The Effects of COVID-19 on the Albanian Trade Balance

Blerta Dragusha and Sabrid Ulqinaku

ABSTRACT

This paper presents data on the Trade Balance in Albania and the effect of the pandemic on this important macroeconomic indicator. The situation in which Albania is, the challenges it faces today and will face in perspective make the study of this balance very necessary. The fact that Albania over the years has had a negative trade balance, should be subject to a review that considers the factors that have influenced, the deterioration of this indicator in the last year and the opportunities that can be used to improve it.

Albania's foreign trade has evolved over the years. However, given that our country was part of a transition, recovery was not at all easy. Precisely from this factor, the analysis of the last 10 years will focus on import-exports by goods and services, as well as between countries.

Keywords: export, import, macroeconomic, pandemic, trade balance.

I. INTRODUCTION

Albania has made progress in macroeconomic stability, despite the difficulties of the transition process and various economic and financial crises. Although economic growth has been observed in recent years, Albania remains a poor country, with a very negative trade balance, poor state of basic infrastructure, with a financial system that still does not adequately respond to business needs.

As it is known, a very important factor that affects the economic growth of a country and that reflects the increase of competitiveness is foreign trade. From the data, especially of recent years, it is noticed that the economy of our country has a pronounced orientation towards imports, which contributes the largest share in the volume of foreign trade (Ministry of Finance, 2019).

Higher import growth compared to exports has led to further deepening of the trade deficit, which is associated with the low degree of competitiveness of domestic production.

II. METHODOLOGY

To meet the goals and objectives of this paper, we have used secondary data. These data were collected through historical and recent statistics mainly from the Institute of Statistics (INSTAT). From the collection of information, we have relied on a concrete case study to see the effects of the crisis launched by the pandemic and the interaction of various factors in the Albanian trade balance.

A. Literature Review

The balance of trade is the difference in value over a period between imports and exports of goods and services of a country, usually expressed in the currency unit of a particular country or economic union. The balance of trade is part of a larger entity, the balance of payments (the total amount of all economic transactions between a country and its trading partners worldwide), which includes capital movements (money flowing into a country that pays high repayment interest rates), loan repayment, tourist expenses, cargo loads and insurance charges, and other payments.

If a country's exports exceed its imports, it is said that the country has a favorable trade balance, or a trade surplus. Conversely, if imports exceed exports, there is an unfavorable trade balance, or a trade deficit. According to the economic theory of mercantilism, which prevailed in Europe from the 16th to the 18th century, a favorable trade balance was an indispensable tool for financing the purchase of a country's foreign goods and for maintaining export trade. This would be achieved by creating colonies that would buy the products of the home country and export raw materials (especially precious metals), which were considered an essential source of wealth and power of a country (Sheffrin & Steven, 2003).

The assumptions of mercantilism were challenged by classical economic theory of the late 18th century, when philosophers and economists like Adam Smith argued that free trade was more beneficial than the protectionist tendencies of mercantilism and that a country did not need to maintain an equal exchange or, for that matter, build a surplus in its trade balance (or in its balance of payments).

A persistent surplus, in fact, may represent unused resources that may otherwise contribute to a country's wealth if they are directed towards the purchase or production of goods or services. Moreover, a surplus accumulated by one country (or group of countries) may have the potential to create sudden and unequal changes in the economies of those countries in which the surplus is eventually spent (Crugman, 2006).

In general, developing countries (unless they have a monopoly on a vital commodity) have difficulty in maintaining surpluses as trade conditions during periods of recession work against them; that is, they must pay relatively higher prices for the ready goods they import but receive...
relatively lower prices for their exports of raw materials or unfinished goods.

III. PERFORMANCE OF TRADE BALANCE OVER 10 YEARS

A. Imports-Exports during the Last Ten Years

With the entry into the market economy and the opening to trade in goods and services, and especially in the last decade, the flow of imports to Albania increased significantly, because of the lack of goods in the market, increasing domestic demand and the inability of domestic production to meet these needs. Despite the increases in exports during this decade, the trade deficit continues to deepen year after year. Albania registered a trade deficit of ALL 24033.70 million in March 2020 (INSTAT).

