

ROMANIAN FOREIGN TRADE WITH THE EUROPEAN UNION-DINAMICS AND TRENDS¹

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Abstract

The paper presents briefly the evolutions in world trade and Romanian foreign trade, especially with the EU. A significant increase in exports, but also in imports was recorded over the interval 2000-2011, accompanied by major structural changes: decline in the shares of low value added and labor intensive products and advance of the more technologically advanced products. However, Romania's trade balance with the EU and most countries in this region remained negative, similar to other new Member States, which generally import more from than export to the EU. Years 2009-2011 marked a sharp drop and a relative stabilization of the trade deficit with the EU, due to significant reduction in exports, but especially in imports, and to the adjustments induced by the crisis after 2008.

Keywords: foreign trade, export and import structure, Romania, EU

Introduction

During the transition to the market economy and preparation for accession to the European Union the structure of Romanian foreign trade was not quite favorable to a positive and sustainable specialization of the Romanian economy in the world economy, in general, and particularly in the European economy into which Romania aims to integrate.

Thus, in the exports for a long time predominated the agricultural products, the consumption goods and other low value added commodities that use cheap domestic resources (for instance, rough wood, labor) and energy intensive or high consumption technologies (as well as relatively expensive imports).

A significant increase experienced for some time the sectors based on outward processing (apparel, knitwear, etc.) that use cheap labor, which although for the time being are still internationally competitive are unsustainable and lack advantages in the medium and long run. The significant slowdown of the export of such products in the past years is in accordance with the predictable decline in the comparative advantages of Romania, especially regarding the labor cost that is expected to rise gradually, both due to wage increase and to appreciation of the national currency (as according to the Balassa-Samuelson effect); a process that is highly influenced by the accession to the European Union.

One should also notice the significant advance over the past few years of the sectors with higher technological level (machinery and equipment, transport means), which although still register high trade deficits reveal a clear trend of integrating into the structures of the European economy, similar to the trend registered in the Central and East-European new member states, which over a quite short span of time passed from the structures of a centrally-planned economies to modern and dynamic market economies, placed on a convergence trajectory towards the advanced market economies structures.

At the same time, in the imports predominated raw materials (some of them being expensive inputs for producing low value added commodities that were lately exported), agricultural products (of which some had and still have favorable conditions for domestic production, but were much cheaper than the domestic products) and machinery and equipment – used for the new production facilities or for renewing and upgrading the existing fixed capital.

The increase in imports was mainly due both to supporting the economic growth and to random or climate determinants (dynamics of world prices for oil, natural gas, energy coal, decline in agricultural production due to prolonged drought, additional imports of fuel oil, etc.).

¹ Communication is based on partial results obtained in the study: Increasing the Contribution of Foreign Trade to Achieving Real Convergence (authors: Lucian Liviu Albu (coordinator), Marioara Iordan, Radu Lupu, collaborators: Mihaela Nona Chilian, Tiberiu Diaconescu) developed within the project "Improving institutional capacity assessment and formulation of macroeconomic policies in the EU economic convergence with the National Commission for Prognosis" SMIS code 27153 beneficiary National Commission of Prognosis

The World Trade - Overall Issues.

The dynamics of world trade in 2010 and 2011 was marked by the global crisis, by the sovereign debt crisis in Europe, by the natural disasters in Japan and by the unrest in the Arab states.

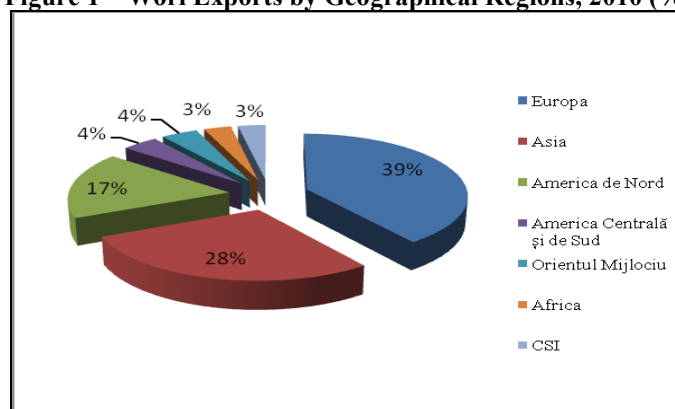
World merchandise exports increased by 14% in 2010; a higher growth than the global increase in production of goods (4%) and the GDP growth (3.5%, while the exports increased by four times more).

