

## ROMANIA'S EXTERNAL TRADE, FROM THE GREAT UNION TO THE INTEGRATION INTO EUROPEAN UNION

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**Abstract:** *International trade has fundamentally changed the world we live in, over the past century, under the influence of both geo-political factors and unprecedented technological developments in transport, information and communications. Starting from this assertion, the present paper attempted to capture the essential characteristics of Romania's trade, from the Great Union, in 1918, to the integration into European Union, analyzing the historical stages, defined by the political, economic or social events that happened during these one hundred years. The first period under analyze is the interwar period, 1919-1938. The destructions that were brought by the World War I were strongly felt at the beginning of this period, so all efforts were focused on the restoration and consolidation of the economic development of the country. The gradual recovery of agricultural and industrial production has given a moderate economic development in the 1924-1928 years, abruptly disrupted by the great economic depression, a strong global crisis which affected most countries of the world, in the period 1929-1933. The Romanian economy resumed its development in 1934, especially under the influence of the revival of national industry, strongly supported by state reforms and trade policy, until 1938, when economic growth per capita reached the highest level that has ever been recorded until then. The outburst of the World War II in 1939 has stopped the economic upturn of Romania, both industry and agriculture being affected by the lack of imported raw materials and available labor force. The post-war period also contains several milestones, of which the most important, from our analysis point of view, are the Stalinization and consolidation of communist power (1945-1964) and the socialist period (1965-1989). After 1990, Romania's economy evolved under the impact of some factors as: the trade liberalization, the transition to the market economy and the steps taken towards obtaining the status of EU member state (in effect since 1st of January 2007). Currently, Romania is in the post-accession stage and on the way to its integration into the EU, trying, through economic and social policies, to provide the premises for healthy economic growth, development and modernization, in order to reduce the existing gaps as against the more developed EU Member States.*

**Keywords:** *external trade; export; import; Great Union; European Union; economic crisis.*

**JEL Classification:** *F10; F15; F31.*

## Introduction

Romania's participation in World War I, between 1916 and 1918, led to the country's union with the territories inhabited by the Romanians in Austria-Hungary (Transylvania and Bukovina) and in Russia (Bessarabia), union which received international recognition at the Congress of Paris, during 1919-1920. Almost one hundred years have passed since the Great Union of the Romanian Principalities, a period with many important economic and political events, which have definitely had an impact on the evolution of Romania's external trade: 1919-1938 interwar period, 1945-1964 communist period, 1965-1989 socialist period and 1990-2017 period. The political, economic and social events that have accompanied these periods have definitely influenced the evolution of Romania's foreign trade in the last century, whose main features are highlighted in this paper.

The analysis of the evolution of exports and imports of goods in this period is based on lengthy statistical series, comparable, as much as possible, and detailed on different product structures and partner countries.

### 1. Literature review

The unanimous opinion of the economists, and beyond, is that the last century has made incredible changes in almost every field of activity, and external trade is not an exception, as businesses around the world are now running faster and more efficient than ever. O'Brien has identified four major ways in which international trade has changed over the past one hundred years: improving domestic and international transport; progress in communications, logistics and supply chain technologies; improving geo-political relations and boosting the opening of trade; the increased ability to maximize the global potential of a company. (O'Brien, 2015)

The rapid advances in communications and transport technologies have facilitated major innovations in many areas, generating increased productivity and leading to stronger commercial and financial links. The last one hundred years have foreseen profound changes in the volume, direction and nature of international trade: world trade in goods and services has grown rapidly, helped by the liberalization of trade policies around the world. Intra-regional trade flows have also become more prominent in the proliferation of regional trade agreements. Intermediate goods trade has grown rapidly and led to cross-border supply chains, companies can now be positioned at different stages of the production process in several countries. (Kose & Ozturk, 2014)

From a historical perspective, external trade has experienced remarkable transformations in the last century, especially after the World War II, and in recent decades the expansion of trade has been faster than ever, the sum of exports and imports between nations being more than 50% of the world production (Ortiz-Ospina & Roser, 2018).

According to Ivanov, the development of Romania in the interwar period was influenced, on the one hand, by the immediate consequences of the World War II and by the major changes it has caused for a long time and, on the other hand, the new foundation of the national state, with greater resources and able to produce better economic policies than before the war. (Ivanov, 2013).

