The impact of trade agreements. Case of Albania

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Abstract

This paper aims to explain the impact of the CEFTA trade agreement on macroeconomic terms of Albania in the terms of GDP and trade balance. The main is the development of the states and the components taken in the study provide clear overview for this purpose. In the realization of this paper, the quantitative research method was used. There are mainly used government publications and scientific articles of various academics. Analysis

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of the findings is done with descriptive analysis and simple analysis, the explanation between variables. Regarding the work method, dependent variables such as GDP and imports were used and exports of our country and independent variables in the first analysis changed imports and exports to see how Albania's GDP changes when variables change such as democracy index, free business index to get a better picture formed of the study. They are used as dummy variables that take the variables from 0-1. For help, the calculator on the web (distance calculator) and e-viewer was used for ease of calculations. By using the gravity equation, we show that CEFTA has had an important impact in the distribution of Albania to CEFTA partners. CEFTA has increased Albania's exports by 34%. The results show that Albania's imports have been affected significantly and are good for remittances. Another important relationship it is determined between the import and export of Albania. The increase in Albanian exports appears that it has a positive impact on Albanian imports. It is clear that the relationship between GDP, exports and foreign direct investments is a positive relationship, with growing exports and foreign direct investment, GDP is bound to grow to visible way.

Keywords: *import, export, GDP, CEFTA, trade agreements.*

1. Introduction

The tendency of countries to conclude regional agreements in many cases arises from two factors. First of all, countries that are historically close have been the biggest partners merchants. It helps that, in the area, the markets are often very similar in preferences and their problems. Second, with the integration of international competition, countries began to look to each other to build larger and more competitive markets. The regional market is expected to increase the amount of resources and reduce production costs, by thus contributing to the globalization of member states. For the purposes of this thesis we will focus on the CEFTA trade agreement. In unequal trade agreements, the undeveloped country will be heavily supported and there will be additional costs to enter and out of the treaty (Wagner, 1988). This means that countries with similar rates of development are more likely to enter into a trade agreement and that agreement has a higher chance of survival.

1.1 Research Questions

- How and to what extent has the agreement affected the economic growth of Albania?
- How has the agreement affected the trade balance, i.e. imports and exports?

1.2 Methodology

For this paper is used quantitative research method and to be more specific is used statistical analysis such as mean, standard deviation, regression, hypothesis testing, and sample size determination. In order to complete the research there have been collected and analyzed information from different books, literatures, experiments, case studies in different countries and as well papers dedicated to macroeconomic issues. Also to help with my calculations I also have used the data calculator ,e-views such as panel data and cross sectional also distance calculator.