One third of world trade in goods was conducted by the United States, China and Germany. 65% of the EU exports are towards the EU countries and 12% of the African exports were directed to African countries. In the EU, the interregional trade is the highest. Also, the EU represents the main market for Africa. The CIS major trading partner is Europe and for the Middle East is Asia.

The exports of commercial services increased by 9% in 2010, as compared to 12% in 2009. The share of the main players in world trade in commercial services ranks firstly the following five: (i) interregional trade in the EU - 24.4%, (ii) the United States - 18, 5%, (iii) China – 6.1%, (iv) Japan - 4.9%, (v) India - 4.4%.

Worldwide exports by destination in 2010 show a total share of 84% of three regions: 39% Europe, 28% Asia and 17% in North America. Other regions, namely Central and South America, Middle East, Africa and CIS amount to 14% of world exports of goods.

Figure 1 – World Exports by Geographical Regions, 2010 (%)



Source: WTO Secretariate, world_region_export_10_e.pdf.

By major groups of exported goods, 69% were industrial goods, 15% fuel and mineral products, and 11% agricultural products. By product group, 13% were other machinery, 11% fuel, 10% automotive products, 9% other chemicals and 8% other food. In 2010, the largest increase in exports was that of automotive products group, and since 2005 the ores and minerals group.

Regarding the imports of goods, the region with the largest volume of imports in 2010 was Central and South America (23.5%), followed by CIS (18.5%), Asia (17.5%), North America (15.5%) and Europe (9.5%). Among the world countries, Mexico registered a significant increase, by 23.5%, respectively. Very close to its level was China, with 22.0%, followed by the U.S. with 15.0% and Canada with 14.5%. The imports of European states oscillated at around 9.0% - 9.5% (Table 1).

Table 1– Dynamics of Commodity Imports by World Regions and Some Countries, 2005-2010

	-%-		
	2005-2010	2009	2010
World	3.0	-13.0	13.5
North America	0.5	-17.0	15.5
Canada	1.5	-16.0	14.5
Mexico	3.0	-20.0	23.5
USA	0.5	-16.5	15.0
South and Central America	9.5	-16.5	23.5
Europe	1.0	-14.0	9.5
EU-27	1.0	-14.0	9.5
Norway	3.5	-13.5	9.0
Switzerland	2.5	-10.5	9.5
Community of Independent States (CSI)	7.5	-28.0	18.5
Asia	6.0	-7.0	17.5
Australia	5.5	-11.0	10.0

China	11.5	3.0	22.0
Hong Kong, China	5.0	-5.5	17.5
India	13.5	3.5	13.0
Japan	0.0	-12.0	10.0
Six East-Asian Countries	4.0	-13.0	19.5

Source: WTO Secretariate, world_region_export_10_e.pdf.

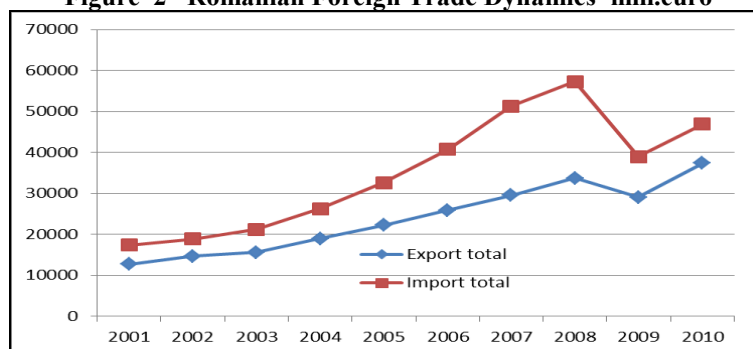
The year 2011 was marked by the sovereign debt crisis in Europe, the natural disasters in Japan and unrest in the Arab states. Consequently, growth reached only 2.4%, lower than the average of 3.2% in the past 20 years that preceded the 2008 crisis. In the developed economies, growth averaged 1.5%, while in the newly industrialized economies, developing economies and the CIS a higher growth of 4.2% and 5.7%, respectively, was registered. The regions where growth was more rapid were the Middle East (4.9%) and Central and South America (4.5%). Higher growth of economies was recorded in China (9.2%) and India (7.8%). The country that has experienced lower economic activity was Japan, a situation caused by the catastrophic earthquake of March 2011 (-0.5% rate of growth and exports index).

