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*MODERN EMIGRATION:  
NEGATIVE EFFECTS IN ALBANIAN  
ECONOMY*

EMILJAN KARMA\*

SUMMARY: 1. Introduction – 2. The negative consequences of emigration to the Albanian economy – 3. Conclusions

**1. Introduction**

Referring to data from various sources<sup>1</sup>, it can be estimated that about one-third of the current Albanian population has migrated abroad. Most of them are in Italy and Greece. Although nearly 3 decades have passed since the beginning of the economic transition, even though the host countries are going through a long-term economic crisis (forcing partly the return of migrants to their countries of origin), the net migration continues to remain negative: the centrifuge force of Albania is greater than its centripete strength. This demonstrates enough (at a macro level) about the opportunities and risks that a country such as Albania can offer: on the one hand, its potential development (natural resources,

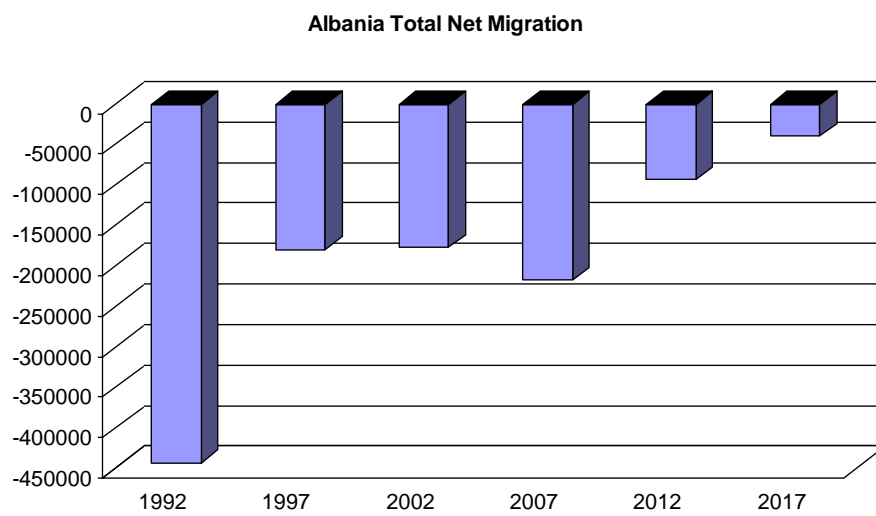
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\* PhD, Catholic University “Our Lady of Good Counsel”, e-mail: e.karma@unizkm.al

