Constructing The Albanian Exports Path Of Future

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Introduction

Albania passed a difficult period of 12 years of transition distinguished by the efforts to establish an economic system orientated to the free market. Despite the difficulties of the transition process, the economic and social crisis of 1997, and Kosovo crisis of 1999, Albania made progress in the macro-economic stability and structural reforms.

Although in the recent years it was noted an economic growth (for 2002 the economy had a growth rate of 4.7 % compared with the past year 2001[1]), Albania is the poorest country in Europe with only 1521 USD GDP per capita, with a negative trade balance and a lack of basis infrastructure, with financial system that cannot react as needed to the business, with private and public institutions unprepared to take over responsibility for a new economic system that we have agreed to build.

Albania is now faced with a new challenge to increase the competitive capabilities in the international market with the intention to join the European Union. As known, an important factor influencing the improvement of economic growth of the country and reflecting the improvement of competitive capabilities is the foreign market. In 2002, Albania has registered the highest level of goods trade, 12 % more than 2001.The import of goods was about 1.5 billion USD or 12 % more than 2001 and the export 330 million USD or 8 % more than 2001[2].

Those data show that the economy of our country its orientated towards import, which contribute in 82 % of the volume of the foreign trade. The higher rising of imports compared to exports has brought about the further depression of trade deficit, which is connected to the low scale of competitive capabilities of domestic production.

1. What is the current import – export situation?

With the market economy opening and the *opeing* up commercial of goods and services the import flow in Albania had an augmentation as a result of emptiness (lack of goods on the market), the enhancement of the domestic demand and the inability of domestic production to answer these needs.

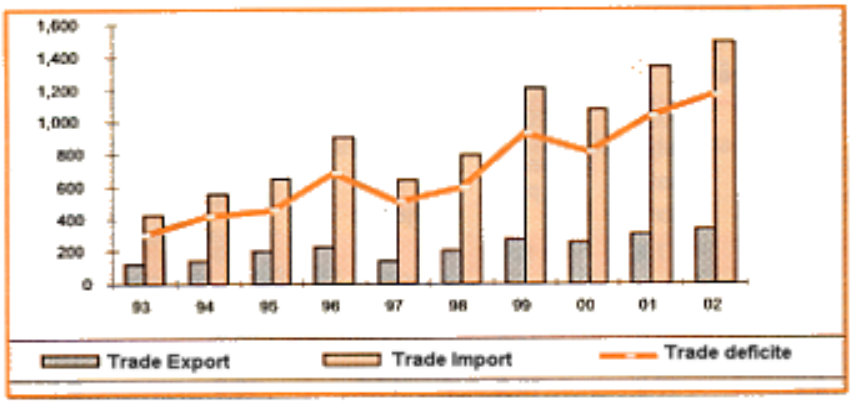
[1] 2002 Annual Report of the Bank of Albania, page 58
[2] 2002 Annual Report of the Bank of Albania, page 59

Even the improvements characterising the exports during this period, the commercial deficit continued to descend during the years, as in the table below.

YEAR	1993	2000	2002
Import (in millions USD)	**360**	**1156**	**1485**
Export (in millions USD)	**105**	**283**	**330**
Trade Balance (in millions USD)	**-255**	**-873**	**-1155**

Trade balance (in millions USD)

The export-import ratio shows a light regress of this indicator, which from 23.8 percent in 2000, was reduced to 22.8 percent and 22.2 percent respectively in 2001 and 2002.



Trade balance in Albania (on millions USD)

Export level is very low compared to GDP (Gross Domestic Production) and during 12 last years it varies 6-7,5 per cent, which means that actually the Albanian economy does not have overproduction and cannot exploit its advantages on some segments of economy that can be destined to export.

The progress of exports and imports on last decade (on percentage)

Looking at the export structure, domestic production and active processing, during these years we have such a situation: by 1993-1996, the exports are dominated by domestic production and after 1996 there is a growth of active processing exports.

