

# The Impact of Economic and Policy Reforms of the European Union in a Geopolitical Crisis of the Neighboring Countries: the Case of Albania. Economic and Policy Reforms of the European Union in Albania

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## Abstract

This paper aims to provide an in-depth analysis of the EU's geopolitical policy in the Western Balkans (WB), with an emphasis on Albania in different years of the integration process. The paper consists of three parts. The first part focuses on the impact of political and economic changes in the European Union (EU) approximation process on the country's socio-economic system. The second part provides a comprehensive view of the opportunities and challenges that the country is facing in this regard. The third part provides an overview of the current situation of Albania's economic development and growth after the COVID-19 pandemic, highlighting the importance of addressing the gaps in national economic policies, financial education, and collaboration between institutions, civil society, and stakeholders for the reported gaps in public administration, free trade, and macroeconomic stability. Due to its geopolitical strategic placement, Albania, as part of the Western Balkans region, has gained and benefited from European initiatives, support and aid in different stages of the neighboring process. Although good progress has been made, much more must be done to achieve a comprehensive approximation of the country's economic and political stability for the welfare of its citizens.

**Keywords:** Albania, Economic Reforms, European Adherence, Geopolitical Placement, Political Reforms.

## Introduction

The globalization of the 21st century has intensified global competition and new social dimensions (1-5). After the end of the pandemic and during the war in Ukraine and the Middle East, Europe experienced pressure. This was accompanied by the rapid flow of trade, money, and information, resulting in significant changes in the world until 2019 (6-8).

This challenge is not only reflected in the role and function of the state, but it also requires the EU to define its identity and to overcome misunderstandings about the purpose of the country's constitution (9, 10). The main motivation for focusing on Albania within the Western Balkans is that the country has seen a non-linear development between the de jure and de facto development in the association process. According to prominent Economic Institutes research KOF Swiss Economic Institute Globalization Index, 2020, the de

juro improvement is a significant advancement to the EU standards, de facto progress is slow and weak in terms of economic development. In this line, a throughout view of the country's profile in a macro and micro development and its stance on the actual alignment with EU enlargement strategies.

The actual pattern of community integration is facing a major test. In the same way, of course, the geopolitical trend has changed, and, at the end of the Soviet threat, the EU gained unprecedented support from its most powerful external partner, the United States, with the support of some member countries such as Germany and France, which paved the path toward the European project (11, 12). The classic self-representation of the EU in terms of "unity in diversity," mainly the result of a historical-cultural approach, ignores the fact that dualism has not been traced back, in most cases, to a virtuous synergy (13, 14).

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In the last decade, dynamic unity versus diversity has led to a substantial mutual neutralization between the drive towards integration and that towards particularism, which has resulted in the persistent inability of Europe and of each of its protagonists to face the crucial challenges of the globalized world (15). The establishment of the European Union market aimed to bring peace and stability to a region that was densely populated but lacked natural resources. The region was characterized by the presence of diverse nationalities and cultures, and the circulation of goods, people, and ideas was more intense than in other parts of the world (16, 17). By agreeing to provide control of what is the source of energy and resources for the military industry and the common industry (18, 19), removing all national subsidies to national companies, and raising benefits in the internal market (20). By sharing power with the parties that make power the first “order,” European member states have given greater force to the consensus through political and economic mechanisms such as the Council of Europe (1949), the European Economic Area (1994), and the European Economic and Social Committee (2023). This was a way to overcome the geopolitical challenges that the EU was facing among member states, especially through the political and social changes that have also influenced the region of the WB (21, 22). Almost all countries that adopted the communist system, such as Albania, face challenges such as the development of political systems and competition as a system of thought and action, the evolution of the economy and free market, the fostering of foreign capital and investment, and the increase in technology and professional skills to face the new challenges required by the changing market and economy, as in all important areas (23, 24). All these new demands have gone through different stages of EU integration in the last decade, which will be explored throughout the current paper. Although various research has been seen through the lens of different parts of the Albanian integration process, to our best knowledge, this is the first article that will address the impact of political and economic changes in the EU approximation process on the Albanian socio-economic system.

## Methodology

In the present article, we will use the cohort-analytical and desk research hermeneutical approaches based on secondary data. By referencing the research of well-known academics, the cohort-analytic method will employ an analytical method to explain the connection between the EU’s geopolitical policy in the WB, with an emphasis on Albania in different years of the integration process. The databases that were consulted included: (1) The World Economic Outlook (WEO); (2) ABI Inform Global; (3) EUR-LEX; (4) JStor; (5) Science Direct; (6) IBS-International Bibliography of the Social Sciences; (7) British Humanities Index (BHI); and (8) OECD Statistics Databases. Following that, a thorough analysis of the data and the empirical findings they provided was conducted. This paper will provide an in-depth analysis of the directives, statutes, agreements, guidelines, and legislation that outline the stance of EU policies and their effects on Albania's economic development through desk and hermeneutical research.

