Globalization, Social Economic Interdependence and Opportunities

Albana Demi Mosho¹
Eglantina Farruku²
Irina Canco³

¹Lecturer, and researcher “University Aleksander Moisiu”,
Durres, Albania,
²Lecturer, and researcher “Epoka University”,
Tirana, Albania
³Lecturer, and researcher “European University of Tirana”,
Albania

Received: 12 September 2022 / Accepted: 20 October 2022 / Published: 30 November 2022
© 2022 Demi Mosho et al.
Doi: 10.56345/ijrdv9n4s102

Abstract

This paper aims to present in detail the economic policies as well as social protection in Albania and is realised based on many previous studies and research, but also has additional information and data related to the topic addressed. Initially, social policies and their presence in the Constitution of Albania will be presented. Social policies cover all provisions and measures aimed at preventing, eliminating, or alleviating poverty situations and social problems. Of course, we have also provided data on various statistics on these policies. Gross Domestic Product (GDP) is an important element of the economy, not leaving behind points such as national income, inflation, unemployment, poverty, etc. There are detailed data for each of them, from qualitative and quantitative methods, the simulation model is evaluated using the risk threats. This project will also address the recent economic situations, including the difficulties of the Covid-19 pandemic, which greatly affected the economic situation in Albania. This paper will include data from various serious institutions, and information gathered during my online survey. How to approach the question. The study is primarily informative, not superficial, cited at the end of the paper, also included are the results processed by google forms. In order to carry out the works, the structure of the questionnaire was designed as a start, where no questionnaires are sensitive included. This study aims to obtain information about the real economic, social and emotional state faced by Albanians, and address the effect of globalization on the notion economic and social development of states and how nation-states have adapted to the challenges of globalization.

Keywords: globalization, social economy, GDP, western balkan countries, development

1. Introduction

According to Stephen D. Krasner sovereignty was never as strong as contemporary observers suggest. Conventional norms of sovereignty have always been challenged.

In the context of globalization, it is worth noting that, the way as a country decides to develop social policies clearly shows the country’s economy and that is why developed countries give an important place to this system believing that through it they can create a stable economy and government. The population worldwide has increased exponentially over the past two centuries first reflecting a tendency for industrialization, and later, showing a response to globalization. It is
highly convincing, therefore, that globalization serves to promote the capacity of life worldwide by spreading larger and more ambitious work endeavors across a greater amount of the available labour market. The doors opened by technology and utilised via free trade agreements stimulate the size, frequency, and grandeur of international transactions. This promotes economic strength for all countries involved by equalizing currency exchange rates, developing firm business and political relationships, and finding solutions with more resources and infrastructure than a single nation could support. Globalization has made way for free trade and business. It has also helped improve communication around the globe. Globalization and technology come hand in hand. With the evolution of the internet, language and cultural barriers are crossed. Countries merge to promote global politics. Supporters of globalization see this as beneficial to countries which have the same goals in protecting their interests, So, globalization is neither good nor bad, but it holds the power for both. With the economic changes of our country, regions and countries that are in the process of becoming part of the EU, social policies remain the only policy with which the government can operate within their territory. Over the years like any other economic aspect, the concepts and features of socio-economic policies and everything else began to improve. World best practices have shown that socio-economic policies need to be improved year after year, but always in order to achieve its optimization. In the Republic of Albania there has been a continuous stable development during the period of development of the Albanian state until today. Countries around the world are in an open battle between them to have a developed economy and compete to create as many foreign investors as possible. Citizens are also interested in favorable policies that represent a high level of trust in the entire socio-economic system in terms of how this system has developed and the drastic changes it has had. Globalization can be summed up as a long-term change towards greater international cooperation in economics, politics, idea, cultural values, and the exchange of knowledge. The core features of globalization are increased free trade between nations, easier movement of capital between borders, and a massive increase in foreign investment. There are many pros and cons of globalization, ranging from economic benefits to political ones.

2. Materials and Methods

The economies of many developed countries are often subject to constant fluctuations. Possible stagnation in the economy is often reflected in the household budget and then in their spending on goods and services. In its efforts to eliminate or mitigate such imbalances, the government occasionally uses fiscal policy tools as tax policy and public spending.

Globalization: Pro – Cons It is good or it is not?!