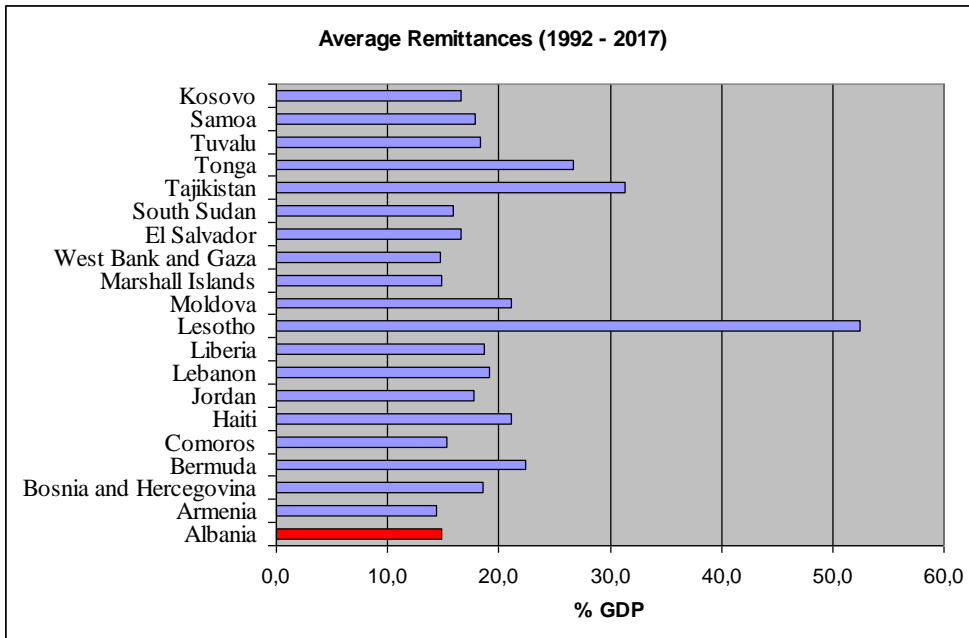
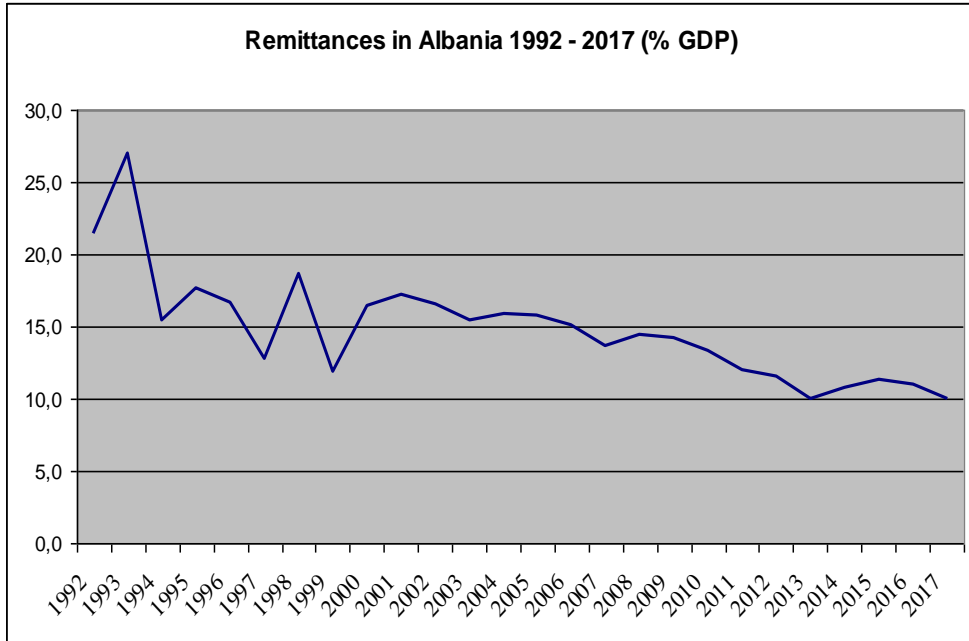
<sup>1</sup> Instat, Worldbank, Bank of Albania

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human vitality, etc.) and on the other hand a lack of efficiency in administration of natural, financial and human capital, which periodically produces the economic situation that forces hundreds of thousands of people to leave the country.



During these long-term transition, emigrants have maintained ties with their country of birth and this can be seen at the level of remittances in their families of origin. Referring to World Bank data, migratory remittances currently account for 10% of GDP (2017), ranking Albania among the 20 countries with the highest average remittances in the world (relative to GDP, 1992 - 2017).



On the basis of these data, the financial inflows closely related to human outflows have a great economic and social impact on a small country such as Albania. Both these (human and financial) flows relate mainly to the active population in the labor market, which Albania has exported to other countries as human capital receiving in turn remittances.

