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## Non-competitive evolutions of the foreign trade in Romania

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### Abstract

An analysis of statistic data and information provides evidence in support of the opinion that, apart from minor exceptions, Romania’s foreign trade during the transition period (1991-2012) consisted mainly in the export of raw materials or barely finished products, and the import of manufactured goods. In other words, Romania practised a non-competitive, unproductive export, selling either raw natural produce or products with a rudimentary level of processing, obtained from derelict industrial facilities that were abandoned for lack of competitiveness. One direct effect of such practices was the loss of a huge number of salaried jobs, and the payment of labour at the lowest rates.

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### 1. Introduction

Economic theory says that international economic exchanges are fundamental in fostering the economic growth and the development of some nations.

When importing and/or exporting, each company, or a national economy as a whole, pursues to maximise its gains, for the benefit of a better living standard. For this purpose, every exporter will try to sell goods for which its domestic manufacturing costs are lower than those of other manufacturers, and to buy foreign goods whose manufacturing costs at home are higher than those offered by other, foreign, manufacturers.

This is, in essence, maintained by the well-known theory of comparative costs, which lies at the core of the

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concept of competitiveness.

In a free market, the theory will prove its validity in practice only if the concept is shared and equally well known by all the entities involved in the exchange of goods and services.

Only when business entities have the requisite economic culture (now so vast), the access to and the knowledge to master market information, and, no less, the practical skills of trading, will they be able, armed with such complex software, to turn to their advantage the benefits deriving from the exceptionally generous principle of the free circulation of goods, services, capital, and labour.

Absent these fundamentals, all of which form what we call economic culture, international exchanges may lead to great deficits, and to the emergence of deeply non-competitive, sometimes mock, economic structures and operations.

Economic theories and principle do not suffice, in themselves; they cannot guarantee the attainment of performance and competitiveness, without knowledge, skills, and practical experience.

The data reflecting the course of Romania's foreign trade after 1990, when the country's economic structures changed so drastically, seem to indicate a lack of the economic culture that serves as a foundation on which an economy can perform (Chivu, and Ciutacu, 2014). This lack has been at the root of the incapacity of the newly emerged economic framework to reach a level of performance capable to narrow the gap between the earnings of the Romanian citizens and the other citizens of the European Union.

## 2. Data regarding Romania's total imports and exports

All statistic data regarding imports and exports during the timeframe 1991-2012 reveal a constant and spectacular growth of the foreign trade volumes.

Expressed in current prices in euro, exports increased from the annual 3.5 bn. euro in 1991, to 11.3 bn. euros in 2000, to 25.9 bn. euros in 2006, and to 33.7 bn. euros in 2008.

Due to the world disruptive economic evolutions, in 2009 exports dropped to 29.1 bn. euro, but resumed the ascending curve in 2010, with a total of 37.4 bn. euro worth of exports, and reaching over 45 bn. euro in 2012.

Imports grew from 4.7 bn. euro in 1991, to 14.2 bn. in 2000, 40.7 bn. in 2006 and 57.2 bn. euros in 2008. In 2009, imports declined abruptly to 39 bn. euro, to then start rising again to 55.0 bn. euro in 2011, and 54.7 bn. euro in 2012, without catching up on the 2008 worth of imports.

Every single year of the 22-year reference period, the balance of trade operation – export (FOB) and import (CIF) – was marked by a deficit that grew from 1.2 bn. euro in 1991, to 3.0 bn. euro in 2000, 14.9 bn. euro in 2006, and to 23.5 bn. euro in 2008. Since 2008, the annual average level of the deficit has been a constant 9.5 to 9.9 bn. euro.

The share of the trade deficit in the gross domestic product (GDP) fluctuated from 5% in 1991, to 17.5% in 2007, and 7.3% in 2012.

Multi-annual data on export and import volumes, the GDP, and the magnitude of the trade deficit are illustrated in Table 1.

	1991-1994	1995-2000	2001-2006	2007-2012	1991-2012
Exports	16.2	46.7	110.1	220.1	393.0
Imports	21.1	61.8	157.1	304.0	544.0
Excedent/Deficit	-4.9	-15.1	-47.0	-84.0	-150.9
% exports in GDP	18.4	23.1	28.6	28.6	27.2
% imports in GDP	24.0	30.6	40.8	39.5	37.6
% excedent/deficit in GDP	-5.6	-7.5	-12.2	-10.9	-10.4

Source: Authors' own calculations based on information from Tempo online, the NationalStatistic Institute (Institutul Național de Statistică, INS).

Spectacular as it was, the growth of the worth of exports and imports was not able to at least maintain the number of salaried jobs in the national economy.

The average number of employees diminished from 7.6 mil. persons in 1991 to 4.5 mil. persons in 2004, and to 4.4 mil. persons in 2012. Moreover, while in 1991 the total annual amount of net salaries paid in the economy was some 7.7 bn. euro, and the trade deficit was 1.2 bn. euro, in 2004, the trade deficit (7.3 bn. euro) was higher than the paid wages (7.1 bn. euro).

