THE IMPACT OF FOREIGN TRADE LIBERALIZATION ON ALBANIA'S ECONOMIC GROWTH: AN ECONOMETRICAL APPROACH

Blerta Dragusha
University of Shkodra “Luigj Gurakuqi”, Shkoder, Albania

Besarta Hasaj
University of Shkodra “Luigj Gurakuqi”, Shkoder, Albania

Alba Kruja
University of Shkodra “Luigj Gurakuqi”, Shkoder, Albania

Enkeleda Lulaj
University " Haxhi Zeka", Kosovo

ABSTRACT

The relationship between economic growth and foreign trade was put in focus by many economists when foreign trade developed. The case of Free Trade is always associated with significant positive effects on foreign trade and economic growth. This paper explains the relationship between trade liberalization, foreign trade, and economic growth in Albania using annual economic development data for 1994-2019. This study is based on hypotheses for Causality Testing concerning the cointegration between GDP and foreign trade, trade liberalization and GDP, and GDP and exports in Albania. The ordinary least squares (OLS) model has been used. Empirical results for the Albanian case show that trade liberalization has a positive relationship with economic growth, exports, and imports. However, the multiple regression proved that GDP, Openness Index, FDI, and remittances positively impacted trade volume growth.

Keywords: foreign trade; trade liberalization; economic growth; econometric results

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INTRODUCTION

Trade liberalization is a multifaceted idea that can be understood as the creation of numerous connections and interconnections between states and the communities that make up the modern World, also known as the global village. It is also a process by which events, choices, and actions in one specific geographic region substantially impact people and communities in relatively remote regions of the world.

To liberalize trade:

- Tariffs must be reduced.
- Quota reduction or elimination

- Reducing non-tariff trade obstacles.

Non-tariff trade barriers are obstacles that increase the difficulty and cost of commerce. For instance, strict regulations on imported items may offer domestic producers an unfair edge. It facilitates international trade to harmonize environmental and safety laws.

The concept of trade liberalization is built based on the theory of comparative advantages in a free market. This theory states that both trading partners can benefit by reducing trade barriers. Trade liberalization leads, or is accompanied by, a reduction of state intervention in various sectors of the economy in terms of trade and helps in a rational and efficient allocation of resources. Otherwise, it can be said that an open, productive, and foreign-oriented economy is associated with higher incomes and more employment opportunities. The domestic economy and its various sectors, such as agriculture, have become more responsive to international market trends and have better access to global markets and new technologies. Trade liberalization creates not only its winners but also its losers, although, from the point of view of society, it creates gains in well-being, as suggested by trade theories. Free trade is supported by a series of theories and reasons: Competitive advantage theory. The liberalization of trade realizes the possibility of creating competitive advantages for different countries in producing services and products. By making it possible to reduce tariff restrictions as much as possible, the creation of trade becomes possible. The moment the consumer chooses the low-cost producer instead of the high-cost producer, it becomes possible to create economies of scale. If a country uses its competitive advantage in the specialization of the goods it produces, then they benefit from the economies of scale. At this moment, the more the country produces, the lower the average costs will be. Such a thing is more visible in sectors with higher fixed costs or more significant funds for investment. The positive result brought by the use of economies of scale is the reduction of prices for consumers. Higher competition and a reduction in the price level become visible. Trade liberalization increases competition, which brings subsequent benefits such as lower prices, increased use of technology, and technology transfers between countries. Using tariffs can lead to the presence of inefficiency. By raising tariffs to protect industry, an economy may have no incentive to reduce costs, and so on.

LITERATURE REVIEW

Trade is a key factor in improving economic growth for countries with different stages of economic development, as it brings efficiency in the transmission of resources within a country and the connection between other countries. Given these, the paper analyzes two essential factors of economic growth: trade liberalization, foreign trade, and the relationship between the two. This paper aims to study the relationship between economic growth and foreign trade in Albania case. Albania has been immersed for 50 years in a strict dictatorial system, from a closed economy to a country with a continuous transition and beyond to a country that aspires to become part of the European Union. Finally, the paper aims to study the impact of trade liberalization on foreign trade.

