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Iordache, Emilia and Voiculescu, Alina Vasilica

“Constantin Brancoveanu” University of Pitesti, The Faculty
of Management Marketing in Economic Affairs, Ramnicu
Valcea

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ROMANIA'S COMPETITIVE ADVANTAGE WITHIN THE EUROPEAN UNION AREA

Emilia Iordache
Alina Vasilica Voiculescu
"Constantin Brâncoveanu" University of Pitești
The Faculty of Management Marketing in Economic Affairs, Ramnicu Vâlcea
39, Nicolae Balcescu, Ramnicu Valcea
Romania
ucb_vl@yahoo.com

ABSTRACT

The central idea of the paper emphasizes Romania's competitive advantages in the EU and there are two analysis levels herein: the correct identification of Romania's competitive advantages and the opportunities to value them.

The paper aims at achieving a competitiveness analysis of the Romanian economy during 2006-2009.

The Romanian economy's integration within the European Union does not only mean a mere inclusion or accession into/to the Community, but it also represents the belonging to a strongly competitive area. Since the Union has mainly aimed at becoming the most competitive economy at world level, Romania has to face a double challenge: redefining its competitiveness and reducing the current gaps between its economy and the average level of the main EU social and economic indices. Redefining competitiveness is actually redefining competitiveness determiners.

Reaching the convergence goal is based on the Romanian economy's sustainable competitive advantages. The essential concern is their proper identification, as they are the result of a strategic vision.

Taking account of these principles, Romania's EU accession is acquiring new traits. Is there a competitiveness gain or is there a certain loss right from the moment of the accession?

JEL CLASSIFICATION: F15

KEY WORDS

competitive advantages, export performance, competitiveness analysis

1. Introduction

In the context of redefining the EU competitiveness, international trade is a key part of this. EU trade in goods and services accounts for 15% of its GDP and the share of industrial export in industrial added value is more than twice as high this figure. The EU is first exporter of goods and services and the first investor abroad; in this context,

the external dimension of competitiveness cannot be ignored. EU global competitiveness is the assembly of national competitiveness in certain sectors. Governmental policies' role is important as it may lead to significant disturbances in the competitiveness mechanism. As for Romania, the export strategy establishment and implementation may have an essential contribution in defining national competitiveness in a positive or negative way, thus influencing reaching the economic convergence objective in the EU. Thus, the paper is structured on the following parts: presenting the theoretical principles of the national competitive advantage, the EU competitiveness analysis by means of the trade inside and outside Europe, presenting the essential elements comprised in Romania's export strategy for 2006-2009. After presenting these elements, the conclusions aim at the efficiency of that export strategy, underlying the role it has in defining national competitiveness.

2. Body of Paper

"National prosperity is created, not inherited."

Nations' Competitive Advantage – Theoretical Principles

The Diamond model of Michael Porter for the Competitive Advantage of Nations offers a model that can help understand the competitive position of a nation in global competition. This model can also be used for other major geographic regions.

Traditionally, economic theory mentions the following factors for *comparative advantage* for regions or countries: land, location, natural resources (minerals, energy), labor and local population size.

Because these factor endowments can hardly be influenced, this fits in a rather passive (inherited) view towards national economic opportunity.

Porter says sustained industrial growth has hardly ever been built on above mentioned basic inherited factors. Abundance of such factors may actually undermine

competitive advantage! He introduced a concept of "clusters," or groups of interconnected firms, suppliers, related industries, and institutions that arise in particular locations.

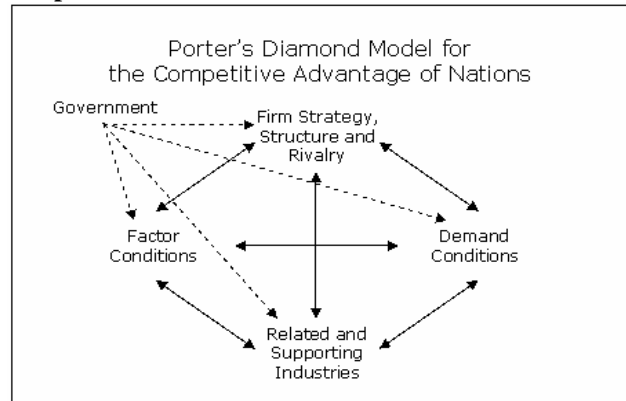
As a rule *Competitive Advantage* of nations has been the outcome of 4 interlinked advanced factors and activities in and between companies in these clusters. These can be influenced in a pro-active way by government.

These interlinked advanced factors for Competitive Advantage for countries or regions in Porters Diamond framework are:

1. Firm Strategy, Structure and Rivalry (The world is dominated by dynamic conditions, and it is direct competition that impels firms to work for increases in productivity and innovation)
2. Demand Conditions (The more demanding the customers in an economy, the greater the pressure facing firms to constantly improve their competitiveness via innovative products, through high quality, etc)
3. Related Supporting Industries (Spatial proximity of upstream or downstream industries facilitates the exchange of information and promotes a continuous exchange of ideas and innovations)
4. Factor Conditions - contrary to conventional wisdom, Porter argues that the "key" factors of production (or specialized factors) are created, not inherited. Specialized factors of production are skilled labor, capital and infrastructure. "Non-key" factors or general use factors, such as unskilled labor and raw materials, can be obtained by any company and, hence, do not generate sustained competitive advantage. However, specialized factors involve heavy, sustained investment. They are more difficult to duplicate. This leads to a competitive advantage, because if other firms cannot easily duplicate these factors, they are valuable.

The role of government in Porter's Diamond Model is "acting as a catalyst and challenger; it is to encourage - or even push - companies to raise their aspirations and move to higher levels of competitive performance ...". They must encourage companies to raise their performance, stimulate early demand for advanced products, focus on specialized factor creation and to stimulate local rivalry by limiting direct cooperation and enforcing anti-trust regulations.

Graph 1 Porter's Diamond Model



Source: Porter, M., *The Competitive Advantage of Nations*, The Free Press, New York, 1990, p.72

Porter introduced this model in his book: *The Competitive Advantage of Nations*, after having done research in ten leading trading nations. The book was the first theory of competitiveness based on the causes of the productivity with which companies compete instead of traditional comparative advantages such as natural resources and pools of labor. This book is considered required reading for government economic strategists and is also highly recommended for corporate strategist taking an interest in the macro-economic environment of corporations.

Successful national export strategies are based on identifying a country's competitive advantage and understanding how to make the most of it.

Developing and transition economies, almost by definition, face severe resource constraints when organizing trade development and export promotion.

The best way to ensure effective resource allocation within the national trade support network is through a national export strategy.

A strategy which realistically assesses the national capacity to export, the level of demand in the international marketplace and the resources needed to consolidate the fit between the two is critical to sustained improvement in national export performance.

'Managing Competitive Advantage' means gathering the ideas into a single best practice model which would highlight the value of a national export strategy to the ultimate objective of achieving international competitiveness.

One can assess appraised national export strategy and related management approaches from the perspectives of creating value, capturing value, adding value, projecting value and confirming value.

Competitiveness strategies can be explored through five sub-themes emphasizing value:

- *Creating value: moving from comparative to competitive advantage* reviewed the implications for the public-private sector partnership of maintaining a dynamic strategy which increasingly emphasizes specialization and technology — and innovation-based competitiveness.

- *Capturing value: a value chain approach to national export strategy development* looked at this new concept as a tool for developing sector-specific export strategies that

both increase competitiveness and 'value-retention' from exports while maximizing the contribution of improved export performance to overall economic development. The analysis focuses on the importance to sectoral strategy of identifying and meeting 'critical success factors', of positioning national supply capability within the context of the international value chain, and of focusing the national trade support network on those linkages within the national value chain that dictate the sector's efficiency.

- *Adding value: building value-addition alliances* - for many developing countries, the route to increased export capacity and value addition lies in building alliances among local firms rather than actively promoting foreign direct investment. The potential contribution to competitiveness of industrial clusters, backward-forward linkages between local producers and agricultural production partnerships were reviewed, together with recommended approaches to facilitating such in-country alliances through a national export strategy.

- *Projecting value: is there a case for national branding* considered the relevance of image to national competitiveness. This stage involves the identification of the features that distinguish their country (and export) capacity from those of competing nations and to assess the suitability of investing in a national branding programme. A best practice road map for national branding was developed.

- *Confirming value: export strategy performance measurement* concentrated on the importance to strategy-makers of monitoring and evaluating strategy, particularly with respect to its impact on competitiveness.

A business environment that fosters national competitiveness pays dividends across the board. Whatever its stage of development, export strategies that support innovation and use of technology will help a country move forward.

Recent studies of national competitiveness have two messages for strategy-makers:

- Competitive advantage can be created or, at the very least, raised significantly.

