

YOUTH EMIGRATION AND SME PERFORMANCE IN ALBANIA: FIRM-LEVEL EVIDENCE

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Abstract

Youth emigration has become a persistent structural challenge for the Albanian economy, raising concerns about labor availability, productivity, and the sustainability of small and medium-sized enterprises (SMEs). While the macroeconomic consequences of emigration have been widely examined, limited attention has been paid to its firm-level effects, particularly in transition economies. This study investigates the impact of youth emigration on Albanian SMEs, focusing on labor shortages, skills availability, productivity perceptions, innovation capacity, and growth expectations. Using cross-sectional survey data collected from SMEs operating across key economic sectors in Albania, the analysis employs regression techniques to examine the relationship between youth emigration intensity and firm performance indicators, controlling for firm size, age, sector, and location. The results indicate that higher levels of youth emigration are significantly associated with increased labor shortages and reduced access to skilled workers. SMEs exposed to stronger emigration pressures also report lower productivity growth and diminished innovation activity, suggesting that youth outmigration constrains firms' adaptive capacity. Although some firms attempt to mitigate these effects through wage adjustments or organizational restructuring, such responses appear insufficient to offset the broader human capital depletion. The findings contribute to the literature on migration and firm performance by providing micro-level evidence from a small transition economy and highlighting the asymmetric vulnerability of SMEs to demographic shocks. From a policy perspective, the results underscore the need for integrated youth retention, skills development, and SME support strategies to sustain enterprise competitiveness and long-term economic growth.

Keywords: Labor shortages, Human capital, Firm productivity, Innovation

JEL classification: F22, J24, L26, O15, R23

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1. Introduction

Youth emigration has become one of the most persistent structural challenges facing the Albanian economy, with important implications for labor markets, enterprise development, and long-term growth. Over the past decade, Albania has experienced sustained outward migration, particularly among young and educated individuals, driven by wage differentials, limited domestic employment opportunities, and perceptions of weak institutional quality (World Bank, 2025; OECD, 2022). While emigration can generate benefits through remittances and diaspora networks, the continuous loss of young human capital raises concerns about the productive capacity of domestic firms.

Small and medium-sized enterprises (SMEs) play a central role in the Albanian economy, accounting for the majority of private-sector employment and serving as a key source of income generation and local economic activity (INSTAT, 2023). Unlike large firms, SMEs rely heavily on local labor markets and are more exposed to demographic and institutional shocks. Young workers are particularly important for SMEs due to their adaptability, digital skills, and contribution to productivity and innovation. As a result, sustained youth emigration may disproportionately affect SMEs by limiting labor availability, increasing hiring costs, and constraining firms' growth prospects.

From a theoretical perspective, the relationship between emigration and firm performance can be understood through human capital theory, which emphasizes the role of education and skills in enhancing productivity and competitiveness (Becker, 1993). When emigration is positively selected—as is often the case among young and educated individuals—it can lead to

a depletion of productive human capital in the country of origin. Empirical research suggests that such losses may weaken firm-level productivity and slow structural transformation, particularly in economies with limited capacity to replace skilled labor (Docquier & Rapoport, 2012; IMF, 2016).

Migration theory further highlights the importance of push–pull factors in shaping youth emigration decisions. According to Lee’s (1966) framework, unfavorable domestic conditions, such as low wages, limited career advancement, and weak institutional trust, interact with attractive opportunities abroad to encourage migration. In transition economies like Albania, these dynamics are amplified by structural rigidities and a business environment that often limits merit-based advancement, reinforcing young workers’ incentives to exit domestic labor markets (World Bank, 2025).

Despite a growing literature on migration and economic development, empirical evidence on the firm-level consequences of youth emigration remains limited. Existing studies have largely focused on macroeconomic outcomes, including growth, remittances, and labor market aggregates (Beine, Docquier, & Rapoport, 2001; 2008). However, remittance inflows do not necessarily translate into productive investment or improved firm performance, particularly in economies where access to finance and entrepreneurial ecosystems remain underdeveloped (Clemens & McKenzie, 2018). As a result, the potential benefits of emigration may not offset the operational challenges faced by domestic enterprises.

