

THE IMPACT OF INTERNATIONAL TRADE FLOWS ON THE DEVELOPMENT OF ALBANIA'S ECONOMY

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Abstract

This paper provides information related to international trade flows of Albania with the EU-27 and other countries of the region. Albanian trade with the other countries has begun since 1993, after the collapse of the communist regime and has increased step by step through the years, although in 2009 data shows a slow decrease in exports and imports as a result of the global financial crisis. As a developing country Albania has shown increases in its GDP and decreases in inflation through the years and the question raised in this analysis is how has affected international trade flows Albanian economy during this period.

Keywords: International Trade, Economic Growth, Albania, Regional Integration

AN OVERVIEW OF MACROECONOMIC SITUATION IN ALBANIA

Before 1990, Albania had a closed economy and had no connections with the world around. The enterprises were state-owned operating under a planned economy which after 1990, the state-owned enterprises were privatized and all enterprises are now private, with activities concentrated on production. The Albanian economy is already based on free initiative, as more than 80% of the domestic product comes from the private sector, and per capita incomes today are twenty times higher than they were in 1992 (Council of Ministers, NSDI 2007-2013, p.9).

During its first decade of transition the economy has shown several up and downs, but which continued with a more stable growth from 2002 and as table 1 below shows, after the 2002 there will be increases in real GDP growth rate up to the year 2009, where as a consequence of the global crises, Albanian economy will be affected too.

There is noted a very high increase in export growth in 2001 by 18.1%, in 2003 by 18%, in 2006 by 17.7% and in 2007 the highest growth rate by 25.5%. While in 2009 because of the financial crises there is a decrease in export growth rate by -8.1%. The increases in export growth rates are associated with increases in the import growth rates respectively; in 2001 by 23.8% and in 2007 by 26.5%, while in 2009 as in exports there is a decrease too in imports growth rate by -1.8%. From the beginning of the 1990s and continuing to nowadays, imports have always been higher than exports leading to an increasing trade deficit for Albanian economy. As it is shown in the table below import coverage index (Exports/Imports) for the last 10 years is very low between 22.2% - 26.5%, not showing signs of changing for better. This index by the same time shows also a low level of competitiveness for the economy.

Table 1: Macro-Trade Indicators, in millions Lekë, unless otherwise

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Real GDP growth rate	6.7%	7.9%	4.2%	5.8%	5.7% [†]	5.7%	5.5%	6.0%	6.7%	3%
Nominal GDP	523,043	583,369	622,711	694,098	750,785	814,797	891,000	982,737	1,085,700	1,143,000
Trade flows**	191,351	234,811	254,689	279,867	296,892	326,023	375,720	474,602	551,622	534,546.3
-Imports	154,290	191,053	208,501	225,380	234,770	260,205	298,279	377,447	439,083	431,107.43
Exports	37,061	43,758	46,188	54,487	62,121	65,818	77,441	97,155	112,539	103,438.84
Trade deficit	117,229	147,295	162,313	170,894	172,649	194,387	220,837	280,292	326,544	327,668.59
Exports growth	-2.4%	18.1%	5.8%	18.0%	14.0%	8.0%	17.7%	25.5%	15.8%	-8.1%
Imports growth	-7.1%	23.8%	9.1%	8.1%	4.2%	10.8%	14.8%	26.5%	16.3%	-1.8%
Trade flows growth	-6.2%	22.7%	8.5%	9.9%	6.1%	9.8%	15.2%	26.3%	16.2%	-3.1%
Openness index***	36.6%	40.2%	40.9%	40.3%	39.5%	40.0%	42.2%	48.3%	50.8%	48.8%
Trade deficit/GDP	22.4%	25.2%	26.0%	24.6%	22.9%	23.8%	24.8%	28.5%	30.1%	28.7%
Imports/GDP	29.5%	32.7%	33.5%	32.5%	31.3%	31.9%	33.5%	38.4%	40.4%	37.71%
Exports/GDP	7.0%	7.5%	7.4%	7.9%	8.3%	8.0%	8.7%	9.9%	10.4%	9.05%
Imp. Coverage (Ex/Imp)	24.0%	22.9%	22.2%	24.2%	26.5%	25.3%	26.0%	25.7%	25.6%	24%