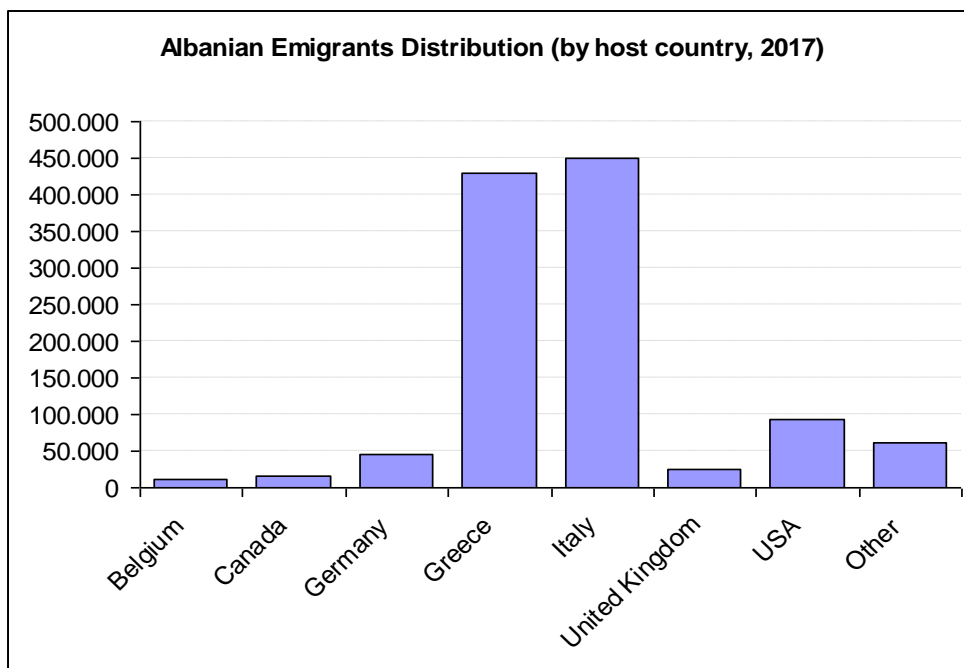
There has been a lot of discussion about the positive impact of emigration and remittances. The negative impact that this phenomenon has in the Albanian economy has been treated less.

## **2. The negative consequences of emigration to the Albanian economy**

### **a. Reduction of active labor force**

The free movement of workers is one of four fundamental freedoms sanctioned by the European Union. Such a move helps in the balance of demand - supply in the labor market and hence the free movement of workers is a positive factor for the markets.

But can the same thing be said in the case of Albania? Emigration has produced a forced, massive and long-term labor force movement, as a result of the socio-economic negative conjunctures in the country. The largest part of the emigrated population (about 80%) is aged between 15 and 65, which is also the active force work in a contry. The host countries are economically developed and mostly Albanian neighboring: Italy (449663 migrants) and Greece (429428 migrants), which together account for 75% of the total emigrant stock (1194524 migrants):



The reduction of active labor force (especially in the case of male gender), although may have diminished considerably the unemployment pressure in the labor market, has caused structural and economic consequences related to a number of issues:

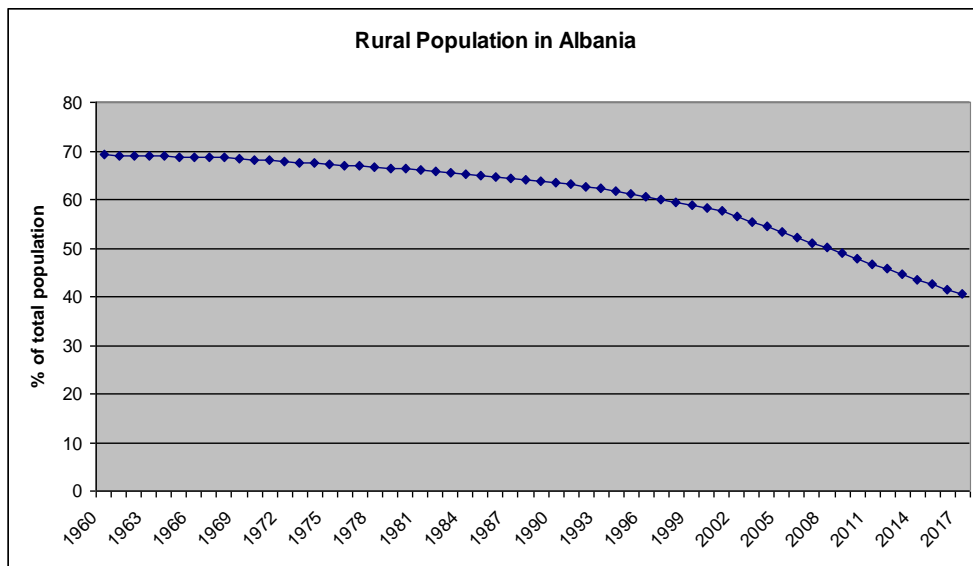
1. *degradation of a potentially important economic sector, such as agriculture.* Albanian agriculture is characterized by low productivity and backward technology<sup>2</sup>. Until a decade ago the village in Albania had more

