

# THE RECENT TREND OF ROMANIA'S INTERNATIONAL TRADE IN GOODS

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**Abstract:** *The article analyses the recent developments regarding the Romania trade in goods. We highlight how Romania's trade in goods evolved after the EU accession. In this period Romania's exports and imports were influenced by the economic crisis, which had a major impact especially on imports. The paper presents the primary trends that have set the volume, dynamics, structure and performance of trade in Romania in the crisis and post-crisis period. We have noticed what changes took place in the structure of exports and imports of goods and also who were the main external partners of Romania.*

**Keywords:** foreign trade; export; import; trade balance.

**JEL Classification:** F1; F15; O24; O52.

## INTRODUCTION

At the end of 2004, in October, two months after the Romanian economy had been declared a functional market economy, the country finally completed the negotiations in order to join the European Union. The following step was to implement the *acquis communautaire*.

From a macroeconomic point of view, the economic growth was accelerated by the development of international trade. Export growth has boosted industrial production, ensuring its sales, which also has shown an improvement of economic performance. According to the economic theory, the export expansion generates an improvement of the efficient allocation of productive resources and increased volumes of production by capital accumulation (Romer, 1989; Edwards, 1992). The export growth has increased the openness of the economy, so the Romanian economy faster absorbed the technology of the more advanced countries. Imports ensured the necessary raw materials and energy resources as well as the investment recovery through technology transfer from abroad.

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The Romanian supply ability and the increased economic potential in foreign markets is reflected by the exports evolution. In the countries Romania has concluded free trade agreements with the ease of access to foreign market is better capitalized.

Romania's accession to the European Union has produced major changes in the conduct of intra EU trade of goods. The abolition of customs barriers to trade in the EU allowed the free movement of goods.

The association agreement between Romania and the European Union has stimulated a substantial increase in trade between the European Community and Romania, the future Member State. Overall, the impact of EU enlargement on the older members was insignificant because the Romanian economy represents less than 5% of the EU-25 economy. Although low, the expected impact was positive for the European Union (Aldea, Botez, 2001, p. 99).

## **1. ROMANIA'S TRADE IN GOODS BETWEEN 2004 AND 2013**

Based on the experience of Ireland, Portugal and Spain, the European Commission anticipated an additional growth between 5 and 9% for the new member states within 10 years after accession, while in the old member states the expected economic growth was 1.5%. The level of growth will be influenced by: a more efficient allocation of resources, the expansion of foreign investments as a result of new business opportunities, increased trade and higher productivity determined by the growing competition between Member States.

Adopting the common external tariff of the European Union will lead to a lower tariff protection level on imports into Romania from non-EU countries from 18.6% to 6.3% of all products, of which from 30% to 16.2 % for agricultural products and from 15.4% to 3.6% for industrial products. Budget revenues from customs duties on imports will decrease and result in better access conditions for third country products on the Romanian market. As regards the relation to the third countries, Romania has more to lose than to gain after the adoption of EU trade policy.

In 2004, the world economy registered the fastest growth in recent years, on the background of favorable financing conditions and reviving macroeconomic policies. World trade in goods and services doubled their growth from the previous year, reaching 9 percent - the highest growth rate in five years.

**Table 1 - The evolution of Romania's trade in goods between 2004 and 2013 (millions of Euro)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Export</b>	18935	22255	25850	29549	33725	29084	37368	45274	45043	49563
<b>Import</b>	24258	30061	37609	47371	52834	35955	44968	52683	52356	52986
<b>Sold</b>	-5323	-7806	-11759	-17822	-19109	-6871	-7600	-7409	-7313	-3423

Source: Own processing after the Romanian Statistical Yearbook 2005-2013, Publishing National Institute of Statistics, Bucharest

In 2004, the Romania's balance of payments reflected a deterioration in the current account balance, due to the widening trade deficit, as a result of the doubling of annual growth of imports and their acceleration in relation to exports. In comparison with the previous year, in 2004, the trade deficit was 5323 million, registering an increase in both absolute terms and as a share of GDP (1 368 million euros, or 1.2 percentage points) due to the rapid growth of imports - mainly stimulated by economic growth (table 1). Also, we note that between 2004 and 2008 the trade deficit had gradually increased, enhanced by a slower increase in exports of goods and an accelerated growth of imports. Since year 2010, after a year of decline under the impact of the global economic and financial crisis, trade in goods in Romania has resumed growth and managed to recover losses. Instead, although imports have also resumed growth, the level it registered a year before the economic crisis was reached only after five years, in 2013.

The worldwide economic crisis effects started to appear in the last quarter of 2008; in 2009 business activities were significantly scaled down with a direct impingement on the commercial relations of Romania (table 1). The negative balance of trade was 6.871 billion euros, down by 64% from the previous year, due to a stronger decline in imports compared to exports.