- The improvement of competitiveness within an economy should be a key element of national export strategy.

This means strategic initiatives should address competitiveness issues not only at the level of the individual product and service sector but at the national level as well.

Why national rather than simply sectoral? First, what makes a nation more competitive on the international scene are factors that are cross-sectoral rather than simply industry-specific. Second, the measures needed to increase competitiveness will vary with the stage of a country's economic development and the opportunities for exporters.

Competitiveness 'diamond'

In looking at national competitiveness, Porter defined the competitive advantage of a nation as its capacity to entice firms (both local and foreign) to use the country as a platform from which to conduct business. He introduced

what has become known as the 'diamond of national competitiveness' with four 'facets' determining the competitive strengths and weaknesses of countries and their major sectors.

They are:

- the existence of resources (e.g. human resources and research and information infrastructures);

- a business environment that invests in innovation;

- a demanding local market; and

- the presence of supporting industries.

In many developing countries, resources may be the only part of the 'diamond' where strategy-makers see an opportunity to raise competitiveness, and thereby improve performance, in the short term. This should not deter the strategy-maker from taking action in a concerted manner to improve the overall business environment.

Different challenges at different stages

There are three broad stages of economic development.

The national competitiveness strategy should have a different orientation at each stage.

Resource-driven stage

At the most basic level of economic development, competitive advantage is determined by resources, such as low-cost labour and access to natural resources.

Many developing countries, and most least developed countries, are mired in this stage. The export mix is extremely narrow and typically limited to low value-added products. Dependence on international business intermediaries is high, and margins are low and susceptible to swings in prices and terms of trade. Technology is assimilated through imports, imitation and foreign direct investment (FDI).

In this stage, strategy-makers should design strategies to attract capital investment and to invest the proceeds of economic growth into the wider determinants of national competitiveness, specifically health, education and infrastructure.

Investment-driven stage

One level up is the investment-driven stage, where countries begin to develop competitive advantage by improving their efficiencies and developing increasingly sophisticated products. Improvements are made to imported technologies; there is extensive joint venturing and heavy investment in trade-related infrastructure (roads, telecommunications and ports).

The focus of the national export strategy at this second stage should be on further improving the business environment through revisions in regulatory arrangements (customs, taxation and company law). Strategy should assist prospective exporting firms to extend their capabilities within the international value chain. As production shifts from commodities towards manufacturing, sector-level strategy should seek to support greater value-addition nationally within the value chain. While promotion of FDI should, of course, continue to be a strategic priority, strategy-makers should focus increasingly on encouraging in-country business alliances.

Innovation-driven stage

At the final stage in the competitiveness process, the innovation-driven stage, the country's competitive advantage lies in its ability to innovate and produce products and services at the frontier of global technology. Strategy should focus on technological diffusion and on establishing an increasingly efficient national environment for innovation. The emphasis should be on supporting institutions and extending incentives that reinforce innovation within the business sector. Companies should be encouraged to compete on the basis of unique strategies. The development of service export capacities should be a priority objective.

However, strategy-makers should not take progress from one stage to the next for granted. The transition through the different stages is not necessarily linear or gradual. Nor does it happen automatically.

No matter at which stage of development a country is situated, sustained improvement in export performance depends on technology and innovation.

Looking at technical/innovation aspects such as product engineering, quality management, linkages, investment in human capital and information-seeking, one may reach the conclusion that these have a positive and statistically significant effect on the export performance of individual firms. It is recommended that strategy-makers promote technology diffusion and innovation through:

- a national partnership involving complementary actions by the government and the private sector;
- a 'liberalization-plus' approach involving a mixture of incentive and supply-side policy measures; and
- where appropriate on economic grounds, policies to promote the competitiveness of particular industrial clusters.

What this context can assert is that specialization matters. Countries need to focus on sectors with high value-added growth potential. Hence, creating competitive advantage in growth sectors should be one of the overriding concerns not only of companies but also of governments. It requires a strong public-private partnership.

Strategies should focus on cross-cutting or 'horizontal' initiatives in areas such as trade finance, customs, logistics and information technology infrastructure. But the specific requirements of key growth sectors, client priorities (e.g. small and medium-sized enterprises and foreign direct investors) and target markets should determine the priorities among these initiatives.

Value Chain Analysis: A Strategy to Increase Export Earnings

An innovative, sector-based approach to competitiveness focuses on getting more value from goods and services produced for export. Value chain analysis can help developing countries make the most of their exports.

From the perspective of exporters, a national export strategy may seem irrelevant. How, concretely, will a national strategy help the firm grow its business? The most likely area of interest for exporters will be in national programmes that help the sector in which they perform.

Strategy-makers must respond to this 'sector-centric' preoccupation, for two reasons. First, exporters need to 'buy in' if the strategy is to be successful. Second, without a sector-specific orientation, the strategy won't address key competitiveness issues that ultimately dictate national export performance.

Sector-level strategy means more than identifying market opportunities and organizing related support programmes. 'Best practice' requires deeper analysis, and a wider audience than the exporter.

Value chain analysis is an innovative tool that developing countries should consider. The value chain approach analyses, at the sector level, each link in the 'chain of activity' — from the time when the product or service is only an idea to the time when it is disposed of after use. A value chain for any product or service extends from research and development, through raw materials supply and production, through delivery to international buyers, and beyond that to disposal and recycling. By 'mapping' this process from start to finish, strategy-makers can better determine where they can capture greater value within the *national* component of the *global* value chain.

Newcomers to value chain analysis should note that international buyers determine value. Quality, dependability, volume, traceability and speed of delivery are among the elements that buyers take into account. Buyers' requirements, together with market conditions — such as market access, standards and regulations, and consumer preferences — determine whether firms from a given country can compete effectively.

Thus, a successful sector-based strategy to capture more export earnings needs to reflect market conditions, buyers' requirements and the processes required to deliver a product to the market.

This rather obvious conclusion has a less than obvious implication. Designing sector-level strategy requires full participation of the private sector. Only the private sector has the breadth of market knowledge to construct a model of the sector's global value chain with sufficient detail for a sound analysis.

Lessons for strategy

What exporters should note about this and other value chain examples is:

- Production is only one of a number of value-adding links; import, supply, fiscal, transport and export policies and business support services must be aligned to support sector performance.
- Mapping the flow of inputs and outputs — goods and services — in the production chain allows each firm to determine who else's behaviour plays an important role in its success.
- Upgrading the performance of individual firms may have little impact if the 'bigger picture' is not taken into account through a strategy that facilitates performance for the entire sector.

Exporters can retain or capture more earnings through value chain analysis by evaluating performance gaps, noting where value could be added at each link in the chain, noting the needs for business support and

upgrading their activities. Firms can concentrate on one or more of the following:

- *Process*. Increase efficiency and effectiveness of internal processes so that these are significantly better than those of rivals, both within individual links in the chain (for example, increased inventory turns, lower scrap) and between the links in the chain (for example, quicker processing of trade documentation).

- *Product*. Introduce new products or improve old products more quickly than rivals. This involves changing new product development processes both within individual links in the value chain and in the relationship between different chain links.

- *Functional*. Increase value-added by changing the mix of activities conducted within the firm (for example, taking responsibility for, or outsourcing, logistics or design functions) or moving the locus of activities to different links in the value chain (for example, from manufacturing to design).

- *Chain*. Move to a new value chain (for example, Taiwanese firms switched from the manufacture of transistor radios to calculators, to televisions, to computer monitors, to laptops and now to wireless application protocol, or WAP, phones).

What is innovative about value chain research during the Executive Forum process of the past year is that it provides options for national strategy-makers, not just individual firms. (Most value chain research has focused on improving performance of the firm, rather than using it as a tool for trade development at the national level.) For those looking to boost export performance from a national perspective, the value chain provides an analytical framework with three strategic perspectives.

- *Increases efficiencies within the existing national component of the value chain*. Mapping the structure of a 'national value chain' and the value contributed by each link is the first step. Assessing performance and dynamics between linkages is the next step. Such an analysis helps the strategy-maker to determine what type of trade support services should be provided by which institution and where. A commitment to greater efficiency, using a public-private sector approach, could also attract more foreign buyers and investors interested in sourcing from

the country, thereby increasing the overall export performance of the sector.

- *Extends the national value chain*. A map of the global value chain will identify opportunities to capture greater value by extending the components of the chain undertaken by companies from a given country. For example, one could develop local suppliers who would eventually replace foreign suppliers for inputs required by the sector. Steps could be taken to create value-addition links, such as grading, product finishing or consumer packaging.

