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The Competitiveness of the Albanian Agro-food Trade in the Framework of Trade Agreements With the European Community

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Abstract. This paper provides information on Free Trade Agreements negotiated in Albania with other Balkan countries. According to the WTO agreement frameworks, individual countries can agree to lower custom tariffs and other trade barriers, in order to start up and keep service markets open. In this content, Albania is concluding free trade agreements with nine countries of the region, Macedonia, Croatia, Bosnia & Herzegovina, Romania, Bulgaria, Yugoslavia, Moldova, Turkey and Kosovo. This means free exchange of goods and services between these countries by better exploiting their competitive advantages. A big debate is open about these free trade agreements. Some argue that these trade agreements will negatively affect the Albanian products. Some others are concerned about the "illegal" intrusion of a greater amount of goods, and others say that this is an anti-Albanian policy. However, we see these trade agreements from the stimulant dimension point of view for the Albanian domestic production. Also, there is optimism regarding the wider trade, which involves approximately about 50 million consumers. This may lead to greater possibilities for increasing foreign investments and an increase in the economic stabilization of the region.

Keywords: Free Trade Agreement, competitive advantage, product.

1. Brief overview of current trade performance

Albania has experienced a ten year period of transition characterized by the process of privatization, structural reforms and adoption of a market oriented economic system. It now faces the new challenge of increasing its competitiveness in a globalised market and in the European Union.

Despite the severe challenges resulting from the transition process, the economic and social crises in 1997 and the war in Kosovo in 1999, Albania made substantial progress in macroeconomic stabilization. In 1993 Albania's gross domestic product (GDP) grew by 9.6%, in 1994 by 8.3% and in 1995 by 13.3% (the highest growth rate in Europe). From this Macro – economic stabilisation, approximately 55% of domestic product was attributed to agriculture that was widely privatised. Although in a smaller percentage, a good part of this increase during this period is dedicated to an increase in construction and services. After that economic growth has been unbalanced. During 2001–2003 it appears to have fallen below the 7% estimated historical average (in 2002 GDP growth was 4.7%) [1].

From 1993 to 1995 inflation dropped from a yearly average of 30.9% to 7%, and by 1995 the state controlled only 40% of the total economy. Inflation, from 42% in 1997, dropped to 9% in 1998. In

1999 there was even a mild deflation of 1%. In 2000 inflation accounted for 4.2% and in 2002 for 2.1% [2].

Compared with 1993, the overall trade volume of the Albanian economy has almost doubled (27.8% annually). Also, during 2002 the foreign trade transaction shows an enlargement of the trade activity of Albania. Trade volume was 1.8 million dollars, which represents 47% of the transactions. In the year 2002 the highest level of trade was registered, which was 12% greater than the trade in 2001[3]. In comparison with 2001, imports and exports were respectively 12% and 8% greater. The Albanian economy continues to be oriented towards imports, which have contributed to 82% of the foreign trade. The increase in imports increased the trade deficit which reached 447.6 million dollars in 2002, compared to 218.2 million dollars in 2001. For the agro-food products the ratio imports over exports is 1:8 “in favor” of the imports, taking into account that more than 60% of the population is engaged in the agricultural sector. Imports have generally grown from year to year, but some domestic products have also increased their market share during the same period. The increasing demand for imported goods has served as a positive signal for the domestic production. In some sectors, the substitution of imports with domestic production has been noticed. Agricultural commodities and other food products are potentially an important source of export receipts, but have been held back by poor packing and a lack of emphasis on higher value-added products, such as fruit, olive oil, wine and brandy. Exports are not an aim in themselves. An important function of exports, but not the only one, is to generate the required hard currency for financing imports of goods and services. Another important function is the possibility given by exports, as a process for economic restructuring, for the orientation of production sources towards more efficient uses and increased competitiveness of the economy.

Albanian trade activity remains oriented towards European Community (EC) countries, as shown in table 1. In the European Community, the main trade partners of Albanian are Italy, Greece, and Germany, while in the region main trade partners are Bulgaria, Bosnia & Herzegovina, Croatia, Yugoslavia, Macedonia, Rumania, Slovenia and Turkey. Nonetheless, trade in the region remains very low, as shown in table 2[3].

Table 1. Main Albanian trade partners

| Origin of Imports in percentage to total | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| EC (Italy, Greece, and Germany) | 76.0 | 83.5 | 83.0 | 80.0 | 77.5 | 71.4 | 75.1 |
| Regional countries | 15.8 | 11.5 | 10.3 | 13.6 | 14.8 | 13.3 | 15.9 |
| Destination of the exports in percentage to total | | | | | | | |
| EC (Italy, Greece, and Germany) | 79.9 | 88.0 | 92.1 | 93.5 | 93.3 | 88 | 92 |
| Regional countries | 8.4 | 9.0 | 4.3 | 4.0 | 4.8 | 5.6 | 4.8 |

Albania is widely known as an agricultural country. The agriculture stands for 33.3 % of the GDP, and Albanian families spend 60-70% of their income for food. The agro-food sector is the main sector in the Albanian economy; it contributes to 5-8% of the GDP and engages 5% of the labor force. [4].