**Table 2 - The dynamics of Romania's international trade in goods between 2005 and 2013 (%)**

	Annual Changes (%)								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Export</b>	17,5	16,2	14,3	14,1	-13,8	28,5	21,2	-0,5	10%
<b>Import</b>	23,9	25,1	26,0	11,5	-31,9	25,1	17,2	-0,6	1%

Source: Own processing after the Romanian Statistical Yearbook 2006-2013, Publishing National Institute of Statistics, Bucharest

Unlike 2008, in 2009 exports and imports contracted by -13.8%, respectively -31.9%, and the share of trade deficit in GDP narrowed by 7.8 percentage points to 5.9% (table 2). The effects of the complex process of integration became noticeable especially during critical periods when the shocks appeared in the economy needed to be overcome. A part of the pressure generated by these disturbances was removed by international exchanges of goods and services that interconnect various national components in a

single system. The first signs of an “exit” from the economic crisis were given by the values recorded in the international trade.

Our calculations outline that between 2005 and 2008 exports of goods increased at an average annual rate of 15%, the increase in imports of goods being 21%. As we stated before, the economic crisis led to a sharp drop of exports in 2009 (-13.8%), and a drastic downfall of imports (-31.9%). Since 2010 Romania have recorded a faster growth of exports compared to imports. In comparison with 2009 the exports and imports increased by 28.5% and 20.4%, and the trade deficit in GDP narrowed by 0.9 percentage points to 4.9%.

In 2012, the negative balance of trade was 7379 million, down by 0.2% compared to 2011, imports being reduced more than exports. The decrease in exports was adversely affected by lower demand from the Euro Zone, which attracts more than half of Romania's exports. Also, in 2012, the degree of participation of all trade goods from our country - the share of goods in total exports of goods and services - reached 85.7% which was the highest level since Romania have joined the EU.

In 2013 exports registered an increase by 10% compared to the previous year, while imports grew by merely 1% relative to 2012, however it surpassed the value recorded in 2011. The 10% export growth in 2013 led to the lowest trade deficit in the last nine years, only 3423 million.

**Table 3 - World exports volume of goods between 2005 and 2012 (in million dollars and %)**

	Trade value (million USD)	Annual changes (in %)				
	2012	2005-2012	2009	2010	2011	2012
World	17850	8	-22	22	20	0
USA	1547	7	-18	21	16	5
EU 27	5792	5	-22	12	17	-5
China	2049	15	-16	31	20	8
ASEAN	1254	10	-18	29	18	1
MERCOSUR	340	11	-22	29	26	-4

Source: Own processing after the Romanian Statistical Yearbook 2006-2013, Publishing National Institute of Statistics, Bucharest

A brief comparison of the evolution of flows of goods in Romania in terms of value and dynamic during and after the economic crisis, with the internationally exhibited trends, is shown in table 3. In 2009, the first year of economic crisis, Romanian exports of goods decreased by -14% a smaller decline compared to the drop of 22% recorded in the EU and worldwide.

Since 2010, in both Romania and worldwide the volume of exports of goods recovered. It is interesting that, the recovery of exports of goods in Romania (28.5%) exceeded the level in the EU by only 12% (WTO, 2013). Nevertheless, the following year, 2011, the expansion of Romania exports of goods slowed down to 21.2%, while in the EU it continued to increase reaching 17%. Further, in 2012, there was a drop by 5% in the EU exports of goods compared to 2011, mainly because of the sovereign debt crisis. In Romania, the decline of exports was smaller, only 0.5%, close to global values.

## 2. THE STRUCTURE AND GEOGRAPHICAL ORIENTATION OF ROMANIA'S FOREIGN TRADE

### 2.1. Romania's goods export structure

In 2009, the exports were affected by the economic crisis. The main source of exports of goods was the processing industry, which provided 92.3% of Romania's exports, but the value of manufactured goods exported was just 86.3% from the value recorded in 2008, down by 17.3% (Table 4). In 2012, the processing industry remained the main source of exports of goods, providing 91.7% of Romania's exports. Overall, exports of manufactured goods remained at the previous year's level (increases were sizeable in the activities of supplying road transport vehicles, machinery and mechanical equipment).

