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Articles

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The Policy of Urbanization Growth and Its Effects in the Albanian Economy in 1984–2020*

Polityka wzrostu urbanizacji i jej skutki w gospodarce Albanii w latach 1984–2020

ABSTRACT

Numerous scholars have studied the connection between urbanization and economic growth for particular nations or regions. In their research, urbanization is considered both a cause and a consequence of the process of economic development. By continuing to experience significant economic growth, Albania has recently set itself apart from the other Balkan nations. Urban areas, particularly those that have expanded substantially, have seen the repercussions of such a transformation – both positive and negative – in the economic and spatial realms as well as in people's daily lives. Although there is a considerable correlation between urbanization and economic growth in other countries,

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Data: 16/11/2026 16:20:40

Albania has yet to address the question of whether urbanization drives economic growth or vice versa – they are independent of each other. The analysis of the connection between urbanization and economic growth in the Albanian reality in the years 1984–2020 is the main goal of the article. World Bank data for the years 1984–2020 were used for this purpose. The methods used are the regression analysis and the Granger causality test.

Keywords: urbanization; development; economic growth; population; migration

INTRODUCTION

Urbanization presents opportunities for development in the areas of sustainable development, including social, economic, environmental, cultural, and political issues. Today we witness the increase of urbanization in the world been accompanied by an increase in gross domestic product per capita: from $456,648 in 1960 to $10,925,728 in 2020.

Scholars frequently agree that economic growth encourages the development of contemporary industry, stimulates the increase of urban population, and, as a result, economic growth. In emerging nations, it is common to see policies that encourage positive urbanization with the goal of boosting economic growth.[1] Urbanization is one area of the world that is changing quickly in the age of globalization, with changes occurring at a faster rate than in previous decades.

At the same time, developing countries are becoming the primary focus of the urbanization process rather than developed ones.[2] Although there is a considerable correlation between urbanization and economic development across nations, it is still unclear if urbanization is influenced by economic growth or vice versa – they are independent of each other. Worldwide experience and research on economic geography confirm that the relatively large cities of any country are usually the most productive because they capture and generate agglomeration economies. These areas also tend to be where the most diverse array of products are produced. Metropolitan locations typically have the most innovative, information-intensive businesses and new enterprises, the largest labor markets, and the best chances for the interchange of knowledge and ideas.

In terms of economics, geography, and people's daily lives in urban areas, particularly in those that have grown quickly, the effects of such a transformation – both positive and negative – have become quite evident.

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[2] World Bank, *World Development Report 2009: Reshaping Economic Geography*, Washington 2009, https://openknowledge.worldbank.org/bitstream/handle/10986/5991/WDR%202009%20-%20English.pdf?sequence=3&isAllowed=y (access: 10.2.2023).

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Data: 16/11/2026 16:20:40

Albania has distinguished itself in the region in recent years for maintaining a high rate of economic growth, success in reducing poverty, the rate of population movement, both within and outside the country, and the entrepreneurial spirit of Albanians, demonstrated in both formal and particularly informal transactions.[3]

Urbanization in Albanian society after the 1990s till today is developing in a very dynamic way and this process is not only not over, but it's still moving extremely fast.

The purpose of this paper is to analyze the relationship between urbanization and economic growth in Albania for the years 1984–2020.

Hypothesis: Urbanization positively affects economic growth in the case of Albania.

The methods used to test this hypothesis are the Granger causality test and the regression analysis.

THE RELATIONSHIP BETWEEN URBANIZATION AND ECONOMIC GROWTH – THEORETICAL CONTEXT

Cities are becoming more and more the center of economic activity, social and cultural exchanges, and environmental and human impacts, which pose significant sustainability issues.

