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Introduction

In its efforts to open and run the negotiations for a Stabilization and Association Agreement (SAA) between Albania and the European Union (EU), the Joint Consultative Task Force, established in 2001, concluded so far seven meetings, negotiating six of the ten expected titles of the SAA, which was officially launched on January 31, 2003. Since trade provisions are one of the four pillars of the SAA draft, along with political dialogue, freedom of movement, and co-operation in justice and human rights, reforms to liberalize exchanges have been undertaken until a free trade area is established in ten years. Based on 1993 Copenhagen criteria, Albania aims not only at adapting its democracy and rule of law to EU standards, but also at competing in the EU free common market.

Efforts in that directions aim at the establishment and strengthening of the institutional framework on trade, free and fair competition, and trade and economic liberalization. Those issues are subject of the specific standstill clause, preventing Albania from re-applying trade barriers.

Liberalizing Albania’s trade policies is not a movement motivated by the European Integration agenda only; it is a consistent direction that has been followed since the early years of transition. During the past ten years, steps to eliminate administrative (qualitative) limitations on exports and to reduce import tariffs were undertaken. In September 2000, Albania became a WTO member, demonstrating a willingness to reform in order to participate in the global economy.

1 Paper published in “Monitoring Albania’s Path to European Integration” an annual edition of Friedrich Ebert Foundation, Tirana, May 2004
It is important to recognize foreign trade in a country’s economic growth and social wellbeing that may be characterized as follows:

- Allocating production resources more efficiently; which is more than attributing export market signals. Though far from desired levels, Albanian imports play an important role in re-allocating production resources by adapting the economy to domestic and export market demands. Albania’s small economy gives more importance to the role of producers, creating the possibility for an open economy. This results not only from limited resources compared to open demand, but also of their position as “price taker” compared to large economies which are global “price makers;”
- Opening the market for less expensive imported goods, due to free competition, is imperative because of Albania’s poverty level.

This perspective must be balanced against current phobias towards imports by some interest groups. Privately imported goods (without denying the decisive role of economic aid) have met basic needs, increased variety, and changed the import structure.

Certainly, growing imports indicates an efficiently developing foreign trade. This is especially important in Albania, due to the significant trade deficit, fragile balance of payments, uncompetitive and under diversified Albanian products, and the need to face new regional competition and European partnerships after signing the Free Trade Agreements.

The following analysis will present not only the aspects of foreign trade development in Albania but also some of the challenges and problems that face this sector.

**Albanian Foreign Trade until 1990**

According to current criteria, Albania historically had a closed economy. Pre-World War II indicators show foreign trade rates of only 8-9% that remained at this level for twenty years following the war. In 1985, this number increased to 13-14%, not to exceed 20% in the year prior to opening the country’s markets.

Albania has traditionally had a deep trade deficit. In 1938, the rate of covering imports with domestic exports was 33.8%, which fell below 30% in 1950. This rate was later artificially raised as a result of anti-import policies forced by lack of equipment and outdated technology compared to foreign markets’ demands. In 1985, following the death of the dictator, the decline by approximately 23 percentage points in 5 years revealed the artificial basis of this ratio.

After 1970, despite Albania’s isolationist economy and autarchic policies, which culminated in the slogan “development completely based on our efforts,” scholars at the time could never devalue the role of foreign trade relations to the country’s economic survival. The importance of foreign monetary injections dissipated under the skewed view of ‘brotherly aid’ from allied socialist countries; therefore, the majority of power plants, smelting works, and textile plants

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2 This role is seen in economic structural changes expressed in increasing the variety of services offered, in increasing the construction and transportation fields, and introducing new technologies in several areas.
3 1992-1993 and 1997 are two critical periods of Albanian transition that highlights trade’s increasing economic role: in 1997 economic aid became almost unnecessary; private business based trade was able to meet market demands.
4 \(\frac{X+M}{\text{Gross National Product}}\) ratio has been the basis, though not identical to the well known indicator \(\frac{X+M}{\text{GDP}}\), is very close to the latter and remains the best in the absence of statistical information of the time (see Statistical Yearbook of the People’s Republic of Albania, 1965).
6 The trade deficit quota of 83.3% that was maintained until 1985 fell to 59.9% in 1990, (Statistical Yearbook of Albania, 1991).
that were established to ‘industrialize’ the country, were ‘zero interest’ loans and credits granted by other communist regimes.

