

Romania's Foreign Trade in the Transition Period

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Abstract

For the Romanian economy, as well as for any other country, the foreign trade has particular importance.

The activity of Romania foreign trade has ancient traditions, indigenous products such as cereals, animals and foods of animal origin, honey, leather and leather goods, construction wood and mineral products representing exports' object since ancient times.

Starting with the second half of the XIXth century, to these were added, the mineral fuels also, such as oil and its derivatives,

and in the XXth century, especially in its second half a wide range of products of manufacturing. The profound economic and social transformations initiated after the revolution of December 1989, had as objective on one hand the creation of the state law and on the other hand building a competitive market economy.

The process of creating a modern functioning market economy in Romania registered a sinuous evolution but relatively upward, according with the maturation of the entire Romanian society.

The article aims to give readers information about Romania, such as foreign trade during the period 1990-2008, Romania's relationship with the EU as a main trading partner, running the economy in the early years of our adhesion to the EU, as well as coordinates of foreign trade development.

On these coordinates, the paper examines complex issue of the past evolution and the present situation of external trade, with achievements, strengths and weaknesses that marked each stage, as well as perspectives of Romanian foreign trade.

Keywords: foreign trade, development, competitiveness, economic increase, market economy.

JEL classifications:

F14 - Country and Industry Studies of Trade

F17 - Trade Forecasting and Simulation

Introduction

In present, when we talk about the global economy, we automatically think at world trade as being an important part of it. World economy is currently generated, in a high proportion, by the trade that takes place between economic agents in different countries or economic regions of the world, producing together, in contemporary conditions, a particularly strong impact on all states. Of course, presently, no state can exist as a single entity worldwide, objective circumstances

forcing it to enter into, at least in commercial relationships with other countries.

The participation of actors from various economies to international financial and commercial trade is a necessity, and in the same time, an extremely important source - even essential - for realizing an income and a sustainable economic growth or a dynamic equilibrium of the balance of foreign payments. Contemporary relations and economic exchanges, in all forms and ways in which they are made, have a great importance, both for balance and economic growth at the region/nation level, and intra-national.

Reality shows that apart from economic theories, the most developed countries, today are those whose economic agents are rooted complex economic relations, the states that they are being members or active participants within the multilateral frame of various international organizations of world trade regulation, or in various regional integrationist groupings, so that, we can appreciate that economic development is directly proportional to the external economic relations of that state, and, therefore, directly proportional to external trade, or, more precisely said, directly proportional with the exports volume. But imports have also an important role, because currently, no state can ensure national requirements only from its own resources. Sometimes, as it results from the international trade theories, but also as we will show during this article, is even more profitable to import certain goods than to produce them from their own resources, in their counter value exporting others, with a higher productivity. One can therefore appreciate that the economic development of a state is directly proportional to its external trade.

The evolution and characteristics of Romanian foreign trade during 1989-2006

In each economy strategy, more efficient use of external economic relations as exogenous factor of production, income and consumption growth is the synthetic expression of the national management quality, primarily of the macroeconomic one.

The position of a national economy in its trade relations with the rest of the world is reflected in the external balance of payments (BPE), whose knowledge and analysis are essential in the process of development of external economic policy in an increasingly interdependent economic environment.

In realizing the general analysis of Romanian foreign trade we use the following indicators that summarize the general trend of Romanian foreign trade:

- Value of exports (FOB prices);
- Value of imports (CIF price);
- Value of imports (FOB prices);
- Trade balance (exports fob - CIF Imports);
- Trade balance (exports fob - FOB Imports);
- Exports per capita.

We also observe an upward trend of exports per capita, which is in fact due to the growth of total exports during the review. Chart no. 1

shows the evolution of exports, imports and trade balance, and does nothing else than to confirm a deepening of Romania trade deficit. We believe that growth indicators by their calculation and interpretation of their ideal best here in the analysis of the overall foreign trade.

Table no.1 shows such indicators and reflects the dynamics and the fact that Romania is in the transition countries with an inferior dynamic export compared with the import one. Calculations based on data in U.S. dollars reflect the further dynamics of exports, unless we consider the data in euro.

Table 1: The dynamics of Romanian exports and imports during 1990-2006

Year	Export dynamics (USD) %	Import dynamics (USD) %	Export dynamics (EURO) %	Import dynamics (EURO) %
1990	-44,931820	+9,046161	-59,589331	-19,969241
1991	-26,147186	-41,619019	-35,149293	-48,740771
1992	+2,297773	+7,542955	-9,558428	-4,814522
1993	+12,124685	+4,201949	+24,650194	+16,148425
1994	+25,735895	+9,000307	+23,381896	+6,978404
1995	+28,596976	+44,577296	+18,312040	+32,615949
1996	+2,199747	+11,257054	+5,579188	+14,844635
1997	+4,292429	-1,355488	+15,744615	+9,464344
1998	-1,530068	+4,946809	-0,923818	+5,253678
1999	+2,228379	-10,821085	+7,797297	-5,618939
2000	+22,151526	+23,662025	+41,318792	+42,953561
2001	+9,819620	+19,126771	+12,853721	+22,493129
2002	+21,809398	+14,795525	+15,351360	+8,675142
2003	+27,350736	+34,335966	+6,398637	+12,228045
2004	+33,146481	+36,088062	+21,269374	+23,961134
2005	+17,697512	+24,095747	+17,533668	+23,924128
2006	+17,193207	+25,389378	+16,158167	+25,108003
Media	+9,060899412	+12,60414194	-9,735594384	+9,735594353

Source: author's calculations

For example, in 2006, FOB exports cast in USD recorded an increase of 17.19% over the previous year, but if you express the data in euros, the increase is more modest, around 16.15%. The explanation lies, of course, in the faster revalorization of the euro against dollar in relation to the national currency, during the same year. The same happens in case of imports, which is why our focus and values expressed in U.S. dollars (USD) is not affected in terms of comparisons between exports and imports.

