

Global Developments: Challenges for Countries in Transition

Klodiana Gorica, Ph.D

University of Tirana, Albania

Klodi_gorica@yahoo.com

ABSTRACT

The effects of globalization are typically felt in all countries: both developed, and developing, and especially in transition countries like Albania. Globalization has peculiar effects in different fields; economic development, government policies, and social and cultural challenges. This study of global development takes both macro and micro economic development perspectives. Both parts are analyzed by the potential and challenges that the global era represents. The paper is divided into different parts. The first part provides theoretical insight regarding economic development and the theory of development. A major finding is that tourism is essential for development. The paper demonstrates that tourism is a crucial service sector for national growth by analyzing the basic characteristics and importance of the tourism sector for economic development and employment. The second part considers the importance of theoretical aspects of policies and governance characteristics to tourism. The third part analyzes economic development in Albania, as a country in transition. Finally, some conclusions are drawn with respect to challenges in tourism, policy-making and globalization.

Keywords: global development, economic welfare, services sectors, productivity.

INTRODUCTION

The effects of globalization are far reaching and are typically felt in all countries: in the developed ones and in the undeveloped ones, and especially in the transition countries, for example in Albania. Today, the countries in transition are facing unprecedented challenges. Economic development, macro governance and services sector growth all of which can improve the national economy are crucial factors to consider for better performance in international trade and in gaining sustainable competitive advantage. These economies must be oriented through “*knowledge economies*” in order to possess these unique advantages. This paper reviews the literature for economic development, and global challenges at the macro level, and analyzes in more detail the contribution of some services sector features (e.g. tourism) to achieving equilibrium in transition economies.

LITERATURE REVIEW

Theoretical Analyses of Development

A transition country must have sufficient absorptive capability, which is defined as the capability of the country to access, learn and absorb relevant overseas technology” (Rogers, 2004). In contrast, the neoclassical growth theory does not explain the reasons for technological change but rather refers to the condition of conditional convergence to explain why some countries start of rich then plummet into poverty and vice-versa. Abramovitz (1986) provides an explanation of why some countries pass through a successful catching-up process. Abramovitz (1986) identifies some specific characteristics which he aggregates under the definition of “social capabilities” as an important factor that strengthens economic growth and determines the convergence or divergence process of any nation. Although these “capabilities” are difficult to

measure, these implications influence some reflections of the so-called “New” or “Endogenous” growth theory. The willingness to break up current structures and replace them by new ones should be involved in the constantly changing “social capabilities.” Thus, it is necessary to incorporate the sectoral composition of output and employment in the analysis. In general, the tourism sector offers the low and middle income countries the provision of hard currency to finance the imports of capital goods, increasing tax revenue and the national income. It also improves the balance of payments and employment situation by offering full-time, part-time and temporary jobs, especially for women. Tourism could only promote economic growth with some time-lag, i.e. that the long-term development should not be based on tourism but on general development. Tourism could be described as a driver and supporter of economic development. Thus, before having a brief look at two country cases and their tourism potentials and performances, the question of which “conditions” i.e. determinants could enhance these intersectoral shifts, should be answered. Sustainable development in the tourism sector implies further improvement of education and more broad-based training, supporting the development of a variety of customer-oriented service skills.

Albania needs to achieve knowledge and the so-called “knowledge economy”, in order to adapt and use this factor as a competitive factor in along with human resources and skills in the field of technical, information communication technologies (ICTs), communication, analytical and team work. Human capital could be described as a production factor and the sum of skills and capabilities of the educated people, including the quality of the educational system, investments in education and enrolment rates in the tourism sector acts as a demanding sector for human capital accumulation. But although this sector is rather labor-intensive with low productivity

growth, it contributes to solve labor market problems by augmenting the job creation potential for unskilled and semi-skilled workers. But if work arrangements are mainly part-time and seasonal, there are limited career opportunities and intention to invest in education and training, including paying often minimum wages. Concerning the tourism sector, the government itself has to support it by offering subsidies and institutional assistance programs for tourism destination development and providing the required infrastructure (airports, road and public transport system, environment protection related projects, energy, water supply and sanitation). The tourism services sector is a demand-pull one, extremely volatile and sensitive to business cycle development in the country of the guests. In general due to the development of ICTs, tourism supply becomes more and more transparent worldwide, enforcing global competition by pressure on quality. The international tourism environment is vast; companies involved in the tourism business must change and adapt their strategic development plan to respect the movements on the global tourism market more than companies involved in other sectors. But competitiveness in tourism also encompasses price differentials coupled with exchange rate movements.

