The Influence Of Industrial Sector On The Economic Growth Of Albania

Arshad Ullah Jadoon

PhD research Scholar, School of economics, Northeast Normal University Changchun, China
Arshadjadoon22@gmail.com

Sajjad Ali

PhD research scholar, Sarhad University of Science and Technology, Peshawar, Pakistan

Abstract

Since 1998, Albania has experienced a significant economic growth. The Gross Domestic Product grew annually until 2013 without stops and recessions. It is a "praxis" to imagine that a developed country, by an economic point of view, can sustain high living standards for its inhabitants. These countries are recognized by a first economic analysis through what they produce. The base is a mechanized agriculture and the biggest part of workforce is employed in service sector. The most important feature of a developed country is still a modern industrial sector. Industrial sector symbolize the engine of economic growth and is a guarantee of economic stability in the medium and long term. The intention is to analyze whether the Albanian economic growth of the last sixteen years, was constant, continuous and healthy. We would see the performance of the industrial activity in the country through regression analysis and we will connect the course of Manufacturing, Mining and Construction to GDP product. The goal is to find out if in Albania took place an "Industrial Revolution" who led the country economic growth or if economic growth was a consequence of other components and is characterized by an inherent weakness and instability. We will notice which of the sub-sectors of the industry and was the most active and who has had the most difficult problems. It will highlight the increase in the weight of the industrial sector on the Albanian national economy and the limits that did not allow a full industrial development. Finally, we will suggest a series of measures and strategies that tend to enhance the degree of organization and integration among the various sectors of industrial activity.

Key words: Mining, Manufacturing, Construction, Gross Domestic Product, Economic Development.

INTRODUCTION

Industrial sector play a vital role in the economic development of any country. Since industrial revolution industrialization regarded essential for rapid development of the country. In economics, the term "Economic Development" is referred to the complex process of structural transformation, changing the production structure that marks the transition from a mainly agricultural economy to an economy in which increases the weight of the modern industrial sector. Theories of Economic Development were present in classical economic discipline since Adam Smith, but referred generally to the ways in which the countries that passed the stage of industrial take-off (to use the famous expression economist Walt Whitman Rostow) could maintain and manage a balanced and constant. In 1949-50 only 7.7% was industrial contribution towards the GDP. Therefore due to lack of industrial growth performance a massive task of industrialization was announced in 1948. The fifteen years to follows extending from 1949 to 1964-65 recorded as a remarkable growth rate to an average of 15% annually in the output of the modern manufacturing sector. The compound growth of output was as high as 25 percent per annum during 1950-1954 during the next five years (1954-1959) it, however declined to 12.7%.

In analyzing the link between the industrialization of a country and its economic development, we cannot avoid the theories on economic and industrial growth. In this case not worth neglected the theory of late industrialization Aleksander Gerschenkron. This theory is based on the assumption that the less developed countries can shorten the time of its development through the adoption of leading edge technologies created beforehand. This position, which is defined as the advantage of backwardness, consists of four laws:

1. The more a country is backward, the more intense is its industrial development. Development processes in industrial countries late are much shorter and faster than those that occurred in countries with early industrialization; these, in contrast, they took a much longer time to complete technology development and capital accumulation, but also to have the transfer of technology and imports of capital.

2. Supremacy of heavy industry. Late industrialization is able to develop the chemical industry and heavy industry (steel, metallurgical, engineering etc.) more quickly than those of the most advanced countries; This is because the backward countries, although lacking of skilled labor, are able to establish new technologies through imports, are able to introduce new institutions for investment in large-scale, while the more advanced countries have a hard time to get rid of outdated equipment.

3. Tendency to centralize production. The trade groups are experiencing a tendency to congregate in large trusts (under monopoly), as capital investments on a large scale require small costs of operation

4. Irrelevance of the logical relationship between capitalist development of agriculture and industrial development. In the industrial countries late there is not necessarily a logical correlation between the development in the capitalist sense of agriculture and industrial development; in other words, industrialization can reach maximum heights of development, but agricultural capitalism may still remain in a state of backwardness. This is because the motor for development is not agriculture (as it was in countries with early industrialization), but banks or Governments.

