

EVOLUTION IN THE TRADE BALANCE OF ROMANIA DURING 1991-2008

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The analysis briefly presents the evolution of the trade balance in Romania for the past 18 years, starting with the evolution of the two indicators, the export and import of goods. Using statistical methods of calculation and analysis, there were highlighted the evolutions of the trade deficit with all the countries, distinct from the States of the European Union and for the main partners of Romania, as well as the evolution of the degree of coverage of imports with exports. The last year of the series, the second one as a member State of the EU, has been analyzed in more detail, both by main partners and sections of the Combined Nomenclature of products. Finally there were drawn the main conclusions.

Key words: FOB Export, CIF Import, Trade Balance

JEL classification: C10, F10, F49, O11

Introduction

The statistics of goods' trade represents an important element in calculating the balance of payments of a country, as well as for the calculation of the Gross Domestic Product, and in general it is a reference for the economic wealth of a nation. At the national level of economy, the state of equilibrium, determined by the economic and financial flows, is achieved through the balance of foreign payments, which remains the main instrument for measuring the external competitiveness of the national economy.

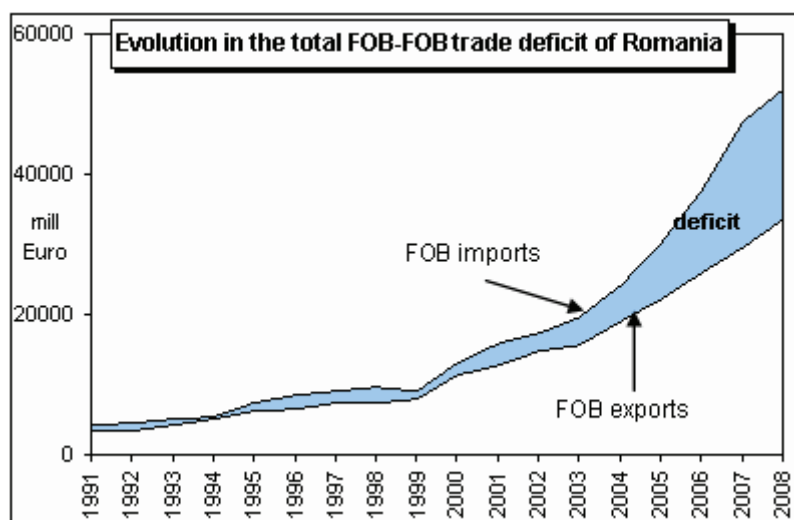
Data source and manner of expression

To highlight the balance of foreign trade, there should be observed both exports and imports of a country. If by the end of 2006 they had as source of data the customs declarations recorded through the National Authority of Customs, starting with 1 January 2007, the task for collecting foreign trade data for the flows inside the European Union was held by the National Institute of Statistics, and for the flows outside the Union it is used the old system. The statistical evaluation of the exports is made in FOB prices (free on board) and of imports in CIF prices (cost, insurance, freight cost, freight). In the case of exports, the value of FOB, or free-frontier exporting country, is the value of the exported goods at the place and time when the goods leave the statistical territory of Romania (value at which the goods were sold by the exporter, including transportation costs, insurance and other expenses for bringing the goods to the Romanian border and loading them on the ship). For imports, the value of CIF or free-frontier of the importing country, is the customs value of imported goods at the border point of entry into Romania (value at which goods are purchased by the importer, including transportation costs and insurance for bringing the goods to the Romanian border). Note that the imported goods under the conditions of CIF delivery, or free-frontier of the importing country, are assessed by value and in FOB prices, in order to calculate the trade balance under FOB-FOB conditions, by applying a conversion factor CIF/FOB of 1.0834, determined through a research conducted at the main profile companies. Goods imported under FOB delivery, or free- border country from which there are imported, are assessed in CIF prices by adding to the price of goods the expenses for transporting the goods to the Romanian border, and the expenses related the insurance of the goods. The foreign trade balance, which represents the external balance of the national economy, is the result of an analysis of the current account balance of foreign payments. Trade balance is

an evidence of growth or decrease in the performance of an economy. In the case of the Romanian economy, the trade balance holds the majority share in the current account balance, and briefly and quickly characterizes the economic development of the external balance: Trade Balance = Export - Import