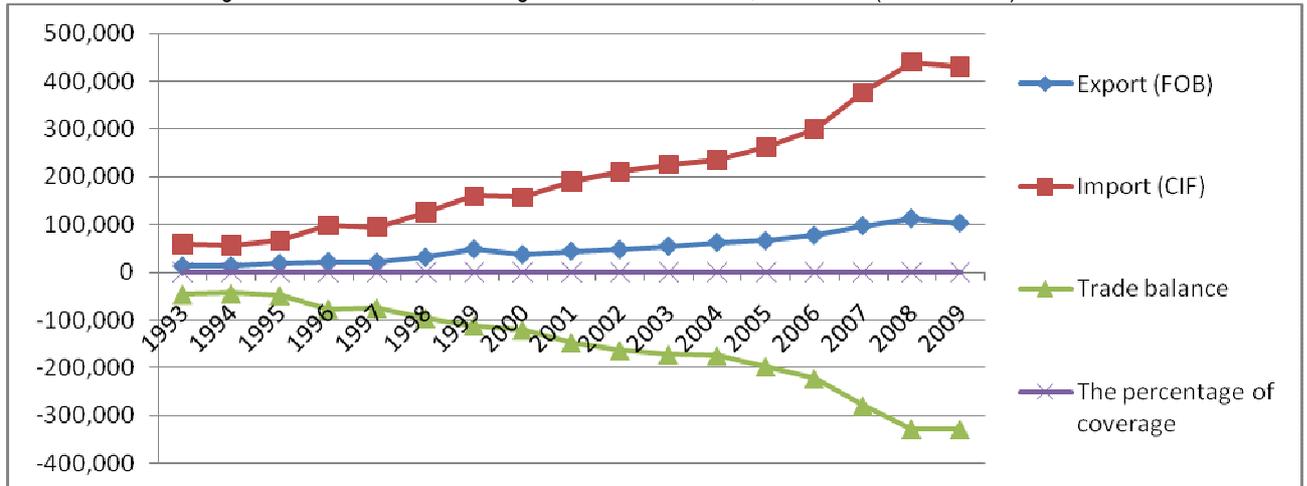
*Estimate, based on Ministry of Finance publications (2009 Budget Analysis (www.minfin.gov.al); Macroeconomic and Fiscal Framework 2010-2012, p. 16).
Only trade in goods; *measured as a ratio of trade flows to GDP.
Source: Ministry of Finance, INSTAT, METE, Bank of Albania, IMF, and ACIT's own calculations.

indicated

Source: ACIT, Albania 2009 Trade Report, p.17

Figure 1 shows in more details the flow of goods in foreign trade for the years 1993-2009. From the beginning of its foreign trade history, Albanian imports have exceeded its exports. While the increase in imports is very high, the increase in exports is very low, so increasing year by year the trade deficit and having no big changes on the percentage coverage.

Figure 1: Flow of Goods in Foreign Trade in million Lekë, 1993-2009 (1 € ≈ 140 lek)



Source: INSTAT, Albanian Institute of Statistics

Table 2 shows the structure of Gross Domestic Production at current prices by main economic activities in million Lekë for the years 2005-2008. There is an increase of GDP at current prices each year and also of the GDP per capita in \$USA by approximately 36% from 2005 to 2008.

The structure of GDP has changed from 2005 to 2008. Agriculture, hunting & forestry sector has decreased each year from 20.6% of total GDP to 18.5%. Industry sector has shown slow up and downs, with a total decrease. From its subdivisions, Extracting Industry has increased its share on GDP, while Manufacturing Industry has decreased. There is a slow increase in the construction industry, while in Trade, Hotels, Restaurants and Transport-Communication industries there are slow up and downs and in other services a slow increase in total GDP %.

