

International Trade and Trade Relations in Albania

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Abstract: Globalization and integration affects economic growth in the intelligent instruments and effective use of resources and potentials of each country in the world economy. The economic development of a country may follow different paths, under the influence of many general and specific factors. But each country experience suggests economic policy instruments. But each country experience suggests economic policy instruments which can be operated adapting specific conditions of other countries and to provide the expected positive results for them. Global experience has shown that trade policies have played an important role in terms of promoting exports and economic growth. Every country wants to export the products to which possesses comparative advantages and importing products which may benefit the most free from foreign markets. Membership in the World Trade Organization, actively participating in the Stabilization and Association Agreement, the steps taken within the Pact Stabilitetit- such as the signing of the Memorandum of trade liberalization have made foreign trade one of the main bridges of Albania towards the European Community.

Keywords: Trade, Relations, Integration, Fiscal, Import, Export.

1. Introduction

Trade liberalization to Albania found no prepared to confront with the influx of foreign goods and tariffs. Albania drafted politician promoting exports, as the only way appropriate to make possible the support of economic development within the framework of free trade theory. In general we can say that, through export increase revenue, promote production in different branches of the economy, increasing investment and achieve a more efficient allocation of resources by recognizing the respective comparative advantages, through imports, the country has the opportunity to purchase the goods for which it has no comparative advantages. Depending on the direction of commercial activity that characterizes a place, it determines the direction of trade policy. So, the main commercial policies define the orientation of the economy and consists of two main areas: politics import substitution and export promotion policies as a long-term character. Changes made in these years in terms of trade policy and assistance instruments. They have left in the dark Albania problems in economic and social stability. Difficult transition period has left its mark on the present situation.

1.1. The Transition and the Impact on Foreign Trade in Albania

Until 1990 Albania's government exercised a monopoly on foreign trade and controlled it through a highly centralized management mechanism¹. Limited reforms in the years 1985-1990, not only affected the economic difficulties, but for the first time faced with exponential unknown Albania. After more than 40 years of a command economy there is a lack of institutions and the system of incentives appropriate to a the Albanian economic "model"². The 1990 crisis was unfolding rapidly destroying the old regime. Albania started the market economy system. One of the serious limitations of the socialist system was distal isolation of Albanian economy from the global economy. In this condition the white lines that will walk through economic transition would be opening the economy to international market.

¹ <http://countrystudies.us/albania/114.htm>

² <http://www.nato.int/acad/fellow/95-97/muco.pdf>

The main road which has gone through the reform of foreign trade has been the transition from state monopoly in all commercial activity towards a free trade and private sector.

Commercial key components of reform are privatization of the trade and its liberalization. The privatization of the trade sector is related to the privatization of state enterprises to realize all of the foreign trade activity before the '90s. Privatization of foreign trade is realized through involvement in foreign trade activity of many new private companies.

Albania implemented structural reforms for privatization, social security, tax system and financial and banking, and establish a legal framework for a market economy. Albania has passed transition in all areas. In this period the industries is developed (Pulaj and Kume, 2013).

Elements of trade action were:

- The opening of the economy to abroad
- Removing the monopoly of foreign trade
- The liberalization of export-import

Furthermore, substantial progress has been made in improving the investment climate, creating a common energy market and developing regional infrastructure strategies (Berberi, 2013).

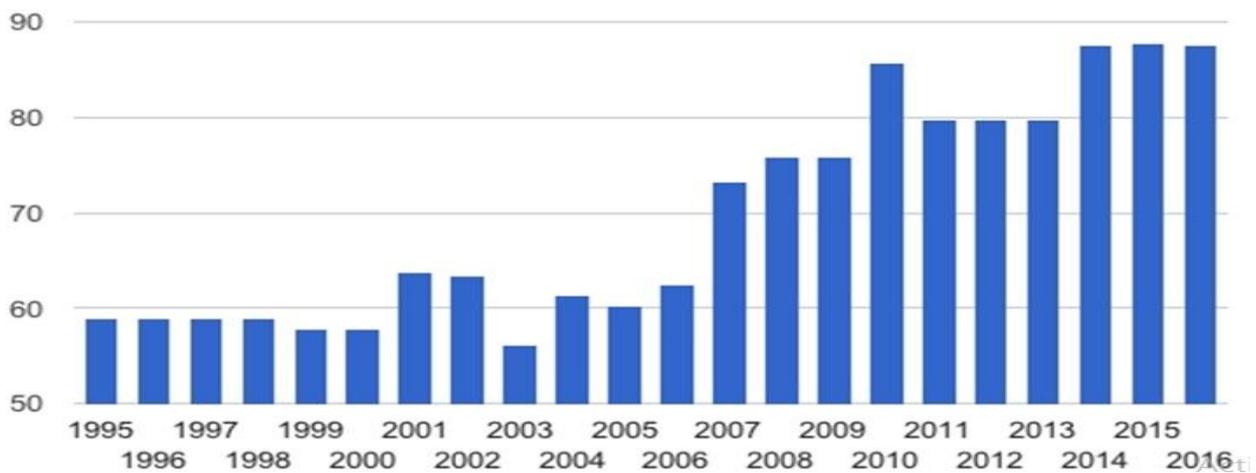
Changes in the economic system and the nature of the new Albanian economy and opening to the world brought the overthrow of the import-export reports. Opening the market changed the context in which to act Albanian government institutions and the business community. Albania is trying to improve the systems of policy-making structures, public and private services and the production and marketing systems.

