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Migration and remittances: the rise and fall of Albania and Kosovo

Abstract

The result of the global financial crisis and the Eurozone crisis has been low levels of economic development in the western Balkans. This article makes a comparative analysis of migration and migrant remittance inflows related to Albania and Kosovo in the last decade. Among the western Balkan countries, they share a common economic, historical, political and social background. In particular, they have very high levels of migration and receive a very significant amount of migrant remittances. Migrants from these two western Balkan countries live in Europe and overseas, and their remittances have had a significant impact on the economic and financial well-being of their households. In particular, we analyse the case of Albania and its future perspectives in view of its high unemployment rate and the recent mass return of unemployed migrants, which is one of the main consequences of the European debt crisis. We conclude by highlighting the economic policies which Albania must adopt in the light of the high unemployment resulting from the mass return of migrants.

Keywords: Albania, Balkans, economics, Kosovo

Introduction

Situated in the south-east of Europe, the western Balkan countries have many common features as a result of a shared history and similar transition experience. From the economic point of view, several factors have impeded the economic development of the western Balkan region, such as the political situation over the centuries. At present, the western Balkans are confronted with the consequences of the worst economic and financial crisis of the global economy. Data show that western Balkan countries have enjoyed high and sustained economic growth starting in the 2000s, but they fell into economic downturn in 2009 and, since then, have followed the general trends on the global and European scales.

The concept ‘migrant remittances’ refers to the transfer of monetary or in-kind resources by migrants to their home country. Migrant remittance flows constitute a substantial amount of the flow of capital between countries. Indeed, remittances from international migrants to their countries of origin constitute the largest source of external finance for developing countries. Migrant remittances represent a valuable source of income for many low and middle-income households in developing countries, as well as a significant source of capital. The contribution of migrant remittances to growth and poverty alleviation could reduce the need to adopt macroeconomic policies to implement necessary structural reforms. Indeed, migrant remit-

tances could contribute to longer-term growth as regards the political and economic policies of remittance-receiving countries. In addition, institutions often create incentives for financial and business investment as well as savings from remittances.

Academic studies show that migrant remittances have a positive impact on macroeconomic growth and on well-functioning financial markets by lowering the costs of conducting transactions. Most of the economic literature has focused on three main issues:

1. the direct impact of migrant remittances on income distribution, poverty alleviation and individual welfare
2. the subsequent effects of migrant remittances on the economy as a whole, discussing the impact on employment, productivity and growth
3. the contribution of migrant remittances to cover deficits in the trade balance and in the current account.

Migrant remittances represent a significant part of many western Balkan economies and are a source of growth due to the large numbers of migrants who have, in the main, moved to Europe. However, the global financial crisis and the Eurozone crisis have caused a serious decline in remittance payments as global consumer demand has contracted, so trade has plummeted, economies have tightened and unemployment has increased.

Migration flows: between the past and the future

In this article, we compare the cases of Albania and Kosovo which share a close common economic, historical, political and social background. Among the several common factors shared, there has been the phenomenon of mass migration from these two western Balkan countries.

Even if it is a typical phenomenon for the western Balkans, the so-called Albanian diaspora represents a unique case. Compared to the population in the country of origin and in neighbouring countries, it is among the largest in the world and, in terms of its geographic dimension, it reaches almost all inhabited continents. Emigration from Albania dates back to the 15th century, when many Albanians emigrated to Calabria and Sicily (Italy) and Greece, after the conquest of the Balkan peninsula by the Ottoman Empire. During the following centuries, until the establishment of the independent Albanian state (1912), migratory processes continued in the form of interior movements, from the Albanian lands to other regions of the Ottoman Empire or neighbouring countries. These movements led to the creation and consolidation of relatively important Albanian communities in regions of present-day Turkey, Egypt, Syria, Bulgaria, Romania and others.

