

The Local Development - The Case of Tirana-Durres Region

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Abstract

The aim of the paper is to analyze the development of the Tirana-Durres region in the past 20 years, if it was a chaotic development or there were some good reasons, based on good economic models that made this development possible.

Can this region be the core region of the country, and taken as a model to be followed by other regions?

The author intend to formulate as well some recommendations on the most successful models of development and if these models can be applied for the whole country, with eventually interest for governmental decision-makers and owners / managers of private businesses.

Keywords: Regional Development, Local Production, Business Model, Competitive Advantage.

1. METHODOLOGY

The paper will based on:

- data gathered from published sources, mainly from government statistics, other studies and reports;
- data gathered from unpublished sources (other studies in process);
- information obtained from interviews with government officials (local & central level) as well as owners / managers of private businesses.

2. INTRODUCTION

In this paper we examine the structure of the Tirana-Durres economy at two different levels of detail. The first level is an aggregate one, where we review the well known strong growth performance of the economy during this decade. At this level, in impossibility of studying the growth in terms of GDP and its aggregates, because of the well-known fact that data are not disaggregated at sub-national levels in Albania so it is not possible to estimate accurately the GDP of the Tirana-Durres region.

At second level we look at individual firms. Our limited resources permitted us to carry out in-depth visits and interviews of only twenty manufacturing firms in the Tirana-Durres corridor region. The interviews were conducted with top management, usually the owner of the firm or very senior management. We were conducted through the plants, and were able to evaluate the details of the production technology, the level of senior staff expertise, the broad strategy of the firm, how its management viewed its competitive advantage in their sector, and the kinds of collaborative networks in which the firms were embedded. We then reclassified the firms into groups that are more useful when one wishes to study the potential for growth and development.

What we found was that a number of business models have emerged over in Albania over the past fifteen years. In our investigation of the business environment, we found that it was useful to classify the twenty visited firms under six headings, the nature of which is described precisely in the main text.

Group 1: Mass production outsourcing ("façon")

Group 2: Flexible specialization

Group 3: Flexible specialization; non-tradable

Group 4: Non-tradable, continuous-process, commodity, capital-intensive

Group 5: Domestic, commodity production

Group 6: Leveraging natural resources

Although there was be some degree of overlap between these classes, with some firms possessing more than one characteristic, nevertheless these represented a series of characteristics that were usually distinctive and served to capture dominant or primary features of firms and groups of firms, without

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denying that there are also important secondary features. We suspect, but cannot be certain without interviewing a larger sample of firms throughout Albania, that these six business models are the ones that characterize the Albanian manufacturing sector today.

We examine some issues in regional economics in Albania, where the dominant position of the Tirana-Durres economic “corridor” is in stark contrast to the less developed state of the other ten “peripheral” regions. We make the case that greater attention needs to be devoted to regional policy in Albania, to ensure that other regions are able to participate in a process of national growth that tends to be dominated by Tirana-Durres region.

3. ALBANIA AND THE GLOBAL ECONOMY

It is important to note that in the last two decades the global division of labor and production has changed nearly beyond recognition. Over a dozen countries have experienced near double digit industry growth rates for at least fifteen years and all have greatly expanded exports. During the same period Albania evolved from an extremely self-sufficient, autarchic economy to interdependency in the global system with breathtaking speed.

Albania is actually participating in the EU's Stabilization and Association Process (SAP), signed with the EU on 12 June 2006. The SAA provides a framework of mutual commitments on a wide range of political, trade and economic issues.

Trade-related parts of the SAA are implemented through an Interim Agreement while ratification of the SAA is being completed. The Interim Agreement entered into force on 1 December 2006. Co-operation provisions of the 1992 Trade, Commercial and Economic Cooperation Agreement (TCECA) will remain in operation until the SAA is ratified. Albania also benefits from autonomous trade measures granted by the EU. The revised European Partnership, setting out priorities that Albania should address in the short- and medium-term, was adopted in January 2005. From April 2008 Albania is member with full rights in NATO and from 15 December 2010 all the people can move without a visa regime in Schengen area.

Also, Albania is also actively participating in the negotiations on the establishment of a regional free trade agreement within the framework of an enlarged and amended Central European Free Trade Agreement (CEFTA), which were launched in April 2006. Albania has free trade agreements with all countries in South-East Europe. It also has a free trade agreement with Kosovo.

