

# The External Trade of Romania: Evolution Trends

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## Abstract

*In most cases there is a direct link between the economic development and the foreign trade of a country. Over time, Romania has not been an exception to this rule. Engaged in the capitalist mechanism both in the interwar period and in the period elapsed since 1990, Romania has been held between the interests of foreign capitalism and the decisions of a political class that did not always rise to the level of the times when it exercised its power.*

*On top of these, a series of negative impact events such as wars or crises have overlapped. Despite all the investment efforts made, the impact of Romania's economic development on foreign trade was limited during the socialist era. As regards the volume of foreign trade, the trade balance, the structure of exports and imports, the value of exports per capita, Romania's evolution was generally modest. Practically, with some exceptions, Romania's involvement in international trade was below the economic potential of our country throughout the analyzed period.*

**Key words:** export, import, trade balance, crisis

**J.E.L. classification:** F19

## 1. Introduction

The economic evolution of a country, and implicitly its participation in the world economic circuit, depends on a number of factors, among which the most important are the political decision and the international economic context.

In the last one hundred years, the evolution of Romania's foreign trade can be structured in three intervals, all three passing a deep global crisis.

Broadly speaking, the interwar period can be characterized by the efforts made to restore the economy after the First World War and the great economic depression of 1929-1933. Romania's capitalist development, based alternatively on the liberal doctrine and the peasant national doctrine, although a little bit successful, failed to place Romania among the performing countries in Europe, Romania playing a marginal role in international trade.

The emphasis on industrializing the country in the socialist era was basically correct. By trying to shorten the stages through slogans such as the "four-and-a-half" instead of the quinquennium (five-year) plan slogan, the lack of highly technical endowments, the sharp increase in the funds allocated to investments sometimes through massive external loans made the Romanian industry fail in reaching the level of competitiveness desired. The foreign debt crisis in Latin America since the early 1980s also hit Romania. Exacerbating exports and drastically diminishing imports to quickly pay off the foreign debt had a strong negative impact on the population's standard of living.

The third period started in 1990, when Romania was among the countries in transition from the planned socialist economy to the capitalist market economy. In the first years of this interval, there were strong imbalances in Romania's economy. The chaotic and questionable privatization of an industry previously declared by the then prime minister as a heap of scrap iron, the populist measures led to increased consumption through the amplification of imports, which caused deep deficits of the foreign trade balance, these being just a few issues in this regard. The economic recovery was also based on an increase in Romania's participation in the world economic circuit, the degree of economic opening of our country being significantly higher than the world average.

Being in this situation, Romania's vulnerability to the great depression in 2008 was high, with Romania's GDP and foreign trade showing a massive decline.

## **2. Romania in the interwar period**

Due to the disappearance of European empires, the period following the First World War was characterized by the establishment of young European national states. Thus, the popular masses' desire to form Romania as a unitary national state was fulfilled.

The decrease of US loans to European countries and increase in private banks' interest rates on the background of a lack of confidence in the financial sector resulted in a sharp decline in consumption. In this context, the absorption capacity of foreign markets diminished, which led to lower prices and production constraints, with direct effects on reducing economic efficiency. There was a significant increase in the unemployment rate in various European countries. On the whole, the international context existing during the 1920s was unfavorable to the development of cross-border trade, with the global economy being affected by an acute overproduction crisis.

It is worth noting that the economic recovery after the First World War was made much harder in the countries that opted for a high inflation rate, with Romania included in this group as well.

The beneficial economic effects (including rising living standards) were unevenly distributed across the world, the USA, the UK, France, Germany, Sweden, etc. being among the countries which benefited from most of these advantages.

The international economic context in which Romania evolved during the interwar period was dominated by turbulence and individualism. The economic crises, especially the great economic depression of 1929-1933 and the politics of many countries (the USA, Great Britain, France, etc.) to protect their national economy by increasing the level of customs duties on imports caused disturbances of economic growth, with different intensities in the European states.

In addition to the generally unfavorable international context, during World War I, Romania experienced losses of human lives estimated at about a quarter of a million, with direct economic implications, and a decrease in the birth rate. The Romanian economy was predominantly agrarian, with much of the industrial capabilities being destroyed by war.

Romania's agriculture, as an important economic branch, also held a significant share in the exports of our country. The very large number of small agricultural holdings (under 5 ha), their poor technical equipment, the high share of cereals in the total agricultural production made Romania to achieve poor performances in terms of economic efficiency per area unit.