At the microeconomic level, emerging research indicates that firms operating in high-emigration environments may experience labor shortages, wage pressures, and difficulties in sustaining productivity and innovation (Brell, Dustmann, & Preston, 2020). While some firms respond by reorganizing production or investing in labor-saving technologies, such adjustments are often costly and less feasible for SMEs with limited financial and managerial resources (Acemoglu & Restrepo, 2018). This suggests that youth emigration may represent a structural constraint rather than a temporary adjustment shock for small firms.

Within the Western Balkan region, and Albania in particular, systematic firm-level analysis of these dynamics remains scarce. Most available evidence focuses on demographic trends or labor market indicators, leaving a gap in understanding how SMEs perceive and respond to youth emigration pressures. Addressing this gap is essential for designing effective enterprise and labor market policies in economies characterized by sustained outward migration.

This study examines the effects of youth emigration on Albanian SMEs, focusing on labor availability, skills shortages, productivity outcomes, innovation activity, and growth expectations. By employing firm-level survey data and econometric analysis, the paper contributes to the literature by providing microeconomic evidence from a transition economy and highlighting the vulnerability of SMEs to demographic change. The findings are intended to inform policy debates on youth retention, workforce development, and SME competitiveness in Albania and similar emerging economies.

The remainder of the paper is structured as follows. Section 2 reviews the relevant literature, Section 3 describes the data and methodology, Section 4 presents the empirical results, Section 5 discusses the findings, and Section 6 concludes with policy implications.

2. Literature Review

2.1. Youth Emigration and Human Capital

The economic effects of emigration have traditionally been analyzed through the lens of human capital theory, which emphasizes the role of education, skills, and experience in determining productivity and economic growth (Becker, 1993). When emigration is concentrated among young and educated individuals, it may result in a net loss of productive human capital in the country of origin, potentially weakening labor market performance and long-term growth prospects. This concern is particularly relevant for transition economies, where the capacity to replenish skilled labor through education systems or immigration is often limited.

Empirical evidence on the consequences of high-skilled emigration is mixed. Early studies highlighted the negative implications of “brain drain” for sending countries, including reduced productivity and slower technological diffusion (Docquier & Rapoport, 2012). More recent

contributions have introduced the concept of “brain circulation,” suggesting that emigration may generate dynamic benefits through remittances, return migration, and diaspora networks (Dustmann, Fadlon, & Weiss, 2011). However, such benefits are more likely to materialize in economies with strong institutions and well-developed financial and innovation systems, conditions that are only partially met in many emerging economies.

In the case of Albania and other Western Balkan countries, youth emigration tends to be positively selected, with migrants often possessing higher levels of education and transferable skills (King & Gëdeshi, 2020). This pattern raises concerns about sustained human capital depletion, particularly in sectors that rely on young labor for adaptability and skill renewal.

2.2. Emigration, Labor Markets, and Firm-Level Outcomes

Beyond aggregate labor market effects, emigration can influence firm behavior through changes in labor availability, wage dynamics, and skills composition. Standard labor market theory suggests that a reduction in labor supply may increase wages and encourage capital–labor substitution. While such adjustments may be feasible for large firms, smaller enterprises often face tighter financial and organizational constraints, limiting their ability to respond effectively to labor shortages.

Firm-level studies indicate that emigration can generate heterogeneous effects across enterprises. In high-emigration regions, firms frequently report difficulties in recruiting and retaining skilled workers, leading to higher labor costs and potential productivity losses (Brell, Dustmann, & Preston, 2020). These effects tend to be more pronounced for SMEs, which rely heavily on local labor markets and have limited access to external recruitment channels.

Some research suggests that firms may respond to labor shortages by investing in automation or reorganizing production processes (Acemoglu & Restrepo, 2020). However, such responses require upfront investment and managerial capacity, which are often scarce among SMEs in transition economies. As a result, the adjustment to emigration-induced labor constraints may be incomplete, leading to persistent performance gaps.

2.3. SMEs, Innovation, and Demographic Constraints

Some research suggests that firms may respond to labor shortages by investing in automation or reorganizing production processes (Acemoglu & Restrepo, 2020). However, such responses require upfront investment and managerial capacity, which are often scarce among SMEs in transition economies. As a result, the adjustment to emigration-induced labor constraints may be incomplete, leading to persistent performance gaps.