Thus, a typical agricultural country is mainly fed by imported agricultural products. Meanwhile, the Albanian farmers complain that they don't have a market for their products. Also, Albanian agriculture exports face the same problems.

Thus a legitimate question would be: in order to fix this negative trade balance, is it better to limit imports or promote exports?

Table 2. Imports with region countries in percentage to total

| | Imports | | | Exports | | |
|---------------------|---------|------|------|---------|------|------|
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| Bulgaria | 2.5 | 2.0 | 2.4 | 0.0 | 0.0 | 0.03 |
| Bosnia &Herzegovina | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.03 |
| Croatia | 1.2 | 1.2 | 2.4 | 0.6 | 0.0 | 0.03 |
| Yugoslavia | 1.0 | 0.6 | 1.1 | 2.8 | 3.0 | 2.09 |
| Macedonia | 2.2 | 1.2 | 1.2 | 0.7 | 1.5 | 1.5 |
| Rumania | 0.6 | 0.9 | 0.9 | 0.0 | 0.0 | 0.03 |
| Turkey | 5.5 | 5.6 | 6.3 | 0.7 | 1.0 | 1.03 |
| Kosovo | Na | 0.2 | 0.02 | Na | 3.0 | 1.6 |

An attentive analysis shows that possibilities of reducing imports are too “limited”. Why? The beginning of transition followed the explosive opening of Albania to the western world. Human contacts multiplied due to emigration, and western life style and needs acknowledged this explosion. We think that it would be impossible to limit some imports. For luxury goods, the demand is elastically related to incomes. Also, when agriculture and other sectors of the economy started to recover domestic production gradually started to “substitute” imports (and foreign economic aid). The decrease of import volumes did not follow this “substitution” process, but contrarily, volumes increased continuously (main inputs were from imports). In addition to domestic production growth, there was an increase in the weight of imported capital goods. Also the low level of openness of the economy does not induce import limitation. Thus, taking into consideration the two functions of export and the narrowing of trade deficit, the economic development strategy of the country should primarily support exports. Policies of import substitution are undoubtedly important but they might be successful and in cohesion with restructuring goals of the economy only if these policies undergo the strategic vision of export promotion.

The use of existing potentials to increase the exports to regional and international markets is the only alternative for a long-term economic development. Competitive advantage, which is the foundation concept of the free trade and globalization, represents the export potential, and powerful arguments in the favor of Albanian free trade. Exploiting the products that embody these advantages will increase the competitive advantages of the Albanian products in the regional and European market.

2. The competitiveness of the Albanian agro-food trade

Albania has established a number of bilateral economic co-operation and trade agreements with Croatia, Bulgaria, Greece, the Former Yugoslav Republic of Macedonia, Romania, Italy, Slovenia and Turkey. These agreements have been complemented by Agreements for the Reciprocal Promotion and Protection of Investments, as well as by Agreements on Avoidance of Double Taxation. Albania is also a signatory of the Memorandum of Understanding for Trade Liberalization and Facilitation signed in June 2001 with the objective of creating, by the end of

2002, Free Trade Agreements (FTA) between the countries participating in the Stability Pact. Albania, like other Eastern European countries, has, by signing this memorandum, institutionalized the commitment to be a part of the free trade area in the region. This means free movement of people, goods and ideas, and is followed by the positive impact in national incomes, by benefits from using comparative advantages of the countries in agricultural, livestock and industrial products. What is more important is the creation of a "common Balkan market" (within a time period of six years) with over 50 million consumers and with interest for potential Western investors. On the other hand, trade exchanges of Albania with the other countries of the region, involved in the creation of the free trade areas process, are rather restricted.

In this framework, Albania is currently concluding free trade agreements with nine countries of the region, Macedonia, Croatia, Bosnia & Herzegovina, Rumania, Bulgaria, Yugoslavia, Moldova, Turkey and Kosovo. These Free Trade Agreements (FTA) are negotiated and agreed upon between parties with the trade liberalization objective. The liberalization is immediate for the products with evident competitive advantage and gradual for the sensitive products towards imports. For these products the agreements foresee a progressive reduction of the custom tariffs and their abolishment through time leading up to the establishment of a free trade area.

Although in an FTA the objectives are concrete and measurable, FTA is flexible; it has the adaptive mechanisms towards the eventual changes in the pre-negotiation period. The principal objective of the agreement is the gradual establishment of a free trade area in a transitional period lasting a maximum of six years. This means that after the year 2008 no more customs tariffs will be imposed in the exchange of goods.

From the date of entry into force of the agreements no new customs duties on imports shall be introduced, nor shall those already applied be increased in the trade between contracting parties. The custom duties on imports, applied in the Republic of Albania on products, originating from the other countries, shall be progressively reduced and abolished according to the timetable. In the same way, customs duties on imports, applied in the other countries on products, originating in the Republic of Albania shall be progressively reduced and abolished according to the timetable. All this is done by taking into account the role of agriculture in their economies, the development of trade in agricultural products between the contracting parties, the particular sensitivity of the agricultural products, the rules of their agricultural policies, and the consequences of the multilateral trade negotiations under the GATT and the WTO, examining the possibilities of granting each other further concessions.

