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Albania: Cautiously Reforming a Backward Economy

Summary

Albania--the poorest, most backward, and most ideologically rigid country in Europe--has instituted modest reforms to improve its faltering economy. The Ramiz Alia regime, in place since 1985, has allowed limited private ownership, raised agricultural prices, introduced greater wage incentives, and encouraged more production of consumer goods. Tirane is also trying to improve diplomatic ties to the West to gain increased trade. We believe that Albania's economy is unlikely to improve significantly during the next several years, although Alia will continue to experiment with limited reforms and seek to expand foreign ties. [redacted]

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This memorandum was prepared by [redacted] Southeast Europe Branch, East European Division, Office of European Analysis. It was requested by Edward A. Casey Jr., Director, Office of Regional Political-Economic Affairs, State Department. Comments and questions are welcome and should be addressed to [redacted] East European Division [redacted]

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A Faltering Economy

Albania maintains that its economic performance has improved substantially in recent years, and its official statistics show that last year the gross social product rose 5.1 percent, agricultural production 4.0 percent, and industrial production 6.4 percent. In reality, however, Tirane's economy remains hampered by subsistence-level agriculture, antiquated industries, limited investment capital, few trained specialists, decreasing world prices for its raw material exports, and a fast-growing population. Production of chrome and oil--traditionally the two major hard currency earners--has faltered in the 1980's because of aging equipment and increasingly difficult extraction. Oil production has suffered the most, decreasing about 12.4 percent between 1981 and 1986. The resulting fall in hard currency earnings has seriously hampered development efforts. [redacted]

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Limited Domestic Economic Reforms

Ramiz Alia, party and state leader since 1985, has largely continued the rigid ideological rhetoric of his predecessor Enver Hoxha. Nonetheless, he has cautiously departed from some of Hoxha's economic and foreign policies, including the initiation of a limited program of economic reform to revitalize the economy. Alia has criticized economic performance, blaming poor organization and management, and called for some decentralization in economic decision-making. We believe he will institute further changes if, as we expect, the economy fails to improve significantly. The following have been the main areas of reform:

Allowing Some Private Ownership. Albania is attempting to supplement collective production through the use of private ownership. While Hoxha sought to abolish private plots, Alia is encouraging their use to increase market supply. In livestock production, individual brigades are permitted to raise small herds of livestock and sell the surplus.

Increasing Agricultural Prices. Tirane raised the purchasing prices of crop and livestock products by an unspecified amount last December to encourage production and narrow the income differential between rural and urban areas.

Introducing Wage Reform. Albania has introduced incentives, beginning as early as 1985, to stimulate production in a number of key industries. Workers are now rewarded with bonuses for difficult work and high productivity. The regime has instituted bonuses for such important sectors as mining, petroleum, geology, and textiles.

More Consumer Goods. Alia has pledged to produce more consumer goods to overcome chronic shortages. However, budgetary constraints may limit the policy's effectiveness because consumer production is increasingly forced to compete with heavy industry for scarce resources.

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Expanding Trade Relations

Albania's improved diplomatic ties to the West over the last several years, in our view, are due to its conclusion that increased trade is necessary for improved economic performance. The main obstacles to increased trade are the poor quality of Albanian goods, declining hard currency earnings to pay for imports, and a constitutional provision prohibiting foreign borrowing. We believe these impediments will prevent significant trade expansion with the West in the next few years. Trade with Eastern Europe has increased because the Soviet Bloc

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countries are more willing to accept poor quality goods and Moscow may be encouraging them to increase contacts to upgrade diplomatic relations.

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Outlook

Albania's economic performance will almost certainly continue to falter for the next several years. This, and Alia's preoccupation with economic difficulties--about 80 percent of his speeches focus on the economy--probably will lead him to test further domestic economic reform. Tirane also will continue to seek expanded trade ties to bolster economic development and will probably be more conciliatory with both East and West European countries when negotiating for the establishment or upgrading of diplomatic relations. We do not foresee any significant near-term improvements in Albanian relations with either the USSR or the US despite the tentative gesture Tirane made to Washington--in the form of diplomatic note--following its recent help to US boaters.

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