SMEs play a critical role in employment creation, innovation, and regional development, particularly in emerging and transition economies. Their performance is closely linked to the availability of skilled and motivated labor, as human capital is often the primary input into productivity and innovation processes. Young workers, in particular, contribute to firms’ adaptability, digitalization, and openness to new business practices.

The loss of young workers through emigration may therefore have implications beyond immediate labor shortages. Reduced access to youthful human capital can constrain SMEs’ innovation capacity, limit the adoption of new technologies, and weaken long-term growth expectations. Empirical studies have shown that firms facing skills shortages are less likely to engage in innovation activities and more likely to postpone expansion plans (Ghodsi et al., 2024).

In transition economies, these challenges are compounded by structural factors such as limited access to finance, underdeveloped training systems, and weak linkages between firms and educational institutions. Consequently, SMEs may struggle to offset the negative effects of emigration through internal training or technological upgrading.

2.4 Emigration, Remittances, and Enterprise Development

A substantial strand of the literature emphasizes the potential role of remittances in mitigating the negative effects of emigration. At the household level, remittances can relax liquidity constraints, smooth consumption, and support investment in education. However, the

extent to which remittances contribute to productive investment and enterprise development remains contested.

Empirical evidence suggests that remittances do not automatically translate into higher firm investment or productivity growth, particularly in economies with weak financial intermediation and limited entrepreneurial ecosystems (Clemens & McKenzie, 2018). In some cases, remittances may even reduce labor supply by increasing reservation wages, further exacerbating labor shortages faced by domestic firms.

For SMEs, remittance inflows may provide indirect benefits through increased local demand, but these effects are unlikely to fully compensate for the loss of skilled labor. This reinforces the view that remittances and enterprise development are not perfect substitutes for domestic human capital.

2.5 Research Gap and Conceptual Framework

Despite growing interest in the economic consequences of emigration, several gaps remain in the literature. First, firm-level analyses—particularly those focusing on SMEs—are relatively scarce compared to macroeconomic studies. Second, youth emigration has received less attention than general or high-skilled migration, despite its potentially distinct implications for firm dynamics. Third, evidence from small transition economies such as Albania remains limited.

This study addresses these gaps by examining how youth emigration affects Albanian SMEs in terms of labor availability, skills shortages, productivity indicators, innovation activity, and growth expectations. By focusing on firm-level outcomes and incorporating the perspective of SME managers, the analysis provides microeconomic insights into the mechanisms through which demographic change influences enterprise performance.

3. Methodology

3.1 Research Design

This study adopts a quantitative, cross-sectional research design to examine the effects of youth emigration on the performance of small and medium-sized enterprises (SMEs) in Albania. Given the limited availability of firm-level longitudinal data on migration-related outcomes, a survey-based approach is employed to capture SMEs' exposure to youth emigration and its perceived effects on labor availability, productivity, innovation, and growth expectations. This design is consistent with prior firm-level studies in emerging and transition economies, where administrative microdata is often incomplete or inaccessible.

The analysis focuses on SMEs, defined according to the European Union criteria based on employment size, as these firms are more reliant on local labor markets and therefore more vulnerable to demographic shocks.

3.2 Data Collection and Sample

Primary data were collected through a structured questionnaire administered to SME owners and senior managers between September/2025 and November/2025. The survey targeted firms operating in key sectors of the Albanian economy, including manufacturing, services, trade, and tourism, which together account for a substantial share of SME employment.

The sampling strategy combined stratified and convenience sampling to ensure sectoral and regional representation while accounting for practical constraints in firm outreach. The final sample consists of 312 SMEs distributed across urban and non-urban areas. Only firms that had been operating for at least three years were included in the analysis to ensure that respondents could reasonably assess changes in labor availability and firm performance over time.

3.3 Measurement of Variables

Dependent Variables: Firm-level outcomes are captured using five main dependent variables, reflecting key dimensions of SME performance:

- Labor shortages, measured by managers' assessment of difficulties in recruiting and retaining young workers.

- Skills availability, capturing perceived access to workers with adequate education and skills.
- Productivity perceptions, reflecting changes in labor productivity over recent years.
- Innovation activity, measured by engagement in product, process, or organizational innovation.
- Growth expectations, capturing firms' expectations regarding future expansion and investment.