From the analysis of the two dynamics, we find that there were periods in which exports dynamics exceed imports dynamics (1991, 1993, 1994, 1997, 1999, 2002), but in most cases the situation was reverse (in all other years).

Imports have increased more than exports, and the fact that there was a greater startup basis, explains in fact, the existence of the country's trade deficit and thus of export under capacity of the Romanian economy compared to imports. Superiority in the growth of imports compared to the rate of growth of exports shows that policies

of liberalization of external trade favored imports of goods and the quantity of goods exported remained at a low level.

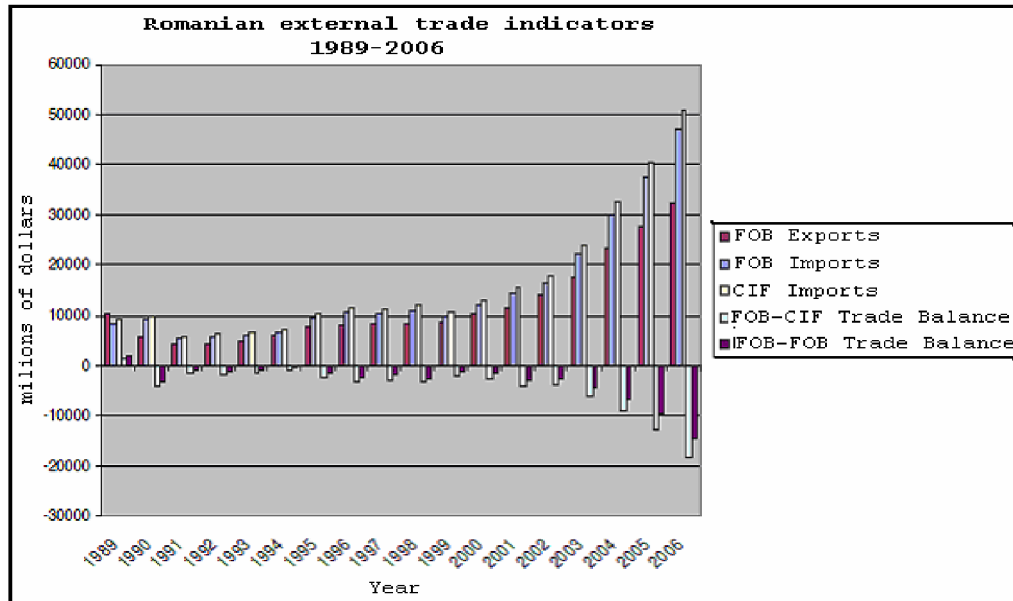


Figure 1: Romanian foreign trade indicators for the period 1989-2006
 Source: made by the author based on National Institute of Statistics information

We will seek to identify mainly the groups of products that contribute to the overall deficit of trade balance and to imports growing. For now, we have identified several trends in the evolution of foreign trade of Romania and extract conclusions on them.

In Romania's foreign trade, we have identified three stages of evolution of Romanian foreign trade, namely:

- 1990-1993 - the phase of pronounced decline of Romanian foreign trade due to changes in the system in conditions of massive imbalances in internal markets, especially on large exporters markets; during this period there were a number of external restrictions derived from the Romania's location in a unstable economic and political geographical area;
- 1994-1998 - the phase of economic macro stabilizations efforts characterized by attempts to force exports in the context of Romania's integration in the structures of the World Trade Organization and of Romania's candidature to EU, the Romanian currency undervalued compared to its purchase power, of the accession of our country to the free trade area of CEFTA;
- 1999-2006 - the stage of actual privatizations of industrial sectors and of auto reorganization of inefficient sectors, of efforts with higher degree of simultaneity in creating a liberal economic environment and of real facilities granted to foreign investors.