The evolution of the oil industry, as the main branch of the Romanian industry, was not characterized by outstanding results. Throughout the interwar period, the share of foreign capital in the Romanian oil industry was around 70%, the foreign capital being also predominant in other important areas such as banking, which weakened our country's economy during the crisis of 1929-1933.

During the Great Depression, in order to stabilize the economy, there was a massive use of foreign loans, contracted at substantial interest, involving major costs for Romania. There were a number of compromises such as the transfer to foreign firms of economic opportunities of monopoly nature or the reduction of economic independence by accepting as a counselor to the NBR a foreign person as the representative of private international creditors.

At global level, the world industrial production declined by 36% between 1929 and 1932. The industrial product price level fell by 36.5%, the raw materials prices went down sharply (56%), with severe consequences in particular for countries exporting raw materials. During the crisis, the cost of living increased by 20% in Italy, 24% in Germany, 35% in the US (the country that was at the origin of the crisis) and 47.2 in Romania. (Josan, 2004, p.137, p. 138)

The relative success obtained by the Romanian industry during the crisis period, the peak year being 1938, affected the agreements concluded by Romania with Germany, agreements that prepared the ground for the Romanian economy's involvement in Hitler's war mechanism with all its negative consequences.

With regard to the evolution of Gross Domestic Product per capita in the interwar period, Romania's performance was modest; among the European countries only Albania, and in the last years Bulgaria ranking lower as far as this indicator is concerned.

Cereals, along with oil and its derivatives, represented the main categories of export goods in interwar Romania.

Although in the interwar period, in quantitative terms, Romania's grain exports had seen a clear growth trend - with some exceptions caused by meteorological factors - in terms of value, the amounts collected from these exports diminished.

This paradox can be explained by the fact that in the years following the First World War there was additional demand on the international grain market and therefore world grain prices were rising. Romania, like most of the countries that participated in the First World War, in the next future obtained modest cereal yields mainly caused by human and animal casualties during the war. As time went by, both in Romania and in the other countries participating in the war, cereal production increased and implicitly the quantities destined for exports, with an important increase in the supply on the foreign markets and consequently a substantial decrease in prices.

*Table no.1 Evolution of Romanian exports of cereals and derivatives (indices, multiannual averages)*

Interval	Quantity	Value
1924-1928	100,0	100,0
1929-1933	159,1	60,8
1934-1938	97,6	46,3

Source:(Murgescu, 2010, 236)

While during the years that followed World War I until the 1929 crisis, the cereals dominated the value of Romanian exports; in the period from 1929 to the beginning of the Second World War this role was taken over by oil.

The evolution of Romanian exports of petroleum products was, to a great extent, similar to that recorded in the cereal sector, meaning that when Romania exported small quantities, world prices were high and vice versa.

The swings between liberal politics "with ourselves" with autarchic tendencies and the peasant national politics "open to foreign capital" favoring the big international companies caused legislative instability in an area where technical endowment was extremely important, requiring important capital.

The structure of Romanian exports was clearly unfavorable to our country, considering that out of the total exports the unprocessed and low-processed products accounted for over 90%.

The import in the first part of the reference period consisted predominantly of manufactured products, and it is worth mentioning that in its structure the group of machinery and equipment was small, being imported especially agricultural machinery, machines for the textile industry, trucks, locomotives, etc.

With small exceptions, during the period between the two world wars, Romania had a trade surplus balance, while the balance of external payments was deficient, the situation being determined by the substantial sums paid to international creditors to support the service of the external debt.

Regarding the evolution of Romania's imports, in the first part of the interwar period, the manufactured products were predominant and at the end of the period the raw materials were dominant.

By comparing the main economic indicators with those of the other countries, Romania's role in the world economy diminished, which busted the myth of the remarkable economic development of interwar Romania.

### **3. Romania's economic evolution on the path of socialist development**

With a severely troubled economy in the Second World War, Romania was forced to implement a series of measures specific to the Soviet-influenced socialist production process in order to rebuild its national economy. The nationalization of industrial enterprises, the cooperativization of agriculture, the acceleration of the investment program were initiatives that marked the strong development of Romania in the next 40-50 years. Absolute priority was given to the development of heavy industry with the machinery industry at its core, thus avoiding the role

assigned to Romania by the USSR in the division of labor within the system of the socialist countries. Romania, according to the Soviet vision, should have been a deep agrarian economy supplying raw materials to the other countries in the system.

