

QUALITATIVE ASSESMENT OF ECONOMIC EFFECTS OF INTEGRATION IN EU: THE CASE OF ALBANIA

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Abstract

Everybody is conscious for the importance of Albanian integration in EU. But each of us must be aware of the fact, that this outstanding process is accompanied by some benefits and costs, which has to be paid by our society.

The main objective of this study is to qualitatively asses the economic impact of Albanian integration in EU.

The first section is dedicated to theoretically explanation of the types of effects of integration which may be: direct or directs ones, micro or macroeconomic effects, and short run or long run effects.

In the second part I am mainly focused on a qualitative assessment of effects of Albanian economic integration in EU. The main benefits relate to the new opportunities that will be ushered in, principally arising from better access of Albanian exports to foreign markets, enhanced competitive structures and improvements in efficiency, which in the long run will strengthen the Albanian economy. The costs arise mostly from the change-over from a protected economy to an open competitive one, which could lead to a loss of income and employment..

There are introduced in the third part, three main quantitative methods which are recommended to be used for a further step of quantifying the economic effects of Albanian integration in EU.

Keywords: Integration, Effects; Assessment, Qualitative, Quantitative

JEL Classification: P51, F20, O19, B41

Introduction

Integration is one of the words most used and in fashion for the Albanians social and economical life. Politicians, artists, intellectuals talk about political, economical, European, cultural, even spiritual integration. This word is used so much effort that there has been very much efforts to define or understand it by the general public beyond the vague idea that integration is something good, especially the west. Thus, one of the issues on which all agree is that in Albania: *EU membership remains a key objective perspective of Albania.*

Since the beginning of the transition process, the EU is virtually present in every aspect of Albanian life: through election observation, provision of economic aid and by participating actively in the construction and improvement of institutions.

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European integration is seen as a stable and lasting solution of major problems of economic and social development of the country. Against this background, the Stabilization and Association Agreement is in the spotlight of the press and a primary goal of all Albanian politics.

To precisely evaluate the opinion and expectations of some groups in terms of EU integration of their knowledge in this area, it was initiated in 2008 a survey. The survey was focused on groups of Business Administration, Media and Non-Governmental Organizations. The main reason, why only these groups were selected is that they are directly involved and to some extent responsible for Albania's integration into the EU; at the same time they will be more significantly affected by Albania's EU membership.

The survey confirmed the great desire and will of the Albanian society for EU membership. Almost 100% of respondents stated that they were willing to vote pro-integration in a possible referendum on the issue.

In certain groups of Albanian society, especially in state administration, the process of integration is seen as an end in itself. Albania's efforts for economic and democratic development should not be seen merely as tools for integration into the EU, but as the positive processes of each country in transition. So integration should be understood as a path toward democratization and welfare.

Another result that shows a clear misunderstanding of the integration process is the fact that most respondents considered as the main benefit from this process the freedom of **movement**. A very interesting result is that even State Administration, Media and NGOs praise much more the free movement than economic development and strengthening the rule of law and democratization. Here we have a double misunderstanding.

The first is, free movement - as a phenomenon; which is simply understood by the respondents as an opportunity for individuals to travel abroad without visas, and not as a free movement of capital and business.

Secondly, most respondents did not understand the fact that free movement would be only a secondary consequence of EU membership and not very valuable unless there is economic development and democratization. Instead, the attention of these groups to be focused on achieving these goals, it resulted the contrary: most people seem willing to leave Albania and see integration as a way to achieve this goal, which is very disturbing, especially the State Administration.

The survey recommended that the campaign to focus on the following:

- Should clarify the benefits and costs, which will be from Albania's EU integration process.

- It is necessary to undertake accurate quantitative analysis on the real cost of integration and especially on the positive but also negative effects that will have the Stabilization and Association Agreement on the Albanian economy. The results of this analysis should be made public.

Based on these recommendations it is born the idea for a study which made a qualitative assessment of the effects of integration, and in a second step to be

evaluated through scientific methods of quantitative effects positive / negative of the integration process in the Albanian economy.

Types of effects of integration in the European Union

All the effects of EU integration can be divided into direct effects and indirect effects of integration. Direct effects can be evaluated, and they have a more precise quantitative definition. Indirect effects, first, related to sectoral effects, the effects of resource allocation and the effects of redistribution of income and wealth. These kinds of effects are more difficult to be estimated by quantitative methods.