- *Builds new value chains*. A new value chain can be associated with an existing chain, thereby creating a new export opportunity. For example, in the freshwater fisheries sector in an African country, wastage from the fish processing 'link' in the national chain was turned into fertilizer exports — entering a completely different global value chain. From a single product, two sector-level value chains emerge, with each contributing to the national economy.

The value chain approach helps strategy-makers gain a better understanding of how sectors can contribute to national socioeconomic development by using exports as a tool for development. It gives an overview of how the sector is addressing the issues of employment creation, skills development, geographic diversification of industry and other development issues. This can feed into the strategy design process, helping the strategy team determine priorities, both in terms of action for the sector under review and for the sector's relevance to national export strategy.

By helping to explain the distribution of benefits, particularly income, to those participating in the global economy, value chain analysis makes it easier to identify the policies that can be implemented for individual producers and countries to increase their share of these gains.

Improving export competitiveness involves a strategy that gives incentives to the commercial context and national export competence. The strategy should focus on interdisciplinary matters, great importance being given to the key growth sectors.

The analysis of EU's position

Table 1 EU share (25) in the world commodity trade, 2005 (US Dollar billion)

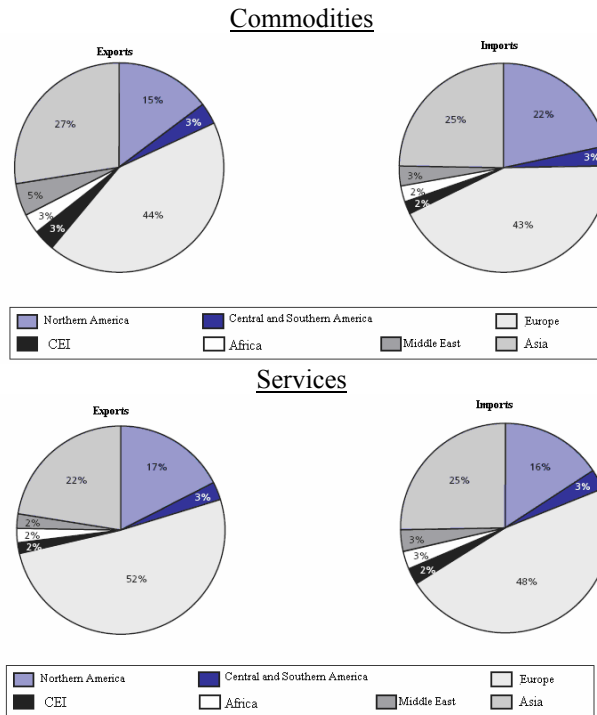
| | Exports | | | | | Imports | | | | |
|--------------------------|---------|------------------------|------|------|------|---------|------------------------|------|------|------|
| | Value | Annual fluctuation (%) | | | | Value | Annual fluctuation (%) | | | |
| | 2005 | 2000-05 | 2003 | 2004 | 2005 | 2005 | 2000-05 | 2003 | 2004 | 2005 |
| World | 10121 | 10 | 17 | 21 | 13 | 10481 | 10 | 17 | 22 | 13 |
| Europe, of which: | 4353 | 11 | 19 | 20 | 8 | 4521 | 10 | 20 | 20 | 9 |

| | | | | | | | | | | |
|----------------|------|----|----|----|---|------|----|----|----|---|
| EU (25) | 3988 | 10 | 19 | 19 | 7 | 4120 | 10 | 20 | 20 | 8 |
|----------------|------|----|----|----|---|------|----|----|----|---|

Source: processed by the author according to "Rapport sur le commerce mondial 2006", www.wto.org, p.12

The data in table 1 show that the EU (25) ranks the first in the world commodity trade, both in exports and imports.

Graph 2 EU share (25) in world trade, 2005 (%)



Source: processed by the author according to "Rapport sur le commerce mondial 2006", www.wto.org, p.11

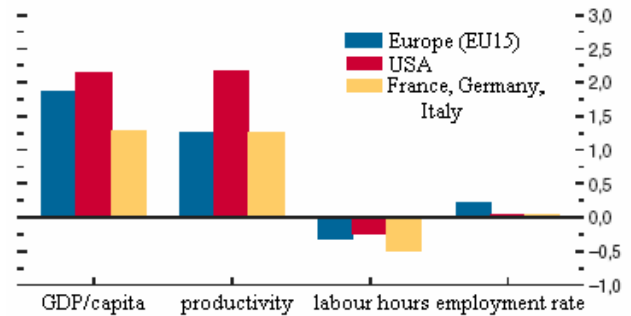
In 2005, the imports of the US, Japan and the 25 EU had a slow growth pace as compared to the pace in 2004 and the average world one. The data at regional level show that the main obstacle of world trade and production growth was the stagnation of the EU economy, as the growth pace of the region was lower than in others. The GDP growth in the first four European economies (Germany, France, Great Britain and Italy) was below 2% whereas the new member states witnessed a strong development as the total GDP for that cluster was 4% higher in 2005[1].

In addition to the general goals of political economy, the European Council of Lisbon has set a new strategic goal of the EU in 2010: "to become an economy based on more competitiveness as the most dynamic in the world, able to have durable economic growth along with quantitative and qualitative improvement of employment and social cohesion". The Lisbon strategy comprises policies that aim at increasing employment, innovation

and research, the economic reform, social cohesion and durable development. The strategy set in order to allow the EU and the member states to reach the goals is included in the great economic policy orientations (GOPE) adopted by the Council every year. In 2002, the main components were: keeping the macro-economic stability, increasing the labour force activity rate, as well as employment and reducing unemployment; improving the conditions for productivity strong growth; promoting durable development.

According to the recently calculated indices [2], the Euro zone growth pace should be constant during the second term of 2006: the GDP annual growth is estimated to reach 2.4% (in 2006) as compared to 1.3% in 2005; 2007 is estimated to witness a GDP decrease, with an annual growth pace of 2%.

Graph 3 – Western Europe: productivity growth and economic growth



Source: processed by the author according to "Perspectives de l'économie mondiale", September 2006, Fond monétaire international, Washington, www.imf.org, p.48

While assessing the economic prospects, the IMF reckons that the European economy seems to be less sensitive to external shocks as its external balance is very solid; it is said that in order to strongly resume growth, it is essential for both Europe and the rest of the world that the strengths be complemented by strong structural reforms of the labour, merchandise and financial markets.

Reducing the gaps between the development levels of the EU-TECE will be slightly visible upon the EU cluster due to the low share of the new-comers. From the structural point of view, the new-comers also bring along their flaws unlikely to influence the Union's future growth potential.

Table 2 – Comparative data regarding the latest expansion upon the EU

| | Population total on 1 January, 2006 (million) | Inflation annual rate % Oct.2006 / Oct.2005 | Employment rate Oct. 2006, % Total |
|-------------|--|--|---|
| UE27 | 492,8 | 1,8 | 7,9 |

| | | | |
|---------------------|-------|-----|-----|
| Bulgaria | 7,7 | 5,7 | 7,4 |
| Romania | 21,6 | 4,8 | 7,6 |
| EU25 | 463,5 | 1,8 | 7,9 |
| Euro Zone 13 | 316,6 | 1,6 | 7,7 |
| Slovenia | 2,0 | 1,5 | 5,4 |
| Euro Zone 12 | 314,6 | 1,6 | 7,7 |

| | GDP, 2005 | | | Raw added value, by sectors, in 2005, % | | |
|---------------------|---------------|---------------------|----------------------------|---|----------|----------|
| | Billion Euros | GDP/capita EU25=100 | Annual growth rate, volume | Agriculture | Industry | Services |
| UE27 | 10 948 | 96 | 1,7 | 2,0 | 26,3 | 71,6 |
| Bulgaria | 21 | 33 | 5,6 | 9,3 | 30,7 | 60,7 |
| Romania | 79 | 34 | 4,1 | 10,1 | 35,0 | 54,9 |
| EU25 | 10 847 | 100 | 1,7 | 1,9 | 26,2 | 71,9 |
| Euro Zone 13 | 8 027 | 106 | 1,4 | 2,0 | 26,5 | 71,5 |
| Slovenia | 28 | 82 | 4,0 | 2,5 | 34,1 | 63,4 |
| Euro Zone 12 | 7 999 | 106 | 1,4 | 2,0 | 26,5 | 71,5 |

| | Trade inside EU27, %, 2005 | Trade outside EU27, Billion Euros, 2005 | | |
|-----------------|----------------------------|---|---------|---------|
| | | Exports | Imports | Balance |
| UE27 | 66,2 | 1 051,5 | 1 176,6 | -125,1 |
| Bulgaria | 61,5 | 3,7 | 4,7 | -1,0 |
| Romania | 65,9 | 6,7 | 12,1 | -5,4 |
| EU25 | 66,2 | 1 041,1 | 1 159,9 | -118,8 |

| | Trade inside Euro Zone 13, %, 2005 | Trade outside Euro Zone 13, Billion Euros, 2005 | | |
|---------------------|------------------------------------|---|---------|---------|
| | | Exports | Imports | Balance |
| Euro Zone 13 | 50,5 | 1 239,2 | 1 221,8 | 17,4 |
| Slovenia | 60,0 | 7,3 | 5,4 | 1,8 |
| Euro Zone 12 | 50,4 | 1 231,9 | 1 216,4 | 15,5 |

Source: processed by the author according to "La nouvelle UE à 27 et la nouvelle zone euro à 13", Eurostat, l'Office statistique des Communautés européennes, communiqué nr.167/19 décembre 2006, p.1-3

The greatest importance of expansion is probably rendered by the changes the latter will bring about in the European business environment behaviour.