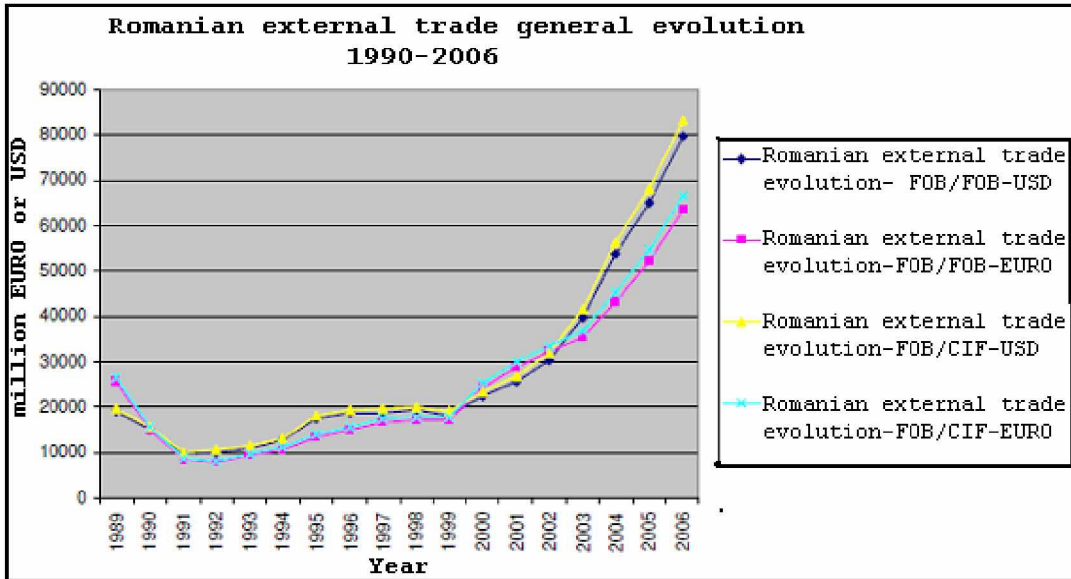


Figure 2: - Overview of evolution of Romania’s foreign trade during 1989-2006

Source: made by the author based on National Institute of Statistics information

Regarding geographical orientation of partners, Romania has registered an increase of countries from Europe and in particular from the EU, both at import and at export.

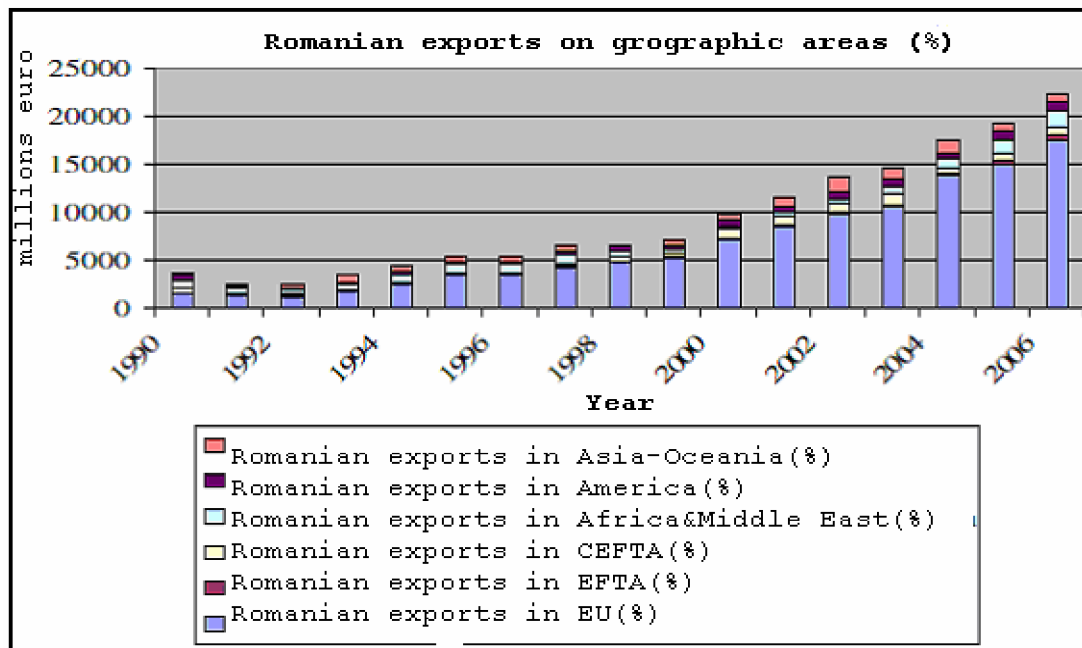


Figure 3: - Share of exports by geographical area of Romania during 1990-2006

Source: made by the author based on National Institute of Statistics information

With the other areas, growth is slow or there has been no growing, that’s why we do not render greater detail on partners, the weights are relatively small and insignificant.