The idea that Albania's growth prospects are inexorably linked to the concept of trade and competitiveness is perhaps best summarized in “The Competitiveness Environment in Albania” by (Xhepa and Mancellari 2003): “The most promising trade and growth opportunity for Albania clearly involves integration with the EU. Apart from political benefits of the SAA process, such as providing the policy lock-in mechanism to pursue further reforms and the incentive to create a stable business environment that would encourage foreign investment, the elimination of the remaining barriers to trade can lead to significant expansion of trade and income. However, trade liberalization should proceed along all dimensions, as the biggest gains are to be realized when Albania lowers its barriers to trade with respect to all trading partners.”

4. TIRANA – DURRES REGION

4.1. Overview

The Tirana-Durres region is a very interesting one in terms of the exceptional high rates of growth particularly given its starting position in 1991. The following gives an overview of the last 15 years of development in the region:

- collapse of communism type of economy;
- increase of population of the region by more than double due to internal migration of population from the north and south to settlements in the Tirana-Durres region;
- boom of construction industry and services due to increased demand for homes in the region;
- emergence of local private firms in trade, agriculture and small manufacturing like bread production, milk, meat food processing, services, workshops, bars, restaurants, transport (approximately 40,000 in total);
- establishment of foreign SMEs
- investments in infrastructure such as the Tirana-Durres motorway, urban upgrading in main towns, water network improvements and energy network upgrading;
- rehabilitation of numerous elementary schools;
- emergence of private schools and private universities.

4.2. Data on regional economic size

Tirana is just 41km from Durres, which is the largest Albanian port in terms of passengers and goods, on the Adriatic Sea. Also there are only 20 km that divides the two cities from Albanian International Airport, another fundamental link between Albanian and the rest of Europe. The two cities are linked by a recently constructed highway, making the travel time minimal. Some estimates are quoted as saying

around 75% of the 1km width of land aside of the highway is already occupied by private enterprises, national and foreign ones.

Today there are more than 36 000 large, medium and small businesses, both Albanian and foreign, operating in the region, (Economic Development Directory-Municipality of Tirana and INSTAT by Prefecture 2010).

The main sectors that operates in the region are as follow:

- Retail
- Construction
- Tourism

The service sector remains one of the main branch of the earnings, and has a share of 40% of in the region. The bars and restaurants are the pride of the sector and this could be described as the only area that currently is competitive with the EU! Areas such as the Blok area in Tirana contain a huge concentration and variety of places to eat and drink.

Retail is another important sector and has a share of 35% of the region. In general the firms that operate in this sector are furnished by local wholesalers, but there are others who are furnished directly abroad, and their sales are for destined for 70% in the local region market and 30% in the county market. Also, recent establishments have included Hypermarkets QTU, supermarkets Neptun Shops, Big Market, distribution channels for housing, foods and construction industry like Deka, Neranxi and so on. Different industrial HUB-s and big warehouses are located along the Tirana-Durres highway, facts that makes this region a large trade center.

Tirana is the centre of the construction sector in Albania. According to the Unit for Economic Development of the City of Tirana (2010), more than 420 construction companies or about 80% of the total number of all construction companies nationwide are based in this city. Tirana's construction rate is estimated at ten times higher than in any other city in Albania. Some 60% of the construction activity is estimated to be concentrated on residential houses.

There are four main types of construction in the region:

- private legal and illegal constructing flats in urban areas
- legal and illegal houses and villas for people in urban areas, rural areas, beach resorts and hilly resorts,
- private industrial projects construction along side the highway or elsewhere in the region
- public infrastructure construction works such as roads, water networks etc.

So far there are three types of companies established in the construction sector:

- construction companies
- companies producing first raw materials e.g. quarries
- trading companies for supporting and servicing the construction firms with mostly imported parts such as hydraulic pipes, fittings, tiles, toilets, windows, doors, etc.

Tourism is another important sector in the region. According to INSTAT, about 90% of all foreign tourists in Albania, visits the Tirana-durres region. The favorable geographic area with great natural beauty which includes sandy white Mediterranean beaches, rocky mountains, fertile plains, big and small lakes, natural monuments, and remote, pristine areas, rich cultural heritage either in historical and archeological sites or in traditional culture, vicinity to European market and also fairs seminars, conferences, business meetings are the keys for their attractions.