Table no. 2. The GDP evolution in Romania and at a world level (million dollars)

	1970	1980	1988	1989
<b>România</b>	12720	36469	63874	56907
<b>World</b>	3400050	12283757	19738889	20665034
<b>%</b>	0,37	0,29	0,32	0,27

Source: [http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en)

As a result of the economic development strategy, determined by the decision-makers, there was a sharp increase of the industrial production in Romania, as well as of its share in GDP. In fact, during 1970-1982 Romania's GDP grew steadily, but from 1983 until the fall of communism, the evolution of this indicator was fluctuating, the historical maximum of \$ 63,874 million being recorded in 1988. It must be noticed that the Romanian industrial products, i.e. most of them, were characterized by a low level of competitiveness.

Regarding the foreign trade of Romania, in the socialist era, especially at the beginning of it, special importance was given to the trade relations with the Soviet Union.

The withdrawal of the Soviet troops from Romania, the dissensions between the great Communist powers (USSR and China), the progress made by the national industry allowed our country to distance itself economically and politically from Moscow.

Table no. 3. Romania's foreign trade (million dollars)

	1948	1953	1970	1980	1981	1988	1989
Export	160	341	1851	11400	11180	11390	10490
Import	96	385	2117	13200	10980	7640	8435
Total foreign trade	256	726	3968	24600	22160	19030	18925
Foreign trade	120923	166044	648577	4141135	4109359	5847713	6314467
<b>%</b>	0,21	0,43	0,61	0,59	0,53	0,32	0,29

Source: [http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en)

The public positions adopted by the political factors in Bucharest as well as the performances of Romania's officials within the international institutions made our country display, in many situations, a diametrically opposed attitude to that adopted by the USSR. The attitude of a rebellious child manifested by Romania in the socialist camp led to positive appreciation from the great capitalist powers, with a reorientation of the Romanian trade exchanges in the sense of increasing their volume with the developed capitalist countries as well as with the developing countries outside the Communist camp.

The international position of Romania, including the Middle East military confrontations, was generally positive towards trade relations with the Arab and African countries.

The positive attitude adopted by the major capitalist powers towards Romania had the effect of facilitating access to external sources of finance, with direct effect on the realization of the ambitious national investment program and implicitly on the development of Romania's foreign trade.

During the period 1948-1980, the Romanian foreign trade registered a continuous increase (96.1 times), with the mention that imports (137.5 times) recorded higher increases compared to exports (71.2 times). With few exceptions, Romania's foreign trade balance was in deficit. The forced industrialization program made Romania acquire a consistent external debt of about \$ 11 billion.

The external debt crisis at global level, but especially in Latin American countries, led to a substantial increase in interest rates on foreign loans, seriously affecting Romania's economy. The decision to pay the external debt at any rate led to a forced increase in the Romanian exports, while our country reduced the imports to the minimum possible level. Romania had generally a surplus trade balance over the period 1981-1989, and it was able to pay off the external debt at the end of the period. It should be noted that this success was also due to the sale of a significant amount of

gold from the national treasury. However, the rapid payment of Romania's external debt was reflected by the strong deterioration in the population's standard of living and in the impossibility of endowing the national industry with technical equipment.

It is worth noting that in the first period of communist development, Romania's imports were dominated by machinery and equipment necessary for the endowment of industry, and since the 70s the share of mineral raw materials and fuels increased, these goods being necessary for the production process in the national economy. Unfortunately, the Romanian industry, with some exceptions, relied heavily on imported raw materials while being energetically intensive.

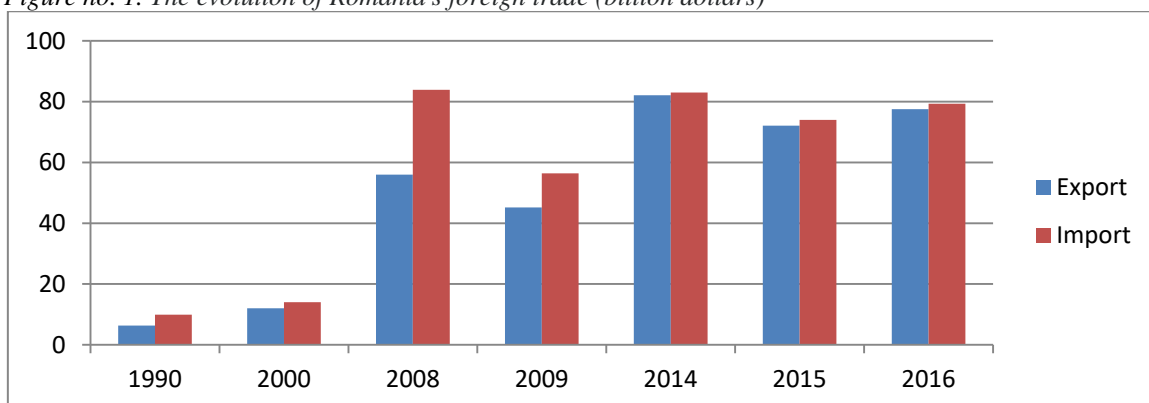
During the planned economy period, we can notice that the share of Romanian foreign trade in the total international trade was superior to the share of Romania's GDP in the total world GDP, indicating a tendency to engage in the world circuit, although there are arguments supporting the theory of trends in an autarchic type of development.