The world commodity exports increased by 5% and the imports by 4.9%. Asia exports ranked first, with 6.6%, followed by North America (6.2%), Middle East (5.4%) and South and Central America (5.3%). CIS has the lowest export growth (1.8%), while Africa recorded their decline by 8.3%. Among countries with a high volume of exports are highlighted India (16.1%), the U.S. (7.2%) and China (6.6%). CIS imports recorded the highest growth, by 16.7%, followed by South and Central America (by 10.4%). The increase in imports was the lowest (1.9%) in Japan, as compared to 3.7% in the U.S., 9.7% in China and 6.6% in India. In 2011, the top five exporters were China (1899 billion US dollars), U.S. (1481 billion US dollars), Germany (1474 billion US dollars), Japan (823 billion US dollars) and the Netherlands (660 billion US dollars). The main importers were USA (2265 billion US dollars), China (1743 billion US dollars), Germany (1254 billion US dollars), Japan (854 billion US dollars) and France (715 billion US dollars).

Dynamics of Romanian Foreign Trade with the European Union Overall Dynamics of Romanian Foreign Trade in the 2000-2011 Interval

Romania's foreign trade had an ascending trend since 2001, reaching record levels of export and import in 2008 (EUR 33.725 billion in exports of goods and EUR 57.24 billion in imports of goods). The year 2009 is marked by reduced economic activity with direct impact on foreign trade. Trade relations have declined strongly during 2009; by 13.8% for exports and by 31.9% for imports. In 2010 as compared to 2009, a slight rebound of the upward trend was noticeable.

Figure 2– Romanian Foreign Trade Dynamics–mill.euro



Source: Romanian Statistical Yearbook, 2011, NIS.

In the structure of exports, five out of the twenty-two sections of the Combined Nomenclature (CN) held together 68.55% of total exports in 2010, as follows: *electrical machinery and equipment*, *sound and images recorders and reproducers* (27.12%), *transport means and equipment* (15.55%), *base metals and articles thereof* (11.94%), *textile products* (8.42%), and *mineral products* (5.51 %).

In the structure of imports, seven out of the twenty-two sections of the CN represented 78.77% of total imports in 2010. The six sections were, in descending order: *electrical machinery and equipment*, *sound and images recorders and reproducers* (28.45%), *mineral products* (11.04%), *base metals and articles thereof* (10.93%), *chemicals* (9.95%), *transport means and materials* (7.46%), *plastics, rubber and articles thereof* (6.96%) and *textile materials and articles thereof* (6.49%).

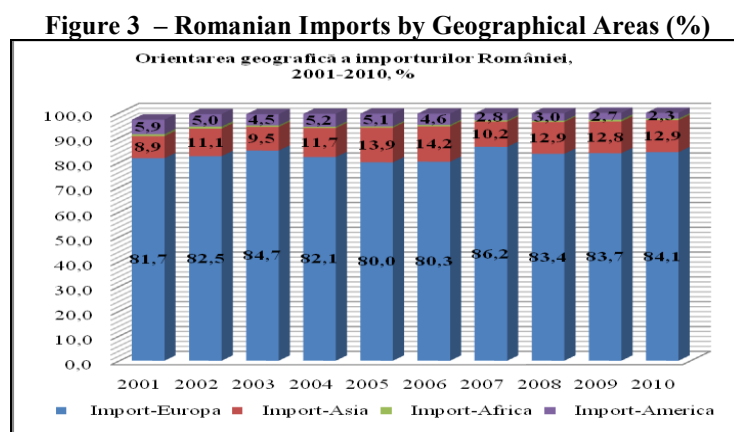
Major structural changes in the pattern of imports in 2010 as compared to 2009 are:

- (i) decrease by 1.09 percentage points in the share of the section chemicals and by 0, 54 p.p. in the share of section textile materials and articles thereof;

(ii) the increase in share of the sections – electrical machinery and equipment, sound recorders and reproducers, television image and sound (by 1.45 p.p.) and metal products (by 1.13 p.p.), plastics, rubber and products (by 1.07 p.p.).