The FTA differentiates industrial from agricultural goods. Agricultural products are more likely to be partially or fully protected, while industrial products are subject to progressive tariff reduction, with a few exceptions. There are three main elements in an agreement: *first* is the list of the products subject to the concessions (mainly for the agricultural products) which takes into consideration the interest of the business of each country; *second* is another list, for the countries which have agreed upon a product exchange with zero tariff beginning from the moment when the agreement will enter into force; *third* is the list of products for which an agreement has been made for a gradual reduced tariff system of up to six years (depending on the country).

To achieve a rightful FTA the economic development differences must be reflected asymmetrically in the interest of the less developed country. This is also the WTO philosophy on the relations of the developed and less developed countries.

The first Albanian FTA was drawn up with Macedonia. The negotiations opened in 1999 and the agreement, after different phases, entered into force on fifteenth of July, 2002. From the political point of view, the free trade agreement with Macedonia means a more intensive trade with the Albanians living in Macedonia. Also, in terms of gaining experience, the country has now a well-equipped team of experts and a process, which consults and involves the private sector. This agreement deals with the negotiations of the customs tariffs in import, for industrial products originating from the Republic of Macedonia, for which the elimination of customs tariffs could be realized within the 6 year transitory period. It also deals with the customs tariffs in import, for industrial products, applied in the Republic of Macedonia, originating from the Republic of Albania, with their phased reduction in 4 and 6 years (reflecting the asymmetry of the agreement in favor of the Albanian trade). There are 10824 industrial items, whose tariff is phased out immediately upon entry into force of the Agreement, from which 10400 are liberalized and 424 will be liberalized by the first of November 2008. So, there 96.06% of the products are liberalized upon entry into force of the agreement. The main Albanian agricultural products that will be exported without quantitative limitations but with customs tariffs are fish and mollusks, olives and olive oil, beans, figs and dates. The products that will be exported with quantitative limitations are watermelons, tomatoes, cucumber, potatoes, carrots, cognac, white cheese, kashkaval, and salami.

Until now, there has been a low level of exploitation of the negotiated quotas. The trade volume is less than 10% of the negotiated quotas [5]. One hundred and fifty tons of tomatoes are exported, which are also the negotiated quota, one third of the quantity negotiated for apple, and 1.5% of the negotiated quantity for sweets. For the other negotiated products, the negotiated quotas are not exploited at all.

The negotiations for the free trade agreement between Albania and Croatia started in January 2002, and entered into force on July 1, 2003. For the industrial products originating from the Republic of Croatia the customs tariffs in import applied within the Republic of Albania and vice versa, will be reduced within 6 years. For each year Croatia will enforce a greater tariff reduction, compared with Albania. This agreement is expected to have a greater effect in the trade between the two countries than the agreement with Macedonia. Croatia has a more developed economy than Macedonia and the Croatian firms are more competitive in the international market.

The negotiations for the agreement between Albania and Yugoslavia started on April 3, 2002. The signing of the agreement by the relevant ministers was on January 3rd 2003, and actually the agreement is currently being discussed in parliamentary commissions. The customs tariffs on import for industrial products originating from both countries will be eliminated within the 5-year transitory period. A note of understanding is included in this agreement, which deals with the usage of road tax Durres - Kosovo and the utilization from the Yugoslavian side of the customs tariff service of 0.5 %. There are 10824 industrial goods, whose tariff is phased out immediately upon entry into force of the agreement, from which 421 will be liberalized by the first of January 2007 and 10403 or 96.11% will be liberalized upon entry into force of the agreement.

The negotiations between Albania and Bosnia & Herzegovina started on March 2002. Currently the agreements are signed by relevant ministers and are in the parliamentary commissions. Different from the other agreements signed so far, this agreement for industrial products does not include lists with phased-out imported products, but provides for the further phasing for all the industrial products, reciprocally and without exclusion. In the first year, there will be a 20 % reduction in the basic tariff (upon entry into force of the agreement). In the second year, there will be a 40 % reduction in the basic tariff (January 1st 2004). In the third year a 60 % reduction

in the basic tariff will be enforced (January 1st 2005). In the fourth year the basic tariff reduction will be 80 % (January 1st 2006) and in the fifth year there will be a 100 % reduction of basic tariff (January 1st 2007). Also in the case for agricultural products the Free Trade Agreement with Bosnia and Herzegovina is experiencing the lack of concessions in agricultural products as well as a symmetric treatment of trade exchanges and its liberalization.

For the agreement Albania – Romania the negotiations started on the sixth of November 2002. The relevant ministers have signed the agreement and it is currently in the parliamentary commissions for discussions. The reduction of customs tariffs will take effect during the transitory period of 5 years for industrial products applied in the Republic of Albania, originating from Romania and in Romania from the Republic of Albania. There are 10824 industrial product items from which 97.69% will be liberalized upon entry into force of the agreement.

The agreement Albania-Bulgaria includes a list of industrial products originating from the Republic of Bulgaria, to be imported in the Republic of Albania and vice versa, for which the elimination of customs tariffs shall be realized within the transitory period of 5 years. From the industrial products, 97.67% will be liberalized upon entry into force of the agreement.

