Relationship between Albania and Turkey after Free Trade Agreement

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Abstract

The purpose of this paper is to analyze the trade of Albania toward a larger country such as Turkey and to observe how the trade volume has changed after the Free Trade Agreement. A multiple regression model is used to calculate the overall impact of trade. The dependent variable is GDP and the independent variables are total imports and exports in Albania. Data are obtained mostly from the Institute of Statistics (INSTAT) and Turkish Statistical Institute (TÜİK).

The Albanian GDP has been derived from yearly data in order to match the model, during the period of 1990 to 2013. To have a closer view on the significance of trade and compare the periods before and after Free Trade agreement, the data are obtained monthly from 1996M1 to 2015M3. Imports and Exports resulted to have a strong relationship with GDP, therefore proving the economic theory that trade has a direct impact over the economy of the country. Regarding the trade volume between Albania and Turkey, there seemed to be more imports entering in Albania, rather than exports. As expected, the results show once more that after 2006 the overall trade in Albania has increased and along with it the trade between Albania and Turkey has increased too.

Keywords: Free Trade Agreement, Gross Domestic Product, Trade Volume, Albania, Turkey.

I. Introduction

Albania and Turkey are two countries which share a lot of similarities concerning their culture and history. They have created a relationship which goes back many centuries ago. Their relationship consists of economic, social and political cooperation which have a long history dating back in the Ottoman Empire until nowadays.

The Republic of Turkey is located in the South-Eastern Europe and South-Western Asia with Ankara as its capital city. Turkey is a part of the G-20, The Council of Europe, OSCE, OECD and NATO (UNDP, 2014). It is ranked among the largest economies, with almost \$1.5 trillion, therefore positioned as the 18th (WB, 2013). Its economy has increased the income per capita in a short time through a decade and although the global crisis slowed a bit the economic growth, it did not affect the country. Turkey is a free large market economy and it

is highly represented by its modern industry and service sector which get along with the traditional sector of agriculture.

Import and Exports of this country rely a lot on its most powerful partners which are Russia, Germany and Iran. European countries are on the center of Turkey's objectives to exchange goods and services since it covered 48% of the total exports and 53% of the total imports during 2012 (MoE, 2013). In exports it is listed in the 27th position and imports in the 22nd comparing to the world. It generally exports textiles, food products, manufacturing metals and equipments regarding transport; whereas it imports equipments regarding machinery or transport and types of chemicals (CIA, 2014).

The Republic of Albania is found on the southern east part of Europe and Tirana is the capital city. Its GDP is amounted of around $32 billion, placed as the 109th in the world (WB, 2014).

Albania has faced a sustainable growth rate and stability in financial records over the past years, even though the crisis was present; it was not really affected directly by it. The country is going toward a positive progress toward the integration in European Union, meaning that it is successfully managing and meeting the criteria needed for it to be a part of this union. Albanian's market is a strategic point to the economy due to its agreements with the European countries, the Balkan countries and others; which make an attractive destination to be invested into. (UNDP, 2014)

The agreements helped a lot the country with the exchange of goods and services whereas it exports mostly textiles, asphalt, metals, agricultural products, tobacco and crude oil; while on the other hand imports food products, chemicals, textiles and machinery. Albania is ranked on the 121th place for export and 120th for imports due to the volume in comparison to the other part of the world. The country's most important partners can be mentioning Italy, Greece, Turkey, and China. (CIA, 2012)

A report conducted lately with the topic "Doing Business 2015", from the World Bank Group, reports that Albania has made a lot of progress, increasing its position from 108 that it was a year ago to 68. It also improved reforms in some business areas such as starting a business, construction permits and registering the property. (World Bank Group, 2014)

In the first chapter of this paper the case is related with is the relationship between Albania and Turkey and how their cooperation has been improved over time. The most significant event was the signing of the Free Trade Agreement in 2006. The second chapter analyses the

effects and outcomes of the Agreement between the parties and what benefits can it bring for both of them. The last chapter is about the significance of the trade volume between Albania and Turkey. This was found to be significant and tend to prove the strong relationship beteen the nations.