**Table 4 - Export (FOB) on the major activities of Romanian national economy**

	Million euro		Indexes (%)	Structure (%)	
	2008	2009	2009/2008	2008	2009
<b>Total</b>	<b>33725</b>	<b>29084</b>	<b>86,2</b>	<b>100</b>	<b>100</b>
Agriculture, forestry and fisheries	1394	1316	94,4	4,1	4,5
Extractive industry	56	48	85,7	0,2	0,2
The manufacturing industry					
Electricity, gas and water	275	140	50,9	0,8	0,5
Other activities	895	742	82,9	2,7	2,6

Source: Own processing after the Romanian Statistical Yearbook 2009-2010, Publishing National Institute of Statistics, Bucharest

Above average decreases in exports were recorded in the following activities: metallurgical products (-50.6%), coking products of refined petroleum products (-46.7%), chemicals and chemical products (-43.5%), steel construction products industry and metal products (-24.1%) and clothing (-

20.5%), products of the metal construction industry (-24.1%) and clothing (-20.5%). Six of the twenty-two sections of the Combined Nomenclature hold together 71.5% of total exports, as follows: Machinery and mechanical appliances; electrical equipment; sound and image recorders and reproducers (25.4%); Vehicles and associated transport equipment (15,2%); Base metals and articles of base metal (11,4%); Textiles and textile articles (8,1%); Plastics, rubber and articles thereof (5,8%); Mineral products (5,6%).

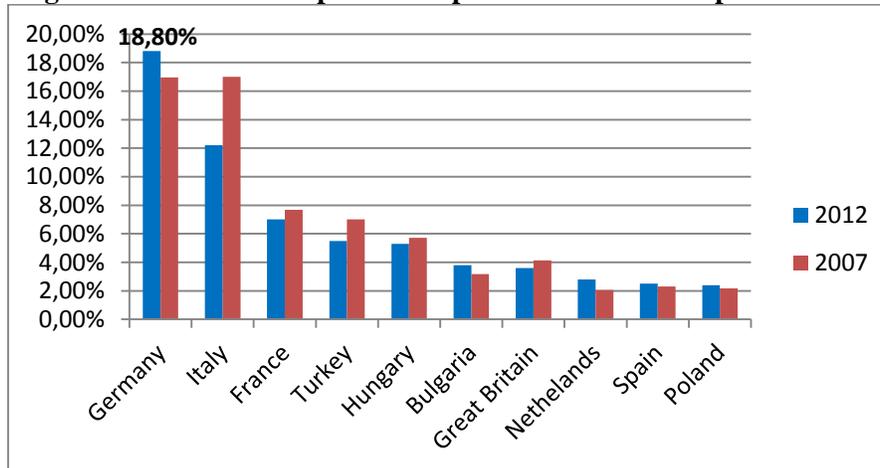
## 2.2. Geographical distribution of Romania’s exports

Regarding the geographical distribution of exports of goods to Romania, the intra-EU exports declined by 9.1% in 2009 compared to the previous year; however, the total exports share was 74.3%, up by 3.8 percentage points compared to 2008.

The year 2011 was marked by the sovereign debt crisis in Europe, the occurrence of natural disasters in Japan and the unrest in the Arab states. Therefore, economic growth reached only 2.4% lower than average of 3.2% from the last 20 years that preceded the year 2008.

The intra-EU exports decreased by 1.8% compared to the previous year. Decreasing sales in Italy and France have made the share of intra-EU exports to decline by 0.9 percentage points compared to 2011, reaching 70.1%. Although the 2009 crisis severely affected the extra-EU exports, in 2012 the export value represented - 29.9% of total exports, surpassing the pre-crisis level by 0.4 percentage points.

**Figure 1 - Romania’s export trade partners in 2012 compared to 2007**



Source: Own processing after the Romanian Statistical Yearbook 2007; 2013, Publishing National Institute of Statistics, Bucharest

As regards the main trade export partners of Romania, in 2012 we can notice an increased share of Germany in Romanian exports to 18.8%, up by 1.85 percentage points from the first year of EU membership (figure 1). At the same time, Germany surpassed Italy and became the main export partner of Romania. The Italy's share in Romanian exports considerably decreased by 4.8 percentage during the 2007-2012 period.

### 2.3. Romania's goods import structure

In 2012, four groups of goods supported the demand of imports counting for almost 75%: Machinery and transport equipment (34.1%), Chemical and plastics products (17.4%), Mineral products (13%) and Base metals (10,7%).

**Table 1.5 - Romania's import by groups of goods**

	Million EUR		Indexes (%)	Structure (%)	
	2011	2012	2012/2011	2011	2012
TOTAL	52686	52449	99,6	100,0	100,0
Food Products	4262	4593	107,8	8,1	8,8
Mineral products	6396	6835	106,9	12,1	13,0
Chemical and plastics products	9034	9152	101,3	17,1	17,4
Wood and paper products	1338	1246	93,1	2,5	2,4
Textiles and article textiles	3981	3915	98,3	7,6	7,4
Base metals	5930	5597	94,4	11,3	10,7
Machinery and transport equipment	18500	17864	96,6	35,1	34,1
Other goods	3245	3247	100,1	6,2	6,2