Albania's structural shortcomings are the main factor behind stable trade deficits. Albania's main exports are footwear, clothing, metallic fuels and lubricants, raw materials, machinery, equipment, and food. Albania's main imports are machinery and equipment, fuels and lubricants, food, chemicals, beverages, and tobacco. Albania's main trading partners are Italy, Greece, Turkey, China, Germany, Serbia, Switzerland, Spain, France, FYROM and Bulgaria.

Exports in value have marked a significant increase during the last 10 years, amounting to ALL 61,000 million. During the first 4 months of the current year 2020, we notice that imports have increased initially from 42000-52000 million ALL and have now returned to the same figure as they were at the beginning of the year.

The graph clearly shows that the trend of exports in the last 10 years has been increasing, highlighting the lowest value around half of 2010 of 10000 million ALL and the highest value at the beginning of 2018 is 30,000 million ALL. During the first 4 months of the current year 2020, it can be noted that exports have decreased by about 7000 million ALL.

From the graph it is seen that the trend of imports in the first 7 years of the last decade has been at the same level despite the frequent fluctuations of about 35000-55000 million ALL, emphasizing the lowest value around 2013 of 33000 million ALL and the highest value at the end of 2017 amounted to ALL 61,000 million. During the first 4 months of the current year 2020, we notice that imports have increased initially from 42000-52000 million ALL and have now returned to the same figure as they were at the beginning of the year.

1) Imports-exports by commodity groups

Trade represents the largest part of the Albanian state GDP and is mainly carried out with the member states of the European Union. The country mainly exports shoes and parts of them, suits, shirts, electricity, and chrome ore, while importing mainly motor cars, petroleum oils, pharmaceuticals, and leather.

The first place in the percentage of the quantity of goods exported by our country is occupied by textiles and shoes, with almost half, of 44% of the quantity of the total volume of exports. It is followed by minerals, fuels, and electricity with 19%, construction materials and metals with 13%, food, beverages, and tobacco with 10%, and up to leather and leather goods which occupy only 1% of the total level of exports.

B. Reasons for Negative Trade Balance

Albania's trade balance continues to be negative, due to the low level of exports. As mentioned above, domestic exports occupy a very small share and are mainly represented by agricultural products. Industrial exports have lost their importance since the bankruptcy of state-owned enterprises.
This is clearly reflected in the mineral industry. The main minerals that have traditionally been extracted in Albania have been chromium, copper, ferrochrome, iron-nickel as well as products from the oil refinery, which until the mid-1990s constituted a dominant component in foreign exchange earnings.

As can be seen from the graph above, the trade balance has never been positive at least once in the last 10 years, even its minimum value was reached in 2013 with about -15000 million ALL.

Meanwhile, 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, because of several years of drought, the decline in oil production, as well as the increase of internal electricity needs caused Albania to lose its status as an exporter in this sector. The drastic decline in exports of minerals is considered as an important factor that influenced the reduction of the volume of domestic exports, while bringing a change in its structure (Xhuka, 2010).

The low levels that characterize domestic exports indicate that the potential of the export economy is not being exploited. One of the many reasons is the pending situation for the privatization of the mineral industry, which has traditionally had a very important weight in Albanian exports. This delay has further reduced mineral extraction.

Currently, the low level of exports is also influenced by many factors, some of which can be mentioned:

- The prevalence of very small agricultural and unused production units, most of which currently have a small production potential for the market.
- Lack of infrastructure and poor marketing to improve the image of the country’s tourism development.
- Lack of capital to invest in modern production equipment as well as lack of information on sources of supply of suitable technologies.
- Many leaders do not have sufficient knowledge of modern management methods. They are simply product oriented and lack knowledge especially in the field of marketing.
- Lack of contacts of the business community with potential partners in foreign markets and the difficulties that managers or owners have in travelling to the countries with which we intend to trade.