Beyond theories exposed and other theories that for obvious reasons we could list, we will try to see if Albania has benefited by late Industrialization in recent years, according to the Gerschenkron theories.

Objectives:

Following are the two main objectives of the study:

1. To analyze the contribution of industrial sector towards the economic growth of Albania.

2. To analyze present situation of industrial sector and to propose modern policy measures

LITERATURE REVIEW

Lempert (1973) has made a comprehensive study about the industrialization of developing countries. Mr. Lempert observed that industrialization is inter related with the entire complex of Socio - economic changes under way in developing countries. This is about all determined by the fact that they see in industrialization the most realistic path for restructuring the national economy and accelerating the growth rate. The writer says that the industrialization policies adopted by the majority of countries status in Asia, Africa and Latin America is designed to diversity production methods in all the main sectors. Leo Lempert further says that all the developing countries could be congenitally divide into four groups taking the developmental path of modern industry. One is Agrarians industrial country second is countries with a developed extracting industry. Thirdly Agrarian raw material countries and fourthly the least developed countries. The acceleration of social and economic progress on the basis of industrialization is possibly only when it is accompanied by deal going social changes and triumph of modern techniques of production.

Khawaja (1993) has made a comprehensive analysis of industrial sector in Pakistan from 1947 till 1993. He stressed on industrial development, because it is must for economic development. Increase in GDP, increase in employment opportunities, per capita *income.* Increase, living standards of the people improves and overall economic position becomes very bright and hopeful, lie says if we look into the economic history of developed countries we can easily observe that those countries, which slowly reviewed on agricultural have remained poor find under developed while he countries, which give weight to the industrial development, achieved high rate of growth. He has given a detail history of the industrial growth in Pakistan. He says that before the arrival East India Company before the 19th century the Indo Pak subcontinent was not backward and under developed. It was rather than industrially developed region of Asia and was famous the world over. The major industries of this region were textile metal, handicrafts and construction. Then the act of Past India company industrialization was not appreciated. He analyzed industrial growth rate during 1950, 1960, 1970, 1980 and 1990. Then he talks about the industrial estates in the backward area of the country and about concession of exemptions.

Zaidi (2000) has examined the history of the industrialization process over the last five decades of Pakistan. The concluded dial during the first decade the exchange rate and the trade regime played an important role in determining the direction of industrial development in Pakistan, laying the ground for later years starting from almost non existing industrial base. Economic growth in the period of 1947 to 1955 was very impressive and it becomes even more astonishing between 1958 and 1968. The industrial sector showed extra ordinary growth rate during these years i.e. 23% per year and was perception that Pakistan would soon emerge as one of the few under developed countries. But unfortunately the growth that had taken place in the first two decades, soon unraveled, with growing income and regional inequalities resulting in the separation of East Pakistan. The economy did not do well during 1972 - 77 because of the after effects of the war of 1971, separation of one wing of the country. Decant fold increasing imports of food grains and the most important factor was the increasing role of public sector in the industry. All these factors slow down the speed of industrial development. During 1977 - 78

industrial developments regained the momentum that was lost between 1972 and 1977 and the growth rate of the industry and the economy returned to Pakistan and it began to play a key role in industrialization. The economy responded well during 1988 1991. The Private sector was promoted actively and large - scale manufacturing sector managed an impressive 7.4(%. In 1991 - 92 due to rapid expansion or cotton manufacturing, the govt. was urged in 1993 to continue the private sector agenda aggressively in the coming three years. The structural adjustment programs launched in 1998 and 1993 went very well especially in the industrial sector. In the end Zaidi says that at present Pakistan's industry is facing a lot of problems today and the growth rate, which during 1950 was 23% that is now 4% per anum.