In the 2016 report on Economic Freedom, Albania, out of 186 countries included in the report, is ranked 59th at a global level and 27th at a regional level, with 65.9 points. There's an improvement from last year's report, in which Albania held the 63rd place at a global level and 29th at a regional level, with + 0.2 points, while there's an improvement by + 0.8% compared to 2012.

Based on this ranking, the Albanian economy is estimated as Moderately Free. With regard to economic freedom, Albania has shown a better performance than other Balkan countries, leaving behind Montenegro, 64.9 points (65), Serbia, 62.1 points (77), Kosovo, 61.4 points (84) and Bosnia & Herzegovina, 58.6 points (108). From the Balkan Region, Macedonia records the highest index of economic freedom, with 67.5 points (47)³.

The Trade Freedom index for Albania measures the absence of tariffs and other barriers that affect the international trade of goods and services. Trade freedom rankings around the world. Create and download charts for Albania Trade freedom and other indicators with the country comparator⁴.

Chart 1: Trade Freedom



Source: The global Economy: The heritage Foundation.

Overcoming barriers that create economic, political and social crisis of 1997 showed that there is decisive role private entrepreneurship in increasing production, expanding it to trade and thus economic

³ http://www.punetejashtme.gov.al/files/userfiles/Heritage_Foundation_Report.pdf

⁴ http://www.theglobaleconomy.com/Albania/herit_trade_freedom/

development of the country. According to the Doing Business 2017 Albania is ranked 58 about the reforms of business⁵.

1.2. Free Trade Agreements in Albania

Albania maintains a large trade deficit driven by imports of mineral fuels and high value-added goods. The Albanian Exports are: mineral fuels, oil, metals, and apparel. As such, Albania is vulnerable to the economic and political fluctuations of a few select trading partners⁶. Albania applies a liberal trade regime. Exceptions apply to quotas or control requirements imposed through different bilateral or multilateral agreements signed by Albania⁷.

Albania has agreements with⁸:

1. Central European Free Trade Agreement (Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Moldova, Montenegro, Serbia)
2. European Free Trade Agreement (Iceland, Liechtenstein, Norway and Switzerland);
3. The U.S. Generalized System of Preferences
4. The Stabilization Association Agreement with EU member states.

2. Export- Import in Albania

Exports are considered the engine of the economy of a country, exports improved industrial structure. Exports are a source of foreign currency, which create opportunities for importing goods and services that lacks a country. Exports are the right way to be involved in the international economy. Economic and social benefits of international trade in many countries around the world have made that they be called "engine of growth", born from the goodwill.

According to *Instat (2016)* Albania exports textiles and metal industries, fuels and lubricants, raw materials, machinery and equipment and food. Albania's main export partners are Italy, Greece, Spain, Germany, Macedonia, Switzerland, China, and Bulgaria⁹.

Exports in Albania rose 7.2 percent year-on-year to ALL 22 billion in October 2016, mainly due to textile and footwear (+13.7 percent); machinery, equipment spare parts (+44.5 percent); construction materials (+11.7 percent) and food, beverages, tobacco (+30 percent). In contrast, sales fell 25.4 percent for minerals, fuels, electricity. Among trading partners, sales increased to Italy (+8.8 percent), Greece (+3.9 percent) and Germany (+22.8 percent). Exports in Albania averaged 8324.01.