During 2002, the increasing of exports, in a very considerable part of it, was a result of increasing of amount of re-exports, (active processing exports), with 9,2 percent compared to 2001. The progress of Albanian exports by its tow aspects, domestic production and active processing, on the period 1999 – 2002 is presented below:

YEAR	Exports from domestic production (1)	Exports from active processing (2)	Total exports (3) = (1)+ (2)
1999	10704	20698	31402
	34 per cent	**66 per cent**	**100 per cent**
2000	9312	21697	30991
	30 per cent	**70 per cent**	**100 per cent**
2001	9392	21599	36209
	27 per cent	**73 per cent**	**100 per cent**
2002	9556	27614	37170
	26 per cent	**74 per cent**	**100 per cent**

Obviously, the exports of active processing continue to keep the main part of Albanian exports, with approx. 74 percent of their total volume. This growth is accompanied with a rise on imports of raw materials for textile industry and leather processing, which keep

respectively 11 percent and 3,6 percent of imports volume. Certainly, both these figures and equipments and vehicles imports, which continue to keep a specific weight, approx. 20 percent of imports total, are reflecting the development of productive sector of the Albanian economy[3].

Also, the domestic production export is rising, even though not so evident in volume (with 4 percent). Domestic production export is represented by agriculture products (medicinal herbs, tobacco), metals (ferrochromium, aluminium), leathers, wood materials and mineral products (fuel). Industrial exports lost their importance by the state own enterprises bankruptcy.

Even tourism is an important issue. The statistics of 2002 payment balance stressed even more the positive tendency of tourism activity. As per evaluations of Bank of Albania this activity has generated approx. 486 millions US dollars revenues or 47 percent more than goods exports. Meanwhile, the Albanians have spent on their trips abroad approx. 366 millions US dollars or 60 percent of emigrants shipments[4]. During last year, 2002, there was an increasing on the number of the travelers that visited Albania, by 20 percent compared to 2001. This figure could be considered as an adequate indicator attesting the growth of activity on these services. Also, there is evidence of an increasing on the daily expenditures of Albanians traveling abroad by 39 percent, which is an important factor affecting the rise of tourism expenses with 42 percent compared to 2001. Consequently, by the end of 2002, the positive services balance of this category was evaluated at 121 millions US dollars. With such an activity, the tourism has dominated occupying approx. 83 percent of exports and 62 percent of services imports.

As mentioned above, the exports structure is dominated by active processing products on textiles and shoes, oriented to EU markets. The structure of imports and exports is presented as below[5]:

Nr.	IMPORTS STRUCTURE	1996	2002
1	Meat, meat products	5,0	3,0
2	Vegetable Products	17,5	6,8
3	Oils and animals or vegetable fats	2,9	1,4
4	Conserved foods, beverages, tobacco	9,5	8,8
5	Mineral Products	5,2	12,9
6	Chemical industry products	4,8	5,8

[3] 2002 Annual Report of Foreign Trade, ACIT
[4] 2002 Annual Report of the Bank of Albania, page 60