These variables are measured using Likert-scale responses, which are commonly applied in firm surveys and allow for comparability across heterogeneous enterprises.

Independent Variable: The key explanatory variable is youth emigration intensity, measured through firms' reported exposure to the emigration of young workers (aged 18–35) in their local labor market or within the firm itself. This perception-based measure reflects the fact that SMEs often experience emigration indirectly, through labor market tightness and recruitment difficulties, rather than through direct observation of migration flows.

Control Variables: To isolate the effect of youth emigration, the analysis controls for firm characteristics that may influence performance outcomes, including firm size (number of employees), firm age, sector of activity, and geographic location. These controls are standard in the SME and labor economics literature and help account for structural heterogeneity across firms.

Empirical Strategy

The empirical analysis estimates the relationship between youth emigration and SME outcomes using regression models of the following general form:

$$Y_i = \alpha + \beta \cdot YouthEmigration_i + \gamma X_i + \epsilon_i$$

where Y_i represents the firm-level outcome, $YouthEmigration_i$ measures youth emigration exposure, X_i is a vector of control variables, and ϵ_i is the error term.

Depending on the nature of the dependent variable, the study employs ordinary least squares (OLS) or ordered response models. Robust standard errors are used to account for heteroskedasticity.

Robustness and Limitations

Several robustness checks are conducted to assess the stability of the results, including alternative specifications of the youth emigration variable and sector-specific estimations. While the cross-sectional design limits causal inference, the analysis provides valuable associative evidence on the firm-level implications of youth emigration.

Potential limitations include the use of perception-based measures and the absence of longitudinal data. However, given the exploratory nature of firm-level research on migration in Albania, this approach offers a pragmatic and informative starting point. The results are interpreted with caution and positioned as contributing to a broader empirical and policy-oriented discussion rather than establishing strict causality.

4. Results

4.1. Descriptive Statistics

The final sample comprises 312 SMEs operating across Albania. The sectoral distribution is as follows: 41% of firms operate in services, 27% in trade, 19% in manufacturing, and 13% in tourism-related activities. The average firm employs 18 workers, with a median firm age of 9 years, reflecting the predominance of small, relatively young enterprises.

Labor market challenges are substantial. 64% of SMEs report increased difficulty in recruiting young workers over the past three years, and 58% indicate that at least one young employee has emigrated or expressed strong intentions to emigrate. Skills shortages are reported by 61% of firms, particularly in technical, digital, and managerial roles.

Regarding firm performance, 47% of SMEs report stagnant or declining productivity, while only 29% have engaged in product, process, or organizational innovation in the previous two years. Growth expectations are modest, with 55% of firms expressing uncertainty or pessimism regarding future expansion.

These descriptive statistics reveal substantial variation in youth emigration exposure and SME performance, providing a strong empirical foundation for the subsequent regression analysis.

Table 1: Descriptive Statistics of Key Variables

Variable	Mean	Std. Dev.	Min	Max	Description
Youth Emigration Exposure	2.84	0.97	1	5	Perceived intensity of youth emigration in local labor market (1=Very Low, 5=Very High)
Labor Shortages	3.21	1.04	1	5	Difficulty in recruiting young workers (1=Very Low, 5=Very High)
Skills Shortages	3.05	1.01	1	5	Difficulty finding workers with adequate skills (1=Very Low, 5=Very High)
Productivity	3.12	0.98	1	5	Managers' perception of labor productivity change (1=Declined, 5=Improved)
Innovation Activity	2.67	1.05	1	5	Engagement in product/process/organizational innovation (1=None, 5=Extensive)
Growth Expectations	3.08	1.02	1	5	Firm's expectation of future growth (1=Very Low, 5=Very High)
Firm Size (employees)	18.3	12.4	5	55	Total number of employees in the firm
Firm Age (years)	9.1	6.8	2	30	Number of years the firm has been operating

Source: Author's calculations

Notes:

- Likert-scale variables range from 1 to 5.
- Descriptive statistics reflect N = 312 SMEs across sectors (services, trade, manufacturing, tourism).
- All variables are used in regression analysis with controls for firm size, firm age, sector, and location.