Main direct effects of integration

1. *The effect of diversity in trade (Trade diversion effect)* (Strapec 1999) (change of direction of foreign trade from one partner to another, due to price' changes in the countries where the goods are traded. When you are net importers- a price drop in imports results in profit, while when you are a net exporter- a price drop in exports is a cost).

2. *Effect of balance of payments* (which means: influence on the balance of payments due to the two previous effects).

3. *Government revenues* (which means: changes in budget revenues as a result of the gradual elimination of tariffs, which leads to lower income from unit import price, resulting in a short term negative effect on governmental income, but in the long run it turns out at a high level of total income (based on trade theory) that derives from increased volume of trade as a result of lowering the price per unit.)

4. *The effect of consumer welfare* (based on consumer welfare effects as a result of the deployment of lower imports' prices).

Main indirect effects of integration:

1. *Sectoral effects* (influence on production, employment and trade sector).

2. *Effects on allocation of resources and redistribution of income*

3. *Effects on trade relations* (which means that terms of trade change due to changes in export-import balance).

4. *Effects in improving the international competitive position of a country integrated into the EU* (due to cheaper imports' factors and lower costs which are the result of gradual elimination of tariffs).

Other authors (Baldwin, François & Porters, 1997) cite the following effects:

Effects of trade:

1. *The effect of trade liberalization and expansion; effect of trade diversity; effect of pure profit* (as far as the sectors where the domestic price is higher than the average cost of production is concerning, an increase of production increases welfare (benefit) until the marginal value of extra output (price) exceeds the extra cost. A drop in production leads to the opposite result (cost)).

2. *Accumulation Effects* (these effects are determined by the channels through which trade agreements can vary the level of national resources, particularly capital stock. This is completely different from the effect of allocation; which means the

removal of some resources from one activity and placing them in another one, but without changing the total level. Referring to their typical nature, the effects of accumulation have greater impact on GDP (Gross Domestic Product) than the effects of allocation);

3. *Reduction of trade costs* (this effect is due to the reduction of costs because of tariffs' elimination quantitative restrictions, the elimination of various barriers and facilitating procedures for clearing of goods).

The effect of "extra" risk: the positive effects of increasing gross domestic product (GDP) and foreign direct investments (FDI) due to reduction of political risk which positively affect the new private investment. This effect is very important for Albania, as this country is so much threaded by this type of risk, due to political developments during these years.

Costs and Benefits of the budget in the two cases above.

The classification of effects which is recommended for Albanian integration in EU is done under four main categories:

Budget-transfer effects: where all the countries of Central and Southern Europe (CEEC) including Albania are classified in net user grants (PHARE, CARDS, SAPARD, ISPA, IPA, TEMPUS, and the funds allocated by the EU during the first EU-Accession), These transfers affect the growth of investment, public expenditure, income of farmers and ultimately the growth of GDP for countries to integrate into the EU.

Indirect economic effects-the benefits:

1. *Allocation effects* (these effects are significant for countries that become full member of EU, in terms of *full competition*. They also present even for the countries as Albania, which are in early stages of European integration, in terms *incomplete competition*. This effect is related to consumer welfare, which means reducing the monopoly price, increased production limits, positive effects as a result of the diminishing of monopolistic price and market segmentation).

2. *Effects on foreign trade.*

3. *Price effects of trade* (which is based on the difference between higher local prices and lower imports' prices).

Integration costs for joining the EU family:

1. *Negative effect on production*, (which means declining production and rising domestic unemployment due to exposure to foreign competition

2. *The state budget is aggravated* due to the costs that have social programs that affect employees who lose their jobs

3. *Institutional restructuring costs* in line with EU requirements

4. *Costs of implementing the rules arising from the *acquis Communautaire** (Community Acquisition) (the most important are those in the field of environmental protection in the field of agriculture, food and consumer protection in the field of transport, energy and legislation).