## The Political Position of Albania and the Outcomes of the Neighboring Process

“We want Albania like all of Europe”—this was the most important example of the early 90s manifestations of Albanians who suffered from the Communist regime for 45 years. The fall of the Berlin Wall in 1989 was a “signal” for what would happen in Eastern and South-Eastern Europe. The Albanian Communist leader himself while witnessing the dramatic events of the collapse of individual communist countries, knew what was about to happen (25). On May 1, 1990, it was declared from Korça that “the democratic reform of the country is an irreversible process” (26). It is precisely the collapse of the authoritarian system in Albania that would put the new post-communist government, which emerged from the free elections of 1992, to face many serious challenges (27). First, to overcome the economic and political difficulties and to “fill” the space left by the collapse of communism. Second, to create the conditions for the beginning of the complete transformation, political, economic, and social, of the country. Third, the restoration of international relations and democracy; the opening

of the country “captured” by the communist state. For Albania, these challenges were difficult, but the most important relates to the fact that the politicians of that time, after the first pluralist elections, understood something very important, which Albania could not turn back. The future of Albania and the Albanian people is the West (from a political, economic, and cultural perspective), at the same time as the direct restoration of diplomatic relations with Europe and the United States of America (USA), which immediately gave their support (28).

The year 1991 would mark a very significant development for Albania in terms of international relations and openness to other countries.

1. Albania and the USA resumed diplomatic relations in March 1991. In June of the same year, Albania received a visit from the USA Secretary of State.
2. Albania established diplomatic relations with European institutions following the signing of the Trade and Cooperation Agreement in 1992 with the Economic Council (now EU).

Albania’s relations with EU integration would continue with a series of important engagements with international institutions and organizations, such as the Council of Europe, where Albania became a full member in 1995. In 2003, the European Union made a significant decision to expand its membership policy by opening its doors to the countries of the Western Balkans. This decision was made during the Thessaloniki Summit and was a crucial moment for Albania and other aspiring countries to join the EU (29). On June 12, 2006, the Stabilization and Association Agreement (SAA) was signed, which came into force on April 1, 2009. The SAA was a very important step in continuing the integration process and improving the necessary reforms for the country (30). The European Union and the identity of Albania with Western values were and remain a “light” not only in politics but also in terms of the culture and principles of the continent that represent us. Albania only received the status of a candidate country for the European Union in 2014, an important development that slowed the opening of negotiations with the European Union (31).

With Albania’s neighboring EU, there are several priorities that the country has been engaged to

address, considering the Stabilization and Association Agreement (SAA) and the negotiation process.

**1. Strategic partnership with the European Union and acceleration of integration processes until full membership in the EU:** Integration into the European Union has been a priority of post-communist Albania and has been articulated by every government that has governed the country in the last 30 years (32). The National Strategy for European Integration 2022–2024 constituted the main national document of Albania’s foreign policy that foresees the sustainable social and economic development of the country and the fulfillment of the requirements of European integration (33).

The strategy is composed of six priorities:

- i. European integration.
- ii. Good governance, democracy, and the rule of law.
- iii. Macroeconomic and fiscal stability.
- iv. Increase competition.
- v. Human development and social cohesion (National Strategy for Development and Integration, 2015–2020).
- vi. Sustainable use of resources.

**2. The Berlin Process:** The German Strategy for Accelerating the Integration Process of the Western Balkan Countries in the European Union (34). Albania joined the high-level conference for the Western Balkans, along with other countries in the region seeking to join the European Union. The Berlin Process is a German project with a clear program aimed at accelerating the integration of the countries of the Western Balkans into the EU. This objective will be achieved by following up with countries in the region and investing in regional infrastructure projects using the current financial program from the European Union. The integration negotiations between the EU and Albania include as a key priority free trade between Albania and the EU (Chapter 17 of Acquis, 2023). It includes provisions in some areas that require members to act under rules or international obligations. Legislation in common commercial law often has a direct implementation of EU law, which does not require transposition into national law. What is available in this area is a product of the various trade commitments of the European Union and several

independent trading systems. In export credit and dual-use goods, some of these items require prior preparation to have full control from the date of receipt. Therefore, candidate countries are required to gradually align their trade policies with those of third-world countries and international organizations, adopting the policies and conditions of the European Union and its members. To implement EU trade policies effectively, member states must follow EU law and commitments while building capacity for EU development and humanitarian involvement (Chapters 1, 4, 14, 16, and 30 of *Acquis*). In a detailed analysis of the negotiation process presented below, Albania must fulfill certain obligations in terms of economic development in the region, as the *Acquis Communatae* must achieve.

**3. Regional Policy and Coordination of Structural Instruments** (Chapter 22): According to Article 12 of the Negotiations Block, Albania will promote regional cooperation. The community can also support, through its technical assistance program, projects with a regional or limited scope. Albania's agreement with other states that have signed the Stabilization and Association Agreement (SAA) is based on Article 13. The country should negotiate bilateral cooperation agreements with countries that have signed the Stabilization and Association Agreement to expand cooperation possibilities. The keys to these two agreements are political negotiations, the establishment of a free trade area between the members by the important provisions of the EU, collective agreements related to the movement of workers, the right of establishment, provision of services, current payment, and movement of capital, and other policies related to the movement of people, or arrangements for cooperation, especially in matters of justice and internal affairs. Article 15 regulates cooperation with countries that are candidates for joining the European Union, especially with Turkiye, which is a strategic geopolitical partner of Albania.

