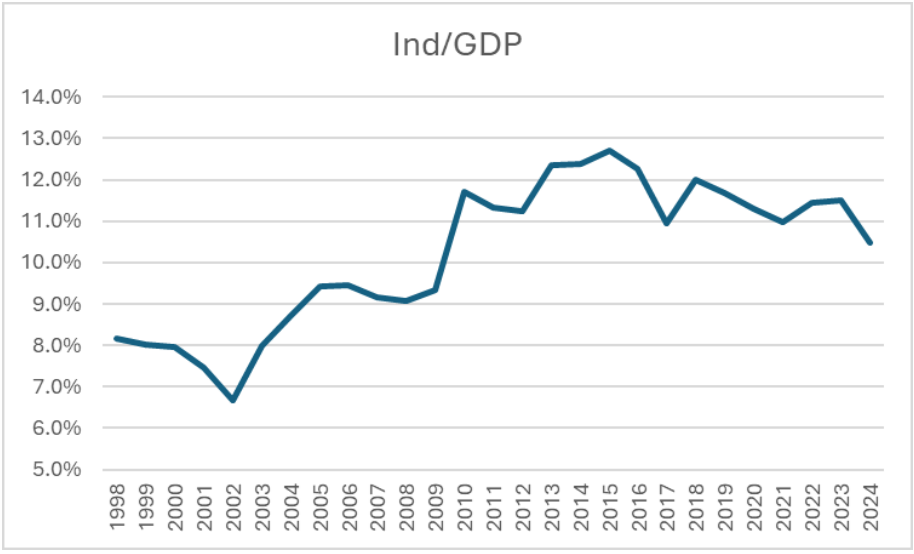
2002	633933	42248	6.7%
2003	700712	55998	8.0%
2004	760445	66430	8.7%
2005	824595	77753	9.4%
2006	897698	84953	9.5%
2007	1005281	92094	9.2%
2008	1112317	101020	9.1%
2009	1171606	109257	9.3%
2010	1256235	146950	11.7%
2011	1308998	148115	11.3%
2012	1324877	148884	11.2%
2013	1352247	166949	12.3%
2014	1402496	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

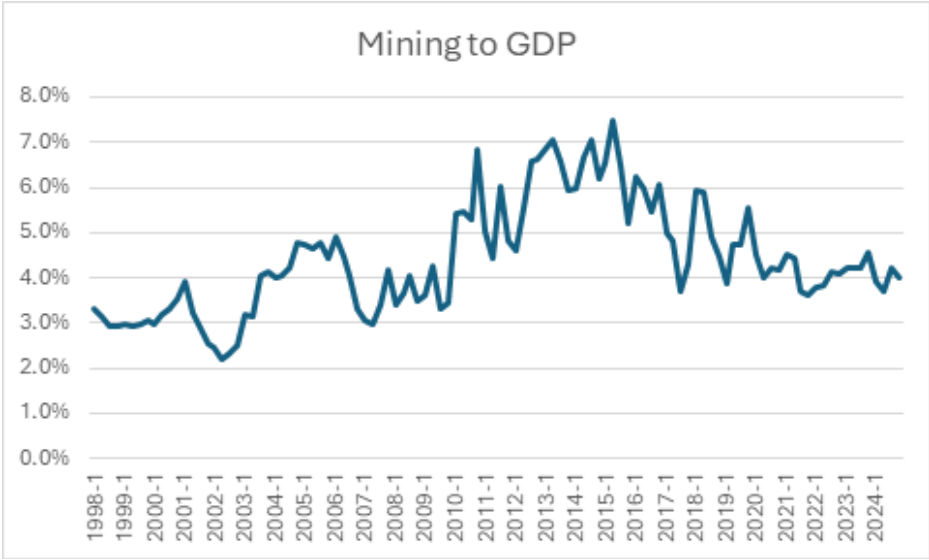
	Mean	Std. Deviation	N
GDP	884112.31	321982.030	27
Mining	10521.38	9381.240	27

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.