[5] 2002 Annual Report of the Bank of Albania, page 59

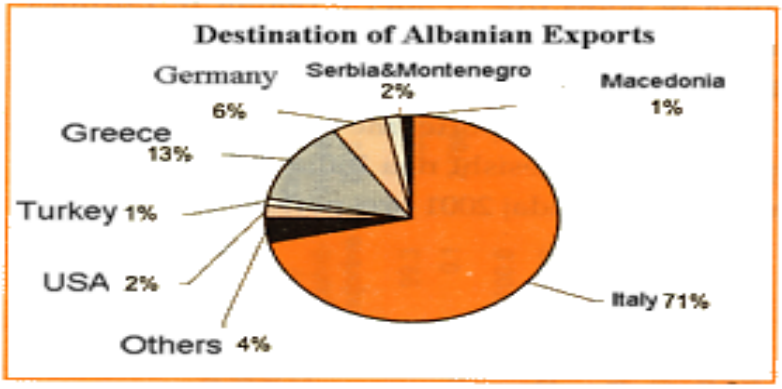
7	Plastics; rubber and their products	2,3	3,0
8	Leathers and their products	2,1	2,5
9	Woods their products	0,8	1,1
10	Papers, their articles	1,4	2,0
11	Textile and textile products	9,0	10,9
12	Head and foot wears, umbrellas	6,3	3,7
13	Products by stone, cement, ceramic, glass etc.	2,4	3,9
14	Pearls; jewellery; coins	0,1	0,0
15	Basis metals and their products	4,8	9,0
16	Mechanical and electrical equipments	16,2	16,2
17	Vehicles	6,1	5,4
18	Optical and musical instruments, watches etc.	1,3	1,0
19	Guns, munitions and their spare parts	0,1	0,0
20	Different articles	2,1	2,5
21	Art works, pieces from antiques	0,0	0,0
	TOTAL	100,0	l00,0

Nr.	STRUKTURA E EKSPORTEVE	1996	2002
1	Meat, meat products	3,1	0,6
2	Vegetable Products	7,1	4,0
3	Oils and animals or vegetable fats	2,2	0,0
4	Conserved foods, beverages, tobacco	4,1	2,2
5	Mineral Products	10,3	2,8
6	Chemical industry products	1,2	0,5
7	Plastics; rubber and their products	0,5	0,2
8	Leathers and their products	4,5	4,5
9	Woods their products	2,8	2,6
10	Papers, their articles	1,4	0,9
11	Textile and textile products	24,4	37,7
12	Head and foot wears, umbrellas	23,4	28,9
13	Products by stone, cement, ceramic, glass etc.	0,2	0,6
14	Pearls; jewellery; coins	0,0	0,1

15	Basis metals and their products	11,3	9,3
16	Mechanical and electrical equipments	1,7	2,5
17	Vehicles	0,1	0,3
18	Optical and musical instruments, watches etc.	0,1	0,1
19	Guns, munitions and their spare parts	0,3	0,2
20	Different articles	1,4	2,1
21	Art works, pieces from antiques	0,0	0,0
	TOTAL	100,0	100,0

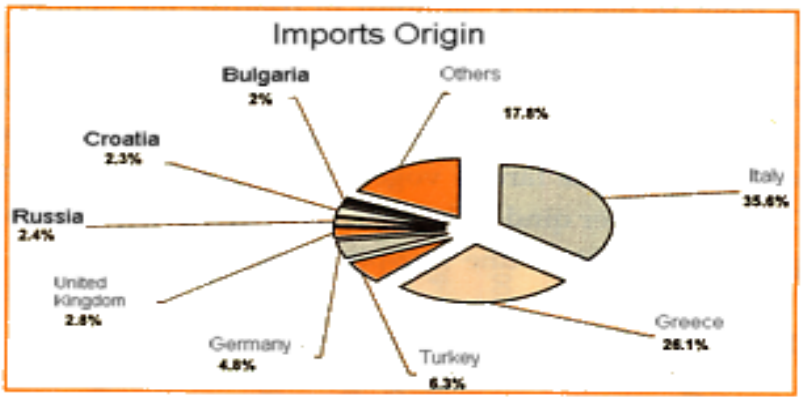
Hence, as we can see, there is an improvement of the export structure for textiles and their articles as well as the head and foot wear and umbrellas, and also an increasing of mineral production and chemical industry products imports.

The Albanian exports and imports geography is as below:



From this chart is shown that exports are oriented mainly to EU countries, mostly to Italy and Greece.

The asymmetric trade regime of Albania and some other country of the region to EU, accorded by EU during last year, 2002, is exploited at a low level and mainly for items like: anchovy, tomatoes at 33 percent of quota, sweet pepper at 9 percent, watermelon at 43 percent etc.



The same situation is presented on the origin of imports, where the first and second countries are Italy and Greece.

