INTERNATIONAL TRADE AND ITS IMPACT IN THE ECONOMIC GROWTH OF ALBANIA.

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Abstract

This paper is focused on international trade report between Albania and foreign countries not only in the Balkan region and on the European continent but through the whole world. It clarifies opportunities for export of our country and the benefits that it brings, as well as the importance of the imports, based on scientific data. Furthermore, the study talks about the barriers of entry and exit of goods between Albania and other foreign countries , describing the customs system and relying on domestic and foreign current legislation. Besides that, referring to different economic books and official websites of economic statistic such as INSTAT, there have been accurate conclusions about the net exports in this country that shows whether economy is facing budget deficit or surplus including also origin and destination of the relevant goods. Another issue of this paper includes the challenges that Albanian economy has taken over to improve the situation or to keep it balance. Based on statistical data of the Bank of Albania, in this paper are included two regression analyses that represent the impact of exports and imports in GDP. The analyzes, descriptions and justifications of the study concluded that Albania as a developing country has an international trade which grows yearly, even though imports are larger than exports levels their impact on the economy is significant and in growing motion.

*Keywords***:** *International Trade, Imports, Exports, Economic Growth, Albania.*

Introduction

At the end of the Second World War, international trade has flourished as never before. The whole international exchange of goods includes about 8 % of the value added by increasing the following thirty years at 16 %. States which remained satisfied from this progress or development were Western economies. Those years were not characterized by any customs international barrier. This phenomenon inspired as well the other countries to be part of it. International trade started to become one of the most important steps for the economies that would help in the economy progress.

Over the years it began to become more complicated, more complex, but countries in the world understood its importance and worked to make it less, they started to take its advantages and affect in every single site of the economy. This was the beginning of international trade as we came up here today and so got a worldwide sense part of which became all the countries of the globe. This is the aim of the study of this paper too, to show

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and analyze how Albania is influenced by this ' golden road ', by international trade. Beside whole barriers that Albania used to have, it begins to open the boundaries and benefit from international trade from 1990's.

The purpose of this paper is to show how international trade was implemented in Albania and how economic growth affected in the economic growth. This paper shows how mutual trade of goods between Albania and foreign countries was established as something necessary focused in accurate statistics published by official websites of BOA and INSTAT. This indicated the possibility that was offered to the Albanian state to export goods to other countries, indicated with accurate scientific data as and the impact of the aforementioned issues on the balance of export-import trade. All these indicators and their impacts will be shown graphically for the years that Albania is an open economy.

Despite the basic purpose of giving an overview of the situation of international trade of Albania, the destination of the exports and the origin of the imports, this paper bases its hypothesis that international trade has a great effect in the economic growth on statistical analysis and presents it with present official data.

Literature Review

International trade began to spread over the years more and more, scholars and experts in the field of economics have studied this phenomenon threw their thoughts about international trade. The most successful persons that we can mention is the study of David Ricardos (Ruffin, 2002). In the beginning of XIX century, D. Ricardo made an improvement in the international trade by bringing it a step forward. His contribution stood in his main idea that all crucial elements will be the ration of the prices within the country before a trade and no effectiveness in producing each product. The opportunity to achieve profit through specialization and exchange of goods nationwide could result positively to a country that is less efficient than another country.

A well-known figure who threw his thoughts about international trade was Adam Smith (Schumacher, 2012): *"International exchange of goods is a source of wealth for all countries. Trade prepares the possibility of increasing specialization and better utilization of economic resources despite the countries."* In this theory the idea of Smith was illustrated according to an example explained in this way: In two countries two kinds of products are produced and sold in different intervals of time so if these two countries could trade their goods in the country where are sold and produced less compared with the other, more productivity would be achieved from both economies. So Smith thought that the international trade was quite prolific and also necessary.

The study of A. Marshall is an important issue of the Albanian economy. Citing him: *"'The causes which determine the economic progress of nations are the object of study of international trade."* According to the above expression of the importance of international trade became a cause of great economic progress, which was applied in whole around the world. Marshall was not the only person that took this initiative but also many other popular personalities who are not actively distinguished in the economic field. (Marshall, 1890)

Importance and Opportunities for International Trade in Albania

Albania as a developing country joined the international trade in the early '90s. This was one of the first steps toward the economic progress and growth, which was obvious and evident.

