RESEARCH REPORT

Foreign Trade and European Union Integration: Ex-Post Evaluation of FTA Effects

Julian STEPA
Student of Master Program
European University of Tirana
Mater's thesis under supervision of Prof. Selami Xhepa

Abstract

This study consists of an ex-post evaluation of the effects of Free Trade Agreements (FTAs) in the context of foreign trade and integration into the European Union (EU). The use of FTAs has been a key element in the strategies of countries seeking to improve access to international markets and achieve integration into the EU's trade structures.

In this analysis, free trade agreements are examined as instruments for improving access and influencing economic growth. Through an in-depth evaluation, the advantages and challenges associated with these agreements are analyzed, focusing on their economic, social, and political benefits.

The study includes an analysis of trade flows, the development of key sectors, the growth of exports, the effects on income levels, and the changes in domestic and foreign policies. Concrete examples of countries integrated into the EU and the impact of FTAs on them are also examined, providing deeper insights into economic and social transformations.

This study aims to contribute to a deeper understanding of the link between FTAs, foreign trade, and the process of integration into the EU. By analyzing achievements and challenges, it provides recommendations to improve strategies and policies for countries to benefit more from this process and strengthen their relations with the EU.

Purpose of the Study

The purpose of this thesis is to provide an ex-post evaluation of the effects of Free Trade Agreements (FTAs) on foreign trade and the process of integration into the European Union (EU). By analyzing the benefits and challenges of these agreements, the thesis seeks to provide a comprehensive view of how FTAs have influenced the economic, social, and political development of the participating countries. In addition to general evaluations, the study seeks to examine specific examples of the impact of these agreements in certain EU-integrated countries. Through this analysis, it aims to offer a contribution to the understanding of the relationship between foreign trade, EU integration, and the use of trade agreements to improve the economic and political situation of the countries involved.

Objectives of the Study

The objectives of this thesis focus on the detailed ex-post evaluation of the effects of FTAs in the context of foreign trade and EU integration. Specific objectives include:

1. Analysis of the Advantages and Challenges of FTAs:
   Identifying and analyzing the benefits and challenges of FTAs in order to understand their impact on the economy and society of participating countries.
2. Studying the Effects on Economic Growth:
   Focusing on the analysis of the impact of FTAs on economic growth, examining production growth, export expansion, and market diversification.
3. Evaluation of Changes in Key Sectors:
   Identifying changes in key economic sectors and assessing how FTAs have influenced their development.
4. Focus on Social and Political Effects:
   Analyzing the impact of FTAs on social and political levels, including developments in working conditions, living standards, and trade regulations.
5. Case Studies:
   Reviewing examples of EU-integrated countries and identifying specific changes brought by FTAs in these states.
6. Providing Recommendations:
   Offering concrete recommendations for other countries seeking EU integration or wishing to benefit from FTAs.

Research Questions

The study is guided by the following research questions:

- How have FTAs influenced the economic growth of the countries studied, including production and exports?
- What are the main challenges that participating countries have faced during EU integration?
- How have FTAs influenced changes in key economic sectors such as industry, services, and agriculture?
- What is the impact of FTAs on social and political dimensions, including working conditions, living standards, and trade regulations?
- How have trade conditions and competition changed in international markets for countries seeking EU integration after signing FTAs?
- Have FTAs influenced the development of the private sector and the growth of foreign direct investment?
- What are the concrete examples of achievements and challenges from countries that joined the EU after signing FTAs?

Scope of the Study

The scope of this study is centered on the relationship between foreign trade, EU integration, and the effects of FTAs. In order to fully understand this complex relationship, the analysis covers a wide range of themes, including:

- Foreign Trade: Identifying the concept of foreign trade and its role in the global economy, as well as the advantages and challenges arising from international engagement.
- EU Integration: Focusing on the process of integration, its history, structure, and required membership criteria, along with the advantages and challenges involved.
- FTAs: Describing and analyzing FTAs in the context of this study, identifying their main characteristics and role in improving trade relations.
- Effects of FTAs: Concentrating on ex-post evaluation of FTAs' effects, analyzing changes in economic growth, sectoral development, and social and political conditions.
- Case Studies: Reviewing examples of EU-integrated countries and analyzing the impact of FTAs, identifying specific cases to support higher-level generalizations.