Table 2: Gross Domestic Production by Main Economic Branches million Lekë, 2005 – 2008,

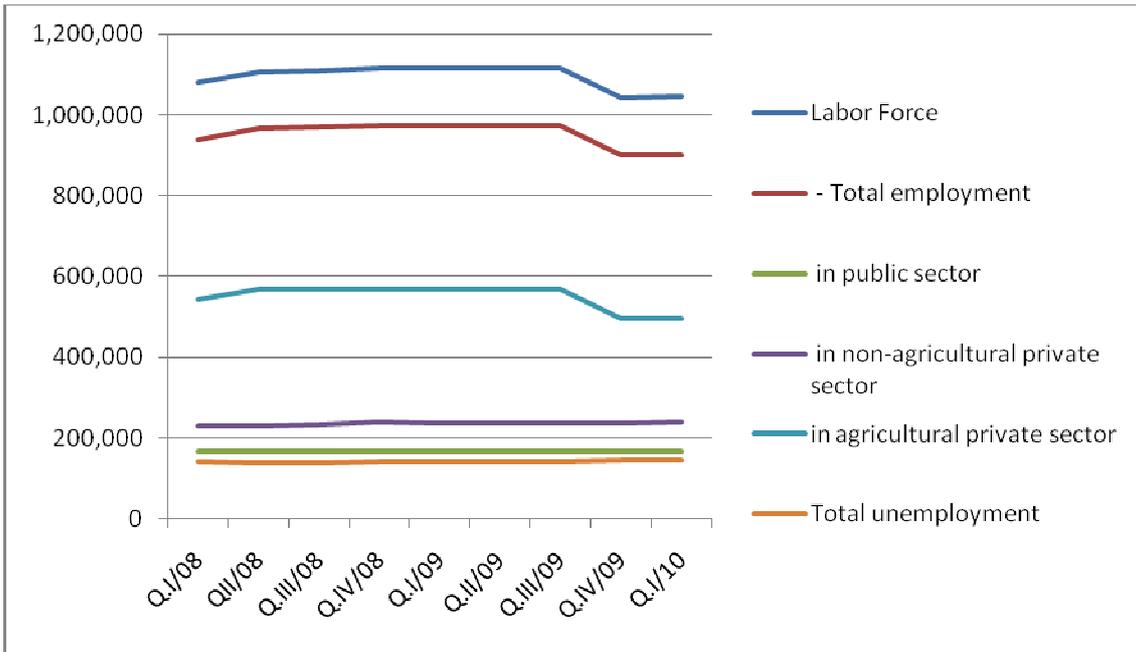
2005	2006	2007	2008*	
814,797	882,209	967,670	1,088,132	GDP at current prices
5.7	5.4	5.9	7.7	Annual of GDP at constant prices compared to previous year
2,597	2,854	3,385	4,076	GDP per capita in \$USA
100.0	100.0	100.0	100.0	Structure of GDP by economic activities at current prices
20.6	19.4	19.0	18.5	Agriculture, hunting & forestry
10.6	11.1	9.4	9.8	Industry
0.8	0.7	0.9	1.1	-Extracting Industry
9.9	10.4	8.4	8.7	-Manufacturing Industry
13.8	14.3	14.8	14.9	Construction
21.6	20.9	21.2	21.2	Trade, Hotels and Restaurants
9.4	9.5	9.7	9.6	Transport and communication
24.1	24.8	25.9	25.9	Other Services

*Semi final data

Source: INSTAT, Albania in Figures 2010, pg. 25

Figure 2 shows the total labor force, employment distribution and total unemployment in quarters for the period Q.I/08 – Q.I/2010. Although the Albanian economy is not strongly affected by the global crises and there is a gradual increase in its total unemployment rate from 13.04% in the first quarter of 2008 to 13.83% in the first quarter of 2010. The labor force has a sharp decrease during the third and fourth quarter of 2009, which is reflected in the decrease of total employment and also of the employment in agricultural private sector by 72,359.