The chaos accompanying the sudden collapse of the country’s political and economic systems was reflected in export structure changes. These modifications were the result of several factors:

- Market reduction during the initial transition phase, parallel to the collapse of the planned economy, caused a sudden market reduction with former Yugoslav and CMEA (KNER) countries; although Albania was less dependent on CMEA\(^7\) than other members of this group, the continued to play a significant economic role;\(^8\)
- Accelerated de-industrialization lead to the closing of several industries that had been economically important until then, such as chrome and copper mines, smelting works, and textile plants. Other industries, constrained by the lack of raw materials, slowed production to a minimum. In 1991-92, production dropped 50%; therefore, exports decreased and were subject to great structural changes.

Historically, Albanian exports were based on the availability of raw natural materials; however, at the beginning of transition production was less than effective due to decades of isolation without contemporary economic and technological developments. In 1991, senior officials and management were faced with the following:

- Bankrupted economy;
- Decaying roads, energy, and public services infrastructure;
- Inexperienced labour force, with regards to market economies;
- Outdated technology;
- Severed trade ties to foreign markets.

All of which explain Albania’s deep, and continuing, trade deficit at the beginning of transition. In the following years, foreign trade development was characterized by three features:

- Though isolation was severe, economic stability was restored generally easily and without conflicts. Then in 1997, everything collapsed again, but foreign trade developed progressively, although imports grew more rapidly than exports (see graphs 2.3 and 2.4). 2000 and 2003, marked unusually fast relative export growth.
- Trade orientation was re-directed towards EU markets, mainly Italy and Greece;
- Export structure changed from raw material based products (minerals, metals, agro-food products) to cheap and unskilled labour manufacturing.

Graph 1: Trade balance through years (in million USD)

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\(^7\) CMEA or COMECON – Council for Mutual Economic Assistance - former intergovernmental body established in Moscow in January 1949 to assist and coordinate the economic development of its members. The original members were Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and the Soviet Union. Albania, admitted in February 1949, was expelled in 1961

\(^8\) Together with former Yugoslavian countries, Eastern European markets absorbed 46% of Albanian exports, while it supplied 50% of the materials for domestic imports. Furthermore, the import structure in both markets were not significantly different, they were dominated by mining and agriculture.
From 1991 to 2002, Albanian foreign trade was characterized by consistent increases in volume. According to the government’s memorandum on WTO membership, Albania’s foreign trade volume in 1990 was USD867 million, whereas in 1991 it was estimated at USD312 million. In 1991, a 70% decline marked the first year of restructuring a significant improvement, accompanied by incremental increases the following years until the shock of 1997. In 1995, the pre-transition trade volume rate was reached. The 1997 decline was temporary and was overcome in less than two years. Though 2000-03 growth is satisfactory compared to the world-wide economic situation, the fluctuations observed from one year to the next illustrates the instability of exports.\(^9\)

In addition to radical foreign trade and foreign exchange regime reforms, three important factors explain its fast recovery:

- Relatively low trade levels;
- Remittances and foreign aid;\(^{10}\)
- Potentially great and untapped trade with neighbouring EU countries.

While other transition countries, especially those that pursued gradual reforms, experienced initially lower foreign trade decreases, prolonged recovery exposed foreign trade to new political and social threats, leading to the recent declines which necessitated initialising a stability programme. In 1992, remittances and aid covered rapidly growing imports (189\%), and were reflected in export growth a year later. In 2000, the value of imports rose to USD1.1 billion, seven times higher than in 1991, and doubled in 1992. Export dynamics fluctuated; 1993-96 saw satisfactory increases but declined again (27\%) in 1997. Export recuperation continued slowly, the deep trade deficit extending to almost all product categories (see graph 3).