The tourism sector itself covers a variety of skills and customer-oriented services, originating the need for higher academic skills and increased technological know-how. As a result of this, the governmental support is crucial when dealing with investments in infrastructure and the enhancement of the networking linkages between the tourism providers, but also for bridging the gap between multinational and local enterprises (especially for promoting lifelong learning or the recruitment of young professionals).

Economic Development and Government

Government's long-term policy point view could even be seen as a method of efficiently steering the economy through difficult economic waters. In this sense it could be accepted as a comprehensive set of policy measures designed by a national government to attain the basic economic goals – for example the best possible utilization of a country's resources and production potential for a stable and long-term rate of growth, remedying the existing structural imbalances, ensuring an equitable distribution of incomes and wealth, and maintaining balance in the external payment position of the country. It is in this sense that we in tourism see the role of the macroeconomic government policies.

From a short- or medium-term perspective macroeconomic government is seen as synonymous with macroeconomic stabilization, or simply as an attempt to reduce fluctuations (in income, employment, price levels) and to stabilize national income at full employment level. Moreover we must look at macroeconomic governance as an integrated system of several kinds of policies aimed at overall balance and could include policies of:

- 1. *Macroeconomic stabilization*** – the use of fiscal, monetary and other policies affecting national output, employment and prices, and other variables.
- 2. *Resources allocation***: national priority among various probable choices in various public and private goods.
- 3. *Regulation*** of economic activity and markets.
- 4. *The use of public resources*** to redistribute income and wealth to ensure economic equity.

Tourism is an organized national economic activity of most modern societies. Today, for the countries in transition, it is an important role player in economic life of a country. As any other economic activity it is susceptible to economic analysis. By using known economic concepts in reviewing the economic activities in tourism we can draw analytical conclusions and apply general or specific policy measures. Also, the experts have now come to realize that the governments have an important role to play in providing a congenial economic environment for the healthy growth and development of this vital economic sector. By now we have learnt that in any market economy there are three possible fields of economic activity in which the government's role is vital i.e. promoting general economic welfare; providing non-commercial social services; and owning and managing specific goods and services.

1. Public Expenditure Policies. The general economic policies or the ones that are directed towards specific sectors may have indirect effects on tourism (e.g. a tax on business expenses may reduce the demand for business travel and hospitality services). There is a link between taxation of tourism and government spending on the sector. Despite, the presence of occasional purpose named taxes (e.g. tourism development tax in some countries) the principle of direct levy to fund the same sector applies to certain aspects of tourism operation such as training. The bulk of government spending on tourism occurs in:

- (a) infrastructure;
- (b) promotion and marketing of tourism by respective national tourist boards,
- (c) promoting the growth and development of tourism.

2. Tax Policies. Today, most governments use tourism as a source of tax earnings, and many conservative economists consider travel and tourism as a non-essential expenditure on the part of

consumers. Most indirect taxes in the tourist sector, as elsewhere, are basically those levied on tourism products and are *ad valor* or *specific* (licensing fees, fuel surcharge etc.), i.e. taxes on the commercial products, or on consumption by the tourists, or a service user charge. Taxes on commercial tourism products are simple examples of consumption taxes generally levied on producers (sales, purchases or value added taxes) with the intent that finally their incidence may be transferred to the tourists. This however depends on the price elasticity of demand facing each producer. While the producers in a highly competitive market may not be able to raise prices and thus are likely to absorb the taxes, the monopoly or price-collusion is likely to transfer successfully the incidence. Most likely targets for this type of taxation are accommodation, meals and rentals.

The Process of Transitioning as a Global Concern – The Albanian case

Global development and globalization presents challenges for all countries and companies. This term has many dimensions, such as political, economical, cultural, environmental, etc. What is present in the following has to do with economical and some political actions. Economical aspects of globalization represent an increased economic activity between people (residents), private and state institution as well as businesses. The growth of economic activity between countries takes three forms: increase of foreign trade, increase in foreign direct investment (FDI), and increase in capital market flows. Globalization represents a very complex phenomenon, associated with positive and negative impacts on countries economies. Therefore, they must be prepared to face it in order to benefit from its proper advantages, which means, creation of a strong legal, infrastructural and institutional base, which would support economies opening towards the global markets as well as individuals and businesses efforts to integrate into these

markets. This is important for countries in transition which need particular assistance by international organizations, public or private, through multilateral or bilateral agreements that facilitate their entry and adoption to the global competition environment.