Urbanization is a global trend that is developing on different continents at varying rates. Urbanization is one of the most revolutionary developments of the 21st century and is predicted to roughly treble by 2050 when cities will generate 80% of the global GDP (Gross Domestic Product).[4] Urbanization will aid in sustainable development if productivity growth is properly managed, particularly by encouraging fresh thinking and innovation.[5]

Geographical location, level of development, and size of the nation all influence the rate and extent of urbanization. Urbanization presents significant prospects for economic, institutional, and cultural innovation, but it also causes a number of environmental, social, and economic issues in large cities.[6] According to

[3] N. Xhindi, N. Bessa Vilela, *Central Public Administration Authority at the Regional Level in Albania*, "Studia Iuridica Lublinensia" 2022, vol. 31(4), pp. 59–74.

[4] World Bank, *Urban Development*, https://www.worldbank.org/en/topic/urbandevelopment (access: 10.2.2023).

[5] I. Turok, G. McGranahan, *Urbanization and Economic Growth: The Arguments and Evidence for Africa and Asia*, "Environment and Urbanization" 2013, vol. 25(2), pp. 465–482.

[6] United Nations, *World Population Prospects: The 2006 Revision and World Urbanization*, vol. 1: *Comprehensive Tables*, New York 2007, https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/files/documents/2020/Jan/un_2006_world_population_prospects-2006_revision_volume-i.pdf. (access: 27.2.2023).

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Data: 16/11/2026 16:20:40

D.E. Bloom a city is "a place with a greater concentration of population, or is a more important center than a small town or a village".[7]

Behind the urbanization process is a fundamental restructuring of the economy, moving it away from traditional industries, like agriculture, and toward more productive ones. The primary drivers of GDP growth are commercial activities and services, which in all nations emerge and thrive as a result of urban agglomerations.[8] But the continued existence of multiple forms of poverty, widening disparities, and environmental degradation, along with social and economic exclusion and spatial segregation, which are frequently an undeniable reality in cities and human settlements, continue to be among the greatest barriers to sustainable development worldwide.

Urbanization has played a significant role in development processes throughout human history,[9] and other earlier studies have discovered a strong correlation between GDP per capita and urbanization levels.[10] It appears that because both processes are linked, urbanization cannot occur without development and vice versa. However, it is unclear how these two processes are related causally.[11]

Numerous international organizations have recently endorsed the idea that urbanization promotes growth and development and should be supported. The World Bank states that "there is no developed middle-income country without being industrialized and urbanized, and there is no developed high-income country without the vibrancy of cities".[12] Additionally, a city's prosperity and development are greatly influenced by its capacity to draw individuals to profitable industries and provide them with acceptable employment opportunities that will allow them to keep improving their abilities.[13]

Urbanization can have a variety of effects on economic growth. First, cities play a significant role in the economy and social structure of both developed and developing nations by giving people access to chances for work, health care, and educational services. A nation's capacity to create new technologies and embrace old ones is determined by its human capital.[14] Second, agglomerating people and

[7] See D.E. Bloom, D. Cannings, G. Fink, T. Khanna, P. Salyer, *Urban Settlement: Data, Measures, and Trends*, [in:] *Urbanization and Development: Multidisciplinary Perspectives*, eds. J. Beall, B. Guha-Khasnobis, R. Kanbur, Oxford 2010.

[8] P. Tamang, *Urbanisation and Economic Growth: Investigating Causality*, "Econometrics" 2013, vol. 1(1).

[9] P. Bairoch, *Cities and Economic Development: From the Dawn of History to the Present*, Chicago 1988.

[10] V. Henderson, *The Urbanization Process and Economic Growth: The So-What Question*, "Journal of Economic Growth" 2003, vol. 8(1), pp. 47–71.

[11] J. Jacobs, *The Economy of Cities*, New York 1969.

[12] World Bank, *World Bank Report 2009*...

[13] M. Bacolod, B.S. Blum, W.C. Strange, *Elements of Skill: Traits, Intelligences, Education, and Agglomeration*, "Journal of Regional Science" 2010, vol. 50(1), pp. 245–280.