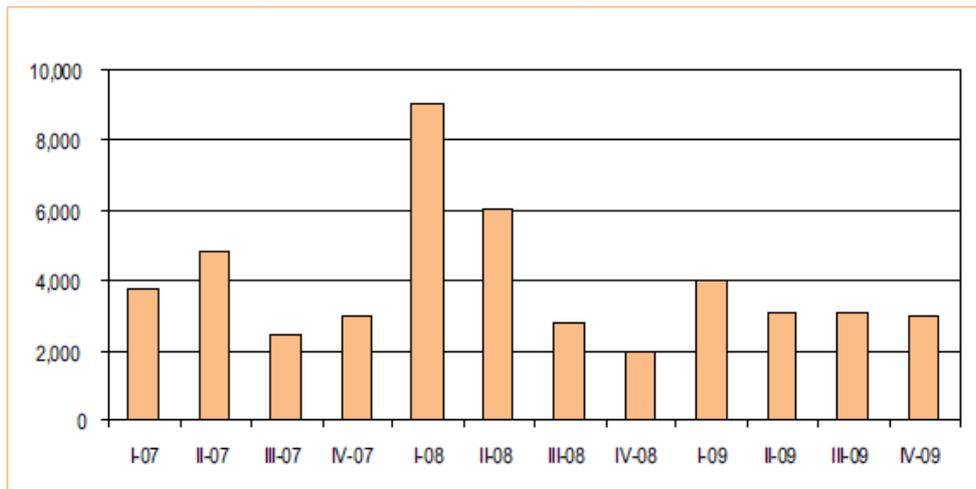
Figure 2: Labor Force, Employment distribution, Unemployment (Q.I/08-Q.I/10)



Source: INSTAT, Albanian Institute of Statistics

Figure 3 gives the increases in new enterprises quarterly from the first quarter of 2007 to last quarter of 2009. During his period highest increase happened in the first & second quarter of 2008, while in the proceedings quarters the increases in new enterprises will be lower ($\approx 3,000$).