![Graph showing trade balance 2010-2020](source: INSTAT, Year. 2020)

Italy remained Albania’s main trading partner last year, absorbing Albanian exports of ALL 123.5 billion and securing imports of ALL 151.9 billion in the country. Other major exporters to Albania were Kosovo, Spain, and Germany.

![Graph showing trade balance 2020-2021](source: INSTAT, Year. 2021)

Albania's exports in March increased by 78.1 percent from a year earlier, the largest gain in over four years (INSTAT). March exports were ALL 32 billion while imports increased by 45.3 percent to ALL 64 billion. The trade deficit widened by 23.4 percent to ALL 33 billion. Based on the latest data, the increase in exports was helped by two categories of goods. First, exports of minerals, fuels and electricity increased by 26.6 percent compared to March 2020. Second, exports of goods from the textile and footwear industry increased by 22.1 percent.

<table>
<thead>
<tr>
<th>Table II: Albanian Exports with Various Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albanian exports by countries</td>
</tr>
<tr>
<td>Italy</td>
</tr>
<tr>
<td>Serbia</td>
</tr>
<tr>
<td>Spain</td>
</tr>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>Greece</td>
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<tr>
<td>Macedonia</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>Montenegro</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

Source: INSTAT, Year. 2021.

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<table>
<thead>
<tr>
<th>Table III: Exports of Goods by Categories</th>
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</thead>
<tbody>
<tr>
<td>Albanian Exports by category</td>
</tr>
<tr>
<td>Footwear</td>
</tr>
<tr>
<td>Clothing items, not knitted or crocheted</td>
</tr>
<tr>
<td>Mineral fuels, oils, distillation products</td>
</tr>
<tr>
<td>Clothing items, knitted or crocheted</td>
</tr>
<tr>
<td>Iron and steel</td>
</tr>
<tr>
<td>Electrical, electronic equipment</td>
</tr>
<tr>
<td>Edible vegetables</td>
</tr>
<tr>
<td>Salt, sulfur, soil, stone, plaster, lime, and cement</td>
</tr>
<tr>
<td>Slag and ore ash</td>
</tr>
<tr>
<td>Others</td>
</tr>
</tbody>
</table>

Source: INSTAT, Year. 2021.

Meanwhile, data for the first quarter of 2021 (January - March) confirmed an increase in exports by 21.9 percent or ALL 80 billion. Meanwhile, imports in the first quarter of 2021 (January - March) increased by 17.5 percent to ALL 162 billion.

IV. CASE STUDY (PANDEMIC YEAR)

A. Current Situation (2020-2021)

Albania's trade deficit decreased by 9.9% year-on-year in 2020, to ALL 333 billion. Exports fell by 9% annually to ALL 272 billion in 2020, while imports decreased by 6.8% to ALL 605 billion. The decline in total exports was mainly due to the decline in exports of textiles and footwear, minerals, fuels, electricity, construction materials and metals. In December alone, Albania’s trade deficit reached ALL 38 billion, up 13.9% from a year earlier (INSTAT).
TABLE IV: IMPORTS OF GOODS BY CATEGORY

<table>
<thead>
<tr>
<th>Albanian Imports by category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral fuels, oils, distillation products</td>
<td>$470.30M</td>
</tr>
<tr>
<td>Machinery, nuclear reactors, boilers</td>
<td>$433.50M</td>
</tr>
<tr>
<td>Electrical, electronic equipment</td>
<td>$409.14M</td>
</tr>
<tr>
<td>Vehicles other than rail, tram</td>
<td>$391.20M</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>$270.51M</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>$236.49M</td>
</tr>
<tr>
<td>Plastics</td>
<td>$221.02M</td>
</tr>
<tr>
<td>Articles of iron or steel</td>
<td>$142.36M</td>
</tr>
<tr>
<td>Clothing items, knitted or crocheted</td>
<td>$142.08M</td>
</tr>
<tr>
<td>Others</td>
<td>$1.42B</td>
</tr>
</tbody>
</table>

Source: INSTAT, Year. 2021.