Indirect political benefits:

1. Growth of national and international security
2. Using the geo-strategic advantages as the result of EU integration
3. Favor (support) for the establishment of stability, implementing democracy and rule of law.
4. Increase of FDI's, due to political risk reduction

Judging on their generality, costs and benefits of EU integration can be divided into:

Macroeconomic effects: effects on the state budget and the balance of payments, the effects on macroeconomic indicators such as the effect on GDP, the overall level of prices, the FDI-in, employment, consumption and investment.

Microeconomic effects: the effects of consumers and producers, effects arising from price changes, the allocation of resources, the redistribution of income, etc..

As far as the timeframe is concerning; effects of integration can be analyzed in terms of *short, medium* or *long term*

Main sources of costs and benefits derive by: implementing regulations, use of different institutional commitments, various forms of integration-which are subject of a detailed survey of all sectors for integrated countries. Examples of this can be:

1. Support of EU financial (*benefit*), through its instruments during the period of integration for aspiring countries: programs like PHARE , CARDS, SAPARD, ISPA.
2. EU funds (*profit*), used by less developed countries (structural funds, cohesion funds and the CAP (common agricultural policy)).
3. Competition (*profit or loss*) resulting from the creation of free trade zones, the customs union, common market of the European Monetary Union in Europe (BME), etc
4. Costs and benefits of implementing the *Acquis Communitarie (Community acquisition)*.
5. The effects (*positive or negative*) resulting from the free movement of labor, capital, goods and services.

To conclude this part of the analysis, it must be said that: specific effects of integration (mainly direct effects) can be assessed by quantitative (and even exactly) and some other (mainly indirect effects) not (for ex: political effects).

It is imperative that countries, which are integrated, have a suitable model of macroeconomic and statistical data sufficient, in order to apply appropriate technology Econometric Mathematics; for achieving a successful quantitative assessment of these effects.

Qualitative Assessment of costs and benefits of Integration in EU for Albanian Economy

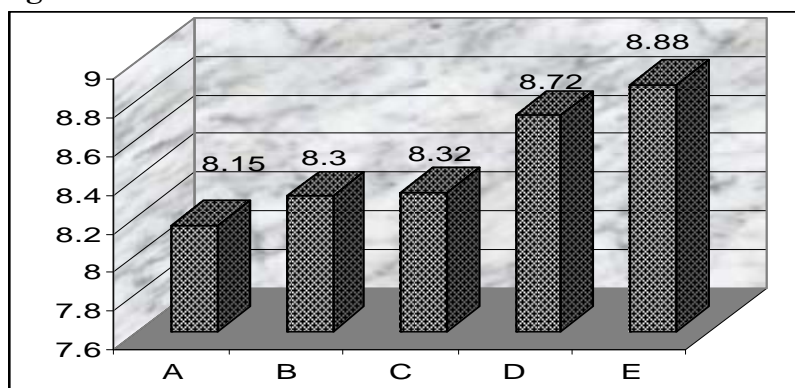
Very often, Local businesses are facing dilemma: Is it in their interest the Albanian Membership in EU or not?

As previously told, referring to the gathered data on the survey undertaken, it is calculated that:

Question: *People have different opinions on the benefits it would bring EU membership for Albania. In your opinion, how will Albania benefit from this membership in the following areas? Please evaluate on a scale of 1 to 10, given how much larger the number, the more you think that Albania will benefit in that direction. (Results Figure 1)*

A. Welfare **B.** Consolidation of Democracy **C.** Strengthening the Rule of Law
D. Economic Development **E.** Free Movement in EU countries.

Figure 1



Of the four groups, it is calculated that businesses had lower scores. So if we refer to table below (Table 1) and collect averages for each group, business notes 39.46, 43.4 Public Administration, Local NGOs and Media respectively 44.31 43.19.

The group "business" is pessimistic regarding the expected benefits from integration in the EU and more optimistic about this phenomenon are presented representatives of NGOs. It should also be noted that, while the main benefit business group was supposed to be Economic Development, the three other groups are for free movement in European countries. Also, the standard deviation was higher in the "business" group, which means that this group is more heterogenic referring to more variable responses.

