UNIVERSITY OF FERRARA
- EX LABORE FRUCTUS -

DA UNIVERSITY OF FERRARA department of architecture

UNIVERSITETI POLIS

Cluster Policies in Transition Economies
The case of Albania

Candidate: Elona KARAFILI
POLIS Supervisor: Dr. Peter NIENTIED
DA Supervisor: Prof. Gastone AVE
Cycle XXX

IUSS - Ferrara 1391

International Doctorate in Architecture and Urban Planning

IDAUP

INTERNATIONAL DOCTORATE in ARCHITECTURE AND URBAN PLANNING

Cycle XXX

IDAUP Coordinator: Prof. Roberto DI GIULIO

Cluster Policies in Transition Economies The case of Albania

Curriculum Urban Planning (SSD ICAR/20)

Candidate

Elona KARAFILI

(UniFe Matr. N. 122818)

(Polis Univ. Reg. N. PL581N010009)

Supervisor DA / POLIS

Prof. Gastone AVE

Supervisor DA / **POLIS**

Prof. Peter NIENTIED

Years 2014/2018

Acknowledgements

I want to dedicate a special appreciation to POLIS University, especially to Prof. Besnik Aliaj and Dr. Sotir Dhamo. Thank you for providing the possibility for this PhD program to happen in the first place and for pushing me to be part of it. This is a place which has seen me grow as a person and as a professional, and I consider it a second home.

I would like to express my sincere gratitude to my Supervisor, Dr. Peter Nientied, for his guidance, for his renowned "brutally honest" yet essential comments, but also for always being supportive and encouraging.

I wish to thank my Co-Supervisor, Prof. Gastone Ave, for his advice and carefully penned suggestions.

A recognition goes to my external reader, Prof. Pantelis Skayannis, for his meticulous reading and words of reassurance.

I would like to show the appreciation and the highest consideration for the Program Coordinator, Prof. Roberto Di Giulio and Program Supervisors, Dr. Theo Zaffagnini and Dr. Ledian Bregasi, for the careful and impeccable management of the program, as well as their readiness and kind assistance throughout the entire process.

A special thank you goes to Dr. Jan Fransen for sharing with me sources and ideas.

And finally a big thank you to:

My parents for the unconditional devotion and the unfailing support system they surround me with.

My co-pilot for everything (but mostly for driving me crazy and keeping me sane at the same time)

And my children, Amla and Jon, for the endless love, strength, light, joy and inspiration they bring to my life.

Abstract

This research studies cluster dynamics in transition economies, exploring the case of Albania. It analyses the effectiveness of policies adopted in cluster promotion, using complexity thinking and evolutionary economic geography approaches. Clusters are searched in relation to regional competitiveness and regional innovation systems, while discussing their features such as co-opetition, proximity and innovativeness, followed by a discussion on the role of institutions and policies in cluster development.

Often developing countries, where the 'model' of the developed countries is seen as the endpoint of a trajectory that must be followed meticulously, implying a view on modernization as a linear and uniform process, tend to import policies from the developed countries regardless of their context and institutional capabilities, therefore more often than not such policies show little effectiveness.

This research on cluster policies in Albania confirms this. For five industries selected based on the cluster mapping tool designed by European Cluster Observatory, a confrontation of the top-down and bottom-up cluster dynamics has been done, making use of the available documents, statistics and maps as well as through primary data gathered by questionnaires and semi-structured interviews. The outcome of the analysis reveals a significant discrepancy among the two, with the bottom-up initiatives achieving slow but tangible results and the implemented territorial policies failing to inject any dynamism to cluster development, indicating the need for a new route for policies that seek to promote cluster development.

This thesis suggests that in Albania there is a need to revise the way of thinking about clusters, considering them first and foremost as relational networks, instead of physically bound industrial districts.

While there is a feeling of exhaustion from top down policies and the national innovation systems prerogative, the suggested model by this research, in line with some of the most recent policy frameworks, advocates the need for flexibility, bottom up initiatives and place-based approaches.

By means of conclusion, the research comes up with an alternative model of territorial policies for cluster development, shifting from what can be called static towards dynamic planning.

Keywords: Transition economies | Cluster policies | Competitiveness | Innovation | Territorial Planning Policies

Sommario

Questo lavoro di ricerca studia le dinamiche dei cluster in economie in via di transizione. Più nello specifico esplora il caso albanese. La ricerca analizza l'effettività delle politiche utilizzate per la promozione dei cluster, adoperando approcci appartenenti ai rami del "Complexity thinking" e della "Evolutionary Economic Geography". I cluster vengono studiati dalla prospettiva delle competitività regionali e dei sistemi regionali d'innovazione, mentre in parallelo sono discussi altri loro aspetti legati alla competitività, prossimità e spinta innovativa.

Molto spesso i paesi in via di sviluppo guardano a quelli più sviluppati economicamente, come dei "modelli", come ultimo fine di una traiettoria che va seguita meticolosamente. Per questo, tali paesi tendono spesso a importare meccanicamente politiche già adoperate senza le dovute considerazioni legate alle specificità del contesto e alle rispettive capacità istituzionali, portando così a risultati inconcludenti.

Questa ricerca sulle politiche dei cluster in Albania, lo riconferma. Cinque industrie sono state selezionate sulla base di uno strumento preposto alla loro mappatura disegnato dall' Osservatorio Europeo dei Cluster. I vari dati estratti dai documenti a disposizione, le statistiche, le mappature, assieme ai dati primari ricavati da questionari e interviste semi-strutturate, sono stati utili per effettuare un confronto delle dinamiche dei cluster createsi, sia quelli *top-down* che *bottom-up*. Il risultato di queste analisi rivela delle discrepanze molto pronunciate tra le due dinamiche. Le iniziative che partono dal basso hanno raggiunto risultati modesti ma tangibili, invece le politiche territoriali applicate dall'alto non sono riuscite a iniettare dinamismo nei cluster, e hanno dimostrato il bisogno di una nuova rotta nelle politiche indirizzate alla loro promozione.

Questa tesi, suggerisce un nuovo modo di pensare ai cluster albanesi, considerandoli come vere e proprie reti relazionali piuttosto che statici distretti industriali.

Ad oggi c'è un generale sentimento di diffidenza rispetto a politiche applicate dall'alto verso il basso e alle prerogative dei sistemi innovativi nazionali. Questa ricerca suggerisce un altro modello, allineato con le più recenti tendenze e politiche che sostengono il bisogno di più flessibilità, di iniziative dal basso verso l'alto, e approcci più contestuali.

Con le conclusioni finali, la ricerca propone un modello alternativo di politiche territoriali per lo sviluppo dei cluster, in grado di discostarsi dagli attuali sistemi statici verso una pianificazione territoriale più dinamica.

Parole Chiave: Economie in transizione | Politiche dei cluster | Competitività| Innovazione| Politiche di Pianificazione territoriale.

Contents

List of Tables

List of Figures

List of Abbreviations and Acronyms

AADF – Albanian-American Development Foundation
AIDA – Albanian Investment and Development Agency
AITA – Albanian Information Technology Agency
AMA – American Marketing Association
ASIG – State Authority for Geospatial Information
B2B – Business to Business
BITAP – Business Innovation Technology Action Plan
BITS – Business Innovation and Technology Strategy
BRIC – Business Relay and Innovation Centre
CAS – Complex Adaptive Systems
CEE – Central Eastern Europe
CEO – Chief Executive Officer
CESS – Centre for Economic and Social Studies, Albania
CME – Coordinated Market Economy
CNA – Confederazione Nazionale dell'Artigianato
DME – Dependent Market Economy
EDEM – Enterprise Development and Export Markets
EEG – Evolutionary Economic Geography
EU – European Union
FDI – Foreign Direct Investment
GCI – Global Competitiveness Index
GDP – Gross Domestic Product
GERD – Gross Expenditures on Research and Development
GIZ – German International Cooperation
HEI – Higher Education Institution
ICT – Information and Computer Technology
IFC – Institutions for Cooperation
IMF – International Monetary Fund
INSTAT – The National Institute of Statistics of Albania
IPR – Intellectual Property Rights

IS – Innovation System

LDC – Less Developed Country

LME – Liberal Market Economy

MTE – Ministry of Tourism and Environment

NASRI – National Agency for Scientific Research and Technology of Albania

NUTS – Nomenclature d'Unités Territoriales Statistiques

OECD – Organization for Economic Cooperation and Development

PIN – Integrated Inter-Sectoral Plan

RDA – Regional Development Agency

SIDA – Swedish International Development Cooperation Agency

SME – Small and Medium Enterprise

TEDA – Technological and Economic Development Area

TP – Technological Park

UNDP – United Nations Development Program

UNECE – United Nations Economic Commission for Europe

USAID – United States Agency for International Development

VET – Vocational Education Training

WB – World Bank

WEF – World Economic Forum

WTTC – World Travel and Tourism Council

WWII – World War II

1. INTRODUCTION

1.1 Scope of the research

The development of economic clusters is an undeniable phenomenon of the last decades, whether a spontaneous or intended outcome. The topic has been heavily searched and discussed and yet there is little consensus on almost any aspect related to clusters. There are different thoughts on if and to what extent do clusters work, if and to what extent can they be affected by policy, if there is indeed a rationale for cluster policy and if so, what kind of policy works. There is little agreement also on the methodology to be used while researching clusters.

Cooke (2012) distinguishes among cluster sceptics and cluster enthusiasts, and though while conducting this work all efforts will be made not to lose sight of the arguments brought forth by both groups, this research builds upon the hypothesis that indeed clusters can contribute to a better regional competitiveness, and that there is a role for policies to facilitate and accelerate cluster dynamics. But in order for these policies to be effective they must be context appropriate.

Research can inform these policies. In Albania clusters are already a sought after objective by both, the national and local policies, but thus far there are very few research outcomes to refer to.

Even though more than 25 years have passed since the change of the regime from a centralized socialist economy to the market economy, Albania can still be considered a transition economy that is trying to reinvent and redefine itself. It remains a country characterized by a form of young and raw capitalism with a stubborn influence from the past. Decades of centralized economy, lack of private ownership, and a dictated “self-sufficiency” can seriously affect the behaviour of the economic actors, which is witnessed to this day in the country’s economy. When followed by a chaotic period of post-socialism with a massive ‘brain drain’ due to emigration, weak and unprepared institutions and the

sudden confrontation with the rest of the world after years of isolation, it can produce a very specific economic and social environment, which cannot be treated following ready to use recipes.

Albania's current economy is dominantly composed by small and medium enterprises (SMEs), which when not in survival mode, find it hard to compete and perform. As success stories from all over the world suggest, the formation and development of clusters has positively influenced the competitiveness and performance of SMEs participating in clusters as opposed to isolated firms. These results together with the renewed interest on regions as focal points of development in the today's globalized and knowledge based economy, have encouraged almost all countries to include the promotion of clusters in their regional policy, sometimes trying to replicate success stories with little regard to their own context.

As stated earlier this research is based on the hypothesis that there is a role for cluster policies but their effectiveness is by and large dependent on their contextualization and ability to be implemented in certain conditions.

1.1.1. Research objective

The objective of this research is to explore the cluster dynamics in transition economies and how cluster development is shaped by policy, drawing lessons from the Albanian case.

1.1.2. Research questions

In order to achieve the somewhat ambitious objective of this research, it is imperative to obtain an in-depth understanding on how clusters work, what are the actors involved and what drives them? The main questions that the research will seek to answer are the following:

- How has the cluster concept evolved from industrial districts to innovative clusters? What are the underlying conditions for the cluster development?
- Do institutions play a role?
- Do cluster dynamics in transition economies follow the same pattern as in the developed economies?
- What are the features of transition economies that influence cluster development and what kind of cluster policies are needed?
- Does urban planning influence cluster development and how?

1.1.3. Research structure

The structure of the research revolves around these questions. Consecutive to this chapter, Chapter 2 discusses the selected approach while conducting this research, as well as explains the methodology used.

Chapter 3 will investigate the evolution of the concept of clusters and their role in the regional competitiveness based on the existing body of literature and examples discussed in former studies.

Chapter 4 keeps the discussion in a macro level focusing on the role of institutions, the rational for cluster policies, the various kinds of policy, paying specific attention to the characteristics of transition economies.

Following a zooming in perspective, Chapter 5 explores the cluster dynamics in Albania, mapping the cluster initiatives in the country with a specific focus on the interplay among the clusters' actors and the impact of cluster policies, with a particular focus on the role of planning in cluster development.

Chapter 6 builds upon the findings of the former chapters and after making an assessment of the current policies, drafts a framework for cluster policies in transition economies with a special focus on planning policies.

Through such framework the research seeks to provide a contribution to increase the cohesion among economic and planning policies and their effectiveness in cluster development and SME competitiveness.

Facts and figures on the Albanian economy depict an underwhelming performance of the Albanian economy in terms of global competitiveness and especially innovation. The international indicators WEF (2015), World Bank (2013), OECD (2015) and a few studies on the competitiveness and innovativeness of the Albanian economy (Bahiti and Shahini (2010), Prašnikar (2012), Xheneti and Bartlett (2012)) all conclude that Albania is lagging seriously behind.

Nientied and Karafili (2016), through their empirical research on the business innovation perspective in Albania reconfirm the significant innovation gap of Albania with the international benchmarks and also hold a critical view on the effectiveness of the governmental policies. “Based on our literature review and empirical work, we conclude that a policy focus on building a national innovation system is not very useful. It is an unsure, long term development that cannot be well governed. It results in policy documents that are not implemented, and are copies of what Western European countries have formulated”.

1.1.4. Added value of the research

The international indicators and former studies conducted in Albania reveal the need to improve the performance of the Albanian economy and the need for better policies for such purpose. This research intends to provide a contribution with this regard.

There are very few studies on clusters in Albania and even less on cluster policies, therefore the empirical research will result in new / original knowledge which will inform policy-making and other stakeholders alike. Its findings benefit the governance, the researchers in the field and ultimately contribute for a more cohesive and better integrated policy in territorial and economic terms. Albania just underwent a major territorial reform that led to a new administrative division of the local governance in the country, there is

also a new general national plan, Albania 2030 for the strategic territorial development of the country recently approved (Ministry of Urban Development, 2015) , as well as alternative proposals such as Albania 2030 manifesto (Aliaj et al. 2015), therefore the timing is right to bring forth studies that explore further the territory – economic activity relationship in the Albanian conditions.

The added value of this research is believed to go beyond the national scale. There is an international interest for more case studies, evidence from transition economies, or developing countries stressed by various authors such as Andersson (2004), Giuliani (2013), Nadvi (1999), Humphrey and Schmitz (2001), Pietrobelli and Rabellotti (2011).

Giuliani (2013) suggests the replication of her research of the wine cluster in Chile to other sectors and countries, developed but especially the emerging and developing countries and see if similar or different results would be achieved.

Pietrobelli and Rabellotti (2011) discuss in their paper on Innovation System in developing countries that "IS literature often plays down the crucial impact of international information exchange and collaboration on the generation and diffusion of knowledge and innovation, for example, through inter-firm and intra-firm networks. This argument in relation to less developed countries (LDCs) is even more important. The extra-national influences on the innovation process are particularly crucial given that frontier innovation is rarely achieved in LDC and most of the knowledge and technology has to be imported." They conclude by underlining the importance for further research on the topic especially in developing countries.

Not only do empirical research and evidence from different countries adds to the current body of literature but studies as this one, that takes as a case study a transition economy like Albania which has substantial differences from many developing countries elsewhere help understand better the convergences and divergences of cluster dynamics and the role for cluster policy in varying contexts.

2. METHODOLOGY

2.1. Methodology

This study is an exploratory case study, a method that is appropriate where the boundaries between phenomenon and context are not clearly evident Yin (1994).

The industries are selected based on the cluster mapping tool designed by European Cluster Observatory (2017), which uses 4 criteria: i) Size of the industry; ii) Specialization iii) Productivity and iv) Growth (or Dynamism).

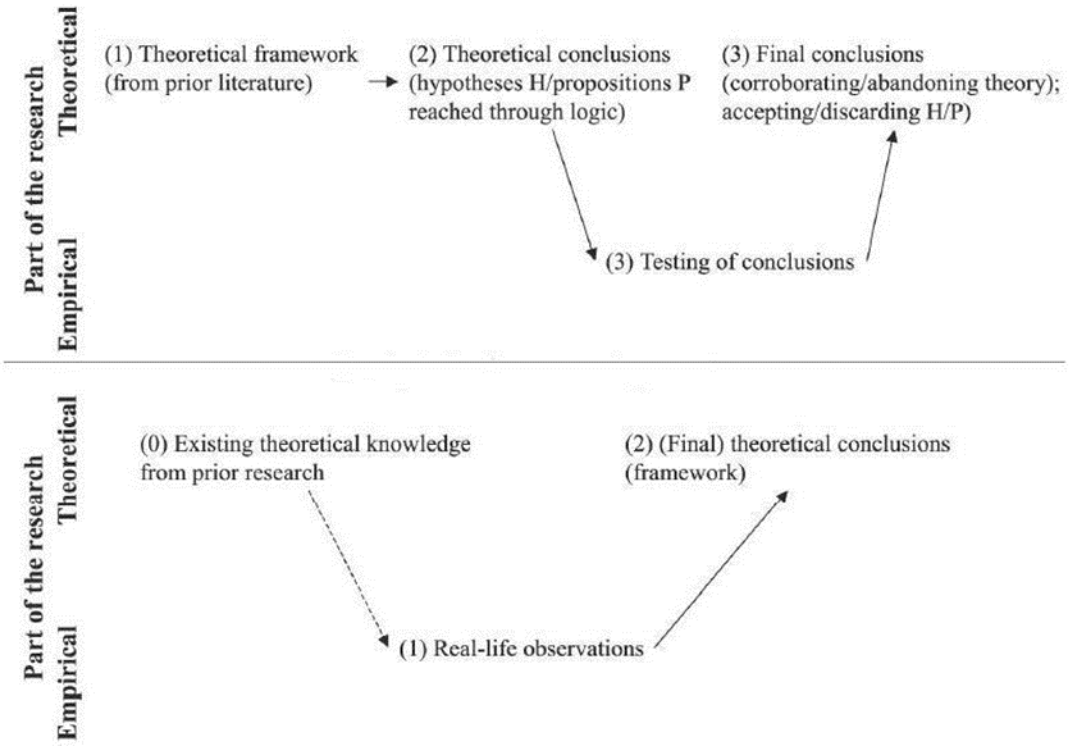
One of the difficulties faced while applying the cluster mapping tool to the Albanian case is the reliability of the data on the aforementioned criteria, considering the high level of informal economy present in the country.

Other two main methodological challenges with regard to the empirical research: the delimitation of the cluster area and the disaggregation of the indicators to the cluster level.

For the delimitation of the cluster area the mapping exercise serves as a starting point to identify the geography of the cluster firms, whilst for the other cluster actors a broader regional perspective is kept in consideration. Here an additional challenge is the identification of the cluster actors. The databases of the chamber of commerce and industry and of AIDA (Albanian Investment Development Agency) served as a starting point, followed by adopting the 'snow-ball method' (actors pointing to other actors they cooperate with). Given the size and population of Albania, some statistics are already revealing in national level without further disaggregation, the real challenge is the disaggregation of sectoral or industry specific indicators in meso level.

However, the statistics are only complementary. Considering that the main focus is on cluster policies, the inputs are gathered through observations and interviews with the actors. The used methodology therefore is that of inductive research approach which follows the case – results – rule process, as opposed to the rule – case – results followed in the deductive approach. (Spens & Kovas, 2005)

Figure 1 - Inductive and Deductive Research Approaches



Source: Spens and Kovas (2005)

The semi-structured interviews (see templates in appendix 1 and 2) were used to obtain more in depth insights from the actors (firms, financial institutions, universities, government) (n=50) in the selected clusters and their interplay. The aim was to obtain a more elaborated response on the dynamics of the selected clusters and on the impact that general and sector or cluster specific policies have on these dynamics.

The interviews covered in detail topics such as the level of trust among the actors, how much and to what extent are they willing to share with each other, in which areas are they more prone for cooperation and the bottlenecks they face.

The policy impact was also thoroughly discussed, following a semi-structured set of topics prepared by the researcher in order to establish a common understanding on what will be considered as cluster policy (not only the sector specific and direct policies, but also the framework or indirect ones)

The face to face meetings with some of the interviewees also enabled the application of the so called Delphi method, an iteration process that led to the definition of the final framework: Dynamic Planning for Cluster Development.

2.2. Constraints and Limitations

It is important to highlight that this is the first study of these dimensions of clusters in Albania, therefore it produces original / new knowledge regarding this topic in the Albanian context, but also faced the lack of statistical data to refer to.

A study like this which examines the case of a single country, has obvious limitations to generalize the drawn findings but enables an in-depth analysis which can be more instrumental than comparing national indicators (that would require contextualization) or other macro-scale indicators while searching complex and multi-layered topics like the one at hand.

2.3. Approach

Although economics has for most part ignored the territorial dimension of the economic activity, the need to understand how firms make their location decisions has led to the development of location theories since almost two centuries now, starting with Von Thünen's "Isolated State" (1826), Alfred Marshall's industrial districts (1920) the Central Place Theory (Christaller, 1933), Alonso's (1964) monocentric city, Henderson's system of cities (1974), etc. Although most of them remain valid theories to understand the spatial behaviour of economic actors, considering the time and setting when they were formulated, these theories were mainly concerned with the land use patterns within the city or region.

Starting with the post-industrialization era, the breakthrough innovations in technology, ICT, transportation, the rise of the service sector, the rise of syndicates, the increasing standard of living in the developed countries, the reversed weight of transportation and

labour costs in the total costs, companioned with changes in politics, geopolitics, free trade agreements and freedom of movement in general (goods, people and capital) have led to today's globalized and knowledge based economy. Much to the contrary of what was initially expected (as discussed by Ricardo), these movement of production towards low cost locations did not lead to an evenly distributed economic activity and wealth. The world is not flat as Friedman would state (2006), rather spikier to put it in Florida's words (2005).

“Paradoxically the enduring competitive advantages in a global economy, lie increasingly in local things – knowledge, relationships and motivation that distant rivals cannot match.” (Porter, 1998)

The location decisions of firms mean a whole new thing in these conditions, and while there's no denying of the need to understand the logic behind these decision-making process, there is less agreement about the approach to be adopted on firm's location decisions.

Boschma and Frenken (2006) in their introduction of evolutionary economic geography thoroughly discuss and compare two distinguished approaches: the neoclassic approach and the institutional approach, to be later followed by the introduction of a new paradigm: the evolutionary economic geography EEG. The features of each approach are summarized in the table below:

Table 1 - Approaches in Economic Geography

Table 1. A comparison of the three approaches in economic geography

Key issues	Neoclassical	Institutional	Evolutionary
Methodology	Deductive	Inductive	Both
	Formal modelling	Appreciative theorizing	Both
Key assumptions	Optimising agent	Rule-following agent	Satisficing agent
	A-contextual	Contextual (macro)	Contextual (micro)
Conceptualization of time	Equilibrium analysis	Static analysis	Out-of-equilibrium analysis
	Micro-to-macro	Macro-to-micro	Recursive
Geography	Neutral space	Real place	Neutral space → real place
	Transport costs	Place dependence	Path dependence

Source: Boschma and Frenken, (2006)

For the purpose of this research, the EEG approach will be adopted. As formerly stated, the optics on clusters adopted here, is the one that emphasizes the importance of contextualized policies, which highly depend on local specificities. It is therefore clear that such perspective retains the geographic locations of clusters as “real places” as opposed to the “neutral place” approach.

Or as Pike, et al. (2011) put it “… the opposition between a ‘spatially blind’ conception of local and regional development informed by ‘new (economic) growth theory’ and its emphasis upon the agglomeration and spill-over benefits arising from the geographical concentration of growth … and the ‘place based’ view of tackling persistent economic inefficiencies and social exclusion in specific places to promote more balanced and distributed endogenous growth as the basis for EU cohesion policy”

The same view is hold by Asheim, et al. (2009), who build upon the distinction of Immanuel Kant among the physically and logically defined sciences. “Geography and history are ideographic, synthetic (i.e. empirical based) sciences, while the logically defined are nomothetic, analytical”

Clearly the economic geography, the term being self-revealing, seeks to combine an ideographic and a nomothetic science, but the first cannot be entirely dismissed as in the case of Neo-classic approach. Understanding the spatial behaviour of the economic actors and their location decision is a geographic analysis which as understood by Asheim is *“contextual”.* It is important to underline that by contextual is meant more than distance, rather all the range of interactions and their outcomes enabled by physical proximity.

Following this logic, the point of view adopted here is more inclined towards the institutional approach, which prescribes the use of inductive methodology and appreciative theorizing. The use of formal modelling, considering the validity and reliability of data in Albania, would be challenging in the first place, additionally and more importantly applying a case study method is believed to provide more accurate insights on the topic at hand.

But this approach also complies with the EEG paradigm which accepts the "methodological pluralism", mostly because the neoclassic approach is not to be entirely dismissed, as the application of mathematical models (see Fujita, Krugman and Vernable discussed in the upcoming chapters) provides a general understanding of the "why" of the formation of agglomerations in the first place, providing an explanatory analysis rather than a descriptive model. Nonetheless, the use of formal mathematical modelling is rejected by many scholars, who base their critique in the context sensitivity of the regional development. De Paula and Dymski (2005) claim that "theoretical models can best help us imagine new possibilities if they are institutionally specific, historically informed, and able to incorporate diverse social and psychological processes"

Another reason to adopt the EEG approach stands in the key assumption on firm behaviour. The institutional approach sees firms as rule following agents. By contrast, Albania has a thick experience and history of "disobedience to the rules" or rather spontaneous action after the regime change. The country has seen a very rapid and dramatic informal development, in terms of informally built settlements, but more importantly in terms of economic development.

Finding the post-socialist institutions unprepared, unorganized and unable to provide alternatives, there has been a massive spontaneous development in the country, dominantly informal by some or all standards, estimated to reach up to 50% of the entire economy in 2004. Aliaj (2006). This institutional vacuum, filled in by people's own initiative has also been subject to former studies (see Aliaj, et al. (2010))

The assumption on the locational behaviour of firms is what actually departs the approach on this research from the institutional approach, bringing it closer to the EEG, which "views the traditional determinants of firm (location) behaviour as being price signals (neoclassical) and place-specific institutions as conditioning the range of possible (location) behaviours and potential locations, but not determining actual (location) behaviour and locational outcomes" (Boschma & Frenken, 2006)

Indeed, the author's optics on the role of institutions, governance and policies is that of enhancers rather than determinants. Therefore for the purpose of this research, the EEG approach will be adopted.

3. ECONOMIC CLUSTERS AND REGIONAL COMPETITIVENESS

Defining the concepts

3.1. Regional Competitiveness

Regional competitiveness has risen to a unanimously and almost axiomatically accepted law of the globalized economy, where increasingly not only nations but regions compete over the 'footloose' capital (human and financial) and export market shares.

Policy makers were quick to adopt the competitiveness notion in their agendas, often relying on instruments such as place marketing or place branding, which have become highly fashionable during the last decades.

Place Marketing counts a number of definitions, among which some focus on the measures a city must undertake (Ashworth & Voogd, 1990), some on the attractions and services (Kotler, 1999), and some on the communication and branding (Kavaratzis, 2004).

One all-embracing definition is that of van den Berg, et al. (1990) activities intended to tune the supply of urban functions to the demand from the city "consumers" – the latest being divided into residents, business and visitors.

The American Marketing Association defines marketing as: "The activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. " (AMA, 2013).

Yet Place Marketing is not a simple translation of the marketing process, it implies adopting the marketing's principles rather than copying its techniques. The contributions of marketing scholars especially Kotler's, broadened its concept by introducing non for profit marketing, social marketing and image marketing. Yet the concept remains somewhat ambiguous and its elusiveness derives from its very subject – the city or region.

Ashworth and Voogd (1990) focus on a mix of measures (in line with the marketing mix) that a city governance must undertake to increase the overall attractiveness of a place.

Hubbard & Hall (1998) focus on cultural and art events and pay high emphasis to promotional activities for the city.

Kotler (1999) focuses on the amenities hence the major subject is the product development: the attractions, design and services of a city.

Corsico (1994) starts its discussion on urban marketing by referring to the city with three metaphors: the City – enterprise; the City – product and the City – market.

Not surprisingly Corsico uses metaphors while addressing city marketing. We all have an individual perception of the city, related not only to the city per se, as per our own experiences and associations.

If the ultimate aim is positioning a city into its end users' mental maps – the city being referred to its perceptive form rather than its mere physical appearance- than the metaphors, the associations, the perceptions become the real domain of City Marketing. Its focus then is the image of the city, and this image is shaped and built by altering the way it is perceived.

While describing its theoretical framework on the transition from city marketing to city branding, Kavaratzis, (2004), states that the city image is communicated via Primary Communication, Secondary Communication and Tertiary communication.

Primary Communication – referring to the hardware of image communication such as landscape design, the architectural objects, infrastructure investments, public spaces, additional administrative structures, etc. This is also very much in line with what Kotler suggests as "attractions and services".

Secondary Communication – referring to the intentional communication of the city's image through marketing campaigns, advertisement, Public Relations, graphics, logos.

Tertiary Communication – stands for the communication that goes beyond the marketer's reach, the uncontrollable one, consisting in the word of mouth and media.

We have witnessed an over-exposure to place brands and slogans that seek to entice tourists and investors alike by several countries and regions, especially in the less developed or developing countries. In addition to the secondary communication, the physical betterment of the city is also a tool used by several urban governments in these countries, but even in this case more often than not, seeking for a 'golden bullet' solution or acupunctural interventions, such as landmark architecture and events. The quest for landmarks reached new heights especially as a post-Bilbao phenomenon. A similar approach has been the race among many places to be the hosts of mega-events such as the Olympic Games. Their impact however has once again reconfirmed that there is no "one size fits all" approach in place competitiveness. Let's recall the success of the Barcelona Olympics in 1992 and the failed attempt to replicate the story in Athens 2004.

Even by its most enthusiastic proponents place marketing is considered effective only if integral and supported by a wide range of stakeholders. However, that is not always the case. Albeit its popularity, the effectiveness of place marketing is questionable, in part because the adopted marketing strategies by many countries often are reduced into mere advertising.

"Marketing communications are perfectly justifiable when the task is essentially one of selling a product — and the product can just as well be the holiday resorts or investment opportunities of a country as the products of a corporation — but there appears to be no evidence to suggest that using marketing communications to influence international public perceptions of an entire city, region or country is anything other than a vain and foolish waste of taxpayers' money." (Anholt, 2008)

Indeed, what an increasing number of authors emphasize is the diplomacy of deeds rather than that of words. So basically, the primary focus of the efforts undertaken by these countries must be to improve first and foremost their realities, rather than investing in image communication.

As Ave (1994) rightfully notes, the question of timing is everything in urban marketing. If not included as integral part of the design process, the role of marketing a posteriori can only be limited. "If design and implementation are kept totally separated, then urban

marketing is deprived any strategic function and is conceived, in practice, as nothing more than advertising" (Ave, 1994)

Despite the debate on their effectiveness, the ubiquity of place marketing strategies is a clear symptom of the increasing awareness of nations, regions and cities that they are indeed competing in the global market.

The competitiveness 'fever' has infected scholars and policy-makers alike leading to a myriad of rankings and indexes that try to measure competitiveness and regions around the global trying to climb them.

In geographic terms, the whole competitiveness discussion started in national scale. The two major school of thoughts in the early 90's were Krugman's (1994) market share view and Porter's (1992) productivity view on competitiveness.

Albeit (in)famously claiming that unlike firms, places cannot go out of business, Krugman's concern with the competitiveness being a 'dangerous obsession" was mostly in reference to its impact on policy: countries facing an increasing pressure to lower costs in order to rise exports, leading thus to a race to the bottom.

Despite the received criticism for his dismissal of the competitiveness among places as a reality, Krugman's discussion on the term "competitiveness" being used as a poetic way of saying productivity is by all accounts still relevant.

Productivity remains the arch-indicator (The Global Competitiveness Report, the European competitiveness index) of a nation's or region's performance.