Geographical Orientation of the Romanian Foreign Trade

Areas of origin of Romanian imports in 2001 were represented in a proportion of 81.7% by Europe, 8.9% by Asia, 5.9% by America and only 0.8% by Africa. In 2010, imports from Europe showed growth by 2.4 percentage points, those from Asia increased by 4 percentage points, while those from America fell by 0.6 percentage points (Figure 3).

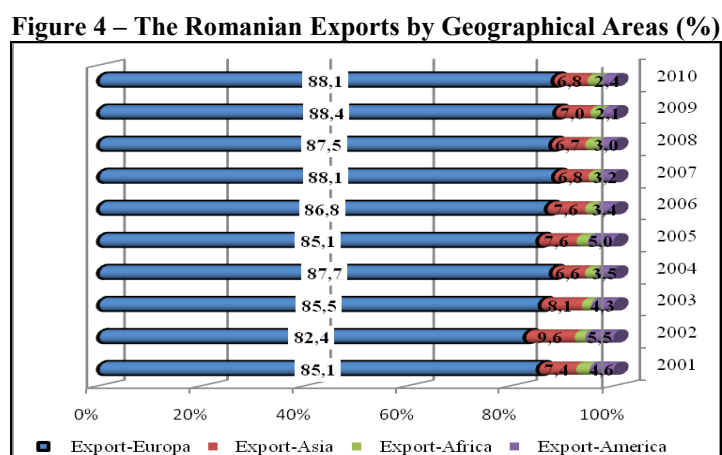


Source: Own computations, on the basis of data from *Romanian Statistical Yearbook*, 2011, NIS.

In terms of export destination countries of Romania and of the countries from which most frequently large quantities of goods are imported, one may find maintaining as the main partner countries the following: Italy, Germany, France, Turkey, United Kingdom, Netherlands, the USA, Hungary, Austria, Greece, Russian Federation, and China.

As geographical orientation of exports in 2010, the main destination remained the EU Member States, which amounted to 72.1% of the export value, by 2.2 percentage points less than in 2009. At the same time, the main area of origin of imports were also the European Union member states, with 72.5% a share of total imports, less by 0.6 p.p. as compared to 2009.

In 2001 (Figure 4) 85.1% of exports had Europe as destination, 7.4% Asia, 4.6% America and 2.6% Asia. Over the ten analyzed years, the share of exports towards Europe increased by three percentage points, as the exports towards the other world geographical areas declined.



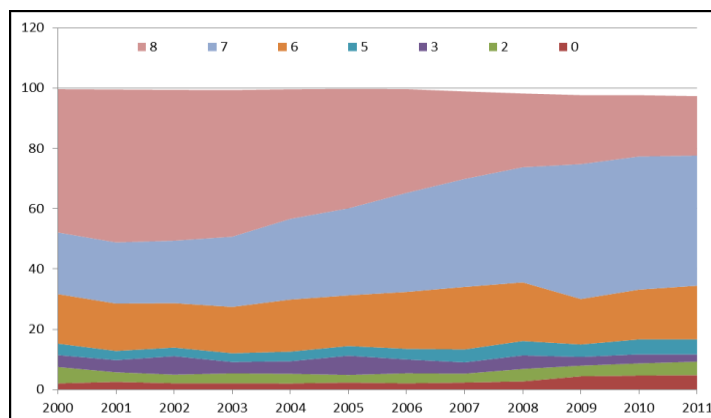
Source: Own computations, on the basis of data from *Romanian Statistical Yearbook*, 2011, NIS.

Romanian Foreign Trade with the EU

An analysis of the period 2000-2011 highlights the growing trend of Romanian exports to the EU, more pronounced after 2003. Compared with 2000, Romania's total exports to the EU were by 2.3 times higher in 2010 and by 3 times in 2011.