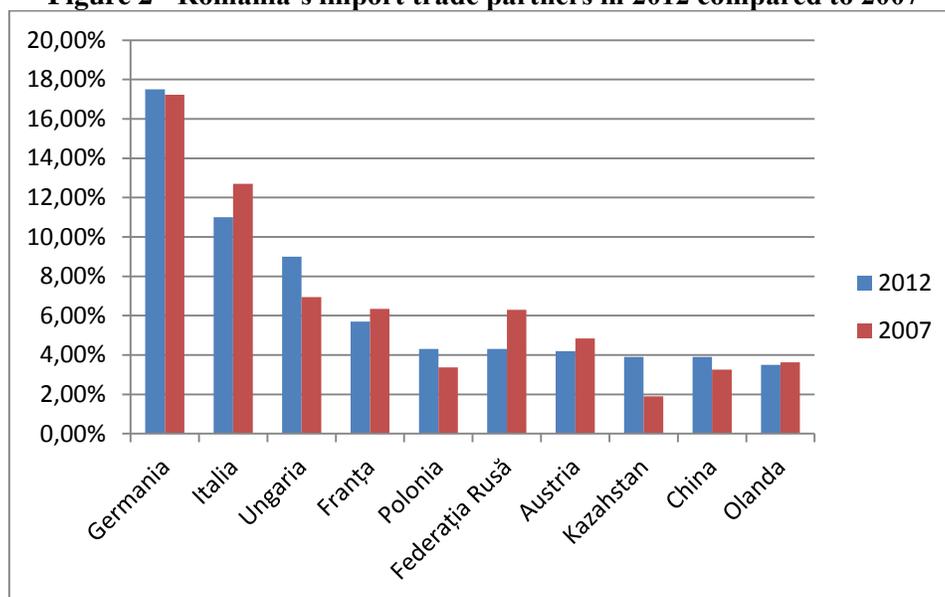
Source: NBR Romania's Balance of Payments and International Investment Position, Annual Report 2012

Six sections from the Combined Nomenclature hold 75.2% of total imports, as follows: Machinery and mechanical appliances; electrical equipment; sound and image recorders and reproducers (26.4%); mineral products (12.7%); Base metals and articles of base metal (10.8%); chemical products (10,4%); Vehicles and associated transport equipment (7.6%); Plastics, rubber and articles thereof (7.3%).

## 2.4. Geographical distribution of Romania's imports

After joining the EU, the share of Intra-EU imports in Romania's imports increased by 0.7 percentage points reaching 74% in 2012. The major contributions have returned to Germany (17.5%), Italy (11%) and Hungary (9%).

**Figure 2 - Romania's import trade partners in 2012 compared to 2007**



Source: Own processing after the Romanian Statistical Yearbook 2007; 2013, Publishing National Institute of Statistics, Bucharest

We also notice a 2% increase of imports from Kazakhstan making it one of the top 10 most important import partners of Romania in 2012. Although Italy's share in Romania's total imports declined by 1.7 percentage points, Italy is still the second partner regarding imports.

## CONCLUSION

Romania is a net importer since it has joined the European Union; however during the crisis the decrease of imports was sharper compared to exports. Our country is part of the group of countries with a lower export dynamics compared to imports.

In 2013 Romania recorded the lowest trade deficit in the last six years. On the background of the economic crisis, exports of goods fell sharply in 2009 (-13.8%); simultaneously there was an even bigger

decrease in the volume of goods imports (31.9%). Both exports and imports have resumed growth since 2010. Although exports overreached the pre-crisis level in 2011, imports overreached 2 years later, in 2013.

Weakened growth in the European Union will continue to affect the import demand, negatively reflecting in both intra-EU and extra-EU trade. Since the trade of goods in Romania is dependent on the EU economy, we believe that, at least in short term, we cannot have positive expectations from the European economy which is still affected by the sovereign debt crisis. We should rather anticipate positive developments in the emerging economies.

After the EU accession, Romania's foreign trade was readjusted according to the situation in the international markets. Romania's foreign trade is not efficient; the trade balance is the best proof for this statement. Romanian exports are below the level of imports with many trading partners. We can explain this by the fact that although there is great potential in exporting towards different countries, who are more efficient and who are supported by the EU through bilateral and preferential trade agreements, Romania has focused mainly on markets it has concluded free trade agreements prior to accession. The share Romania's export and import to the EU countries considerably increased, at the expense of the third countries.

Romania's economy has a higher level of imports for a given volume of exports, a situation caused by the high degree of dependence on imports of Romania's economy. The general conclusion that can be drawn is that the export potential of the economy is quite limited and in spite of an increase in GDP, the trade deficit will not be reduced, Romania continuing to remain dependent on imports to a high extent.

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