The agreement Albania – Kosovo is planned to enter into force in September 2003. This agreement is the only one that didn't have contestations from the deputy of the Albanian businessmen and the parliamentary commission. The trade balance Albania – Kosovo is the only one that is positive. This is the reason why the liberalization of this market will not damage the Albanian business, but in contrary, will stimulate the trade relations. The customs tariffs from the Albanian customs will be reduced within 5 years for the products originating from Kosovo. The custom tariffs from the Kosovo custom will be reduced within 7 years for the product originating from Albania, reflecting the asymmetry of the agreement in the favor of the Kosovo. This asymmetry is due to the less developed economy of Kosovo.

According to the neo-classic school of thought, each economy must specialize in those activities for which it has competitive advantages. If this happens, the output of each economy and consequently, the global output is the maximal. In this way the agreement becomes effective. The competitive advantages of agricultural products, among others, follow as a consequence of costs structure, which is more favorable for a country or a group of countries towards a country or a group of other countries. So, it can be claimed that (a) the competitiveness issue is related to the production and cost level, with which the product enters the market. In Albania, a big part of the expenses are for the imported inputs, which directly influence the competitiveness of the Albanian products compared to other countries of the region. Also there exists a big difference in percentage between variable costs and fixed costs in the agricultural production. The low level of the fixed costs has arisen because of the small capacity of the main producers, who are mainly families who include a part of their fixed costs in the family costs or do not calculate them at all. (b) The competitiveness of a country product towards the analogue products is related to the direct or indirect marketing policies and their efficacy level. In general, in Albania, the marketing costs are low or don't exist at all. A tendency exists to pay attention to the marketing when the producers have achieved a certain level of production and need facilities to trade the product no more in the occasional markets [6], or (c) the favorable competitive position of some products arises as a consequence of a rightful position in the regional trade agreements. The literature identifies a large number of indicators of competitiveness but since the competitive advantage is the foundation concept of free trade and globalization, to find the complementarities between the economies of the countries involved in the FTA with Albania, we will use the Trade Performance Index (TPI) of these countries.

ITC (International Trade Center) developed the Trade Performance Index (TPI) with the aim of assessing and monitoring the multi-faceted dimensions of export performance and competitiveness by sector and by country. At present, the TPI covers 184 countries and 14 different export sectors at the product level. Original data used in the computation is at the 5-digit level of the SITC nomenclature, corresponding to some 3,500 products as a whole. The index calculates the level of competitiveness and diversification of a particular export sector *using comparisons with other countries*. In particular, it brings out gains and losses in world market shares and sheds light on the factors causing these changes. Moreover, it monitors the evolution of export diversification for products and markets. For each country and each sector, the TPI provides three types of indicators: a *general profile*, a *country position* for the latest available year and *changes* in export performance in recent years. The Revealed Comparative Advantage (RCA) is one of the descriptive indicators, which will not be used in the calculation of the ranking of the countries. But it is worth computing its values since it provides valuable additional information for trade performance analysis.

In trade flows analysis, an indicator of comparative advantage aims at measuring specialization. The specialization of a country is an indication of how a given country allocates its resources to its various industries, under the assumption of a balanced total trade. The rationale underpinning this assumption is that the contribution of any product or industry to the theoretical level of specialization must be isolated from business cycle related effects, such as the impact on trade of changes in the real exchange rate. The index, measured in thousand parts of trade, gives the contribution of each sector (and market) to the overall trade balance. It is calculated as the difference between the actual net balance and the theoretical net balance. The theoretical net balance corresponds to the net value that the sector (or market) under analysis would register when global equilibrium occurs in the country's trade. *The aim of this index is to identify for each country those sectors with the highest levels of specialization, rather than to compare countries.*

Table 3 shows information on the specialization index, which measures the Revealed Comparative Advantages (RCA), for the Albanian products that belong to two principal groups of export, agricultural products and food industry products. Values above 1 indicate that the country is specialized in the sector under review. We can see that the RCA for the majority of products and almost for the whole period examined is negative.

A more careful look would also identify some positive tendencies, but which are still weak. For example, in classes 8 and 9 the RCA in the foreign market maintain its same value, while from the year 2000, food products accumulate increasing advantages.

We can notice a RCA in the first class (the fish) for the year 1996-1997 and then a negative coefficient, which means that in these years this product group doesn't have a comparative advantage anymore. This is probably because of the export restrictions related with the *affta epizodike* epidemic in Albania and the Balkans at that time.

Let's see the specialization index for all the countries of interest (the data on the table shows the RCA and the ranking of industries calculated for each country. Such an approach differs significantly from the rankings of countries for a given industry, as referred to above. The figures in the column "revealed comparative advantage" are specific to each country and *should not be compared with other countries*).