II.   Literature Review

According to European Commission (European Commision), Free Trade Agreements are subject to create opportunities for the market such as bringing new goods and service and thus offering different choices to consumers. This relationship brings an expansion of investments from the country which it has an agreement. Another reason is to make the trading process cheaper, faster and giving priority to sanitary standards. These are achieved by breaking down barriers, by eliminating custom duties, taking into consideration the protection of the environment, intellectual properties, competition rules and protecting the origin of the goods.

Lately, it was published a report by European Commission (EC, 2012) which raised the question of how trade benefited the developing countries, especially those ones with low life standards. Firstly, it was mentioned that trade helped the GDP of a developing country, by increasing its growth rate and foreign direct investments. Secondly, it was a way of promoting competiveness and to bring the country closer to the international market. Another fact is the diversification of products offered in the domestic market, with lower prices and more innovative. These kinds of situations lead to reduction of trade barriers and bring the countries closer to other areas, such collaborating and exchanging knowledge. There are more job opportunities, it is paid more attention to special sectors and the environment gets better treatment. Lastly, it is seen as a positive factor in economic development of the developing country, since it learns from a more experienced country and adapts to the new development easily.

The authors, Armstrong and Read (Armstrong & Read, 1998) deal with the trade between a small economy country and a larger one. It is normally difficult to begin the diversification process and adapting to a larger market. The small countries are found mostly to have a relatively small size of domestic market, a limited number of natural resources and other problems regarding public administration. As small countries are more open to free trade with other countries they tend to benefit from it. Some difficulties that face small countries come from the fact that they take time to adapt to the internationalized culture and enter to the market as competitors. Their economy benefits from the free trade by expanding their market

values and offer diversity to it, by taking into the consideration the risk coming from the power of foreign products.

Trade Theory deals with the effects that international trade brings to the well-being of the countries and how it works with restrictions at the same time. The author, S.Nasar (Nasar, 1993) brings to conclusion that if there is present the two countries model, and both parties cooperate and work on what they can do best, then comparative advantage can derive from this relationship. All of the idea is not to get more jobs, but rather to have one job and increase the capacity of productivity and income. Economist, in order to predict and make more accurate studies, they gather data from other examples and comparing different events in early times, and see what results as outcome in the long run

The study conducted by B. Balassa (Balassa, 1984) emphasizes the importance of the liberalization of trade between two countries, especially the ones currently developing. Developing countries need to rely on international organizations such as WTO to implement policies which favor them and do not harm their internal economy. There must be noted also

the difference between a developing country and a developed one, since the one currently industrializing have a different account balance as they tend to spend a lot toward the value of imports. Therefore, the liberalization of trade would be much more efficient for small economies. On the other hand, developing countries will feel the need to find a market, a competitive advantage to which they can export their goods and services. As a matter of fact, the responsibility falls to developed countries, which need to take into consideration the state of the developing country and imply policies of trade, and later to be beneficial for both, not only one way.

III.   Relationship of Albania and Turkey during Ottoman Empire until Nowadays

Albania was part of Ottoman Empire[1] by 1388 until it gained its independence on 1912 and it was mentioned that it was the last nation to claim the independence from this great Empire in the region of south-eastern Europe. The Ottoman Empire organized the system in a way that Albanians were given important leadership roles and also send in Turkey to give their contribution there. (Biberaj, 2013)

Even more, some of the influences that remained in Albania after the fall of the Ottoman Empire were numerous, such as the Turkish letters and some similar words, the religion, and also there were investment and trade between the two countries. During the 16th century, the

country had a fast recovery in economy development, even though the wars that went on before had destroyed it. There was paid close attention to the agriculture and farming and it faced an increase in the trade volume between not only Turkey, but also other neighbor countries (Derguti, Dushku, Duka, & Boci, 2011).

After 1990s, Albanian's communism regime fell and it went toward an open democratic market system; Turkey showed once more its support and offered its help toward Albania. Albanian's trade movement was freer and it was even more significant after 2000s when it became a member of WTO.