To answer this question the individuals should know the whole process of globalization. “Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology,” Globalization is a process started long times ago. This process becoming more and more important each year and, we choose to share some opinions about pro and cons for the globalization process.

The globalization has a good and bad sides, that vary not just from country to country but also within a country, and that depends on the countries power of accommodation into the globalized system.

2.1 Pro for globalization

The good side is because it helps us to relate to all the world around us, as the fact that we can interact together irrespective of countries and borderlines. Globalization help us to know about new countries and cultures, to get new technologies, it helps us to grasp new modern systems of education, business, politics which can help to rise the standard of our country.

The main benefits of globalization include Free Trade Agreements, Free Trade is the main advantage in every article you might find about globalization. This gives the opportunity for countries to trade freely by reducing barriers and taxes. In some countries like EU there are no taxes between them and no borders. Increased competition between countries drives prices down. The companies have more access in countries around the globe and each one tends to get more market share then the others. The prices of products get lower and lower and the only one advantaged are the consumers which can reduce living costs and have a wider selection of products. Developing countries have more opportunities to attract foreign investments. Foreign investors are more willing to reduce costs by paying lower wages and taxes in developing countries. The economy of those countries will be improved also by bringing more job opportunities.
Technology development. The countries which lack of technology improvement can reach their target easy and faster by gaining technologies from other developed countries. Also, when companies invest in those countries, they bring also new technologies and improvement. People move freely. Not only companies can benefit by globalization but also people. They can study in different countries and learn from their experience, culture. They can work and market their skills to the best companies around the globe. This will also lower the gaps of missing labor force in some countries. Latest example is the request for nurse in Germany from Albania. Also, cheaper prices for products and services (more optimized supply chains), better availability of products and services, easier access to capitals and commodities, increased competition, producers, and retailers can diversify their markets and contribute to economic growth, lower prices for consumers, lower labor cost.

2.2 Cons for globalization

The bad side is that globalization make a diversity in the world where we can now see that there are countries which are dominant in different fields and there are other countries which are under the power of the powerful countries. There are two main problems with globalization: Inequality in Developing Countries, Exploitation of the Environment, the advances which have been made in communication, travel, and information services in the last years or so make globalization inevitable, we cannot avoid it. Main disadvantage is that made rich richer, and non-rich poorer. Small companies are engulfed by big ones which become bigger and bigger. Smaller, less developed countries do not benefit. Labor moving freely has its downside by reducing skilled labor force in countries which have not secure job market and creating gaps. In developed countries some professions that had been good payments, are lowered by immigrants which do the same job by lower payment. Countries are binging to lose their cultural identity by the invasion of immigrants which is getting higher and higher. Diseases for humans, animals and plants is being faster are being more easily spread and hard to fight. This were some pros and cons of globalization, but we cannot answer if it is good or bad. This is a process that we can't stop just try to make it better and gain the best of it. Some countries struggle to compete. Extractive behavior of some foreign companies and investors in resource-rich countries preventing economic diversification. Strong bargaining power of multinational companies vis-à-vis local governments. Globalization is a complex phenomenon nowadays that comprises several characteristics such as “the international flow of ideas and knowledge, the sharing of cultures, global civil society, and the global environmental movement” Stiglitz, 2007: 4). Nevertheless, many analyze globalization from the points of economics and political economics too. Globalization from the perspective of economics is the “economic integration of the countries of the world through the increased flow of goods and services, capital, and even labor” (Stiglitz, 2007: 4). The International Monetary Fund (1999) defines globalization as “the growing economic interdependence of countries worldwide through the increasing volume and variety of cross border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology” (in Osland, 2003: 138). Another key feature is the expansion and dominance of global companies and brands. There are people that are supporters of globalization and others that point to a handful of criticisms when examining this complicated phenomenon. We need to look at the pros and cons to be able to decide whether globalization is good or not for us, for the entire world. Some of the pros for globalization are listed as follows even though not all of them have been accepted by the economics scholars, governments, and different researchers worldwide. Globalization has the potential to solve some of the deep-seated problems like poverty and unemployment. Free trade (reducing barriers such as tariffs, taxes, subsidies, and other barriers between nations), promoting global economic growth, increased competition, cheaper prices for products and services and better availability of products and services, diversified markets etc. are most of the advantages that globalization has introduced. The general protest about globalization is that it has made the rich richer while making the poor poorer. Main cons for globalization are that some countries struggle to compete; there is a strong bargaining power of multinational companies vis-à-vis local governments, “contagion effect” is most likely in times of crises etc. Globalization is supposed to be about free trade where all barriers are eliminated but there are still many barriers that make it difficult and causing issues to see results in different countries. Globalization is an inevitable long-term good event following the melting of cultures, economies, people, and nations. It helps poor countries, through insertion of foreign capital and technology, with the chance to develop economically and socially. It helps blue- and white-collar people to work everywhere and move globally with their families for a better life. Anyone can buy the same product in Albania or USA or India if they want it or afford it. Now there is a worldwide broader market for consumers and companies with access to products of different countries. The main concerns are the ways that globalization has been managed and how it needs to be managed from the most powerful countries to the developing ones. Globalization can’t be stopped but there are a lot of policies and strategies to be used to make it more equitable and efficient economically.
for everyone and for every nation.