Table 1 : Survey results

<i>Group</i>	<i>Business</i>		<i>Local NGOs</i>		<i>Public Administration</i>		<i>Media</i>	
	<i>Mean</i>	<i>St.Dev</i>	<i>Mean</i>	<i>St.Dev</i>	<i>Mean</i>	<i>St.Dev</i>	<i>Mean</i>	<i>St.Dev</i>
<i>Welfare</i>	7:33	2:37	8.88	1:30	8.78	1:50	8:23	1.92
<i>Consolidation of Democracy</i>	8:51	1.96	8.9	1:32	8.78	1:46	8.80	1:44

Strengthening the rule of law	7:94	2:34	8:43	1:50	8:19	1.74	8:23	1:46
Economic Development	7:26	2.60	8.95	1:40	8.60	1.64	8.91	1:59
Free Movement in EU Countries	8:42	2:31	9:15	1:39	9:05	1.65	9:02	1:58

Source: Author's calculations

Advantages associated with the EU integration include a better chance of presence of Albanian products in EU market. An important benefit is that the country is obliged to adopt an economic strategy that promotes competition, and thus a more efficient allocation of resources. EU integration will have long term effects for the Albanian economy, including being part of a large market, which brings several benefits associated with economies of scale and a favorable environment for FDI-in. Moreover, Albania has to enhance standards and legislation in line with those of Western countries, which will be accompanied with positive impact, even in the environmental field. Albania is going to attract more FDI due to a more harmonized legislation, a free movement of goods and services and economic and political stability.

The cons arguments on the Albanian integration are linked with the removal of import controls, which leads to loss of output and employment in firms which are favored due to protectionism. It is also thought that Albania would lose from the EU integration, while it must adopt a whole legislative system of western countries. Another concern is referred to the possibility of losing "sovereignty" (emphasizing that it would limit freedom of taking decisions by the Albanians as the decisions will be taken by the EU and Albania as a small country will not have much strength in European decision-making).

The table below (Table 2) presents detailed cost and major benefit of integration of Albania into the EU.

Table 2: Costs and Benefits of Albania's EU integration

Changes related to integration	The main benefits of integration = costs of non integration	The main cost benefits of integration = benefits of non integration
<i>Free trade (freedom of movement of goods and services)</i>	Reducing the price of imports, production more efficient and better acceptability of Albanian products in the EU, the comprehensive effects on domestic production.	Albanian manufacturers' inability to cooperate with modern international competition, which leads to loss of jobs and income.

<i>Internal competition</i>	The elimination of monopolistic and oligopolistic structures, leading to lower prices and higher quality products to customers. Encouraging free trade.	Loss of profits that come from the removal of exclusive practices (monopoly). Since the Albanian firms are unable to cooperate in the elimination of monopoly and oligopoly structures they will suffer the reduction of profits as a result: the lowest price in the market (high competition) and the demand for higher quality for their products.
<i>Agri-culture and agro-industry</i>	Local agricultural sector will become more competitive and Albanian farmers will be able to benefit from the CAP (EU funds, under the agricultural sector).	Agriculture and Agro-Industry of Albania will have difficulty to survive the competition. Products and main meals will be imported more cheaply because of lower prices and higher quality in comparison with domestic ones.
<i>Inflation</i>	The harmonization of fiscal policies with monetary policy, fiscal consolidation will aim to lower rates and controlled inflation in the country.	Strict fiscal and monetary policies aimed at keeping inflation in the limit set cannot have more positive effects versus economic growth, thereby reducing the options for policy-makers.
<i>Public Procurement</i>	Intensification of competition should lead to reducing the cost of public procurement, targeting the best of the best	The opening of public procurement for non-Albanian bidders would not serve the interests of local businesses, while Albanian contractors will not be able to compete with contractors on foreign firm.
<i>Freedom in capital movement and financial services</i>	Such freedom would result in the reduction of commissions from financial institutions and greater availability of credit. The removal of monetary	Liberalization process in financial and monetary sector will be associated with the removal of restrictions on mobility of direct investment