Albania is confronting the new challenge of increasing its competitive competencies in the international market aiming at the European Union Integration. Worldwide economics has taken a global focus and the main aim of Albania is to move towards European integration, as factors that lead to a more open market and less barriers. In 2000, Albania joined the World Trade Organization, and has since signed the Association Stabilization Agreement with the European Community, an agreement which entered into force on 1 December 2006. The liberalization of tariffs, for imported products from EU will be fulfilled completely by the end of year 2011. Other agreement, more challenges are facing Albania in the near future.

The foreign trade and the flow of FDI are the two basic forms through which Albania is involved in the globalization processes. In this context, global development reflects many opportunities and challenges for the Albanian Economy. It is very important that the state through government policies, and the business, prepare to profit from its unique opportunities while watching out for challenges and risks that open economies face.

Albania, Transitioning Era and Eastern Europe – Challenges and Features

Within the *transition process* economic reforms have taken place with damaging impacts on existing public finances. First, this occurred via the destruction of central plans and the elimination of information on quantities of goods produced and their prices. Consequently, the government had to rely on other sources, including taxpayers' declarations that increased tax

evasion. Second, the reforms dramatically increased the number of producers and thus of potential taxpayers. Finally, the economic reforms removed the restrictions on payment methods that had existed under central planning when all payments were channeled through the central bank. Transition, was clearly not to be an easy unalienable process. Albania's' destructive reaction to half a century of privatization saw violence aimed at all forms of state property, and a climate that militated against both inward investment and coherent (tourism) development policies. During the transition period, Albania posits a hiatus period, implicitly embracing tension and conflict, within a phase of pre-structural adjustment.

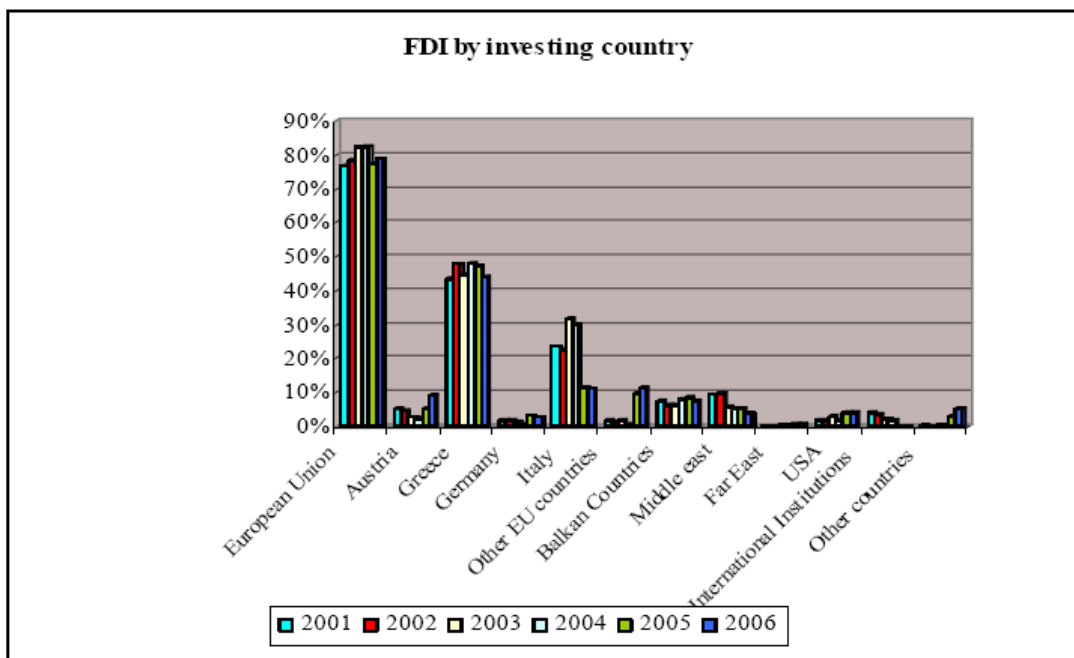
Albania is aspiring to EU membership and manifests many of the characteristics of an emerging state from the less developed world. The country has embraced and rejected a range of dependency relationships during its relatively short independent life. Albania's' subjection to a policy of deliberately constrained international tourism saw numbers of overseas visitors barely reaching 30 000 per year in the late 1980s, although domestic tourism flourished (Hall, 1991a). Some observers argued that the Albania economic and structural transition should have been easier than elsewhere in central and Eastern Europe because of the poverty of the economy and small scale of the country (Aslund and Soberg, 1992). However when the apparatus of Albanian state socialism began to be dismantled and full exposure to the outside world was experienced in 1991, Albanians quickly realized the relative impoverishment of their country, and responded spontaneously to the knowledge derived from their new global awareness. Price and trade liberalization, legal and institutional reforms, macroeconomic stabilization and privatization of the economy were the main pillars of the transition reform process in Albania. The entire reform program was paged to the stabilization program supported by the IMF. Private sector tourism

