

## Comments on: “Foreign trade agreements: the benefits and drawbacks”

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The conference organized by the Bank of Albania and the Economics Faculty – University of Tirana, is a great event at a scientific level as well as at the perspective and constructive extent. First, let us express our thanks to the organizing institutions and their directors for the fact that now, not only is the organization of yearly conferences of this kind becoming a tradition, but conferences with co-organizers are becoming a tradition, too.

Discussing about the same subject matter soon after a full-time and well-presented report, as it was the case with just finished report, is rather difficult. It is difficult for the exigent audience; it is difficult to the disputants. Nevertheless, the interest and curiosity is exactly here.

*The “free trade” agreements have become the subject matter of the day* for all the economic, political, mediatic and administrative opinion of our country. These terms are also widely discussed in rest of the Balkan. In the morphological viewpoint these have been called “Free trade Agreements”, when actually they are “duty-free trade agreements” or agreements with reduced custom duty. They are not and could never ever be “free trade” in the real meaning of the word. Free trade, as used in the real meaning of the concept used by Adam Smith, can’t be employed in the nowadays circumstances between two countries, especially in Balkan, where apart from the many impediments and tax duties, *there are also many administrative, legal, boundary impediments and procedures, restrictions on people’s movement, etc.* The regional citizens have not yet been able to travel freely from one country to another, let alone exercise free economic activities or free trade. This is more than true and many examples could be brought forth; however, we are not going to spend more time on this as there are other elements, clearly more important, to evolve a discussion.

Following, we are bringing to your attention some useful elements to the today’s conference.

1. *Free trade agreements are, beyond any doubt, an achievement to be appreciated in the region.* They have changed and are still changing day after day the commercial

communication climate throughout countries. These agreements have been the first big step towards the liberalization and facilitation of trade among the regional countries. Our country is among the most advanced ones regarding these agreements. *This represents a positive premise.* Important for us is the promotion of products for export, so that we could *be buyers as well as sellers* under the free trade agreements. Agreements already exist. The object is missing; there is no surplus production in the country. Under these circumstances, we believe that the commitment of the state structures is that big and advantageous in promoting the domestic production, particularly that for export. The Turkish, Polish, Hungarian, Bulgarian, Slovenian, etc., experiences are successful because their economic and growth solution clue is the domestic production. These experiences also show that there can't be real poverty reduction or export stimulation strategies without giving incentives to and stimulating the domestic production. I am not aware of any law or incentive favoring and stimulating the domestic export productions to the extent, for instance that construction firms and construction volume were justly stimulated from the lack of taxation and VAT, for a relatively long period of time. The expansion of the Albanian market through the reduction and lift of customs duty tariffs after 2008 is a great advantage, though a potential one only. Free exchanges are typical of relatively developed countries, the economies of which exchange products, reciprocally, freely as liquids flow freely in their communicating vessels. On the perspective development track, the Balkan countries, too, do have what to produce, exchange and communicate to each other. Now it is time to strongly urge incentives and investment in those sectors of the Albanian economy that bear the advantages of regional economic growth and development. Even within the European Community, the joint market used to expand the boundaries by reducing political restrictions and at the same time when the economies of the Market member countries were growing. Moving from the Rome Treaty to the Customs free Trade took nearly 45 years. In this perspective, we think it is time to focus on intensified investment in branches favoring the new dimensions of the regional market. It is time to turn our attention towards the production and export of certain traditional products in agriculture, handicraft, and tourism towards the North of the Region.

***2. Is there reciprocity in the free regional trade of our country? Do we have equal trade?***

This question is rather difficult. It is somehow known that ***we may have equal trade conditions with the regional countries, but however, we can never have equal trade.*** This conclusion has been already discussed. We would like to emphasize the impact of free trade agreements on the Albanian economy reconstruction, better to say on a new structural orientation. Our country went through a very difficult transition, during which many production capacities, which could be rehabilitated and become effective to the present market, have been destroyed. This is similar more or less to what happened in the rest of the region. In this perspective, our economy today finds itself without the necessary manufactories or vegetable conservation, preserves, fish, animal products, processing factories, etc. Meanwhile, the regional countries have made effective the ex-production capacities of 15-20 years ago. Under these circumstances, we surely do not feel ourselves under equal trade, but only under equal trade conditions. Not wanting to touch upon the object of another subject matter, the most significant fact of this conclusion is both the continuous and notable growth of import volume and the continuous deepening of the trade deficit. ***One of the most important values of our economy, appreciated also by the foreigners under the tourism conditions, is gastronomy and culinary art in general.*** This significant economic and promotional element of tourism, is grounded in two main elements: in the originality and in the values of agriculture and animal productions on one side, and in the tradition of the Albanian cuisine, where one can find elements of the Turkish, Italian and Greek cuisine altogether, which are regarded as the most appreciated cuisines. This fact bears a comparative advantage itself in the region and beyond. This comparative advantage should be encouraged, promoted, supported and developed. We should turn this comparative advantage into a productive and exporting capacity at a near future. It is the right place to state that even the banking system can strongly influence in this aspect through the crediting system giving priority to the agriculture and animal farming industry investment.

***It is necessary to conclude that the free trade agreements of our country with the other countries in the region should be associated with encouraging packets and policies aiming the development and utilization of the domestic sources. Considering the present***

*trend of the rapid growth of imports, reduction or standstill situation of exports, daily deepening of the foreign trade balance, deepening or difficulties in the foreign current accounts, we think that our economy will be faced with huge obstacles in the future.*

3. When speaking about free trade agreement, we always keep in mind that apart from the economic aspect, the countries parties in the agreement do have another framework - political, strategic, institutional framework and integration framework or preparations towards the integration in European structures. Without making any more comments - **in the political aspect - agreements are incentives and encouraging actions.** We believe that they are regarded as such by everyone. **However, agreements should not always remain framework documents, political garniture.** Apart from customs duties arrangements, the application of the agreement would also require other arrangements in the economic regimes of our country and those of other countries, either active or passive ones. If the agricultural and farming sectors, for instance, have a favorable climate in the fiscal field within the country, they do not enjoy any facilities in export. If agro-industrial products were exported, then they would benefit only from the free trade agreement facilities, but meanwhile they would equally come under constraints to pay VAT, excises, service charges, etc. It is quite logical to discuss for example the reduction of VAT for the agro-industrial export products, handcraft and traditional products, etc.

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