Numerous pieces of literature on trade liberalization's effects on economic development have been conducted in recent years, and different results have been observed between different papers. Since 1967, based on Theoretical Study, it was said that limiting monopolies and customs tariffs would improve domestic income. Then in 1985, Ram used Cross Section Analysis (study period from 1960-1970 and 1970-1977) for 73 countries and found a positive correlation between foreign trade and economic growth.

Different papers have expressed that countries implementing trade liberalization programs have improved their export performance (Thomas & Nash, 1991). The principle that has been believed since 1990 is that the opening of trade between different countries brings an improvement, and economic growth has been strengthened. According to the study done by Edwards in 1992 for developing countries on the movement of trade, destabilization, and the rate of economic growth, technology plays a key and developing role in open economies. Lamer (1989) used several market orientation indicators, surveyed 30 developing countries from 1972 to 1980, and concluded that open economies tend to grow faster. Edwards, in 1998, based on the findings of the paper carried out on 93 developed and developing countries for the period 1960-1990, asserted that there is a positive link between economic growth and liberalization.

Another study was conducted by (Sachs &

Warner, 1995), which evaluated 79 countries throughout 1979-89. They applied the qualitative variable, setting 1 when countries are open and 0 when they are closed, and found that open economies grow 2.44% faster than closed economies. Among the countries analyzed by Sachs and Warner (1995) and EBRD (1994), Albania has been indicated as an open country since 1992.

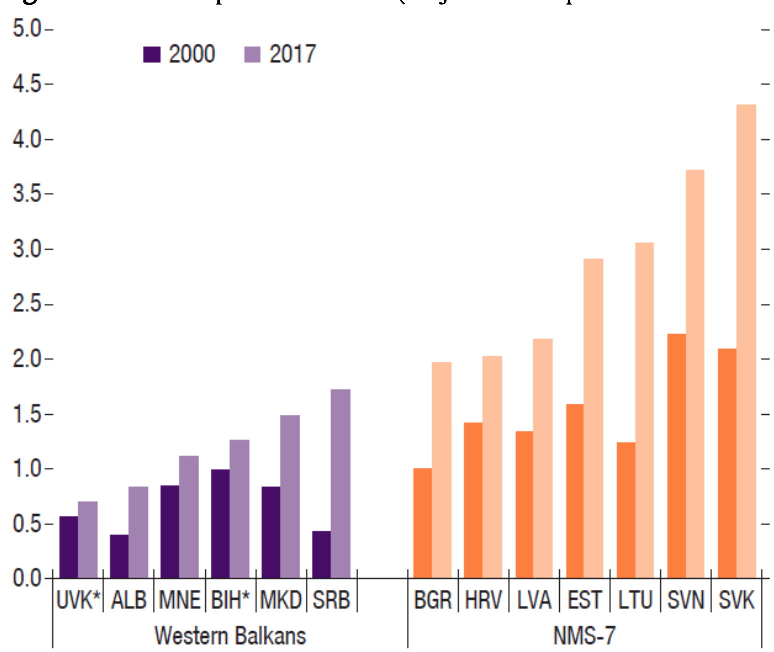
The EBRD (1997) study, although faced with a lack of information, showed that Albania had an average applied tariff of 15.9%. Easterly and Sewadeh (2002) found that Albania during 1996 and 1999 had an average black-market premium of 8%. In developing macroeconomic policies, policymakers consider the different possibilities of the implications that foreign trade flows can have on the economy of mainly small countries.

Various literature suggests that open trade economies usually benefit from integration with trading partners. According to the study done by Andersen and Babula (2008), it was concluded that there is a positive relationship between open economies and the rate of economic growth in the long term. At the time of a negative balance, a government must be financed by a certain amount of capital flows to achieve internal and external economic stability. The resilience of imports and exports is beneficial for policymakers. It is necessary to reposition the country in terms of foreign trade, choosing between currency devaluation or trade policies, thus creating a cause for slowdown or deterioration in real income growth.

Overall, numerous results show that trade contributes to improving economic growth. Frankel and Romer (1999) and Irwin and Tervio (2002) conclude that there is a positive relationship between a country's income generation and trade flow as a percentage of GDP. Some other studies have found a relationship that may exist between economic growth and trade liberalization (Agosin, 1991; Clarke and Kirkpatrick, 1992; Greenaway and Sapsford, 1994).