The Albanian exports to signatory countries of memorandum[6] of trade liberalization are at a low level, although the tendency on three last years is growing up. From these countries the exports to boarding country are the most important, mainly for consume products, construction raw materials, petroleum etc. Kosovo has a big influence on exports with approx. 90% (it is presented with Yugoslavia for statistical reasons). On the first semester of 2003 there are realized 871178 US dollars by exports to Kosovo, mainly food products and construction raw materials.

NR	COUNTRIES	2000		2001		2002	
		000 /USD	**%**	**000 /USD**	**%**	**000 /USD**	**%**
1	Bosnia - Herzegovina	0	0	7,7	0,05	74,2	0,6
2	Bulgaria	78	0,7	94,7	0,66	97,8	0,8
3	Serbia, Montenegro and Kosovo	7088,4	64,2	9503,3	66,1	7457	58,3
4	Croatia	1385,3	12,6	49,7	0,35	158,4	1,2
5	Macedonia	2479,6	22,5	4719	32,83	4867,7	38,7
6	Romania	4,03	0,04	0	0	57,9	0,5
A	**Memorandum's Countries**	**11035,3**	**4,25**	**14374,6**	**4,7**	**12713,6**	**3,76**
B	**Other Countries**	**249543**	**95,75**	**289502,7**	**95,3**	**325411**	**96,2**

[6] Data taken from Ministry of Economy

	Exports Total	**260578**	**100**	**303877**	**100**	**338124,8**	**100**

2. Which are the reasons for that situation?

The Albanian trade balance continues to be negative because of a low level of exports. As mentioned above, the domestic production export is a little percentage of the total exports and is represented mainly by agriculture products. Industrial exports lost their importance by the state own enterprises bankruptcy.

This is clearly reflected on mineral industry. The main minerals traditionally produced in Albania are chromium, cooper, ferrochromium, iron-nickel and some other products from petroleum refinery that until the middle of '90 have been dominant components on the revenues from foreign exchanges.

Therefore, in the centralized economy, mainly by the end of '70 till 1990, Albania was the second country in the world concerning the chromium export (after South Africa) and the third for its production (after South Africa and Soviet Union). By the 1999 the chromium production diminished obviously, with 47 percent compared to 1998 production. The crisis, which chromium industry passed as results of continually strikes of the chromium industry workers, impacts negatively on realization of this mineral export even on the next years[7].

If we analyze cooper industry, we would see that cooper production was on its maximum level by the end of '80. In 1999 the cooper ore production diminished with approx. 37 percent compared to 1998. The refined cooper production fell heavily with 70 percent and the cable cooper one follow the falling which began in 1993.

In the past the production of electricity, natural gas and oil, as well as the low consumption of fuels in the country, made Albania an exporter of energy.

The reduction of electricity production, as a result of some years of dryness, the falling of oil production, and the growth of domestic needs for energy caused the lost of good name of Albania as an energy exporter. Drastic falling of mineral exports is evaluated as the most important factor impacted the diminish of domestic production export volume, causing in the same time the change of export structure. There is an evident lost in weight of category "unprocessed materials" represented by mineral exports and category "fuel" where the electricity export is included.

[7] Source: Ministry of Industry and Energy

The low levels characterizing the domestic export show that economic potentials to export are not being used as they should. One the many reasons is the conservation of mineral industry waiting for privatization, which traditionally has had a very important weight on Albanian exports.

Currently, there are many other factors affecting the low level of exports. Some of them are:

- The domination of very small agriculture production unit, many of which have a very little production to market. These units have difficulties on getting credit that could be used for enlargement or buying the equipment to intensify the land utilization or its modernization.
- The domination of small workshops, mainly with old equipment, which have only local or regional importance and cannot fulfil the conditions of European markets on the quality and hygienically point of view.
- The lack of products standardization and production label.
- Insufficiency of infrastructure for raw material supply, products marketing and their eventual pre-processing.
- The difficulty of small producers organizing to collect the adequate amounts of production in order to be processed for market and to be profitable exported.
- The destruction of the most existing structures and producing capacity, except the textile, clothing and shoes industry.
- The lack of infrastructure and weak marketing to improve the image for tourism development.
- The lack of capital to invest on modern equipment and the lack of information on the sources of suitable technology supply.
- Many managers don't have adequate knowledge on the modern methods of management. They are simply oriented to production and miss the knowledge especially on the marketing.
- The production levels are lower than the aimed countries, so the international competitiveness is low for these phases of production, which are easily automated.
- The lack of contacts between the business community and potential partners on foreign markets and the difficulties that managers have to travel to the countries intended to trade.

As a consequence of the above factors, the tendencies of consumption the development of potential aimed markets are unknown (such as movement to comfort products). In the meantime there are many conditions (i.e. hygienic standards, product presentation, supply continuity) to be fulfilled by all the suppliers, aiming to get the control a part of these markets.

Also, there are few knowledge on the services conditions to tourism general clients and to them who could help on attraction of tourist groups.

3. What should be done to increase exports?

Despite that, the fact that Albania could successfully export some products, is evidence showing that there does exist a general potential to export and that there could be constructed a basis on which it could be attempte to improve and enlarge the export basis.

The Albanian economy has not exploited the domestic capacities adequently. One of the reasons was the energetic crisis, which has had an important impact on all the economic sectors profitability.

Based on the last years exports situation, the growing rates, success on some economic segments, agriculture and other economic sector equipment imports, public investments and many reforms under implementing, opening and enlargement of regional market, especially to Macedonia and intensification of trade relationships to Kosovo, there is a good prospective on the competitive ability development and improvement on the regional point of view.

Below, there is the prospective of exports as per their structure (domestic production and active processing) evaluated on millions US dollars[8].

YEAR	**Exports from domestic production (1)**	**Exports from active processing (2)**	**Total exports (3) = (1)+ (2)**
2003	112,3	286,1	398,4
	28,2 percent	**72,8 percent**	**100 percent**
2004	151,6	306,6	458,2
	33,1 percent	**66,9 percent**	**100 percent**
2005	212,2	314,7	526,9
	40,3 percent	**59,7 percent**	**100 percent**

Export foreseen until 2005, on million US dollars

As regards the future of exports for next years there has been evaluated an average annual growth export rate approx. 18,3 percent, for domestic production 30 percent and for active processing 10,4 percent.

A bigger growth on domestic production is foreseen in these products:

- vegetable products, medicinal, spices and fresh vegetables,
- animal products like: meat, diary, fish etc.,
- foods, beverages, tobacco,

[8] Data taken from Ministry of Economy

- construction raw materials (cement, lime),
- several mineral and metals (chromium, cooper etc.),
- leathers,
- woods and their products,
- on the sectors of textiles and shoes, the growth belongs to active processing products.

From the specific weight point of view there has been foreseen a growth on domestic production because of the growth of workers incomes, so that active processing production will not be as profitable as nowadays.

These evaluations are relatively argued, because in this prediction would affect more factors as a detailed knowledge of exports and relevant factors from specialized institutions.

Naturally, the main impulses for economic growth will come from private sector, the same as happened during the firsts years of transition and during the economic recovery after 1997 crisis. But, because of the abovementioned problems, the private sector is not yet able to use the competitive advantages of Albania, despite the possibility that state control system liberalization is offering in practice.

In the agriculture sector it is necessary to effect the quantity and qualitative improvement of agriculture production. To achieve that, the agriculture methods should be modernized and by introducing new methods of organic agriculture. This needs the commitment on such activities, which would increase the possibility of land operations. Also, this would facilitate the investments on agriculture economic level, intending the improvement of intensification of land use and productivity, and improve the knowledge and skills of farmers to create contractual relationships or to form groups for marketing or raw materials supply. It is necessary to improve the communication system and road infrastructure.

Non-agriculture sectors might need the investment promotion, aiming the modernization of production units. It is necessary to update the technical and marketing knowledge through having a special strategy compiling and establishment of such an infrastructure making possible the improvement of services.