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<sup>2</sup> GURI F. et al., Characteristics of farming system in Albania, Jrc Science and policy reports, EU 2015; HASHORVA A., PERE E., DUKA R., Rural Informal Labor: Evidence from Albania, China – USA Business Review, Vol.11, November 2011, pp. 1216 – 1218.

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inhabitants than the city, but the migratory effects (foreign and domestic) have downgraded the village:



Emigration of young workers to western countries has caused serious negative consequences for domestic farming, creating problems not only for the village but also for the city (where lives actually 60% of the total albanian population)<sup>3</sup>;

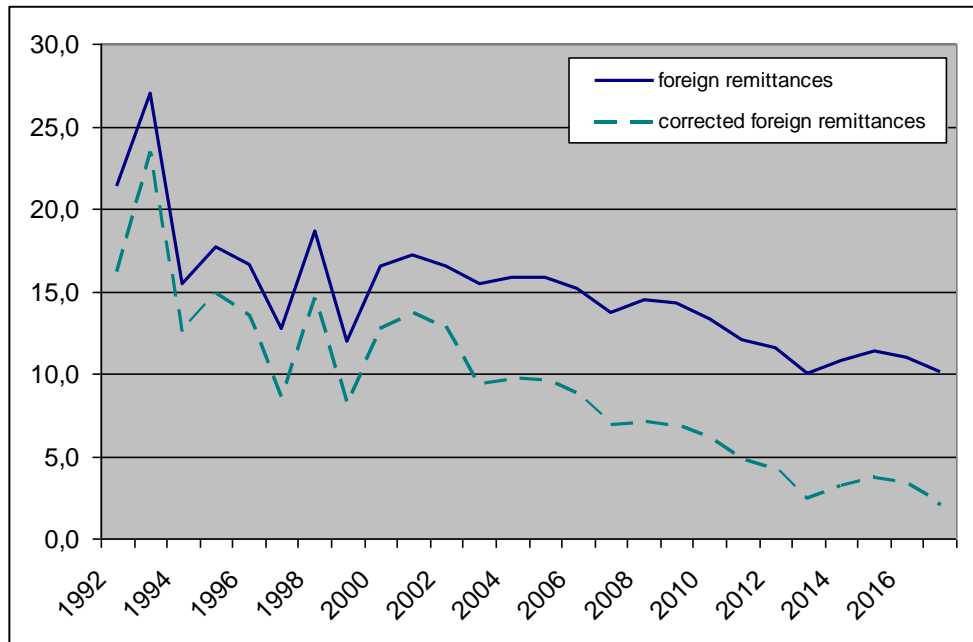
2. *lower income in the state budget*: the long-term emigration of the active labor force (while the replacement rate of this population is almost zero), it reduces the revenues to the state budget as a consequence of the

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<sup>3</sup> MILUKA J., CARLETTO G., DAVIS B., ZEZZA A., The Vanishing Farms? The impact of International Migration on Albanian Family Farming, I Mediterranean Conference of Agro Food Supply Chain in the Future Eurmediterranean Space, April 2007.

decrease of consumption (which subsequently translates into the reduction of the value added tax), the decrease of the income tax of employees before emigrating, the increase of public spending per capita faced by the resident population. Assuming that 1. the inductive effect on the remittance economy is constant, 2. that the largest part of the emigrants would be an active part of the domestic labor market by taking the average gross and net salary over the years (gross salary – personal income - contributions ), 3. Considering the average per capita consumption over the years, it turns out that the positive and real effect of financial remittances in the domestic economy is lower than the one that was declared. This study estimates (with the assumptions mentioned above) that the corrected delivery effect is reduced by an average of 4% to 5% of GDP in the period 1992 to 2017. The corrective effect is lower in the beginning of the transition and is enlarged after 2000 , when the migratory flux also has a downward trend.