**4. Free Movement of Goods** (Chapter 4): It regulates industrial, agricultural, and fishing products and makes common provisions for the free movement of goods. The European Community and Albania agreed to establish a free trade area within a

maximum period of ten years from signing. The agreement will apply without prejudice to the application of EU rights and provisions.

**5. Cooperation Policies** (Chapters 13; 16; 30): The general provisions relating to these policies are regulated, as well as economic policies, statistical support, banking, insurance, and other financial services; cooperation in research and financial management; promotion and protection of investment; cooperation of companies to modernize, improve, and strengthen Albanian companies; small business; tourism; agriculture and the agro-industrial sector; fishing; customs; taxation; social relations; and education and training (Article 100) (35). Included in this block is also cooperation in higher education, cultural cooperation, cooperation in the audiovisual sector, public information, electronic communications equipment, and related services; information and communication; travel; energy; cooperation in research and technological development; and local and regional development.

**6. Financial Cooperation and Services** (Chapter 32): Albania can benefit from financial assistance and loans from the European Community in the form of grants and loans. Community aid will continue to adhere to the principles and conditions set out in the European Council's conclusions on financial aid for the Western Balkans. The aid given to Albania will change according to the identified needs, the priorities, the country's capacity for implementation and repayment, and the measures taken to transform and improve its economy. At the request of Albania and, with special needs, the Community, as per Article 114, examines the possibility of providing the country with large-scale financial assistance and conditions.

The European Union is today the largest donor in the world for developing countries and those with prospects of membership, including Albania (36-39). EU aid to countries that want to be continuous through several programs open to candidates in eligible countries. This assistance is related to the democratic process in these countries, their stability, and prosperity, and it expresses a safe path for European integration. Specifically, EU aid seeks to facilitate the continued fulfillment of the Copenhagen criteria for candidate countries through

the achievement of economic and political reforms and the integration of their laws into those of the EU (40). The Instrument of Pre-accession Assistance (IPA) was created in 2006 and covered a period of 7 years from 2007 to 2013, with a total budget for all beneficiary countries of 11.5 billion euros (41). IPA has become the only instrument dedicated to supporting the preparatory process of candidate countries before joining the EU. Its following program, IPA II, based on the relay provided by IPA (I), has a new financial envelope of 11.7 billion euros for 2014–2020. IPA II reflects a new or renewed commitment by the EU to the expansion of the WB. The program focuses on democracy, the rule of law, economic competitiveness, and economic growth. IPA II introduced sectoral and financial incentives in the implementation program for achieving results, budget support, and planning activities within the framework of the negotiations. Another important aspect of IPA II relates to coordinated investment in regional infrastructure and cooperation in regional industry. Although Albania continues to benefit from other aid programs and European cooperation, IPA is currently the most extensive, systematic, and influential program in the country's transition towards union. The IPA instrument aims to guide the development of EU candidate countries, complement the Copenhagen process, support economic competitiveness, and implement achievements in all regions. It also helped in the most technical part of preparing the country for membership, but this is still closely related to the ability and political commitment of the various countries to change their administration and to continue with the goals from now on, like the EU. In the Western Balkans, the EU accession report emphasizes the need for these states to improve their collaboration in terms of economic growth and development, respect democracy and human rights, including the rights of minorities; eradicate corruption and fight organized crime; cooperate with the International Criminal Tribunal for the Former Yugoslavia (ICTY); and maintain good neighborly relations with the states in the region (Chapter 22 of the Acquis). In each case of adhesion of the 6WB countries, the rhythms of Brussels differ from each other, so it is expected to enter the future in different ways, while Serbia and

Montenegro are expected to be full members in 2025, and Albania and North Macedonia in 2035 (42-43).

### **A Current Outlook of the Effects of the EU Integration Agenda on Albania's Economic Development and Growth**

Albania is an active participant and beneficiary of the Berlin process, which played an important role in creating a new era of goodwill and cooperation in the region. In the framework of the Berlin process, the 6WB countries achieved a significant path in cooperation and other projects in transport and infrastructure, economic cooperation, youth cooperation, and business cooperation. The "Open Balkan" initiative is an important and logical part of the Berlin process (44). Now the cooperation between the three countries of the region, Albania, North Macedonia, and Serbia, is open to all countries in the region, and Open Balkan aims to promote the implementation of the four fundamental freedoms of the EU (people, goods, services, and capitals) in the Western Balkans and the acceleration of the integration process. This new initiative in the region aims to create an economically integrated region. It seeks to increase cooperation in the energy sector, create economic growth, reduce unemployment (especially among young people) improve the welfare of our citizens, increase trade and investment, but also cooperate to fight illegal immigration and organized crime. This initiative supports ongoing work on the common regional market, green systems, digital transformation, and integration processes and constitutes added value for the European integration process of the countries in the region (45). Albania's level of preparedness for the EU, in terms of monetary and economic policy, can be only moderately adequate. According to the 2022 European Progress Report (46), there has been little progress compared to the previous year's consultation, which stated the improvement of the economic policy planning and consultation process. Among the remaining recommendations, the need for comprehensive regulation of the Bank of Albania and the approximation of new EU acquisitions are still mentioned, while the financial law is sound and effective. Further progress was made in adding the