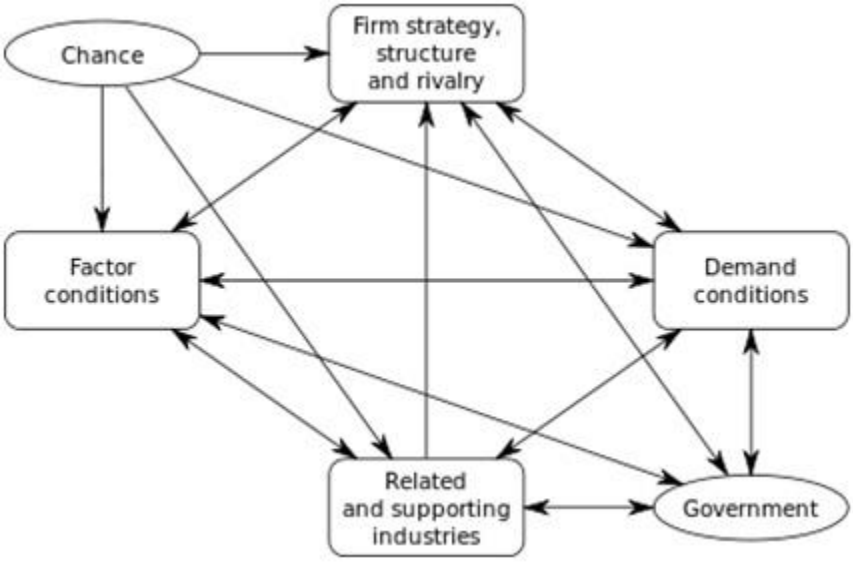
There is however a growing sensitivity on other drivers of competitiveness. There is a debated topic among partisans on 'productivity' as the only meaningful indicator (Krugman, (1994); Porter, (1992)) and others (Kitson, et al. (2010), Cooke, (2012), Malecki, (2004)) arguing that in order to create and sustain competitiveness a region must also generate the so called soft externalities deriving from 'soft' factors such as culture, social ties and trust.

In same fashion, Cooke, et al. (1998) list trustful (rather than antagonistic) labour relations, workplace cooperation, worker-welfare orientation, mentoring (versus 'sink or

swim'), externalization and innovation (in contrast to adaptation) as characteristics of strong potential for regional systems of innovation.

One prevailing standpoint when looking at regional competitiveness, popular among academicians but even more so among policymakers is the competitiveness concept developed by Porter. Albeit the famous Porter's Diamond. (Figure 2) was initially designed as a model to assess the national competitiveness, it has been, since, one of the most commonly used instruments to frame regional competitiveness.

Figure 2 - Porter's model of competitive advantage



Source: Porter (1998)

What according to Porter is required in order to have a competitive advantage is a critical mass of firms who compete with one another, (the stronger the rivalry, the better), related and supporting industries, factor conditions (such as natural resources, infrastructure, labour, technology, etc.) and demand conditions (the more demanding the market, the higher the level of sophistication). Albeit, originally intended as a framework for national competitiveness, Porter's diamond has been extensively used to assess regional competitiveness as well and its most influential outcome has been the introduction of economic clusters as a means of increased productivity and competitiveness.

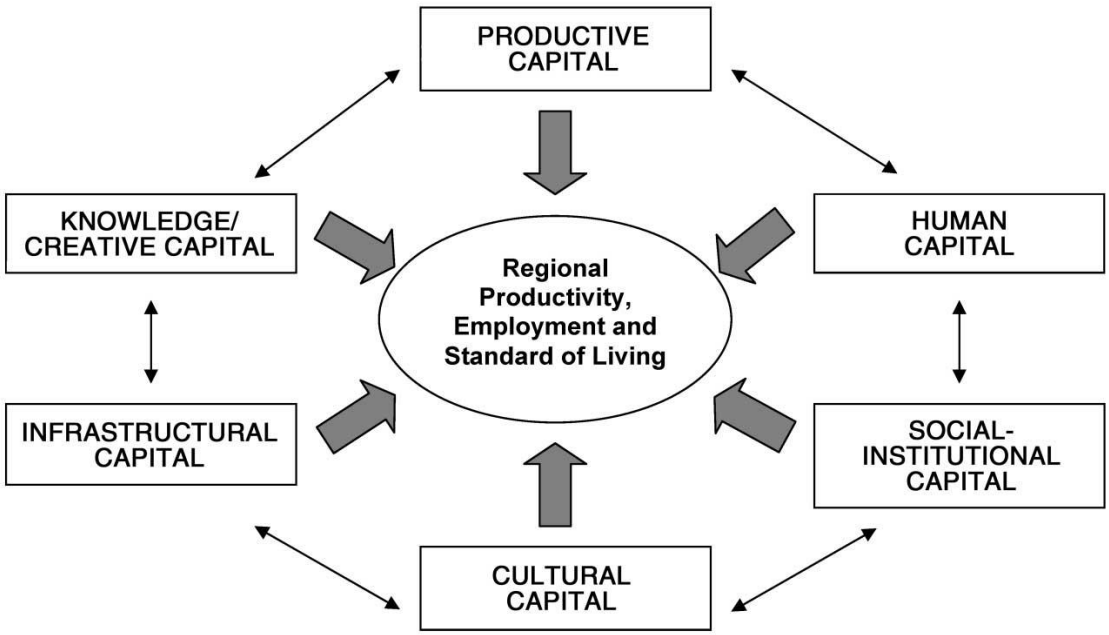
However more often than not, the translation of this model into a practical analysis for policy making results to be a difficult exercise. Martin and Sunley (2001) who hold a critical

view on the inflation of the cluster concept as a policy tool claim that the very notion of clusters is elusive and that's intentional, so that it can be broadly applied. It is precisely due to its vagueness that the concept achieved such popularity, they claim. "Porter's cluster metaphor is highly generic in character, being deliberately vague and sufficiently indeterminate as to admit a very wide spectrum of industrial groupings and specializations (from footwear clusters to wine clusters to biotechnology clusters), demand-supply linkages, factor conditions, institutional set-ups, and so on, while at the same time claiming to be based on what are argued to be fundamental processes of business strategy, industrial organization and economic interaction"

Still, one could argue that the regional competitiveness concept is itself broad and loosely defined. To quote Kitson (2010) although a key concept, regional competitiveness remains an elusive one. The elusiveness lies in both: the definition of competitiveness and the definition of region.

His model of regional competitiveness identifies 6 different kinds of capital as bases for regional competitive advantage (Figure 3).

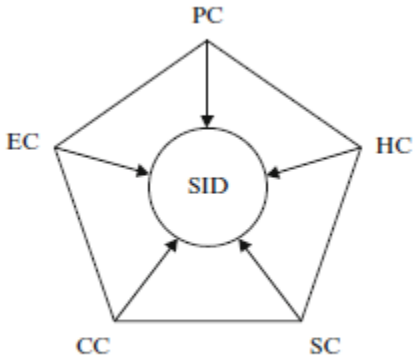
Figure 3 - Bases of regional competitive advantage



Source: Kitson, et al. (2010)

Very similarly, Nijkamp and van Hemert (2009) have developed a model for Sustainable Innovative Development for regions, which is based in 5 success factors: Productive Capital (PC); Human Capital (HC); Social Capital (SC); Creative Capital (CC) and Ecological Capital (EC) as in Figure 4

Figure 4 - The pentagon model for Sustainable Innovative Development



Source: Nijkamp and van Hemert (2009)

However, if one is to accept these holistic frameworks on the factors of competitiveness, one will inevitably be confronted with the elusiveness of some of the factors as well: How to measure, for instance, the knowledge or creative capital?

Efforts have been made by, among others, Florida (2002) with his illustrious discussion on the rise of creative class as a superior class that outperformed the others, and how a region's amenities and high quality of life determine its success to attract and maintain the creative class. Florida's work however focuses only on metropolitan areas and has faced criticism (see Glaeser, 2005) especially in statistical terms: that he is merely substituting employment in highly skilled occupations as a proxy for the endowment of human capital.

The 'social capital' is also hardly measurable albeit increasingly pointed out as a very important factor or regional development in general. "Distinctive local strategies of regional development can be expected to persist and, indeed, it is the distinctive social

and cultural histories of places that are most likely to generate the kinds of social ties and 'social capital' that are to be the basis of effective regional development." (O Riain, 2011)

However, what is important to underline here is the concern with the goals to be pursued while aiming at regional competitiveness, and the importance for policy to look beyond 'productivity' as the sole indicator of competitiveness.

The criticism towards the exclusive use of productivity as the measure for competitiveness is not only academic. It has been long discussed (among others by Reich (2012), (2016)); Glaeser (2005)) that public policies influenced by the wealthy have prevented higher productivity to alleviate poverty leading instead to aggravated social inequality.

"Most Americans believe that a rising tide should lift all boats—that as the economy expands, everybody should reap the rewards. And for two-and-a-half decades beginning in the late 1940s, this was how our economy worked. Over this period, the pay (wages and benefits) of typical workers rose in tandem with productivity (how much workers produce per hour). But in the 1970s, this started to change. From 1973 to 2016, net productivity rose 73.7 percent, while the hourly pay of typical workers essentially stagnated—increasing only 12.5 percent over 43 years (after adjusting for inflation). This means that although Americans are working more productively than ever, the fruits of their labours have primarily accrued to those at the top and to corporate profits, especially in recent years." (Economic Policy Institute, 2017)

Indeed, the concern over competitiveness is often associated with a concern over "cohesion", which in Europe is an articulated goal and high on the agenda of the European Commission itself, since the Maastricht Treaty in 1992. There is a myriad of programs, projects and other instruments dedicated to reducing the disparities funded mainly by the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. Cohesion is considered and interpreted by EU as an essential component of competitiveness.

Therefore, increasingly one comes across definitions of place competitiveness that explicitly include the standard of living in their formulation.

One such definition that has become widely accepted is that of Storper (1997) “The ability of an (urban) economy to attract and maintain firms with stable or rising market shares while maintaining or increasing standards of living for those who participate in it.”

Similarly, the World Economic Forum, author of the annual report on global competitiveness, (which indeed is formulated with productivity as the arch-indicator), introduced in the 14-15 edition the so called ‘sustainability adjusted global competitiveness index’), putting an explicit emphasis on aspects such as social sustainability and environmental sustainability in line with the Sustainable Development Goals. “Fundamental to the concept of sustainable competitiveness is the notion that, although competitiveness can be equated with productivity, sustainable competitiveness can be linked to a broader concept that focuses on aspects that go beyond mere economic outcomes to include other important elements that render societies sustainably prosperous by ensuring high-quality growth.” (WEF, 2015)

There is a growing convergence among many frameworks that seek to define and measure competitiveness in their attempts to recognize that competitiveness on its own does not suffice to guarantee a long term and sustainable development, therefore social and increasingly environmental aspects are included in the indicators of competitiveness. (See also the concept of smart regions, OECD’s Better Life Index; and the United Nations Development Programme’s (UNDP) Human Development Index (HDI).

However, among the myriad of indexes it is difficult to escape the perplexity over the indicators of competitiveness and their measurability especially in regional level, when most of the indicators are measured in national scale.

As formerly discussed the fuzziness of regional competitiveness stands in the elusiveness of competitiveness as well as in that of scale. The regional level is often considered the layer in between the global and the local economy, or the so-called meso level, which makes it all the more difficult to define. As Dicken, et al. (2001) discuss “An understanding of the global economy must incorporate multiple scale of economic (along with political, cultural and social) relations. Too often a particular (for example local) or a bifurcated (for example global – local) geographical analysis is used in ways that, in effect, preclude

alternatives and that obscure the subtle variations within, and the interrelations between, different scales"

A contribution on the various indicators and scales of competitiveness is brought forth by Cellini and Soci (2002) which ultimately conclude that a generalized application of competitiveness is meaningless for such a complex notion.

Nonetheless, their categorization of competitiveness in terms of scale provides an interesting insight, differentiating among the micro scale competition (in firm level), the macro scale competition (in national level) and the meso scale competition in regional level, the latter being the most difficult to measure as it is neither a minimized version of the competitiveness among nations nor a mere sum of the competitiveness of the firms that operate in a given region.

Defining regions is a separate discussion altogether, taking into consideration that the term region bears not only an economic, but also a geographic, administrative and cultural meaning.

Oxford Dictionaries define region as "an area or division, especially part of a country or the world having definable characteristics but not always fixed boundaries."

Encyclopaedia Britannica defines the notion of region in social sciences as: "a cohesive area that is homogeneous in selected defining criteria and is distinguished from neighbouring areas or regions by those criteria. It is an intellectual construct created by the selection of features relevant to a particular problem and the disregard of other features considered to be irrelevant. A region is distinguished from an area, which is usually a broader concept designating a portion of the surface of the Earth. Area boundaries are arbitrary, established for convenience. Regional boundaries are determined by the homogeneity and cohesiveness of the section"

Perroux (1964) sees regions as "…centres (or poles or foci) from which centrifugal forces emanate and to which centripetal forces are attracted."

As we see the very definition of regions is based on the idea that boundaries are not fixed, rather subjective to the purpose.

With regard to regional competitiveness, Gordon (2011) differentiates among place competition, place competitiveness and territorial competition. "… 'territories' – or somebody acting on their behalf – may be seen as playing an active collective role in securing the conditions to promote competitive success for firms and individuals based in their area. This is the strong sense of purposive 'territorial competition', rather than of simply de facto 'place competition' or 'place competitiveness'"

Following this logic, the territorial competition triggers action and leads to competition policies. Albeit the impact of policies does not necessarily confine to the administrative boundaries of an area (region or country), they are pursued targeting predefined administrative regions, especially so when the policies adopted are cluster policies that seek to improve the territorial competitiveness, "It should be stressed that the spatial dimension does not limit clusters to stay within national borders. Clusters generally engage actors and resources located in multiple countries." (Enright, 1999)

When discussing policies, even though certainly the effects of policies will spill over the region's boundaries, jurisdiction and the administrative division of regions is to be taken into account. This clearly varies from country to country, but a general reference for the regional division is the European Commission's NUTS (Nomenclature d'Unités Territoriales Statistiques) taxonomy.

Although it is compulsory only for the member states, other countries like the Western Balkans that aspire to join the EU have tried to comply with this nomenclature while trying to come up with the most appropriate scheme of regionalization. It goes without saying that with the high degree of polarization present in these countries, the capital city and its surroundings constitute a predefined region.

In the case of Albania, Tirana-Durres region occupies 8.4% of the surface of the country, while hosting 37% of the population, expected to increase with a total of 26,4% in Tirana by 2030. The region's contribution to the GDP is 48%. (INSTAT, 2016)

Because of such a high valence and dominance in the country's economy, many national indicators are revealing for the region as well. Moreover, in terms of NUTS categorization, Albania as a country and Tirana-Durres as a region both fall under the NUTS 2 division

(with a population that lies in the 800.000 – 3.000.000 threshold) according to the National Census on Population and Dwellings, 2011.

Therefore for the purpose of this research, national statistics will serve as a proxy for the regional ones, in the absence of the latter. Additionally, considering the focus on cluster policies, in Albania the national scale is pertinent as it determines most of the factors that influence regional competitiveness and cluster formation. The regional governance has little say in major infrastructure investments, higher education policies, labour regulations and the like, while factors such as culture and social capital are embedded in the social fabric and as such show little variation across the country.

Moreover, in terms of competitiveness, a critical mass is also required. The size of the market is one of the major weaknesses of all the Western Balkan countries. Therefore, in terms of regional economics, the EU Commission, responding to calls from the region has initiated a process for a deeper integration of the entire Western Balkan region – a concept referred to as WB Regional Economic Area. “The Western Balkans Regional Economic Area aims at developing an area where goods, services, investments and skilled workers can move without obstacles. It will scale up the market available to potential investors in the region: access to almost 20 million consumers from a single base, and opportunities to create value chains across borders will boost Western Balkans economic attractiveness, also taking advantage of trade relations with the EU.” (European Commission (2017).

By way of conclusion, while regional competitiveness is not easily defined or measured, this has not kept nations or regions to devise policies that seek to improve their competitiveness. Clusters’ promotion is often part of these policies, considering (as will be discussed later on) their correlation with regional competitiveness, and their impact on competitiveness factors such as productive and social capital.

3.2. Clusters

Clusters vary from manufacturing (automotive production, textiles typically in developing countries), to service clusters (Wall Street or East London as financial centres), to high-tech clusters (typical example being the Silicon Valley).

Economic clusters as defined by Porter (1998) who is credited for introducing the term are “geographic concentrations of interconnected companies and institutions in a particular field, linked by commonalities and complementarities.”

Based on this definition one can immediately identify some key words:

- The cluster features: proximity and linkages among the actors.
- The cluster actors: Companies and Institutions

Although this is the generally accepted and the most referred to definition of economic clusters, it has also led to some interesting questions which are since being researched: the role of the actors, (especially the role of the institutions) and the role of proximity and linkages as factors of cluster formation.

With this regard, the geographic proximity represents what can be called “conventional wisdom” in economics: co - location creates economies of scale and knowledge spill overs, or the so called Marshall’s externalities.

However, it is a century now since Marshall (1890) discussed Industrial Districts and albeit his famous quote in The Principles of Economics “The mysteries of the trade become no mysteries; but are as it were in the air, and children learn many of them unconsciously”, we still know much more about economies of scale than knowledge sharing. So it is important to understand what is meant today by geographic concentration in a time of globalization and digitalization, when the economic activity is footloose, and when knowledge diffusion patterns have changed significantly. Under these conditions, how proximate do the actors have to be, to be able to experience positive externalities?

The answer now is probably different than a century ago, with an array of notions seeking to define this clustering phenomenon, varying from mere agglomerations of firms that

generate localization economies to international value chains, and finally innovation networks.

In order to understand cluster dynamics and assess cluster policies, initially it is important to discuss what is meant by the term ‘clusters’ in this dissertation.

3.2.1. Cluster Features

Clusters have been heavily researched both theoretically and empirically and since the term gained popularity in the 90’s, the concept has also evolved adopting many forms, varying from industrial clusters to innovative networks.

As per the scope of this study, what will be referred to as a cluster embodies 3 distinctive features:

- interaction among the actors
- capacity to evolve and innovate
- spatial proximity

The interplay among the actors within a cluster and their behaviour can be better understood referring to evolutionary and complexity theories. Increasingly scholars struggle to design models that capture the dynamic nature of these inter-relations, divorcing from static models that provide a snapshot in a given moment in time to dynamic models that try to show how the system evolves over time.

It is not uncommon for theories in one discipline to cross over and get “translated” in other disciplines. The evolutionary theory in biology has been a reference for many studies and scholars in various disciplines, like ICT, architecture, social and behavioural sciences and increasingly in economics and business.

In their work at “The Spatial Economy - Cities, Regions, and International Trade”, Fujita, Krugman and Venables (1999) draw a parallel among the work of Alan Turing in evolutionary biology and their investigation of spatial concentration and cumulative

agglomeration processes. The question raised by Turing (1952) on the differentiation of a homogeneous group of cells into a highly specialized organism and the question raised by (Fujita, et al., 1999) on the emergence of agglomerations from a flat earth equilibrium (economic activity equally divided into space) lead to the same model that seeks to define the equilibrium breaking point, or the point where the differentiation starts to emerge. Both studies suggest that “from randomness, order emerges” (Turing, 1952).

This is not the only case where evolutionary biology has informed economics theorists. Not only does the emergence of these economic agglomerations resembles processes of a living organism but the often complex nature of these clusters can be better understood by theories in other disciplines. The complexity theories deriving mainly from the biology field (see Kauffman’s (1993) complex adaptive systems) have led to the adaption of the notion from various other disciplines. Von Bertalanffy introduced through his General System Theory the “system approach” where technology needs not to think in terms of machines but in terms of systems. (Bertalanffy, 1968). According to him, the mechanistic view of the thirties of biology where the living organisms were understood as the sum of partial components and processes, was avoiding to face the problem of the organization of the parts in the organism and the reply of the organism to any external perturbation. Von Bertalanffy showed that his General System Theory explains better that the standard analytical procedure a number of scientific fields like Cybernetics where the feedback principle can be used to inform self-controlled behaviours; Information Theory as the measurable negative entropy; Games Theory as a rational competition among antagonists looking to maximize profit and minimize lose; Decision Making Theory and Network Theory. The description that Von Bertalanffy gives for cybernetics is based on the exchange of information and feedback between the system and the environment inside which it is operating. This description of 1968 can be easily used as the nowadays definition of ecology which is the study of the relations between organisms and their environment.

Johnson (2007) tries to create a general and operative description of complex systems in Two’s Company Three is Complexity, A simple guide to the Science of all Sciences, arguing that a complex system must show most of the following attributes: 1) the system

must be composed by a number of interacting objects or “agents”. The behaviour of these agents is influenced by memory or feedback; 2) the system evolves in a highly non banal and complex way, guided by an ecology of interacting agents which adapt thanks to the feedback influence; 3) the system shows emergent phenomena which are generally unpredictable; 4) the system is far from equilibrium. Indeed, all complex systems seem able to spontaneously shift between order and disorder. The spontaneous formation of collective self-organized phenomena is the real nature of complexity. (Johnson, 2007). In a similar way another Johnson (2001) states that from simplicity a superior order can emerge from the interaction of a big number of agents that follow a limited number of rules. Five are according to him the fundamental principles for the creation of bottom-up complex systems, capable of conducting complex operations with relative ease: 1) multiplicity creates diversity; 2) ignorance is useful; 3) encourage casual meetings; 4) look for patterns; 5) pay attention to neighbours since local information can bring global intelligence. (Johnson, 2001).

The capacities of complex systems to learn and to adapt autonomously have been explored by von Neumann and Turing since the dawn of the first programmable computers while Holland during the sixties started to investigate the mechanisms through which nature is organized and order emerges from chaos. Holland, using the genetic algorithms as an abstraction of biological evolution, creates a theoretical framework for the development of adaptive processes, able to solve complex problems (Holland, 1975/1992). The very nature of these problems is very similar to the non-linear and emerging approach of evolution that does not impose a unique solution, but creates a family of solutions that can prove very different but always compatible with the boundary conditions of the system. This approach is particularly useful in the cases that the so evolved system, will be able to respond, adapting itself to unpredictable changes in the environment in which it is located.

This Darwinian approach has been adopted by Geddes as well in his work Cities in Evolution. However as analysed by Batty and Marshall (2016) “Geddes’ view of evolution recognized the importance of the relation between the organism and its environment: this was less about an often hostile environment moulding the individual by forcibly culling the

weakest specimens, but more to do with the active role that an organism could have in shaping its own environment; according to Mumford, Geddes saw man not just an adaptive organism, but increasingly a moulder of his own world."

Similarly, in economics, efforts have been made to define the relation of the firm with the environment that it is embedded in, leading to the concept of business ecosystems which albeit becoming increasingly popular is still "ill-defined and ambiguous" as stated by Peltoniemi and Vuori (2004). After a thorough overview of the existing most prevailing definitions and concepts related to ecosystems, they conclude with the following definition of a business ecosystem: "a dynamic structure which consists of an interconnected population of organizations. These organizations can be small firms, large corporations, universities, research centres, public sector organizations, and other parties which influence the system". (Peltoniemi & Vuori, 2004)

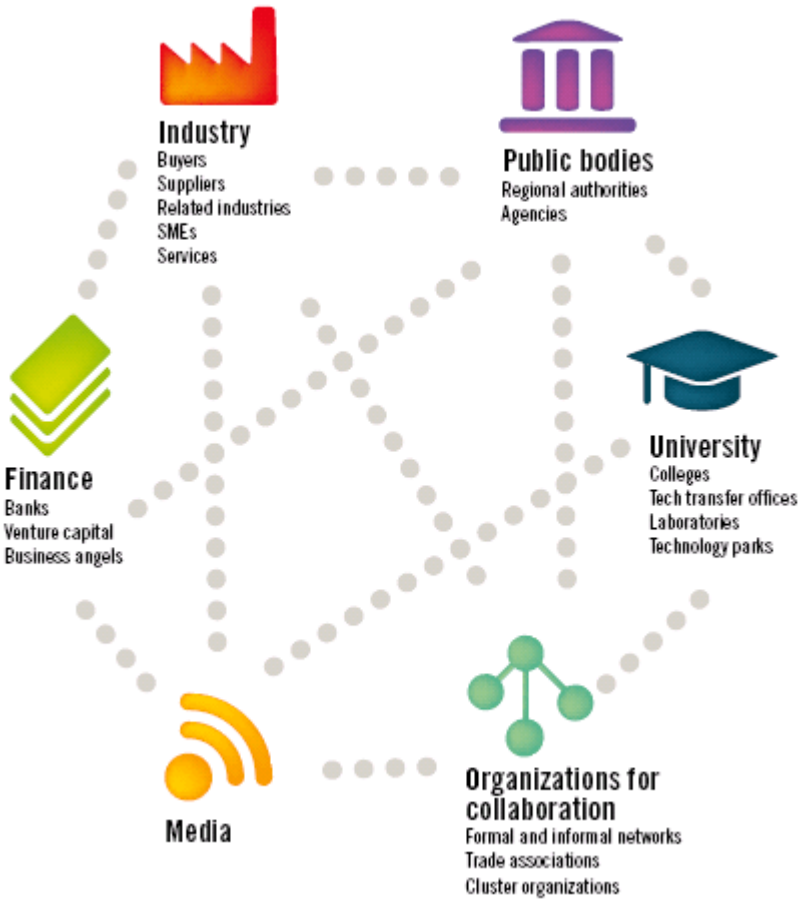
This definition although appropriate and all-encompassing is not specific enough to apply exclusively to business ecosystems and might as well be a statement valid for other forms of economic structures such as clusters or networks.

"Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions—such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations—that provide specialized training, education, information, research, and technical support" (Porter, 1998)

It might be hard to distinguish among this definition of economic clusters and some of the definitions of business eco-systems, such as the one brought forward by Moore, who sees a business ecosystem as an "extended system of mutually supportive organizations; communities of customers, suppliers, lead producers, and other stakeholders, financing, trade associations, standard bodies, labour unions, governmental and quasigovernmental institutions, and other interested parties." (Moore, 1998)

Indeed these concepts share a significant amount of similarities. It is visually clear if we place the business ecosystem definition on the graphic representation of clusters. (Figure 5)

Figure 5 - Clusters – Balancing Evolutionary and Constructive Forces



Source: Sölvell, et al. (2003)

While on the level and type of competition there might be differences it is clear that the various economic structures discussed above rely on the co-existence among competition and cooperation. The notion of cooperation is not to be understood as the opposite of competition. As Wright states in his Nonzero: "The Logic of Human Destiny, the continuous increasing complexity of the behaviour of the human society is an emergent property of the system, direct result of the non-zero-sum games", (Wright, 2001) where new behaviours and technologies emerge thank to the interaction between individuals. Not surprisingly, however, the origins of games theory go back to von

Neumann's work that in 1944 with Morgenstern wrote the Theory of Games and Economic Behaviour. Interestingly von Neumann, although not concerned directly with the problem in this case, created a way to measure the fitness of some complex system (von Neumann & Morgenstern, 1944). Nash proposed the famous thought experiment where two prisoners are in dilemma, arguing that the equilibrium is reached by the most “rational” solution that is for both contenders to not collaborate.

But, one-time interactions are very rare for agents that share a geographical location or market segment. Repetitive games can represent real situations with a higher degree of approximation and when the prisoners’ dilemma is iterated it becomes possible to foresee future moves based on the behaviour of the opponent. Strategic planning emerges. On this topic, Axelrod organizes during the eighties a series of tournaments of prisoners’ dilemma strategies, proclaiming winner or more profitable the TIT FOR TAT, a relatively simple strategy in which you start by collaborating and on each next move you repeat the opponents move. (Axelrod, 1984)

Thus, some complex behaviours that can be encountered in our territories, such as conflict or co-operation between individuals, in the absence of a strong control authority, can be encouraged, always being aware that the results will never be deterministic and almost always difficult to anticipate or even counter intuitive. Complex systems are also able to learn from their past as long as there is a collective memory available. Culture and education can therefore be excellent tools for managing complexity without necessarily having to have an authority that ensures compliance with the contracts.

Aumann, who in 2005 together with Schelling won the Nobel Prize for Economics, argues that evolution, whether genetic or memetic, leads to a strategic equilibrium and that, therefore, behaviours like altruism, collaboration, confidence, revenge or blackmail would have emerged through the repetition of games over the centuries. One of his main thesis is that repetition leads to the emergence of collaboration (Aumann, 2005). The dynamic spatial model of Fujita, Krugman and Venables (1999) produces equivalent results to the “replicator dynamics” used in evolutionary game theory.

The non-exclusive nature among competition and cooperation has been very well captured by Batty and Marshall (2016) in their analysis of Geddes organic evolution

theory “Geddes stressed the importance of cooperation, by which organisms together could mutually advance and benefit each other through a social evolution. He cited the evidence of the benefits of cooperation from the microscopic view of cellular cooperation up to whole societies, also seeing mammals’ advancement over reptiles in their empathetic and social tendencies; and saw human civilization – hence cities – at the pinnacle of this social evolution (Boardman, 1978, p. 130; Geddes & Thomson, 1889). This view emphasizing cooperation was consciously set against the emphasis on competition associated with Darwinism”

Indeed, as Martin and Sunley (2007) put it: complexity thinking differs from Neo-Darwinism precisely in the importance that self-transformation in relation with selection plays in economic evolution.

The complexity theories help us understand the behaviour of the actors within a cluster especially with regard to collaboration and competition among cluster firms, which is to be understood as a driver of innovation.

Indeed, innovation is the common denominator shared by the various forms of economic structures discussed above. Even the analogy of business ecosystems with the natural ecosystems is to be treated carefully, bearing in mind that in a business ecosystem the actors are conscious and intelligent; moreover, as Iansiti and Levien (2004) suggest “business ecosystems are aiming at delivering innovations, where natural ecosystems are aiming at pure survival”. But if we refer to the ‘survival’ more metaphorically and draw a parallel among the survival in the natural ecosystems and the fitness discussed in complexity theories, we might end up discussing the concept of “resilience”, which is dominating the post financial crisis debates. In their empirical study of Croatian clusters Jukic, Brajevic and Babic (2014) refer to clustering as a mean for increased resilience of SMEs and the regional economy in general.

Innovation has been described as the main source of economic growth by outstandingly far-seeing Schumpeter already in 1934. While, some of the features of clusters, more specifically economies of scale and scope that derive from geographic proximity are

shared by other forms of agglomerations such as industrial districts, it is precisely the innovation proneness of clusters that distinguishes them. However, while the Schumpeterian theory or the New Growth theory strongly rely on the assumption that what leads to innovation are actually large conglomerates or monopolies under a regime of patents or intellectual property rights, an increasing bulk of theoretical and empirical research provides a different perspective or as Boldrin et al. (2011) phrase it “a heretic view”.

The two schools of thought are conflicting on whether a strong or a relaxed IPR system is more effective to stimulate innovation: the former lies on the assumption that a strong IPR protects the innovators from imitation and the latter on the assumption that by putting ‘the innovator’ in a monopoly position a strong IPR actually hampers innovation.

On their study on competition and innovation, Boldrin et al. (2011) suggest through empirical evidence that actually “imitation does not hamper, and in fact stimulates, innovation. And that we should observe a higher rate of innovation in those sectors in which competition is stronger and patent protection weaker.” This finding is confirmed by Cerqueti, et al. (2016) in their study on the relationship among innovation and imitation. “Analytical results show that among the feasible equilibria the coexistence equilibrium - i.e.: the equilibrium associated to the simultaneous existence of innovators and imitators in the long run - is the only stable under the prey-predator scenario. While, in case of competition, the coexistence equilibrium is the unique locally stable if the IPR degree of protection lies in an interval. The results are in line with the literature claiming that stronger IPR protection is not always the best possible choice and confirm the inverse-U shaped relationship between innovation and competition.”

It is especially important not to reject the imitation as an innovation strategy because this is an often encountered form of innovation taking place within clusters. “In a cluster several firms produce same type of products or services with same type of technology. It is reasonable to think that imitation plays a major role within a cluster.” (Peltoniemi & Vuori, 2004)

Such a view is also held by Mytelka and Farinelli (2000). It consists of the ‘process by which firms master and implement the design and production of goods and services that

are new to them, irrespective of whether they are new to their competitors', their countries or the world"

This discussion on the relationship among innovation and imitation is important to be able to define what is meant by innovation in this study. The adopted view on innovation is that of incremental innovation as opposed to radical innovation, with a broad reference - not only to technological innovation but also novelties and improvements in processes, organization, services, design, etc. With this regard, the standard indicators used to measure innovation, namely R&D expenditure (input-based) and patents (output-based) are not the most appropriate for incremental innovation, which is often result of learning processes. As Dosi, et al. (2006) put it: "One has come to acknowledge the often *cumulative* nature of technological learning, so that novel products and processes of production incrementally draw upon incumbent knowledge embodied in people and organizations". (original emphasis)

The degree and type of innovation is however highly dependent on the nature of the cluster (often referred to as high road and low-road competitiveness), their position within the value chain and the stage of the cluster.