Graph 3 Trade Deficit Structure grouped according to goods in 2002.

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\(^9\) The 2002-03 estimated export growth rate will be four times higher than 2001-02; whereas import growth rate will be twice as high.

\(^{10}\) Remittances are estimated to reach a record level of approximately USD700 million in 2003 (Ministry of Finance analysis, January 2004).
Over the past decade, economic thought, reflected in a number of studies in several countries, is dominated by the notion that opening trade and liberalizing trade regimes accelerates economic growth, creating prosperity, regardless of a country's development situation (Bhagwati and Srinivasan 1999).

In spite of political and social pressures, Albania has succeeded in implementing policies that maintain the liberalization trend compared to neighbouring countries (Table 1).

**Table 1: Average tariff levels of South-eastern Balkans countries, 2002.**

The following graph clarifies Albania’s moderated average customs tariffs compared to its neighbours. Agricultural and industrial tariffs are represented separately (see Graph 4).
Important steps have been taken in recent years to reduce regional trade barriers, especially WTO membership (September 2000) and seven regional bilateral free trade agreements based on the Trade Facilitation and Liberalization memorandum in the framework of the Stability Pact of South-eastern European countries. The trade memorandum aims at reducing bilateral trade volume and tariff boundaries by 90% over six years. Together with the trade agenda and SAA negotiations, these liberalizations confirm a determined trend Albania adopted early in transition.

At present, Albania imposes no quantitative limitation on exports or imports; there are no customs taxes on exports; customs tariffs on imports have declined significantly; and import tariff structures have been mainstreamed.

Implementing Trade Liberalization
Though the legal and normative framework for liberalization exists, it has not been implemented. Strong criticisms have been made against the deficient and subjective implementation of tax and customs legislation, the incompetent and corrupt administration, the delays in circulating goods and services, and increased transaction costs. Additionally, approved or implemented normative tariffs are only one liberalization indicator. Theory and practice dictate that trade liberalization is more than lower taxes.

Trade liberalization implies reduced discrimination against foreign goods and services suppliers, which is achieved not only by eliminating quotes and lowering average dispersion tariffs, but also by strengthening trade related institutions, especially customs and standards. Furthermore, in order to achieve successful reforms in trade, adequate policies must be drafted and implemented. Trade policy connects transmitted price signals from the world market to the national economy. When these signals are not altered by world markets

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11 See point 1.2.2 of the “Memorandum on Trade Facilitation and Liberalization,” Brussels, June 27, 2001.
and when there is liberty of exchange rates, domestic resources will be allocated to conform to comparative economic advantages, thereby increasing productivity.

Table 2 explains why the actual level of trade liberalization does not correspond to demonstrated trends by simply reducing tariffs; hence, Albania remains last in the indexed list of openly trading Balkan countries.

Table 2: Indicators of Albania’s Foreign Trade volume and economic liberalization.

<table>
<thead>
<tr>
<th>Year</th>
<th>Goods trade volume</th>
<th>Trade volume + services</th>
<th>GDP (in constant prices, USD)</th>
<th>Economy’s opening index</th>
<th>Opening index, without services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>696.5</td>
<td>923</td>
<td>1,948</td>
<td>47%</td>
<td>35.8</td>
</tr>
<tr>
<td>1995</td>
<td>849.8</td>
<td>1,089</td>
<td>2,476</td>
<td>44%</td>
<td>34.8</td>
</tr>
<tr>
<td>1996</td>
<td>1,129.1</td>
<td>1,435</td>
<td>3,022</td>
<td>47%</td>
<td>41.0</td>
</tr>
<tr>
<td>1997</td>
<td>789.1</td>
<td>1,021</td>
<td>2,236</td>
<td>46%</td>
<td>34.4</td>
</tr>
<tr>
<td>1998</td>
<td>994.7</td>
<td>1,236</td>
<td>2,824</td>
<td>46%</td>
<td>30.3</td>
</tr>
<tr>
<td>1999</td>
<td>1,478.6</td>
<td>1,645</td>
<td>3,549</td>
<td>44%</td>
<td>39.5</td>
</tr>
<tr>
<td>2000</td>
<td>1,328.6</td>
<td>2,210</td>
<td>3,836</td>
<td>58%</td>
<td>36.0</td>
</tr>
<tr>
<td>2001</td>
<td>1,637.9</td>
<td>2,614</td>
<td>4,263</td>
<td>61%</td>
<td>40.9</td>
</tr>
<tr>
<td>2002</td>
<td>1,820.3</td>
<td>2,990</td>
<td>4,832</td>
<td>62%</td>
<td>41.9</td>
</tr>
</tbody>
</table>