3. Issues on Economic, Social and Cultural Integrations in Albanian as Part of Western Balkans

On June 2014, the European Council granted Albania candidate status. In the past year, Albania has implemented smoothly its obligations under the Stabilization and Association Agreement (SAA). Regular political and economic dialogue between the EU and Albania has continued through the relevant structures under the SAA. The government engaged in EU related reforms and in addressing the five key priorities identified for the opening of accession negotiations. Albania continued to actively participate in high level dialogue meetings, as well as in the related joint working groups on the five key priorities (European Comission, 2015).

The EU is Albania’s dominant trading partner, with especially strong links to Italy. Albania has increased its openness to trade, with total imports and exports rising to 92.3% of GDP in 2014 from 86% in 2008. The EU remains Albania’s largest trading partner by far, with a share of 77.4% of its goods exports and 61.1% of its goods imports in 2014. Italy is the main destination for Albanian exports, absorbing more than half of Albanian goods sold abroad in 2014 and providing almost a third of its goods imports. Trade links with Central European Free Trade Agreement (CEFTA) countries are also relatively important as they accounted for some 12% of Albanian goods exports and 8% of its imports of goods in 2014, but these shares are largely unchanged since 2008, pointing to a potentially large untapped potential for future growth. (Commission, 2015)

During the period 2006-2016, Albania achieved solid economic growth. This fast pace of growth was driven by strong domestic demand and supported by significant flows of foreign direct investment and remittances from workers abroad. Albania has succeeded in reducing government debt, increasing tax revenue, substantially lowering unemployment, and keeping inflation low and within the targets established by the Central Bank. These developments have taken place in the context of a remarkable transformation of the Albanian economy over the past two decades, from a closed, state-owned economy to one that is liberal, market-orientated, and private sector driven. Sound macroeconomic policies, a credible monetary policy, and a comprehensive tax reform, have underpinned Albania’s fast growth in recent years, and have complemented the effect of trade liberalization and structural reform. These sound policies, by triggering stable growth and low inflation, have accelerated the insertion of Albania in the global economy, facilitated its participation in the multilateral trading system, and helped to distribute the gains resulting from trade and investment liberalization widely among the population.

The Bank of Albania is the monetary authority, and it has the exclusive right to design, approve and implement the monetary policy in Albania with a view to achieve and maintain price stability. In this regard by ensuring price stability, the Bank of Albania provides a direct contribution to sustaining macroeconomic balances in Albania, promoting economic growth, and safeguarding the financial stability of the system. Based on the report by Bank of Albania during 2009 the annual inflation rate had averaged 2.2%, being on the lower half of the Bank of Albania target zone. The CPI inflation developments during 2009 were affected by the international movement of commodities prices and by the sluggish domestic demand because of the global crises in the economy.