data in the indicators of the economic system of the Macroeconomic Imbalance Procedure (MIP) (Chapter 18 of Acquis, Statistics), the organization of public accounts in the Education Saving Accounts (ESA) (Chapters 25 and 26 of the Acquis) and the level of deficit (Chapter 9 of the Acquis). However, significant improvements are needed to achieve full compliance with the Acquis and European Council recommendations. After the 2019 earthquake, pandemics, and war in Ukraine, Albania's economy was impacted.

Here is a detailed explanation:

#### **a) Economic Criteria (Cluster 3 of the Acquis)**

Albania's market economy has made good progress and is well prepared to develop a profitable market economy. Chapter 17 of the negotiation process with Albania defines cooperation around economic policy and trade, emphasizing that the community and Albania will improve their economic reform process through cooperation to better understand the foundations of their wealth and implement effective economic policies and market practices. Thanks to the new policy package, Albania's economy is showing stability and recovery after the pandemic, erasing most of the economic losses caused by the COVID-19 pandemic. Russia's war against Ukraine indirectly affected Albania's economy by increasing the production of goods and reducing the growth of its trading partners in the EU, but it did not affect growth during the first nine months of 2022 (47). The budget deficit and public debt ratio rose higher than expected in 2021, but fiscal space remained tight, increasing the country's vulnerability to external risks. There has been significant progress in revenue-related reforms, but weaknesses remain in budget planning and implementation (48). Regular revisions to the rules for regular budget revisions and the budget reduce the credibility of the budget. Inflation has been higher than expected, prompting the central bank to increase interest rates in many cases (49). The business sector has nevertheless benefited from the high level of digital public services. This, along with increased funding and successful initiatives to reduce undeclared work, has also contributed to the stabilization of the economy, although most of the economic framework remains informal. There has been no noticeable progress in

public consultation by the government in terms of economic policies. Economic development Albania's Real Gross Domestic Product (Real GDP) recovered well by 8.5% in 2021 and by 6.5% in early 2022, returning well above the epidemic level in the third quarter of 2021. Growth was moderate, supported by better-than-expected growth in the tourism sector, strong consumer spending, and investment. The recovery was based on stable economic and financial conditions, a healthy financial balance, improved confidence, and acceptable financial conditions. In addition, it was associated with strong progress in employment and wages. Significant fiscal support and expansionary monetary policy, as well as targeted and short-term monitoring, helped contain the impact of the pandemic and pave the way for a strong recovery. The war in Ukraine has damaged the macroeconomic outlook due to the slowdown of the global economy, particularly in Europe, and strong price pressures. Affected by high inflation, production costs, and high uncertainty, GDP growth slowed to 2.2% in the second quarter of 2022 (50). This projection reflected a sound investment in the new reality of increasing high prices and uncertainty, reducing growth in exports, and rapid growth in imports. On the other hand, private consumption grew steadily, reflecting savings and increased appetite after being closed during the COVID-19 pandemic. The current deficit financing structure is still dependent on the natural system, excluding debt. The total debt of Albania was reduced to 56.3% of GDP at the end of the ninth month of 2022, compared to 63.2% at the end of 2021. The limits of international reserves are higher than their fair level, and the surplus in the third quarter is expected to cover more than three times the total short-term external debt, well above the critical level of 100%. It is estimated that the international reserve is sufficient to cover about 7.1 months of imports of goods and services, an amount exceeding the minimum of four months. The Consumer Price Index (CPI) inflation increased in 2022, reaching 6.7% on average compared to 1.8% between 2017 and 2022. Inflation gradually increased until October, when it reached 8.3%, and declined in the following months to remain at 7.4% in December. Gross price pressures associated with

the war in Ukraine, particularly food and oil prices, and overall global inflation were the main factors behind the increase in inflation. Along with the global factors, the country's environment, with high demand for food, a strong labor market, and the expected growth of economic workers, caused the spread of these complexities in the domestic economy (51). For these reasons, price increases are widespread. The main rate of inflation remains at a historically high level, changing to a high rate of 5-6% for the year. In comparison with inflation in regional countries in the EU, inflation in Albania is low, often reflecting the unchanged price of electricity for households and maintaining the appreciation of the national currency. Total inflation is expected to moderate during 2023 and return to the target of the Central Bank in the first half of 2024. Changes in monetary policy are also reflected in the financial markets. This review takes place according to the characteristics of each part and the timing of the financial transfer process. Transfers are fast and complete in the interbank market, slow in the deposit sector for loans to individuals and small businesses, and slow for loans to large businesses (52). This growth rate was like the credit expansion the previous year. Credit growth has continued to be broad-based, but in an environment of rising prices and costs, credit growth for working capital and foreign currency has dominated business lending. Meanwhile, loans to individuals continued to be supported by the rapid expansion of housing loans (Cluster 2, Chapter 9 of the Negotiations Framework).