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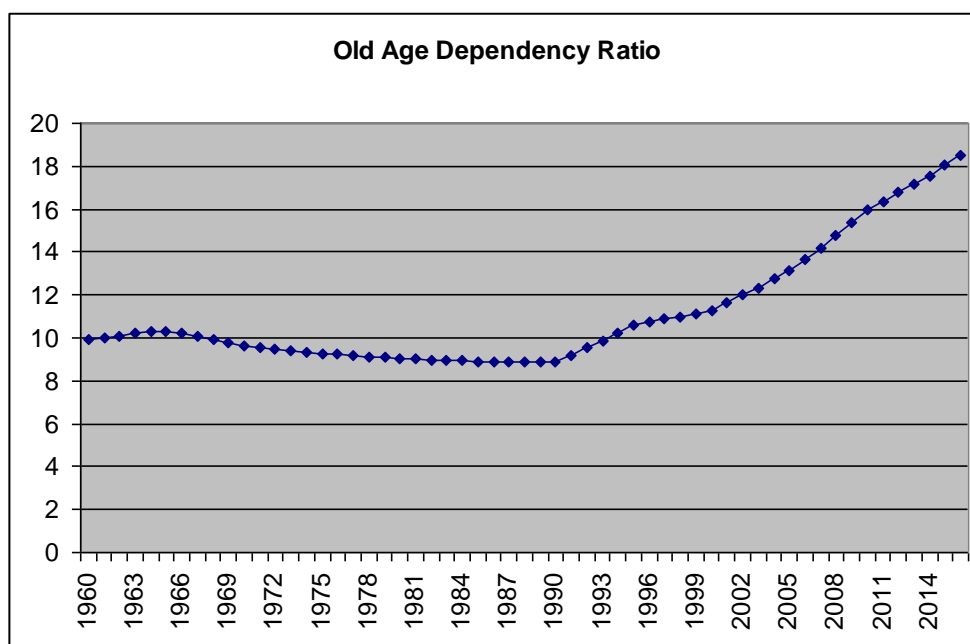
3. *deconstruction of the pension system*: emigration of active labour force is one of the factors that has caused problems in the equilibrium of the national pension system. Demographic trends (increasing population lifespan)<sup>4</sup> and the migration trends have changed significantly and quickly the equilibrium of the national pension system.

Referring to the "old age dependency" indicator, it can be seen the constantly deterioration of this indicator over the years. In this effect, the emigration factor has an important role too. As is shown graphically, the indicator has doubled in the period 1990 - 2018, a period which is

<sup>4</sup> Referring to INSTAT data, the average age of the population in the period 2006 - 2017 has increased by five years.



precisely due to the large and long-term migratory flows of the population.



Such a situation forces the revision of the pension scheme so that it will be re-balanced. This means more years of work for the employees, but also the postponement of contributors' retirement. The Albanian emigrants, who are generally informally employed (often without employment contracts) and often in informal sectors (agriculture, construction, tourism, etc. in host countries such as Italy and Greece)<sup>5</sup>,