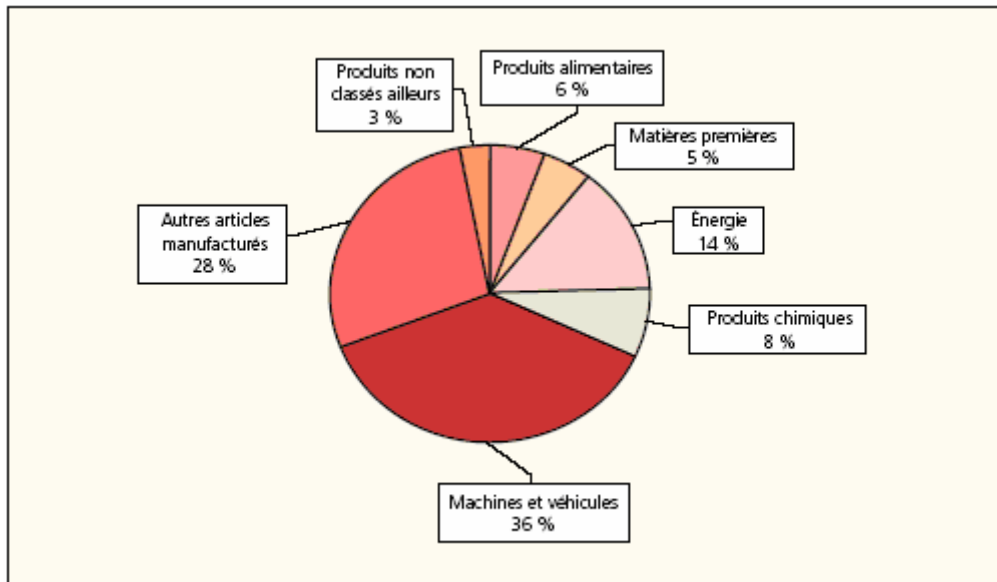
EU's Goods Trade

Almost half of the EU's exports in 2005 was in machines and transport equipment and almost a third was in other manufactured products. That means that nearly three quarters of the European exports were products of strong added value mainly assembled or made in the EU. Their

remaining quarter comprised chemical products, food products, raw materials and energy (see graph 4).

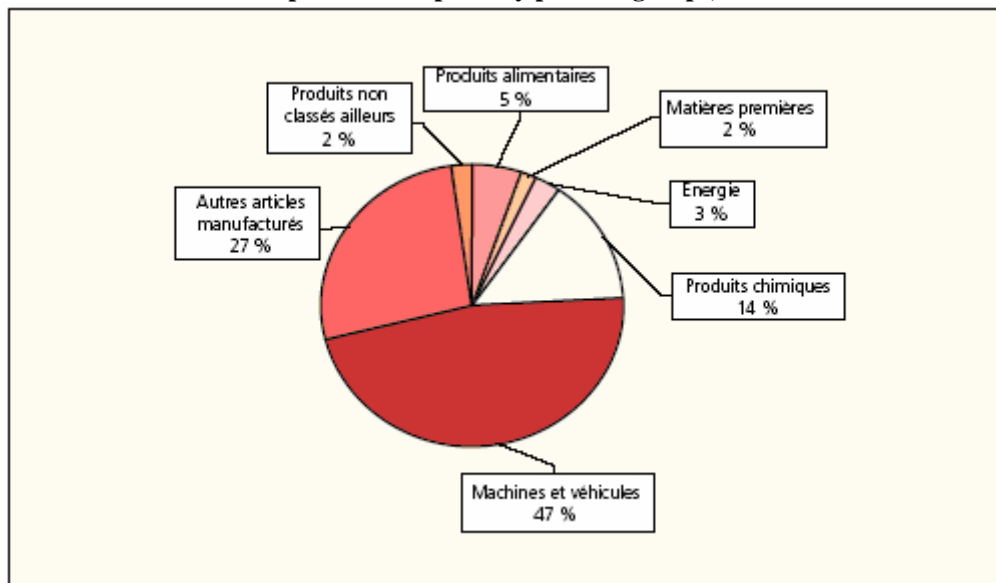
The structure by products was different from that of imports: fewer machines, transport equipment and chemical products were bought from outside the EU in 2005. At the same time, the energy products rose to around 14% of the total imports, a significant larger proportion than that regarding exports (see graph 4).

Graph 4a EU Imports by product groups, 2005



Source: processed by the author according to the data in *Panorama du commerce de l'Union Européenne*, 1988-2001, Commission Européenne, 2003[3], www.europa.eu.int and *WTO Report on the EU commercial policy*, 2006, www.wto.org[4]

Graph 4b EU Exports by product groups, 2005

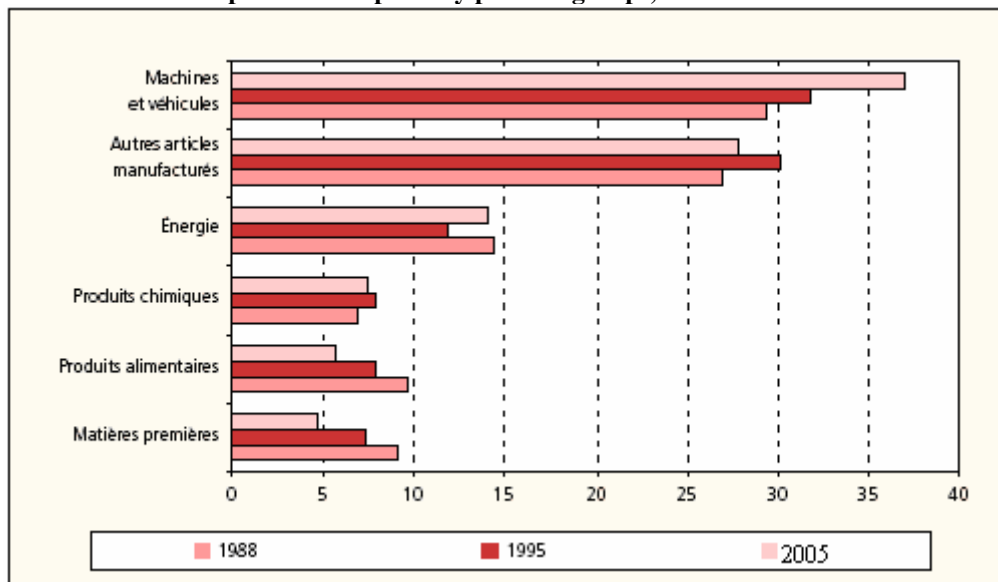


Source: processed by the author according to the data in *Panorama du commerce de l'Union Européenne*, 1988-2001, Commission Européenne, 2003, www.europa.eu.int and *WTO Report on the EU commercial policy*, 2006, www.wto.org

Graphs 5a and 5b show how the structure of imports and exports by the above-mentioned large product groups has evolved in time. In particular, there is a significant

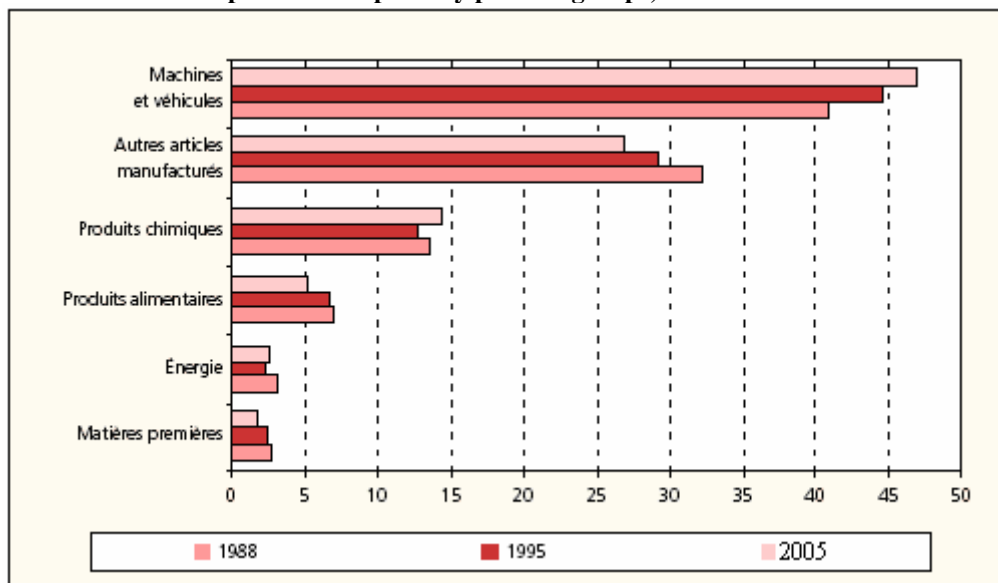
improvement in the trade in machines and cars whereas that in food products and materials has decreased.