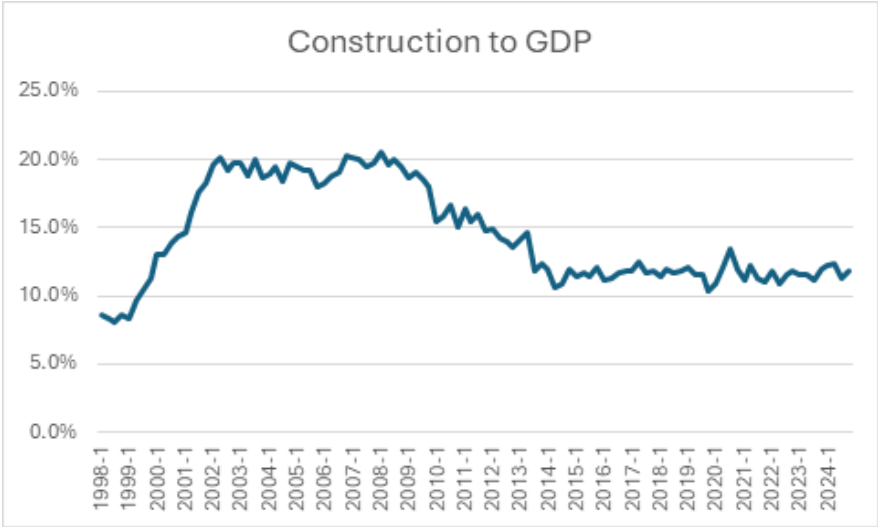
In the early transition period, construction's share was relatively low but steadily growing. The increase reflects early urban development, housing reconstruction, and post-conflict recovery investments, especially after the 1997 crisis.

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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RESEARCH REPORT

Foreign Trade and European Union Integration: Ex-Post Evaluation of FTA Effects

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Abstract

This study consists of an ex-post evaluation of the effects of Free Trade Agreements (FTAs) in the context of foreign trade and integration into the European Union (EU). The use of FTAs has been a key element in the strategies of countries seeking to improve access to international markets and achieve integration into the EU's trade structures.

In this analysis, free trade agreements are examined as instruments for improving access and influencing economic growth. Through an in-depth evaluation, the advantages and challenges associated with these agreements are analyzed, focusing on their economic, social, and political benefits.

The study includes an analysis of trade flows, the development of key sectors, the growth of exports, the effects on income levels, and the changes in domestic and foreign policies. Concrete examples of countries integrated into the EU and the impact of FTAs on them are also examined, providing deeper insights into economic and social transformations.

This study aims to contribute to a deeper understanding of the link between FTAs, foreign trade, and the process of integration into the EU. By analyzing achievements and challenges, it provides recommendations to improve strategies and policies for countries to benefit more from this process and strengthen their relations with the EU.

Purpose of the Study

The purpose of this thesis is to provide an ex-post evaluation of the effects of Free Trade Agreements (FTAs) on foreign trade and the process of integration into the European Union (EU). By analyzing the benefits and challenges of these agreements, the thesis seeks to provide a comprehensive view of how FTAs have influenced the economic, social, and political development of the participating countries. In addition to general evaluations, the study seeks to examine specific examples of the impact of these agreements in certain EU-integrated countries. Through this analysis, it aims to offer a contribution to the understanding of the relationship between foreign trade, EU integration, and the use of trade agreements to improve the economic and political situation of the countries involved.

Objectives of the Study

The objectives of this thesis focus on the detailed ex-post evaluation of the effects of FTAs in the context of foreign trade and EU integration. Specific objectives include:

1. Analysis of the Advantages and Challenges of FTAs:
   Identifying and analyzing the benefits and challenges of FTAs in order to understand their impact on the economy and society of participating countries.
2. Studying the Effects on Economic Growth:
   Focusing on the analysis of the impact of FTAs on economic growth, examining production growth, export expansion, and market diversification.
3. Evaluation of Changes in Key Sectors:
   Identifying changes in key economic sectors and assessing how FTAs have influenced their development.
4. Focus on Social and Political Effects:
   Analyzing the impact of FTAs on social and political levels, including developments in working conditions, living standards, and trade regulations.
5. Case Studies:
   Reviewing examples of EU-integrated countries and identifying specific changes brought by FTAs in these states.
6. Providing Recommendations:
   Offering concrete recommendations for other countries seeking EU integration or wishing to benefit from FTAs.

Research Questions

The study is guided by the following research questions:

- How have FTAs influenced the economic growth of the countries studied, including production and exports?
- What are the main challenges that participating countries have faced during EU integration?
- How have FTAs influenced changes in key economic sectors such as industry, services, and agriculture?
- What is the impact of FTAs on social and political dimensions, including working conditions, living standards, and trade regulations?
- How have trade conditions and competition changed in international markets for countries seeking EU integration after signing FTAs?
- Have FTAs influenced the development of the private sector and the growth of foreign direct investment?
- What are the concrete examples of achievements and challenges from countries that joined the EU after signing FTAs?

