

THE DURRES - KUKES HIGHWAY CONSTRUCTION IMPACT ON ALBANIAN AND KOSOVO ECONOMIC DEVELOPMENT

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Abstract

The Durres – Kukes – Morine highway, also known as the “Nation's Highway”, is one of the most controversial roads built in recent years. This happens because of its high costs and therefore especially the great value and importance that it has. It not only connects our two nations, Albania and Kosovo, which has a huge patriotic impact, but it also has a positive impact on the region by serving as a link of trade between the Balkan countries and the countries of the Mediterranean Sea and Adriatic. The core of this paper is to present the importance of the role of this highway in fulfilling the goals and purposes for which it was created. This project will be divided into two building blocks: In the first building block will be discussed some of the characteristics of this road and the benefits Albania, its economy and Albanians will gain from it. In the second block the Kosovo's benefits will be discussed and also the further projects that will reinforce the relation and the connection between the two countries. The Gravity Model of Trade will have a major and great role in this paper. It will be used to study and to evaluate the importance of the highway in the economic benefits of these countries.

Key words; the Durres-Kukes highway, Albanian economic development, Kosovo economic development

Introduction

The Albanian – Kosovo Highway

The Albania – Kosovo Highway is a 4 lane highway being built between Albania and Kosovo. Ideas for building this road were discussed and debated from the time of the Austro-Hungary, on the eve of World-War I-st and then on the period of communism in the '70s-'80s, and in the years of government of Meksi and Majko. Finally the project began to be realized in 2003 when the World Bank financed the feasibility study. A part of the highway, the segment between Rreshen (north-central Albania) and Kalimash (north-eastern Albania) was inaugurated on 26 June 2009 and numbered as A1. The four lane highway project is the biggest road infrastructure work ever done in the history of Albania. Its initial cost was estimated at €600m but during the course of construction this has more than doubled. The highway begins at the Albanian port of Durrës and ends at the border town of Morine, located on the Albanian side of the Albania and Kosovo border. The total project was completed as scheduled on July 2010.

The designated route corridor of the highway covers Durrës, Rreshen, Reps, Thirra, Kalimash and Morine. It is 170 km (110 mi) long and consists of two lanes on each side. The corridor passes along the existing SH2, SH52, SH1, SH30, and SH5 routes in Albania. The highway is expected to reduce the travel time from the current six hours to two and a half, with an estimated speed of 80–110 km/h.



The economic relations between Albania and Kosovo

During the period from World War II until the fall of communism in Albania, the relations between the two countries have been almost zero. A completely new phase began only after December 1990, when slightly cultural, scientific and human contacts were seen. Regarding the economic relations, trade flows, we can say they have started in 2003, year from which date the value of imports and exports between the two countries.

The Gravity Model

The gravity model of trade in international economics, predicts bilateral trade flows based on the economic sizes of (often using GDP measurements) and distance between two units. The model was first used by Tinbergen in 1962. The basic theoretical model for trade between two countries (i and j) takes the form of:

$$F_{ij} = G(M_i^{\beta_1} M_j^{\beta_2} / D_{ij}^{\beta_3}) \eta_{ij},$$

where F_{ij} represents volume of trade from country i to country j , M_i and M_j typically represent the GDPs for countries i and j , D_{ij} denotes the distance between the two countries, and η represents an error term with expectation equal to 1. The model has been used in international relations to evaluate the impact of treaties and alliances on trade, and it has been used to test the effectiveness of



trade agreements and organizations such as the North American Free Trade Agreement (NAFTA) and the World Trade Organization(WTO)

The gravity Model shows that the main key to the volume of trade flows between two countries are the respective sizes of the economy, translated in the amount of the GDP per year. These because:

- *Major economies produce more goods and services and therefore have more opportunity to sell goods in international markets (exports)*
- *Larges economies realizes more incomes from the goods and services sold, so the local population is more likely to buy international products (import)*

The second but not less important key is the distance between the two countries. The distance plays an important role because it affects trade in different levels. First level is because it has a big impact on costs and therefore on price competition. Second level is because the change in distance can change the trading time, a very important thing in the trade of certain products. Based on this model it was estimated that if the distance between two countries decreased of 1 %, the trade volume will be associated by an increase of 0.7-1 %. Regard our main question, due to the construction of the new highway, a decrease in the distance between Albania and Kosovo will lead in future to a big increase in the trade volume.

Other important elements are also the cultural affinity, geographical location, the lack of boundaries, etc. If two countries share the same language or have a cultural cooperation, they also will be closed in trade and economy. Near ports or appropriate relief have also their big impact.

I. The Albanian benefits

The Albanian economic benefits, from this big project, are focused in two important sectors, trade and tourism. As mention above, the trade relation between the two countries, Albania and Kosovo began significantly only in 2003 and tourism increased only last years.

