

DOES OPENNESS TO INTERNATIONAL TRADE STIMULATE ECONOMIC GROWTH? EVIDENCE FROM POST-COMMUNIST ALBANIA

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ABSTRACT

While economic theory generally suggests that trade openness is beneficial to economic growth the empirical evidence seems to be rather mixed depending on the particular country in focus. This study offers additional empirical evidence on the role that trade openness plays on the economic growth of the post-communist Albania. Based on the unit root test results the Autoregressive Distributed Lag (ARDL) bounds testing approach is used to check the existence of a long-term relationship between the countries’ real GDP and its trade intensity measured by the trade volume as a share of GDP (both variables expressed in natural logarithm form). The data on these variables are obtained from the World Development Indicators (2013) published by the World Bank. Their frequency is annual and they cover the period 1992-2012. Results suggest that there is a positive long-term relationship between these two variables. We find that a 10% increase in trade openness is accompanied by a 1.3% increase in real GDP in Albania. This finding implies that policies that promote free trade are likely to impact the country’s economic growth positively.

KEY WORDS: Albania, ARDL, economic growth, trade openness.

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