[14] P. Aghion, P. Howitt, *The Economics of Growth*, New York 2009.

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Data: 16/11/2026 16:20:40

businesses through urbanization lowers production costs. Urbanization enhances economies' competitiveness by lowering transaction costs and enabling internal specialization in businesses, which lowers production costs.[15] Third, urbanization is an important factor in business.[16] Urban areas' high concentration of people and businesses makes it simpler to get financing, encourages the development of new company ventures, and offers a bigger local market for commercial activity. When all other parameters are held constant, T. Loughran and P. Schultz demonstrated that geography (location) affects business performance and that urban businesses are more profitable than rural ones.[17] Due to this firms and entrepreneurs are more drawn to metropolitan regions. Fourth, the effects of urban development and rural areas are extensive and are also referred to as positive externalities.[18] Urbanization can benefit all dimensions of finance and human resources through migration, remittances, and active engagement between urban and rural areas. In locations where migrants have migrated away, knowledge transfer, production abilities, technology, and finance can all be improved.

Therefore, it is not always possible to see how urbanization has a favorable effect on economic growth. Urbanization and economic growth have a U-shaped relationship, according to both economic theory and empirical study.[19] Urbanization boosts economic growth in the early stages of development; in the later stages, there is an inverse relationship between urbanization and economic growth. Rapid urbanization can be detrimental to the economy and put more strain on infrastructure.[20]

As mentioned above and according to what appears to be the majority of studies, the relationship between urbanization and economic growth is complex and depends on a variety of variables, including the degree of development, the stage of urbanization, and the type of primary economic activity.

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[15] A. Kumar, B. Kober, *Urbanization, Human Capital, and Cross-Country Productivity Differences*, "Economics Letters" 2012, vol. 117(1), pp. 14–17.

[16] E.L. Glaeser, S.S. Rosenthal, W.C. Strange, *Urban Economics and Entrepreneurship*, "Journal of Urban Economics" 2010, vol. 67(1), pp. 1–14.

[17] T. Loughran, P. Schultz, *Liquidity: Urban versus Rural Firms*, "Journal of Financial Economics" 2005, vol. 78(2), pp. 341–374.

[18] M. Cali, C. Menon, *Does Urbanisation Affect Rural Poverty? Evidence from Indian Districts*, SERC Discussion Paper No. 14, 2009.

[19] V. Henderson, *op. cit.*, pp. 47–71.

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Data: 16/11/2026 16:20:40

METHODOLOGY

The theoretical literature provides the logical framework and multiple researchers' opinion on the relationship between urbanization and economic growth. Meanwhile, the empirical analysis is used to measure the effect of urbanization on economic growth in Albania, using data for the 1984–2020 time period. The data for urbanization and economic growth are taken from the World Bank website and the methods used are Granger causality test and the regression analysis. Considering that for the Granger causality test time series must be stationary, the stationarity of the series urbanization and economic growth is studied. Moreover, the number of lags necessary to perform the Granger causality test is determined. For this, the LR, FPE, AIC, SC and HQ criteria are used. After the Granger causality test, the ARDL bounds testing is used to conclude if there is a long run relationship between the variables. Depending on the result from the ARDL bounds testing, the equation for the long run or the short run relationship is chosen. Finally, some diagnostic tests, such as the Ramsey RESET test, the CUSUM plot for coefficients stability for ARDL model, the White test for homoscedasticity, and the Breusch–Godfrey test for serial correlation, are used to conclude about the goodness of fit of the model.

LIMITATIONS OF THE STUDY

Besides the classification issue, urban studies in general face other difficulties such as census results that frequently underestimate the true urban population because of the high mobility that is frequently impossible to manage.

This study has some limitations related to the component of the reference to Albanian studies on the relationship between urbanization and economic growth, but most importantly the collection of accurate data on the city's population and GDP. This limitation has been partially overcome with data taken from the World Bank.