The benefits fromtrade

Trade for Albania, as well as for any other country, is one of the most important pillars of the economy. Albania's trade balance turns out to be always with deficit because it is more an importer rather than exporter. This situation is quite different in the trade relation with Kosovo. The Kosovo market for Albania is a great opportunity for expanding exports and achieves facilities in imports. The chart below represents the trade flows between Albania and Kosovo, the volume of imports and exports between them in the last seven years.

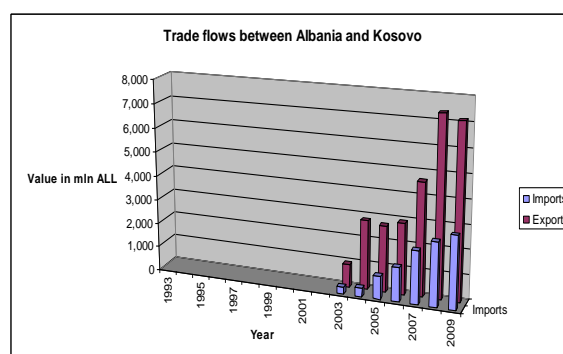


Table 1. INSTAT 2010

As we can evaluate from this chart, the trade flows have been increased through years. The percentage of exports compared to exports in other countries has changed from 2 to 8% and imports from 0.12 to 0.68%. Referring to statistics, only in 2009 import-exports to Kosovo were aalmost as import-exports of recent years, 2003-2006. During 2009, export-imports accounted for 10,014 million, when in the years 2003-2006 this value recorded 10,407 million.

Albania exports mainly agricultural products, food, tar and confections and imports from Kosovo row materials and base metals. The export of agricultural products to Kosovo has a big advantage do to the climatic conditions. Higher temperatures in our country make all agricultural products hit the market one or two months before the same products in the neighboring markets such in Kosovo, Macedonia or Montenegro.

Based on this information and on the Gravity Model conclusions we can fully and completely affirm that the trade flow volume will be multiplied through recent years. The construction of the new highway will lead to lower transportation time and costs and more security and quality.

The Albanian products will be more competitive on the Kosovo market and the Kosovo products will be chipper to Albanians. Other advantages that make possible achieving this objective, multiplying the trade volume, are also the share of the same language and culture, the patriotic impact, the lack of tariffs etc.

The benefits from tourism

Albania is a lucky country to be positioned between Mediterranean countries, the core of the world tourism, enriched with a lot of values, not only natural but even cultural. Unfortunately, this was not enough to have a great performance in this sector. Albania has had no tourist industry until recent years. Only during the '90s Albania became a tourist destination for local and foreign visitors. Tourism plays an important role in the development of the economy. It has been identified as one of the most important sectors to be supported because tourism accounts for about 10.7% of world GDP and 880 million tourists travel in the world spending 611 billion Euros (World Tourism Organization 2009). In Albania, during 2009, the tourism industry reached a value approximately 28 per cent higher than the value of the export of goods and services. Albania due to its favorable Mediterranean climate, the beautiful relief with beauty hills and fascinating

mountains in the north, soothing sand beaches of the Adriatic and those fantastic of Ionian, the archeological properties, the natural parks and the strong historical and cultural heritage offers a significant potential to develop tourism and very quickly became one of the most visited countries in Europe. Last year the number of foreign visitors to Albania has been 3.5 million from which 1.7 million citizens from Kosovo for tourism purposes. This last statistic is quite enough to show and demonstrate the great potential the Kosovo's vacationers are for Albania. This great number of visitors from Kosovo depends on several reasons: The geographical position of Kosovo with no sea . The most of Kosovo's vacationers visits Albania to enjoy the Mediterranean coast.

1. The neighborhood between our countries. Travel distance is a very useful and important variable to measure travel demand by tourists. The reduction of travel time from 7 hours to 2.5 due to the new highway (Morine – Kukes – Durres) makes Albanian coasts a major and competitive tourist destination. Not only the sea is closer but with the highway the transportation costs have also diminished.

2. Compared to other destinations, per the same quality, holidays in Albania are cheaper.

3. Same language, same culture, similar gastronomy etc. The new highway not only will enable the increase of the number, but it also will redistribute the vacationer concentration in places and time. Due to the great distance between the two countries, before the highway, most of vacationers prefer Durres to spend their holidays. This has lead to overcrowded beaches on the Adriatic coast while Ionian coast was almost virgin. The reallocation of the tourists will increase the service quality on Adriatic coast and raise the development of tourism in south, on Ionian coasts. By the reduction on travel time , Albania will not only be a destination for summer holidays (as it has been the last years, as the statistic reports, 80 % of all Kosovo vacationers visit Albania through June, July and August) but also to spend wonderful weekends through all the year. Tourism has a variety of economic impacts.. Primary tourism sectors, such as lodging, dining, transportation, amusements, and retail trade are affected directly, most other sectors such as are the production of goods and services are indirectly affected. When visitors spend their money on various services and goods, this generates direct employment, output and value added. Another important achievement for Albania is also the supply from the Kosovo exchanges with foreign currency, with euro. Just like migrant remittances, this supply of euro and demand for ALL strengthens the ALL position and consequently its value. So the local currency remains superior to Euro or Dollar and in this way is just like a shield against the international rising prices of goods and services. Summarized below the benefits from tourism are:

1. It helps diversity and stabilize the local economy
2. Provide governments with extra tax revenues each year through the accommodation and restaurant taxes, sales taxes, park entrance fee, employee income tax etc.
3. Create local jobs and business opportunities. This include jobs directly related to tourism (hotel and tour

tourism) and those that indirectly support tourism (food production or hotel constructions)

4. Brings new money and attract additional business and services to support the tourism industry.

5. It is labor-intensive

6. Earns valuable foreign exchanges, etc

II. The Kosovo benefits

The new highway Durres-Kukes-Morine is going to bring a very positive impact on trade flows to Albania and Kosovo. Referring to official statistics during the period from January to February of this year is recognized an increase in trade flows compared with the same period the previous year.

According to data from the General Directorate of Customs, during the first 2-months of 2011 trade volume between the two countries amounted to 1.767 million ALL. Albanian exports to Kosovo were 1.113 million ALL, while those from Kosovo reached 654 million ALL.

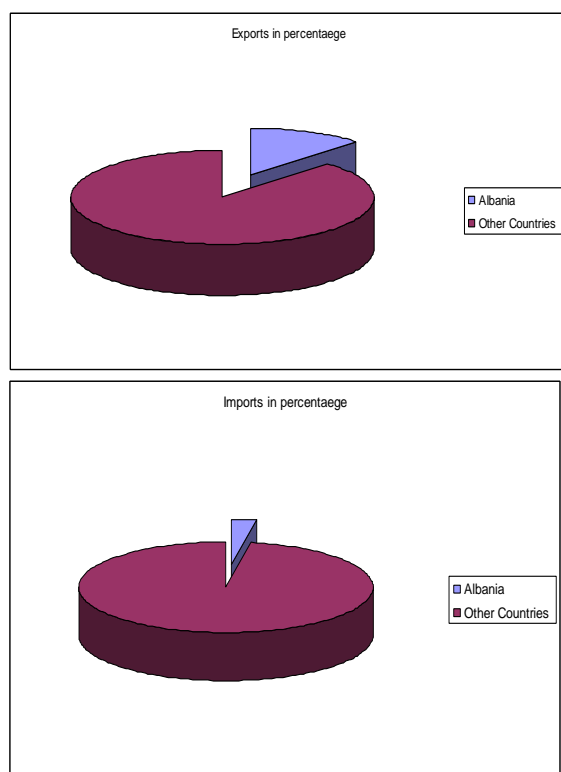
During the same period the previous year (January-February 2010) the value of exported products reached 808 million, while imports for Albania 469 million. Economy and trade experts are optimistic about export growth with the completion of this highway.

After several attempts for embargo from Serbia and Bosnia through years, let's say that for Kosovo, the Albanian market is very important.

The benefits of the Kosovo from the new highway economy are concentrated in trade. The fulfillment of the project for the closer markets will make a big difference in the import and export flows of Kosovo. First, not only there is a big market near where to be competitive but also there is a market where to supply with goods and services not available in Kosovo.

Second, the Kalimash tunnel reduced to 30 percent transport costs for imports from the Port of Durres and reduced the time for the importation of goods into Kosovo, while the security of transportation has increased significantly due also to the minimization of accidents. The port of Durresi is the largest seaport of the country, which covers about 85% of Albania's imports and exports of goods and is very important in the maritime transport of passengers.

In this way Kosovo is closer not only to the Albanian market but also to international markets



Statistical Office of Kosovo, December 2010

If we take into consideration the charts above, the exports from Kosovo to Albania are 12 per cent of all exports of this country and the imports 2.1 per cent. With the new highway, regards the Gravity Model too, is expected this volumes to increase significantly through years.

III. Conclusions

From what was presented in the above two paragraphs, we can say that the construction of the new highway will have

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a large and significant impact on developing Kosovo and Albanian economies. The most important would be that the governments of these two countries make efforts so that the opportunities and advantages that will bring the road could be used as well as possible. Thus, we can say that governments can be very active in the following situations in order to have a much faster and greater economic development:

1. The improvement of the infrastructure certainly will increase the market for the Albanian goods and services into Kosovo in the next future. To achieve this important goal is needed a good marketing strategy and a better quality of local products. Only in these conditions Albanian products could be more competitive in the market.
2. Both countries should start working to establish a long term strategy for economic cooperation and to harmonize the legal framework with European Union standards.
3. Interaction between the two countries should expand and they could establish a long-term strategy to be specialized in the variety of products and services offered. If each country is going to be specialized in the production of those goods for which it possesses comparative advantages, the two economies can be more complementary.
4. The second half of the highway, the Morine – Merdar part, is an important pillar for both economies. It will reduce significantly the transportation costs of goods from Kosovo into Albania. In this way Kosovo products will be more competitive in the Albanian market and not only.
5. The Albanian government should be more active in ensuring better infrastructure, better conditions for tourist and promoting the beautiful nature or destinations to visit.