Chart 2: The Albanian Export



Source: Trading economics: INSTAT

⁵ <http://www.worldbank.org/en/news/press-release/2016/10/25/albania-global-ranking-marks-significant-improvement-in-2017-doing-business-report>

⁶ <http://www.intracen.org/country/Albania/>

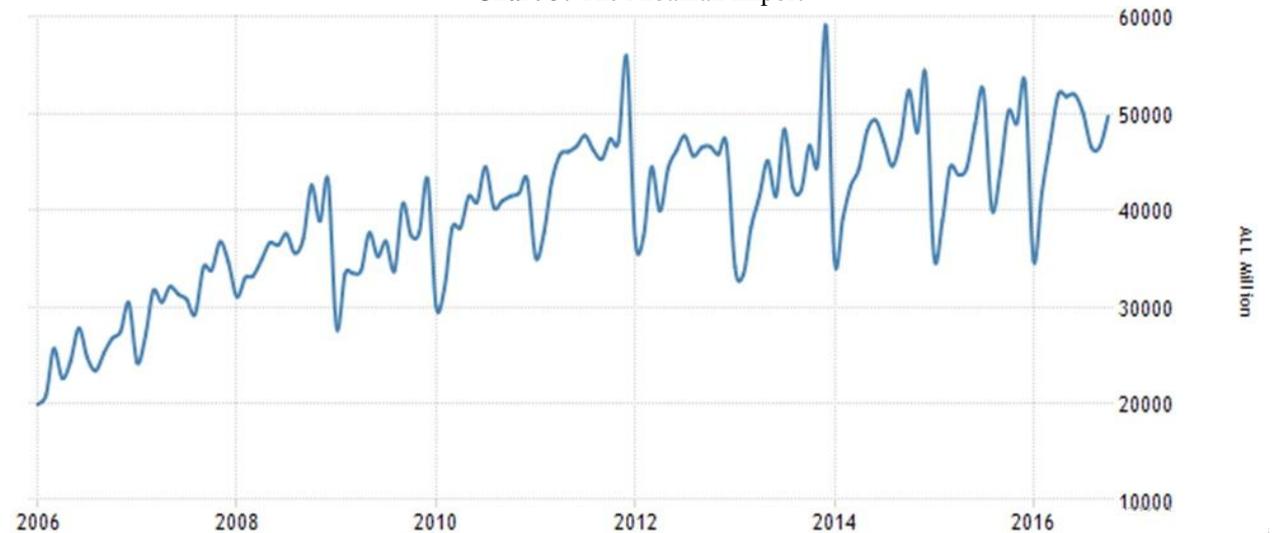
⁷ http://seerural.org/1documents/Strategic_Documents2/Albania/Trade%20and%20Free%20Trade%20Agreements.pdf

⁸ <http://invest-in-albania.org/trade-agreements/>

⁹ http://www.instat.gov.al/media/328062/tregtia_e_jashtme_mars_2016.pdf

Imports in Albania declined by 1 percent year-on-year to ALL 50 billion in October 2016, as purchases were lower for construction materials and metals (-12.6 percent); machinery equipment (-8.9 percent); and minerals, fuels, electricity (-5.3 percent). Purchases decreased from France (-73.1 percent); Italy (-0.1 percent) and China (-7.6 percent). Imports in Albania averaged 24900.45. The Imports of Albania partners are Italy, Greece, China, Germany, Turkey, Serbia, Switzerland, France and Spain¹⁰.

Chart 3: The Albanian Import



Source: Trading economics: INSTAT

Imports in Albania declined by 1 percent year-on-year to ALL 50 billion in October 2016, as purchases were lower for construction materials and metals (-12.6 percent); machinery equipment (-8.9 percent); and minerals, fuels, electricity (-5.3 percent). Purchases decreased from France (-73.1 percent); Italy (-0.1 percent) and China (-7.6 percent)¹¹.

3. The Competitiveness Theory

One reason of trade liberalization is increase of competitiveness. There are two fundamental views on the theoretical treatment of competitiveness: perspective of business strategies and the perspective of technology and information. Perspective of business strategies and research includes analysis of business policies, which seek to focus on performance of group- firms or individual firms. Innovation is considered as the main source of competitiveness and economic development at the global level (Edquist, 2001).