	exchange controls will lead to more efficient use of funds.	flows within and abroad, accompanied with the possibility of property speculation by non-Albanian citizens. In this way, foreigners can buy some real estate in Albania (taking advantage of lower prices in the country and the high level of income that they have) giving them the opportunity to speculate in this regard.
<i>Business behavior</i>	Business will become more oriented towards efficiency and initiative, becoming less dependent on phenomenon of protectionism. There will be a tendency towards consolidation of business activities.	Given that the domestic business will face a higher level of competition (lower prices and higher quality products), some small businesses, being unable to compete may be closed, leading to reduction in the level of their income and increasing unemployment. This cost can be reduced by policies encouraging the development of local small business undertaken by the Albanian government.
<i>Structural Cohesion Funds</i>	<i>and</i> Albania will be legitimate for structural and cohesion funds from the EU, this will help improve the infrastructure, environment, providing among other things, more training opportunities and assistance in these sensitive areas.	The integration process will create the opportunity for Albania to be the beneficiary of grants and loans from the EU, several times more than currently. This will make foreign countries being more present in the country, affecting not always positively to the development of initiative (initiative) Albanians private.
<i>Job Market</i>	Work will become more mobile (mobile), and will improve the welfare of	Given that many foreign firms will have activity in our country, it will employ many

	employees through health and safety measures through the establishment of maximum limits on working hours, etc..	Albanians. Based on the competition in the field of employment, the Albanian business will impose additional costs to pay for improving the welfare of workers. Moreover there is the possibility of "leakage" of the brain (brain drain phenomenon) (skilled workers tend to be hired abroad in the EU, which also paid more)
<i>Foreign Direct Investment (FDI)</i>	Economic stability, law and harmonized standards in the U.S. will attract FDI from the EU and other non-EU.	Given that Albania has very cheap labor force, many foreign businesses will operate in our country in this way: They import raw materials and industrial equipment with zero tariff on final products which are re-exported. Upon integration into the EU, Albania needs to adopt a common tariff system for imported products from outside Europe. So the removal of zero tariffs on raw materials imported from non-EU countries will cost more to foreign businesses, and this can affect in discouraging FDI in Albania.
<i>Building standards</i>	This will result in better quality and safer product, which will create better conditions for acceptance of Albanian products in European markets.	Albanians should afford firms an additional cost for setting standards; otherwise they will be unable to operate in conditions of full competition arising from integration.

Quantitative methodology for assessment of effects for EU integration.

Considering the aforementioned factors; and considering a very long literature review; I found that the models/ techniques mostly used by researchers for quantitative evaluation of costs - benefits of EU integration for the countries of Central and Eastern Europe are:

1. *CGE model* (Computable General Equilibrium, General Equilibrium value) one of his alternative may be the partial equilibrium framework.
2. *Macro Model* - mostly static analysis based on previous experiences
3. *Sector Assessment* - (mostly static)
4. *Gravity model* - (focused on the effect of trade)
5. *OCA model* (Optimum Currency Area-optimal currency area, in the case of European Monetary Union, the Euro zone is OCA)

Features are presented briefly below CGE model, the gravity model and the model OCA:

a) *CGE Model*

This type of model can be considered as a model of sectoral assessment. Moreover, CGE models are frequented by researchers of the countries of Eastern Europe. History of CGE modeling starts from 1960 when the first model was built for multisectoral development from Norway L. Johansen (Johansen 1960). Many other models were built further from the pioneer of modeling. Modelers in the context of other World Bank projects have contributed to the standardization of CGE assessment, using the database as a SAM (Social Accounting Matrix, SAM) and software packages such as Gams or GEMPACK.

One of the main *advantages* of this technique is that it offers the opportunity to design a direct or indirect links between sectors. Original model, using factors of production (labor and capital) are combined by ex post (CES- constant elasticity constant elasticity of Scale). As a *disadvantage* of the model, I can mention the fact that the work pattern is assumed to be constant, accepting as true, the fact that the economy is at full employment conditions (which really does not happen, therefore this phenomenon is considered as a disadvantage).

Another *disadvantage* of this approach is that, most models rely on an old data base, which refers to a base year. Referring to cases where CGE model is applied to several countries simultaneously, no CGE model is able to assess or predict how the total benefits from EU integration is distributed among new EU members,

Another negative aspect of a CGE model is its static nature of the simulation. However, this can be overridden by dynamic modeling of general equilibrium by Keuschnigg and Kohler (1998).