Rodriguez and Rodrik (2000) had some doubts about the consistency of the results and criticized Edwards' studies, the methods used in the estimates, and the variables involved. Due to different trade measures and issues studied, we can say that the literature is still debatable: whether trade and liberalization are potential components of economic growth.

Figure 1: Trade Openness Index (Adjusted for price level and size of the economy)



Source: International Monetary Fund, 2019

During the last 25 years, exports have played an essential role in a country's development and economic progress, mainly for small developing countries. We do not fully use this indicator as a growth driver for the Western Balkans countries. The lack of the role of foreign trade and exports in the economic development of these countries is seen as a complete lack of openness and low competitiveness. Western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, Republic of North Macedonia, and Serbia) are less open than the NMS (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia), which is demonstrated below.

Recent studies have shown that including developing countries in Global Value Chains-related exports leads to increased productivity and economic benefits (Constantinescu, Mattoo& Ruta 2017; Raei, Ignatenko & Mircheva 2019).

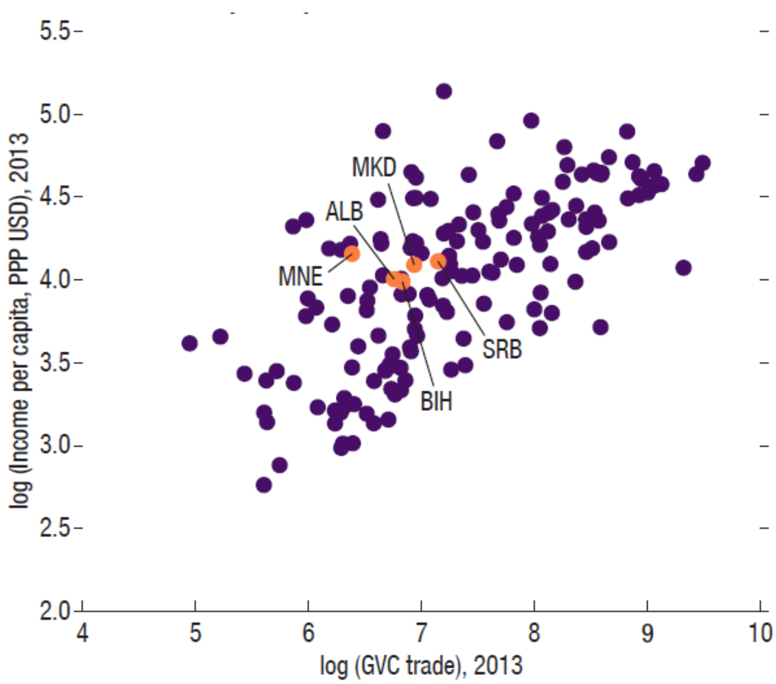


Figure 2: Global Value Chains and Income per Capita

Source: International Monetary Fund, 2019

To understand the connection between trade liberalization and economic growth in Sri Lanka from 1960 to 2010, Silva et al. (2013) conducted research. The findings demonstrated that although being positively correlated with economic growth, trade openness has little influence. Rahimi and Shahabadi (2011) studied Iran and examined how trade liberalization affected the country's economy from 1980 to 2006.

The results of the ARDL proved that trade liberalization and economic growth are cointegrated, and they both significantly and favorably impact each other. For example, in the case of Pakistan, Umer (2014) used an autoregressive distributed lag (ARDL) approach for cointegration and found that trade liberalization policies are essential for boosting economic growth. Sikwila et al. (2014) examined how trade openness affected South Africa's economic expansion. This study provided further evidence that trade openness affects short- and long-term economic growth.

Balassa (1978) asserts that he has discovered a favorable correlation between a by looking at nations with an outwardly focused government and economies that grow much faster even when exports aren't included in GDP calculations. The important thing to remember is that trade liberalization is not the only policy that may boost export growth; GDP growth can also do it. As a result, the relationship between trade liberalization and growth may not be causal.