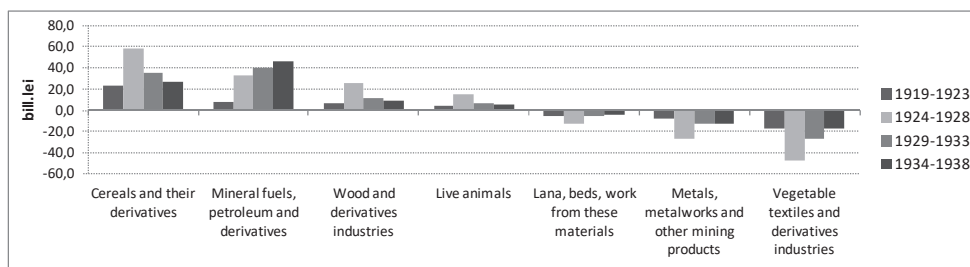
Beyond the national history, Romania's trade has, in most cases, been framed in the context of world trade.

## 2. Historical stages of the trade evolution between 1918 and 2017

The increase of Romania's external trade in the interwar period is a consequence of the openness of the newly created state towards the rest of the world and of a worldwide eagerness favouring the reconstruction and cooperation among the countries (Gogoneata, et al., 2008).

The four stages of the interwar period analyzed in the current paper are presented in the Figure 1. Romania's basic exports consisted mainly of agricultural products, wood, mineral fuels and oil. The imports envisaged industrial products, semi-finished products, machinery, installations and raw materials hard to be found at a national level. Predominantly in all stages were imports of vegetable textiles (with weights between 32.4% in the first stage and 22.4% in the last stage), metals, metalwork and mining products (15.5% in the first stage to 17.1% in the fourth stage), wool, blankets and similar articles (9.6% to 6.1%), machinery, engines (6% to 1.6%).

Among the four stages of the interwar period, the trade balance had a negative sold only during 1919-1923, due to the large imports of goods needed to recover the national economy immediately after the war. Between 1919 and 1923, about half of the exports were cereals and derivatives, while at the end of the interwar period oil and petroleum products accounted for an average of 45% of total exports. In 1936, Romania exported about 6.9 million tons of oil products in over 40 countries from all continents, the most important quantities being exported to Germany (1072.4 thousand tons), France (866.3 thousand tons), England (846.3 thousand tons), Italy (655.1 thousand tons) and Egypt (300.9 thousand tons).



**Figure 1.** Top of the positive and negative trade balance of the main product groups in the interwar period –over 4 billion lei per stage

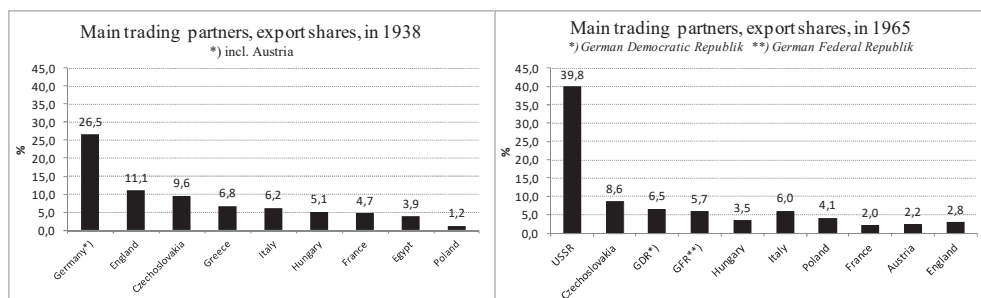
Source: own calculations based on data from the Romanian Statistical Yearbook, 1939 edition

The beginning of the World War II in 1939 stopped export growth, in close correlation with the impossibility of importing the raw materials needed for production. Agriculture has also been marked by the start of the war, which has reduced the labor force availability and has led to a decline in exports of cereals and other agricultural products since 1939.

The geographical orientation of trade has changed a lot over the interwar period. If in 1919 the main export partner country was Czechoslovakia (21.3% from total export), in 1938 exports went mainly to Germany (26.5% - fuels, cereals, live

animals, wood) and England (11.1% - fuels, cereals and animal food). In the case of imports, about 73% of Romania's total imports came from Italy, USA, England, France and Greece in 1919 while, in 1938, Germany (36.8%) and Czechoslovakia (13.1%) were the main import partners.