4.2.1. The size of the region in the national economy

As is shown in Table. 1, the population of the region counts for a third of country's total population in 2010, but the land area totals just 8%. The city of Tirana alone houses approximately 20% of the total labor force of the country, which is comparable to other capital cities in the Balkans and Europe. The average annual income/capita is greater in the region than in the whole country (INSTAT-annual family survey 2009).

Table 1. - The region and the national economy

	Albania	Tirana	Durres	Region Total
Land area (km. 2)	28 748	1,652	766	8%
Population	3 142 065	626 246	271 000	20%
Income/capita(annual)	457 692 ALL	705 744 ALL	504 000 ALL	
Labour force	1 103 000	213 440	50 000	25%

Source: INSTAT

As shown in Table. 2, the region hosts 25% of all the businesses that operates in the country, which 80% of them are medium-large enterprises (VIP), and has a share of 52% of all foreign direct investments that

are destined in Albania, which make this region the most attractive one. Also, according to greater demand for this region, 44% of new constructions are focused in the region.

Table 2. - Businesses in the Region

	<i>Albania</i>	<i>Tirana-Durres</i>
<i>Businesses</i>	143 000	25%
<i>New constructions</i>	100%	44%
<i>Foreign direkt Investments</i>	420 000 000 \$	52%

Source: INSTAT and Economic Development Directory-Municipality of Tirana

4.3. Competitiveness in the region

In our brief survey of the developmental and organizational progress of business enterprises in the region, we focus primarily on companies that have grown in the post-independence environment. The macroeconomic, legal, financial, fiscal and regulatory environments have been the same for all Albanian firms. All of the firms surveyed have either been reorganized or emerged in post-liberalized Albania. They all faced, and continue to face, a series of major challenges in their efforts to build the organizational capabilities to compete in the new competitive global environment, and the success stories have found a way to address or somehow counter barriers.

The first challenge is the extremely small size of the Albanian and regional domestic market. This is particularly acute in the age of globalization and product standardization, and means that Albanian companies with products for which economies of scale are important must compete both at home and abroad with foreign companies that have achieved economies of scale within their own large home markets.

The second challenge can be stated as a capabilities gap. Pre-1990 Albanian production units certainly did not have any world class manufacturing, product development or technology management capabilities and usually were several technology generations behind world leading companies. The lack of new product development and technology management capabilities is critical because without such capabilities, innovation and growth potential are limited. This is a critical issue since access to, and assimilation of, the world's technological resources is the time-tested route to higher productivity and rapid growth.

The third challenge is the small size of the Albanian trained and experienced managerial and entrepreneurial class, due to the fact that firms have begun to operate in a market environment only since the early 1990s and during the Communist period, inter-firm relations were coordinated entirely by government ministries. This is important since it is the role and responsibility of managerial leadership to develop strategies and business models appropriate to the circumstances in which they operate. Business enterprises not only make products and sell services. In the process they need to develop and advance the company, the region and the country's capabilities, including management know-how.

The fourth challenge is the lack of a critical mass of local Albanian companies to form dynamic clusters and thereby offer opportunities for specialization and for inter-firm partnering for purposes of product development or technology alliances. Fortunately, Albania is well-positioned culturally and geographically near to Italy, Greece and Turkey to develop business models in the future that could leverage innovative partnerships to foster local capability development.

The fifth challenge is that science and technology policy has not yet appeared to be a significant and widely accepted part of the Albanian economic modernization project. A national research system along with education are critical elements in a technology-based economic development program to widen the industrial structure, raise the level of technology within enterprises, and foster the transition to knowledge-intensive sectors. Unlike most other European states, there are no effective technology and innovation governmental agencies in Albania; R&D is not widely considered an important instrument of industrial renewal; the central position of universities and of industry/university partnering in technology policy has not been institutionalized; and the tools of science and technology policy have not been calibrated to fit the specific needs of Albanian industrial "catch up" to European Union levels.

As part of the present project, we conducted a small-scale audit of business organization within the Tirana-Durres area, based on a series of factory visits to a representative sample of firms covering the spectrum of sectorial activities. The visits to firms were organized so as to obtain the "hidden" story of how firms are performing and with a view to recommending policies that will enhance the business environment.

