

Albanian Trade and Income Inequality

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Abstract: *Briefly, this research paper will demonstrate if the forecasts of Heckscher-Ohlin theory, that inequality increases in wealthy countries and decrease in developing countries, like Albania, as a result of increased trade, is true for our case.*

This paper uses theoretical and empirical research with the intention of showing how trade and trade liberalization influence income distribution and income inequality. Trade liberalization enhances overall welfare; most of the time gains from trade are considerable but are not distributed equally. The focus of this research paper is finding out how this affects Albania in particular. These effects of trade are evaluated essentially through price changes, keeping under spotlight the possible changes in relative demand for domestic factors of production, especially the demand for skilled compared to unskilled labor.

The regression model is used to find the correlation between trade and income inequality in Albania for years 2000-2011. Albanian trade parameters are taken from the Albanian Institution of Statistics and World Bank and are compared to the measures of inequalities in the country to extrapolate a conclusion in regards the impact of trade openness on income inequalities. Greater sincerity to world markets can affect income distribution between and within countries. So the increase in growth due to trade openness has a pejorative effect on the poor and causes unequal distribution of income. Based on the findings, trade liberalization is found to be related to income inequality. Does inequality increases in capital and land abundant countries while decreases in labor abundant countries when they experience trade liberalization?

Keywords: *Trade liberalization, income inequality, Heckscher-Ohlin theory, capital.*