The relative isolation of Albanian producers and managers from the traget markets is one of the negative factors obstructing the development of all sectors. That is why there should be supported more those activities facilitating the Albanian producers and managers to aimed countries, in order they to be informed on these markets conditions and to present the Albania image as a supplier or exporter on specific sectors.

The fact that the revenues for 2002 from tourism were 47 percent more than the total value of Albanian exports means that tourism development should be one of the most priority issues of national development strategy. Despite the hard competitiveness of

region countries (Greece, Montenegro, Croatia), tourism sector shows its potential to be a powerful engine of economic growth.

From a general point of view, and based on several factors affecting directly or indirectly the growth of goods export level, its perspective seems to be optimistic. Some of these factors are presented below:

1. The general economic development policies and the commitments for a liberal trade policy on the region.
2. The existence of an export promotion strategy and relevant structure to be implemented.
3. The improvement of financial and bank system as well as the increasing the crediting skills on economy.
4. The rise of public investments on road, railway, water supply and telephony infrastructure.
5. The continuous increasing of foreign and domestic investments on economy, especially on food industry and mineral one.
6. Government commitments to facilitate and cut off the administrative barriers helping the business development.
7. Government commitments to solve the ownership problem, which may lead to a huge perspective of investments on economy.

Likewise, an important factor affecting the export growth is the production standardization as per international standards. This would improve the image of Albania as a potential exporter.

Conclusions

- ✓ The domestic production exports during the firsts years of last decade have been dominated by some stock products and production units inherited from centralized economic system, meanwhile in the last years the economic production evidently diminished, especially on export products, as results of reforms, privatization and need to restructuring the economy.
- ✓ These years tendency has been the increasing of trade deficit. The rate of export to GDP or the exportation percentage is each year lower compared to earlier years. This trade deficit testifies to the financial difficulties on payment balance that means that our economy should sell some of its assets or to get financial grants from other countries. To diminish this disproportion between exports and imports there are tow possible ways: ***export promotion and domestic production of some products being imported and that Albanian economy has the possibility to get off the imports list.***
- ✓ Export trend is growing some countries as: Yugoslavia (+Kosovo), Turkey, USA, Switzerland etc. and mainly on domestic production, construction materials, leathers, medicinal herbs, minerals etc.
- ✓ The ratios between exports and imports, which are not so good, have an important impact on the general economic development, when it's true that actually the compensation from services sector (tourism, transport, finance, etc.) is

impossible, because even this sector has a low level of development. Also, even the economy assets' selling has its limits, the grants are temporary and the revenues from emigrants are diminishing. Hence, from this point of view, if the trade deficit will grow up, it would be a barrier for further development of economy as whole. After 2005, the beginning of trade deficit mitigation is foreseen.

- ✓ Export promotion, is a powerful mechanism of structural adjustments, with a big impact on payment balance. Within the framework of economic policy in Albania, the export development is considered a key factor to improve the macro-economic indicators, especially from the point of view of improvement of payment balance (actually so negative), and new jobs creation.
- ✓ FDI promotion could be a rational way to develop the existing export potentials, building the new export capacities, getting an immediate entering in the market and establishing dynamic competitive advantages. FDI could have an important role on supporting the production oriented to export. Also, the approval of Middle-term SME Development Strategy is decisive to improve the Albanian industry competitive skills, where SME form 95 percent of it.
- ✓ To attract more foreign investments and modernise production units of this sector there should be applied some incentives, and improvement of tax policy on investment for equipments for production sector, to cut off or to reduce VAT on equipment, activities of companies operating on production sector etc.
- ✓ In the agriculture sector, the immediate scope is the quantitative and qualitative improvement of the agriculture production. To achive this, the farmers' methods should be modernised and the organic production should be increased. In the European markets the "bio" products are competing easily. This needs concrete actions such as: investments facilitation in order to improve the land productivity, improvement of farmers knowledge and skills, and the incentive to form groups on marketing and raw materials supply.