Graph 5a EU Imports by product groups,% in total trade



Source: processed by the author according to the data in *Panorama du commerce de l'Union Européenne*, 1988-2001, Commission Européenne, 2003, www.europa.eu.int and *WTO Report on the EU commercial policy*, 2006, www.wto.org

Graph 5b EU Exports by product groups,% in total trade



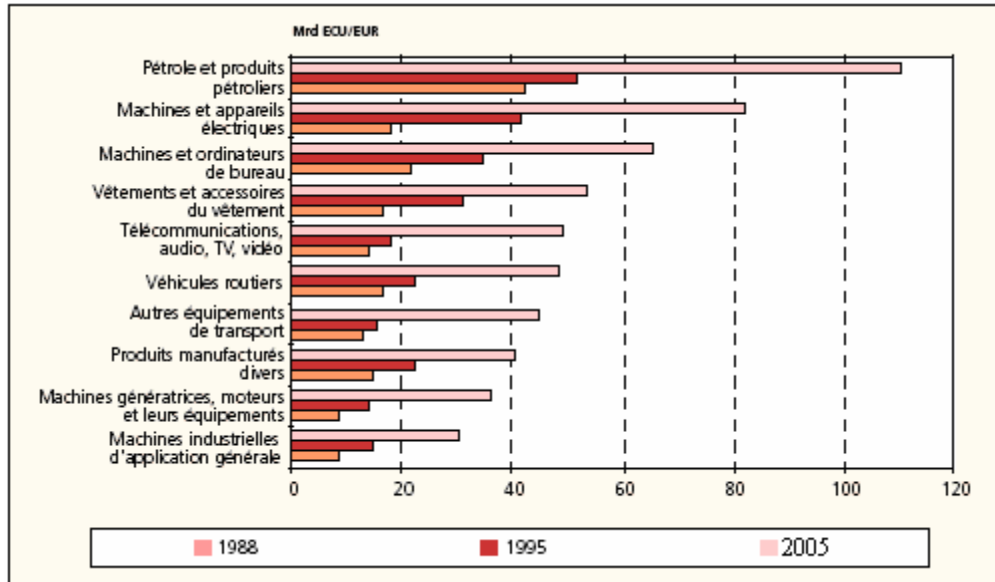
Source: processed by the author according to the data in *Panorama du commerce de l'Union Européenne*, 1988-2001, Commission Européenne, 2003, www.europa.eu.int and *WTO Report on the EU commercial policy*, 2006, www.wto.org

If one more attentively looks at the structure of traded products (in terms of value), certain interesting issues arise (see graphs 6a and 6b). For example, the leading figure of the European exporting industries is certainly the automobile industry, particularly that of road vehicles. Electric machines ranked second in terms of exports (and imports). Machinery and equipment especially meant for industrial use (particularly those specialized in energy production, a large amount being plane engines) were also an important part of exports. The pharmaceutical industry

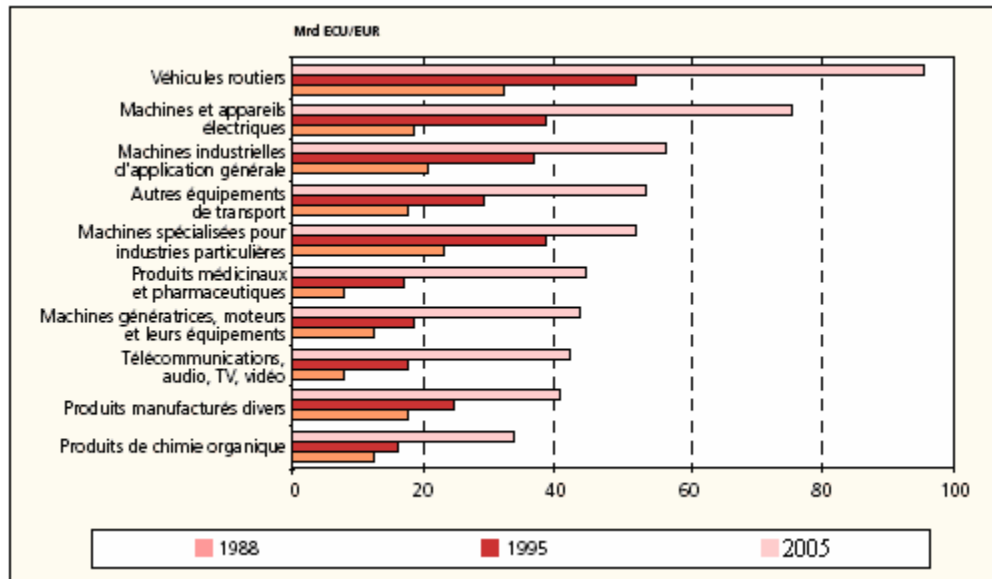
followed by organic chemistry and telecommunication industry were other pillars of exports.

As far as exports are concerned, the EU has acquired large amounts of petrol and petrol products (the import peak between 1995 and 2005 was significant enough – see graph 6a). On the other hand, whereas exports were mainly in mechanical equipment (see graph 6b), imports were made in clothing, computers and telecommunication devices. The last two sectors witnessed booming periods between 1995 and 2005.

Graph 6a Main categories of EU imported products



Graph 6b Main categories of EU exported products



Source: processed by the author according to the data in *Panorama du commerce de l'Union Européenne*, 1988-2001, Commission Européenne, 2003, www.europa.eu.int and *WTO Report on the EU commercial policy*, 2006, www.wto.org

EU was a net importer of food products during 1988-2005. In a similar manner, the EU had a flaw in the raw materials and energy products trade because of the raw petrol prices that were too high. The value of exports remained more or less constant within that time period. EU achieved an increase in the chemical products sector within 1988 and 2005.

The EU trade in intermediary manufactured goods recorded a significant development. It is mainly about mere manufactured products starting from raw materials such as rubber, wood, textile fibres, metal etc. It has to be remarked that the EU progressed with those goods between 1988 and 2005.

As regards the evolution of the European trade in other manufactured goods (for example, clothing and accessories, footwear or furniture), there was a commercial flaw and it has been increasing ever since 1996. Within certain limits, the EU exported unsophisticated manufactured goods that were finished abroad and then re-imported – it is about a more and more visible trend of exporting that processing part, the labour force (the one that consumes the most) to countries where it is cheaper. That mechanism is especially obvious in the clothing industry. As shown above, the cars and vehicles trade has been one of the strengths of EU commercial activity.

Romania's Foreign Trade and Export Performance and Competitiveness Assessment

What does Romania's national export strategy set for 2005-2009 from the sectoral competitiveness perspective? The strategy states: "Romania's future export performance should be based on competitive advantages, on developing the capacity and competency of its export sector, and on fostering an economy that can thrive under conditions of free trade in an increasingly global marketplace. Only in this way can Romania hope to be successfully integrated in the EU's internal market starting with 2007." The principles underlying the strategy goals are the following:

1. In order to contribute to sustained economic development, Romanian exports should be increasingly based on competitive advantages. Since resources for export development are scarce, it is essential that priorities be set – among sectors, within sectors and across sectors. The priority lies with those sectors, sub-sectors, products, services and cross-sector issues that contribute most effectively to value addition and retention.