As can be seen from table 4, the countries are not specialized, in all those products. Among the selected products, Albania has high RCA in Leather products, Clothing, Wood products, and Fresh food according to their positive, above one, index. Albania has the highest RCA in Leather products (RCA=24.62) which means that Albania can make the best reallocation of the

resources in that sector. Bulgaria and Croatia have the highest RCA for Leather products. In Yugoslavia the sector with the highest RCA is Basic manufactures it has the RCA=3.84. Bosnia and Herzegovina, Macedonia, Rumania, Turkey and Greece show a high level of specialization in the Clothing sector of their economy while Moldavia the highest RCA in processed food.

Table 3. Revealed comparative advantages (RCA) on some categories of Albanian agriculture and foodstuff products

| HS | Product group | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|----|---|------|------|------|------|------|------|
| 1 | Fish | 0.3 | 0.1 | 0.0 | -0.1 | -0.5 | -0.5 |
| 2 | Dairy products | -1.0 | -1.0 | -1.0 | -1.0 | -0.9 | -0.9 |
| 3 | Products of animal origin | 0.7 | 0.1 | 0.5 | 0.4 | -0.9 | -0.6 |
| 4 | Live trees and other plants | 0.3 | 0.3 | -0.5 | -0.8 | 0.1 | -0.9 |
| 5 | Edible vegetables | -0.6 | -0.5 | -0.6 | -0.7 | -0.7 | -0.8 |
| 6 | Edible fruits and nuts | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 |
| 7 | Cereals | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 |
| 8 | Oil seeds and oleaginous fruits | 0.8 | 0.9 | 0.8 | 0.7 | 0.7 | 0.9 |
| 9 | Lac, natural gums, resins, gum-resins, etc | 0.3 | 0.6 | -0.5 | 0.5 | 0.7 | 0.6 |
| 10 | Vegetable painting materials | 1.0 | -1.0 | -0.9 | -1.0 | -1.0 | -1.0 |
| 11 | Preparations of meat, fish or crustaceans | -0.9 | 0.0 | -0.2 | 0.0 | 0.3 | 0.4 |
| 12 | Malt extract, food preparations of flour, meal. | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 |
| 13 | Preparations of vegetables, fruits, nuts or other | -0.9 | -1.0 | -1.0 | -0.9 | -0.8 | -0.8 |
| 14 | Miscellaneous edible preparations | -1.0 | -0.7 | -0.9 | -0.9 | -0.9 | -0.9 |
| 15 | Beverages, spirits and vinegar | -1.0 | -1.0 | -0.9 | -0.9 | -0.9 | -0.9 |
| 16 | Residues and waste from the food industry | -1.0 | -0.8 | -0.9 | -1.0 | -1.0 | -0.7 |

Table 4. The specialization index analysis which measures the Revealed Comparative Advantages (RCA) for the selected countries.

| Country | Albania | Bulgaria | B&H | Macedonia | Romania | Yugoslavia | Croatia | Moldavia | Turkey | Greece |
|-----------------------------|---------|----------|-------|-----------|---------|------------|---------|----------|--------|--------|
| Products | RCA | RCA | RCA | RCA | RCA | RCA | RCA | RCA | RCA | RCA |
| Leather products | 24.62* | 7.06* | 2.80 | 2.68 | 7.24 | 3.01 | 3.24 | Na | 0.54 | 0.68 |
| Clothing | 10.86 | 4.01 | 4.91* | 8.41* | 7.36* | 2.50 | 3.16 | Na | 6.44* | 4.11* |
| Wood products | 1.04 | 5.37 | 1.15 | 0.28 | 1.74 | 1.89 | 2.03 | Na | 0.36 | 0.40 |
| Basic manufactures | 0.93 | 3.27 | 3.11 | 3.83 | 1.82 | 3.84* | 1.19 | 0.39 | 2.02 | 2.06 |
| Miscellaneous manufacturing | 0.48 | 1.12 | 0.78 | 0.19 | 0.84 | 0.57 | 0.82 | Na | 0.51 | 0.58 |
| Non-electronic machinery | 0.18 | 0.34 | 0.61 | 0.06 | 0.59 | 0.47 | 0.48 | 0.36 | 0.48 | 0.35 |
| Processed food | 0.72 | 0.49 | 1.52 | 2.21 | 0.32 | 3.48 | 1.79 | 10.90* | 1.34 | 3.28 |
| Fresh food | 1.50 | 0.93 | 1.26 | 1.90 | 0.64 | 1.35 | 0.69 | Na | 1.82 | 3.46 |
| Minerals | 0.28 | 0.75 | 0.92 | 0.40 | 0.70 | Na | 0.95 | Na | 0.84 | 0.78 |

* RCA greater than one, product with the greatest specialization index.

During negotiations of a FTA one must concentrate on the fact that the negotiation must serve to increase the trade flow between parties and the economic growth of both countries; this occurs when a negotiated FTA reflects the existing complementarities between the economies of

both countries. To determine which export sector has a competitive advantage among countries we will not enter in details comparing all the indicators but only the general ranking according to Trade Performance Index [8]. The final ranking is a weighted average of the individual rankings for each of the different indices for the position and evolution. Let us include Greece to determine the comparative advantages for the products taken in consideration for a possible trade agreement between Albania and Greece.