The benefits of trade liberalization include the following, according to Ogujiuba, Oji, and Adenuga (2014):

1. Trade liberalization enables nations to focus on manufacturing the products and services

they have a competitive advantage (produce at the lowest opportunity cost). Thus, there is a net improvement in economic welfare.

2. Lower costs: Lifting trade restrictions may result in lower consumer costs. For instance, eliminating food tariffs in the West would aid in lowering the price of agricultural commodities globally. Benefits from this would accrue to nations that import food.
3. Enhanced competitiveness: Due to trade liberalization, businesses will see more competition from abroad.

In a 2017 study, Keho and Wang examined the relationship between trade openness and economic growth in Cote d'Ivoire from 1965 to 2014. According to a study that used the ARDL limits test and the Toda and Yamamoto Granger causality test, trade openness has a favorable short- and long-term impact on economic growth. Hye and Lau (2011) used the ARDL model and rolling window regression technique emphasizing India. The analysis confirmed that trade openness has a short-term favorable impact on economic growth but a long-term detrimental impact.

Hozouri (2016) and Khobai et al. were two researchers that had a global emphasis (2018). With a focus on Nigeria and Ghana, Khobai et al. (2018) found that trade openness has a favorable and large impact on economic growth in Ghana but a detrimental and minor impact in Nigeria. Hozouri (2016) concentrated on the 17 MENA nations and proposed that there is a correlation between trade openness and economic growth.

In Pakistan between 1971 and 2015, Ali et al. (2018) examined the relationship between trade openness, employment, economic growth, and poverty reduction. Using the Error Correction Method (ECM), the study discovered a short-term, negative relationship between trade openness and income growth in the industrial sector, employment, and inflation rate, and a long-term, positive relationship with income growth in the agricultural sector. But whereas trade openness had a beneficial impact on GDP in both the labor force and inflation over the short term, it had the reverse effect on GDP over the long term.

To further quantify the effect of trade openness on economic growth in Nigeria for the years 1981–2016, Sani and Yunusa (2019) used the VAR and VECM models. The results demonstrated that trade and the exchange rate contributed to Nigeria's higher economic growth. The Granger causality test failed to find a link between commerce and economic growth.

Recent research has circumvented this issue by employing a range of indicators to proxy trade openness due to its multidimensionality. The trade openness index, which is produced from the residuals of the OLS equation, the ratio of exports and imports to gross domestic product (GDP), and other indices are also utilized (see Malefane, 2020; Malefane & Odhiambo, 2019).

Gnangnon (2020) examines a panel of 116 nations to assess remittances' effect on foreign direct investment. The study results show that the economy's remittance beneficiaries favorably influence trade openness and foreign capital inflows.

The FDI and trade were proven to be complementary by empirical evaluation. Ishigami (2016) examined how Japanese FDI affected Asian countries' bilateral trade. He disclosed that Japanese FDI encourages exports in the host economy. The same connection also occurs between the trade of East and Southeast Asian nations and FDI from the UK, US, Germany, and Japan. Globally, extensive research has found a link between trade and FDI.

METHODOLOGY

To carry out the work, academic books that deal with concepts related to trade liberalization, foreign trade, and economic development will be analyzed, and studies conducted on the topic of well-known scholars in the field of economy in different countries of the world. Secondary data will be used as a source of information because no primary data can be provided on this topic. The data used to carry out the work will be theoretical and practical. Where practical data is meant, data related to Albania provided by official websites: the Custom house, the Institute of Statistics (INSTAT), the Ministry of Finance (MF), the Bank of Albania (BSH), and other foreign sites such as the Observatory of Economic Complexity, Index Moody, Index of Economic Freedom, World Bank, and Eurostat. GRETL software and the OLS model have been used to analyze the correlation between trade liberalization, foreign trade, and economic growth.

Objectives of the Study

The study's primary goal is to examine the connections between Albania's economy and trade liberalization. As a result, the study focuses more intently on global commerce's contribution to Albania's economic development, exports and imports. Then a multiple regression was used to study the relationship between trade volume (as a dependent variable) and GDP, Openness index, Remittances, and FDI (as an independent variable).

The variables used in OLS models are an opening indicator (used for trade liberalization), nominal GDP growth, exports, imports, trade volume, and remittances.

