Trade liberalization and its impact in Albania’s sustainable growth.

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Objectives

**Main Objective:** Econometric model for Albania (EGT) -- the impact of trade openness on the country's economic growth

- Equation model of openness of Albania with its largest trade partner Italy.

It is our goal to prove

- That openness is efficient and we find reliable empirical findings on the link cause-consequence of the elements trade-growth, including the impact of shocks (external crises) and trade policy reform between Albania and its trade partner Italy.

- To conclude with recommendations as to whether Albania should deepen trade liberalization with this country trade partner or not.

- The empirical findings suggest that openness between Albania and neighboring partner Italy is positive and statistically significant for economic growth in Albania.
Hypotheses

Research hypotheses and research questions

- **Hypothesis 1**: The effect of trade openness to Albania is expected to be positive and significant for its trade and economic growth.

- **Hypothesis 2**: trade policy reforms (economic opening) with trade partner Italy is expected to be positive and important for trade and growth.

- **Hypothesis 3**: Each of the external factors variables are projected to have different impact and importance on economic growth.
  - FDI and services---- Privatization policies---- Corruption Index are expected to be positive and significant for trade and growth.
  - The financial crisis is expected to be negative and significant for trade and growth.
1 Why Trade Liberalization?

- An integral part of economic reforms (Grossman dhe Helpman, 1991)
- Countries have experienced prosperity and economic growth (OECD 2011)
- No clear results about the impact of trade on indicators of economic growth (Grossman and Helpman, 1991; Rodrik, 1999; Rodriguez and Rodrik, 1999; Sachs and Warner, 1995)
- A strong positive impact of trade liberalization on the growth of imports--price sensitivity.
- Winners and Losers are characterized by the factors they own more (Heckscher-Ohlin model).
- Free trade is far from being widely practiced---developing countries.
- Competitive advantages
- More abroad oriented countries (oriented to exports) tend to consistently grow faster than those that are in oriented (to imports). (IMF, 1997; Jeffrey Frankel and David Romer, 1999)
<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>comparative advantage</td>
<td>economic dependence</td>
</tr>
<tr>
<td>economies of scale,</td>
<td>political slavery,</td>
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<tr>
<td>increased fair competition ,</td>
<td>unbalanced development,</td>
</tr>
<tr>
<td>effective use of raw materials,</td>
<td>domestic products,</td>
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<td>lower living costs,</td>
<td>international monopolies,</td>
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<td>increasing chances of the customer's choice</td>
<td>reduction in wealth for certain groups</td>
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<td>international framework,</td>
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<tr>
<td>• good governance</td>
<td></td>
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<tr>
<td>• peaceful connection with international partners</td>
<td></td>
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<td>difficulties in application</td>
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</tbody>
</table>
Methodology

- Empirical tools
  - Partial Equilibrium Model - PEM,
  - Endogenous Gravity Theory - EGT,
  - Computable General Equilibrium multicountry-CGEM for a single country / several countries.

This paper presents the results of global modeling using a gravity model EGT.
EGT

- EGT---Newton's law
  - $F_{ij}$ --trade flows,
  - $G$ --constant,
  - $M$ --economic measure of each country $i$ and $j$,
  - $D$ --distance between countries $i$-$j$ that trade with each other.

- This model is used in international relations (NAFTA, WTO).

\[ F_{ij} = G \left( \frac{M_i^p M_j^p}{D_{ij}^p} \right) \]
The case of Albania. EGT model

**Variables**

- **Dependent**
  - Economic Growth \( -g \)

- **Independent**
  - The openness of Albania \( -Ex+Im/GDP \)
    - The symbol of this variable is \( \text{openness}_it_{\text{gdp}} \).
  - FDI / GDP --- The symbol \( \text{fdi}_\text{gdp} \).
  - Services / GDP symbolized by \( \text{services}_\text{gdp} \).
  - Economic crisis in trade partner countries --- a variable dummy:
    - 0 before the onset year of the crisis, 1 after the onset year of the crisis.
    - 2008 --- \( \text{crisis}_\text{eu} \)
    - 2009 --- \( \text{crisis}_\text{reg} \).
  - The privatization of the financial system ----2004 (privatization of The Bank of Savings). Its symbol is \( \text{priv}_\text{sf} \).
    - Before this year, the variable takes the value 0,
    - then after 2004 the value 1.
  - Corruption symbolized by \( \text{ind}_\text{corr} \)


- Data --INSTAT, World Development Indicators, etc.

- All variables are transformed in the form of rates of change (\%) (Tran Van Hoa, 2004a, 2004b and 2008).
Openness and the application of EGT model with Italy

\[
\Delta g_t = -0.0332 + 0.3828 \Delta \text{hapja}_{it}\ gdp_t + 0.0499 \Delta \text{fdi}_{it}\ gdp_t - 0.0455 \Delta \text{kriza}_{it}\ eu_t + 0.0275 \Delta \text{kriza}_{it}\ rajon_t + 0.0019 \Delta \text{ind}_{it}\ korr_t + 0.035 \Delta \text{sherbime}_{it}\ gdp_t
\]

R-squared 0.911884 Mean dependent var -0.008643
Adjusted R-squared 0.809083 S.D. dependent var 0.024053
S.E. of regression 0.010510 Akaike info criterion -5.977456
Sum squared resid 0.000663 Schwarz criterion -5.612281
Log likelihood 49.84219 Hannan-Quinn criter. -6.011260
F-statistic 8.870335 Durbin-Watson stat 2.680460
Prob(F-statistic) 0.008331

**Heteroskedasticity Test: Breusch-Pagan-Godfrey**

<table>
<thead>
<tr>
<th></th>
<th>F-statistic</th>
<th>Prob. F(7,6)</th>
<th>Akaike info criterion</th>
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</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>0.503421</td>
<td>0.8049</td>
<td>5.180129</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>5.180129</td>
<td>0.6380</td>
<td></td>
</tr>
<tr>
<td>Scaled explained SS</td>
<td>0.507235</td>
<td>0.9994</td>
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**Breusch-Godfrey Serial Correlation LM Test:**

<table>
<thead>
<tr>
<th></th>
<th>F-statistic</th>
<th>Prob. F(2,4)</th>
<th>Prob. Chi-Square(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>1.271147</td>
<td>0.3738</td>
<td>0.0659</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>5.440310</td>
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Conclusions

- Openness has positive effects on
  - productivity,
  - adoption and use of the best technology
  - the promotion of investments

  which are channels that stimulate economic growth.

- Albania model --gravitational theories model

- three tests ---the model is good

<table>
<thead>
<tr>
<th>Positive effects on ec.growth</th>
<th>Negative effects on ec.growth</th>
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<tbody>
<tr>
<td><em>Openness</em></td>
<td>services</td>
</tr>
<tr>
<td><em>fdi_gdp</em></td>
<td>crisis</td>
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<tr>
<td>index of corruption</td>
<td></td>
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<tr>
<td>privatization</td>
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</table>
Recommendations

- signing the agreements
- problem ---lack of production for export.
- need of promoting strong initiatives and investments
- a new structural orientation of the economy
References


Thank you

Any questions???