During the 20th century, the period 1945-1990 marked an almost complete absence of the migratory phenomenon. Indeed, emigration was outlawed and violations severely punished. At the same time, birth rates in Albania were among the highest in Europe although the economy was among the weakest, leading to a consequently huge emigration once the borders were opened in the 1990s. Over the last two decades, around 25 per cent of the country's total population has emigrated, or about 35 per cent of the active population. Around 1.4m Albanian migrants currently live and work in Italy, Turkey, Greece and Germany. However, the trend of Albanian mi-

grants over the years has been oriented towards the most developed countries of the west, mainly the United States, Switzerland, Canada and the United Kingdom.

Meanwhile, there has also been a substantial emigration from Kosovo, especially due to economic reasons and the Kosovo War. Recent years show that the Kosovar population has been emigrating despite the measures and the limitations in place (e.g. the lack of visa liberalisation with the EU). In addition, the resolution of the conflict does not seem to have provided sufficient incentive for most migrants to return. According to the 2014 Kosovar Migration Report, the key driving factors in emigration are diverse, including: family union (46 per cent) and socio-economic factors (35 per cent), as well as political factors, a better education, etc.

Actually, there is no registration of the number of Kosovar migrants (or those of Kosovar origin). Estimates vary from 400 000 (according to the 2011 census) to 874 000 residents (estimated by the 2014 Kosovo Human Development Report, based on emigration patterns between 1981 and 2011). The majority of these have emigrated to Germany, Switzerland, the United States, the United Kingdom, France, Italy and Sweden.

Kosovar migration has continued to grow in recent years, although small numbers of migrants have returned to Kosovo. Conversely, the rate of Albanian migration has gradually decreased. The result of this return of migrants has been a cut back on those remittance inflows that, during the last 25 years, have become a key source of financing the Albanian imbalance between the export of goods and the import of services, thereby playing a role in reducing the current account deficit.

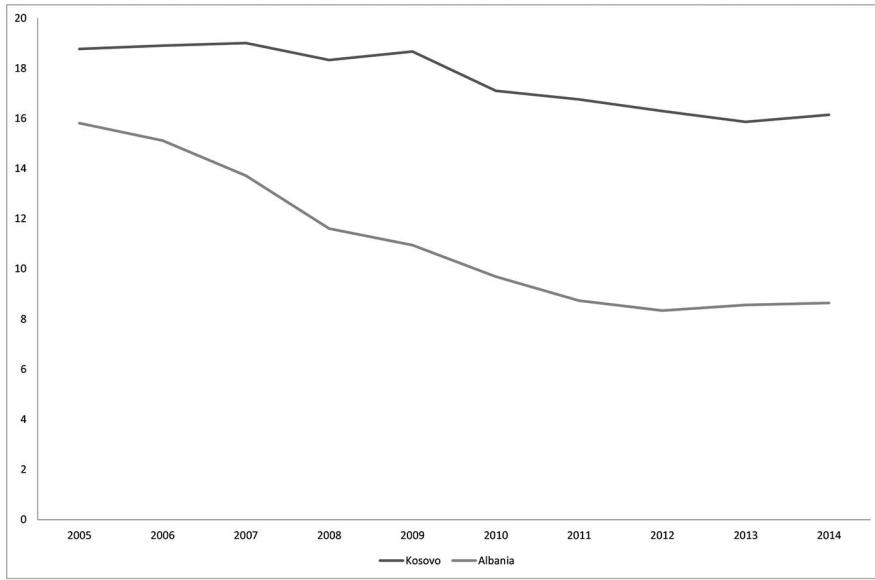
Different studies have shown that remittances represent an important and vital source of income in the country of origin. In particular, they affect the mitigation of poverty and daily welfare in education, although their effect is less in terms of overall economic development. The effects of migration as regards the socio-economic development of the country of origin pertain to the following aspects:

- influence on economic and financial area
- influence on brain loss/gain
- influence on the labour market
- influence on demography.