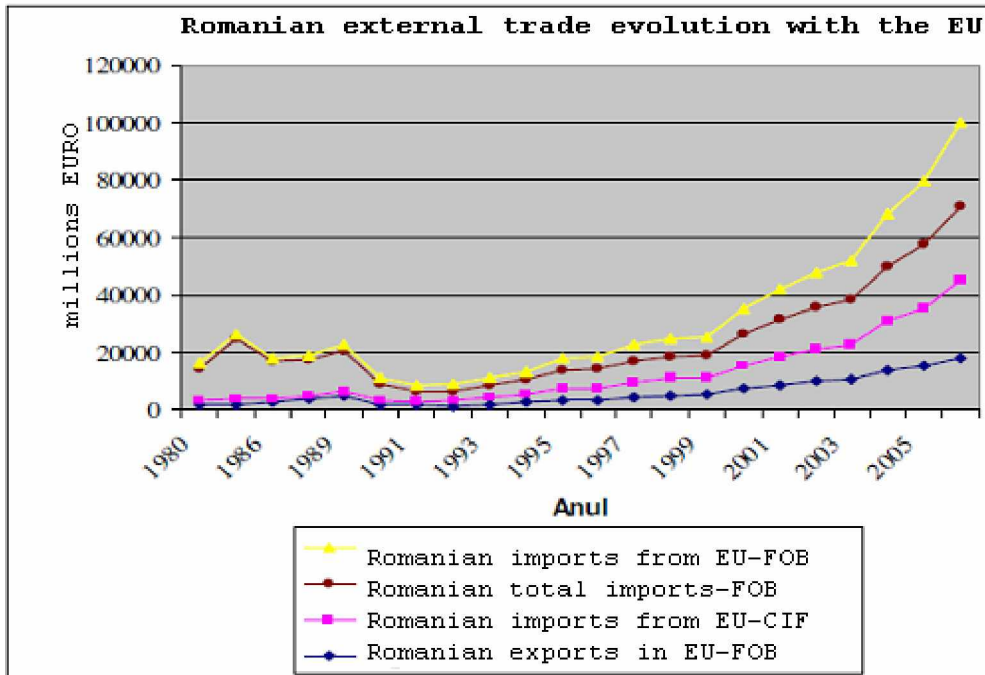


Figure 4: - Evolution of Romanian foreign trade with the EU over the period 1980-2006 (FOB/FOB)

Source: www.insse.ro

Therefore, the trend of intensification of trade with the European Union is clear, moreover, the EU has started since 1990 to have large share in total imports and exports of Romania, this share exceeds 50% of total imports and exports since 1995, since when it can be affirmed that Romania is engaged primarily on economic exchanges with EU countries.

It should be mentioned here that this year - 1995 - is in fact also the year in which Romania has formally submitted the application for accession to the European Union, which led to believe that somehow this important share owned by the EU in our foreign trade, by the fact that realizing the political class consensus on our application to the EU, this consensus has effect on legislation and later applied policy on trade.

Under the Association Agreement to the EU, Romania has gradually and asymmetric reduced duties on imports of industrial products from EU suppressing them completely from 1 January 2002 (while the EU has removed the charges from January 1, 1997) and also quantitative restrictions in respecting the goods traffic in the scope of processing (e.g., Lohn for products export, more precisely, on June 22, 1995, textiles and garments, which led to increased share of this group in total exports to the EU from 33.4% in 1994 to 36% in 1997).

The weights with the other areas are considerably lower. The reasons of this orientation of external trade mainly to the EU and less to other areas, from our point of view, are:

- For example, with Africa and the Middle East, the share fell during 1999-2002 due to tensions and crises in the Middle East; in addition, traditional relations with this region could not be maintained in the early years of transition, being reviewed on other

bases after 2002, once Romania has become a U.S. partner in the military operations in the area, thus registering a considerable reversal of trade with the countries of this region (for example, our exports have increased from 335 million Euro in 2001 to 1749 Euro in 2006, imports CIF in the same years rose from 137 million euros to 750 million euros) and an annual surplus of our trade balance in this destination. Therefore, this market should be considered further by Romania, because it seems that our record demand in the region is competitive for the purchasing power of population. Certainly that will have to analyze and structure of our trade in this direction, so that we can tell if it's short or not.

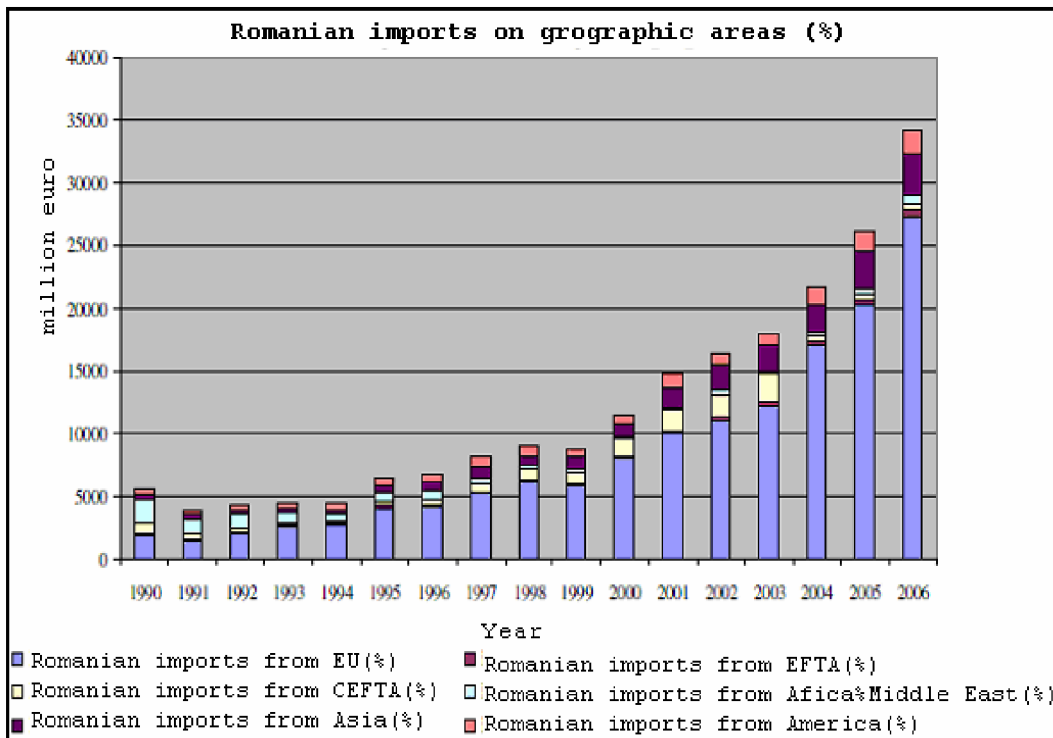


Figure 5: - The share of imports by geographical area of Romania during 1990-2006