Vance (1972) has analyzed a number of industries in the USA. He has described the main goals of American industry, and steps that have been taken to reach these goals. The main purpose of the American industry is to create greater opportunities of jobs for its citizens and produce greater quantity of goods and services. The level of technology is very advanced in USA. It improves the quality very easily and reduces cost of production as a result of which prices are reduced. In this country a number of corporations exist which readily help the industrialist in need. Maximum production in USA is so distributed among its citizens that everyone enjoys an equitable share. Maximum share and equitable distribution according to Mr. Stanley lead to higher standards of living, which will result in the better development of social, political, educational and religious institutions.

Brice (1974) explains the importance of industrialization for under developed countries. According to him the real progress is ultimately dependent on industrialization. It is an effort in which the under developed countries plays a major role of finding a solution to their problems of poverty and overpopulation and ending newly recorded backwardness in the modem world. Mr. Briee has pointed out that under developed regions are the producers of raw materials. But the price of raw material fluctuates much more than those of manufactured goods. A fluctuating economy which is dependent on the export of one or a few basic raw materials, suffers from instability of the national income and exchange rate fluctuates more than the economics, which are industrialized and more self-sufficient. In order to minimize the chances of industrial a thorough study of imports, local market, available skills, and available raw material in the country industrial relationship and evolution of development plans, review of old projects and a study of the available technology is necessary. For countries like Pakistan, India and Bangladesh he suggest as agricultural based industry.

Noor-ul Islam conducted a study in 1979. He explained that number of industrial units small or big exists in NWFP. There is not even a single cottage industry in Gadoon Area. The land of this part of country is suitable for poppy cultivation; therefore it is the only source of income and employment for the people of that area. He suggested and stressed the need to promote industrial growth in this area. He has advised the establishment of glass, marble, sugar and tobacco industry in this area because enough raw materials are available for such like industries locally. He suggested the following concessions for the development of his area.

1. Duty free imports of machinery.

2. Subsidization of the product concerned etc.

Mr. Noor-ul-Islam has also suggested the development of proper infrastructure of this area, as it will change the outlook and the life style of the people of this area.

Lewis (1982) completed a study under the title of economic policy and industrial growth in Pakistan. According to him Pakistan from 1950 till 1965 had a rate of industrial growth as rapid as any non - communist world. While achieving this high rate of growth the country employed

a variety of policies instruments. His study examines in detail the relationship among the principle policy variable and the rate and direction of industrialization. He carefully explores the intentions of govt. policy markets, as revealed both in their statements of policy and in their actions in setting tariffs and in regulating imports. He showed how tariff structure, while detailed in nature and lightly differentiated among products, had little or no effect on the price structure of the country and on the pattern of the industrial growth. He has analyzed that nearly 32 years of industrial growth in Pakistan, very carefully and authentically and according to him the high growth rate in industrial sector was achieved basically due to the incentives given by the govt.

Zafar (1988) has discussed the industrial sector of Pakistan in detail. He has taken start from the industrial policy statement of the government and efforts of govt. for the promotion of industries. He has mentioned the fiscal incentives, monetary incentives, tariff protection and its effects, impact of education training and experience, interplay of incentives and disincentives. The Pakistan industrial sector has particularly suffered from political and social instability. Govt. intervention is such which has retarded industrial progress and has increased uncertainty. He further says that Pakistan entrepreneurs have now entered a phase where they can probably look after technological and other industrial requirements.

The methodology in this study consists in analyzing sixteen years, to begin from 1998 to 2013. Will be weighed the contributions of sub-sectors of the industry, starting with the manufacturing, construction and mining activities. The data is compared to the annual gross domestic product to highlight their weight in the total economy. For each of these sub-sectors will be carried out analysis of correlation and regression to distinguish whether the evolution of these sectors was similar to the gross domestic product one or if this sub sectors experienced a particular dynamics of autonomy from the rest of the economy. This analysis is carried out to understand what areas were towing of productive activities and those who followed the natural tendency of the economy as a whole. These analyzes are through the SPSS program.

