

## THE DANGER OF “PUTTING ALL THE EGGS IN ONE BASKET” SOME CONCERNS REGARDING ROMANIA’S EXTERNAL TRADE

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*Trade patterns across the globe vary in certain ways. For the EU27, the analyzed data suggests that approximately 70% of all Romania’s imports, and the same amount of its exports, are intra-community oriented. The question that arises is what will happen to te Romania’s external trade, if a crisis hits Europe? If countries like Germany, France, Italy, and United Kingdom are hit the hardest in this hypothetical European crisis, Romania will soon follow them. In order to decrease the impact of such possibility, it is necessary to tap new trade opportunities. For this purpose, first we have to analyze the present situation. Based on Eurostat, World Trade Organization, and the Romanian Statistics Institute data from 1999 to 2009, and on the works about trade creation (Balassa 1965, Jovanovic 2005, Molle 2006), the paper wants to point out the aspects of trade concentration in certain regions after the establishment of free trade agreements, and the danger posed by financial crises. This paper analyzes first the situation in the EU27, scanning each member state in order to see the degree of trade relations intra / extra – EU. The data will be than compared to another set of analyzes of other four important regions, the Andean Community, ASEAN, MERCOSUR, and NAFTA, whose free trade agreements could support such of comparison with the EU trade relations. The paper follows the assumption that EU27 has the most integrated trade relations among all the analyzed regions. Based on this assumption and on statistical data that points out the percentage change of total imports and exports in the Romanian GDP, some conclusions will be drown out in order to establish some necessary measures to prevent a future crisis, measures that involve the political class, tapping new trade opportunities such as Latin American countries, Middle Eastern countries, and South-East Asia, but not forgetting Russia, Romania’s former main export partner, establishing clear objectives to future embassy personnel, and a more aggressive advertising campaign in the selected target markets conducted by national agencies.*

*Key words: free trade agreements, custom union, Romania’s trade relations, imports, exports.*

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### **Introduction**

Everybody wins from external trade. This phrase is used almost in every book that you read on this subject. It doesn’t matter that you are a producer, a consumer, a retailer, a distributor, or an economic agent part of the logistic chain, everybody takes a piece of the pie, and they are happy about. People have started trading because not all the goods and services are produced inside a country, because that country is not endowed with the necessary resources (natural, technological, human and capital resources), or just because the purchasing costs are cheaper. That’s why people started focusing on barter as the main process, ending up paying money on what they want to buy. For example, if you are a Romanian consumer that wants an iPod, you need to import it because this device is designed and produced outside the Romanian custom territory.

This relationship between supply and demand has been the cornerstone of modern capitalism and free markets, where clients demand newer, cheaper, enhanced, greener products every time, and producers trying to keep up with them. If you look this thing from the supply side point of view, you will be confronted with two scenarios. In the first situation, you can be a big multinational corporation, having production facilities all over the world, supplying the international markets

from multiple locations. In the second situation, you are a small company, with no production facilities abroad, trying to export your products. If you sell them to another company, you need to search the international markets for someone whose needs match your offer. After negotiations, you will start doing business with that company because the price is right. After a while, you get acquainted, starting an interpersonal relationship, ending up putting the bricks to a solid foundation. In the end, almost all of your production is sold to your partner, and everything goes smooth. But what happens to you, and your business, when your partner starts facing some setbacks?

### **Trade situation in the EU and across the Atlantic**

The answer lies in the analysis of trade patterns across the globe. Based on Eurostat and World Trade Organization data from 1999 to 2009, and on the works about trade creation (Balassa 1965, Jovanovic 2005, Molle 2006), the paper wants to point out the aspects of trade concentration in certain regions after the establishment of free trade agreements, and the danger posed by financial crises.

The main purpose of a free trade agreement is to encourage trade creation among the states that signed it. For the EU27 as a trade union, and for the other four free trade agreements, based on Eurostat and World Trade Organization data, the figures bellow presents the current state of external trade among regions and countries.

For the EU27, data analyzed (Table 1: Share of the Intra-EU27 trade, and the situation of the Trade Balance) suggests that approximately 70% of all imports, and the same amount for exports, are directed to other member states.