#### **b) Macroeconomic Stability**

The Albanian economy has withstood shocks relatively well since 2019. The pace of economic growth over the past few years, until the November 2019 earthquake and the COVID-19 pandemic, has shown a positive development trend that has been reflected in several macroeconomic parameters in the country. Albania faced one of the most challenging economic and public finance years in the past 30 years in 2020. Despite the significant impact that both shocks had on the country's economy, the appropriate regulatory measures and effective economic policies taken have resulted in statistical data showing that the general situation at the end of

2020 was much less severe than expected at the beginning of the pandemic. Throughout 2021, the economic recovery has been significantly faster than initial expectations. Notwithstanding the most recent external shock triggered by the war in Ukraine, which caused a decline in global commodity supply and a substantial rise in price levels, along with stricter financial conditions, the country's strong economic and financial framework has withstood these shocks. After the severe recession of 2020, with a rate of -3.5 percent, the economy recovered well in 2021, with a rate of 8.5 percent. In the first nine months of 2022, the country's economy continued to show new results with good and high growth. Real GDP grew by 6.37% annually in the first quarter of 2022, followed by moderate growth of 2.65% in the second quarter, and continued its positive trend with an increase of 4.02% last year. According to the current plan, the growth in the year 2022 will be based on the demand for housing, both from private consumption and investment (53). Changes in foreign trade showed a significant increase in trade during 2022, both in terms of exports and imports. Exports, both goods and services, especially tourism, recorded a convincing performance. Although imports also recorded a strong increase (reflecting an increase in overall demand), the net contribution of foreign demand was positive. In the 9th month of 2022, the largest component of the economy, final consumption, increased significantly by 6.4 percent.

From the viewpoint of the overall delivery, the sectors that recorded the highest increase in the 9 months of 2022, compared to the same period of the previous year, included: "real estate activities" with an increase of 13.28%; "wholesale and retail trade" with an increase of 10.84%; "financial services and insurance" with an increase of 10.77%; "construction" with an increase of 9.31%; and "information and communication" with an increase of 8.36%. Among the sectors with a decline were "public administration, education, and health" with a decrease of -0.03%, and "industry" with a decrease of -0.69%. Developments in the labor market, referred to in the quarterly labor force survey by the Albanian Institute of Statistics (INSTAT), have so far been relatively positive and in continuous recovery

after the wave of decline in economic activity caused by the pandemic. The current trend in the total number of employees has improved, marking an increase for every quarter from the second quarter of 2021 onwards until the third quarter of 2022, which is the last data available. The external position of the economy, another foundation that is very important and generally vulnerable to such risks, kept solid despite the effects that the pandemics and the war in Ukraine had on these settings. The positive contribution of these factors improves the trade deficit in goods and widens the negative balance of primary income. The foreign investment inflows recorded an increase of 34.8% compared to the same period in 2021. Moreover, only for the third quarter of 2022, FDI recorded an increase of 32.2% compared to the same period of the previous year (54). Foreign investment in the form of foreign investment is mainly involved in the sectors of hydrocarbons (up to 25.7%), energy (up to 8.7%), investment (up to 12.4%), and real estate (up to 22.3%). Non-performing loans (NPL) continued to decline, reaching a level of 5.0% at the end of 2022, compared to 8% around two years ago. Rising inflation has become one of the main macroeconomic challenges for the Albanian economy, as it is in many other countries around the world. However, compared to other neighboring countries, it is evident that the inflation rate in our country is lower than that of the countries in the region or the average of the countries in the European Union. Inflation, after reaching a peak of 8.3% in October, decreased in November and December 2022. In 2022, the annual change of the Consumer Price Index showed 6.7%, and the reduction of inflation reached the 3% objective of the monetary policy. In the medium term, it is expected that economic growth will be driven by domestic demand and both private consumption and investment. It is also expected that net external demand (exports and imports) will have a moderately positive effect. Private consumption is also expected to be a key driver of GDP growth, driven by improved consumer confidence and improvements in the labor market. In addition, it is expected that external demand (export-import) will have a moderately positive effect. Exports of goods and services (especially tourism) are expected to

perform well in 2023, and imports are expected to increase (reflecting an increase in overall demand, especially investments).

### **c) Foreign Relations**

The obligation to uphold the laws of Albania and the European Union comes from Cluster 6, Chapter 31, Article 70 of the Negotiations, which provides that Albania not only must uphold its national laws and EU laws but also ensure their implementation. The chapter discusses free trade between Albania and the EU, including provisions that require compliance with Community rules and international obligations. Legislation in common commercial law involves the direct application of EU law, which does not require adaptation into national law. Various trade commitments and independent measures determine the available products in this area. In export credit and dual-use goods, some of these items require prior preparation to have full control from the date of receipt from candidate countries. As part of the accession process, candidate countries must balance their trade policies to align with those of third countries and international organizations under the policies and conditions adopted by the European Union and its members. This is necessary to ensure that they can effectively implement the EU's trade policies. In terms of human welfare and development, member states must comply with EU law and the EU's international commitments and ensure the necessary capacity to participate in the European Union's development and humanitarian policy (Cluster 5, Chapter 22, and Cluster 6 of the Negotiations).