The high road competitiveness stands for the competition based on factors such as knowledge, innovation and technology while the low road is primarily based on low costs of production: i.e. cheap labour force, low taxes, etc.

For less developed countries, or peripheral regions it is difficult to escape the pitfall of the 'race to the bottom', or a vicious circle often imposed by the low road competitiveness, continuously lowering taxes, labour costs and focusing on the traditional competition factors. However, the concept of clusters itself constitutes the first attempt to go beyond such factors.

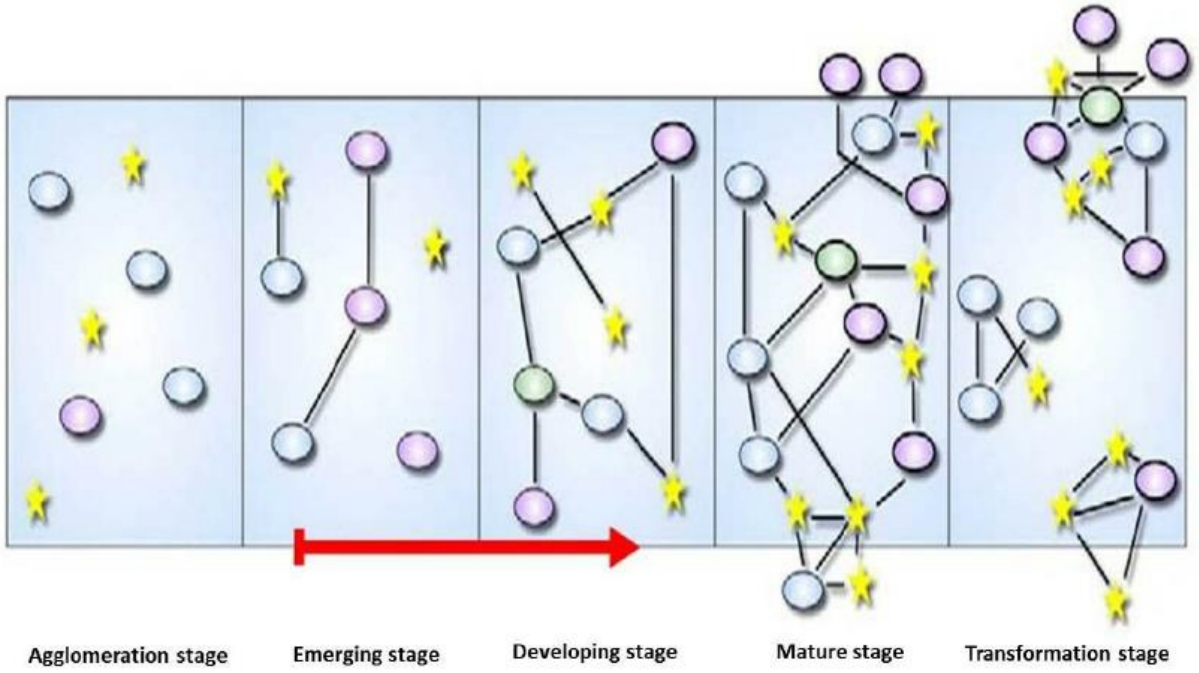
To quote Porter (1992), "I believe that many policy makers, like many corporate executives, view the sources of true competitiveness within the wrong framework. If you believe that competitiveness comes from having cheap capital, and low cost labour, and if you think that competitiveness is driven by static efficiency, then you behave in a certain way to help industry. However, my research teaches that competitiveness is a function of

dynamic progressiveness, innovation, and an ability to change and improve. Using this framework, things that look useful under the old model prove counterproductive."

On this note, clusters, by definition, allegedly alleviate the gloomy perspective of the regions that rely on low-road competitiveness. Additionally, they are often parts of global value chains, which not only serve as pipelines for the flow of goods but also for the flow of knowledge. The more dynamic and internationally competitive, the more innovative are these clusters supposed to be. Their dynamism can be to some extent captured by the cluster life cycle framework (Walbroek Rocha in Andersson et al, 2004).

It identifies various stages of cluster development: Agglomeration, Emerging Cluster, Developing Cluster, Mature Cluster, and Transformation.

Figure 6 - Cluster life cycle



Source: Andersson et al 2004 based on Walbroek Rocha, 2001

However, the relationship with innovation is not linear. It is expected that because of a higher critical mass and multiplicity of interaction in developing and mature clusters innovation will be higher, however some clusters might be more dynamic in their early

stages and once they reach the maturity level suffer from negative effects such as lock-in, stagnation, etc., which leads to the final stage: that of transformation.

According to Cooke (2012) this is the moment when a cluster should evolve to what he refers to as platforms. "A cluster is a specialized concentration of business and innovation expertise and support in a localized setting. A platform is a more complex combination of clusters and non-cluster industry organizations such as large corporations that operate in fields that display "related variety". This transition from the concept of clusters to that of platforms seeks to address the risk of 'lock-in' faced by clusters, whilst platforms by enabling the exchange not only within one industry but among diverse industries, has a higher potential for innovation.

As formerly discussed the added value of clustering rests on the assumption that they lead to innovation by contributing to a faster diffusion of knowledge and create a localized learning process, or as Asheim, et al. (2009) put it a 'learning region'. The importance of the ability to learn in the process of innovation is also stressed by Carlsson, et al. (2002) as one of the attributes of innovation systems together with the strategic, organizational and functional abilities.

But while Carlsson, et al. are concerned with the analytical and methodological aspects of innovation systems, Asheim (2009) discusses the relativity of the role of territorial proximity in the innovation and learning processes.

As Martin and Sunley (2007) discuss in their paper on complexity thinking and evolutionary economic geography: "We take the view that if 'the economy' is indeed a complex system, its complexity arises in large part precisely because it is spatially distributed and spatially embedded."

Territorial proximity being one of the cluster features is to be treated in relation with the other features – linkages among the actors and innovation. The geographic concentration per se is not a sufficient factor in cluster formation, if not followed by the premise of information exchange and knowledge flow among the actors, which constitutes the most important endogenous and self-reinforcing driver of growth.

The advantage of clusters with this regard is what was formerly discussed by complexity theories, especially the Game Theory: repetition leads to cooperation. Here the territorial proximity gains its weight as a cluster feature: it enables a continuous exchange among the actors which lead to a cooperative behaviour. (Axelrod, 1984)

But, in order to build trust and a cooperative behaviour, a conducive environment is necessary and that requires more than geographic concentration. “Traditional face-to-face exchange hinges on a spectrum of cultural, institutional and practical means to build security and trust” (Arrow, 1974). This is why the term proximity is deliberately used instead of geographic concentration or co-location.

Moreover, in today’s globalized economy, the interaction among the actors occurs locally but also increasingly within global networks or global value chains. As defined by Gereffi (1999) “Buyer-driven commodity chains refer to those industries in which large retailers, marketers, and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in the third world. This pattern of trade-led industrialization has become common in labour-intensive, consumer goods industries such as garments, footwear, toys, housewares, consumer electronics, and a variety of handicrafts. Production is generally carried out by tiered networks of third world contractors that make finished goods for foreign buyers.” The work of Gereffi, later backed up by the research in several case studies Nadvi (1999), Schmitz (1999), Gebreeyesus and Mohnen (2012) suggests that being part of such chains improves the firm’s position through organizational learning. This ‘learning by doing’ aspect is an important attribute of the framework but the knowledge diffusion occurs throughout global networks, as well as within the local clusters.

But as Giuliani (2005) discusses, the two are also interconnected. She distinguishes among two distinct but interrelated knowledge bases for firms: the extra-cluster and the intra-cluster knowledge systems, both influencing the cluster’s absorptive capacity.

“So far, all the way from Marshall’s writing on industrial districts, it has been assumed that business interactions (from exploiting localization economies) and knowledge flows were co-occurring (and co-located) phenomena. Furthermore, it has been maintained that local interactions and collective learning processes, or what is sometimes called ‘‘local buzz’’,

largely take care of themselves by just ‘‘being there’’, while building ‘‘global pipelines’’ to knowledge providers located outside the local milieu requires institutional and infrastructure support, as one cannot expect that it occur spontaneously.” (Asheim, et al., 2009)

Nonetheless, the discussion on the territoriality, is increasingly going beyond the inherited wisdom that co-location automatically creates ‘local buzz’ and that the casual encounters within clusters lead to innovation. More often than not, most relationships among local firms are intentional rather than serendipitous. Upon a survey of Norwegian firms Fitjar and Rodriguez (2017) conclude that most of the relationships conducive to innovation emerged as a consequence of purpose-built searches and had little to do with chance, serendipity, or ‘being there’.

This kind of thinking has brought the cluster concept closer to that of networks, which Dicken, et al. (2001) consider first and foremost as a relational process which is inherently territorially embedded, but territoriality is just one of the elements in network analysis. As they aptly put it while developing their network methodology "Closely related to the issues of geographical scale and organizational loci is the importance of territoriality in networks. If networks are both social structures and relational processes constituted by intentional actors, and are also causal mechanisms capable of effecting empirical changes, then they must be recognized as having distinctive time–space specificity in their workings such that no regular conjunctions of events and outcomes can be fully predicted by network formation."

Indeed, territorial proximity is only one of the elements that generate knowledge networking according to the framework designed by Boschma (2005) and adopted by Balland, et al. (2015) which differentiates among 5 forms of proximity: cognitive, social, institutional, organizational and geographic.

The alleged diminishing role of the geographic dimension is observed by researchers such as Arbonies and Moso, (2002) who state that nowadays cluster benefits should arise more from cluster thinking than physical realities.

However, interestingly the question whether geographic proximity has a privileged role over the other drivers of network formation received the following answer by Balland, et al. (2015) "… geographical and non-geographical proximities tend to be positively correlated, probably reflecting that geographical proximity facilitates the establishment of other forms of proximity. Yet, while all studies show that geographical proximity turns out to be less important than previously assumed once non-geographical proximities are included, it is worth noting that those studies that included *all* five forms of proximity still found that geographical proximity positively affects tie formation in knowledge networks" (original emphasis)

The proximity framework also sheds some light on the discussion of scale while talking about clusters: the territorial demarcation of a cluster must consider that the spatial proximity relevant for cluster formation is the one that enables knowledge flow. Similar to innovation which is a cumulative process, clustering also builds upon the principle of 'cumulative causation'. A bulk of theoretical and empirical studies reveal a close interdependence among clustering and learning and subsequently among learning and incremental innovation. "Most importantly, as the spatial distribution of knowledge and its spill overs are now considered to be important success factors in regional development, in framing and implementing regional development strategies it will be crucial for a city or region to fully understand the nature of the geographical patterns of knowledge diffusion and the barriers to access to knowledge as they relate to creativity, innovation and entrepreneurship as catalysts for employment and wealth generation." (Stough, et al., 2011)

As a concluding remark for this part, for the scope of this research the concept of economic clusters embodies 3 distinctive features: i) *complex behaviour of the actors* (co-existing competition and cooperation); ii) *capacity to evolve and innovate* (the term innovation being used in the broad sense) and iii) *spatial proximity of the actors* (again used in the broad sense of regional concentration as opposed to the district level)

3.2.2. Do institutions play a role?

Besides cluster features, another aspect that needs definition is cluster actors, which consist in companies but also a set of institutions that influence cluster formation and cluster dynamics.

Some forms of economic structures such as business eco-systems entirely dismiss the need for policies as in the case of the latter which relies on focal complexity aspects, such as “self-organization, emergence, co-evolution and adaptation” (Peltoniemi & Vuori, 2004)

Nonetheless all the concepts treated above while discussing the evolution of the cluster concept, from agglomerations to innovative networks (the business ecosystems as well), include institutions in their definitions. The question then becomes: what is the role that institutions do play?

Bearing in mind that by institutions is meant more than government, but also other actors such as universities, financial institutions, associations, chambers of commerce, but also the ‘habits, practices and norms of these actors’ (Mytelka, 2004). Consequently, institutions simply cannot be left out, because even without any articulated or direct policies, they can influence the behaviour of the economic actors. To put it in terms of emergent structures, even a small perturbation of the initial conditions can result into a highly different outcome. “Economic geographers have spent considerable effort demonstrating that spatial structures such as clusters, regional high-tech agglomerations, cities and so on are the source of a host of externalities and spill-overs that influence, shape and regulate the behaviour of individual agents located within them (and indeed beyond). In this sense, such spatial-economic structures are not only examples of ‘first-order’ emergence (unintended spatial outcomes of myriads of micro-actions) but also of ‘second-order’ emergence (whereby these same meso-level spatial structures and arrangements—in conjunction with macro-level processes—feedback to influence micro-level behaviours and actions).” (Martin & Sunley, 2007)

While the Neoliberal approach advocates the role of the 'invisible hand' of the market, an increasing bulk of research confirms that institutions do matter.

O'Riain (2011) in his review of the varieties of forms of organization of spatial clusters highlight "the persistent importance of institutional and organizational factors, even in a world of regional development where global structural pressures are great, global networks are increasingly important and global models and metrics are widely diffused. There are significant variations in private sector-led regions while public organizations remain important, even within liberal economies."

Along the scepticism and the doubt over the role of the institutions, there are several authors who have focused their efforts to not only determine if "institutions matter", but to actually define what the features of the institutions should be in order to be able to influence competitiveness and innovation. Amable (2000) states "Any type of 'non-market' arrangement influencing the accumulation of growth-inducing factors is bound to have an effect on the macroeconomic equilibrium. In this sense, institutions matter because they partly and imperfectly solve problems of coordination among agents, help promote cooperation and overcome opportunistic behaviour, make agents internalize externalities, whether inter-temporal or inter-personal, reduce uncertainty, etc."

His discussion focuses on the fact that often the analysis of the role of the institutions are incomplete because all the institutional actors are put in the same box and referred to as "Institutions", without any regard for the diversity among the various types of institutions. Much as in the case of interplay among the economic actors, the behaviour of the institutions among one another is also something that needs to be taken into account, and sometimes regulated based on the principles of "complementarity and hierarchy".

Indeed, complexity thinking on clusters does not apply only to the businesses within a cluster, it applies to all the actors involved and their interrelatedness. Dosi, et al. (2006) sees innovation as an evolutionary process "entailing persistent trials, errors, and (sometimes unexpected) successes, undertaken by multiple competing actors and nested in a rich ensemble of supporting institutions." This discussion draws along the lines of Nelson (1994) in his paper on co-evolution of technology, industrial structure, and supporting institutions.

Martin and Sunley (2007), claim that behind the self-regulation and co-ordination that the markets display, lay numerous institutional and political preconditions that enable coordinating effects to occur. In a former study, they see institutions themselves to be the result of co-evolution or self-organization, therefore not exogenous to the system. “Institutions might be assumed as exogenous in the short run, but themselves become endogenous in the longer term, as they change and transform as the economy itself evolves” (Martin & Sunley, 2006)

Again Nelson (1994) comes to mind, who stated that “a number of detailed historical accounts document that various features of the institutional environment themselves tend to adapt and change in response to pushes and pulls exerted by the development of a new industry. The processes involved here are not market processes, at least not of the standard variety, but involve the forming of collective bodies, decisions of voluntary organizations, government agencies, and political action”.

A key aspect of the role of institutions is therefore, their capacity (or lack thereof) to co-evolve with the economy. The timing is a key element in this process, especially in the case of transition economies. The belated transformation of the institutions in these cases can hinder the potential development, but similarly an untimely or premature adaption will in the best case have a zero net contribution and in the worst scenario misuse resources which can be better invested in other areas, like education or infrastructure.

As Chang (2011) argues while examining the causality among institutions and economic development, it is often taken for granted that it is the institutions that serve as key determinants for economic development, while “today’s rich countries acquired most of the institutions that today’s dominant view considers to be prerequisites of economic development after, not before, their economic development – democracy, modern bureaucracy, IPRs, limited liability, bankruptcy law, banking, the central bank, securities regulation, and so on” (original emphasis)’.

Nonetheless, in transition economies the belief that the development of institutions precedes the economic development is implanted by supranational and international bodies such as World Bank or IMF, as well as reinforced by the popular and political viewpoint which see the ‘model’ of the developed countries as the endpoint of a trajectory

that must be followed meticulously. This logic implies a view on modernization as a linear and uniform process or as Domanski (2011) puts it "This rests on the geographical dichotomy of core and periphery; the process of development means that peripheral regions become similar to the areas regarded as "advanced" (core). In the context of post-socialist Europe, this means adoption of the West European economic and political models."

Albania makes no exception. The country has been eager to establish new institutions with tasks similar to those of their peer institutions in developed countries but there's little evidence of them playing an effective role.

"… today's developing countries tend to have institutions that are more developed than what their standards of material development would strictly demand, making it difficult to identify the exact relationship between institutions and development." (Chang, 2011)

3.2.3. Cluster Actors

Andersson, et al. (2004) building on the model of Sölvell, et al. (2003) have identified 5 categories of actors in clusters, each with distinctive sets of competences:

- Firms
- Government / Policymakers
- Financial Institutions
- Academia
- Institutions for Collaboration (IFC)

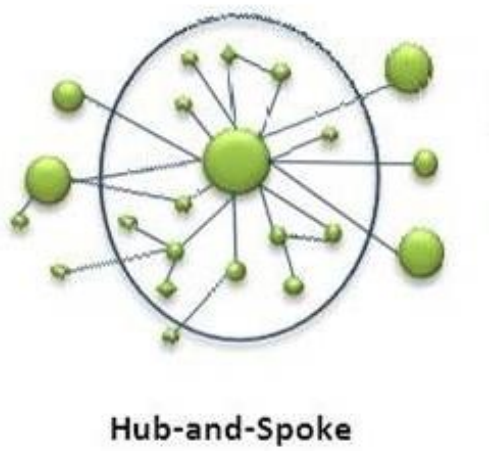
Firms

Obviously the companies constitute the core of a cluster. There are however various forms in which these firms are organized and interlinked: in some clusters there are hub and spoke structures with large companies or multinationals occupying a central position and smaller companies and start-ups having direct linkages to them. Another definition of

such structure is that of “producer-driven commodity chains’ brought forth by Gereffi (1994).

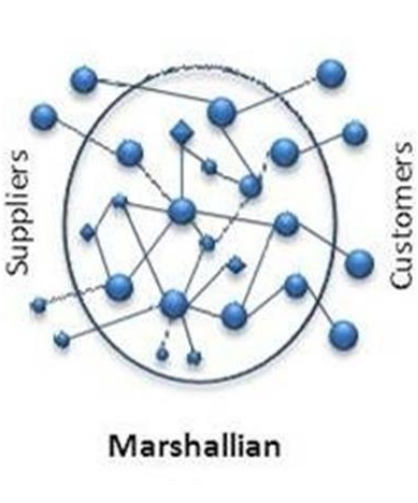
A representative example for this structure is the automotive industry in Detroit. The large firms display characteristics of catalysts or magnets that attract other firms, contributing therefore to the creation of a “critical mass” of competences and specialized workforce in the region.

Figure 7 - The Hub and Spoke Cluster Model



Source: Markusen (1996)

Figure 8 - The Marshallian Cluster model



Source: Markusen (1996)

Another cluster form is a more homogenous structure composed of Small and Medium Enterprises with a high level of interaction among each other. This is referred to as Marshallian cluster model Markusen (1996). The most representative example for such model is the so-called Third Italy. A phenomenon studied by many scholars (in particular Becattini (1987); Brusco (1982); Piore and Sabel (1984).

The model of Third Italy (mainly SMEs or even family run businesses of artisans) is particularly appealing for the less developed countries like Albania, which often fail to constitute a lucrative option for large multinationals. In Albania 99% of the entire economy is composed by SMEs, out of which 89% are micro-enterprises. According to INSTAT (2015), 9 in 10 Albanian firms employs less than 4 people.

Government

Government, although included here as one of the cluster actors, consists indeed in various levels:

- EU / International Organizations
- National
- Regional

All levels have in place their own policies and instruments. EU is a great supporter of clusters and cluster initiatives with various instruments in place that provide financing for cluster development, the interaction among clusters in various platforms, etc. (studies like the Clusters Initiative Greenbook, Cluster Policies Whitebook and instruments like Cluster Excellence Program, Cluster Observatory, the European Cluster Cooperation Platform, SME promotion instruments such as COSME, etc.)

National policies remain key determinants in cluster development. They vary from very well-articulated and direct policies for clusters such as the Poles of Competitiveness in France, or the promotion of Cluster Associations by the Basque region, to more general framework policies.

“National regimes of regulation continue to create a pattern of ‘bounded regions’, and networks of economic activity are not simply superimposed upon this mosaic, nor is the state just another actor in economic networks. The regulatory environment created by different states is still, we believe, an immensely formative influence on network development” (Dicken, et al., 2001)

The other level is the regional level. In countries like Italy or Germany, regional governments have a lot of power in relevant decision-making. The decentralization but also inter-regional competition is higher, making them key players in cluster promotion.

In developing countries and transition economies, decision making still remains highly centralized. In Albania, despite the attempts to empower the regional and local governments, a long process of decentralization and a new territorial division and administration reform, the national government remains the primary promoter for the

development of clusters, not only through the economic policies but even through territorial policies and planning instruments.

As will be discussed in Chapter 4, the identified Albanian clusters have been simultaneously affected by multiple layers of government (EU and other international bodies in supranational scale, the national government and governmental instruments such as the integrated inter-sectoral plans in regional level).

Financial Institutions

Albania has an underdeveloped financial market, making it difficult for businesses, especially start-ups to have access to finance. In previous years, an important source of financing for the country have been the remittances by expats, but after the recent financial crisis (it's worth noting that most of the Albanian expats are settled in Italy and Greece, both countries severely affected by the crisis) now have been reduced significantly. At this time, banks also started to apply a more cautious and conservative approach towards loans, making access to finance increasingly difficult.

By contrast, the idea of business incubators, as a factor that would positively influence the formation of start-ups, started to receive a lot of attention, by the public and private sector alike.

Academia

Universities and research centres are recognized to play a crucial role in clusters, especially in knowledge intensive and innovative sectors. In optimal conditions there is a close link and dense cooperation among academia, businesses and governance leading to the so called triple helix model. As great as it sounds, the triple helix model is not the easiest to achieve; even when they share common objectives and there are no conflicting interests, often the universities, businesses and governments simply speak different languages. The issue becomes even more challenging in the less developed countries.

Institutions for collaboration

Because of the coopetition (simultaneous existence of cooperation and competition) present in clusters, and the often difficult dialogue among the cluster actors, institutions for collaboration gain an important and often neglected role. Such institutions may be dedicated cluster organizations, traditional bodies such as business chambers, trade and industry chambers, or more contemporary structures such as innovation centers. Their function as intermediaries is praised by several studies (Sölvell, et al. (2003), Meyer-Stamer and Harmes-Liedtke, (2005), Szogs, et al. (2009))

Szogs, et al. (2009) while analysing innovation systems and the interactions within such systems, acknowledge the key role of the tasks performed by intermediary institutions. Such tasks served to link the actors together strengthening the level of interactions among them and the innovation system as a whole. Furthermore, they sustain that "On a more micro level, important learning processes with outcomes in terms of increased knowledge, improved production processes, diversified products etc. could be observed."

3.3. The role of clusters in regional competitiveness

Clusters are considered important contributors in regional competitiveness by means of their salient characteristics discussed above.

The most essential contribution however rests on the role that clusters as networks of proximate actors play in building social capital and trust which in return generate knowledge diffusion and capacity building in the region. This is often a spatially localized process, given that tacit knowledge exchange is based on joint experiences and learning by doing processes, as opposed to the ubiquity of codified knowledge. As Asheim and Gertler (2005) state: Tacit knowledge does not travel well.

A curious case that illustrates the imperative role of tacit knowledge is brought forth by Roberto Saviano (2006) in his important book: Gomorra. The book discusses the institution of Mafia in Naples, and in one of his deliberations, Saviano describes the haute couture or 'alta moda' cluster in Naples, where the concentration of master seamstresses

with decades of experience acquired by the greatest fashion houses constituted a socially and territorially embedded knowledge base. Their know-how was so valuable that the Chinese firms operating in Naples, would pay a high prize to be taught by such masters and for the knowledge to be absorbed by these firms, while 'the System' (the local reference to Mafia) would kill for it not to happen. The story of Pasquale, travelling in the trunk of a car to go teach in a Chinese factory, epitomizes the value of joint experience and learning by doing in absorbing tacit knowledge.

It is these attributes that clusters bring to a region that help increase its competitiveness. Clustering and localized learning have shown a strong correlation. Asheim and Herstad (2005) in their discussion on regional innovation systems, questioned whether this broadly accepted belief still stands set against globalization and 'corporatization', analysing the role of Foreign Direct Investments in two case studies. They conclude by confirming that indeed specialized knowledge remains locally embedded.

"… The combination of contextual disembodied knowledge and "untraded interdependencies" (e.g. linked to occupational community labour markets or inter-firm relations) can provide the material basis for localized learning in a globalizing learning economy and, thus, can represent important context conditions of regional clusters with a potentially favourable impact on their innovativeness and competitiveness." (Asheim & Herstad, 2005)

Carlsson, et al. (2002) state that: "…due to their inherent capability to support cooperation between different innovation actors in a region, clusters are one of the instruments used to foster regional growth, industrial competitiveness and innovation." Additionally, they highlight the contribution of clusters in producing new competitive advantages for a region through achieving the smart specialization objectives.

Similarly, an up and coming model of development for more competitive regions is that of smart or intelligent areas or regions. Again the concept is under construction. Initially it was mainly associated with the availability and use of ICT in that given area. By contrast, various scholars are putting a greater emphasis over other aspects, besides ICT. A recently developed framework (Colantonio and Cialfi 2016, based on Lombardi 2012)

identifies 5 different components of the 'smartness' of a region, each related to regional life aspects as indicated in the table below:

Table 2 - Components of a smart region and related aspects

Components of a smart region	Related aspects of regional life
Smart economy	Industry
Smart mobility	Logistics & infrastructures
Smart environment	Efficiency & sustainability
Smart people	Education & relations
Smart living	Security & quality

Source: Colantonio and Cialfi (2016), based on Lombardi 2012

Again the debate over the most significant and appropriate indicators remains. While applying this model to regions in North Italy the authors use the SOM (Self-Organized Maps) instrument, a model based on indicators such as R&D expenditures and patents for the smart economy, which are highly debatable and not necessarily valid for all industries or all countries (as the case of transition economies).

What can be said however is that the smart regions concept is closely related to that of clusters. "In the urban planning field, the term "smart region" is often treated as an ideological dimension according to which being "smarter" entails strategic directions. In this sense, policy makers, and in particular European ones, are the most likely to attach a consistent weight to spatial homogeneity; in those circumstances, the progressive clusterization of regional human capital is then a major concern." (Colantonio & Cialfi, 2016)

The affinity with the concept of clusters becomes even more apparent considering that the smart regions concept also builds on the collective learning process and knowledge exchange as the main drivers of regional development.

It is due to the observed correlation among clusters and regional competitiveness that cluster policies have become omnipresent. Yet, Cheshire and Gordon (1998) distinguish policies for regional development by what they call a normative distinction:

"Purely wasteful – with no net gains;

Zero-sum in their effects – i.e. purely redistributive, with gains for some being matched by losses for others; and

Economically productive/capacity-building – with overall net gains across the system"

Building upon this argument, Malecki (2004) warns against the zero – sum policies for territorial competitiveness, emphasizing instead growth enhancing and network enhancing policies. "Territorial competitiveness, if it engages public administrations and local communities in the creation of a widening spectrum of 'preconditions' – from hard to soft, from competitive to cooperative – need not mean a wasteful zero-sum game. Competitiveness reached through territorial quality and public service efficiency brings benefits to all local economic and social activities."

Despite such warnings, designing appropriate and effective policies is increasingly difficult considering the complexity of regional competitiveness. It can become even more daunting for policies to address challenging contexts such as transition economies. The following Chapter addresses these issues.

4. CLUSTER POLICIES

4.1. Cluster Policies

In market economy thinking, the rationale for government intervention or for any policy to exist is market failure. Cluster policies make no exception, especially because with regard to innovation and knowledge creation, the outcome of the market alone can be and often is suboptimal.

There are many factors that make actors reluctant to cooperate or to under-invest in innovation and knowledge creation, among which the most important: information asymmetries and the free rider phenomenon. Benefits from cooperation are not so self-evident and many firms may lack this information or lack the capability to capture the value arising from cooperation. Besides the asymmetries, as formerly discussed in Chapter II, firms in cluster work in a state of co-opetition, often facing the 'Prisoner's Dilemma' with regard to cooperative behaviour, opting instead to act as a free rider and exploit the benefits of clustering once they arise.

Besides the market failure, Andersson et al (2004) count 2 other motivations for cluster policies: systemic failure and government failure.

Systemic failure is defined as "Systemic failure occurs when there is a mismatch or inconsistency between these interrelated institutions, organizations, or playing rules." (Metcalfe, 1995) Because the very notion of clusters is built upon the interrelation among different actors, they are obviously not immune to such failures.

Moreover, as Andesson, et al. (2004) put it "The dynamics of a cluster may be impeded by conditions in the broader economic environment. Failures in so-called "framework policies" easily multiply in micro-level failures."

The failure in the general conditions required to foster clusters, besides systemic failures might also be a result of government failure. It is no secret that more often than not governments are not perfect, or impartial. Information asymmetries affect government as well, additionally factors such as incompetence and inability to escape

the influence of vested interests make for a frequent and widespread occurrence of government failure. This is not however an argument against cluster policies, rather a call for corrective measures.

The policy response to these failures, according to Andersson et al (2004) can be grouped in 5 kinds of policies:

- Broker policies
- Demand side policies
- Training
- Promotion of international linkages
- Broader framework conditions

A new policy framework for regional economies that has been developed in response to these failures is smart specialization. OECD is already working on its implementation since 2013.

As defined by OECD “The Smart specialization’ approach combines industrial, educational and innovation policies to suggest that countries or regions identify and select a limited number of priority areas for knowledge-based investments, focusing on their strengths and comparative advantages.” (OECD, 2013)

There is a clear affinity among the concept of smart specialization and that of clusters. So much so that while introducing the concept in “Innovation-driven Growth in Regions: The Role of Smart Specialization” an articulation of smart specialization and clusters had to be made.

“Clusters are important building blocks of a smart specialization strategy. Indeed, cluster dynamics are a force for the economic, industrial and technological specialization of a region or country. The main rationale for public policies to promote clusters through infrastructure and knowledge-based investments, networking activities and training, is an increase in knowledge spill overs among actors in clusters and thus the generation of a collective pool of knowledge that results in higher productivity, more innovation and an increase in the competitiveness of firms. Many OECD and non-member countries have programs to promote the creation of new

clusters or to strengthen existing clusters. Cluster policies in many ways aim to achieve an "implicit" strategy for specialization." (OECD, 2013)

It seems like smart specialization 'explicitly' focuses on what clusters implicitly aim to achieve. This becomes evident considering the principles of smart specialization:

a) Concentration of public investments in R&D and knowledge in particular activities.
   The focus on activities instead of sectors is considered as a difference from economic clusters that tend to be sector specific. However, increasingly, as discussed in Chapter 2, clusters exhibit traits of boundary crossing (Andersson, 2004) or transform into platforms (Cooke, 2012)
b) Smart specialization is characterized by an entrepreneurial process of discovery.
   Described as a learning process where entrepreneurs are not afraid to share information because of the created trust which leads to the formation of social capital assets. On the other hand, all cluster theories (Solvell et al, 2003; Kitson, 2004; Cooke 1998; Malecki, 2004; Anderson et al, 2004) explicitly mention trust and social capital as founding blocks for cluster formation and increased regional competitiveness.
c) Specialized diversification
   Which is explained making use of "related variety", heavily searched by evolutionary economic geography scholars (Frenken, 2007; Boschma, 2009; Storper, 1997; Martin and Sunley, 2006)
d) General Purpose Technologies
   which through the 'co-invention' of applications' in given production functions of a specific sector enable upgrades throughout the value chain. Similarly, clusters through learning and joint experiences lead to innovations that impact the entire value chain, even when it is globally disembodied
e) Multi-governance and inter regional policy coordination
   Smart specialization requires horizontal and vertical coordination as well as synchronization of policies in national, regional and inter-regional level and the same stands for clusters as well

f) Structural change

Finally, smart specialization leads to innovation through structural change. In the same fashion, complexity science and evolutionary theories has long emphasized the need for industries and clusters to constantly evolve

Not only do clusters and smart specialization share common traits, additionally cluster policies and the smart specialization framework are equally not immune to pitfalls such as government picking winners.