We embarked on these firm visits with a detailed set of questions, in order to elicit certain basic facts. We wished to explore company directors' general views on the current conditions facing the company (strengths, weaknesses, opportunities and threats, or SWOT analysis) and strategy to improve performance. This included the director's view of the distinctive capability or 'concept' of the company

that would be the source of the company's profitability in the future. Also, which companies set the "standard" in the company's industry, to which others compete and learn?

In addition, more specific issues were covered during the visits:

- Information on what the company uses to measure performance.
- Are there any non-production "management" or staff positions doing scheduling, quality control, machine set-up, maintenance, etc., relative to production activities that change the material and thereby add value?
- Does the company have a production improvement program? Does the company have access to benchmarks to assess performance?
- Information on work organization and management practices.
- Information on skill levels and skill upgrading programs.
- Information on business partners including suppliers of parts, distributors and retailers.
- Information on trade associations and sources of technical consulting expertise.
- Information on transportation, communication, and standard-setting infrastructure
- Information on product design and/or R&D capabilities
- Information on marketing strategy capability

What we found was that a number of business models have emerged over in the region over the past fifteen years. In our investigation of the business environment, we found that it was useful to classify the twenty visited firms under six headings, the nature of which will be described below. Although there was be some degree of overlap between these classes, with some firms possessing more than one characteristic, nevertheless these represented a series of characteristics that were usually distinctive and served to capture dominant or primary features of firms and groups of firms, without denying that there are also important secondary features (Table. 3).

Table 3. - Sample of Firms interviewed in the Tirana-Durres region

Group 1: Mass production outsourcing ("façon") 17 1) Donianna (Footwear, NACE 19) 2) Albaco Shoes, (Footwear, NACE 19)
Group 2: Flexible specialization 3) KLER shpk (Clothing, NACE 17-18) 4) Shaga sh.p.k. (Furniture, NACE 20) 5) Everest IE sh.p.k. (Plastic packaging and recycling, NACE 21-22) 6) Kristal 2001 shpk (Clothing, NACE 17-18) 7) Pespa (Aluminium Products, NACE 27-28) 8) Ardeno (Furniture, NACE 20)
Group 3: Flexible specialization; non-tradeables 9) Alumil sh.p.k. (Metal Fabrication, NACE 27-28) 10) Aquila Liquori (Food Processing – Beverages, NACE 15-16) 11) Izoterm sh.p.k (Non-metallic Mineral Products, NACE 25) 12) Dynamic Pack (Paper and paper Products, NACE 21-22)
Group 4: Non-tradeable, continuous-process, commodity, capital-intensive 13) EUROVINI, (Concrete Plant, NACE 26) 14) Alba Beton (Concrete Plant, NACE 26) 15) Birra Tirana (Brewery, NACE 15-16) 16) Bloja (Food Processing – Flour, NACE 15-16)
Group 5: Domestic, commodity production 17) DEKA (Chemical Products – Detergents, NACE 24) 18) Olim (Food Processing – Cooking Oil, NACE 15-16) 19) KMY (Food Processing, NACE 15-16)
Group 6: Leveraging natural resources 20) Seament (Cement Production, NACE 26)

The largest manufacturing employers in Tirana-Durres are 'façon' sub-contractors in leather footwear and apparel. The concept of 'façon' is that Albanian low wage, primarily female labor can be mobilized to perform low skilled, repetitive labor phases of the production system of companies, primarily Italian, that design and market mass consumption products in global markets.

The contracting company supplies the plant located in Albania with the raw material, patterns, and technological expertise to execute routine cutting, trimming, sewing, assembly, and packaging phases of production. The Albanian plant competes with plants located in other low wage regions, particularly in Asia, to meet demanding performance standards of cost, quality and turnaround time.

A weakness of the *façon* model in the interview firms is that all of the technical and management expertise is concentrated in the Italian partner. Some specific technical skills are transferred, but all product design, marketing, technology management, raw material acquisition skills remain hermetically sealed inside the client company. Consequently, indigenous skills and organizational capabilities are not developed as an ongoing feature of the relationship.

Consequently, the local business units remain highly dependent and vulnerable to changing conditions.

Flexible specialization

Supplying outsourcing services to client companies in high-wage countries offers one avenue for latecomers to connect with global markets. But global markets are not the only route.

Another business model is to develop a core competence that has application in multiple, mainly local, markets. 'Flexible specialization' demands flexibility in order sizes and products in order to alter the composition of output to fit shifting market conditions. But it also demands focus or specialization so that the company can develop strong and distinctive capabilities.