During the 1990s, migrant remittances continually increased, coming to represent 10-20 per cent of Albanian GDP. Large-scale migration has also been a key feature of the Kosovar economy, with migrant remittances accounting for 10-15 per cent of annual GDP. Therefore, remittance income has proven vital to the economic progression as well as well-being of both Albania and Kosovo, since it helps support basic family expenses, bolsters entrepreneurial activity and upholds business growth and transactions.

During the 2000s, there was a growth of migrant remittances, but from 2008 there has been a slowdown against the backdrop of the economic and financial crisis. Compared to 2005, in 2014 there was a decline of about 6 per cent in migrant remittance inflows to Albania while to Kosovo the fall was about 2.5 per cent.

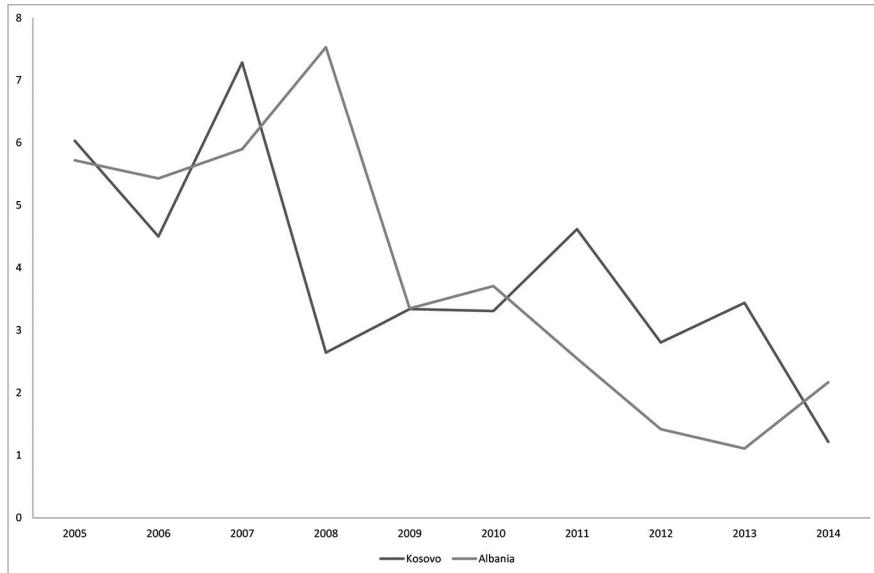
Chart 1 – Annual percentage remittance inflows, 2005-2014



Source: World Bank (2016)

According to estimates, this does not seem likely to affect the Kosovar economic structure in the coming years, in contrast to the economy of Albania that is at high risk. According to data reported by the World Bank, over the last five years there has been a sharp drop in the rate of growth of Albanian GDP, recording in 2013 a decline of more than six percentage points compared to 2008. In Kosovo, there has been a significant drop in GDP growth, with a decline in 2014 of around six points compared to 2007.

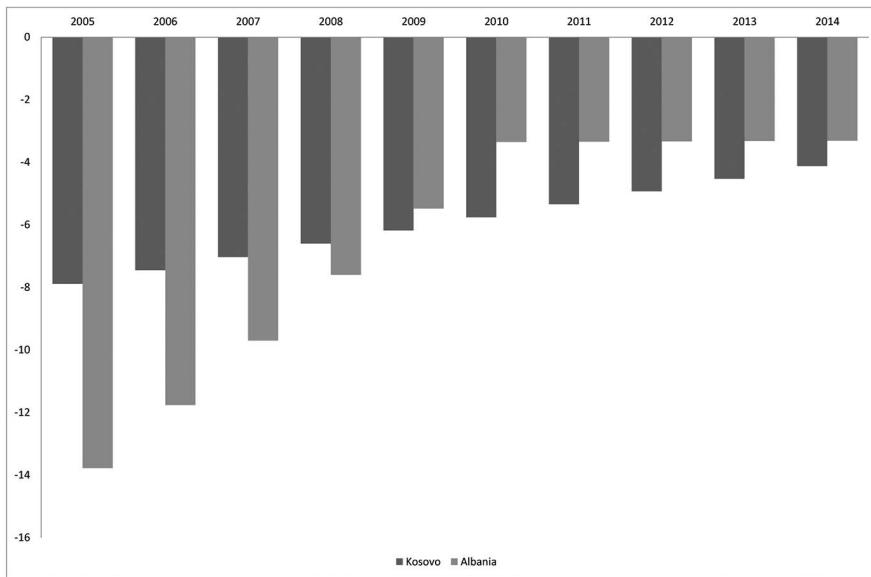
Chart 2 – Annual percentage growth rate of GDP, 2005-2014