Scope of the Study

The scope of this study is centered on the relationship between foreign trade, EU integration, and the effects of FTAs. In order to fully understand this complex relationship, the analysis covers a wide range of themes, including:

- Foreign Trade: Identifying the concept of foreign trade and its role in the global economy, as well as the advantages and challenges arising from international engagement.
- EU Integration: Focusing on the process of integration, its history, structure, and required membership criteria, along with the advantages and challenges involved.
- FTAs: Describing and analyzing FTAs in the context of this study, identifying their main characteristics and role in improving trade relations.
- Effects of FTAs: Concentrating on ex-post evaluation of FTAs' effects, analyzing changes in economic growth, sectoral development, and social and political conditions.
- Case Studies: Reviewing examples of EU-integrated countries and analyzing the impact of FTAs, identifying specific cases to support higher-level generalizations.

- Future Recommendations: Offering practical recommendations for other countries considering EU integration or aiming to benefit from FTAs.

Limitations and Innovations of the Study

Limitations

- Time and Resources: Limited time and resources may prevent inclusion of all recent developments in foreign trade and EU integration.
- Dependence on Available Sources: Reliance on available information may result in focus on specific countries or cases, leaving out other important aspects.
- Geographic Limitation: Due to geographical constraints, the analysis may not cover all possible cases of FTA impact on trade and integration.
- Global Uncertainties: Unforeseen global events or disruptions may influence the overall assessment of FTA effects.

Innovations

- Contribution to Literature: This study contributes a deeper perspective on the relationship between trade, EU integration, and FTAs.
- Use of Appropriate Methodology: Combining qualitative and statistical approaches ensures robust results.
- Qualitative Assessment: Offering a detailed assessment of FTA effects across economic, social, and political dimensions.
- Improved Study Content: Considering feedback and evaluations, this research enhances analysis and conclusions, making it a valuable contribution.

Chapter I: Introduction

Introduction

Foreign trade is one of the primary elements influencing a country's economic growth, which is why it has been widely studied. Trade exchanges began long ago, but their volume and forms have changed dramatically over time. Efforts toward trade liberalization, especially in the last decades, have been justified by the significant benefits it brings: more efficient allocation of productive resources, lower transaction costs, increased national welfare, enhanced competitiveness in international markets, and reduced costs associated with active trade policies.

According to the World Bank (2002), after the implementation of Uruguay Round commitments, further reductions of 40% in tariffs and subsidies on agricultural exports could lead to a global increase in real incomes of about 60 billion US dollars annually. If combined with a 40% reduction in domestic agricultural subsidies, the increase could reach 70 billion dollars per year. This illustrates how liberalization contributes not only to global welfare but also to individual national economies.

The development of countries in fields such as economy, technology, and transport has enabled trade between nations, even those geographically distant. With the expansion of exchanges, countries demanded more favorable conditions for trade, leading to the need for foreign trade liberalization. Free trade began to flourish and expand among nations that removed barriers.

For Albania, as for any country building its market institutions, this process brings new dimensions. Non-tariff barriers—such as technical standards, testing and certification rules, sanitary and phytosanitary measures—are not only obstacles but also necessary institutions to ensure that markets function efficiently and effectively. In Albania's case, integration into the EU requires not only trade liberalization but also the establishment of functioning institutions aligned with the internal market principles of the EU.

Ultimately, special attention must be given to Albania's trade balance in relation to policies promoting domestic production and exports. Export promotion requires improved competitiveness of the economy, firms, and products. To achieve this, Albania must comply with export market standards and regulations, especially those of the EU. Non-tariff measures can assist in achieving this compliance. At the same time, EU integration and free trade provide new opportunities for trade and exports, contributing to economic growth and employment.

This thesis therefore undertakes a detailed analysis of theoretical and empirical studies on these issues, focusing particularly on Albania's competitiveness, export performance, and adaptation to EU market requirements.

Chapter II: Understanding and Importance of Foreign Trade

Analysis of the Concept of Foreign Trade and Its Advantages

Foreign trade refers to the exchange of goods and services between countries. It encompasses exports, which represent domestic products sold abroad, and imports, which are foreign goods brought into the domestic market. This interaction creates an international platform where economies are interconnected and mutually dependent.

