



## **THE ROLE OF AGRICULTURE IN ECONOMIC DEVELOPMENT IN ALBANIA**

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### **Abstract**

*Agriculture plays a major role in the Albanian economy in this article we have tried to analyze and give examples of how important agriculture is and its role in the Albanian economy. It occupies an important place in the gross domestic product and this is clearly shown in the following explanation. Agriculture in Albania as you will see below is a very important part of the Albanian economy. In our country, although agriculture accounts for 18.9% of GDP and a large share of exports, it is mainly limited to small family operations and subsistence agriculture due to lack of modern equipment, unclear property rights, such as and small spread, inefficient land parcels .etc .If the right investment are made in agriculture we will see that the percentage that it contributes in the county economy it will be much higher.*

*Keywords: agriculture, economic development, GDP, Albania*



## INTRODUCTION

The analysis of the role of agriculture in the development process has always been a matter of priority research in development economics studies, albeit with somewhat different ups and downs and interpretations. In the golden years of development economics (from the post-war period to the oil upheavals of the 1970s), all major development economists have grasped this topic, albeit from different perspectives: Johnston and Mellor (1961) and Kuznets (1964) drawing the traditional theoretical framework of the contribution of agriculture to economic growth, Lewis (1954) and Chenery (1960) emphasizing the relationship between the agricultural sector and other sectors of the economic system in the context of studies on dualistic economies and structural change, Hirschman (1958) analyzing the cross-sectoral dynamics of the growth process and proposing his unbalanced development strategy in favor of industry, Prebisch (1951) and Singer (1950) hypothesizing that trade changes harmed the countries that based the strategy. their development in agriculture.

In contrast, from the 1970s to the 1990s (the era of the so-called "neoclassical counterrevolution"), the analysis of the role of agriculture in the development process entered the background, favoring studies that privilege the analysis of international trade, the progressive globalization of the economic system. world and the use of international markets as a means to ensure food security. In this context, agriculture was only indirectly affected, for example by highlighting how the protective structure of international trade was such as to harm agricultural exports (Krueger et al., 1991).

Finally, recently, with the focus on key international bodies in achieving the Millennium Development Goals and the emphasis on combating poverty, the role of agricultural development as a means of promoting economic growth and especially in the poorest sectors of society, have returned to the top of the development agenda (World Bank, 2007).

The questions that this paper tries to answer briefly:

- (i) what do we know about the transformation of agriculture in the development process?
- (ii) how does agriculture contribute to the process of economic growth?
- (iii) why can agriculture play a crucial role in the development process?
- (iv) what is the weight of the agricultural sector in the Albanian economy?