In terms of import markets, in March Albania had an increase in goods exported to Italy (83.7), China (92.8) and Germany (85.5%). Moreover, the main trading partners in March 2021 were Italy, Turkey, Greece, and China.

TABLE V: IMPORTS OF GOODS BY COUNTRIES

<table>
<thead>
<tr>
<th>Albanian Imports by countries</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>$1.49B</td>
</tr>
<tr>
<td>Turkey</td>
<td>$562.48M</td>
</tr>
<tr>
<td>China</td>
<td>$543.62M</td>
</tr>
<tr>
<td>Greece</td>
<td>$490.72M</td>
</tr>
<tr>
<td>Germany</td>
<td>$420.70M</td>
</tr>
<tr>
<td>Serbia</td>
<td>$206.30M</td>
</tr>
<tr>
<td>France</td>
<td>$118.65M</td>
</tr>
<tr>
<td>USA</td>
<td>$113.24M</td>
</tr>
<tr>
<td>Russia</td>
<td>$105.74M</td>
</tr>
<tr>
<td>Others</td>
<td>$1.02B</td>
</tr>
</tbody>
</table>

Source: INSTAT, Year. 2021.

B. Factors Analysis

Factors that affect the trade balance are:
1. Cost of production (land, manpower, capital);
2. Gross Domestic Product (GDP);
3. Inflation;
4. Exchange rates;
Trade agreements.

1) Production cost

The work describes the characteristics of a country's workforce. Earth describes available natural resources, such as wood or oil. Capital resources include infrastructure and production capacity.

The international trade model highlights the labor, land, and capital characteristics of a country to explain trade patterns. For example, a country with abundant unskilled labor produces goods that require relatively low-cost labor, while a country with abundant natural resources is likely to export them.

The productivity of these factors is also essential. The skilled workforce can produce relatively more per person than the unskilled workforce, which in turn affects the areas in which everyone can find a comparative advantage. The skilled workforce can design complex electronics, while the unskilled workforce can specialize in basic manufacturing. Likewise, the efficient use of natural resources can mean relatively more or less value derived from a similar initial grant.

Despite us having abundant natural resources, their inefficient use and relatively unskilled labor force have caused the trade balance to remain negative.

2) Gross Domestic Product (GDP)

Gross Domestic Growth is a measure of the aggregate production of income from a country. Thus, Gross Domestic Product (GDP) is the total value of all products produced by the manufacturing sectors using existing factors of production in the region over a period, regardless of the origin of the actors in production. The ratio of GDP to trade balance is where GDP is closely linked to the impact of value increases on exports and imports. If domestic GDP increases, it will lead to an increase in imports of capital goods and raw materials (Dawson G. 2006). This situation will facilitate production activities and ultimately increase exports abroad.

GDP growth seems to be a key factor in improving the trade deficit during 2020-2021.

3) Inflation

If a country’s inflation rate rises relative compared to the countries it trades with, its current account is expected to decrease, other things being equal. Consumers and corporations in that country are more likely to buy more goods overseas (due to high local inflation), while domestic exports to other countries will fall.

Albania, despite the many difficulties during the crisis, managed to maintain a controlled inflation rate, with a maximum of 2.1% and a minimum of 0.4%. Given the fact that the countries with which Albania has the highest volumes of trade transactions had lower pandemic inflation, and specifically:

− Italy –1.3%;
− Serbia –3.6%;
− Germany – 2.7%. (Trading Economics, 2021).

Thus, Albania increased exports with these countries by improving the trade deficit from last year.

4) Exchange rates

The exchange rate itself can be interpreted as the price of one country’s currency (local currency) which is converted into the form of another country’s currency (foreign currency). The exchange rate is one of the factors or components that have an important role in the impact of the open economy given the strong impact on the current account balance. In addition, the exchange rate of a country’s currency with other countries shows the indicators of national...
economic competition in international markets and is a comparison between the level of commodity prices in the international market compared to commodity prices in the country. Therefore, the exchange rate can also be used to measure a country’s economic situation. The rise of a stable currency value indicates that the country has a relatively good or stable economic situation (Investopedia, 2016).