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In the following paragraphs will be displayed the country exports and imports through graphs and accurate scientific data obtained from official website of statistics of Albania (INSTAT). As a developing country, the ability to use efficiently all the resources and to develop and increase the exports has been quite difficult, result of which is a gap and ongoing budget deficit. Most of the studies have resulted that this deficit for a small economy as Albania is, is not quite bothering.
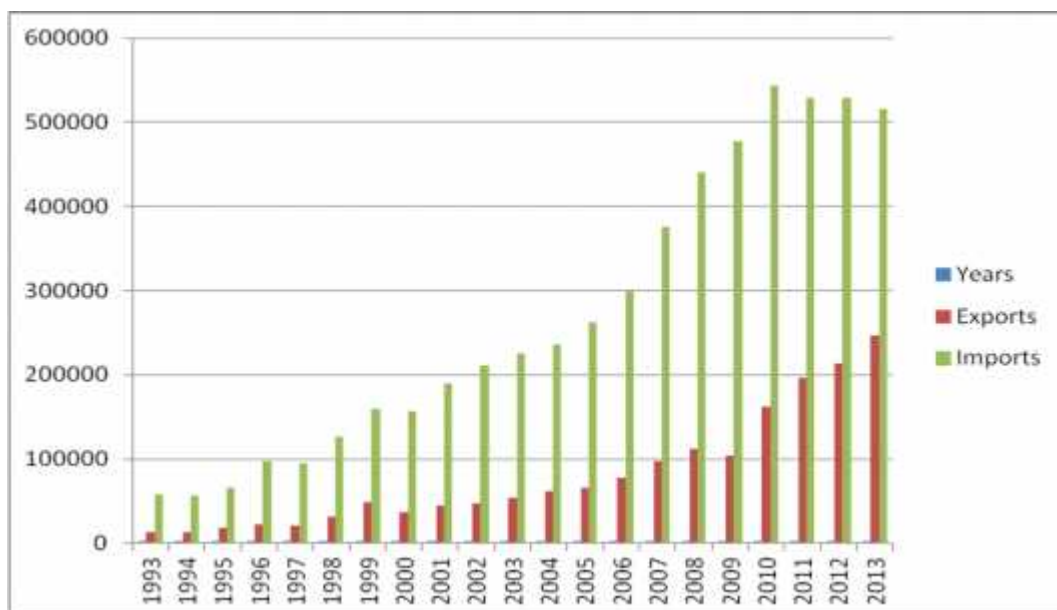
Exports and Imports

After the Albanian economy opens the boundaries and the trade of goods and services was liberalized, imports and exports started to be considered as an important step ahead to the economic improvement and growth. The fact that Albania has been able to export certain goods or products, which indicates that the country has shown that there is power to increase exports and resulted in an increase in the local economy, it has expanded the Albanian state opportunities in improving the relations with countries that have been exporting with.

Imports have been considered as positive issue of the development of the economy, as well as an improvement of life standards. As it will be observed in the data that will be shown below, imports were much higher than exports from the beginning, this due to lack of goods and services in the market. The demand was very high. Obviously, this would give and actually gives a negative effect in the deficit of the economy. (TEKA, 2010)

Albanian economy has trade relation with more than 60 countries around the world. Basically the highest percentage of exports and imports deal with the European countries. Mainly it is Greece, Italy, Turkey, Germany, London, America that covers the highest amounts of priducts and goods either imported or exported in Albania.

The graph below shows official data on the amounts of exports and imports of Albania during a period from 1993 to 2013. It is clear the difference of their ratio and the deficit that Albanian economy has. Data below are all taken from the official website INSTAT. (INSTAT, 2014)

Graph 1. Exports and Imports in Albania

Source: INSTAT, (http://www.instat.gov.al/al/themes/tregtia-e-jashtme.aspx?tab=tabs-5, accessed: 02/04/2014)

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Ratio of Imports and Exports

Currently, the low level of exports affects some factors which are considered important:

• The predominance of very small manufacturing units and unused agriculture, most of which currently has a limited potential for market manufacturer. These units have difficulty getting credit, which you can use for expansion and for the purchase of other land use intensification or its modernization.
• Prevalence of small workshops, mainly with old equipment, which have only local or regional importance and cannot easily meet the requirements of European Union markets in terms of quality and hygiene.
• Lack of standardization of products and the lack of product brands.
• Difficulty organizing small producers, to collect sufficient quantities to market processed and exported to economically viable.
• The destruction of most of the previously existing structures and production capacities, with the exception of the textile industry, apparel and footwear.
• Lack of infrastructure and poor marketing to improve the image of the country's tourism development.
• Lack of capital to invest in modern production equipment and the lack of information on the sources of supply of appropriate technologies.
• Many managers do not have sufficient knowledge about modern methods of management. They are simply oriented production and lack knowledge especially in the field of marketing.
• Productivity levels are low compared to the target, so that international competitiveness is low for this stage production, which can be easily automated.
• Lack of community business contacts with potential partners in foreign markets and the difficulties that managers or owners to travel to countries with which we intend to do trade.