The study has used the following hypotheses in accordance with the aforementioned specific objectives:

- Hypothesis One (H1): There is a positive relationship between trade liberalization and economic growth
- Hypothesis Two(H2): There is a positive relationship between trade liberalization and exports
- Hypothesis Three (H3): There is a positive relationship between trade liberalization and imports
- Hypothesis Four (H4): There is a positive relationship between trade volume and GDP, Openness index, Remittances and FDI

Variable used in the econometric model

- Opening indicator, as an economic ratio calculated as the ratio of a country's total trade (the sum of exports and imports) to the country's gross domestic product.
- Gross domestic product (GDP) that hasn't been adjusted for inflation is called nominal GDP. By reflecting the values of all the goods and services produced during the current reporting period, current price estimates of GDP are created. The forecast is based on an evaluation of the global and national economies made using a combination of model-based analysis and expert opinion. Growth rates in relation to the prior year are used to measure this indicator.
- Exports to gross domestic product(X/GDP), in %
- Imports to gross domestic product(M/GDP), in %
- Trade Volume, the number of shares or contracts traded daily for certain security, is referred to as the volume of trade, also known as trading volume. In other words, trading volume indicates how many shares were traded over a specific time frame.
- Remittances are typically defined as monetary or non-financial transfers made by migrants to friends and family members in their original areas and defines remittances as the sum of two main components in Balance of Payments Statistics: 1. Compensation of employees 2. Personal Transfers. However, this widespread notion is only partially reflected in the statistical definition of overseas remittances. Based on a country's balance of payment figures generated by central banks and aggregated by the IMF, the World Bank offers annual estimates of remittance flows globally (and bilaterally).
- Investments made to obtain a long-term stake in or effective control over a business operating outside the investor's economy are referred to as foreign direct investment (FDI), expressed as shares of GDP.

DEVELOPMENTS IN ALBANIA'S FOREIGN TRADE DURING 1994-2019

The first years of transition for Albania coincided with challenges and rapid changes for different sectors of the economy. From 1992, Albania's economy managed to have a commercial exchange with world economies and markets after a long and intensive process of commercial liberalization. Albania's foreign trade in recent years has been generally characterized by fundamental changes, moving towards liberalization as a result, bringing changes in its main indicators. From the developments of foreign trade, Albania is characterized by an increase in trade flows. The value of imports mostly contributes to trade flows, but in general, an improvement in the contribution of the value of exports is also observed. In some years, a higher growth rate of exports compared to imports has been observed in Albania, but in general, exports remain with a minimal impact on the trade volume. For many years, Albania had a negative trade deficit, showing the needs and purchasing power of the market at high levels, more as a result of remittances coming to the Albanian market from the work of economic emigrants, as well as a lot of aid and financial loans to our country. But often these high values of imports have reflected the lack of variety of products that our market can offer. Exports have been growing steadily, which is a significant indicator for judging the stability and resilience of the economy in general. Their percentage of GDP has increased steadily but remains low, which means that the Albanian economy has not used the advantages in certain segments of the economy.

The growth of exports can be divided into three main periods, which have unique characteristics. During 1993 - 2000, exports experienced large fluctuations, influenced by the political, economic, financial, and regional situation. The period 2001 - 2008 is the period with the most stable growth. The period 2009 - 2012 is affected by financial crises. Exports have a steady upward trend, despite a decline in 2009 by 7.16%. This decline came because of the economic problem that affected the world, especially neighboring countries, as Albania exports most of its exports to countries such as Greece and Italy. Albania's exports to Greece fell by ALL 2,200 million and to Italy by ALL 4,817 million. The ratio of exports to the Gross Domestic Product, or the tendency of the Albanian economy to export, is another indicator of the sustainability of exports. According to INSTAT data, Albania, until 2005, is positioned below other countries in the region. Whereas for the period 2007 - 2012, Albania's exports occupy a larger share of GDP compared to the percentage that exports of other countries in the region have to their GDPs, except Croatia. This may be because the value of exports to Albania has increased and because Albania's GDP is lower than other countries. While this is true, it shows exports' resilience and growing pace. According to the 2012 data, for the most part, exports of goods have gone to EU countries, reaching 95% of total exports and an increase of 7.55% compared to 2011.