Figure 3: New Enterprises Quarterly Q.I/07 – Q.IV/09

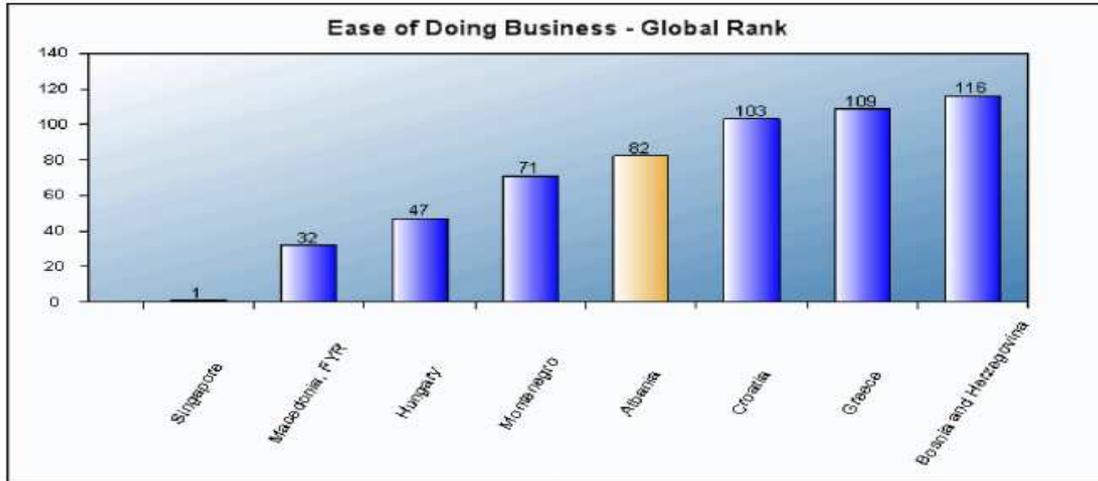


Source: INSTAT, Albania in Figures 2010, pg. 34

COMPETITIVENESS OF THE ALBANIAN ECONOMY

In the report Doing Business Albania 2010, prepared by International Bank for Reconstruction and Development / World Bank, Ease of Doing Business in Albania is compared to global good practice economies as well as selected economies, and is ranked 82 out of 183 economies for the year 2010. As figure 4 shows, Albania performs better than Croatia, better than Greece and better than Bosnia and Herzegovina and also for the year 2010 performs better than in 2009.

Figure 4: Albania – Compared to Global Practice Economy as well as Selected Economies



Source: World Bank, 2010, p. 2

Starting a Business in Albania is easier than doing it. The World Bank report Doing Business Albania 2010, as shown in figure 5, ranks it 46 out of 183 countries. In starting a business Albania performs better than Montenegro, Croatia, Greece, Bosnia and Herzegovina and many other countries.

Figure 5: Ranking of Albania in Starting a Business



Source: Ibid, p. 8

TRADE STRUCTURE IN ALBANIA

Albanian trade structure has changed not so much from 2005 to 2009. Table 3 & 4 gives the data related to export and import by group of goods in values and as percentage from 2005 to 2009. Minerals, fuels, electricity, textile and footwear remain important sectors with high shares total exports. Exports of Minerals, fuels and electricity have increased their share of total exports from 5.2% in 2005 to 20% in 2009, while textiles and footwear from a share of 57.9% in 2005, have shown a decrease of 46.8% in 2009. The increase in share of total exports of minerals was accompanied with an increase also the products growth rate. Mineral products growth rate was 1.5% during 2009 (ACIT Report, 2009, p.22). Construction materials and metals share to total exports reached 12.5%, experiencing a strong decrease after 2008 which share was 20%. Structure of imports is more dispersed than the structure of exports. Mineral, fuels, electricity products have shown a decrease in total share of imports from 2008 which reached 17.9% to 14.4% in 2009. Machineries, Equipment, spare parts, food, beverages, tobacco and construction materials are the most important sectors with high shares of imports.

Table 3: Export by group of Goods

mln lek						%				
2005	2006	2007	2008	2009		2005	2006	2007	2008	2009
65,818	77,405	97,171	112,572	103,244	Total	100.0	100.0	100.0	100.0	100.0
5,386	6,143	7,079	7,215	7,498	Food, beverages, tobacco	8.2	7.9	7.3	6.4	7.3
3,436	5,809	14,987	20,339	20,648	Minerals, fuels, electricity	5.2	7.5	15.4	18.1	20.0
702	563	786	1,177	1,644	Chemical and plastical products	1.1	0.7	0.8	1.0	1.6
1,274	1,486	2,022	1,738	1,529	Leather and leather manufactures	1.9	1.9	2.1	1.5	1.5
2,075	2,504	3,031	3,619	3,431	Wood manufactures and articles of paper	3.2	3.2	3.1	3.2	3.3
38,102	42,419	47,069	48,813	48,345	Textile and footwear	57.9	54.8	48.4	43.4	46.8
10,373	13,203	15,386	22,492	12,914	Construction materials and metals	15.8	17.1	15.8	20.0	12.5
2,750	2,979	3,925	4,578	4,894	Machineries, equipments and spare parts	4.2	3.8	4.0	4.1	4.7
1,720	2,300	2,889	2,600	2,341	Others	2.6	3.0	3.0	2.3	2.3