Therefore, the main problems of export promotion are:

- Identification of competitive advantages and their development.
- FDI promotion
- Production base development in the country

Albania, with its geographical position, natural sources, climate and a relatively small domestic market, has all the possibilities to be a potential exporter to European markets.

The improvement of energy situation through the sector policies will affect positively the economic development and the reduction of the aggravating aspects as the large import of electro-mechanical equipments, i.e. generators, electro-motors etc.

Likewise, the replacement of processed fuels with crude oil to be processed in country by processing industry could have a positive impact on reduction of this deficit. In the meantime the supporting policies for these sectors are necessary.

An effective cooperation between the state institutions dealing with sectors policies, decision making on exchange rates, that are the core of an export strategy, will create a favourable environment for the positive development of payment balance.

Agriculture and agro-industry are economic potential branch having prospective to improve the trade deficit on the terms of replacing import products with domestic ones. In this context, the agriculture and agro-industry crediting is an important aspect of trade deficit improvement.

In order to improve the export – import ratio, besides the sustainable long-terms objectives, even the immediate solutions are necessary:

► To make studies for establishing the collecting centres on regional basis, where goods will be marketed, manipulated, standard, and packed.
► To support the initiatives, which would make possible the use of other energy sources, especially the solar one, based on the results of some other countries such as Greece, France, Spain etc.
► To promote the crude oil import, because of the considerable refining capacities in country, in order to minimize the trade deficit and reduce the unit production cost.
► To support construction materials production sector, because of the huge demand on domestic market, and the big export potential it represents especially on our Region.
► The establishment of criteria and norms on building constructions, regarding the central heating, which will reduce the imports of such items as air conditioners, boilers, heaters etc.
► Better management of water supply would have its effects on reducing the imports of a goods category like: dams, deposits, water pumps etc.

Further more, to improve trade balance, many governmental structures have:

- To get continuously analytical data for every product destined to export.
- To identify the producers and wholesalers dealing with the exportation of different domestic production.
- To identify the products that are potentially exporting but have not still found the ways to enter into foreign markets.
- To identify the domestic products and producers that need temporary protection from the same imported products.
- To identify products, that should not be imported, because of the possibilities to be produced in Albania.
- To establish the information system on agriculture and light and food industry products, which are tasty and biologically pure, and for which there is a high demand on foreign markets.
- To recive information and data on prices, demands, companies and rules of foreign markets.

The further development of Albanian industry oriented to exports will depend on successful political, institutional, technical and managerial capacities building.

The Albanian Export Promotion is supported by the competitive capability, based on the principles of sustainable private – public partnership on an integrated position where is included:

- The production and logistics oriented by market (business community role),
- Services oriented by business (public and private organizations role),
- Legislative and administrative framework oriented by business (government role).

The strategic statement to export promotion aims the including and closer cooperation between all the actors in order to benefit from complimentary statements and synergy effects. Hence, the functional relations between public and private organizations, business community and donors, as well as government contribution will be essential to the success of Albanian Export Promotion.

The main issues dealing with the incentive attitude are:

- The official integration of export promotion on the general economic development strategy.
- The institutionalisation of public – private partnership to the strategy planning, implementation, monitoring and improvement.
- The establishment of an export promotion institution, which will coordinate its activities with implementing agencies network.
- Improvement of the legal framework and administrative procedures concentration.
- The promotion of Albanian industry for an integrated position beginning from competitive capabilities improvement to export promotion.

To stimulate the Albanian general economic development there should be used complimentary statements and synergy effects. Because of that the effective cooperation between all the actors and efficient coordination of donors contribute should be stressed over. The substitution of imports by exports will have an important role on Albanian future general economic development because of competitive advantages of Albania, especially low cost and educated working force, the nearness to European markets, recovering of regional markets, natural sources, liberal trade policies and the unused agriculture, food processing, mines, light industry and services potentials.