ANALYSIS

In the first analysis we take into account, the GDP together without the contribution of Construction Industry. Already from an initial estimate it may be noted that the sector's contribution to GDP is very low but at the same time the Industrial sector has a very high correlation to GDP. Thus we can understand that the industrial sector has helped to the economic growth to a similar extent to the growth of GDP for the past 16 years. On the other hand we can affirm that the economic growth was not caused by the industrial sector in Albania because this sector does not stand out compared to the general trends of the economy and continues to represent still a small slice inside of GDP. The contribution of the manufacturing and mining to GDP and increased from 6.9% in 1998 to 10.9% in 2013. Despite the fact that the contribution of the industrial sector has been growing in Albania, it had a role and a point of start extremely small. Then we can already say that Albania has not experienced an "economic boom" resulting from the production sector, despite its growth.

Descriptive Statistics

Mean	Std. Deviation	N
884112.31	321982.030	16
81499.19	41479.255	16

Correlations

		GDP	Industrial.
Pearson Correlation	GDP	1.000	.985
	Industrial.	.985	1.000

Model summary[b]

Model	R	R square	Adjusted R square	Std.Error of the estimate	Change statictics					Durbin Watson
					R square change	F change	df1	df2	Sig F.change	
1	.985[a]	.971	.968	57174.73	.971	461.714	1	14	.000	.959

a. **Predictors: (constant), industrial**
b. **Dependent variable: PBB**

Referring to the analysis above we can appreciate a proper level of regression R ^ 2 very high (0.968) indicating the similarity of the phs of the industrial sector to the GDP of the whole. In all analyzes the indicator Durbin Watson is quite far away from his excellent (2). This indicates the presence of an autocorrelation between data.
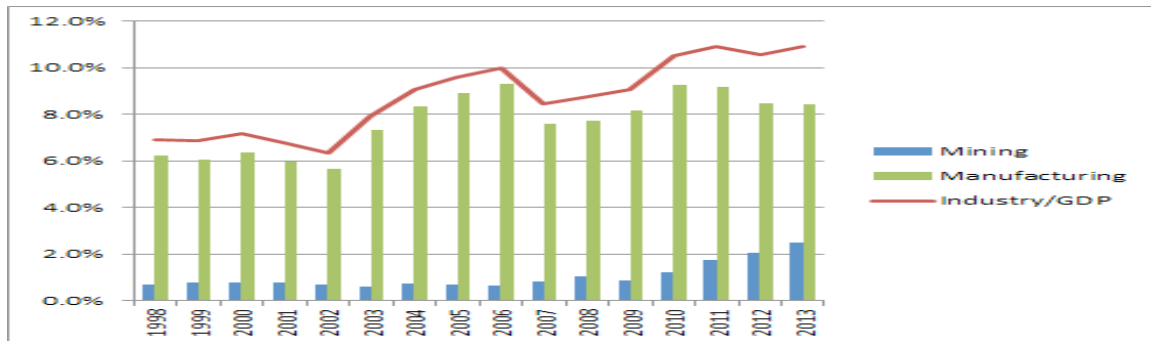

Figure1. Composition of Industry to GDP

Source: INSTAT Albania (2014)

To delve further in the analysis we need to check the link between the Extractive Industry and the effects that this variable has on GDP. From Figure 1 we can see that it accounted for a small fraction of GDP in 1998, even though Albania is a country rich in minerals and oil. Only after 2009 we can distinguish a steady growth in the mining industry. His connection with the GDP seems to be weaker than the entire industrial sector. The factors that influenced the Growth of mining equipment were the approval of the laws on "concessions" in 2007 and the beginning of the exploitation of oil deposits in Patos-Marinez zone from 2009 onwards. This positive development, however, was not followed by the

strengthening of the manufacturing industry in rapport to GDP, which has had an extremely slow process of growth over the years.