Albania's rapid urbanization has increased the demand for data on the various urban area sizes as well as the necessity to establish standards for comparing data with other EU member states. Nevertheless, Albania has developed a new classification of the urban-rural population based on statistical principles and in compliance with the most recent Eurostat standards in order to give statistics comparable to those of other European nations.

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Data: 16/11/2026 16:20:40

EMPIRICAL ANALYSIS

1. Variable description

Urbanization – urban population; the proportion of people living in cities and towns compared to the total population. The data about urban population are taken from the World Bank website for the 1984–2020 time period.

GDP growth is measured by GDP/capita (in $) and the data are taken also from the World Bank website for the 1984–2020 time period.

Both variables are transformed in the logarithmic form to improve their distribution. Figure 1 shows the plot of the values of L(GDP/capita) and L(UrbanPopulation), and the statistics are in Table 1.

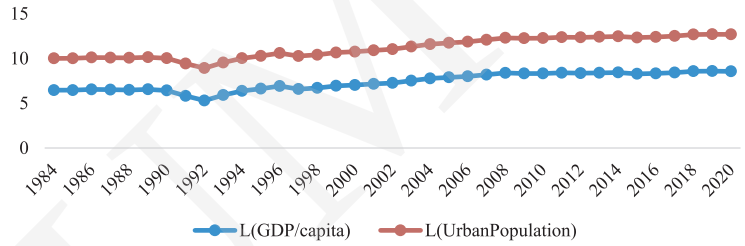


Figure 1. The plot of the values of L(GDP/capita) and L(UrbanPopulation) for the period 1984–2020

Source: own elaboration based on the World Bank's data: *GDP per capita (Current US$) – Albania*, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=AL (access: 10.10.2022); *Urban Population (% of Total Population) – Albania*, https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=AL (access: 10.10.2022).

Table 1. Some statistics for L(GDP/capita) and L(UrbanPopulation)

Statistics	L(GDP/capita)	L(UrbanPopulation)
Mean	7.371454	3.805177
Median	7.262015	3.772784
Maximum	8.585944	4.128939
Minimum	5.302569	3.550106
Std. Dev.	0.959847	0.190524
Skewness	–0.223759	0.252093
Kurtosis	1.739679	1.652143
Jarque-Bera	2.757549	3.192673
Probability	0.251887	0.202638
Sum	272.7438	140.7916
Sum Sq. Dev.	33.16702	1.306781
Observations	37	37

Source: own elaboration based on the World Bank's data: *GDP per capita (Current US$) – Albania*, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=AL (access: 10.10.2022); *Urban Population (% of Total Population) – Albania*, https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=AL (access: 10.10.2022).

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Data: 16/11/2026 16:20:40

From Table 1, the mean and median are between the minimum and maximum values and the distribution is normal for both variables as the *p*-value for Jarque–Bera test is greater than the significance value α = 5%.

As the correlation coefficient between the variables L(UrbanPopulation) and L(GDP/capita) is 0.934, a strong positive linear relationship exists between the variables.

Table 2. The correlation coefficient between variables L(GDP/capita) and L(UrbanPopulation)

	L(UrbanPopulation)	L(GDP/capita)
L(UrbanPopulation)	1	0.934381841
L(GDP/capita)	0.9343818	1

Source: own elaboration based on the World Bank's data: *GDP per capita (Current US$) – Albania*, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=AL (access: 10.10.2022); *Urban Population (% of Total Population) – Albania*, https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=AL (access: 10.10.2022).

Before the Granger causality test, the Kwiatkowski–Phillips–Schmidt–Shin (KPSS) test is performed to conclude the stationarity of the time series L(GDP/capita) and L(UrbanPopulation). Then, the results are compared with those of the Ng–Perron test.

The results from the stationarity tests are:

- the time series L(GDP/capita) is stationary at level (the same result from KPSS and Ng–Perron tests),
- the time series L(UrbanPopulation) is stationary according to Ng–Perron test but not stationary according to the KPSS test.