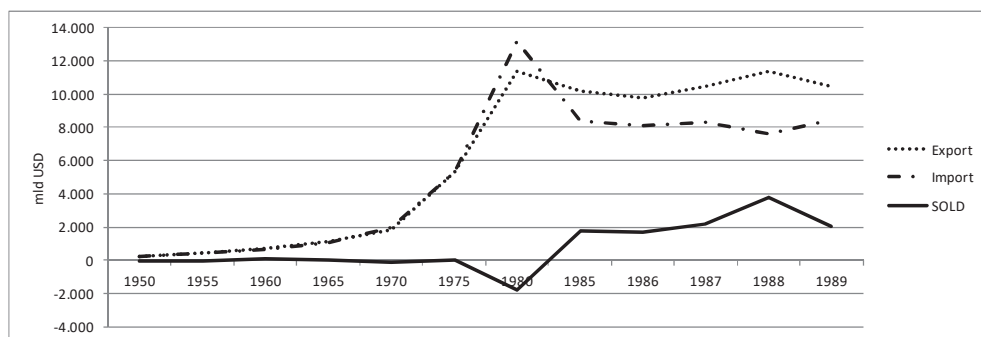
In 1938, Romania's export to Russia accounted for only 19.9% of the total export volume. After the war, in the years 1945-1946, the period of Stalinization and consolidation of the communist power has started as characterized by important changes in the geographical orientation of Romania's exports. As a result of the country's entry into the USSR's sphere of influence, about 95% of Romania's exports went to Soviet neighbours in these years. Since 1949, with the founding of Council for Mutual Economic Assistance (CMEA), Romania's main trading partner remained the USSR, followed by Czechoslovakia and the German Democratic Republic.



**Figure 2.** Geographical orientations of exports in 1965, as against 1938

Source: *Romanian Statistical Yearbook, editions 1939 and 1990*

By the end of the first communist period, in 1965, the share of exports to the USSR diminished to about 40% of total exports, as did the share of imports from the USSR, which reached 37% in 1965, compared to over 60% in 1946. The orientation imposed by the USSR on the line of self-isolation of the socialist countries from the rest of the world, aggravated by the blockade and commercial discrimination policies developed by the capitalist countries towards the socialist countries, has delayed the economic recovery process of Romania as well as of the other countries in Eastern Europe.



**Figure 3.** Evolution of exports, imports and trade balance, between 1950 and 1989

Source: *own calculations based on data from the Romanian Statistical Yearbook, 1939 and 1990*

Since 1950, when the level of pre-war economic development has been reached, the evolution of the exports, imports and trade balance of Romania is presented in Figure 3. Analyzed along a 40 years period, the evolution of the external trade of Romania shows that in 1989, compared to 1950, the export increased almost 50 times, while the import increased about 32 times. This indicates firstly the fact that, between 1950 and 1989, the export potential of Romania was better capitalized, especially after 1965, when the second communist period or the socialist stage of the country began.

By decades, over the period 1950-1989, Romania's export and import dynamics outlines a similar growth rate of both trade flows in the 50s, 60s and 70s. In the 1980s, the export growth rate was higher than that of imports, given the export-forcing policy intended for external debt payment. Romania's trade balance from 1950 to 1980 was generally negative, while from 1981 to 1989 the trade balance was positive, with an average surplus of about 2 billion USD per year.

Geographical distribution of Romania's trade during the period 1950-1989, illustrate that, between 1960 and 1980, the CMEA member countries, as the main trading partners of our country, constantly reduce their weight from 88,1% in 1950, 65.6% in 1960 and 38.3% in 1980. After 1980, alongside with the decrease in trade with the CMEA countries, trade with the countries of the European Economic Community (EEC, formed in 1958 in Belgium, France, Italy, Luxembourg and the Netherlands, Denmark, Ireland, England in 1973, Greece in 1981, Portugal and Spain in 1986) started to become more and more attractive.