Descriptive Statistics

	Mean	Std. Deviation	N
GDP	884112.31	321982.030	16
Mining	10521.38	9381.240	16

Correlations

		GDP	Mining
Pearson Correlation	GDP	1.000	.859
	Mining	.859	1.000

Model summary[b]

Model	R	R square	Adjusted R square	Std.Error of the estimate	Change statictics					Durbin Watson
					R square change	F change	dfi	df2	Sig F.change	
1	.859[a]	.737	.718	170850.612	.737	39.275	1	14	.000	.231

a.   predictors: (constant), Mining
b.   Dependent variable: PBB

The link seems to be relatively weak through the test of Pearson correlation (0.859) and in the regression R ^ 2 (0718) adjusted, because this sector had been extremely unstable and characterized by strong volatility over the years. This link is not necessarily bad news because this sector performed better than the rest of the economy, especially in recent years. No coincidence that his contribution in the GDP and increased from 0.8% in 2007 to 2.5% of GDP in 2013.
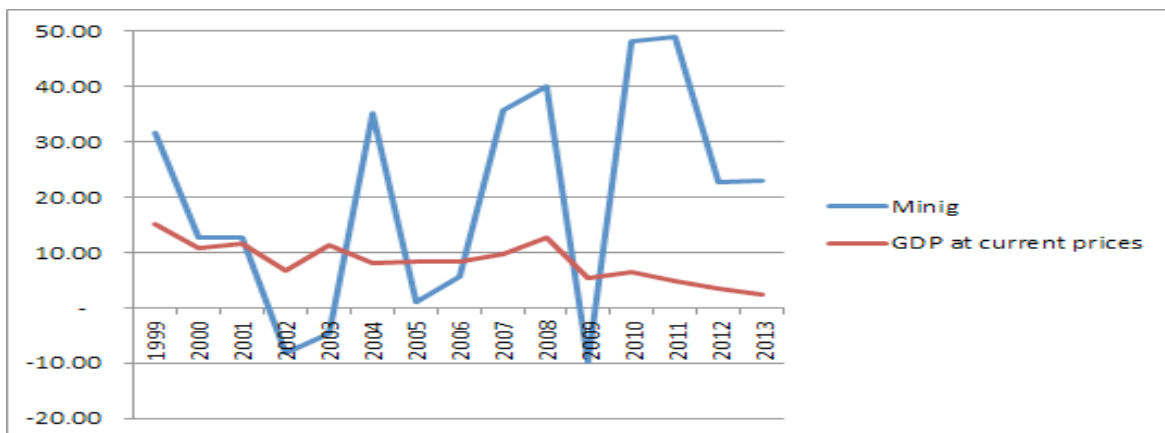

Figure 2. Percentage Growth of Mining sector in relation to GDP
Source: INSTAT Albania (2014)

Descriptive Statistics

	Mean	Std. Deviation	N
GDP	884112.31	321982.030	16
Manufactures.	70977.69	33420.081	16

Correlations

		GDP	Manufactures
Pearson Correlation	GDP	1.000	.982
	Manufactures.	.982	1.000

Model summary[b]

Model	R	R square	Adjusted R square	Std.Error of the estimate	Change statictics					Durbin Watson
					R square change	F change	Df1	df2	Sig F.change	
1	.982[a]	.964	.961	63419.195	.964	372.646	1	14	.000	1.166

a.   **predictors: (constant), Manufacturing**

b.   **Dependent variable: PBB**

The manufactures have had rather a way almost identical to the evolution of GDP with a proper square adjusted regression R ^ 2 (0961). In comparison to 1998, when Albania started its activities production after its internal uprising, the growth of the manufacturing sector as a contribution to GDP and was just 2.2%, from 6.2% in 1999 to 8.4% in 2013. We can say that in the past sixteen years, this sector demonstrates clearly its fragility and is the "weak link" in the Albanian economy. This weakness indicates a poor ability to produce and to be competitive in technologically and massive advanced markets. The size of the Industrial Sector is typical of the economies of underdeveloped countries or in the best case of those countries where development has schizophrenic traits (with a dual personality) where live together relatively developed areas with other ones arrears and embryonic.

As for the first area we intend Construction Sector, which is the sector that tripled its dimensions and ratio to GDP rising from 4.7% in 1999 to 13.4% in 2008. The Construction Sector is currently returned to a stage that can be called as a "maturation" stage. Its contribution to GDP was 7.4% during 2013. The very high volatility of this sector indicates a strong autonomy compared to GDP and Industrial sector trend. Because of that, the link between GDP and Construction is quite lowered with an Adjusted R ^ 2 (0.630) despite the correlation level remains quite high.