accommodation and small and medium sized enterprises (SMEs) have been slow to develop in Albania, leaving taxi operation as the one symbol of post-socialist tourism enterprise to be readily apparent, and one of the few examples of investment goods to have been derived from informal external sources. As the country's most extensive employment sector (Mancellari, 1996), agriculture's privatization stimulated substantial productivity improvements, which were sustained up to the end of 1996 (Beka, 1997). Combined with inflows of international aid and émigré remittances, this improvement was expressed in high GDP growth rates. Despite such growth starting from near almost zero, Albania began to be considered by some observers as a model of comprehensive structural adjustment. Privatization of the small units in the service sector opened the way for the privatization of small and medium-size enterprises (SMEs), which served as a way of attracting foreign direct investments, as well. Small and medium-size enterprises were considered the firms with a book value up to US\$500,000, or with a number of employees up to 300 (EBRD, 1994).

About a third of the total foreign direct investment was in tourism, encouraged by such incentives as a total tax holiday during investment, tax exemption on profits for the first 5 years of operation, and half rate tax levels for a further 3 years. Such incentives to large-scale as well as small scale tourism promoters had come about as the result of the perception that Albania could not afford to be selective if it wished to stimulate FDI and generate desperately needed employment. The large investment needed for restructuring and privatization of these sectors could be undertaken only by strategic investors. The intention of the government was to attract foreign strategic investors, who were expected to bring new technology, new financing, and managerial know-how. The ongoing process has constantly been supervised and monitored by

international institutions, such as the World Bank and the IMF. With the support of international organizations for economic reconstruction in strong collaboration with the government of Albania, FDI promotion and acceleration of privatization process was enacted. Since 2002 the FDI inflows have been trending up. These inflows are not at the same level as other regional countries, so Albania should promote the country's economic development in order to attract potential investors. The European Union countries have the dominant position on the stock of the foreign direct investments in Albania. Almost 80% of the total stock of the foreign investments is from the Italy, Greece, Austria, Germany, etc.

Figure 1 FDI by investing country



There is a necessary trade off between promoting *economic growth* and environmental protection which is particularly pertinent in the Albanian case. Although Albania experienced several hot spots under communist industrial policy, the contained ecological impact of foreign

tourism was minimal. Also, the political factor need to impact compromises and trade-offs which will have an economic cost as well as an environmental benefit, require confident institutions of governance, a stable civil society, and an international economy. The greatest number of direct investment enterprises is small and medium enterprises. Only 12 % of the total number of direct investment enterprises have a number of employed over 100. These enterprises have the greatest share of labor force (almost 65%) employed in the sector of foreign investment enterprises. Based on the competitive strategic advantages creation and the real condition that Albania represents, we give the following recommendations regarding to the strategic aims:

1. Raising of quality of all accommodation capacities and the adaptation of international quality standards.
2. Completion of privatization of hotels and the regulation of ownership structure.
3. Improve the competitiveness of Albania on the regional and international market.
4. Construction and organization of traffic infrastructure in the service of tourism.
5. Drawing up an applicable and detailed analyzed strategy for tourism's development.
6. Institutional and legislative regulations.
7. Respecting of ecological standards and long-term sustainable valorization of tourism potential.
8. Education of the management and all employees of tourism.