In this case, we can refer to the correlogram to conclude about the stationarity of L(UrbanPopulation) time series.

Table 3. Correlogram for L(UrbanPopulation) time series

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob
		1	0.931	0.931	34.746	0.000
		2	0.859	-0.056	65.192	0.000
		3	0.785	-0.056	91.363	0.000
		4	0.709	-0.056	113.35	0.000
		5	0.631	-0.057	131.32	0.000
		6	0.552	-0.057	145.51	0.000
		7	0.472	-0.058	156.23	0.000
		8	0.391	-0.058	163.85	0.000
		9	0.312	-0.047	168.86	0.000
		10	0.234	-0.047	171.80	0.000
		11	0.159	-0.047	173.20	0.000
		12	0.086	-0.046	173.62	0.000
		13	0.016	-0.046	173.64	0.000
		14	-0.051	-0.045	173.80	0.000
		15	-0.114	-0.044	174.65	0.000
		16	-0.172	-0.042	176.69	0.000

Source: own elaboration.

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Data: 16/11/2026 16:20:40

From Table 3, based on the Ljung–Box Q test, as the autocorrelations up to order 16 are statistically different from zero for the time series L(UrbanPopulation), we can state that the time series is not stationary.

After differencing, the time series d(L(UrbanPopulation)) results stationary from both the KPSS and Ng–Perron tests.

So, the time series L(GDP/capita) is I(0) while the time series L(UrbanPopulation) is I(1).

Also, based on LR, FPE, AIC, SC and HQ criterias, lag order 2 is selected to perform the Granger causality test.

Table 4 presents the result of the Granger causality test, considering the series L(GDP/capita) and d(L(UrbanPopulation)).

Table 4. The Granger causality test

Pairwise Granger Causality Test			
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Sample: 1984–2020			
Lags: 2			
Null Hypothesis	Obs	F-Statistic	Prob.
D(LPOPUR) does not Granger Cause			
LPBB/frymë	34	7.34794	0.0026
LPBB/frymë does not Granger Cause D(LPOPUR)		0.96577	0.3926

Source: own elaboration.

From Table 4, according to the Granger casuality test with stationary time series L(GDP/capita) and D(L(UrbanPopulation)), causality goes from urbanization to economic growth. This means that urbanization can be seen as the regressor and economic growth as the response variable.

To conclude about the long run relationship between the variables, as the time series taken into consideration have different orders of integration, the ARDL bounds testing procedure can be used.

The ARDL bounds testing procedure for the model:

$$\mathrm{L(GDP/capita)} = \beta_0 + \beta_1 \mathrm{L(GDP/capita)}_{t-1} + \beta_2 \mathrm{L(GDP/capita)}_{t-2} +$$

$$\beta_3 \mathrm{L(UrbanPopulation)}_t + \beta_4 \mathrm{L(UrbanPopulation)}_{t-1} + + \beta_5 \mathrm{L(UrbanPopulation)}_{t-2} \quad (1).$$

As the value of *F*-statistic (10.049) obtained from the ARDL bounds testing is greater than the critical value I(1) = 5.73 for $\alpha = 5\%$, the null hypothesis that the time series aren't cointegrated is rejected and we conclude that a long run relationship exists between the variables.

To test the hypothesis of this article, the estimation of model (1) is necessary.

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Data: 16/11/2026 16:20:40

Using the OLS method for the estimation of the parameters, the following equation is obtained:

$$\mathrm{L(GDP/capita)} = -2.32 + 0.89\ \mathrm{L(GDP/capita)}_{t-1} - 0.27\ \mathrm{L(GDP/capita)}_{t-2} - 25.6\ \mathrm{L(UrbanPopulation)}_{t} + 79.1\mathrm{L(UrbanPopulation)}_{t-1} - 52.3\ \mathrm{L(UrbanPopulation)}_{t-2}$$

From the output, as the variable $\mathrm{L(UrbanPopulation)}_{t}$ is statistically insignificant (p-value = 0.125), we remove it from our analysis.