The main advantages of foreign trade include:

- Increased Trade Exchange: Expands the variety of products and services available to consumers and firms.
- Specialization and Comparative Advantage: Encourages countries to focus on sectors where they have an efficiency advantage.
- Employment Growth: Higher demand for goods and services drives production and employment.
- Economic Growth: Expands opportunities for business, investment, and income generation.
- Market Diversification: Reduces dependence on a single market and mitigates risks.
- Cultural and Social Exchange: Introduces new products, ideas, and cultural values across borders.
- Innovation and Technological Development: Greater competition fosters innovation and adoption of new technologies.
- Development Impact: Offers developing countries access to larger markets, boosting exports and growth.
- Policy and Institutional Reforms: Encourages governments to adjust regulations in line with international standards.

Overall, foreign trade acts as a transformative force, distributing economic and social benefits globally and accelerating integration into the world economy.

Importance of Trade for Countries Seeking EU Integration

For candidate countries, trade plays an essential role in the process of EU integration. Integration into the EU opens access to a vast market, increases exports, attracts investments, and stimulates new economic opportunities. Participation in the Single Market requires harmonization with EU standards, which enhances competitiveness and ensures higher quality of products and services.

Key aspects include:

- Market Access: The EU provides one of the largest consumer markets in the world, creating new opportunities for exports.
- Investments: Membership and pre-accession processes encourage inflows of foreign direct investment (FDI).
- Economic Interactions: Integration facilitates smoother economic and financial transactions.
- Regulatory Alignment: Harmonization with EU legislation improves legal certainty and product quality.

- Competition: A common market increases efficiency, productivity, and innovation.
- Stability: Membership ensures political and economic stability, fostering long-term growth.
- Social and Environmental Standards: Countries adopt higher standards, improving welfare and sustainability.
- Diplomatic Cooperation: Trade integration strengthens political relations and coordination of external policies.

Thus, trade acts as both an engine of growth and a mechanism for meeting EU accession requirements.

Trade as a Key Element for EU Aspirants
Trade is the critical factor that enables countries aspiring to EU membership to gain access to the European market. By liberalizing trade and expanding exports, these countries can achieve economic growth, improve efficiency, and build resilience. EU integration also creates a favorable environment for investment, fosters adoption of European standards, and promotes competition and innovation.

Link Between Trade and the EU Integration Process
The relationship between trade and EU integration is fundamental. Opening markets and removing tariffs represents the first step toward integration. Through trade, candidate countries adapt their policies and standards to those of the EU, thus fulfilling accession criteria. Trade also enhances political and diplomatic coordination, stimulates innovation, and contributes to regional stability.

Chapter III: European Union Integration

History and Structure of the EU

The European Union (EU) originated as a peace and cooperation project after World War II. The European Coal and Steel Community (1951) laid the foundations, followed by the Treaties of Rome (1957), which established the European Economic Community (EEC) and EURATOM. Over time, integration deepened, culminating with the Maastricht Treaty (1993), which formally created the EU and introduced the Economic and Monetary Union and the euro currency. The Lisbon Treaty (2009) further restructured institutions and strengthened democratic legitimacy.

The EU's institutional framework includes:

- European Council – defines general political directions.
- Council of the EU – represents member states' governments.
- European Commission – executive body proposing and enforcing legislation.
- European Parliament – directly elected, co-legislates with the Council.
- Court of Justice of the EU – ensures uniform interpretation and application of EU law.
- European Central Bank – manages monetary policy for eurozone members.

This institutional structure underpins the functioning of the EU as a complex political and economic union.

The Integration Process and Criteria

EU integration is a rigorous and highly structured process that candidate countries must complete before membership. The stages include: formal application, Commission assessment, negotiation of accession chapters, adoption of the acquis communautaire (the full body of EU law), and final ratification by member states. Some countries also hold referenda.

The Copenhagen criteria define the conditions for accession:

- Stable democratic institutions and respect for human rights.
- Rule of law and an independent judiciary.
- Functioning market economy and capacity to cope with competition.
- Ability to adopt and implement the acquis.
- Administrative capacity to manage EU funds and obligations.

Integration requires extensive reforms across politics, economy, and society. For Albania and other Western Balkan countries, this means not only adopting EU rules but also building the institutional capacity to apply them effectively.

Chapter IV: Free Trade Agreements (FTAs) and Their Role

Definition and Characteristics of FTAs

Free Trade Agreements (FTAs) are treaties between two or more countries that aim to facilitate trade by eliminating or reducing tariff and non-tariff barriers. Their primary objectives are to liberalize markets, enhance efficiency in resource

allocation, stimulate exports, and create a competitive environment. FTAs are comprehensive and include not only tariff reductions but also rules regarding intellectual property rights, investment protection, dispute settlement, labor rights, and environmental standards.