The Turkish President Halil Turgut Özal paid close attention to the poor economy of Albania at that time and in 1991 contributed by loaning to Albanian government an amount that was numbered around 13.87 Mln USD. Therefore, this is said to be the first loan which was ever given to Albania as a democratic country.

In 1992, the Prime Minister of Turkey in that time, Süleyman Demirel, visited Tirana and signed an Agreement on Cooperation and Friendship to assure that Turkey was supportive toward Albania and was willing to grand almost $50 million in logistical and humanitarian assistance. By the end of 1993, Minister Berisha visited Turkey where he signed three different bilateral agreements concerning the economy, trade sector and military. President Demirel in a meeting in the city of Tirana in 1998, showed once more his beliefs that this kind of relations that existed between the parties would be reflected really soon followed by expansion of investments and trade between both countries. (Tase, 2014

According to World Trade Indicators (WTI, 2009/10), Albania is described as more restrictive when it comes to trade barriers in comparison to European or Asian countries, but also on the other hand as more open than other lower and middle income countries. In the Stabilization and Association Agreement with the European Union countries, it is mentioned the beginning of the negotiations between Albania and Turkey. (CEU, 2009) According to an annual report by United Nations (UN, 2012), Foreign Direct Investments from Turkey have increased since 2005, in a value from 6% to 11% in 2010.

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[1] Ottoman Empire was established in the beginning of 1300 in the city of Anatolia. It happened to become a powerful state by invading a lot of countries around them and ruling for more than 600 years (Dewald, 2004).

In comparison to other potential investitures Italy, Greece, Austria and Canada, it seems that in 2009, Turkey's FDI has increased by 1% (records show that it was 10% in 2009 and grew to 11% in 2010), whereas the mentioned states have decreased by 1%. This might be seen as a positive feedback from the improvement of relationships between Albania and Turkey.

Recently by December of 2014, there was a visit in Tirana by the Turkish Minister of Economy Nihat Zeybekci, where he stated that the Free Trade Agreement between the parties will be taken into another level by extending this agreement even in the sectors of investments and services. According to the publication in the Ministry of Economy of Turkey, there can be seen a lot of positive outlooks on the cooperation between Albania and Turkey where there are reported to be 19 ongoing projects with a huge amount of money waiting to be invested. Between 2002 and 2012 the foreign direct investments from Turkey counted about 45 million $, which is a huge value for only one country. Some successful examples that can be taken into consideration are: Turkey's Calik Group presented through the telecommunication industry Albtelecom, commercial bank as Banka Kombetare Tregtare (BKT), Kurum Steel industry, and regarding the educational field there are Turgut Ozal colleges and Epoka University (Tirana Times, 2014).

Free Trade Agreement

Free Trade Agreement was an agreement signed by representatives of Albania and Turkey on the 22nd of December in 2006. This Agreement is documented in three different languages (English, Turkish, and Albanian) in case to avoid any clash while executing the laws. It entered in force by the 1st of May in 2008 and has no limited period. In the Preamble, it is stated the purpose of this agreement which is to strengthen the relations in the areas of economy and trade and also to give their contribution to the development of the cooperation between the parties. Another point mentioned is the mutual interest on increasing the volume of trade exchanges. Since the two Parties are part of WTO and other trade agreement, the process of trade gets easier to take place. When first entered in force, it was agreed upon a 5 year period on the process, so this agreement would start taking place gradually.

Among other regulatory rules concerning sanitary measures, technical barriers, the rule of origin, taxation inside the country, safety of the products, intellectual property, it was given a different attention to the agricultural products being imported or exported inside a party's territory. Agriculture covers a huge percentage of economic activity in Albania and thus affecting the overall wellness of the country. Dealing with agricultural products there were

imposed some slight restrictions such as tariff quotas on specific products, listed in Annex I to Protocol I. If the quantities exceed the agreed quota then they are subject to a custom fee upon that product.