### Transforming The Role Of Agriculture

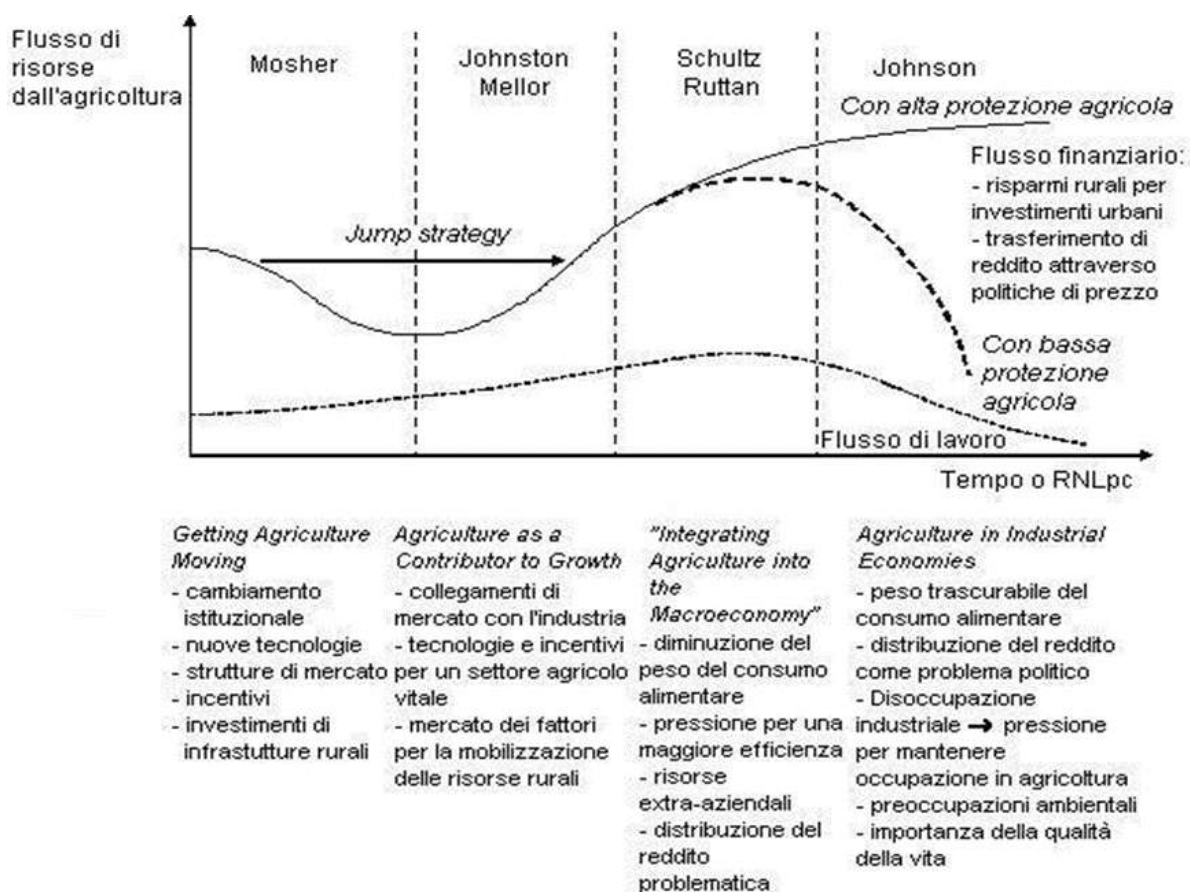
If we try to summarize the main results of the analysis of the role of agriculture in the development process, we can recall a series of proposals on which there is a broad consensus, the first of which refers to the progressive reduction of the share of agriculture in the economy, as in terms of GDP as well as that of employment.

There is agreement on the fact that agriculture has historically played a significant impact on economic growth, both in the modern era (the agrarian revolution in England before the industrial revolution) or in the contemporary era (the Green revolution).

This also explains the bankruptcy of some development strategies that have tried to avoid the stage of agricultural development, before focusing on the development of industry, trying to accelerate the process of economic growth.

The mix of benefits derived from agriculture is modified in different development situations (figure 1).

Figure 1. The evolution of the role of agriculture in the development process and its contribution to economic growth



Fonte: Timmer, 1988

On the other hand, we should not leave without mentioning the transition from traditional agricultural systems to modern ones. We need to be clear about the difference between the operational characteristics of traditional (dominant in developing countries) and modern (growing in developed countries) agricultural production systems.

In general, modern production systems are the result of the action of external institutional factors (markets of inputs and products), while traditional production systems are the result of a delicate balance between agricultural production and the natural environment.

Traditional agricultural systems are influenced by social bonds, cultural norms and harmony with nature. Often, individuals respect these and the economic aspect is less pronounced than other aspects of well-being.

Some main conclusions arising from the comparison between the traditional and modern production system (Musabelliu B. & Meço M., 2011):

a. Increasing population mobility is happening. As a result, we have: (1) the increase in the proportion of the population who make their living outside agriculture; (2) product marketing has greatly increased; (3) the increasing monetization of the economy and the demand for products outside the agricultural sector, which has made for many farmers the priority shift from meeting household food needs (from farm products) to food security (from selling products). to earn the money needed to buy food and other necessities, (4) The impact of sanctions / community structures has diminished and has been largely replaced by increasing government influence (as an external determinant of and formalizes a legal system).

b. Traditional production systems have been largely destroyed due to: (1) increasing population density in many countries cannot ensure for a long time the natural regeneration of fertility (through barren soil); (2) there is an increase in the use of external inputs (inorganic fertilizers, pesticides, mechanization, etc.), reducing the important role of nature in the production system; (3) the intention to have money now encourages an emphasis on the need to produce as much as possible, sometimes to the detriment of sustainability.

c. Traditional systems will not exist for a long time because: (1) diversity is declining (mix production and perennial crops are declining and the production system is starting to become more specialized); (2) the output provided by the use of external inputs has increased more than the output provided by natural processes; (3) production strategies have been greatly improved, often with little participation and consultation of the farmer; (4) strategies developed and introduced into production are often focused on a particular activity regardless of competition with the entire agricultural system, and (5) production systems that promote production growth and maintain sustainability may not exist for a while long.