However, while the smart specialization framework is becoming widespread in the developed world, in developing countries it is yet to be adopted. By contrast, cluster policies are since many years being implemented in developed and developing countries alike.

In transition economies, all the three points in cluster policy rationale: market, systemic and government failure apply, and on top of that there are specific conditions (discussed below) that makes it even more difficult for economic clusters to emerge spontaneously. Therefore, the policy response can only be effective if aware of these conditions.

4.2. Cluster policies in transition economies

The World Economic Forum in the 2015 edition of the Global Competitiveness Report, had a special section on transition economies in CEE, recognizing the role of SMEs in the competitiveness and economic performance of these countries, and also the market distortions and financial constraints they face. “Finding forms for reinforcing clustering processes is now viewed as greatly important. Notably Slovenia, Hungary and the Czech Republic have embarked on policy programmes, including public investment, for that purpose. It will be crucial to let go of national control, and carefully anchor trust-building exercises among multiple, relevant stakeholders.” (WEF, 2015)

The emphasis on clusters by these countries is understandable considering the observed clustering benefits such as increased productivity, higher employment and

more competitive SMEs. Instruments for better performing SMEs are especially timely for the Western Balkan economies, which should make use of the pre-accession phase in the EU to improve their business environments prior to merging with the EU market. It is however since many years now that Albania has signed Free Trade agreements with several countries and supranational structures, which on one hand explains the inability of Albanian products to be competitive even in the domestic market but on the other hand it also implies that the economy is no longer operating in a close system or under protectionism. However, the legacy of the past has instilled a domestic thinking in most of the Albanian SMEs, as also confirmed by the studies of Prašnikar, et al. (2012).

As discussed in Chapter 2, for the purpose of this study the concept of economic clusters embodies three distinctive features: i) complex behaviour of the actors (co-existing competition and cooperation); ii) capacity to evolve and innovate (the term innovation being used in the broad sense) and iii) spatial proximity of the actors (again used in the broad sense of regional concentration as opposed to the district level).

While as regarding cluster actors (firms, government, financial institutions, academia and institutions for collaboration) the situation in Albania can be summarized as follows:

Firms

Before discussing the identified clusters and their specific dynamics in Albania, a more general and non-industry specific study has been carried by Nientied and Karafili (2016) which brings forth important insights with regard to the perspective of the Albanian firms with regard to cluster features.

The study is based on 15 semi-structured interviews with managers of organizations, and a questionnaire based interview of 29 organizations (n=44 in total). The questionnaire was built on Tidd and Bessant's (2013) model of innovation management and contains 25 statements on the organization's views of innovation management, innovation strategy, and relations with suppliers, clients and R&D institutions, providing therefore an overview of the firm's perspective with regard to innovation, competition and cooperation, all underlying factors of cluster development.

In the questionnaire based interviews, respondents were asked to mention their most significant recent innovation. The variety was - understandably - substantial. The most frequently mentioned examples refer to: - new technology and materials (especially for production / construction companies); - new IT (4G / new transmission platforms, etc. especially for IT and telecom industries), - digitalization of services (e-banking, online payments, etc.).

From a comparison between national and international companies, and between smaller and larger companies, a clear picture emerges. In short: bigger and international often means more innovation, smaller and national means limited innovation. Companies working in telecommunication, banking and logistics sectors, as well as the services sector reported more innovation than others, albeit that many innovations are transferred from the headquarters abroad.

The organizations in the survey have a strong awareness of the competition. Companies do compare themselves with other firms in a systematic manner, but the nature of competition is mostly domestic. This also holds for international firms, since most of the Albanian companies are local representatives that are supposed to work for the Albanian market only.

With regards to the topics of innovation climate within the organization, the lowest scores concern the openness of the companies and their ability / willingness to cooperate. The majority of the 29 organizations visited tends to operate isolated and do not really engage in partnerships with universities, research centres or other firms. This confirms a common feature of post-communist societies: a high mistrust among the actors.

Financial Institutions

As formerly discussed, access to finance is not easy for Albanian businesses, especially start-ups due to the underdeveloped financial market and the rigidity of the banking system. Alternatively, incubators for start-ups could provide financing opportunities. Since 2004 there have been several attempts to establish start-up incubators in Albania. Besides a few which are active since some years, most of them

are very recent and basically function as co-renting space rather than factual incubators. More precisely we can mention: Tirana beta-house (being built); TAG Albania – Talent Garden Albania (opened by Localize); Tirana Business Park; Oficina (by Open Society Foundation), etc. All of the above are located in Tirana, while there is another incubator open in Korça, mainly related with the Vocational Education Training.

While cases of more experienced incubators, active since many years are Partners Albania and Protik, who identify the following challenges with regard to the start-ups development in Albania:

- On the demand side, there are not many innovative ideas (mostly imported innovation), which nonetheless is welcomed and supported by these organizations

- On the supply side, they have identified as a major issue the difficulty to identify and keep engaged mentors (or business angels / dragons' den)

- Additionally, the Albanian legislation can become more start-up friendly. It is true that opening a business is easy and doesn't take time, but obtaining access to services, bookkeeping and closing the business in case of failure is complicated. This reinforces the already existing culture of informality in the country, making it even more difficult to have reliable data. This becomes obvious if we refer to the statistics on active enterprises in Albania, which shows a jump of 226.8% in the number of active enterprises in Albania from 2014 to 2015, after a strong initiative of formalization by the government.

Table 3- Active Enterprises in Albania 2005 - 2016

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Active enterprises	62,162	73,672	80,077	94,533	94,953	103,038	109,039	106,837	111,083	112,537	152,288	160,679
New enterprises	10,607	14,568	14,010	19,884	13,081	16,469	12,905	12,828	12,131	17,377	56,787	31,377
Birth rate	17.1	19.8	17.5	21.0	13.8	16.0	11.8	12.0	10.9	15.4	37.3	19.5

Source: INSTAT (2017)

The financing provided by these incubators is however very limited, save for Protik and Partners who organize competitions and provide grants (albeit small) on a frequent basis, the rest so far have been functioning primarily as space sharing facilities.

Academia

Together with businesses and government, universities are considered to play a crucial role in the so called triple helix forms of cooperation that positively influence cluster formation.

In Albania, unfortunately, most of the Triple Helix initiatives, also supported by OECD have been limited to the organization of conferences and seminars. The author has personally attended several of them, leaving in each case with the regret of having wasted time. These conferences consisted in a presentation by a foreign expert (it goes without saying from a Western European country), lectures on the importance of triple helix and the priority given to this issue by the government (ministries of economy and education), in the presence of 2 or 3 universities and exactly 0 participation from businesses.

The Albanian economy is dominated by SME and micro enterprises, which have neither the means nor the interest in attending conferences that explain them the potential benefits of university – industry cooperation. The universities on the other hand have been primarily concerned with teaching and less with research. The resources are scarce for all. As of 2017 (according to the Census on Scientific Research and Innovation, forthcoming) there are 3209 researchers in Albania or 1000 researchers per million of population, which in quantitative terms shows an increase compared to the data in 2008 (back then, Albania had only 245 researchers per million of population representing less than 10 percent of the EU average of 3,166 researchers per million of population according to World Bank (2013)), but the same cannot be said in qualitative terms. The performance of Albania in international programs such as the IPA funds, H2020, etc. is very low compared to the region. In H2020 Albania had a 4.8% success rate in project applications, while the average for the Western Balkans

is 9% for the period 2014-2016. During this time the funds obtained through this program were minimal (330.000 Euros out of 30.000.000 required). The inability to receive financing from international programs constitutes an important untapped source considering that the internal sources are almost inexistent. The expenditures on R&D as stated by the ERA-watch report in 2012 were 0.04%, therefore resulting in an even lesser budget than previous years. “Gross Expenditure on R&D (GERD) was close to €15m in 2009. As such, spending on scientific research remains low, estimated at less than 0.2% of GDP in 2009. However, the budget for R&D remains quite low also in 2012, at 0.04% of GDP, similar to that allocated in 2011. This is the lowest rate in Europe and far below the EU-27 average and the Lisbon target of 3%.” (Preci, et al. 2013)

This has led to what Mr. Kamberi, Director of NASRI, calls academic routine in the Albanian HEIs, and even when they are motivated, the primary objective of researchers is to publish.

The latest reform in higher education is trying to change this, introducing besides the bibliometric indicators, metrics that seek to assess the relationship of the university with the labour market and the industry. Said census, counts 5 technology transfer centre currently operating in Albania (all in the field of agriculture), however their activity has no records of successful technology transfer to the industry. “The Agricultural Technology Transfer Centres have been established since 10 years (2007-2017) but it is difficult to have exact data regarding the implementation of the concept of agricultural technology transfer to the agribusiness sector through Licensing Agreements and the use of IPR legislation, considering that in Albania there are about 400.000 agricultural units and about 5000 units of agro-processing operational.” (NASRI, forthcoming)

In these conditions, instead of being counted for technology transfer, in Albania the universities should first and foremost produce capable and skilled professionals. In successfully doing so, they are already providing an enormous contribution to the economy.

Studies show (see Bartlett, 2017) that there is a noteworthy discrepancy among the market needs and the competences provided by the universities in Albania.

It is therefore sensible to assume that instead of promoting such strategic and macro scale cooperation models, what countries like Albania need are operational small organizations, or institutions for collaboration that act as intermediaries among all the relevant stakeholders in a given industry.

Institutions for Collaboration

Several studies (Sölvell, et al. (2003), Meyer-Stamer and Harmes-Liedtke, (2005), Szogs, et al. (2009)) consider institutions for collaboration as important elements of innovation systems and have especially highlighted their role as intermediaries among cluster actors.

A very interesting example with this regard, is brought forth by Criscuolo (2002) who has investigated the role of Confederazaione Nazionale di Artigianato - CNA, an association of artisans operating after the WW2 in the Emilia-Romagna, Bologna, Modena region or the so called 'Third Italy'. The competitiveness of this region has been extensively studied and the literature recognizes two phases of development, namely the so labelled 'spontaneous growth' (1945-1970) and the successive 'institutionally enhanced growth'.

The author, however, claims that the spontaneous growth has not been so spontaneous after all, crediting the active role of CNA in the transition of these small family owned businesses and clusters from the low road competitiveness and a high degree of informality to the reputed and highly competitive region that the Third Italy constitutes today.

How was this achieved? "On the whole, the CNA pursued a three-pronged approach to small business development. First, it provided political representation to an otherwise silent and individualist social group, namely self-employed workers and the artisans. Second, the association buffered the impact on small businesses of the fiscal, accounting, and labour legislations. It did so both by mediating with the public authorities the interpretation and the enforcement of these regulations, and, more importantly, by providing administrative (accounting, payroll, fiscal counselling)

services and production-targeted (producers' consortia, industrial sites, innovation centres) activities which enabled small businesses to comply with the formal regulations. Third, the CNA promoted the introduction of a formal system of industrial relations also for the artisan sector, thus favouring the institution of formalized labour relationships between small businesses and the labour unions." (Criscuolo, 2002)

This example is highly relevant for less developed countries like Albania. A recent survey of Albanian firms by BiznesAlbania (2017) suggests that they admit to have a lack of information with regard to tax compliance. "…tax procedures seem to be considered complicated at every firm's size or sector, while tax morale decreases for bigger firms, as close to 70% of firms with more than 10 employees fully agree that it is justifiable not to declare all taxes."

Thus far it has clearly been more appealing for policy makers to adopt modern policies from the developed countries but that doesn't necessarily constitute a guarantee for success. Because of the country's history (the regime of centralized economy followed by self-isolation after the WWII), Albania has faced only later during its transition processes what the Western European countries went through decades ago.

This does not mean that the success of 'Third Italy' can be easily emulated by other countries, but approaches like this or other cases in contexts similar to Albania (predominance of SMEs, efficiency driven competitiveness, high informality, low trust) can definitely serve as better references than the sometimes overstretched affinity with the developed countries. Being constantly aware that it's imperative to 'catch up', the less developed countries often rush processes, importing models that the developed countries have in place today, ignoring the capacities needed to implement them. But, while leapfrogging is possible in some cases, at times speed might be the enemy of development considering that capacity building is a long term process.

Therefore Government, as one of the cluster actors, considering the former discussion, has an important role in addressing the bottlenecks that arise from the level of development of the other cluster actors and their interplay, identifying the place-specific factors that affect the actors' behaviour and develop appropriate policy responses.

4.3. A framework for cluster policies in transition economies

Some emerging points from the study of Nientied and Karafili (2016), together with the literature review and input gathered through additional interviews carried during 2015-2017 for the purpose of this research, reveal some common features for transition economies in the Western Balkans, which result in a distorted behaviour of the actors that in turn affects cluster formation, namely:

1- the form of capitalism present in transition economies in Western Balkans
2- the highly polarized spatial distribution of the population and economic activity
3- domestic nature of competition
4- corruption
5- lack of trust among the actors
6- informal economy
7- brain drain

1. The Western Balkans are post-socialist economies still transiting towards capitalism, or what can be considered as a young, still raw capitalism lacking the cultural and institutional thickness of more mature forms of capitalism. In the Varieties of Capitalism framework, Hall and Soskice (2001) distinguishes among two major forms: Liberal Market Economies (US, UK) and Coordinated Market Economies (Germany). However, there are studies (Crouch, et al., 2009) that identified cases that differ from or even defy the national institutional structure evidencing what they name “creative incoherence”. Moreover, authors like (Allen 2007) have also shed light on nuances in between, especially in sectoral and subnational level. With regard to transition economies the study of Allen and Aldred (2009) in CEE member states of EU, reveals that they display distinct features from both: LMEs and CMEs, however they also display different results from one another, making it difficult to generalize. This is attributed to the high presence of FDIs, a high degree of flexibility in implementation as opposed to the formal legislation, etc. the findings of their study contradict that of Nölke and Vliegenthart who classified the CEE countries as Dependent Market Economy, considering their high dependence on foreign

investors, donors and executors of the lowest value adding processes of global value chains. “As the data here have revealed, the new member states are not DMEs (Nölke and Vliegenthart, 2009), and domestic institutions play an important role in shaping the competitive strengths of firms in the new member states” (Allen & Aldred, 2009)

2. There is a high level of polarization present in the country, with the Tirana and Durres region (often referred to as Durana) counting for the largest concentration of population, economic activity, and knowledge as well as social and cultural capital.

3. There is an inherited culture of domestic competition due to the closed system the country operated in, in the past. Prašnikar, et al. (2012) maintain that the nature of competition in Albania is largely determined by the characteristics of domestic competition.

4. Corruption is not only unanimously mentioned by respondents as a major hurdle but it is annually reconfirmed by WEF and other international indexes and bodies as the most problematic factor for doing business. A survey conducted by BiznesAlbania in 2017 among over 400 firms states that “Corruption is a key problem in the country, where a strong policy management system in the country comprising sufficient legal framework and necessary bodies, is crippled by poor implementation and a lack of resources. Albania seems to perform worse than the region in this area, although there are some recent improvements. More than 50% of the firms, state that business cannot be conducted without bribes. Moreover, another half of the firms appears to notice that the relations between senior government officials and executives of private sector involve bribes or other contributions”.

5. One of the most distorting effects of the former regime in the behaviour of actors has been the erosion of trust, and that holds for all post-socialist economies in Eastern Europe. As Iyer et al (2005) state “In the transition economies in Eastern Europe and

the former Soviet Union, the disappearance of formal government in the late 1980s and early 1990s led to a collapse of trust and greater reliance on local networks and informal associations." Vajjhala and Vucetic (2013) add ""The barriers faced by small- and medium-sized firms in transition economies are different from the barriers identified in other developing and developed countries. Cultural issues, especially, national culture plays an important role in knowledge sharing in firms. Transition economies have unique social and cultural conditions, partly influenced by decades of harsh a repressive communism. Some of the transition economies with the harshest and repressive regimes face issues such as lack of trust that have significantly influenced the cultural fabric of the society in these transition economies."

6. Informality is widespread in Albania, in both businesses and households. Boka and Torluccio (2012) list the lack of experience in doing business, the absence of a regulatory framework, weak public institutions and the transitional shocks as the main factors for the emergence and persistence of informality as the most concerning feature of the Albanian economy. The results of their empirical assessment of the size of informality reveal the magnitude of the informality in the Albanian economy. "By using the national accounts discrepancies approach we have found that in average the informal economy in Albania accounted for about 35.8/% of the GDP. The electrical energy consumption method yielded in average approximately the same result (37.1%) for the period from 1996 – 2012". The concern with informality is mostly due to its impact in financial deepening and economic growth in general. But one of the most serious and long term effects has been the culture of informality. The perception by the businesses as surveyed by BiznesAlbania (2017) shows that "more than 65% of the firms admit that they compete against informal competitors".

7. Brain drain is a phenomenon experienced by all developing countries but in the case of Albania it has been severe. As per the CESS survey "during the period 1991–2005, more than 50 percent of the lecturers and research workers of the universities and research institutions of Albania, most of whom were young and had postgraduate degrees from Western Europe countries or the US, emigrated from Albania. A total of

47.3 percent of them were aged 25-34 at the moment of emigration, and unlike much mass emigration, 71.4 percent of them emigrated with their families." (CESS (2006) The intertwining of push and pull factors has led to these figures with peak years in 1991-1992 immediately after the change of the regime and 1997-1998 after the post-pyramidal scheme social unrest. The rate of brain drain has slowed down after 2000, even experiencing brain gain for a while after the financial crisis in 2008. It consisted mostly of Albanians of the diaspora returning to Albania. Such phenomenon was short-lived. The haemorrhage of skilled professionals continues with concerning rates. Moreover, there are annually some 4000 students leaving Albania to study abroad (primarily in Western Europe and US) and their non-return is one of the most common ways of brain drain for Albania, which shows no intention to change in the near future.

The market distortions that emerge as a result of these factors, call for policy intervention. However, attention should be paid so that it is intervened only when the government can do better than what would otherwise be achieved by the other actors.

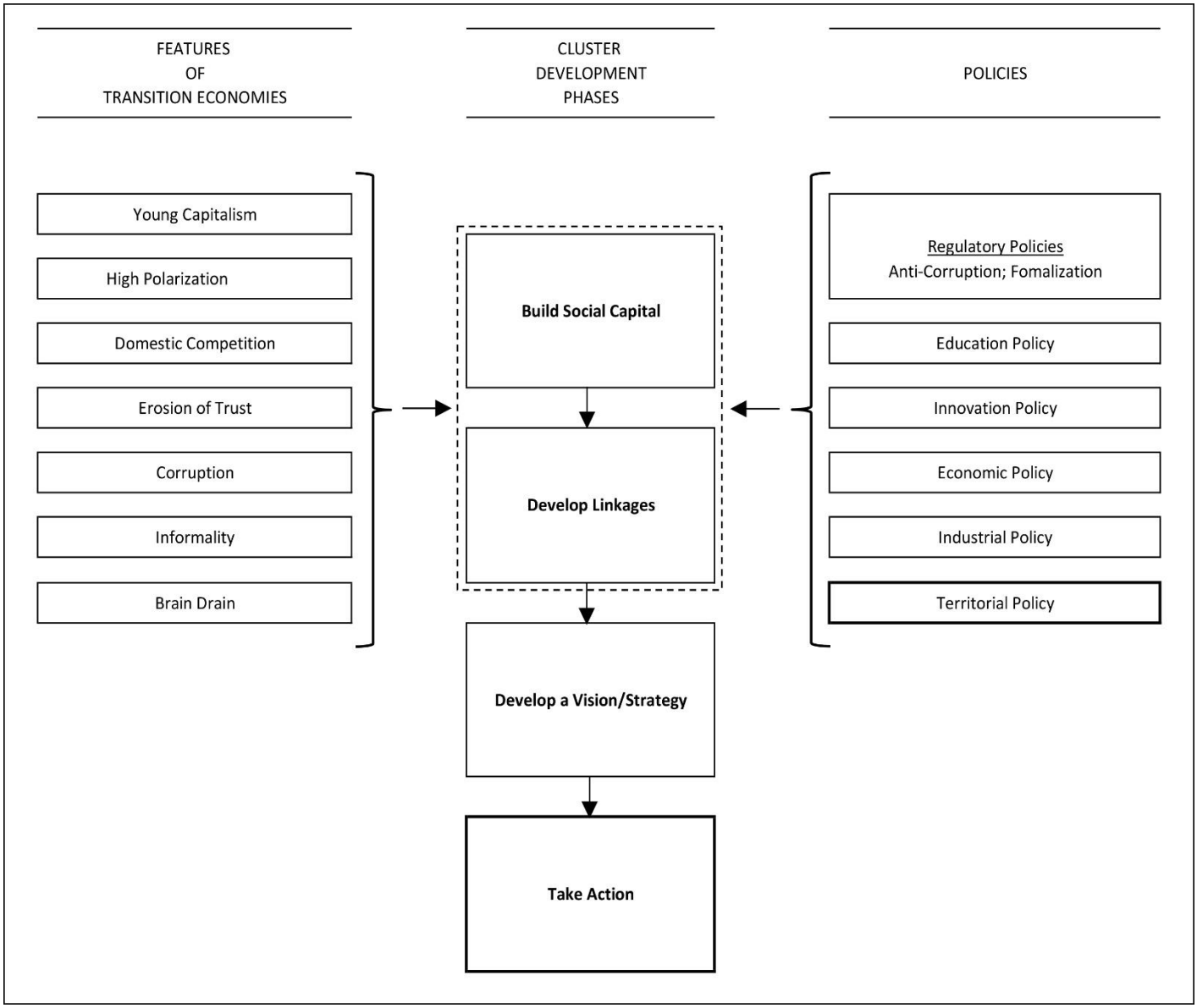
In terms of the level of government involvement and clustering processes, Anderson et al. (2004) identify three alternatives: the engineered; the organic, and the re-engineered processes. However regardless of the process, they each go through the same general phases: development of social capital (which also implies building and sustaining trust), develop linkages, formulate a vision and strategy, and finally undertake action.

Because of the stage of the development of clusters in Albania, the features of the Albanian economy explained above influence the clustering process in its first two phases, namely: development of social capital and building trust. The policy response to the suboptimal results with regard to these phases can be grouped in general framework policies, industry policies, SME policies, innovation policies and territorial policies.

For the purpose of this research, the concern is with the territorial policies. The next chapter discusses cluster dynamics in Albania, while analysing how they are or can be shaped by territorial policy.

The interrelation among these features, the clustering processes and the respective policies are diagrammed in the model in Figure 9.

Figure 9 – Framework for Cluster Development in Transition Economies



Source: Author's own elaboration

Although this research is focused on the territorial policies for cluster development, this framework helps to understand the inter-dependence among the territorial and the other policies that affect cluster dynamics. Considering the often unaligned and uncoordinated policy interventions, it is important for policy frameworks that underline the need for cohesion and synergy among the various policies.

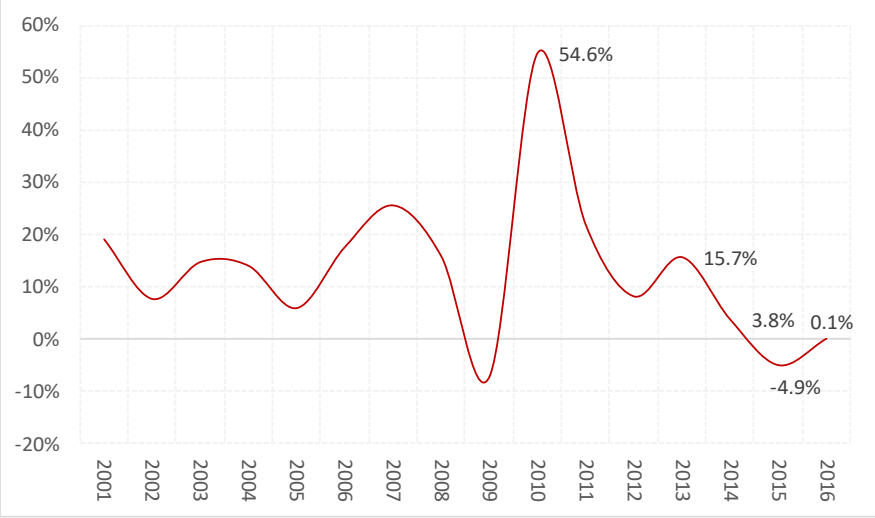
5. CLUSTER DYNAMICS IN ALBANIA

5.1. Albania's competitiveness

Albania is a country still trying to redefine its economy and position itself in the global market. Ever since it changed from a centralized to a market economy, the country has consistently shown a negative trade balance. In terms of competitiveness, even more concerning than the low level of exports, is their composition.

The exports' performance has in the last years entered a downward spiral. After a significant increase of over 50% in 2010 (mostly apparel manufacturing with ordered material (re-exportation), electric energy, minerals and petroleum), the last 5 years have marked a continuous worsening, reaching a low of 4.9% in 2015. 2016 has shown a slight improvement but it is insufficient and the growth of exports remains below the long-term average.

Table 4 - Total exports (annual change)



Source: INSTAT (2017)

The low level of exports reveals a low competitiveness in international level, especially due to their composition. For years the exports are based on the low labour costs for apparel manufacturing and raw materials (raw oil, minerals and chrome ore), which

makes for a high vulnerability of the Albanian exports, considering that they are not integrated or are in the very bottom of the value chains.

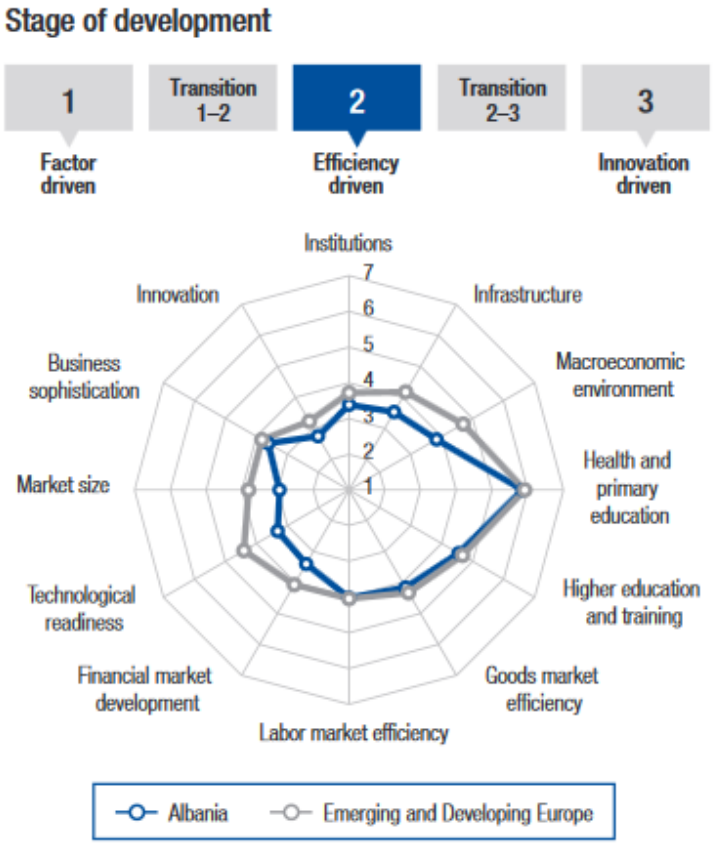
The very poor performance especially with regard to the value chain breadth is also confirmed by the Global Competitiveness Index which is one of the tools frequently used to understand where the country stands in the global competition ladder. The document, prepared annually by the World Economic Forum provides a ranking of all assessed countries with regard to 12 main pillars, each being further disaggregated into composing indicators.

The countries are grouped based on their performance in 3 stages: factor driven economies, efficiency driven economies and innovation driven economies. The general assessment for Albania in 2015 is that the country currently is positioned in stage 2, occupying the 97th position out 144 countries.

Besides the general ranking if exploring separately each indicator, it is noticed that most of them fall below the median line. It should be pointed out though, the high score of some indicators, like the one concerning the higher education, is disputed by other studies that have used other indicators instead of the number of university graduates, such as their employability in the labour market.

The bottom line is Albania can hardly be considered a highly competitive country and is lagging behind in various aspects not only globally but also within the Western Balkan region. Such conclusion is backed up by several additional studies OECD (2011); Bahiti and Shahini (2010), Feimi and Kume (2014), Prašnikar et al (2012), Nientied and Karafili (2016), World Bank (2018).

Figure 10 - Competitive Profile of Albania



Source: World Economic Forum (2015)

Exceptionally low scores go to state of cluster development and value chain breadth, respectively positioned in 126th and 142nd place.

Not only the positioning in these dedicated indicators, but the assessment of the other factors of cluster development (listed below) depict a clear picture not only for the current state of cluster development in the country, but also for their potential in the near future. More specifically:

- Intensity of local competition – 142
- Buyer sophistication – 105
- Flexibility of wage determination – 121
- Capacity to retain talent – 93
- Capacity to attract talent – 97

- Ease of access to loans – 128
- Firm level technology absorption – 112
- Capacity for innovation – 115
- University – industry cooperation – 135

It is not surprising therefore that in the attempt to improve its competitiveness, since many years now, Albania has cluster promotion initiatives in place. Their effectiveness is however far from expected.

Over the years, there have been improvements or even jumps in some indicators while the progress in the pillars of innovation and business sophistication has moved very slowly.

This research shows that the failure of such initiatives lies in the adopted approach towards cluster development, which as often the case with policies in the less developed countries reflects the inability to resist the impulse of copying policies from the developed countries oblivious to the local context and more importantly with little regard for the capacity of the local institutions to implement such policies. Moreover, the concept of clusters itself is not easy to translate into policies.

5.2. Top-Down Cluster Dynamics in Albania

As mentioned earlier the Global Competitiveness Report over the years shows a poor performance of Albania with regard to clusters development. The European Cluster Observatory (2016) report no cluster evidence for Albania in the European Cluster Panorama 2016. However, even if at an embryonic stage, some cluster dynamics have started to emerge. The first attempts to develop clusters in Albania date back in 2004, through a dedicated project financed by USAID, namely Enterprise Development and Export Markets (EDEM).

5.2.1. The EDEM project

The project identified 4 potential clusters in Albania: the leather products, meat processing industry, medical and aromatic herbs and tourism. The main selection criteria for these specific clusters was, as the project name indicates, the potential of these sectors to export.

The EDEM project introduced clusters as a novelty in Albania and because of this most of the efforts went into mapping the existing conditions, identifying the needs of the actors, and so.

The project reports count as their main activities conferences and seminars in industry level but also on a macro scale with regard to common concerns such as corruption and fiscal policy. In cluster level activities consisted in B2B meetings, identification of new markets and defining the needs for training of the cluster firms. Such trainings were to be provided by other bodies in the country such as GTZ (Now GIZ - German International Cooperation), RDA (Regional Development Agency), etc., with which the EDEM project tried to align and network.

Through such strategic or long-term activities, it was hard to achieve quick results. By the end of the project the status of the beneficiary clusters can be summarized as follows:

- The leather products industry (mostly footwear) has been a very labour intensive industry, competing solely on basis of the cheap labour force, which had limited knowledge and required training. Now, the industry faces new challenges but has witnessed very positive developments to be explained in detail in the upcoming chapter
- The Meat Processing Industry counted 65 companies in 2010, all SMEs (EHW, KMY, Hako, Tona, El Frigo, Frigo Alba, AlbIdea, Meat Master, Rozafa). The sector faced major shocks due to several outbreaks of viruses in the supplying countries, which resulted in a shortage of raw meat supply. According to USAID report 2006, over 95 % of raw meat was imported from countries such as Brazil, Uruguay, New Zealand, and India. Besides, some new links created through the

project, this industry's competitiveness remains limited. It is still highly dependent on imports for the raw meat input, mostly due to the lack of proper slaughter houses in Albania.