The Effects of Free Trade Agreement in Albania

Of course, after having an idea of the Agreement it can be concluded that there are a lot of advantages for both countries in their domestic market. There can be listed some positive outlooks such as fulfilling market needs with qualified products that do not have the right environment to be produced. Also it influences in the price market by increasing competitiveness and reducing prices. Another pro is boosting local production and stimulate them to be more competitive and improve their technological usage.

As mentioned in the beginning of the agreement, they agree to promote a trade which will be harmonious in terms of developing further their trade and offer diversity in the sectors where mutual areas of interest occur. There is agreed to not have any negative behavior toward the goods being imported in one of the countries, meaning that there will be equality, non-discrimination and fulfilling their obligations properly.

Specifically, objectives in the agreement provide the reader with a clear vision of what benefits brings this trade in each country. So it gains importance by increasing economic cooperation and living standards for both countries, eliminating restrictions and barriers on trade goods, promote harmonious development of economic relations between parties through the reciprocal exchange of goods and services and also by promoting trade in a third party market and cooperation between them. Most importantly, it promotes fairness in the competition between parties and expands the volume trade. This movement encourages the joint investments for Turkey and Albania.

IV.   Methodology and Data

The main focus of this thesis is to examine data regarding two important variables for Albania: imports and exports. The data are derived from World Bank, INSTAT, Bank of Albania and TURKSTAT.

Data Analysis

The variables are going to be analyzed from two different perspectives as firstly, the data consist of total imports and exports in Albania and how much significant are they regarding the GDP of the country. These data are expressed in $ value and in a period time of 1990-

2013. A regression analysis is conducted to prove and see the value of impact that imports and exports have in Albania. The model is expected to be significant since it is known from the formula of GDP that one of its components is the value of trade. As we can see from the Figure 1, there seems to be a strong relationship between variables, since when imports and exports increase, GDP also increases in the same trend.

Figure 1- GDP, IMPORT, EXPORT of Albania (1990-2013)
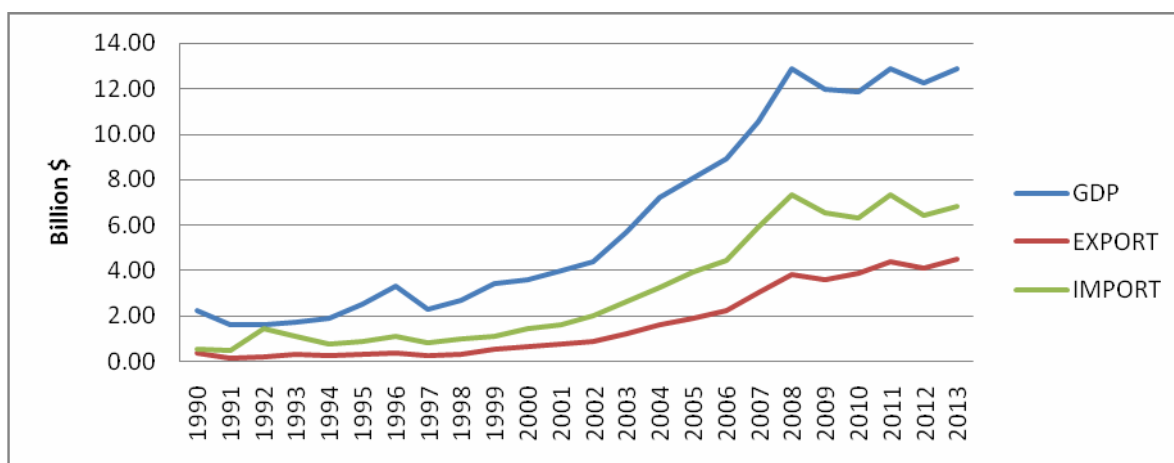
 Source 1- World Bank

Secondly, there are data regarding specifically the trade between Albania and Turkey, where they will be compared with the total imports and exports of Albania. The data are taken in a monthly period to have a closer view of the changes happening in a 20 years period of time. Therefore, considering the availability of data in the official websites, the data involved are from 1996M1-2015M3. It is expected to see a growth after 2006, which is the year of the Free Trade Agreement between the two parties.