In the Albania Progress Report published by the European Commission in October 2022, it is highlighted that Albania has a good level of preparedness, especially regarding the application of additional legislation in the areas of use and EU priorities. The progress made in implementing the measures related to Additional Protocol 5 for facilitating trade, as outlined in the Action Plan 2021-2025, has led to the creation of a common regional market. Therefore, it is recommended to continue the implementation of the Central European Free Trade Agreement (CEFTA) Additional Protocol 6 on trade and acceptance of the ongoing CEFTA Protocol 7 on trade and services (55). The implementation of

the National Action Plan for trade support (Cluster 1; Chapters 1, 2, and 4 of the Negotiations Framework) has been ongoing alongside the efforts for fostering the regional economy.

### Results

This section reflects the results of the qualitative thematic examination of the EU Progress Report in 2023 relating to Albania. Below is a summary of the main findings in Table 1:

In deem assessment of the nation's current progress report, it is observed that in addition to the economic advantages, there are other benefits such as the promotion of political and social stability.

**Peace and stability:** These advantages encompass the promotion of stability and peace not only in Albania but, also within the region, thereby expanding the zone of peace, stability, and prosperity in Europe to enhance the security of all inhabitants.

**Community security:** The enlargement is anticipated to bolster the internal security of the Union by relocating common border protection

towards the east, thereby aiding in the containment of organized crime, drug trafficking, and illegal migration. Additionally, the establishment of a network of law enforcement agencies across the expanded EU would facilitate more effective measures in combating organized crime, as opposed to the limited efficacy of visas as a control mechanism utilized by EU consular officials.

**Raise of democratic index, rule of law, and respect for human rights:** The growing cultural diversity within the European Union is expected to facilitate the country's engagement in the exchange of ideas, fostering improved understanding and respect for other cultures. Emphasizing the significance of tolerance, multicultural values, peaceful conflict resolution, freedom of expression, and the unrestricted flow of information and ideas without authoritarian intervention will be pivotal in advancing the establishment of a free, stable, and democratic society.

**Table 1:** Findings of the current Progress Report for Albania

<b>Albania</b>	
Current economic situation	<ul style="list-style-type: none"> <li>• Moderate to a good level of preparation for developing a functioning market economy.</li> <li>• Little progress in addressing the 2022 EU recommendations.</li> <li>• The economy showed resilience and GDP growth remained strong in 2022, despite the economic fallout from Russia’s war of aggression against Ukraine.</li> <li>• Is at the level of preparation to cope with competitive pressure and market forces within the EU.</li> <li>• Is moderately prepared in financial control with the updates to the legal framework on internal control and internal audit and the policy on the strengthening of public internal financial control and continued to target internal audits.</li> <li>• Is moderately prepared in most areas of the internal market, namely services and capital, financial services, and competition policy.</li> </ul>
Needed actions	<ul style="list-style-type: none"> <li>• Strength advancement on competition policy, where the State Aid Commission still lacks operational independence.</li> <li>• Need to align to the EU Acquis on consumer, insurance, and health protection, where the country made limited progress.</li> </ul>

**Source:** Author elaboration on the European Union Progress Report for Albania, 2024

**Strengthening of decision-making and policies toward the acquis:** As a member of the EU, Albania will possess the privilege of engaging in the decision-making procedures of the EU, alongside actively

contributing to its institutions and the core pillars of the EU, which include the European Commission, the Common Foreign and Security Policy, and Justice and Home Affairs.

**Participation in international relations policies within the EU stakeholders:** Given that the EU serves as the collective representative of its constituent member states on the international stage, Albania stands to enhance its existing position and relationships with various international organizations, including the World Trade Organization (WTO), Central European Free Trade Agreement (CEFTA), European Free Trade Association (EFTA), Central European Initiative (CEI), Central European Bank (ECB) and North Atlantic Treaty Organization (NATO) upon accession to the EU. These affiliations hold significant relevance for Albania.

Some of the economics of Accession benefits include:

**A rise in the GDP:** The expansion has the potential to boost economic growth in the countries seeking membership, and simultaneously elevate the GDP of the current member states.

**An improvement in the globalization index and community market:** In the context of a globalized economy, the substantial increase in exports is crucial for the enduring and sustainable development of all economies, particularly those of smaller nations like Albania. Given its limited internal and external market size, Albania's ability to effectively engage in and thrive within global economic activities, as well as to enhance its visibility and competitiveness in the international market, will be significantly bolstered by its accession to the European Union.