- Medicinal and Aromatic Herbs used to be in a quasi-monopolistic situation up to 2000 with only one company: AlbDucros dominating the market. Over the years it has seen a continuous consolidation and growth as a sector, counting 44 companies with a turnover of $332.200 in 2017. The main export market is US and Western Europe. Over the years there has been a decline in the number of harvesters and a constant increase in the number of cultivators and collectors. The sector has several identified needs, such as training especially with regard to the harvesting techniques and more importantly if it wishes to move up in the value chain, need for know-how and new technologies for the extraction of essential oils and ulterior processing. In the interview with one of the largest companies in the sector: Xherdo co, the owner said that the Albanian companies export the herbs in the form of essences, ready to be used for pharmaceutical or cosmetic purposes. The underdevelopment of these industries in the country makes for a total export of these products in the international market.
- Tourism was reported as the cluster that achieved most significant results, with a close cooperation not only among the companies within the cluster but also with the Regional Development Agencies, Peace Corps, the University of Tirana (Faculty of Economics) and the government. A series of actions varying from marketing and promotion, trainings (for Albanian diplomats abroad as well), advisory and advocacy, etc. were conducted throughout the lifespan of the project.

  Today tourism makes for a well performing industry and a priority sector for the future development of Albania. A more detailed analysis of this industry will follow in chapter 4.

Understandably once the project reached to an end, without the financing from donors, the intensity of the activities conducted by the clusters slowed down or even ceased. However, now many years after, it can be said that the project planted some seeds and that the identified potential clusters continue to show consistent growth in terms of

productivity and exports. More importantly the project introduced clusters as an objective to be pursued, which was later followed by government action for such purpose.

Besides the policies of the Ministry of Economy, an articulated focus on innovation of the newly elected government in 2013 resulted in a dedicated ministry (namely the Ministry for Innovation and Public Administration). It was considered by many as an odd combination, nonetheless this ministry undertook some steps aimed at increasing the innovation capacity of Albanian firms.

5.2.2. The Cluster Program of the Albanian Investment Development Agency

In 2010, AIDA (Albanian Investment Development Agency) was established, with a twofold objective:

- Improve the Albanian ability to attract foreign direct investments
- Support exports and SMEs to be more competitive and increase their capacity to innovate

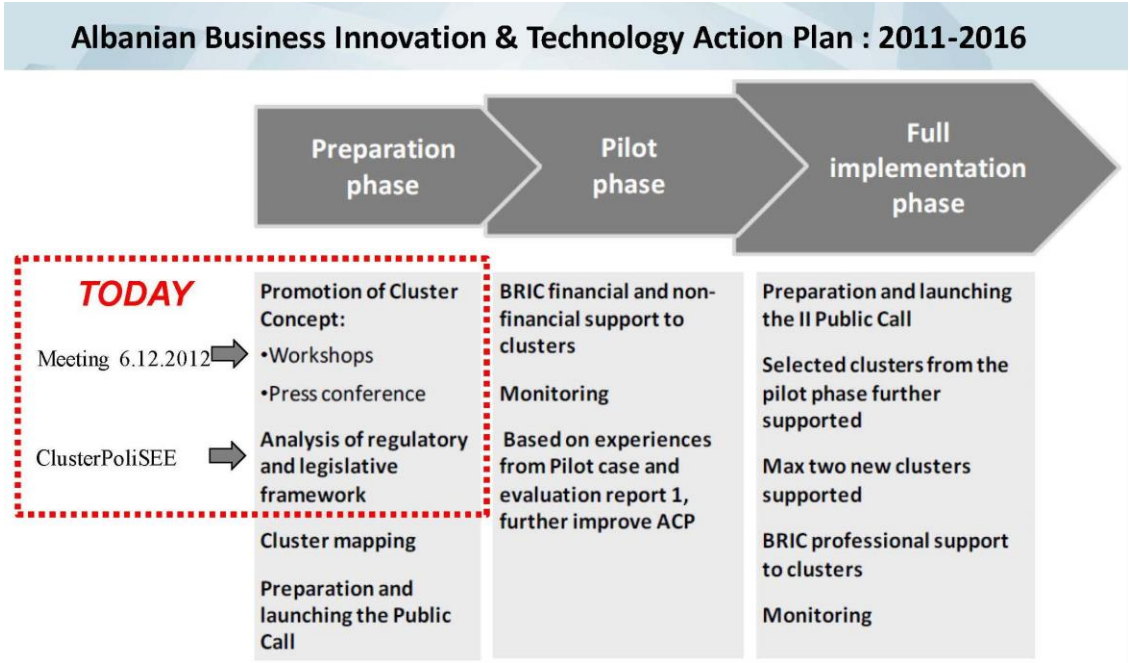
In view of such objectives, a dedicated unit within AIDA was structured, namely Business Relay and Innovation Centre. As per their own formulation: “BRIC is the executive body whose aim is to deliver the programmes of the Business Innovation and Technology Strategy (BITS) and Business Innovation Technology Action Plan (BITAP) approved by the Albanian Government.” (AIDA, 2016)

More specifically BRIC was responsible for the implementation of the Business Innovation and Technology Strategy through the following programs:

- Innovation Programme
- Albanian Cluster Programme
- Incubation Programme

As regarding the cluster program, it was launched with high expectations and intended to achieve some ambitious goals in the timeframe 2011-2016.

Figure 11 - Albanian Clusters Programme Action Plan 2011-2016



Source: AIDA (2012)

Additionally, within the same period of time, AIDA was the Albanian partner in an EU funded project: Cluster PoliSEE; an ambitious 2-year project, with 25 partners in 11 countries, targeting as the main beneficiary regional policy makers. "ClusterPoliSEE main objective is to enhance the capacity of regional policy makers and business organizations to confront, prevent and anticipate change, developing smart specialization strategies for cluster improvement, thus accelerating differentiation and structural change of the economic network of enterprises towards a knowledge-based economy, new technology adoption or cooperation between companies towards a closed production cycle, etc." (ClusterPoliSEE, 2017)

Albeit their ambitious objectives, both initiatives had minimal impact in cluster development. When asked for the reasons for such failure, Alda Dhamo (a former AIDA employee and contact person of the ClusterPoliSEE project) indicates as the most problematic and serious issue, the lack of information and lack of awareness about clusters among the Albanian firms. "Most of our efforts went in explaining to businesses what clusters are and what they could benefit by clustering. Nonetheless we came

across a very unenthusiastic reaction by the businesses that were sceptical and reluctant to cooperate."

The same response was received by Mr. Bashkim Sykja (Director of SME Development at the Ministry of Economy). He listed many challenges faced by the SMEs in Albania, and clusters could indeed alleviate some of the bottlenecks, but there is no awareness about clusters in Albania, he claims, and the policies cannot work if not met halfway by bottom-up initiatives.

Mr. Zeqiri (former AIDA director) adds to the list of unfavourable factors: the frequent changes of the people in charge, no follow up of the started actions, and a lacking coordination among the various governmental bodies involved as other factors that hinders the successful implementation of policies. He recognized the shortcomings of AIDA with regard to the cluster program, claiming that it actually constituted a lesser priority for AIDA, as opposed to the attraction of FDIs. "About 70% of our work is dedicated to the inflow of Foreign Direct Investments in the country, leaving limited resources to be dedicated to cluster development action"

Another agency who in cooperation with AIDA, is responsible for the execution of the Innovation Policy Financial Instruments, is the National Agency for Scientific Research and Innovation (NASRI). Access to finance is imperative for any business, and even more so for start-ups that in a limited financial market like Albania find it hard to reach the finances required to get started with a business. In their support and also in support of the innovation capacity of Albanian SMEs, AIDA has devised the following funds:

- The innovation fund
- The start-up fund
- The voucher scheme

There are no data on the amount of funds allocated through these instruments but the respondents from the business community considered them not very appealing: too much paper work for little money. NASRI on the other hand was supposed to finance

(through the Fund for Science, Technology and Innovation), joint university-industry projects for technology transfer. Throughout 2009-2016 the fund could not be allocated.

In view of such silence in between the academia and industry, the policy response has been that of a stronger IPR legislation. Not only, as theory and an increasing body of research shows, is a stronger IPR regime hardly a guarantee for more innovation (see Boldrin et al, (2011); Cerquetti et al (2016)), but the kind of innovation likely to occur in Albania is that of incremental innovation for which IPR indicators are not the most appropriate. Moreover, since 2001, Albania has signed dozens of agreements and conventions with such regard without much impact in the level of cooperation among the universities and industry. As Nientied and Karafili (2016) point out: Albania is behind in international benchmarks on national innovation indicators but the relevance of such indicators can be questioned... They are from a technical point of view, supposed to be an accurate reflection of the phenomenon and mainly used for statistics. For example, for Albania it can be calculated how much government funds go to R&D in universities, but what does it mean? What results are achieved? Kravtsova & Radosevic (2011) suggest that innovation systems (R&D, educational systems) in Eastern Europe are inefficient, they have lower levels of productivity than might be expected given their research and development (R&D), innovation and production capabilities. In other words, the quality of the indicators can be questioned. Is there any insight into the innovation demands for R&D from the business sector in Albania? Another example concerns patents, Albania scores low on patents. In technical fields patents are important, but to what extent are patents relevant for a country that identified agriculture and tourism as two priority sectors for economic development? The UNECE notions of ‘the stock of inventions and innovations’, and the ‘volume of R&D needed’, are rather old fashioned and mechanical ways of looking at innovation.

This again reconfirms the need for more contextualized approaches. This is not to deny the need for a good IPR regime, but given the current conditions of both the universities and the industry in Albania, this becomes a peripheral issue in the university-industry cooperation. Instead, as previously discussed, universities should first and foremost be

accounted for educating capable and competent people, which is an increasingly complex task everywhere, let alone in a country with limited human and infrastructural capacities.

Nonetheless the expectation from universities to engage in technology transfer remains an articulated objective by the policymakers. The upcoming National Strategy for Research and Innovation states: “The concept of technology transfer is still in its initial phases in Albanian Higher Education Institutions, institutes or research centres. One of the fundamental indicators is the exceptionally low level of patents for inventions, registered by Albanian scientists and the almost inexistent number of spin-off or start-up companies established next to the HEIs, institutes or research centres in the country”[1]

5.2.3. Industrial Parks

The adopted approach has been that of economic zones dispersed throughout the country, but mostly located in the Tirana – Durres region. Such economic zones, which as of 2007 have been sanctioned in the law were included in a number of policies and plans and yet they never came to be. “For the establishment and development of Economic Zones and Industrial Parks, where the involvement of HEIs and research institutions can play an important role, since 2007, the Law No 9789 dated 19.07.2007 applies. These Economic Zones were foreseen to have various statuses, such as the Free Economic Area status and the Industrial Park status. Albeit since 2007 several orders and decisions have been made, granting the Economic Zone status (either as Free Economic Area or Industrial Parks) in various cities such as Shkodër, Vlorë, Elbasan, Tiranë and Durrës, there has not been any sustainable development in this direction as yet.”[2] (NASRI, forthcoming)

[1] Quotation translated from Albanian
[2] Quotation translated from Albanian

This reflects an ‘old thinking’ in terms of planning. Unfortunately, such thinking has not been abolished and the view on clusters as ‘industrial districts’ or bounded areas in the territory persist with tenacity even now, after a decade of absent results or any interest from the businesses to be part of such structures.

Since 2008 there have been 9 “Industrial Parks” and one Free Economic Area approved by decisions of the Albanian Government:

Two Industrial Parks in Shkodra, one in Koplik and the other in the ex-industrial area of the city. The former was foreseen to occupy 61 ha for activities of manufacturing, agro-processing, trade, services, etc. The winning company “Degennaro” group was supposed to make investments up to 18.5 million Euros and create 16374 jobs. The project was never implemented.

Two Industrial Parks in Lezha, one in Shengjin and the other in the city of Lezha. The former was foreseen to occupy 3.2 ha for activities of food industry, etc. The winning company “ATX International Tirana” was supposed to make investments up to 17 million Euros and create 3000 jobs. This project was not implemented either.

One Free Economic Area and one Industrial Park were approved for the city of Vlora. For the latter, the company ‘Idea Vlora’ signed a concessionary agreement. The park was supposed to cover 121 ha, the investments would be in the amount of 21 million Euros and 18.568 new jobs would be created. Again the project was not implemented.

Additionally, there were three industrial parks approved in Tirana, Durres (Rrashbull) and in Elbasan, which never came to be.

After all these attempts, in 2015 some changes in the legislation (Law No. 9789, Dated 19.07.2007 “On The Establishment and Operation of Technological and Economic Development Areas” was amended with law No. 54/2015“On Several Amendments and Addenda to Law No. 9789, Dated1 9.7.2007, “On the Establishment and Operation of Technological and Economic Development Areas”) led to a renewed interest on the establishment of the now called TEDA (Technological and Economic Development Areas).

However, the public tendering for the approved “Industrial Park” in Spitallë, Durrës failed 3 times to attract investors and finally after reducing the area from 850 ha to 101 ha, it was approved to a consortium of Albanian firms in 2017 (Pelikan” ltd, “The Best Construction” ltd and “Vëllezërit Hysa” ltd). The investments is set to reach 39 million Euros and create 2500 jobs. It is yet to be seen whether this recent attempt will actually be implemented or have the same fate as the previous ones. Its activity however (in the chromium industry) is far and away from that intended by the government, which aimed at using TEDAs to build complexes of advanced technologies.

Not only is the insistence to build Industrial Parks baffling considering their failure ex ante, but cases of developing countries that have mobilized huge investments for the creation of such parks should be carefully examined to be able to draw lessons from. Youseff et al (2012) discuss the case of Tunisia which has built 11 Techno parks. They question the effectiveness of this policy and attribute its missing results to the following factors: A large number of Techno parks for a small developing country like Tunisia; Tunisia did not take into account the evolution of science parks and Techno Parks (in particular, the substitution of the concept of TPs with new models such as competence centres and clusters; Tunisian Techno Parks failed to attract high profile entrepreneurs and managers; the selection process in establishing the location of techno parks and their area of expertise is questionable. The choices were based on political considerations rather than the knowledge of the sector; there is a serious lack of skills and human resources in several Techno Parks and finally the role of the government must be reconsidered. For Techno Parks to be successful the private sector should be in the driver’s seat and government should serve as an enabler, providing a conducive innovation ecosystem.

In Albania the approach has been different. Not only is the government on the driver seat, but unlike countries with strong top down policies on cluster development such as France and the Basque region, it actually has included clusters in its planning instruments, besides the economic and research & development policies, indicating which clusters to be developed and where.

While being very critical on this approach, it has to be recognized that Albania has come a long way in terms of territorial planning. After the totally and centrally controlled development of the territory during the communist regime, years of completely spontaneous and often informal development followed. Regaining control over the territory, required a different mind-set and understanding of new instruments such as formalization and integration of the informal settlements, transferability of development rights, sustainable development, a raising sensibility towards the environment, public-private partnerships, etc.

There have been serious attempts to adopt a new thinking on planning, a new law on planning was approved with positive intentions. However, its impact on the territory is yet to be assessed. Other efforts have been limited to the adoption of notions that in paper look great but cannot be easily translated into policies (i.e. Metabolism of Albania) and mostly the use of technology (the application of GIS). A very positive development with this regard has been the establishment of ASIG (State Authority for Geospatial Information), nonetheless its database has no information on the economic activity rather only on land, buildings and infrastructure. The inability to map the economic activity is a missing opportunity for the platform to help planning achieve the territorial and economic cohesion it aims for.

5.2.4. Integrated Inter-Sectoral Plans

The new law on territorial planning foresees the development of the so called Integrated Inter-Sectoral Plans (acronym in Albanian: PIN), intended to introduce the middle layer of planning in Albania: the regional one. The PINs are supposed to function as the missing link among the national plan that by definition is more strategic and focused on policies and the local plans that are more land use oriented. However, this in-between layer as we will discuss consecutively still relies on the use of instruments such as land use to achieve the aspired regional development.

So far there have been designed and approved two PINs: One for the seaside of the country and the other for the Economic Area Tirana – Durres (aka Durana)

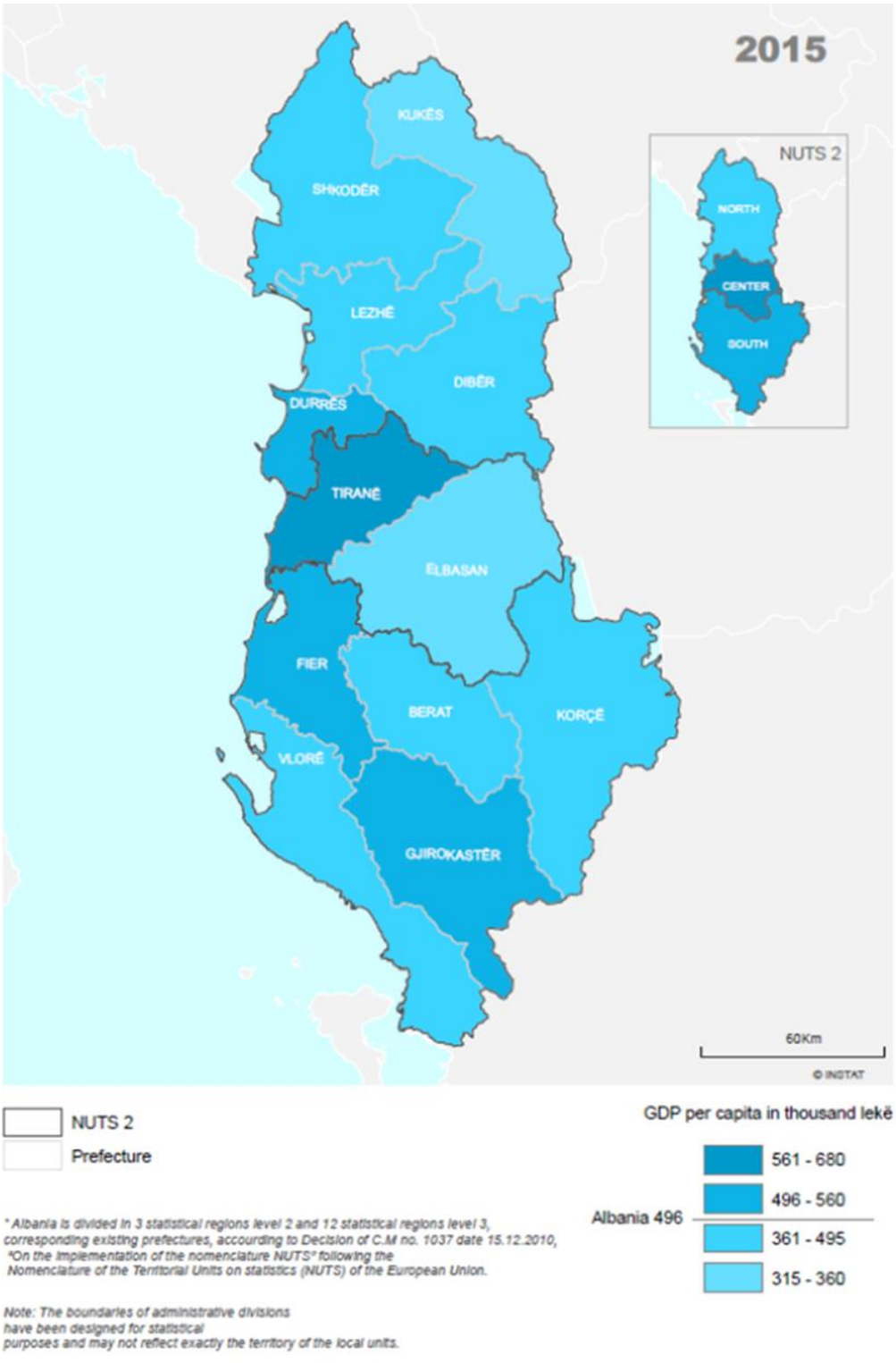
The PINs aim to achieve the following objectives:

- Increase competitiveness of the regions of Albania, vis-à-vis each other and internationally

- Increase the territorial cohesion of Albania

Both objectives constitute important priorities and the intention to develop a plan that would be instrumental in achieving this goals is nothing but to be applauded. However, 3 years since its approval not much can be said with regard to these objectives, especially with regard to the development of clusters, which occupied a central position in the economic territorial policies foreseen by the plan. Although normally when analysing clusters, the Porter Diamond model is used, the analysis that precedes the elaboration of policies in the Durana PIN is a SWOT analysis of the region. The SWOT is conducted setting the Durana region against the rest of the country and not trying to position if not internationally at least within Western Balkans or CEE countries. This domestic nature of the SWOT analysis becomes evident, if we refer to some of the identified strengths: i.e. ‘brain gain; from other regions in the country, which is highly misleading considering the continuous brain drain experienced by Albania since many years.

Figure 12 - GDP per capita by regions



Source: INSTAT (2015)

Considering the high level of polarization in Albania, assessing the competitiveness of the Durana region in relation to the rest of the country can paint an overly positive and unrealistic picture. If the aim of the plan is to improve the region's competitiveness, the approach has to be more outward looking.

Whilst as regarding policies, 2 out of 4 policies under the economic – territorial policies heading, are respectively:

- The creation of economic clusters
- The creation of incubators for creative and technological industries

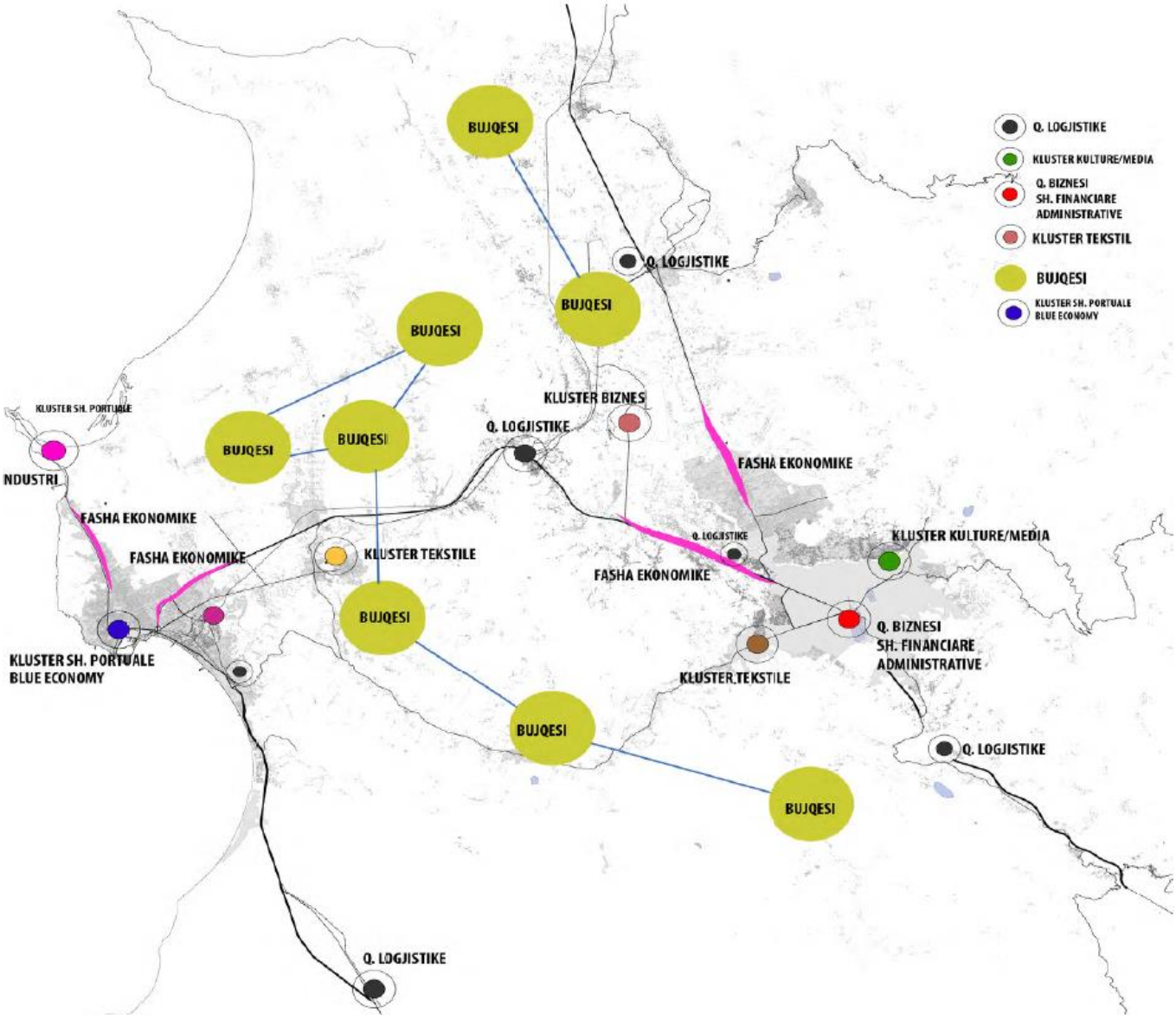
More specifically the plan foresees:

The concentration of the economic activity of the Durana region in specific poles

(See Map of Clusters and Economic Poles):

- Kashar - Vorë Pole (services and light industry)
- Kashar - Kombinat Pole (textiles)
- Kamez - Nikël – Bubq Pole (wood products industry)
- The Kinostudio Pole (services, creative industries)
- Airport – Vorë Pole (elite business services such as regional hospitals, fair centers, logistics center, etc.)
- Durres – Shkozet Pole (warehouses for services and industry)
- Logistic Pole "Spitall" Durrës.

Figure 13 - Map of Clusters and Economic Poles



Source: Territorial Development Agency (2015)

While this reflects an obvious reference to the “Poles of competitiveness” adopted by France, considering the differences among the two countries, the literal adaptation of the policy makes for the usual tendency to import solutions rather than design them, or as Petrakos and Skayannis (2011) put it: distinguish among “successful policies” and policies in “successful regions”.

Moreover, previous studies such as Bretones and Scheel (2011) have investigated the possibility to transfer the French cluster initiative model to Latin America countries and they conclude by assessing the transferability as very unlikely to produce positive results due to fundamental structural differences in the business conditions.

The terminology used is somewhat confusing as well: the plan uses the terms *create* and *build*. Namely:

- Build a “Fashion and Shoes Cluster” in the “Kinostudio” Pole and the Fair Pole along the Highway.
- Build a “Wood Products Cluster” (Semi - Products) in the KAMEZ -NIKEL- - BUBQ Pole
- Build a “Milk and Dairy Products Industry” Cluster in the Highway Pole
- Build a “Urban - Farm & Bio - Region & Food Chain” Cluster
- Build a Logistic - Hub Durres - Shkozet
- Build a “Innovation Hub / Green Economic Growth” Cluster

There is no explanation as to why are these the sectors selected and not others, or why is it necessary for them to concentrate in this specific areas within the region. There is no information about the methodology used, no statistical data or mapping exercises to argument the selection. When asked about the process of the preparing the PIN, Mr. Ledio Allkja, former expert in the Ministry of Urban Development and member of the team that developed the plan, recognizes many shortcomings of the plan. He identifies two major factors that have influenced such shortcomings: the very tight schedule for the development of the plan that left basically no time for a preliminary mapping of the situation and the fact that the composition of the team responsible for the development of the plan was very homogenous (all architects and planners, no economists involved or experts with a solid understanding of how clusters work). Even though the project is officially approved by the Ministry of Economy as well, its involvement was only formal.

Empirically it is somewhat clear for some industries due to the existing agglomeration of firms in these areas for the given sector (i.e. wood products in Kamez – Nikel – Bubq area), however not only does it seem quite arbitrary to select a pole (like Kinostudio)

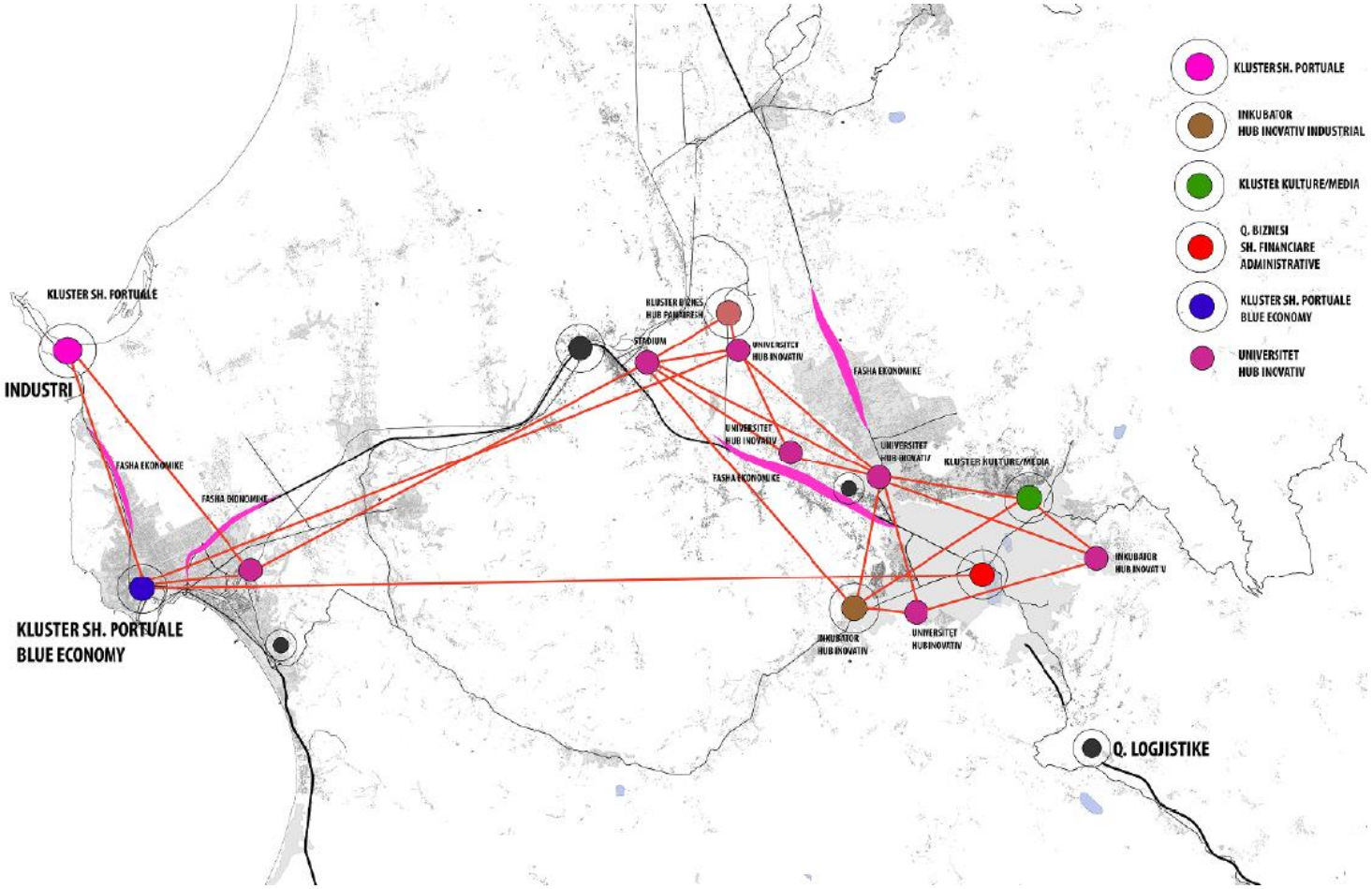
for the creative industries, but it is also highly questionable if the concentration of these firms in a demarcated area is even necessary. It is obvious that the logic behind this decision rests on the concentration of a number of television studios at the Kinostudio area, but this thinking limits the creative industries only to the television industry, ignoring the other creative fields like architecture, design, photography and other visual arts, software design, fashion design, etc. that have firms and freelance professionals dispersed throughout the region. On the other hand, it looks like some of the clusters (i.e. the Innovation Hub) are to be built from scratch.

There are very few successful examples of clusters built out from scratch, like Cap Digital in Greater Paris under the aforementioned framework of French Competitive Poles, but it should be emphasized that this is the exception and not the rule.

Moreover, the investments of the French government for the Competitive Poles amounted to 1.5 million for the initial 3 years (2005-2008) (Bretonès & Scheel, 2011). In the case of Albania it is unclear whether the reference to the French policy is only in terms of approach (a top-down policy) or also in terms of investment.