Gross Domestic Product

The GDP of Albania currently accounts around 12 Billion $. In Appendix I, figure 1, there is seen an increase of GDP until 1997, where it is a sharp decrease in value. The reason behind this deceleration, stand the historical fact of the collapse of several firms (25 firms), which declared bankruptcy in that year, which in other word were directed as the fall of pyramid schemes (Jarvis, 2000). After this year, Albania has faced a positive recovery, which increased its value a lot until 2008. The decline in 2008 is said to be a consequence of the global crisis in 2007. Albania is said to not have suffered a lot, in comparison to other countries in the region. This does not mean that there were some negative effects on the balance of GDP, whereas the public debt reached around 60% of GDP in 2009 (World Bank Group Partnership, 2010). In general during the last years there has been a slow growth, but

positive which is a good sign of recovery and it is expected to continue to increase in the coming years.

Total Imports vs. Imports from Turkey

According to Ministry of Economy of Turkey, in 2012 they exported, therefore the products that entered in Albania and held a Turkish origin were mostly fabrics, cereals, textiles, clothing accessories, iron and steel. (MoE, 2013)

Due to the estimations, as it can also be seen from the figure below, it was calculated that in 2014 the imports coming from turkey covered about 7.1% of the total exports that enter in Albania. This percentage shows a lot about the trading potential between two parties, since the according to the official data it was a lower percentage by 5%, whereas here we see that the original value is more than that.

If we compare the general percentage that exports have covered since 1996, the highest value was counted in 2007 and after that it continues in a more stable rate around 6%-7%.
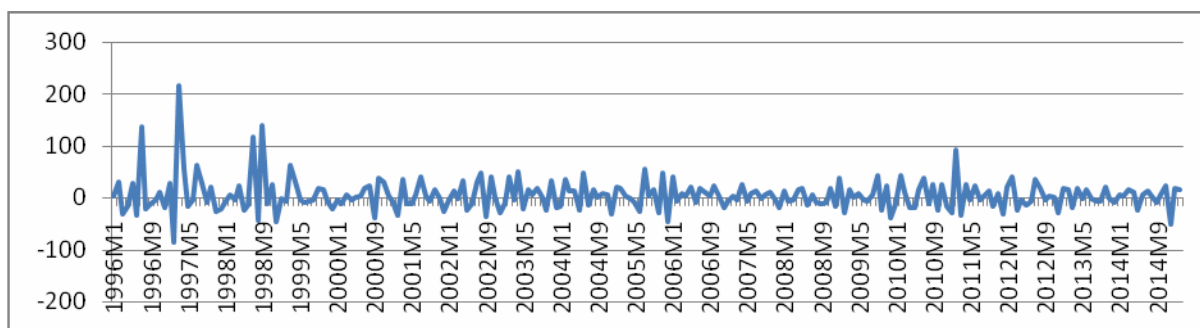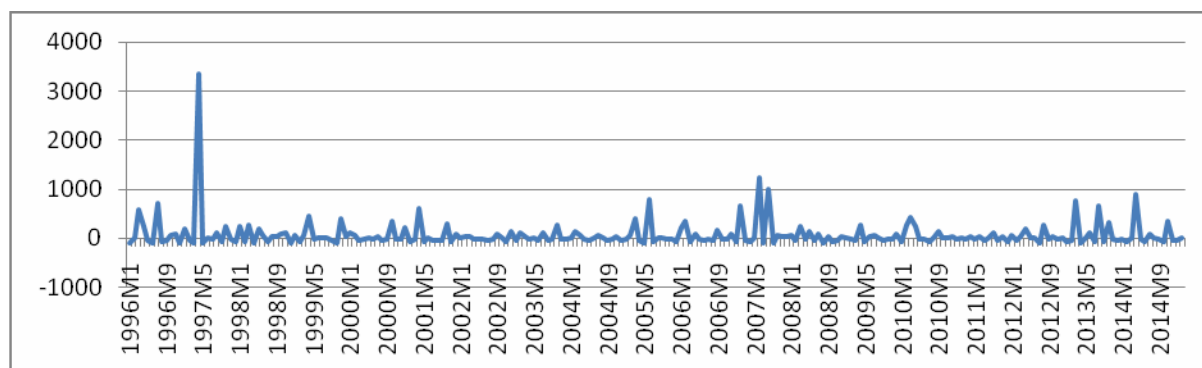