Table 5 shows the final ranking according to TPI for the countries that we are interested in. The data point out a comparative advantage of Albania over Bulgarian and Macedonian Wood products. It also has a comparative advantage over Bosnia and Herzegovina, Bulgaria, Croatia and Greece in leather products, and over Bulgaria in basic manufactured products. Among these countries Albania has the highest trade performance for these products which means that, those export sectors are more competitive, both from a static and dynamic perspective.

Table 5. Trade performance Index (TPI) of the selected countries.

| Countries | Sectors | | | | | | | | | |
|-----------|------------|----------------|---------------|------------------|--------------------|--------------------------|----------|-----------------------------|----------|--|
| | Fresh food | Processed food | Wood products | Leather products | Basic manufactures | Non-electronic machinery | Clothing | Miscellaneous manufacturing | Minerals | |
| Albania | 107 | 142 | 59 | 42 | 68 | 60 | 69 | 78 | 168 | |
| B & H | 99 | 74 | 51 | 47 | 59 | 41 | 47 | 67 | 81 | |
| Bulgaria | 77 | 64 | 61 | 49 | 76 | 57 | na | 68 | 73 | |
| Croatia | 79 | 77 | 52 | 44 | 59 | 41 | 58 | 62 | 72 | |
| Greece | 61 | 60 | 55 | 49 | 63 | 45 | 51 | 58 | 71 | |
| Moldavia | na | 70 | na | na | 65 | 56 | na | na | na | |
| Macedonia | 91 | 78 | 63 | 50 | 52 | 52 | 47 | 75 | 84 | |
| Turkey | 51 | 58 | 51 | 31 | 43 | 50 | 47 | 55 | 76 | |

Source: ITC calculations based on COMTRADE of UNSD ** ranking out of all exporting countries (number)

The factors contributing to the competitive advantages of the Albanian economy are the good reputation of Albania as a partner country for some sectors and products, (like labor intensive steps of production in the manufacture of garments for the supply of medicinal herbs and tobacco or as an exporter of wood and wood-based products) or the favorable natural conditions (for the collection of medicinal plants and for the production of certain vegetables during the off-season of Central Europe). Also, Albanian agricultural products are considered to be BIO products (i.e. like olive oil etc) and this can be considered a comparative advantage of Albanian agricultural products at the time when the risk from genetically modified products is very high.

Other factors are the existence of skilled labor in some sectors such as the manufacture of garments, the existence of facilities for storage and/or the processing available in some lines of trade (medicinal plants, fresh fish and fish processing), the existence of port infrastructure which is important for the supply of organic products, for which philosophy generally rules out

air transport that facilitates the shipment of goods by sea to Italy and, from there, towards other EU countries. The importance given to the modernizing of agricultural production and to increasing agricultural exports is also an important factor in increasing comparative advantage of our exports taking into account the quality of the product in the agricultural product export. The low wage rate in the country and existence of skilled labour in some export-oriented sectors, affecting the costs of production, contribute to comparative advantage of our products.

2.1 In favour or against Free Trade Agreements?

Frequently, the mass media present us with varying opinions regarding free trade agreements. From the signature of membership in the World Trade Agreement till the latest assignments of Free Trade Agreements with the region countries, concerns, suggestions, and euphoria are present in the press and in the institutions directly or indirectly affected by the effects of these agreements.

In the beginning, the business community reacted clearly and firmly against free trade agreements. The arguments that it presented mainly dealt with the disparity in economic development existing between countries. The business community was concerned that Albanian output capacities would suffer damage from an overflow of imports from other countries, like Macedonia since the first trade agreement was with this country.

Mr. Luan Bregasi, head of the National Chamber of Commerce in Tirana, says, "The business community supports the initiative, although it is not satisfied with the process. We have been asking the government to identify the domestic producing enterprises and their producing quotas" (Economic Journal of Monitor, 2003, pages 16 – 17).

Also, Mr. Sami Gjergji, president of Floryhen Ltd, a leading company in chicken and egg production, has said that the business community was only superficially involved in the process of evaluating Free Trade Agreements: "We were given no information on the markets of other countries. Therefore we could not make any calculation and see the feasibility of this process, which I consider the future of our national economy," he said (Economic Journal of Monitor, 2003, pages 16 – 17). But at the end of the negotiating process and with the official signing of the agreements there was more consensus among all the players in this agreement, as the strategy implemented in compiling the agreement was based on the long-term protection of Albania's economic development interest.

The increase of the competent persons in specialized institutions involved in these debates is very positive, but on the other hand, each person that needs to express his opinion in public, in the interest of development or just to protect a certain business, must know this process in detail.

Taking into consideration that the public is not well informed about these Free Trade Agreements or about the negotiation procedures, the possibilities for one to sound "competent" are great. For this reason, in the newspapers we can read titles like: "the policies applied in Albania for the opening of trade, and integration in general, has been very anti-Albanian" or "we cannot accept our factories to be closed because the Yugoslavian factories should grind the wheat and then bring the flour here why make these concession? This is trade invasion!" (Adrian Civici, Economic Journal of Monitor, 2002, pages 12–13)

The consumers will ask the question: "goods have a cheaper price, so the producers will have cheaper inputs.... so, what is the problem?" And here starts the contradiction. Why don't the producers want cheaper inputs?