For EU candidate countries, FTAs represent more than economic tools: they are political signals of commitment to reform and alignment with EU standards. Signing an FTA with the EU requires a candidate to adopt and implement large parts of the acquis communautaire, which gradually integrates their economy into the Single Market framework.

FTAs in the Context of EU Integration

In the process of EU integration, FTAs play a strategic role as stepping-stones. They prepare candidate countries to enter the Single Market by gradually aligning their economic, legal, and institutional systems with those of the EU. FTAs ensure smoother trade relations, expand access to the EU market, and provide a stable environment that attracts foreign investment. They also encourage domestic reforms in areas such as competition policy, consumer protection, environmental sustainability, and social rights.

While FTAs generate economic opportunities, they also expose structural weaknesses. Industries that are not competitive face challenges when exposed to foreign competition. The reduction of tariff revenues can also create fiscal pressures. Thus, while FTAs promote integration, their success depends on complementary reforms in industrial development, infrastructure, education, and innovation.

Chapter V: Ex-Post Evaluation of the Effects of FTAs

Practical Outcomes of FTAs

Ex-post evaluations assess the real results of FTAs after their implementation. Evidence shows that FTAs generally increase exports, expand trade volumes, and diversify markets. They contribute to GDP growth by stimulating production and improving resource allocation. FTAs have also been linked to higher levels of foreign direct investment (FDI), as they signal openness and stability to investors.

However, the distribution of benefits is uneven. Export-oriented industries tend to benefit quickly, while small and medium-sized enterprises (SMEs) may face difficulties in adapting to higher standards and compliance requirements. FTAs also impose adjustment costs on certain sectors, particularly agriculture, which must meet stringent EU sanitary and phytosanitary standards.

Economic, Social, and Political Benefits

- Economic Benefits: FTAs increase trade flows, attract investments, stimulate technology transfer, and create jobs. They also modernize industries and support long-term competitiveness.
- Social Benefits: Liberalized trade provides consumers with greater product variety and quality at lower prices. FTAs can improve labor conditions, although they may also generate inequalities if adjustment policies are weak.
- Political Benefits: FTAs act as catalysts for legal reforms, governance improvements, and stronger diplomatic ties. They strengthen credibility and demonstrate commitment to the EU accession process.

Chapter VI: Case Studies and Country Experiences

Croatia

Croatia serves as a strong example of how FTAs facilitated EU accession. Before joining the EU in 2013, Croatia had signed FTAs with EU countries that stimulated trade growth, strengthened institutions, and improved competitiveness. Its exports to the EU grew significantly, while its institutional reforms accelerated. Croatia's experience demonstrates that FTAs can effectively prepare a country for full EU membership when combined with strong domestic reforms.

Albania

Albania has engaged in FTAs, particularly through the Stabilization and Association Agreement (SAA) with the EU. This has expanded Albania's trade relations and improved its regulatory framework. Nevertheless, challenges remain: low competitiveness, limited diversification of exports, and insufficient institutional capacity. Albanian products often struggle to meet EU quality and certification standards. Thus, while the SAA and other FTAs have provided opportunities, Albania still faces significant reforms to ensure sustainable benefits from trade liberalization.

Other Examples

Other EU candidate and new member states, such as Poland, Hungary, and Romania, also illustrate the role of FTAs in integration. Their experiences show that FTAs can accelerate structural reforms, attract investment, and modernize

industries. However, success depends heavily on the domestic readiness of institutions, government commitment, and strategic economic policies.

Chapter VII: Conclusions and Recommendations

Conclusions

The study concludes that FTAs are essential tools in the EU integration process. They provide economic opportunities, promote competitiveness, and accelerate institutional development. However, FTAs are not sufficient on their own. Their effectiveness depends on complementary reforms in domestic policies, industrial strategies, and governance. For Albania and other Western Balkan countries, FTAs must be integrated into broader development strategies that prioritize innovation, education, and social cohesion.

Recommendations

- For Governments: Adopt proactive policies to maximize FTA benefits, strengthen institutions, and support vulnerable sectors.
- For Businesses: Invest in competitiveness through innovation, quality improvements, and digitalization. Form partnerships to integrate into EU supply chains.
- For the EU: Provide technical assistance, financial support, and monitoring mechanisms to ensure balanced FTA implementation. Promote inclusive policies that support both large and small enterprises.
- For Candidate Countries: Use FTAs as part of a comprehensive integration strategy, combining trade liberalization with education, infrastructure, and social policies. Prioritize long-term sustainability over short-term gains.

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