2. Literature review

Albania, as a former communist country with a middle-class economy, passed a difficult transition to an open market. After the fall of communism in 1992, they were important changes in the subsequent democratic governments that tried to the country to be close to international trade standards. Although the institutions government agencies are struggling to address high unemployment, widespread corruption and weak infrastructure, the transition period has proved challenging for Albania (Central Intelligence Agency). However, due to many economic changes, Albania has made great progress in macroeconomic policies and financial. Besides, adequate financial reforms have been introduced to attract more foreign investors (CIA). In terms of economic activity, agriculture remains the industry the largest in Albania, which accounts for about a fifth of its GDP and provides employment for 55% of the total workforce in the country. However, there are many problems they have limited the agricultural potential of Albania, such as migration from rural areas, small owners, outdated technology, weekly organization of agricultural groups and many other problems that create inefficiency in the agricultural sector (European Commission, 2014). On manufacturing industries, they are always entrenched and largely resource-based natural. The assortment of Albanian production consists mainly of chemicals, base metals, petroleum, hydropower, cement, food processing, textiles and clothing and timber. Similar to the product range, exports include textiles and shoes, tar, metals and metals, crude oil, vegetables, fruits and tobacco. To better understand how CEFTA has contributed to trade performance and investments of the member states of the agreement, below we quote some of the findings main. Thus, according to (Cieślik et al, 2012), the early CEFTA proved to be an important driver of economic development in member states. This agreement has served as an effective tool for achieving the economic and political goals of states. Therefore, CEFTA has given countries time to prepare to meet the standards socio-economic. The same benefits apply to the new generation of the contract, but in one different degrees. (Börzel, 2009) argue that despite racial tensions and religiously, the countries of the Western Balkans testify to the determined economic integration through CEFTA 2006 can lead to political stability and security development regional. In addition, CEFTA affirmed a clear agenda of European integration and encouraged the countries of the Western Balkans to make greater efforts to build complex and efficient economic structures and relationships. This support is provided for improve the economic integration of these countries in global trade chains. So, trade openness is seen as an important factor in improving economic growth in the Western Balkan region. Certain trade-increasing benefits, openness offered in the business environment includes the great opportunities they create in the big markets. In this direction, CEFTA is considered as an empowering tool for the participating countries also begin to reap the initial benefits of greater trade openness (Damijan, 2006). The creation of CEFTA improved the ability of member countries to attract FDI. This fact has had a positive impact on international commercial competition. IN consistent with the many economic benefits in terms of trade and investment, CEFTA improves the region's political climate to bring important image benefits for its member states. In this way, CEFTA is an organization an excellent tool for the preparation of the integration of the EU member states and being taken in order effective with socio-economic competition (Druzic, 2009) countries for attracting FDI. This fact has had a positive impact on international commercial competition. In accordance with the many economic benefits of CEFTA in terms of trade and investment improves the political climate of the region to bring significant image benefits to its member states. In this way, CEFTA as an organization is a tool of excellent for the preparation of the integration of the EU member states and taking on effectively with socio-economic competition (Druzic, 2009). (Kostovska, 2014) states that CEFTA aims to provide a comprehensive trade liberalization provision between Croatia, Montenegro, Macedonia, Serbia, Albania, Bosnia and Herzegovina, UNMIK (Kosovo) and Moldova in 2010. In addition to this policy, CEFTA aims to promote of international cooperation and the strengthening of regional security. (Miteva-Kacarski, 2012) concluded that, with the exception of trade and consolidated states such as those of the EU, the construction of CEFTA offers increased opportunities for members to develop coordinated efforts in addressing regional challenges such as inefficiency in attracting FDI. However, there is a list of obstacles, which includes invisible trade barriers that need to be addressed in the future in order to fully exploit the benefits of free trade. (Krizmanic, 2007) emphasized that, despite the common assumption that the main goal of CEFTA is to ensure free trade between the participating countries, i.e. the author concluded that free trade is only a secondary goal, which is mainly the preparation of member states to meet the European Union. CEFTA instead plays a role in coordinating member states' efforts to implement EU law and procedures in local markets. (Begović, 2011) believes that free trade has had rather a negative impact in terms of labor. This fact is due to economic and social factors related to the tensions between the provinces. In addition, the countries are inclined to develop trade relations with the European Union are higher than within CEFTA. Thus, the author concludes that the economic benefits are limited.

2.1 CEFTA as a need for participating countries

The emergence of an international initiative, known as the Stability Pact for Southeast Europe (here in after: SPSEE) in 1999, played a key role in strengthening peace, democracy, rights of man and economy in Southeast Europe. Emphasis was also placed on relationships trade between countries. Most important was the SPSEE's influence on the establishment of CEFTA 2006 (Todorovic, 2011).

At the end of 2004, most countries in the Balkans Western countries had signed international trade agreements. However, because of the great differences between the signed trade agreements, in terms of content and their special value, the process of international trade was not considered effective and profitable in all countries.

2.2 Mission and goals

CEFTA was established to create a new and more favorable economy in the Western Balkans and Moldova. Although there were a number of trade agreements between the member states, there were significant differences between them. Thus, among other purposes, CEFTA was created primarily to simplify the complex matrix of agreements bilaterally and to increase trade between member states (Delević, 2011). As it is said in article 1 of the agreement, the main goals of the agreement are:

- To consolidate in an agreement the existing level of free trade achieved through a series of free trade agreements between the two countries that have been signed between the parties;
- Development and improvement of investment conditions, including foreign investments direct;
- Increasing trade in goods and services and encouraging investments in laws fair, transparent, stable and predictable;
- Eliminating trade barriers and distortions and facilitating the transport of goods and distribution of goods and services across borders between countries;

- Ensuring conditions of fair competition affecting trade and investment external and gradually opens the government procurement markets.

2.3 Can we compete in an environment that is constantly on the move? If yes, how?

The benefits of international trade can be seen from two perspectives:

1. At first sight, mercantilist, the most exporting country is more successful.
2. Although the most accepted theory today is ancient, according to it, a place is I successful in foreign trade if there are comparable profits. Said in simple words, if it is possible to produce a better product (cheaper, better quality and production higher) than in another country.