Let's consider the case of bread, since in Albania it is a product consumed more than in other countries. Wouldn't it be better if the price of this product was low in Albania, where a considerable number of the population has a low income?

Let's see what would happen in the Albanian market if 10000 tonnes of wheat and 5000 tonnes of grain were to enter the market. The benefits would be: The Albanian consumers would have access to a cheaper product, the producers would have cheaper inputs, and the government would be free from the preoccupation of finding the financial sources to stimulate the grain production. The losses, on the other hand would be: The wheat factories would be affected in their profits and their rentability, and grain producers would come face to face with a stronger competitiveness.

We argue that 10000 tonnes of wheat and 5000 tonnes of grain are definitely not enough to affect the market mechanism, in order to affect a price change. Since Albania consumes approximately 800-1000 tonnes of flour per day, 10000 tonnes of flour are equivalent to a consumption of only 10-11 days. Therefore, the quantity argued (10000 tonnes of wheat and 5000 tons of grain) that would enter with zero tariff constitute 1.9 and 2.1 percent respectively of the flour consumed in the last two years, or, merely 8-10 percent of the flour imported. Meanwhile, the annual quantity produced for the year 2000 and 2001, 10000 tonnes of wheat or 13000 tonnes of grain, constitute 2.5% and 2.9% respectively. From the last data, only 46% of the Albanian needs for grain and wheat would be fulfilled by internal product and 54% from imports. In addition, that compared with the 90's, the surface planted with grain has fallen by 50%, the production by more than 60%, and the wheat production has decreased by 3.5 times. Thus, why should one be against the cheaper imports (Albanian Ministry of Agriculture, Annual report, 2002)?

The problem is that in Albania the customs and the information they provide leave much to be desired and the illegal entrance of excess quantities is real. But is this the consequence of free trade agreements? Could we limit our trade opening to a lack of institutional capacity?

It is true that a minimal problem will be created by the entrance with zero tariff of grain and wheat, but at the same time from these free trade agreements new markets will be opened for hundreds of other producers, like the producers of the green house vegetables, mineral water, beer, wine, cognac, fruit - juice, cheese (this production fulfills 100% of the internal needs and this year the first signs of crises appeared in this sector if export markets can't be found). In the cheese sector, millions of dollars might be gained or lost, many times greater than the "relative losses of the grind industry. (The ongoing of the supply of the Albanian agro-food products and the more effective policies to increase their competitiveness in the market, Rural Studies Center, 2001).

What about the consumers in this analysis? Consumers' interests are hardly taken into consideration because they are less organized than those of the business community. Who speaks on behalf of the Albanian consumers?

It must be stressed that just the fact that the market is opening and that new operators are entering the market, will break a monopolistic situation in imports, making the consumers benefit directly.

Protectionism has never been appropriate for small countries like Albania. On the contrary, this has caused a decrease in the selectivity in the economy. The fact is that by having a restricted and artificially not competitive market, we cannot afford the world trade prices and the loss will be at the expense of the consumers.

There is a lot of debate round the genetically modified products, which directly may the consumers' health and, indirectly, the Albanian exports. I have mentioned in the previous chapter that one of the Albanian agricultural products' comparative advantages is that they are still considered as BIO products. But, since the possibility of entrance of genetically modified products exists, the negotiating groups should be very careful in determining the rules of origin to protect the consumers, the internal agricultural products and one of the important comparative advantages of the Albanian products in the very strict European market.

2.2 The advantages and disadvantages of FTAs

Naturally, Albania, despite its difficult position imposed by its economic parameters compared to other bordering countries, couldn't be indifferent to gaining more out of the stabilizing and liberalizing process.

The South Eastern European region, which Albania belongs to geographically, but also because of the fact that it is comprised of small and relatively "isolated" countries from the economic point of view. This constitutes a problem, taking into consideration the fact that the stabilization in general terms is enabled only if an advanced development and integration level in the economic field are attained. The "isolation" of the countries is just one of the main barriers of stabilization.

In general terms, it is accepted that the establishment of a free trade zone in the region will assist the overcoming of this isolation, because the produced goods will have the advantage of facing a market with more than 50 million consumers. If the establishment of this zone is considered as an event separate from the others, it doesn't seem to be a substantially positive effect in the economic development of the region.

Empirical studies show that the short-term economic implications are doubled. Nevertheless, it seems that: (a) Foreign Direct Investments are expected to increase (b) the industrialization level of the regional countries will increase; (c) considering that the regional countries share a resemblance in their economies, the market diversification might be profitable for the countries that have a competitive advantage; (d) fiscal stabilization, through customs and tax system harmonization, might play a central role in increasing the stability in the region, and; (e) the prices are expected to decrease.

At zero tariffs, the Albanian investors will buy more advanced technology, compared to the older ones, for which they have paid tariffs, and the inputs will be of better quality and quantity; also, they will have access to foreign capital for investments. The result will be a growth of effectivity, quality and competitiveness of domestic products. Through FTAs they will have access to foreign capital for investments. It will turn out to be a fatality if we prove unable to take advantage of these opportunities that integration gives us. Till today, the European Community has given us a preferential regime, which allows us a certain quantity of exports at zero tariffs. We cannot totally exploit this regime because we don't have the appropriate production volume to fulfill this quota.