The year 2003 was a turning point in the structural evolution of Romanian exports to intra-Community market, due to the trend towards increasing the share of group 7 - *Machinery and equipment, including for transport* (with a rebound in 2010 and 2011). Also, there is reduction in shares of group 8 – *Manufactured products* (since 2005) and group 3 - *Mineral fuels, lubricants and related materials* (after 2005). Since 2007, in the post-accession period significant increases in the shares of agricultural and food products in group 0 - *Food and live animals* were registered.

Figure 5 – Shares of Main Groups of Products in the Romanian Exports to the EU (%)



Source: Authors' computations on the basis of Eurostat data, 2011.

Note: Group 0 – *Food products and live animals*; group 2- *Raw materials, unedible, except for fuels*; group 3 – *Mineral fuels, lubricants and related materials*; group 5 – *Chemical products and related*; group 6 – *Manufactured products, mainly classified by raw material*; group 7 – *Machinery and equipment, including for transport*; group 8 – *Manufactured products*.

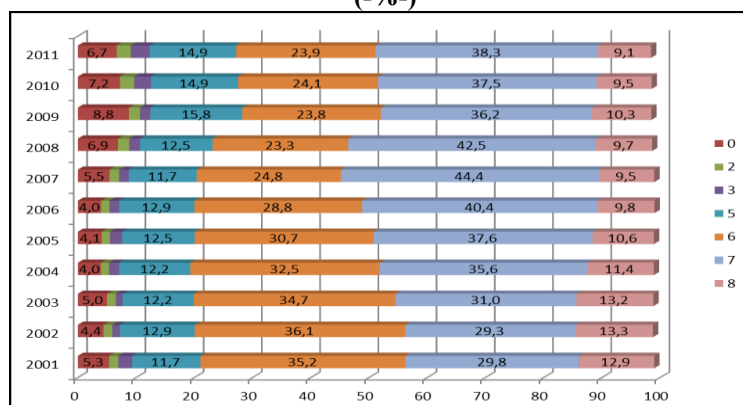
Evolution of Romanian exports to the common market was influenced by the global economic crisis started in 2007 but strongly felt in Europe since 2008, whose effects were found in 2009 in reduced import demand and orders of Romania's EU partners. To the effects of economic crisis, from 2011 onwards those of the euro zone crisis were added. In such a context, still existed product groups which have achieved export performance: agricultural and food products and machinery and equipment.

- ✓ During 2000-2011, all product groups – with little, but important exceptions - have seen significant increases in the level of exports, especially since 2003, which is why it can be considered a turning point in the evolution of Romanian exports towards the EU, marked by changing the structure of Romanian exports towards the common market: advance of products with a higher level of technological development (group 7) and decline of products with low added value, labor intensive (OPT, lacking creativity).
- ✓ Immediately after EU accession an increase in Romanian exports of agricultural products and foodstuffs towards the common market was noted.
- ✓ Developments in the world economy, in general, and in the European one, especially after 2010, have already induced further changes in the evolution and structure of our country's exports to the EU to adapt them to the Community's trading partners requirements.
- ✓ Developments in 2011, amid the euro zone crisis, may lead, in our opinion, to a new turning point in the evolution of Romanian exports to the EU.

Romania's total imports from the EU in the period 2000-2011 showed annual increases greater than exports until 2008, followed by a significant decline in 2009 (by 28.6%), and increases in imports in 2010 (by 19.4%) and 2011 (by 17.2%). This development is the result of adjustments induced by the economic crisis also to the Romanian economy, by reducing both domestic and foreign demand.

In the analysis of the period 2000-2011, the same trend of acceleration of import growth after 2003 and, especially since 2007 may be noticed (especially in the case of groups 7 - *Machinery and equipment, including for transport*, 0 - *Food products and live animals*, 1 - *Beverages and tobacco* and 4 - *Animal and vegetable oils, fats and waxes*) amid growth during the pre-and post-accession periods, followed by rebound in 2009 and a significant recovery in 2011.

Figure 6 – Shares of Main Groups of Products in the Romanian Imports from the EU (-%)-



Note: Group 0 – Food products and live animals; group 2- Raw materials, unedible, except for fuels; group 3 – Mineral fuels, lubricants and related materials; group 5 – Chemical products and related; group 6 – Manufactured products, mainly classified by raw material; group 7 – Machinery and equipment, including for transport; group 8 – Manufactured products.