With the exception of the Netherlands (where the average sum shows that less than 50% of its imports come from the EU27, but more than 80% of its exports go to the EU27), and Malta (where the average sum shows that less than 45% of its exports go to the EU27, but more than 70% of its exports go to the EU27), the rest of the 25 member states register high figures both on the import side and on the export side.

Cyprus registers the biggest increase in its trade with EU27, with its figures jumping from 60% in 1999 to almost 70% in 2009.

Although the financial crisis affected trade relations, the figures presented show that in 2009, almost every state kept its share of trade with the EU27.

If we take a closer look at the situation of the external trade balance situation, out of the 27 countries, only 7 register a trade balance surplus with the EU27, the Netherlands, Germany and Belgium having the highest figures.

On the trade balance deficit side, out of the 20 member states, the United Kingdom, France, Spain, Greece, Portugal and Romania register the worse deficits with the EU27 member states. What is more curious is that France and Portugal do not register corrections amid the financial crisis, having their trade deficits increased between 2007 and 2009.

The worse correction was suffered by Spain, its trade balance deficit reducing by almost 60%. Romania and the United Kingdom follow the same correction, the first having its trade balance deficit reduced by 55%, and the second with 30%.

The curious evolution is represented by Poland, reducing its trade balance deficit year after year, ending 2009 with a surplus of 609 million euro's.

From all of this, the Czech Republic and Slovakia win the most, registering trade surpluses in all the years analyzed, having their trade balanced increased exponentially between 2005 to 2007, and keeping this phase through 2009.

**Table 1: Share of the Intra-EU27 trade, and the situation of the Trade Balance.**

	1999		2001		2003		2005		2007		2009	
	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp
Belgium	72%	79%	72%	78%	74%	77%	72%	77%	71%	76%	71%	76%
	20491		22046		21581		21539		27345		21915	
Bulgaria	55%	57%	57%	61%	58%	63%	63%	60%	58%	61%	60%	64%
	-686		-1172		-1336		-2284		-4559		-2497	
Czech Republic	77%	87%	75%	86%	71%	87%	81%	86%	80%	85%	78%	85%
	1359		1959		4930		3635		7164		9854	
Denmark	74%	71%	73%	70%	73%	70%	71%	71%	73%	70%	70%	67%
	1884		3336		4058		5227		562		3881	
Germany	66%	65%	65%	64%	66%	65%	64%	64%	65%	65%	65%	63%
	40307		55547		77798		98947		126577		70543	
Estonia	73%	86%	66%	81%	65%	82%	76%	78%	79%	70%	80%	69%
	-445		-178		-414		-1432		-3352		-1332	
Ireland	63%	67%	67%	64%	63%	62%	67%	64%	70%	63%	66%	61%
	17384		21605		21257		19478		13479		21329	
Greece	70%	66%	64%	64%	58%	65%	58%	62%	58%	65%	64%	63%
	-13147		-15478		-15385		-16898		-20996		-18566	
Spain	70%	74%	69%	74%	69%	75%	64%	72%	63%	71%	61%	69%
	-16695		-21691		-23964		-36897		-48212		-18991	
France	69%	65%	68%	64%	70%	67%	68%	63%	70%	66%	69%	62%
	-3905		-15951		-16550		-37211		-52381		-61690	
Italy	66%	64%	62%	61%	63%	62%	59%	61%	58%	61%	57%	57%
	5351		3366		-1473		-186		6720		-2295	
Cyprus	59%	58%	59%	55%	60%	61%	69%	73%	69%	72%	72%	67%
	-1421		-1936		-1898		-2649		-3600		-3451	
Latvia	76%	78%	76%	79%	76%	79%	75%	77%	77%	72%	75%	68%
	-845		-1222		-1465		-2087		-4263		-1567	
Lithuania	60%	74%	55%	73%	56%	63%	59%	66%	68%	65%	59%	64%
	-715		-198		-914		-1203		-4073		-170	
Luxembourg	82%	88%	81%	88%	77%	89%	73%	90%	74%	89%	72%	87%
	-1923		-1588		-567		749		-335		489	
Hungary	72%	84%	66%	84%	64%	84%	70%	81%	69%	79%	69%	79%
	987		3719		4808		3537		6517		8784	
Malta	66%	49%	65%	53%	68%	49%	76%	52%	74%	49%	69%	42%
	-853		-760		-974		-1261		-1455		-1142	
Netherlands	57%	82%	54%	81%	55%	80%	49%	80%	50%	78%	49%	77%
	57340		84508		81934		116108		133624		120390	
Austria	82%	76%	81%	75%	82%	75%	80%	72%	79%	73%	78%	72%
	-7726		-7956		-7310		-10092		-7709		-9338	
Poland	72%	82%	70%	81%	70%	82%	75%	79%	73%	79%	72%	79%
	-10121		-6413		-3077		-5019		-7953		696	
Portugal	79%	84%	77%	81%	79%	81%	77%	80%	75%	77%	78%	75%
	-10195		-11955		-10386		-13130		-14196		-15801	
Romania	69%	73%	67%	75%	68%	75%	63%	70%	71%	72%	73%	74%
	-918		-2093		-2700		-4915		-15314		-6881	
Slovenia	77%	74%	77%	71%	77%	68%	79%	68%	74%	69%	71%	69%
	-1417		-1459		-1670		-2434		-1756		-478	
Slovakia	75%	89%	72%	91%	74%	86%	78%	87%	75%	87%	75%	86%
	657		872		1757		678		4056		4820	
Finland	69%	65%	69%	61%	68%	60%	67%	57%	64%	57%	65%	56%
	5080		3941		2646		-1600		-855		-3308	
Sweden	71%	63%	70%	59%	72%	59%	70%	59%	71%	61%	68%	58%