Descriptive Statistics

Mean	Std. Deviation	N
884112.31	321982.030	16
92256.38	39807.327	16

Correlations

		GDP	Constr.
Pearson Correlation	GDP	1.000	.809
	Constr.	.809	1.000

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.809[a]	.655	.630	195771.098	.655	26.575	1	14	.000	.208

a. Predictors: (Constant), Ndertimi
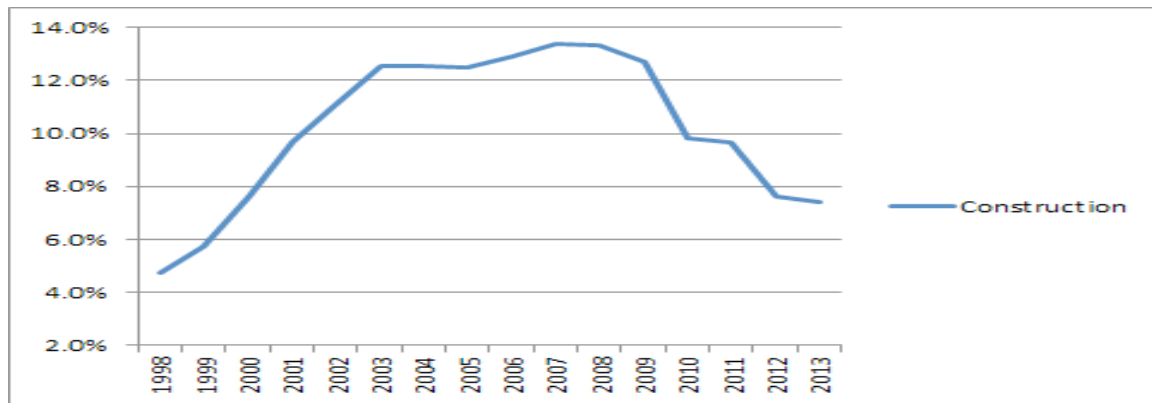b. Dependent Variable: PBB

Figure 3. Evolution of Construction sector in relation to GDP

Source: INSTAT Albania (2014)

The final regression analyzes the industry as a whole (manufacturing + mining construction). The size of the industry compared to the Gross Domestic Product over the years moved from 11.6% for 1998 years where the data are the most discouraging, to 22.9% for 2006, falling back towards the 18.3% of GDP in 2013. These percentages indicate that the industrialization of the country is a process still not concluded and that the industrial activities brought a minor contribution to the national economy growth. The industrial sector in Albania marked growth rates similar to those of GDP. If from one side of the Construction strengthened the industrial sector

from 2000 to 2008, on the other hand, the Manufacturing industry in those years remained anemic. The moment at the end of the first decade of the twenty-first century, the mining industry had a strong impulse and growth, but the Construction sector was in danger of collapsing. The result was a rebalancing of the industrial sector in line with the GDP evolution. The limit and the real challenge still not won by Albania in these sixteen years regard the manufacturing industry. This sector is the backbone of the production activities and the source of major technological developments and intangible assets.

9

Descriptive Statistics

	Mean	Std. Deviation	N
GDP	884112.31	321982.030	16
Ind_Total	173755.31	75786.681	16

Correlations

		GDP	Ind_Tot
Pearson Correlation	GDP	1.000	.964
	Ind_Total	.964	1.000

Model summary[b]