Source: ACIT, Bank of Albania

Open trade and investment regimes encourage global trade integration, which allows effective resource assessment and technology imports that will improve productivity.

The basic elements of good trade policy include predictability, transparency, and uniformity. Different scholars have summarized liberal trade policies indicators to create standards against which trade regimes and future reforms may be evaluated. This list of indicators includes:

- Removing licenses and permits, excluding those for health, security, and the environment; automatically granting license requested for statistical purposes; ending quantitative limitations;
- Low and uniform taxes. Nonconforming taxes have lower dispersion, therefore a low number of tariff rates, ‘special’ sectors with very high tariffs must be avoided.
- Maintaining uniform tariffs will generate necessary income; however, some products, such as alcohol and tobacco, taxed at higher customs rates increase income, domestic products should be subjected to equal treatment;
- An efficient customs clearance process with few bureaucratic barriers that secures exporters free access to intermediate imports;
- Reducing, to possibly only one, safeguard provision for trade protection; avoid anti-dumping due to its technical complexity and abuse.

Viewing Albania in the above context affirms that much remains to be done along the trade liberalization road. Criticisms range from the length of customs clearance, approximately 5.3 days per import action, to corruption, where Albania tops the list of regional countries at 68.4% in 2002, increasing over 2003.

Re-orienting Albania’s Foreign Trade towards Europe

1991’s political changes paved the way for strong governing policies to direct economic and trade liberalization. On May 11, 1992, only a year later, Albania signed the Economic and Trade Co-operation Agreement, and the common declaration for Political Dialogue, implemented in December 1992. This constituted an historic moment for Albania and its aspiration of EU and world economic integration. It was also the year that Albania was

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15 Bulgaria 1.2 days, Romania 2, Ukraine 2.6, and Moldavia 4.3 days FIAS (Foreign Investment Advisory Service): “Albania - Removing Administrative Barriers to Investment: A Critical Component of the National Development Strategy,” March 2003.
16 See “Corruption Indexes,” Regional Corruption Monitoring, Centre for the Study of Democracy and the International Legal Development Institute, Rome, April 2002.
included among GSP countries benefiting from a preferential agreement implemented by the EU. This framework, in addition to a number of other factors such as geographic vicinity and unexploited trade potential with the EU, massive emigration, and free working and relatively qualified power for “façon” type operations, almost immediately directed Albanian trade entirely towards the EU (see Graph 5 and Table 3).

Graph 5. Albania’s Foreign Trade Re-Orientiation 1990-2000 (millions USD).^{17}

Table 3. Part of trade with EU and SEE region compared to SEE total -7 (in %), 1999-2002^{18}

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^{18} Adopted with changes by Milica Uvalic, Paper presented in the Conference on Trade & Economic Integration of the Western Balkan countries in the European Union, Tirana, 12-13 December, 2003.
Albania and an EU Trade Regime

The Albania-EU trade regime is composed of two asymmetrical schemes, the Regional Autonomous (June 29, 1999), and the asymmetrical regime (September 18, 2000). Based on the export structure and granted facilitators, a European Commission report estimates that this programme allows the free introduction of 95% of Albanian goods into the EU. The Regional Asymmetrical Preferential Trade Regime is based on several principles:

- Granting several preferences for Stability Pact countries of South-eastern Europe (Albania, FYROM, Croatia, and Bosnia-Herzegovina);
- Scaled progression of granted facilitators at some levels (0%, 6%, and 12.5%);
- ‘Global’ use of quotes by all benefitting countries, aiming at promoting competition among them (who can exploit more the common quote).