The framework for developing the tourism service competency strategy is complex. Within that context, this work deals with the most important issues regarding tourism, as well as the meaning of tourism for economic growth of the entire economy. Competitive advantage creation depends on national conditions for development of tourism service. Tourism strategy must be based on capabilities of constant creation of competitive advantages by identifying internal and external

capabilities. Building up the competitive advantages of tourism service shall directly depend on how the value chain is managed with regard to the value chains of the competition. Different methods of analysis, such as SWOT and Cost benefit analysis have indicated that there is sufficient strength and potential in Albanian tourism to increase its competitiveness and general prosperity of the national economy. This paper made clear that the tourism of Albania has great potential for achieving bigger economical effects in the whole economy.

Features of Economic Development

The importance of maintaining high levels of economic growth is widely known and accepted in theory and practice, because there is no economic and social development without economic growth. Every strategy for the development of the country should be oriented over a high economic growth. High economic growth it is not a goal, but a necessity. Basic indicators of economic growth are generally considered the figures of GDP per capita and GDP growth rate.

Albania's economy shows a macroeconomic stabilization over years, even in 1997. Higher growth rates, price stability with a moderated growth rate in the limits 2-4%, decreasing interest rates and sustainability of exchange rates that have increased investments, improvements of public finance further consolidation and growth of exchange trade, show a macroeconomic stability over years which create the appropriate climate for business and economy development.

Albania is making significant progress steps in the recent years related to business environment and investment climate such as business registration, fiscal burden, etc. Again important barriers to business and investment exist. Albania's economic growth has been impressive during the early years of country's transition, thanks to successful macroeconomic stabilization and

extensive structural reforms and increase of the total factor productivity (TFP). Due to a high average real GDP growth maintained throughout a 10 year period following 1998, Albania's per capita GDP (PPP) soared by 60 percent compared to its 1998 level. However, the growth has somewhat restrained in the past years, posing threats to Albania's goal of becoming an EU member.

Table1: GDP growth and Albania, 2000-2007

	2000	2001	2002	2003	2004	2005	2006	2007
FDI (Eur)	156.6	230.7	141.4	156.9	278.4	224.1	258.6	452.4
Current account balance, Eur	-185.2	-315.4	-422.4	-331	-287.8	-493.2	-534.7	-878.1
GDP, Eur	3,944.5	4,539.8	4,703.3	5,193.1	5,646.2	6,581.1	7,254.3	8,123.4
GD growth rate	6.7	7	4.2	5.8	5.7	5.8	5.5	6
FDI/CAB	0.85	0.73	0.33	0.47	0.97	0.45	0.48	0.52
FDI/GDP	0.040	0.051	0.030	0.030	0.049	0.034	0.036	0.056

Source: Bank of Albania

One of the main and most important policies, which bring the country to a better macroeconomic performance, is in regard to the policies for enhancing governance and reinforcing institutions. Despite the efforts and desire to improve on it, in certain aspects it has known deterioration in terms of the quality of the human capital recruited in the public administration, and its members' management integrity. So, it is necessary to underline the following:

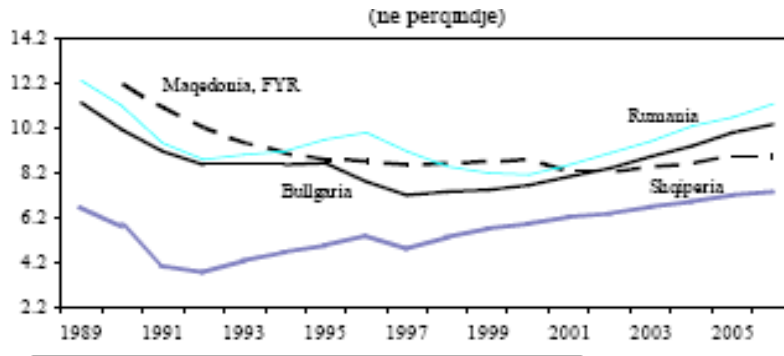
- the improved efficiency of the public administration;
- the loyal, predictable and fair enforcement of legislation in the public sector bodies and with regard to their staff, both in the regulatory aspect and in the aspect of services extended to the private sector;

- the increased possibilities for citizens and the companies that are subject to specific regulations, or public services, to easily bring pressure to bear on the Government so that they carry them out in a fair and efficient manner. In support of the macroeconomic stabilization and the high growth, two politics are suggested as priorities:

1. increasing investments in human capital to attempt the increasing of human capital quality and
2. Governmental improvements which are valued very important for our country.