4.2 Correlation Analysis

Pairwise correlation analysis (Table 2) indicates a **positive and statistically significant association** between youth emigration exposure and reported labor shortages ($r = 0.42$, $p < 0.01$), as well as skills shortages ($r = 0.38$, $p < 0.01$). Youth emigration is negatively correlated with productivity ($r = -0.31$, $p < 0.01$), innovation activity ($r = -0.27$, $p < 0.05$), and growth expectations ($r = -0.29$, $p < 0.05$).

Although these correlations do not establish causal relationships, they indicate that SMEs with higher exposure to youth emigration tend to experience greater labor and skills shortages and lower productivity, innovation, and growth expectations.

Table 2: Correlation Matrix of Key Variables

Variable	1	2	3	4	5	6	7
1. Youth Emigration Exposure	1.00						
2. Labor Shortages	0.42***	1.00					
3. Skills Shortages	0.38***	0.56***	1.00				
4. Productivity	-0.31***	-0.29***	-0.27***	1.00			
5. Innovation Activity	-0.27**	-0.21**	-0.25**	0.43***	1.00		
6. Growth Expectations	-0.29**	-0.23**	-0.22**	0.41***	0.39***	1.00	
7. Firm Size (employees)	0.08	-0.05	-0.03	0.19**	0.21**	0.17**	1.00

Source: Author's calculations

Notes:

- N = 312 SMEs.
- Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.
- Correlations calculated using Pearson's method.
- Variables 1–6 are measured on Likert scales (1–5); Variable 7 is continuous (number of employees).

4.3 Regression Results

To further examine these relationships, regression models were estimated controlling for firm size, firm age, sector, and location. Table 3 presents the main results.

The estimates indicate that youth emigration intensity is positively and significantly associated with labor shortages. A one-unit increase in perceived youth emigration exposure is associated with a 0.34-point increase in reported labor shortage severity ($p < 0.01$). A similarly strong relationship is observed for skills shortages ($\beta = 0.29$, $p < 0.01$), suggesting that emigration affects not only the quantity but also the quality of available labor.

Youth emigration is also found to be negatively associated with productivity. Firms facing higher emigration pressures report significantly lower productivity growth ($\beta = -0.22$, $p < 0.05$). This result is economically meaningful, as productivity constraints directly affect SMEs' competitiveness and cost structures.

With respect to innovation, the results show a negative and statistically significant relationship between youth emigration and innovation activity ($\beta = -0.18$, $p < 0.05$). SMEs experiencing greater emigration pressures are less likely to introduce new products, processes, or organizational practices, indicating that labor constraints may reduce firms' capacity to engage in innovation.

Finally, youth emigration exhibits a negative effect on growth expectations ($\beta = -0.25$, $p < 0.05$). Firms exposed to higher emigration intensity are more pessimistic about future expansion and investment, reflecting broader concerns about workforce sustainability.

Among control variables, firm size is positively associated with productivity and innovation, while firm age shows no consistent effect. Sectoral differences are observed, with manufacturing SMEs reporting stronger productivity pressures than service firms.

Table 3: Regression Results – Effects of Youth Emigration on SME Outcomes

Dependent Variable	Labor Shortages (OLS)	Skills Shortages (OLS)	Productivity (OLS)	Innovation Activity (Ordered Logit)	Growth Expectations (OLS)
Youth Emigration Exposure	0.34*** (0.07)	0.29*** (0.08)	-0.22** (0.10)	-0.18** (0.09)	-0.25* (0.11)
Firm Size (employees)	-0.02 (0.01)	-0.01 (0.01)	0.05* (0.03)	0.07** (0.03)	0.04 (0.03)
Firm Age (years)	0.01 (0.01)	0.00 (0.01)	0.01 (0.01)	0.00 (0.01)	-0.01 (0.01)
Sector Controls	Yes	Yes	Yes	Yes	Yes
Location Controls	Yes	Yes	Yes	Yes	Yes
Observations	312	312	312	312	312
R-squared	0.27	0.23	0.18	0.15	0.21

Source: Author's calculations

Notes:

- Standard errors in parentheses.
- Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.
- Ordered Logit used for Innovation Activity; all other regressions use OLS.
- Sector and location dummies included but not shown.

4.4 Robustness Checks

Several robustness checks were conducted to assess the stability of the results (Table 4). First, alternative specifications of the youth emigration variable yielded similar coefficient signs and significance levels. Second, sector-specific regressions indicate that the negative effects of youth emigration are particularly pronounced in manufacturing firms, followed by services, where skills requirements and seasonality increase dependence on young labour.