It is to be stressed the fact that CGE models are based on the concept of static equilibrium and thus use the method of comparative studies, or in other words *the sensitivity analysis*. Numerical values that wear the model parameters, which results from actual or projected values of economic variables. The model itself is calibrated so that the initial values of endogenous variables (*or scenario-based solution*) to satisfy

equations of the model (assumed requirement equilibrium).

Below in the form of a table it is presented advantages and disadvantages of the CGE model:

Table 3: CGE Model

<i>Advantages</i>	<i>Disadvantage</i>
<ul style="list-style-type: none"> Models allow assessment of: monopoly competition, economy of scale, capital accumulation 	<ul style="list-style-type: none"> SAM-input for the model - generally database updated periodically in long periods and thus invalidated the results appeared at the end of the respective periods.
<ul style="list-style-type: none"> Sectoral interaction among a country's economy. 	<ul style="list-style-type: none"> There are not realistic assumptions about full employment and perfect movement of production factors (transition, integration and acceptance into the EU then increase the probability of a higher unemployment)
<ul style="list-style-type: none"> The effect can be simulated using dynamic data of a stable situation through the model (it is meant the assumption of a perfect prediction). 	<ul style="list-style-type: none"> Weak-specification dynamic "time frame" is the inevitable part of the model (It might be investigated only a limited time horizon, for example. The final state of economic equilibrium)
<ul style="list-style-type: none"> The possibility of simulation of structural or sectoral effects, and global macroeconomic effects. 	<ul style="list-style-type: none"> The model is based on economic structure, but relatively constant in the transition period (period of major structural changes); this feature is a disadvantage; input-output data bases should be updated as often as possible.
<ul style="list-style-type: none"> CGE accompany microeconomic mechanisms and institutional features within a stable macroeconomic framework (allows analysis of structural changes under different assumptions) 	<ul style="list-style-type: none"> Economic restructuring process makes the system unstable and consequently it results less reliable.

b) Gravity Model

Gravity model is focused on explaining the bilateral trade relations based on ration of per capita GDP to total GDP and geographical distance between trading partners. This "greedy" framework, despite its simplicity, explains the importance of significant trade effects in the process of integration.

Theoretical explanation in the form of the equation is as follows:

$$X_{xi} = \beta_0 + \beta_1 \left(\frac{GDP_i}{POP_i} \right) + \beta_2 GDP_i + \beta_3 \left(\frac{GDP_x}{POP_x} \right) + \beta_4 GDP_x + \beta_5 Dist_{xi} + Dummy$$

Variable + ϵ_{xi}

All variables used in the equation are in logarithm. X_{xi} represents exports from the exporter (country x) to the importer (country i). GDP, POP, and Dist, respectively represent the total GDP, population and distance between the two countries, the respective (ϵ_{xi} is the error of duality, which is not explained by the model itself). The parameters are as follows:

- b_1 ... elasticity of demand for income importers,
- b_2 ... reflects the size of the effect on the country which imports,
- b_3 ... indirect measures of the capital labor of the country which exports
- b_4 ... "how big should be the level of differentiated product which should be offered by a country)"

In general, gravity models refer to the flow of trade between two countries on the request of importers, exporters and bid the cost of trade. Requirements of importers and exporters offers are replaced by the GDP of countries with GDP per capita. It is used as a measure of the cost of trading one form of geographical distance (chosen by the researcher).

Below in the form of a table there are presented advantages and disadvantages of the gravity model:

Table 4: Gravity Model

<i>Advantages</i>	<i>Disadvantage</i>
<ul style="list-style-type: none"> • Simple and easy "s' appearing." 	<ul style="list-style-type: none"> • Focuses only on trade.
<ul style="list-style-type: none"> • Despite the limited context of its simplicity, the model explains quite well the behavior of the trade. 	<ul style="list-style-type: none"> • The model is based on no empirical/intuitive evidence – but there is a strong experience on the theoretical support.
	<ul style="list-style-type: none"> • It is much more a study on the "Potential" trade effect than predicting the real value of this effect based on empirical evidence or dynamic forecasts.
	<ul style="list-style-type: none"> • Static nature of the sample, which means for example: Inability to take into account unforeseen changes in political regime.