#### 4. Romania's Return to Market Economy Values

After the events of December 1989, Romania opted for another path of economic development, entering a period marked by a whole series of difficulties, i.e. the transition to a market economy. The collapse of the GDP, the privatization process, the aspirations towards the values of the capitalist world have also impacted on Romania's foreign exchanges. After a rebound, in 1990 and 1992, Romania's foreign trade registered a general upward trend until the global financial crisis, with the indication that the average annual growth rate of imports steadily exceeded the growth rate of exports. Thus, unlike the evolution of the 9<sup>th</sup> decade, over the last 27 years, Romania's trade balance has been - without exception - deficient. In 2006, 2007, 2008 there were peaks of the deficit of the external trade balance and implicitly its share in GDP. The fact that Romania did not become incapacitated in relation to its external payments, the Romanian currency, *leu*, even strengthening on the Romanian foreign exchange market, was due to the strong foreign currency inflows, coming mainly from Romanians working abroad, from foreign investors attracted mainly by the privatization process and the foreign currency loans granted by banks to foreign citizens.

Unexpectedly, during the first year of crisis, Romania's foreign trade deficit narrowed significantly. In 2009, as compared to the previous year, both exports and imports fell substantially, the latter having experienced a more pronounced reduction due to lower wage incomes and tighter credit conditions.

Figure no. 1. The evolution of Romania's foreign trade (billion dollars)



Source: [http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en)

From the perspective of Romania's trade deficit concerning goods and services, it improved until 2014 when this indicator fell slightly below \$ 1 billion. Along with the wage "relaxation" in 2015, 2016 and 2017, population consumption grew, with an important share being held by imported products. For this reason, Romania's trade deficit has followed a growing trend, together with all the negative aspects of this phenomenon.

Nearly 90% of the trade balance deficit regarding goods is made by Romania in relation to the EU countries, being worth mentioning that more than 70% of our foreign trade has been carried out in the last years with this category of countries. At least as far as exports are concerned in order to increase their income and to mitigate the effects of crises in different parts of the world on the national economy, it is advisable to extend trade links with non-EU countries as well.

During this period, Romania has had a trade surplus in relation to African countries and countries in the Middle East and the Near East.

Taken one by one, the most significant deficits were with Germany, China, Hungary, the Russian Federation, Austria, etc. After the crisis, trade deficits with the Germans and the Russian Federation diminished substantially due to the increase in Romanian car exports to Germany and the decrease in oil and gas imports from Russia, but also due to the reduction of world hydrocarbons prices. The deficit with China remained at high levels, Romania mainly importing from China electronics, textiles, garments, etc.

In 2016, among the main categories of products found in Romania's foreign trade structure, only two of them, transport machinery and equipment, respectively raw materials and materials, Romania registered a slight surplus, being in deficit as far as the other categories are concerned.

## 5. Conclusions

Over the last one hundred years, Romania's foreign trade has evolved sinuously, being influenced by wars, economic crises, changes in political regimes, internal political decisions (some of them being questionable), geopolitical interests and not only.

During the period concerned, with some exceptions, Romania consumed more than it produced, which transformed the deficit of the foreign trade balance into a normal state of affairs.

Also in terms of the structure of products which are subject to foreign trade, Romania's situation is not to be envied. While a hundred years ago the products in which Romania held a major share in world exports were cereals, oil and wood, at present the products are live sheep and goats, silk threads and sunflower seeds.

Last but not least, one must notice the solutions provided by great personalities of the time through their works concerning the impact of international trade on the economic development of the country. Unfortunately, decision-makers have often ignored these proposals, giving Romania a peripheral role both in the world economy and in the international trade.

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