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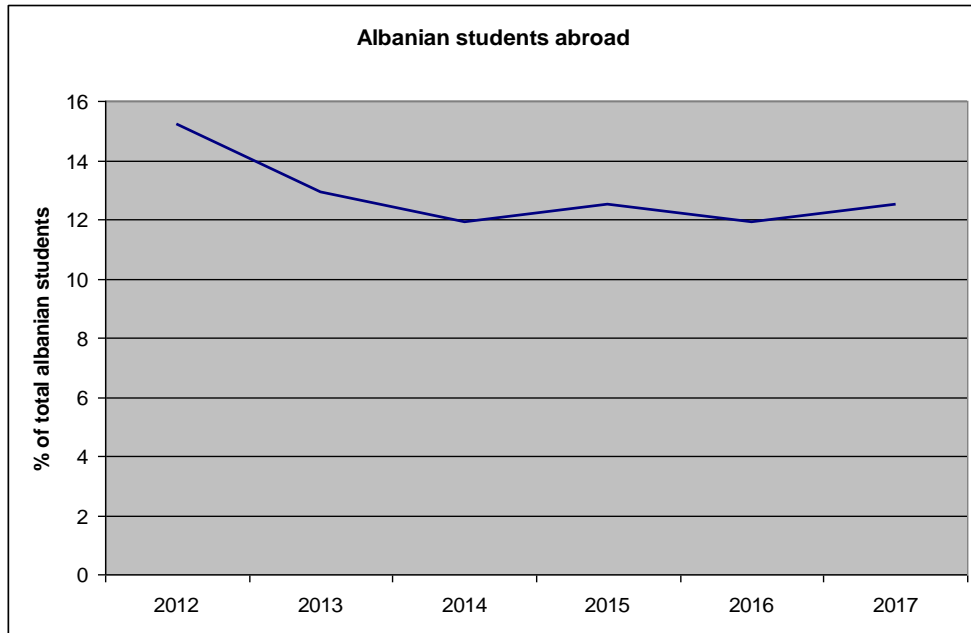
<sup>5</sup> MANNOS I., PAPADOPOULOU D., MAKRYGIANNI V., *Communities in Greece: Studying the aspects of albanian migration to Greece*, CDRSEE, Greece 2017; MINISTERO DEL LAVORO E DELLE POLITICHE SOCIALI, *The Albanian*

stay out of social security schemes, whether in the countries of origin or in the host countries.

4. *brain drain*: Another negative consequence associated with emigration is the removal of part of the population with a high educational profile, such as young university students or professionals of different fields with background and important skills. In the case of Albania, the "average emigrant" is identified with a low educational and professional profile engaged mainly in activities such as construction, agriculture and tourism. However, the number of students starting and continuing their studies abroad is quite high (according to UNESCO statistical data 2017, 12.46% of the total number of Albanian students lives abroad). The universities where Albanian students realize their studies are in the countries where Albanians have emigrated mostly, like Italy and Greece.

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Community: annual report on the presence of migrant in Italy, 2016; BONIFAZI C, SABATINO D., Albanian migration to Italy: What official data and survey results can reveal, *Journal of Ethnic and Migration Studies* 29(6), pp. 967 – 995, November 2003.



Students who complete their studies abroad tend to work in host countries or elsewhere but they don't return back in Albania<sup>6</sup>. This is a huge loss of human capital for Albania. In the last few years, there is another tendency, which is more related to other countries than to Albania itself. Some Western developed countries such as Germany or England have significant shortages of human capital in medical professions and are seeking to fill the gap created by professionals from

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<sup>6</sup> With regard to returning to Albania following graduation, the responses of the Albanian students are even clearer. One half (49%) said: "I do not intend to return to Albania in the near future,"; 32 percent responded that "I will come to Albania to work after a period of time abroad," and only 4 percent said: "I will return to Albania after graduation, to work" in GEDESHI I., KING R., Research Study into Brain Gain: Reversing Brain Drain with the Albanian Scientific Diaspora, UNDP, March 2018, p. 25.