As a result of the above factors, consumer trends and developments in the markets potential target sites are unknown (such as the movement toward products comforts) while there is demand (for example, about the standards of hygiene, product presentation, supply etc..) which must be met by each supplier, which aims to secure for himself a part of these markets. (BoA, 2005)

Data and Methodology

The main aim of this study is to statistically presenting the high impact of exports and imports in the economic growth. Due to the purpose it has been used the Regression Analysis, which is statistical process which is used to calculate the relation of some data or variables. Theoretically the relations mentioned are obvious but this study will present the real impact in percentage of exports and imports in the economic growth of Albania.

In the study are used three main variables in order to calculate firstly the relation between Real GDP of Albania and the Exports for a period of 13 years, from 2000 to 2013. The Regression Analysis is used too, for the calculation of the relation between the Real GDP of Albania and Imports for the same period of time from 2000 to 2013. All data used are official taken from the INSTAT website.

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The table below shows the data used in the analysis, both regression analyses.

Table 1. Real GDP, Exports and Imports

Year	GDP	Exports	Imports
2000	346,403	37,037	157,109
2001	308,861	44,096	190,155
2002	377,386	47,490	210,368
2003	464,457	54,487	225,983
2004	502,818	62,121	236,072
2005	564,575	65,818	262,191
2006	608,053	77,405	299,147
2007	658,453	97,171	376,194
2008	733,475	112,572	439,894
2009	794,276	104,515	428,839
2010	859,048	161,548	477,768
2011	934,305	196,897	544,004
2012	1,040,597	213,023	528,491
2013	1,125,376	246,375	515,150

Source: INSTAT: (www.instat.gov.al, dt:20.04.2014)

Analysis

According to the data above the first regression analyses was applied and the below results are concluded:

SUMMARY
OUTPUT

Regression Statistics	
Multiple R	0.96629907
R Square	0.933733892
Adjusted R Square	0.928211716
Standard Error	69533.65075
Observations	14

ANOVA

	df	SS	MS	F	Significance F
Regression	1	8.17529E+11	8.18E+11	169.088	1.96685E-08
Residual	12	58019143042	4.83E+09		
Total	13	8.75548E+11			

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	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%
Intercept	269768.7208	35663.39968	7.564302	6.64E-06	192064.8481	347472.6	192064.8
X Variable 1	3.644275221	0.280255869	13.00339	1.97E-08	3.033650139	4.2549	3.03365

Linear equation of regression is:
$$Y = α + β*X + ε$$

Where:

(Y) The Depended Variable = Real *GDP in ALL*
(X) The Indipended Variable = *Total Exports in ALL / Total Imports ne ALL*
(β) The coefficient of the independent variable
(α) Intercept parameter
(ε) The standard error

Accordingly:

X Variable coefficient X = 3.64427522090454
Intercept coefficient = 269768.720819821
R Square = 0.933733892011352
Standard Error = 35663.3996762881
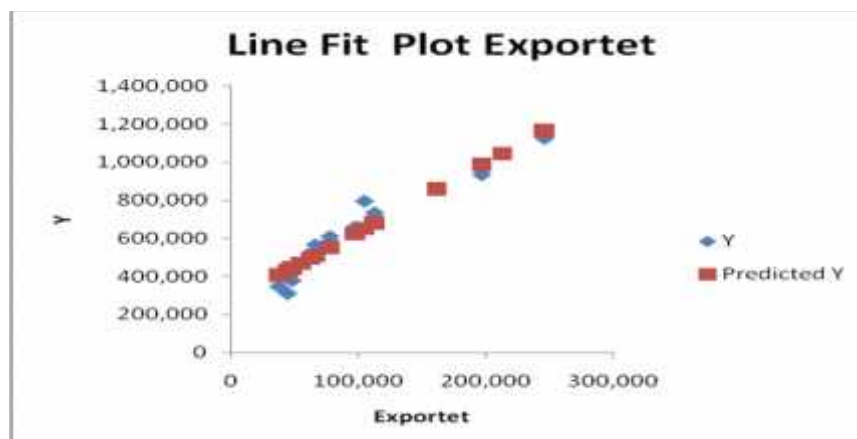*t Statistics* = 7.56430186882

So, *estimated regression equation* is as follows:
$Y_t = 269768.720819821 + 3.64427522090454 * X_t$

Results generated from the regression analysis present a very strong connection to these variables and we can say that 93% of GDP growth of Albania can be explained by the levels of the exports. So it can be said that this part of external trade has quite a positive effect on the economic growth of Albania.
This positive relation is shown as well in the graph which is also generated by regression analysis.