	1999		2001		2003		2005		2007		2009	
	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp
	4044		410		-134		-1063		-4105		-3491	
United Kingdom	55%	61%	54%	60%	57%	59%	56%	57%	55%	58%	53%	55%
	-11896		-23380		-40185		-55212		-62459		-43704	

Source: Own computations based on Eurostat data for the EU27 member states.

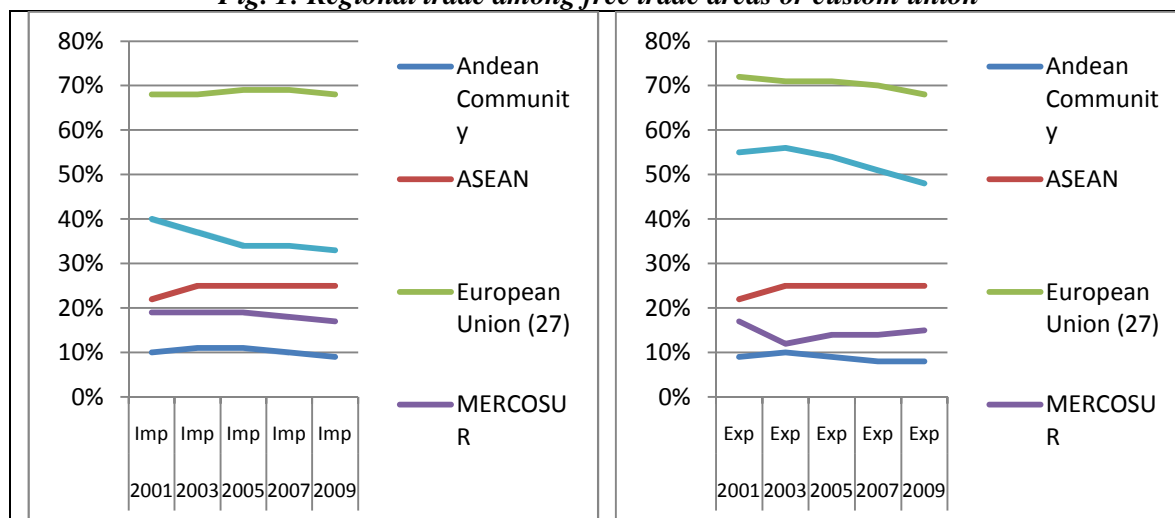
On the other side of the Atlantic, the situation is a little different. Having picked the regions for analysis, with:

- Andean Community (Bolivia, Colombia, Ecuador, Peru)
- ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.)
- EU 27 (countries stated above)
- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay, Venezuela)
- NAFTA (United States, Canada, Mexico)

The results showed below (Fig. 1: Regional trade among free trade areas or custom union), illustrate that on the import side, the EU27 has the most integrated commerce of all the analyzed regions, with imports holding steady around 70%. The closest regional trade community is NAFTA, which registers a decline on its imports in the analyzed period, decreasing from almost 40% to 33%. ASEAN countries register a steady evolution, their imports increasing from 23% to 27% and holding steady. The imports in MERCOSUR suffer a slight decrease, amid the financial crisis, from almost 20% to a figure close to 17%. And last but not least, the Andean Community which registers steady figures near 10%.