So, the new model is:

$$\mathrm{L(GDP/capita)} = \gamma_0 + \gamma_1 \mathrm{L(GDP/capita)}_{t-1} + \gamma_2 \mathrm{L(GDP/capita)}_{t-2} + \gamma_3 \mathrm{L(UrbanPopulation)}_{t-1} + \gamma_4 \mathrm{L(UrbanPopulation)}_{t-2} \quad (2).$$

Using the OLS estimation, the estimated equation is:

$$\mathrm{L(GDP/capita)} = -2.5 + 0.96\mathrm{L(GDP/capita)}_{t-1} - 0.32\mathrm{L(GDP/capita)}_{t-2} + 28.1\mathrm{L(UrbanPopulation)}_{t-1} - 26.8\ \mathrm{L(UrbanPopulation)}_{t-2}$$

Table 5 shows the coefficients of the estimated equation, their standard errors, t-statistic and p-values.

Table 5. The estimated equation

Variables	Coefficients	Std. Error	t-statistic	p-value
C	–2.499819	1.23827	–2.0188	0.0525
$\mathrm{L(GDP/capita)}_{t-1}$	0.955678	0.15054	6.34839	0
$\mathrm{L(GDP/capita)}_{t-2}$	–0.318082	0.14549	–2.1862	0.0367
$\mathrm{L(UrbanPopulation)}_{t-1}$	28.0978	7.56191	3.7157	0.0008
$\mathrm{L(UrbanPopulation)}_{t-2}$	–26.84199	7.59640	–3.5335	0.0014

Source: own elaboration.

All the variables taken into consideration are statistically significant as the p-values are smaller than the significance value $\alpha = 5\%$.

Table 6 presents the results from some diagnostic tests, in order to conclude about the goodness of fit of the model (2).

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Data: 16/11/2026 16:20:40

Table 6. The results from diagnostic tests

Diagnostic test	Statistics		*p*-value	Result
Breusch–Godfrey Serial Correlation test	Obs*R-squared	2.043549	0.36	there is no serial correlation between error terms
White heteroskedasticity test	Obs*R-squared	17.38273	0.0971	homoscedasticity
Ramsey RESET test (log likelihood ratio)	1.588201		0.452	linear model is appropriate
R-squared	0.97			
F-statistic	243			the model is statistically significant
DW-statistic	1.81			

Source: own elaboration.

Also, the cumulative sum (CUSUM) plot indicates stability in the coefficients over the sample period as the blue line is within the bounds, at 5% significance level (Figure 2).

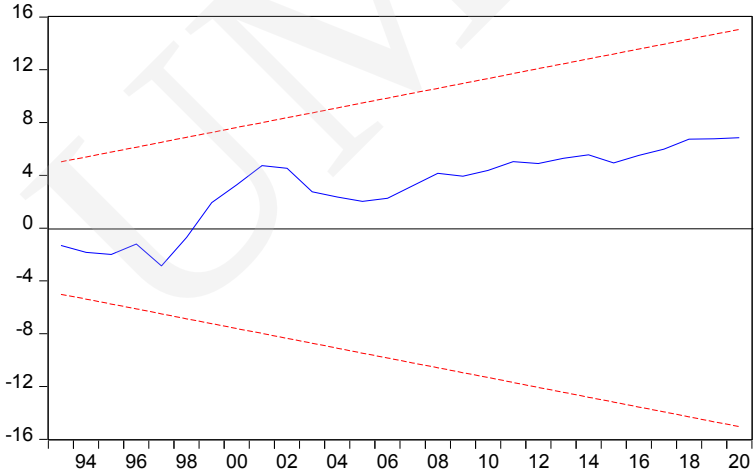


Figure 2. CUSUM plot for the coefficients' stability

Source: own elaboration.