This stance of the monetary policy will support the increase of the domestic demand and the return of the inflation to target. On the other hand, fiscal stimulus has been neutral during the first three quarters of the year. The fiscal policy remains committed to follow a consolidated path in the years to come. Domestic financial markets have been liquid and operating in a low interest rates environment. The banking system remains well capitalized and financial indicators are sound. Nevertheless, credit growth remains weak and below expectations. During November 2015, the total stock of bank loans recorded an increase of 2.2% compared with November of the year 2014. The stock of loans in domestic currency increased by 2.7%, while in foreign currency decreased by 5.7% (November 2015/November 2014). The low demand for loans continues to reflect the limited investment needs against the backdrop of spare production capacity and reluctance to take risk. Meanwhile, conservative lending policies still constrain also lower levels of credit. The growth of non-performing loans is slowed, while the implementation of the plan of measures to reduce non-performing loans will help reduce credit risk. In terms of deposits, in November of 2015 the total stock of bank deposits grew by 1.6% compared to November 2014. In November 2015 shows that about 50.00% of the total stocks of deposits consist of deposits in ALL, while the remaining 50.00% consists of deposits in foreign currency. The current deficit has shown a narrowing trend. Expanding of domestic savings, mainly private, has been the main contributor to the correction of the current deficit. Medium-term fiscal policy (Finance, Fiscal Policy strategy, 2016) for 2016 - 2018 will be oriented towards fiscal consolidation while ensuring an optimal level of investment over 5 percent of GDP (including hereby the Regional Development Fund and investments in the energy sector financed from the state budget).
Fiscal consolidation and public debt reduction is essential to reduce the risks of debt, which prevent the growth rate and cause macroeconomic instability. This fiscal framework targets a fiscal deficit of 2.2% of GDP for the year 2016 from 4% programmed for the year 2015, a level of 1.4 percent of GDP in 2017 and 0.5 percent of GDP in 2018. While the primary balance is programed to be a slight suffice of 0.6% of the GDP in 2016, with an improvement of about 1 percentage point in the coming years.

This deficit reduction will enable the level of the public debt to GDP ratio begins to decrease in 2016, for the first time since 2010, continuing the gradual decrease in the coming years. Public debt is expected to drop to the level of 70.9 percent of GDP for 2016, 68 percent in 2017 and further to 63.9 percent in 2018.

At the same time, the fiscal framework includes a series of budgetary policies to support economic growth and to offset the restrictive effects of fiscal consolidation. Public investment in the short and medium term are forecasted to be held over 5% of GDP, which is important to feed the aggregate demand in the short term and to shift economic growth at a level higher in the medium and long term.

4. Discussions

As per transition period the Albanian citizens have faced large economic incomes and more needs to be done to rebuild incomes. The set of social economic reforms, undertaken, the coefficients of their success have closely linked also with to fiscal policy. These reforms create the conditions to ensure better functioning of tax administration and identify specific steps undertaken to improve the following aspects in the field of design and implementation of economic policies, management standards of public tasks, consideration of citizen opinions, development of decentralization and de concentration of decision making, the strengthening of fiscal forecasts and analysis and macro-economic identification of needs to undertake reforms and implementation etc. Improving fiscal policy on the one hand the increased cooperation and transparency to the taxpayer on the other hand, provide increased revenue to the state budget thus ensuring the fulfillment of the mission of the Tax Administration. These policies aimed at the gradual development and decentralization of fiscal management, both at central and local levels. The challenge continues, but what can be said with certainty is: “The foundations of legal and administrative infrastructure in compliance with EU standards and improvements will accompany fiscal policy, despite the governments that will lead the Albanian economy” (European Commission, 2021).

Fiscal policy is destined to play a key role in economic development prospects. This is not simply the fact that the fiscal position is an important component of macroeconomic stability determinant. Essential argument is that the ability of the Albanian economy to generate income remains very limited. Beneficiaries of government tax revenue collected use taxes to provide public pensions, the minimum level of income for people who are ill, physically challenged, older. State which provides high priority to these goals usually prefers to use a progressive system of income tax i.e., that taxed the more those who have higher incomes.

Social rights from the point of view of constitutional topography are set in the last two chapters.

Initially, the rights and freedoms related to the right to work are sanctioned, such as: freedom to choose a profession, freedom to choose a job, freedom of association, the right to strike, the right to social protection in cases of old age, disability unwanted work or unemployment etc.

Family-related rights, the right to insurance and health care, the right to information on the state of the environment and its protection, the right to education, freedom of artistic creation and scientific research, copyright, etc.