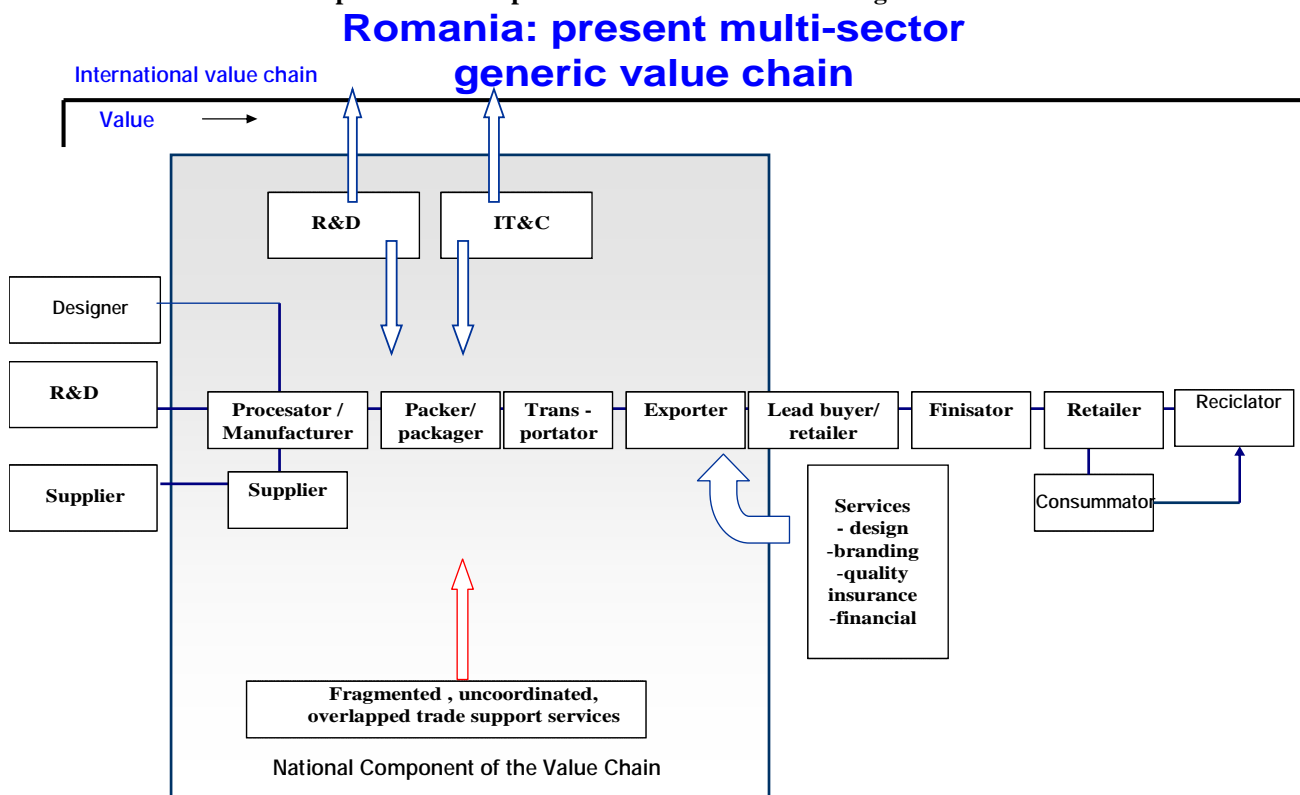
2. Traditional manufacturing sectors, such as textiles and wood, continue to be important for socio-economic reasons, such as employment. Even within these sectors, emphasis is on achieving higher efficiency, higher value addition and higher value retention through focused upstream and downstream integration.

3. For large parts of other manufacturing industries like machine-building, plastics, rubber, other chemical products, car and transport, electronic and electric equipment, - which tend to be fragmented or for which demand is declining, the focus is on identifying niches (products and markets) for industrial outsourcing that consistently contribute to higher efficiency, higher value addition and higher value retention.

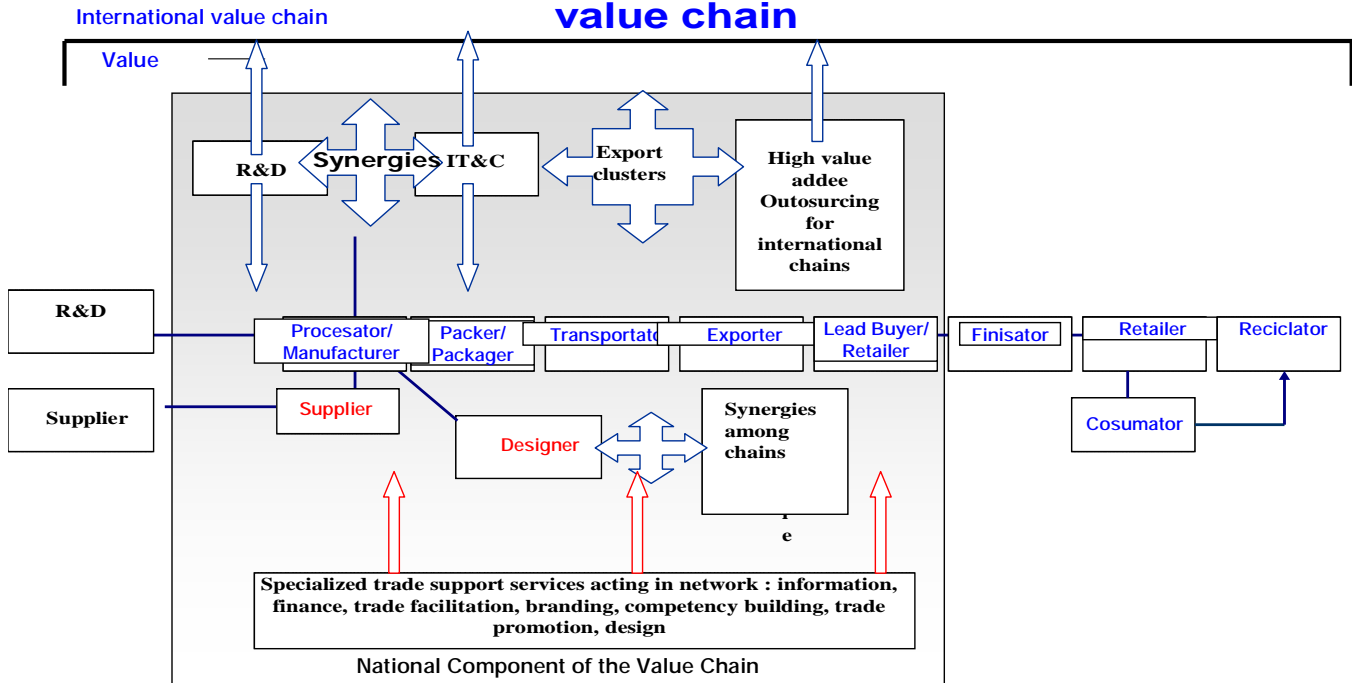
4. Rural and ecological tourism or balneal medical services have an attractive offer due to culture, tradition, unique environment biological and cultural diversity. These are increasingly demanded by consumers. The focus is on building capacity – on upgrading the quality and diversity of these services. There are opportunities to be had by clustering endemic Romanian products, such as wine, organic farming, handicrafts (including glassware and ceramics), and culture. Apart from focusing on these sectors as distinctive sectors, the creation of synergies among, and aggregating or packaging these sectors can have positive value-creating and value-retaining impact.

5. Supporting and developing established sectors is not enough. Romania also has to diversify and widen its export offer. The strategic thrust is to focus on service sectors such as IT&C, business, engineering and financial services. Not only will these sectors be direct contributors to foreign exchange earnings, but they will further support, and enable unrelated productive sectors to become more internationally competitive.

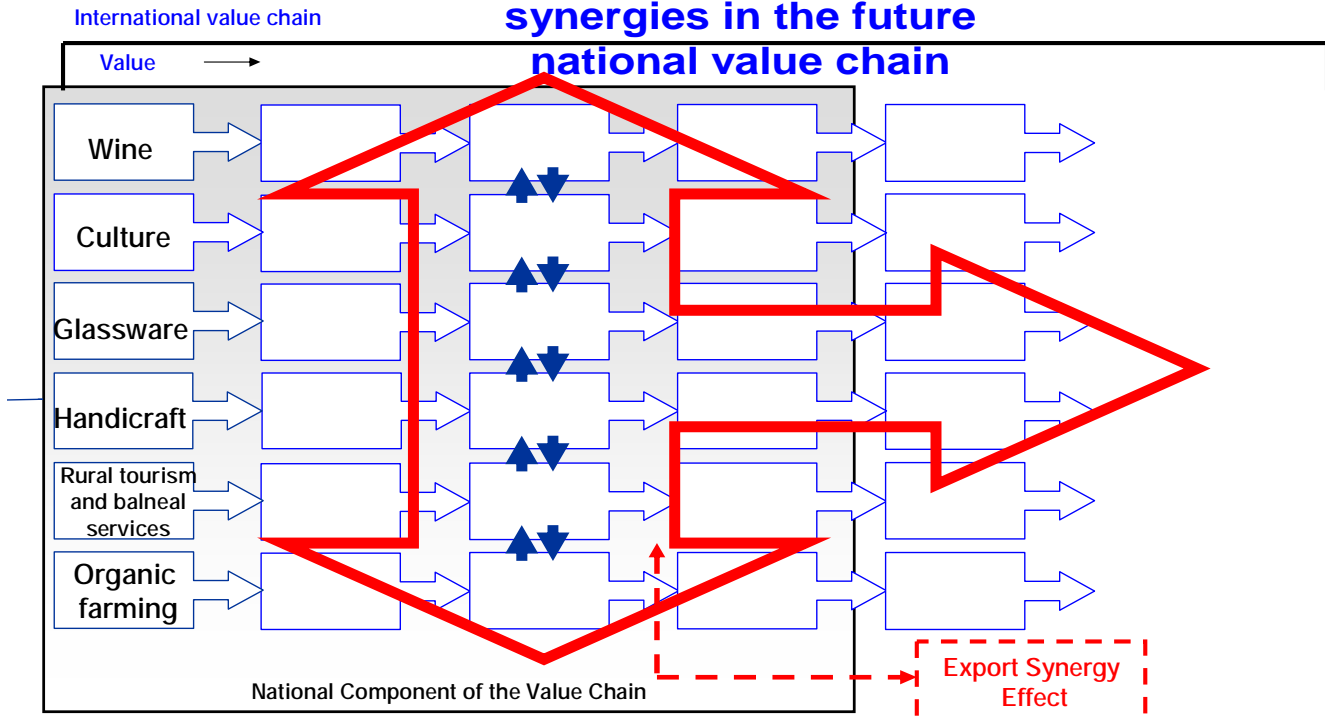
Graph 7 Romania: present and future multi-sector generic value chain