Source: Authors' computations on the basis of Eurostat data, 2011.

- ✓ As regards the structure of imports, 2004 marks a larger leap in the share of group 7 - Machinery and equipment, including for transport, which, nevertheless, show a significant decrease in 2009-2011, while 2007 marks a jump in the share group 0 - Food products and live animals.
- ✓ The evolution of Romanian imports from the EU market was significantly affected, especially in 2009 and 2010 (on the background of lower domestic demand of businesses and households) by the global financial and economic crisis started in 2007 and felt on the European continent in 2008;
- ✓ With the exception of food and agricultural products, the other product groups recorded increases in the volume of imports in 2010; in 2011, all groups have registered increases, although some had diverging developments;
- ✓ As compared to the evolution of exports, the Romanian imports from the EU recorded several inflection points overall and in the main product groups (2004, 2006-2007 and 2009-2010), indicating their greater sensitivity to domestic and external demand conditions;
- ✓ As with exports, the main recorded change was the marked advance of products with more advanced level of technological development, such as machinery and equipment, and the decline of processed products. Also, in the immediate pre-and post-accession periods the advance of imports of agricultural products and foodstuffs from the common market was highlighted. Amid internal and external developments, points (or periods) of inflection are also expected in the period after 2011.

The Trade Balance with the EU

Romania's trade balance with the EU and most countries in this region was negative, similar to other new Member States, which generally import more from than export to the EU. Years 2009-2011 marked a sharp drop and a relative stabilization of the trade deficit with the EU, due to significant reduction in exports, but especially in imports, and to the adjustments induced by the crisis after 2008 (marked by the phase of euro area crisis).

Among the pressure factors on the trade balance may be outlined:

- Domestic production and technological structures dependence on energy and raw materials imports;
- Relatively slow pace of restructuring and privatization of the economy and industry;
- Negative impact of domestic and international currency market developments (especially in recent years), which have "favored" increased imports and erosion of export competitiveness.

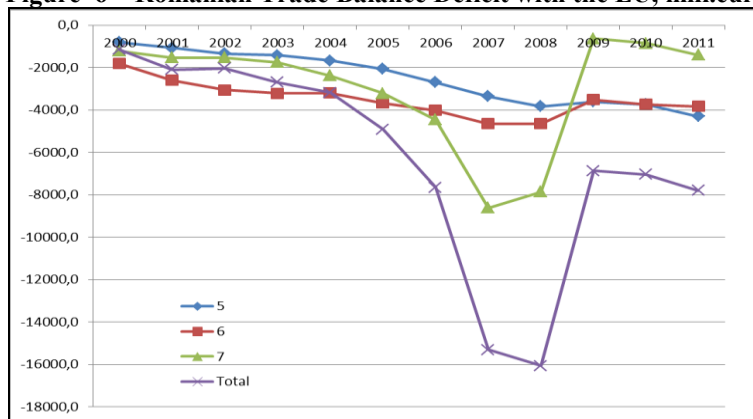
The **trade deficit** is mainly the result of large deficits recorded in three groups of products:

7 - Machinery and equipment, including for transport (-8611.7 mill. euro in 2008, but followed by a decrease to only 629 million euro in 2009 and an increase to 1,405.6 million euro in 2011);

6 - Manufactured products, mainly classified by raw material (-4,651 million in 2007 and 2008, followed by a much smaller amount in 2009-2011) and

5 - Chemicals and related (with a constant increase in the period under review, reaching -4,303.7 million euro in 2011).

Figure 6 – Romanian Trade Balance Deficit with the EU, mill.euro



Note: Group 5 – Chemicals and related; group 6 – Manufactured products, mainly classified by raw material; group 7 – Machinery and equipment, including for transport

Source: Authors' computations on the basis of Eurostat data, 2011.

Overall, the crisis after 2008 was, paradoxically, a good times to reduce overall trade deficit, but the delay of measures and actions aimed at improving the real competitiveness of the Romanian economy in the EU and the building and strengthening of overall competitive position cannot but only revive and aggravate again the trade imbalance, towards hardly sustainable levels.

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