**Table 4.** Trade of Romania by groups of partner countries

	in % as against total export / total import							
	1950	1960	1965	1970	1975	1980	1985	1989
<b>Total export</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total import</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
from which								
<b>Economic Council of Mutual Assistance (CMEA)</b>								
export	88.1	65.6	63.7	50.3	38.6	38.3	38.1	39.9
import	77.9	67.8	56.4	48.1	37.0	31.0	44.9	54.8
<b>European Economic Community (EEC)</b>								
export	1.9	13.1	14.7	20.2	21.2	22.9	25.0	25.2
import	5.6	14.5	21.0	22.0	24.9	16.0	10.1	5.6
<b>European Free Trade Agreement (EFTA)</b>								
export	2.9	6.8	7.0	8.1	6.8	4.2	2.9	3.3
import	8.8	6.8	8.9	12.0	9.8	4.1	2.0	1.3
<b>Organisation of Petroleum Exporting Countries (OPEC)</b>								
export	0	0.3	1.0	3.5	8.4	6.3	8.4	6.3
import	0	*	0.3	1.5	6.9	21.3	12.2	21.0

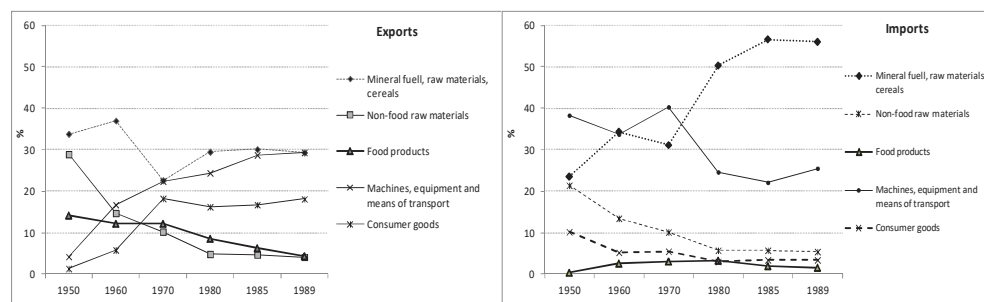
Source: *Statistical Yearbook of Romania, editions 1976, 1981, 1990;*

Note: data for the year 1950 were reconstituted in the case of EEC and EFTA, for comparability.

During the analyzed period, the share of trade with the CMEA, EEC, and OPEC countries had a downward trend, from over 92% in 1950 to 85% in the 1960-1965 to an average of 65% in 1989. Between 1965 and 1980 the strong growth of the Romanian industry intensified trade with the EEC countries, exports to EEC registering a 12 times increase in 1980 compared to 1965. All these changes in Romania's external trade relations, in short time period of several decades, explain the instability of the geographical orientation of our country's export and import. The oscillations in the volume of its external trade, the negative trade balance and the

poor efficiency of Romania's trade, are revealed by the high share of relations with countries whose level of development was much higher.

The progress made in the post-war economic development of the country, the intense development of industry, especially branches such as machine building, chemistry, metallurgy, construction materials, etc., resulted in an increase in industrial production (which in 1989 was 30 times higher than in 1950), with an impact on the structure of exports and imports. In 1990, industry provided 99% of Romania's exports.



**Figure 4.** Structure of exports and imports, by product group (%)

Source: *Statistical Yearbook of Romania, editions 1976, 1981, 1990*

The volume of exports grew-up 42 times in 1980 compared to 1950 as a result of the increase in exports of machinery, equipment, means of transport (239 times), chemicals (236 times), consumer goods (486 times). This has led to an increase in the share of products with a high degree of processing and higher foreign currency input, consequently to 57% of exports in 1989 compared to 7.2% in 1950. The most exported such products were locomotives, bearings, electric transformers, trucks and cars, chemicals, aluminium, TVs, refrigerators, radio sets, etc.

Romania's imports in the post-war period were aimed at the rapid development of the national industry, endowing the newly created enterprises or upgrading the old technologies. At the same time, the raw materials needed for industrial production (iron ore, manganese, coke, coal, etc.), petroleum, natural gas, needed for petroleum, chemical and energy industries were imported. In fact, the imports of the fuel, mineral, raw materials, cereals group increased from 23.5% in 1950 to 56% in 1989. The evolutions recorded by the two groups - machinery, equipment, means of transport and fuels, minerals, raw materials, cereals have increased their cumulated export share from 62% in 1950 to 82% in 1989.

On the other hand, the development of domestic production but also the policy of excessive constraint on imports of agro-food and consumer goods in order to save freely convertible foreign currency to pay external debt, especially in the 1980s, reduced the cumulative weight of these goods from 31.6% in 1950 to 8.8% in 1989.