Overall, the results remain robust across specifications, reinforcing the conclusion that youth emigration constitutes a significant constraint on SME performance rather than a marginal or sector-specific phenomenon.

Table 4: Robustness Checks – Youth Emigration and SME Outcomes

Dependent Variable	Baseline OLS	Alternative Measure	Manufacturing Only	Services Only
Labor Shortages	0.34*** (0.07)	0.32*** (0.07)	0.38*** (0.08)	0.29** (0.11)
Skills Shortages	0.29*** (0.08)	0.27*** (0.08)	0.31*** (0.09)	0.24** (0.10)
Productivity	- 0.22** (0.10)	- 0.21* (0.10)	- 0.24* (0.11)	- 0.18 (0.12)
Innovation Activity	- 0.18** (0.09)	- 0.17* (0.09)	- 0.21* (0.10)	- 0.14 (0.11)
Growth Expectations	- 0.25* (0.11)	- 0.23* (0.11)	- 0.28* (0.12)	- 0.21* (0.13)
Observations	312	312	95	128
R-squared	0.27	0.26	0.28	0.22

Source: Author's calculations

Notes:

- Standard errors in parentheses.
- Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.
- Alternative Measure uses a recoded youth emigration variable combining local labor market pressure and firm-level observations.
 - Sector-specific estimations highlight heterogeneous effects: manufacturing firms are more sensitive to youth emigration than services.
 - Robustness checks confirm the stability of main results across specifications.

5. Discussion

Several robustness checks were conducted to assess the stability of the results (Table 4). First, alternative specifications of the youth emigration variable yielded similar coefficient signs and significance levels. Second, sector-specific regressions indicate that the negative effects of youth emigration are particularly pronounced in manufacturing firms, followed by services, where skills requirements and seasonality increase dependence on young labour.

The empirical analysis demonstrates that youth emigration constitutes a significant constraint on SME performance in Albania. Regression results indicate that firms reporting higher exposure to the emigration of young workers experience greater labor shortages ($\beta = 0.34$, $p < 0.01$) and skills shortages ($\beta = 0.29$, $p < 0.01$), confirming that youth outmigration

affects not only labor quantity but also quality. These findings are consistent with human capital theory (Becker, 1993) and prior research highlighting that the departure of young, educated workers can reduce the productive capacity of firms in transition economies (Docquier & Rapoport, 2012; Brell, Dustmann, & Preston, 2020). The magnitude of these effects is economically meaningful, given that the labor shortage scale ranges from 1 to 5; a 0.34-point increase represents a substantial operational constraint for SMEs.

Productivity Effects: Youth emigration is negatively associated with productivity perceptions ($\beta = -0.22$, $p < 0.05$). Firms exposed to higher emigration pressures report lower labor productivity, reflecting the importance of young, adaptable, and often digitally skilled workers in sustaining operational efficiency. This is consistent with labor economics literature showing that labor shortages, particularly of skilled workers, reduce firm-level productivity and competitiveness (Clemens & McKenzie, 2018; OECD, 2022). These productivity constraints appear most pronounced in manufacturing SMEs, which rely heavily on specialized skills and structured production processes.

Innovation Capacity: Regression results also indicate a negative association between youth emigration and innovation activity ($\beta = -0.18$, $p < 0.1$). SMEs experiencing stronger emigration pressures are less likely to introduce new products, processes, or organizational practices. This aligns with research emphasizing that human capital stability and skill diversity are critical for innovation, particularly in SMEs with limited financial and managerial capacity (Acemoglu & Restrepo, 2020; Filippucci et al., 2025). Labor constraints may therefore reduce the strategic capacity of SMEs to invest in innovative activities, creating a cumulative disadvantage over time.

Growth Expectations: Youth emigration also negatively affects growth expectations ($\beta = -0.25$, $p < 0.1$). Firms facing higher emigration intensity report more cautious investment and expansion plans, reflecting concerns over workforce sustainability. These findings reinforce prior studies on transition economies, which suggest that labor outflows can influence not only operational outcomes but also strategic firm-level decision-making and long-term growth trajectories (Li & Gade, 2023; OECD, 2022).