The largest share of items is toward the EU. Exports mostly went to Italy, Spain, Kosovo, Turkey, Greece, Germany, etc. For the last 25 years, the import of goods has been the main source for supplying the domestic market with daily consumption items. The lack of domestic products makes it continue with a relatively high tendency to import. Imports continue to be several times higher than exports, dominating the domestic market, both retail and the need for equipment, machinery, and raw materials for the sectors of production and various services. This situation of increasing imports has often damaged both domestic production and the economy itself. The value of imports has always been higher than exports, leading to a deficit trade balance. Imports concerning GDP have been characterized by a continuous increase, where in 2012, the ratio was 38.59%. It shows an increasing trend in imports. This trend will be supported by domestic market domination or saturation with imported products. Imports have been accompanied by a continuous fluctuation from 1993 - 2019.

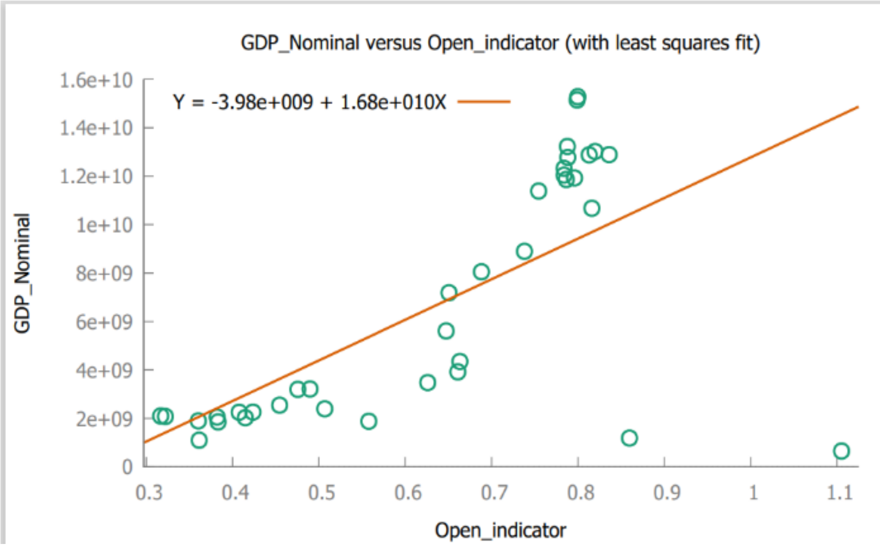
The largest oscillations have been from 1993 - 2000, while during 2001 - 2008 we have an increasing trend of imports, but at lower values than the first period. While for the period 2009 - 2019, there is a downward trend of imports. Since 1993 the trade balance has resulted in a deficit, which has generally been deepening yearly. A negative trade balance risks the country's sustainable economic development while the market is open to all foreign products.

During the transition period, it is noticed that the trade balance increase has been with many fluctuations, which have varied from 28.0% (maximum) to 4.4% (minimum). However, these rhythms also express the most significant changes and moments that have occurred in the country's economy, and for each period, we can distinguish their specifics. In some years, there has been a decrease in the pace of deepening the trade balance, which shows a positive sign of saturating our market with domestic products. From 1997-2019 the trade deficit increased.

RESULTS

Trade liberalization and economic growth (1994 -2019)

Initially, the relationship between economic growth and trade liberalization is presented in the figure below, which shows a positive relationship. So, as the degree of trade liberalization increases, so does GDP.



Graph 1: Nominal GDP growth and trade liberalization
Source: Author's compilations

Specifically, the correlation coefficient between economic growth and trade liberalization is 0.65, showing a strong positive relationship between the variables. The coefficient of determination is around 0.43, which shows that the opening indicator explains 43% of GDP growth from 1994 - 2019 in terms of Ceteris Paribus. The slope shows the impact of trade liberalization on economic growth, where with a 1% increase in the opening indicator, GDP increases by 1.68% in terms of Ceteris Paribus.