 Source 2- Elaborated by author

Total Exports vs. Exports to Turkey

Albania exports in turkey were divided into top 5 categories, which were mostly skin and fur skins, metallic, raw, transport equipments, plastics in primary forms and iron or steel. Exports to Turkey are relatively lower in value, in comparison to imports.

Albania is known for its negative trade balance in general; therefore it is seen as a normal phenomenon for the country. The exports toward Turkey are seen to significantly increase after 2010 and reach a peak of 6.32% in 2012. In Free Trade Agreement, there was mentioned a total implementation of agreement, in a 5 year time; therefore, from 2007 this was the year that the barriers were totally broken down and the movements of good were done more

easily. This might be the reason why the highest percentage is seen during this year. Currently it accounts around 4% of total exports toward the country of Turkey.

Source 3- Elaborated by author

Regression Analysis and Results

The Data used in the model are: GDP as dependent variable, Import and Export of Albania as independent variables. The Data are obtained yearly from INSTAT, TURKSTAT and World Bank in a period of time from 1990-2013. The results are derived from a sample size of 24 data regarding the variables.

In order to prove that the imports and exports are important for the economy of a country, a multiple regression model is build and therefore there is proved that the public can trust the above results regarding trade between the two countries.

Regression Analysis

Dependent Variable: GDPAL
Method: Least   Squares
Sample: 1990 2013

Included observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.266854	0.220491	5.745601	0.0000
IMPORT	1.077843	0.283602	3.800544	0.0010
EXPORT	1.012477	0.449908	2.250411	0.0353

R-squared	0.986179	Mean dependent var	6.275000
Adjusted R-squared	0.984862	S.D. dependent var	4.367294
S.E. of regression	0.537332	Akaike info criterion	1.712066
Sum squared resid	6.063229	Schwarz criterion	1.859322
Log likelihood	-17.54479	Hannan-Quinn criter.	1.751133
F-statistic	749.1930	Durbin-Watson stat	0.728957
Prob(F-statistic)	0.000000		

The regression model contains one dependent variable which is GDP of Albania and two independent variables which are total Imports and Exports flows in our country. According to the results obtained using E-views there can be said that the model can be explained by 98%, which is a really strong result and thus, our model is significant. Our variables, import and export, can be said that they express significant values, by comparing their probabilities which fall under the 5% level , which means that the independent variables, jointly can influence the dependent variable and making our model right.

Hypotheses:

Ho: Variables are not significant

H1: Variables are significant

The t-values express significance for both variables which means that they are under the value of 5% (0.05). The model can be concluded as:

$$GDPAL = 1.26 + 1.07 Import + 1.01 Export$$

These findings can be translated as: For every change that happens in imports, there is a change of 1.07 units in GDP, while export values are assumed constant. On the other hand, for every change in exports there is an increase of nearly 1 unit in GDP. If the variables in general are said to be 0, then there will always be 1.26 units change in GDP of Albania.
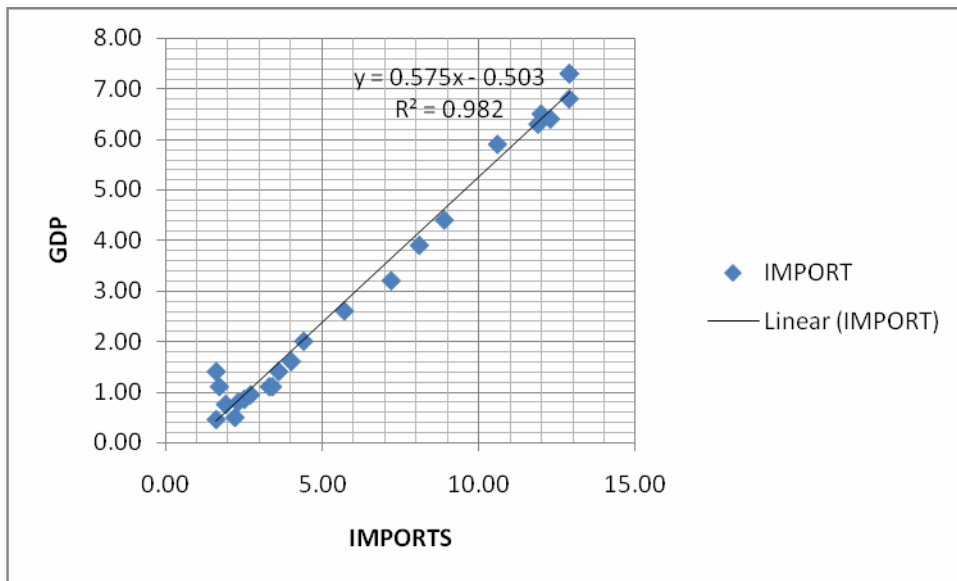
Results

There are conducted some tests regarding the relationship between the independent variables alone, and two others for the dependent variable and one of the independent variables. GDP and Exports have a correlation coefficient of 0.988267 and r^2 of 97% confidence level. Thus, this relationship can be trusted since it is expressed a strong relation between the two variables. The relationship is a positive, which means that the growth will be positive if one variable increases.
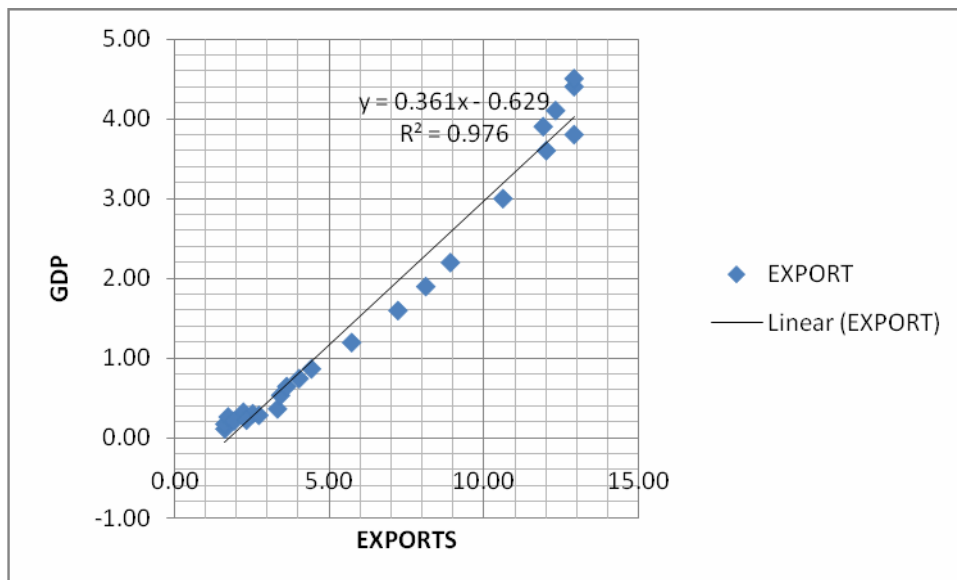
Source 4- Elaborated by author

GDP and Imports have similar results of coefficient by 0.991386 and with r^2 value of 98%, which suggest a really strong relationship between variables. Furthermore, this relationship is positive which means that Imports affect GDP if its value increases.

The chart shows a scatter plot with GDP on the y-axis (0.00 to 8.00) and IMPORTS on the x-axis (0.00 to 15.00). The trend line equation is $y = 0.575x - 0.503$ with $R^2 = 0.982$.

Source 5- Elaborated by author

Even between the independent variables, Import and Exports, there exists a correlation coefficient of 0.987777.