Ultimately it is the farmers and their families who decide what production system will result. But as we have dealt so far, whether or not this decision results in a sustainable production system is influenced by biophysical elements and external factors related to socio-economic elements.

## How does agriculture affect economic growth?

Traditional analysis of the role of agriculture in the development process (Johnston and Mellor, 1961; Kuznets 1964) shows us that the agricultural sector is able to contribute to national economic growth through four different ways: in terms of production, in terms of resources, in market terms, in terms of foreign exchange.

The contribution of agriculture to GDP growth depends on the relative importance of agriculture and the relative growth rates of the agricultural and non-agricultural sectors. In general, it is larger, the greater the initial weight of the agricultural sector and therefore this contribution is more important for economies in the early stages of development. Conversely, as an economic system diversifies, the weight of agriculture (and, consequently, its contribution to economic growth) decreases.

There are at least three reasons why the agricultural sector is expected to lose its importance over time: (a) demand for agricultural products is generally less resilient compared to demand for non-agricultural products (Engel effect), (b) for due to the development of agriculture, the demand for non-agricultural inputs by the agricultural sector increases; (c) the demand for extra services (outside the enterprise) is more elastic than the demand for agriculture, so the share of agricultural value added (in the narrow sense) on the final price of agri-food products is decreasing (the effect of urbanization).

The importance of agriculture's contribution to economic growth should not be underestimated. In fact, the structural diversification of less developed economies is conditioned by the growth rate of agriculture for at least two reasons: 1. The agricultural sector is an important source of raw materials and factors of production (capital and labor) for industry and important source of foodstuffs for consumption, 2. the negligible multiplier effect of agricultural production and income on overall growth.

Regarding the first point, the experience of contemporary development has shown that it is necessary that the supply of agricultural and food products be made at relative prices in order to contribute to keeping the country's production competitive (agricultural and non-agricultural). On the other hand, the key problem of any development strategy in the initial stages of the growth process is how to extract resources from agriculture to transfer them to non-agricultural sectors without compromising the sustainability of this extraction process. Therefore, the need for investment to increase the productivity of agricultural factors, in order to generate a market surplus (Morrison and Thorbecke, 1990). As suggested by dualistic models (Lewis, 1954; Fei and Ranis, 1961), this allows to extract resources (capital and labor) from the agricultural sector without having negative effects on overall agricultural supply.

Moreover, the importance of an increase in agricultural productivity as a determinant of aggregate growth has recently been confirmed econometrically by Tiffin and Irz (2006), who have shown that agricultural per capita value added is the causal variable in developing countries, while causality is unclear in developed countries. Unfortunately, the investments that would be needed for this productivity increase are dramatically lacking in many developing countries and currently present the main obstacle to the growth of the agricultural sector.

In relation to the second point, analysis traditionally refers to the so-called back and forward links with which we try to assess the level of integration of a particular sector into the national economy (Chenery and Watanabe, 1958). Based on this analysis, it is reasonable to assume that traditional agriculture has a value close to zero for backlogs and in any case quite low for forward links, i.e. the fact of favoring industry in the development strategy, in terms of its effect greater multiplier in the rest of the economic system (Hirschman, 1958).

However, recent estimates by Anríquez and Stamoulis (2007), made in a database of 26 countries for which entry-exit tables were available, show that agricultural backlogs are greater in the early stages of development. Furthermore, we should not underestimate the so-called links arising from the effects of final demand, according to which an agricultural demand-driven industrialization strategy (Adelman, 1984) can have beneficial effects on economic growth, given that an increase in agricultural income would lead to an increase in demand from agricultural households for consumer goods produced by the non-agricultural sectors.