In 2006, the trade deficit stood at 14.9 bn. euro, and the net paid salaries at 13.8 bn. euro, in 2007 the deficit was 21.8 bn. euro and the total amount of wages only 18.3 bn. euro, with the gap widening further so that in 2008 the trade deficit had reached 23.5 bn. euro, and the total net salaries only 21.5 bn. euro.

After 2009, the approximately 9.5 bn. euro trade deficit came to represent some 50% of the total amount of net salaries paid in the Romanian economy.

How exports and imports influenced the loss of jobs in the national economy can be understood from their structure.

### 3. The foreign trade balance by domains

In a 22 years (1991-2012) analysis, the balance of the foreign trade operations cumulated a deficit of 150.9 bn. euro, of which some 84 bn. euros (55.6%) of deficit was generated only during the period 2007-2012, when Romania was already a Member State of the European Union (EU) (Table 2).

Table 2: The FOB/CIF excedent/deficit of Romania's foreign trade, by domain (bn. euro)

Domain	1991- 1994	1995- 2000	2001- 2006	2007- 2012	1991- 2012
Total	-4.9	-15.1	-47.0	-84.0	-150.9
Food and livestock	-1.4	-1.7	-5.3	-8.8	-17.2
Non-edible raw materials, minus fuels	-0.3	-0.4	-0.5	4.4	3.2
Beverages and tobacco	-0.8	0.2	1.0	0.4	0.7
Mineral fuels, lubricants, and related materials	-4.4	-6.5	-10.6	-19.8	-41.3
Oils, fats, and animal and vegetal waxes	0.05	0.2	-0.2	-0.5	-0.4
Chemical and related products, not specified elsewhere	-0.3	-3.0	-10.6	-24.6	-38.5
Processed products classified mainly according to their constitutive raw material	1.0	-4.5	-18.6	-26.0	-48.2
Transport machinery and equipment	-1.2	-9.5	-23.3	-20.4	-54.3
Various manufactured goods	2.6	10.5	20.9	10.9	44.9
Goods not specified elsewhere	-0.04	-0.4	0.1	0.4	0.1

Source: Authors' own calculations based on information from Tempo online, INS.

As the table shows, approximately 36% of the total deficit derived from the transport machinery and equipment domain; while during the decade 1991-2000 the overall deficit for this domain amounted to 10.7 bn. euro, in the next twelve years, 2001 to 2012, the deficit quadrupled: 43.7 bn. euro.

The various manufactured goods domain brought an overall excedent of 44.9 bn. euro during the period 1991-2012. If this reference period is broken down into sub-periods, we can see that the excedent of 20.9 bn. euros gained during the time span 2001-2006 diminished to 10.9 bn. euros during the sub-period 2007-2012, after Romania's accession to the EU.

Another domain that recorded a commercial excedent, this time after accession, was that of non-edible raw materials, minus Fuels. While from 1991 until 2006 the overall balance of commercial transactions was in the minus (-1.195 bn. euro), during the period 2007-2012, the balance rose to a plus, with an excedent of 4.4 bn. euro.

### 4. Uncompetitive trade exchanges with raw or barely processed goods

A closer look at the trade exchanges of Romania reveals the growing share of exports of primary goods with a low added value, which could have been raised to a higher value-added rate by industrial processing in the national economy.

As an example, while in the decade 1991 – 2000, the exports of ores (iron, copper, lead, zinc, precious metals and

aggregates) totalled some 62 mil. euro, in the next six years, from 2001 to 2006, the worth of ore exports rose to 206 mil. euro, to grow further between 2007 and 2012 to 224 mil. euro (Table 3).

Table 3: Worth of ores, wood and scrap metal exports (bn. euro)

	1991-1994	1995-2000	2001-2006	2007-2012	1991-2012
Ores and aggregates (iron, copper, lead, zinc, precious metals)	0.01	0.05	0.21	0.22	0.49
Wood (as fuel, stems, logs, saw-dust, raw wood, rounded, cut, or carved wood, etc.)	0.33	1.51	2.50	3.58	7.92
Metal wastes and scraps (cast iron, steel, scrap iron, copper, nickel, lead zinc, from electric batteries, or parts of electric machinery or equipment)	0.01	0.54	2.06	5.12	7.73

Source: Authors' own calculations based on information from Tempo online, INS.

The exports of raw or semi-processed wooden materials amounted to some 1.8 bn. euros in the period 1991-2000, and grew to 2.5 bn. euros in 2001-2006, and to 3.6 bn. euros after Romania's accession to the EU (2007-2012).

Most telling for the detrimental nature of Romania's foreign trade, and uncompetitive for the national economy, has been, in our view, the export of cast iron, steel, scrap iron, copper, nickel, lead, and zinc coming from the dismemberment of various industrial facilities, of production lines, machinery and equipment in the former industrial parks, or from scrapped transport infrastructures (railway carriages), constructions, agricultural facilities, etc. [Chivu, Ciutacu, 2014].

The total value of these exports had reached the amount of 550 mil. euro in the time frame 1991-2000, quadrupled to 2.06 bn. euros in 2001-2006, and more than doubled (5.1 bn. euro) in the post accession period 2007-2012.