From the empirical analysis, we conclude that the examined variables: $L(UrbanPopulation)_t$ and $L(GDP/capita)_t$ have a long-term equilibrium relationship with each other. Also, from the Granger causality test, we can state that causality goes from urbanization to economic growth. The model used to measure the effect of urbanization on economic growth is appropriate, based on the results of several tests that serve to diagnose the chosen model.

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CONCLUSIONS AND RECOMMENDATIONS

This article examines the relationship between urbanization and economic growth in Albania for the 1984–2020 time period. The results of the Granger causality test suggest that causality goes from urbanization to economic growth. Furthermore, from the ARDL bounds test we conclude that a long run relationship exists between the variables.

The regression analysis proves that urbanization has no instantaneous effect on economic growth, but its effects will be noticeable in the following years. If the urban population increases by 1%, GDP/capita will increase by 28.1% in the following year. This effect decreases after the second year since it turns out that GDP/capita will increase by only 1.3% (28.1–26.8).

Urbanization has the potential to accelerate economic growth, but this potential is dependent on the creation of supportive institutions and financial assistance for the necessary public infrastructure. Removing barriers from rural to urban migration can enable economic growth, but the economic benefits will be much greater with supportive policies; such as market creation and infrastructure investment. In principle, the government should take appropriate action to allow the benefits of urbanization to reduce inequalities. This requires careful intervention in the urbanization process.

Together, the central and local government, the private sector and other stakeholders in Albania must define and realize the vision for cities. It is however crucial to underline that it's the private sector and not the government who constructs cities. The combination of continually shifting consumer demand, land use regulations, infrastructural growth, and the tax system determines how cities expand spatially.

The decision on the urbanization model should be based on social developments, environmental and economic efficiency based on the market. A comprehensive perspective is important. As people move to urban areas, the quality of urbanization can be seen in how people and businesses view their position in the labor market, the housing market, niche markets for certain goods, the supply chain, cooperative networks, and the physical space needed for commercial operations.

Growing urbanization in Albania presents both obstacles and opportunities for long-term economic progress. Local economies should take advantage of the structural transformation, high productivity, development of value-added activities and resource efficiency that urbanization provides, to ensure the sustainability of cities and effective service to inhabitants.

Albania should embrace the chances presented by urbanization, which is seen as a catalyst for long-term, all-encompassing economic growth, social and cultural advancement, environmental protection and the possibility of transformative and sustainable development.

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ABSTRAKT

Wielu naukowców badało powiązania między urbanizacją a wzrostem gospodarczym poszczególnych krajów lub regionów. W ich badaniach urbanizacja traktowana jest zarówno jako przyczyna, jak i konsekwencja procesu rozwoju gospodarczego. Doświadczając stale znaczącego wzrostu gospodarczego, Albania ostatnio odróżniła się od pozostałych krajów bałkańskich. Obszary miejskie, w szczególności te, które znacznie się rozbudowały, podlegają konsekwencjom takiej transformacji – pozytywnym i negatywnym – w dziedzinie gospodarczej i przestrzennej, a także w życiu codziennym mieszkańców. Chociaż w innych krajach występuje istotna korelacja między urbanizacją a wzrostem gospodarczym, Albania musi jeszcze odpowiedzieć sobie na pytanie, czy to urbanizacja napędza wzrost gospodarczy czy też jest odwrotnie – są one od siebie niezależne. Analiza związku między urbanizacją i wzrostem gospodarczym w rzeczywistości albańskiej w latach 1984–2020 jest głównym celem artykułu. Wykorzystano do tego dane Banku Światowego za lata 1984–2020. Zastosowane metody to analiza regresji i test przyczynowości w sensie Grangera.

Słowa kluczowe: urbanizacja; rozwój; wzrost gospodarczy; populacja; migracja