- Future Recommendations: Offering practical recommendations for other countries considering EU integration or aiming to benefit from FTAs.

Limitations and Innovations of the Study

Limitations

- Time and Resources: Limited time and resources may prevent inclusion of all recent developments in foreign trade and EU integration.
- Dependence on Available Sources: Reliance on available information may result in focus on specific countries or cases, leaving out other important aspects.
- Geographic Limitation: Due to geographical constraints, the analysis may not cover all possible cases of FTA impact on trade and integration.
- Global Uncertainties: Unforeseen global events or disruptions may influence the overall assessment of FTA effects.

Innovations

- Contribution to Literature: This study contributes a deeper perspective on the relationship between trade, EU integration, and FTAs.
- Use of Appropriate Methodology: Combining qualitative and statistical approaches ensures robust results.
- Qualitative Assessment: Offering a detailed assessment of FTA effects across economic, social, and political dimensions.
- Improved Study Content: Considering feedback and evaluations, this research enhances analysis and conclusions, making it a valuable contribution.

Chapter I: Introduction

Introduction

Foreign trade is one of the primary elements influencing a country's economic growth, which is why it has been widely studied. Trade exchanges began long ago, but their volume and forms have changed dramatically over time. Efforts toward trade liberalization, especially in the last decades, have been justified by the significant benefits it brings: more efficient allocation of productive resources, lower transaction costs, increased national welfare, enhanced competitiveness in international markets, and reduced costs associated with active trade policies.

According to the World Bank (2002), after the implementation of Uruguay Round commitments, further reductions of 40% in tariffs and subsidies on agricultural exports could lead to a global increase in real incomes of about 60 billion US dollars annually. If combined with a 40% reduction in domestic agricultural subsidies, the increase could reach 70 billion dollars per year. This illustrates how liberalization contributes not only to global welfare but also to individual national economies.

The development of countries in fields such as economy, technology, and transport has enabled trade between nations, even those geographically distant. With the expansion of exchanges, countries demanded more favorable conditions for trade, leading to the need for foreign trade liberalization. Free trade began to flourish and expand among nations that removed barriers.

For Albania, as for any country building its market institutions, this process brings new dimensions. Non-tariff barriers—such as technical standards, testing and certification rules, sanitary and phytosanitary measures—are not only obstacles but also necessary institutions to ensure that markets function efficiently and effectively. In Albania's case, integration into the EU requires not only trade liberalization but also the establishment of functioning institutions aligned with the internal market principles of the EU.

Ultimately, special attention must be given to Albania's trade balance in relation to policies promoting domestic production and exports. Export promotion requires improved competitiveness of the economy, firms, and products. To achieve this, Albania must comply with export market standards and regulations, especially those of the EU. Non-tariff measures can assist in achieving this compliance. At the same time, EU integration and free trade provide new opportunities for trade and exports, contributing to economic growth and employment.

This thesis therefore undertakes a detailed analysis of theoretical and empirical studies on these issues, focusing particularly on Albania's competitiveness, export performance, and adaptation to EU market requirements.

Chapter II: Understanding and Importance of Foreign Trade

Analysis of the Concept of Foreign Trade and Its Advantages

Foreign trade refers to the exchange of goods and services between countries. It encompasses exports, which represent domestic products sold abroad, and imports, which are foreign goods brought into the domestic market. This interaction creates an international platform where economies are interconnected and mutually dependent.

The main advantages of foreign trade include:

- Increased Trade Exchange: Expands the variety of products and services available to consumers and firms.
- Specialization and Comparative Advantage: Encourages countries to focus on sectors where they have an efficiency advantage.
- Employment Growth: Higher demand for goods and services drives production and employment.
- Economic Growth: Expands opportunities for business, investment, and income generation.
- Market Diversification: Reduces dependence on a single market and mitigates risks.
- Cultural and Social Exchange: Introduces new products, ideas, and cultural values across borders.
- Innovation and Technological Development: Greater competition fosters innovation and adoption of new technologies.
- Development Impact: Offers developing countries access to larger markets, boosting exports and growth.
- Policy and Institutional Reforms: Encourages governments to adjust regulations in line with international standards.

Overall, foreign trade acts as a transformative force, distributing economic and social benefits globally and accelerating integration into the world economy.