#### **External trade in the period 1990-2017**

If, in recent years of centralized economy, external trade policy was geared towards maintaining exports at the highest level and drastically reducing imports, with severe consequences on the quality of life of the population, the situation has changed radically since 1990. The last year of the centralized communist economy - 1989, was also the last year in which the trade balance was surplus, after which imports,

steadily and increasingly, exceeded exports. The evolution of the balance of trade balance was influenced by the loss of traditional markets, by the abolition of CMEA in 1991, the dismantling of the USSR and the abandonment of the barter system as of 1 January 1991. The steps taken for the decentralization and liberalization of exports made them considerably reduced in the first four years of the transition economy (in particular agro-food and consumer goods), reaching in 1993 only 55% of 1989 levels. Hardly, in 2001, exports exceeded the level of 1989. With regard to imports, after a 9% increase in 1990 compared to 1989 (as a result of massive acquisitions of agro-food products and consumer goods), they decreased in the following years. The level of 1989 is to be overtaken again in 1995, when Romania became an active member of the WTO and preparations for the EU association stage begin.

Romania's economic evolution has been different over the four periods of post-socialist history. The pre-association and association periods were marked by the severe economic downturn, recorded in GDP evolution in 1990-1993 and 1997-1999. However, exports and imports have increased slightly, although GDP has exceeded the 1990 level only in 2001. The higher dynamics of imports and exports compared to GDP created the premises for a gradual openness of Romania to the world economic circuit. If, in 1990, exports of goods amounted to 4.3 billion euro, by the end of 2016, they rose more than 13 times to about 57.4 billion euro. In fact, in 2016, the monthly value of Romania's exports is equivalent with the value of yearly average export in the pre-accession period to the EU.

Although the growth rate of the exports was higher than that of the imports, the volume of imports exceed the exports one and, as a result, the coverage of imports through exports is unfavourable to the economy, meaning that Romania does not compensate for imports through export activity.

**Table 5.** Evolution of Romania's exports and imports, by main groups of partner countries, until the accession to the European Union

Partner country group	EXPORT						IMPORT					
	billion euro			Weight in total export (%)			billion euro			Weight in total import (%)		
	1990-1995	1996-2000	2001-2006	1990-1995	1996-2000	2001-2006	1990-1995	1996-2000	2001-2006	1990-1995	1996-2000	2001-2006
<b>Total</b>	<b>23.1</b>	<b>40.6</b>	<b>110.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>39.3</b>	<b>53.8</b>	<b>157.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
from which												
Europe	20.0	30.1	94.3	86.7	74.2	85.7	25.7	46.1	144.3	65.3	85.8	91.8
from which												
EU	11.7	24.8	75.5	50.6	61.0	68.6	14.4	29.2	105.8	36.6	54.4	67.4
EFTA	0.5	0.4	1.4	2.0	1.1	1.3	0.8	0.8	2.2	2.1	1.5	1.4
CEFTA	1.4	2.5	6.0	5.9	6.2	5.5	2.3	4.3	8.3	6.0	8.0	5.3
Africa and Middle East	4.0	3.1	5.5	17.2	7.6	5.0	6.3	1.7	2.4	16.1	3.2	1.5
Asia and Oceania	2.9	2.4	6.4	12.5	5.8	5.8	2.3	4.4	16.3	5.9	8.2	10.4
America	1.6	2.2	4.7	6.8	5.3	4.3	2.8	3.5	9.2	7.1	6.4	5.8

Source: own calculations based on data from the National Institute of Statistics - Tempo database, Romanian Statistical Yearbook - time series. Notes: EU12 between 1990 and 1994, EU15 between 1995-2003, EU25 between 2004 and 2006; CEFTA - 1990-2003 Poland, Hungary, Czech Republic and Slovakia, Romania, Slovenia; 2004-2006 Romania, Bulgaria and Croatia, 2006 including Macedonia

After 1990, the geographic orientation of Romania's imports prevailed in the European countries (Table 2). The trend of intensified trade with the EU was manifested with the submission of Romania's application for EU accession in 1995. Adapting trade policy and legislation to the requirements and conditions imposed by the EU under the impact of the adoption of a new import customs tariff, gradual

reduction of customs duties on industrial products and quantitative restrictions on the exchange of goods subject to processing, partial liberalization of trade in agricultural products was part of the Romania's road to EU membership.