Source: made by the author based on National Institute of Statistics information

- With the EFTA countries, in the analysis of our foreign trade developments we mention only that the level of trade with these countries, although small in value, also recorded a negative balance of trade balance Romanian;
- With the Asia-Oceania region, although trade has registered an upward trend mainly here in 1990, Romania's exports to this region decreased due to limitation of imports to this region, however, we found an increase in our exports to this region since 2001, the year China joined the WTO; from the point of view of the negative balance of our trade balance - which also recorded a similar trend with EU regarding this relationship - we consider this region as being beneficial for our products, because it is the most competitive market for Romania - and not only - at present (for example, our exports have fallen from 1.447 billion Euro in 2002 to 733 in 2006, while our CIF imports in the same years were raised from 209 million Euro, the Euro 3363 million).

- With the U.S., although trade has registered an upward trend mainly here in 1990, Romania's exports to this region have fluctuated cyclically since 2000; however, we found an increase in the area of exports to Romania since 2000, year in which Romania has started negotiations with the European Union; from the point of view of the negative balance of our trade balance - that is reversed compared to the EU on this relationship - we consider North America - especially if we consider trade with the U.S. - as not being beneficial for our products. Instead, we consider South America as a market with great potential for our products, especially now as EU members as beneficiaries of free trade agreements with countries of Latin America. We can not notice that the positive trend of our commercial exchanges with the U.S. began in 1993 - after an earlier significant fall - when the U.S. granted us *the most-favored nation clause*.

Evolution of foreign trade in Romania after EU accession

Romania's international trade in 2007 and in 2008

The total volume of Romania international trade, in 2008, increased by 11.9% compared to 2007, recording an export growth of 14.4% and an import a growth of 10.5%. Romania's FOB exports in 2008 were of 33.327 billion euros, with 4.2261 billion euros higher than in the previous year, when amounted to 29.401 billion euros. CIF Imports achieved in Romania in 2008, was of 56.336 billion, with 5.344 billion higher than in 2007, when has amounted to 50.992 billion euros.

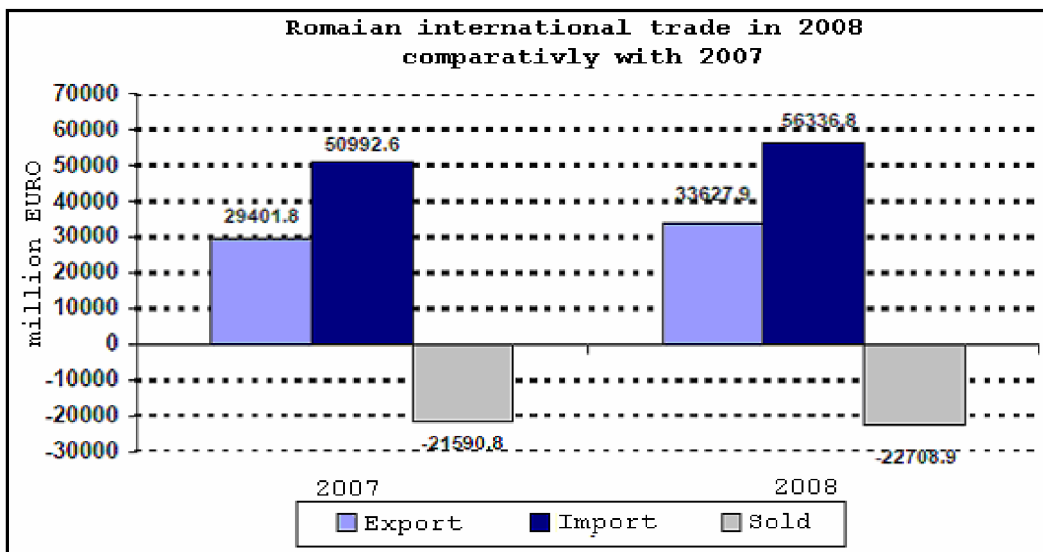


Figure 6: - Romanian international trade evolution in 2007 and in 2008
 Source: National Customs Authority (www.customs.ro), National Institute of Statistics (www.insse.ro)

Romania's intra Community trade in 2007 and in 2008

The total intra-trade of Romania, in 2008, rose by 9.1% compared to 2007, recording an export growth of 12.0% and imports increased 7.4%. The value of intra-exports (to the 26 countries of the EU) was 23.671 billion; increasing by 12.0% compared to last year and represented 70.4% of total Romanian exports.

The value of intra-import (from the 26 EU countries) was 38.937 billion, increasing by 7.4% from last year and represented 69.1% of total Romanian imports.