Romanian future multi-sector generic value chain



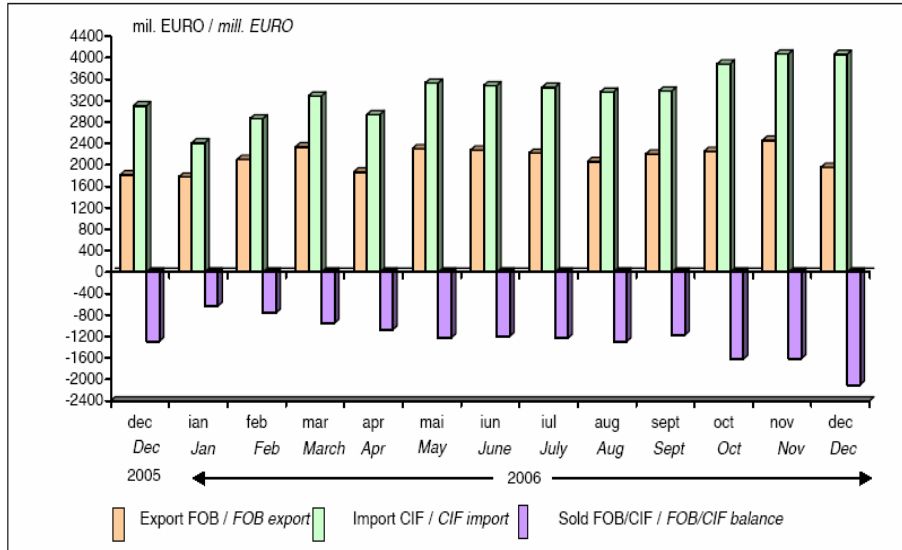
Romanian future cross-chain synergies in the future national value chain



The engines of the economic growth over the last years were exports and investment. Romania's exports were predominantly positive during 2000-2006 and it was also based on low added value products. The highest export amount took place in the textile industry, where the main activity is the active improvement (lohn), followed by the

metallurgic industry that mainly produces low steel more than special steel. Mention should be made of the fact that progress also occurred in exports of equipment, radio, television and communication devices, automobiles, electric appliances, means of transport, which are sectors having high added value.

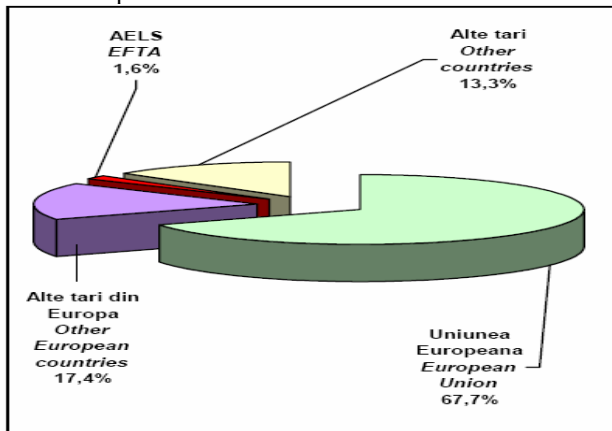
Graph 8 FOB exports, CIF imports and foreign trade balance during December 2005-December 2006



Source: Monthly statistics bulletin no.12/2006, National Institute of Statistics and Economic Studies, www.insse.ro, p.81[6]

Graph 9 Commercial partners by country clusters during 1 January-31 December 2006

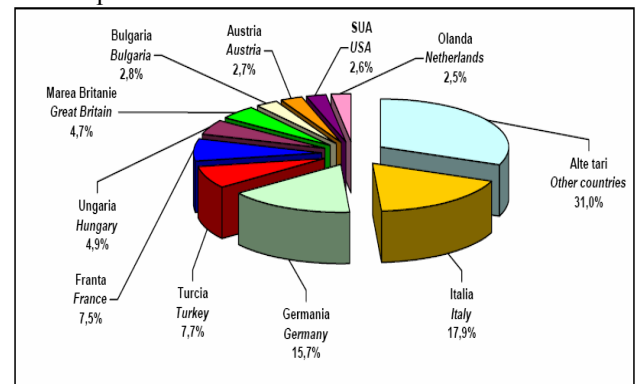
FOB export total 25850.5 billion EUROS



Source: Monthly statistics bulletin no.12/2006, National Institute of Statistics and Economic Studies, www.insse.ro, p.81

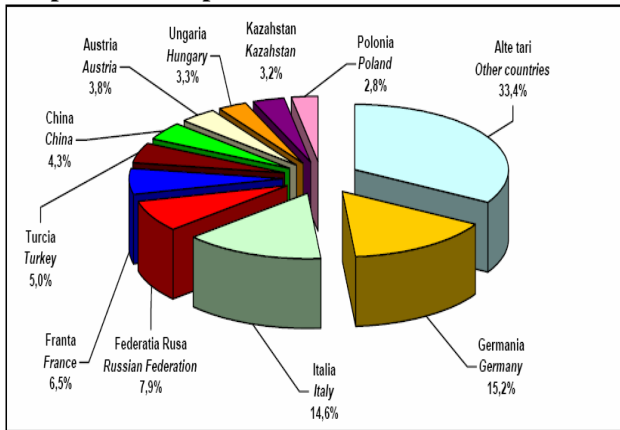
Graph 10 Main 10 partner countries during 1 January-31 December 2006

FOB export total 25850.5 billion EUROS



Source: Monthly statistics bulletin no.12/2006, National Institute of Statistics and Economic Studies, www.insse.ro, p.82

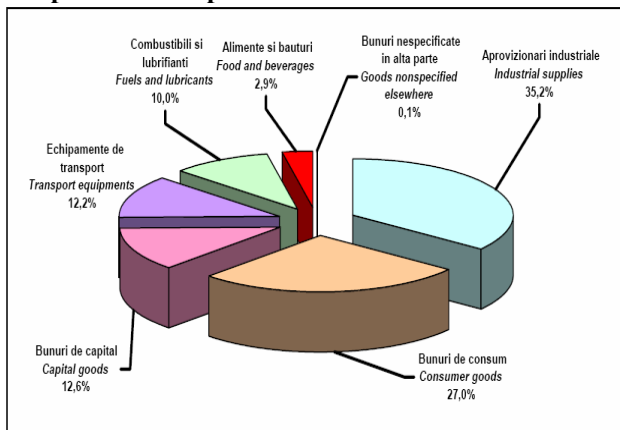
Graph 11 CIF import total 40745.8 billion EUROS



Source: Monthly statistics bulletin no.12/2006, National Institute of Statistics and Economic Studies, www.insse.ro, p.82

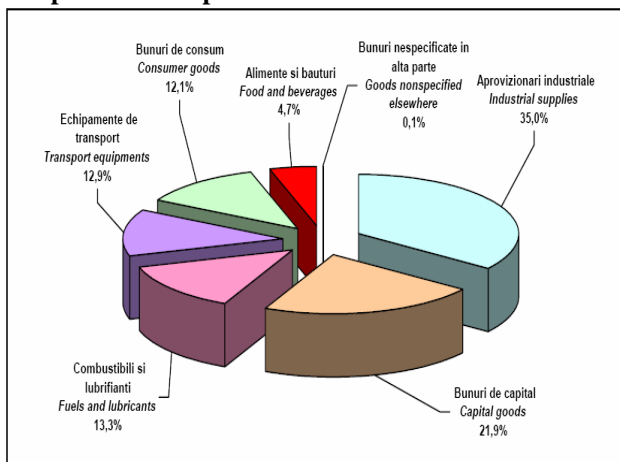
Structure of FOB exports and CIF imports by destinations, according to the classification "Great Economic Categories" (MCE) during 1 January-31 December 2006