While for the incubators of creative industries the role and contribution of the government is clearer (the idea is to use former industrial sites for such purpose that are currently vacant and owned by the local government), with regard to clusters, the role of the government is vague. The plan mentions public-private-partnerships or triple helix models of cooperation but without any explicit definition of the roles of the parties. Instead what is explicitly defined is the location of the clusters (Map 2), considering that the local development plans are bound to comply with the provisions of the PIN.

Figure 14 - Map of Clusters and Incubators



Source: Territorial Development Agency (2015)

The brown spot indicates an incubator (an innovative industrial hub) to be built at the former textile factory in Albania, while most of the universities (the pink sports) located in the area are considered innovative hubs. The cultural cluster is set to be located in the Kinostudio area.

This deterministic approach towards the location of the economic activity reminds the old 5 year plans of the communist party. In his word on the urbanization of Tirana, held in February 1948, Enver Hoxha would make the following statement regarding the Textile Factory: "I think the industrial area must be oriented towards the barracks and in the feet of the Yzberishti hills. In this area will be built 3 large factories and will work and live 4000 employees, therefore along the construction of the housing the strategic

aspects, such as health must be considered. The housing units must not be dispersed; these units will also be connected to the Durres-Tirane railway"[3] (Hoxha, 1948)

But while Hoxha's plans covered a 5-year period, this is a 15-year plan and for it to have such a deterministic nature, it should have carefully considered the emerging dynamics of clusters in the Albanian economy. Albeit in embryonic or 'wish to be' stage, important findings can be drawn from their analysis, as to what kind of policies could be more effective to foster their development.

5.3. Bottom – Up Cluster Dynamics

What follows is an analysis of 5 identified industries in Albania, which either have the potential (based on cluster features discussed in chapter II) or have started to develop into clusters, and a contemplation of the role of planning policies in shaping their dynamics. The industries analysed below are footwear, call centres, agriculture, tourism and ICT.

The industries are selected based on the cluster mapping tool designed by European Cluster Observatory (2017), namely:

- Size of the industry: measured as number of employees
- Specialization: measured as industry's share in employment
- Productivity: measured as level of wages and salaries
- Growth (or Dynamism): measured as annual increase in employment

Additionally these are industries that have witnessed growth in the last years in terms of exports as indicated in table 5[4].

[3] Quotation translated from Albanian

[4] Accommodation and food services is used as a proxy for tourism, albeit tourism crosscuts virtually all sectors, the growth of accommodation and food services best illustrates the growth of the tourism industry

Table 5 - GDP of Albania by economic activity

GDP in current prices according to the economic activity						
						in Million ALL
	2011	2012	2013	2014	2015	2016
A1 Agriculture, forestry and fishing	237,062	250,126	264,140	278,924	283,709	293,674
A3 Manufacturing						
3.2 Textile and clothing manufacturing; leather and shoe industry	19,747	17,446	19,531	23,980	24,983	28,476
A9 Acommodation and Food Services	24,749	24,533	23,214	24,432	26,198	29,546
A10 Information and Communication	43,957	41,735	37,807	39,015	42,644	45,418

Source: INSTAT (2017)

Moreover, some of them have already started to get organized in associations, even formally register as cluster (i.e AITA – Albanian ICT cluster – part of the European Cluster Cooperation Platform)

5.3.1. The Footwear Industry

Footwear (more specifically the leather processing industry) and the textile industry show treats of path dependent industries in Tirana. Their earliest documented activity dates back in the XVIII century during the Ottoman Empire. In his rich and highly informative book on the history of the city of Tirana, Kristo Frashëri (2004) says that the documented data about the economic activity (which back then consisted in crafts and merchandise) and their organization in Esnaf-s (Turkish for Guild) in Tirana is somewhat scattered and incomplete but clearly Tirana as a city pertaining to the Ottoman Empire didn't make an exception from the feudal-military system spread across the entire empire. Documents and correspondence among dignitaries of that time, show the existence of 2 guilds (esnafs) in Tirana: The Tabakët (leather-treatment) Guild and the Terzi (tailoring) Guild.

Their organization shows some cluster characteristics: these guilds actually functioned as associations that would include other interrelated guilds - basically the entire commodity chain. The Tabakët Esnaf besides the leather treatment guild had 6 more guilds included in the association such as saddle makers and other equestrian

equipment, military shoes, sword covers and other military gadgets. Similarly, the Terzi association counted 11 guilds (dressmakers, textiles, filigrees, embellishments and trimming, etc.). The Tabakët guild were part of a disembodied chain spread throughout the entire Ottoman empire and the Terzi guild was more locally concentrated. Because of the strong connection with the local market, the latter had a stronger influence within the city.

The esnafs were important structures that not only provided exchange within the guild, but additionally they provided protection for their members and lobbying on their behalf within the Ottoman Empire hierarchy. Being part of such guilds constituted an important part of one's identity as well.

Moreover, these 2 esnafs were also physically clustered in the city, as also shown by toponyms still present in Tirana. They both had a bridge named after them (The Tabakët bridge still stands today and it's one of the landmarks of Tirana), and each with its own mosque. The physical concentration of their activity within the city was a spontaneous development not only as a result of the cooperation and high degree of exchange within the guild but more importantly as a result of a strong rivalry among the 2 guilds. (Frashëri, 2004)

The first half of the XIX century (among the independence from the Ottoman Empire, the establishment and abolishment of the monarchy and 2 world wars) it is hard to track down the activities of these industries. However later on during the socialist regime, Tirana was again the city to host the textile industry in Albania.

"The industrial city model found a partial implementation in Albania as well, since the first years in power of the new regime, with the construction of the Textile Factory "J.V. Stalin" in Tirana. This huge investment which not coincidentally was named after the promoter of the soviet industrialisation, composed by a large industrial site with an adjacent residential area, in continuous expansion until the 80s, was the most important work of the first 5-year plan in Albania." (Marku, forthcoming). Besides the Textile Factory in Tirana, the Footwear Factory was built to respond to the market needs for mass production while artisan shoe-makers who worked on demand and produced custom made products continued to be highly active.

In the 1950s about 40 large enterprises operated on a full cycle basis, including sourcing of raw materials, design, pattern making and finishing of the final products. These enterprises met the domestic demand in full and provided products for exports. (AIDA, 2013)

In the 90's after a small hiatus after the regime change and the privatization processes, the number of firms in shoe manufacturing and shoe uppers grew exponentially, (one of the fastest growing industries in the country), but this time as a subcontracted sector. The leather processing industry was immediately faced with a high demand from Italian buyers, which were attracted by the availability of highly skilled but non-expensive labour. Therefore since many years now, footwear and textile manufacturing is the primary contributor in the Albanian exports, covering 43.8% of the total exports in 2016.

Table 6 - Exports by activity 2000 - 2016

	2000-2005	**2005-2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Food, drinks, tobacco	8.9	6.9	5.7	6	5.9	6.5	8.7	10.4
Minerals, fossils, energy	3.2	17.7	29.9	35.7	40.3	33.6	26.5	19.1
Chemical and plastic products	0.9	1.1	1.4	1.0	1.2	1.3	1.6	1.8
Leather and leather articles	3	1.7	1.5	1.3	1.3	1.2	1.2	1.1
Wood and paper products	3.4	3.2	2.3	2.5	3.2	3.6	3.4	3.2
Textiles and Footwear	**63.1**	**45.5**	**32.6**	**29.1**	**28.2**	**33.6**	**37.0**	**43.8**
Building materials and metals	11.5	17.1	21	18.9	14.7	14.5	14.5	13.1
Machinery and Equipment	3.3	4.3	3.9	3.6	3.3	3.6	4.4	4.6
Other	2.8	2.6	1.8	1.9	1.8	2	2.6	2.9
Total exports	100	100	100	100	100	100	100	100.0

Source: INSTAT (2017)

"Albania's footwear industry has been dominated in the past by contract business, primarily for Italian clients. However, in recent years a significant number of manufacturers have moved up the value chain to full cycle production. In the last decade, several invested heavily in new technologies, equipment and knowledge that allowed them to add more value to customers and realize higher margins by taking on

new roles in the design and production process, including the creation of their own brands and collections. As a result, Albania's footwear sector today includes a variety of different production models that range from firms working primarily on a cut-and-sew basis to large companies that export their own brands worldwide and produce 1,000 model collections per season." (AIDA, 2013) More specifically according to INSTAT, in 2016 there were 249 companies in the leather products and footwear industry.

Table 7 – Active footwear companies by size

Size No of employees	2016	2015
01-04	129	117
05-09	8	9
10-49	32	30
50+	80	77
TOTAL	**249**	**233**

Source: INSTAT (2017)

As shown by the table above about 68% of the sector is composed by SMEs, and more dominantly by Micro-Enterprises 51.8% (129/249), which reveals the resemblance with the model of Third Italy (small, family owned, often artisanal nature of companies).

The growth of the sector is shown in terms of no of employees (21,863 in 2016, or 13.8% growth from 2015), as well as the figures on sales and production (which have grown respectively with 15.1% and 16.5%).

As regarding the territorial distribution, the largest concentration of the manufacturers is in Tirana, followed by Durres. Together they host over 2/3 of the entire industry.

Table 8 - Footwear Companies by Qarks

Qarku	2016	2015
Berat	5	3
Durrës	59	56
Elbasan	3	c
Fier	18	19
Gjirokastër	**c**	**c**
Korçë	**c**	4
Kukës	-	c
Lezhë	10	10
Shkodër	21	18
Tiranë	110	104
Vlorë	18	15
TOTAL	**249**	**233**

Source: INSTAT (2017)

In terms of ownership the composition in 2016 is 74.7% Albanian, 19.3% foreign and 6% joint venture.

Table 9 - Footwear Companies by Ownership

Footwear Manufacturing, NACE Rev.2 1520

Ownership	2016	2015
Albanian	186	166
Foreign	48	50
Joint Venture	15	17
TOTAL	249	233

Source: INSTAT (2017)

What is interesting to observe here, in comparison to a year before is the decline of companies owned by foreigners or joint venture and the increase in companies with

Albanian ownership. This shows that often Albanian investors that work for foreign companies or have joint ventures decide to separate and work independently on their own. This is also the case with some of the respondents interviewed that operate in this sector.

Mrs. Donika Mici is owner to one of the most successful companies in the sector: Donianna (and later also Mici's shoes). She separated her company from the Italian partners in 2010, claiming that it was a hard decision to make, because even though it was since some years that the company was able to produce with a full cycle, the Italian partners were very important to find new international markets. They were reluctant to enter the market with products of an Albanian brand, especially because it was difficult to anticipate how the international market would react. Indeed, initially the sales dropped significantly. "The turnover in 2013 was 70% of that in 2012", she says, "However it was expected, because we were entering a 100-year old market with our own brand. But the company bounced back and in 2014 she had 1000 contracts for the production of 1.2 million pairs. She attributes this achievement to the quality of the collections, especially to the investments made to hire designers and marketers (90 people only in these departments) that she considers to be the most valuable assets of the company.

AIDA and USAID (2013) have identified the following key features of the footwear industry in Albania:

• High quality products, reliably delivered
• Wide range of products for men, women, and children: safety, classic, sport
• Full cycle production - design, sourcing, pattern making, cutting, finishing
• Experienced hand finishing, hand dying and hand sewing of shoes
• Highly skilled and cost-competitive workforce
• Accomplished Cut-Make and Cut-Make-Trim subcontractors
• New equipment and technological processes
• Able to work on Just-In-Time basis
• Rapid response to customer orders (short lead time)
• Flexible production in terms of order size (small min orders)

• Overnight delivery to EU countries
• Excellent low cost transport and logistics opportunities
• Experience and tradition mixed with Italian design influence
• Consolidated legal framework in compliance with EU and international standards
• Favourable flat-rate tax regime for personal and corporate income tax
• Government incentives available for footwear manufacturers

If we are to compare the status of the footwear industry when it was identified as a potential cluster by USAID in 2004 and its activity today, the results are revealing, not only in terms of number of firms and employees, but the most significant indicator being the emergence of Albanian firms that have moved up the value chain and now cover the full cycle of production. The same trend has been experienced by the textile manufacturing.

In an interview with Mr. Flamur Hoxha he looks back at how he got started with his company Kler ltd. He established the company after being partner and administrator in a joint venture with an Italian firm for 5 years. It is upon this experience (which as he says helped him learn the 'tricks of the trade') that he opened his company in 1998 with 20 employees. Now the company counts over 300 employees.

Photo Credit: Author's archive

He says that the work for Italian buyers has taught them not only about the technology, infrastructure but more importantly on the quality. Even though he acknowledges the company to have the capacity to produce full cycle, he claims that it is not ready yet to working entirely independent from the Italian buyers. “It requires serious investments and we have followed a way that does not damage our relationship with our Italian clients. We do not compete them in their markets, rather sell our own brand in other areas. If 7 years ago we were 100% subcontracted business, today we are 70% subcontracted and 30% selling directly to the market.” When asked about the level of cooperation among the companies that operate in this sector in Albania, in his position as former chairman of the association of the textile companies, he reconfirms the low level of trust among the actors and their hesitation to cooperate. “The market is large enough for all, and if we cooperate we can become even more reliable for the international buyers - he claims, - however there are many companies in Albania that fail to see that”. Therefore what we observe today is a potential cluster still in an agglomeration stage.

Photo Credit: Author’s archive

Both the textile manufacturing and the footwear industry have shown a steady progress.

There are several factors that have positively influenced this development:

- The tradition or path dependency of the industry as discussed above, which has created a critical mass of trained and highly skills pool of workforce
- Continuous support by the government. Regardless of government changes, the support for this industry has remained intact, not so much due to the margins (which are generally low), but primarily due to the high employment rates that the industry offers to an otherwise not easily employable category (uneducated women, from urban and rural areas)
- However, based on the feedback from the respondents, the most influential factor which played a key role has certainly been the knowledge diffusion within the value chain – from the Italian contractors to the Albanian firms. These 'learning by doing' and 'learning by using' experiences have led to knowledge absorption by the Albanian firms resulting in a long but continuous process of incremental innovation. This confirms the findings of former studies in developing and less developed economies (Giuliani (2005), Gebreeyesus and Mohnen (2012)) that the business networks serve not only as channels for the flow of goods but also for the flow of knowledge.

What does this teach us for policies? Knowledge absorption, capacity building and increased innovativeness is a long term process which requires systemic support. Albeit the climb in the value chain is a recent development, the industry has the potential to evolve from a traditional and labour intensive sector to an innovative cluster, and potentially even transform to a platform through ulterior specialization in a niche market (for example safety shoes), while keeping the sub-contracts from Italy and other countries. Competing with Italy in fashion is a huge enterprise, but identifying a niche market where specific know-how is required constitutes a real potential. It would mean narrowing but deepening the focus, hence shifting from a labour intensive towards a knowledge intensive cluster, or evolving from a highly homogenous towards a more heterogeneous cluster considering the amount of research and innovativeness

it would require from other disciplines such as chemistry, mechanics or technology for the leather treatment.

It is crucial to develop linkages, which for planning policy implies a focus on connectivity and consequently in infrastructure, in order to maintain key advantages such as the ability to work on a Just in Time basis, rapid response to customer order, overnight delivery to EU countries and low transportation costs.
The concentration of the firms in delineated zones or districts does not emerge as a necessity, considering that the knowledge diffusion pattern is throughout the value chain. Ulterior clustering is doubtful to bring any net contribution, moreover, an increasing bulk of studies elsewhere in the footwear sector (see Nadvi (1999), Gebreeyesus and Mohnen (2012), etc.) confirm that what leads to innovation in this industry is connectedness and not co-location alone.

5.3.2. Call Centres

The intensity of the economic relations among Albania and Italy has increased at a steady pace since the regime changed. Besides a significant amount of FDIs from Italy to Albania, the large Albanian diaspora in Italy, has played an important role in channelling Italian expertise and know-how in many fields in Albania.

This, together with the proximity among the two countries (geographic but also cultural) has made Albania a lucrative option for Italian investors not only in manufacturing but also in services.

Together with the footwear and textile sectors, one of the fastest growing businesses and largest employing industries in the country is call centres. The inexpensive workforce together with the excellent knowledge of the Italian language by the Albanian youth has brought the number of firms in this sector up to 800 and the number of employees reaching 25.000 in 2016 (Liperi, 2017)

According to Monitor Albania, in the list of top 5 private companies (as per the number of employees) in Albania in 2015, 3 are call centres (Intercom Data Service (IDS), Albanian Marketing Service (Teleperformance) and Albacall). Together they employ about 6000 people.

Table 10 - Top 5 Private companies as per the number of employees

NR	SUBJEKTI	AKTIVITETI	2014	2015
1	INTERCOM DATA SERVICE	Call center	3000	2986
2	TOP BAST	Lojera fati	n/a	2166
3	ALBANIA MARKETING SERVICE	Call Center	n/a	2142
4	ALBACALL	Call Center	n/a	1782
5	ALBACO SHOES	Prodhimi i këpucëve	1660	1692

Source: Monitor (2017)

Despite the constant increase of the sector in terms of firms and number of employees, it remains highly vulnerable. Unlike the subcontracted sectors of manufacturing, the investments required to start up a call centre are minimal, making the sector even more footloose. The vulnerability of this industry became quite obvious in the last year when the new Italian government decided to pass a law against the 'de-location' of the economic activity outside the country, seeking to fight the so called 'dumping' phenomenon.

While the short term effect of these measures have resulted in a decline in the activity of call centres, with up to 30 small firms getting out of business, the current crisis can act as a triggering event for the transformation of the cluster in the long run.

This process has already started with a number of firms, diversifying their activity from tele-marketing which has been the dominating activity this far, to online brokering services for binary options. "Many call centres now have as a primary activity Forex – calling citizens trying to pursue them to invest in online platforms" (Liperi, 2017)

The other centres, that operate with inbound and not outbound calls, serving not only Italian but also large international companies such as e-bay, amazon, apple and the like, are less affected by the new law approved in Italy. When asked about how did this impact their work, Ms. Domni floor manager at the e-bay call centre in Albania, says they are now obliged to inform the callers that the operator assisting them is located in

Albania and if the caller wishes they can re-direct the call in an EU country, but callers hardly ever ask for it, considering that in Albania the service they receive is very quick and professional.

Some of the largest Albanian call centres have also provided consultancy and training in Kosovo, which is now witnessing a growth in these sector, especially to German providers. (While the Albanian diaspora is mostly located in Italy and Greece, the Kosovo diaspora has been massively settled in Germany and Switzerland)

Therefore, it looks like the call centres will keep serving as one of the largest employing industries in the country. For the ulterior development of this cluster, the role of planning is minimal, at best it can contribute by improving the soft connectivity of the region.

5.3.3. Information and Computer Technology – ICT

The ICT cluster is in a more advanced stage and applies cluster thinking in the way it is organized and functions. The Albanian Information Technology Association – AITA was established in 2007 as a cluster organization.

Currently it counts over 70 members and has the following composition:

Number of SME members: 60
Number of larger company members: 2
Number of research organizations/universities/technology centres: 12

The composition of the cluster shows a representation of all cluster actors. It is, understandably, dominated by SMEs, but also education institutions (primarily universities but also high schools) and start-up incubators / accelerators.
Meyer-Stamer (2005) discusses a series of reasons why cluster initiatives are difficult to implement and why firms are hesitant to share information and cooperate, suggesting instead that cluster initiatives engage in ‘non-invasive’ activities such as trainings or joint representation and lobbying.

The discussed role of CNA in chapter 2, that helped the 'Third Italy' cluster of artisans rise to prominence, was basically following the same logic, providing basic services (such as accounting, compliance with labour legislation, etc.) as well as representation and mediation with the government.

AITA has adopted a similar approach, if we see the objectives it states in its cluster strategy:

- To be the leading voice and the representative of IT sector in the Government;
- To develop, strengthen and promote the IT industry in the country;
- To develop the IT export services;
- To become the leader in promoting professional and quality services in the country;
- To create partnerships with other associations;
- To promote education and improve high school and university IT curricula.

AITA consider itself a leader and representative of the IT sector within the country, but it is also member of several international bodies: European Cluster Cooperation Platform and European Strategic Cluster Partnerships (GIVE), from which has also received financing. The cluster has also benefitted from the support of a number of organizations such as USAID, Norwegian Ministry of Foreign Affairs, etc.

Since its establishment, the cluster has undertaken a number of actions. We can mention the Innovation Camps in cooperation with Junior Achievement Albania since 2013, the annual competition "Microsoft Imagine Cup Albania" since 2012, the annual Innovation Week since 2014 (led by the Ministry of Innovation and Public Administration); Hackathon Albania, ICT Awards, etc.

The cluster, through one of its members: Protik also provides an important contribution in support of start-ups in the ICT field in Albania. Protik organizes several activities such as the Start-Up Grind, the Start-Up Accelerator program, the Young Innovator Club, etc., providing financing but more importantly trainings for the young entrepreneurs.

Mr. Mezini, the cluster manager is a reputable professional in this field in Albania, and has played a key role in establishing the network of actors within the country but also the international partnerships. Leadership by the private sector is underlined by many of the cluster scholars as a key element in generating and sustaining cluster dynamics.

The singularity of the success of this cluster can be primarily attributed to his leadership. Mr. Mezini besides being the cluster manager is also founder and CEO of DM Consulting Services. By the interview with Mr. Mezini it becomes clear that the cluster has been able to tap into extra-cluster knowledge as well. The knowledge linkages however, are not evenly distributed within the cluster. His explanation of the role of his company vis-à-vis the rest of the firms within the cluster, confirms Giuliani's (2013) hypothesis that "In regional clusters, firms with more prominent status are likely to form more linkages over time" and exhibit technological gatekeeping behaviour. She defines Technological Gatekeepers as "… very important firms in clusters since, first, they are capable of searching and selecting extra-cluster knowledge and, hence, can identify new techniques, products or ideas that could be introduced into their own firms or others in the territory. Second, in addition to being open to external (and often distant) knowledge sources, TG also contribute to the diffusion of acquired knowledge at the local level, hence they potentially help firms with poor connections outside the cluster to access new knowledge." (Giuliani, 2011)

In many of the AITA's projects, the role of DM consulting is a key link among the extra-cluster knowledge and the intra-cluster network. This gatekeeper trait can be observed in several cases such as: the CBI project aimed to help Albanian IT companies export to EU where DM consulting would provide assistance to Albanian companies during the application process; or the IT Mark project which "aims at supporting 5 member companies of AITA working in the field of software development and service delivery in the field of IT to reach the IT Mark certification. DM Consulting Services and Infosoft SD have previously implemented IT Mark Basic standard and this year will work respectively for the implementation of IT Mark for Services and IT Mark Premium standards. Three other companies: ikub, InfoSoft, Tetra, and Intech Solutions will work for implementation of IT Mark Basic and IT Mark for Services."

Mr. Mezini confirms that Albania's legacy made it difficult for the pioneers in the ICT field to introduce the online tools in the Albanian market. However, despite not being the most fertile ground for IT innovation in the past, he holds the view that innovation in developing countries is different from that of developed countries: What is old to one country may be new to another and it would still qualify as innovation in the second country.

In his assessment, the key element in this picture is the development of the workforce. Albania can highly benefit from outsourcing but this requires a qualified workforce. This is why AITA is strongly involved with curricula development in cooperation with Albanian universities as well as supports the start-ups in the ICT field. Trainings occupy a central position in the association's mission counting several projects such as Export Marketing (dedicated to companies) or Re-qualification in IT (dedicated to young professionals).

Another factor that has determined the success of the ICT cluster is the nature of the sector, making the firms operating in this industry more prone for connectedness. Not only within the cluster, but increasingly cross-fertilizing joint initiatives with other industries. An example of such border-crossing initiatives is the GIVE project, where AITA was one of the member organizations together with ICT Cluster (lead partner), MASIT, HAMAC, ICT Cluster Plovdiv, Automotive Cluster Slovenia and Green Technology Cluster from Hungary.

According to AITA, the project is focused on cross-cluster and cross-industry collaboration in the field of green ICT technologies and mainly in the automotive industry and renewable energy.

Another cross-cluster cooperation is that between ICT and Tourism as will be explored while discussing the tourism cluster.

This openness and outward looking nature of this cluster, makes it the most dynamic out of the 5 industries covered by this thesis, and the less prone for the lock-in phenomenon, recalling the discussion of Cooke (2012) for the need for clusters to transform into platforms or networks. AITA considers itself as part of an ecosystem

which besides the local actors in the ICT field (professionals, academics, researchers, managers, and entrepreneurs) is now aiming to also include in the equation the Albanian ICT diaspora. The recently launched eponymous project is believed to strengthen the ICT industry in Albania in all levels, technical, academic, innovative, etc., through:

- The creation of a joint national and international platform to share information, activities, thoughts and experiences or joint address common market problems;
- Share success stories;
- Business opportunities with ICT companies and the development of the ICT sector in Albania;
- Training opportunities for the Albanian youth;
- Assess all opportunities for growth, development and fostering of the ICT industry;
- Coordination of this campaign with other similar initiatives, public or private.

(AITA, 2017)

In this case, thinking in terms of physical boundaries or approach this cluster as a geographically confined area makes little sense. Hence planning becomes redundant, save for its role in improving the urban quality that would help retain talent within the region.

5.3.4. Agriculture

Often and mistakenly the traditional sectors are not considered as potential sources of innovation. History informs us differently.

Not only agricultural clusters as such, can be knowledge intensive (with know-how in chemistry, biology, physics, soil sciences, but also technology and engineering for the agricultural equipment), but often they contribute to innovation in related industries.

An illustrious case is Emilia Romagna, known as the motor valley and the food valley, famous for both the sports cars cluster and the agricultural cluster. The region is home

to several products of protected designation of origin such as Aceto Balsamico di Modena (Modena's balsamic vinegar) or the Parmigiano-Reggiano cheese.

However, the identity of the region is strongly related to that of sports cars. Modena is the proud birthplace of emblematic brands like Ferrari, Lamborghini and Maserati.

But while the rising to world prominence of this cluster build upon the thick legacy of the region in design (auto design, apparel and arts in general) and engineering, we should not forget that the first Lamborghini was a tractor. The story goes that Ferrucio Lamborghini, a manufacturer of agricultural equipment bought a Ferrari and was not pleased with its performance. He complained to Enzo Ferrari himself who mocked him to get back to his tractors allegedly telling him ""the problem is not the car but the driver!". Needless to say Lamborghini considered this an open challenge. His response to such challenge was the development of a high-end sports cars and the establishment of Automobili Lamborghini, in Sant'Agata Bolognese.

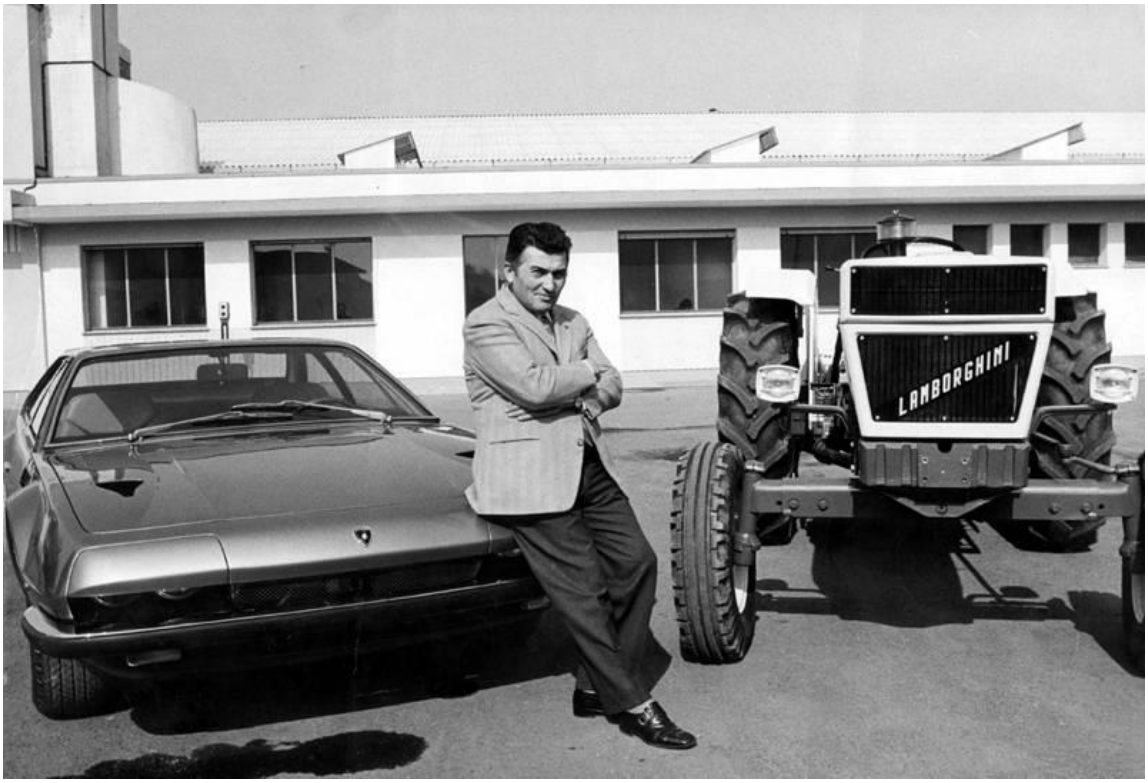


Photo Credit: Wikipedia (Author Unknown)

Another example of agriculture clusters leading to innovation in related industries, comes from Portugal. The wine industry of Portugal is well-known (especially the Porto wine), meaning that a continuous supply of cork was required. Portugal is the largest exporter of cork globally, but the increasing trend of winemakers to use alternative stoppers, caused a crisis in the cork industry, which had remained unchallenged in over 2 centuries. They had to get inventive or die. Not only did they introduce new technologies in cork stoppers plats (such as the Amorim firm in Coruche, Lisbon), but they had to diversify the products as well. Today cork is exploited by several industries in Portugal being used as insulation in construction but also as a material for bags, wallets, and other garments.

Photo Credit: Emine Taha

In Albania agriculture is one of the main contributors in the economy, however it is yet underdeveloped. As regarding, the Tirana and Durres region, both cities, especially Tirana are surrounded by a peri-urban fringe that has been under constant development pressure, resulting in the rapid conversion of agricultural fields into urban land.

The area laying between Tirana and the Rinas airport, has been transformed from a vast land dedicated entirely to agriculture, especially fertile for crops and orchards, into an urbanizing territory facing the typical challenges of the peri-urban areas: identity loss, environmental deterioration, high unemployment companioned by poverty and ultimately low quality of life.

Nevertheless, after 2 decades of massive immigration fluxes settled in the region that have doubled Tirana's surface and tripled its population, there is a certain saturation that has decreased significantly the pace of this growth. Moreover, the construction sector is no longer thriving under high housing demand, but with a considerable vacant housing stock, the development pressure in these peri-urban areas is no longer as strong as it used to be.

The actual condition is a highly fragmented area, with developed plots spread throughout the territory, but also a considerable amount of vacant land that still possesses a strong potential to be exploited for agricultural purposes.

There is vacant land especially qualitative for crops and orchards. Specialists say that land suitability analysis indicate that the area is appropriate to cultivate vegetables, fruits, vineyards as well as flowers. In 1990 the peri-urban areas covered 16% of the agricultural land and produced 28% of the overall domestic agricultural products. (Lushaj, 2015)

The current agricultural situation of the area is shown at the map below.

Figure 15 - Synthesis of the Agricultural System in the Area

Source: (Toto, et al., 2015)

The current businesses present in the perimeter of the area employ primarily people from outside the area, failing to have an impact in the economic reality of the inhabitants. (Metro_POLIS, 2013)

In the past the main employers of these people were industry (the coal mine of Valias and the brick factory) and agriculture. In the current conditions the reactivation of the industry is highly improbable, agriculture constitutes the highest potential of the area for its future development. The local inhabitants stress their connection to Tirana albeit the closer proximity to another municipality: Kamza (one of the largest in the country). They proclaim themselves citizens of Tirana but the presence of the capital city is nowhere to be found. This makes you think about the high fragmentation of the area and the lack of continuity not only in physical terms about also in terms of a missing identity and sense of belonging.

The industrial identity building elements of the past seem incapable to provide a future projection for these people, whist the only continuity element whom they remain close to, is the land. Agriculture has been and although in a totally different setting, remains the primary activity of the area, now more present in the form of private gardens and self-employing small farms.