### **Agriculture sector in Albania**

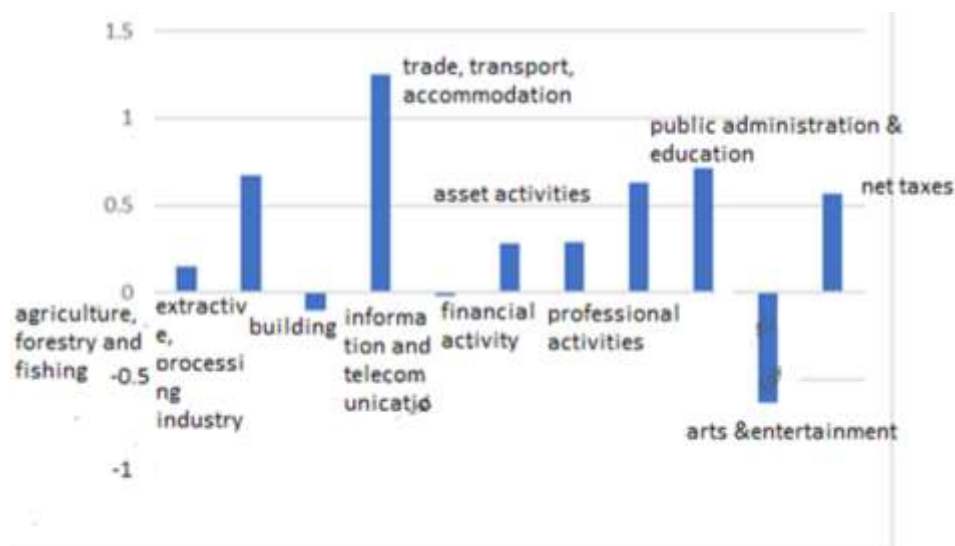
Agriculture in Albania employs 47.8% of the population and about 24.31% of the land is used for agricultural purposes. Agriculture contributes to 18.9% of the country's GDP.

The main agricultural products in Albania are tobacco, figs, olives, wheat, corn, potatoes, vegetables, fruits, sugar beets, grapes, meat, honey, dairy products, and plants of traditional and aromatic medicine. Although agriculture accounts for 18.9% of GDP and a large share of exports, it is mainly limited to small household operations and subsistence agriculture due to lack of modern equipment, unclear property rights, and low spread and inefficient plots of land.

Gross Domestic Product (GDP) in the third quarter of 2019 is estimated to increase by 3.81%, compared to the third quarter of 2018. The main contribution to this growth was given by the branches: Trade, Transport, Accommodation and Food Services with +1.25 percentage points, Public Administration, Education and Health with +0.71 percentage points, Industry, Energy and Water with +0.67 percentage points, Professional Activities and Administrative Services with +0.63 percentage points, Asset activities real estate with +0.29 percentage points, Financial and Security Activities with +0.28 percentage points, Agriculture, Forestry and

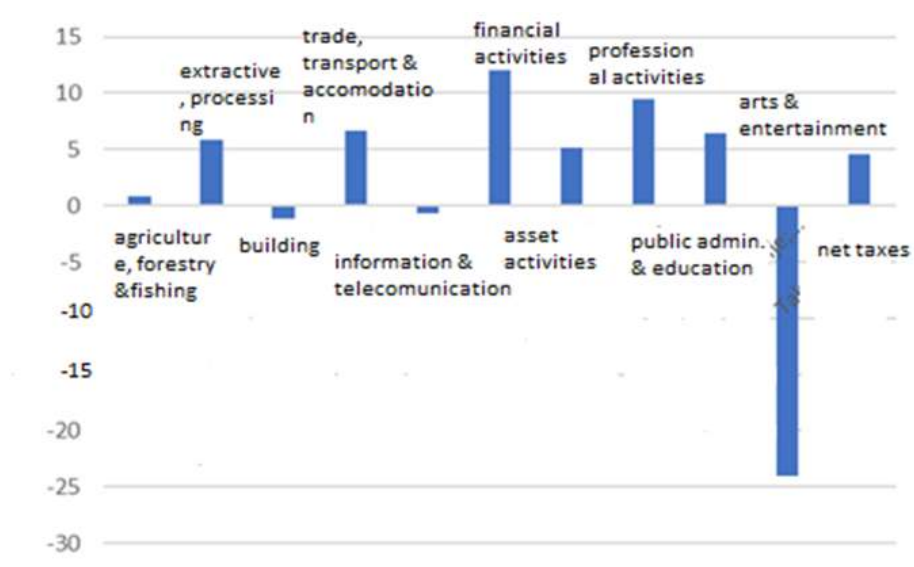
Fisheries activity with +0.15 percentage points. Negatively contributed the activity of Arts, entertainment and recreation; Other service activities with -0.63 percentage points, Construction with -0.10 percentage points and Information and Communication with -0.02 percentage points. Net taxes on products contributed positively by +0.57 percentage points.