**Proliferation and reliable access to the community market:** Albania's primary foreign trade partner is the European Union (EU), accounting for approximately 81% of its total exports and over 78% of its total imports. The removal of trade barriers holds significant importance for Albania as it would ease access to the EU market and promote seamless trade relations.

**A better business climate:** The expansion of the European Union will set up a unified market including approximately 500 million consumers,

offering enhanced opportunities for conducting business with the South-East countries. The primary prerequisite for the expansion of exports is the enhancement of productivity. Albania faces a significant challenge in terms of diminishing export competitiveness, stagnant export growth, and a simultaneous increase in imports. A considerable part of domestically manufactured goods suffers from substandard quality and inadequate marketing strategies. As businesses adapt to global markets, there is a likelihood of enhancing trade terms. The implementation of shared regulatory frameworks and certification standards across all EU member states will ease smoother business operations throughout Europe and raise the competitiveness of the country. However, certain enterprises are making advancements and have achieved a level of competitiveness through enhancements in production processes and cost reductions, particularly in sectors offering high-quality products. These enterprises are poised to keep a competitive edge and boost both export activities and production post-integration. Other enterprises also have the potential to enhance their performance once they gain access to the technological advancements and abilities available in the European Union.

**Imparting know-how:** The enlargement will remove obstacles to the transfer of technology and know-how easing the exchange of research and fostering innovation throughout the European Union. Consequently, Albania will gain access to technology and ability, enabling the enhancement of productivity and competitiveness within its industries.

**Costumer social welfare:** A decrease in the monopolistic pricing strategy resulting from reduced import prices and market segmentation will expand consumer access to a broader array of goods and services.

**Improvement prospects for education and employment:** The EU is continuously aiding countries like Albania in enhancing their education systems through initiatives such as the ERASMUS Plus and EU Education programs. Accession to the EU would enable Albania to receive help from added EU education programs like Socrates, and Youth.

These programs aim to enhance the quality of higher education and promote its European dimension by facilitating collaboration between universities, supporting student and professors' mobility, and enhancing transparency and recognition of academic qualifications across the EU. This also includes the accession to mobility grants to students and educators.

**Reduction of trade costs and increase of FDI:** As a result of the removal of tariffs and trade barriers by both the European Union and Albania, the country is expected to experience a good impact on its trade activities. The reduction in trade costs will streamline the process of goods clearance and facilitate smoother trade relations between Albania and all EU member states. Due to the limited level of domestic savings, external capital plays a crucial role in the modernization and effective restructuring of the economy, particularly in a small market like Albania. A significant rise in FDIs will be expected in Albania once political risks are mitigated and a well-functioning market is proved, following the country's accession to the European Union. More advantages encompass supporting stable prices, fostering a competitive market economy, promoting growth and development through leveraging comparative advantages, and evaluating institutions through benchmarking.

**Free trade enables the free movement of capital, goods, and people (free trade):** In addition to the implementation of standardized certification and testing protocols, which facilitate trade, the removal of trade barriers to establish free trade, and the unrestricted movement of individuals, will collectively contribute to the overarching impact of regional agreements.

**Access to a variety of EU funds:** The funds that are distributed to less economically developed member states, as Albania is expected to be appointed as a prospective beneficiary of the EU budget; this will result in increased financial support for the country.

**Enhancement of environmental regulations:** The enlargement will enhance Europe's cross-border environmental and nuclear security by incorporating the relevant community regulations into the practices of the new member states. Through the

implementation of the European Union's environmental standards, Albania will have the ability to safeguard its natural surroundings.

**General improvement in the quality of life:** The implementation of EU policies related to environmental protection, crime prevention, drug control, and illegal immigration by new member states is expected to enhance the overall quality of life for their citizens. Additionally, adherence to these policies and initiatives addressing social issues may contribute to accelerated economic growth and an elevation in living standards through integration into the single market.

Despite the potential benefits of the country's accession, research revealed that the country must prove its capability to meet the responsibilities associated with membership obligations across three key domains: political, economic, and monetary union. It is essential to have a genuine ability to enact proper legislation and policies aligned with the *Acquis Communautaire* to ensure the implementation and enforcement of sector-specific policies. This includes providing a robust judicial system, and independent institutions, ensuring security, conducting free and fair elections, and keeping an efficient administrative workforce.

In addition, the commitment of civil society and free media are expected to function as a form of oversight, particularly in watching the execution of national strategies and commitments to European integration. This needs a comprehensive understanding of the European integration process and the involvement of experts in public discussions on these matters. Therefore, it is imperative to engage with civil society organizations and other societal stakeholders to contribute to reforms concerning legal and administrative matters. Unfortunately, the long-term Communism legacy and enduring transition period, the geopolitical placement between the Balkans and EU, the frequent economic crises, corruption poverty, deficient transportation, and social infrastructure, inadequate urban and territorial planning, mismanagement of natural resources, poverty rates in rural areas, and an economically non-competitive model within the regional market and the social "brain

drain”, made the country vulnerable to stability and the rule of law (55). These challenges are still shadowing the country’s full accession policies and strategy toward the EU (56).