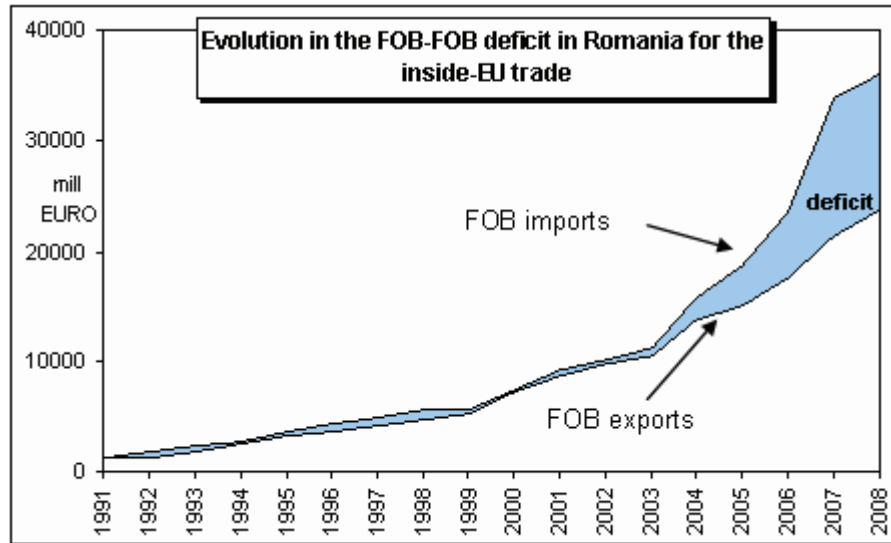
Evolution of the trade deficit in Romania during 1991-2008

Before we talk about a deficit of the balance of foreign trade operations, let's briefly analyze the developments of the two indicators, export and import for Romania. If in the last years of the centralized economy exports have evolved somewhat forced on an upward line since 1990, with the opening to the outside world created by the new political system, imports began to exceed the level of exports. Thus, 1989 was the last year with a positive trade balance. Everything restricted until 1990, could be achieved after year, the consumption desire of the people for all products outside our country have contributed to a massive increase in imports. On the other hand, the low degree of the technologization process of the Romanian industry, the reorganizations occurred afterwards, the increasing requests for the quality of products from other countries, have led to the reduction by half of the exports in the years 1990-1991 compared to 1989. In the first two years of the transitional period, the volume of production and investment decreases, there are lost the traditional market outlets for our country by abolishing the former Council of Mutual Economic Aid (CMEA), therefore the volume of export is drastically diminished. As a consequence of these developments, in 1993 it is recorded the greatest decrease in the GDP.