Graph 1. The contribution of the main branches of the economy to the real GDP growth rate (Q32019 / Q32018)



Burimi: Të dhënat INSTAT (përpunim i autorit)

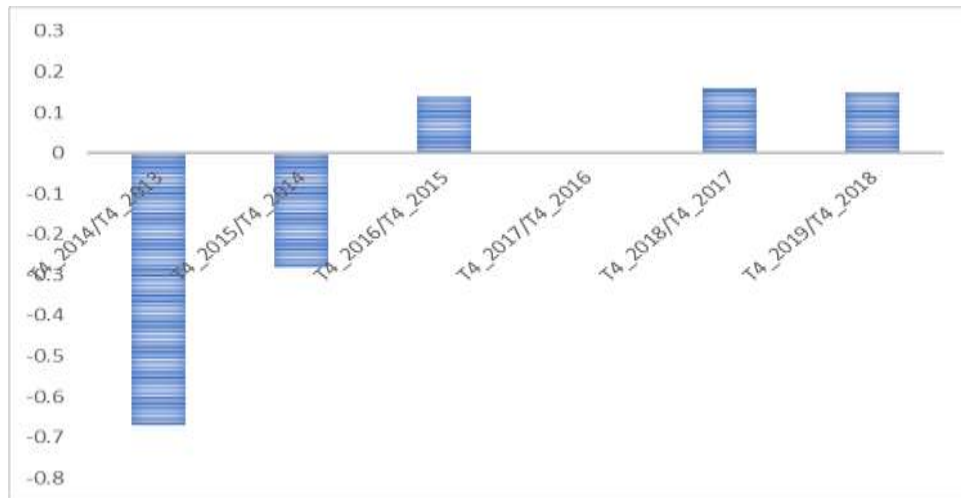
Graph 2. Changes to the same quarter of 2018 for the main branches of the economy (T32019 / T32018) in%



Source: INSTAT (data collaboration done by authors)

From the graph above we notice that the activity of Agriculture, Forestry and Fisheries had an increase of 0.87%, compared to 2018. If we were to reflect the contribution of the agriculture, forestry and fisheries sector to the real GDP growth rate ( $T4\_t / T4\_t-1$ ) for the last 6 years, we would notice an increase as in the graph below.

Graph 3. The contribution of the agriculture, forestry and fisheries sector to the real GDP growth rate ( $T4\_t / T4\_t-1$ )



Source: INSTAT (data collaboration done by authors)

## CONCLUSIONS

Recent research on the contribution of agriculture to economic growth confirms the key role that the agricultural sector can play in any economic development strategy, not only through the traditional channels highlighted by research in the sixties (contribution in terms of product, resources, market and foreign trade), but because agriculture is an excellent distributor of pro-poor growth dividends.

What are the political implications that recent research has shown? First of all, it is necessary to remember that any strategy should be based on multi-sectoral approaches, which take into the account the dynamics of the agricultural sector in the context of the wider economic system. Furthermore, given the extreme heterogeneity of intervention situations, it is necessary to have prescriptions differentiated according to different situations (World Bank, 2007).

In particular, in situations still based mainly on traditional agriculture, it would be necessary to pursue a strategy of increasing agricultural productivity oriented towards small-scale agriculture and to have an eye on food security. Under these conditions, the priority is to increase the amount of agricultural investment and improve their allocation: research, technical



assistance and distribution, rural roads, irrigation, human capital and institutions are the priorities.

In contrast, in situations where agricultural transformation has already begun, an overall rural development strategy is needed, the main purpose of which is to reduce the rural-urban divide. This means connecting small agricultural producers with national and global markets for high value-added products (role of contract agriculture and production organizations), assisting with agricultural livelihoods and regions lagging behind in development (modernization of agriculture in areas with high potential, investment in human capital for a successful migration, social security networks for the remaining) and to develop employment opportunities in rural areas, also through non-agricultural activities (crafts, small industry, services).

In our country, although agriculture accounts for 18.9% of GDP and a large share of exports, it is mainly limited to small family operations and subsistence agriculture due to lack of modern equipment, unclear property rights, such as and small spread, inefficient land parcels.etc. It will be important to see if we increase the investments in agriculture what much bigger role this will play in the contribution of country GDP. Albania is an agricultural country and the future research will be importing to monitor its part in the Albanian economy

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