

# *From Growth to Development*\_\_\_\_\_

## **Productivity and Convergence in Post-Transition Economies**

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The productivity dynamics of post-communist countries today are at a critical analytical and structural cross-road, especially in the Western Balkans and Central and Eastern Europe. After more than three decades since the beginning of transition, the traditional economic growth model is rapidly hitting its natural limits. Our nations are now facing an inevitable truth: the old pillars that built our transition such as market liberalization and macroeconomic stability, served as a vital foundation, but they are no longer enough to narrow the gap separating us from developed economies. According to the World Bank's Western Balkans Regular Economic Report (2025), the region's average GDP per capita stands at almost 40% of the EU average, an income gap directly driven by regional labor productivity levels that are roughly 60% lower than the EU baseline<sup>1</sup>.

The key question we need to ask ourselves has shifted from simply measuring *how much* we are growing to understanding *how* we are growing. For too long, our economic strategy has been focused on chasing GDP growth as a number. But economic growth only tells us that the economy is getting bigger, not that it is getting better; it is a measure of quantity rather than quality. True progress requires a shift from economic growth to economic development, moving away from just "big numbers" and aiming for "big results". It means investing in smarter technologies, upgrading the skills of our workforce, and ensuring that our economic models are sustainable for the future. As a result, the debate among academics and policymakers has moved from focusing on quantitative growth to emphasizing qualitative development, where productivity and sustainability take center stage in our economic systems.

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<sup>1</sup> World Bank. (2024). *Western Balkans Regular Economic Report: Untapped Potential*. Washington. Available at: <https://openknowledge.worldbank.org/server/api/core/bitstreams/c859b43d-ed73-402a-b317-f9ce7fbad404/content>, page 19.

As framed in this journal, Albania and the broader Western Balkan region are fighting with a significant productivity deficit. To align with the European Union over the long term, we must transition beyond economic models dependent on low-skilled labor, domestic consumption, and remittances. It's time for us to move towards a new growth model that prioritizes high productivity and innovation. To build this model, we must confront several critical challenges that continue to hold our economies back.

Firstly, our economy must look up toward high value industries. For instance, while the agricultural sector accommodates a great portion of the labor force, its overall contribution to GDP remains disproportionately low. According to Word Bank, even though agriculture in Albania accounts for roughly 35% of total employment, it contributes less than 19% to the national GDP due to land parcelization and a lack of technological adoption<sup>2</sup>.

Secondly, there is a widening gap between the qualifications of our workforce and the shifting demands of the modern era, particularly regarding adaptation to new technologies and Artificial Intelligence. Universities bear a high responsibility here; we must courageously update our curricula to focus more heavily on practical skills and the integration of AI within economic and business processes.

Thirdly, although SMEs form the absolute strength of the Albanian business landscape, the integration of digital operations and modern management software into their daily processes is still in its early development. According to EBRD Transition Reports and OECD<sup>3</sup>, R&D spending in the Western Balkans hovers at less than 0.5% of GDP compared to the EU average of over 2.2%<sup>4</sup>, heavily restricting the ability of local SMEs to digitize their operations.

Fourthly, informality both in terms of wage underreporting and the heavy reliance on cash transactions, acts as a direct brake on productivity. Informal businesses intentionally choose to remain small to stay under the maximum threshold, meaning they never achieve crucial economies of scale. Furthermore, by operating partially outside the formal financial system, they find it exceptionally difficult to secure bank loans or attract capital investments to upgrade their machinery and technology.

Last, but not least, is related to brain drain. Continuous emigration of talented youth and highly qualified professionals is draining our economy of its most precious asset, human capital. According to IMF regional analyses, some Western Balkan nations have lost up to 20% of their highly educated workforce over the

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<sup>2</sup> World Bank. (2024). *Western Balkans Regular Economic Report: Untapped Potential*. World Bank Group.

<sup>3</sup> OECD. (2025). *Economic Convergence Scoreboard for the Western Balkans 2025*. OECD Publishing. <https://doi.org/10.1787/bc0babf3-en>

<sup>4</sup> European Bank for Reconstruction and Development. (2024). *Transition Report 2024-2025: Actions for Growth*. EBRD.

past two decades<sup>5</sup>, creating a severe brain drain that leaves remaining workers lacking the digital and technical skills modern firms demand.

Finally, fixing these internal economic issues is what will truly decide our future in the European Union. Joining the EU is about much more than just changing laws and aligning politics, it requires our economy to actually catch up. Right now, closing the gap in incomes and living standards between Albania and the EU is like chasing a moving target. The EU market is moving fast with digital tech and green energy. If our local industries do not quickly become more efficient, we risk falling even further behind.

This is exactly why productivity is so important. True EU integration means making sure our local businesses can actually survive and compete in an open European market. New initiatives, like the EU Growth Plan for the Western Balkans, give us a great opportunity by offering financial support in exchange for economic reforms. However, this help will only work in the long run if we stop relying on cheap labor and start building an economy based on knowledge, new technology, and high-quality exports.

This issue of *Economicus* invites researchers to look closely at these challenges. It does not just point out where our economy is stuck, but it also offers real ideas on how to build a stronger, more competitive, and sustainable future.

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<sup>5</sup> International Monetary Fund. (2023). *Regional Economic Outlook: Europe — Facing the Headwinds*. International Monetary Fund.