Importance of Trade for Countries Seeking EU Integration

For candidate countries, trade plays an essential role in the process of EU integration. Integration into the EU opens access to a vast market, increases exports, attracts investments, and stimulates new economic opportunities. Participation in the Single Market requires harmonization with EU standards, which enhances competitiveness and ensures higher quality of products and services.

Key aspects include:

- Market Access: The EU provides one of the largest consumer markets in the world, creating new opportunities for exports.
- Investments: Membership and pre-accession processes encourage inflows of foreign direct investment (FDI).
- Economic Interactions: Integration facilitates smoother economic and financial transactions.
- Regulatory Alignment: Harmonization with EU legislation improves legal certainty and product quality.

- Competition: A common market increases efficiency, productivity, and innovation.
- Stability: Membership ensures political and economic stability, fostering long-term growth.
- Social and Environmental Standards: Countries adopt higher standards, improving welfare and sustainability.
- Diplomatic Cooperation: Trade integration strengthens political relations and coordination of external policies.

Thus, trade acts as both an engine of growth and a mechanism for meeting EU accession requirements.

Trade as a Key Element for EU Aspirants
Trade is the critical factor that enables countries aspiring to EU membership to gain access to the European market. By liberalizing trade and expanding exports, these countries can achieve economic growth, improve efficiency, and build resilience. EU integration also creates a favorable environment for investment, fosters adoption of European standards, and promotes competition and innovation.

Link Between Trade and the EU Integration Process
The relationship between trade and EU integration is fundamental. Opening markets and removing tariffs represents the first step toward integration. Through trade, candidate countries adapt their policies and standards to those of the EU, thus fulfilling accession criteria. Trade also enhances political and diplomatic coordination, stimulates innovation, and contributes to regional stability.

Chapter III: European Union Integration

History and Structure of the EU

The European Union (EU) originated as a peace and cooperation project after World War II. The European Coal and Steel Community (1951) laid the foundations, followed by the Treaties of Rome (1957), which established the European Economic Community (EEC) and EURATOM. Over time, integration deepened, culminating with the Maastricht Treaty (1993), which formally created the EU and introduced the Economic and Monetary Union and the euro currency. The Lisbon Treaty (2009) further restructured institutions and strengthened democratic legitimacy.

The EU's institutional framework includes:

- European Council – defines general political directions.
- Council of the EU – represents member states' governments.
- European Commission – executive body proposing and enforcing legislation.
- European Parliament – directly elected, co-legislates with the Council.
- Court of Justice of the EU – ensures uniform interpretation and application of EU law.
- European Central Bank – manages monetary policy for eurozone members.

This institutional structure underpins the functioning of the EU as a complex political and economic union.

The Integration Process and Criteria

EU integration is a rigorous and highly structured process that candidate countries must complete before membership. The stages include: formal application, Commission assessment, negotiation of accession chapters, adoption of the acquis communautaire (the full body of EU law), and final ratification by member states. Some countries also hold referenda.

The Copenhagen criteria define the conditions for accession:

- Stable democratic institutions and respect for human rights.
- Rule of law and an independent judiciary.
- Functioning market economy and capacity to cope with competition.
- Ability to adopt and implement the acquis.
- Administrative capacity to manage EU funds and obligations.

Integration requires extensive reforms across politics, economy, and society. For Albania and other Western Balkan countries, this means not only adopting EU rules but also building the institutional capacity to apply them effectively.

Chapter IV: Free Trade Agreements (FTAs) and Their Role

Definition and Characteristics of FTAs

Free Trade Agreements (FTAs) are treaties between two or more countries that aim to facilitate trade by eliminating or reducing tariff and non-tariff barriers. Their primary objectives are to liberalize markets, enhance efficiency in resource

allocation, stimulate exports, and create a competitive environment. FTAs are comprehensive and include not only tariff reductions but also rules regarding intellectual property rights, investment protection, dispute settlement, labor rights, and environmental standards.

For EU candidate countries, FTAs represent more than economic tools: they are political signals of commitment to reform and alignment with EU standards. Signing an FTA with the EU requires a candidate to adopt and implement large parts of the acquis communautaire, which gradually integrates their economy into the Single Market framework.