Also, even though they cannot be measured by quantity of money, a number of non-economic implications are very important. Some of them are: (a) increasing the security through cooperation, (b) decreasing the bureaucratic and corruption level, (c) social integration; (d) creation and consolidation of institutions; (e) environmental and public health, and intellectual property protection improvements; (f) increase in competition; (g) better fulfillment of consumers needs. Relating to the FTAs, consumers will have a greater opportunity of product choice. They will be more protected by consuming products with guaranteed quality and will

enjoy an increased standard of living. Albanian consumers shall also benefit from a stabilized offer of qualitative products.

Besides the positive effects a Free Trade Agreement brings, in the case of Albania, it is accompanied by several negative effects, which are connected to old technology, deficiencies in marketing strategies, appearance of the contrabands in the form of abusing rules of origin, a decrease in the internal production, as a consequence of the competition from foreign production, and a decrease in the budget revenue, as a consequence of the decrease in the import tariffs, etc.

Taking all the above into consideration, we can say that without an overall strategy of economic development and steady producing factors, signature of Free Trade Agreements, will, undoubtedly lead us towards continuous risk of competition. What we all ask is "What can Albania do to effectively manage the whole opening process without losing the long-term objective"? What we can do is to respect the non-discrimination principle, incite the application of a legislation encouraging competition, respect anti-dumping, protect consumers, enforce new trade politics between countries, prohibit trade state monopoly, and eliminate all export taxes.

We should not forget that Albania would be faced with countries economically stronger than itself, and with an agricultural overproduction for many years, (like France, Germany, Netherlands etc). The integration with these countries means that our economy will face costless productions compared to those from region countries.

3. Conclusions

In the actual economic situation of Albania when agriculture and other sectors of the economy started to recover, the economic development strategy of Albania, and in this framework, the narrowing of trade deficit *should support exports primarily*. Also, the use of the existing potential to increase the exports to regional and international markets is the only alternative for a long-term economic development. Competitive advantage represents the export potentials and the powerful Albanian arguments in the favor of free trade. Evidencing and exploiting the products that embody these advantages will increase the competitive advantages of the Albanian products in the regional and European market.

In Albania, a big part of the expenses come from the imported inputs, which directly influence the competitiveness of the Albanian products compared with region countries. Also, there exists a big difference in percentage between variable costs and fixed costs in the agricultural production. The low level of the fixed costs arises because of the small capacity of the main producers, which are mainly families that include a part of the fixed costs in the family costs or do not calculate them at all. In general, the costs for marketing are low or do not exist at all. A tendency exists to pay attention to the marketing when the producers have achieved a certain level of production and they need facilities to trade the product not anymore in the occasional markets.

To identify the products that have comparative advantages, the Revealed Comparative Advantage (RCA) is a very useful index when we consider the countries separately. Whereas, when we need to compare the competitive advantages of different countries we use Trade Performance Index. For the majority of Albanian products and almost for the whole period, the specialization index is negative. Nevertheless, there are also some positive tendencies, but which are still weak, in products like oil seeds, oleaginous fruits, lack, natural gums, resins, gum resins, etc. The RCA in the foreign market are kept, while from the year 2000, food

products are accumulating increasing advantages. In the regional market, Albania has shown a high comparative advantage for wood, leather and basic manufactured products.

The Albanian productions have comparative advantages because of the favorable natural conditions and particularly because of the collection of medicinal plants and the production of certain vegetables during the off-season of Central Europe. Also, Albanian agricultural products, like olive oil etc, are considered BIO products, and this can be considered a comparative advantage of the Albanian agricultural product at the time when the risk from genetically modified products is very high. Another factor is the good reputation of Albania as a partner country for some sectors and products. Other factors are the existence of skilled labor in some sectors such as the manufacture of garments, the existence of facilities for storage and/or the processing available in some lines of trade (medicinal plants, fresh fish and fish processing), the existence of port infrastructure which is important for the supply of organic products, and the low wage rate in the country in some export-oriented sectors, which affects the costs of production and contributes to comparative advantage of Albanian products.

Apart from the big debate regarding the free trade agreements of Albania with region countries we see these trade agreements from the stimulant dimension point of view for our domestic production. This means an increase in the competitiveness of Albanian products. Also, we are optimistic because of the bigger trade created with about 50 million consumers, which means bigger possibilities for increasing foreign investments and an increase in the economic stabilization of the region. Other profits from free trade agreements will be the increase of fiscal stabilization through customs and tax system harmonization. The prices are expected to decrease, the competition will increase, consumers needs will be better fulfilled and environmental and public health sectors will be improved.

List of abbreviations

EC – European Community
FTA – Free Trade Agreement
GDP – Gross Domestic Product
ITC – International Trade Centre
RCA – Revealed Comparative Advantages
TPI – Trade Performance Index
WTO – World Trade Organisation

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