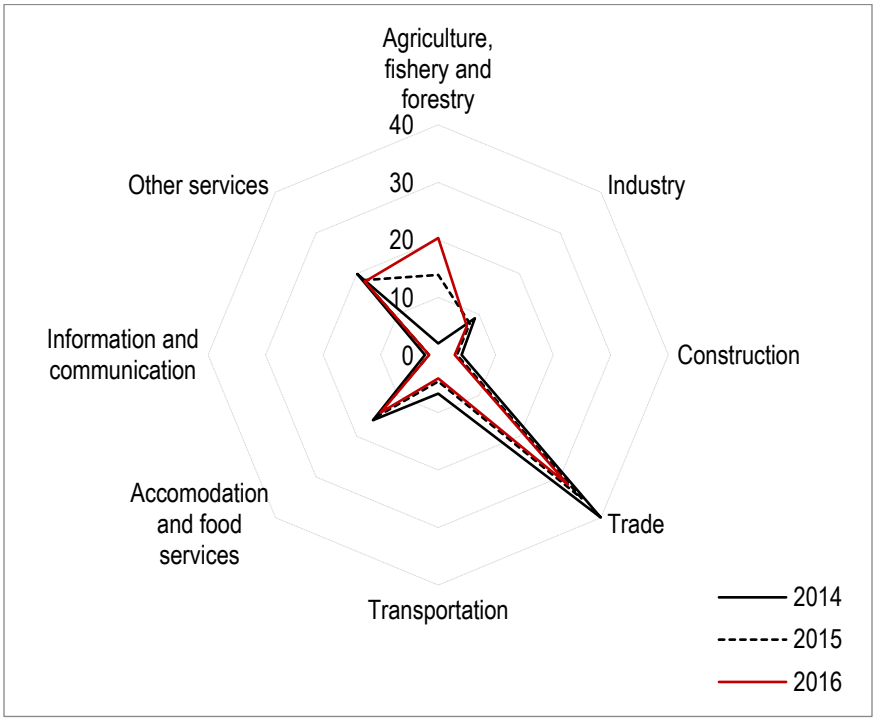
Based on this analysis, the revival of agriculture might turn into a mean of collective efforts and a community building instrument, providing not only economic benefits but also a way to preserve the territory and the landscape.

However, even though the development pressure on the area has decreased, the alternative use as urban land is still retained more profitable by the land owners, who unlike the case of vast areas for cultivation present in the rural settings, see a high potential for urbanization in these smaller and scattered plots. Additionally, the small scale famers are trapped in what Gálvez-Nogales (2010) call a 'cycle of equilibrium of low margins', as a result of "low risk-taking ability and low investment, which leads to low productivity, low market orientation and low value addition which, in turn, nets low margins".

This is why Albania remains only fairly competitive in the region with regard to agriculture. A study of Rabo Development (2015) states that: "Albania can be categorized in countries that lack a conducive enabling environment for agriculture and agricultural lending. Although climate and soils are excellent for farming, in combination with the fragmentation of farm land into plots of little more than 1 ha, it is clear that Albania is not well prepared to compete on international markets."

Notwithstanding, there is an increasing interest on agriculture in national but also in regional scale. Agriculture is considered a priority by the Albanian Government and a number of international bodies. As per the law No. 55 / 2015 it is classified as a strategic sector, together with energy and tourism. The direct support to agriculture by the government and several international bodies has been a strong signal for the market which has reacted with a considerable increase of enterprises active in agricultural activities, as indicated in the table below:

Table 11 - Active Enterprises by activity 2014 - 2016



Source: INSTAT (2017)

Besides the government, several international organizations and bodies are contributing through financing, capacity building and networking. One of the most active and influential international organization in the promotion of agriculture in Albania has been GIZ (German International Cooperation) Albania. Besides agriculture, GIZ has been positively influencing several sectors through a number of instruments such as ProSEED, ProSME and the Vocational Educational Training programs.

One of their projects: Support to Agriculture and Rural Development (SARD) provides the following rationale: “Enhancing agricultural competitiveness is one of the main priorities of the Albanian Government. This sector generates 20 per cent of the gross domestic product, and the figure is rising. Nearly half of the gainfully employed in rural areas work in agriculture. However, despite favourable conditions Albania is heavily dependent on agricultural imports. The sector suffers from serious structural problems, which have been tackled only hesitantly to date.” (GIZ, 2017)

Covering a lifespan of 4 years 2012-2016, the project has financed hundreds of farmers and food processing businesses, enabling the modernization of irrigation channels, new machineries, trainings, and so on.

Being a traditional and highly path dependent, agriculture as a sector can rely on accumulated knowledge. It is not surprising therefore the only technology transfer centres to open in Albania are in agriculture. However, their activity has poor records.

So far the knowledge flows into the cluster have been channelled either from expats coming back after years of emigration where they acquired experience and know-how, through demanding buyers in global value chains as the case of aromatic and medicinal herbs or through trainings provided by international bodies like GIZ.

One case that illustrates how expats are bringing innovative ideas back home is the story of Bledar Kola, a chef who after living and working in London for many years, returned to open his own restaurant in Albania (Mullixhiu). Bledar is also member of the Slow Food Chef's Alliance. Besides advocating the slow food philosophy, he started a movement called Buka ne Straje (Bread in a Bag) which encourages parents and kids alike to bring home made food to school. His movement is motivated by the increasing child obesity in Albania and how important it is to him as a chef to educate children about eating healthy. In his own words: "People know more about iPhones than they do about a native fruit which has been around since always."

There is increasing number of new ideas that wish to turn to start-ups. Partners Albania is an organization that since 2012 supports these initiatives through the Green ideas competition. Former winners of the competition vary from birdwatching, to recycling, to cultivation of plants such as saffron and aromatic herbs, but what dominates are tourism related activities such as agro-tourism and culinary tourism.

The role of planning with regard to this sector is important to protect the areas with agricultural potential from alternative uses, mainly urbanization. However, the availability of land is not what impedes the ulterior development of this cluster. What is missing instead is cooperation among the actors. Considering the size of the plots, the farms are very much focused on competing for the domestic market. Moreover, the

recall of cooperatives during the communist regime, doesn't make the idea of agricultural clusters too appealing.

To make matters worse, the widespread cultivation of cannabis in the country in recent years makes the cultivation of alternative products even less appealing. In December 2016, BBC News reported: "In Albania, a kilo of this illegal drug sells for between 100 and 200 euros (£85 to £170). In Italy it will fetch about 1,500 euros. And most of the country's cannabis crop is trafficked out - north through Montenegro, south to Greece, or west across the Adriatic to Italy. There is no significant home market. One source estimates the illicit industry may be worth five billion euros (£4.25bn) per year - about half of Albania's GDP." (Pressly, 2016)

Despite the declared war by the police, the cultivation of cannabis remains the largest job provider for many Albanians, especially in rural areas and the largest export. Until 2015 this used to function as a spatially confined cluster (only in the Lazarat area – a village near Gjirokastra), but now it's widespread in the whole country, making it the most appealing activity for many who are in desperate conditions and poverty on one hand and impatient for quick profits on the other.

Nonetheless there are also hardworking farmers who struggle to be competitive not only for the domestic market but even in exports and have started to get organized in joint activities not only for the cultivation, harvesting, but also storage, transportation and marketing / branding.

One example is an agriculture cooperative in Xarre, a village close to Saranda, in south Albania, which is also thank to an Albanian expat. Mr. Kote returned from Greece to start up a cooperative of 80 ha with 6 other friends. Today the cooperative covers 400 ha and counts 350 farmers that have joined forces together, producing over 10.000 ton of tangerines (mainly exported to Greece).

The founder, Mr. Kote, says that more than 50% out of the 400 people that work in the cooperative are not from the area and the cooperative keeps growing with 50 ha per annum. "We have been able to attract people who want to make a living out of land here, because Xarre can offer a good standard of living. Many of these people would

have otherwise migrated to Greece, where the costs of living are higher. Instead here they can have a good life".

The high fragmentation of the land makes the union of the farmers the only way for agriculture to be feasible. According to the Ministry of Agriculture, the minimal size of a farm to justify the required investments is 20 ha, while the average size of the Albanian farms is 1.2 ha. Therefore what the government and the foreign donors have been trying to encourage are the so called Agriculture Cooperation Associations.

One of them is the Union of Apple Producers in Korça (a community organization of about 200 farmers, who jointly own 500 ha of land cultivating apples). The head of the union, Mr. Bylykbashi says that the union was established 3 years ago as a spin-off of a SIDA (Swedish International Development Cooperation Agency) project, which offers technical consultancy to farmers. After being himself trained by the project on the integrated apple production, together with other farmers of the region, Mr. Bylykbashi started the union in response to the increasing number of farmers that were interested in apple production but who lacked the required knowledge. Today he says the members of the union (who pay 3000 ALL/ annum membership fee) receive consultancy on various chains of the production, such as sprinkling, paring, etc. Such consultancy is provided by the most qualified specialists of the union, or professors from the Agriculture University of Tirana, or the University of Korça.

Mr. Bylykbashi reports a growing engagement by the members in joint activities, they have collectively purchased the pesticides and a machinery for the apple planting, which he refers to as a technological novelty for Albania. Last year they sold 80% of the joint product to a sole buyer (from Kosovo), which together with Serbia are the primary export markets. The union is also frequently present in fairs in Albania but also in Macedonia, Italy and elsewhere, providing joint branding for the member farmers. The future objective of the union he said is to cover the full cycle in house.

Photo Credit: Unioni i Prodhuesve të Mollës

He is optimistic even though in his assessment a lot of challenges remain. The law on Agriculture Cooperation Associations is a copy of the legislation in Spain, he says, making it not entirely applicable in the Albanian conditions, considering the differences in the size of the plants, the available technology and the relationship with financing and insurance companies.

What would instead really help such associations is support for basic investments such as irrigation channels and accumulation and storage structures.

The clustering stage of this sector can be considered in embryonic stage, where the cooperation among the farmers has started to take place, even though it remains highly fragmented and finding hard to be competitive outside the domestic market.

5.3.5. Tourism Cluster

Ask any mayor or regional and local policymaker in Albania about the potential of their region and the most promising sector and you will definitely get tourism as the answer. It is not surprising, considering the shortage of alternative options on one hand and the ever growing tourism demand on the other. Tourism is also considered a strategic sector in national level.

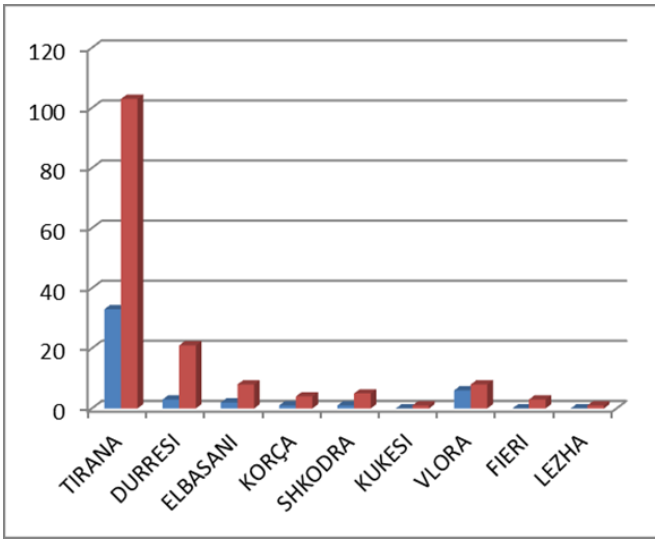
The statistics of the current years (INSTAT, 2018) indicate that the arrivals of foreign citizens in the period 2013-2017 have increased on average by 12.0%, while the expenses of foreign tourists (non-residents) in Albania have increased on average by 8.5% in the same period.

Based on these figures, but also on the projections of IMF and WTTC, the recently approved National Strategy for Sustainable Tourism 2018-2022 (MTE, 2018), has put ambitious objectives for the upcoming years, aiming to increase the direct contribution of tourism in the country's GDP up to 10% in 2022, while the direct and indirect contribution is foreseen to reach 29%, maintaining a steady growth rate of over 6% per annum.

Quantitative objectives also foresee significant (direct and induced) increase in several other indicators such as accommodation capacity, revenues from the tourism sector, the direct and indirect employment rate in tourism, public investments and FDIs in tourism, etc. Additionally, the prognosis is for 6.000 start-ups to be established during 2018-2022 in the field of tourism.

In terms of spatial distribution, the tourism assets (natural, cultural, services, etc.) are present throughout the country, however the tourism operators are clearly highly concentrated in Tirana –Durrës region, as shown in table 12. This is understandable given that the region has the highest accessibility in the country, hosting the only airport and the main port of Albania. Additionally as assessed by Porfido, et al. (2016) the region performs better compared to the rest of the country also in terms of digital accessibility (or else the possibility to book online).

Table 12 - Tourism operators and Travel Agencies by qarks



Source: Ministry of Tourism and Environment (2018)

However, despite the positive indicators (accessibility, attractions, etc.) Durres exemplifies the unsustainable way tourism has been developing in Albania, focused only on sea – sun – sand tourism models, which have put a very high pressure on the coast leading to unsustainable development, environmental deterioration and to high seasonality.

Even in national level, although there is a more balanced and year-round distribution of touristic fluxes, the inbound tourism still shows high seasonality. According to INSTAT, almost half of the foreign tourists (more precisely 48%) visit Albania during the third trimester.

Seasonality is only one of the drawbacks faced by the tourism sector in the country. Other issues brought up by the interviewees are high informality, lack of capacities and trained staff, poor infrastructure, high fragmentation of the sector, lack of coordination, no destination management, etc.

Mr.Krasniqi, owner of a travel agency who has been active with inbound and outbound tours since the early 00's, says that there is a very high informality in the sector, additionally the classification of the hotels (the star system) and the quality of the services provided made for a lack of reliability of the accommodation sector. Hence,

the organization of inbound tours has been way more complicated and effort consuming than organizing outbound tours. This together with the confirmed potential for tourism as a growing sector in Albania explains a recent trend for travel agencies to invest in accommodation structures as well, not only Albanian investors such as VAS tours, but also foreign investors who own travel agencies abroad.

One of them is Mr. Besnik Berisha, who owns since 17 years a travel agency in London. He is currently investing in the area of Boga in northern Albania in a hospitality structure. During the interview, one would immediately notice his frustration with the Albanian bureaucracy. “In paper”, he says, “it looks easy to invest in Albania, with a number of incentives listed by the government in support of foreign investments. In practice, it’s over 4 years that I struggle with paper work. Not only are procedures slow and complicated but issues like land ownership take years to clarify. This is in my opinion the biggest bottleneck faced by FDIs in Albania”

However he remains determined to invest seeing a high potential for tourism in the country. “I can see through the work with the travel agency I own in London that there is a growing interest to visit Albania. My estimation is for 80% of the hosts in the accommodation structures I am investing in, to be expats from Albania or Kosovo, who come for vacation in Albania, but a solid 20% will be foreign tourists, who are becoming increasingly interested, not so much due to the efforts of the government to promote Albania, rather to the word of mouth and suggestions of other travellers.”

Regarding the marketing of Albania, he says that he does that in UK voluntarily, but there is no unified message or coordinated efforts in branding Albania as a destination. When asked about the “Albania: Go your own way” branding campaign, he together with the rest of the interviewees showed not to know anything about it. This confirms the disbelief of many, when the initiative was launched by the Albanian Government back in 2015. “The Branding Albania initiative’s impact is yet to be assessed, but as wishful and supportive as we are for its success as citizens of this country, we remain sceptical on its effectiveness considering the singularity of this action instead of it being part of a number of fine-tuned activities, undertaken but more than one actor, all communicating a clear and coherent message.” (Karafili & Jojiç, 2015)

The need for destination management shows that so far the undertaken measures have not escaped the pitfall warned for in chapter 2 – reducing the understanding of marketing into mere advertising.

Albeit the fact that the lack of coordination remains a concern, compared to some years ago, when everyone was 'new' in the business and hesitating to trust anyone, today there are actors that have earned credibility and some partnerships among these actors have started to emerge. All the interviewees of this cluster seem to converge in the idea that a more cooperative behaviours is emerging among the actors. To put it in terms of complexity theory: over time the games have been repeated. It is not surprising now to have hotels redirect you in another partner hotel when they are fully booked, or to have agencies work on a frequent basis with the same hotel year after year to bring groups of tourists.

Mrs. Mireda Thana, co-owner of 2 hotels, one in Saranda and one in Durres says that they are fully booked one year ahead for the summer period, thanks to the cooperation with travel agencies that bring large group of tourists mostly from Poland, but also Ukraine and other Central European countries. However, she describes her experience with the management of the hotel in Durres for 2 years as extremely tiring, identifying the dire need for training of the staff as the most challenging aspect. Additionally, she confirmed that the high seasonality made the management of human resources even more complex.

International donors have played a very important role in providing trainings, but also financing, support to start-ups, business development and infrastructure enhancement. Additionally they have helped in the diversification of the tourism products in the country.

The diversification of the tourism products, becomes even more evident if we look at the new ideas and entrepreneurial initiatives. Both Protik and Partners Albania, 2 organizations that support start-ups, organize annually since several years, competitions to finance innovative ideas and start-ups. If we look at the list of winners, ideas like eco-tourism, culinary tourism, development of crafts and artisanal products,

religion tourism, etc. reveal the broadening of the understanding by the Albanian entrepreneurs of the tourism options.

The communist heritage has also been put in good use for tourism purposes as well with structures such as bunkers transformed into museums (BunkArt), ideas to provide bunker with alternative uses has been explored by several innovative projects (see Bed & Bunker). The former headquarter of surveillance is now also a museum. (The house of leaves). Additionally, an international architectural competition was organized in 2016 to transform the former residence of the dictator into a museum as well.

The latest trend in Albania is the rise of dental tourism, initiated at first by the Albanian emigrants abroad who would come to Albania for their dental services (considering the drastically less expensive service they get in Albania) to an increasing number of foreigners which due to the constant improvement of the quality of the service as well, find the quality/price ratio of this sector in Albania as very competitive. After some years of individual arrangements of these kind of tourists, dedicated tourism agencies are opening in Albania, Dritan Gremi is the founder of one such agency: Travel and Smile, which he started after returning from Italy. (Again the Albanian expats who return to the country are a source of innovative ideas). The agency offers complete travel packages that include besides travel, accommodation and the dental appointments, short tours to attractive sites in proximity of Tirana such as Petrela, Dajti but also to other nearby cities as Durres and Kruje. The average duration for dental tourism according to Mr. Gremi is 5 days.

Additionally, cross-sector links have been established over time. As discussed in the case of agriculture, agro-tourism and eco-tourism are emerging industries in Albania.

Such diversification of the tourism product has contributed to the increased demand, which in return has been met with an increase in the accommodation capacity. According to INSTAT (2018), in 2017 alone a surface of 88.000 m2 has been approved the land use for hotels and similar structures, equal to the total of the 4 previous years (2013-2016).

The role of planning in the case of tourism is to be carefully examined as tourism is inherently territorially embedded. It has a crucial role in making sure that the demand for accommodation capacity is met but at the same time protecting the touristic assets from short term interests. Whilst with regard to clustering processes, the best contribution planning can provide is improving the accessibility of touristic attractions and infrastructural enhancement.

INSTAT statistics (2018) show that arrivals from Europe's region accounted for the largest share of foreign citizens' inflows by 92.4% and have increased on average by 12.3% for the period 2013-2017. However, despite a slow increase in the arrivals by air, 8 in 10 tourists enter the country by car. This is due to the presence of only one airport on one hand but more importantly due to the very poor public transportation in Albania, making it difficult to explore the country or reach tourist destinations without a car. Accessibility and connectivity are therefore key aspects in order to boost tourism. Several projects financed by international bodies like World Bank or Albanian – America Development Foundation have focused on infrastructure betterment.

When asked what kind of governmental policies would support tourism development, Mr. Berisha lists the need to reduce the bureaucracy and infrastructure improvement, intended not as investments in highways but in providing remote areas with rich natural resources and tourism potential with basic services. The areas he is investing in (Bogë and Theth in northern Albania) still lack water supply, electricity and waste management.

Indeed what would be more beneficial for inbound tourism is thinking in terms of itineraries, but this requires coordination and cooperation among the actors. Therefore adopting a cluster thinking becomes instrumental in approaching tourism development.

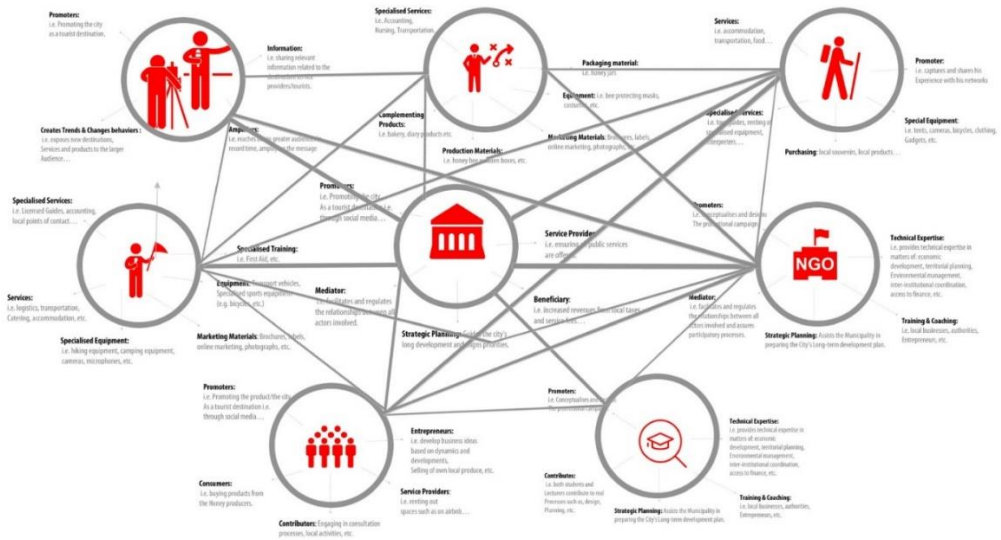
However cluster thinking rests on an understanding of clusters as social networks as opposed to geographically bounded areas. In their comparative analysis, Porfido, et al. (2016) state “qarks as a (small scale) unit of analysis lead to a limitation: inbound tourism may be interested in, say, history or authentic rural experience or hiking &biking, and may see Albania as one region with different places to visit. In other words,

qarks are a small unit of analysis. For short domestic tourism, qarks may be a suitable unit of analysis, for inbound tourism the level of qarks may be less pertinent”

Cluster thinking on the other hand implies creating trust and developing linkages. Intuitively the entrepreneurs in tourism understand the importance of networking in order to be competitive. Mr. Berisha said that he already has contracts in place with the local businesses in Bogë and Theth (5 farmers and 5 kettle cattlemen) and his future plans are for him to investing in farming as well so he can have a proper agro-tourism structure in place. “You have to offer an authentic experience he says, and local and fresh grown food are an important part of it”

Similarly, Ciro et al. (forthcoming) have applied the cluster thinking in the town of Gramsh in Albania, referring to it as social innovation for sustainable tourism. Very akin to the clustering phases discussed in Chapter 4 (i)Building social capital and creating trust, ii) Developing linkages, iii) Develop a Vision / Strategy, iv) Take action), they describe the process of the so called chain-linked model as follows: (1) Identification of the Actors; (2) Dialogue initiation; (3) Establishing relationships; (4) Agreeing on a commonly shared vision; (5) Orienting the economic activity towards a shared vision (map of the vision); (6) Improving and expanding the existing tourist supply.

Figure 16 - Eja ne Gramsh



Source: Ciro, et al. (2019)

This networking approach towards tourism is being supported by an increasing number of actors, more importantly businesses but also supported by other actors. An interesting initiative supported by GIZ, is the establishment of Nucleus Albania by 5 Albanian Associations, namely: The Albanian Olive Oil Association (AOA), Albanian Tourism Association (ATA), Horticulture Association of Albania (HABA), Livestock Entrepreneurs Association of Albania (LEAA), and The Albanian Women Association of Crafts and Entrepreneurship.

Nucleus Albania basically acts as a platform that provides consultancy and training for business development and has currently applied the Nucleus Model in both agro-products and tourism, enabling also networking among the two sectors.

The current situation reveals a concentration of olive oil producers in Tiranë; hospitality services and apple production in Korçë; hotels, restaurants, tourism agencies, farmers but also crafts and photography in Shkodër; and similarly hotels, restaurants and crafts in Gjirokastër.

What can be concluded for the tourism cluster is that while tourism is inherently territorially embedded, at this day and age tourism can be virtually anything, therefore it becomes imperative to think of it as a network of interrelated actors. The role of planning is to preserve the touristic assets on one hand but also improve their accessibility.

A better connectivity among the actors is indispensable to work for a joint vision, which not only serves as an identity building instrument but also in terms of image communication delivers a coherent message.

Tourism therefore constitutes an industry with a high potential to become a competitive cluster. It still suffers from issues such as high informality, seasonality, lack of coordination but a more cooperative behaviour among the actors has started to emerge. Moreover the conventional tourism actors (travel agencies, accommodation and hospitality services, etc.) are increasingly cooperating in a cross-sector manner with other industries such as agriculture, health, etc.

By means of conclusion, the confrontation among top-down and bottom-up cluster dynamics in Albania is revealing with regard to the effectiveness of the adopted policies, especially territorial policies for cluster development.

The inputs gathered by the business respondents, but also by the policy makers are almost unanimous in their assessment of the top down approaches and territorial policies as unable to positively affect cluster development.

The weak links identified by the cluster actors refer to the first two phases of cluster development: the need to build social capital (not only the need for better human capital but also creating trust and an enabling environment) and develop linkages (all the five mapped industries seem to suffer from the lack of cooperation and coordination among the actors).

A matrix with the findings from each of the mapped industries with regard to the cluster features discussed in Chapter II, which leads to an assessment of the stage of the cluster development is provided in Table 13.

Even though the selected industries are in different stages of development, they display similar needs for planning policy intervention.

However the kind of planning policy that emerges as a requirement by these potential or emerging clusters varies significantly from the ones implemented thus far in Albania. This calls for a new planning model, which is explained in the final chapter.

Table 13 – Matrix of the findings for the mapped industries

		Footwear	**Call Centres**	**Agriculture**	**Tourism**	**Information Computer Technology**
Cluster Features	***Interaction among the actors***	Limited interaction within the industry - most of knowledge sharing occurs within the value chain	Share common labour pool, otherwise limited interaction among the firms.	High fragmentation of the land and limited cooperation among the actors	There is still a high fragmentation of the sector. However cooperation is emerging as a result of replicator dynamics	High level of interaction and knowledge sharing in inter and extra cluster level. Main firm shows traits of technological gatekeeper
	Capacity to evolve and innovate	Currently labour intensive - some early initiatives to climb the value chain, potential capacity to innovate if focused on a niche market	Currently labour intensive - very vulnerable position within the value chain	Clustering in embryonic stage. Capacity to evolve into platform through cross cutting with other sectors (i.e. tourism)	Still fragmented but cooperation is emerging. Capacity to evolve into platform through cross cutting with other sectors (i.e. agriculture, health)	Constantly evolving and actively promoting innovation. Outward looking and open cluster
	Spatial Proximity	Mostly concentrated in Tirana - Durres region. Ulterior concentration wouldn't help the interaction among the actors	Concentrated in Tirana. No need for ulterior physical clustering	Spatially embedded	Spatially embedded	Concentrated in Tirana. No need for ulterior physical clustering as the knowledge flow within the cluster is already very good

Cluster stage	potential cluster (agglomeration stage)	potential cluster (agglomeration stage)	embryonic	emerging	developing stage
Role of Urban Planning	Focus on connectivity and consequently in infrastructure, in order to maintain key advantages such as the ability to work on a Just in Time basis, rapid response to customer order and low transportation costs	Urban Planning redundant	Preserve agriculture land from conflicting interests, but also improve connectivity to facilitate exports.	It is important to think of tourism as a network of interrelated actors. The role of planning is to preserve the touristic assets but also improve their accessibility. The focus should be connectivity and territorial quality.	Limited role for urban planning, besides improving the urban quality that would help retain talent within the region

Source: Author's own elaboration

6. DYNAMIC PLANNING FOR CLUSTER DEVELOPMENT

6.1. Towards a new model of planning policies for cluster development

Research (theoretical and empirical) teaches us that the positive externalities of clustering result from proximity but the proximity is not only physical, rather cognitive, cultural and/or institutional.

What leads to innovation and increased competitiveness is learning and knowledge absorption. Co-location facilitates these processes but the geography of such co-location is increasingly not confined to the district level – rather to a broader regional scale. The case of Albanian clusters confirms this.

Additionally, a growing number of studies informs that seeing clusters as industrial districts results in a declined innovativeness and competitiveness (even failure), due to the homogeneity and mono-specialization within the district which leads to the so-called lock-in effect – the cluster becoming inward looking. Therefore, policies should promote a more outward looking cluster, with attributes of a network rather than a district. There are several factors for the Albanian national and regional governments to adopt a similar approach and forego the view on clusters as districts.

The knowledge diffusion patterns within the analysed clusters show that often the channels for knowledge flow are those of international value chains (Footwear) but also through intra cluster and inter cluster channels (agriculture, tourism, ICT). Local learning occurs with no need for ulterior geographic concentration (ICT, tourism).

The failed attempts to create technological or industrial parks show that businesses are reluctant to become part of such districts. The respondents interviewed for this research confirm this attitude. What would trigger their interest and action are financial incentives and not land use restrictions, which echo a deterministic and old language in territorial planning.

Ask anyone in Albania about the factors that hinder the country's competitiveness or for the lack of effectiveness of the adopted policies and they will immediately come up with a list of factors. But if you ask about effective policies, the answer is less straightforward. However when asked about what he considers as the most effective policy for SME promotion and cluster encouragement, based in his 27 year experience in the Albanian Ministry of Economy, Mr. Sykja (former director of SME Promotion Directorate) does not hesitate to point to the creation of the one stop shop concept for businesses and the simplification of procedures that have improved the ease of doing business in the country.

But while what is considered effective economic policy is inclined towards deregulation and removal of barriers, territorial planning seems to go to the opposite direction. Planning must be aligned with these policies and seek to improve the connectivity and territorial quality rather than dictate the land use of economic activity. Even less so when the duration of these plans is for 15 years, in a time when the contemporary society we live in evolves at a high pace. For planning to have a meaningful and positive role, it should be able to co-evolve with the society and the economy.

Not only do institutions need to maintain a certain level of flexibility to be able to co-evolve but the ability to transform (or to evolve), as also emphasized above making use of complexity theories, is crucial for clusters so that they themselves 'survive' in an era when along clusters' success stories from around the global, cluster failure has also been observed. Carbonara et al (2010) use complex adaptive systems (CAS) as a framework for cluster success. In their assessment in order to avoid cluster failure, self-organization is imperative, therefore clusters must keep all the CAS properties, which in return serve as a basis to develop policies and complexity based actions such as: Keep a high level of heterogeneity; Fostering coevolution: Impose tension on a cluster to move it into the melting zone; Stimulate Self-Organization and Emergence; Balance Top-Down and Bottom-Up Effects; Exploit Butterfly Effects; Build in Scalability.

The explored cluster dynamics in Albania do confirm the need for such properties to be reinforced, unfortunately the adopted territorial policies still reflect a static view on planning and a cluster model of Industrial Districts building upon the assumption that if we build agglomerations, externalities will automatically occur. Such approach has been consistently failing to achieve the aimed results in Albania. The engine in any cluster must be the firms, the generators of cluster dynamics. The government can at best act as a turbo or accelerator of such dynamics.

This thesis suggests that in Albania there is a need to revise the way of thinking about clusters, considering them first and foremost as relational networks. This thinking is in line with Asheim and Herstad (2005) who distinguish among the regionalized national innovation systems which are based as they state on a “top-down, linear model of innovation (e.g. science parks and techno polis)” and innovation networks based on bottom-up, interactive learning, embedded in the social and cultural fabric of the region. “To be able to talk about territorially integrated, regional innovation systems, the national, functionally integrated, techno-economic and political-institutional structures must be “contextualized” through interaction with the territorially embedded, sociocultural and socio-economic structures.”