## Discussion and Conclusion

The financial and economic policies of the European Union consistently focus on the Western Balkans and Albania as a country in approaching the community over the next decade. One of the major challenges in a rapid is that the country is still far from being comparable and competitive with Eurozone countries in terms of financial and industrial production. The objective of this article was to increase knowledge about Albania’s integration with the European Union and to present a comprehensive view of the opportunities and challenges that the country is facing in this regard.

Through analytical research and hermeneutical analysis of Albania, this paper has reflected the general differences in the country's situation regarding foreign relations, economic development, and macroeconomic stability. As the actual Progress Report acknowledges, the country has made some significant improvements in the Juridical alignment to the Acquis framework. Nevertheless, a clear and solid economic and financial strategy is to be implemented to achieve the goals of a neighborhood partner. What can be implied by the present qualitative examination is the twofold alignment that contributes to an unclear strategy for economic development. On the one hand, the *de jure* improvement is significant and advanced to the EU standards. On the other hand, the *de facto* progress is slow and weak in terms of economic development compared to the other regional countries that are in the same neighborhood process (57, 58).

Upon conducting a comprehensive analysis of the historical context and present status progress reports, it became evident that the rectification of the disparities arising from both *de jure* and *de facto* inconsistencies necessitates the implementation of additional targeted measures:

- There is a notable gap in the implementation of the principles outlined in articles 34 to 36 of the Treaty on the Functioning of the European Union (TFEU) in terms of trade and the legal trade market (see

Guide to Articles 34 and 36 of the TFEU for more information on these principles). Albania has not yet developed a comprehensive program for the removal of measures corresponding to quantitative restrictions and trade, nor has the country fully adopted the CEFTA Additional Protocol 6.

- Commercial market. The crucial gaps that must be tackled in this particular domain encompass the modification of existing statutes in commercial legislation to discern the alterations that are imperative for meeting the requirements of the agreement with the European Union's accomplishments, as well as the progress of the juridical structure for responsibility and investigation.
- In the area of financial education, significant priorities include the drafting and approval of the plan document for financial education and capital market development. Other priorities here include the improvement and enforcement of commitments by solving issues related to private enforcement and the increase of national funds.
- When it comes to tax policy, a priority is to align Albanian law with EU law and improve tax administration by increasing tax rates. An objective here relates to the development of a favorable business climate for private companies, the attraction of foreign investment, and improving the management of the tax administration for the acquisition of revenue based on professionalism, integrity, honesty, and principles that create trust in citizens, international partners, business communities, and foreigners.
- Regarding business climate, a challenge remains in addressing issues relating to the reduction of administrative burden, increasing participation in financial programs in the company, making efforts to fight corruption, increasing support services for businesses, applying regulations at startups, and adopting a unified investment policy that reflects the policy of competition and economic growth.
- In the area of civic and public engagement, a significant part to work on is the low degree or lack of cooperation and coordination between authoritative government bodies and non-governmental organizations.

- In summary, it might be concluded that enhanced national economic policies, financial education, and collaboration between institutions, civil society, and stakeholders are crucial to filling gaps in the Europeanization process for the reported gaps in public administration, free trade, and macroeconomic stability.

### Limitations of the Study

Despite the efforts made to explore comprehensively the evolution of the policies and economic trends of the Albanian-EU integration process, the current study reflects some limitations that need to be considered for further research.

- First, this is an explorative and analytical paper based on desk research and approaches to qualitative analysis. Many directives, Albanian government provisions (VKM), and legislation that have been part of the negotiation process in the last decade were not included in this paper.
- Second, the current work is mainly focused on economic and macroeconomic policies, and it addresses other significant chapters such as "Science and Research", "Law and Human Rights", "Media and Information Technology", etc. For further information on these chapters, please refer to the Albanian National Program for EU Integration in the Albanian Ministry of Foreign Affairs.
- Third, the present study is constrained by its focus on temporal data and indices due to a substantial portion of the monitoring data applying solely to the timeframe of 2021–2022.
- Fourth, the paper is mainly qualitative, and it has neither included any social feedback, commentaries, or reflections nor socioeconomic statistics. This limitation is worth adding for further research.

### Abbreviation

European Union (EU); Western Balkans (WB); United States of America (USA); Stabilization and Association Agreement (SAA); Acquis Communatae (Acquis); Pre-accession Assistance (IPA); The International Criminal Tribunal for the Former Yugoslavia (ICTY); Macroeconomic Imbalance Procedure (MIP); The Education Savings Account (ESA); Real Gross Domestic Product (Real GDP); Albanian Institute of Statistics (INSTAT); The Consumer Price Index (CPI); Foreign investment

inflows (FDI); Non-performing loans (NPL); Central European Free Trade Agreement (CEFTA); Albanian government provisions (VKM); World Trade Organization (WTO); European Free Trade Association (EFTA); Central European Initiative (CEI); Central European Bank (ECB); North Atlantic Treaty Organization (NATO).

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### Author Contributions

Nil

### Conflict of Interest

The author declares that she has no known competing financial or competing interests that might have impacted the work reported in this paper.

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Not applicable

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