Albania is said to be attractive because it has cheap labor. But entering a game competing with low wages is really getting into a boat that will sink early or later. It boosts the country's economy, but does not create prosperity for its citizens, one economy that increases export, which increases foreign exchange earnings? Can such a strategy development remove the country from the list of poor nations?

The main Albanian export is dominated by the textile and footwear industry, as well as by extraction of natural raw materials (other minerals and medicinal plants). And the result is that if the citizens of the country are more active, income will be gained from exports, but poor people will remain after. On the other hand, the extraction of natural resources does nothing but destroy the country's economy and severely damages the ecosystem, harming the lives of citizens themselves, as the increase in sales of the country's gross domestic product can be similar to the company's balance sheet. So, what should be the aim of development plans of the country? We want to create and maintain economic competition, not at the expense of citizens (low wages and inflation), but from product quality and value claims added by the end user of the product.

The solution cannot come simply with a complaint. So, it's time for manufacturers to sit down at the table with the traders of agricultural goods. Besides them, other actors such as transporters and distributors, advertising and marketing firms, land research institutes, hotel and tourism companies, etc. Seeing the final product throughout the series from its production to the end user, we will also be able to identify key aspects of success, obstacles to be overcome, improvements to be made throughout the product process. But is our business on par with our counterparts across the border? Unfortunately, our businesses have to account for high operating costs due to the lack of business infrastructure. Lack of electricity, road infrastructure, high levels of corruption are some of the worst things in our businesses compared to those across the border.

Creating competitive advantages: Now we are faced with another view, which protects the notion that there is no profit in Albania, but that Albanian businesses must create it in partnership with organizations and governments. Their creative approach may be high technology and innovation. These are modern names called *Cluster.* One of the distinguishing features of the time in which we live is no longer the opening of society and the origin of society knowledge; many have become more knowledgeable: those who are more into current fashion trends, products, etc. And since people are the ones who trade, that means the market has already discriminated against them.

3. Empirical Analysis

3.1 Literature review for our model

For more than half a century, the model known as the Gravity Model has been used to identify the effects of cross-border issues between partner countries, investments, foreign exchange, travel expenses, common language, free trade agreements, distance between sites and size of sites measured by impact of Gross Domestic Product (GDP). The Gravity Model illustrates the relationship between trade flow, economic size of both trading countries as measured by their GDP or Gross National Product (GNP) and the distance between them. Based on Newton's Law of Gravitation which measures attraction between two objects based on their weight and distance properties. Newton (1687) noted that this attraction is directly related to the product of their quantity and in contrast to the square of the distance between objects.

The growth of exports plays an important role in the perspective and development of the trade balance to face the international competition. The growth rate of exports over the years is an important indicator, whose performance can judge the stability and sustainability of the economy in general, as well as its ability to compete in international markets, but that reflects more directly and closely the international conjuncture. Economic growth seen as GDP growth. This indicates an increase in the production of goods and services within the country. The value of the Gross Domestic Product is calculated according to the formula: GDP = C + I + G + NX where: C = Consumption, I = Investment, G = Government Expenditure, NX = Net Exports (X – M), X = Exports, M = Imports. Net exports are one of the factors affecting GDP of a country. The trade balance shows whether a country is able to export or import more. Commercial models that have been widely used in the decades of have recently focused on understanding the power effects of trade between two or more our international partners.

TABLE 1: Trade balance and percentage to GDP

Year	Imports € mil	%GDP	Exports € mil	%GDP	Balance in bilion Euro	
2000	6,565	5%	1,655	9%	-4,91	7%
2001	5,981	-9%	1,785	8%	-4,196	-14,54%
2002	6,788	13%	1,599	-10%	-5,189	23,67%
2003	6,255	-8%	1,499	-6%	-4,756	-8,34%
2004	6,677	7%	1,445	-4%	-5,232	10,01%
2005	6,898	3%	1,845	28%	-5,053	-3,42%
2006	6,125	-11%	1,755	-5%	-4,37	-13,52%
2007	7,161	17%	1,985	13%	-5,176	18,44%
2008	6,434	-10%	1,826	-8%	-4,608	-10,97%
2009	6,762	5%	1,564	-14%	-5,198	12,80%
2010	7,692	14%	2,335	49%	-5,357	3,06%
2011	7,569	-2%	2,807	20%	-4,762	-11,11%
2012	7,485	-1%	2,655	-5%	-4,83	1,43%

Note. Reprinted from INSTAT. (2016). [Foreign Trade]. Retrieved February 20

TABLE 2: Inflows and outflows of FDI in the years 2000-2012 (€ million)