Source: World Bank (2016)

The recent decline in migrant remittances is due mainly to the growing rates of unemployment in the EU; the integration of migrants in the host countries (mainly Germany, Greece, Italy and the United States); and the trend of a part of migrants who have returned to their country of origin. According to the 2011 census, some 139 827 Albanian migrants returned during the 2001-2011 period, the majority of these being men travelling back from Greece. Moreover, a study carried out by the International Organization for Migration in 2013 recorded 133 544 returns to Albania in the 2009-2013 period.

Chart 3 – Net migration rate per 1,000 people, 2005-2014



Source: World Bank (2016)

The majority of these returns were voluntary and concerned Albanian migrants who were previously in Greece (70.8 per cent), whose debt crisis has had a significant impact also in neighbouring countries. The vast majority of immigrants in Greece are from Albania, which accounts for an estimated 65-70 per cent of the total number of immigrants in the country. The debt crisis has caused a decrease in migrant remittances to Albania as well as in the migration outflow from Albania because of the high level of unemployment due to the lack of labour demand in the country of destination.

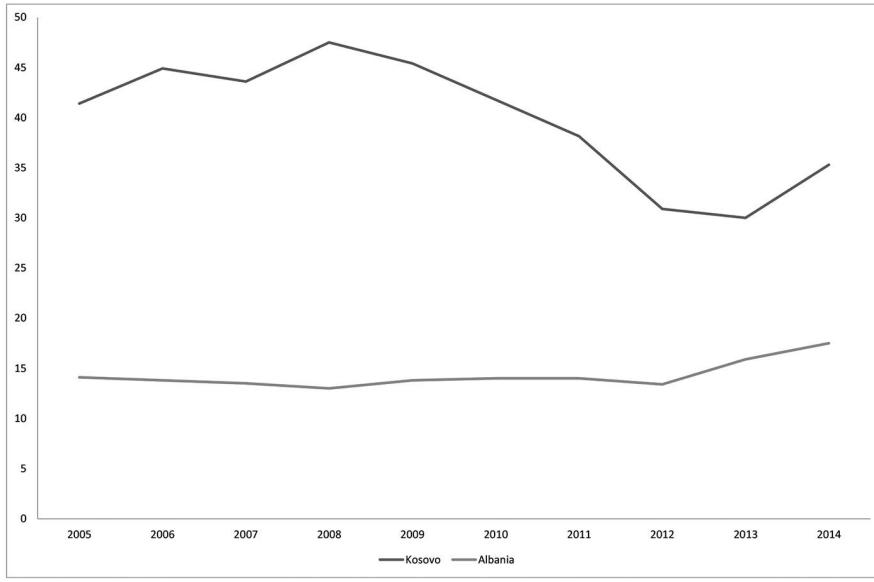
High unemployment: a threat to the Albanian economy

At the macro-level, the return of migrants includes those who are high-skilled and experienced, so there will be an increase in the human capital stock of the country which can have a positive impact on economic growth. The return of migrants can also have a positive effect in terms of the transfer of accumulated savings and the opening of new businesses as a result of a desire to invest their financial, human and social capital in their country of origin.

However, migrant remittances constitute an important driver of domestic demand so, on the other hand, a fall in these would lower the standard of living for many households, causing serious hardship for many and negatively influencing some economic indicators, such as the unemployment rate.