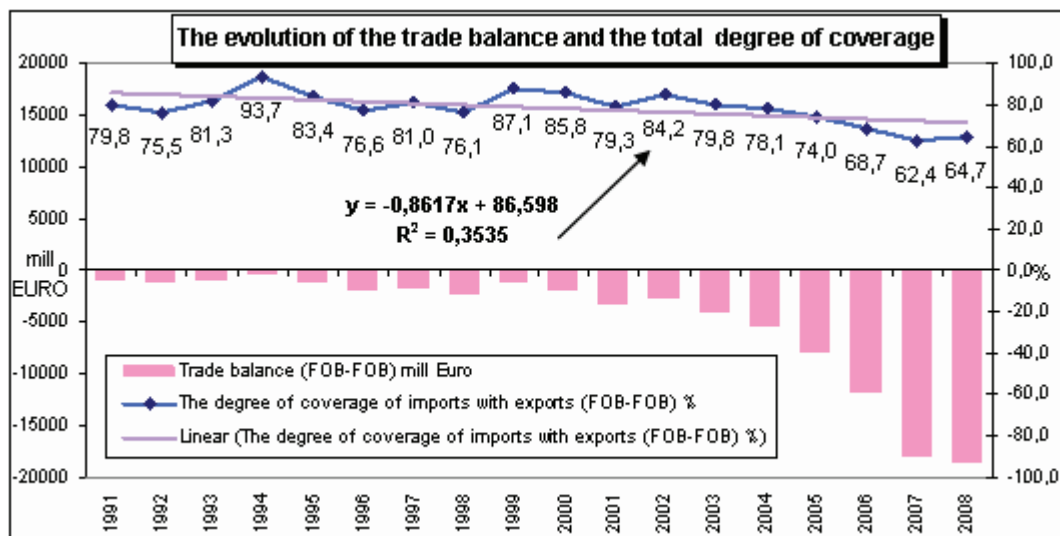


In the period 1993-1996, it is gradually stopped the economic decline, and there are attempts of boosting the production and exports. The years 1997-2000 represent a period of consolidation of the economic reforms, privatization of large state businesses, the liberalization of the exchange rate regime and reducing customs duties on imports, there are promoted by legislative measures the Romanian and foreign investments, leading to an export growth by over 70% in these four years. As it can be seen in the graphic evolutions, the export increases, initially slowly, but also increase in parallel the imports, maintaining the deficit in the period 1994-1999 at a relatively small level. Year 2000 marks the macroeconomic stabilization and the relaunching of the economic growth, leading to positive developments, due to the preparatory actions of Romania's accession to the EU. Period 2001-2006 brings an improvement to the business environment, external cooperation, especially with the European Economic Community, and an increase in the volume of investments in general and especially the foreign ones.

Comparing the developments in Romania's total deficit with the foreign deficit only with the EU countries, there is observed a better development towards this direction. The total negative trade balance, with the exception of 1994, was always greater than the trade inside the EU, its share in total swinging around 50%.



If at the beginning of the transition period the exports with the EU States represented only 58.7% of the exports with the States outside the EU, since 1995, it starts to outrun it, reaching from 2001 to be permanently over 2 times higher. Also, if in 1991 imports from the EU countries represented 40.3% of the ones from the states outside the EU; at the end it reaches to be 2.2 higher.

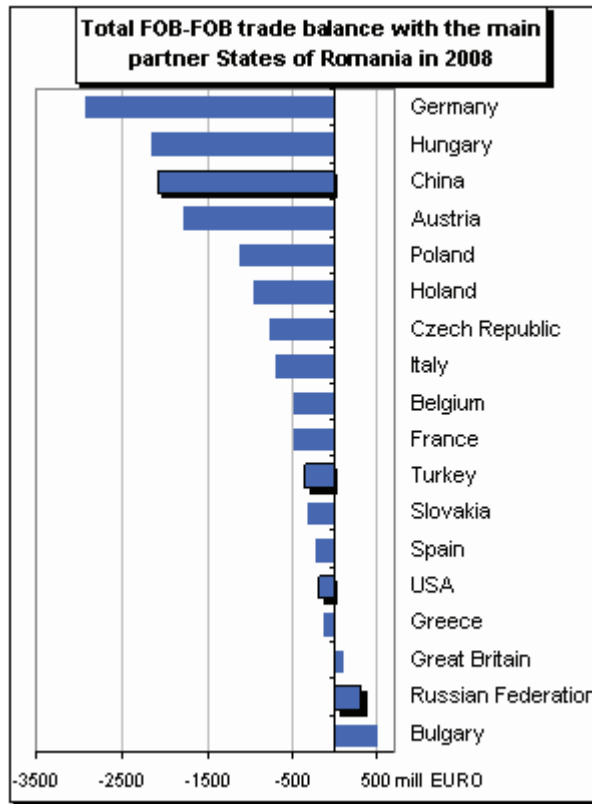


These developments have led to a positive FOB-FOB trade balance with the EU States over the period 1999-2003, while in the case of the trade with the States outside the EU, for the same period, the degree of coverage of imports by exports is maintained between 65 and 83%, largely influencing the total deficit of Romania. Analyzing the trend in total exports, it is observed an increase of 9,6 times over the entire period, with +1773 million euro as an annual average, while the growth in imports is 11,9 times, with +3.035 million euro as an annual average. Due to the growth of imports over exports in total in a higher rate, it also increased the trade deficit 20,8 times in those 18 years, bringing an average annual growth of the deficit of 1028,7 million euro.

Thus, in total, in 2008 it reaches a deficit of -18372 million and a degree of coverage of imports with exports of 64,7% compared to -885 million euro at the beginning of the period (1990) and 79,8% degree of coverage. The past three years also bring the greatest deficit, the coverage degree swinging around 65% in total. It also increases the deficit with the member States in recent years, reaching a coverage degree of 71,4% in 2008, while in the case of external trade it maintains itself between the old limits (67,2%).