Viti	FDI Inflows	FDI Outflows
2000	115,6	-1,3
2001	158,2	-1,9
2002	190,7	-2,1
2003	268,3	-3,3
2004	297,8	-5,2
2005	215,5	-10,5
2006	278,1	-13,6
2007	485,6	-16,2
2008	675,9	-18,1
2009	715,2	-9,1
2010	798,9	-9,7
2011	734,5	-19,3
2012	754,2	-30,8

3.2 General analysis

From this analysis we will get information if GDP is affected by these factors and if so, to what extent. The basic equation we will rely on is:

Y(GDP)=ß0+ ß1X1(EXP)+ ß2X2(IMP)+ ß3X3(FDI)+ɥ.

It is clear that the relationship between GDP, exports and foreign direct investment is a positive relationship, with increasing exports and foreign direct investment, GDP is bound to increase significantly. In the case of import they are considered independent mutations, although the relationship is not linear, it is negative. This shows that there will be an increase in imports and, on the other hand, a decrease in exports. So, from the analysis shown, we have a match of what we know in theory by comparing it with the empirical side of our study. The categories of export products are usually what are already called traditional sectors; among them, the textile and footwear sectors remain the dominant force for increasing export capacity. Although the rates are increasing at not very high rates, they are still significant, especially in the production of products. This sector constitutes 34.6% of the total exports, which is the first sector for export. The linear relationship between GDP and exports/imports is clearly shown in the above tables FDI, GDP and the relationship between them. This analysis will have created a gravity equation in the trade of the two countries, used for the first time in January 1962, the German economist Tinbergen. It is considered the best way to use the random effects method. As we focus only on Albania's exports, limited work will be directly related to Albanian foreign trade. Such work will have greater scope and clarity on other variables, especially how true these numbers are. Our site contains a panel with real data of the six main partners of Albania during the period 2000-2012.

The main idea of the gravitational model is based on restoring the Newtonian policy to this level on the GDP of trading countries. Our main variables in the model will be traded as the value of the variance corresponding to the GDP of Albania and its trading partners. The independent variable will be the distance between sites. Furthermore, our model is developed for other remote measurement variables (landing, trade barriers), institutional indicators (government efficiency, trade freedom, irregularity index, etc.), economic dynamics (real active trade - REER, etc.) (Xhepa, 2003) used the gravity model to study the trade flow of Albania and its country for 21 countries that are main partners in the period 1994-2002. The results of the model have proved that the volume of exports and exports is positively related to the weight of the national economy and negatively to the local distance and limited exchange rate. (Pllaha, 2012) in her study on the flow of trade between nine countries in Southeast Europe, according to the Gravity Model, found that most countries trade under their own jurisdiction. The main variables are logarithmized in order to obtain a more elastic coefficient, while the other variables are left linear. And the formula would take the form:

L _ Exsportjt = bo + b1*L _ GDP _ PARTjt* + b 2*L _ GDP _ SQjt*+ b 3*L _ DISTjt* + b 4 *REERjt* + b 5*Coom _ bordj* + b 6*Cruisej* +b 7*Tr _ Barrjt* + b 8*Gov _ Effjt* + b 9 *IND _ L _ BUSjt*+b10 *IND _ L _ MARKjt* + b11*IND _ L _ FISKjt*+b12*IND _ L _ INVESTjt* + b13*IND _ L _ FINANCjt* +b14 *IND _ INFORMALjt*

j = 1 – 6 the countries under study
t = 2000 – 2012 studied period

3.2.1 General analysis

CEFTA focuses on lowering the prices of agricultural and manufactured goods purchased in member countries. Figure 1 shows the display of a standard price that the CEFTA countries (with the exception of Kosovo) set for Albania's exports. In the early 2000s, Albanian imports were taxed at around 15% in FYR Macedonia, 14% in Serbia and Montenegro, 6% in Bosnia and Herzegovina and 5% in Moldova. These costs have decreased in all CEFTA countries, especially from 2007 onwards. In 2016, price sales in Albania were zero, or almost zero, in all CEFTA countries. Figure 2 shows that, until 2015, CEFTA countries' prices for Albanian agricultural products were higher than non-agricultural ones. It also shows that taxes on non-agricultural products were reduced before the cost of agricultural products. We have analyzed the impact of tax cuts on CEFTA international demand for purchases in Albania over the period 2001–2016, as 2001 is the first year for which we have taxable data for all CEFTA member countries.