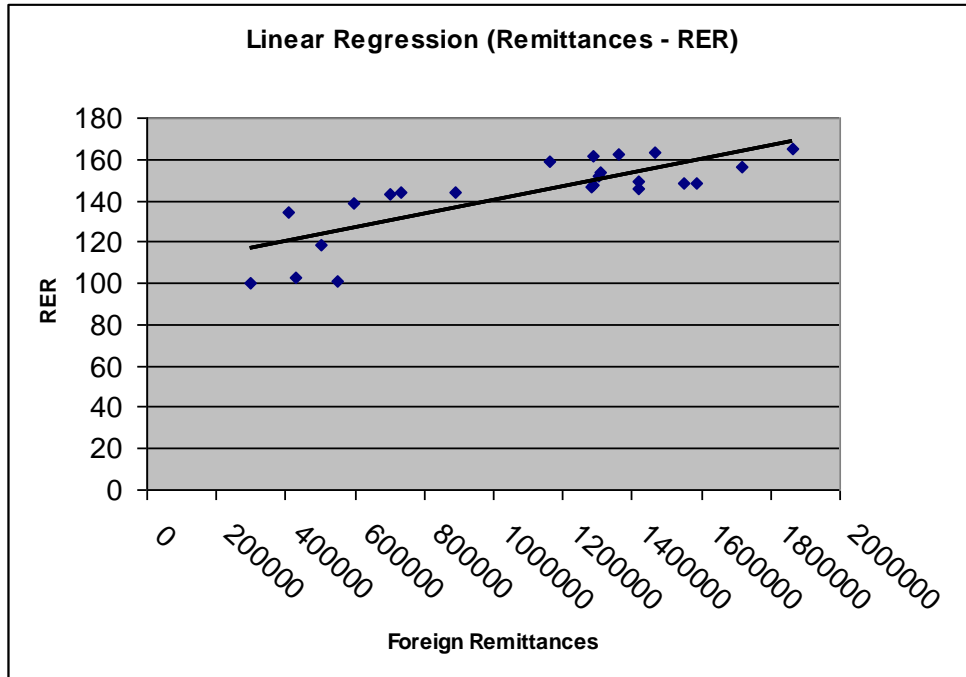
other countries, including Albania<sup>7</sup>. There is a new immigrant pressure, this time of "high skilled" professions, which would pose an evident risk for the "exhaustion" of human capital even in those sectors where the labor market in Albania itself is lacking in labor supply, as is the sector of medical professions.

b. Reducing export competitiveness

The increase of the cash flows to the Albanian market, as a result of migration, has caused a great appreciation of the national currency. According to World Bank data, real exchange rate with respect to the US dollar (RER) has experienced a constant increase year-on-year. An important role in this regard has been the remittances effect. There is a strong correlation and a cause – effect link between remittances and real exchange of Lek. Referring to the data from 1992 to 2017, we see that the correlation between the two variables is 0.80 (p-value = 0.00001) and with a regressive tendency, which means that the growth of emigration remittances causes a real appreciation of the national currency RER):

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<sup>7</sup> GEDESHI I, KING R., op.cit., p.22.



On the other hand, real appreciation of the national currency increases the price of exported products, thus affecting export competitiveness. Empirical data from 1992 to 2017 (according World Bank and INSTAT) in relation to Albania's trade deficit show that the real appreciation of the national currency is one of the causes of Albania's trade deficit growth. Obviously, the difficulties of the international competitiveness of Albanian products are not related only to the relative price, but it can be said that real currency appreciation as a result of increased remittances has deteriorated the situation with regard to international competitiveness.

In this study, I have mentioned another cause related to the export competitiveness and that is the result of migratory effects: remittances are known to have increased the disposable income within households. According to various studies<sup>8</sup> this could further affect the reduction of work force. Reducing workforce can cause wage growth as a result of creating disadvantages in the job-performance report. Growth in wage without associated growth in productivity worsens the competitive abilities of tradable goods.

Does this theory correspond to the case of Albania? It is evident that the labor force in Albania has been reduced as a result of immigration. However, the various data for Albania does not indicate such a situation where remittances have caused a further downturn in the labor force<sup>9</sup>. On the other hand, referring to the aggregate labor market situation, we see that the labor market in Albania is insatiable. Although emigration has affected the unemployment decline, unemployment in Albania remains a problem: this means that the labor supply is sufficiently high not affecting the total wage growth.