Table 3

In order to participate in the EU asymmetrical trade programme the goods must be produced or obtained in Albania, determined by a set scale to be Albanian, or produced in Albania from raw materials imported from the EU (under EUR.1 certificate).

The January 1, 2009 deadline for completing free trade liberalization with the EU seems logical and fair because: the SEE countries free trade area will have been implemented; and Albania’s deadlines will be harmonized with other countries that have the same EU agreement, such as FYROM (perhaps these deadlines will be accelerated for those countries not yet in negotiations with the EU such as Bosnia Herzegovina, Serbia and Montenegro, and Kosovo).

The main negotiations topic concerns the list of products for gradual liberalization, and not deadlines for entering the Free Trade Area. The list of sensitive products for the Balkan and EU FTA’s are mainly agricultural or agriculture-related products. ACIT has identified several problems with the lists; therefore, more attention should be given to harmonizing Albania’s schedule with WTO commitments for industrial products.

In 2004, the Albanian Parliament passed the new fiscal package, but it respects only some commitments in agricultural and industrial goods, such as beer, oil products, fish, eggs, and several vegetables. Efforts to negotiate re-scheduling of WTO deadlines and postponing liberalization deadlines for these goods have begun.

Customs tariffs for some products that Albania seeks to protect will probably be liberalized before the end of 2008. Goods that would have been untaxed, such as wood, paper, and metal products, electrical equipment, detergents, cosmetics, plastics, and toys should have been significantly liberalized beginning January 1, 2004. It makes little sense to

19 The data are complete only for Albania, Serbia and Montenegro (Kosovo is not included). The rest are 9 monthly.
include the wood and paper products in the EU negotiations list; whereas tariff reduction is sought for the rest of the list that initially applied customs taxes to comply immediately with WTO commitments and only after this, or at least after notification, a request should be submitted for slower liberalization rates with the EU. Harmonization with the WTO matrix is not an issue for those cases of applied taxes being lower than the commitment. More effort is needed in the area of agricultural products. Although a list of 54 sensitive agricultural products has been produced, the Albanian negotiation policy must be further clarified with arguments on policies that Albania will implement for these products and those not on the list.

EU negotiators must show more willingness to respond to Albania’s difficulties. Clearly the EU has awarded Albania a favourable trade status even compared to countries that have signed the European Agreement. However, if clauses on rules of origin would be more facilitating, regional integration would be positively encouraged, for example: the ‘diagonal accumulation principle’ in following rules of origin could be implemented, a concrete commitment by the EU to facilitate business movement, assistance could be given in implementing FTA’s, and assistance could be given to strengthen institutions dealing with the inspection and certification of export goods, and to implement sanitation measures.

### Challenges and Problems

“...it takes courage to pursue policies that will bring change and upheaval. Economic restructuring does not just create new jobs: it also puts some people out of old ones...”

*Leif Pagrotsky, Financial Times, 09.01.2001*  

Current developments testify to the number of serious problems in establishing trade partnerships. Even compared to other Balkan countries, Albania’s degree of trade liberalization remains very low. The country’s characteristically high foreign trade deficit remains a potential threat to BoP and fiscal and macroeconomic equilibrium. Exports suffer because they are not diversified and have little added value. Re-exported goods, such as textiles and shoes, constitute more than 60% of total exports. Equally problematic is external market diversification. More than 35% of imports and approximately 72% of exports are concentrated with one partner: Italy. More than 92% of Albanian exports and 75% of imports are destined for EU markets (Table 6).