Countries often use import prices that are below the negotiated level, or binding prices. In such cases, there is a risk that the importing country will revert to the maximum negotiated amount in the event of a negative shock. This creates uncertainty among potential exporters, reduces the number of firms that become traders and the number of exports. However, according to tax data from the United Nations Conference on Trade and Development (UNCTAD) Trade Analysis Information System (TRAINS), CEFTA countries have not offered special treatment to Albanian trade prior to bilateral trade agreements.

FIGURE 1: Tariffs of member states on imports from our country

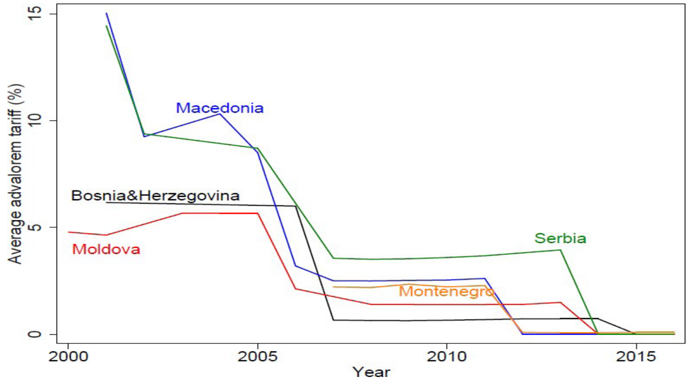

FIGURE 2: Tariffs of agricultural and non-agricultural products throughout the years

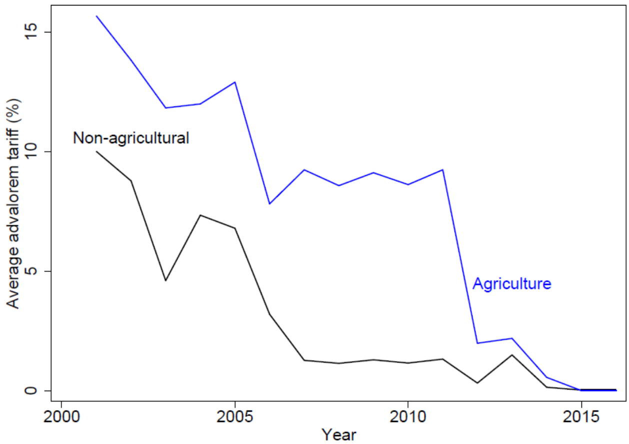

TABLE 3: Impact of tariffs on CEFTA countries' imports from Albania, 2001–2016

Tariff (ln)	-5.249
	(0.650)
Observation	7054
Indicator	0.667

Table 3 presents the results of the measurements. The tariff coefficient is weak and very precise, showing that the reduction of taxes has had a significant positive effect on the export of CEFTA countries from Albania. The reduction of tariffs for CEFTA countries during the analysis would have increased the purchase of goods from Albania in 525. % (–5.249 * –100%).

The average tax imposed on CEFTA countries on Albania's exports was 10.49% in 2001 and 3.76% in 2006, the year before CEFTA became operational.

When we multiply the percentage of cost reduction once CEFTA takes effect ((3.76 / 10.49) * 100) with a limited expansion (5.249), we find that CEFTA countries have increased their exports from Albania by 188%. This result suggests that the reduction in tariffs imposed by CEFTA has encouraged Albania's exports to CEFTA partners.

4. Results and Recommandations

The trade balance in Albania has been very limited, but it should not be forgotten that the same trend is the same as the last one, a sharp decrease in trade barriers, which contribute to the growth of their investments. The strong commercial connection that Albania has with Italy is evident in the historical relations between these two countries. This, in turn, brings the dependence of our exports on the Italian economic operation. The sudden change in their economy will have an unexpected impact on our trade balance. Exports also play an important role in the country's economy.

At the end of the analysis of this research we are able to give some necessary recommendations as follows:

- To soften this negative balance between export-import there are two possible ways: increase and promotion of exports and domestic production of some products that are imported and that the Albanian economy has real opportunities to remove them from the import list.
- Export trends are on the rise with some countries such as: Kosovo, Spain, Italy, Switzerland, etc. and mainly in domestic economy items, construction materials, leather, medicinal plants, minerals etc.
- Export promotion is undoubtedly a very powerful mechanism of economic regulation. In the context of Albania's economic policy, export development is considered a key factor in improving macroeconomic indicators, especially from the point of view of improving the trade balance and creating job places.

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