Let's go further with some comparison between Albania and some other countries in transition. Economic growth in Albania during the beginning of the transition showed a rapidly growth, based in a lower level of GDP, which during this last years, concretely after the year 2000, is restrained, as it can be seen clearly from the graphics of figure 1. What is resulting form the figure is related to Albanian growth beyond the Transition: PTF contribution in economic growth increased from -1.97% in the years 1982-89 and -16.5% in 1990-92 to 6.14% in 1993-03. From this analysis it can be conclude that this comparison between it and the other countries of the region and with the requests required allowing Albania's accession to the European Union, Albania is a country with low levels of incomes per capital and is still far from the average of European Union countries.

Figure 2 Dynamic data's about Albania, Bulgaria, Rumania and Macedonia



Source: World Bank

So, in order to keep in a sustainable level the economic growth country need for:

1. Improving governance to provide efficient and inclusive public services.
2. Promoting private sector through completion of privatization process, growth of agriculture and use of natural sources.
3. Undertaking training programs for whole professional, technical and administrative staff in compliance with land and property reforms in Albania.
4. Establishing transparent and reliable market-based valuation system for a fair compensation to the former owners.
5. Completing the legalization process preventing issuance of duplication of mapmaking, inducing subsequent registrations of settlements.
6. Completion of first registration of immovable properties encompassing the full territory.

Albania's rich cultural heritage provides a wealth of potential niche to develop its tourism attractions (Hall, 1992), yet the country's religious diversity has long been viewed as a source of weakness and ambivalence. In the post-communist context this has expresses itself in debates on

the course of the country's development path, and alongside international bodies, such as EU, World Bank, with are giving their strong support.

CONCLUSION

From the first part, Albania needs to achieve knowledge and the so-called "knowledge economy", in order to adapt and use this factor as the most competitive factors in the twentieth century with human resources and skills on the field of technical, ICTs, communication, analytical and team work.

1. Thereby it is necessary to analyze the main characteristics of tourism services along the "*social capabilities*" and further demand and supply side implications, including how far innovation potentials of tourism services could be expected.
2. This sector could be stated as a *driver* and *supporter* of economic development, being a services sector which is dominated by a demand-pull one, extremely volatile and sensitive to business cycle development in the country of the guests.
3. A "sustainable development" in the tourism sector implies a further improvement of education and more broad-based training, supporting the development of a variety of customer-oriented service skills.
4. Tourism sector needs diversification and adjustment to demand
5. Some challenges should be addressed:
 - to make tourism an important source of income and employment for the country,
 - to generate a "culture of tourism"

- to guarantee that the security conditions are improved in areas where still more coverage has to be accomplished,
- to ameliorate the image of the country,
- to promote the investment in infrastructure and
- To boost the incorporation of ICTs within the sector.

From the *second part* it can be conclude that it is evident as to promote tourism in general and particularly international tourist inflows, the governments at different levels within their own country resort to various fiscal measures with the objective to help service providers to be increasingly efficient on the one hand and raise the overall share of income generated by tourism as a proportion of gross national product. From the *third part* it can be concluded that based on fundamental economic theories and empirical results it can be can drawn that the optimal growth rate for Albania must be the one that makes the country's growth converge to other countries at comparable levels and economic parameters with Albania. From the perspective of Albania's potential membership to the EU and practical reasons, would suggest adopting as an optimal growth rate, the rate that would allow our country to become an EU member by 2015, which implies the rate that satisfies the convergence criteria to the EU. At the beginning of 1990s many ex-communist countries were opened to closer economic relations with western countries. The flows of FDIs were a strongly needed resource to revamp the economies of these countries. However, some countries succeeded more than others to attract FDI, and of course passing the transition process. The main strong advantages were the political stability and previous efforts to establish the institutions of open market economy. Albania lags behind many of the peer countries regarding political stability, structural reforms, incentives, EU accession steps, etc. The realization of dynamic and continuous reforms on public sector, government deficit,

privatization, employment, etc, is the key factor to develop the countries in transition. Global development reflects many opportunities and challenges for the Albanian Economy. It is very important that the state through government policies prepare to profit from its unique opportunities and watch out the challenges and risks that face an economy which is open to the global markets.

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AUTHOR BIOGRAPHY



Dr. Klodiana GORICA is a lecturer in marketing and tourism in the Department of Marketing, Faculty of Economics, University of Tirana, Albania. She has published research articles in international journals, and some international monographs. She is also the author and coauthor of some books. She has participated in very well-known international conferences around the world and is also a reviewer and a member of the international editorial boards of some journals.