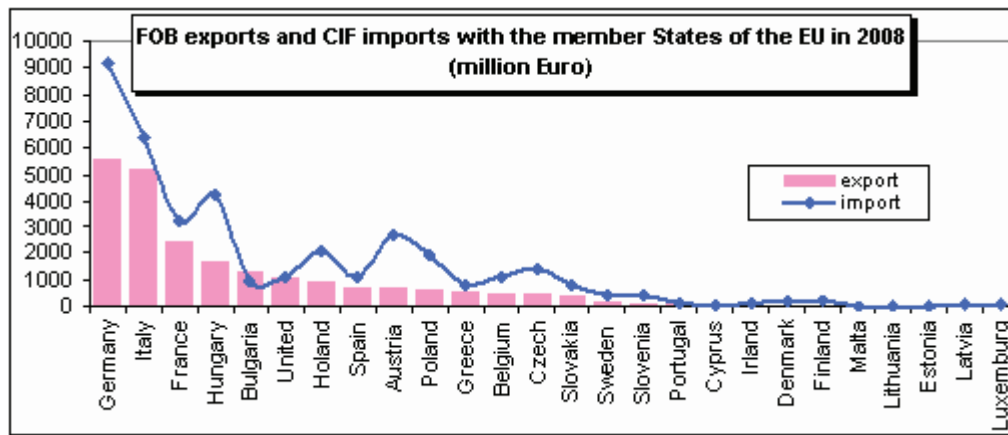
Romania’s main partners in foreign trade relations

The first 20 partners ordered after the foreign trade balance from 2008 are presented in the graphical diagram below. Germany, which is also the main partner in both export and import, brings Romania a deficit of -2.928 million euro and a degree of coverage of imports with exports of 65,5%. In the case of trade with Hungary, the deficit is 2.148 million euro, followed closely by China. In fact, the only states which are not part of the EU and are in the top positions are China, Turkey and the U.S.A. for the deficit and at surplus we find the Russian Federation.

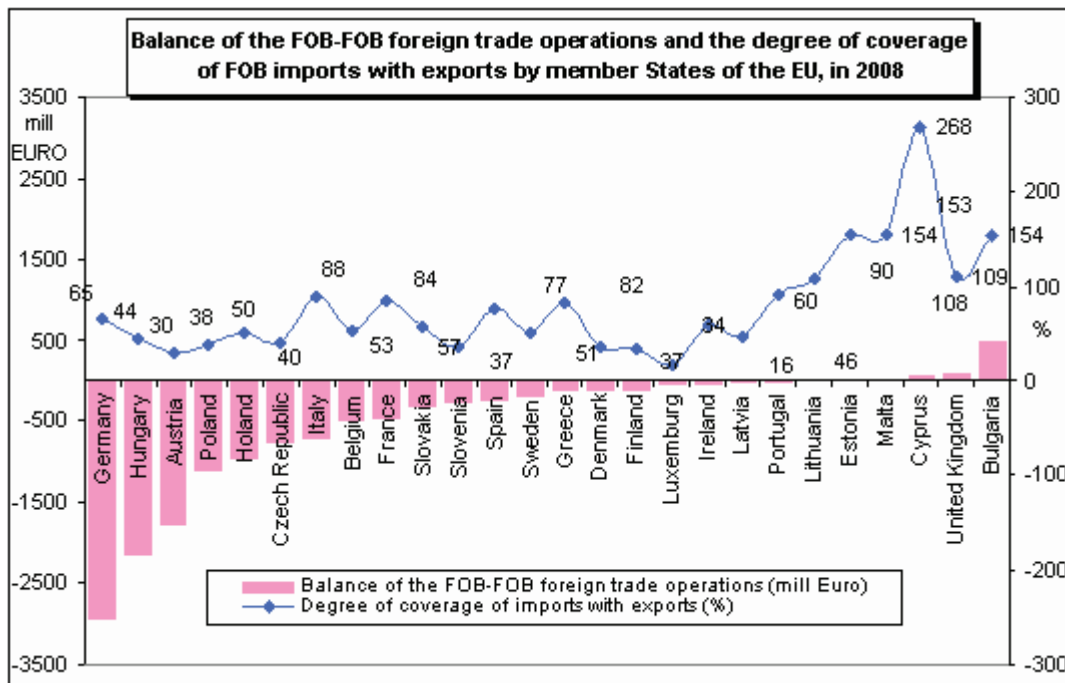


The export and import situation by member States in 2008 shows a surplus trade balance only in the trade relationship with Bulgaria, the United Kingdom, and in a much lower absolute volume with Cyprus, Malta, Estonia and Lithuania.

Even if imports exceeded exports in general in most States, it is very important the geographical shift in these years of transition, towards countries with a high degree of competitiveness. Penetration of the Romanian products on strongly developed economic markets also reflects an increased degree of quality, the influence of foreign investments in Romania in the second part of the period.