Source: INSTAT, Foreign Trade 2005-2009, p.8

Table 4: Import by group of Goods

mln lek						%				
2005	2006	2007	2008	2009		2005	2006	2007	2008	2009
262,191	299,147	376,194	439,894	431,107	Total	100.0	100.0	100.0	100.0	100.0
46,055	53,464	60,895	73,160	74,692	Food, beverages, tobacco	17.6	17.9	16.2	16.6	17.3
31,507	41,472	62,932	78,705	61,990	Minerals, fuels, electricity	12.0	13.9	16.7	17.9	14.4
26,590	33,086	39,526	45,465	50,971	Chemical and plastical products	10.1	11.1	10.5	10.3	11.8
5,607	6,528	7,825	6,924	6,914	Leather and leather manufactures	2.1	2.2	2.1	1.6	1.6
8,527	10,887	13,323	15,016	17,446	Wood manufactures and articles of paper	3.3	3.6	3.5	3.4	4.0
32,224	35,111	39,310	39,582	39,557	Textile and footwear	12.3	11.7	10.4	9.0	9.2
39,063	47,836	59,560	67,827	66,693	Construction materials and metals	14.9	16.0	15.8	15.4	15.5
61,963	60,369	78,773	97,059	98,381	Machineries, equipments and spare parts	23.6	20.2	20.9	22.1	22.8
10,655	10,393	14,049	16,156	14,463	Others	4.1	3.5	3.7	3.7	3.4

Source: Ibid, p.18

The structure of trade geography has shown changes during the years. Exports to EU countries have lost share from 89.4% in 2005 to 79.2% in 2009, while exports to Western Balkan countries have increased from 6.7% in 2005 to 12% in 2009 and with the rest of the world from 3.7% in 2005 to 7.9% in 2009. Exports with the OPEC countries are very low and in 2007 no exports were realized, but after 2007, the situation changed with increases in the share of total exports by 0.9%.

Table 5: Export by Group of Countries

mln lek						%				
2005	2006	2007	2008	2009		2005	2006	2007	2008	2009
65,818	77,405	97,171	112,572	103,244	Total	100.0	100.0	100.0	100.0	100.0
58,864	68,598	80,741	89,675	81,760	EU countries	89.4	88.6	83.1	79.7	79.2
4,422	5,850	9,649	15,328	12,420	Western Balkan countries	6.7	7.6	9.9	13.6	12.0
103	39	17	622	941	OPEC countries	0.2	0.1	0.0	0.6	0.9
2,429	2,918	6,764	6,947	8,123	Rest of the world	3.7	3.8	7.0	6.2	7.9

Source: Ibid, p.17

As in exports, EU is our main partner imports too, but in this case after a sharp decrease in share of total imports after 2007 there is again an increase in share, totaling 64.3% in 2009. Share of total imports with Western Balkan countries have increased from 3.5% in 2005, to 6.6% in 2009. While for exports the year 2007 showed no relations with OPEC countries, for the imports it shows the highest share during the last 5 years. Imports from the rest of the world, after increasing in share up to 2007, have decreased by 28.5 in 2009.