In the surveyed 22 years, the exports of metal scraps totalled over 7.7 bn. euro, which, at an average price of 300 euro/ton, translates into more than 25 million tons of metal, the processing of which would have generated millions of jobs.

Another class of goods for which Romania possesses an excellent climate and soil form the domain of agricultural produce and foods. Another characteristic of this domain is that, statistically speaking, some 30% of the employed population of Romania works in agriculture.

When examining the structure of exports in this domain, we find that Romania exported live cattle and sheep, for which the trade balance reached an excedent of 2.3 bn. euro in the reference period 1991 – 2012, and imported beef, for which the aggregate trade deficit stands at 300 mil. euro. Similarly for swine: imports of live stock and meat have exceeded the exports by 3.3 bn. euro.

Grains are a source of food for humans, but also basic feed for animals. While until 2006, the trade in grains (wheat, barley, oats, and maize) showed a deficit of the balance, because the cereals obtained from the country's own production was insufficient for its animal breeding, after 2007 and until 2012, Romania's exports of cereals exceeded imports by more than 3 bn. euros.

In the 22 years of the reference period 1991-2012, Romania scored a deficit in the trade with wheat and other cereal flour of more than 320 mil. euro; the trade with soy and sunflower cakes, and other animal feed preparations was also in a deficit of over 2 bn. euro (of which over 1.2 bn. euro worth of deficit was recorded solely during the last six years, 2007-2012) [Ciutacu, Chivu, 2014].

Similarly fast was the growth of the trade deficits for: sugar – 1 bn. euro in 2007-2012 (when all over 30 sugar factories of Romania were shut down); milk and dairy products –1 bn. euro during the same period of time; sunflower and rape seed were exported in the worth of approximately 2 bn. euro, while the edible oil exports totalled only 82 mil. Euro; flowers and vegetables (tomatoes, onion, cabbage, lettuce, potatoes, etc.) recorded an export deficit of some 1 bn. euros in the time interval 2007-2012, by comparison to only 16.8 mil. euro during the period 1991-1994.

In the machine-tools sector, Romania's export suffered a deficit of 156 mil. euro in 1991-1994, and of 1.988 bn. euro in 2007-2012 (for example, lathes exported in 1991-1994 fetched Romania a cumulated excedent of 90 mil. euro, while in the period 2007-2012, the foreign trade in this category of products resulted in a deficit of 167 mil. euro).

Similarly, Romania's foreign trade balance for motor vehicles for the transport of freight and passengers had an excedent in the worth of more than 180 mil. euro in 1991-1994, and a deficit of 3.3 bn. euro in 2007-2012; in the tractor section, in the same time spans, the trade balance tipped from an excedent of 75 mil. euro to a deficit of 1.9 bn. euro.

And, to conclude the statistics, the data in Table 4 will speak for themselves in regard of the trade in medicines and medical materials.

Table 4: The excedent/deficit in Romania's foreign trade with medicines and medical materials (mil. euro)

	1991- 1994	1995- 2000	2001- 2006	2007- 2012	1991- 2012
Antibiotics	6.5	-20.9	-62.2	-111.3	-187.9
Human blood; animal blood processed for therapeutic, prophylactic, or diagnosis purposes; antiserums, other blood fractions, modified immunologic products, including those obtained through biotechnologies	-4.8	-45.6	-407.2	-1,414.5	-1,872.2
Medicines obtained from other, combined, products, for therapeutic or prophylactic use, and packed and traded in bulk	-74.6	-34.3	-26.1	-20.5	-155.4
Medicines obtained from other, combined or non-combined products, for therapeutic or prophylactic use, and packed and traded in bulk doses	-80.9	-946.4	-3,641.9	-7,445.0	-12,114.1
Cotton wool, gauze, bandages, and similar products impregnated or coated with pharmaceutical substances, or prepared for retail sale	-5.4	-18.7	-19.9	-60.7	-104.8
Other preparations and pharmaceutical items	-7.3	-58.8	-135.3	-241.6	-443.1
Total	-166.6	-1,124.8	-4,292.6	-9,293.6	-14,877.5

Source: Authors' own calculations based on information from Tempo online, INS.

In 1991-2012, the worth of imported medicines and health care materials exceeded the exports in the same domain by more than 14.8 bn. euro, of which 9.3 bn. euro accounts for the deficit recorded during the period 2007-2012, and 4.3 bn. euros is the deficit accumulated in the period 2001-2006.

## 5. Things to consider

One of the main causes for the loss of some 4 million jobs in the 22 years from 1991 to 2012 was the magnitude and the structure of Romania's imports and exports.

The statistic data are a proof of the veracity of the statement that, excluding some minor exceptions, Romania's foreign trade was heavily oriented to the export of raw or hardly processed products, and the import of finished goods.

It is therefore an uncompetitive, unproductive trade that offered raw materials deriving from nature or from the derelict industrial facilities that were abandoned for lack of competitiveness.

For the sake of the same competitiveness argument, Romanian workers have been paid the lowest salaries in the EU (even nowadays, the gross minimum wage in the national economy is a barely 200 euro), which triggered an "export" of some 3 million active individuals who work in the labour markets of other EU member countries.

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