The gravity model appears to be almost perfect in particularly assessing the possible trade between the two neighboring countries or groups of countries. However, only a fraction of the possible effects (especially the effects of creation and trade diversion) can be determined by the model. Therefore gravity model is applicable, as in the case of sector models as a pre-analysis for more complex simulations. Results of gravity models seem to have great impact on contribution for determining the proper variables / inputs / instruments rigorous (to create such appropriate base scenarios) for further dynamic modeling.

c) OCA model

Theory of Optimum Currency Area (OCA) (Euro zone), is based on analysis of conditions that countries must satisfy in order to have positive effects, in case joining the monetary union. As a result, these countries may face "asymmetric shocks due to different structure they have. (Baldwin 1997). Being in lack of instruments -, such as "exchange rate" - they will require more flexibility in their labor markets to counter asymmetric shocks.

The theory confirms the reduction of cost for eliminating exchange rate instrument due to the existence of an open market economy.

In general, monetary union seems not very attractive for CEEC countries. These countries have fragile economies, and pretty soon they fall in asymmetric shocks situation (example: high inflation in a country, and unemployment in another). One of the main problems when using modeling OCA is an unknown relationship between economic integration and the existence of asymmetric shocks.

From the methodological point of view, OCA has identified three groups of factors, which are important in determining the benefit from monetary union:

- The level of trade integration in the EU and CEEC countries development) (Mc Kennan, 1963)
- Size and frequency of asymmetric shocks (for a specific country) their (Mundell, R. 1961, Bofinger P, 1994)
- The degree of labor market flexibility. (Frankel and Rose 1996)

Generally speaking, the dynamics of monetary integration are described while using a graph, in which the degree of the economic and employment divergence (between a particular country CEEC and the EU) are set on the vertical axis, and measures the degree of integration trade between them are located in the horizontal axis. The so-called "OCA line" connects all the points of divergence and the combination of integration, indicating zero net benefit line with the monetary union. While the economic divergence between agents taken into account is positively growing; integration of trade should be increased to eliminate a negative effect on divergence. So OCA line has positive slope. Authors generally choose CEEC countries to the left of the line due to the assumption of high economic divergence and low trade integration comparing with other members of European Monetary Union.

Below in the form of a table there are presented advantages and disadvantages of the OCA model:

Table 5: OCA model

<i>Advantages</i>	<i>Disadvantage</i>
<ul style="list-style-type: none"> • The model can be presented graphically, so it is easy to be described and understood 	<ul style="list-style-type: none"> • It is not possible sensitivity analysis or quantitative analysis; other measurements must be carried out on a more empirical analysis.

• Another alternative view on the effects of European Monetary Union.	• The model is specifically focused on trade and the divergence / flexibility.
• The model uses panel data, so the effect is considered dynamic.	• The model is based more on empirical evidence rather than theoretical framework.

The same as gravity model, the methodology OCA studies the effect of only one type of integration (integration effects of the European Monetary Union). Furthermore, the theory is based on empirical evidence and is much more focused more on evaluating the effects of monetary union in associated countries.

Conclusions

Each of us is aware of the special and vital importance of the process of integration of Albania into the European Union. This integration is the objective of each structural state, and individual in our country. Besides the fact that integration is an enviable process for all; it is imperative that everyone be aware that before the integration brings benefits, some cost has to be “paid”.

Therefore it is necessary to undertake scientific studies to assess the effects of integration. Based on the experience of current candidate countries for accession to the EU, It is a must for Albanian economy to build a suitable model for assessment of the quantitative effects of integration.

Empirical results should be known to the public and should be taken into account by political decision-making bodies

The main benefits consists in new opportunities arising from the integration of exports in foreign markets; increase of competition and improvement of efficient structures, which in the long run will strengthen the Albanian economy to face international competition. The integration of countries into the EU has already shown that a more liberalized environment will help the country to benefit more. Costs occur mainly by changing the position of the economy: from a protected economy to an open one, competitiveness on its own leads to loss of income and employment. It should be kept in mind that a very small proportion of Albanian firms are used to face the terms of exposure in a competitive international environment.

In terms of Albania, given the poor level of diversity and reliability of historical data in country, you can apply the above models based on several assumptions and limitations that will become available in the future empirical study of the author. This study will serve the central institutions, academic ones and businesses; in order to help them to better understand the effects of Albania's EU integration, the importance and direction of these effects.

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