Table 6: Import by Group of Countries

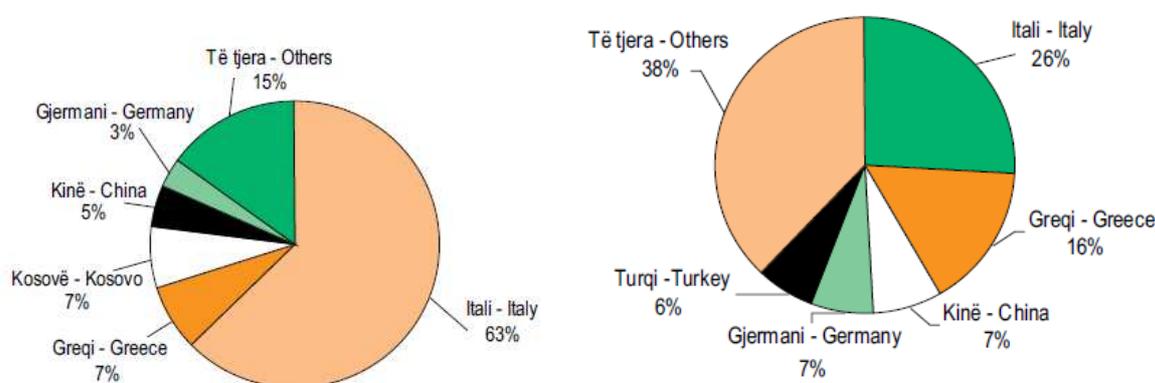
mln lek					%					
2005	2006	2007	2008	2009		2005	2006	2007	2008	2009
262,191	299,147	376,194	439,894	431,107	Total	100.0	100.0	100.0	100.0	100.0
176,067	195,836	224,594	267,182	277,213	EU countries	67.2	65.5	59.7	60.7	64.3
9,239	13,914	25,526	36,586	28,330	Western Balkan countries	3.5	4.7	6.8	8.3	6.6
607	891	7,188	2,196	2,516	OPEC countries	0.2	0.3	1.9	0.5	0.6
76,278	88,506	118,886	133,930	123,048	Rest of the world	29.1	29.6	31.6	30.4	28.5

Source: Ibid, p.27

Italy is our main exporting (63% of total exports) and importing (26% of total imports) for the year 2009. Figure 6 below shows Albanian main partner countries in exporting to and importing from products.

Figure 6

Structure of Export by Main Partners, 2009 - Structure of Import by Main Partners, 2009



Source: INSTAT, Albania in Figures 2010, p. 46

CONCLUSIONS

The financial and economic crises of the 2009 affected the global economy at all. Albanian economy, although when compared to the other economies of the region seems to be an exception with its GDP growth remaining positive, was affected through many channels.

The import coverage index (exports/imports) still continues to decrease during the last years, by registering 24% in 2009. The import coverage index, which shows that exports are less than one fourth of imports, reflects also a low level of competitiveness of the Albanian economy and a relatively high fragility. They are highly dependent on inward processing industries, like apparel and shoes industries, while exports of mining products and other raw materials are highly dependent on world price fluctuations (ACIT Report, 2009, p.16). In order to support and boost Albanians competitiveness are needed effective structural reforms and policies. Improving the business environment and protecting investors will increase domestic and foreign investments. Increases in investments will increase productivity.

Albania has shown positive steps in its ease of doing business by being ranked 82nd in 2010 from 89th in 2009. In starting a business are shown more positive changes, it has been ranked 46th in 2010, from 68th in 2009.

Albanian trade structure has changed not so much from 2005 to 2009. Table 3 & 4 gives the data related to export and import by group of goods in values and as percentage from 2005 to 2009. Minerals, fuels, electricity, textile and footwear remain important sectors with high shares total exports. Changes in the structure of exported goods over the years are related to the change in the structure of GDP. Exports of Minerals, fuels and electricity have increased their share of total exports from 5.2% in 2005 to 20% in 2009, while textiles and footwear from a share of 57.9% in 2005, have shown a decrease of 46.8% in 2009. The increase in share of total exports of minerals was accompanied with an increase also the products growth rate. Mineral products growth rate was 1.5% during 2009 (ACIT Report, 2009, p.22). Construction materials and metals share to total exports reached 12.5%, experiencing a strong decrease after 2008 which share was 20%. Structure of imports is more dispersed than the structure of exports. Mineral, fuels, electricity products have shown a decrease in total share of imports from 2008 which reached 17.9% to 14.4% in 2009. Machineries, Equipment, spare parts, food, beverages, tobacco and construction materials are the most important sectors with high shares of imports. The structure of trade geography has shown changes during the years. Exports to EU countries have lost share in 2009, while exports to Western Balkan countries and the

rest of the world have increased them. EU is our main partner imports too. Share of total imports with EU and Western Balkan countries have increased in 2009.

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