Model	R	R square	Adjusted R square	Std.Error of the estimate	Change statictics					Durbin Watson
					R square change	F change	dfi	df2	Sig F.change	
1	.964[a]	.930	.925	88270.728	.930	185.582	1	14	.000	.316

a.   **predictors: (constant), Ind Total**

b.   **Dependent variable: PBB**

Below, in Figure 4 we can see that the Construction Sector for many years has been the principal factor and protagonist of the Industry in Albania, especially from 2003 to 2008. The reduction of that contribution was only partially offset by the mining sector growth and the block building permits during 2014 brings new question marks on the evolution of the Construction industry and with that the entire Albanian Industry Sector in the near future.
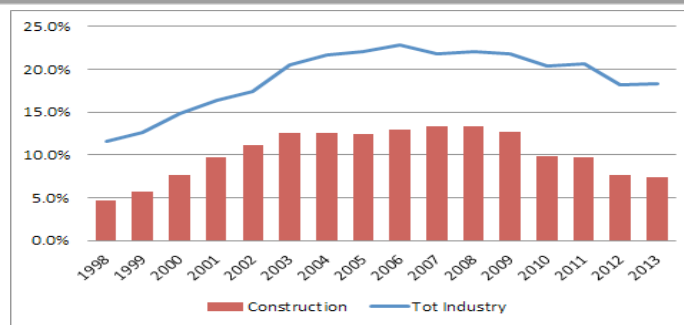
Conclusions and recommendations

After the data analysis we can infer that economic growth that Albania had, was not caused by the enlargement of the industrial sector, on the contrary the economic growth wound was towing that sector. The Industrial sector, although is becoming more and stronger and stable, over the last

sixteen years, achieved its successes very slowly. Every economic development in order to be sustainable and stable needs a primary and significant contribution by the industrial sector.

If it is true that not all countries which have a strong industrial sector are rich and developed, it is also true that all the rich countries of medium and large size have an important Industrial System. A strong industrial system constitutes a basic and primary condition, necessary but not sufficient for a developed country. From this point of view, Albania has so far missed the appointment for the development of its industrial apparatus. The positive developments in the field of Construction and Extraction were often a structural economic need and were not put under the lens of national plans for industrial development. Therefore their evolution was unstable and a hostage of contingent junctures. Currently the country needs a strategy which it combines the private and public interests in order to be able to start initiatives in manufacturing and mining. For example, the extraction of minerals and oil should lead institutions to raise awareness of

References

Gerschenkron, A., „Soviet heavy industry. A dollar index of output, 1927/1928-37" Review of Economics and Statistics, 120 (1955)]

Fisher, Allan GB. "Production, primary, secondary and tertiary." Economic Record 15.1 (1939): 24-38.

Kaufman, Michael T. (26 January 2011). Daniel Bell, Ardent Appraiser of Politics, Economics and Culture, Dies at 91, The New York Times

The Stages of Economic Growth: A Non-Communist Manifesto (1960), Walt Withman Rostow

Dale Jorgenson and Koji Nomura, The Industry Origins of Japanese Economic Growth, (2008), No 11800, NBER Working Papers from National Bureau of Economic Research, Inc.

Masayuki Tanimoto, From Peasant Economy to Urban Agglomeration: The Transformation of 'Labour- intensive Industrialization' in Modern Japan, Masayuki Tanimoto,(2006)No CIRJE-F-516, CIRJE F Series from CIRJE, Faculty of Economics, University of Tokyo.

Eva Jelnikar and Urban Murmayer Convergence in Europe: Empirical Analysis on Two Groups of Countries of the

European Union, (2006), pp 249-263 from Izmir University of Economics.

The Main Aspects of Industry and Agriculture in Transilvania, Maria OROIAN, Academica Science Journal, Economica Series, 2014, vol. 1, issue 4, pages 57-68.

Tracking the source of the decline in GDP volatility: an analysis of the automobile industry, Valerie Ann Ramey and Daniel J. Vine, No 2005-14, Finance and Economics Discussion Series from Board of Governors of the Federal Reserve System (U.S.).

Cécile Denis, Kieran McMorrow and Werner Röger An analysis of EU and US productivity developments (a total economy and industry level perspective),No 208, European Economy - Economic Papers from (DG ECFIN), European Commission

Edmond Leka Power industry in Albania and its way through the reform to market economies., No 6, East European Series from Institute for Advanced Studies.

Elisa Ticci and Javier A. Escobal, Working Papers - Economics from Universita' degli Studi di Firenze, Dipartimento di Scienze per l'Economia e l'Impresa.