Graph 12 FOB export total 25850.5 billion EUROS



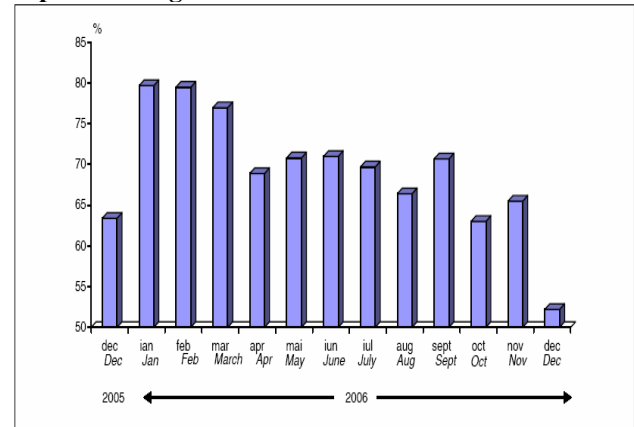
Source: Monthly statistics bulletin no.12/2006, National Institute of Statistics and Economic Studies, www.insse.ro, p.83

Graph 13 CIF import total 40745.8 billion EUROS



Source: Monthly statistics bulletin no.12/2006, National Institute of Statistics and Economic Studies, www.insse.ro, p.83

Graph 14 Degree of FOB imports coverage by FOB exports during December 2005 – December 2006



Source: Monthly statistics bulletin no.12/2006, National Institute of Statistics and Economic Studies, www.insse.ro, p.84

The growth of Romanian products' competitiveness that started in 2004 was reflected in the change in industrial products export structure. Thus, the export of low technology products and resources has decreased whereas the export of medium technology has significantly increased. Although the share of high-tech products was significantly larger in 2004, no special changes have occurred after that year.

The great value of the large import amount over the last years that has led to negative commercial balance was primarily due to the imports of cars and industrial machines meant for modernizing industrial equipment and achieving new investment, which has largely involved the technology imports from the industrially developed countries and less the manufacturing of new technology in the country. As a conclusion, one can assert that the exported Romanian products are cost- and not innovation-competitive.

The labour force low cost is the dominant source of competitive advantage, an advantage that will progressively decrease along with the EU accession, thus rendering as a main action direction the encouragement of internal research and innovation that might have as beneficial results the reduction of technology and equipment imports, and the increase in the products' raw added value, both for the domestic market and exports.

The industry exports (FOB) have followed a path similar to the development of industrial production. An important factor in export growth has been rendered by foreign direct investment in the consumption goods sector.

The imports have been high and have been mainly due to the temporary import for Lohn processing, complementing import and new „greenfield” investment import.

In the future evolution of the industrial sector, an important role will be held by the compliance with the directions in the "Free movement of goods" and their implementation, especially those based on the principles in the New Approach and the Global Approach as well as those product directions in the "Environment protection".

A set of advantages of the processing industry should be mentioned that give real opportunities to the structural adjustment process in order to provide competitiveness growth:

- it uses qualified labour force with low costs and a directly proportional productivity;
- it addresses a domestic market with a high attraction potential;
- it uses a significant share of domestic natural resources (petrol, natural gas, ferrous and non-ferrous ores);
- it has developed the semi-manufactured products industry (ferrous and non-ferrous rolled goods, soda, plastics);
- it functions in an area favourable to commercial flows that will change after Romania's EU accession. [7]

The economic development forecast in 2007-2013 relies on the idea that the economic growth pace of Romania's main commercial partners will not largely decrease and there will be no strong negative shocks of the international economic environment.

The economic growth in the years to come will be supported by the domestic demand; the net exports will generally contribute negatively, yet at a lower level as compared to the previous years (between 0.6 and 1.5%).

The foreign trade is expected to develop in the future at a sustained pace higher than the GDP growth. It is expected that in the context of Romania's being an EU member state the geographical orientation of the commercial flows lead to enhancing the position of the EU member states as main commercial partners of Romania. The goods and services exports will grow at an annual average of 9.5%, whereas the goods and services imports will grow by 9.7%, which is supposed to negatively influence the commercial balance.

Assessment of national competitiveness

From the macroeconomic perspective, this trend in foreign trade led to an acceleration of economic development and performance. Further sustainable development of the exporting sectors can contribute to continuous socio-economic growth but the performance of the key sectors is based on factors of comparative advantage, mainly low labor costs and raw materials. In fact, a major share of exports to the EU is generated by labor - and natural resources - intensive industries. These are typically low value-added products requiring low technology content that depend on low cost labor (often with low capacity to adapt to new skills) and imported materials (e.g. textiles, footwear and apparel). Simultaneously, more than half of the trade deficit with the EU is generated by technology-intensive industries.

The clothing sector, for instance, has become Romania's largest export sector. Whilst this can be partially attributed to a higher degree of competitiveness, it is also the result of niches created by the then-EU candidate countries as they reoriented their economies to other export sectors.

Such comparative advantages are easily eroded and lost. They represent temporary conditions of competitiveness

and cannot be sustained. Romania must not depend on such factors to continue its socio-economic growth trend.

The Romanian economy has a relatively low level of competitiveness in the European context and Romania has attracted a lower investment per capita (as compared to other countries in the region) due to the absence of a transparent legislative framework and an unequal playing field. This competitiveness gap between us and all the other EU member countries cannot be ignored, given the significance the European market has for Romania. This gap is likely to grow given the prospect of further world trade liberalization and integration, leaving Romanian exporters in critical condition.

In spite of continued opening to foreign trade, and in spite of significant export performance, Romanian exports are still not diversified enough. This is partly due to the fact that few enterprises undertake R&D in product development. A brief look at Romania's main exports in 2002 quickly reveals that most are traditional sectors. There has been little innovation and as a result there are few technology-intensive industries.

Therefore Romania's strategic focus must now be on competitive advantages, on developing its export sectors' capacities and competencies, on attracting investments, local and foreign, and on fostering an economy that can thrive under conditions of free trade in an increasingly global market-place. FDI is a source of capital, of know-how, technology and management skills and stimulates economic growth. Romania must become a better contender for absorbing foreign direct investment, especially those export oriented.

Romania can no longer be defensive or act in a protectionist manner, focusing on access issues and on regulating the supply of products and services to the domestic market. The introduction of the Joint Customs Tariff with the prospect of Romania's accession to the EU in 2007 will call for rapid adaptation to international market conditions. It is essential that productive sectors take that into account.

Competitive advantages do not arise from protectionism, quotas and preferential market access. Indeed, such measures can have a negative effect on economic performance since they lower enterprise motivation for efficiency, quality and innovation.

3. Conclusion

Competitiveness means the basis of durable growth and successful economies continuously create competitive advantages. The systemic approach of competitiveness issues is necessary due to numerous interdependent factors acting upon competitiveness.

Maintaining value at national level is more and more difficult because of the emergence of global value chains in the attempt to minimize costs and maximize profits. International competitiveness is dynamic and the competitive advantages are volatile and less durable. Reaching the convergence goal is based on the Romanian economy's sustainable competitive advantages. The

essential concern is their proper identification, as they are the result of a strategic vision.

Defining some sectors of the national economy as being “sensitive” is not an easy task and the consequences of this process are significant at macro-economic level both on short and on long term.

Global competitiveness determiners define the context in which companies are founded and compete; different combinations of those determiners influence various sectors in various ways.

Taking account of these principles, Romania’s EU accession is acquiring new traits. Is there a competitiveness gain or is there a certain loss right from the moment of the accession?

Subsequent to the analysis of the Romanian exports structure there appears a non-compliance between the strategic option approached in Romania and the competitive advantages of the EU. It is evident that in Romania certain sectors and industries are sustained that generate a lower level of added value. The selected branches and industries do not require labour force with medium/high training and another disadvantage is that they do not have the necessary ability to create work places.

There is no proper management of export strategy because there is a missing component for assessing the results and potentially for revising the strategy.

The Romanian economy has the necessary potential for developing sustainable competitive advantages, yet the institutional environment should be adjusted.

As a conclusion, Romania does not yet integrate in the matrix of specialization and competitiveness on the single European market, it is necessary that there be a transition from providing raw materials and relatively low-added value products to superior stages where education, research and innovation ability have the leading role.

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