In Albania, the flexible specialization model is more fully developed in non-clothing sectors by locally-owned companies that are not organized by the *façon* system. Here we found many interesting examples which we have grouped into more and less tradeable product types, like Everest, Pespa aluminum ecc.

Tradable products face more severe competitive pressures from imports, but also offer greater opportunity for building export positions.

Non-tradable, continuous-process, commodity, capital-intensive

A fourth group of companies are capital intensive and operate in non-tradable products.

These are Albanian owned companies that import turnkey, continuous flow processes to supply the domestic market.

Perhaps the most extreme example is *Bloja*, which operates a flour mill with 400 tons per day capacity of Durham wheat plus 60 tons of pasta (the only pasta mill in Albania). The six-floor mill has twenty-four wheat silos and can be run by one person. It can produce ten types of flour, thirty types of pasta, and five types of pasta soup flour. Today, *Bloja* employs one hundred and sixty in various post-milling activities. When *Bloja* was established in 1998, ninety-five per cent of flour consumed in Albania was imported in the form of thirty-five different foreign brands. Today, ninety-five per cent is locally made. It took the Italian company two years to build the plant and make it operational. It is designed to last for thirty years. *Bloja* employees often return to the same company for technical courses. Faults in the mill can be diagnosed by the Italian company by virtue of the mill's fully computerized operational system.

5. CONCLUSIONS - LESSONS FOR THE ALBANIAN REGIONS

The new EU member states from Central and Eastern Europe, as well as candidate states like Croatia, Macedonia and Turkey and future candidate states like Albania, have considerable cost advantages, improving human capital and physical infrastructure, geographical proximity to the core markets of Europe, and stabilizing macroeconomic, fiscal and monetary environments. In other words, they resemble Ireland of the late 1980s and Slovenia of the mid-1990s. The future for more advanced countries such as Ireland and Slovenia is more likely to involve both a shift towards greater complexity (new products, emerging technologies) as well as a more active relationship with the rapidly modernizing indigenous sector.

In exploring the policy environment of Albania and its regions, there are some inescapable facts of life that need to be faced. First, within Albania, there is generally a level policy playing field. Of course, this does not always operate to the benefit of (say) the poorer northern regions of the country. National policies can often operate to further enhance the advantages of a central region like Tirana-Durres, and cause poorer, peripheral regions to fall even further behind. On the other hand, the fact that the Albanian regions do not have to finance their regional public sector deficits out of their own tax resources, and the poorer ones can potentially benefit from financial transfers from central government, could permit them to engage in a deeper and wider range of public expenditure programs.

One such policy, the provision of a subsidy to private firms in poor regions, would have short-term benefits in terms of attracting inward investment and safeguarding jobs, but almost certainly operates against the rise of a regional growth dynamic in the longer run. The danger is that a grant seeking culture will drive out risk-seeking entrepreneurship. Also, many companies are actually seeking for more flexible organization patterns; they should adopt in order to survive in a more competitive market.

There are also some other weakness that is identified in the regional economy of Tirana-Durres, as follows:

- Lack of data on the regional and district level - better system of collecting data on all levels should be developed,
- Priority should be given to case study method – exaggerated generalizations may lead to mistakes in policy making
- Real concerns about competitiveness of the region in the context of integration and liberalization of the markets
- FDI stream generated mainly by privatization process, few green-field investments
- Production still a minor fraction of total output
- Production dominated by "façon" – uncertain and very sensitive sector to guarantee long-term development

The opportunities for development that this region can exploit are as follow:

- Implementation of Tirana-Durres Regional Development project, delivering a vision
- 'Internationalizing' the region; potential for international accessibility
- Improving local economic development capabilities
- Up-skilling the workforce
- Promoting and facilitating FDI, prioritizing attracting investment capital
- Developing leisure and tourism facilities
- Developing other sectors like education, manufacturing, food processing, TV programmers and movie making, fashion
- Growing the mainstream/formal economy
- Promoting local products and increasing exports, increasing entrepreneurship, implementing a rural development program me
- Re-use obsolete industrial areas
- Taking advantage of EU access and overseas markets
- Improve access to credit from commercial banks for investment
- Exploiting the likely shift in consumption patterns towards luxury goods/services

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