The exchange rate has a strong impact on the trade balance. When the domestic currency experiences a devaluation towards foreign currencies, exports should increase, and imports should decrease as compensation for rising import prices. Conditions in the situation of real exchange rate depreciation may increase net exports.

From the data collected and presented in the graphs above, we note that ALL is valued in relation to other currencies during 2020-2021, where the only exception is the ratio of ALL to GBP in the first months of 2021, in which ALL depreciated. In this case, it can be said that the change in exchange rates does not explain very well the improvement of the trade deficit, but it is understandable because we know that this exchange rate is also influenced by other factors, such as the Central Bank Operations through the sale and purchase of currencies in the market.

5) Trade agreements

• Stabilization and Association Agreement between the European Community and its member states and the Republic of Albania.

This Agreement, which enters into force on 1 December 2006, enables industrial products to benefit from a 0% preferential customs duty on both sides. As for agricultural products, the parties have mutually agreed on preferential tariffs and tariff quotas.

• Agreement with CEFTA member countries 2006

The Central European Free Trade Agreement (CEFTA) which entered into force during 2007. The countries that implement this agreement are Albania, Montenegro, Kosovo, Serbia, Bosnia and Herzegovina, Macedonia, and Moldova. This agreement today enables the benefit of 0% Preferential Customs Tariffs for all products of the Combined Nomenclature of Goods.

• Free Trade Agreement with Turkey

This Agreement has enabled the liberalization of all industrial products of Albanian and Turkish origin. Regarding agricultural products, the parties have mutually agreed on preferential tariffs and tariff quotas according to the lists of products defined in Annex I, which contains the list of agricultural products originating in Turkey and Annex II, which contains the list of agricultural products originating in Albania.

• Free Trade Agreement with EFTA member countries

The Agreement between Albania and the Swiss Confederation of the Principality of Liechtenstein, Kingdom of Norway, Iceland enables the removal of all customs duties on industrial products, including fish and other marine products, from the entry into force of the Agreement in question. The agreement also provides for tariff concessions for processed agricultural products (Protocol A). Trade in basic agricultural products is covered by three bilateral agreements between the EFTA countries and Albania. These agreements provide for concessions on both sides.

Albania is also a signatory to the International Technology Agreement under the umbrella of the WTO, which provides free import of information technology equipment.

Goods coming from the US market are generally at a competitive disadvantage as they incur customs duties, which are generally higher compared to goods originating from countries with which Albania has signed FTAs (General Directorate of Customs 2018).

V. CONCLUSIONS AND RECOMMENDATIONS

Unlike overall expectations, the economic crisis brought about by the pandemic during 2020-2021, did not affect the further deepening of the deficit. On the contrary, the trade deficit improved by about 9% compared to last year, although there were years when the trend continued to decline. This improvement came because of the improvement of some other economic indicators, where among the most crucial we mention:
GDP growth.
- Controlled and lower inflation compared to countries that have the largest volume of trade transactions.
- Increased exploitation of natural resources (export of metals and other materials), as well as increased exploitation of labor (export of shoes, clothing made or not crocheted).
- Continuation of trade agreements with countries in the region and beyond.

Regarding the history of negative results in the trade balance and various opportunities, we can say:
- To soften this negative balance between export-import there are two possible ways: increase and promotion of exports and domestic production of some products that are imported and that the Albanian economy has real opportunities to remove them from the import list.
- Export trends are on the rise with some countries such as: Kosovo, Spain, Italy, Switzerland, etc. and mainly in domestic economy items, construction materials, leather, medicinal plants, minerals etc.
- Poor relations between exports and imports have serious consequences in the economy in general, when it is known that currently compensation from the services sector (tourism, transport, finance, etc.) is impossible, as this sector is also at low levels compared to trade of goods.
- Export promotion is undoubtedly a very powerful mechanism of economic regulation. In the context of Albania’s economic policy, export development is considered a key factor in improving macroeconomic indicators, especially from the point of view of improving the trade balance and creating job places.

REFERENCES