These areas are related to, Employment in suitable conditions of all able-bodied persons; meeting the needs of citizens for housing; the highest standard of health, physical and mental, possible; education and qualification according to the abilities of children and young people, as well as unemployed persons, a healthy and ecologically suitable environment for present and future generations; rational use of forests, waters, pastures and other natural resources on the basis of the principle of sustainable development; care and assistance for the elderly, orphans and the disabled, development of sports and recreational activities, health rehabilitation, specialized education and social integration of the disabled, as well as the continuous improvement of their living conditions and also protection of national and cultural heritage and special care for the Albanian language.

In Albania, as part of western Balkan social Protection Statistics contain data on the main indicators of social protection in Albania, which include interventions made by state and private bodies in easing the financial burden of families and individuals in need, who are entitled to these benefits. This intervention can be in the form of cash payments, in the form of reimbursements of expenses incurred by protected persons or in the form of goods and services provided directly to individuals who are entitled to benefit from them.

Social Protection statistical indicators contain information on the number of beneficiaries of unemployment
benefits, families and beneficiaries of the economic assistance scheme, beneficiaries of disability benefits, urban and rural pension beneficiaries in the social insurance scheme, etc. The information is collected by the responsible institutional units according to the legal provisions, which regulate the provision of social benefits and their financing. The data are provided by the Social Insurance Institute, the State Social Service and the National Agency for Employment and Training.

Table 1. Average number of families and respective fund by family structure, 2016 – 2021

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total families (no.)</td>
<td>80,147</td>
<td>80,945</td>
<td>53,982</td>
<td>60,496</td>
<td>61,445</td>
</tr>
<tr>
<td>Social Fund by family/ (in thous. All)</td>
<td>4,115,224</td>
<td>4,088,491</td>
<td>3,330,631</td>
<td>3,603,003</td>
<td>3,829,204</td>
</tr>
<tr>
<td>Rural pensions</td>
<td>139,154</td>
<td>132,778</td>
<td>127,084</td>
<td>121,208</td>
<td>115,443</td>
</tr>
<tr>
<td>Urban Pension</td>
<td>472,390</td>
<td>488,408</td>
<td>508,651</td>
<td>530,331</td>
<td>550,420</td>
</tr>
</tbody>
</table>

Source: Social State Service, calculated by INSTAT

Graphic 1: Social Protection in Albania 2016-2021
Source: Social State Service, calculated by INSTAT

5. Financial Stability in Albania

A stable financial system is important for safeguarding macroeconomic stability, for ensuring the transmission of the monetary policy and for deepening the financial intermediation. Through these objectives, the Bank of Albania plays a central role in the oversight of the financial system and promotes the transformation of savings into investments, the development and deepening of financial markets and the improvement of resource allocation in the economy. Bank of Albania designs macro prudential policy for the entire financial system, with the objective of promoting the financial system stability and its contribution to economic growth.

The financial system in Albania is concentrated and dominated by the banking sector. There are 16 banks in the country, 13 of which are foreign-owned banks and 3 of which are Albanian. None of them functions as a branch. Banks represent 90% of the total financial system’s assets and their assets about 93% of the country’s GDP for 2015. There are four major banks in the Albanian banking sector, with foreign capital from Turkey, Austria, Italy, and domestic capital. These banks represent 70% of the total banking sector’s assets and deposits and 63% of lending activity.
Within a 5-year period starting from 2010, the share of banks’ assets has been declining because of the expansion of other segments of the market. The remaining structure of the financial system is represented by 11 insurance companies and 1 reinsurance company, 3 companies that manage private pension funds, two investment funds, 26 non-bank financial institutions and 106 savings and credit unions, part of the two financial unions.

On 2010, the share of the non-banking financial sector was 6%. The non-bank financial sector had its fastest growth in 2012, when Raiffeisen Bank established the first investment fund. This period coincided with the decision of this bank to reduce exposure to the Albanian public debt. Currently, the non-bank financial sector constitutes 10 % of the financial system’s assets.

The Albanian banking sector has maintained its stability, despite international financial developments. Prudential indicators of the banking sector on solvency, liquidity and provisioning remained at adequate levels, staying within regulatory limits, even assuming the materialization of severe macroeconomic scenarios. Nevertheless, some main challenges remain.