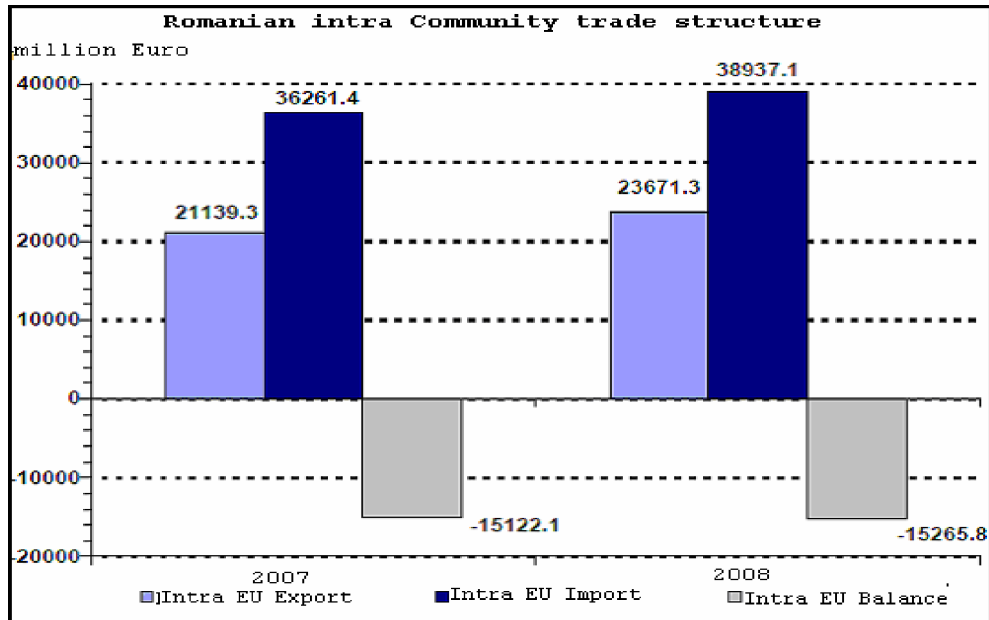


Figure 7: - Romanian intra Community trade evolution in 2007 and in 2008

Source: National Customs Authority (www.customs.ro), National Institute of Statistics (www.insse.ro)

Romania's extra Community trade in 2007 and in 2008

The total Romanian extra Community trade, in 2008, increased by 19.0% compared to 2007, recording an export growth of 20.5% and an import growth of 18.1%.

Extra Community export value was of 9.956 billion, increasing by 20.5% from last year, and represented 29.6% of total Romanian exports.

Extra Community import value was of 17.399 billion, increasing by 18.1% compared to last year, and represented 30.9% of total Romanian imports.

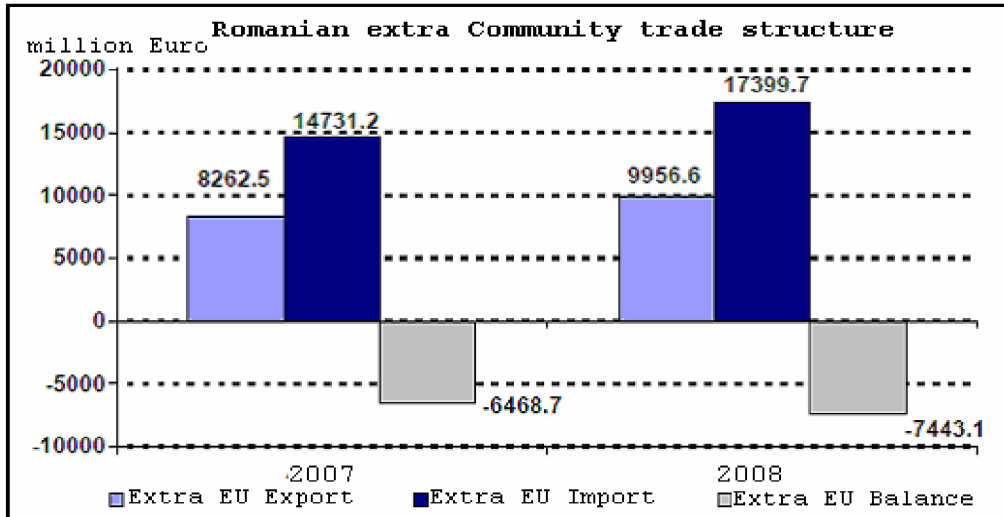


Figure 8: - Romanian extra Community trade evolution in 2007 and in 2008

Source: National Customs Authority (www.customs.ro), National Institute of Statistics (www.insse.ro)

The evolution of the Romanian import compared with the export growth determined the registration, at the end of 2008, of a trade deficit of 22.708 billion euros, with 1.118 billion higher than in 2007, when was coded -21.590 billion.

Intra Community trade balance recorded a value of -15.265 billion (which represented 67.2% of the Romanian trade deficit), while Extra Community trade balance was -7.443 billion.