FTAs in the Context of EU Integration

In the process of EU integration, FTAs play a strategic role as stepping-stones. They prepare candidate countries to enter the Single Market by gradually aligning their economic, legal, and institutional systems with those of the EU. FTAs ensure smoother trade relations, expand access to the EU market, and provide a stable environment that attracts foreign investment. They also encourage domestic reforms in areas such as competition policy, consumer protection, environmental sustainability, and social rights.

While FTAs generate economic opportunities, they also expose structural weaknesses. Industries that are not competitive face challenges when exposed to foreign competition. The reduction of tariff revenues can also create fiscal pressures. Thus, while FTAs promote integration, their success depends on complementary reforms in industrial development, infrastructure, education, and innovation.

Chapter V: Ex-Post Evaluation of the Effects of FTAs

Practical Outcomes of FTAs

Ex-post evaluations assess the real results of FTAs after their implementation. Evidence shows that FTAs generally increase exports, expand trade volumes, and diversify markets. They contribute to GDP growth by stimulating production and improving resource allocation. FTAs have also been linked to higher levels of foreign direct investment (FDI), as they signal openness and stability to investors.

However, the distribution of benefits is uneven. Export-oriented industries tend to benefit quickly, while small and medium-sized enterprises (SMEs) may face difficulties in adapting to higher standards and compliance requirements. FTAs also impose adjustment costs on certain sectors, particularly agriculture, which must meet stringent EU sanitary and phytosanitary standards.

Economic, Social, and Political Benefits

- Economic Benefits: FTAs increase trade flows, attract investments, stimulate technology transfer, and create jobs. They also modernize industries and support long-term competitiveness.
- Social Benefits: Liberalized trade provides consumers with greater product variety and quality at lower prices. FTAs can improve labor conditions, although they may also generate inequalities if adjustment policies are weak.
- Political Benefits: FTAs act as catalysts for legal reforms, governance improvements, and stronger diplomatic ties. They strengthen credibility and demonstrate commitment to the EU accession process.

Chapter VI: Case Studies and Country Experiences

Croatia

Croatia serves as a strong example of how FTAs facilitated EU accession. Before joining the EU in 2013, Croatia had signed FTAs with EU countries that stimulated trade growth, strengthened institutions, and improved competitiveness. Its exports to the EU grew significantly, while its institutional reforms accelerated. Croatia's experience demonstrates that FTAs can effectively prepare a country for full EU membership when combined with strong domestic reforms.

Albania

Albania has engaged in FTAs, particularly through the Stabilization and Association Agreement (SAA) with the EU. This has expanded Albania's trade relations and improved its regulatory framework. Nevertheless, challenges remain: low competitiveness, limited diversification of exports, and insufficient institutional capacity. Albanian products often struggle to meet EU quality and certification standards. Thus, while the SAA and other FTAs have provided opportunities, Albania still faces significant reforms to ensure sustainable benefits from trade liberalization.

Other Examples

Other EU candidate and new member states, such as Poland, Hungary, and Romania, also illustrate the role of FTAs in integration. Their experiences show that FTAs can accelerate structural reforms, attract investment, and modernize

industries. However, success depends heavily on the domestic readiness of institutions, government commitment, and strategic economic policies.

Chapter VII: Conclusions and Recommendations

Conclusions

The study concludes that FTAs are essential tools in the EU integration process. They provide economic opportunities, promote competitiveness, and accelerate institutional development. However, FTAs are not sufficient on their own. Their effectiveness depends on complementary reforms in domestic policies, industrial strategies, and governance. For Albania and other Western Balkan countries, FTAs must be integrated into broader development strategies that prioritize innovation, education, and social cohesion.

Recommendations

- For Governments: Adopt proactive policies to maximize FTA benefits, strengthen institutions, and support vulnerable sectors.
- For Businesses: Invest in competitiveness through innovation, quality improvements, and digitalization. Form partnerships to integrate into EU supply chains.
- For the EU: Provide technical assistance, financial support, and monitoring mechanisms to ensure balanced FTA implementation. Promote inclusive policies that support both large and small enterprises.
- For Candidate Countries: Use FTAs as part of a comprehensive integration strategy, combining trade liberalization with education, infrastructure, and social policies. Prioritize long-term sustainability over short-term gains.

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