Generally, the unemployment rate is low during good economic times and high during recessions. In an economic downturn, the rate tends to under-estimate the number of unemployed because some people become discouraged and stop looking for work. At the individual level, unemployment reduces household income, limits access to health insurance and contributes to psychological stress. At the community level, a rise in joblessness reflects a lack of employment opportunities and places demands on community services. In the case of Albania, according to data reported by Instituti i Statistikave (INSTAT), the unemployment rate is 17.5 per cent; while in Kosovo, according to data reported by the Kosovo Agency of Statistics (KAS), it is around 35 per cent. In both cases, the unemployment rate seems to be much higher, and a mass return of unemployed migrants – especially to Albania – would lead to a hike in the unemployment rate.

Chart 4 – Annual percentage unemployment rate, 2005-2014



Source: Eurostat (2016)

What could be the most efficient economic policy in order to avoid the negative socio-economic impact, given the high level of the unemployment rate? In a neo-classical approach, return migration seems to be viewed as the outcome of a failed migration experience which did not yield the expected benefits. Here, return migration involves exclusively labour migrants who had miscalculated the costs of migration and who did not reap the benefits of higher earnings. Return occurs, therefore, as a consequence of their failed experiences abroad or because their human capital was not rewarded as expected. Furthermore, the neo-classical economics of migration views the migrant as an individual who maximises not only his/her earnings, but also

the duration of the stay abroad in order to achieve permanent settlement and, subsequently, family re-unification. In this framework of analysis, return cannot but be motivated by a failed migration experience in terms of expected earnings, employment and duration.

The Keynes solution

John M. Keynes introduced the notion of cyclical unemployment, which occurs when there is not enough aggregate supply in the economy to provide jobs for everyone who wants to work. Demand for most goods and services falls; less production is needed and consequently fewer workers are required; wages are sticky and do not fall to meet the equilibrium level; and mass unemployment results. With cyclical unemployment, the number of unemployed workers exceeds the number of job vacancies so that, even if full employment was attained and all open jobs filled, some workers would still remain unemployed. Some associate cyclical unemployment with frictional unemployment because the factors that cause the friction are partially caused by cyclical variables.

According to Keynes, the economy might correct itself in the long run, but a natural correction might take an extremely long time. The remedy for cyclical unemployment is an increase in overall spending on newly-produced goods and services, which economists refer to as aggregate demand. Government spending can be used to increase aggregate demand, thus increasing economic activity and reducing unemployment and deflation. Keynesian economists advocate the lack of supply for jobs as potentially resolvable by government intervention. One suggested intervention involves deficit spending to boost employment and demand; another involves an expansionary monetary policy that increases the supply of money: this should reduce interest rates which should lead to an increase in non-governmental spending.

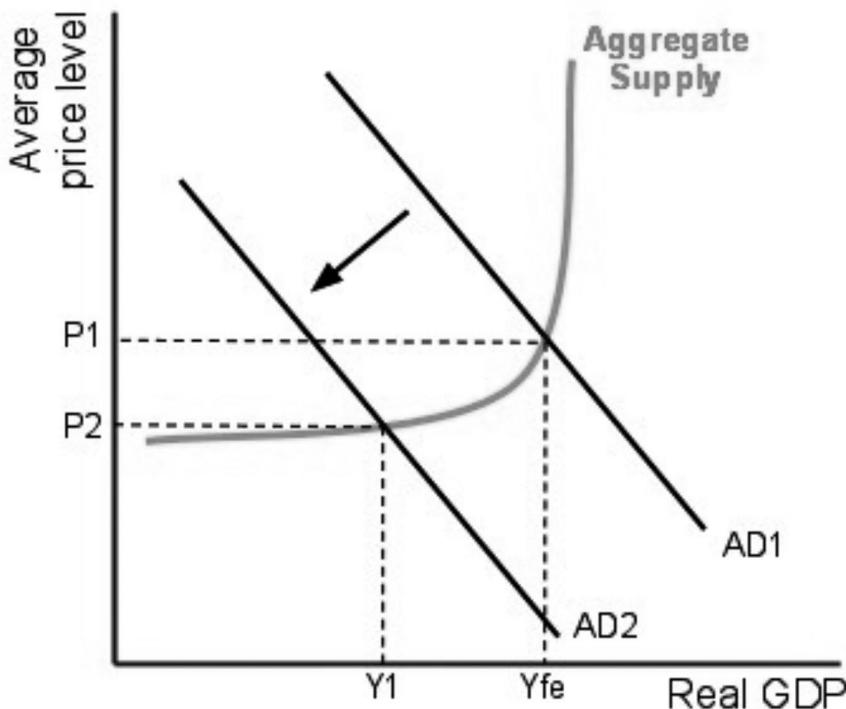
Aggregate demand (AD) refers to total spending in the economy on newly-produced goods and services:

$$AD = C + I + G + X + M$$

where C is consumption (mostly by households); I is investment spending; G is government purchases of goods and services; X is the export of domestically-produced goods and services to foreign purchasers; and M is the import of foreign-produced goods and services by domestic purchasers.

The chart below shows how output falls with a decline in aggregate demand. The fall in output corresponds with a fall in employment and, therefore, producing a recession (or depression); to return to full employment, aggregate demand must move back to the right (or increase). To facilitate this, Keynes believed that government should increase its spending, decrease taxes (to encourage households and firms to spend) and lower interest rates (to make saving less appealing). According to Keynesian economists, all that is needed is a dose of stimulus to get back to full employment (Y_fe).

Chart 5 – Cyclical (Keynesian) unemployment



Therefore, an increase in aggregate demand can be achieved using an expansionary monetary or fiscal policy.

- an expansionary monetary policy refers to an increase in the money supply; this reduces interest rates and encourages more consumption and investment spending
- an expansionary fiscal policy can be achieved either by reducing taxes to encourage more spending by households and businesses or increasing government purchases.

Conclusions

So, what is to be done? Which policy could be taken by the Albanian government to face the phenomenon of declining remittances from migrants in the light of the negative macroeconomic data? Albania is a key player in the western Balkans, and it should adopt more decisive economic policies. In addition to the negative consequences for economic growth in the long-term, the collapse of migrant remittances could also provoke a political and social deterioration. The so-called 'Albanian mira-

cle' of a few years ago may soon be a 'distant memory' if appropriate economic policies are not adopted with which to re-launch the Albanian economy.

Actually, stronger national capacities are required in preparing for the future challenges of labour mobility that relate also to the return and re-integration of migrants. The Albanian government has assisted the re-integration of those who returned following the Greek debt crisis, as evidenced by the approval of the Strategy on the Re-integration of Returned Albanian Citizens, 2010-2015. Most have requested government support to re-integrate into Albanian economy and society, including social and health assistance and support for their children's education. However, few people have been able to direct their resources towards the country's development. We have already mentioned that, given the high unemployment rate, the drop of migrant remittances and the return of a part of migrant workers could negatively affect the Albanian economy in the short-term.

The Bank of Albania should continue – at least in 2016 – with an expansionary monetary policy to support the economic growth of the country. The Bank of Albania has, on several occasions since 2011, cut its benchmark interest rate, which currently stands at the record low of 1.25 per cent. Indeed, interest rates at low levels stimulate investments; therefore, in order to promote economic activity and support economic growth, the Albanian government should continue structural reforms, above all to reduce the barriers for business and incentivise the tourism and agricultural sectors.

Agriculture is one of the most important sectors of the Albanian economy and, actually, the sector which makes the greatest contribution to the national economy. Therefore, the Albanian government should consider this sector as strategic, with great potential for internal transformation and for transforming the country's economy. In conclusion, Albanian policies should thus focus on promoting systematic and aggressive growth, the development of production and the formalisation of businesses in the agricultural sector, as well as the increase of production capacities through financial investment and through the training and development of human capital.

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