Romania's international trade on groups of products in 2007 and in 2008

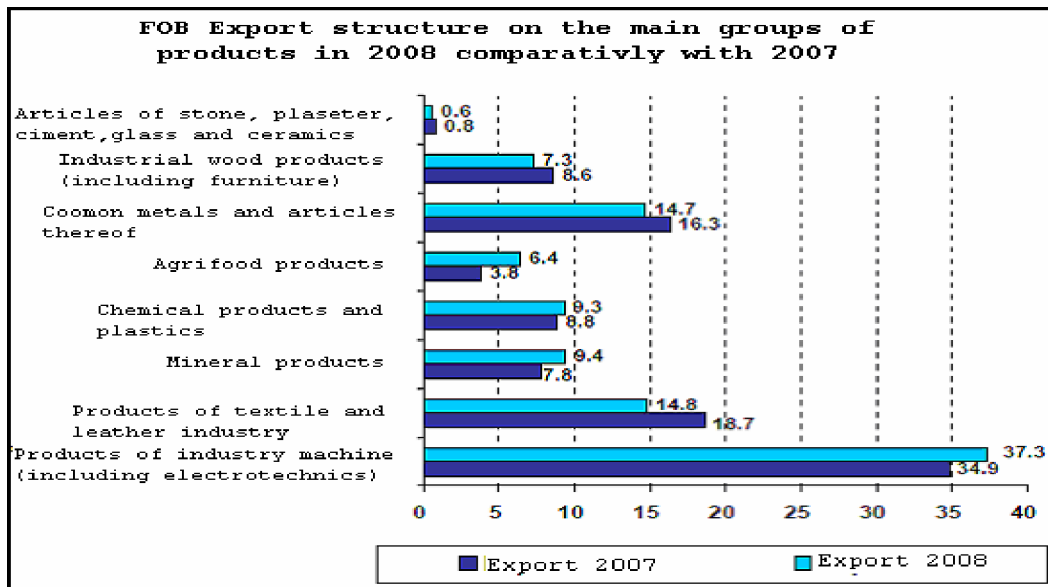


Figure 9: - FOB Export structure on the main groups of products in 2007 and in 2008 (%)

Source: National Customs Authority (www.customs.ro), National Institute of Statistics (www.insse.ro)

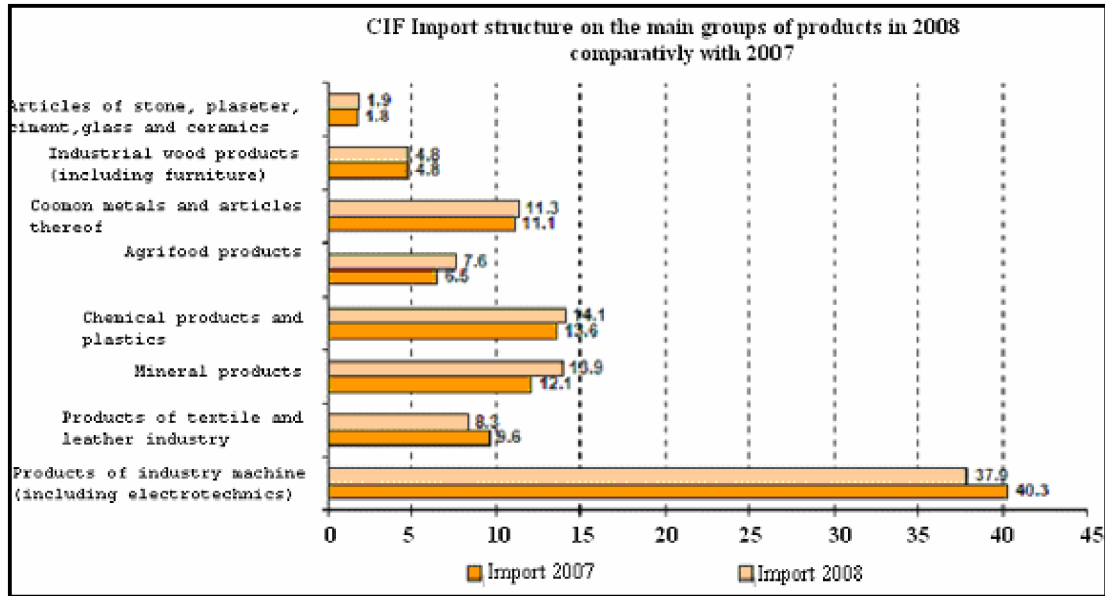


Figure 10: - CIF Import structure on the main groups of products in 2007 and in 2008 (%)
 Source: National Customs Authority (www.customs.ro), National Institute of Statistics (www.insse.ro)

Geographical orientation of the Romanian international trade in 2007 and 2008

Export and import of Romania takes place in most with the EU member states, in proportion of 88.3% each. Intra Community trade (with the 26 EU member countries) is primarily (69.6%) with a share of 70.4% to export and of 69.1% to import.