It can be concluded that correlation coefficients are really strong and express a strong relationship in general. So if one variable increases the other follow too.

V. Conclusions and Recommendations

The purpose of this Paper was to examine the importance of trade between two countries, one who is potentially small and the other is a large economy. Albania and Turkey, despite the long history together, have maintain to keep good relationships with each other and paying close attention to develop it further.

Such trade removes unnecessary barriers, gives the countries the opportunity to know its real potential and brings it closer to big international markets all around the globe.

Albania is still a developing country, there are yet recoveries to take place after communist era and as a consequence the industry in general is facing difficulties and it is weak to face any shock. There are arguments as it was mentioned in the literature review chapter that Free Trade Agreements can bring disadvantages to countries, especially to domestic labor and production, but there are still no significant facts to prove that statement.

Some obstacles that this thesis faced, was the fact that the data were difficult to be found, especially in the same currency or in monthly basis. The informality remains a problem in Albania, whereas the TURKSTAT was a great help to get data from and it was a well organized website too. This should be a serious issue, since the lack of data can

seriously damage the figure of our country by pushing prospective investitures or researchers away. The credibility of the interested party is weakened by these kinds of situations. Regarding this topic, there is also a lack of information toward the exchange of Turkish Lira in the official websites in Albania, even though the trade taking place between two parties has been present for a long time now

It can be concluded that trade with Turkey has brought new perceptions in the inner market, by presenting innovative products, being leaders in important industries, having a large boundaries and therefore increasing economic growth of a small country as Albania.

APPENDIX I- Percentage of Imports and Exports coming from Turkey (1996-2014)
Table 1- Percentage of Imports and Exports coming from Turkey (1996-2014)

Year	Exp	Imp	Exp to TR	Imp from TR	% of Exp	% of Imp
1996	22,001	98,060	684	4,119	3.11%	4.20%
1997	21,044	95,022	195	4,157	0.92%	4.38%
1998	31,104	126,271	170	4,152	0.55%	3.29%
1999	48,430	159,465	152	8,179	0.31%	5.13%
2000	37,037	157,109	245	8,401	0.66%	5.35%
2001	44,096	190,155	444	11,590	1.01%	6.10%
2002	47,490	210,368	477	12,796	1.00%	6.08%
2003	54,487	225,983	451	14,830	0.83%	6.56%
2004	62,121	236,072	1,178	16,764	1.90%	7.10%
2005	65,818	262,191	1,133	19,624	1.72%	7.48%
2006	77,405	299,147	1,014	22,793	1.31%	7.62%
2007	97,171	376,194	2,192	27,454	2.26%	7.30%
2008	112,572	439,894	2,164	26,245	1.92%	5.97%
2009	104,515	428,839	570	27,709	0.55%	6.46%
2010	161,548	477,768	9,573	27,046	5.93%	5.66%
2011	196,897	544,004	14,484	30,200	7.36%	5.55%

2012	213,030	528,490	13,464	30,379	6.32%	5.75%
2013	246,391	517,378	9,223	32,889	3.74%	6.36%
2014	255,759	552,264	10,094	39,011	3.95%	7.06%

Appendix 2- Growth of Imports and Exports of Albania (1993-2014)

Year	Exports	Imports	Year	Exports	Imports
1993			2004	161.10%	13.04%
1994	-16.02%	52.84%	2005	-3.78%	17.06%
1995	714.03%	3.58%	2006	-10.54%	16.15%
1996	-41.07%	47.84%	2007	116.16%	20.45%
1997	-71.55%	0.93%	2008	-1.26%	-4.40%
1998	-12.80%	-0.12%	2009	-73.67%	5.58%
1999	-10.72%	96.98%	2010	1579.85%	-2.39%
2000	61.97%	2.71%	2011	51.30%	11.66%
2001	80.92%	37.97%	2012	-7.04%	0.59%
2002	7.37%	10.40%	2013	-31.50%	8.26%
2003	-5.35%	15.89%	2014	9.44%	18.62%

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