Graph 2. Line Fit Plot Exports

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The second regression analysis applied on the relation of Real GDP and Imports generated the summary output shown below:

SUMMARY
OUTPUT

Regression Statistics	
Multiple R	0.963576956
R Square	0.92848055
Adjusted R Square	0.922520596
Standard Error	72237.27967
Observations	14

ANOVA

	df	SS	MS	F	Significance F
Regression	1	8.12929E+11	8.13E+11	155.7865	3.11608E-08
Residual	12	62618694883	5.22E+09		
Total	13	8.75548E+11			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%
Intercept	34267.14292	54139.22314	0.632945	0.538645	-83692.09091	152226.4	-83692.1
X Variable 1	1.806927718	0.144769087	12.48145	3.12E-08	1.491502975	2.122352	1.491503

Accordingly:

X Variable coefficient X = 1.80692771836874
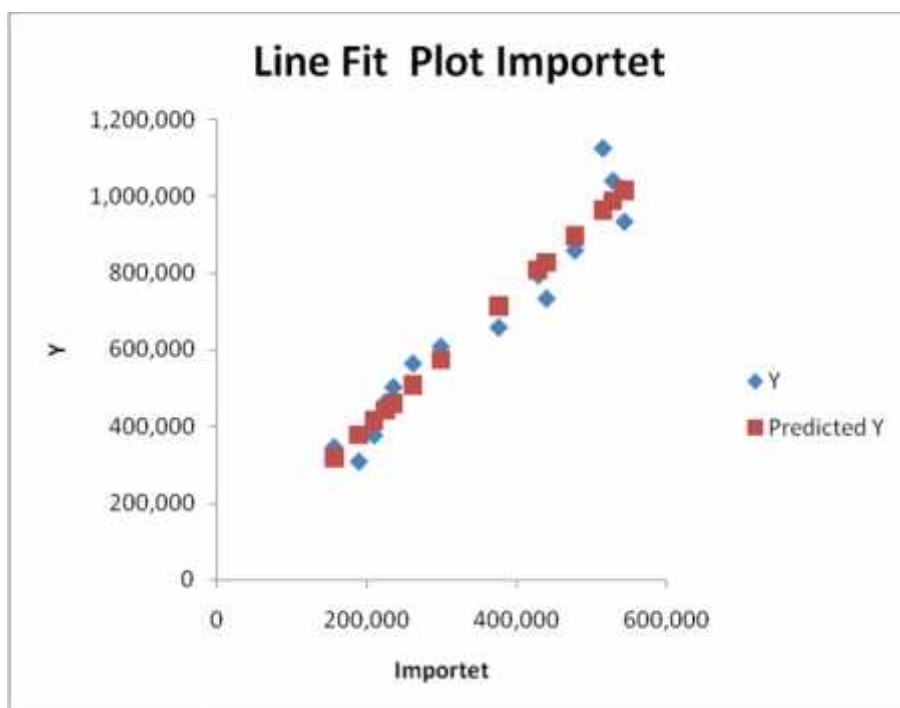*Intercept coefficient* = 34267.1429172364
R Square = 0.928480550044086
Standard Error = 54139.2231400677
t Statistics = 0.63294485826997

So, *estimated regression equation* is as follows:
Y_t= 34267.1429172364 + 1.80692771836874* X_t

Results generated from the regression analysis present a very strong connection to Real GDP and Imports of Albania, as well. This positive relation is shown as well in the graph which is also generated by regression analysis.

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Graph 2: Line Fit Plot Imports

Conclusion

The aim of the paper was to introduce the situation of the exports and imports of Albania after the liberalization of the economy. All data introduced the high levels of the international trade of Albania with more than 60 countries of the world. The deficit that Albanian economy has comes directly from the high gap between the imports and exports. The regression analysis showed a strong positive relation between exports and imports with economic growth.

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