On the first places in Romania's commercial relations are consistently in the last years, Germany, Italy and France, these partners concentrating nearly 40% of the inside-EU exports and almost 50% of the imports.

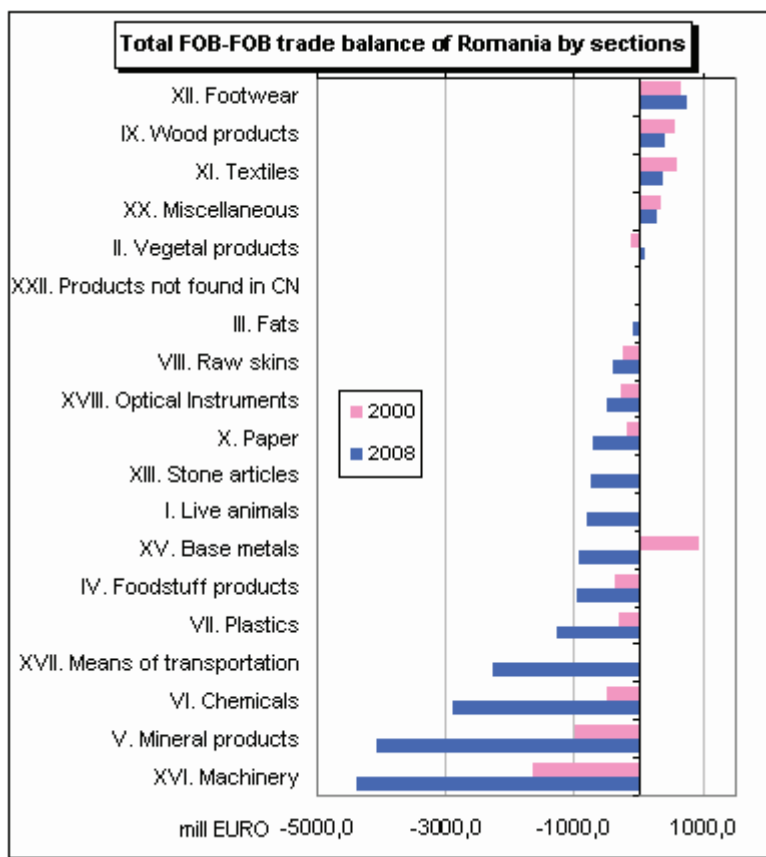


Trade balance deficit by sections from the Combined Nomenclature

The structure by groups of goods both for imports and exports has changed during the transition period, due to increasing competition, the reconfiguration of the outlet markets and also due to the shift of production activity. Relatively low costs in the textile industry, in the footwear, caused mainly by low labor costs, have led to an increase in the lohn export type in the second part of the transition period. This led to an increase in both exports and imports of these product groups, because they are made in our country, with imported raw material, the products being entirely intended to the suppliers of the raw materials, bringing eventually a very little money contribution. For this reason, the degree of coverage of imports with exports to these groups is favorable, the difference consisting mainly of the additional manual labor to exports over imports. Therefore, in the first place in 2008, as a positive trade balance and a degree of coverage is situated the section of footwear (+725,4 million euro and a ratio between exports and imports

of 2,4 times, unlike 3,8 times in 2000, at a trade balance of 634,3 million euro). In the third place there is the textile section, at which decreases both the absolute surplus and the coverage degree in the past 8 years, from 127,2% in 2000 to 111,4% in 2008.

In 2000, the greatest degree of coverage is observed in the wood products section (excluding furniture), exports being 7,3 times higher than imports, due to the irrational exploitation of forests and also due to the export of products with a low degree of processing. This situation has been somehow hampered by restrictive legislative measures towards this direction, leading to an increase in imports during this period of 6,4 times, and in exports of only 1,5 times, reaching a degree of coverage of 170,4%. The base metals section had a negative trend from this perspective, from a degree of coverage of 200,3% in 2000 to 83,9% in 2008, mainly due to the decrease with -22,5% in exports. The greatest absolute deficit in all these years was brought by the machinery and electrical appliances, followed by mineral products, and in the last year also pointed out the group of chemicals, means of transportations and the plastics.



Conclusions

Although foreign trade relations have seen positive developments and especially qualitative ones after 2000, the trade deficit continues to show a still fragile economy from an economic point of view. Analyzing the latest evolutions in the balance of payments, the government has already drawn the development strategy, directing through financial leverage the foreign economic activity. It is estimated that starting with 2010, the trade balance would become positive by increasing the effectiveness of the measures taken in import-export operations.

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