A key task is to ensure a sustainable recovery of lending and to improve bank asset quality indicators via clean-up measures aimed at removing non-performing loans from balance sheets. These would impact positively on banks’ operational efficiency and on intermediation capacity. Regarding market risks, the banking sector is relatively well hedged against direct risk from adverse exchange-rate and interest-rate movements.

During the period 2010-2015, the macroeconomic setting was stable, supporting the performance of the financial system. Fiscal and monetary policy actions were accompanied by an adequate functioning of financial markets and lower financing costs.

Financial intermediation in Albania, estimated as the ratio of financial system assets to GDP, was 102.8% in 2015. Banking sector assets in a 5-year period (2010-2015) increased on average by 8%. Lending activity was recovered significantly during 2015- driven by favorable interest rates for domestic currency. On average, credit has expanded by 6% annually since 2010.

This positive trend mainly reflects the easing of credit standards by banks. This development has been aided by an anticipated sharp improvement in bank’s asset quality, supported by the clearance of accumulated arrears and the obligatory write-off of loans held in “loss” category for more than 3 years.

6. Conclusions and Recommendations

Social economic support is the support that the government gives to the needy when they are in a situation where they cannot afford a normal life. This support is much needed as it maintains social balance and helps those who are unable to survive and perform the necessities of life. Dynamic changes that development brings conceptions of natural changes in the problem, the working ways and doing business. It makes us think that is prevalent new economy, information economy. Administration sees as necessary restructuring of development agendas and plans in this regard. After the devastating earthquake of 2019 and the terrible consequences of the COVID-19 pandemic, the country faced multiple needs. The Government of Albania is committed to supporting the poor and those most affected by this dual crisis, including businesses, using its fiscal reserves, reallocating budgets to urgent priorities, and relying on foreign aid.

Social assistance is provided in the constitution of the Republic of Albania and every citizen should be given the opportunity to live in normal conditions. The government should be careful when redistributing income considering all components to benefit those who have more need and to the necessary extent.

The Albanian government tried to do its best for its citizens in the period of total closure of the country by the Covid-19 virus but as a country in transition where not all branches of government function, the citizens had many problems.

Social policies made under the name and ideas of favoring the taxes are ineffective in their social meaning. Also, this form of assistance distorts the mentality of the fiscal system. It also complicates tax administration and makes it more expensive. Given these, it seems inappropriate to use the fiscal system is in the pursuit and achievement of social objectives. In fact, lower taxes and not increase them further, executed with simplicity and clarity to taxpayers are the key to improving social conditions.

They affect the growth of social stability and prevent social problems. To see the real situation of the situation that Albanian citizens went through during the period of total closure, I organized an online survey where citizens were asked about the difficult situation they went through. The problems encountered during this period.

The online survey shows that over 70% of the population did not receive any financial support for living, where 76.1% of respondents had a salary of less than 60,000 ALL, which reflects the poverty situation in Albania. While for 73.5% revenues decreased during this period. Another element that should not be forgotten is that in 85.3% of the
population, Covid 19 has had a psychological impact and help in those cases has been negligible and this can cause consequences for a long term and the consequences may appear later.

Therefore, this should be, evaluate and avoid political risks in conducting successful fiscal reforms, avoiding frequent changes of fiscal legislation, because it increases the risk of revenue from the business, or loses the competition equal. The longer a government to be more stable tax system is, despite corrective changes can be made in administration or fiscal legislation. To improve complaints procedures, as well as reimbursement to administration should be responsive in time to the business.

References

Evidence provided by the study "Obstacles to Trade, Growth, Investment and Competitiveness", Balkan Network, September 2009.
Jean Tesche, 2001 "The Role of State in Southeast Europe - the fiscal issues", draft paper.
See eg. evidence provided by the study "Obstacles to Trade, Growth, Investment and Competitiveness", Balkan Network, September 2009.
See for example, quote from "New Economic Review" No. 1, where the citation is given for a study that exists, but the methodology of measurement is not expressed.
Statistics, Inst. General management of Taxation, the Directorate of Customs.
The following analysis is based on the data and problems identified by MTEF/2002-2004. Currently, this document is in the process update.
This part will be considered and discussed in more detail in another paper "Governance and Institutions" for this round of consultations.