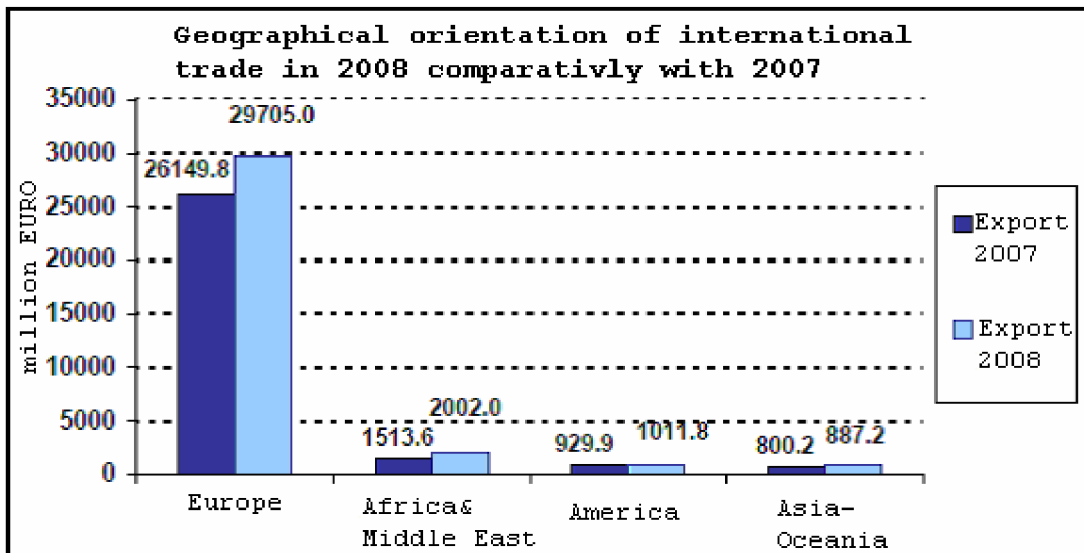


Figure 11: - Geographical orientation of Romanian exports in 2007 and in 2008
 Source: National Customs Authority (www.customs.ro), National Institute of Statistics (www.insse.ro)

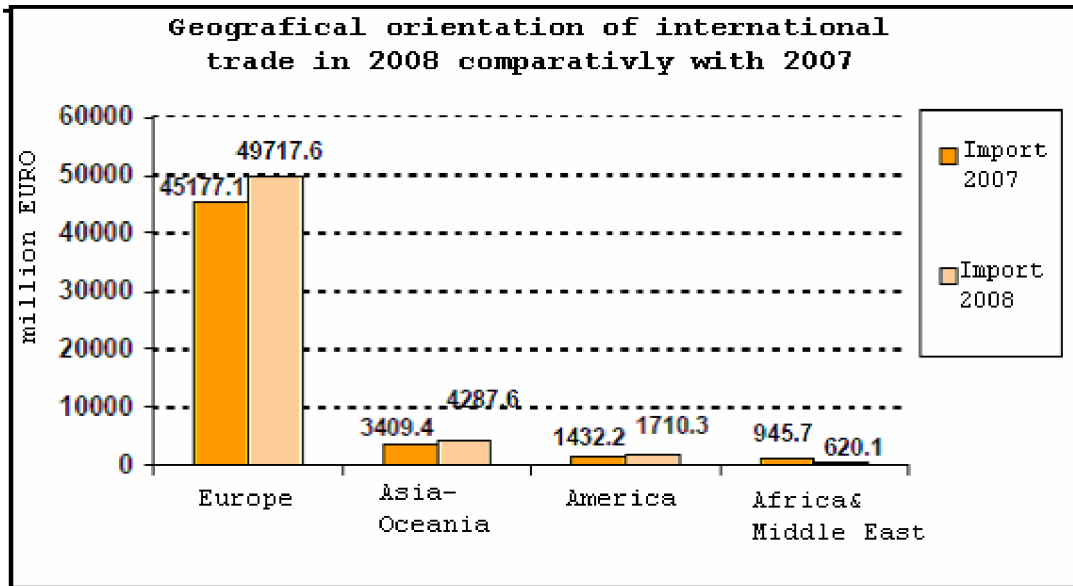


Figure 11: - Geographical orientation of Romanian imports in 2007 and in 2008

Source: National Customs Authority (www.customs.ro), National Institute of Statistics (www.insse.ro)

Recommendations

After 17 years of structural legislative and institutional reforms, of economic and social restructuring for preparation for accession, Romania must now face a significantly changed the context and with an increased level of interdependence between member states, which requires a rational and strategic behavior effective.

Firstly, the EU accession is the opportunity and the mean to enhance quality of life of its citizens, along with all European citizens. The fact that Romania is an EU member state with a GDP per capita well below the European average stresses the need for efficient use of resources and funds, stimulating more active foreign and domestic investment.

Romania has a need for maintenance for a long period of rapid growth, balanced and sustainable, of strong and effective institutions, of a coherent legal system and of a predictable tax system. Romania must also meet the time obligations it has assumed in the Accession Treaty and to contribute to achieving a united Europe. This includes upgrading the physical infrastructure, educational system adapt to the European revival of scientific research and innovation, with emphasis on applicability in practice based on economic partnership between business, universities and research institutes, fundamental restructuring of agriculture and boosting rural development, such as and strengthening administrative capacity, to implement the community acquis. Romania must continue to work for sustainable development and environmental protection, for flexibility of the labor market and create the conditions for the development of a optimum competitive climate.

As EU member state in achieving its objectives, Romania must implement the principles and the fundamental values: solidarity, consensus and spirit of compromise, through a constructive and cooperative approach

in fulfilling its role of equal partner in developing the European Union. Accession to the European Union subscribes Romania in the dynamic process of deepening European integration, opening a new chapter for each sector of our life.

Obtaining the status of EU member state is a necessary but not sufficient condition to maximize the benefits of accession, applying the EU rules, now and in future, being fundamental for achieving this goal.

We should be aware that, from 1 January 2007, Romania is in direct competition with other member states within the meaning of economic and institutional performance, including attracting community and global resources.

Conclusions

Thus, we consider that Romania has adapted its foreign trade after 1989, depending on the situation existing on the international markets, but, although its refocused geographically, we have seen in fact, that trade outside the country are far from desired efficiency record, the export level being in almost all cases lower than imports.

This is due, firstly, that the geographical shift has been accompanied by large changes in the structure of exported goods and by increasing their competitiveness. In addition, Romania was focused mainly on markets that have concluded free trade agreements, even if - as we saw in Africa and the Middle East - there is greater potential for our exports to other destinations, more effective.

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