

Albania: Trade Brief*

Trade Policy

Albania's trade liberalization, begun with its transition to a market economy in the early 1990s, was further encouraged by the country's accession to the WTO in 2000. As judged by the 2007 (MFN) Trade Tariff Restrictiveness Index (TTRI), on which it is ranked 78th out of 125 countries, Albania's tariff regime is, overall, less open than that of an average Europe and Central Asia (ECA) country, but is comparable to the lower-middle-income country group mean. Albania's MFN applied simple tariff average has declined from a mean of 15.9 percent in the late 1990s to 9.0 percent in the early 2000s, and to 5.4 percent in 2007, while the applied import-weighted tariff mean has followed a similar trend, decreasing from 14.4 percent to 9.8 percent and 6.4 percent over the same time periods; the maximum tariff rate is a low 15 percent. MFN duty-free imports accounted for 19.5 percent of the country's total imports in 2006. Linked to its recent accession into the WTO, Albania's overall GATS commitment index is much higher than either of its comparators'.

Market Access

Albania enjoys one of the most favorable export environments, according to tariff-only indicators. In fact, it is ranked 7th (out of 125 countries) on the 2007 Market Access TTRI.¹ As the European Union is its main export market, Albania has a very favorable market access thanks to the uniform Autonomous Trade Preference (ATP) scheme established by the EU in 2000 (which provides duty and quota-free access for practically all Albanian exports to the EU markets) and the Stabilization and Association Agreement (SAA) with the EU signed by Albania in 2006 (although partially effective, the SAA will enter into full force once it is ratified by all EU members). In addition to these arrangements, Albania, which is a member of the WTO, has also recently ratified the Central Europe Free Trade Agreement (CEFTA) in 2007 as well as an FTA with Turkey that entered into force May 1, 2008. The value of claimed EU and U.S. preferences, however, is relatively low at only 2.4 percent of Albania's bilateral exports.

Behind the Border Constraints

Because of its relatively poor performance in the starting and closing a business categories, Albania ranked 136th (out of 178) on the Doing Business 2006 index. Albania's 2006 rule of law and control of corruption indicators are relatively weak, while the regulatory quality governance indicator is above the lower-middle-income group average. Lagging behind the comparators in all seven categories of the index, Albania was ranked 140th (out of 151) on the 2006 Logistics Performance Index. Although cross-border investments by some European companies are contributing to infrastructure modernization, progress remains slow; frequent power shortages reveal the vulnerability of the country's electricity utility. With fairly low per container export and import costs and a considerable decrease in average days needed to process exports and imports, its rank on the Doing Business—Trading Across Borders subcategory has improved

*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

¹ Due to the restrictive NTMs in agriculture imposed by the EU and since Albania exports mostly agricultural products to the EU, the Market Access Overall Trade Restrictiveness Index (MA-OTRI) is much higher than the MA-TTRI. However, the most recent NTM data available in international databases for the EU are for 2001 and may not provide the correct information about current market access conditions, especially in light of the preferential bilateral arrangements in place since the early 2000s.

from 107th in 2006 to 70th in 2007. Its per capita rates for telephones and mobile phones (56 percent in 2005), personal computers (2.0 percent in 2005), and Internet users (15 percent in 2006) are all below the regional means, as are the country's 2000–04 average secondary (74 percent) and tertiary (16 percent) gross school enrollment rates. Because of its relatively low wages, Albania is an attractive location for labor-intensive industries such as textiles.

Trade Outcomes

Albania's real growth in total trade of goods and services has decelerated from an average of 18.1 percent in the early 2000s to 8.1 percent in 2005–06. Registering 8.6 percent in 2007, it is below the ECA average but is comparable to the lower-middle-income country group mean. Declining slightly to 68.8 percent in 2007 (83 percent according to national sources), Albania's trade integration ratio remains substantially below these comparators'. Services (including tourism) accounted for about 65 percent of Albania's total exports in 2007 (48 percent according to national sources). Its main merchandise exports in 2005 were footwear and parts, clothing, and ferro-alloys; by 2007, minerals were Albania's third largest export category, after textiles and footwear and building materials. This is noticeably different from Albania's comparators, for whom goods make up the dominant share (greater than 75 percent) of their total exports. Once trading primarily with Yugoslavia and the communist bloc, European countries (especially Italy, whose imports from Albania consist mainly of semifinished textile and footwear products) became the destination of 85–90 percent of Albanian exports by the mid-2000s. Imports are primarily obtained from Italy, Greece, and Turkey. While the EU remained the primary source of Albania's imports in 2007, imports from non-EU countries, including China and Turkey, rose substantially. Foreign direct investment (FDI) inflows as a share of GDP were 3.4 percent in 2005–06.

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