This calls for alternative planning instruments such as improving the connectedness and quality of life in the region as opposed to land use, which is perfectly justifiable for regulatory or partial plans in order to decide on conflicting interests over the territory, but not the most appropriate tool in strategic and long term plans aiming to promote cluster development. The key ingredient in successful clusters and competitive regions are people. Therefore, it is people and not land who should be the starting point and ultimate focus of territorial policies. An example of this kind of approach comes from Chile.“One innovative fast-track programme aimed at developing a cluster of high-potential, globally oriented start-ups, and stimulating a culture of entrepreneurial spirit, can be found in Chile. Rather than building a science park or hi-tech corridor, the Start-Up Chile initiative explicitly seeks to attract ambitious early-stage hi-tech businesses from around the world by offering them US$40,000 in equity-free funding, a free place to work, a one-year visa, business support and mentoring, and next-to-no strings

attached. The core idea is to attract a lot of talent to the country and connect that talent with local entrepreneurs, therefore kick-starting a local innovation and entrepreneurship cluster." (The Economist (2011))

Bringing the strands together, a new model for planning policies for cluster development takes shape, shifting from what can be called static towards dynamic planning. The model below synthesizes this discussion:

Figure 17 - Territorial Policies for Cluster Development

	Static Planning	**Dynamic Planning**
Assumption:	Build Agglomerations and Externalities will automatically occur	Ease inter-action among the actors so externalities can occur
Stage:	A priori	Emerging
Cluster Model:	Industrial District	Network
Nature:	Deterministic	Enabling
Instrument (s):	Land Use	Connectivity and Territorial Quality
Focus	Space	People

Source: Author's own elaboration

While there is a sense of exhaustion from top down policies (Pike, et al., 2011) and the national innovation systems prerogative, the suggested model by this research, in line with some of the most recent policy frameworks, advocates the need for flexibility, bottom up initiatives and place-based approaches.

OECD states with regard to the smart specialization policy framework discussed in Chapter 3: “As a regional and place-based growth policy framework it aims to improve the allocation of public investment in R&D and innovation related investments, in order to stimulate competitiveness, productivity and economic growth through entrepreneurial activities. Smart specialisation “strategies” can be viewed as a mix of modern industrial policy with innovation policies that emphasise a bottom-up approach (the entrepreneurial discovery), transparency (e.g. monitoring and evaluation) and flexibility (e.g. abandon failure programmes).” (OECD, 2013)

Following a similar logic, this research shows that policies aimed at cluster promotion in Albania, should first study previous failed attempts, considering that you can learn more from failures in your own context than success stories from elsewhere.

6.2. Conclusions

The objective of this research was to explore the cluster dynamics in transition economies and how cluster development is shaped by policy, drawing lessons from the Albanian case.

The adopted approach while conducting the research has been that of Evolutionary Economic Geography and complexity theories.

By applying the cluster mapping tool developed by the European Cluster Observatory, five industries were selected that constitute either potential or emerging clusters. A series of documents were consulted to confront top-down and bottom-up cluster dynamics in Albania. Additionally, in depth insights of the cluster actors (firms and institutions) were obtained through semi-structured interviews conducted by the researcher in the period 2016-2018.

This has provided the empirical evidence required to answer a series of questions articulated at the beginning of the research with regard to the evolution of the cluster concept, the role of the institutions, cluster dynamics in transition economies and how they are affected by policy and the role of territorial planning in cluster development.

With this regard, what this research of the Albanian experience with cluster development teaches is that:

- Transition economies or the less developed countries have specific features resulting in market distortions that lead to different cluster dynamics. It is in response to these peculiarities that the cluster policies must be tailored.

- The adopted policies in these countries are often copies of policies in the developed countries, which when companioned with institutions with limited capability show little effectiveness.

- The nature of clusters as relational networks is best captured by complexity theories and if institutions are to play a positive role in cluster development they need to adopt a complexity thinking in their modus operandi, seeing themselves not as outside and above but as endogenous part of these networks, therefore they too need to co-evolve with the system

- There is a revealing discrepancy among the top-down and bottom-up cluster dynamics in Albania, with the bottom-up initiatives achieving slow but tangible results and the implemented territorial policies failing to inject any dynamism to cluster development. This failure indicates the need for a new route for policies that seek to promote cluster development.

- A multitude of policies influence cluster development such as economic policy, industrial policy and regional and territorial policies. As an emerging conclusion from this research the role of territorial planning is at best redundant and at worst counterproductive if not cohesive with the economic and industrial policies. Therefore there is a need for a different thinking in planning, divorcing from the existing static approach towards a more dynamic planning paradigm.

6.3. Future research perspective

Being the first study of these dimensions that explores cluster dynamics in Albania, ulterior research of Albanian clusters but also cluster dynamics in other transition economies would be highly beneficial to further validate the findings and enable comparative studies (time-wise and space wise).

The replication of this research in other Western Balkans would allow for a broader representation of the post-socialist transition economies and generalisation of the findings.

And finally, being consistent with the suggested need to shift towards dynamics models the factor time is imperative, therefore successive studies of clusters in Albania would provide the possibility to capture their dynamism and evolution.

BIBLIOGRAPHY

Agency, N. T. P., 2015. *PLANI I INTEGRUAR NDËRSEKTORIAL PËR ZONËN TIRANË-DURRËS.* Tirane: Shtypshkronja PEGI.

AIDA, 2013. *Albanian Footwear industry,* Tirane: s.n.

AIDA, 2016. *www.aida.gov.al.* [Online]
Available at: http://aida.gov.al/pages/business-relay-and-innovation-centre-bric
[Accessed November 2016].

AITA, 2017. *www.aita-al.org.* [Online]
Available at: http://aita-al.org/about-us/
[Accessed April 2018].

Aliaj, B., 2006. *Misteri i Gjashte -.* 1 ed. Tirana: afrojdit.

Aliaj, B., Dhamo, S. & Shutina, D., 2010. *Between Vacuum and Energy.* 1 ed. Tirana: botime afrojdit.

Allen, M. & Aldred, M., 2009. Varieties of Capitalism, Varieties of Innovation? A Comparison of Old and New EU Member States. *Journal of Contemporary European Research,* 5(4), pp. 581-596.

AMA, 2013. *American Marketing Association.* [Online]
Available at: https://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx
[Accessed October 2015].

Amable, B., 2000. Institutional Complementarity and Diversity of Social Systems of Innovation and Production. *Review of International Political Economy ,* 7(4), pp. 645-687 .

Andersson, T., Schwaag Serger, S., Sorvik, J. & Wise Hansson, E., 2004. *The Cluster Policies Whitebook.* Malmo: IKED - International Organizzation for Knowledge Economy and Enterprise Development.

Anholt, S., 2008. Place branding: Is it marketing, or isn't it?. *Place Branding and Public Diplomacy,* Volume 4, pp. 1-6.

Arbonies, A. & Moso, M., 2002. Basque Country: the knowledge cluster. *Journal of Knowledge Management,* 6(4), pp. 347-355.

Arrow, J., 1974. *The Limits of Organisation.* New York: Norton, W.W..

Asheim, B., Ejermo, O. & Rickne, A., 2009. When is Regional "Beautiful"?Implications for Knowledge Flows,Entrepreneurship and Innovation. *Industry and Innovation,* 16(1), pp. 1-9.

Asheim, B. & Getler, M., 2005. The Geography of Innovation: Regional Innovation Systems. In: F. J., M. D. C. & N. R. R., eds. *The Oxford Handbook of Innovation.* Oxford: Oxford University Press, pp. 291-317.

Asheim, B. & Herstad, S., 2005. Regional Innovation Systems, Varieties of Capitalism and Non-Local Relations: Challenges from the Globalising Economy. In: R. Boschma & R. Kloosterman, eds. *Learning from Clusters: A Critical Assessment.* s.l.:Springer, pp. 169-201.

Ashworth, G. J. & Voogd, H., 1990. *Selling the City: Marketing Approaches in Public Sector Planning – Urban Planning.* London: Belhaven Press.

Aumann, R., 2005. War and Peace. In: K. Gradin, ed. *Les Prix Nobel.* Stockholm: Science History Publications / Watson Publishing International, pp. 350-358.

Ave, G., 1994. *Urban Planning and Strategic Urban Marketing in Europe.* Turin, Edizioni Torino Incontra.

Axelrod, R., 1984. *The Evolution of Cooperation.* New York: Basic Books.

Bahiti, R. & Shahini, B., 2010. Strengthening innovation and technology policies for SME development in Albania. *Współczesna ekonomia ,* Volume Nr.1/2010(13), pp. 191-205.

Balland, P., Boschma, R. & Frenken, K., 2015. Proximity and Innovation: From Statics to Dynamics. *Regional Studies,* 49(6), pp. 907- 920.

Bank, W., 2018. *World Development Report 2018: Learning to Realize Education's Promise,* Washington, D.C.: International Bank for Reconstruction and Development / The World Bank.

Batty, M. & Marshall, S., 2016. Thinking organic, acting civic: The paradox of planning for Cities in Evolution. *Landscape and Urban Planning.*

Becattini, G., 1987. Dal 'settore industriale' al 'distretto industriale'. Alcune considerazioni sull'unita' d'indagine dell'economia industriale. *L'industria. Rivista di economia e politica industriale,* Volume 1.

Bertalanffy, L., 1968. *General System Theory, Foundations, Development, Applications.* New York: George Braziller.

Boka, M. & Torluccio, G., 2012. *Informal Economy in Albania: Size and Consequences on Financial Deepening.* s.l., ISTI.

Boldrin, M., Allamand, J., Levine, D. & Ornaghi, C., 2011. Competition and Innovation. *Cato papers on Public Policy,* Volume 1.

Boschma, R., 2005. Proximity and innovation. A critical assessment. *Regional Studies,* Volume 39, pp. 61-74.

Boschma, R. & Frenken, K., 2006. Why is economic geography not an evolutionary science? Towards an evolutionary economic geography. *Journal of Economic Geography*, 11 January, p. 273–302.

Bretonès, D. & Scheel, C., 2011. Fostering innovation the role of french competitiveness poles: Critical analysis for an application in the Latin American countries.. *Journal of Global Business Administration,* Volume 3, pp. 1-18.

Brusco, S., 1982. The Emilian model: Productive decentralization and social integration. *Cambridge Journal of Economics,* Volume 6.

Carbonara, N., Giannoccaro, I. & McKelvey, B., 2010. Making Geographical Clusters More Successful: Complexity-Based Policies. *E:CO,* 12 (3), pp. 21-45.

Carlsson, B., Jacobsson, S., Holmén, M. & Rickne, A., 2002. nnovation systems: analytical and methodological issues. *Research Policy,* Volume 31, p. 233–245.

Cellini, R. & Soci, A., 2002. Pop competitiveness. *BNL Quarterly Review,* Volume 220, pp. 71-101.

Cerqueti, R., Quaranta, A. & Ventura, 2016. Innovation, imitation and policy inaction. *Technological Forecasting and Social Change,* Volume 111, pp. 22-30.

Chang, H., 2011. Institutions and economic development: theory, policy and history. *Journal of Institutional Economics,* Volume 7, pp. 473-498.

Cheshire, P. & Gordon, I., 1998. Territorial Competition: Some Lessons for Policy. *Annals of Regional Science,* Volume 33, p. 321–346.

Ciro, A., Toska, M. & Nientied, P., 2019. Social Innovation and Sustainable Economic Development: Participatory Tourism Destination Management. In: M. e. a. Finka, ed. *The Role of Public Sector in Local Economic and Territorial Development.* s.l.:Springer.

ClusterPoliSEE, 2017. *www.clusterpolisee.eu/.* [Online]
Available at: http://www.clusterpolisee.eu/en/about-clusterpolisee/objectives

Colantonio, E. & Cialfi, D., 2016. Smart Regions in Italy: A comparative study through Self-Organizing Maps. *European Journal of Business and Social Sciences,* 5(9), pp. 84-99.

Commision, E., 2017. *www.ec.europa.eu.* [Online]
Available at: http://ec.europa.eu/growth/smes/cluster/observatory/cluster-mapping-services/mapping-tool_en
[Accessed April 2017].

Cooke, P., 2012. From Clusters to Platform Policies in Regional Development. *European Planning Studies*, 24 July.

Cooke, P., 2012. From Clusters to Platform Policies in Regional Development. *European Planning Studies,* 20(8), pp. 1415-1424.

Cooke, P., G., G., U. M. & ETXEBARRIA, G., 1998. Regional systems of innovation: an evolutionary perspective. *Environment and Planning,* Volume A 30, p. 1563–1584.

Corsico, F., 1994. *Urban marketing: A tool for cities and for business enterprises, a condition for property development, a challenge for urban planning.* Turin, Edizioni Torino Incontra.

Criscuolo, A., 2002. *Artisan Associations and Small Business Development in the 'Third' Italy.* s.l.:s.n.

Crouch, C., Schroder, M. & Voelzkow, H., 2009. Regional and sectoral varieties of capitalism. *Economy and Society,* 38(4), pp. 654-678.

De Paula, S. & Dymski, G., 2005. Introduction. In: S. De Paula & G. Dymski, eds. *Reimagining Growth: Towards a Renewal of Development Theory.* London: Zed, p. 3–26.

Development, R., 2015. *Scoping mission to Albania to identify gaps and opportunities for deepening access to finance and financial services for the agri sector,* s.l.: Rabo Bank.

Dicken, P., Kelly, P., Olds, K. & Yeung, H., 2001. Chains and networks, territories and scales: towards a relational framework for analysing the global economy. *Global Networks,* 1(2), pp. 89-112.

Domanski, B., 2011. Post-socialism and transition . In: A. Pike, A. Rodrigues-Pose & J. Tomaney, eds. *Handbook of Local and Regional Development.* London; New York: Routledge, pp. 172-181.

Dosi, G., Malerba, F., Ramello, G. & Silva, F., 2006. Information, appropriability, and the generation of innovative knowledge four decades after Arrow and Nelson: an introduction. *Industrial and Coorporate Change,* 15(6), pp. 891-901.

EC, 2017. *Western Balkans Summit 2017: delivering for the region,* Brussels: European Commission.

Economic Policy Institute, 2017. *Economic Policy Institute.* [Online] Available at: https://www.epi.org/productivity-pay-gap/

Enright, M., 1999. The Globalization of Competition and the Localization of Competitive Advantage: Policies Towards Regional Clustering. In: N. Hood & S.

Young, eds. *Globalization of multinational enterprise activity and economic development.* London: Macmillan.

Feimi, D. & Kume, V., 2014. Innovation management: types, management and innovation performance in Albania. *European Scientific Journal, ,* 10(7), pp. 239-248.

Fitjar, R. & Rodriguez-Pose, A., 2017. Nothing is in the air. *Growth and Change - A Journal of Urban and Regional Policy,* 48(1), pp. 22-39.

Florida, R., 2002. *The rise of the creative class.* New York: Basic Books.

Frashëri, K., 2004. *Historia e Tiranës.* 1 ed. Tiranë: Toena.

Fujita, M., Krugman, P. & Venables, A., 1999. *The Spatial Economy - Cities, Regions and International Trade.* 1 ed. Cambridge: MIT Press.

Galves-Nogales, E., 2010. *Agro-based clusters in developing countries; staying competitive in a globalized economy,* Rome: Food and Agriculture Organization of the United Nations.

Gebreeyesus, M. & Mohnen, P., 2012.
Innovation performance and embeddedness in networks: evidence from the Ethio pian footwear cluster. *World Development,* Volume 41, pp. 302-316.

Gereffi, G., 1994. The Organization of Buyer-Driven Global Commodity Chains: HowU.S. Retailers Shape Overseas Production Networks. In: G. Gereffi & M. Korzeniewicz, eds. *Commodity Chains and Global Capitalism.* Westport: Praeger, pp. 95-122.

Gereffi, G., 1999. International trade and industrial upgrading in the apparel commodity chain. *Journal of International Economics,* Volume 48, pp. 37-70.

Giuliani, E., 2005. Cluster Absorptive Capacity: Why do Some Clusters Forge Ahead and Others Lag Behind?. *European Urban and Regional Studies ,* 12(3), pp. 269-288.

Giuliani, E., 2011. Role of Technological Gatekeepers in the Growth of Industrial Clusters: Evidence from Chile. *Regional Studies,* 45(10), pp. 1329-1348.

Giuliani, E., 2013. Network dynamics in Regional Clusters: Evidence from Chile. *Research Policy,* Volume 42, pp. 1496-1419.

GIZ, 2017. *Economic Development and Employment Promotion Program - Support to agriculture and rural development,* s.l.: GIZ.

Glaeser, E., 2005. *Inequality,* Massachusetts : Harvard Institute of Economic Research.

Gordon, I., 2011. Territorial competition. In: A. Pike, A. Rodriguez-Pose & J. Tomaney, eds. *Handbook of Local and Regional Development.* New York: Routledge, pp. 30-42.

Hall, P. & Soskice, D., 2001. Introduction. In: P. Hall & D. Soskice, eds. *Varieties of capitalism: The institutional foundations of comparative advantage..* Oxford: Oxford University Press, pp. 1-68.

Holland, J., 1975/1992. *Adaptation in Natural and Artificial Systems.* Cambridge: MIT Press.

Hubbard, P. & Hall, T., 1998. The entrepreneurial city and the new urban politics. In: T. Hall & P. Hubbard, eds. *The Entrepreneurial City: Geographies of Politics, Regime and Representation.* Chichester: John Wiley & Sons.

Humphrey, J. & Schmitz, H., 2001. Governance in Global Value Chains. *IDS Bulletin,* 32(3).

Iansiti, M. & Levien, R., 2004. What the New Dynamics of Business Ecosystems Mean for Strategy, Innovation, and Sustainability. *Harvard Business School Press.*

INSTAT, 2015. Tirane: Instituti i Statistikave.

INSTAT, 2015. *Gross Domestic Product by Statistical Regions NUTS in Albania,* Tirane: INSTAT.

INSTAT, 2016. Tirane: Institute of Statistics of Albania.

INSTAT, 2017. Tirane: Instituti i Statistikave.

INSTAT, 2018. *Turizmi ne shifra - Shqiperia,* Tirane: Instituti i Statistikave.

Iyer, S. K. M. T. B., 2005. Social capital, economic growth and regional development. *Regional Studies,* 39(8), p. 1015 — 1040.

Johnson, N., 2007. *Two's Company Three is Complexity, A simple guide to the Science of all Sciences.* s.l.:Oxford: oneworld.

Johnson, S., 2001. *Emergence: the connected lives of ants, brains, cities, and software.* New York: Scribner.

Karafili, E. & Jojiç, S., 2015. Place Branding - A logo and slogan design to brand Albania. *Forum A+P,* Volume 15, pp. 176-183.

Kauffman, S., 1993. *Origins of Order: Self Organisation and Selection in Evolution.* Oxford: Oxford University Press.

Kavaratzis, M., 2004. From city marketing to city branding: Towards a theoretical framework for developing city brands. *Place Branding,* 1(1), p. 58 – 73.

Ketels, C. & Protsiv, S., 2016. *European Cluster Panorama 2016,* s.l.: European Commision.

Kitson, M., Martin, R. & Tyler, P., 2010. Regional Competitiveness: An Elusive yet Key Concept?. *Regional Studies,* 38(9), p. 991 — 999.

Kotler, P. A. C. R. I. a. H. D., 1999. *Marketing Places Europe: Attracting Investments, Industries, Residents and Visitors to European Cities, Communities, Regions and Nations.* London: Pearson Education.

Krugman, P., 1994. Competitiveness: a dangerous obsession. *Foreign Affairs,* Volume 73, p. 28–44.

Liperi, O., 2017. 100 punëdhënësit më të mëdhenj: Alarmi i punësimit!. *Revista Monitor*, 8 April.

Malecki, E., 2004. Jockeying for Position: What It Means and Why It Matters to Regional Development Policy When Places Compete. *Regional Studies,* 38(9), p. 1101–1120.

Markusen, A., 1996. Sticky Places in Slippery Space: A Typology of Industrial Districts. *Economic Geography,* pp. 293-313.

Marshall, A., 1890. *The Principles of Economics.* 1 ed. London: Macmillan.

Martin, R. & Sunley, P., 2001. *Deconstructing Clusters: Chaotic Concept or Policy Panacea?.* London, Regional Studies Association.

Martin, R. & Sunley, P., 2006. Path dependence and regional economic evolution. *Journal of Economic Geography ,* Volume 6, p. 395–437.

Martin, R. & Sunley, P., 2007. Complexity thinking and evolutionary economic geography. *Journal of Economic Geography,* Volume 7, pp. 573-601.

Metcalfe, S., 1995. The Economic Foundations of Technology Policy: Equilibrium and Evolutionary Perspectives". In: P. Stoneman, ed. *Handbook of the Economics of Innovation and Technological Change.* Oxford (UK)/Cambridge (US): Blackwell Publishers.

Metro_POLIS, 2013. *Development Policies for the Municipality of Vora, Albania,* Tirana: POLIS Press.

Meyer-Stamer, J. & Harmes-Liedtke, U., 2005. *How to promote clusters.* s.l.:www.mesopartner.com.

Moore, J., 1998. The Rise of a New Corporate Form. *Washington Quarterly,* Volume 21, pp. 167-181.

MTE, 2018. *National Strategy for Sustainable Tourism 2018-2022 ,* Tirane: Ministry of Tourism and Environment.

Mytelka, L., 2004. *From Clusters to Innovation Systems in Traditional Industries: The Role of Vision, Knowledge and Policy.* Bagamoyo, Regional Conference in Innovation Systems and Innovative Clusters in Africa.

Mytelka, L. & Farinelli, F., 2000. *Local Clusters, Innovation Systems and Sustained Competitiveness,* Maastricht: UNU/INTECH Discussion Papers .

Nadvi, K., 1999. Collective E• ciency and Collective Failure: The Response of the Sialkot Surgical Instrument Cluster to Global Quality Pressures. *Elsevier Science,* 27(9), pp. 1605-1626.

Nelson, R., 1994. The Co-evolution of Technology, Industrial Structure, and Supporting Institutions. *Industrial and Coorporate Change,* 1(3), pp. 47-63.

Nientied, P. & Karafili, E., 2016. Towards a Pragmatic Perspective on Business Innovation in Western Balkan Countries: The Case of Albania. *International Journal of Business and Management,* 11(3), pp. 193-202.

Nijkamp, P. & van Hemert, P., 2009. Knowledge Infrastructure and Regional Growth. *Regional Symbiosis,* Volume 17, pp. 1-10.

O Riain, S., 2011. Globalization and Regional Development. In: A. Pike, A. Rodriguez-Pose & J. Tomaney, eds. *Handbook of Local and Regional Development.* London and NY: Routledge, pp. 17-29.

OECD, 2013. *Innovation-driven Growth in Regions: The Role of Smart Specialisation.* 1 ed. s.l.:ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT .

Peltoniemi, M. & Vuori, E., 2004. *Business ecosystem as the new approach to complex adaptive business environments.* Tampere, Tampere University of Technology.

Perroux, F., 1964. Economic Space: Theory and Application. In: J. Friedman & W. Alonso, eds. *Regional Development.* Cambridge: MIT Press, pp. 21-36.

Petrakos, G., Skayannis, P., Papadoulis, A. & Anastasiou, G., 2011. Entrepreneurship, Innovation and Regional Development: A Southern European Perspective. In: K. Kourtit, P. Nijkamp & R. Stough, eds. *Drivers of Innovation, Entrepreneurship and Regional Dynamics.* Dordrecht; London; New York: Springer, pp. 81-104.

Pietrobelli, C. & Rabellotti, R., 2011. Global Value Chains meet Innovation SystemsL Are there learning opportunities for Developing Countries?. *Elsevier,* 39(7), p. 1261–1269.

Pike, A., Rodrigues-Pose, A. & Tomaney, J., 2011. *Handbook of Local and Regional Development.* New York: Routledge.

Piore, M. & Sabel, C., 1984. *The Second Industrial Divide: Possibilitiesf or Prosperity.* New York: Basic Books.

Porfido, E., Ciro, A. & Nientied, P., 2016. *Regional tourism comparative analysis in Albania,* Tiranë: Polis University.

Porter, M., 1992. *Competitive Advantage: Creating and Sustaining Superior Performance,* London: PA Consulting Group.

Porter, M., 1998. Clusters and the new economics of competition. *Harvard Business Review,* Volume 76, p. 77–90.

Porter, M., 1998. *The Competitive Advantage of Nations.* 1 ed. s.l.:Palgrave MacMillan.

Prašnikar, J. R. T. a. M. F. (., 2012. *Albania: the role of intangible capital in future growth.* Ljubiana: Faculty of Economics.

Preci, Z., Nazarani, J. & Culver, J., 2013. *Erawatch country reports 2011: Albania,* s.l.: European Union.

Pressly, L., 2016. *Europe's outdoor cannabis capital,* s.l.: BBC News.

Reich, R., 2012. *Beyond Outrage: What Has Gone Wrong with Our Economy and Our Democracy, and How to Fix It.* 1 ed. New York: Vintage Books.

Reich, R., 2016. *Saving Capitalism: For the Many, Not the Few.* 1 ed. New York: Vintage Books.

Saviano, R., 2006. *Gomorra.* 1 ed. s.l.:Mondadori.

Schmitz, H., 1999. Global competition and local cooperation: Success and failure in the Sinos Valley, Brasil. *World Development,* 27(9), pp. 1627-1650.

Solvell, O., Ketels, C. & Lindqvist, G., 2003. *The Cluster Initative Greenbook.* Stockholm: s.n.

Spens, M. & Kovas, G., 2005. A Content Analysis of Research Approaches in Logistics Research. *International Journal of Physical Distribution & Logistics.*

Storper, M., 1997. *The Regional World: Territorial Development in a Global Economy.* NY: Guilford Press.

Stough, R., Stimson, R. & Nijkamp, P., 2011. An Endogenous Perspective on Regional Development and Growth. In: K. Kourtit, P. Nijkamp & R. Stough, eds. *Drivers of Innovation, Enterpreneurship and Regional Dynamics.* Dordrecht; London; New York: Springer , pp. 3-20.

Studies, C. f. S. a. E., 2006. *From Brain Drain to Brain Gain: Mobilising Albania's Skilled Diaspora,* Tirana: UNDP.

Szogs, A., Cummings, A. & Chaminade, C., 2009. *Building systems of innovation in less developed countries: The role of intermediate organizations..* Lund: Center for Innovation, Research and Competence in the Learning Economy, Lund University.

Tidd, J. & Bessant, J., 2013. *Managing innovation, integrating technological, market and organizational change.* Chichester: Wiley.

Toto, R. et al. 2015. Tirana New Metropolis - Reinventing a new sustainable image for Albania. In: *Durana: Albania's new sustainable image - Branding Tirana-Rinas Corridor.* Tirana: s.n., pp. 38-54.

Turing, A., 1952. The chemical basis of morphogenesis.". *Philosophical Transactions of the Royal Society of London,* Volume 237, pp. 37-72.

Unit, E. I., 2011. *Fostering innovation-led clusters A review of leading global practices,* s.l.: The Economist.

Vajjhala, N. & Vucetic, J., 2013. Key barriers to knowledge sharing in medium-sized enterprises in transition economies. *International Journal of Business and Social Science,* 4(13), pp. 90-98.

van den Berg, L. K. L. H. a. v. d. M. J., 1990. *Marketing Metropolitan Regions.* Rotterdam: European Institute for Comparative Urban Research.

von Neumann, J. & Morgenstern, O., 1944. *Theory of Games and Economic Behavior.* Princeton : Princeton University Press.

WEF, 2015. *Global Competitiveness Report,* Geneva: World Economic Forum.

WEF, 2015. *The Global Competitiveness Report,* Geneva: World Economic Forum.

Wright, R., 2001. *Nonzero: The Logic of Human Destiny.* New York: Vintage.

Xheneti, M. & Bartlett, W., 2012. Institutional constraints and SME growth in post-communist Albania.. *Journal of Small Business and Enterprise Development,* Volume 19 (4), pp. 607-626.

Yin, R., 1994. *Case study research: design and methods.* 2 ed. s.l.:Sage Publications.

Yousef, A., Elaheebocus, N., M'henni, H. & Ragni, L., 2012. Are Technoparks High Tech Fantasies? Lessons from the Tunisian Experience. *European Review of Industrial Economics and Policy,* Volume 5.

Appendix 1 – Template: Questionnaire with Businesses (in Albanian language)

Të dhëna të përgjithshme

Emër Mbiemër

Emri i firmës

Qyteti

Address

2. Në cilin sektor operon firma juaj?

3. Sa vite ka firma juaj që operon në treg?

< 3 vjet 3-5 vjet 6-10 vjet 10-15 vjet > 15 vjet

4. Sa punonjës ka firma juaj?

< 4 5 - 9 10 - 50 51 - 250 > 250

5. Cili është lloji i pronësisë së firmës suaj?

Shqiptare

Ndërkombëtare

E përbashkët (Joint Venture)

6. Si do ta vlerësonit bashkëpunimin e firmës suaj me firmat konkurrente, në lidhje me:?

	Asnjëherë	Rrallë	Shpesh	Gjithmonë	
Ndajmë të njëjtët furnitorë ose klientë	○	○	○	○	○
Shkëmbejmë njohuritë mbi produktet e reja / teknologjitë e reja / kualifikimin e stafit?	○	○	○	○	○
Kryejmë aktivitete të përbashkëta si marketimi ose brandimi?	○	○	○	○	○

7. Si do ta vlerësonit bashkëpunimin e firmës suaj me Universitetet ose Qëndrat Kërkimore?

○ Asnjëherë ○ Rrallë ○ Shpesh ○ Gjitmonë ○

8. Si do ta vlerësonit mundësinë e sigurimit të financimit për biznesin tuaj (kredi/grante)?

○ Shumë e vështirë ○ E vështirë ○ Relativisht e lehtë ○ Shumë e lehtë ○

9. Si do ta vlerësonit ndikimin e politikave qeveritare në performancën e firmës suaj?

○ Negative ○ Neutrale ○ Deri diku pozitive ○ Shumë efektive ○

10. A do ishit i gatshëm të bashkëpunoni me konkurentët tuaj për të përfituar financim?

○ Po ○ Jo

Appendix 2 – Template: Questionnaire with Businesses (in English)

General Data

Name Surname

Company

City

Address

2. In what sector does your company operate?

3. How old is your company?

○ < 3 years ○ 3-5 years ○ 6-10 years ○ 10-15 years ○ > 15 years

4. How many employees does your company have?

○ < 4 ○ 5 - 9 ○ 10 - 50 ○ 51 - 250 ○ > 250

5. What is the ownership of your company?

○ Albanian

○ International

○ Joint Venture

6. How would you rate your firm's cooperation with competitive firms in the sector with regard to:

	Never	Occasional	Frequent	Always
Share suppliers / customers?	○	○	○	○
Exchange information on new products / new technologies / staff trainings?	○	○	○	○
Engage in joint activities such as marketing and branding, lobbying, etc.?	○	○	○	○

7. How would you rate your firm's cooperation with universities or research centers?

○ Never ○ Occasional ○ Frequent ○ Always ○

8. How would you rate the access to financing (loans from banks, investment funds, international programs, donors)?

○ Very difficult ◉ Difficult ○ Easy ○ Very easy ○

9. How would you rate the governmental policies' impact in the firm's performance?

○ Negative ○ Neutral ○ Somewhat positive ◉ Very effective ○

10. Would you be willing to cooperate with a competitor in order to receive financing?

○ Yes ○ No

Appendix 3 – Template: Interviews with Businesses

- How old is your company?
- What is the ownership?
- How did you get started?
- Who are your suppliers / clients?
- What are the improvements / innovations done by your company in recent years?
- What led to these improvements?
- Who is your competition?
- How willing are you to cooperate with your competitors?
- What are the obstacles you face to be more competitive?
- How effective do you consider the framework policies?
- How effective do you consider the industry policy?
- How effective do you consider the regional policy?
- How effective do you consider the role of international donors?

Appendix 4 – Template: Interviews with Policymakers

- How do you rate the competitiveness of the Albanian economy?
- What are the factors that hinder its competitiveness?
- What has been the policy response to these factors?
- How would you assess the development of economic clusters in Albania?
- Have there been policies aimed to foster clusters in Albania?
- What methodology has been used while designing these policies?
- How would you rate their effectiveness?
- What has been the most effective instrument?
- How would you rate the level of alignment and synergy among the adopted policies?
- How has planning and territorial policies affected the dynamics of cluster development?
- Do you agree that the adopted territorial policies have failed to achieve their objectives?
- What do you attribute such failure to?