Correlation between exports and trade liberalization (1994-2019)

The value of p for the variable exports, 0.0001 (Table 1), is an outstanding value, which shows that trade liberalization is significant in explaining exports even for a security level of 1%. The correlation coefficient is $r = \sqrt{r^2} = 0.658$, and the coefficient B2 determines its sign. Since it has a positive sign and the correlation coefficient has such a sign, it is understood that these variables have a strong positive relationship, with increasing degree of liberalization increases and the value of exports. The slope coefficient is 5.9, which shows the impact of trade liberalization on the increase in imports. With the increase of 1% of the opening indicator, exports increase by 5.9% in Ceteris Paribus.

Table 1: OLS, using observations 1-36. Dependent variable: Exports

	Coefficient	Std. Error	t-ratio	p-value	
const	−1.93668e+09	7.73190e+08	−2.505	0.0172	**
Open indicator	5.93710e+09	1.16438e+09	5.099	<0.0001	***

Mean dependent var	1.83e+09		S.D. dependent var	1.78e+09
Sum squared reside	6.26e+19		S.E. of regression	1.36e+09
R-squared	0.433324		Adjusted R-squared	0.416657
F(1, 34)	25.99900		P-value(F)	0.000013
Log-likelihood	−807.0831		Akaike criterion	1618.166
Schwarz criterion	1621.333		Hannan-Quinn	1619.272

Source: Author's compilations

Correlation between imports and trade liberalization (1994-2019)

The relationship between imports and trade liberalization is presented as a strong positive correlation, where the correlation coefficient is 0.71(Table 2). 0.51 is the coefficient of determination, showing that about 51% of import growth is explained by trade liberalization in terms of Ceteris Paribus. 9.31 is the slope coefficient, showing the impact of trade liberalization on the growth of imports. With the increase of 1% of the opening indicator, imports increase by 9.31% in terms of Ceteris Paribus.

Table 2: OLS, using observations 1-36. Dependent variable: Import

	Coefficient	Std. Error	t-ratio	p-value	
const	−2.88699e+09	1.03029e+09	−2.802	0.0083	***
Openness indicator	9.31132e+09	1.55157e+09	6.001	<0.0001	***

Source: Author's compilations

Increasing trade volume and the impact of trade liberalization

Based on Table 3, we have:

Trade Volume = -4,158 + 0,000107 GDP + 1,679 Openness Index + 2,671 Remittances + 0,989 FDI

This model presents four factors that affect trade volume, as all four of these for the 95% confidence level are statistically significant in explaining trade volume. About 99.2% of trade volume growth is explained by: GDP, Openness Index, FDI, and remittances. Specifically, GDP, Openness Index, FDI, and remittances positively impact trade volume growth. With a 1% increase in the opening index, trading volume increases by 1,679% in terms of Ceteris Paribus. The value of F is greater than 2,79, so the basic hypothesis is rejected, which means that GDP, Openness Index, remittances, and FDI affect the explanation of trade volumes.

Table 3: OLS, using observations 1-28. Dependent variable: Trade Volume

	Coefficient	Std. Error	t-ratio	p-value	
Const	−4.15766e+09	4.99241e+08	−8.328	<0.0001	***
GDP	0.000107409	9.97429e-06	10.77	<0.0001	***
Openness Index	1.67929e+09	5.80311e+08	2.894	0.0082	***
Remittances	2.67172	0.310249	8.612	<0.0001	***
FDI	0.989103	0.487186	2.030	0.0541	*

Mean dependent var	6.04e+09		S.D. dependent var	4.18e+09
Sum squared reside	3.45e+18		S.E. of regression	3.87e+08
R-squared	0.992697		Adjusted R-squared	0.991427
F(4, 23)	781.5755		P-value(F)	3.34e-24
Log-likelihood	−590.6503		Akaike criterion	1191.301
Schwarz criterion	1197.962		Hannan-Quinn	1193.337

Source: Author's compilations

Forecast for economic growth

Based on Table 4, we have the following:

AL_GDP=1,045Remittances-0,72FDI+0,199Trade_Volume-2,362Inflation+0,102External_debt_stocks-0,819Final_consumption_expenditure

According to this model, GDP is explained about 99.9% of External debt stocks, Trade volume, Inflation, Remittances, Final consumption expenditure, and FDI. Specifically, inflation, final consumption expenditures, FDI, and External debt stocks negatively impact GDP growth, while remittances and trade volumes positively impact it. Using the Gretel critical values for the Durbin-Watson statistic: n = 28, k = 6, the basic hypothesis is not rejected, which shows that we have no autocorrelation.