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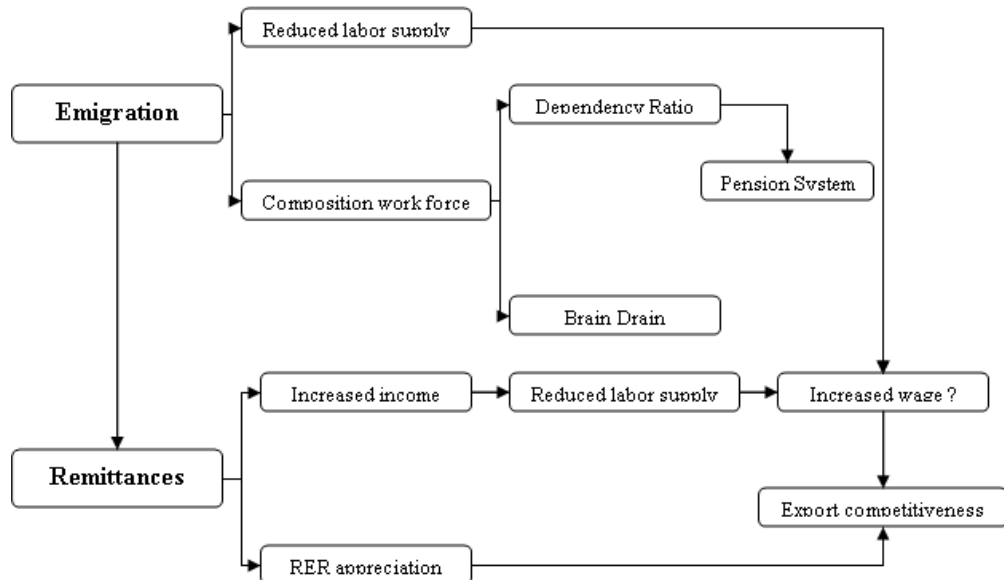
<sup>8</sup> ELSNER B., Does emigration increase the wages of non-emigrants sending countries?, IZA World of Labor 2015:208, November 2015; POSSO A., Remittances and Aggregate Labor Supply: Evidence from sixty six developing nations, *The Developing Economies* 50, n.1 (March 2012), pp. 25 – 39; VASILE V., Labour mobility impact on sending countries. Romania EU workers case study, *Procedia Economics and Finance* 8 (2014), 737 – 746; ACOSTA P. A., LARTEY E. K., MANDELMAN F. S., Remittances and the Dutch Disease, Working Paper, Federal Reserve Bank of Atlanta, No 2007 / 8a.

<sup>9</sup> Referring to the data collected by INSTAT through the Living Standards Measurement Survey (LSMS) 2002, 2005, 2008, 2012, it can not be concluded that in families where at least one individual is an emigrant bringing remittances, the propensity to work is reduced. However, there are no macro data, to identify such a significant correlation.

However, further studies need to be done at sectoral level. Considering the labor market in the construction sector, interesting elements can be evidenced, as a large part of the emigrant labor force is employed in the construction sector. In Albania the construction sector, at least for one long term, has developed a lot and this may have affected the wage growth in this sector.

### **3. Conclusions**

Emigration is an evident and important characteristic of Albanian society. The reasons of this phenomenon in time have been different. Referring to the recent events of mass emigration (those after 1990), it can be said that the reasons have been fundamentally economic. Emigrant trends or pressures for the same economic reasons are noticed even three decades after the start of transition. If in its beginnings, mass emigration has had a very positive effect on the Albanian society and economy, now emigration is turning into a serious problem for the country, given that the continued removal of active labor force not only undermines stability of the economy (at a time when productivity and manufacturing technology remain at low levels), but on the other hand it turns into a serious social issue that relates to: 1. the balance of the social and health insurance system itself; 2. with the immigrant trends of that part of the population, considered to be "high skilled" or with high educational and vocational skills.



**Fig. 1** Economic effects of emigration and remittances

For this reason, the Albanian government in the short term should take measures to stop the emigrant flow of "high skilled" workers and on the other hand to incentivize and promote those economic sectors related to agriculture / village in order to increase productivity through development of technology.

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