On the export side, the situation with EU27 remains almost the same, decreasing from 2007 to 2009. In the NAFTA region the figures are more interesting, observing a steep decrease of exports between the three countries starting in 2003, decreasing from 56% to 48%, a decrease of almost 15%. ASEAN registers the same evolution on the export side, meaning a steady increase from 23% to 27% and holding steady. The fluctuations inside MERCOSUR on the other hand, point out a decrease from 2001 to 2003, and after that, just a mild recovery. Again the last but not least, the Andean Community is closed to the 10% line, having slight fluctuations in the analyzed period.

**Fig. 1: Regional trade among free trade areas or custom union**



Source: Own computations based on Eurostat and World Trade Organization data.

### **The regional crisis hypothesis and its impact on Romania's trade**

We are familiar with a crisis situation from time to time. An old saying tells us to learn from our mistakes so that we won't repeat them but somehow, we manage to forget this wisdom. The current financial crisis that began in late 2007, was so intense, that surpassed the previous regional ones (The "Tequila crisis" 1994, the Asian Crisis 1997, the Russian Crisis 1998, and the Argentinean Crisis 1999-2002).

Because of its intensity, almost every corner of the globe was caught in this whirlpool. Consumption dropped dramatically, unemployment phenomenon and the bankruptcy cases soured, lending money became scarce, and investments stalled. Because of all this, inevitably, trade was affected.

Assuming now that there is only a regional crisis, like those mentioned before, the question is what happens to the Romanian trade, if a crisis situation hits Europe. As we saw above, almost 70% of our trade relations are with the EU member states. If countries like Germany, France, Italy and United Kingdom are hit the hardest in this hypothetical European crisis, Romania will soon follow them.

Trying to see what happened in the current financial crisis, and trying to cope the numbers with a future European crisis, we take a closer look at Table 2. If we watch closely, the steepest decline was in the import section. Because many Romanians were relying on cheap credit to finance their consumption and because in 2008, all the banks stopped lending money, we can see what happened (a sharp decline of imports).

On the export side, although it surged from 24% to 25% in nominal terms, in real terms, it didn't. In 2009, the Romanian GDP decreased with almost 8%, meaning that the same amount of exports of 2008, were now divided to a smaller GDP. That means, the West stopped making new orders, the industrial production declined, and so did our exports.

**Table 2: Share of Exports and Imports in the Romanian GDP between 2000 - 2009**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
%X/GDP	28	28,4	30,3	30,8	31,2	28	26,4	23,9	23,7	25
%IM/GDP	32,5	35,7	36	38,6	39,9	37,8	38,5	38,3	37,5	30,2

Source: own computations regarding the percentage of imports and exports in total GDP, based on data provided by INS (*National Institute of Statistics of Romania*)

### **Conclusions**

Trade relations among EU27 member states represent more than 70% of their total trade. It is a high figure that can have severe consequences if a regional crisis hits the region. In order to reduce this possibility, it is necessary to tap new trade opportunities.

The data analyzed points out that the Andean Community, ASEAN and MERCOSUR have the least integrated trade relations, while NAFTA and EU27 present a different situation. If a crisis hits the first three regions, it is possible to avoid a steep decline in trade relations, because the main trade partners are not there.

Highlighting the Romanian situation, it is known that its products are not as competitive as the products of our EU15 Member States. Because of this, we should rethink our strategy and try to encourage the following strategies:

- benefiting from all trade agreements signed by the EU, we should try to divert a part of our exports to Latin American countries, Middle Eastern countries, and South-East Asia, where the Romanian products are more competitive.
- the state department agencies should work together in order to promote more aggressively the Romanian products and services on the international arena, especially towards the selected target markets, through international fairs, bilateral economic forums.
- making international political visits that involve the participation of high ranking political figures accompanied by important business people, in order to establish future commercial contracts and develop trade relations

- all our ambassadors and economic attachés should review their work by including some clear objectives regarding a certain number of export contracts, a quantum sum that needs to be achieved, and what measures need to be taken in order to have a good information flow between them and the national business associations.

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