Table 4: OLS, using observations 1-28. Dependent variable: Al_GDP

Mean dependent var	8.01e+09		S.D. dependent var	4.89e+09
Sum squared reside	5.38e+17		S.E. of regression	1.60e+08
R-squared	0.999168		Adjusted R-squared	0.998931
F(6, 21)	4205.541		P-value(F)	3.27e-31
Log-likelihood	−564.6460		Akaike criterion	1143.292
Schwarz criterion	1152.618		Hannan-Quinn	1146.143

Source: Author's compilations

DISCUSSION

As shown by the empirical study, trade liberalization affects the increase of the value of imports rather than exports. We can say that an increase in the trade deficit can accompany a continuation of the liberalization process. Therefore, the liberalization process must be accompanied by financing this deficit in the short run from capital inflows.

For a country to benefit best from the liberalization process, the opening process must occur in a sound macroeconomic environment, accompanied by appropriate structural reforms and institutional and pro-export policies. Also, this can be done by creating advantageous multilateral and bilateral trade agreements and creating an atmosphere that will favor global trade and the transfer of valuable technologies.

The findings have significant theoretical and policy implications because they suggest that trade openness and economic growth are not simply related and that their effects depend on variations in size, technological proficiency, and development levels—findings consistent with the growth and development literature.

However, openness, exports, and imports do boost economic growth in the long term. This suggests that a sizeable percentage of Albania's economic growth has been attributable to a long-term increase in the country's exposure to trade, exports, and imports.

The nation should change the composition of commerce by shifting from exports of raw materials and semi-manufactured commodities to high-valued-added items for the outward-oriented strategy to impact economic growth substantially. Additionally, trade policy should support investments in capital-intensive industries and foster the development of human capital capable of absorbing modern technology.

The economic growth brought on by trade openness and financial development depends on the availability of skilled workers in the nation. For sustainable long-term economic growth, the government should concentrate on enhancing human capital, the financial sector, and trade expansion through suitable economic and trade policies

CONCLUSION AND RECOMMENDATION

The quantitative analysis in this study indicates that more openness positively impacts Albania's economic growth. Trade liberalization reduces state intervention in various sectors of the economy in terms of trade and helps in a rational and efficient allocation of resources. Exports have a continuous improvement in their contribution to trade flows but still stay away from the value of imports.

Over the last 25 years, the import of goods has been the primary source for supplying the domestic market. Exports have been growing steadily, which is a crucial indicator for judging the stability and resilience of the economy. Trade liberalization processes for Albania have been quite intensive, but the trade openness index remains low. Trade increase and liberalization are critical factors affecting our country's economic growth.

The findings of this study are comparable to those made public by Sachs & Warner (1995), who used a cross-country regression model to find similar favorable associations between trade openness and economic growth. Following are some recommendations based on the findings:

- Governments in Albania should support initiatives that boost participation in the import and export of goods. This will promote trade openness, which has been shown to favor GDP growth in Albania.

- It is advisable to have policies that support floating exchange rates. A flexible exchange rate promotes international investment as well as an improvement in the country's payment balance.
- Albania ought to implement measures to entice international investment in its economy.

This study suffers from some limitations. First, the estimation method used here may be subject to the problem of potential omitted variable bias and the endogeneity of some regressors. Second, this research could be usefully extended by including additional pertinent variables in a system of equations where other economic variables also influence commerce and capital. This clarifies the pathways via which trade impacts economic growth.

Disaggregated data would provide more information at the sectoral level. Future studies can concentrate on the effects of free trade on sectoral-level economic growth. Additional indicators can be utilized to examine the impact of openness on economic development.

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CORRESPONDING AUTHOR

Blerta Dragusha, email: bldragusha@yahoo.com

Dr. Blerta Dragusha is a Dean of the Faculty of Economy at the Shkodra University "Luigj Gurakuqi" in Shkoder, Albania.