At the same time, trade with the countries of Africa and the Middle East had a pronounced downward trend due to political tensions and economic problems in these areas, while trade relations with Asian countries were marked by increased imports after 2000, when China joined the WTO (China being today Romania's largest non-EU partner on import).

The strong dependence of the intra-EU trade, especially the Euro zone, is a vulnerability of the Romanian economy, but in the last years a higher geographic diversification degree is observed, exports to non-EU countries being slightly increasing. The average share of exports to the EU increased from 50.2% in the pre-association period to 73.7% in the pre-accession period, with the share dropping to 71.9% after joining the EU, in the period 2007-2016. Unlike exports, the share of EU imports increased continuously, from 47.9% in the period 1990-1995 to 75.9% in the post-accession period.

### **3. Characteristics of the decade 2007-2016; integration into the European Union, the impact of the global economic crisis and the resilience of exports**

The evolution of Romania's international trade after 1990 has occurred in the context of efforts for accession and integration into EU, under the influence of both advantages and costs. Unfortunately, the impact of the global economic and financial crisis since late 2008 has overlapped on the effects of joining the EU on 1 January 2007, combining these two events making it particularly difficult (if not impossible) to delimit their individual influence on the evolution of external trade, starting with 2009. The way in which the Romanian external trade has responded to the factors of influence can be appreciated on the basis of criteria such as: the evolution of the specific statistical indicators in the year 2016 as compared to 2007; the magnitude of the economic downturn in 2009 and 2010 as a result of the negative impact of the crisis; the speed of resilience of exports; economic sectors which during the crisis did not fall, i.e. they resisted the crisis. (Zaman, 2016).

Excluding the mineral fuels, lubricants and related materials group, which recorded decreases in the volume value in 2016 compared to 2007, the other export categories registered increases, of which 6 times the group of food stuffs and live animals, more than 4 times in the beverage group, tobacco, about 3 times in transport machinery and equipment, etc.

In the 2009 and 2010 crisis years, there were no decreases in exports to live animals, food, beverages and tobacco, transport means and equipment. These exports proved to be resilient to the shocks of the crisis, most of them being raw materials and semi-finished products offering importers the possibility of further processing and emerging from the crisis more quickly. For example, the means and transports group recorded increases in exports of +3% in 2009 compared to 2008, +26% in 2010 compared to 2009, which is explained by a favourable conjuncture for the respective markets.

The crisis impact on imports was far more strongly than on exports, in case of all groups of goods, which also had a favourable effect in reducing the very large trade deficit in 2007 and 2008.



With regard to recovering the decline caused by the economic and financial crisis, exports have fallen much faster than imports. Thus, in 14 of the 21 CN2 groups, the export level in 2010 was higher than in the 2008 pre-crisis year, and in textile, shoes needed two years to recover from the crisis.

## Conclusions

Current reality proves that the evolution of trade between 1918 and today is circumscribed to the international context, Romania being today fully integrated into the world economic circuit although the gaps towards some developed states persist and are not easily to be overcome.

Romania's accession to the EU meant a higher negative trade balance, from -47.0 billion euro in the pre-accession period to -114.1 billion euro in the post-accession period (2007-2016). The largest negative balance of Romania's trade balance registered in 2008 when it reached the level of -23.5 billion euro, and then it decreased to -5.8 billion euro in 2013 and returned to the upward trend, to -10 billion euro in 2016.

In the post-accession period, compared to the pre-accession period, Romania's negative annual trade balance doubled, deterioration being due to the low competitiveness of Romanian exports on the EU market as well as the impact of the financial crisis that diminished the export demand of partner countries of Romania.

Romania's high degree of dependence on the EU (over 70%) must be taken into account when it comes to diversifying national exports. The problem that can be raised in the current context concerns the relationship between the intra-EU and non-EU trade of Romania and it is based on a strategy for estimating the maximum limit (optimal level) up to which the share of EU countries in the exports and imports of Romania could reach, given the fact that globalization offers opportunities to take comparative and competitive advantages in relations with non-EU countries. Theoretically, arguments could be put forward to support a higher share of trade with EU Member States, given the rather extensive complementarity and the benefits of free movement of labor force, goods, services and capital.

However, the explanation of the factors that determine different proportions of the intra-EU and extra-EU trade, in time, implies a complex, multi-factorial approach that rather impresses the possibilities of capitalizing on the competitive advantages of some countries or regions, depending on the particularities and the conditions of exchange offered by each partner.

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