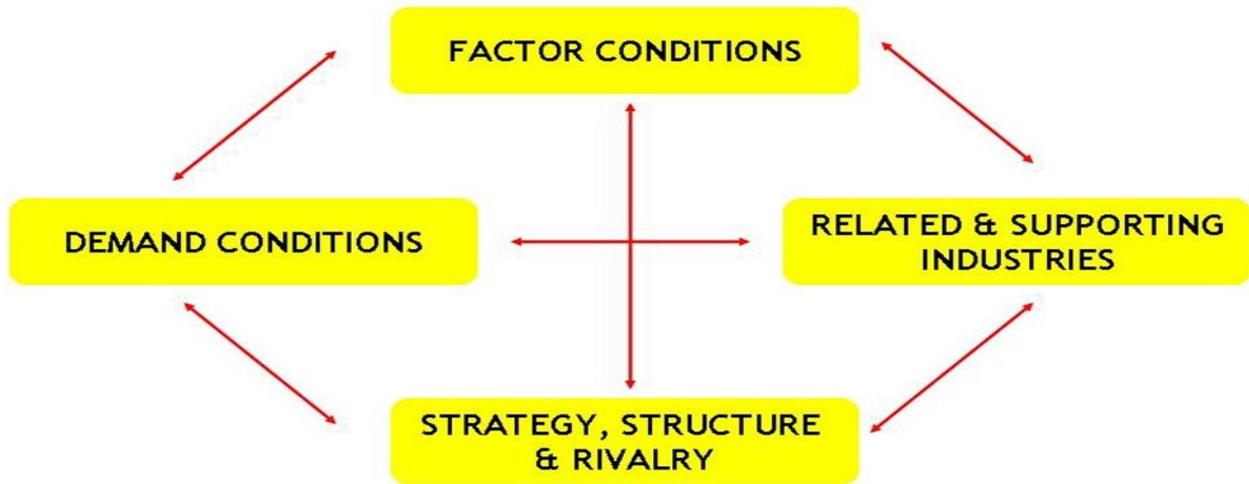
The main economic theories on competitiveness are as follows: Product life cycle of Vernon explains the nature of the various stages of industrialization (Vernon, 1996). Theory "Diamond" Porter focuses on comparative advantages in the management of the government's economic policies and business strategies in order to increase and strengthening the competitive advantages of the country. (Porter, 1990). Model of nine factors which is a modification and expansion of Porter's model. This theory focuses on explaining of competitiveness of a country through the use of human factors and different types of physical factors (Cho, 1994).

Theory of innovation "triple capacity" argues that to achieve sustained economic growth required a synchronized progress on many fronts or branch. Porter model is the most important model in the analysis of competitiveness.

¹⁰ <http://www.tradingeconomics.com/albania/imports>

¹¹ <http://www.tradingeconomics.com/albania/imports>

Figure 1: Porter's National Diamond



According to Porter, the first stage of development of a country's competitiveness is driven by factors such conditions as low labor force and natural resources. The second stage, led by investment. He is based on the strategies of firms, their structure and competition between them. The third stage explains the competitiveness related to innovation. The fourth stage is the most advanced stage because it is characterized by an expansion and further development of competitive advantages. Porter Model affects us identify strategies towards the development of the economy and the impact they have on the progress of domestic firms strategies.

Porter's theory is a widely used model to assess the competitiveness of various countries, important economic institutions in various annual reports.

Model Porter presents some significant problems. First, he neglects international business activities (Rugman, 1991).

Second, Porter framework gives no clear policy guidelines on proper division of labor in the private and public sector organizations. Finally, this scheme does not include organizational problems as an element of competitiveness and economic growth (Hamalainen, 2003). Business strategies in the first phase are oriented strategy based on natural resources which aimed the development, investment in processing industries, agriculture, and small businesses. Support to these sectors could be strengthened, especially if accompanied by the implementation of subsidy policies or lower taxes for businesses.

Policies should follow in the second phase businesses have a key strategy orientation towards exports, domestic production growth and especially the development of the service sector (Deraniyagala and Ben, 2001). This stage is usually associated with increased public investment and private infrastructure, technology, human capital.

Business strategies of the third phase, profiled as a strategy-driven essentially by innovation, which aims adoption of new technology, producing products and services to high level of innovation.

4. Conclusions and Recommendations

Foreign trade indicators for each country reflect the degree of economic development and mutually beneficial.

The size of government is another variable positively associated with trade and that means that the higher is the performance in fiscal freedom and government spending more increase bilateral trade. Opening markets is a variable that helps positively bilateral trade.

Albania's foreign trade in recent years has been characterized in general by fundamental changes, moving towards liberalization.

Liberalization policies and numerous economic reforms may differ from negative to positive, which show the performance of the Albanian economy and its impact by external factors.

Albania's trade with other countries in the region is quite low. Albania's trade is mainly oriented towards EU countries.

Growth of exports plays a significant role in perspective and sustainable development of Albania and the trade balance in order to resist the international competition. Albania should to improve the legislation and infrastructure.

Government should carry out in-depth studies and analysis about the possibilities that the country offers for trading with the dissemination of information.

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