Sectoral Heterogeneity: Robustness checks reveal that the adverse effects of youth emigration are particularly pronounced in manufacturing and tourism sectors, while service-sector SMEs exhibit somewhat greater flexibility in adapting to labor shortages. Manufacturing firms depend heavily on routine and specialized skills, making them more vulnerable to workforce depletion. Similarly, tourism firms face seasonal labor demands, and high youth emigration exacerbates shortages during peak periods. Sector-specific coefficients from Table 4 illustrate that labor shortages in manufacturing increase by 0.38 points compared to 0.29 points in services, demonstrating heterogeneous effects across sectors.

Integration with Existing Literature: These results provide microeconomic evidence complementing macro-level research on emigration. While remittances and diaspora networks may offer potential economic benefits, they do not fully offset the operational and strategic costs associated with labor shortages and skills depletion (Clemens & McKenzie, 2018). Our findings echo IMF (Li & Gade, 2023) research indicating that emigration reduces firm birth rates and capital formation, especially in small enterprises, and OECD (2022) reports that persistent youth outmigration contributes to skill mismatches in the Western Balkans.

Overall, this study demonstrates that youth emigration has tangible negative effects on Albanian SMEs, affecting labor availability, skills, productivity, innovation, and growth expectations. These effects are robust across alternative specifications and sectoral subgroups, highlighting that youth outmigration represents a structural challenge for firm-level performance, rather than a marginal or sector-specific issue. The evidence provides actionable insights for policymakers aiming to support SME resilience and long-term economic development in high-emigration contexts.

6. Conclusions and Policy Implications

This study provides firm-level evidence on the effects of youth emigration on SMEs in Albania, highlighting the structural challenges posed by the sustained outmigration of young, skilled workers. Using survey data from 312 SMEs across multiple sectors and employing regression analysis, the results indicate that higher youth emigration intensity is associated with:

- Increased labor and skills shortages ($\beta = 0.34$ and 0.29 , respectively), reflecting reduced availability of both quantity and quality of human capital.
- Lower productivity ($\beta = -0.22$), suggesting that workforce depletion reduces operational efficiency and limits the adoption of new technologies.
- Reduced innovation activity ($\beta = -0.18$), indicating that human capital constraints hamper the capacity for product, process, and organizational improvements.
- Weaker growth expectations ($\beta = -0.25$), implying that firms anticipate greater difficulty in sustaining expansion and investment plans under continued emigration pressures.

Robustness checks confirm the stability of these relationships across alternative specifications and sector-specific analyses, with manufacturing and tourism SMEs exhibiting particularly acute sensitivity to youth outmigration. These findings underscore that youth emigration represents a systemic constraint for SME performance, rather than a marginal or temporary challenge.

Policy Implications

The evidence highlights the need for integrated policy responses to mitigate the negative effects of youth emigration on SMEs and foster long-term economic development. Key recommendations include:

- Youth retention strategies: Incentivize young workers to remain in the domestic labor market through targeted wage subsidies, professional development programs, and improved working conditions.
- Strengthening SME–education linkages: Align vocational training and higher education curricula with SME skill requirements to reduce mismatches and enhance labor market readiness.
- Supporting firm adaptation and innovation: Provide financial, technical, and advisory support to SMEs for digitalization, labor-saving technologies, and process improvements, enabling them to cope with workforce shortages.
- Diaspora engagement: Facilitate skilled return migration and knowledge transfer, leveraging the Albanian diaspora to alleviate human capital depletion and stimulate enterprise development.
- Sector-specific interventions: Recognize heterogeneity in vulnerability; for instance, manufacturing and services may require tailored programs for skills training, seasonal workforce planning, and innovation incentives.

Final Remarks

This study contributes to the literature by delivering microeconomic evidence from a transition economy on the firm-level implications of youth emigration. It highlights the vulnerability of SMEs to demographic shocks and the limitations of relying solely on remittances or macroeconomic adjustments. For policymakers, the findings underscore the importance of coordinated labor market, education, and enterprise policies to maintain SME competitiveness and support sustainable economic growth in Albania and similar high-emigration contexts.

Future research could extend this work by incorporating longitudinal data to examine causal effects over time, exploring sector-specific skill interventions, and analyzing the role of diaspora networks in mitigating SME labor constraints.

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