<table>
<thead>
<tr>
<th>Partner Countries</th>
<th>Trade export 2002</th>
<th>Trade Import 2002</th>
<th>Trade Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute value %</td>
<td>% towards 2002</td>
<td>Change compare d to 2001</td>
</tr>
<tr>
<td>EU Countries</td>
<td>304.2 92.1</td>
<td>8.9</td>
<td>1,121.0 75.3</td>
</tr>
<tr>
<td>Germany</td>
<td>18.3 5.5</td>
<td>8.3</td>
<td>71.6 4.8</td>
</tr>
<tr>
<td>Greece</td>
<td>42.4 12.8</td>
<td>6.2</td>
<td>388.4 26.1</td>
</tr>
<tr>
<td>Italy</td>
<td>236.8 71.7</td>
<td>9.1</td>
<td>530.0 35.6</td>
</tr>
<tr>
<td>Austria</td>
<td>0.7 0.2</td>
<td>2.1</td>
<td>23.3 1.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.4 0.4</td>
<td>655.8</td>
<td>41.4 2.8</td>
</tr>
<tr>
<td>Other EU countries</td>
<td>4.6 1.4</td>
<td>2.4</td>
<td>66.3 4.5</td>
</tr>
<tr>
<td>South-eastern European countries</td>
<td>12.7 3.9</td>
<td>-10.6</td>
<td>113.3 7.6</td>
</tr>
<tr>
<td>FYROM</td>
<td>4.9 1.5</td>
<td>4.8</td>
<td>19.2 1.3</td>
</tr>
<tr>
<td>Former Yugoslavia</td>
<td>7.5 2.3</td>
<td>-20.3</td>
<td>14.6 1.0</td>
</tr>
</tbody>
</table>

20 Leif Pagrotsky is the Minister of Commerce of Sweden, and is an important figure in International Trade liberalization.
The trade administration suffers from unequal and incorrect legislation and regulation implementation, contraband, and corruption. Wider political and social agreements are sought for implementing new trade policies. Albanians appear to have been pleasantly deceived; different interest groups and the public expected fast results without accepting the sacrifices that accompany the long-term benefits of free competition. Liberalization measures must be accompanied by extensive awareness programmes to understand and to accept what is expected from Albania as a trade partner. Leif Pagrotsky states that, “…It is time to bring out into the open what it really takes to improve the world’s trading patterns. That means admitting that some people, in Europe and elsewhere, will have to adjust; however painful, these facts have to be faced before the real issues can be tackled.”

Graph 6. Partner countries in Albania’s foreign trade

Source: General Customs Directorate, ACIT
Final remarks

- Foreign trade is playing an increasingly greater role in Albania’s economic development; which is common for small countries whose needs develop faster than their resources. Neither natural resources nor free labour can ensure success. WTO membership, continued liberalization, and competitive pressure that come with the Free Trade Agreement with the Balkans and the EU will help mould new and effective strategies. New mindsets and practices will stimulate product differentiation, innovation, and co-operation to create new dynamic internal and foreign markets;

- The new integration and liberalization process emphasizes the need for qualitative interventions in formulating and implementing trade policies, and it is absolutely necessary that European integration defines these actions;

- Faced with fulfilling obligations from signed agreements and conventions, the sharp divisions which caused problems between different interest groups must be resolved;

- Developments must be followed by improvements in respective institutions and mechanisms. Trade policies are no longer limited to taxes but extend to standards and quality, transparency and equality, the fight against corruption and monopolies, intellectual and industrial property rights, and consumer protection are increasingly vital to Albania’s development.

Albania needs to create new dynamic trade policies that move away from traditional unilateral documents drafted by the government, which also leaves singular accountability in fulfilling the requirements therein. Wide participation by interest groups and communities is an essential feature of this new approach to formulating and reforming trade policies; however, several conditions must be meet in order for this to be successful:

- Reforms must be comprehensive. Hence, all participants must have responsibilities in the process. Just as the government (more or less) considers business interests, businesses are then expected to contribute to modernization, legislation, and global integration policies;

- Informed participation in the formulation and implementation process for trade policies is needed;

- Legitimate representation of interest groups will improve of the process itself.

References: